Our ethics and compliance

In this chapter you can read more about our work in the areas of modern slavery, prompt payment of suppliers, how we engage with investors on sustainability matters and what makes us a responsible taxpayer.

Our supply chain

Treating our suppliers fairly

Our suppliers play a vital role in our operations, so it is imperative that we encourage best practice within our supply chain by ensuring we are compliant with legislation such as the Modern Slavery Act 2015 and support supplier payment by being signatories to the Prompt Payment Code.

We use a large number of suppliers that range from small and medium-sized enterprises to large multinational corporations, and we are always seeking to be forward thinking in our approach to supply chain management and develop strong supplier relationships to ensure we only procure products and services from those who operate in a responsible manner.

Modern Slavery Act 2015

As a business with a turnover of more than £36m we are required to produce an annual statement which describes the steps that have been taken to prevent modern slavery and human trafficking from occurring in our supply chain and direct business activities. Our most recent statement, dated March 2019, sets out the actions that the Group is taking to ensure instances of modern slavery or human trafficking are not occurring directly in our businesses as well as indirectly in the supply chains that we use to procure goods and services. The statement also communicates the measures we have taken to improve internal understanding and awareness around modern slavery and human trafficking.

The Group is committed to understanding the risks posed by modern slavery and human trafficking and ensuring that they do not exist in our businesses or supply chains.

One of our key objectives for 2018 was to engage with a third-party consultancy to deliver a workshop to corporate responsibility and procurement personnel from across the Group to raise awareness and understanding of the changing expectations around human rights and modern slavery risks. This workshop took place in January 2018 with senior procurement representatives from each operating company in attendance. The workshop firstly provided background and up-to-date information on the Modern Slavery Act 2015, ensuring that the representatives had a good overall understanding of the purpose of the Act and why it was introduced in the UK. It then encouraged participants to review their own current procurement practices and assess whether there are any potential risks and opportunities that relate human rights in the Group's supply chains. It went on to highlight case studies of companies where instances of modern slavery and human trafficking had been identified. The session also supported a Group-wide piece of work that was initiated in 2018 to harmonise the due diligence processes and procedures used by the Group's operating companies to manage supply chain-based risks.

Following the appointment of a Group Chief Procurement Officer in 2018, there has been a strong focus on implementing a Group-wide procurement model and system solution to deliver a step-change transformation of the Group's procurement processes. The Group now has a clear vision of creating a Group-wide procurement model which will bring efficiency to the supplier onboarding processes, as well as change in the wider business culture.

> “The workshop was very informative and opened my eyes to industries and work practices that you would not normally expect to be exposed to risks associated with modern slavery. After the event, a reassessment of our supply chain was necessary to highlight those businesses that posed the greatest potential risk from a modern slavery and human trafficking perspective.
>
> **Steven Schools**
> Head of Procurement
> CCD

THE BLUEPRINT:
STRATEGIC DRIVERS

Read more
Our blueprint 9

> “
> Since implementing the CR questionnaire through OneTrust, we have been able to engage much more so with suppliers on the topic of modern slavery and human trafficking. We have seen a massive increase in the number of suppliers which have produced a statement in response to the Act, which are not legally obliged to do so, as they sit under the £36m turnover mark. We have even had a small number of suppliers which have gone on to produce statements in response to the Modern Slavery Act as a result of our increased due diligence in this area.

Shóna Brown
Corporate Responsibility Analyst
Provident Financial plc

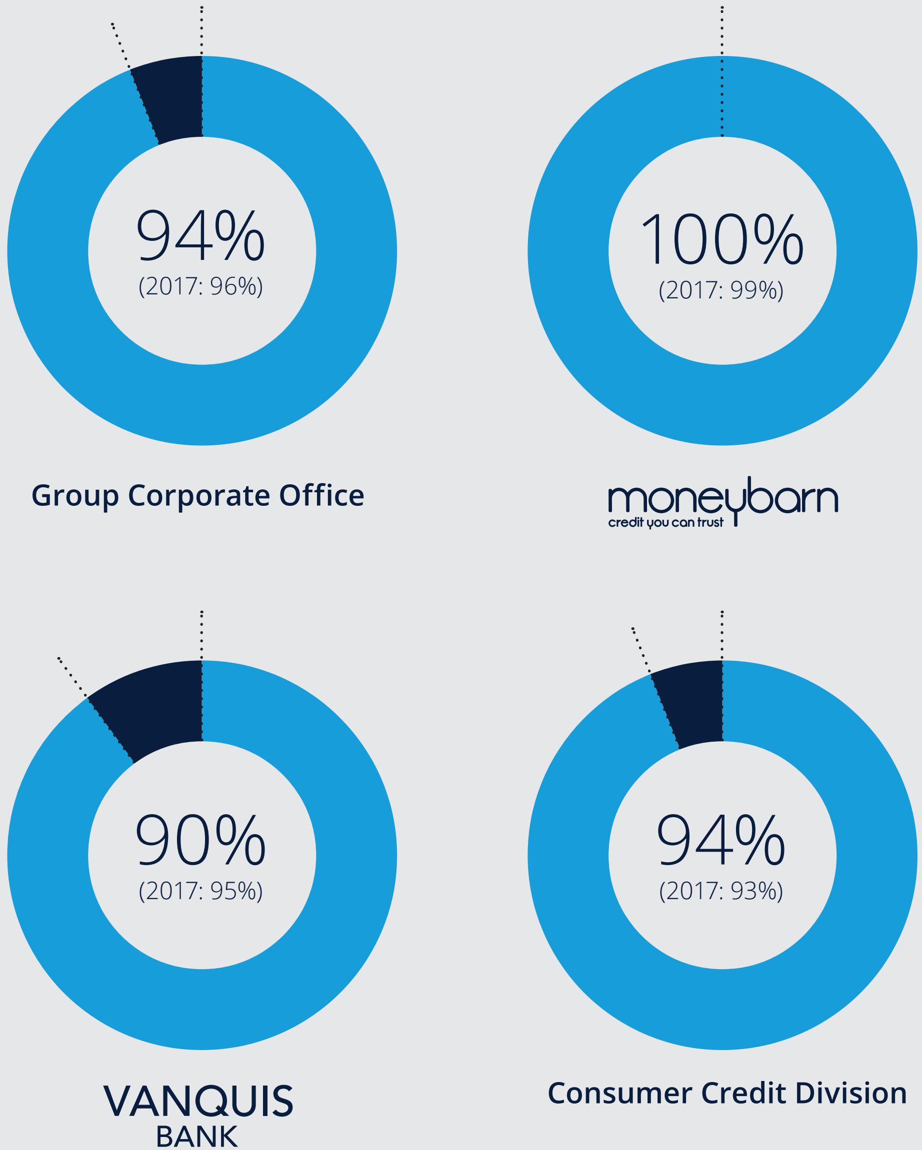
To view our Modern Slavery Act 2015 Statement, click here

Modern Slavery Act 2015 continued
Each of the Group’s operating companies has established due diligence processes and procedures to manage supply chain-based risks and engage with suppliers to ensure that they comply with the Group’s policy requirements and meet legislative requirements. Prior to 2018, CCD introduced the OneTrust platform within its operations to help automate its data privacy, information security and third-party risk management processes. The OneTrust platform allows CCD to demonstrate compliance with regulations (for example the EU GDPR) and other policy commitments. Through the OneTrust platform, new suppliers are required to complete a corporate responsibility (CR) questionnaire as part of the due diligence process for the onboarding of new suppliers.

This questionnaire covers the broader CR agenda and includes questions on topics such as community investment, environment and diversity inclusion. However, the core focus remains on understanding suppliers’ commitments to ensuring their supply chains are free from modern slavery and human trafficking. The OneTrust platform will be implemented within both Vanquis Bank and Moneybarn during 2019, enabling the Group to introduce harmonised due diligence processes and procedures to manage supply chain-based risks, including those that relate to the Modern Slavery Act 2015.

Paying suppliers promptly
As a Group, we are signatories of the Prompt Payment Code, which means we are committed to paying our suppliers promptly. We understand the pressure late payments can have on businesses, and particularly small to medium-sized local ones. Being signatories to the Prompt Payment Code allows us to encourage best practice within our supply chains. In 2018, 97% of the Group’s invoices were paid in line with the Prompt Payment Code terms, and we continue to strive to achieve 100%.

Percentage of companies paid in 60 days



Investors

Engaging the investment community in CR

Given that our CR programme is such an integral part of our purpose and strategic vision, we are keen to share information on our sustainability performance, alongside our financial performance, with the investment community so investors, analysts and other key stakeholders can see how we have, in delivering our business activities, balanced profit and purpose. We do this by responding directly to requests for information from individual investors and analysts, and by maintaining a presence on specific investment indices and registers which focus on sustainability matters. This enables us to share with the investment community information on material issues such as responsible lending, customer satisfaction and corporate governance, as well as on a broader spectrum of issues such as climate change, equality, diversity and inclusion, and human rights.

In 2018, the Group engaged with:

CDP
DRIVING SUSTAINABLE ECONOMIES

We made our annual submission of climate change data to CDP (formerly the Carbon Disclosure Project) in August 2018. CDP requests information on the risks and opportunities of climate change from the world's largest companies, on behalf of over 650 institutional investor signatories with a combined US$87trn of assets under management. Through the CDP submission, we can inform investors of any material climate change-related risks and opportunities and how we manage them. Our 2018 CDP submission was rated 'C Awareness', demonstrating that we have knowledge of our impacts on climate change and of climate change issues more broadly. Our CDP submissions are published at www.cdp.net.

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

S&P Dow Jones Indices, one of the world's leading index providers, and RobecoSAM, the investment specialist that focuses exclusively on sustainability investing, announced the results of the annual Dow Jones Sustainability Indices (DJSI) review in September 2018. In the announcement, Provident Financial plc was notified of its continued inclusion in both the Dow Jones Sustainability World Index (DJSI World) and Dow Jones Sustainability Europe Index (DJSI Europe). Our DJSI score was 62, which is considerably higher than the sector average of 32 for the Diversified Financial Services and Capital Markets industry sector. The DJSI World represents the top 10% of the largest 2,500 companies in the S&P Global BMI, and the DJSI Europe selects the top 20% of the largest 600 European companies in the S&P Global BMI based on long-term economic, environmental and social criteria.

FTSE4Good

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

Corporate Responsibility Prime
rated by ISS-oekom

Also in September 2018, Provident Financial received a 'C Prime' corporate rating by ISS-oekom, one of the world's leading rating agencies on sustainable investments. Through the corporate rating process, our management of key environmental, social and governance (ESG) issues was analysed on the basis of up to 100 rating criteria. This process was supported by the gathering of information through media and other public sources, conducting interviews with stakeholders and collecting information on publicly available company policies and practices. Companies qualify as Prime when achieving or exceeding the minimum sustainability performance requirements in their industries. This means that Prime companies rank among the leaders in their industry in terms of their sustainability performance.

What makes us a responsible taxpayer

Our approach to tax

Taxes allow governments to fund essential public expenditure, enabling them to meet economic and social objectives. Paying tax is a key part of how our business contributes to society.

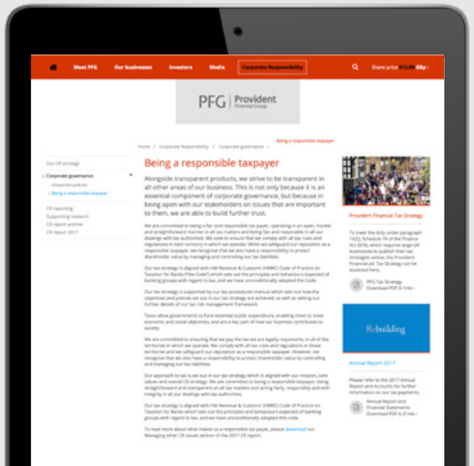
We are committed to ensuring that we pay the tax we are legally required to pay in all of the territories in which we operate, we comply with all tax rules and regulations in those territories and we safeguard our reputation as a responsible taxpayer. However, we recognise that we also have a responsibility to protect shareholder value by controlling and managing our tax liabilities.

Our tax strategy

Our approach to tax is set out in our Board-approved tax strategy which can be accessed on our website here. It was last approved by the Board in May 2018.

Our tax strategy is aligned with our mission, our core values and our overall CR strategy. We are committed to being a responsible taxpayer, being straightforward and transparent on all tax matters and acting fairly, responsibly and with integrity in all our dealings with tax authorities.

Our tax strategy is aligned with the HMRC's Code of Practice on Taxation for Banks ("the Code"), which sets out the principles and behaviours expected of banking groups with regard to tax, and we have unconditionally adopted the Code.



To find out more on our tax strategy visit:
www.providentfinancial.com

Our strategy comprises a number of key tax objectives and policies and is supported by our tax procedures manual, which sets out how the objectives and policies are to be achieved.

It comprises a number of key principles, including:

- **Payment of taxes** – we seek to ensure that we always pay the tax we are legally required to pay and comply fully with our tax obligations in all territories in which we operate.
- **Dealings with tax authorities** – we are committed to dealing with tax authorities openly, honestly and proactively. This includes having a regular and constructive dialogue with HMRC across all taxes, seeking advance clearance where tax treatment is uncertain and discussing contentious issues as early as possible.
- **Mitigating tax liabilities** – we seek to ensure that genuine commercial transactions are structured with clear and unambiguous legislative support so that tax liabilities are controlled and minimised, but artificial structures without commercial or economic substance which give a result which is inconsistent with the underlying economic position will not be considered.
- **Mitigating and controlling tax risk** – we set out how tax risk is mitigated and controlled by having documented principles for the involvement of the in-house tax function in transactions and business developments, the allocation of responsibilities between the tax function and the businesses and the involvement of external advisors.

Our tax strategy continued

We operate only in the UK and the Republic of Ireland and we do not operate in, or generate income in, any other territory. We seek to ensure that all intragroup transactions are priced on an arm's length basis, including transactions between our Irish operation and the UK, as well as transactions between Vanquis Bank Limited (which is subject to a higher rate of corporation tax as a result of the bank corporation tax surcharge) and the rest of the Group.

Tax risk management and principal tax risks

Our tax strategy also sets out our tax risk management framework which sets out (a) how we identify, evaluate and manage tax risk; (b) independent review and challenge of first line actions; and (c) independent assurance provided through a rolling programme review by the internal audit function of the processes and internal controls underpinning the reporting and payment of UK taxes.

Insight into risk management and the principal risks facing the Group in 2018 is set out on pages 44 to 54 of the Annual Report and Financial Statements 2018. As well as the risk set out on page 52 in relation to agent self-employed status, the principal tax risks facing the Group and how we mitigate those risks is as follows:

Risk	Mitigation

The Group has a number of tax risks across corporation tax, VAT and employment taxes. These include:
 	
(a) The risk that tax authorities take a view that is different to the view that the Group has taken on the treatment of particular items in its tax returns.
 	
(b) The risk that there is an unforeseen breakdown in the systems and processes which underpin the preparation of tax returns and identification of tax sensitive matters which results in an item being treated incorrectly for tax purposes.
	• We place considerable importance on having in place robust processes and internal controls to ensure the correctness and completeness of data which needs to be captured and treated correctly in the various tax returns that the Group is required to make. As well as allowing the annual Senior Accounting Office certification to be made, these processes are a key control in our overall tax governance framework, providing assurance that tax sensitive issues are identified and taxes are correctly calculated.
	
	• During 2018, the internal audit function carried out its annual review of different aspects of the operational effectiveness of processes and internal controls over UK corporation tax, UK VAT returns and UK employment taxes.
	
	• An experienced central in-house tax function is in place, supported by tax aware personnel in the businesses, which deals with, or has oversight of, all of the Group's tax matters. During 2018, the Head of Tax presented to the Board on key tax developments and progress on risks.
	
	• Expert third-party tax advice is obtained on all material transactions and wherever the necessary expertise is not available in house. During 2018, advice was obtained on a range of issues including the tax treatment of settlements payable to Vanquis Bank customers.
	
	• The Group carries a provision for uncertain tax liabilities which is sufficient to cover possible tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due.
	
	• In keeping with our strategy of having a regular and constructive dialogue with HMRC across all taxes:
	
	  • in early 2018, we discussed the various steps undertaken by the Group to address the distributable reserves issues caused by the significant losses in home credit in 2017, including releases of intragroup debts and the structuring of the rights issue in 2018. We also discussed the tax treatment of the settlements payable to Vanquis Bank customers following the resolution reached with the FCA;
	
	  • we highlighted key features in the 2017 corporation tax returns, in particular the treatment of opening balance sheet adjustments arising on transition to IFRS 9 and the tax treatment of the redress payments made to Vanquis Bank customers as well as the various other exceptional costs across the Group in 2017;
	
	  • we sought guidance on the tax treatment of a number of employment tax-related issues as well as various VAT issues; and
	
	  • we discussed with HMRC our end-to-end processes and internal controls supporting the correctness and completeness of data in the various tax returns and which enable the annual Senior Accounting Office certification to be made.

Our total tax contribution in 2018

Our total tax contribution comprises the direct tax we contribute to governments out of our own financial resources as well as the indirect tax we collect on behalf of governments, such as employment taxes deducted from payments to employees. Over the last five years, our total tax contribution has been as follows:

	2014 £m	2015 £m	2016 £m	2017 £m	2018 UK £m	2018 ROI £m	2018 Total £m
Direct tax contribution							
Corporation tax	45	48	57	40	7	—	7
Bank corporation tax surcharge	—	—	8	15	15	—	15
Employer's national insurance and equivalent (note 3)	15	16	18	23	22.3	0.7	23
Irrecoverable VAT	17	21	22	28	34.6	0.4	35
Business rates	3	3	3	3	2	—	2
	80	88	108	109	80.9	1.1	82
Indirect tax contribution							
Employees' income tax and national insurance (through PAYE) (note 3)	42	44	46	59	49.3	1.7	51
Tax deducted from interest paid on Vanquis Bank deposits and redress payments (note 4)	3	3	2	—	1	—	1
	45	47	48	59	50.3	1.7	52
Total tax contribution	**125**	**135**	**156**	**168**	**131.2**	**2.8**	**134**

Note 1: For 2014 to 2015, the above includes small amounts of Polish taxes paid in respect of Vanquis Bank's pilot operation in Poland.

Note 2: Our home credit business operates as a branch in the Republic of Ireland (ROI). In 2018, it generated revenue of £34m (2017: £45m) and loss of £(4.6m) (2017: profit of £2.0m) and had, on average, 126 (2017: 136) employees.

Note 3: In July 2017, the operating model of our home credit business in the UK was fundamentally altered such that customers ceased to be served by self-employed agents; instead brand-new employed roles were created tasked with serving customers in a way which was controlled and directed entirely by the business. As a result of these changes, the average number of employees we employed increased.

Note 4: Prior to the abolition of the requirement to withhold tax from interest on retail deposits in March 2016, basic rate income tax was withheld from such interest and paid to the UK Government. In 2018, basic rate tax has been withheld from ROP redress payments made to Vanquis Bank customers.

Our total tax contribution in 2018 continued

Our direct tax contribution comprises:

- **Corporation tax** – this is the tax on the profits we generate in the UK and the Republic of Ireland. In the UK, corporation tax is paid in quarterly instalments whereby 50% of the estimated corporation tax liability for the year is payable in the year concerned with the remaining amount in the subsequent year. Tax paid in 2018 comprised around 50% of the corporation tax liability for 2017 and 50% of the estimated liability for 2018. The reduction in corporation tax paid in 2017 and the further reduction in 2018 arose as a result of the losses generated in the home credit business in both 2017 and 2018, which substantially reduced the Group's estimated corporation tax liabilities for both years.
- **Bank corporation tax surcharge** – a bank corporation tax surcharge of 8% was introduced with effect from 1 January 2016. It applies to the taxable profits of Vanquis Bank above £25m and, like corporation tax, is also payable through quarterly instalments. The bank corporation tax surcharge liability did not benefit from the losses generated in the home credit business in 2017 and 2018 as tax law prohibits this.
- **Employer's National Insurance contributions** – in 2018 we employed, on average, 5,849 (2017: 4,864) employees in respect of whom we pay 13.8% employer's National Insurance contributions in the UK and the equivalent in the Republic of Ireland. In 2018, along with Apprenticeship Levy, this comprised £23m (2017: £23m) of our direct tax contribution.
- **Irrecoverable VAT** – as a provider of loans and other credit products, we are unable to recover VAT on most of the costs we incur. In 2018, £35m (2017: £28m) of our direct tax contribution comprised irrecoverable VAT incurred by our businesses.
- **Business rates** – the remaining £2m of our 2017 direct tax contribution (2017: £3m) comprised business rates payable on the various business premises we occupy.

Employer's National Insurance contributions, business rates and irrecoverable VAT are taken into account in arriving at profit before tax. Irrecoverable VAT on capitalised costs is accounted for as part of the cost of the underlying asset.

Corporation tax and bank corporation tax surcharge are accounted for through the tax charge as explained in note 5 to the Annual Report and Financial Statements 2018. The corporation tax and bank corporation tax surcharge we paid in 2018 of £23m differed from the current tax charge for the year of £32m, due partly to the timing of quarterly instalment payments in the UK and partly to the opening balance sheet adjustment to restate the IAS 39 balance sheet on to an IFRS 9 basis, which reduces corporation tax and bank surcharge liabilities over the next 10 years commencing in 2018.

Our indirect tax contribution comprises:

- **Employees' income tax and National Insurance contributions** – this represents the income tax and employees' National Insurance Contributions and the equivalent in ROI that we deduct from amounts paid to employees through PAYE. In 2018 it amounted to £51m (2017: £59m).