PFG | Provident Financial Group

Rebuilding

Provident Financial plc
Annual Report and Financial Statements 2017

Adjusted profit before tax[1] (£m)

2017	109.1
2016	334.1
2015	292.9
2014	234.4
2013	196.1

Dividend per share (p)

2017	–
2016	134.6
2015	120.1
2014	98.0
2013	85.0

Customer numbers (m)

2017	2.550
2016	2.448
2015	2.400
2014	2.445
2013	2.635

Statutory (loss)/profit before tax (£m)

2017	(123.0)
2016	343.9
2015	273.6
2014	224.6
2013	182.4

Dividend cover[1] (times)

2017	–
2016	1.32
2015	1.35
2014	1.35
2013	1.32

Community investment (£m)

2017	2.6
2016	3.1
2015	3.1
2014	2.4
2013	2.0

Adjusted basic earnings per share[1] (p)

2017	62.5
2016	177.5
2015	162.6
2014	132.6
2013	112.0

Return on assets[2] (%)

2017	6.9
2016	15.3
2015	16.1
2014	15.1
2013	14.2

Employee costs[3] (£m)

2017	204.6
2016	185.9
2015	182.1
2014	158.4
2013	158.6

Basic (loss)/earnings per share (p)

2017	(90.7)
2016	181.8
2015	151.8
2014	126.5
2013	104.2

Gearing (times)

2017	4.3
2016	2.3
2015	2.2
2014	2.4
2013	3.0

Total tax contribution[4] (£m)

2017	168.0
2016	155.6
2015	135.5
2014	124.5
2013	109.3

1 Stated prior to the amortisation of acquisition intangibles and exceptional items.
2 Adjusted profit before interest after tax as a percentage of average receivables.
3 Stated prior to exceptional items.
4 Comprises both direct and indirect tax contributions.

Inside this report

Cautionary statement

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and business of Provident Financial plc and its strategy, plans and objectives and the markets in which it operates, are forward-looking statements. Such forward-looking statements which reflect the directors' assumptions made on the basis of information available to them at this time, involve known and unknown risks, uncertainties and other important factors which include, but are not limited to, the successful implementation of the rights issue and the home credit recovery plan, the outcome of the FCA's investigation into Moneybarn and to Vanquis Bank's ROP and the successful completion of the RMP agreed with CBI, which could cause the actual results, performance or achievements of Provident Financial plc or the markets in which it operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in the document shall be regarded as a profit forecast and its directors accept no liability to third parties in respect of this report save as would arise under English law. In particular, section 463 of the Companies Act 2006 limits the liability of the directors of Provident Financial plc so that their liability is solely to Provident Financial plc.

Restating our position

Our vision:

The group has a vision to build brighter financial futures for our customers by offering clearly differentiated products which responsibly serve them with the right solution. When combined with an open and trusting dialogue with regulators and clear governance, the group can continue to be the leading provider of credit in our market.

Our mission:

The group's mission is to refocus on customer solutions and continue to be the leader in the non-standard market responsibly providing access to credit to customers who are not well served by mainstream lenders. We will develop our culture and governance to build better regulatory relationships and play a positive role in the communities we serve.

Delivering flexible products through our divisions

The group has three divisions, covering four different areas of the non-standard market.

Provident Financial Group

Vanquis Bank

VANQUIS BANK

Non-standard credit cards

Vanquis Bank

Est 2002

Vanquis Bank is the leading supplier of credit cards in the non-standard credit market. We provide new customers with a low credit limit and only increase it when we have sufficient experience of the customer handling their account responsibly. We maintain a high level of contact with customers, from the initial call welcoming the customer to Vanquis Bank and continuing throughout our relationship.

1.7m
Customers

1,530
Employees

£206.6m
Adjusted profit before tax[1]

£250–£4,000
Range of credit limits

Read more on Vanquis Bank on pages 30 to 32

Consumer Credit Division

Provident

Home credit

Provident

Est 1880

Provident offers home credit loans, typically of a few hundred pounds, to consumers on low incomes and tight budgets who require affordable credit to manage the household budget or one-off items of expenditure. Customers value the face-to-face relationship of home credit as well as the simple, flexible and transparent nature of the product, with its fixed repayments and no extra charges, even if payments are missed.

0.7m
Customers

3,100
Employees

£(118.8)m
Adjusted loss before tax[1,2]

£100–£2,000
Loan range

Read more on Provident on pages 33 to 35

1 Before exceptional items and, in respect of Moneybarn, prior to the amortisation of acquisition intangibles.
2 Represents CCD as a whole.

Moneybarn

Satsuma loans.co.uk

Online lending

Satsuma

Est 2013

Satsuma is our online instalment loan product. We give new customers a small-sum, short-term loan and collect repayments by continuous payment authority either weekly or monthly, on a day agreed with the customer. Our UK-based call centre is always there to discuss any issues customers may have and just like our home credit product, the total amount repayable is fixed at the outset, so there are no extra charges.

79,000
Customers

£100–£1,000
Loan range

Read more on Satsuma on pages 33 to 35

moneybarn credit you can trust

Non-standard vehicle finance

Moneybarn

Est 1992

Moneybarn is the market leader in the provision of vehicle finance for people in the non-standard credit market. Moneybarn is able to help those who may have had problems with credit in the past but who are now over them to get to work, take their children to school and live their lives.

50,000
Customers

225
Employees

£34.1m
Adjusted profit before tax[1]

£4,000–£25,000
Loan range

Read more on Moneybarn on pages 36 to 37

Chairman's statement

> "Provident Financial prides itself on its 140 year history of providing valued customers with access to credit where others will not. Recent events have demonstrated a need to refresh the group's direction, focus and culture.

Stuart Sinclair
Interim Non-Executive Chairman

Provident Financial prides itself on its 140 year history of providing valued customers with access to credit where others will not. We deeply regret the impact that recent events have had on customers and shareholders which clearly demonstrate the need to refresh the group's direction, focus and culture. The Board firmly believe that the group continues to have an important role to play in serving customers responsibly in the non-standard credit market, and that it can do so whilst providing an attractive return to shareholders. However, in order to do this, there is a need to restore the group's capital base.

On 27 February 2018, the group agreed a settlement with the FCA on its investigation into Vanquis Bank's ROP. The agreed settlement relates to a failure by Vanquis Bank to disclose in its sales calls that the charges for ROP would be treated as a purchase transaction and therefore potentially incur interest. Vanquis Bank will refund those customers with the interest element of ROP charges in the period between inception of the product in 2003 and the communication to ROP customers which was conducted in December 2016. The total cost of settlement is estimated to be £172.1m and has been reflected as an exceptional cost in the 2017 results. The settlement comprises balance reductions for existing customers, cash refunds, a higher expected forward flow of ROP complaints more generally in respect of which compensation may have to be paid, costs of administering the settlement and an FCA fine. Vanquis Bank will be working with the FCA on a plan to resume sales of ROP to new customers.

Manjit Wolstenholme

Everyone at Provident Financial was shocked and deeply saddened at the sudden death of Executive Chairman Manjit Wolstenholme on 23 November 2017. It was a great privilege to know her personally and to work alongside her over the last few years. She showed exceptional leadership in stepping up to the role of Executive Chairman in the months leading up to her death. Manjit was known and respected for her achievements and championing diversity in British business, and we would like to pay tribute to her contribution to the business landscape. Her passion, belief and commitment for the role PFG plays in customers' lives was unwavering and we owe her a huge debt of gratitude.

Moneybarn continues to cooperate with the FCA in its ongoing investigation into affordability, forbearance and termination options. The scope of the investigation is understood and the estimated cost of £20.0m, being management's prudent estimate of the expected outcome in respect of the investigation, has been reflected as an exceptional cost in the 2017 results. A final resolution to the investigation is likely to take up to 24 months.

Following the operational disruption in home credit as a result of the poorly executed migration to the new operating model and the estimated costs of resolving the FCA investigations, the group's CET 1 capital ratio reduced to 14.5% as at 31 December 2017, which is below the group's regulatory capital requirements set by the Prudential Regulation Authority (PRA). In addition, the group has agreed a revised regulatory capital requirement with the PRA. This has resulted in the group's total regulatory capital requirement increasing, primarily due to an increase of approximately £100m in respect of conduct and operational risk assessments.

Following a thorough review of the various options available to the group to improve its capital position in light of the group's short and medium-term priorities, the Board has decided to pursue a fully underwritten rights issue and a prospectus will be issued later today. The group is seeking to raise additional capital of approximately £300.0m (£331m gross proceeds before deduction of expenses of £31m) through the proposed rights issue, which is subject to shareholder approval at a general meeting on 21 March 2018. Full details of the rights issue are provided in a separate prospectus.

The net proceeds of the proposed rights issue will ensure that the group has appropriate levels of regulatory capital to meet its current and future regulatory capital requirements as well as ensure its balance sheet is strengthened with the appropriate level of buffers in order to enable it to pursue underlying organic growth opportunities. In addition, the Board believes that this level of capital is aligned with leverage expectations for investment grade credit status and as such, the group expects to re-establish normal access to funding from the bank and debt capital markets. Taking into account the receipt of the net proceeds of the proposed rights issue and the intended use of proceeds, on a pro forma unaudited basis the CET 1 capital ratios of the group and Vanquis Bank would have been 28.7% and 25.4% respectively, up from 14.5% and 21.6% respectively at 31 December 2017.

The company expects to use the net cash proceeds of the proposed rights issue to: (i) inject approximately £50m into Vanquis Bank by way of a subscription of equity as an additional management buffer; (ii) repay an £85m bridge facility provided by Barclays Bank plc and JP Morgan Securities in February 2018 which will be used to allow Vanquis Bank to draw down £85m under an intercompany term loan facility between the group and Vanquis Bank, reducing the reliance of Vanquis Bank on Provident Financial plc; and (iii) create £165m of additional liquidity headroom by either holding cash on deposit or repaying amounts due under the syndicated revolving credit facility.

The Board continues to believe in the strong growth opportunities available to the group's attractive businesses and aims to leverage the rights issue and its revised strategy to build a robust foundation for the long-term strength of the group. The Board remains confident of the group's underlying prospects and value, and is committed to restoring sustainable earnings growth and reliable operational performance, together contributing to attractive future shareholder returns.

Developments over the last 12 months

On 28 February 2017, the group announced developments to the home credit business's operating model that focused on changing from a self-employed agency model to an employed workforce, aimed at delivering a more efficient and effective business. The proposals were intended to enhance the home credit operating model by: (i) serving customers through full-time employed Customer Experience Managers (CEMs) rather than self-employed agents to take direct control of all aspects of the relationship with the customer; (ii) changing the field management structure in the UK, with newly defined roles and ways of working; and (iii) developing further technology to improve efficiency and effectiveness. The migration to the new home credit operating model, with more centralised control over a distributed workforce and greater evidencing of customer interactions through voice recording technology (currently unique to Provident in the home credit sector), was also intended to enhance regulatory standards. It sought to achieve this by improving first line oversight of field staff through more consistent evidencing of interactions with customers than might be the case in circumstances where dual visits (when self-employed agents were accompanied by field management to monitor the interaction between the agent and the customer for regulatory purposes) and apps are utilised to perform the same function.

On 20 June 2017, the group provided an update on the transition to the new home credit operating model indicating that operational disruption associated with the transition was higher than anticipated, with agent attrition rates and vacancy levels adversely impacting collections, sales penetration, customer retention and profits. At that time, it was expected that collections would normalise after the transitional period but the disruption relating to the transition to

Chairman's statement continued

Over the last six months, the group has:

- Conducted a search to identify suitably qualified candidates for the role of group Chief Executive Officer. On 2 February 2018, the group announced the appointment of Malcolm Le May as group Chief Executive Officer. In making this decision, the Board has consulted with, and received support from, certain of the group's leading shareholders, as well as discussing his appointment with the FCA. The Board firmly believes that under Malcolm's leadership the group can once again return to delivering attractive returns for shareholders whilst establishing strong relationships with all the group's stakeholders, including customers and regulators;
- Undertaken a review to clearly understand the root causes of the issues in deploying the new operating model in the home credit business which included insufficient recognition of the importance of the front line customer relationship to the performance of the business. In addition, an inflexible approach was adopted in implementing the new operating model which lacked customer focus. These were clearly largely managerial failings in implementation, rather than fundamental flaws in the main concepts behind the new approach;
- Strengthened leadership of the home credit business through the reappointment of Chris Gillespie as Managing Director of CCD at the end of August 2017 with a mandate to improve the operating model in order to re-establish relationships with customers and restore collections and stability in the business. Chris Gillespie previously acted as Managing Director of CCD from 2007 to 2013;
- Swiftly designed and implemented the recovery plan for the home credit business based on a revised and more flexible operating model alongside a right-sizing of the cost base, with a focus on re-establishing customer service levels and relationships. The recovery plan is expected to be substantially implemented by the end of the first half of 2018;
- Assessed conduct risks and improved internal controls, including commissioning an external review of the effectiveness of CCD's first and second-lines of defence in the risk management process, as well as its governance and culture in general;
- Worked closely with the FCA to resolve the group's immediate challenges, including implementing the home credit recovery plan, improving risk management controls and oversight in CCD and to resolve fully the FCA's investigation into Vanquis Bank's ROP and to continue to cooperate with the FCA with its ongoing investigation into certain issues in Moneybarn;
- Addressed governance and culture issues more widely across the group, refocusing on the customer first. The Board has placed positive customer outcomes and enhanced regulatory engagement firmly at the centre of the group's strategy;
- Closely monitored the capital and liquidity position of the group on a consolidated basis and of Vanquis Bank on a solo basis, whilst maintaining regular and frequent dialogue with the group's bank lending group, M&G, rating agency, the PRA (primarily through Vanquis Bank) and the FCA;
- Developed a new capital plan based on revised forecasts for the group's three businesses to establish the appropriate scale and nature of resources required to execute the group's strategy and generate capital with a view to restoring the shareholder dividend as soon as possible; and
- Assessed the various options available to the group to meet the potential costs of restitution and to ensure the group has appropriate levels of regulatory capital.

the new operating model would result in 2017 full-year pre-exceptional pre-tax profits for CCD reducing to around £60m (2016: £115.2m).

On 22 August 2017, the group released a further trading update on the home credit and Vanquis Bank businesses. The disruption in the home credit business was more severe than originally anticipated, and the full year profit guidance for CCD was significantly reduced to a pre-exceptional pre-tax loss of between £80m and £120m for 2017. The group also announced that the FCA was conducting an investigation into Vanquis Bank's ROP and that in April 2016 it had agreed to enter into a voluntary requirement with the FCA to suspend all new sales of ROP and to conduct a customer contact exercise, which has since been completed. Vanquis Bank also agreed to enter into a voluntary requirement with the PRA pursuant to which it agreed not to: (i) pay dividends to or make any distribution of capital to the group; (ii) provide loans or facilities to the group; (iii) conduct non business as usual liquidity transactions which have or may have the effect of transferring any cash or assets in favour of any member of the group; or (iv) provide any security for the obligations of any member of the group, without the PRA's consent. As a result of the impact of the disruption and the investigation, the interim dividend for the 2017 financial year was withdrawn and the Board indicated that a full year 2017 dividend was unlikely, to retain liquidity and balance sheet stability (on 13 October 2017, the Board confirmed no final dividend would be paid). Under the circumstances, Peter Crook stepped down as group Chief Executive Officer and Manjit Wolstenholme assumed the role of Executive Chairman.

During this time the group continued to assess and discuss with the FCA the processes applied by Moneybarn in relation to customer affordability assessments for vehicle finance and the treatment of customers in financial difficulties. This included Moneybarn entering into a voluntary requirement with the FCA pursuant to which it agreed to amend its processes for dealing with loan terminations to ensure that customers receive information which enables them to make an informed decision as to which termination option to adopt. On 5 December 2017, however, the group was informed that the FCA had commenced an investigation into Moneybarn covering the adequacy of creditworthiness assessments as well as the treatment of customers in default or arrears with forbearance and due consideration, and the provision of information about termination processes.

As the issues above emerged during the summer of 2017, the group moved swiftly to put in place a near-term action plan focused on ensuring stability and addressing the immediate challenges. The most pressing issues were stabilising and turning around

Review of governance arrangements

The group has completed an initial review of its governance arrangements. The review has identified where enhancement and change was needed to ensure greater Board effectiveness, clarity of group purpose and divisional roles and responsibilities, and significantly improve group risk and conduct management.

Following completion of the review, the group has:

> Appointed a new group Chief Executive Officer and initiated the recruitment of a new external Chairman;

> Reaffirmed a clear purpose, vision, mission and set of values which are centred firmly on the customer, and helping them to help themselves to build brighter financial futures;

> Re-constituted a wider group Executive Committee which will play a far greater role in delivering on the group's vision and in enhancing the information flows and control between the group and its divisions;

> Brought together all its senior executive and non-executive management from the whole group to discuss where the group has fallen short and why, what the group's aspirations should be going forward, and what needs to change as a result;

> Re-initiated a clear and consistent 'tone from the top' from the Board in line with these customer-centric values that also emphasises the need to collaborate more effectively and work together across the group;

> Provided greater clarity over the roles and responsibilities of each of the divisions as well as those that exist at the broader group level, and in doing so begun to disseminate the more consistent and clear vision, mission and values more widely;

> Established a group Chief Risk Officer (CRO) role for the first time who will, once appointed, work closely with the Board and the group Chief Executive Officer to provide group-wide oversight of governance, risk and conduct and ensure that these all remain a key focus of the group and appointed an interim group CRO;

> Begun the recruitment of a number of executives to create key group functions. An interim IT Strategy & Procurement Executive has been appointed and the group also intends to appoint a Group HR Executive. These appointments are intended to improve coordination, cooperation and efficiency across the group in pursuit of the group's aims and in support of the Executive Committee;

> Initiated the recruitment of two additional new non-executive directors with directly relevant experience (and in line with a Board skills needs assessment), to work alongside the new group Chief Executive Officer to deliver on the Board's vision; and

> Begun the process of establishing a new Board committee, to be chaired by one of the new non-executive directors noted above, focusing on the customer, culture and ethics to help drive changes in behaviours and attitudes across the group.

The changes listed above have already been implemented or initiated. Additional changes are planned in the longer-term through to 2020 in order to continue to refocus the culture on the customer first thereby improving regulatory compliance, and the group will reassess its structure to ensure the changes made endure.

the performance of the home credit business, reaching a resolution with the FCA in relation to its investigation into ROP in Vanquis Bank, continuing to cooperate with the FCA with its ongoing investigation into Moneybarn and ensuring that the group's capital base and liquidity were appropriate to rebuild the business.

During this time, while working to push forward these actions Manjit Wolstenholme tragically died suddenly on 23 November 2017. Malcolm Le May assumed the role of Interim Executive Chairman until his appointment on 2 February 2018 as group Chief Executive Officer. I was appointed as Interim Chairman on 2 February 2018 pending the completion of the group's search for a new external Chairman.

On 16 January 2018, the group released a trading update which disclosed the expectation of a pre-exceptional pre-tax loss for CCD of approximately £120m, consistent with the upper end of the guidance previously issued on 22 August 2017. Although the actions taken by management had delivered a significant improvement in customer service and operational performance in the home credit business since August 2017, the rate of reconnection with those home credit customers whose relationship had been adversely impacted following the poorly executed migration to the new operating model in July 2017 was at the lower end of expectations through the fourth quarter of 2017.

As part of an ongoing process of reviewing its cost base, the home credit business announced at this time a proposed rationalisation of its central support functions which is subject to workforce consultation. This is a necessary step to align the cost base to the reduced size of the business. In addition, the business expects to secure improvements in the effectiveness and efficiency of the field organisation as the new business model continues to be embedded. However, customer facing resource is being managed very carefully in order to ensure that further improvements in customer service are delivered.

Culture and governance

Provident Financial was founded 140 years ago with a clear social purpose of providing much valued access to credit for customers in the non-standard credit market who often find themselves ignored or under-served by mainstream lenders. The group's customers, who come from many different walks of life, have always valued highly the way the group provides access to credit closely tailored to their needs and the realities of their lives, often involving smaller sums, shorter terms and more flexible repayment options. Customers on modest and less predictable incomes want, and deserve, access to credit to help them cope with everyday challenges, and to allow them to participate fully in the traditional and online economies.

Recent events have demonstrated that although the group's intentions were good in what it was seeking to do for customers, the delivery methods and the culture and governance around them have not always been at the high standards which should have been expected. As a result of these shortcomings, it is clear to the Board that the group needs to address culture and governance, refocusing on the customer first, thereby improving regulatory compliance and as a result begin to rebuild and enhance its reputation with regulators. Malcolm Le May has a clear agenda of engagement to address these issues that the Board is fully supportive of.

Chairman's statement continued

Our values:

Collaborative

We work together to deliver better outcomes for our customers and hold ourselves accountable.

Fair

We are decent, fair and reasonable in our dealings with all stakeholders and treat everyone with respect.

Responsible

We conduct our business dealings responsibly and ensure we have a positive impact on the environment and communities we serve.

Accessible

We provide our customers with access to products which meet their evolving needs and help them to help themselves.

Straightforward

We are straightforward, transparent, open and honest in all our dealings, building trusting relationships.

Progressive

We are innovative and help our customers anticipate and respond to the challenges of a changing world to build brighter financial futures.

The group plans to realign its culture more closely to the developing needs of the customer, and to better coordinate and cooperate internally across businesses to deliver better customer outcomes more efficiently as a result. More specifically, the group will focus on helping customers on their creditworthiness journey, where possible helping them to help themselves build brighter financial futures, using all its resources and offers, going beyond granting the much valued financial inclusion to as many people as is responsible within each area of the group.

Remuneration has an important part to play in realigning the group's culture. The group plans to continue to operate within the constraints of the remuneration policy approved by shareholders at the 2017 AGM. However, in light of recent events, and the latest shareholder feedback, in the short-term director remuneration has been reduced so as to operate well within the parameters of the current policy. In addition to reducing the level of pension and benefits for new executive director appointments, there will be no further grants of matching shares under the performance share plan (PSP), although part of the annual bonus will continue to be deferred for three years. For awards under the Long Term Incentive Scheme (LTIS), the group plans to change the performance condition from absolute Total Shareholder Return (TSR) to a more common relative TSR metric, in relation to a suitable comparator group for all new grants. LTIS awards and the annual bonus will also be subject to a more rounded set of metrics designed to improve culture and performance by focusing on risk, balance sheet and customer performance indicators. Furthermore, the group will introduce a post-vesting sale restriction period of two years to all new LTIS grants, and have enhanced the withholding (malus) and recovery (clawback) provisions currently in place. In the longer-term, the group will work with external advisors to develop a more comprehensive balanced scorecard approach to performance management with an appropriate balance of financial, customer, risk and strategic metrics which is reflected in a revised executive remuneration policy to support the group's desired culture and approach to greater coordination of group resources for the benefit of customers. In due course, any proposed new remuneration policy will be discussed fully with shareholders and submitted for their approval thereafter at a subsequent AGM.

Given the position of the group in the non-standard credit sector, there is an opportunity and an expectation that the group will lead by example, becoming a true champion for less creditworthy customers and taking positive steps to help them. The group plans to leverage the newly established role of the group CRO (once appointed) to champion the interests of the customer internally and thereby begin to transform the nature of interactions with regulators and provide greater consistency and coordination across the group's regulated businesses. The group has begun to build and staff a group risk and compliance function for the first time under the leadership of the interim group CRO. This new function will lead the design and implementation of the governance and risk management changes required, and improve group oversight of divisional risk and compliance functions. The interim group CRO is, and once appointed, the permanent group CRO will be, responsible for maintaining involvement in all regulatory interactions across the group so as to ensure consistency with the culture, direction and risk appetite set by the Board, reflecting the greater importance being placed on the group's key regulatory relationships.

Having taken action to strengthen governance in the short-term, the Board believes that the group is well placed to address the longer-term matter of implementing an appropriate corporate structure, including the nature and interaction of the regulated entities within the group. The group, under the direction of the new group Chief Executive Officer, Malcolm Le May, will consider all opportunities to improve coordination and organisation of resources to deliver better customer outcomes and regulatory interactions in a more effective and efficient manner. In evaluating these opportunities, the group aims to carefully balance the benefits and advantages of any changes with the costs and risks involved, in light of the need to continue to grow the group's businesses and adapt to the changing external environment.

Board changes

The Board appointed Malcolm Le May as group Chief Executive Officer from 1 February 2018. This follows a Board process which I led over recent months. I believe that Malcolm Le May is an outstanding candidate for the role, given his existing knowledge of the group, his deep knowledge of the business and sector, his regulatory understanding and turn-around and leadership skills. In making this decision, the Board has consulted with certain of its leading shareholders and discussed his appointment with the FCA.

David Sear joined the Board on 1 January 2017 to assist with the development of the group's strategy for the broad IT direction. The group now finds itself in very different circumstances and with different strategic priorities and he therefore resigned with effect from 26 January 2018 .

The group has investigated a process to appoint a new external Chairman as well as two additional non-executive directors as soon as practicable.

Closing remarks

Our priorities for 2018 are to rebuild trust with our customers, regulators, shareholders and employees which, Malcolm will discuss further in his Chief Executive Officer's review.

2017 has been a very challenging year but in recent months we have made good progress in resolving our regulatory uncertainties and the turnaround of the home credit business. I would like to thank all our employees for their continuing hard work and dedication throughout this difficult period for the group.

Stuart Sinclair
Interim Non-Executive Chairman
27 February 2018

The UK non-standard credit market

> "The UK non-standard credit market is more diverse in the types of credit offered than the prime market, reflecting the wider variety of customer needs and situations.

Malcolm Le May
Chief Executive Officer

The UK non-standard credit market

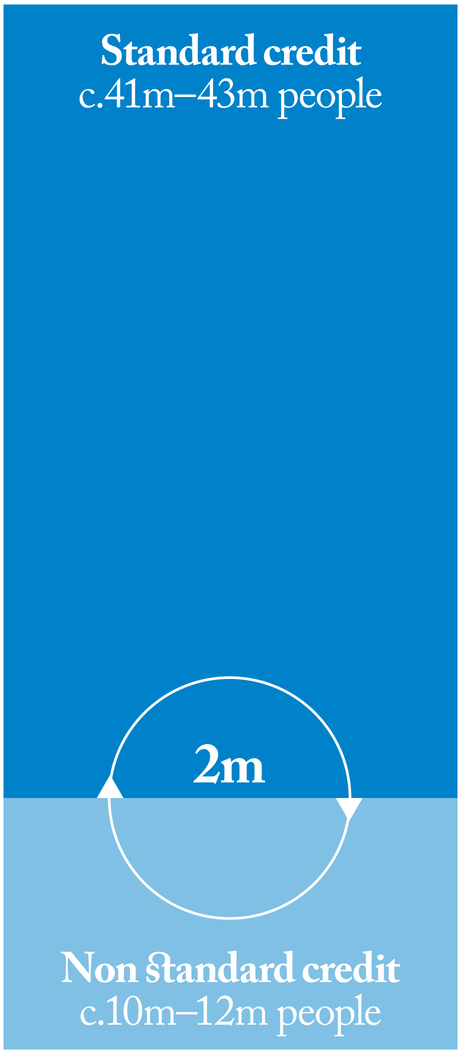
The UK non-standard credit market includes the provision of secured and unsecured credit to non-standard customers by specialist lenders other than the UK's mainstream financial institutions.

£72.0bn

UK non-standard credit market

The size of the UK non-standard credit market is approximately £72 billion and is growing at an average rate of 5% per annum. 75% of lending is through specialist non-standard products provided by specialist lenders.

Non-standard credit customers typically have a poor credit history or no credit history at all, or may have had past problems with credit, often due to periods of unemployment, family break-up, ill-health or the use of inappropriate mainstream credit offers. Customers are typically defined as near-prime, non-prime or sub-prime depending on their credit worthiness.



In the UK there are currently approximately 10–12 million people who do not meet the credit criteria of mainstream financial institutions. Approximately 20 per cent of these non-standard customers in the UK (approximately two million people) move annually between standard and non-standard markets through improving or declining credit scores as situations continually change due to unexpected life events.

The UK non-standard credit market continued

The number of non-standard customers is growing on average by approximately 1–2% per annum. In addition, approximately five million people in the UK have a few minor historic issues with their credit payment histories, and as a result they fall into a somewhat separate category between standard or prime and non-standard, referred to as 'near-prime'. These customers may struggle, or believe that they may struggle, to meet the credit criteria of mainstream financial institutions and are often included in the definition of non-standard, particularly in the credit card sector. In practice, there is no clear and universally accepted dividing line between near-prime and sub-prime or non-standard, as this will depend on the credit criteria of individual providers which will change from time to time. All of these customers can be considered non-prime or non-standard to some degree.

Growth in the non-standard UK credit market has predominantly been driven by greater levels of immigration and a large number of people who have experienced negative credit events in the past, resulting in an increasing percentage of people with no or adverse credit history. Increasing regulatory action to protect customers in the high-cost short-term credit market with a particular focus on curtailing payday lending has reduced the growth in this market.

The UK non-standard credit market is more diverse in the types of credit offered than the prime market, reflecting the wider variety of customer needs and situations, as well as business models aimed at responsibly serving the higher credit risk customer.

The UK non-standard credit market includes, but is not limited to, the following products[1]:

- **Non-standard credit cards (near-prime and sub-prime)** – the provision of credit cards to lower income salaried groups or those who are credit impaired. Credit limits typically start low and grow as customers demonstrate their ability to manage their account well;
- **Non-standard mortgages** – the provision of first charge mortgages to those who do not meet the increasingly stringent criteria of mainstream providers, where loan to value ratios are generally between 60% and 75%;
- **Home collected credit** – the provision of loans typically for £100 to £1,000, and sometimes higher, which are repaid to collectors who call on customers in person on a weekly basis;
- **Payday loans** – short-term loans typically for £100 to £2,000 made for periods of less than 30 days to salaried employees with bank accounts and debit cards to be repaid in a lump sum out of their next salary;
- **Short-term unsecured instalment loans** – unsecured personal loans usually for £250–£1,000 lent over a period of three–12 months;
- **Medium-term unsecured instalment loans** – unsecured personal loans usually for £1,000 – £5,000 lent over a period of one–five years;
- **Second charge mortgages/secured loans** – loans of up to £50,000 secured by means of a second charge mortgage which are generally used for home improvement and repayable over five years;
- **Arranged overdrafts** – unsecured overdrafts of up to around £500 are arranged with customers with bank accounts to be repaid on a one-month rolling basis;
- **Unarranged overdrafts** – unsecured overdrafts of up to a few hundred pounds which are available to customers with bank accounts, but are not pre-arranged with the customers, to be repaid on a one-month rolling basis;
- **Guarantor loans** – loans of £2,000 to £7,500 are provided to an individual with the loan guaranteed by a family member or friend who is generally also a home owner;
- **Rent to own** – a facility allowing those who are credit impaired and/or on lower incomes to buy household electronics or durables from specialist shops offering weekly payment terms;
- **Retail credit** – the provision of credit at the point of sale in store, via catalogues and increasingly online for the purchase of clothes and smaller household goods, repayable within a year or as part of a revolving credit line;
- **Car loans** – the provision of hire purchase or other loan products to individuals for purchasing cars; and
- **Pawnbroking** – loans averaging under £100, although sometimes larger, are secured against pawned goods, most often jewellery.

1 Source: High-cost credit review technical annex 1: Credit reference agency (CRA) data analysis of UK personal debt. July 2017. Financial Conduct Authority.

The group operates in the non-standard credit card, home collected credit, short-term unsecured instalment loan and car loan markets.

Companies that currently operate in the non-standard credit market are predominantly non-bank finance companies, and the large majority of these are involved in the provision of only one or two types of financial products. Post 2007 and the global financial crisis, mainstream lenders in the UK began to curtail secured and unsecured lending (i.e. personal loans, credit cards and overdrafts) due to large losses and capital shortfalls. A large number of specialist lenders in the UK were established in order to meet customers' demands for unsecured credit.

Firms wanting to sustainably service this market in the UK require a tailored approach to credit, usually focusing on lower amounts of credit for shorter terms initially, higher levels of customer contact, and the use of a security or asset in some form linked to the provision of credit. Firms also need to be more flexible in dealing with non-standard customers who are more likely to run into repayment issues and require forbearance.

As a result, in the UK, business models in this sector usually incur higher costs than more standardised and less flexible prime credit offers, resulting in the need to charge higher prices in order to generate acceptable returns for the risk that lenders take.

APRs for loans in the UK non-standard credit market tend to be higher than in traditional bank lending, given the typically increased risk profile compared to prime lending. Within the UK non-standard credit market, APRs tend to be lowest in second charge mortgages and non-standard mortgages, higher in guarantor loans, rent to own and non-standard credit cards, higher again in unsecured loans, pawnbroking and home collected credit, and highest in payday loans[2].

2 Source: High-cost credit – Including review of the high-cost short-term credit price cap – Feedback Statement FS17/2, July 2017. Financial Conduct Authority.

The UK non-standard credit market continued

Overview of the group's markets and products

Non-standard credit cards

Vanquis Bank

The non-standard credit card market in the UK is served by four major card issuers: Vanquis Bank, Barclaycard, NewDay and Capital One.

The target near-prime and sub-prime credit card markets are estimated at between 10.2 and 13.6 million customers. APRs for non-standard credit cards are approximately 29.9% to 39.9%.[3]

Home collected credit

Provident

The UK home collected credit market is served by Provident, the UK's only national lender, and a large number of regional lenders including Morses Club and Loans at Home.

Approximately 700,000 customers took out a home collected credit product in 2016. 1.7m new loans were issued with a total value of £1.3bn. The average loan value was £770. Approximately £1.1bn of loans were outstanding at the end of 2016.[4]

Short-term unsecured instalment loans

Satsuma

The UK short-term unsecured instalment loan market was significantly impacted by implementation of the new FCA regulatory regime in 2014. Following its subsequent review of the high-cost short-term credit market, the FCA implemented new rules and guidance which, amongst other things, increased the level of protection available to customers via the introduction of price caps and effectively curtailed payday lending. Some lenders adapted their business models away from payday lending towards short-term unsecured instalment loans, while others withdrew from the market. In 2015, the Consumer Finance Association (CFA) estimated that six out of 10 high street lenders had exited the market since 2014. The market continues to be served by a number of active competitors, including Satsuma, Sunny, Quickquid and Wonga.[5]

Having grown from approximately £0.3bn of outstanding loans in 2006 to approximately £2.5bn in 2013 the market for short-term unsecured credit contracted to £1.1bn by the end of 2016. Approximately 800,000 customers took out a short-term unsecured instalment loan in 2016. 3.6m new loans were issued with a total value of £1.1bn. The average loan value was £290.[6]

Car loans

Moneybarn

The non-standard car loan market is competitive with a range of lenders operating across risk segments (i.e. near-prime, non-prime, sub-prime). The main lenders operating in the non-standard car loan market are Moneybarn, Advantage Finance Ltd, First Response, Billing Finance Ltd, Moneyway and The Funding Corporation Ltd.

Approximately 750,000 cars were purchased by non-standard customers in the UK in 2016, of which about 110,000 were funded through non-standard car loans worth approximately £730m. The average loan value was approximately £6,600.[7]

Loans are typically provided via hire purchase contracts at APRs of approximately 30%.

3 Source: Sizing the UK near prime credit card market, January 2016. PricewaterhouseCoopers LLP.

4 Source: High-cost credit review technical annex 1: Credit reference agency (CRA) data analysis of UK personal debt, July 2017. Financial Conduct Authority.

5 Source: A modern credit revolution: An Analysis of the short-term credit market, July 2015. Consumer Finance Association.

6 Source: High-cost credit review technical annex 1: Credit reference agency (CRA) data analysis of UK personal debt, July 2017. Financial Conduct Authority.

7 Based on non-standard car loans of approximately £730 million divided by approximately 110,000 non-standard car loans.

Recent developments

In the UK, the financial crisis brought recession, unemployment and underemployment, an increase in the cost of living, austerity, wage stagnation and reduced mainstream lender appetite. As the UK economy recovered, headline unemployment fell to some of the lowest levels seen since the 1970s, inflation also fell away creating real wage growth, customer sentiment and confidence improved and credit supply increased rapidly. However, not everyone benefited equally. Underemployment and uncertain employment have persisted in certain demographics, wage growth has been lacklustre and patchy, and austerity remains in government plans. As a result, despite general improvements in all credit bureau scores, the non-standard credit market has continued to grow. Brexit has contributed to economic uncertainty and expectations of an economic slowdown, albeit it's ultimate form and the extent of any impact on the economy and non-standard credit market remains unclear.

Customers continue to move online/go digital and prefer mobile devices. They expect lenders to do the same. Digital interaction is increasingly important for effective lead generation, new customer acquisition and ongoing customer relationship management. For example, previously 'big book' paper and phone-based retail lenders have gone completely online and mostly mobile/tablet-based in the last five years, e.g. Shop Direct Group.

In the short term, improving customer circumstances are expected to continue to drive credit demand and affordability despite looming future economic uncertainty. In the medium term, a slowdown may undermine individual customer circumstances, but grow the non-standard market as more customers move into the market as they run into financial difficulties.

Change in regulator

Regulation of consumer credit transferred from the OFT to the FCA on 1 April 2014, as the regulatory regime under the OFT was considered to be relatively light touch with the OFT having fewer powers to set rules or enforce them.

Around 50,000 firms transferred with interim permission from the OFT to the FCA on 1 April 2014. As of 31 March 2016, approximately 31,000 firms had been authorised (including firms new to the market) and approximately 24,000 interim permission had lapsed or been cancelled. As of 31 March 2016, over 1,700 firms in total have either been refused authorisation or decided to withdraw their applications because they did not meet the standards required by the FCA.

Transition to FCA regulation has been difficult for certain product sectors, holding back overall average loan growth. Key areas of change driven by the FCA have been upfront affordability assessments, limits on refinancing during an existing loan, and forbearance. Single product firms have been particularly susceptible to new requirements in their area of focus. For example, the payday lending business model has been transformed with the implementation of a rate cap, resulting in a material drop in lending. Of the approximately 330 high-cost short-term credit providers that initially applied for authorisation from the FCA, 144 had the relevant permissions but only around 30 remained actively lending as of December 2016. Rules and guidance from the FCA continue to evolve and remain under review.

CCD, which includes Provident and Satsuma, continues to operate whilst the home credit business implements its recovery plan under an interim permission from the FCA. Moneybarn is fully authorised by the FCA. Vanquis Bank is authorised by the PRA and regulated by both the PRA and FCA. The group is also subject to consolidated supervision by the PRA.

Recent reviews into the UK consumer credit market by the PRA and Bank of England have identified that lenders' resilience to consumer credit portfolios is reducing due to a combination of continued growth, lower pricing and some increased lending into higher-risk segments.

In particular, the reviews by the PRA and the Bank of England have highlighted the risk associated with 0% promotional offers on credit cards, falling interest rates on unsecured personal loans and the growing popularity of Personal Contract Purchase (PCP) plans in motor finance.

As a consequence of: (i) the disruption to the home credit business following the implementation of the new operating model in July 2017 and the subsequent implementation of the recovery plan in response to the disruption; (ii) the FCA's investigation into Vanquis Bank's ROP; and (iii) the FCA's investigation into the processes applied by Moneybarn in relation to customer affordability assessments for vehicle finance and the treatment of customers in financial difficulties, the group is subject to enhanced supervision by the FCA. Firms placed under enhanced supervision may be required to provide formal commitments, where appropriate, to the FCA to tackle the underlying concerns raised by the FCA and the FCA may also exercise other wide-ranging powers. The FCA has required the group to undertake certain formal commitments which include the delivery to the FCA of the timetable for execution of the home credit recovery plan (which was delivered by the group in early January 2018) and to embed, by 30 June 2018, appropriate and sufficient first and second line oversight and monitoring of the home credit business.

The UK non-standard credit market continued

Overview of the group's markets and products *continued*

FCA credit card market study

The FCA completed its credit card market study in July 2016 after which the FCA and the UK credit card industry agreed in principle to three informational remedies which have not had, and the group does not expect to have in the future, a significant impact on Vanquis Bank. In April 2017 the FCA published a consultation paper entitled Credit card market study: consultation on persistent debt and earlier intervention remedies (CP 17/10). The overall objective of the package of proposed remedies is to reduce the number of customers in problem credit card debt and put borrowers in greater control of their borrowing. The consultation closed on 3 July 2017 and the FCA published a further consultation paper which contained feedback on CP 17/10 and requested further consultation on 14 December 2017 (CP 17/43). CP 17/43 set out a revised analysis of the costs to businesses of the proposed remedies set out in CP 17/10 and the consultation closed on 25 January 2018 and the FCA stated that it expects to publish new rules in a policy statement as early as possible in 2018. The Directors anticipate that the results of CP17/10 and CP 17/43 are likely to impact Vanquis Bank's future credit card application acceptance rates and its ability to offer credit card credit line increases.

FCA review of high-cost credit

The FCA has also indicated that it is concerned about high-cost credit products, such as home credit, pawnbroking, logbook loans and open-ended running account credit, due to the potential over-indebtedness they may cause, and the FCA published the results of its review of high-cost credit in July 2017 (FS17/2). In FS17/2 the FCA indicated that it has some concerns regarding home-collected credit and also regarding the wider considerations relating to high-cost credit products (which could relate to other products offered by the group).

In January 2018, the FCA published an update to FS17/2 entitled 'High-cost Credit Review – update' (the 'FS17/2 update'). In the FS17/2 update, the FCA stated that while it noted there is value for consumers in having continuing access to home-collected credit and maintaining additional weekly repayments on separate loans may not be affordable, it has concerns that when consumers take out additional borrowing, where the outstanding amount from the previous loan is incorporated into the new loan, it may result in consumers paying significantly more interest on the amounts originally borrowed than they would have had they maintained separate loans. The FCA also stated that it is examining if repeat borrowing could work better for consumers and has requested data from firms on their lending patterns and nature and extent of refinancing and has commissioned consumer research to explore consumers' experience of home-collected credit and their understanding of the cost implications of refinancing and repeat borrowing. To remedy its concerns the FCA, in FS17/2, has stated it may introduce restrictions on refinancing and rollovers, impose time gaps between borrowing or time limits on the total duration of borrowing. In addition, the FCA stated, in the FS17/2 update, that it aims to report in May 2018 on its analysis concerning forms of high-cost credit outlined above (and others outlined in FS17/2 and the FS17/2 update); and if the further research and analysis conducted by and on behalf of the FCA confirms the FCA's concerns regarding high-cost credit products, it expects to consult on proposals to address its concerns at that point. The FCA may introduce further changes to its existing consumer credit rules as a result of such work and promote competition for high-cost credit products. In these circumstances, there is a risk that the FCA may introduce new, stricter, rules designed to address particular concerns in relation to lending practices in this sector as outlined above.

FCA review of credit worthiness in consumer credit

In July 2017 the FCA published a consultation paper (CP17/27) entitled 'Assessing credit worthiness in consumer credit' in which the FCA set out the changes that it has proposed to its existing rules and guidance in this area. In CP 17/27 the FCA proposed to amend its rules and guidance with regards to credit worthiness (which the FCA stated comprises both credit risk and affordability) and in particular, the proposed rules introduced a new explicit definition of 'affordability risk', in which the FCA sets out the factors to be considered by firms when assessing if credit is likely to be affordable for the borrower. The proposals require a more detailed credit worthiness assessment including affordability at the outset for all new non-prime non-mainstream credit card customers, along with further assessments for significant individual or cumulative credit line increases thereafter. Any changes arising as a result of these proposals could reduce the initial booking rate of Vanquis Bank customers as a result of greater numbers of potential customers failing credit worthiness checks, as well as fewer credit line increases being made as a result of greater numbers of customers failing the affordability checks.

FCA review of the vehicle finance market

In the FCA's Business Plan for 2017/18 the FCA stated that it is looking at the vehicle finance market to ensure that it works well and to assess whether consumers are at risk of harm, with a particular focus on PCP agreements. The FCA has indicated that it will publish an update on this work in the first quarter of 2018. Although the group does not offer PCP agreements, it does offer vehicle finance through Moneybarn, and the views published by the FCA in its review may be predictive of future reviews that would relate to the non-standard vehicle finance sector.

Chief Executive Officer's review

"In 2018, the group will continue to rebuild trust with our customers, regulators, shareholders and employees. The group's turnaround is making progress, but the Board and I realise there is still much to do to achieve a customer centric business delivering long-term sustainable returns to our shareholders.

Malcolm Le May
Chief Executive Officer

Strategy

The group plays an important social purpose in providing access to credit to the approximately 10 to 12 million people (equivalent to approximately 20% of the UK adult population as at 31 December 2017) in the UK non-standard market which remains in demand and highly valued. The Board believes that the need and demand for responsibly provided affordable credit, delivered in a way that is tailored to the needs of non-standard customers, remains strong across the product sectors in which the group operates. Therefore, the Board believes that there remains an attractive opportunity for specialised non-standard lenders such as the group in the UK.

The group's businesses hold strong positions in their respective markets, and the future prospects of the group's businesses will be strengthened by the governance and cultural changes already made and planned. The actions required to refocus on the customer first, together with any further actions that may be required, will result in a moderation of returns. However, the Board believes that a target ROA of around 10% per annum alongside receivables growth of between 5% and 10% per annum is both achievable and sustainable for the group as the home credit business moves to profitability in 2019, subject to economic conditions.

Chief Executive Officer's review continued

Strategy continued

The group's businesses have strong customer focused growth strategies going forward which position them well to deliver attractive returns for shareholders:

> Vanquis Bank aims to maintain its leading position in non-standard credit cards, continue to expand into the near-prime sector and develop an instalment loans business;

> CCD aims to retain and build upon its market-leading position in home credit based on a differentiated approach to customer service and compliance in the sector;

> Satsuma aims to continue its growth and move into profitability; and

> Moneybarn aims to maintain its leadership position in non-standard car finance through widening its channel presence and product range including building a larger direct business.

Underpinning the plans of each of the businesses is the effective use of proven new technologies to deliver better customer experiences and deliver them more efficiently. The group has successfully evolved its product offering and operations over time through the deployment of new technologies and sophisticated techniques that better meet customer needs, help demonstrate compliance with regulatory requirements and increase efficiency. For example, in Vanquis Bank, non-voice promises to pay from customers have surpassed call centre interactions as customers increasingly want to use online, automated, app-based and mobile account management options introduced by the business. Across the group, apps have been successfully deployed and developed to replace paper and manual processes, as well as to interact more effectively with customers in the way they prefer. The group plans to continue to evolve and seek to use new proven technologies to meet the needs and preferences of its customers better, and improve the efficiency of resources deployed in serving them. For example, the group is developing innovative ways to help customers understand and monitor their financial health more clearly and simply, along with the options open to them, which could help improve their standing or reduce the overall costs of borrowing. This use of technology also makes it easier for customers to take action based on an up to date and comprehensive view of their situation.

The group's businesses have worked together very effectively in certain areas to share resources and expertise, such as Vanquis Bank's collections capabilities which support Satsuma. There are also some areas where supplier relationships have been successfully shared and leveraged, and where shared customer relationships have been piloted. However, the group's businesses have largely been developed and operated separately which provides an opportunity to serve customers better and improve efficiency over time by implementing greater coordination and cooperation going forward. The group will increasingly seek to drive the building and organising of its resources and skills by what serves the customer needs the best, in the most efficient way, rather than necessarily being based on individual businesses operating in isolation. The group's revised approach will also help implement the cultural shift that the group is seeking to achieve resulting in a more seamless group product offering and customer progression.

2017 results

The group has reported a profit before tax, amortisation of acquisition intangibles and exceptional items of £109.1m (2016: £334.1m), down by 67.3% on 2016, reflecting the significant impairment arising as a result of the operational disruption in home credit following the poorly executed migration to the new operating model in July 2017. Vanquis Bank, Moneybarn and Satsuma have continued to experience good growth. Adjusted basic earnings per share of 62.5p (2016: 177.5p) reduced by 64.8%, broadly in line with the reduction in adjusted profit before tax.

Exceptional costs of £224.6m have been charged in 2017 comprising: (i) the estimated cost of £172.1m in respect of customer restitution, other expenses and a fine following resolution of the FCA investigation into ROP in Vanquis Bank; (ii) the estimated cost of £20.0m arising from the ongoing FCA investigation into affordability and forbearance at Moneybarn; and (iii) £32.5m in respect of redundancy, retention, training and consultancy costs associated with the migration to the new home credit operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation.

As a result of the exceptional costs charged in the year, the group reported a statutory loss before tax of £123.0m (2016: profit of £343.9m) and a basic loss per share of 90.7p (2016: earnings per share of 181.8p).

Vanquis Bank delivered an adjusted profit before tax of £206.6m, 1.0% higher than 2016 (2016: £204.5m). This reflects the impact of a more stable delinquency performance compared with the improving profile in the first nine months of 2016, the reduction in ROP income following the voluntary suspension of sales in April 2016 and an additional year-on-year investment of approximately £12m to augment the medium-term growth potential of the business. New credit card customer bookings of 437,000 were up 7.6% on last year, benefiting from the actions put in place during the second half of 2016 to develop the credit card proposition and enhance distribution, including the launch of the Chrome near prime credit card. Year-on-year customer growth of 11.3% and average receivables growth of 14.6% have been delivered against credit standards that were tightened in the third quarter, recognising the uncertainties faced by the UK economy. In line with previous guidance, the annualised risk-adjusted margin has moderated from 32.2% to December 2016 to 30.2% to December 2017, reflecting a reduction in the revenue yield due to a further decline in the penetration of ROP within the customer base and some moderation in the interest yield from the changing mix of business. The loans proposition, initially offered to the established Vanquis Bank customer base, continues to make encouraging progress, and has now moved from pilot phase.

CCD reported an adjusted loss before tax in 2017 of £118.8m (2016: profit of £115.2m), reflecting significant impairment arising as a result of the operational disruption in home credit following the poorly executed migration to the new operating model in July 2017.

The new home credit operating model, which involves employing full-time CEMs to serve customers rather than using self-employed agents, was launched on 6 July 2017. During the period in the run-up to the launch of the new model in May and June, the business experienced higher operational disruption than anticipated, with agent attrition rates and vacancy levels adversely impacting collections, sales penetration, customer retention and profits. Following the launch of the new model, poor execution in implementation resulted in a significant amount of further unforeseen disruption in July and August as the model was too prescriptive in the way the workforce was managed and the re-design of territories and CEM rounds resulted in both discontinuity and disruption to customer relationships. The combination of these factors resulted in a significant increase in arrears and impairment and led to the home credit business reporting a pre-exceptional loss of approximately £114m in the year compared with a pre-exceptional profit of approximately £121m in 2016.

The leadership team in CCD was changed in late August 2017 with Chris Gillespie returning to the group as Managing Director, having previously held this role until 2013. A recovery plan was developed through September which retains the employed operating model in the UK which in due course should allow the business to own and manage all aspects of the customer journey and exercise greater control over customer interactions. The primary focus of the recovery plan is to re-establish relationships with customers, stabilise the operation of the business and improve collections performance. Good progress has been made in implementing the recovery plan since September with the actions taken by management delivering a significant improvement in customer service and operational performance. On 16 January 2018, the business also announced the rationalisation of the home credit central support functions in order to align the cost base to the reduced size of the business. The home credit business ended the year with 527,000 (2016: 782,000) active customers and a receivables book of £352.2m (2016: £560.0m) and is on-track and well-placed to continue with execution of the recovery plan.

Satsuma has continued to make further progress in developing its product distribution, digital platform and further lending capability during 2017. The business is generating a strong flow of new business and further lending following the improvements made to the customer journey and product proposition in the second half of 2016, including the introduction of a monthly product. In addition, the business has continued to successfully develop its multi-channel distribution capability including the recent roll-out of the new mobile app. As a result, new business and further lending volumes increased by 30% on 2016 and customer numbers increased from 55,000 at 31 December 2016 to 79,000 at 31 December 2017 and receivables increased from £18.2m to £35.8m over the same period. The business reported a loss before tax of approximately £5m in 2017, modestly lower than around £6m in 2016, which was adverse to internal plans. The loss reflects the strong growth in the monthly product during 2017, the underwriting of which has been tightened during the latter part of the year in response to higher than planned impairment.

Moneybarn has delivered a 9.6% increase in adjusted profits to £34.1m in 2017 (2016: £31.1m). Extension of both the product offering and distribution channels and further service enhancements to intermediaries has generated new business volumes approximately 17% higher than 2016. As a result, customer numbers were 50,000 at the end of the year, showing year-on-year growth of 22.0%, and receivables, prior to balance reduction, were £376.2m, showing year-on-year growth of 26.5%. The annualised risk-adjusted margin has moderated from 24.1% to December 2016 to 21.8% to December 2017 reflecting additional impairment associated with the step-up in new business volumes and the flow through of impairment from higher risk categories of business prior to the tightening of underwriting in the second quarter.

The group's CET 1 ratio as at 31 December 2017 was 14.5% (2016: 21.9%) and is stated after the provision for the estimated cost of the FCA investigations of £192.1m which has been reflected in the 2017 year-end balance sheet. This is below the group's minimum regulatory capital requirement of a CET 1 ratio of 25.5%, which has increased primarily due to an increase of approximately £100m in respect of conduct and operational risk assessments. On an unaudited pro forma basis, after assuming receipt of the proposed rights issue net proceeds of £300m, the group's CET 1 ratio at 31 December 2017 would increase to 28.7%.

At 31 December 2017, the group had cash resources of £34m, excluding the liquid assets buffer held by Vanquis Bank, and headroom on the group's committed debt facilities amounted to £66m. The flow of retail deposits within Vanquis Bank has continued in line with its internal funding plan and the additional capacity for Vanquis Bank to take retail deposits amounted to £77m at the end of 2017.

The group's funding strategy will be broadly unchanged following the proposed rights issue. This will include maintaining committed facilities to meet contractual maturities and fund growth for at least the following 12 months and continued access to three main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; and (iii) retail deposits which will fully fund a ring-fenced Vanquis Bank in the short to medium term. In addition, the group will actively consider other funding options following completion of the proposed rights issue. Completion of the proposed rights issue is designed to allow the group to re-establish normal access to funding from the bank and debt capital markets. Following the proposed rights issue, the group will be funded through to May 2020 when the group's revolving syndicated bank facilities mature.

Chief Executive Officer's review continued

Capital, balance sheet and financial model

To support the delivery of the group's strategy, the group will continue to operate a financial model that is founded on investing in capital generative businesses offering an attractive return, and which aligns the dividend policy with a strong capital base and future growth plans.

Having taken steps focused on ensuring that the customer comes first, the Board accepts that returns will moderate as a result, although the Directors believe that they remain attractive. The Board consider that a target ROA of approximately 10% is a sustainable level of return for the group as the home credit business moves to profitability in 2019 and after taking account of the outcome of the FCA's investigation into Vanquis Bank's ROP, meeting forthcoming changes in regulation which include anticipated changes arising out of the FCA's Credit Card Market Study and CP17/27 ('Assessing creditworthiness in consumer credit') and delivering good customer outcomes. The Directors also believe that there are attractive growth opportunities available to each of the group's businesses within the non-standard credit market which would allow for receivables growth of between 5% and 10% per annum, subject to economic conditions and maintaining the group's minimum returns thresholds.

The revised minimum regulatory capital requirement of the group is a CET 1 ratio of 25.5%, which includes an additional capital requirement of approximately £100m in respect of conduct and operational risks compared with the previous assessment. The Board expects to maintain a suitable level of headroom against the minimum regulatory capital requirement to support ongoing access to funding from the bank and debt capital markets.

Based on the target level of returns and maintaining an appropriate capital structure, the group's dividend policy is to maintain a dividend cover ratio of at least 1.4 times once the home credit recovery plan has been fully delivered during 2018. The Board remains strongly committed to the payment of future dividends and delivering long-term value to shareholders. The group will therefore aim to restore dividends with a nominal dividend for the 2018 financial year before adopting a progressive dividend, in line with the above dividend policy, from the 2019 financial year.

The group has engaged with its lending banks and M&G and, subject to a successful rights issue, the lending banks and M&G have agreed to amend certain covenants attaching to the syndicated revolving bank facility and the M&G term loan respectively. The net worth covenant has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. These amendments would cease to have effect if the rights issue were not to proceed and complete.

The Directors believe that once the proceeds of a successful rights issue have been deployed, the business model is attractive and sustainable within a robust governance and oversight framework, and the future prospects of the group are strong. The Directors also believe that the group offers an attractive proposition for shareholders based firmly on good outcomes for customers and a sound financial model.

Finally, the success of our future business will be predicated on putting our customers first in our thinking and actions. We are proud leaders in our sector and can only maintain this position by establishing exemplary relations with our regulators, the FCA, PRA and CBI. This will be done.

Further more, our success is predicated on our employees working together across our operating subsidiaries and capitalising upon the demonstrable experience we have established over 140 years.

Outlook for 2018

The major uncertainties faced by the group through a very difficult 2017 are now resolved and the valuable franchises of the group's business have been protected. The home credit recovery plan is on-track and the group's regulatory agenda focused on the customer first will underpin the delivery of sustainable growth and returns.

The proposed rights issue provides a strong capital base and access to the funding that will allow the group's businesses to develop their market-leading positions.

The Board remains strongly committed to resuming the payment of dividends, with a nominal dividend for the 2018 financial year before adopting a progressive dividend, in line with its revised dividend cover policy of at least 1.4 times, from the 2019 financial year.

Each of the group's businesses has performed well through the early weeks of the year.

Malcolm Le May
Chief Executive Officer
27 February 2018

Our strategy and progress

The group has four key strategic objectives to deliver our mission which are measured through a number of financial and non-financial key performance indicators (KPIs).

Long-term strategic objectives

Growing sustainable, customer-centric businesses that deliver attractive returns in non-standard markets

See page 21

Acting responsibly and with integrity in all we do

See page 24

Maintaining a secure funding and capital structure

See page 25

Generating consistent and sustainable shareholder returns

See page 27

Our strategy and progress continued

Our KPIs are helpful in assessing progress but are not exhaustive as management also takes account of a wide range of other measures in assessing underlying performance.

Adjusted measures are presented where management feel this is more representative of the underlying business performance as opposed to the statutory equivalent.

KPI descriptions:

- **Receivables growth** – The year-on-year growth in amounts receivable from customers;
- **Adjusted profit before tax** – Profit before tax, the amortisation of acquisition intangibles and exceptional items;
- **Return on assets (ROA)** – Adjusted profit before interest after tax as a percentage of average receivables;
- **Return on equity (ROE)** – Adjusted profit after tax as a percentage of average shareholders' equity. Shareholders' equity is stated after deducting the group's pension asset, net of deferred tax, the fair value of derivative financial instruments (hedging reserve), and the proposed final dividend;
- **Customer satisfaction** – The percentage of customers surveyed who are satisfied with the service they have been provided with;
- **Community investment** – The amount of money invested in support of community programmes, money advice programmes and social research;
- **Common Equity Tier 1 (CET 1) ratio** – The ratio of the group's regulatory capital resources to the group's risk-weighted exposures. The group's regulatory capital is calculated as shareholders' equity less: (i) goodwill and other intangible assets, net of deferred tax; (ii) the group's pension asset, net of deferred tax; (iii) the fair value of derivative financial instruments (hedging reserve); and (iv) the dividend accrued on profits recognised. Risk-weighted exposures are the group's assets and off-balance-sheet exposures weighted according to risk in accordance with the requirements of the PRA;
- **Borrowings to tangible net worth** – The ratio of total group borrowings to the tangible net worth of the group. Tangible net worth excludes goodwill and other intangible assets, net of deferred tax;
- **Gearing** – Borrowings (excluding deferred arrangement fees) less the liquid assets buffer, including liquid resources, divided by equity. Equity is stated after deducting the group's pension asset, net of deferred tax and the fair value of derivative financial instruments, in line with the group's banking covenants;
- **Funding capacity** – Contractual debt facilities plus the additional capacity for Vanquis Bank to take retail deposits to repay its intercompany loan to Provident Financial plc less the group's committed borrowings;
- **Adjusted basic earnings per share** – Profit after tax, excluding the amortisation of acquisition intangibles and exceptional items, divided by the weighted average number of shares in issue, excluding own shares held by the group;
- **Dividend per share** – The total dividend per share, comprising the interim dividend per share paid and the proposed final dividend per share;
- **Dividend cover** – Adjusted basic earnings per share divided by dividend per share; and
- **Total shareholder return** – The change in the group's share price, together with any dividend returns made to shareholders.

Growing sustainable, customer-centric businesses that deliver attractive returns in non-standard markets

Apply exacting standards in allocating capital to organic and acquisition opportunities to invest in businesses that:

> Deliver a target return on assets for the group of approximately 10%. **Attractive returns** are available in the non-standard market to those companies that have developed tailored business models and focus on delivering good customer outcomes.

> Are **sustainable** and maintain attractive levels of regulatory compliance at all times.

> Have **good growth potential** to deliver future earnings and dividends growth.

> Enjoy a **strong market position**, preferably a top-three market position in each segment of the non-standard market in order to develop the market in a responsible manner.

> Have **sustainable management and cultural fit.**

Our progress against our KPIs in 2017

Adjusted profit before tax (£m)

2017	**109.1**
2016	334.1
2015	292.9
2014	196.1
2013	178.4

Adjusted profit before tax decreased by 67.3% to £109.1m (2016: £334.1m) reflecting the significant adjusted loss of £118.8m (2016: profit of £115.2m) arising within CCD as a result of the disruption caused on the transition to the new operating model within the home credit business and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration during the year. Consistent with internal plans, Vanquis Bank delivered stable adjusted profits of £206.6m (2016: £204.5m), with new credit card customer bookings of 437,000, up from 406,000 in 2016. Moneybarn delivered adjusted profits growth of 9.6% to £34.1m (2016: £31.1m), with new business volumes 17% higher than 2016.

Adjusted profit before tax in 2017 is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2016: £7.5m); and (ii) exceptional costs of £224.6m comprising £172.1m in respect of the estimated cost of restitution, other costs and a fine following resolution on 27 February 2018 of the FCA investigation into ROP in Vanquis Bank, £20.0m in respect of the estimated cost arising in respect of the ongoing FCA investigation into affordability, forbearance and termination options at Moneybarn and £32.5m in respect of redundancy, retention, training and consultancy costs associated with the migration to the new home credit operating model within CCD (2016: net exceptional credit of £17.3m).

Statutory loss before tax reduced by 135.8% to £123.0m (2016: profit before tax of £343.9m) due to the combined impact of the reduction in adjusted profits and the exceptional costs incurred in the year.

Group ROE (%)

2017	**18**
2016	45
2015	46
2014	47
2013	49

Group ROA (%)

2017	**6.9**
2016	15.3
2015	16.1
2014	15.1
2013	14.2

The group's ROE and ROA have reduced to 18% (2016: 45%) and 6.9% (2016: 15.3%) respectively due to the significant loss arising in CCD together with a moderation in returns at Vanquis Bank and Moneybarn. The reduction in Vanquis Bank's returns reflect a reduction in RAM from 32.2% in 2016 to 30.2% in 2017 due to: (i) the continued reduction in the penetration of ROP following the voluntary suspension of sales in April 2016 as well as a more stable delinquency position in the year compared with the improving trend in delinquencies experienced in 2016; and (ii) the additional year-on-year investment of approximately £12m to augment the medium-term growth of the business. Moneybarn's returns have reduced due to the reduction in the RAM from 24.1% in 2016 to 21.8% in 2017 following an increase in impairments due to the strong growth in new business volumes and increased defaults from higher risk customers prior to the tightening of underwriting standards in the second quarter of 2017.

Continued on page 22

Our strategy and progress continued

Growing sustainable, customer-centric businesses that deliver attractive returns in non-standard markets continued

Operational progress in 2017

Vanquis Bank

> Successful expansion of Chrome near-prime credit card.

> Enhanced mobile app launched in early 2017 has been well received and is now registered with 530,000 users.

> Launched a new website with a refreshed look and feel, improved navigation and increased speed and responsiveness.

> Successful roll-out of 'Express Check' service which allows applicants to check their likelihood of acceptance without affecting their credit score.

> Leading the development of a group-wide customer prospects database to better target new, existing and previous customers with the right products and offers.

> Further development of pilot loans proposition to existing credit card customers, including launch of a fully digital journey.

> Credit standards tightened in the third quarter of the year, recognising the uncertainties faced by the UK economy.

> Following a strategic review of all its partnership relationships, Sainsbury's has taken the decision not to renew the Argos partnership agreement with Vanquis Bank when it expires in early 2018.

CCD

Home credit

> New home credit operating model announced on 31 January 2017 involved employing 2,500 Customer Experience Managers (CEMs) to serve customers rather than 4,500 self-employed agents, streamlining the field management structure by reducing headcount from around 800 to 400 and deploying further technology.

> Home credit business experienced higher operational disruption than planned between the announcement and deployment of the new operating model due to higher agent attrition.

> New operating model was launched on 6 July 2017 but resulted in a significant amount of unforeseen disruption as the new model proved too prescriptive in the way the workforce was managed, removing the ability of local management to prioritise and allocate resources. In addition, the re-design of territories and CEM rounds resulted in both discontinuity and disruption to customer relationships. There were also problems with the operation and flexibility of the routing and scheduling software due to data integrity issues which adversely impacted customer relationships. In late August, a new leadership team was put in place at CCD with the reappointment of Chris Gillespie as Managing Director. He previously acted as Managing Director of CCD to 2013.

> Recovery plan developed for the home credit business to re-establish relationships with customers, stabilise the operation of the business and improve collections performance.

> Actions taken by management since early August are delivering a significant improvement in customer service and operational performance and the business enters 2018 with 527,000 active customers and receivables of £352.2m, consistent with the recovery plan.

> Rationalisation of the home credit central support functions announced in January 2018 to align the cost base to the reduced size of the business.

Satsuma

> Launch of a new mobile app, with 'make a payment' functionality, has been well received and now has 42,000 registered users.

> Development of Satsuma Smart Score to allow customers to assess their financial health.

> Deployment of a new channel specific underwriting engine in March 2017.

> Underwriting tightened in the fourth quarter of the year in response to higher than expected impairment on the longer duration monthly product.

Moneybarn

> Increase in the experience and expertise of the Executive team, with key hires in HR, IT, sales and marketing, and credit risk.

> Enhanced credit risk capabilities, with the creation of a new centralised team, improving the agility of underwriting and providing better customer outcomes.

> Introduced an onboarding platform to allow Moneybarn to operate with comparison sites and to support intermediaries in making improvements in their customer conversion efficiencies.

> Continued traction in developing a light commercial vehicle loan proposition together with the introduction of a motorbike proposition.

> Underwriting tightened in the second quarter of the year on higher risk categories of business.

Our focus for 2018

Group-wide

- Realign our culture more closely around the developing needs of the customer, and better coordinate and cooperate internally across our businesses to deliver better customer outcomes as a result.
- Work with external advisors to develop a more comprehensive balanced scorecard approach to performance management with an appropriate balance of financial, customer, risk and strategic metrics will be reflected in a revised executive remuneration policy to support the group's desired culture and approach to greater coordination of group resources for the benefit of customers.
- Focus on helping customers on their creditworthiness journey where possible, using all our resources and offers, going beyond granting the much valued financial inclusion to as many people as is responsible within each area of the group.
- Maintain tight underwriting standards in all businesses against the backdrop of an uncertain UK economic outlook.
- Develop the digital agenda, including increasing tools to help customers assess their financial health and increased payment methods.
- Improve the interaction between businesses and how best practice is shared, including the development of a group-wide customer prospects database.
- Recruitment of two new non-executive directors with directly relevant experience, to work alongside the new group Chief Executive Officer to deliver on the Board's vision.
- Improve the relationship with the regulator through more regular dialogue and co-ordinating the relationship at a group level.
- Continued strengthening of risk management and governance throughout the group, including the recruitment of a number of executives to create key group functions such as HR and IT strategy and procurement to improve coordination, cooperation and efficiency.
- Deliver a group ROA of around 8%-9%, building towards the group's target ROA of around 10% as the home credit business moves to profitability in 2019.

Vanquis Bank

- Maintain leading position in non-standard credit cards by developing channels to market and further expanding into the near-prime sector.
- Continuation of digital journey, including increased functionality and user experience through the new app.
- Launch of a new underwriting platform, allowing more bespoke underwriting by distribution channel.
- Work with the FCA on a plan to resume sales of ROP to new customers.
- Further develop the loans proposition pilot prior to roll-out in the open market.

CCD

Home credit

- Continue the work undertaken since September 2017 to implement a more flexible operating model alongside a right sizing of the cost base, with a focus on re-establishing customer service levels and relationships.
- Complete the work necessary to improve internal controls, first and second lines of defence to risk management, as well as governance and culture in general to enable full authorisation from the FCA.
- Complete all the actions required under the risk mitigation programme agreed with the CBI in the ROI to address the concerns identified by the CBI including, amongst others, the sales processes and governance and risk management of the ROI home credit operations.
- Update the IT estate, including the use of a managed third-party service provider.
- Move the business into profitability on an annualised run rate basis during the second half of 2018.

Satsuma

- Further development of the digital journey in Satsuma, including improved architecture and cloud-based technologies.
- Develop the business beyond high-cost short-term lending (HCSTC) into longer-term loans at lower APRs and revolving credit offers to provide customers with a pathway to cheaper credit.

Moneybarn

- Continue to capture the growth opportunity in the non-standard vehicle finance market by growing the customer base, including building a larger direct business.
- Continue to investigate and test product extensions beyond the current model, including motorbikes and relationships with prime finance businesses.

Our strategy and progress continued

Acting responsibly and with integrity in all we do

> Operating our core business of lending to our customers in a responsible and sustainable manner, putting their needs at the heart of everything we do.

> Acting responsibly and sustainably in all our stakeholder relationships in order to:

> Create a working environment that is safe, inclusive and meritocratic;

> Treat our suppliers fairly; and

> Support our communities.

Our progress against our KPIs in 2017

Customer satisfaction (%)

	Vanquis Bank/Provident home credit
2017	**87/85**
2016	89/93
2015	88/93
2014	84/93
2013	88/93

Vanquis Bank ■ Provident home credit

Customer satisfaction of 85% for Provident home credit (2016: 93%), 87% for Vanquis Bank (2016: 89%), a Feefo score of 4.7 out of 5 for Moneybarn (2016: 4.7 out of 5) and a Reviews.co.uk score of 4.8 out of 5 for Satsuma (2016: 4.6). The significant reduction in customer satisfaction at Provident home credit was associated with the increase in complaints received following the trading disruption on transition to the new operating model. The number of outstanding complaints increased to a high of 9,830 in early October 2017 but have since reduced to 1,506 by early February 2018 following the utilisation of third party resource to clear the backlog and improvements in customer service as part of the home credit recovery plan.

Community Investment (£m)

2017	**2.6**
2016	3.1
2015	3.1
2014	2.4
2013	2.0

Invested a total of £2.6m in various community programmes, money advice programmes and social research (2016: £3.1m).

Operational progress in 2017

> Implemented 'soft search' capability in Vanquis Bank and Satsuma to allow customers to apply without adversely impacting their credit rating.

> Continued development of technology to allow customers more options of paying electronically in all businesses, including new mobile apps in Vanquis Bank and Satsuma.

> Launch of the Progress Card in Vanquis Bank which provides a path from 'sub-prime' to 'near-prime' through reductions in interest rates and increases in credit limits when customers manage their account well.

> Restructure of customer operations within Moneybarn to provide a more coordinated customer experience at all stages of the customer lifecycle and the establishment of a Customer Experience function to help in safeguarding positive customer experiences.

> Appointment of an interim group CRO for the first time who will work closely with the Board and Chief Executive Officer to provide group-wide oversight of governance, risk and conduct and ensure that these all remain a key focus of the group.

> Undertaken a full review of corporate governance and culture to refocus on putting the customer first, thereby improving our regulatory compliance and as a result begin to rebuild our reputation with regulators.

Our focus in 2018

> Maintain or, in the case of Provident home credit, improve customer satisfaction levels.

> Maintain an investment of 1% of group profit before tax in the community through various community programmes, money advice programmes and social research.

> Introduction of monthly recommended payment levels within Vanquis Bank, which are higher than the monthly minimum due payments, in order to encourage stronger payment rates from customers and reduce levels of persistent debt.

> Introduction of enhanced affordability assessments in Vanquis Bank as part of the credit line increase programme.

> Launch of personal loans in Satsuma to provide customers with a pathway to cheaper credit.

> Leverage the newly established role of group CRO to champion the interests of the customer internally and thereby begin to transform the nature of the group's interactions with regulators and provide greater consistency and coordination across the group's businesses.

> Continue to evolve and use new proven technologies to meet the needs and preferences of customers better, and improve the efficiency of resources deployed in serving them. For example, the further development of innovative ways to help customers understand and monitor their financial health more clearly and simply, such as the Satsuma Smart Score on the Satsuma app and the Vanquis Bank new credit card statement and dashboard, along with other options open to them to help improve their standing or reduce their overall costs of borrowing.

> Establish a new Board committee, to be chaired by one of the new non-executive directors, focusing on the customer, culture and ethics to drive changes in behaviours and attitudes across the group.

Maintaining a secure funding and capital structure

- Maintain borrowing facilities which, together with Vanquis Bank's retail deposits programme, meet contractual maturities and fund growth over at least the next 12 months.
- Maintain a CET 1 ratio for the group of 25.5%, being the expected minimum regulatory requirement post the rights issue, together with a suitable level of headroom to ensure ongoing access to funding from the bank and debt capital markets. This broadly equates to funding new receivables at a target gearing ratio of 3.5 times compared with a bank covenant of 5.0 times and is equivalent to maintaining a borrowings to net tangible assets ratio of 2.8 times.
- Continue to diversify the group's sources of funding.

Our progress against our KPIs in 2017

CET 1 ratio (%)

Year	CET 1 ratio (%)
2017	**14.5**
2016	21.9
2015	21.5
2014	20.0
2013	21.2

Borrowings/tangible net worth (times)

Year	Borrowings/tangible net worth (times)
2017	**5.4**
2016	2.8
2015	2.8
2014	3.1
2013	3.1

Gearing (times)

Year	Gearing (times)
2017	**4.3**
2016	2.3
2015	2.2
2014	2.4
2013	3.0

All of the group's capital ratios in 2017 have been significantly impacted by the losses incurred in CCD following the poorly executed migration to the new operating model and the estimated costs of resolution in respect of the FCA investigation into ROP at Vanquis Bank and the ongoing FCA investigation into affordability, forbearance and termination options at Moneybarn which have been reflected in the 2017 balance sheet. The proposed rights issue will recapitalise the group.

The group's CET 1 ratio as at 31 December 2017 was 14.5% (2016: 21.9%), below the group's regulatory capital requirements set by the PRA. On a pro forma basis, after assuming the proposed right issue occurred on 31 December 2017, the group's CET 1 ratio increases to 28.7%, comfortably in excess of the revised minimum requirement of 25.5%.

Borrowings to tangible net worth was 5.4 times at 31 December 2017 (2016: 2.8 times) and gearing was 4.3 times (2016: 2.3 times). On a pro forma basis, after assuming the proposed right issue occurred on 31 December 2017, the group's borrowings to tangible net worth was 2.8 times and gearing was 2.2 times.

At 31 December 2017, the group had: (i) cash resources of £34m, excluding the liquid assets buffer held by Vanquis Bank; (ii) headroom on the group's committed debt facilities of £66m; and, (iii) the additional capacity for Vanquis Bank to take retail deposits up to repayment of its intercompany loan from Provident Financial of £77m. This provides funding capacity of £177m. After taking account of the expected net proceeds from the rights issue of £300m, this is sufficient to fund contractual maturities and projected growth in the business until May 2020 when the group's £450m syndicated revolving bank facility matures.

Continued on page 26

Our strategy and progress continued

Maintaining a secure funding and capital structure continued

Operational progress in 2017

> The syndicated bank facility was refinanced on 31 January 2017, with the facility increased from £383m to £450m and the maturity date extended from May 2018 to May 2020. The all in cost of the new facility is approximately 0.25% lower than the previous facility with the covenant package broadly unchanged.

> Vanquis Bank continues to build its retail deposits portfolio, with retail deposits increasing from £941m at December 2016, representing 66% of Vanquis Bank's receivables, to £1,292m at 31 December 2017, representing 79% of Vanquis Bank's receivables (before the impact of balance reduction).

> The group's credit rating from Fitch Ratings was downgraded from BBB to BBB- and placed on ratings watch negative following the group's announcement on 22 August 2017.

> 2012 retail bonds of £120m repaid on their maturity date of 4 October 2017.

> Launch of a fully underwritten rights issue on 27 February 2018, to raise approximately £300m (net of expenses of £30m) to: (i) meet the costs of resolving the investigation by the FCA into Vanquis Bank's ROP of £172.1m; (ii) meet the estimated costs of £20.0m into the ongoing FCA investigation into affordability, forbearance and termination options at Moneybarn; and (iii) ensure the group has appropriate amounts of regulatory capital to meet an increase in regulatory capital requirements including an increase of approximately £100m in respect of conduct and operational risk assessments compared with the previous assessment; and (iv) ensure that the balance sheet is strengthened with the appropriate level of buffers to re-establish normal access to funding from the bank and debt capital markets.

> To enable Vanquis Bank to reduce reliance on Provident Financial plc over the medium term, Provident Financial plc has drawn down £85m under a bridge facility and increased its loan to Vanquis Bank. At the same time, the undrawn committed portion of the intercompany facility provided by Provident Financial plc has been cancelled. Vanquis Bank will hold the additional funding as liquid resources.

Our focus in 2018

> Complete the rights issue to meets the costs of resolving the FCA investigation into ROP at Vanquis Bank and the estimated cost of the ongoing FCA investigation at Moneybarn and recapitalise the group.

> Maintain capital and gearing in excess of minimum targets.

> Continue to manage the flow of retail deposits in Vanquis Bank to continue to pay down the outstanding balance on the intercompany loan with Provident Financial plc and ensure an appropriate amount of headroom is maintained on the group's committed facilities.

> Review and consider additional funding options to support growth in Moneybarn and Satsuma and the refinancing on maturing facilities.

> Manage regulatory capital and liquidity in accordance with PRA requirements.

Generating consistent and sustainable shareholder returns

- > Deliver sustainable receivables growth of between 5% and 10% per annum, subject to economic conditions and maintaining the group's minimum returns thresholds.
- > Maintain a dividend cover of at least 1.4 times.

Our progress against our KPIs in 2017

Adjusted basic earnings per share[1] (p)

2017	**62.5**
2016	177.5
2015	162.6
2014	132.6
2013	112.0

Adjusted basic earnings per share reduced by 64.8% to 62.5p (2016: 177.5p), broadly in line with the reduction in adjusted profit before tax of 67.3%. The basic loss per share fell by 149.9% to 90.7p (2016: earnings per share of 181.8p).

Dividend per share (p)

2017	–
2016	134.6
2015	120.1
2014	98.0
2013	85.0

Dividend cover[1] (times)

2017	–
2016	1.32
2015	1.35
2014	1.35
2013	1.32

On 22 August 2017, as a result of the impact of the trading disruption in home credit and the FCA investigation into ROP, the Board announced that the interim dividend for the 2017 financial year was withdrawn and a final dividend was unlikely in order to retain liquidity and balance sheet stability. On 13 October 2017, the Board confirmed that a full-year dividend in respect of 2017 would not be paid.

Total shareholder return (%)

2017	**(65.3)**
2016	(11.6)
2015	40.9
2014	57.0
2013	25.4

Annual total shareholder return of -65.3% in 2017 (2016: -11.6%), principally reflecting the significant reduction in the group's share price following the trading update on 22 August 2017.

Our focus for 2018

- > Deliver receivables growth of between 5% and 10%, whilst maintaining the group's minimum returns thresholds.
- > Restore dividends with a nominal dividend for the 2018 financial year before adopting a progressive dividend, in line with the group's minimum dividend cover of at least 1.4 times, from the 2019 financial year.

1 Stated prior to the amortisation of acquisition intangibles and exceptional items.

Our business model

Why PFG works

The group is successful in lending to customers whom others find it difficult to serve because of the way we manage the customer relationship and the solid foundations that we have built for our business.

The people critical to our success

Our customers
See page 54

Our people and suppliers
See page 56

The communities in which we operate See page 58

How we create value

1
Secure longer-term, lower rate funding

We borrow longer, at lower rates than we lend, from diverse wholesale and retail sources, always with at least a years headroom. We do this through strong relationships with our banks, deposit taking, a BBB- credit rating and a FTSE 250 listing. We create value by allowing investors to participate in our markets indirectly and our businesses to meet customer demand throughout the cycle. Our funders enjoy a reliable source of good solid diversified income. Our customers enjoy affordable, sustainable, and responsible access to credit.

+

2
Develop tailored products to meet customers' needs

We focus on the UK non-standard credit market, developing simple, transparent products with flexibility to help customers cope with life. Adapting to the needs of a specific target market, we generate high customer satisfaction and loyalty. We create value by covering the higher cost included in serving non-standard consumers with loans at affordable rates, enabling us to lend to those otherwise financially excluded. We have longer experience, and a wider range of specialised products than our competitors, better suiting the market diversity and dynamism. We continue to innovate to match consumer trends.

+

3
Attract target customers

We use many ways to reach non-standard consumers. We target our offers using mailing and increasingly digital methods, as well as face-to-face and partners such as brokers, agents and retailers. We create value for customers and third parties by responsibly offering credit to the otherwise excluded and enabling them to make purchases or deal with life on tight incomes. Consumers are able to shop in the modern world, get to work and deal with larger expenses. Partners earn commission, and retailers make more sales. Our longer experience makes us more effective than our competitors. Our ability to lend and commitment throughout the cycle has earned us trust and loyalty of both intermediaries and customers.

+

4
Assess affordability and credit worthiness

We carefully assess applicant credit worthiness, along with affordability, suitability and sustainability. We use internal and external data, including face-to-face interactions, taking into account the current situation and the likely future. Our specialisation, experience and bespoke approach allows us to create value by maximising approvals while maintaining sufficient returns. Customers get the credit they need more often, where responsible, and each assessment and outcome adds experience and knowledge, improving future decisions. We have been active in the non-standard market for longer than most, with a wider range of products at a larger scale helping us to maintain our advantage in assessing applications.

5
Lend responsibly

We tend to lend smaller amounts over shorter periods and take a 'low and grow' approach as customers demonstrate sustainability. Where a vehicle is held as security, we can lend more credit for a longer duration. We create value by helping customers enter or re-enter the credit market, stay in control and build credit scores for greater future access and choice. Our customers are no longer financially excluded from modern life, now or in the future. Our focus and specialised experience makes us better at helping customers on this journey than our direct competitors, and able to lend where mainstream lenders cannot.

+

6
Collect repayments due

We offer many ways to pay in cash and remotely, maintaining high levels of frequent customer contact. We stay close to customers through call centre, digital communications and face-to-face meetings weekly in the home. We help our customers to stay on track and build better credit scores by adapting our methods to suit the realities of customers' lives in an understanding way. Self-employed agents earn income from successful payments encouraging them to build skills and experience in dealing with customers. The scale of our high-tech contact centres and our experienced well-trained employees set us apart from our competitors, and our volumes help us to maintain our superior performance. We share these best in class collections capabilities across the group to help established and new businesses improve quicker and earlier.

+

7
Manage arrears and customer difficulties

We establish early contact and an ongoing dialogue with customers who have difficulties, with a sympathetic approach, trying to understand and offer forbearance. Our focus is on making a difficult situation easier to deal with by taking a personal approach to resolving problems. Our customers value this understanding highly, as it minimises their arrears, and damage to their credit score. It also maximises recoveries, and enables customers to qualify for further credit. Our far more rapid, intensive and personal approach sets us apart from mainstream lenders and our scale, experience and greater investment differentiates us from other specialists. We are able to share our arrears management capabilities across the group to help established and new businesses improve performance and customer satisfaction.

+

8
Pay for funds and generate surplus capital to deploy

We grow our attractive ROA, cash and capital generative businesses, under a funding model that now pays 75% of earnings in dividends and retains 25% equity to combine with external funds at a low gearing to fund growth. We create shareholder value by delivering superior returns throughout the cycle and our strong capital base sustains our ability to grow and attract external funding. Investors and funders rely on good returns. Business units rely on funding being available, and customers rely on credit availability regardless of constraints elsewhere. We enjoy better capital generation and less reliance on external funding through the cycle, allowing us to plan longer-term with confidence to take advantage of market opportunities.

Divisional review
Vanquis Bank

Vanquis Bank is the leading provider of credit cards to people in the non-standard credit market, promoting financial inclusion by bringing credit cards to people who are typically declined by mainstream credit card providers. In doing so, the business helps people to establish or rebuild a credit history and enables those in the non-standard credit market to share in modern buying methods such as online shopping, that can only really be achieved with card-based products.

Adjusted profit before tax	Employees
£206.6m	1,530
Year-end receivables	**Customers**
£1.6bn	1.7m

"Our business is based on a clearly defined strategy and our tailored approach to serving customers in the non-standard credit market.

Chris Sweeney
Managing Director
Vanquis Bank

Overview

Vanquis Bank promotes financial inclusion by bringing the benefits of credit cards to consumers who are typically excluded by mainstream lenders, helping people to establish or rebuild their credit profiles and enjoy the increasing utility of card-based credit, including online shopping. Vanquis Bank's 'low and grow' approach to extending credit and high levels of customer contact underpin a sustainable, responsible lending model which produces consistently high levels of customer satisfaction approaching 90%.

Vanquis Bank has demonstrated that it is considerably less sensitive to changes in the employment market than mainstream card issuers. Although the UK employment market has continued to improve, Vanquis Bank has maintained tight credit standards since 2009 and maintains strict discipline over managing card utilisation.

Competitors continue to be active in both the direct mail and internet distribution channels. However, the business continues to generate strong demand from developing the underserved, non-standard UK credit card market. During 2017 the business built on the developments in 2016 by continuing to expand distribution and the credit card proposition, including the Chrome branded card which is extending the business into the near-prime segment of the non-standard market.

The non-standard market for unsecured loans of greater than 12 months in duration is growing and is underserved, often due to a combination of funding constraints and shortcomings in the underwriting capability of credit providers. An analysis of Vanquis Bank's credit card customer base has indicated that a sizeable population of customers have unsecured borrowings with other lenders. Extending the product range to displace the existing lender is a logical extension of Vanquis Bank's credit card offering and represents an attractive opportunity from which to build an unsecured loans business. As a result, the business commenced a pilot unsecured loans proposition to its existing credit card customers in 2016 and has recently moved out of the pilot phase and will test open market activities in 2018.

Vanquis Bank has over 14 years of experience in lending responsibly to its chosen target market. Its success is based on a clearly defined strategy and a tailored approach to serving customers in the non-standard credit market.

Financial performance

Vanquis Bank generated a profit before tax and exceptional items of £206.6m in 2017 (2016: £204.5m) as set out below:

	Year ended 31 December		
	2017 £m	2016 £m	Change %
Customer numbers ('000)	**1,720**	1,545	11.3
Year-end receivables prior to balance reduction[1]	**1,630.1**	1,424.7	14.4
Reported year-end receivables	**1,554.7**	1,424.7	9.1
Average receivables[2]	**1,497.3**	1,307.0	14.6
Revenue	**638.8**	583.7	9.4
Impairment	**(186.6)**	(162.4)	(14.9)
Revenue less impairment	**452.2**	421.3	7.3
Annualised revenue yield[3]	**42.7%**	44.7%	
Annualised risk-adjusted margin[4]	**30.2%**	32.2%	
Costs	**(209.1)**	(174.4)	(19.9)
Interest	**(36.5)**	(42.4)	13.9
Adjusted profit before tax[5]	**206.6**	204.5	1.0
Annualised return on assets[6]	**11.9%**	13.8%	

1 Receivables are stated prior to the estimated balance reduction in receivables of £75.4m, comprising a gross balance reduction of £90.1m less release of impairment provisions of £14.7m, arising as a result of the resolution of the FCA investigation into ROP reached on 27 February 2018 (see 5 below).

2 Calculated as the average of month end receivables for the 12 months ending 31 December excluding the impact of the balance reduction of £75.4m reflected on 31 December 2017 (see 1 above).

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

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

5 Adjusted profit before tax in 2017 is stated before an exceptional cost of £172.1m in respect of the estimated cost of restitution, other costs and a fine following resolution on 27 February 2018 of the FCA investigation into ROP of which £75.4m has been reflected as a reduction in receivables, comprising a gross balance reduction of £90.1m less release of impairment provisions of £14.7m, and £96.7m has been reflected within provisions. Adjusted profit before tax in 2016 was stated before an exceptional gain on disposal of £20.2m in respect of Vanquis Bank's interest in Visa Europe following completion of Visa Inc.'s acquisition of Visa Europe on 21 June 2016.

6 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ending 31 December.

Vanquis Bank delivered an adjusted profit before tax of £206.6m in 2017, 1.0% higher than 2016. Despite the growth in customer numbers and receivables, this primarily reflects a reduction in margins due to the stable delinquency performance compared with the improving profile in the first nine months of 2016 and the reduction in ROP income following the voluntary cessation of sales in April 2016. In addition, the business has continued to make additional investment in the initiatives to augment medium-term growth. As a result, the business has delivered an annualised return on assets of 11.9% to December 2017, lower than 13.8% to December 2016.

Whilst the marketing activity of competitors in both the direct mail and internet channels has continued, demand for non-standard credit cards continues to be strong. The business has delivered a 7.6% year-on-year increase in new credit card customer bookings to 437,000 (2016: 406,000), reflecting the benefit from the actions put in place in the second half of last year to develop the credit card proposition and enhance distribution. These include the launch of the Chrome near prime credit card, an 'Express Check' service which allows customers to check their likelihood of acceptance without affecting their credit score and strong volumes through price comparison websites following enhancements to improve Vanquis Bank's ranking.

Fourth quarter new customer bookings of 93,000 showed a reduction of 20% from the same period in 2016. In the context of the heightened macroeconomic uncertainties, underwriting was tightened during the third quarter of the year and reduced new booking volumes by approximately 10%. In addition, volumes delivered by the Argos partnership during the seasonally busier fourth quarter were 1,000 in 2017 compared with 15,000 in 2016. Following its acquisition by Sainsbury's in September 2016, Argos has reviewed all its strategic financial services partnerships and in late December 2017 informed Vanquis Bank of its intention to exit the partnership arrangement when the contract expires in early 2018 and to take all of their card-issuing activities in-house. The business continues to work on a number of partnering opportunities with other lending institutions, brokers and providers of retail finance.

Divisional review
Vanquis Bank continued

Customers ('000)

2017	**1,720**
2016	1,545
2015	1,421
2014	1,293
2013	1,099

Receivables (£m)

2017	**1,630.1**[1]
2016	1,424.7
2015	1,252.0
2014	1,093.9
2013	861.3

1 Prior to balance reduction of £75.4m.

Annualised risk adjusted margin (%)

2017	**30.2**
2016	32.2
2015	32.8
2014	33.2
2013	34.2

Adjusted profit before tax (£m)

2017	**206.6**
2016	204.5
2015	185.5
2014	151.0
2013	113.7

Annualised return on assets (%)

2017	**11.9**
2016	13.8
2015	15.8
2014	15.5
2013	15.5

Customer numbers ended the year at 1,720,000 (2016: 1,545,000), up 11.3% from 31 December 2016. The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 14.6% increase in average receivables. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of between 65% and 70% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

Delinquency levels have remained broadly stable through 2017 reflecting the sound quality of the receivables book and the stable UK employment market. This compares with the improving profile of delinquency experienced in the first nine months of 2016. In line with previous guidance, the annualised risk-adjusted margin has moderated from 32.2% to December 2016 to 30.2% to December 2017. This reflects a reduction in the annualised revenue yield from 44.7% to December 2016 to 42.7% to December 2017 from a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales in April 2016 and some moderation in the interest yield from the expansion of the product offering into the near prime segment of the market. Now that the FCA has concluded its investigation, Vanquis Bank will be working with the FCA on a plan to resume sales of ROP to new customers.

Based on continued stable delinquency trends, together with the continued growth of Vanquis Bank's presence in the near prime segment of the market, the annualised risk-adjusted margin is expected to moderate to between 28% and 29% in 2018.

Costs increased by 19.9%, higher than the 14.6% growth in average receivables. The cost base in 2017 includes a £3m increase in acquisition costs associated with the step-up in new customer volumes together with a year-on-year increase of £12m in the expenditure to support the programme of initiatives to augment the medium-term growth of the business, including loans, digital and the group-wide Provident Knowledge Universe customer database.

Interest costs reduced by 13.9% during 2017. This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 4.6% in 2016 to 3.7% in 2017 due to an increase in the proportion of funding provided by retail deposits and a lower average interest rate on those deposits.

Vanquis Bank loans, which was introduced in the second half of 2016, continues to make steady progress and has now moved out of the pilot phase. The focus currently remains on providing unsecured loans to existing credit card customers prior to the development of an open market proposition towards the end of the year. Customer numbers and receivables ended 2017 at 10,000 and £15m respectively and credit quality is in line with expectations.

Divisional review
Consumer Credit Division

The Consumer Credit Division is the group's longest running business, stretching back to the company's foundation in 1880. The home credit business serves its customers with short-term cash loans. Satsuma has been established more recently and provides a unique customer proposition for those customers who wish to transact online.

Adjusted loss before tax	Employees
£(118.8)m	3,100
Year-end receivables	**Customers**
£390.6m	0.8m

"In 2018, we aim to retain and build on our market-leading position in home credit based on a differentiated approach to customer service and compliance in the sector.

Chris Gillespie
Managing Director
Consumer Credit Division

Overview

The Provident home credit business continues to fill an important need for consumers in the non-standard market, providing access to credit for those who might otherwise be financially excluded. Consumers on low incomes and tight budgets require affordable credit in order to manage the peaks and troughs in their household budgets or one-off items of expenditure which may arise. They value the simple, flexible and transparent nature of the home credit product with its fixed repayments and no additional fees or charges, even if payments are missed. Customers value these features as well as the face-to-face relationship. The regular contact with customers and thorough affordability checking further reinforces Provident's responsible lending approach.

Home credit customers' employment tends to be biased towards more casual, temporary and part-time employment. Household incomes and the cost of living have both shown a modest improvement.

There continues to be a stable core of between two and three million non-standard UK consumers for whom home credit is the right solution because a face-to-face relationship is critical to the assessment of affordability and forbearance measures which cannot be replicated through a remote lending relationship.

Although the competitive landscape in the home credit market remains largely unchanged, there is evidence of some industry consolidation materialising as a result of more exacting regulation under the FCA.

Change in home credit operating model

On 28 February 2017, the home credit business announced developments to the operating model that focused on changing from a self-employed agency model to an employed workforce, aimed at delivering a more efficient and effective business. The proposals were intended to enhance the home credit operating model by: (i) serving customers through 2,500 full-time employed Customer Experience Managers (CEMs) rather than 4,500 self-employed agents to take direct control of all aspects of the relationship with the customer; (ii) streamlining field management from 800 to 400 employees, with newly defined roles and ways of working; and (iii) developing further technology to improve efficiency and effectiveness. The migration to the new home credit operating model, with more centralised control over a distributed workforce and greater evidencing of customer interactions through voice recording

Divisional review
Consumer Credit Division continued

CCD customers ('000)

2017	**780**
2016	862
2015	948
2014	1,071
2013	1,511

CCD receivables (£m)

2017	**390.6**
2016	584.8
2015	545.1
2014	588.1
2013	740.0

CCD annualised risk adjusted margin (%)

2017	**35.5**
2016	78.4
2015	82.2
2014	69.1
2013	58.9

CCD adjusted (loss)/profit before tax (£m)

2017	**(118.8)**
2016	115.2
2015	105.4
2014	103.9
2013	102.5

CCD annualised return on assets (%)

2017	**(17.4)**
2016	22.3
2015	21.2
2014	18.1
2013	15.1

technology, was also intended to enhance regulatory standards by improving first line oversight of field staff.

During the transition phase to the new operating model in May and June, and as reported in June 2017, the business experienced higher operational disruption than anticipated, with agent attrition rates and vacancy levels adversely impacting collections, sales penetration, customer retention and profits. Trading performance was expected to normalise once the new operating model was implemented on 6 July 2017. However, poor execution in the implementation of the new operating model resulted in a significant amount of unforeseen disruption in July and August. The model initially deployed placed insufficient recognition of the importance of the front line customer relationship to the performance of the business. It was also too prescriptive in the way the workforce was managed, removing the ability of local management to prioritise and allocate resources. The re-design of territories and CEM rounds resulted in both discontinuity and disruption to customer relationships. There were also problems with the operation and flexibility of the routing and scheduling software due to data integrity issues which adversely impacted customer relationships. The combination of these factors resulted in significant decreases in receivables from an increase in arrears and impairment as reported in August 2017.

The leadership team in CCD was changed in late August 2017. Chris Gillespie returned to the group as Managing Director, having previously held this role until 2013, with a mandate to improve the operating model in order to re-establish relationships with customers, and restore collections and stability in the business.

A recovery plan was developed through September which retains the employed operating model in the UK which, in due course, should allow the business to own and manage all aspects of the customer journey and exercise greater control over customer interactions. The primary focus of the recovery plan is to re-establish relationships with customers, stabilise the operation of the business and improve collections performance. A number of important actions have already been implemented to support these objectives. These involve moving away from the overly prescriptive routing and scheduling of customer interactions which were embedded in the new operating model and restoring the ability of local management to prioritise and allocate resources to meet customer needs. A key feature of this is increasing field management resource in order to restore appropriate spans of control which had been heavily diluted on implementation of the new operating model.

The specific measures include:

> Moving from two UK divisions to four through the recruitment of two additional general managers and increasing the number of regional managers from 12 to 24;

> Appointing assistant area managers to support compliance, administration and arrears in order to free up the 160 area managers to focus on local resource allocation and management of individual CEM activity in the field;

> Recruiting at least 300 part-time employed CEMs, primarily from the previously self-employed agent workforce to accelerate the reconnection with customers;

> Providing additional training for new and underperforming CEMs, including extending the shadowing period and reintroducing a 'buddy' system;

> Increasing contact centre resource to handle significantly higher call volumes, undertake a customer contact programme and assist customers making their regular payments; and

> Management of the field organisation is being supported by the extensive use of analytics including tools that allow field management and CEMs to view and manage activity on a real-time basis via handheld technology.

The home credit business has made good progress in implementing the recovery plan. The actions taken by management are delivering a significant improvement in customer service and operational performance. In particular, collections performance in December of 78% was up from 65% in September and 57% in August and the business delivered both customer and receivables growth through the seasonally busy fourth quarter having experienced significant reductions in the previous two quarters.

CCD's 2017 trading performance has been significantly impacted by disruption caused by the poorly executed migration to a new operating model within the home credit business. The adjusted loss for the year of £118.8m compares with an adjusted profit of £115.2m in 2016 and comprises a loss of approximately £114m in home credit (2016: profit of approximately £121m) and a loss of approximately £5m in Satsuma (2016: loss of approximately £6m). The CCD loss for the year was at the upper end of the guidance of losses of between £80m and £120m provided in the August 2017 trading update. This reflects two factors. Firstly, the rate of reconnection with those home credit customers whose relationship had been adversely impacted by the migration to the new operating model was at the lower end of expectations through the fourth quarter. Secondly, the loss in Satsuma was higher than internal plans reflecting the

Financial performance

CCD generated a loss before tax and exceptional items of £118.8m in 2017 (2016: profit of £115.2m) as set out below:

	Year ended 31 December		
	2017 £m	2016 £m	Change %
Customer numbers ('000)	**780**	862	(9.5)
Year-end receivables	**390.6**	584.8	(33.2)
Average receivables[1]	**443.8**	508.7	(12.8)
Revenue	**451.2**	518.8	(13.0)
Impairment	**(293.5)**	(120.0)	(144.6)
Revenue less impairment	**157.7**	398.8	(60.5)
Annualised revenue yield[2]	**101.7%**	102.0%	
Annualised risk-adjusted margin[3]	**35.5%**	78.4%	
Costs	**(253.4)**	(257.0)	1.4
Interest	**(23.1)**	(26.6)	13.2
Adjusted (loss)/profit before tax[4]	**(118.8)**	115.2	(203.1)
Annualised return on assets[5]	**(17.4%)**	22.3%	(39.7)

1 Calculated as the average of month end receivables for the 12 months ending 31 December.
2 Revenue as a percentage of average receivables for the 12 months ending 31 December.
3 Revenue less impairment as a percentage of average receivables for the 12 months ending 31 December.
4 Adjusted loss before tax in 2017 is stated before exceptional costs of £32.5m in respect of redundancy, retention, training and consultancy costs associated with the migration to the new home credit operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration (2016: exceptional impairment charge of £2.9m in respect of glo's IT platform).
5 Adjusted (loss)/profit before interest after tax as a percentage of average receivables for the 12 months ending 31 December.

strong growth of the monthly product during 2017, the underwriting of which has been tightened during the latter part of the year in response to higher than planned impairment.

The home credit business has made good progress in implementing the recovery plan which was developed through September 2017 following the poorly executed migration to the new operating model. The actions taken by the new management team, under the leadership of Chris Gillespie, are delivering a significant improvement in customer service and operational performance. In particular, collections performance in December of 78% was up from 65% in September and 57% in August and the business delivered both customer and receivables growth through the seasonally busy fourth quarter having experienced significant reductions in the previous two quarters.

CCD reported customer numbers at 31 December 2017 were 780,000 (2016: 862,000), 9.5% or 82,000 lower than at 31 December 2016. Customer numbers comprise 697,000 in respect of the home credit business (2016: 802,000) and 79,000 (2016: 55,000) in respect of Satsuma and 4,000 in respect of the run off of glo (2016: 5,000). Within home credit, 527,000 customers are active and currently making payments compared with around 782,000 at the end of 2016, with the significant reduction reflecting the damage caused to customer relationships as a result of the poorly executed migration to the new operating model. The business also has 170,000 customers (2016: 20,000) who have ceased paying, predominantly following the implementation of the new model. These customers are either being retained in the field as the business attempts to reconnect with them or within the central collections department. Following implementation of the recovery plan, active customer numbers showed growth of around 30,000 during the seasonally busy final quarter of the year. The business expects to maintain an active customer base of around 530,000.

Satsuma customer numbers showed strong growth of 43.6% during the year. Satsuma has continued to experience a step-up in volumes through the ongoing improvements in the customer journey and product distribution. New business volumes and further lending to established customers was 30% higher than 2016 with 40% year-on-year growth experienced during the fourth quarter.

Total CCD receivables were £390.6m at the end of 2017 (2016: £584.8m), 33.2% lower than 2016. Receivables comprise £352.2m in respect of the home credit business (2016: £560.0m), £35.8m in respect of Satsuma (2016: £18.2m) and £2.6m in respect of the run-off of glo (2016: £6.6m).

Home credit receivables fell by 37.1% compared with 2016 reflecting the 32.6% reduction in active customer numbers and the associated additional impairment arising from previously paying customers with whom the business has failed to reconnect. Receivables showed growth of approximately £36m during the seasonally busy fourth quarter of the year. Receivables are expected to show a further modest reduction during 2018 as the business focuses on embedding the new operating model, improving the risk and control framework and obtaining full authorisation from the FCA.

CCD's annualised revenue yield in 2017 was broadly unchanged at 101.7% (2016: 102.0%). This reflects an increase in the mix of lending to existing customers in the home credit business, who tend to be served with lower yielding, longer duration products, substantially offset by the increase in Satsuma volumes which tend to be higher yielding, shorter duration products.

Impairment in CCD showed a significant increase of 144.6% to £293.5m in 2017 (2016: £120.0m) reflecting the significant disruption experienced on migration to the new operating model and the rate of reconnection with those customers whose relationship had been adversely impacted being at the lower end of expectations.

The significant increase in impairment experienced during 2017 resulted in CCD's annualised risk-adjusted margin reducing from 78.4% to 31 December 2016 to 35.5% to 31 December 2017.

Costs reduced by 1.4% to £253.4m in 2017 (2016: £257.0m). The migration to the new operating model has resulted in the replacement of variable agents' commission costs with fixed cost salaries other than in the Republic of Ireland which still operates a self-employed model. As a result, the significant reduction in collections performance experienced during the year was not matched by a reduction in costs. As part of an ongoing process of reviewing its cost base, the home credit business announced a proposed rationalisation of its central support functions on 16 January 2018 which is subject to workforce consultation and is expected to result in approximately 90 redundancies. Together with the ongoing tight control of cost, this is a necessary step to align the cost base to the reduced size of the business. In addition, the business expects to secure improvements in the effectiveness and efficiency of the field organisation as the new business model continues to be embedded. Customer facing resource is being managed very carefully in order to ensure that further improvements in customer service are delivered.

Interest costs were 13.2% lower than last year, in line with the overall reduction in CCD average receivables of 12.8%. The funding rate for the business showed a modest reduction from 6.6% in 2016 to 6.5% in 2017.

The improvements in the effectiveness of the field force from the ongoing implementation of the recovery plan is expected to lead to an improvement in margins through 2018 which, together with cost efficiency, is expected to return the home credit business to breakeven on a run rate basis by the end of the second quarter.

Divisional review
Moneybarn

Moneybarn is the leading provider of non-standard vehicle finance in the UK. The non-standard vehicle finance market shrank considerably as a result of the credit crunch, as mainstream and specialist participants reduced their lending, collapsed or exited the market. It has recovered in recent years but remains much smaller than it was in 2007 which represents an excellent growth opportunity for the business.

Adjusted profit before tax
£34.1m

Employees
225

Year-end receivables
£364.1m

Customers
50,000

"Moneybarn promotes financial inclusion by providing vehicle finance to those consumers who may be unable to obtain mainstream credit, enabling them to get to work and earn a living.

Shamus Hodgson
Managing Director
Moneybarn

Overview

Moneybarn promotes financial inclusion by providing vehicle finance to those consumers who may be unable to obtain mainstream credit, enabling them to get to work and earn a living.

The business shares many of the characteristics of the group's other businesses with a strong focus on delivering favourable customer outcomes. Responsible lending is reinforced through straightforward products which do not involve the sale of ancillary products such as PPI or GAP insurance, or hidden fees or charges.

The profile of Moneybarn's customers is very similar to Vanquis Bank customers. They typically have a thin or impaired credit history and find it difficult to access credit from prime lenders. They have an average age of approximately 40, are employed or self-employed and have an income level around the national average of £25,000.

Moneybarn is one of the largest providers of non-standard vehicle finance in the UK, with an approximate market share of around 25% of the secured segment. Direct competition comes from around 10 other providers who remain active in the underserved market. The non-standard vehicle finance market shrank considerably as a result of the financial crisis, as mainstream and specialist participants reduced their lending, collapsed or exited the market. It has recovered in recent years which, together with the benefit from the group's funding and product development, has resulted in Moneybarn increasing new business volumes since its acquisition in August 2014. The market still remains smaller than it was in 2007 and growth in future demand is supported by a number of factors including customer needs, an overall under-supply of non-standard car finance and the value for money of specialist car finance relative to many other non-standard funding options.

Moneybarn has delivered a 9.6% increase in adjusted profit before tax to £34.1m in 2017 (2016: £31.1m), benefiting from further strong growth in the receivables book. The business delivered an annualised return on assets of 11.6% to 31 December 2017, modestly down from 13.1% to 31 December 2016, reflecting additional impairment associated with the step-up in new business volumes and the flow through of impairment from higher risk categories of business prior to the tightening of underwriting in the second quarter.

Financial performance

Moneybarn has contributed a profit before tax, amortisation of acquisition intangibles and exceptional items of £34.1m in 2017 (2016: £31.1m) as set out below:

		Year ended 31 December	
	2017 £m	2016 £m	Change %
Customer numbers ('000)	**50**	41	22.0
Year-end receivables prior to balance reduction[1]	**376.2**	297.3	26.5
Reported year-end receivables	**364.1**	297.3	22.5
Average receivables[2]	**345.1**	266.6	29.4
Revenue	**106.3**	80.7	31.7
Impairment	**(31.1)**	(16.4)	(89.6)
Revenue less impairment	**75.2**	64.3	17.0
Annualised revenue yield[3]	**30.8%**	30.3%	
Annualised risk-adjusted margin[4]	**21.8%**	24.1%	
Costs	**(25.5)**	(20.5)	(24.4)
Interest	**(15.6)**	(12.7)	(22.8)
Adjusted profit before tax[5]	**34.1**	31.1	9.6
Annualised return on assets[6]	**11.6%**	13.1%	

1 Receivables are stated prior to the estimated reduction in receivables of £12.1m in respect of the FCA investigation into affordability, forbearance and termination options (see 5 below).
2 Calculated as the average of month end receivables for the 12 months ending 31 December excluding the impact of the balance reduction of £12.1m reflected on 31 December 2017 (see 1 above).
3 Revenue as a percentage of average receivables for the 12 months ending 31 December.
4 Revenue less impairment as a percentage of average receivables for the 12 months ending 31 December.
5 Adjusted profit before tax in 2017 is stated before: (i) an exceptional cost of £20.0m in respect of the estimated cost arising from the ongoing FCA investigation into affordability, forbearance and termination options of which £12.1m has been reflected as a reduction in receivables, comprising a gross balance reduction of £32.5m less release of impairment provisions of £20.4m, and £7.9m has been reflected within provisions (2016: £nil); and (ii) the amortisation of acquisition intangibles of £7.5m (2016: £7.5m).
6 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ending 31 December.

New business volumes during 2017 were strong. Extension of both the product offering and distribution channels and further service enhancements to intermediaries has generated new business volumes 17% higher than last year with growth of approximately 30% during the fourth quarter compared to the relatively weak fourth quarter in 2016. As a result, customer numbers ended the year at 50,000, up from 41,000 at December 2016 and showing year-on-year growth of 22.0%.

Moneybarn continues to explore other opportunities to extend its product offering and distribution channels through partnering with new intermediaries and developing its digital proposition.

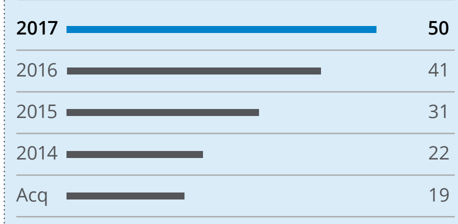
The strong growth in new business volumes has resulted in receivables growth, prior to the estimated balance reduction of £12.1m arising as a result of the FCA investigation into affordability, forbearance and termination options of 26.5% to £376.2m during the year (2016: £297.3m).

Default rates have increased during 2017 reflecting the impact of the step-up in new business volumes and the flow through of impairment from higher risk categories of business prior to the tightening of underwriting in the second quarter of 2017. Moneybarn's peak in defaults is approximately 9 to 12 months following inception of a loan with risk-based revenue being recognised over the duration of the average contract term of between four and five years. As a result, Moneybarn's annualised risk-adjusted margin was 21.8% to 31 December 2017, compared with 24.1% to 31 December 2016. The risk-adjusted margin is expected to stabilise during 2018 once the full impact of the tightening of underwriting has flowed through.

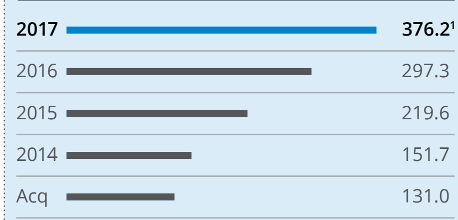
The business has continued to invest in the resources necessary to support future growth and enhance the customer experience. Accordingly, headcount has increased from 195 at the end of 2016 to 225 at the end of 2017. This has resulted in cost growth of 24.4%, lower than the growth in average receivables of 29.4% as the business has benefited from some operational leverage.

Interest costs have shown growth of 22.8% in 2017, lower than the growth in average receivables. The group's funding rate for Moneybarn has remained unchanged and, therefore, the lower rate of growth in interest costs reflects the retention of profits since acquisition as the capital base is built towards the group's target level.

Customers ('000)

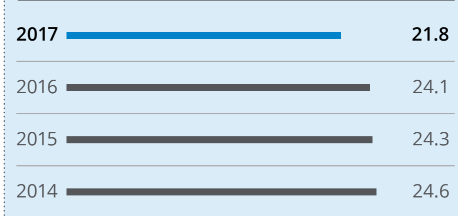


Receivables (£m)

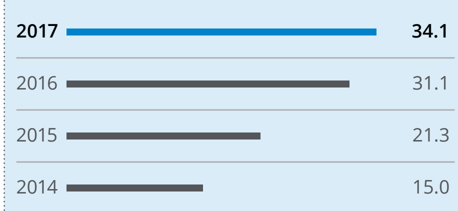


1 Prior to balance reduction of £12.1m.

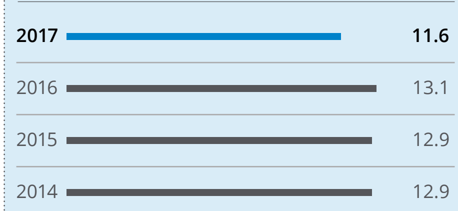
Annualised risk adjusted margin (%)



Adjusted profit before tax (£m)



Annualised return on assets (%)



Financial review

"To support the delivery of the group's strategy, the group will continue to operate a financial model that is founded on investing in customer-centric businesses which offer attractive returns, and which aligns an appropriate capital structure with the group's dividend policy and future growth plans.

Andrew Fisher
Finance Director

The group's results in 2017 have been adversely impacted by the significant losses incurred by CCD's home credit business as a result of the operational disruption following the transition to a new operating model and the estimated costs associated with the resolution of the FCA investigation into Vanquis Bank and the current status of the FCA investigation into Moneybarn.

The home credit business has reported a pre-exceptional loss for the year of £118.8m, compared with the pre-exceptional profit of £115.2m in 2016. In addition, the business incurred exceptional items of £32.5m in respect of redundancy, retention, training and consultancy costs associated with the migration to the new operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration.

On 27 February 2018, the group reached a resolution with the FCA on its investigation into Vanquis Bank's ROP. The estimated cost of resolution amounts to £172.1m, of which £75.4m has been reflected as a balance reduction to receivables in the 2017 year-end balance sheet and £96.7m has been reflected as a provision for cash restitution, other costs and a fine.

The FCA's investigation into affordability and forbearance at Moneybarn is at an advanced stage. The estimated cost of resolution amounts to £20.0m, of which £12.1m has been reflected as a balance reduction to receivables in the 2017 year-end balance sheet and £7.9m has been reflected as a provision.

Table 1: **Calculation of adjusted profit before tax**

	2017 £m	2016 £m
Reported (loss)/profit before tax	**(123.0)**	343.9
Exceptional costs:		
FCA settlement on ROP[1]	**172.1**	–
Moneybarn FCA investigation[2]	**20.0**	–
Restructuring costs in CCD	**32.5**	–
Exceptional gain on sale of Visa shares	**–**	(20.2)
Write-down of glo intangible assets	**–**	2.9
Total exceptional items	**224.6**	(17.3)
Amortisation of Moneybarn acquisition intangibles	**7.5**	7.5
Adjusted profit before tax	**109.1**	**334.1**

1 Comprises provisions of £96.7m and balance reductions to receivables of £75.4m.
2 Comprises provisions of £7.9m and balance reductions to receivables of £12.1m.

As a result of these events, the group's regulatory capital at 31 December 2017 is lower than the PRA's prescribed regulatory capital requirements.

Accordingly, the group is seeking to raise additional capital of approximately £300.0 million (£331 million gross proceeds before deduction of expenses of £31 million) through a fully underwritten rights issue.

During February 2018, the group took the following actions in respect of its funding and capital position, prior to the launch of the proposed rights issue:

> Agreed amendments and waivers of certain covenants with the group's banks in respect of the syndicated revolving bank facility and with M&G in respect of the term loan in order to provide the group with greater covenant headroom to address the impact arising from the disruption in the home credit business in 2017 and the impact of the provisions taken by the group in the balance sheet as at 31 December 2017 relating to the FCA investigations. The net worth covenant has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. These amendments and waivers will cease to have effect if the proposed rights issue were not to proceed and complete;

> Arranged an £85m bridge facility with Barclays Bank and JP Morgan Chase. The bridge facility will be used to provide sufficient funds to allow Vanquis Bank to draw down £85m under an intercompany term loan between the group and Vanquis Bank, providing Vanquis Bank with an additional £85m of funding which Vanquis Bank intends to hold as additional liquid resources. At the same time, committed headroom under an existing intercompany facility was cancelled and will, in the future, reduce the reliance of Vanquis Bank on Provident Financial plc. Subject to the success of the proposed rights issue, the net proceeds of £300m will be received on 12 April 2018 and £85m of such proceeds will be used to repay the bridge facility provided by the underwriting banks. £50m of the proceeds will be injected into Vanquis Bank via a subscription of equity. Subject to regulatory approval and the liquidity profile of Vanquis Bank continuing to be satisfactory, Vanquis Bank intends to repay the intercompany loan facility provided by Provident Financial by 2019 and be fully funded through retail deposits thereafter;

> Shared a revised capital plan with the PRA which has resulted in an increase in the group's regulatory capital requirement, primarily due to an increase of approximately £100m in respect of conduct risk and operational risk assessments. In finalising its new capital plan reflecting its current and expected capital requirements, the group has taken into account, amongst other things: (i) the receipt of £300m net proceeds from the proposed rights issue; (ii) the group's revised dividend policy and estimated future levels of dividends to be paid by the company and Vanquis Bank; (iii) the estimated payments to be made in connection with Vanquis Bank's settlement with the FCA in connection with ROP; (iv) Moneybarn's estimated liability in connection with the FCA's investigation; (v) the amendment and waiver of certain covenants under the syndicated revolving bank facility and M&G term loan; and (vi) management actions planned and proposed to be taken.

The successful completion of the rights issue will ensure that the group has the appropriate levels of regulatory capital to meet its current and future regulatory capital requirements and strengthens the balance sheet with the appropriate level of buffers in order to enable it to capture underlying organic growth opportunities. In addition, the Board believes that this level of capital is aligned with leverage expectations for investment grade credit status and, as such, the group expects to re-establish normal access to funding from bank and debt capital markets.

Financial model

To support the delivery of the group's strategy, the group will continue to operate a financial model that is founded on investing in customer-centric businesses which offer attractive returns and which aligns an appropriate capital structure with the group's dividend policy and future growth plans.

The group's businesses have strong positions in their respective markets and the group's future prospects will be underpinned by the significant actions underway to strengthen culture and governance and by placing positive customer outcomes firmly at the centre of the group's strategy.

A target ROA of approximately 10% is considered to be a sustainable level of return for the group, after taking account of the outcome of the FCA's investigation into Vanquis Bank's ROP, meeting forthcoming changes in regulation, which include anticipated changes arising out of the FCA's Credit Card Market Study, and delivering good customer outcomes in line with the group's strategy.

The attractive growth opportunities available to each of the group's businesses within the non-standard credit market is expected to allow for receivables growth of between 5% and 10% per annum, subject to economic conditions and maintaining the group's minimum returns thresholds.

The group will maintain a CET 1 ratio of at least 25.5%, being the expected minimum regulatory requirement post the rights issue, together with a suitable level of headroom to support ongoing access to funding from the bank and debt capital markets.

Based on the target level of returns and the target capital structure, the group's dividend policy will be to maintain a dividend cover ratio of at least 1.4 times once the home credit recovery plan has been fully delivered during 2018. The group remains strongly committed to the payment of future dividends and delivering long-term value to shareholders. The group will therefore aim to restore dividends with a nominal dividend for the 2018 financial year before adopting a progressive dividend, in line with the above dividend policy, from the 2019 financial year.

Financial review continued

Table 2: **Calculation of ROA**

	2017				2016			
£m	Vanquis Bank	CCD	Moneybarn	Group	Vanquis Bank	CCD	Moneybarn	Group
Adjusted profit before tax[1]	**206.6**	**(118.8)**	**34.1**	**109.1**	204.5	115.2	31.1	334.1
Interest	**36.5**	**23.1**	**15.6**	**77.0**	42.4	26.6	12.7	81.7
Adjusted PBIT[1]	**243.1**	**(95.7)**	**49.7**	**186.1**	246.9	141.8	43.8	415.8
Corporation/Banking tax	**(64.8)**	**18.4**	**(9.6)**	**(28.1)**	(66.7)	(28.4)	(8.8)	(96.5)
Adjusted PBIAT[1]	**178.3**	**(77.3)**	**40.1**	**158.0**	180.2	113.4	35.0	319.3
Average receivables[2]	**1,497.3**	**443.8**	**345.1**	**2,286.2**	1,307.0	508.7	266.6	2,082.3
ROA[1]	**11.9%**	**(17.4)%**	**11.6%**	**6.9%**	13.8%	22.3%	13.1%	15.3%

1 Prior to the amortisation of acquisition intangibles of £7.5m (2016: £7.5m) and exceptional costs of £224.6m (2016: net exceptional gain of £17.3m).
2 Prior to the impact of balance reductions of £75.4m in Vanquis Bank and £12.1m in Moneybarn which were reflected on 31 December 2017 in relation to the estimated cost of the investigations by the FCA.

Returns

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

Management assesses the relative performance of each business through a return on assets (ROA) measure. The group calculates ROA as profit before interest, amortisation of acquired intangibles and exceptional items, after tax (PBIAT) divided by the average receivables during the period. This ensures that the returns being generated by each business are not distorted by differences in the capital structure of each business and allows for better comparability. Table 2 sets out the calculation of ROA in 2017 and 2016.

Vanquis Bank ROA reduced from 13.8% to 31 December 2016 to 11.9% to 31 December 2017. This reflects: (i) the expected moderation in RAM from a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales in April 2016 and some moderation in the interest yield from the expansion of the product offering into the near-prime segment of the market; and (ii) an additional year-on-year investment of £12m in the initiatives to augment the medium-term growth of the business, including a new mobile app and loans.

CCD's ROA has reduced from a positive return of 22.3% in 2016 to a negative return of 17.4% in 2017, reflecting the significant impairment arising as a result of the operational disruption in home credit following the poorly executed migration to the new operating model in July 2017.

Moneybarn's ROA of 11.6% to December 2017 was down from 13.1% to December 2016 and reflected a reduction in the RAM due to the impact of the step-up in new business volumes and the flow through of impairment from higher risk categories of business prior to the tightening of underwriting in the second quarter of 2017.

As a result of the above factors, the group's overall ROA showed a reduction from 15.3% in 2016 to 6.9% in 2017.

The group continues to calculate return on equity in order to assess the overall returns being generated for shareholders.

The group calculates ROE as profit after tax, prior to the amortisation of acquisition intangibles and exceptional items divided by average equity. Average equity is stated after deducting the group's pension asset net of deferred tax, the fair value of derivative financial instruments, and the proposed final dividend, consistent with the calculation of the group's regulatory capital base. Table 3 sets out the calculation of ROE in 2017 and 2016.

The group's ROE of 18% in 2017 is significantly lower than 45% in 2016, consistent with the significant reduction in the group's ROA, primarily reflecting the losses incurred in CCD following the significant operational disruption on migration to the new operating model in home credit.

Table 3: **Calculation of ROE**

£m	2017	2016
Adjusted profit before tax[1]	**109.1**	334.1
Tax	**(16.5)**	(77.4)
Adjusted profit after tax[1]	**92.6**	256.7
Shareholders' equity	**535.1**	790.1
Pension asset	**(102.3)**	(72.4)
Deferred tax on pension asset	**17.4**	12.3
Hedging reserve	**–**	0.2
Proposed final dividend	**–**	(132.9)
Adjusted equity	**450.2**	597.3
Average adjusted equity	**523.8**	568.7
ROE[1]	**18%**	45%

1 Prior to the amortisation of acquisition intangibles of £7.5m (2016: £7.5m) and an exceptional costs of £224.6m (2016: net exceptional gain of £17.3m).

Prudential regulation

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

The PRA requires financial institutions to maintain a sufficient level of regulatory capital to withstand a series of downside stress events. The PRA sets regulatory capital requirements specific to each institution, known as its Total Capital Requirement (TCR). This is determined following consideration of the Internal Capital Adequacy Assessment Process (ICAAP) conducted by the firm.

The minimum amount of regulatory capital held by the group and Vanquis Bank represents the higher of the PRA imposed requirement, being their respective TCR requirements together with the CRD IV stipulated buffers, and their respective internal assessments of minimum capital requirements based upon an assessment of risks facing the group. The ICAAP considers all risks facing the business, including credit, operational, counterparty, conduct, pension and market risks, and assesses the capital requirement for such risks in the event of downside stresses.

The TCR, together with a fixed add-on for pension risk, includes the aggregate of the minimum Pillar 1 and Pillar 2a regulatory capital requirements, which are set following a supervisory review and evaluation process ('SREP') undertaken by the PRA.

In addition, CRD IV requires the group and Vanquis Bank to maintain a capital conservation buffer. From 1 January 2016, the capital conservation buffer was calculated as 0.625% of risk-weighted exposures and, in line with the transitional arrangements within CRD IV, increased to 1.25% from 1 January 2017 and will increase further to 1.875% in 2018 and 2.5% in 2019. The countercyclical buffer is currently set by the Bank of England at 0% and is planned to increase to 0.5% of risk-weighted exposures from June 2018 before increasing to 1.0% of risk-weighted exposures from November 2018.

The group and Vanquis Bank continually monitor and assess the internal assessment of minimum regulatory capital requirements. The minimum regulatory capital requirements of each of Vanquis Bank and the group reflects the expected TCR, together with a fixed add-on in respect of pension risk, expected to be effective from April 2018 following completion of the rights issue. The group's and Vanquis Bank's minimum regulatory capital requirements are expected to be 25.5% and 24.9% of total risk weighted assets, respectively. These assessments include fully loaded CRD IV buffers of 3.5% of total risk weighted assets, the minimum Pillar 1 prescribed requirement of 8.0% of risk weighted assets and Pillar 2a regulatory capital requirements of 14.0% and 13.4% of total risk weighted assets for the group and Vanquis Bank, respectively.

The group and Vanquis Bank intends to meet the above minimum requirements with CET 1 capital only.

As stipulated by CRD IV, regulatory capital equates to equity share capital and reserves after deducting foreseeable dividends in line with the current dividend policy less: (i) the net book value of goodwill and intangible assets; and (ii) the pension asset, net of deferred tax; and (iii) the fair value of derivative financial instruments. As at 31 December 2017, the group's CET 1 ratio was 14.5% (2016: 21.9%) and the leverage ratio was 10.8% (2016: 16.9%). Vanquis Bank's CET 1 ratio was 21.6% (2016: 25.1%).

An analysis of the calculation of the group's CET 1 ratio at 31 December 2017 is set out on page 144 within the Financial and Capital Risk Management section of the financial statements.

Following the significant losses in CCD in 2017, the cost of coming to a resolution on the FCA investigation into Vanquis Bank and the expected cost of the ongoing FCA investigation into Moneybarn, the levels of regulatory capital held by the group is below the TCR set by the PRA.

Accordingly, the group is seeking to raise £300m through a rights issue to replenish regulatory capital levels.

On an unaudited pro forma basis, after assuming completion of the proposed rights issue and injection of £50.0m of capital into Vanquis Bank, the group's CET 1 ratio would increase to 28.7% and Vanquis Bank's CET 1 ratio would increase to 25.4%.

Funding and liquidity

The group's funding strategy remains unchanged and seeks to maintain a secure, prudent and well-diversified funding structure at all times, sufficient to ensure that it 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, after taking account of the ability that Vanquis Bank has to fully fund itself through retail deposits. The PRA does not permit the retail deposits to be upstreamed, and, as such, Vanquis Bank is not able to lend to other members of the group.

The group borrows to provide loans to customers. The seasonal pattern of lending results in peak funding requirements in December each year. The group is less exposed than mainstream lenders to liquidity risk as loans to customers are of a short-term duration whilst the group's borrowing facilities extend over a number of years. The profile of borrowing longer-term and lending shorter-term creates a positive maturity mismatch.

The group has three main sources of funding, which will remain broadly unchanged following the rights issue:

> Bank funding – committed syndicated bank facility;

> Bonds and private placements – senior public bonds, private placements with UK and European institutions and UK retail bonds; and

> Retail deposits taken by Vanquis Bank.

The intention is to actively consider funding options following completion of the rights issue.

Group borrowings on committed facilities at the end of 2017 were £2,175.8m. This was up from £1,822.2m in 2016 (after deducting £30m of cash held on deposit which was used to repay the syndicated bank facility immediately after the year-end) reflecting: (i) the significant losses in CCD of £118.8m, mainly through higher impairment; (ii) receivables growth in Vanquis Bank and Moneybarn of £284m; and (ii) the £133m dividend paid to shareholders in June 2017.

These adverse impacts on borrowings were partly offset by the cash generation of Vanquis Bank and Moneybarn.

The group has committed borrowing facilities of £2,242.0m (2016: £1,962.4m) at the end of 2017. These facilities provided committed headroom of £66.2m at 31 December 2017 (2016: £110.2m) with an average period to maturity of 1.8 years (2016: 2.9 years). Furthermore, the group had cash resources of £34.3m in addition to the liquid assets buffer held by Vanquis Bank.

At the end of 2017, Vanquis Bank had taken £1,291.8m of retail deposits (79% of Vanquis Bank's receivables), up from £941.2m at 31 December 2016 (66% of Vanquis Bank's receivables). A reconciliation of the movement in retail deposits during 2016 is set out in Table 4. The overall inflow of new funds through Vanquis Bank's retail deposits programme during 2017 was £456.1m (2016: £316.6m).

There were £180.7m of retail deposit maturities during the year (2016: £177.7m), of which £82.4m were retained (2016: £76.9m). This represents a retention rate of approximately 46% (2016: 43%), consistent with the positioning of the interest rates offered during the year.

Rates of between 1.60% and 2.51% have been paid on retail deposits during 2017 (2016: 1.00% and 2.96%) and the blended interest rate on the deposit portfolio in 2017 was 2.26% (2016: 2.80%) reflecting the low interest rate environment currently being experienced. Including the cost of holding a liquid asset buffer the overall blended interest rate on retail deposits in 2017 was 2.5% (2016: 3.0%).

The average period to maturity of retail deposits at 31 December 2017 was 2.2 years (2016: 2.6 years).

The retail deposits market represents an excellent source of funding and Vanquis Bank plans to continue to build its deposit portfolio to enable it to repay its intra-group loan from Provident Financial plc, which was £76.9m at the end of 2017 (2016: £233.5m). The rate of growth will be dependent on ensuring that the group maintains an appropriate, but not excessive, level of headroom on its committed debt facilities in line with the group's treasury policies.

Financial review continued

Table 4: Reconciliation of retail deposits

£m	2017	2016
At 1 January	941.2	731.0
New funds	456.1	316.6
Maturities	(180.7)	(177.7)
Retentions	82.4	76.9
Cancellations	(18.4)	(15.1)
Capitalised interest	11.2	9.5
At 31 December	1,291.8	941.2

Table 5: Committed borrowing facilities

	Maturity	£m
Bank facility	2020	450.0
Bonds and private placements:		
Senior public bond	2019	250.0
M&G term loan	2018–2021	80.0
Other sterling/euro medium-term notes	2018	20.0
Retail bond 2010	2020	25.2
Retail bond 2013	2021	65.0
Retail bond 2015	2023	60.0
Total bonds and private placements		950.2
Vanquis Bank retail deposits	2018–2022	1,291.8
Total committed facilities		2,242.0
Borrowings on committed facilities		2,175.8
Headroom on committed facilities		66.2
Cash held on deposit		34.3
Retail deposits capacity[1]		76.9
Funding capacity		177.4

1 Based on the Vanquis Bank intercompany loan from Provident Financial plc of £76.9m as at 31 December 2017.

Table 6: Performance against covenants

Covenant	Limits	2017	2016
Gearing[1]	< 5.0 times	4.3	2.3
Net worth – group[2]	> £400m	450.3	730.2
– excluding Vanquis Bank	> £155m	161.0	350.5
Interest cover[3]	> 2.0 times	2.6	5.2
Cash cover[4]	> 1.1 times	1.21	1.22

1 Borrowings less the liquid assets buffer and other liquid resources held in satisfaction of the PRA liquidity requirements divided by equity (excluding the group's pension asset, net of deferred tax, and the fair value of derivative financial instruments).

2 Equity less the group's pension asset and fair value of derivative financial instruments, both net of deferred tax.

3 Profit before interest, amortisation, the movement in the fair value of derivative financial instruments, exceptional items and tax divided by the interest charge prior to the movement in the fair value of derivative financial instruments.

4 Cash collected divided by credit issued.

The funding structure of the group's committed facilities is shown in Table 5.

The funding structure takes into account the available capacity for Vanquis Bank to take retail deposits with the full repayment of the intra-group loan from Provident Financial plc. The group's funding capacity on this basis amounts to £177.4m (2016: £441.2m).

Excluding the retail deposits programme, maturities on the group's committed debt facilities in 2018 represent: (i) the third instalment on the M&G term loan of £15m which was paid in January 2018; and (ii) £20m of private placement loan notes issued under the EMTN in March 2018.

The maturities in 2019 include: (i) the £250m settlement of the senior bond in October 2019; and (ii) the fourth instalment on the M&G term loan of £15m in January 2019. After assuming that Vanquis Bank fully funds its receivables with retail deposits, the group's committed facilities, are sufficient to fund both contractual maturities and projected growth until the maturity of the £250m senior bond in October 2019. After taking account of the proposed rights issue, the group has sufficient headroom to fund growth and contractual maturities until the maturity of £450m syndicated revolving credit facility in May 2020. Completion of the rights issue is designed to allow the group to re-establish normal access to funding from the bank and debt capital markets.

The group's blended funding rate in 2017 was 4.5%, down from 5.5% in 2016. This primarily reflects the lower overall blended cost of retail deposits and an increase in the mix of retail deposit funding, which represents approximately 59% of the group's funding at the end of 2017 compared with approximately 51% in 2016.

The group is required to comply with its banking covenants in respect of gearing, interest cover, net worth, net worth excluding Vanquis Bank and cash cover. Performance against these bank covenants at 31 December 2017 and 2016 is set out in Table 6.

During February 2018, the group agreed amendment or waiver of certain covenants with the banking syndicate under the £450m revolving credit facility maturing in May 2020 and with M&G in respect of the term loan. Subject to the success of the rights issue, the net proceeds of £300m are due to be received on 12 April 2018 and £85m of such proceeds will be used to repay a bridge facility provided by the underwriting banks, Barclays Bank and JP Morgan Securities.

On a pro forma unaudited basis, after assuming successful completion of the £300m rights issue, the group's gearing at 31 December 2017 reduces from 4.3 times to 2.2 times, the group's net worth covenant improves from £450.3m to £750.3m, and using £50m of the rights issue proceeds to inject further capital into Vanquis Bank the net worth, excluding Vanquis Bank, covenant improves from £161.0m to £411.0m.

The group's credit rating was reviewed by Fitch Ratings in August 2017 and downgraded from BBB with a stable outlook to BBB- with a rating watch negative.

The group also targets a borrowings to tangible net worth ratio of 2.8 times or below. This level of capital is aligned with management's leverage expectations for investment grade credit status.

An analysis of the calculation of the borrowings to tangible net worth calculation is set out on page 145 within the Financial and Capital Risk Management section of the financial statements.

Borrowings to tangible net worth has increased from 2.8 times to 5.4 times during the year reflecting (i) the losses incurred by the group following the significant trading disruption in home credit, (ii) the estimated costs of the FCA investigations at Vanquis Bank and Moneybarn of £192.1m; and (iii) the payment of the 2016 final dividend in June 2017 of £133.4m.

On an unaudited pro forma basis, after assuming receipt of the net proceeds of the rights issue of £300m, the borrowings to tangible net worth ratio improves to 2.8 times at 31 December 2017.

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

The liquid assets buffer is calculated in line with the Overall Liquidity Adequacy Rule (OLAR) as set out in the Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken by Vanquis Bank. Further liquid resources must be maintained based upon daily stress tests linked to the three key liquidity risks of Vanquis Bank, namely retail deposit maturities, undrawn credit card lines and operating cash flows. This results in a dynamic liquid resources requirement.

Vanquis Bank has historically maintained an undrawn committed facility from Provident Financial plc. On 27 February 2018, Provident Financial plc intends to draw down a bridge facility provided by Barclays Bank and JP Morgan Securities.

Vanquis Bank has drawn down a similar amount from Provident Financial plc and cancelled all other undrawn commitments. Over the medium-term, this will enable Vanquis Bank to reduce reliance on Provident Financial plc with the proceeds of the right's issue being used to repay the bridge facility.

As at 31 December 2017, the liquid assets buffer, including the liquid resources, amounted to £263.4m (2016: £168.9m). The increase during the year reflects the growth in retail deposits, costs and operational buffer. Vanquis Bank holds its liquid assets buffer, including other liquid resources, in a combination of a Bank of England Reserves Account and UK government gilts.

CRD IV introduces further liquidity measures, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR, which became effective in October 2015, and NSFR, which will not become effective until at least 1 January 2021, are applicable to both the group and Vanquis Bank. As at 31 December 2017, the group, on a consolidated basis, and Vanquis Bank, on an individual basis, had an LCR of 189% and 387% respectively.

Capital generation and dividends

Table 7: Capital generation

£m	2017	2016
Operating cash flow	**72.0**	147.8
Interest paid	**(73.7)**	(71.7)
Tax paid	**(55.0)**	(64.4)
Net capital expenditure	**(31.0)**	(10.6)
Add back 75%/80% of receivables growth funded by debt	**67.6**	232.1
Capital (absorbed)/generated	**(20.1)**	233.2
Analysed as:		
– Vanquis Bank	**123.0**	152.2
– CCD	**(128.1)**	80.1
– Moneybarn	**8.6**	7.2
– Central	**(23.6)**	(6.3)
Dividends declared	**–**	195.7
Capital (absorbed)/retained	**(20.1)**	37.5
Dividend cover[1]	**–**	1.32

1 Prior to the amortisation of acquisition intangibles and exceptional items.

To support the delivery of the group's strategy, the group will continue to operate a financial model that is founded on investing in capital generative businesses offering an attractive return, and that aligns the dividend policy with a strong capital base and future growth plans.

Given the group's revised minimum CET 1 requirement of 25.5%, the group now plans to fund its receivables book through a combination of approximately 25% equity and 75% debt. Prior to 2017, the group funded its receivables through a combination of 20% equity and 80% debt, consistent with a target gearing ratio of 3.5 times. Following the revision to the group's regulatory capital requirements in early 2018, the group's minimum regulatory capital requirement rather than gearing is the main determinant of the group's capital structure. Accordingly, the capital generated by the group is now calculated as cash generated from operating activities, after assuming that 75% of the growth in customer receivables is funded with borrowings, less net capital expenditure.

Prior to 2017, dividends increased broadly in line with earnings, whilst delivering a dividend cover of around 1.35 times and retaining net surplus capital in each year. In 2017, following the disruption to the home credit business, the group absorbed capital of £15.6m (2016: retained capital of £37.5m). The interim dividend was cancelled and no final dividend was proposed. Table 7 sets out an analysis of capital generation by division.

On a divisional basis, Vanquis Bank generated £123.0m of capital during the year (2016: £152.2m). The business continues to generate surplus capital over and above that required to fund its receivables growth and maintain sufficient regulatory capital.

In 2016, Vanquis Bank and the PRA agreed a voluntary requirement for Vanquis Bank not to pay dividends to, or enter into certain transactions outside the normal course of business with, the Provident Financial group without the PRA's consent pending the outcome of the FCA's investigations into ROP. The voluntary requirement remains in place whilst the customer redress programme agreed with the FCA is ongoing and until the PRA agrees to remove such requirement.

With the consent of the PRA, Vanquis Bank paid dividends to Provident Financial plc of £67.3m during 2017. Vanquis Bank has now paid cumulative dividends of £380m out its surplus capital since it commenced paying dividends in 2011.

CCD consumed £128.1m of capital in 2016, compared with capital generation of £80.1m in 2016. This reflects the significant trading disruption and exceptional costs arising from the transition to the new operating model within the home credit business.

Moneybarn generated £8.6m of capital in 2017, up from £7.2m in 2016 and is supporting its own strong growth. The business is set to become increasingly capital generative.

Tax

The tax charge for 2017 represents an effective rate of 15.1% (2016: 23.2%) on profit before tax, amortisation of acquisition intangibles and exceptional items which reflects: (i) the corporation tax rate of 19.25% on group profits (2016: 20.0%); (ii) the 8.0% bank tax surcharge on Vanquis Bank's profits in excess of £25m (2016: 8.0%); and (iii) a tax credit in respect of prior years, including the release of provisions for uncertain tax liabilities. The group is expected to benefit in future years from the further rate reduction to 17% on 1 April 2020 announced by the Government and enacted in the 2016 Finance Act.

The tax credit (2016: tax charge) in respect of the exceptional costs in 2017 (2016: exceptional gain) amounts to £3.8m and represents: (i) tax relief of £12.5m in respect of the exceptional restructuring costs in CCD, the estimated balance reductions and restitution payable to Moneybarn customers and settlement administration costs in Vanquis Bank; net of (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to Vanquis Bank customers which are treated as bank compensation payments and the release of impairment provisions.

Accounting policies

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

The principal accounting policies, which are consistent with the prior year, are set out on pages 133 to 139.

The group's prudent accounting policies are reflected in the impairment policies adopted across the group.

In Vanquis Bank and Moneybarn, impairment provisions are made when one contractual monthly payment is missed. In the weekly collected home credit and Satsuma businesses, a loan is impaired when two

Financial review continued

or more weekly payments have been missed in the previous 12 weeks. In all of the businesses, accounts in arrears are substantially impaired once an account is 90 days overdue. The group's accounting policies reflect timely, realistic provisioning and are prudent when benchmarked against others.

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

IFRS 9 'Financial instruments'

IFRS 9 'Financial instruments' is effective from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. The Group has elected not to restate comparatives on initial application of IFRS 9. However, to illustrate the impact of IFRS 9, an unaudited pro forma 2017 income statement and balance sheet as at 31 December 2017 are presented below.

IFRS 9 prescribes: (i) classification and measurement of financial instruments; (ii) expected loss accounting for impairment, and (ii) hedge accounting. The only area which materially affects the group is expected loss accounting for impairment. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss arising on default:

> Stage 1 – Accounts at initial recognition. The expected loss is based on a 12 month probability of default (PD), based on historic experience, and revenue is recognised on the gross receivable before impairment provision;

> Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historic experience, and recognised on the gross receivable before impairment provision;

> Stage 3 – Accounts which have missed a payment and are in arrears. Provisions are based on expected losses based on historic cash flows. Revenue is recognised on the net receivables after impairment provision. This stage is effectively the current IAS 39 treatment for impairment; and

> Provisions are calculated based on an unbiased probability-weighted outcome which take into account historic performance and considers the outlook for macro-economic conditions.

The impairment approach under IFRS 9 differs from the current incurred loss model under IAS 39 where impairment provisions are only reflected when there is objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This will result in a one-off adjustment to receivables, deferred tax and reserves on adoption and will result in delayed recognition of profits.

To illustrate the impact of IFRS 9, an unaudited pro forma 2017 income statement and balance sheet as at 31 December are presented as follows:

To illustrate the impact of IFRS 9, the group has restated the 2017 income statement and balance sheet on an unaudited pro forma basis as set out in tables 8 and 9.

Table 8: IFRS 9 income statement

£m	Audited IAS 39	Unaudited IFRS 9 adjustment	Unaudited IFRS 9
Adjusted profit before tax:			
– Vanquis Bank	206.6	(17.1)	**189.5**
– CCD	(118.8)	14.5	**(104.3)**
– Moneybarn	34.1	(5.2)	**28.9**
– Central costs	(12.8)	–	**(12.8)**
Adjusted profit before tax	**109.1**	**(7.8)**	**101.3**

The group's unaudited IFRS 9 profits in 2017 of £101.3m were £7.8m lower than IAS 39 profits. This reflects the impact of the growth in receivables in Vanquis Bank, Moneybarn and Satsuma partly offset by the impact of the shrinkage in home credit receivables. Profits in growing businesses are lower under IFRS 9 whilst conversely profits of shrinking business are higher under IFRS 9.

Vanquis Bank unaudited IFRS 9 profits in 2017 of £189.5m were £17.1m lower than IAS 39 profits due to the step-up in new account bookings from 406k to 437k in the year.

CCD's IFRS 9 unaudited loss in 2017 of £104.3m is lower than the IAS 39 loss of £118.8m. This reflects the shrinkage in the home credit business in 2017 partly offset by higher losses in Satsuma. Profits of shrinking business are higher under IFRS 9.

Moneybarn's unaudited IFRS 9 profits in 2017 of £28.9m are £5.2m lower than under IAS 39 due to the strong growth in receivables.

The adoption of IFRS 9 results in an unaudited reduction in receivables of £223.4m at 31 December 2017, which net of deferred tax, results in an unaudited reduction in net assets of £172.5m. Gearing increases from 4.3 times under IAS 39 to 7.0 times under IFRS 9. On an unaudited pro forma basis, after assuming completion of the proposed rights issue, the group's gearing under IFRS 9 would reduce to 2.8 times.

Despite the adjustments required to receivables, net assets and earnings, it is important to note that IFRS 9 only changes the timing of profits made on a loan.

Table 9: Pro forma IFRS 9 balance sheet as at 31 December 2017

£m	Audited IAS 39	Unaudited IFRS 9 adjustment	Unaudited IFRS 9	Unaudited rights issue[1]	Unaudited pro forma
Receivables:					
– Vanquis Bank	1,554.7	(143.1)	**1,411.6**	–	1,411.6
– CCD	390.6	(43.3)	**347.3**	–	347.3
– Moneybarn	364.1	(37.0)	**327.1**	–	327.1
Total receivables	2,309.4	(223.4)	**2,086.0**	–	2,086.0
Other	(1,774.3)	50.9	**(1,723.4)**	300.0	(1,423.4)
Net assets	**535.1**	**(172.5)**	**362.6**	**300.0**	**662.6**
Gearing (times)	**4.3**		**7.0**		**2.8**

1 Represents expected gross proceeds of £331m, net of expenses of £31m, with £165.0m applied to borrowings and £135.0m applied to the liquid assets buffer.

The group's underwriting and scorecards will be unaffected by the change in accounting, the ultimate profitability of loan is the same under both IAS 39 and IFRS 9 and more fundamentally the cash flows and capital generation over the life of a loan remain unchanged. The calculation of the group's bank covenants are unaffected by IFRS 9, as they are based on accounting standards in place at the time they were set. Based on finalised transitional arrangements, the regulatory capital impact of IFRS 9 will be phased in on a transitional basis over five years as follows: 5% from the start of 2018, 15% in 2019, 30% in 2020, 50% in 2021, 75% in 2022 and 100% from the start of 2023.

Pillar III disclosures

As part of the regulatory supervision by the PRA, the group, consistent with other regulated financial institutions, is required to make annual Pillar III disclosures which set out information on the group's regulatory capital, risk exposures and risk management processes. A considerable amount of the information required by the Pillar III disclosures is included within the 2017 Annual Report and Financial Statements. The group's full Pillar III disclosures can be found on the group's corporate website, www.providentfinancial.com.

Going concern

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

Note 32 of the financial statements refers to the group and Vanquis Bank's regulatory capital positions and the intention to raise net proceeds of £300m by way of a proposed rights issue to meet the costs of resolving the FCA investigations, restore the group's prudent capital position, seek to maintain the group's investment grade rating and re-establish normal access to funding from the bank and debt capital markets.

As at 31 December 2017, the group's regulatory capital on a consolidated basis is below the minimum requirement set by the PRA. Without the benefit of the net proceeds from the proposed rights issue, the group would continue to be unable to meet its minimum regulatory capital requirement. In such event, there is a risk that the PRA may exercise any of its wide-ranging powers over the group and/or Vanquis Bank, as applicable, which could include a variation of the group's and/or Vanquis Bank's permissions, restricting the group's and/or Vanquis Bank's business, or, in conjunction with other regulatory bodies and authorities, ultimately impose a resolution procedure on Vanquis Bank under the UK Banking Act 2009, as amended. Even if the PRA were to exercise forbearance in respect of such breaches of minimum regulatory capital requirements, it could at a later date revisit that decision or the basis upon which any forbearance was granted. This could have a material adverse effect on the group's business, financial condition, results of operations, cash flows and prospects.

The group has agreed with its lending banks and M&G that they will amend or waive certain covenant compliance requirements under the terms of the revolving credit facility and the M&G term loan respectively in order to provide the group with greater covenant headroom. The net worth covenant has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. If the proposed rights issue does not proceed the amendments and waivers obtained by the group will cease to remain effective and the bridge facility would also be due. In these circumstances, the group would seek to obtain further amendments and waivers of a breach of its financial covenants or the agreement of the lending banks and M&G not to accelerate repayment of the revolving credit facility and the M&G term loan respectively. However, if such waivers were not granted or such agreement was not forthcoming, then the accelerated repayment in full of any amounts outstanding thereunder might result in insolvency proceedings being initiated against the group which could result in shareholders losing all or a substantial amount of the value of their investment in the group.

The Board has concluded that the resolutions which are necessary for the proposed rights issue to proceed are likely to be passed and that the equity proceeds are likely to be raised in line with the timetable so that there will be no further breach of regulatory capital requirements or a breach of bank covenants once the capital is raised.

The Board acknowledges that there are risks that may prevent the proposed rights issue proceeding in line with the expected timetable or at all. There is a risk that sufficient shareholders will not vote in favour of the resolutions to enable the equity raise to occur. Note 32 explains that the proposed rights issue is fully underwritten subject to customary conditions. These conditions allow the underwriters to not fund the equity in a number of circumstances including there being a material adverse change in the affairs of the company or financial markets.

The Board believes that it is unlikely that the proposed rights issue will not occur but the consequences of not being successful indicate the existence of a material uncertainty. This may cast significant doubt about the group's ability to continue as a going concern so it is appropriate to make full disclosure as required by accounting standards. The Board believes that adopting the going concern basis in preparing the consolidated financial statements is appropriate and the financial statements do not include the adjustments that would result if the group were unable to continue as a going concern.

The accounting policies applied in preparing the financial information are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2016.

Andrew Fisher
Finance Director
27 February 2018

Financial review continued

Viability statement

In accordance with the 2014 FRC Corporate Governance Code, the directors confirm that, subject to the successful conclusion of the Rights Issue, they have a reasonable expectation that the group will continue to operate and meet its liabilities, as they fall due, for the next three years. However, if the Rights Issue does not proceed, the group will be materially adversely affected and will be at risk of its creditors initiating insolvency proceedings against the group and the PRA and the FCA exercising their wide-ranging powers over the group and/or Vanquis Bank.

The directors' assessment has been made with reference to the group's current position, proceeds from the Rights Issue and prospects outlined within the strategic report and the group's ongoing strategy. The Board continues to believe in the strong market position of the group's attractive businesses and aims to leverage the proceeds from the Rights Issue and its revised strategy to build a robust foundation for the long-term strength of the group. The Board remains confident of the group's underlying prospects and value, and is committed to restoring sustainable, albeit moderated returns and reliable operational performance, together contributing to attractive future shareholder returns.

The three-year plan is built on a divisional basis using a bottom up model, as part of a five-year budget. The first three years of the budget plan command the greatest focus, with the later years produced robustly, but at a higher level. The group focuses on relatively short-term lending to consumers and operates a prudent and well-tested 'low and grow' business model that has proven resilient to economic and business cycles in the longer term. The longest contractual loan term available in CCD is around two years, while the average time a Vanquis credit card customer remains with the business is only around four years. The first three years of the budget plan therefore forms the basis of this statement. The three-year plan makes certain assumptions about the regulatory environment, future economic conditions, new strategies, products, the acceptable performance of the group's divisions and the ability to fund growth.

The plan is stress tested in a number of different robust downside scenarios as part of the board's review of the group's ICAAP. Stress testing covers significant financial, business, operational and regulatory downsides which are then aggregated into a combined severe downside scenario. The financial stress test scenario uses the 2008/09 financial crisis as its basis, and, therefore, reflects a number of the principal risks of the business through reducing new funds raised, lowering the deployment of capital, increasing impairment and regulatory changes. The stress test scenario has been updated to reflect the changing risk profile of the group due to the performance during 2017.

As part of the ICAAP process, a reverse stress test exercise is also undertaken to identify the circumstances under which the business model becomes unviable. The exercise indicates that group viability only comes into question under unprecedented macroeconomic conditions, combined with extreme regulatory intervention and constraints across the group's two main divisions.

As part of the exercise, it is assumed that both businesses are subjected to controlled run-off, allowing the group to meet contractual maturities as they fall due with significant headroom, in the absence of dividend payments.

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

The RRP is an integral element of the overarching prudential risk management framework incorporating the ILAAP and ICAAP, and are all produced at least annually. The ILAAP is designed to ensure the bank meets the overall liquidity adequacy rule and further requirements of CRD IV, whilst the ICAAP outlines the process to ensure that Vanquis Bank and the group maintain adequate capital resources at all times .

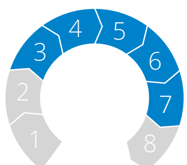
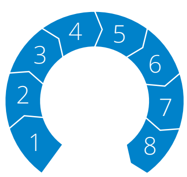
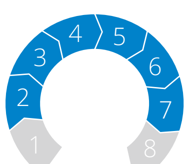
The review of the three-year plan is underpinned by the regular Board briefings provided by the divisional managing directors and the discussion of any new strategies undertaken by the Board in its normal course of business. These reviews consider both the market opportunity and the associated risks,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

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as set out on page 101.

Risk management and principal risks

The risks stated below are those which the directors of the group believe to be the most essential in assessing the prospects of the group. It is not an exhaustive list but addresses the risks which are currently deemed to be potentially the most material to the group.

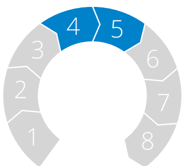
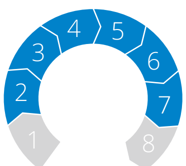
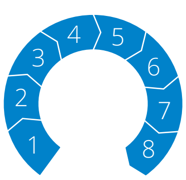
Risks relating to the group and its industry

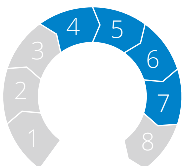
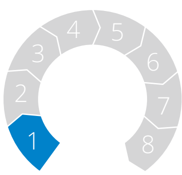
Link to business model	Principal risk	Mitigation
	The group may be unsuccessful in implementing its home credit recovery plan based on a revised operating model and restoring customer service and collections performance to acceptable levels.	In response to the developing issues in the home credit business, in August 2017, the group recruited Chris Gillespie as Managing Director of CCD, returning to a role that he had previously held until 2013, to develop and implement a recovery plan for the home credit business. The recovery plan is centred around a revised version of the new operating model, retaining the employed CEM approach and some of the new technology, but improving the ability of the home credit business to connect with customers at the right time and place consistently, stabilising the operation of the home credit business and improving collections performance. The recovery plan also includes actions to reduce costs significantly to reflect the expected smaller scale of the home credit business going forward as a result of the reduced size of the receivables book by virtue of the reduced sales penetration and customer retention rates described above. In addition, the recovery plan seeks to address certain matters raised by the FCA relating to, among others: (i) inconsistent field practices resulting from the new operating model introduced at the home credit business; (ii) the inadequacy of first line oversight of field staff and the procedures to monitor them; and (iii) the ineffectiveness of second line risk and compliance procedures.
	Provident Personal Credit Limited (PPC) and Provident Financial Management Services Limited (PFMSL) have each not received full FCA authorisation. Any failure by PPC and/or PFMSL to obtain full authorisation by the FCA would have a material adverse effect on the group's business, financial condition, results of operations, cash flows and prospects.	Each of PPC and PFMSL submitted their respective applications to the FCA for authorisation in May 2015. In September 2017, the FCA set out in writing to the group the home credit oversight and governance related matters that it required to be addressed by the group. Whilst the group has sought to address these matters already by implementing certain measures in the recovery plan, no assurance can be given that such measures will successfully address the FCA's concerns. The implementation of remedial changes to address these matters may take some time, could require the group to incur costs, could have wide-ranging consequences on the way the group operates its business and could significantly delay the timing of any decision by the FCA with respect to the authorisation of PPC and/or PFMSL.
	The group's home credit operations in the Republic of Ireland are the subject of a risk mitigation programme agreed with the Central Bank of Ireland (CBI). Failure to address the CBI's concerns may result in regulatory action including ultimately the revocation of its moneylending licence.	The group is currently the subject of a risk mitigation programme (RMP) agreed with the CBI to address a large number of concerns identified by the CBI in relation to the group's home credit operations in the Republic of Ireland. These include, amongst others, its governance framework and the effectiveness of its policies and procedures (in particular, its credit control policies and its fitness and probity arrangements), its monitoring and control over lending and agent behaviour, its creditworthiness and affordability checks (in particular, the lack of documented income verification for new and existing customers), the provision of appropriate training for its staff and agents, levels of customer indebtedness, the early settlement rebate process and remuneration of its field staff and agents. Implementation of the changes required by the RMP began in January 2017 and is expected to be completed by July 2018 with completion date milestones expected on 30 March 2018 and 28 June 2018. Actions taken by the group in response to the RMP are subject to regular reviews by the CBI.

For further details on the group's risk management framework, please see page 80.

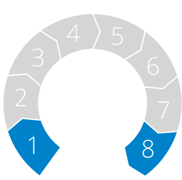
Risk management and principal risks continued

Risks relating to the group and its industry continued

Link to business model	Principal risk	Mitigation
	The group is exposed to the credit risk of its customers. The group could fail to accurately assess customer credit risk through its underwriting processes.	The group uses internal and external data, internally developed models and other data analytics tools as well as, in the case of: (i) its home credit business, assessments made by its CEMs in order to analyse creditworthiness and affordability, and assess a customer's financial situation and ability to re-pay a loan, and (ii) Vanquis Bank assessments at both the time of origination of the credit and at the time of any credit line extension. The group is, however, likely to have imperfect information about the ability of customers to pay and the timeliness of such payments, all of which factors will affect the group's decisions regarding loan origination, credit line increases and impairments. Furthermore, the group has no control over the accuracy of the data it receives from third parties.
	Historic underinvestment in certain aspects of the telecommunications and IT systems and technology used by the group's CCD businesses is likely to result in the need to carry out investment and upgrade programmes. Such programmes may cost more than expected, take longer than expected, or deliver less benefit than planned. In addition, knowledge of certain systems and platforms by personnel is concentrated and so the loss of any such personnel could lead to disruption to those systems and platforms. Furthermore, the group's IT cost base is high as a result of its complex IT estate and high IT and technology related headcount and may remain so.	The group is considering various options to consolidate and simplify its IT estate including, among other things, by outsourcing CCD's IT infrastructure to a third party managed service. The various options being considered are expected to represent a saving over budgeted IT costs for the next 5 years, along with a significant decrease in risk. The group estimates that a potential future transition of CCD's infrastructure to a managed service will take between nine and 15 months and that ongoing investment will still be required once the provider arrangement is in full operation to ensure that CCD's technology applications and databases, which will not be migrated to a managed service at the same time as CCD's infrastructure, remain current. Programmes to carry out any necessary upgrades to, investments in, or the migration or outsourcing of any of the CCD business's telecommunications and IT infrastructure, systems and technology are funded from internally generated cash flows and may require significant investment, cost more than expected, take longer than expected, or deliver less benefit than planned.
	The group is subject to material cyber security risks, including from the use of malware and ransomware and distributed denial of service attacks, and potential security breaches and is likely to continue to incur increased costs in an effort to manage those risks and to respond to cyber incidents.	Despite the group's efforts to ensure the integrity of its systems, the group may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognised until launched, and because cyber-attacks, including those relating to the use of malware and ransomware and distributed denial of service attacks, can originate from a wide variety of sources, including third parties outside the group, such as persons who are involved with organised crime or associated with external service providers or who may be linked to terrorist organisations or hostile foreign governments. These risks are expected to increase in the future. As the group continues to increase its mobile and other internet-based product offerings, and expand its internal usage of web-based products and applications, the risks to the group will increase.

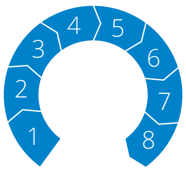
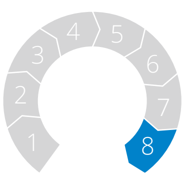
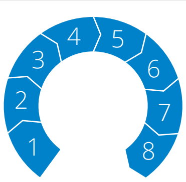
Link to business model	Principal risk	Mitigation
	The group has been, and may continue to be, subject to claims challenging the historic employment status of the group's home credit agents in the UK and the employment status of its agents in the Republic of Ireland.	To date, the group has successfully defended all such claims brought against it by former agents. However, no assurance can be given that any future claims and/or class actions will be successfully defended by the group. There is also a risk that the tax authorities will challenge the self-employed status of agents in the UK and the Republic of Ireland particularly given recent employment status cases reported in the press. Whilst the group has previously agreed the self-employed status of agents with the tax authorities in the UK and the Republic of Ireland, no assurance can be given that the tax authorities will reach the same conclusion in any subsequent challenge. Were the group to be unsuccessful in defending any such claims, class actions or tax authority challenge, it may be required to make payments to former agents as well as being liable to pay additional taxes, including PAYE and National Insurance contributions to the relevant authorities, which could, in aggregate, be material. Furthermore, were a class action or tax authority challenge to be made against the group, whether or not such action is successful, the group could suffer harm to its reputation by virtue of any press or media attention. Any of the foregoing could have a material adverse effect on the group's business, financial condition, results of operations, cash flows and prospects.
	If the availability of funding for the group's business becomes limited or funding becomes more expensive, this may have a material adverse effect on its business, cost of funding, financial condition, results of operations, cash flows and prospects.	The group's business model relies on borrowing funds from external sources and accepting UK retail deposits. The group lends to its customers at rates substantially higher than its cost of funds, and relies on this interest rate differential to generate substantially all of its earnings. Historically the group's primary sources of funding have been, and following the rights issue they are expected to continue to be, funds from public and private debt financings, in addition to retail deposit funding at Vanquis Bank. The group requires funds in order to make credit products available to its customers, meet its day-to-day operating expenses, make payments of principal and interest on its borrowings and make payments on other obligations.

Risks relating to the rights issue and the new ordinary shares

Link to business model	Principal risk	Mitigation
	The company may not be able to pay dividends in the future.	As a matter of English law, a company can only pay dividends to the extent that it has distributable reserves and sufficient cash available for this purpose. As a holding company, the company's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive funds for such purposes, directly or indirectly, from its operating subsidiaries in a manner which creates distributable reserves for the company. The company's ability to pay dividends to Shareholders is therefore a function of its existing distributable reserves, future group profitability and the ability to distribute or dividend profits from its operating subsidiaries up from the group structure to the company. As a consequence of the operational disruption, and deterioration in trading, at the group's home credit Business following implementation of its new operating model, and the then ongoing investigation into Vanquis Bank's ROP, the company withdrew its interim 2017 dividend and determined that no final dividend for the year ending 31 December 2017 would be declared or paid. Based on the target level of returns and maintaining an appropriate capital structure, the group's dividend policy will be to maintain a dividend cover ratio of at least 1.4 times once the home credit Recovery Plan has been fully delivered during 2018. The group will aim to restore dividends with a nominal initial dividend for the financial year ending 31 December 2018 before adopting a progressive dividend, in line with its dividend policy, from the financial year commencing 1 January 2019.

Risk management and principal risks continued

Risks relating to the legal and regulatory environment in which the group operates

Link to business model	Principal risk	Mitigation
	Failure to comply with applicable legislation or regulation of the non-standard finance sector and the broader consumer credit industry in the UK or the Republic of Ireland could result in the suspension, termination or impairment of the group's ability to conduct business, harm the group's reputation or result in substantial fines and losses.	The non-standard finance sector and the broader consumer credit industry in the UK is subject to extensive legislation and regulation. The volume of regulation and regulatory scrutiny and the burden of regulatory compliance has increased since the regulation of consumer credit activities was transferred from the OFT to the FCA with effect from 1 April 2014. Consumer credit activities are now regulated in a manner similar to other financial services in the UK, and many of the FCA's high level standards, including its Principles for Businesses, and high level rules relating to organisational requirements, in addition to specific requirements relating to consumer credit, now apply to all regulated consumer credit firms. Firms carrying on consumer credit activities in the UK are required to obtain regulatory authorisation from the FCA to operate their businesses. Prior to granting authorisation for a firm to carry on regulated consumer credit activities, the FCA is required under the FSMA to carry out a thorough assessment of the firm's business model and to determine whether that firm will meet (or continue to meet) the required organisational and suitability standards (referred to as the 'threshold conditions'). Failure to meet the threshold conditions may result in the FCA refusing to grant authorisation and failure to meet such standards in the future may result in the FCA taking disciplinary action, including varying, suspending or withdrawing a firm's authorisation. Moneybarn received its full authorisation from the FCA in 2016. Vanquis Bank is fully authorised and regulated by the PRA, and regulated by the FCA for consumer credit activities having successfully varied its existing permissions in 2016, having previously been regulated by the Financial Services Authority (FSA) and the OFT. Each of PPC (the company which operates the group's CCD business comprising home credit and Satsuma) and PFMSL (the company which, among other things, employs most of the staff of the home credit business) continues to operate under an interim permission awaiting full authorisation.
	The group and Vanquis Bank are each subject to prudential regulatory capital and liquidity requirements.	The group is subject to prudential regulatory capital and liquidity requirements on a consolidated basis imposed by the PRA as a result of Vanquis Bank being regulated by the PRA and accepting UK retail deposits. Vanquis Bank is also subject to prudential regulatory capital and liquidity requirements imposed by the PRA on a solo entity basis. The prudential regulatory capital and liquidity requirements applicable to banks and regulated firms have increased significantly over the last decade, largely in response to the financial crisis but also as a result of continuing work undertaken by regulatory bodies in the financial sector subject to certain global and national mandates. The prudential requirements are likely to increase further in the short term, not least in connection with ongoing implementation issues as noted above, and it is possible that further regulatory changes may be implemented in this area in any event. The group and Vanquis Bank conduct an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis. The key output of the ICAAP is a document which considers the risks faced by the group and the adequacy of internal controls in place, ascertains the level of regulatory capital that should be held to cover these risks and performs stress testing on both regulatory capital and liquidity under severe downside scenarios. The ICAAP must be approved by the Boards of the group and Vanquis Bank and is considered by the PRA in setting the group's and Vanquis Bank's respective TCR. As part of the right's issue process, the Group and Vanquis Bank has prepared and updated a capital plan that has been shared with the PRA.
	Failure by the group to comply with privacy and data protection laws and regulations may lead to action being taken against the group and could affect its operations and financial performance.	The group is subject to certain legislation and regulation on data protection, and information, collection and storage, some of which is yet to be implemented, including Payment Card Industry Data Security Standards and the GDPR which is due to come into effect from May 2018. Data protection legislation and regulation in the UK may change in the future and impose new burdensome requirements, compliance with which may increase the group's costs or require it to change the way it conducts business. GDPR represents a significant increase in compliance requirements and scope and as a result it is not certain that the whole of the group will be fully compliant with all of the requirements by May 2018.

Corporate responsibility

"It is important that we understand that the group's social purpose extends beyond lending responsibly and sustainably to our customers, and that we continue to take account of the wider impacts that our business has. The rest of the Board and I know that an important part of our 'licence to trade' is to provide a comprehensive account of the impacts which relate to the internal governance of our business; the way we treat our employees, our suppliers, local communities, wider society, and the environment; and how we deal with regulators and tax authorities.

Malcolm Le May
Chief Executive Officer

The group has always sought to ensure corporate responsibility (CR) was a strategic priority for the business and therefore an integral part of the group's corporate strategy. The difficulties the group experienced throughout 2017 mean that it is essential that we reinforce and build on the importance of our social purpose in the way that we do business and treat our stakeholders. The group's social purpose is the promotion of financial inclusion for those who are not well served with mainstream credit products or who may otherwise be excluded altogether.

It means continuing with our primary role of supplying credit in a responsible manner to our customers – those with lower incomes, those with no credit history, or a very limited credit history, and those who have had problems with credit in the past but are now over those problems.

It will also be important for us to earn back the trust and confidence of our customers and other stakeholders by ensuring that the social purpose informs the culture throughout the group.

Corporate responsibility continued

What CR means to Provident Financial Group

Our mission is…	Our social purpose is…	Our CR strategy involves…
…to refocus on customer solutions and continue to be the leader in the non-standard market responsibly providing access to credit to customers who are not well served by mainstream lenders. We will develop our culture and governance to build better regulatory relationships and play a positive role in the communities we serve.	…financial inclusion for those who are not well served by mainstream credit products or are excluded altogether.	…operating our core business of lending to our customers in a responsible manner, and acting responsibly and sustainably in all our other stakeholder relationships.
This commits us to…	**This commits us to…**	**This commits us to…**
…being a **responsible corporate citizen.**	…providing non-standard credit customers with **appropriate amounts of credit**, maintaining close contact with them throughout the term of their loan, and **working with them sympathetically** if they experience difficulties. The terms and conditions for our products are also designed to meet their particular needs, and rigorous checks are made to ensure customers can afford their repayments.	…putting the **needs of our customers at the heart of everything we do**; creating a working environment that is safe, inclusive and meritocratic; treating our suppliers fairly; supporting our communities; engaging with the investment community on sustainability matters; and minimising the environmental impacts of our business.

CR governance and management

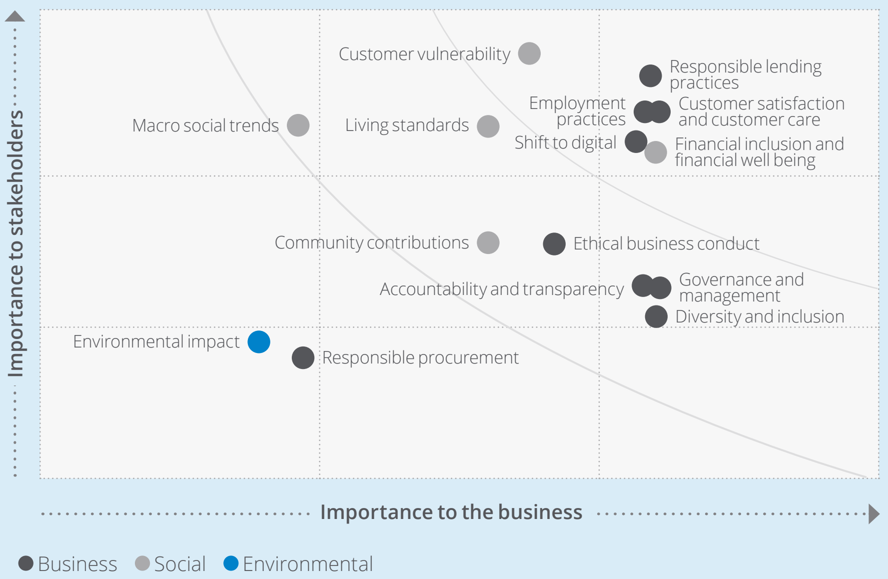
To further underline the importance of our social purpose across our business and enhance the Board's governance framework to ensure that the group conducts and develops business responsibly and consistently in accordance with the social purpose, we have begun the process of establishing a new Board committee, to be chaired by a new non-executive director, focusing on the customer, and culture and ethics, to help drive changes in behaviour and attitudes across the group.

This committee will, among other things, provide oversight and challenge to the group's executive committee, which includes the executive directors and senior management and is chaired by Malcolm Le May, to deliver real cultural change. The executive committee will oversee the development, embedding and monitoring of the culture and ethics of the group, consistent with being a trusted, responsible and sustainable business. This will involve ensuring that the policies, procedures, systems and behaviours of group's operating companies are consistent with the group's social purpose, and ensuring that any material issues which relate to the culture and ethics of the group are reported to other relevant Board committees.

The group's governance and management structures are underpinned by a range of corporate and division-specific policies. These policies set out the codes of conduct, controls, processes and requirements of all employees and divisions within the group, as well as at the corporate office. The policies cover a wide range of issues that are relevant to our CR programme, including treating customers fairly, environmental management, community involvement, procurement, health and safety, equality, diversity and inclusion, bribery and corruption, and whistleblowing.

Our group CR team are responsible for the CR programme and are supported by several working groups made up of representatives from the operating companies.

Materiality matrix



Our stakeholders

The group's key stakeholders are our customers, communities, employees, suppliers, shareholders, investors and regulators. These individuals or groups have an interest in, or are affected by, the activities of our business. We engage with these groups regularly to ensure that we are aware of their views and concerns with regard to a wide range of issues. We do this through surveys and focus groups, and by participating in consultation exercises.

We also engage with our stakeholders to ensure that we manage and report on the CR issues that matter most to them and our business. In 2017, this involved repeating the exercise we last undertook in 2015 to identify and prioritise the CR issues that are material to the group. This helps to inform the group's social purpose and ensures that our CR reports respond to the interests of our stakeholders and comply with the Global Reporting Initiative's G4 reporting guidelines.

Our second, most recent materiality assessment was carried out by the independent sustainability management consultancy Corporate Citizenship. The issues that were identified as a result of the materiality assessment exercise have been plotted on the materiality matrix above.

Engaging with our stakeholders

The group engages with its stakeholders on a regular basis to listen to their views and concerns, and gather feedback on our activities. This means we can take account of different perspectives as we deliver on our mission, social purpose and strategy. It also enables us to gather data and information to improve our business, products and services, our workplace and our relationships with shareholders and investors. We engage in a range of stakeholder activities each year and the below sets out some of the work we undertook in 2017.

Customer engagement

Each of the group's operating companies conduct surveys and focus groups to determine levels of customer satisfaction with our products and services, and also to gather information on the profiles of our customers. They also use online review and feedback systems, such as Feefo and Trust Pilot, which allow their customers to review their services and products.

Employee engagement

Our employee engagement activities involve carrying out surveys across the operating companies to assess employee satisfaction levels and also to provide employees opportunity to feedback to the business anonymously. In 2018, we aim to improve our internal communications and form a group-wide approach to determine employee satisfaction levels, so that each of the businesses can address employee satisfaction data from both an individual business and group perspective.

Shareholder engagement

We have a dedicated in-house investor relations team who engage regularly with the company's largest shareholders on a one-to-one basis to discuss strategic and other issues as well as to give presentations on the group's results. This is done through reports like this and on the corporate website, one-to-one meetings, running roadshow programmes and attending conferences. The group also engages with investors through its participation in the mainstream sustainability indices such as the Dow Jones Sustainability Indices, FTSE4Good and Carbon Disclosure Project (refer to page 57 for more information).

Community partner engagement

In 2017, we undertook a review of our community engagement activities in order to identify how we could better communicate the impact of our Social Impact Programme and the value it adds to the business. As part of this, we developed new employee and community partner impact evaluation and feedback methodologies. This involved adopting the platform developed by the social enterprise thirdbridge that enables charities and companies to connect, form partnerships and manage the programmes they run together. The platform will give us the ability to engage our employees, manage community investment programmes and employee volunteering opportunities, and ultimately to accurately measure, report and communicate their impact on society.

Corporate responsibility continued

Our core business: Responsible and sustainable lending

The group's products are tailor-made for our customers. Our operating companies provide customers with simple products in a way that suits their particular needs:

Vanquis Bank:

Vanquis Bank credit limits start as low as £250 and we only extend a limit if it is appropriate to do so. We use a tailored underwriting process which we have developed over the last 13 years. Our decision to lend to applicants is based on a combination of external credit reference data and our own credit scorecards. We follow up approved applications with a welcome phone call; this helps develop our relationship with the customer from the outset, and allows us to collect more information. New customers also receive an information pack with their new credit card, which offers advice on how to increase their credit rating through financial behaviours. Customers receive text messages to remind them of payment dates, and we follow-up on missed payments with a phone call, which is an effective way to keep in touch.

Provident home credit:

In July 2017, the operating model of the Provident home credit business was changed so that customers were served by employed Customer Experience Managers (CEMs) rather than self-employed agents. The business now offers home credit loans, typically of between £100 and £2,000, through a network of CEMs who call each week to customers' homes in the UK. CEMs are at the heart of the Provident home credit business. Often, they come from the same communities as their customers so have a real understanding of their customers' needs and circumstances. The weekly visits made by the CEM to the customer are not only convenient; they are also a useful reminder to put the money aside for the repayment too. If customers get into difficulty, they know they'll get a sympathetic response and help from their CEM to reschedule their repayments. Unlike other forms of lending, home credit includes all the costs up front. There are no extra charges whatsoever, even if a customer misses a payment. For those managing on a tight budget, it's important to know that the amount to be repaid is fixed at the start and will never go up.

Satsuma:

Satsuma is based on a modern model of online lending. It is differentiated from other similar products through our long standing knowledge of issuing Provident home credit loans and Vanquis Bank credit cards. Lending decisions are made using external credit bureau data and our own credit scorecard – which collects invaluable information on behavioural and social data before making credit decisions. Like our other products, Satsuma loans uses the 'low and grow' lending approach. The Vanquis Bank contact centre collections team in Chatham are responsible for collecting Satsuma loans repayments. The team keeps in regular contact with customers, including contacting them by phone and text message, and working with them to ensure the best possible outcome if they get into difficulty.

Moneybarn:

Most Moneybarn customers come to us through a network of well-established brokers. Moneybarn's underwriting process is highly automated to allow for rapid provisional approvals. Lending decisions are based on external credit data, our own credit scorecards, and affordability assessments. Brokers only earn commission on each lead they provide which qualifies for a loan. Customers can source their vehicle from any car dealership, and payments are made through monthly direct debit. Any missed payments are followed up with contact from Moneybarn. Formally, the vehicle is owned by Moneybarn until the final instalment has been paid by the customer. If a customer gets into financial difficulties during the term of their loan, our customer services team will work closely with the customer to help them get back on track. This may include a temporary or longer term payment arrangement to cover short-term financial difficulties including the possible option to place any arrears onto the end of the agreement (rescheduling payments due). However, if the customer can no longer afford the ongoing repayments, the most appropriate response is often through the surrender and subsequent sale of the vehicle to offset the sales proceeds against monies owed before the vehicle depreciates further. In cases where a balance remains outstanding, a suitably affordable long-term payment plan can be agreed to address the remaining balance according to the customer's affordability and sustainability.

Serving our customers in a responsible manner

The group's core business is to provide customers who are not well served by mainstream credit products or are excluded altogether with opportunities to borrow a sensible amount in a transparent, responsible and sustainable way, and thereby improve their relationship with credit. This is the group's social purpose.

Many of the group's customers typically have a poor credit history or no credit history at all, or may have had past problems with credit, often due to periods of unemployment, family break-up, ill health, or through the use of financial products and services that did not meet their particular needs. The products that the group offers to its customers through its three divisions are therefore tailor-made to meet these particular needs.

In general, the approach the group takes to providing credit to customers involves lending smaller amounts over shorter periods of time. In the case of Moneybarn, where a vehicle is held as security, we are able to lend more credit for longer periods.

Under this approach, new customers to Vanquis Bank, Satsuma and Provident home credit get lower credit limits, or smaller, shorter-term loans to begin with. This enables us to observe and understand the behaviour of our customers before we consider granting further lending and also enables the customers to experience our products and see if they suit their needs. It also enables our customers to enter or re-enter the credit market, stay in control and build credit scores for greater future access and choice.

Customer satisfaction

One of our key performance indicators is customer satisfaction. Measuring this data year-on-year allows us to see how we are delivering against our social purpose and whether or not we are delivering products and services to the level that our customers expect and deserve. The group's operating companies do this by conducting online, phone and face-to-face customer surveys and through focus groups.

In 2017:

87%

Vanquis Bank customer satisfaction (2016: 89%)

85%

Provident home credit customer satisfaction (2016: 93%)*

4.8 out of 5

Satsuma Reviews.co.uk score (2016 not available)

4.7 out of 5

Moneybarn Feefo score (2016: 4.7 out of 5)

* The disruption that was experienced during 2017, resulted in a reduction in the customer satisfaction rates in the Provident home credit business. We are aware of what has caused this decrease and through the recovery plan to turnaround the Provident home credit business we are improving the operating model in order to re-establish relationships with customers and restore collections and stability in the business. This will enable us to work towards returning the levels of customer satisfaction in the Provident home credit business to the levels they were previously.

Dealing responsibly with customer complaints

Ensuring that we keep customer complaints to an absolute minimum is another key indicator of how we are delivering against our social purpose. Understanding the reasons behind complaints helps us to improve the services we offer. We have well-established complaint-handling processes, procedures and timescales to guide our customer relations teams in resolving issues in a professional and timely way.

During 2017, the number of complaints received by Vanquis Bank, Consumer Credit Division (covering Provident home credit and Satsuma) and Moneybarn was 70,713 (2016: 48,651). Of these, 33,768 (2016: 29,371) complaints were received by Vanquis Bank, with 33,254 (2016: 16,325) received by Consumer Credit Division and 3,691 (2016: 2,955) received by Moneybarn. This figure translates to 3% (2016: 2%) of the total number of our customers. This rise in the number of customer complaints is mainly attributed to the disruption that was experienced during 2017 which impacted customer service levels, particularly in the Provident home credit business.

We provide the contact details of the Financial Ombudsman Service (FOS) to all our customers, so they have another option if we are not able to resolve their complaint to their complete satisfaction. During 2017, the total number of new cases received by the FOS from our customers was 1,792 (2016: 1,194). Of these, 367 or 20% (2016: 27%), were upheld in favour of the customer. Despite there being an increase in the number of customer complaints referred to the FOS during 2017, the number of complaints upheld in favour of the customer continues to be well below the average for all businesses within the financial services sector which currently stands at 36%.

Our response to the Modern Slavery Act

As a business with a turnover of more than £36m, the group is required to produce an annual statement which sets out the steps that have been taken by the business to ensure our direct business and supply chains are free from modern slavery and human trafficking.

Our first statement on the Modern Slavery Act was published in 2016. The group's second statement has now been published to reflect the improvements and changes made to our procurement processes throughout 2016 and 2017. Some of the key improvements that have been made since the first statement include: understanding the employee-related processes that are in place to minimise the risk of modern slavery or human trafficking occurring within the direct operations of the group, and reviewing and updating the due diligence processes used by the group's operating businesses to ensure that there is consistency in the approaches used to identify suppliers that are viewed as a higher risk in terms of a range of human rights and labour issues including: child, forced or bonded labour, freedom to form/join trade unions, collective bargaining, disciplinary/grievance practices, payment of a minimum/living wage and working hours and overtime.

In terms of our plans for 2018, and to ensure that there is a high level of staff awareness of issues relating to modern slavery and human trafficking, particularly within the group's procurement and partnerships teams, we will engage a third party consultancy to deliver a workshop. This workshop will focus on: raising awareness and understanding of the changing expectations around human rights and modern slavery risks; reviewing current procurement practices across the group and assessing risks and opportunities for human rights in the group's supply chains; and providing examples of good practice and recommendations that will help the group's procurement teams mitigate risks of modern slavery and human trafficking breaches occurring in the future.

We will also continue to harmonise the due diligence processes and procedures used by the group's operating companies to manage supply chain-based risks, and develop metrics to measure the effectiveness of the group's approach to ensuring that its supply chains are free from modern slavery and human trafficking.

You can find the group's statement on the Modern Slavery Act at www.providentfinancial.com.

Corporate responsibility continued

Creating an inclusive workplace

The changes that we made to the Provident home credit business model which, among other things, involved employing full-time Customer Experience Managers to serve customers rather than self-employed agents, means that the average number of people employed by the group in 2017 stood at 4,940 (2016: 3,550). Our people are a significant stakeholder group. Every one of them contributes to our performance. Partly through their diversity, they drive the development of new services and products to suit the varied needs of our 2.4 million customers.

Our continued success relies on having a talented workforce. To recruit and retain the best, it is essential we provide our staff with a safe and inclusive working environment that encourages everyone to reach their potential, and develops them to meet their personal goals.

We are keen to ensure that our workforce is representative of the many communities we serve across the UK and Ireland. Our operating divisions have diversity policies and processes which enable us to comply with the Equalities Act 2010 in the UK and the Employment Equality Act 1998 in the Republic of Ireland. Provident Financial Group's corporate equality, diversity and inclusion policy sets out our commitment to support diversity and to create an inclusive culture for employees and other stakeholders, including customers, suppliers and contractors. At the root of this is the understanding that everyone can bring value to the workplace, regardless of their age, gender, marital or family status, race, sexual orientation, religion or belief, or any disability they may have.

Snapshot of diversity performance in 2017

	Female	Male
Proportion of female/male company directors (%)	15%	85%
Proportion of female/male employees in senior management positions (%)	29%	71%
Proportion of female/male in other management positions (%)	41%	59%
Proportion of female/male employees at all other levels (%)	55%	45%
Proportion of female/male employees (%)	51%	49%

Percentage of employees from Black, Asian and Minority Ethnic (BAME) groups	15%
Percentage of employees who have declared a disability	0.36%

Gender Pay Gap

From 6 April 2017, all companies employing 250 or more employees in England, Scotland and Wales are required to complete a gender pay gap analysis based on pay data on the snapshot date of 5 April of a given year. Three individual legal entities within the group: Provident Financial Management Services Limited, Provident Personal Credit and Vanquis Bank are obliged to calculate and publish this information by 4 April 2018.

The Human Resources functions within the Consumer Credit Division and Vanquis Bank are currently finalising the analyses of the gender pay data and will upload their disclosures onto the Government's Gender Pay Gap Reporting Service ahead of the deadline referenced above. The information will also be published on individual websites of the operating companies as well as on Provident Financial Group website in a manner that is accessible to employees and the general public. Accompanying information will also be published which provides a voluntary contextual narrative that tells our people what gender pay gap reporting is, explains any pay gaps and sets out what actions will be taken to address them.

National Equality Standard

In 2015, the group signed up to the National Equality Standard. As a signatory of this NES, the group's operating companies were assessed against 49 equality, diversity and inclusion competencies. This involved undertaking an initial self-assessment review and gap analysis against the NES framework and hosting assessor visits from EY to carry out interviews with key employees in order to validate the findings made during the self-assessment phase in the Consumer Credit Division, Moneybarn and Vanquis Bank. The NES assessment allowed us to gain an overview of our areas of strengths and weaknesses both at individual business level and from a group perspective. To address the findings revealed via the NES assessments, and also to support the work currently being undertaken on talent and enable the management of any gender pay gap issues, a governance and management framework is being developed which will focus on the effective management of EDI issues across the group, with a particular focus on ensuring that there is alignment between our employment practices and social purpose and culture.

We have now formed a working group with representatives from each business and are delivering an action plan of how best to move forward with a group-wide EDI agenda.

Treating our suppliers fairly

Compared to other businesses from other sectors, our supply chain is relatively straightforward. Most of our tier one suppliers are based in the UK and Ireland. Despite this, our approach to CR means treating our suppliers fairly, and using our purchasing power carefully. In 2017, our spend on products and services was £335.2 million (2016: £318.0 million*). This expenditure can provide us with the purchasing power to choose more sustainable products or services, or to set an expectation of our suppliers that motivates them to demonstrate and implement values that make them a more responsible business.

Approximately two-thirds of our procurement spend is on services such as mailing, marketing, security, debt recovery, credit scoring and professional services (e.g. legal and accountancy services). The second highest spend relates to our information technology infrastructure (i.e. hardware, software and support). We use a high number of suppliers, ranging from small to medium-sized enterprises (SMEs), to large multinational corporations. These organisations, which are based predominantly in the UK and Ireland, will in turn, use their own suppliers too.

The procurement teams in the group's operating companies continue to factor CR considerations into the due diligence processes they use with prospective and existing suppliers. This enables the businesses to identify and manage potential supply chain risks, and engage with suppliers to ensure that they comply with our policy requirements and meet legislative requirements such as the Modern Slavery Act.

* The 2016 figure has been restated to more accurately reflect the procurement costs for that year.

Engaging the investment community in CR

Sharing information with the investment community and being represented within specific investment indices and registers which focus on sustainability matters is an important part of our approach to CR. It enables us to provide investors and other stakeholders with demonstrable evidence or the group's commitment to operating in a sustainable and responsible manner. For example, during 2017:

CDP – The group made its annual submission of climate change data to CDP. CDP requests information on the risks and opportunities of climate change from the world's largest companies, on behalf of 827 institutional investor signatories with a combined US$100 trillion in assets. Through the CDP submission, we can inform investors of any material climate change-related risks and opportunities and how we manage them. Our 2017 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.

CDP
DRIVING SUSTAINABLE ECONOMIES

Dow Jones Sustainability Indices – Provident Financial was notified of its continued inclusion in the Dow Jones Sustainability Europe Index (DJSI Europe). Also, having last year been notified that it had not been selected as a member of the Dow Jones Sustainability World Index (DJSI World), the business was informed that has been added back into the DJSI World. Provident Financial's score in the DJSI in 2017 was 77 (2016: 65) which was higher than the sector average for the Diversified Financial Services and Capital Markets industry sector, which stood at 40 (2016: 43). 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.

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

FTSE4Good – Following the annual review undertaken by the FTSE4Good Advisory Committee in June 2017, Provident Financial was informed on 27 July 2017 that it continued to be included as a constituent of the FTSE4Good Index Series. The FTSE4Good is an extra-financial market index, created in partnership by the ethical research agency EIRIS and the FTSE. It measures the performances of over 800 companies against a range of environmental, social and governance (ESG) criteria. It is designed to provide exposure to companies that are managing their social and environmental risks, while also helping ethical investors avoid companies that are not. 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, not only for their own company but for companies that supply them as well, and seek to address bribery and corruption.

FTSE4Good

Forum ETHIBEL – With effect from 20 September 2017, the group was reconfirmed as constituent of the Ethibel Sustainability Index (ESI) Excellence Europe index. The ESI Excellence Europe index is an investment register of companies that show the best CR performance. Inclusion is based on our performance against a wide range of CR parameters and consultation with relevant stakeholders. Companies are only included if they achieve an above-average assessment score and have not been involved in any serious controversies.

ETHIBEL

Euronext Vigeo – On 22 November 2017, Provident Financial was notified that it continues to be included within the following three Euronext Vigeo indices: The Euronext Vigeo World 120 – the 120 most advanced sustainability performing companies in Europe, North America and Asia Pacific; the Euronext Vigeo Europe 120 – the 120 most advanced sustainability performing companies in Europe; and the Euronext Vigeo United Kingdom 20 – the 20 most advanced sustainability performing companies in the UK. In order to be included within these Euronext Vigeo indices, Provident Financial's policies, processes and performance have been reviewed by analysts against 330 indicators within seven sustainability domains including the human rights domain, environment domain, human resources domain and community involvement domain. The information that is held on the Euronext Vigeo indices will be used by institutional investors, and pension fund and asset managers as a reference guide for incorporating environmental, social and governance factors into investment decision-making and stewardship.

EURONEXT vigeo eiris INDICES UK 20

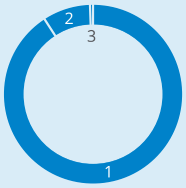
EURONEXT vigeo eiris INDICES EUROPE 120

EURONEXT vigeo eiris INDICES WORLD 120

Corporate responsibility continued

2017 community investment figures

1 Cash	**£2,354,863** (2016: £2,700,944)
2 Management costs	**£227,581** (2016: £285,744)
3 Value of employee time	**£9,552** (2016: £66,756)
Total	**£2,591,996** (2016: £3,053,444)



Supporting our communities

The group's community investment strategy is aligned to the group's social purpose and seeks to invest in activities and initiatives which address some key factors which, on their own or acting together, tend to reduce someone's likelihood to be accepted for credit. These factors include: unemployment or underemployment; low, uncertain or fluctuating incomes; low educational attainment; and physical or mental health issues.

The group's strategy is to therefore invest in community activities that seek to alleviate these underlying problems. The strategy delivers support in five ways:

1. Supporting local projects which address social inclusion issues;
2. Supporting accredited community intermediaries such as Community Foundations, to deliver programmes in the communities in which we operate;
3. Providing employees with matched funding for fundraising and promoting volunteering activities;
4. Encouraging our employees to take part in company-led volunteering initiatives; and
5. Supporting the money advice sector to address financial education issues, and carrying out research into broader, societal matters that relate to our customers.

The group's community investment activities are delivered through the group-wide Social Impact Programme which we established following the review that was undertaken in 2016. During 2017, we built on this review and developed and rolled out a new operating model for the programme. This will ensure that all community activities address the social inclusion issues of the group's customers by focusing on the core themes of education, customer vulnerability issues and local community initiatives which support the employability agenda.

We also carried out a social return on investment assessment on the Bradford Literature Festival to better understand the socioeconomic impacts that our funding has on the city of Bradford and beyond as a result of this festival.

Community impact in 2017

> **£2.6m** invested to support community programmes, money advice programmes and social research.

> **16,374** people benefited directly from our community investment.

> **9,711** people experienced a positive change in their behaviour or attitude as a result of their involvement in our community investment programmes.

> **9,337** people developed new skills or improved their personal effectiveness as a result of our community investment programmes.

> **11,241** people experienced a direct positive impact on their quality of life or wellbeing through our community programmes.

> **220** hours were volunteered by employees during work time.

> **43** partnerships supported on a longer-term basis.

> We have also distributed grants to a further **31** organisations through community foundations.

Community case study

> "Big Advice Day was extremely useful and gave me clarity and confidence in moving ahead. I have written a four-month plan which helped me to stop feeling overwhelmed, be realistic about my capacity and review my scattergun approach to funding. I just feel more focused, professional, positive and less scared. So thank you!

Julie Walker
Founder, Words for Wellbeing

Small Charities Week

To underline the group's aim to support local community initiatives, the group sponsored Small Charities Week in 2017. Small Charities Week was established in 2010 by the Foundation for Social Improvement (FSI) with the aim of:

> Celebrating the contribution that the UK's small charity sector makes to the lives of millions of vulnerable individuals and communities.

> Improving the knowledge, representation and sustainability of small charities.

> Highlighting the work of the small charity sector to the broadest possible audience.

> Encouraging public giving.

> Working with the small charity sector to develop political engagement at a national and local level.

Big Advice Day

The 2017 Small Charities Week saw six days of free activities and initiatives for small charities, including Big Advice Day. Through the group's support, the first Big Advice Day in Bradford was delivered. Working with long-term community partner, Participate Projects, the group brought together volunteers, employees and trustees from small charities across West and North Yorkshire with industry experts for a day aimed at providing inspiration, advice and information.

Through this event, local charities were given access to specialist one-to-one advice and attended a range of workshops on topics including branding and communications, impact measurement, sustainable revenues, inspiring workplaces and corporate partnerships. Delegates left with information and advice on how to increase revenue, be resilient, increase visibility, improve team morale and measure social value. A marketplace area also offered opportunities for networking and ideas sharing.

Nationally, 975 hours of advice were given to 290 charities, of which the Big Advice Day in Bradford contributed 293 hours to 80 organisations. Delegate feedback showed that 100% of those who responded received feedback that they found useful. 84% changed something as a result of attending, with 79% reporting that these changes had a positive impact (within three months).

Corporate responsibility continued

Community case study

> Since I started my role, I am very confident and love helping to support others with learning disabilities, as I understand their struggles as I faced them myself. I am happy that I am less dependent on my benefits and can earn my own money now.

Katy
Mencap participant

Mencap

In 2016, Vanquis Bank signed a three-year partnership with Mencap to help support people with a learning disability into employment. Through direct funding, Vanquis Bank has enabled Mencap to establish new employment programmes in areas with limited employment support.

Nationally the number of people with a learning disability in paid employment remains chronically low, eight out of 10 could work but only two out of 10 do. During 2017, these programmes supported 184 people with learning disabilities in Bradford, Medway and London with 32 gaining paid employment and a further 41 securing volunteering opportunities or work trials.

The partnership also provides a good development package for the participants as it gives them the opportunity to develop communication, problem solving, management and organisational skills. As well as volunteering with the programmes themselves, Vanquis employees have been supporting Mencap by getting involved in a variety of fundraising events including The Big Massif Trek, Dodgeballdayer, Tough Mudder and the Royal Parks Half Marathon.

Mencap All In Award

As part of the Bank's charity partnership with Mencap, Vanquis provided funding to enable Mencap to launch a pilot project, the 'All In Award', a project bringing children aged 8–13 with and without a learning disability together and encourage positive experiences.

Research suggests children with learning disabilities are less accepted and have fewer friends than typically developed children. The latter tend to express more negative attitudes towards peers with learning disabilities. As attitudes are still developing in childhood early intervention is likely to be more successful.

The project has been tested in 11 London schools so far and will be continued to roll-out to over two years in Bradford and Medway. Outcomes are being measured in partnership with the Research Department of Clinical, Educational and Health Psychology at University College of London, with a full feasibility study scheduled to be published in February 2018.

Comments from children taking part in the All In Award

"We talk about our friends from the All In Award to our class friends and they always say that it sounds like you have a good time. We say we do, we help each other and now they all want to come."

Comments from a facilitator of a participating school

"I think they've benefited hugely, they've worked really well with the boys… but not only that, it's built a relationship between the two schools to the point that I not only do this, but I do other things with other schools as well. We've built up a really great working relationship so it's opened doors and avenues."

Community case study

"

Like many schools in the Bradford area, a large number of our students have low levels of literacy as they start secondary education. We know that running this innovative partnership in our school and across the city is having a positive effect on teaching and students' learning.

Combined with our new library, funded by the group, this is exposing young people to high-quality learning materials that is having a massive impact on unlocking their potential by improving their ability to read and understand the written word.

Philip Grant
Head teacher at the One In A Million Free School in Bradford

Literacy programme

A key area of focus for Provident Financial Group under the education element of the group's Social Impact Programme continues to relate to contributing to tackling the UK's literacy challenge. This is why Provident Financial Group is a signatory to the National Literacy Trust's 'Vision for Literacy Business Pledge'. This commits the group to help raise literacy levels in Bradford by taking practical action within our workforce, in our local community and at a national level. Through this commitment, the group can help improve the chances of young people leaving school with the skills they need to go on to employment or further education.

The practical action that the group took in 2017 involved creating a communal book space at our Bradford head office where staff could read and share books. The group also established partnership with the National Literacy Trust's Bradford Literacy Hub and local education consultancy Leading Children Limited to deliver a 'Parent Reading Power' session where tips and resources were shared with employees who are parents or carers to help develop their child's literacy and communication skills.

The partnership also connected with local schools to help improve local children's reading and writing skills. In 2017, 43% of primary school pupils in Bradford left primary school unable to read at the expected level for their age (source: National Literacy Trust). The launch of the partnership also celebrated the opening of a brand new library in a local free school, One In A Million, and a school book giveaway scheme both of which were funded by Provident Financial Group. 20 primary schools across the city received the National Literacy Trust's Literacy Toolkit, which included a range of children's books and guidance materials for teachers to encourage further reading in schools and at home. The free books reached thousands of children in schools across Bradford, encouraging them to read for enjoyment.

Corporate responsibility continued

Community case study

"I have more energy to work and play because I get my breakfast at school.

Student, aged 10

Fareshare

Vanquis Bank has been working with FareShare since April 2016. FareShare is the UK's largest charity collectively fighting hunger and food waste.

Vanquis Bank is supporting FareShare to save fresh, in date and good to eat, surplus food from the food industry. In the first year of this partnership a total of 2,115 tonnes of food was saved from waste, supporting 504 frontline charities and community groups in Bradford, Kent and London. These community groups turned this food into over four million nutritious meals for vulnerable people in our local communities.

Deptford Park Primary School

The breakfast club at Deptford Park Primary School serves up a brainpower boost to the 35 children who attend each morning. Helpings of yoghurt, cereal, fruit and juice, which have been saved from waste and delivered to the club by FareShare London, ensure the students go to their classes with full stomachs and focused minds. The breakfast club is in an area of South East London where there is a high rate of child poverty. It is estimated that 37% of children in London live below the poverty line (source: Child Poverty Action Group). Since this breakfast club was launched, the school has seen a marked improvement in punctuality of the children attending.

Supporting the money advice sector

We work with a number of money advice providers who offer free support to consumers (some of whom may be our own customers) who may find themselves having difficulty in managing their debt repayments. We understand the impact this can have on their lives both in the short term and longer term, and therefore make this commitment to the money advice sector to ensure access to free, reputable, and independent advice.

By providing funding and support to a wide range of money advice organisations, we can be confident that we're contributing to the provision of advice to those customers who find themselves in financial difficulty. In 2017, we supported the Money Advice Trust, Money Advice Scotland, The Money Charity, Advice UK, Christians Against Poverty, Step Change, Income Max, the Institute of Money Advisers, and the Money Advice Liaison Group.

In addition, we have a number of partnerships through which we support the commissioning of publicly-available, independent research into areas which are material to our social purpose by exploring the financial behaviours of those on modest incomes.

Community case study

Case study – Debt and relationships research

In 2017, the group sponsored the relationship support charity, Relate, to carry out research which examined the link between debt and relationships and the impact both have on each other. The research drew upon a wide variety of information including surveys of people in debt, feedback from debt advisors, focus groups and national polling. The research found that debt can have a powerful impact on both the quality and stability of relationships.

For example: one in four people who have been in debt say debt had a negative impact on their relationship with their partner; 36% of debt advice clients said relationship breakdown was a cause of their problem debt; over one in 10 people have experienced a relationship breakdown due, at least in part, to debt; one in 10 people argue with their partner about debt or finances at least once a fortnight; and conversely, negative relationship dynamics were shown to actively worsen and create debt problems.

The research made a number of recommendations on addressing these findings, including for relationship support and debt advice providers to work together more closely. The report also recommended workforce training for debt advisors and relationship support practitioners, on the links between finances and relationships.

We will use the insights provided by this research to enhance the skill set of our own customer-facing staff within Provident Financial's businesses whilst sharing the findings and recommendations more widely.

You can find this report at www.relate.org.uk.

Corporate responsibility continued

Our approach to environmental management

Like any other company, the group's business activities impact the environment, whether these occur directly as a result of the energy that is used by our offices and by our people when they travel, or indirectly through the activities in our supply chains. We are absolutely committed to minimising our environmental impacts, in particular reducing carbon emissions to address climate change.

Action on climate change

We recognise the importance of acting on climate change which poses a significant risk to the global economy and to society in general. In response, we have developed a low carbon strategy to help us reduce the carbon intensity of the group's operations, products and services.

The group's low carbon strategy aims to:

> Demonstrate commitment and leadership in working towards achieving significant reductions in greenhouse gas (GHG) emissions;

> Continue to measure and benchmark our energy usage and carbon dioxide performance to ensure that we adhere to best practice in carbon management and reduction;

> Establish challenging targets to enable us to be more efficient with the energy we consume and to reduce the emission of GHGs that arise from our operations, products and services;

> Influence our customers, employees and suppliers to act on climate change and reduce their carbon footprints; and

> Engage positively and proactively with stakeholders to ensure that the voice of business is heard in the debate on climate change.

Environment case study

"The implementation of biomass cookstoves not only reduces GHG emissions but also improves families' health.

Three Provinces Clean and Efficient Cookstoves project in China

During 2017, we continued to offset the GHG emissions associated with our total operational footprint. The group's operational carbon footprint in 2017 was 9,758 tonnes of carbon dioxide equivalent (CO_2e). We offset this total footprint through carbon credits, which were certified to the Gold Standard, in a project that delivers clean and efficient biomass cookstoves to households in rural areas of China. Charcoal is the traditional fuel used for cooking and heating water in China.

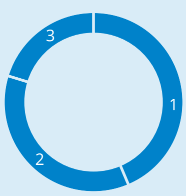
The implementation of biomass cookstoves not only reduces GHG emissions, but also helps to improve families' health. The key features of project are that it enables families to save money by using biomass instead of charcoal as their predominant cooking fuel, reduces indoor air pollution, and reduces reliance on fossil fuels and puts agricultural waste to good use.

GHG emissions

During 2017, our scope 1 and 2 emissions and associated scope 3 emissions accounted for 4,101 tonnes of CO_2e. We have also voluntarily reported some of our scope 3 emissions; in particular, indirect 'well-to-tank' emissions from the extraction, refining, distribution, storage, transport and retail of the fuel we use.

GHG emissions in 2017 (tonnes of CO_2e)*

1	Direct CO_2 (scope 1) CO_2e emissions	**1,791** (2016: 1,422)
2	Indirect CO_2 (scope 2) CO_2e emissions	**1,486** (2016: 2,728)
3	Associated indirect CO_2 (scope 3) CO_2e emissions	**824** (2016: 965)
Total		**4,101** (2016: 5,115)
	Scope 1 and 2 (and associated scope 3) emissions intensity ratio (kg of CO_2e/£1,000 of receivables	**1.71** (2016: 2.22)



* Our emissions are reported in accordance with WRI/WBCSD Greenhouse Gas ('GHG') Protocol. We use an operational control consolidation approach to account for our GHG emissions and use emission conversion factors from Defra/DECC's GHG Conversion Factors for Company Reporting 2017. Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use.

These are the emissions the group is required to disclose in order to meet the requirements of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

4,101

(2016: 5,115)

Total scope 1 and 2 (and associated scope 3) emissions in tonnes of CO_2e

1.71

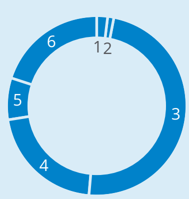
(2016: 2.22)

Scope 1 and 2 (and associated scope 3) emissions intensity ratio (kg of CO_2e/£1,000 of receivables

The business travel of our employees continues to make a significant contribution to the group's overall carbon footprint. During 2017, the business-related journeys made by employees and the self-employed agents across the group accounted for 7,651 tonnes of CO_2e.

Business travel GHG emissions (tonnes of CO_2e)*

1	Air travel	**162**
2	Rail travel	**88**
3	Car travel – own vehicles	**3,699**
4	Company car fuel use	**1,611**
5	Self-employed agent car use	**565**
6	Extracting, refining and transportation of raw fuel associated with business travel	**1,526**
Total		**7,651**



We also monitor the GHG emissions that are associated with the waste that is generated and managed by our businesses. During 2017, the group generated 729 tonnes of waste. Of this, 94% (685 tonnes) was recycled. The GHG emissions associated with was 16 tonnes.

9,758 tonnes of CO_2e

overall operational carbon footprint (2016: 8,435 tonnes of CO_2e)

Carbon offsetting

We continue to offset all the GHG emissions which we currently capture. These emissions are offset through our financing of renewable energy projects around the world which help to mitigate the effects of climate change.

During 2018, we offset 9,758 metric tonnes of CO_2e, which accounted for most of our 2017 operational footprint. These emissions were offset through carbon credits, which were certified to the Gold Standard, in a project that delivers clean and efficient biomass cookstoves to households in rural areas of China. Through our purchase of credits in this project, greenhouse reductions are achieved by displacing carbon-intensive sources of energy with cleaner, renewable energy.

Governance

Reshaping our framework

The Board has identified where changes are needed to ensure greater Board effectiveness, clarity of group purpose and better interaction between the group and its divisions.

Introduction from the interim non-executive Chairman

"I am pleased to present our corporate governance statement for 2017 which explains how the company has applied the principles of corporate governance as set out in the 2016 edition of the UK Corporate Governance Code (the Code) as published by the Financial Reporting Council (FRC) and available on its website www.frc.org.uk.

Dear shareholder

The Board is responsible to shareholders for strategic direction, management and control of the group's activities and is committed to the highest standard of corporate governance in delivering in these areas. Having regard to compliance with the Code, the Board considers that appropriate corporate governance standards were in place throughout 2017, except for those set out on page 100.

I was appointed as interim non-executive Chairman of the Board on 2 February 2018, following Malcolm Le May's interim tenor as Interim Executive Chairman from 24 November 2017. He stepped into the role following the untimely death of Manjit Wolstenholme. First and foremost I would like to give my sincere thanks to Manjit on behalf of the Board for her stewardship as non-executive Chairman of the Board to 23 August 2017 and for stepping in at a time of uncertainty as Interim Executive Chairman on 24 August 2017, following the resignation of Peter Crook as Chief Executive Officer, until her death on 23 November 2017.

The Board has had a difficult year in which its leadership and effectiveness has been tested as a result of the operational issues in CCD's home credit business, regulatory issues in Vanquis Bank and Moneybarn and the loss of key Board members. In dealing with the issues which led to the trading announcements made in June and August 2017, the Board has made it a priority to address the operational, governance, risk and regulatory issues that have been identified as a result of these events and has spent a considerable amount of time in the latter half of the year developing plans to enhance its policies and practices, in particular its risk management and governance framework and has created a group Chief Risk Officer (CRO) role and appointed an interim group CRO to assist in this ongoing work through 2018. The Board has also identified where changes are needed to ensure greater Board effectiveness, clarity of group purpose, better interaction between the group and its divisions and to clarify the roles and responsibilities of the Board and its senior management.

Considerable work has also been undertaken by the nomination committee and the Board since August 2017 to recruitment of a new group Chief Executive Officer (CEO). The process was concluded with Malcolm Le May's appointment as CEO on 2 February 2018. I am therefore pleased to take on the chairmanship of the Board and the nomination committee in an interim capacity until such time as a new Chairman joins the Board. Further changes to the composition of the Board are a priority through 2018 with the initiation of the recruitment process for an additional two non-executive directors and for other group central roles in order to manage the oversight from the centre. We will also take the opportunity to reconstitute the membership of the Board committees as part of this process during 2018.

The Board has continued to foster good relations with its new and existing shareholders and intends to continue to foster good relations with all its stakeholders through 2018 by developing a more group centric customer focused approach.

Stuart Sinclair
Interim non-executive Chairman
27 February 2018

Key highlights for 2017

Chief Executive Officer Recruitment

As a result of the departure of the group's Chief Executive Officer in August 2017, the group engaged Zygos Partners to facilitate an exhaustive recruitment process. This process has now concluded with the appointment of Malcolm Le May as CEO on 2 February 2018.

Read more on page 94.

Board Evaluation

Following their appointment in 2016, Lintstock, an external evaluator, carried out an evaluation of the Board, its committees and the individual directors. The key findings from the 2017 Board evaluation, the priorities for change and further details on the evaluation process to be undertaken in the future are set out on pages 75 and 76.

Read more on pages 75 and 76.

Succession Planning

Succession planning and personal development for the executive directors and senior management teams across the group are kept under regular review by the nomination committee.

Read more on page 94.

Remuneration

Remuneration has an important part to play in helping to encourage appropriate behaviours. We will continue to operate within the constraints of the remuneration policy approved by shareholders at the 2017 AGM. However, in light of recent events, suggested changes within the framework of the existing policy were proposed and approved by the remuneration committee in December 2017 to align the company with current 'best practice' following consultation with the group's external advisors.

Read more on page 102 onwards.

Our directors and officers

1 Stuart Sinclair 64

Interim non-executive Chairman

Appointed to the Board: 1 October 2012

Appointed as SID: 27 November 2017

Appointed as interim non-executive Chairman: 2 February 2018

Committee membership:

Audit committee, remuneration committee and disclosure committee.

Chairman:

Nomination committee and risk advisory committee.

Key strengths:

> Extensive experience in the financial services market in the UK and overseas.

> 10 years' experience in US-based management consulting, 14 years' experience as CEO or equivalent in retail banking organisations and seven years' experience on the Boards of financial services companies.

Previous board and management experience:

Chairman of GE Capital China and GE Capital Bank (UK), chief executive officer of Tesco Personal Finance, director of Virgin Direct, director of Retail Banking at The Royal Bank of Scotland, non-executive director at Liverpool Victoria and TSB plc, council member of the Royal Institute for International Affairs (Chatham House) and senior independent director of Swinton Group Limited.

Current external appointments:

Senior independent director of QBE Insurance (Europe) Limited and QBE Underwriting Limited, non-executive director of Lloyds Bank plc, Lloyds Banking Group Limited, Bank of Scotland plc and HBOS plc.

2 Malcolm Le May 60

Chief Executive Officer

Appointed to the Board: 1 January 2014

Appointed as Interim Executive Chairman: 24 November 2017

Appointed as Chief Executive Officer: 2 February 2018

Committee membership:

None.

Chairman:

Executive committee and disclosure committee.

Key achievements:

> Assumed the position of Interim Executive Chairman and provided effective leadership to the Board following the untimely and tragic death of Manjit Wolstenholme

> Worked with the Board to redefine roles and responsibilities and initiated a process to ensure the Board has the right skill set to make it fit for purpose.

> Re-established and developed an ongoing and transparent relationship with the group's regulators.

> Appointed an interim group CRO and initiated a process to develop key group roles capable of supporting the group's divisions.

Previous board and management experience:

Co-head of banking for Barclays in New York; head of investment banking, Europe at UBS, global head of corporate and investment banking at ING Barings, deputy CEO at Morley Fund Management (now Aviva Investors), president of JER Europe, senior independent director of Pendragon plc and non-executive director of RSA Insurance Group plc.

Current external appointments:

Senior independent director of IG Group Holdings plc, non-executive director of Hastings Group Holdings plc, senior advisor to Heidrick & Struggles, trustee of the Grange Festival and partner at Opus Corporate Finance and Juno Capital LLP.

3 Andrew Fisher 60

Finance Director

Appointed to the Board: 17 May 2006

Committee membership:

Executive committee and disclosure committee.

Chairman:

None.

Key achievements:

> Worked with the Chief Executive Officer to reposition the group and deliver its successful recapitalisation to both shareholders and its regulators

> Managed the group's capital and equity positions through the period of uncertainty faced by the group.

> Assisted with the development and implementation of the new group governance structure.

Previous board and management experience:

Finance Director of Premier Farnell plc and partner at Price Waterhouse LLP.

Current external appointments:

Non-executive director of Arrow Global Group plc.

4 Andrea Blance 53

Senior Independent Director (SID)

Appointed to the Board: 1 March 2017

Appointed as Senior Independent Director: 2 February 2018

Committee membership:

Nomination committee and risk advisory committee.

Chairman:

Audit committee and remuneration committee.

Key strengths:

> Over 30 years' experience in pension and financial services businesses.

> Extensive experience of risk management, regulation and of developing customer centric strategies to deliver quality customer outcomes.

Previous board and management experience:

Executive committee member of Legal & General Group plc, holding various senior leadership roles over a 29 year career including Divisional Chief Financial officer, Group Financial Controller, Group Chief Risk Officer and Strategy & Marketing Director.

Current external appointments:

Non-executive director at Scottish Widows Group, Lloyds Banking Group Insurance Division and the Mentoring Foundation.

5 Rob Anderson 59

Independent non-executive director

Appointed to the Board: 2 March 2009

Committee membership:

Remuneration committee and nomination committee.

Chairman:

None

Key strengths:

> Extensive retail experience and knowledge of the type of consumer served by the group.

> Operational business experience which is relevant to the group's businesses.

Previous board and management experience:

Director of the childrenswear business unit of Marks & Spencer plc and chief executive officer of Signet Jewelers Limited's UK Division.

Current external appointments:

None.

6 John Straw 58

Independent non-executive director

Appointed to the Board: 1 January 2017

Committee membership:

Nomination committee and risk advisory committee.

Chairman:

None

Key strengths:

> Experienced digital entrepreneur who has led and advised on critical digital transformations across a number of sectors.

Previous board and management experience:

Founder and chief executive officer of NetRank Ltd. Head of the digital advisory board of Premier Farnell plc, various digital transformation positions at Internet Marketing Ltd , chairman of the digital advisory board of Thomas Cook Group plc and author of a book on disruptive technology (iDisrupted).

Current external appointments:

Senior advisor at McKinsey & Co, IBM, and Bought By Many Ltd, and non-executive director of CTRLio Ltd.

7 Kenneth Mullen 59

General Counsel and Company Secretary

Appointed to the Board: 16 July 2007

Committee membership:

Executive committee and disclosure committee.

Secretary:

Remuneration committee, audit committee, risk advisory committee and nomination committee.

Key achievements:

> Reorganising the property and employment legal teams.

> Developing a legal risk register and creation of a legal audit function.

> Negotiating Heads of Terms to secure the redevelopment of the premises adjacent to the group's head office in Bradford.

> Overseeing the group's participation in the Legal Social Mobility Partnership Work Experience Programme for 26 students from local schools in Leeds.

> Joining the GC100 and taking part in a number of events.

Previous board and management experience:

Company secretary and general counsel of Premier Farnell plc, Silentnight plc and Whessoe plc.

Current external appointments:

Chairman of Rexel UK Limited Pension Scheme.

Changes to the Board

In addition to the resignation of Peter Crook as Chief Executive Officer on 21 August 2017 and the untimely death of Manjit Wolstenholme on 23 November 2017, David Sear stepped down from the Board on 26 January 2018.

David joined the Board a year ago to assist with the development of the group's IT strategy and to broaden its IT direction, however the group now finds itself in very different circumstances and with different strategic priorities.

Malcolm Le May and the Board thanked David for his contribution to the group in a difficult year and in particular for his contribution to its IT strategy where he has helped the group to significantly modernise its approach.

Rob Anderson's term of office was due to expire on 30 March 2018. However, given the significant number of changes to the Board composition in 2017, the Board determined that the company would benefit from stability by retaining his knowledge and experience gained over the previous nine years. Accordingly he has agreed to continue as a non-executive director and his term of office has been extended to 31 December 2018 pending the appointment of further non-executive directors to strengthen the Board. Rob Anderson will therefore offer himself for re-election at the 2018 AGM. The Board is satisfied that Rob Anderson remains independent in character and judgement, notwithstanding that he has served on the Board for more than nine years.

Leadership

> "The Board considers that its primary role is to provide leadership to the group, to set the group's long-term strategic objectives and to develop robust corporate governance and risk management practices.

The Board has the ultimate responsibility for ensuring that the group is managed effectively and in the best interests of the shareholders, customers, employees and other stakeholders (including regulators). The Board operates within a formal schedule of matters reserved to it. This schedule is reviewed and updated on a regular basis. The Board meets regularly and provides direction, oversight and detailed review and challenge to the businesses.

Specific key decisions and matters reserved for the Board are set out below:

- Strategy and management;
- Financial reporting and controls;
- Structure and capital;
- Oversight of regulatory compliance and internal control;
- Corporate governance;
- Remuneration;
- Approval of communications to shareholders; and
- Board membership and other appointments.

The Board reviews the terms of reference for itself and its committees annually and these were last updated in December 2017.

The Board's terms of reference and those of each of its committees can be found on the group's website at www.providentfinancial.com.

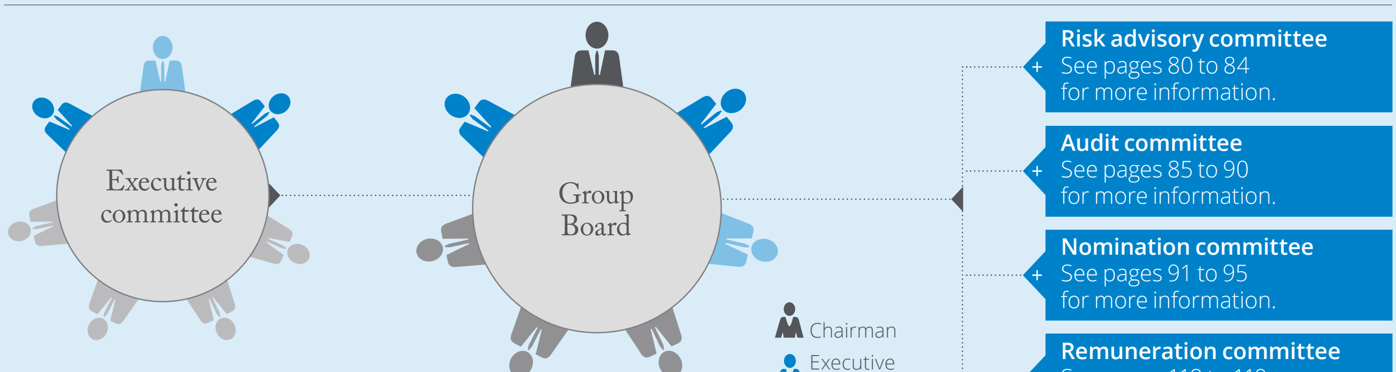
The Board delegates specific powers for some matters to its principal committees which are set out below. The outputs from each committee meeting are reported to the Board by each committee chairman to ensure the Board maintains the necessary oversight. More detail on the committees and their work is described in the 'committees' sections in this report.

Following the unexpected changes to the Board in 2017, the membership of all the Board committees was reconstituted in March and again in November 2017. The changes to the committees are set out in this report.

There is significant focus on the risk culture in the organisation which is overseen by the risk advisory committee on behalf of the Board. The risk advisory committee considers the group's risk appetite, the nature and extent of the risks facing the group, including the framework to mitigate such risks and notifies the Board of changes to the status and control of risks across the group.

Following the realignment of the roles and responsibilities of the risk advisory committee, the risk advisory group has been disbanded. Along with the group interim CRO, the managing directors and chief risk officers of each Division continue to attend the risk advisory committee meetings which focuses on the risks inherent in each of the Divisions, particularly those relating to regulation and conduct, reflecting the ever changing regulatory environment in which the group operates. From 2018 the risk advisory committee will be known as the group risk committee (GRC).

Governance framework



Executive committee
Comprises the two executive directors of the Board, the group interim CRO, the General Counsel and Company Secretary, the divisional managing directors and is chaired by the Chief Executive Officer. The Deputy Company Secretary is secretary to the committee. The committee deals with matters relating to the general running of the group.

In addition, the group has detailed corporate policies which are explained on page 81 of this report and which are periodically reviewed and refreshed when and where required. On a day-to-day basis, the divisions and the corporate office have responsibility for the implementation of the corporate policies and the Board is responsible for the general oversight of this process.

Detailed reports on the activities of the risk advisory committee, audit committee and nomination committee are set out in this report on pages 80, 85 and 91 respectively.

Details of the work of the remuneration committee, the composition of which is set out in the table below, together with the annual statement from the remuneration committee chairman, the remuneration policy and the annual report on remuneration, are set out in the directors' remuneration report, on pages 102 to 126.

Meetings and attendance

In light of the challenges the business faced in 2017, the Board met more frequently than anticipated. The Board held 23 meetings in the year which was significantly higher than originally scheduled. Individual director attendance at the Board meetings is set out in the table below.

The Board holds meetings at regular intervals at which the group's financial and business performance is reviewed, along with risk, compliance, IT, human resources and strategic matters. There is a comprehensive Board pack and agenda which is circulated beforehand to allow directors adequate opportunity to consider the matters to be discussed. Detailed minutes are taken and any actions from the meetings are documented. Regular meetings are scheduled up to a year in advance and any director unable to attend is given the opportunity to comment on the papers when circulated before the meeting. Meetings are structured so that appropriate time is devoted to all agenda items. In addition to these scheduled meetings, 'ad hoc' Board meetings are held outside the published cycle where circumstances require – for example, to approve appointments to the Board, any material transactions, the signing of the financial report and accounts or the approval of regulatory submissions.

Executive committee

At the end of 2017, the group reconstituted the executive committee to provide a more integrated approach to managing the group and to enhance the information flows and controls between the group and its Divisions.

The executive committee performed the management function and supervision of the group and is chaired by the Chief Executive Officer and directed by the Board and by other officers to whom the management function is properly delegated by the Chief Executive Officer. The Deputy Company Secretary is secretary to the committee.

During 2017 the Board has devoted significant time to considering:

> Group strategy;
> Business and financial performance;
> Capital and liquidity adequacy;
> Regulatory issues and developments;
> Corporate governance structure;
> Information security;
> The control environment;
> Project and IT investment; and
> The revision of the group's risk management and governance framework.

At each Board meeting

Discussion:
> Chief Executive Officer's report;
> Finance Director's report;
> Divisional managing directors operational reports;
> Capital and liquidity matters;
> Treasury matters;
> Legal and company secretarial matters;
> Risk and regulatory matters;
> Board committee matters;
> Investor relations and shareholder feedback; and
> Corporate affairs.

Review:
> Minutes of previous meetings;
> Minutes of the meetings of the executive committee; and
> Implementation of actions agreed at previous meetings.

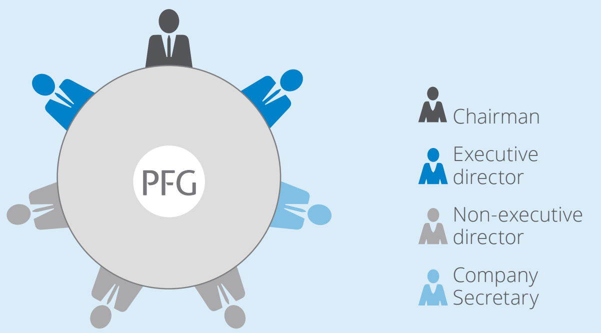
Member attendance at Board and committee meetings in 2017

	Board	Audit committee	Nomination committee	Remuneration committee	Risk advisory committee	Percentage attended
Total number of meetings	**23**	**4**	**5**	**8**	**4**	
Manjit Wolstenholme[1]	17/17	–	2/2	–	4/4	100%
Peter Crook[2]	6/6	–	–	–	–	100%
Andrew Fisher	21/23	–	–	–	–	91%
Malcolm Le May[3]	22/23	3/4	5/5	6/6	0/1	92%
Rob Anderson	22/23	–	5/5	8/8	1/1	97%
Alison Halsey[4]	3/3	1/1	1/1	3/3	1/1	100%
Stuart Sinclair[5]	22/23	3/4	5/5	4/4[5]	4/4	95%
Andrea Blance[6]	18/20	3/3	4/4	6/6	3/3	94%
David Sear[7]	21/23	3/3	4/4	–	3/3	94%
John Straw	20/23	–	4/4	–	3/3	90%

1 Manjit Wolstenholme's attendance up until she sadly passed away on 23 November 2017.
2 Peter Crook's attendance up until he resigned on 21 August 2017.
3 Malcolm Le May stepped down from the risk advisory committee following the reconstitution of the committees which took place in March 2017. He then became Interim Executive Chairman on 24 November 2017 and as a result stepped down as chairman of the remuneration committee.
4 Alison Halsey's attendance up until she did not offer herself for reappointment as a non-executive director at the 2017 AGM on 12 May 2017.
5 Stuart Sinclair stepped down from the remuneration committee as part of the reconstitution of the committees in March 2017.
6 Andrea Blance's attendance from appointment as a non-executive director on 1 March 2017. Andrea Blance was appointed as chairman of the audit committee on 12 May 2017 and chairman of the remuneration committee on 27 November 2017.
7 David Sear stepped down from the Board on 26 January 2018.

Leadership continued

Board composition



Prior to 22 August 2017, the Board comprised of a non-executive Chairman, Chief Executive Officer, group Finance Director and six non-executive directors.

After 22 August 2017, the Board comprised of an Interim Executive Chairman, group Finance Director and six non-executive directors.

Following the death of Manjit Wolstenholme on 23 November 2017 the Board comprised of an Interim Executive Chairman, group Finance Director and five non-executive directors.

On 2 February 2018, the Board comprised of an interim non-executive Chairman, Chief Executive Officer, group Finance Director and three non-executives.

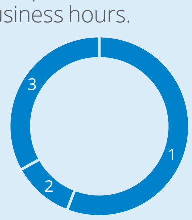
Board Changes

- On 1 January 2017, John Straw and David Sear were appointed as non-executive directors.
- On 1 March 2017, Andrea Blance was appointed as non-executive director.
- On 12 May 2017, Alison Halsey resigned as a non-executive director.
- On 22 August 2017, Manjit Wolstenholme was appointed as Interim Executive Chairman. This appointment came to an end on 23 November 2017 as a result of her death.
- On 24 November 2017, Malcolm Le May was appointed as interim executive Chairman.
- On the 27 November 2017, Stuart Sinclair was appointed as Senior Independent Director, Andrea Blance was appointed as Chairman of the Remuneration Committee and Malcolm Le May was appointed as Chairman of the Nomination Committee.
- On 26 January 2018, David Sear stepped down from the Board.
- On 2 February 2018, Malcolm Le May was appointed Chief Executive Officer, Stuart Sinclair was appointed interim non-executive Chairman and Andrea Blance was appointed Senior Independent Director.

Appointments to the Board are the responsibility of the full Board, on the recommendation of the nomination committee. On joining the Board, non-executive directors receive a formal appointment letter, which identifies the time commitment expected of them. The terms and conditions of appointment of non-executive directors and service contracts of executive directors are available to shareholders for inspection at the group's registered office during normal business hours.

Sector experience

1 Financial services	56%
2 Retail	11%
3 Other	33%



Key Board discussions and actions in 2017

January

- Presentation on the key features of the corporate responsibility report; and
- Presentation by the group Head of Tax on the group tax strategy and current issues.

February

- CCD project 'accelerate' progress review;
- Discussion surrounding the pending FCA investigation into the sale of ROP in Vanquis;
- Review of the draft preliminary results announcement;
- Review of the Annual Report and Financial Statements 2016;
- Recommendation for the final dividend payment; and
- Approval of the revised Board committee composition.

May

- Review of the Interim Management Statement (IMS); and
- Review of the governance reports from IVIS, ISS and PIRC.

June

- Discussion surrounding the CCD Trading Update and profit warning on 22 June 2017;
- Progress on the appointment of a group CRO;
- Recommendation for the interim dividend payment;
- Approval of the Revised 2017 Budget Update; and
- Presentation from Herbert Smith Freehills on the FCA investigation into the sale of the ROP product.

July

- Approval of the interim dividend payment;
- Update from the CEO with regard to the meeting held with the FCA on the authorisation status of CCD;

July continued

- Progress of the appointment of a group CRO;
- Review of a revised corporate governance structure; and
- Approval of the group's internal capital adequacy assessment process (ICAAP).

September

- Update from the Interim Executive Chairman on the meeting held with the FCA on the home credit turnaround plan;
- Update on discussions with the FCA and the PRA regarding ROP; and
- Approval of the PwC terms of reference in relation to work to be carried out on the home credit business plan.

October

- Review of the draft IMS;
- Approval, in principle, of the home credit turnaround plan; and
- Review of PwC's Home Credit Business Plan Support report.

November

- Approval of Board and leadership changes and discussion of disclosure obligations following the untimely death of Manjit Wolstenholme;
- Update on the ongoing FCA investigation into ROP; and
- Discussion surrounding capital and liquidity matters.

December

- Discussion surrounding the Moneybarn FCA investigation;
- Update on the ongoing FCA investigation into ROP;
- Discussion surrounding capital and liquidity matters;
- Discussion around the revised group governance structure; and
- Approval of the appointment of Andrea Blance as non-executive director to the board of The Mentoring Foundation.

From 22 August 2017, Manjit Wolstenholme, as the executive Chairman, took on the additional duties of the Chief Executive Officer up until her untimely death on 23 November 2017. On 24 November 2017, Malcolm Le May stepped in to be interim executive Chairman and took on those additional duties as set out below:

Interim Chairman	> Chairs the Board, the nomination committee, the risk advisory committee and the AGM. > Sets the Board meeting agendas with the Chief Executive Officer and Company Secretary to ensure that they are aligned with strategic objectives and that the Board devotes its time and attention to the right matters. > Encourages and promotes critical discussion and ensures dissenting views can be freely expressed and discussed within the decision making process. > Ensures Board decisions are taken on a sound and well-informed basis. > Facilitates and encourages active engagement and appropriate challenge by all directors. > Ensures the Board receives timely and relevant information and is kept advised of key developments.	Stuart Sinclair was appointed as interim non-executive Chairman on 2 February 2018 after relinquishing his position as senior independent director on 1 February 2018 but retaining the chairmanship of the risk advisory committee. Stuart Sinclair was considered by the Board to be independent on appointment. Malcolm Le May was appointed as Interim Executive Chairman on 24 November 2017 and having stepped down from the role on 2 February 2018, assumed the role of CEO. Manjit Wolstenholme was the non-executive Chairman until 21 August 2017, when she assumed the role of Interim Executive Chairman upon Peter Crook's resignation as CEO until her untimely death on 23 November 2017.
Chief Executive	> Responsible for the day-to-day management, leadership and direction of the group and the executive management team in accordance with the strategy and long-term objectives approved by the Board. > Chairs the group executive committee and makes decisions on matters affecting the operation, performance and strategy of the group's businesses, with the exception of those matters reserved to the Board. > Responsible for overseeing the delivery of the corporate responsibility agenda of the group.	On 24 November 2017, Malcolm Le May took on these duties and that of the Interim Executive Chairman until his formal appointment as CEO on 2 February 2018. On 22 August 2017 Manjit Wolstenholme took on these duties until her death on 23 November 2017. Peter Crook held the position of CEO until his resignation on 21 August 2017.
Executive directors	> Responsible for all matters affecting the performance of the group. > Responsible for implementation of strategy, policies, budgets and the financial performance of the group in a manner consistent with the group strategy, risk appetite and other procedures approved by the Board. > Provide specialist knowledge and experience to the Board. > Responsible for the successful leadership and management of the risk and finance functions across the group.	Andrew Fisher, group Finance Director, is a member of the reconstituted executive committee which deals with matters relating to the running of the group other than those reserved to the Board and the other committees.
Non-executive directors	> Provide independent and constructive challenge. > Provide governance through participation in and chairmanship of the Board committees. > Provide an external focus to the Board's discussions, particularly with regard to strategy and business development. > Monitor and review the performance of the executive directors. > Bring experience and knowledge from other sectors which is of relevance to the group.	The non-executive directors have a wide range of recent and relevant financial services, corporate governance, retail consumer and digital experience. They are appointed for fixed periods of three years, subject to confirmation by shareholders. This three-year period may be extended for a further three years (and, in exceptional cases, further extended), subject to annual reappointment by shareholders. Their letters of appointment may be inspected at the company's registered office or can be obtained on request from the Company Secretary. David Sear and John Straw were both appointed as non-executive directors on 1 January 2017 and Andrea Blance was appointed as non-executive director on 1 March 2017. All were appointed on an initial term of three years, for which all received shareholder approval at the 2017 AGM. David Sear stepped down from the Board in January 2018. Rob Anderson's current term has been extended to 31 December 2018 and so he will be seeking re-election at the AGM on 9 May 2018. Alison Halsey was a non-executive director up to the 2017 AGM.
Senior Independent Director (SID)	> Meets with shareholders if they have any concerns which contact through the normal channels has failed to resolve or is inappropriate. > Acts as a sounding board for the other directors and confidant for the Chairman. > Is a conduit, as required, for the views of the other non-executive directors on the performance of the Chairman. > Conducts the Chairman's annual performance evaluation.	Andrea Blance took over the role of senior independent director from Stuart Sinclair on 2 February 2018. Stuart Sinclair took over the role of senior independent director from Malcolm Le May on 24 November 2017.
Company Secretary	> Responsible to the Board. > Ensures the information sent to the Board is fit for purpose and facilitates effective discussions. > Provides comprehensive practical legal support and guidance to directors, both as individuals and collectively. > Provides support for the Chairman and the non-executive directors in maintaining the highest standards of probity and corporate governance. > Responsible for communicating with shareholders, as appropriate, and ensuring that due regard is paid to their interests.	All directors are able to consult with Ken Mullen as the Company Secretary, who is also secretary to all of the Board committees, with the exception of the executive committee and the disclosure committee. The Deputy Company Secretary is the secretary to both the executive and disclosure committees. There is also a formal procedure by which any director may take independent professional advice relating to the performance of any aspect of their duties at the company's expense, which is facilitated by the Company Secretary. The appointment and removal of the Company Secretary is a matter for the Board.

Effectiveness

What does effectiveness mean to the company?

Board members are qualified, individually and collectively, for their positions. They develop and promote the collective vision of the company's purpose, its culture, its values and the behaviour in conducting the business of the company. The interim non-executive Chairman creates the conditions for overall Board and individual effectiveness and oversees the operation of its committees, with the aim of encouraging all Board members to engage in Board and committee meetings by drawing on their skills, experience, knowledge and, where appropriate, independence. Part of the annual assessment of the Board and its committees is designed to ensure that they remain effective, fit for purpose and appropriately constituted with the right skills and experience to address the strategic direction of and regulatory challenges facing the group.

Induction of new directors and ongoing training

On appointment all new directors receive a comprehensive and tailored induction, having regard to any previous experience they may have as a director of a public company or otherwise. The company also provides additional induction materials and training for those directors who are also committee chairmen.

Regular updates are also provided on relevant legal, corporate governance and financial reporting developments and directors are also encouraged to attend external seminars on areas of relevance to their role.

Appropriate training is made available to any newly appointed director. An ongoing programme of training is available to all members of the Board and includes professional external training, internal online training and bespoke Board training on relevant topics such as regulatory developments, changes in the Companies Act 2006 or accounting requirements. Directors are also encouraged to devote an element of their time to self-development. This is in addition to any guidance that may be given from time to time by the Company Secretary.

All directors have access to the advice and services of the Company Secretary. The Company Secretary is also the secretary to all the Board committees, with the exception of the executive committee and the disclosure committee. The Board also obtains advice from professional advisors as and when required.

Ongoing training is arranged to suit the specific needs of directors and the Interim Non-Executive Chairman periodically reviews and agrees with each non-executive director their training and development needs.

Independence of non-executive directors

As a result of all of the changes as described in this report, the Board currently consists of six members, including the interim non-executive Chairman, one senior independent director, two independent non-executive directors and two executive directors. Biographical details of all directors are given on pages 68 and 69.

The composition, skills and effectiveness of the Board are reviewed annually. The non-executive directors have relevant experience across the group and relevant skills in relation to digital, corporate matters, banking, retail services and risk. The Board ensures a diverse pool of candidates is considered for any vacancy which arises and any appointments are made based on merit, having regard to the skills, competencies and experience of the candidate.

All directors are required to disclose to the Board any outside interests which may pose a conflict with their duty to act in the best interests of the company.

The Board was satisfied that each of Stuart Sinclair, Andrea Blance, Rob Anderson and John Straw continued to remain independent, having regard to the Code's independence criteria.

Conflicts of interest

The Companies Act 2006 and the company's articles of association (the Articles) require the Board to consider any potential conflicts of interest of its members.

The Board operates formal procedures regarding conflicts of interest and all members of the Board have completed conflict of interest forms which are reviewed annually. All directors have an ongoing duty to notify the company of any changes and to ensure that appropriate authorisation is sought where required.

The Board (excluding the director concerned) considers and, if appropriate, authorises each director's reported actual and potential conflict of interest, taking into consideration what is in the best interests of the company and whether the director's ability to act in accordance with his or her duties is affected.

Records and Board minutes of all authorisations granted by the Board and the scope of any approvals given are held and maintained by the Company Secretary.

The Board considers these procedures to be working effectively.

Accountability

As part of the overall corporate governance framework, the Board has ultimate responsibility for overseeing the risk management framework and determining the nature and extent of the principal risks it is willing to accept to achieve its strategic objectives. The Board is also responsible for maintaining a sound system of risk management and internal controls, in accordance with the Code.

The risk advisory committee assists the Board by taking an active role in defining risk appetite and monitoring the risk management and internal control systems across the group. Further details of how the group's processes and internal controls work are at pages 81 and 83 to 84.

Board Evaluation

Performance evaluation of the Board is crucial for effective governance and the long-term success of the company. Following the external Board evaluation carried out by Lintstock in 2016, a summary of the Board's progress against the actions that arose is set out below. The results of the external evaluation carried out by Lintstock in 2017 can be found on page 76. Lintstock had no other connection with the company.

External Board evaluation 2016

Areas	Evaluation (2016)	Action points (2016)	Progress (2017)
1. Board composition	The composition of the Board was positively rated although there was an acknowledgement that the addition of digital experience would be beneficial.	Addressing the Board composition, particularly in the areas of digital and regulation.	Two new non-executive directors with extensive digital experience were appointed using a clear and rigorous recruitment process.
2. Risk management and control	The effectiveness with which the Board takes risk into account when making major decisions was positively rated.	Improving the oversight of each of the division's regulatory relationships and risks as it was recognised that this was one of the key risks facing the group.	An interim group CRO was recruited in November 2017, and an enhanced group risk function is being developed.
3. Succession planning and Human Resource management	The structure of the group at a senior level was positively rated. The Board's oversight of a succession plan for top management was considered adequate, as was the level of interaction between the Board and top management in Board meetings, in the business and in informal and social settings.	Strengthening some of the group roles, in the areas of Human Resources, Regulatory Compliance and Risk Management; and improving succession planning across the group.	An interim group CRO was recruited in November 2017. The nomination committee in December 2017 identified that the leadership at group level required further enhancement and a search has been initiated for a chairman, two new non-executive directors and for certain group strategic roles.

Effectiveness continued

Board evaluation 2017

In line with the requirements of the Code, the Board appointed Lintstock, an external third party to undertake an evaluation over a three year period.

In 2017, questionnaires were issued to each member of the Board for completion and the results were submitted to the Interim Executive Chairman, Malcolm Le May. In addition, the Interim Executive Chairman also held one to one meetings with each of the directors to ascertain their views on the Board. The Interim Executive Chairman has reviewed the responses received from the completed questionnaires and reported on the conclusions to the Board which were discussed in early 2018. The Board also intends to implement an externally facilitated interview based evaluation in 2018 as part of the three year programme of evaluation agreed with Lintstock.

The senior independent director, Stuart Sinclair, in discussions with other members of the Board, agreed not to evaluate the performance of the Interim Executive Chairman given the interim nature of his role and changes to the Board membership during 2017.

A summary of Lintstock's analysis of the 2017 evaluation is as follows

Board composition	The composition of the Board received a mixed rating, recognising that it was currently somewhat depleted. It was acknowledged that the composition of the Board needed to be strengthened with the recruitment of a new group Chief Executive Officer and it was acknowledged that another key priority was the recruitment of additional non-executive directors who had a customer focus and with experience in credit, particularly sub-prime lending and/or with experience in dealing with regulatory issues.
Board expertise	The Board's understanding of the views and requirements of major investors was rated positively, but the Board's understanding of employees, customers and regulators received a mixed rating.
Board dynamics	The Board dynamics, particularly the relationship between Board members and management, also received mixed ratings.
Board support	The updating of directors on major developments between Board meetings was positively rated but the level of detail within the meeting packs and the presentations included therein, received a mixed rating.
Oversight of operating divisions	The Board's oversight of operations within Vanquis Bank, the CCD and Moneybarn all received mediocre ratings and the Board's oversight of the regulatory interaction of the group's operating divisions was scored relatively low.
Management and focus of meetings	The management of Board meetings in terms of determining the annual cycle of work, setting the agenda for meetings and managing the time and input during meetings received mixed and mediocre ratings. The Board's review of the effectiveness of past decisions received a comparatively low rating.
Strategic oversight	The effectiveness with which the Board tests and develops the group's strategy received a negative rating, as did the Board's oversight of the implementation of its strategy. The Board's understanding of the group's performance relative to its main competitors was low.
Risk management and internal control	The effectiveness with which the Board takes risk into account when making major decisions received a low rating.
Succession planning and human resource management	Strengthening the Board and adding a centralised group Human Resources function, as well as certain other group functions to support the divisions, was identified as a key focus for 2018.

The evaluation also confirmed that the Board considered the top strategic issues facing the group over the next three to five years to be:

1. Regulation;
2. Customer Focus;
3. Board structure and governance;
4. Growth;
5. Affordability; and
6. Competition.

The following areas were identified as priorities for the Board over the coming year:

1. Human Resource priorities:
   - Addressing the Board composition, particularly the appointment of a Chief Executive Officer, which has been completed with the appointment of Malcolm Le May and appointing a new Chairman and two further independent non-executive directors, and the appointment of a permanent Chief Risk Officer and the search for a Chairman and two further independent non-executive directors;
   - The addition of a centralised group Human Resources function;
   - Attracting and retaining talent;
   - Remuneration practices; and
   - Culture and values across the group;
2. Stabilising the company and its relationship with key stakeholders;
3. Improving group governance oversight of subsidiaries, including reviewing items that are reserved for the Board;
4. Ensuring better management transparency;
5. Introducing regular strategic review sessions to agree and monitor strategy and rebalance the focus from current performance;
6. Scheduling more time for Board and committee meetings;
7. Clearer agenda setting by non-executive directors;
8. Focusing on greater regulatory oversight; and
9. Supporting the newly constituted group executive committee.

Shareholder engagement

Investor Relations

Key themes discussed with shareholders and analysts in 2017

Group

Why was the FCA investigation into ROP only announced to the market in August 2017 when ROP sales had been suspended since April 2016

What is the expected level of redress in respect of ROP and the ongoing FCA investigation into Moneybarn

Would the group need to raise additional capital to meet the cost of any redress programme in Vanquis Bank and Moneybarn

Does the group have access to sufficient funding and liquidity given the problems in Provident home credit and the FCA investigations

The events of 2017 indicate that the group's relationship with the regulator appears to have been relatively poor. What is being done to improve the situation

The group's corporate governance and risk management procedures appear to have failed. What is the Board doing to address this

What is the progress in respect of the search for a new CEO

When will the group return to paying dividends

Vanquis Bank

What is the FCA investigating in respect of ROP

What period does the FCA investigation cover

What were the results of the back book communication exercise to ROP customers

Why was underwriting tightened in the third quarter of the year

What will be the impact of the FCA's remedies in respect of the credit card market study, particularly the measures on persistent debt

Moneybarn

Why is the business incurring higher levels of impairment? Is this macro related

What is the expected impact of the FCA's review into the car finance market in 2018

What is the impact of falling used car prices on impairment levels

Provident home credit

What was the rationale for the new operating model when none of the competition are making the change

Why did the results of the home credit business go backwards so quickly

Why was the new operating model so badly deployed

What actions are being taken to recover the business

When will the business be authorised by the FCA

What is the expected impact of the FCA's review into the home credit market during 2018

Satsuma

Why is Satsuma taking so long to reach profitability

What is the competitive landscape in HCSTC? Has there been any consolidation

> "We seek to engage regularly with shareholders to ensure a meaningful and collaborative relationship is maintained.
>
> Stuart Sinclair
> *Interim non-executive director*

The Chairman is responsible for ensuring that appropriate channels of communication are established between directors and shareholders and that all directors are aware of any issues and concerns that major shareholders may have.

The group engages effectively with shareholders through its regular communications, the annual general meeting (AGM) and other investor relations (IR) activity. Results and other news releases such as changes to our strategy and Board composition are published via the London Stock Exchange's Regulatory News Service (RNS). Any announcement published via RNS is also available on the group Investor Relations website at https://www.providentfinancial.com/investors/.

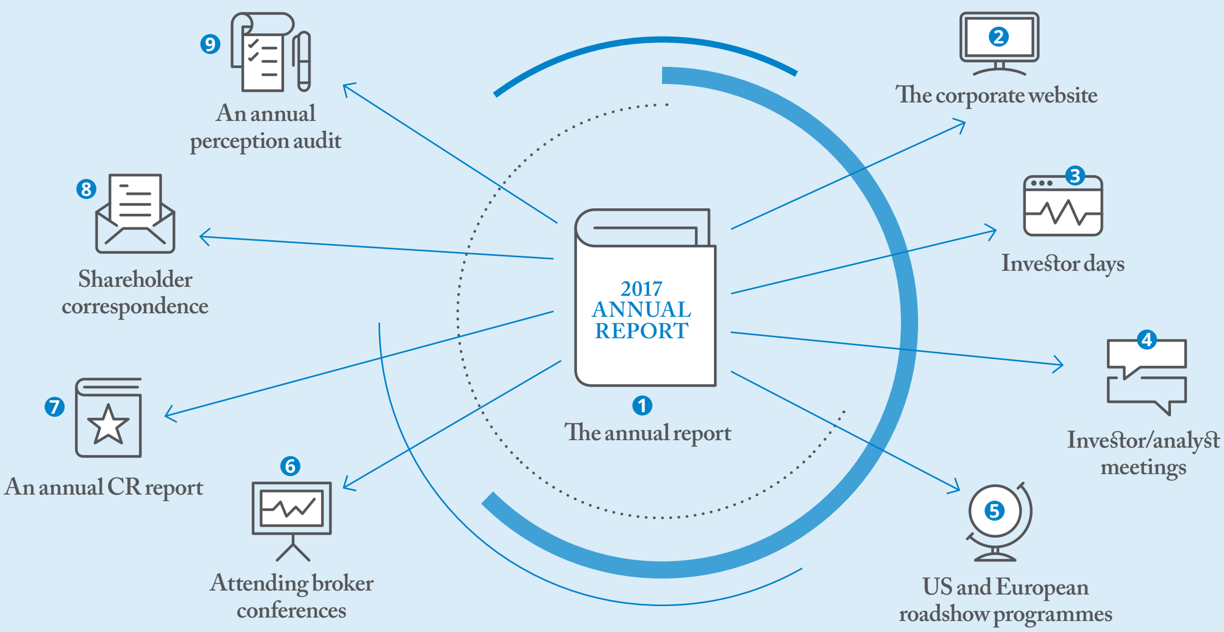
Regular engagement provides investors with an opportunity to discuss particular areas of interest and raise any concerns. The group is committed to effectively communicating its strategy and understanding shareholders' views on its strategy and performance.

Shareholder engagement continued

IR programme

The group has a comprehensive IR programme through which the Interim Non-Executive Chairman, Chief Executive Officer, group Finance Director and Head of IR engage regularly with the company's largest shareholders on a one-to-one basis to discuss strategic and other issues as well as to give presentations on the group's results.

Specific information on the 2017 IR programme can be found in the calendar to the right on page 79. Further communication is achieved through:



1 The annual report

This is the most significant communication tool, ensuring that investors are kept fully informed regarding developments in the group. The group continually strives to produce a clear and transparent annual report which provides shareholders with a complete and balanced picture of the group;

2 The corporate website

Provides investors with timely information on the group's performance as well as details of the group's corporate responsibility (CR) activities. The website is fully accessible from either a PC, tablet or smartphone without the need for a separate mobile app;

3 Investor days

Inviting institutional shareholders and sell-side analysts to an onsite facility or an external location to provide them with a more detailed insight into the group. The last Capital Markets Day was held on 4 April 2017 and provided further insight into the group's growth initiatives including the expansion of Vanquis Bank's credit card distribution and the new wider loans proposition, the ongoing development of Satsuma's digital capability, the proposed migration of the home credit operating model and the ongoing product developments in Moneybarn;

4 Investor/analyst meetings

The group takes a proactive approach by inviting investors and sell-side analysts to meet with divisional senior management and to visit operational facilities;

5 US and European roadshow programmes

Allows overseas investors better access to management, enabling them to receive the same access to information as investors in the UK. Usually attended by the Chief Executive Officer, the group Finance Director and the Head of IR;

6 Attending broker conferences

Management regularly attend and present at various conferences hosted by brokers to ensure that a wide variety of shareholders, including those from different geographies, have access to management. Following the Capital Markets Day in April and the two profit warnings issued in June and August, the group has not attended any broker conferences in 2017;

7 An annual CR report

A standalone report clearly demonstrating the significant importance placed on corporate responsibilities within the group;

8 Shareholder correspondence

The group is committed to responding to shareholders, regardless of the size of their holding, within two working days of receipt of correspondence; and

9 An annual perception audit

Designed to obtain formal independent feedback from investors and sell-side analysts. This enables management to consider and respond to any concerns in the investment community.

Following the Capital Markets Day in April 2017 and the two profit warnings issued in June and August 2017, the group has had extensive one-to-one dialogue with shareholders during 2017 as well as obtaining unattributed shareholders' feedback from the group's two corporate brokers, JP Morgan Cazenove and Barclays. As a result, a separate independent annual perception audit was not conducted during 2017. An independent perception audit will be conducted by h2glefern in the first half of 2018.

Board oversight

Communications with shareholders are given a high priority by the Board. In order to ensure that Board members develop an understanding of the views of major shareholders, there is regular dialogue with institutional shareholders, including meetings after the announcement of the preliminary and interim results. Peter Crook as Chief Executive Officer, Manjit Wolstenholme as executive and non executive Chairman, and Malcolm Le May in his roles as SID, remuneration committee chairman and Interim Executive Chairman, have all met with shareholders during 2017.

The Board also considers an IR report at each main Board meeting which outlines the general nature of matters communicated and discussed with institutional investors, including feedback. Independent reviews of shareholder views are also typically commissioned through an annual perception audit carried out by h2glenfern and reviewed by the Board. The group collates broker feedback from roadshows to present in the IR Board report and all analyst and broker reports on the company are also distributed to all Board members.

AGM

Shareholders are invited each year to attend the AGM, where the Board members are available to answer any questions shareholders may have. Facilities are also available to shareholders to submit questions in advance of the meeting and to cast their votes electronically or by post. Details of proxy votes cast are published via RNS and on the group's website. It is the company's policy to give shareholders in excess of 20 working days' notice of the AGM and the Notice of the 2018 AGM, setting out the resolutions for the meeting, together with an explanation of them, accompanies this report and is available on the group's website. Details of the 2018 AGM are set out on page 101 of the Directors' Report.

Investor relations programme in 2017

January

- Trading statement.

February

- Preliminary results announcement.

March

- London investor/sales team roadshows.

April

- Capital Markets Day.

May

- AGM and trading statement.

June

- Profit warning announcement.

July

- Interim results announcement.
- London investor/sales team roadshows.

August

- Profit warning announcement.

October

- Q3 interim management statement.

Risk advisory committee

> "I am pleased to present the report of the risk advisory committee (RAC) in what has been a testing year for the group.

Stuart Sinclair
Risk advisory committee chairman

The following report explains in detail the extent to which the RAC has discharged its responsibilities and highlights key matters discussed by the RAC in 2017. Risk management in the group has been structured such that each of the divisions, Vanquis Bank, CCD and Moneybarn, largely maintain and manage their own risk committee, risk management framework, risk appetite statements, risk monitoring and reporting structure. The RAC has looked to provide over-arching direction and guidance to the Divisions in the implementation and development of each of the individual risk management frameworks. However, recent events have demonstrated that the practice of allowing each of the divisions relative autonomy in the management of risk, has not been sufficiently effective.

With this in mind, the group has decided to engage in a full review of its approach to governance, risk management and culture throughout the organisation and develop a more integrated strategy. As part of this review, the committee has been re-aligned to take more responsibility for risk oversight and will be known as the group risk committee (GRC). The committee's terms of reference have also been enhanced and strengthened to ensure that the Board and the GRC in future have the ability to provide oversight and challenge to the group and its divisions on the ongoing development and embedding of the revised governance and risk management framework, culture and strategy. The group has also for the first time created a group Chief Risk Officer (CRO) role and appointed an interim group CRO to begin working closely with the Board and its senior management in developing a wider governance and risk approach.

The environment in which the group operates continues to evolve and I believe that the GRC, supported by the interim group CRO, will be better placed to carry out its duties more effectively in not just overseeing the development, embedding and testing of the new management approach, but to review the group's inherent and emerging risks and to embed a more appropriate risk culture.

Role and responsibilities

The primary role of the RAC (now the GRC) is to ensure that the senior management within the Divisions implement and monitor an effective risk management framework which aligns to the overall corporate strategy of the group. To enhance this approach, the managing directors and chief risk officers from each Division regularly attend and contribute to the RAC Meetings.

The RAC's principal areas of responsibility are as follows:

- Recommending and endorsing an overall conduct risk appetite, culture and tone, prior to approval by the Board;
- Monitoring the effectiveness of the divisions in establishing and maintaining risk management frameworks, policies and procedures;
- Carrying out an assessment of the principal risks facing the group, including those that threaten its business model, future performance, solvency or liquidity;
- Reviewing the group's capability to identify and manage new risk types, and keeping under review the effectiveness of the group's internal control and risk management systems in conjunction with the audit committee;
- Reviewing the group's identification of current and forward-looking risk exposures;
- Reviewing the group's business continuity plans;
- Notifying the Board of any changes in the status and control of risks; and
- Reviewing and approving the: (i) ICAAP, including the stress testing and capital allocation approach; (ii) Internal Liquidity Adequacy Assessment Process (ILAAP); and (iii) recovery and resolution plan (RRP) adopted by Vanquis Bank on an individual and consolidated basis for submission to the Board for final approval.

The 2017 risk management framework is set out in the chart below

Statement on internal controls

Monthly management accounts
Monthly management accounts are prepared comparing actual trading results by division to the Board approved budget and the prior year. Regulatory capital levels, funding, liquidity and economic trends are also reported monthly. A rolling forecast of the full-year outturn is produced as part of the management accounts. Management accounts are distributed to the executive directors and senior management team on a monthly basis and are distributed to the Board for each Board meeting.

Biannual budget process
In December each year, the Board approves detailed budgets and cash flow forecasts for the year ahead. It also approves outline projections for the subsequent four years. An update to the budget is approved in June each year.

The Board
Reviews the risk management framework annually to ensure that it remains fit for purpose and complies with relevant laws and regulations including the Code.

Corporate policies
The Board requires the divisions and the corporate office to operate in accordance with the corporate policies and to certify compliance on a biannual basis. This includes confirmation of compliance and any suggestions for improvements. This ensures that the process remains dynamic and that the divisions and corporate office are operating at the highest level. The corporate policies were last updated in December 2016.

Treasury committee
A quarterly group treasury committee, chaired by the group Finance Director and attended by divisional finance directors, the group treasurer, head of group tax, and the group financial controller ensures that there is active management of the financial risks and that liquidity, market, counterparty and prudential regulatory risks are managed within Board approved appetites.

Risk advisory committee
Chaired by a non-executive director of the Board, it is responsible for ensuring that there is an appropriate risk management framework embedded across the group.

Internal audit
Regularly reviews the adequacy of internal controls (including financial, operational and compliance controls) and reports to the risk advisory group, risk advisory committee and audit committee. An annual programme of work which targets and reports on higher-risk areas is carried out by the group Internal Audit function. The operation of internal financial controls is monitored by regular management reviews, including a requirement for each division to certify compliance quarterly. Additional comfort is also gained from the external audit.

Finance forum
A quarterly finance forum, chaired by the group Finance Director and attended by divisional finance directors and senior finance management including the heads of tax, audit, treasury and risk, reviews and provides oversight of the key financial matters of the group.

Whistleblowing
Whistleblowing policies are in place in each of the group's Divisions. The group is committed to the highest standards of quality, honesty, openness and accountability and employees are encouraged to raise genuine concerns under these policies either by contacting a manager or telephoning a dedicated external helpline in confidence. During 2017, this external helpline was operational throughout the group and procedures are in place to ensure issues raised are addressed in a confidential manner. The Company Secretary is required to report to the audit committee in December each year on the integrity of these procedures, the state of ongoing investigations and conclusions reached.

During 2017, six complaints were received, compared to four during 2016. All complaints made via the external helpline were thoroughly investigated and dealt with in accordance with the appropriate internal procedures.

Divisional boards
The divisional boards and their committees are responsible for managing the divisional risks and preparing divisional risk registers for review by the risk advisory group who report to the RAC.

Three lines of defence model
- First line
- Second line
- Third line

Risk advisory committee continued

Risk management is the process of identifying, quantifying and managing the principal risks that the group faces, including those arising from market disruption and evolving regulatory requirements. Under the UK regulatory regime, both CCD and Moneybarn are regulated by the FCA. Moneybarn is fully authorised and CCD currently operates under an interim permission and is awaiting full FCA authorisation. Vanquis Bank is authorised by the PRA and regulated by both the FCA and the PRA. Both CCD and Moneybarn have Approved Persons for controlled functions in compliance with the FCA's approved person's regime whilst Vanquis Bank has Senior Managers for Senior Manager Functions in compliance with the Senior Managers Regime which was introduced in 2016. As Provident Financial plc is a holding company, there are no Approved Persons or senior managers at Board level, and therefore historically the group's risk management framework has always been organised such that each of Vanquis Bank, CCD and Moneybarn (each a Division and together the Divisions) independently maintain and manage their respective risk management, including their risk management policies. In seeking to improve the connection between the Divisions and the Board and to provide oversight non-executive directors sit on the boards of each of the Divisions.

As a result of the group structure, primary responsibility for conduct risk management in particular, and risk management in general, with respect to the requirements of both the FCA and the PRA lies at divisional level. The Divisions each have in place risk management frameworks (the Divisional Frameworks), which are developed and operated in each Division. The group has provided broad direction to ensure a degree of consistency, and has overseen the implementation of the Divisional Frameworks. However, recent events have demonstrated that although the group's intentions have been good in operating an oversight role and allowing the Divisions to have a high level of autonomy, risk management across the group has not been consistently aligned, resulting in the group's risk management not being as effective as intended.

Recent developments

Given the events of the last year, the group has appointed an interim group CRO for the first time who will work closely with the Board and the Chief Executive Officer to help develop further the group's capability to oversee group level risk (as well as governance and culture) and will ensure that effective management of risk is a key focus of the group.

The group is committed to operating an effective risk and governance framework that aims to be consistent and commensurate with the nature, complexity and risk profile of its businesses and is responsive to both internal and external events. To address certain historical issues with the group's risk management policies and to seek to ensure that the group operates in a more efficient and effective manner, the group has:

a) completed an initial review of its governance arrangements, including the framework, terms of reference of each of the Board committees and processes undertaken at meetings and identified where enhancements and change are required. As part of this review, the group's intention is to create a governance and risk development plan including defined deliverables which will continue to improve the overall governance arrangements and risk management frameworks across the group;

b) reconstituted the group executive committee to provide a more integrated approach to managing the group including its governance and risk management and to enhance the information flows and controls between the group and the Divisions. Historically executive risk management at group level has been monitored and managed by the risk advisory group which has now been disbanded in favour of a group risk forum to be led by the interim group CRO supported by the group executive commitee;

c) began the process of establishing a new Board committee, to be chaired by one of the new non-executive directors which will focus on the customer, culture and ethics and will help drive changes in behaviours and attitudes across the group;

d) reaffirmed a clear purpose, vision, mission and set of values which are centred firmly on our customer centric approach;

e) created a central view of all regulatory interactions which the Board will monitor closely to ensure consistency with the culture, direction and risk appetite set by the Board, reflecting the greater importance being placed on key regulatory relationships; and

f) reviewed the effectiveness of the group risk committee (formerly the RAC) and made a number of changes and improvements to enhance its effectiveness.

The risk advisory group has historically assisted the RAC with monitoring the risk management systems across the group and for ensuring that an effective and consistent risk management framework was operated across the group. The risk advisory group has historically also reviewed and updated the group's risk registers quarterly. Each Division has been represented by the attendance of the divisional CROs and divisional managing directors. The risk advisory group has now been disbanded and the newly established cross divisional risk forum is in place for Divisions and group executives to discuss and share views and concerns on key risks facing the group. It is intended that any new risks or key developments will be escalated either through the new cross divisional risk forum or by the managing directors directly to the group executive committee. Conduct risks as they face each Division are addressed at divisional level through their respective risk management frameworks and a more consolidated view of group risks is being developed at the GRC. The cross divisional risk forum will be attended by risk professionals from across the group, with a view to enhance, realign and monitor group governance and risk management systems and frameworks throughout the group.

Members

Stuart Sinclair
(Chairman)

Malcolm Le May
(Member up to 1 March 2017)

Manjit Wolstenholme
(Member up to 24 November 2017)

John Straw
(Member from 1 March 2017)

Alison Halsey
(Member up to 12 May 2017)

Robert Anderson
(Member up to 1 March 2017)

Andrea Blance
(Member from 1 March 2017)

David Sear
(Member from 1 March 2017
to 26 January 2018)

Secretary

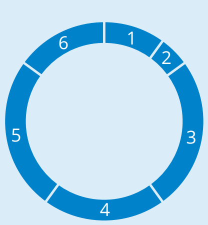
Ken Mullen

Composition of the committee

Other mandatory attendees at the RAC meetings in 2017, as reflected in the terms of reference were: the former Chief Executive Officer, Peter Crook (up to the 21 August 2017), the group Finance Director, Andrew Fisher; the group Director of Corporate Strategy, David Merrett; the Head of group Internal Audit, David Mortlock; and the managing directors and chief risk officers of each Division to discuss, inter alia, conduct risk and related governance issues. The interim group CRO is also required to be in attendance at all meetings.

Allocation of time

1 Setting group risk management	10%
2 Setting overall risk appetite	5%
3 Assessing outcomes against risk appetite	25%
4 Assessing risk management effectiveness	20%
5 Overseeing management actions	25%
6 Approving ICAAP, ILAAP and RRP	15%



Committee calendar in 2017

January

- Reviewed and considered the risk appetite statements across the group;
- Reviewed and approved the updated risk management framework;
- Reviewed and approved the group risk appetite update and recalibration to budget;
- Reviewed and approved the risk advisory committee terms of reference;
- Considered the performance and effectiveness of the annual risk advisory committee following external review; and
- Reviewed an update on the Repayment Option Plan (ROP).

May

- Reviewed and considered the output from the risk review of Vanquis Bank;
- Reviewed and discussed the cyber risk update across the group;
- Reviewed and endorsed the ICAAP approach and methodology, prior to approval by the Board; and
- Reviewed and approved the ILAAP for Vanquis Bank.

July

- Reviewed and discussed an extended cyber risk update across the group;
- Reviewed and considered the deep dive risk schedule of work;
- Considered the key issues raised by the chairman in relation to the home credit accelerate programme and the deployment of first and second line oversight throughout CCD; and
- Reviewed and endorsed the ICAAP, including a review of the Vanquis Bank Recovery and Resolution Plan (RRP) prior to approval to the Board.

October

- Reviewed and considered a further update in relation to cyber risk across the group;
- Further reviewed the Vanquis Bank RRP; and
- Reviewed and considered the output from the persistent bad debt deep dive review.

Annual statement by the chairman of the risk advisory committee

Given the current position of the group and the failings identified last year, we will leverage the interim group CRO to champion the interests of the customer internally and thereby begin to transform the nature of our interactions with regulators and provide greater consistency and coordination across our regulated businesses. The interim group CRO will maintain an involvement in all regulatory interactions across the group so as to ensure consistency with the culture, direction and risk appetite set by the Board.

We will seek to carefully balance the benefits and advantages of any changes with the costs and risks involved, in light of the need to continue to grow our businesses and adapt to the changing external environment.

At each meeting, the committee:

- Reviewed and confirmed the overall risk management status of the group;
- Reviewed and confirmed the key group risks;
- Reviewed and confirmed the risk appetite status across the group;
- Reviewed and confirmed the quarterly internal audit opinion on risk management reporting; and
- Reviewed minutes and actions from prior meetings, and of the risk advisory group.

Statement on internal controls

Under the Code, the Board also has a responsibility to maintain sound risk management and internal control systems across the group. To manage risk and ensure compliance with regulatory obligations the Board sets the overall risk appetites of the group and seeks to ensure that the Divisions (and corporate centre) have designed, implemented and maintained effective and appropriate risk appetites, risk management frameworks and processes of their own, consistent with those set by the group. The Divisions (and corporate centre where appropriate) have day-to-day responsibility for risk management. Given recent events, it is clear that the group oversight and divisional implementation of risk management described above has proven less effective than intended, resulting in the changes made to date, and expected to be made in the future as described below, reflecting a more active role at group level.

Risk advisory committee continued

As part of the group's framework it operates a 'three lines of defence' model of risk management. The first line of defence consists of operational identification, assessment and management of risk. The directors of the corporate office and of each of the Divisions 'own' the risks and it is the risk owners who are accountable within the group for the ongoing assessment and management of these risks in the first line.

The second line of defence consists of independent review and challenge of first line actions against established risk appetites. In each Division, risk and compliance functions constitute the second line of defence and are responsible for adherence to risk appetites and providing independent review and challenge to the first line.

The third line of defence consists of independent assurance. At the group and divisional level, the group Internal Audit function constitutes the third line of defence and is responsible for providing independent assurance in connection with the identification, assessment and management of risk and maintenance of appropriate controls. The work of the group Internal Audit team is subject to review by the audit committee established by the Board.

Effectiveness

The committee formally considers its effectiveness on an annual basis, and a review was undertaken in 2017 as part of the external Board and committee evaluation process carried out by Lintstock. Each director was able to comment and rate various aspects of the committee's role by responding to a series of questions relating to the performance of the committee contained in the questionnaire. On the basis of the evaluation undertaken in 2017, compared to the results last year, several areas of the risk advisory committee evaluation were identified and rated as inadequate by respondents. The committee has recognised that improvements are needed to ensure that the key risks to the business are identified, managed and adequately reported upon, providing the committee with a 360-degree risk perspective.

Stuart Sinclair
Risk advisory committee chairman
27 February 2018

Priorities for 2018

Given that the current group risk management framework has proven to be less than effective, the Board understands that changes need to be made, and the following specific changes are in the process of being made and implemented as a priority throughout 2018 and beyond.

The group's interim CRO has begun the process of working on a new, more centralised, operating model which will require a small, more specialised risk team to be recruited who can provide more informed and independent challenge over key group and divisional risks. As part of the proposed new operating model, the group will aim to achieve the following in the coming year:

+ Review and enhance group risk capability with the interim group CRO leading the design and implementation of the governance and risk management changes which are required, to improve group cohesion in a way that ensures key risks are effectively managed;
+ Develop a revised group risk appetite which will be simpler, clearer and broader in its coverage, underpinned by a significantly enhanced metric on a balanced scorecard reporting basis;
+ Revise the group risk framework so that it expands its risk coverage and provides a better basis for integrating the group's approach to risk, whilst simplifying the messages across the group and its Divisions to improve embedding the approach in the group's operations;
+ Revise the group policy framework to ensure that the most important policy requirements are set more clearly by the Board, are more user friendly, and to reinforce controls around risk appetite metrics;
+ Enhance the group's approach to risk and ensure that group and divisional risk appetites, policies and frameworks are more aligned but still locally applicable whilst not compromising regulatory requirements or duplicating work for the divisional risk functions;
+ Revisit the vision, values and key risks of the group and embed a significantly more customer focused organisation, with specific and demonstrable changes; and
+ Create a central view of all regulatory interactions which the Board will monitor closely going forward.

Audit committee and auditor

"

The audit committee provides governance and oversight of the financial reporting and disclosure process, the audit process and the system of internal controls and compliance.

Andrea Blance
Audit committee chairman

The primary function of the audit committee and auditor

General

The role of the committee is to assist the Board in fulfilling its oversight responsibilities by monitoring the integrity of the financial statements of the group and other financial information before publication, and reviewing significant financial reporting judgements contained in them. In addition, the committee also reviews:

> The systems of internal financial, operational and compliance controls on a continuing basis, and the arrangements and procedures in place to deal with whistleblowing, fraud and bribery; and

> The accounting and financial reporting processes, along with the roles and effectiveness of both the group Internal Audit function and the external auditor.

However the ultimate responsibility for reviewing and approving the Annual Report and Financial Statements 2017 remains with the Board. The terms of reference of the committee can be found on the group's website at www.providentfinancial.com.

Specific

The committee is also specifically responsible for:

> Initiating and oversight of any tender process in relation to the appointment of an external auditor;

> Negotiation of the scope and fee for the audit;

> Assisting the Board in assessing the company's ongoing viability, the basis of the assessment and the period of time covered;

> Approving the group internal audit plan annually; and

> Keeping under review the effectiveness of the group's system of internal controls and risk management by considering group internal audit activity reports at each meeting and reporting to the Board on a regular basis.

Audit committee and auditor continued

Members

Alison Halsey
(Chairman up to 12 May 2017)

Andrea Blance
(Chairman from 12 May 2017)

Robert Anderson
(Member up to 1 March 2017)

David Sear
(Member from 1 March 2017 to 26 January 2018)

Malcolm Le May
(Member up to 24 November 2017)

Stuart Sinclair

John Straw
(Member from 12 February 2018)

Secretary

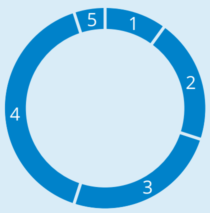
Ken Mullen

Composition of the committee

The members of the committee during 2017 all had a wide range of business and financial experience which is evidenced by their biographical summaries on pages 68 and 69. Malcolm Le May, Stuart Sinclair and Andrea Blance all have considerable recent and relevant financial experience, with Andrea Blance having been both the group financial controller and divisional chief financial officer at Legal & General Group plc, all of which is set out in their biographical details on pages 68 and 69 which are also set out on these pages. Other attendees at the audit committee meetings in 2017 were, by invitation; Manjit Wolstenholme, (the former Interim Executive Chairman), Peter Crook, (the former Chief Executive Officer), Andrew Fisher group Finance Director; Gary Thompson, (the group Financial Controller), David Mortlock, (the Head of group Internal Audit) and Deloitte LLP, the external auditor.

Allocation of time

1 Governance	10%
2 Financial reporting	20%
3 External Audit	25%
4 Internal audit	40%
5 Other	5%



Committee calendar in 2017

February

- Reviewed and approved the viability statement for the final results;
- Reviewed and recommended the 2016 Annual Report and Financial Statements be prepared on a going concern basis, and recommended the Annual Report and Financial Statements 2016 be approved by the Board;
- Reviewed and approved the chairman's annual audit report for inclusion in the 2016 Annual Report and Financial Statements;
- Reviewed and considered the independence of the external auditor;
- Reviewed the 2016 external audit full year report;
- Reviewed the external auditor's schedule of fees for the year ended 31 December 2016;
- Reviewed and proposed the reappointment of the external auditor;
- Reviewed and agreed the Annual Internal Controls/Risk Management opinion;
- Reviewed the internal audit activity report; and
- Reviewed the thematic review of cyber security.

July

- Reviewed and approved the going concern paper and viability statement for the Interim Results;
- Reviewed and recommended the Interim Results for the six months ended 30 June 2017;
- Reviewed the Deloitte interim review report dated 21 July 2017;
- Reviewed the draft Interim Results announcement;
- Reviewed the internal audit activity report;
- Reviewed and noted the schedule of fees paid to the external auditor to 30 June 2017;
- Reviewed and noted the CCD vulnerable customer report;
- Reviewed and noted the Moneybarn AML and financial crime report; and
- Reviewed and considered the independence of the external auditor.

October

- Reviewed the external audit planning report for the year ending 31 December 2017;
- Reviewed the internal audit update and activity report; and
- Reviewed and approved an external effectiveness review of group internal audit to be undertaken.

December

- Reviewed the Internal Audit Charter;
- Reviewed and approved the audit committee terms of reference;
- Reviewed the use of the external auditor for non-audit work policy;
- Confirmed the external auditor's statement of independence and objectivity;
- Reviewed and confirmed the external audit terms of engagement letter and audit fees for 2018;
- Reviewed and approved the schedule of non-audit fees;
- Reviewed and approved the Internal Audit Plan;
- Initiated the effectiveness review of the internal audit function at the end of 2017 and will consider any recommendations in 2018;
- Confirmed the proposals for the external audit performance review and the audit committee performance and effectiveness review;
- Reviewed the internal audit update and activity report;
- Reviewed and approved the audit committee agenda framework; and
- Reviewed and considered the report on whistleblowing and anti-bribery and corruption.

Annual statement by the chairman of the audit committee

As chairman of the audit committee, I am pleased to present the audit committee's report for the year ended 31 December 2017. This report is intended to provide a summary of the activities of the audit committee and its key responsibilities as a separate report in accordance with the FRC's guidance and the Financial Reporting Lab's 'reporting of audit committee's guidance' and confirms compliance with the Competition and Markets Authority's Statutory Services Order. Furthermore, I will be available at the AGM on 9 May 2018 to answer any questions on the work of the committee.

At each meeting, the committee:

> Had a discussion with both the external and internal auditor without any executive director or employee being present;

> Reviewed the group Internal Audit activity report;

> Reviewed updates from the external auditors; and

> Reviewed the minutes of the Vanquis Bank audit committee.

Key Activities in 2017:

> During the year, the committee continued to monitor the integrity of the financial statements of the group including, in particular, the annual and half-yearly reports and the interim management statements;

> The committee reviewed the statement set out on page 83 concerning internal controls and risk management and considered the significant risks identified in relation to the Consumer Credit Division (CCD) in relation to the implementation of the new operating model;

> The committee has been overseeing the company's co-operation with the FRC in respect of its enquiries in relation to, amongst other things, the adequacy of the disclosures in the company's annual report and strategic report for the year ended 31 December 2016 regarding the FCA's investigation into, and the suspension of, the sale of ROP to new customers. The external auditors have also been subject to an inspection review.

> In addition, the committee reviewed and approved the impact of IFRS 9;

> The committee continued its focus on internal audit work and any significant issues raised; and

> The committee reviewed the group cyber security thematic review, the CCD vulnerable customer report and the Moneybarn anti-money laundering and financial crime reports.

Fair, balanced and understandable

At the request of the Board, the committee considered whether, in its opinion, the Annual Report and Financial Statements 2017, taken as a whole, is fair, balanced, and understandable and provides the necessary information for the reader to assess the group's position and performance, business model and strategy.

Process

In justifying this statement the committee considered the robust process in place to create the Annual Report and Financial Statements 2017 including:

> The early involvement of the committee in the preparation of the Annual Report and Financial Statements 2017 which enabled it to provide input into the overall messages and tone;

> The input provided by divisional and group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;

> The reviews conducted by external advisors appointed to advise on best practice;

> The regular review of the group Internal Audit activity reports which are presented at committee meetings and the opportunity for the non-executive directors to meet the external auditor without any employee of the group being present;

> The meetings held by the committee to review and consider the draft Annual Report and Financial Statements 2017 in advance of the final sign-off; and

> The final sign-off process by the Board.

When forming its opinion, the committee reflected on the information it had received and its discussions through the year. In particular, the committee considered whether:

The report is fair

> Is the narrative reporting on the Divisions consistent with the reporting in the financial statements;

> Are the key messages in the narrative reporting reflective of the financial reporting; and

> Are the KPIs disclosed appropriate to understanding the underlying performance of the business.

The report is balanced

> Is there a good level of consistency between the narrative reporting and the financial reporting and is the messaging in each consistent when read independently of each other;

> Does the narrative reporting on the Divisions reflect both the positive and negative aspects of performance;

> Are both the statutory and adjusted financial measures explained clearly and given appropriate priority and prominence;

> Are the key judgements referred to in the narrative reporting and the significant issues reported in this audit committee report consistent with the disclosures and critical judgements set out in the financial statements; and

> How do these judgements and issues compare with the risks that the external auditor will include in its report.

The report is understandable

> Is there a clear and understandable structure to the report;

> Are the important messages highlighted appropriately and consistently throughout the document with clear signposting to where additional information can be found; and

> Is the narrative within the Annual Report straightforward and transparent.

Audit committee and auditor continued

This assessment was also underpinned by the following:

> The papers of critical accounting assumptions and key sources of estimation uncertainty presented by management to the audit committee which documents the approach taken to the critical accounting assumptions and key sources of estimation uncertainty documented in the financial statements on pages 187 to 195. The assumptions and the going concern statement were carefully reviewed and challenged by the committee with the assistance of the external auditor who also fully analysed and concurred with the assumptions made as part of the year-end process;

> The consistency between the risks identified and the issues that are of concern to the committee;

> The comprehensive reviews of the Annual Report and Financial Statements 2017 undertaken at different levels in the group which aims to ensure consistency and overall balance; and

> The external auditor's report on the Annual Report and Financial Statements 2017.

Conclusion

Following its review, the committee was of the opinion that the Annual Report and Financial Statements 2017 is representative of the year, and presents a fair, balanced, and understandable overview, providing the necessary information for shareholders to assess the group's position, performance, business model and strategy.

Internal audit

The group operates an in-house group Internal Audit function which is managed by the Head of Group Internal Audit, with specialist services provided by third-party consultants where necessary. The group Internal Audit function also reports to the committee which helps to ensure the function's independence from group management. The committee reviews regular reports on the activity of this function and as chairman of the audit committee, I also meet separately with the Head of Group Internal Audit on a quarterly basis.

The group Internal Audit function encompasses all divisions within the group and therefore provides a consistent and balanced overview of the group to the committee. An external assessment of the effectiveness of the group Internal Audit was undertaken in December 2017 in accordance with the Internal Audit Charter and the UK Corporate Governance Code.

External audit

Effectiveness of the external auditor

The committee considers the reappointment of the external auditor, including the rotation of the audit partner, annually. This includes an assessment of the independence of the external auditor and an assessment of their performance in the previous year. This is achieved primarily through a questionnaire and scorecard which is completed by key stakeholders involved in the annual audit process, including the audit committee and heads of finance in each of the divisions. The scores and results of the questionnaire are collated and shared with the external auditor and an action plan to address any areas of concern identified is agreed.

Significant issues and areas of judgement considered by the audit committee

The critical accounting assumptions and key sources of estimation uncertainty considered by the audit committee in relation to the Annual Report and Financial Statements 2017 are outlined on page 139. In addition to the matters set out on page 139, the committee also considered the going concern statement set out on page 45. The committee discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus as outlined in the independent auditor's report on pages 187 to 195.

External auditor appointment

The group carried out a rigorous audit tender process in June 2012 and, as a result, Deloitte were appointed as the group's external auditor. The committee will continue to assess the performance of the external auditor on an ongoing basis to ensure that it is satisfied with the quality of the services provided. As part of that process, it recommended to the Board the reappointment of Deloitte as external auditor to the company and a resolution to this effect will be proposed at the 2018 AGM. In accordance with the Code, the external audit contract will be put out to tender at least every 10 years.

The external auditor is required to rotate the audit partner responsible for the group audit every five years. At the February 2017 meeting, the former lead audit partner confirmed Deloitte's independence and objectivity, on the basis that his role as lead audit partner had spanned a period of five years, he introduced his successor to the committee.

In accordance with best practice and guidance issued by the FRC, the committee will continue to review the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process during the next financial year.

Independence and objectivity

The committee has adopted a policy on the appointment of staff from the external auditor to positions within the various group finance departments. The policy grades appointments into four categories and sets out the approvals required. Neither a partner of the audit firm who has acted as engagement partner, or the quality review partner, or other key audit partners, or partners in the chain of command, nor a senior member of the audit engagement team, may be employed as group Finance Director, group financial controller or divisional finance director.

The committee have considered the independence of the Deloitte audit team in light of the significant level of non-audit services provided in the year and have deemed that adequate safeguards have been in place including: separate partners and staff being responsible for the delivery of this work; the non-audit team do not prepare anything which would be relied upon in our audit; and the work performed is also subject to an independent Professional Standards Review and Engagement Quality Control Review process.

Significant issues and areas of judgement

Issue	Judgement	Actions
Impairment of receivables within CCD Receivables are impaired in CCD when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks. 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.	Judgement is applied as to the appropriate point at which receivables are impaired and whether past payment performance provides a reasonable guide as to the collectability of the current receivables book. Accordingly, this is a primary source of audit effort for the group's external auditor, Deloitte LLP (Deloitte).	In order to assess the appropriateness of the judgements applied, management produce a detailed report for the external auditor setting out: (i) the assumptions underpinning the receivables valuation; and (ii) a scenario analysis comparing the receivables valuation with alternative valuations based upon various forecasts of future cash collections, including prior year performance, current performance and budget performance. In assessing the adequacy of CCD's impairment provisions, the committee: > Reviewed management's report on the accounting treatment and assumptions adopted within the impairment calculations across the group and any changes made to this approach during the year; > Reviewed management's report and challenged management on the results and judgements used in the test; > Considered the work performed by Deloitte on validating the data used in the testing performed by management and their challenge of the assumptions used; > Considered the findings within the report in light of current trading performance and expected future performance; and > Considered the work performed by the group Internal Audit function on information technology controls and operational controls such as cash collections, credit management and arrears management.
Impairment of receivables at Vanquis Bank and Moneybarn Receivables are impaired in Vanquis Bank and Moneybarn when one or more contractual monthly payment(s) have been missed. The impairment provision is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage. Management update the methodology monthly to ensure the assumptions accurately take account of the current economic environment, product mix and recent customer payment performance.	Judgement is applied on whether past payment performance is a good indication of how a customer may pay in the future. Accordingly, this is a primary source of focus for Deloitte during the audit process.	In assessing the adequacy of Vanquis Bank's and Moneybarn's impairment provisions the committee: > Reviewed management's report on the accounting treatment and assumptions adopted within the impairment calculations across the group and any changes made to this approach during the year; > Considered the work performed by Deloitte on validating the data used and their challenge of the assumptions used by management; > Considered the findings in light of current trading performance and expected future performance; > Considered the work performed by the group Internal Audit function on information technology controls and operational controls such as cash collections, credit management and arrears management; and > Considered the review performed by the Vanquis Bank audit committee on the Vanquis Bank impairment provisions.
Retirement benefit asset The valuation of the retirement benefit asset is dependent upon a series of assumptions. The key assumptions are the discount rate, inflation rates and mortality rates used to calculate the present value of future liabilities.	Judgement is applied in formulating each of the assumptions used in calculating the retirement benefit asset.	The company's external actuary, Willis Towers Watson, propose the appropriate assumptions and calculate the value of the retirement benefit asset. The committee considered the work performed by Deloitte on the valuation and their views on the suitable ranges of assumptions based on their experience.
Provisions The group makes provisions for customer remediation if all of the following are present: (i) a present obligation (legal or constructive) has arisen as a result of a past event (ii); payment is probable (more likely than not); and (iii) the amount can be estimated reliably.	Judgement is applied as to whether the criteria for recognition has been met. In addition, if the criteria for recognition are met, judgement is applied to determine the quantum of such liabilities including making assumptions regarding the number of future complaints that will be received and the extent to which they will be upheld, average redress payments and related administrative costs. On 27 February 2018, the group reached an agreed settlement with the FCA in respect of the investigation into ROP. In addition, the group continues to co-operate with the FCA in respect of its ongoing investigation into affordability, forbearance, fees and termination options at Moneybarn. A provision for the estimated cost of settlement has, therefore, been reflected in the 2017 financial statements.	In order to assess the appropriateness of the judgements applied, the committee: > Challenged the assumptions made by management to determine the provision for redress and administration costs, including sensitivity analysis of the range of outcomes; > Obtained legal advice from the group's lawyers on the status of any investigations being undertaken by the regulator and the potential quantum of any settlements/redress; > Reviewed the work performed by external consultants in respect of conduct matters where applicable; and > Considered the work performed by Deloitte and their views on the appropriateness of assumptions used by management, based on their experience.

Audit committee and auditor continued

Working with the external auditor

At each of its meetings, the committee has a separate session with the external auditor without any executive director or employee of the group being present. This gives members of the committee the opportunity to raise any issues, including any issues on the interim and final results of the group, directly with the external auditor.

Non-audit work

The company has a formal policy on the use of the external auditor for non-audit work. This policy is reviewed annually by the committee.

The award of non-audit work to the external auditor is managed and monitored in order to ensure that the external auditor is able to conduct an independent audit and is perceived to be independent by the group's shareholders and other stakeholders.

Work is awarded only when, by virtue of their knowledge, skills or experience, the external auditor is clearly to be preferred over alternative suppliers.

The group maintains an active relationship with at least three other professional advisors. The nature and cost of all non-audit work awarded to the group's external auditor for the period since the last meeting and for the year to date is reported at each meeting of the committee, together with an explanation as to why the external auditor was the preferred supplier.

No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the external auditor without my prior written approval and such approval is only given in exceptional circumstances. Where Deloitte is used for non-audit work, prior approval is obtained from the committee. The external auditor may not perform internal audit work. External specialist resource for the group Internal Audit function is provided by KPMG LLP.

I am also required to approve in advance any single award of non-audit work with an aggregate cost of £250,000 or more. The committee seeks confirmation that Deloitte's objectivity and independence are safeguarded.

Deloitte fees were approved for non-audit work during the year to £1,822,000 (2016: £206,000) comprising £1,695,000 for services related to the proposed rights issue, £75,000 for the group interim review, £35,000 for the review of profits for regulatory reporting purposes, and £21,000 for other projects. The ratio of audit to non-audit fees during the year was 2.33:1.

Priorities for 2018

This year the committee will focus on reviewing and implementing the latest regulatory requirements as to financial reporting and financial oversight, including the oversight of the auditor's appointment, audit tendering, enhanced reporting arrangements and the audit committee's oversight of the relationship with the external auditor;

+

Taking on enhanced responsibilities for external audit and remuneration for both audit and non-audit services;

+

Develop a policy on the employment of former employees of the company's auditors;

+

Improve and build on policies and procedures relating to how the committee discharges its responsibilities to the Board;

+

Embed current governance thinking that Board committees should not be working in silos;

+

Continue to focus on the effective implementation of remedial actions identified in internal and external audit reviews including third party external and regulatory reviews;

+

Monitor significant accounting changes and the implications for the group; and

+

Monitor the embedding of the financial controls and oversight of IFRS 9 in the first year of its adoption by the company.

The Audit Committee have considered the independence of the Deloitte audit team in light of the significant level of non-audit services provided in the year and have deemed that adequate safeguards have been in place of: separate partners and staff being responsible for the delivery of this work; the non-audit team do not prepare anything which would be relied upon in our audit; and the work performed is also subject to an independent Professional Standards Review and Engagement Quality Control Review process.

Effectiveness

The committee formally considered its performance and effectiveness at its meeting in December 2017. This was undertaken as part of the external Board and committee evaluation process carried out by Lintstock. Each director was able to comment and rate various aspects of the committee's role by responding to a series of questions relating to the performance of the committee contained in the questionnaire. On the basis of the evaluation undertaken, the overall view was that the committee was operating efficiently and effectively in a number of areas although it was noted that the committee would benefit from holding a further meeting in May to provide greater focus on internal control matters.

Andrea Blance
Audit committee chairman
27 February 2018

Nomination committee

"

This year our main focus has been the recruitment of a new Chief Executive Officer (CEO). This process concluded with Malcolm Le May's appointment as CEO on 2 February 2018 and I have taken over the chairmanship of the nomination committee in an interim capacity until such time that a new Chairman joins the Board.

The committee also considered and recommended for approval the appointment of an interim group Chief Risk Officer (CRO).

The committee has also given consideration to the need to enhance the Board and its skills and has subsequently recommended the appointment of two new non-executive directors in 2018.

Stuart Sinclair
Interim Non-executive Chairman

The role of the committee

General

The primary function of the committee is to monitor the balance of skills, knowledge, experience and diversity on the Board and make recommendations for change, as appropriate, to the Board.

The terms of reference of the committee can be found on the group's website at www.providentfinancial.com.

In order to fulfil its role, the committee:

> Regularly reviews the structure, size and composition (including skills, knowledge, experience and diversity) of the Board, and makes recommendations to the Board for any changes to its composition to ensure it remains appropriately refreshed;

> Fully considers the succession planning requirements for directors and the senior management teams in the corporate office, taking into account the challenges and opportunities facing the company, and the skills and expertise needed on the Board in the future;

> Keeps under review the leadership needs of the group, to ensure it remains competitive in the marketplace;

> Evaluates the balance of skills, knowledge, experience and diversity on the Board before any appointments are made and prepares a description of the role and identifies the capabilities required for a particular appointment. The committee considers candidates on merit and against objective criteria with due regard to the benefits of diversity, including gender;

> Identifies and nominates to the Board candidates to fill Board vacancies; and

> Periodically reviews and considers the performance and effectiveness of the committee through the results of the Board and committee performance evaluation process.

Nomination committee continued

Members

Manjit Wolstenholme
(Member until 23 November 2017)

Alison Halsey
(Member until 12 May 2017)

Malcolm Le May
(Chairman until 2 February 2018)

Andrea Blance
(Member from 1 March 2017)

Rob Anderson
(Member from 2 March 2009)

Stuart Sinclair
(Chairman from 2 February 2018)

David Sear
(Member from 1 March 2017
until 26 January 2018)

John Straw
(Member from 1 March 2017)

Secretary:

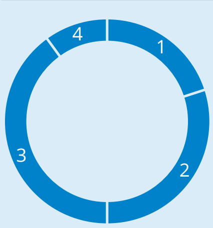
Ken Mullen

Composition of the committee

The nomination committee was chaired by Manjit Wolstenholme up until her untimely death on 23 November 2017. Following his appointment as Interim Executive Chairman, Malcolm Le May was appointed as chairman of the committee on 27 November 2017 to 1 February 2018. All non-executive directors are members of the nomination committee. The CEO attends meetings by invitation. The role of the CEO as an attendee, is to provide a better understanding of the strategic issues facing the group and the current skills and experience of the senior management teams in the Divisions and the corporate office. The committee meets at least twice a year, or as required. There were also regular updates between meetings on the progress on the recruitment of the new CEO.

Allocation of time

1	Succession planning	20%
2	Leadership	30%
3	Recruitment	40%
4	Performance and effectiveness	10%



Committee calendar in 2017

January

> Recommended to the Board the appointment of Andrea Blance as non-executive director with effect from 1 March 2017 and chairman of the audit committee with effect from 12 May 2017.

September

> Received an update on the recruitment process for the CEO and group interim CRO.

November

Following the appointment of Malcolm Le May as Interim Executive Chairman, the committee:

> Recommended to the Board the appointment of Stuart Sinclair as senior independent director;

> Recommended to the Board the appointment of Andrea Blance as chair of the remuneration committee; and

> Recommended to the Board the appointment of Malcolm Le May to become chairman of the nomination committee, and he was authorised to lead the ongoing process to appoint a new Chief Executive Officer of the company.

December

> Received an update on the recruitment process for the CEO;

> Recommended the appointment of the interim group CRO;

> Recommended to the Board that it should seek to recruit at least two new additional non-executive directors;

> Identified the need to recruit a group Human Resources Director;

> Recommended to the Board the re-appointment of Stuart Sinclair as a member of the remuneration committee in addition to his role as senior independent director and his existing role as chairman of the risk advisory committee;

> Noted the process for the performance and effectiveness review of the nomination committee;

> Reviewed an update on the group succession planning exercise; and

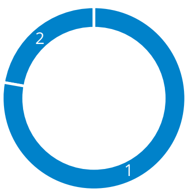
> Reviewed the group Diversity Policy.

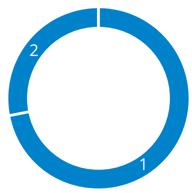
Annual statement by the chairman of the nomination committee

I am pleased to present to you the report of the work of the nomination committee during a challenging 2017. We have again been active in monitoring the succession planning processes in place across the group for senior positions. The committee also completed a detailed review of the composition of the Board, which considered the knowledge and skills required to effectively implement the group strategy and the output from previous Board and committee evaluation processes. This evaluation process identified that the skills, knowledge and expertise currently on the Board is somewhat depleted due in part to the resignation of Peter Crook and the untimely death of Manjit Wolstenholme, and this has resulted in the group considering the potential recruitment of two further non-executive directors to the Board.

Board composition

The Board		Overall senior management	
1 Male	78%[1]	1 Male	71%
2 Female	22%	2 Female	29%





1 Male composition of the Board increased to 87.5% and the female composition decreased to 12.5% as a result of the death of Manjit Wolstenholme.

Diversity

Our approach to diversity at all levels in the group is set out in our corporate policy on equality, diversity and inclusion. The group believes that diversity amongst directors helps contribute towards a high performing and effective Board. The Board, through the nomination committee, strives to recruit directors from different backgrounds, with diverse experience, perspectives, personalities, skills and knowledge. In the case of non-executive directors, the selection process is designed to ensure there is independence of mind given the specific responsibilities of the non-executive directors on the Board. The nomination committee, however, continues to believe that appointments to the Board and to senior management positions should be based on merit. The Board nevertheless remains committed to strengthening the pipeline of senior female executives and is satisfied that there are no barriers to women succeeding at the highest levels within the group. For more information about the Board's composition, see page 72.

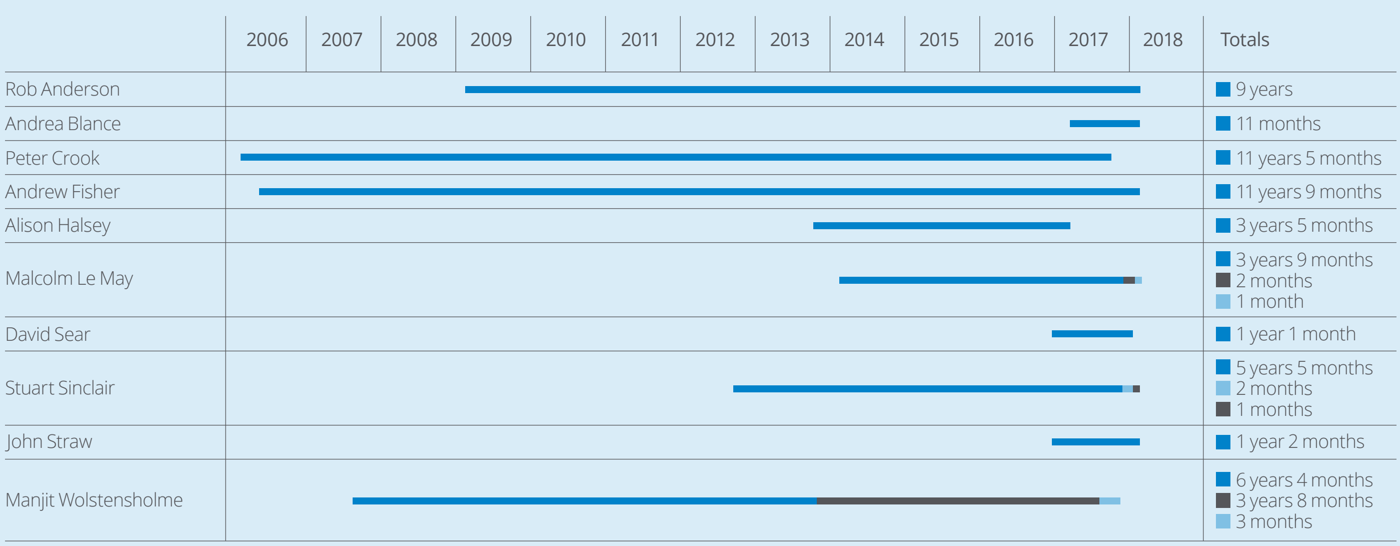
The nomination committee and the group as a whole is committed to increasing diversity across all group operations and supporting the development and promotion of talented individuals, regardless of gender, nationality or ethnic background. We continue to support the voluntary Lord Davies' 'Women on Boards' target of having 33% female representation on the Board by 2020. We also support the Hampton-Alexander Review and are committed to taking action to ensure that our executive pipeline exceeds 33% by 2020. This has included investing in a talent development programme to support succession planning by improving our diversity performance and strengthening the pipeline for senior management leadership roles. This will, in the first instance, enable us to improve the gender diversity of the divisional Boards.

In support of our policy on equality, diversity and inclusion, we will continue to operate in accordance with the following principles and initiatives:

- We will consider candidates for appointment as non-executive directors from a wider pool, including those with little or no listed company Board experience;
- We will only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms which promotes gender diversity and best practice for corporate Board searches;
- We will ensure the Board evaluation process includes an assessment of the Board's diversity including gender; and
- Where possible, each time a member of a senior management team or a director is recruited, at least one of the shortlisted candidates will be female.

The nomination committee will review the corporate policy on equality, diversity and inclusion and any action plans that support this policy at least once a year.

Directors' Board tenure (as at 28 February 2018)



Manjit Wolstenholme: Non-executive Chairman, Non-executive director, Interim Executive Chairman
Malcolm Le May: Chief Executive Officer, Interim Executive Chairman, Senior Independent Director
Stuart Sinclair: Interim non-executive Chairman, Senior Independent Director, Non-executive director

Nomination committee continued

2017 Key achievements:

- The appointment of Malcolm Le May as Interim Executive Chairman, in addition to the recommendation to the Board of his appointment as chairman of the nomination committee;
- Secured and appointed Rick Hunkin for the role of interim group CRO;
- Reviewed the group senior management succession plan and talent review updates, which were used in assessing internal candidates for the position of CEO;
- Recommended to the Board the appointment of Stuart Sinclair as Senior Independent Director in addition to becoming a member of the remuneration committee; and
- Recommended to the Board the appointment of Andrea Blance as chairman of the remuneration committee.

Independence and reappointment to the Board

The composition of our Board is reviewed annually by the nomination committee to ensure that there is an effective balance of skills, experience and knowledge.

Having undertaken a review of the skills, experience and knowledge of the Board, the nomination committee considered that the performance of each director proposed for re-election was effective and demonstrated a strong commitment to their role. The nomination committee was satisfied that each of Stuart Sinclair, Andrea Blance, Rob Anderson and John Straw remained independent for the purposes of the criteria set out in the Code.

All six members of the Board will be seeking reappointment by the shareholders at the 2018 AGM.

Chief Executive Officer recruitment

As a result of the resignation of the group's CEO in August 2017, the group engaged Zygos Partners to facilitate an exhaustive recruitment process which identified both potential internal and external candidates for the role. The recruitment process concluded with Malcolm Le May being appointed as CEO on 2 February 2018. Zygos Partners had no other connection with the group.

The recruitment process is underway for a new Chairman and two new non-executive directors.

Succession planning

Succession planning and personal development for the executive directors and senior management teams across the group are kept under regular review by the committee.

Below Board level, succession planning within the Divisions safeguards the pipeline of talented individuals within the group who are capable and have the potential to succeed the executive directors and other members of the senior management team in the short, medium and long term. The committee also monitors candidates externally to ensure that the Board is continuously refreshed and strengthened in any areas of perceived weakness. The committee intends to support the group's diversity policy within its succession planning activities by continuing to ensure that the level of female representation within the senior management teams across the group is maintained and, where possible, improved during the course of 2018 whilst ensuring that the right level of knowledge, skills and experience is maintained.

The nomination committee will continue its work of ensuring there are appropriate succession plans in place across the group and a suitable mix of skills and experience amongst both the executive and non-executive directors. The committee keeps under review a detailed succession plan for the executive directors, the Chairman and the most senior management within the Divisions.

In 2017, the committee enlisted the services of the Human Resources Director of Vanquis Bank, to help assist in the further development of the pipeline of high calibre talent. A succession planning review of the group was subsequently conducted, with the exception of the CCD which was postponed due to the ongoing impacts of the implementation of the new target operating model within Home Credit. The resulting succession planning report was presented to the nomination committee for discussion in December 2017. The report focused on the following objectives:

- To provide an overview of the leadership strengths and areas of development amongst the senior population;
- The evaluation of the participants against a new leadership expectations criteria to build a consistent culture and behaviour, designed to enable consistent evaluation and development across the group;
- To engage senior leaders in a co-ordinated evaluation and development across the group;
- To benchmark potential external talent for key group succession roles; and
- To develop a talent pipeline that will enhance the group's diversity and talent plan.

The outcomes of the report identified that the leadership at group level required enhancement, and it was agreed that the full report would be considered further once all the succession planning sessions had been concluded in early 2018.

The committee has also been kept informed of the other proposed senior management promotions during 2017 which have been made to help broaden and strengthen the divisional senior management teams.

The committee continues to ensure that adequate succession planning is in place for the executive directors and senior management teams across the group. Succession planning will remain a key ongoing focus of the committee in 2018 and beyond.

In the case of the non-executive directors, the committee has agreed that additional skills are required on the Board and that to ensure that the Board composition retains an appropriately balanced range of skills, experience and technical ability, 2018 will see the committee oversee the recruitment process of at least an additional two non-executive directors with experience in the sub-prime consumer credit sector to assist in achieving the group's objectives and strategy in an ever changing regulatory environment.

Priorities for 2018

- The appointment of a Chairman.
- The appointment of a permanent group Chief Risk Officer.
- The recruitment process of two new non-executive directors.
- The appointment of a group Human Resources Director.
- Continue to focus on clear succession planning and identifying the early recruitment needs of key roles, particularly at group level.
- Conduct a formal refresh of the Board Effectiveness and skills reviews.
- Continue to work towards having a better mix of diversity and skills by achieving the target of 33% female representation on the Board and group executive committee (and its direct reports).

Policy on Board appointments

The Board's policy on other directorships is designed to ensure that all directors remain able to discharge their responsibilities to the company.

The letters of appointment of the non-executive directors state that any proposed appointment to the board of another company will require the prior approval of the Board. The company's policy is that a non-executive director should have sufficient time to fulfil his/her duties to the company, including, where appropriate, chairing a committee.

The Board will consider all requests for permission to accept other directorships carefully, subject to the following principles:

- A non-executive director would not be expected to hold more than four other material non-executive directorships;
- If a non-executive director holds an executive role in a FTSE 350 company, they would not be expected to hold more than two other material non-executive directorships;
- In line with the Code, an executive director will be permitted to hold one non-executive directorship in a FTSE 100 company (and to retain the fees from that appointment) provided that the Board considers that this will not adversely affect their executive responsibilities to the company; and
- The Board would not permit an executive director to take on the chairmanship of a FTSE 100 company.

Any request for an exception to this policy is considered on its merits and determined by the Board.

Effectiveness

At its meeting held on 23 January 2018, the Board formally considered the effectiveness of the nomination committee in 2017. Each director was able to comment and rate various aspects of the committee's role by responding to a series of questions relating to the performance of the committee contained in the questionnaire. On the basis of the evaluation which was undertaken, the overall view was that the committee was working effectively.

Stuart Sinclair
Interim non-executive Chairman
27 February 2018

Directors' report

"The group has faced major challenges during 2017 and is working on plans to enhance its governance structure, to improve effective decision making and to address its control environment during 2018.

Kenneth J Mullen
General Counsel and Company Secretary

Introduction

In accordance with section 414C(11) of the Companies Act 2006 (the Act), the directors present their report for the year ended 31 December 2017. The following provisions, which the directors are required to report on in the Directors' Report, have been included in the strategic report:

> Future business developments (throughout the strategic report, in particular on pages 19 to 37);
> Important events since the balance sheet date throughout the strategic report;
> Viability Statement (page 46);
> Greenhouse gas emissions (page 65); and
> Risk management (pages 47 to 50).

Both the strategic report and the Directors' Report have been prepared and presented in accordance with, and in reliance upon, applicable company law. The liabilities of the directors in connection with both the Directors' Report and the strategic report shall be subject to the limitations and restrictions provided by company law. Other information to be disclosed in the Directors' Report is given in this section.

Directors

The membership of the Board and biographical details of the directors at the year-end are given on pages 68 to 69 and are incorporated into this report by reference.

All directors, except as set out below, served throughout 2017 and up to the date of signing of the Annual Report and Financial Statements 2017. Peter Crook resigned on 21 August 2017 with immediate effect, and Manjit Wolstenholme sadly and suddenly passed away on 23 November 2017.

Alison Halsey stepped down following the 2017 AGM and David Sear stepped down on the 26 January 2018. Andrea Blance joined the Board on 1 March 2017.

With effect from the beginning of the 2018 financial year there have been a number of changes to the Board composition as detailed on page 72.

During the year, no director had a material interest in any contract of significance to which the company or a subsidiary undertaking was a party.

Appointment and replacement of directors

Rules about the appointment and replacement of directors are set out in the company's articles of association (Articles). In accordance with the recommendations of the Code, all directors, will offer themselves for appointment or reappointment, as appropriate, at the 2018 AGM.

Articles

The directors' powers are conferred on them by UK legislation and by the Articles. Changes to the Articles must be approved by shareholders passing a special resolution and must comply with the provisions of the Act and the FCA's Disclosure Guidance and Transparency Rules.

Directors' indemnities

The Articles permit the company to indemnify directors of the company (or of any associated company) in accordance with section 234 of the Act.

The company may fund expenditure incurred by directors in defending proceedings against them. If such funding is by means of a loan, the director must repay the loan to the company, if they are convicted in any criminal proceedings or judgment is given against them in any civil proceedings. The company may indemnify any director of the company or of any associated company against any liability.

However, the company may not provide an indemnity against: (i) any liability incurred by the director to the company or to any associated company; (ii) any liability incurred by the director to pay a criminal or regulatory penalty; (iii) any liability incurred by the director in defending criminal proceedings in which they are convicted; (iv) any liability incurred by the director in defending any civil proceedings brought by the company (or an associated company) in which judgment is given against them; or (v) in connection with certain court applications under the Act. No indemnity was provided and no payments pursuant to these provisions were made in 2017 or at any time up to 27 February 2018.

There were no other qualifying indemnities in place during this period.

The company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors.

Information required by Listing Rule 9.8.4R

Information required under LR 9.8.4R (4), (5), (6), (12) and (13) is set out in the directors' remuneration report on pages 102 to 126.

Share capital

The company's issued ordinary share capital comprises a single class of ordinary share. The rights attached to the ordinary shares are set out in the Articles. Each share carries the right to one vote at general meetings of the company.

During the year, 463,504 ordinary shares in the company with an aggregate nominal value of £96,071, were issued as follows:

> 299,270 shares in relation to the Provident Financial Long Term Incentive Scheme 2015 at a price of 2,928p;

> 135,389 shares in relation to the Provident Financial Performance Share Plan 2013 at a price of 2,928p; and

> 28,845 shares in relation to the Provident Financial Savings-Related Share Option Scheme 2013 and the Provident Financial Employee Savings-Related Share Option Scheme (2003) at prices ranging between 662 p and 2,406p.

Rights of ordinary shares

All of the company's issued ordinary shares are fully paid up and rank equally in all respects and there are no special rights with regard to control of the company. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except:

1. where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Act; or
2. where their holder is precluded from exercising voting rights by the FCA's Listing Rules or the City Code on Takeovers and Mergers.

Substantial shareholdings

In accordance with the Disclosure Guidance and Transparency Rules (DTR)5 the company, as at 23 February 2018 (being the latest practicable date prior to publication of this report), the Company had been notified that the following persons hold directly or indirectly 3 per cent. or more of the voting rights of the Company.

Invesco Ltd	24.92%
Woodford Investment Management Ltd	23.04%
Deutsche Bank AG	6.87%
Schroders plc	5.56%
BlackRock Inc.	5.02%
Marathon Asset Management LLP	4.51%
The WindAcre Partnership LLC	3.93%

Interests as at 31 December 2017 were as follows:

Woodford Investment Management Ltd	22.61%
Invesco Ltd	22.12%
Schroders plc	7.43%
Jupiter Asset Management Limited (UK)	5.07%
WindAcre Partnership (US)	4.98%
Marathon Asset Management LLP	4.59%
BlackRock Inc.	3.90%
Standard Life Aberdeen	3.64%
Elliott Advisors Ltd (UK)	3.00%

All interests disclosed to the company in accordance with DTR 5 that have occurred since 23 February 2018 can be found on the group's website: www.providentfinancial.com

Directors' interests in shares

The beneficial interests of the directors in the issued share capital of the company were as follows:

	Number of shares	
	31 December 2017	31 December 2016
Andrew Fisher[1]	**339,827**	339,827
Malcolm Le May	**–**	–
Rob Anderson	**4,178**	4,178
Stuart Sinclair	**–**	–
Andrea Blance	**–**	–
David Sear	**–**	–
John Straw	**1,311**	–

1 These interests include conditional share awards granted under the LTIS, awards under the PSP and shares purchased under the SIP as detailed on pages 108 to 111 of the annual report on remuneration.

No director had any non-beneficial interests at 31 December 2017 or at any time up to 23 February 2018.

There were no changes in the beneficial or non-beneficial interests of the directors between 1 January and 23 February 2018 except for the automatic monthly purchases under the SIP, details of which can be found on the group's website: www.providentfinancial.com.

Dividend waiver

Information on dividend waivers currently in place can be found on pages 108 and 111.

Powers of the directors

Subject to the Articles, UK legislation and any directions given by special resolution, the business of the company is managed by the Board. The directors currently have powers both in relation to the issuing and buying back of the company's shares, which were granted by shareholders at the 2017 AGM. The Board is seeking renewal of these powers at the 2018 AGM.

Directors' report continued

All employee share schemes

The current schemes for employees resident in the UK are the Provident Financial plc Employee Savings-Related Share Option Scheme (2003), the Provident Financial Savings-Related Share Option Scheme 2013 and the Provident Financial Share Incentive Plan (SIP).

The current scheme for employees resident in the Republic of Ireland is the Provident Financial Irish Savings-Related Share Option Scheme 2014.

Share schemes are a long-established and successful part of the total reward package offered by the company, encouraging and supporting employee share ownership. The company's four schemes aim to encourage employees' involvement and interest in the financial performance and success of the group through share ownership.

Around 1,466 employees were participating in the company's save as you earn schemes as at 31 December 2017 (2016: 1,419).

The company's SIP offers employees the opportunity to further invest in the company and to benefit from the company's offer to match that investment on the basis of one matching share for every four partnership shares purchased. Around 318 employees were investing in company shares under the SIP as at 31 December 2017 (2016: 330).

Executive share incentive schemes

Awards are also outstanding under the Provident Financial Long Term Incentive Scheme 2006 and the Provident Financial Long Term Incentive Scheme 2015 (the LTIS) and the Provident Financial Performance Share Plan (the PSP).

As set out on page 108 of the directors' remuneration report, the remuneration committee did not grant any options during the year under the LTIS or PSP.

Provident Financial plc 2007 Employee Benefit Trust (the EBT)

The EBT, a discretionary trust for the benefit of executive directors and employees, was established in 2007. The trustee, SG Kleinwort Hambros Trust (CI) Limited, is not a subsidiary of the company. The EBT operates in conjunction with the LTIS and the PSP and either purchases shares in the market or subscribes for the issue of new shares. The number of shares held by the EBT at any time, when added to the number of shares held by any other trust established by the company for the benefit of employees, will not exceed 5% of the issued share capital of the company. The EBT is funded by loans from the company which are then used to acquire, either via market purchase or subscription, ordinary shares to satisfy awards granted under the LTIS and awards granted under the PSP. For the purpose of the financial statements, the EBT is consolidated into the company and group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 27 on page 180 of the financial statements.

In relation to its operation in conjunction with the LTIS, the EBT transfers the beneficial interest in the shares to the executive directors and employees when conditional share awards are made, and the legal interest is only transferred on vesting. In relation to the PSP, the legal and beneficial interest in the Basic Award is transferred to the executive directors and other participants when the awards are made, but is subject to certain forfeiture conditions. However, only the beneficial interest in the Matching Award is transferred when the award is made and the legal interest is transferred to the participant on vesting. Full vesting of awards granted under the LTIS and the Matching Award granted under the PSP is subject to the achievement of the relevant performance targets set out on pages 108 to 111 of the directors' remuneration report.

In 2017, the EBT subscribed for the issue of 135,389 new shares in order to satisfy the awards made under the LTIS and 299,270 shares in order to satisfy the awards made under the PSP.

As at 31 December 2017, the EBT held the non-beneficial interest in 2,174,534 shares in the company (2016: 2,339,602). The EBT may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the employee beneficiaries.

Provident Financial Employee Benefit Trust (the PF Trust)

The PF Trust, a discretionary trust for the benefit of executive directors and employees, was established in 2003 and operated in conjunction with the PSP. The trustee, Provident Financial Trustees (Performance Share Plan) Limited, is a subsidiary of the company. The number of shares held by the PF Trust at any time, when added to the number of shares held by any other trust established by the company for the benefit of employees, will not exceed 5% of the issued share capital of the company.

The PF Trust has not been operated with the PSP since 2012, when the previous PSP expired. As at 31 December 2017, the PF Trust had no interest in any shares in the company (2016: nil).

Provident BAYE Trust

The Provident BAYE Trust (the BAYE Trust) is a discretionary trust which was established in 2013 to operate in conjunction with the SIP. The trustee, YBS Trustees, is not a subsidiary of the company. The BAYE Trust is funded by loans from the company which are then used to acquire ordinary shares via market purchase to satisfy the Matching Awards for participants of the SIP.

For the purposes of the financial statements, the BAYE Trust is consolidated into the company and group. Participants in the SIP can direct the trustee on how to exercise its voting rights in respect of the shares it holds on behalf of the participant. As at 31 December 2017, the BAYE Trust held the non-beneficial interest in 54,089 shares (2016: 43,332 shares).

Profit and dividends

The profit, before taxation, amortisation of acquisition intangibles and exceptional items, amounts to £109m (2016: £334.1). The directors have declared dividends as follows:

Ordinary shares	(p) per share
Interim dividend	2017 Nil (dividend cancelled) (2016: 43.2p per share)
Proposed final dividend	2017 Nil (no dividend declared) (2016: 91.4p per share)
Total ordinary dividend	2017 Nil (dividend cancelled/ not declared) (2016: 134.6p per share)

The Directors are not recommending a final dividend.

Employee involvement

The group is committed to employee involvement in each of its Divisions. Employees are kept well informed of the financial and operational performance and strategy of the Divisions through fortnightly huddles in Bradford, Regional team meetings in the field, the internal intranet portal and personal briefings. The Divisions continue to use social network sites, intranet discussion boards and blogs by employees and Managing Directors. The managing director of CCD, Chris Gillespie, also holds open invitation huddles, where colleagues based in Bradford are able to ask questions concerning any aspect of the CCD business. Chris has also spent time in the field, speaking to colleagues and answering questions. CCD consults with colleagues through a Colleague Forum, so that representatives acting on behalf of colleagues can share their views and ideas and these can be taken into account when making decisions that are likely to affect their interests. Moving forward, the Colleague Forum intends to work with Senior Leadership Teams in the business to improve the communication of decisions that create long-term growth for CCD and support the delivery of the Division's strategic priorities.

Additionally, Moneybarn and Vanquis continue to hold an annual survey to obtain feedback from employees anonymously with the aim of continually developing each business.

Moneybarn continues to run the STAR awards, a monthly employee recognition Programme whereby all employees are able to recognise and nominate fellow colleagues for going above and beyond to support them. The winner is announced by the Managing Director at the monthly company briefing. Moneybarn continue to operate a significant on-boarding induction process for all new colleagues, embedding its culture and values.

The group also continues to encourage employee engagement in community activities through their Social Impact Programme. This includes employee volunteering, volunteering grants and matched fundraising. More details can be found on pages 51 to 65.

Employees are also able to share in the group's results through various share schemes as set out throughout this report.

Training

The group is fully committed to continued personal and professional development, encouraging employees at all levels to study for relevant educational qualifications. In particular, the group has initiated a series of talent and development initiatives as part of its investment in the career progression of its employees.

The group is also fully committed to making full use of the Apprenticeship Levy in 2018 and has plans in place to grow both its Graduate entry and Apprenticeship training programmes.

Provident Financial plc is authorised by the Solicitors Regulation Authority and the Institute of Chartered Accountants of England and Wales to issue training contracts to employees wishing to qualify as solicitors or chartered accountants, respectively.

Equal opportunities

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, pregnancy, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the group to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Last year, the group signed up to the National Equality Standard, and the initial report identified some key opportunities across the group. The business is therefore undertaking a full review of its approach to equality, diversity and inclusion (EDI) over the coming year as part of the group diversity agenda.

Pensions

The group operates four pension schemes in the UK. Employee involvement in the group defined benefit pension scheme is achieved by the appointment of member-nominated trustees and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pension matters. The trustees manage the assets of the defined benefit pension scheme which are held under trust separately from the assets of the group. Each trustee is encouraged to undertake training and regular training sessions on current issues are carried out at meetings of the trustees by the trustees' advisors. The training schedule is based on The Pension Regulator's Trustee Knowledge and Understanding requirements and the sessions are tailored to current issues, emerging issues or to address any skills gaps. The trustees have a business plan and, at the start of each year, review performance against the plan and objectives from the previous year. In addition, they agree objectives and a budget for the current year. The trustees have a risk register and an associated action plan and a conflicts of interest policy, both of which are reviewed at least annually.

There are currently three trustees nominated by members and three trustees appointed by the company.

The trustees have implemented a de-risking investment strategy which has been agreed with the company. The objective of the strategy is to reduce the risk that the assets would be insufficient in the future to meet the liabilities of the scheme. The de-risking investment strategy is kept under close review by both the trustees and the company.

The company has put Pension Trustee Indemnity Insurance in place to cover all of the group's pension schemes where individuals act as trustees. The trustees are protected by an indemnity within each scheme's rules and this insurance effectively protects the group against the cost of potential claims impacting on the solvency of the pension schemes.

The group also operates a group personal pension plan for employees who joined the group from 1 January 2003. Employees in this plan have access to dedicated websites which provide information on their funds and general information about the plan.

Directors' report continued

In 2011, the company established an Unfunded Unapproved Retirement Benefits Scheme (UURBS), for the benefit of those employees who are affected by the HMRC annual allowance and lifetime allowance which applies to members of registered pension schemes. The UURBS offers an alternative to a cash payment in lieu of a pension benefit.

In October 2013, the group auto-enrolled all eligible staff into a new scheme designed for auto-enrolment.

The group also operates two defined contribution pension schemes for employees in the Republic of Ireland.

Health and safety

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

Anti-bribery and corruption

The corporate policies reflect the requirements of the Bribery Act 2010 and a corporate hospitality register is maintained using a risk-based approach. Although the risks for the group arising from the Bribery Act 2010 continue to be assessed as low, the Divisions are, nevertheless, required to undergo appropriate training and instruction to ensure that they have effective anti-bribery and corruption policies and procedures in place. Compliance is regularly monitored by the risk advisory committee and is subject to periodic review by the group Internal Audit function.

Environmental management

The group is committed to conducting its business in a manner that protects the environment. This means ensuring that all relevant environmental legislation, regulations and approved codes of practice are met or exceeded, reducing consumption of resources and increasing the efficiency of the use of these resources, and avoiding or minimising the use of hazardous or toxic material or products and preventing pollution from our operations and facilities. Disclosures relating to the group's direct and indirect greenhouse gas emissions are included in the strategic report on page 65.

Overseas branches

The group has an overseas branch in the Republic of Ireland.

Important events since the end of the financial year (31 December 2017)

As set out in the strategic report, the group is seeking to raise additional capital of approximately £300m net of fees through a fully underwritten rights issue as a result of:

> The FCA investigation into Vanquis Bank's ROP. On 27 February 2018, the group reached a resolution with the FCA and the estimated cost of resolution amounts to £172.1m; and

> The FCA investigation into affordability, forebearance and termination options at Moneybarn. The FCA's investigation is ongoing and management's best estimate of the cost of resolution amounts to £20.0m.

This is also covered in more detail in the balance sheets set out within the 2017 Financial Statements from page 185.

Corporate governance statement

The group's corporate governance report is set out on pages 66 to 101. The group has complied with the provisions of the Code throughout 2017 with the exception of the following:

Principle A.2 – Clear Division of Responsibilities
The role of the Chief Executive Officer (CEO) and the Board Chairman should not be exercised by the same individual. In addition, the CEO should not go on to be the Board Chairman. Due to exceptional circumstances during 2017, this is the case with Provident Financial, as from the 23 August 2017 to the 2 February 2018, an executive Chairman was in post, and as such the group was not compliant. However, as Malcolm Le May was appointed as Chief Executive Officer on 2 February 2018, and Stuart Sinclair was appointed interim non-executive Chairman on the same day, the group is now compliant with this principle.

Principle B6 – Evaluation
Although Annual Effectiveness Evaluations have been undertaken by an external provider for all Board committees including the risk advisory, remuneration and nomination committees, given the disruption of the Board during 2017, it was not considered appropriate to undertake individual director assessments. However, individual assessments will be undertaken in 2018, and facilitated by an external provider once the new Board members are in place and embedded.

Principle C2 – Risk Management & Internal Control
Given that the current group risk management framework has proven to be less than effective, the Board understands and recognises that changes need to be made during 2018. The group's interim CRO has begun the process, of working on a new more centralised operating model which will require a small more specialised risk team to be recruited who can provide more informed and independent challenge over key group and divisional risks and enhance the group risk capability with the group interim CRO, leading the design and implementation of governance and risk management changes, designed to improve group cohesion in the way key risks are managed.

The group's risk management and internal control frameworks require a comprehensive review to ensure that the risks the group faces are effectively managed, achieve overall group objectives and adequately protect the assets, reputation and sustainability of the business. A summary of key actions is provided below:

> Vanquis Bank – Further developing and embedding risk management and internal control frameworks to reflect the growth in scale and complexity of the business;

> CCD – Re-building and improving its key operational processes following the implementation of the new operating model during the summer;

> Moneybarn – Developing its credit risk management framework and embedding new approaches to customer affordability and collections activity following discussions with the Financial Conduct Authority (FCA); and

> Group – Group-wide governance, risk management and regulatory engagement need to be improved to provide more robust oversight and direction for the group.

Financial instruments

Details of the financial risk management objectives and policies of the group and the exposure of the group to credit risk, liquidity risk, cash flow risk, price risk, interest rate risk and foreign exchange rate risk are included on pages 140 to 145 of the financial statements.

Significant agreements

There are no agreements between any group company and any of its employees or any director of any group company which provide for compensation to be paid to an employee or a director for termination of employment or for loss of office as a consequence of a takeover of the company.

Political donations

The group did not make any political donations nor incur any political expenditure during the year.

Directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the independent auditor's report on pages 187 to 195 is made to distinguish for shareholders the respective responsibilities of the directors and of the external auditor in relation to the financial statements.

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable laws and regulations.

The Act requires the directors to prepare financial statements for each financial year. Under this Act, the directors:

> have prepared the group and company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and

> must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the directors have:

> selected suitable accounting policies and applied them consistently;

> made judgements and accounting estimates that are reasonable and prudent;

> complied with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and

> prepared the financial statements on a going concern basis of accounting, subject to the explanations set out on page 187.

The directors have also considered and accepted the review undertaken and the report provided by the audit committee, as set out on pages 85 to 90 of the report, and are satisfied that the Annual Report and Financial Statements 2017, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the company's position and performance, business model and strategy.

The directors are also required by the FCA's Disclosure Guidance and Transparency Rules (DTR) to include a management report containing a fair review of the business of the group and the company and a description of the principal risks and uncertainties facing the group and company.

The Directors' Report and the strategic report constitute the management report for the purposes of DTR 4.1.5R and DTR 4.1.8R.

The directors are responsible for keeping proper accounting records that are sufficient to:

> show and explain the company's transactions;

> disclose with reasonable accuracy at any time the financial position of the company and group; and

> enable them to ensure that the financial statements and the directors' remuneration report comply with the Act and as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report and Financial Statements 2017 will be published on the group's website in addition to the normal paper version. The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Each of the directors listed below, confirms that, to the best of their knowledge, the group financial statements which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group, the company and the undertakings included in the consolidation taken as a whole, and that the strategic report contained in this Annual Report and Financial Statements 2017 includes a fair review of the development and performance of the business and the position of the company and group, and the undertakings included in the consolidation taken as a whole, and a description of the principal risks and uncertainties they face.

Malcolm Le May	Chief Executive Officer
Stuart Sinclair	Interim non-executive Chairman
Rob Anderson	Non-executive director
Andrea Blance	Senior independent director
John Straw	Non-executive director
Andrew Fisher	Finance Director

Disclosure of information to auditor

In accordance with section 418 of the Act, each person who is a director as at the date of this report confirms that:

> so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and

> they have taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Deloitte, the auditor for the company, was first appointed in 2012 and a resolution proposing their reappointment will be proposed at the 2018 AGM.

AGM

The AGM will be held at 10.00 am on 9 May 2018 at the offices of Provident Financial plc, No. 1 Godwin Street, Bradford, West Yorkshire, BD1 2SU. The Notice of AGM, together with an explanation of the items of business, is contained in the circular to shareholders dated 27 February 2018.

Approved by the Board on 26 February 2018 and signed by order of the Board.

Kenneth J Mullen
General Counsel and Company Secretary
27 February 2018

Directors' Remuneration report

Improving standards and behaviour

Remuneration has an important part to play in realigning our culture and ensuring best practice.

Annual statement by the chairman of the remuneration committee

"This report sets out the remuneration received by the directors for the year ended 31 December 2017, describes the implementation of the approved remuneration policy in 2018 and includes, for information, the approved directors' remuneration policy.

Andrea Blance
Remuneration committee chairman

On behalf of the Board, I am pleased to present our directors' remuneration report for the year ended 31 December 2017. This is my first report since I was appointed chairman of the remuneration committee (committee) on 27 November 2017. As required, this report is split into two sections, with the first covering remuneration in operation during 2017, and the second covering the current directors' remuneration policy (DRP) which was approved by over 93% of our shareholders at our AGM in May 2017.

The report complies with the provisions of the Companies Act 2006, Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority (FCA). The company also follows the requirements of the UK Corporate Governance Code (Code) published in April 2016.

Annual statement by the chairman of the remuneration committee continued

Performance in 2017

Through the second half of 2017, there was a significant period of disruption in the Home Credit business due to the change to the operating model. Trading was severely impacted leading to the development of a business recovery plan and a change in leadership. In addition, a number of uncertainties were created by the FCA's investigation into Vanquis and Moneybarn, leading to the withdrawal of the interim dividend in order to strengthen the capital base of the group. The challenging conditions faced by the group as a result of these events have had a substantial impact on remuneration and the group's approach to remuneration strategy. As a result no annual bonuses are payable to executive directors for 2017 performance, and the 2015 awards granted under the Provident Financial Long Term Incentive Scheme (LTIS) and the Matching Awards granted in 2015 under the Provident Financial Performance Share Plan (PSP) due to vest to executive directors on 25 February 2018 have lapsed in full.

Board changes

Peter Crook resigned as Chief Executive Officer and Manjit Wolstenholme assumed the role of Interim Executive Chairman on 22 August 2017. Manjit Wolstenholme sadly passed away on 23 November 2017. The Board subsequently appointed Malcolm Le May, previously the Senior Independent Director and the committee chairman, as Interim Executive Chairman from 24 November 2017 onwards and I took over the role of committee chairman on 27 November 2017.

Details of the remuneration earned by Peter Crook, Andrew Fisher, Manjit Wolstenholme and Malcolm Le May as executive directors during the year ending 31 December 2017 have been included in the directors' remuneration report.

Key outcomes in respect of 2017

No bonuses for 2017 have been awarded to Peter Crook, Manjit Wolstenholme or Malcolm Le May.

Andrew Fisher was eligible for an annual bonus based on the achievement of an adjusted EPS[1] target and personal objectives. For 2017, the adjusted EPS target was set at 180.5p, with threshold and maximum EPS at 95% and 105% of the target respectively. Based upon an adjusted EPS[1] of 62.5p, Andrew Fisher did not receive any part of the EPS element in respect of 2017. As the EPS underpin was not achieved, there was no bonus award for 2017.

Awards made under the LTIS in 2015 were due to vest on 25 February 2018. These awards were subject to a performance condition based on annualised adjusted EPS[1] growth and absolute annualised TSR over the three financial years ended 31 December 2017. In order for the award to have vested in full, annualised TSR of 15% and annualised adjusted EPS[1] growth of 11% was required. Based upon an actual annualised TSR of minus 24.1% and an annualised adjusted EPS growth of minus 22.2% the committee determined that the awards would not vest.

Matching Awards granted under the 2013 PSP were also due to vest on 25 February 2018. In order for the Matching Award to vest in full, an average annual adjusted EPS[1] growth of 11% was required over the three financial years ended 31 December 2017. Based upon an actual average annual adjusted EPS growth of minus 17.4 %, the Matching Awards did not vest. Basic Awards, which do not have performance conditions, vested on 25 February 2018.

1 Adjusted EPS excludes any amortisation of the broker relationships intangible asset created on the acquisition of Moneybarn and exceptional items.

Change to practices in 2018

Remuneration has an important part to play in realigning our culture. We will continue to operate within the constraints of the DRP approved by shareholders at the 2017 AGM. However, the committee has decided to make a number of changes to remuneration practice for executive directors from 2018 onwards to reduce quantum and align with latest market best practice.

These changes include:

- the removal of the Matching Awards under the PSP from 2018 onwards;
- the introduction of a new scorecard of performance metrics for the annual bonus and LTIS;
- the reduction of pension benefits for new executive director appointments to align with the lower level provided to the wider workforce across the group; and
- the introduction of a post-vesting holding period of 2 years, for any LTIS awards granted from 2018 onwards.

These changes are a significant adjustment to our remuneration practices, but do not require a shareholder vote, as they are either reductions in quantum or changes that are permitted within the DRP.

The committee will continue to monitor the application of the DRP to ensure that it supports the group's desired culture and greater coordination of group resources to the benefit of customers. Any future proposed changes to the DRP will be discussed with major shareholders before being finalised for submission or approval at a general meeting.

Appointment of a new Chief Executive Officer

Malcolm Le May, who was the Interim Executive Chairman with effect from 24 November 2017, was appointed Chief Executive Officer on 2 February 2018. His remuneration details are included in the report at page 117. He will receive a lower base salary and pension allowance than the previous Chief Executive Officer, Peter Crook. Unlike his predecessor, due to the changes in our remuneration practices being implemented, he will not be eligible for any Matching Awards under the PSP on any annual bonus awarded from 2018 onwards.

Furthermore, Malcolm Le May already has, and new executive directors will receive, a lower car benefit, with no option for a fully expensed car.

Conclusion

I hope you will find the report comprehensive and informative. We welcome shareholders' support for our remuneration report at the AGM. I will be available at the AGM to answer any questions that shareholders may have.

Andrea Blance
Remuneration committee chairman
27 February 2018

Annual report on remuneration

Introduction

This annual report on remuneration provides an overview of the workings of the committee during the year, sets out details of how the approved DRP was implemented in 2017, and explains the total remuneration earned by the directors during the year. It also sets out details of how the approved DRP will be implemented in 2018.

This report, together with the committee chairman's annual statement will be subject to an advisory vote at the AGM of the company to be held on 9 May 2018.

Annual report on remuneration continued

1. Implementation of the approved DRP in 2017

1.1 Directors' remuneration

The total aggregate directors' emoluments during the year amounted to £2.737m (2016: £11.181m), as follows:

Executive Directors' remuneration

	Fixed pay								Variable pay										Total	
							Total fixed pay				Share incentive schemes						Total variable pay			
	Salary		Benefits in kind[2]		Pension				Annual cash bonus[4]		LTIS		PSP		PSP dividends					
Director's name	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017[5] £'000	2016 £'000	2017[6] £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Executive directors																				
Peter Crook[1]	**503**	730	**54**	102[3]	**178**	248	**735**	1,080	**0**	876	**0**	2,107	**175**	2,175	**52**	77	**227**	5,235	**962**	6,315
Andrew Fisher	**538**	520	**36**	61	**172**[7]	176	**746**	757	**0**	520	**0**	1,504	**104**	1,353	**31**	47	**135**	3,424	**881**	4,181
Malcolm Le May[8]	**68**	0	**3**	0	**0**	0	**71**	0	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0	**71**	0
Manjit Wolstenholme[9]	**80**	0	**0**	0	**0**	0	**80**	0	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0	**80**	0
Total	**1,189**	1,250	**93**	163	**350**	424	**1,632**	1,837	**0**	1,396	**0**	3,611	**279**	3,528	**83**	124	**362**	8,659	1,994	10,496

Note: Peter Crook did not and Andrew Fisher does not receive any emoluments in respect of their respective directorships of Vanquis Bank Limited, Provident Financial Management Services Limited and the Moneybarn group of companies.

1 Following his departure from the Board as Chief Executive Officer, Peter Crook has not received any variable pay awards for 2017. His outstanding Matching Awards under the PSP and outstanding awards under the LTIS also lapsed. He will receive the outstanding Basic Awards under the PSP which represents the part of his annual bonus which was waived in previous years, on the normal vesting dates.

2 This figure includes amounts in respect of a company car benefit, fuel allowance, private medical insurance and permanent health insurance.

3 From May 2015 Peter Crook received an allowance due to his place of work changing from Bradford to London.

4 The annual bonus represents the gross bonus payable to the directors in respect of 2016 and 2017.

5 Amount calculated based on no vesting of the 2015 LTIS.

6 Amount calculated based on no vesting of the 2015 PSP Matching Awards and 100% vesting of the 2015 PSP Basic Award, multiplied by an average share price for the three months ended 31 December 2017. The actual value of the 2015 PSP Basic Award may vary depending on the actual share price on the date of vesting.

7 Andrew Fisher participated in the Provident Financial UURBS up until 31 May 2017. He received a cash supplement from1 June 2017 as a percentage of base salary.

8 Malcolm Le May's salary (pro-rata) from 24 November to 31 December 2017.

9 Manjit Wolstenholme's salary (pro-rata) from 22 August to 23 November 2017.

Non-executive directors' fees and benefits

	Fees		Benefits in kind		Total	
Director's name	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Chairman						
Malcolm Le May[2,3]	**95**	106	**1**	0	**0**	106
Manjit Wolstenholme[4]	**213**	310	**10**	7	**233**	317
Non-executive directors						
Rob Anderson[1]	**70**	76	**1**	2	**71**	78
Andrea Blance	**75**	0	**0**	0	**75**	0
Alison Halsey	**34**	91	**1**	1	**35**	92
David Sear	**71**	0	**1**	0	**72**	0
Stuart Sinclair[1]	**94**	91	**1**	1	**95**	92
John Straw	**66**	0	**0**	0	**66**	0
Total	**718**	674	**15**	11	**743**	685

Note: The non-executive directors did not receive a pension benefit nor did they receive any bonus or share incentive entitlements.

1 Stuart Sinclair and Rob Anderson each receive an additional fee of £50,000 per annum in respect of their respective directorships of the relevant companies of CCD and Moneybarn.

2 Malcolm Le May received an additional fee of £65,000 per annum in respect of his directorship of Vanquis Bank Limited.

3 Malcolm Le May held a non-executive director position until 24 November 2017 when he was appointed as an executive director.

4 Manjit Wolstenholme's fees did not increase as a result of her appointment as Interim Executive Chairman following the resignation of Peter Crook on 21 August 2017 until her death on 23 November 2017.

1.2 Directors' fees

Salary

The salaries for the executive directors and the senior management teams are reviewed annually by the committee, although not necessarily increased. At its meeting in January 2018, the committee considered the performance of the group Finance Director and his responsibilities, experience and personal performance. The committee also considered the group's own salary structures, pay and conditions. As a result, it agreed to increase the group Finance Director's salary in 2018 by 2.5% to £551,000. The increase was broadly consistent with the average percentage increases awarded elsewhere in the group.

Non-executive directors

Non-executive directors' fees are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the strategy and future growth of the company. Full details of the non-executive directors' fees are set out in the table on page 106. Non-executive directors' remuneration is fixed by the Board and does not include share options or other performance-related elements.

Chairman

The fees for the Chairman are fixed by the committee. Full details of the Chairman's fees are set out in the table on page 106.

Fees from other directorships

Peter Crook was a non-executive director of Cabot (Group Holdings) Limited during his appointment as Chief Executive Officer and retained the fee from that appointment. Up until 21 August 2017, these fees amounted to £44,644 (2016: £65,000).

Andrew Fisher has been a non-executive director of Arrow Global Group PLC since 9 December 2016 and retains the fee from that appointment, which pro-rata was £3,500 for 2016. During 2017, the fee amounted to £65,000.

Malcolm Le May has been a non-executive director of IG Group plc since September 2015 and Hastings Group Holdings plc since July 2015 and he retains the fees from those appointments. Between 24 November and 31 December 2017, the pro-rated fees amounted to £14,067.

1.3 Annual bonus scheme

Annual bonus opportunities and targets

The 2017 annual bonus scheme was based on adjusted targeted group EPS (excluding exceptional items and amortisation of acquisition intangibles) and personal objectives. The maximum bonus opportunity in respect of 2017 was restricted to 120% of salary for the Chief Executive Officer and 100% of salary for the group Finance Director and was split as follows:

Measure	Peter Crook	Andrew Fisher
	Maximum bonus opportunity	
Targeted group EPS	80%	80%
Non Financial Objectives	20%	20%

As mentioned on page 104, Peter Crook was not eligible for any annual bonus for the year ended 31 December 2017 following his departure from the company in August 2017. Andrew Fisher was eligible for an annual bonus for 2017 based on the performance metrics described below; following the assessment of the performance by the committee, he will receive no bonus for 2017. Manjit Wolstenholme and Malcolm Le May were not eligible for annual bonus in respect of their pro-rated service as executive directors in 2017.

1.4 The executive directors' personal objectives for 2017

The executive directors' personal objectives for 2017 are noted below. Although the personal objectives in relation to 2017 were met in a number of areas, the financial objectives underpinning the overall achievement of the personal objectives were not achieved, resulting in no annual bonus payments for executive directors for 2017.

Personal Objectives:	Peter Crook	Andrew Fisher
	Achievement of specific divisional strategic and performance targets.	Achievement and delivery of specific Divisional strategic and performance targets.
	Ensure the group has adequate facilities to comply with its Treasury Policy.	Manage the tax charge to be equal to or better than the statutory rate of corporation tax (including the bank surcharge as appropriate).
	Lead and manage the activity to maintain the group's reputation with external stakeholders, regulators at a group level and across the Divisions.	Ensure the group has adequate facilities to comply with its Treasury Policy.
	Improve: > The Board's oversight of regulatory issues through changes to organisation, people and processes as required; and > The management of the group's digital activities including creation of a digital advisory board, leveraging the skills of the newly appointed non-executive directors.	Ensure that the group maintains adequate capital against its ICG requirements, including maintaining an effective dialogue with the PRA and implementation of IFRS 9.
	Undertake a fresh talent management and succession review and create an updated plan addressing key roles and wider equality/diversity issues.	Manage City expectations effectively.
	Provide effective support and coaching for the new managing director at Moneybarn.	

Annual report on remuneration continued

1.4 Committee's assessment of the executive directors' personal objectives for 2017 continued

The primary metric for the annual bonus for 2017 was EPS. Actual proportions of the 2017 adjusted targeted group EPS and the corresponding adjusted targeted group EPS that needed to be achieved, which the committee considered to be challenging, were as follows:

	Threshold	Target	Maximum
% of the adjusted targeted group EPS achieved	95%	100%	105%
% of EPS element of annual bonus paid	0%	60%	100%
Adjusted targeted group EPS	171.5p	180.5p	189.5p

Straight-line vesting operated between 95% and 105% of the adjusted targeted group EPS.

The committee carries out a detailed review of the computations undertaken in determining the group's EPS and ensures that the rules of the scheme are applied consistently. The company's auditor is also asked to perform agreed-upon procedures, on behalf of the committee, on the EPS calculations.

At its meeting on 22 February 2018 the committee assessed the group's performance against the adjusted targeted group EPS. The adjusted EPS achieved of 62.5p did not exceed the adjusted threshold group EPS of 171.5p and the committee therefore determined that no part of the EPS element of the 2017 annual bonus should be paid.

The committee also assessed executive directors' personal performance relative to their objectives for 2017. Although objectives were met in a number of areas, the committee determined that as the EPS threshold was not met, no bonus should be paid in respect of personal performance.

1.5 Share incentive schemes

In 2017 the committee continued with the policy of making conditional share awards to executive directors and the senior management teams under the LTIS. Awards under the PSP which operates alongside the annual bonus scheme were also made in respect of bonuses awarded for 2016 performance.

1.5.1 LTIS

Executive directors received grants of 200% of base salary in 2017, which are due to vest in 2020 subject to performance conditions and continued service.

Peter Crook's 2017 award, and his other outstanding LTIS awards, lapsed upon his resignation as Chief Executive Officer in August 2017. Please refer to section 1.10 of this report for further details.

2017 awards

The performance targets for awards made under the LTIS in 2017 were considered by the committee at its meeting in February 2017, and it was determined that they remained appropriately challenging given market forecasts and the economic environment prevailing at the time. The performance metrics and targets were those disclosed in the directors' remuneration report for 2016.

2015 awards

Vesting of the 2015 LTIS awards, which was due to take place on 25 February 2018, was split equally between the company's annualised growth in adjusted EPS and its annualised TSR over the three-year performance period. The committee assessed performance under these metrics and determined that there should be no vesting of these awards, and the awards lapsed. For information, the performance metrics and targets were as follows:

Annualised growth in adjusted EPS	Percentage vesting (of EPS part of award)
Below 5%	0%
5%	20%
11%	100%

Annualised TSR	Percentage vesting (of TSR part of award)
Below 8%	0%
8%	20%
15%	100%

A sliding scale of vesting (on a straight-line basis) applied between the lower and upper EPS and TSR targets.

The company's annualised growth in adjusted EPS over the performance period was minus 22.2% which did not exceed the minimum annualised growth in adjusted EPS target of 5%, resulting in no part of the EPS element of the award vesting.

New Bridge Street (NBS), the committee's remuneration advisors, also confirmed that the company's annualised TSR over the three-year performance period was minus 24.1%, which fell below the minimum annualised TSR target of 8%, resulting in no part of the EPS element of the award vesting.

Dividend waiver

The executive directors have waived any entitlement to dividends payable during the performance period on their LTIS awards. To the extent an award vests at the end of the performance period, either additional ordinary shares in the company or a cash amount equivalent to the dividends that would have been paid on the vested awards from the date of grant, would be provided to the executive directors on vesting.

LTIS

Details of the LTIS awards (in the form of conditional share awards) granted to the executive directors during 2017 are summarised below:

Director's name	Date of award	Number of shares	Face value[1]	Percentage of salary	Performance condition[2]	Performance period	% vesting at threshold
Peter Crook[3]	24 March 2017	51,571	£1,509,998	200%	50% based on absolute TSR and 50% based on absolute EPS growth	Three consecutive financial years ending 31 December 2019	20%
Andrew Fisher	24 March 2017	36,714	£1,074,985	200%			

1 Face value calculation is based on the share price of £29.28 on 23 March 2017. Actual value at vesting may be greater or lesser depending on actual share price at vesting and as a result of any dividend equivalent payable on vested shares.
2 Details of the performance conditions are set out in the notes to the table below.
3 Peter Crook's 2017 award together with his other outstanding LTIS awards, lapsed when his employment ended in August 2017.

Awards held by the executive directors[5] under the LTIS at 31 December 2017 were as follows:

Director's name	Date of award	Awards held at 01.01.2017	Awards granted during the year	Awards vested during the year[1]	Awards lapsed during the year	Awards held at 31.12.2017	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	08.04.2014[2]	72,143	–	72,143	–	–	1,899.0	3,158.0	08.04.2017
	25.02.2015[3]	51,797	–	–	51,797[4]	–	2,726.0	n/a	25.02.2018
	01.03.2016[3]	44,936	–	–	44,936[4]	–	3,249.0	n/a	01.03.2019
	24.03.2017[3]	–	51,571	–	51,571[4]	–	2,928.0	n/a	24.03.2020
Andrew Fisher	08.04.2014[2]	51,500	–	51,500	–	–	1,899.0	3,158.0	08.04.2017
	25.02.2015[3]	36,977	–	–	–	36,977	2,726.0	–	25.02.2018
	01.03.2016[3]	32,009	–	–	–	32,009	3,249.0	–	01.03.2019
	24.03.2017[3]	–	36,714	–	–	36,714	2,928.0	–	24.03.2020

1 Dividend shares on awards which vested in 2017 were received as follows: Peter Crook 7,202 shares and Andrew Fisher 5,141 shares.
2 Details of the performance targets for the 2014 award were included in the annual report on remuneration in 2016.
3 Half the award vests subject to EPS growth with 20% of this part of the award vesting for EPS growth of 5% per annum through to full vesting for EPS growth of 11% per annum. The remaining half of the award is subject to absolute TSR with 20% of this part of the award vesting for 8% absolute TSR per annum and full vesting for absolute TSR of 15% per annum. No vesting takes place below the threshold performance levels with straight-line vesting taking place between threshold and maximum performance levels. In addition: (1) with regard to the absolute TSR performance targets, that part of the award will not vest unless the committee is satisfied that the TSR performance is a genuine reflection of the underlying performance of the company; and (2) with regard to the absolute EPS performance targets, that part of the award will not vest unless the committee is satisfied that the vesting is consistent with the broader financial performance of the company. Full details of historic performance targets have been fully set out in previous directors' remuneration reports.
4 Peter Crook's LTIS awards lapsed when his employment ended in August 2017.
5 Malcolm Le May and Manjit Wolstenholme were not eligible for 2017 LTIS awards as they were non-executive directors at the time the awards were made.

Annual report on remuneration continued

1.5.2 PSP

The PSP is used to facilitate the waiver of annual bonus. A Basic Award of company shares is then awarded equal to the waived bonus together with a Matching Award subject to performance conditions being satisfied. The Basic Award vests after three years (effectively deferring the bonus) as does the Matching Award. There is a mandatory waiver into the PSP for executive directors, which was one-third of the annual bonus awarded in respect of 2016. As in previous years, individuals were also able to qualify for an additional Matching Award if they voluntarily waived an additional portion of the bonus (maximum two-thirds) into the PSP.

Peter Crook's 2017 Matching Award, together with his other outstanding PSP Matching Awards, lapsed upon his resignation as Chief Executive Officer on 21 August 2017.

2017 awards

In 2017, participation in the PSP included the executive directors, who were able to elect to waive up to two-thirds (with a compulsory minimum of one-third) of their annual bonus payable, and other eligible employees who were able to waive up to 50% or 30%, (depending on their level of seniority), of their annual bonus payable. Participants then received a Basic Award of shares equal to the value of their waived bonus, together with an equivalent Matching Award (on the basis of one share for each share acquired pursuant to the participant's Basic Award) which is subject to performance conditions over a period of three years.

Awards to executive directors and certain members of the senior management teams in 2017 were however made on the basis of up to two shares for each share acquired pursuant to their Basic Award, the second matching share being subject to a more stretching performance target.

The actual range of the EPS targets for awards granted in 2017 is as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one matching share
11%	Two matching shares

A sliding scale of vesting (on a straight-line basis) applies between these lower and upper targets which are measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the Matching Award.

Details of the PSP awards granted to the executive directors[4] during 2017 are summarised below:

Director's name	Date of award	Type of award	Number of shares	Face value[1]	Percentage of salary	Performance condition[2]	Performance period	% vesting at threshold
Peter Crook[3]	24 March 2017	Basic – forfeitable shares	19,946	584,018	77%	100% based on absolute EPS growth of between 5% and 11%	Three consecutive financial years ending 31 December 2019	Half a matching share
		Matching – conditional right	39,892	1,168,037	154%			
Andrew Fisher	24 March 2017	Basic – forfeitable shares	11,840	346,675	64%			
		Matching – conditional right	23,680	693,350	128%			

1 Face value is calculated based on the share price of £29.28 on 23 March 2017. The actual value may be greater or lesser depending on the actual share price at vesting and as a result of any dividend equivalent payable on vesting shares.

2 Details of the performance condition are set out in the notes to the table below.

3 Peter Crook's Matching Awards granted in 2017, together with his other outstanding Matching Awards, lapsed when his employment ended in August 2017.

4 Malcolm Le May and Manjit Wolstenholme were not eligible for a 2017 PSP award as they were non-executive directors at the time the awards were made.

Awards held by the executive directors[5] under the PSP at 31 December 2017 were as follows:

Director's name	Date of grant	Basic Awards (number of shares) held at 01.01.2017	Matching Awards (number of shares) held at 01.01.2017	Total Basic Awards (number of shares) vested during the year	Total Matching Awards (number of shares) vested during the year[1]	Total Matching Awards lapsed during the year	Total Basic Awards (number of shares) held at 31.12.2017	Total Matching Awards (number of shares) held at 31.12.2017	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	08.04.2014[2]	24,822	49,644	24,822	49,644	–	–	–	1,899.0	3,158.0	08.04.2017
	25.02.2015[3]	20,103	40,206	–	–	40,206[4]	20,103	–	2,726.0		25.02.2018
	01.03.2016[3]	17,036	34,072	–	–	34,072[4]	17,036	–	3,249.0		01.03.2019
	24.03.2017[3]	–	–	–	–	39,892[4]	19,946	–	2,928.0		24.03.2020
Andrew Fisher	08.04.2014[2]	15,442	30,884	15,442	30,884	–	–	–	1,899.0	3,158.0	08.04.2017
	25.02.2015[3]	11,959	23,918	–	–		11,959	23,918	2,726.0		25.02.2018
	01.03.2016[3]	10,135	20,270	–	–		10,135	20,270	3,249.0		01.03.2019
	24.03.2017[3]	–	–	–	–		11,840	23,680	2,928.0		24.03.2020

1 Dividend shares on awards which vested in 2017 were received as follows: Peter Crook 5,160 shares and Andrew Fisher 3,211 shares.

2 Details of the performance target for the 2014 awards were included in the annual report on remuneration in 2016.

3 The Matching Awards vest subject to a performance target based on average annual growth in EPS, with 25% of the Matching Award vesting for EPS growth of 5% per annum (threshold) through to full vesting for EPS growth of 11% per annum (maximum). No vesting takes place below the threshold performance level with straight-line vesting taking place between threshold and maximum performance levels. In addition, no awards will vest unless the committee is satisfied that the vesting is consistent with the broader financial performance of the company. Full details of historic performance targets have been fully set out in previous directors' remuneration reports.

4 Peter Crook's Matching Awards granted in 2017, together with his other outstanding Matching Awards, lapsed when his employment ended in August 2017.

5 Malcolm Le May and Manjit Wolstenholme were not eligible for PSP awards as they were non-executive directors at the time the awards were made.

2015 awards

For the Matching Awards granted in 2015, which were due to vest on 25 February 2018, the actual range of the EPS target was as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one matching share
11%	Two matching shares

A sliding scale of vesting (on a straight-line basis) applied between these lower and upper targets which were measured over a period of three consecutive financial years, the first of which was the 2015 financial year.

At its meeting in February 2018, the committee considered the extent to which the performance target for the awards granted in 2015 had been met. The average annual growth in adjusted EPS over the performance period was minus 17.4% and this level of EPS growth did not exceed the minimum threshold of 5%, resulting in no part of the 2015 awards vesting.

Dividends

For awards granted under the PSP, the dividend payable on the Basic Award only is paid to participants on the normal dividend payment date. Any dividend payable on the shares comprising the Matching Awards will be paid to participants as a dividend equivalent on the normal vesting date and to the extent of vesting.

The dividends, in respect of awards granted in 2014 which vested in early 2017 under the PSP were: Peter Crook £52,175 (2016: £76,894) and Andrew Fisher £31,015 (2016: £46,582). These figures have been included in the table of directors' remuneration on page 106.

1.5.3 Other relevant share incentive scheme information

The mid-market closing price of the company's shares on 29 December 2017 was 898p. The range during 2017 was 3,265p to 589p.

No consideration is payable on the award of conditional shares.

There were no changes in directors' LTIS or PSP awards or share options between 1 January 2018 and 22 February 2018.

1.5.4 Offshore Employee Benefit Trust

The rules of the LTIS and PSP allow these schemes to be operated in conjunction with any employee trust established by the company. The company established the Provident Financial plc 2007 Employee Benefit Trust (EBT) in Jersey with SG Kleinwort Hambros Trust (CI) Limited (KB Trustees) acting as the trustee of the trust.

The EBT, together with any other trust established by the company for the benefit of employees cannot, at any time, hold more than 5% of the issued share capital of the company.

KB Trustees, as trustee of the EBT, subscribed for 299,270 ordinary shares in March 2017 for the purpose of satisfying the 2017 awards made pursuant to the LTIS. The trustee transferred the beneficial ownership (subject to achievement of performance conditions) in 88,285 of the shares for no consideration to the executive directors on 24 March 2017.

KB Trustees also subscribed for 135,389 ordinary shares in March 2017 for the purpose of satisfying the 2017 awards made pursuant to the PSP. The trustee transferred the beneficial ownership (subject to the achievement of performance conditions), in 63,572 of the shares for no consideration to the executive directors on 24 March 2017 and also transferred the legal ownership in 31,786 of the shares for no consideration to the executive directors. KB Trustees has entered into a dividend waiver agreement in respect of all the shares it holds in the company at any time.

1.6 Statement of shareholder voting at the AGM

At the 2017 AGM the directors' annual report on remuneration received the following votes from shareholders:

	Total number of votes	% of votes cast
For	120,319,564	95.65
Against	5,475,836	4.35
Total votes cast (for and against)	125,795,400	100.00

The total number of votes withheld was 1,046,965.

At the 2017 AGM, the directors' remuneration policy received the following votes from shareholders:

	Total number of votes	% of votes cast
For	117,843,512	93.22
Against	8,573,769	6.78
Total votes cast (for and against)	126,417,281	100.00

The total number of votes withheld was 425,099.

Annual report on remuneration continued

1.7 Savings-related share option schemes

The executive directors may also participate in the Provident Financial Savings-Related Share Option Scheme 2013 (SAYE Scheme).

The SAYE Scheme does not contain performance conditions as it is an HMRC-approved scheme designed for employees at all levels. Invitations to join the scheme were issued to eligible employees in September 2017. No consideration is payable on the grant of an option.

During the year, no executive directors exercised any options. There was therefore a £nil (2016:£35,700) notional gain for Peter Crook and a £nil (2016: 10,831) notional gain for Andrew Fisher (representing the difference between the exercise price and the market price of the shares at the date of exercise) on the exercise of share options.

Options held by the executive directors under the SAYE Scheme at 31 December 2017 were as follows:

Director's name	Options held at 01.01.2017	Granted in 2017	Exercised in 2017	Options held at 31.12.2017	Exercise price (p)	Market value at date of exercise (p)	Range of normal exercisable dates of options held at 31.12.2017
Peter Crook	1,246[1]	–	–	0	–	–	–
Andrew Fisher	5,471[2]	–	–	0	–	–	–
Total	1,793	–	–	0	–	–	–

1 Peter Crook's options lapsed when his employment ended in August 2017.
2 Andrew Fisher's options were due to mature on 1 December 2017 and he chose not to exercise and to instead withdraw his savings from the SAYE Scheme.

1.8 Malus and clawback

In accordance with the recommendations within the Code and other best practice guidance, the committee, having consulted with NBS, introduced malus and clawback provisions into all awards under the annual bonus scheme, LTIS and the PSP from December 2010. This enables the committee, at its discretion, to reduce awards before vesting (malus) or to clawback value overpaid for a period of three years from the date of vesting/payment in the event of: (i) a material prior period error requiring restatement of the group financial statements; or (ii) an error in assessing the extent to which a performance target (and/or any other condition) has been met.

The mechanisms open to the committee when undertaking a clawback include the withholding of variable pay to offset the value to be clawed back and/or seeking repayment from the individual of the value overpaid.

The committee has determined that the current malus and clawback provisions should be further strengthened. For awards from 2018 onwards, in addition to the existing 'triggers', malus or clawback can be applied to annual bonus, PSP and LTIS awards in the following circumstances:

> There has been a substantial failure in risk management of the company or of any company in the group;

> The company or a relevant business unit suffers a material downturn in its financial performance;

> There is reasonable evidence of misbehaviour or material error on the part of the relevant individual; or

> Exceptional circumstances have arisen which the committee determine justifies the operation of malus or clawback.

1.9 Dilution and use of equity

Since 2008, the company has, with shareholder approval, disapplied the 5% anti-dilution limit on the use of newly issued shares for the LTIS and PSP and only applied the 10% anti-dilution limit that covers all of the company's share plans. The disapplication of the limit related back to the demerger of the international business in 2007 and the subsequent share consolidation which made it impossible to operate the LTIS and PSP within the 5% limit if the plans were to act as a motivational tool and reward performance. The committee undertook to reintroduce the 5% limit when the LTIS and PSP could be effectively operated within that limit and is pleased to confirm that, with effect from 2018, the 5% limit will be applied.

The table below sets out the headroom available for all share schemes and shares held in trust as at 31 December 2017:

Headroom	2017	2016
All share schemes	3.9%	5.1%
Shares held in trust	3.4%	3.3%

1.10 Payments for loss of office

Peter Crook's departure

Peter Crook stepped down as Chief Executive Officer and left the employment of the company on 21 August 2017.

Peter Crook agreed to forgo his base salary, pension accrual and benefits for his contractual twelve-month notice period.

He is also not eligible to receive any annual bonus award in respect of that notice period, and is not eligible for an annual bonus in respect of the portion of 2017 that he worked.

His outstanding awards under the LTIS and Matching Awards under the PSP all lapsed when his employment ended in August 2017. He retains the PSP Basic Awards under the PSP that were outstanding when his employment ended; these represent the part of his annual bonus which was waived in 2014, 2015 and 2016.

His options under the SAYE Scheme lapsed when his employment ended in August 2017.

He retains his pension benefits accrued under the Provident Financial UURBS. The total fund at his leaving date amounted to £1.262 million which is payable to him on retirement, subject to tax deductions.

No payments were made to past directors and no other loss of office payments were made.

1.11 Total shareholder return: Provident Financial plc vs FTSE250

The graph opposite shows the total shareholder return for Provident Financial plc against the FTSE 250 Index for the past nine years. The FTSE 250 has been selected as the committee considers it is the index most relevant to the company.

Total shareholder return: Provident Financial plc vs FTSE 250 – 31.12.2008–31.12.2017

1.12 Chief Executive Officer pay

The table below shows the total remuneration figure for Peter Crook, the Chief Executive Officer over the nine-year period up to the date his employment terminated in August 2017. The total remuneration figure includes the annual bonus paid together with LTIS and PSP Matching Awards which vested based on the relevant performance targets in those years. The annual bonus, LTIS and PSP percentages show the pay-out for each year as a percentage of the maximum opportunity.

Chief Executive Officer remuneration 2009 to 2017

	Year ended 31 December								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single total figure of remuneration (£'000)	2,023	2,727	3,443	4,326	4,985	6,594	7,500	6,315	**962**
Annual bonus (%)	–	81	100	98	89	100	98	100	–
LTIS vesting (%)	100	66	49	100	100	100	100	100	–
PSP Matching Awards vesting (%)	–	100	79	–	100	100	100	100	–

Chief Executive Officer relative pay

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the years ended 31 December 2015 and 31 December 2017 for Peter Crook, the Chief Executive Officer, compared to the average for the corporate office employees during the same period. A comparison with the corporate office employees is considered to be more suitable due to the range and composition of employees across the group and the wide range of different remuneration structures and practices which operate in the Divisions, making any meaningful comparison difficult.

	2016/2017[1]			2015/2016		
%	Salary	Benefits	Annual bonus	Salary	Benefits	Annual bonus
Chief Executive Officer	-11.6%	-45.8%	-100.00%	3.4%	-14.4%[2]	3.4%
Average corporate office employee	2.7%	6.6%	-100.00%	2.6%	8.8%	11.4%

1 Malcolm Le May from 24 November 2017 to 31 December 2017, Manjit Wolstenholme from 22 August 2017 to 23 November 2017 and Peter Crook resigned on 21 August 2017.
2 From May 2015 Peter Crook received an allowance due to his place of work changing from Bradford to London.

Across the group, the budgeted salary increase ranged from 0% to 3.5%.

Annual report on remuneration continued

1.13 Relative importance of spend on pay

The table below shows the total pay (including bonuses) for all the group's employees in the 2016 and 2017 financial years compared to the distributions made to shareholders in the same periods.

Relative importance of spend on pay

	Year ended 31 December		% change
	2017	2016	**2016/2017**
Aggregate gross wages and salaries paid to the group's employees (£m)	**117.5**	145.9	**-19.5**
Total shareholder distributions (£m)	**133.4**	180.6	**-26.1**

1.14 Share ownership guidelines

The company has share ownership guidelines for executive directors which in 2017 required them to acquire and maintain shares in the company with a total value of 200% of basic salary. Executive directors are required to retain 50% of vested LTIS awards, net of tax, until this requirement has been reached.

The committee reviews the shareholdings of the executive directors in light of these guidelines once a year, based on the market value of the company's shares at the date of assessment. When performing the calculation to assess progress against the guidelines, shares held by a spouse, dependant, or in an ISA or pension scheme are included, whilst unvested LTIS awards and awards granted under the PSP are not.

The following executive director complied with these guidelines as at 31 December 2017:

Director's name	Actual share ownership as a percentage of salary
Andrew Fisher	617%

1.15 Executive directors' share ownership

Details of shares held by the executive directors and their connected persons, are shown in the table below:

			Unvested		
Director	**Type**	**Owned outright**	**Subject to performance conditions**	**Not subject to performance conditions**	**Total as at 31.12.17**
Manjit Wolstenholme	Own name	6,533	–	–	6,533
	Held in Transact Nominees Limited Integral1 Account (SIPP account)	5,663	–	5,663	5,663
	LTIS		–	–	–
	PSP		–	–	–
Total		12,196	–	–	12,196
Malcolm Le May	Own name	–	–	–	–
	Held in YBS Trustees (SIP)	–	–	–	–
	LTIS	–	–	–	–
	PSP	–	–	–	–
Total		–	–	–	–
Andrew Fisher	Own name	161,796	–	161,796	161,796
	Held in YBS Trustees (SIP)	411	–	–	–
	LTIS	–	105,700	–	105,700
	PSP	–	67,868	33,934	101,802
Total		162,207	173,568	195,730	369,298
Peter Crook[1]	Own name	165,791	–	–	165,791
	Held in Barclayshare Nominees Limited	82,979	–	–	82,979
	Held in YBS Trustees (SIP)	301	–	–	301
	LTIS	–	148,304	–	148,304
	PSP	–	114,170	57,085	171,255
Total		249,071	262,474	57,085	568,630

1 Details of Peter Crook's shareholding is at the date he resigned, 21 August 2017.

Details of the shares held by the non-executive directors and their connected persons are set out in the Directors' Report on page 97.

There have been no changes in the beneficial or non-beneficial interests of the executive directors between 1 January and 22 February 2018.

1.16 Pension

Defined benefits	Age as at 31 December 2017	Normal retirement age	Accrued retirement account as at 31 December[1] 2017 £'000	Accrued retirement account as at 31 December[1] 2016 £'000	Increase in retirement account[2] 2017 £'000	Increase in retirement account[2] 2016 £'000
Cash balance						
Peter Crook	**54**	60	–	–	–	–
Andrew Fisher	**59**	60	–	–	–	–
Manjit Wolstenholme	–	–	–	–	–	–
Malcolm Le May	**59**	60	–	–	–	–
UURBS						
Peter Crook	**54**	60	1,441	1,262	179[3]	248
Andrew Fisher	**59**	60	–	829	78[4]	176
Manjit Wolstenholme	–	–	–	–		
Malcolm Le May	**59**	60	–	–		
					Value Received 2017	Value Received 2016
Cash Supplement						
Peter Crook	**54**	60	–	–	–	–
Andrew Fisher	**59**	60	–	–	94	–
Manjit Wolstenholme	–	–	–	–	–	–
Malcolm Le May	**59**	60	–	–	–	–

1 The transfer value of the accrued retirement account is the same as the accrued retirement account.

2 The increase in the transfer value of the accrued retirement account is the same as the increase in the retirement account. The total increases for each director in 2017 (which are included in the table of directors' remuneration on page 106) were: Peter Crook: £179,000 and Andrew Fisher: £78,000 based on membership to 31 August 2017 and 31 May 2017 respectively.

3 Peter Crook received a salary and UURBS accrual until 31 August 2017, having resigned on 21 August 2017. His benefits are valued as at 31 August 2017.

4 Andrew Fisher opted to draw his UURBS benefit during 2017 and benefits with a value of £907,000 were paid to him. He received a cash supplement from this date.

1.16.1 Pensions and life assurance

In December 2011, the Finance Act introduced the Reduced Annual Allowance which limited the benefits that can be provided by the group's registered pension schemes on a tax-efficient basis. As a result, the company has provided a range of options through which executive directors can choose to receive retirement benefits with an agreed value expressed as a percentage of basic salary.

Peter Crook and Andrew Fisher were members of the cash balance section of the pension scheme until 3 April 2014 and 4 June 2013 (respectively) when they transferred the value of their pension rights into a Self Invested Personal Pension scheme (SIPP).

Consistent with the approved DRP in respect of death in service, Manjit Wolstenholme's estate has been paid the sum of £960,000, funded by the company's insurers and the company plans to pay a further £960,000 during the year ending 31 December 2018, representing in aggregate six times the amount of her Chairman's salary of £320,000 per annum (which at the time of her death had not yet been increased to reflect her taking on the role as Interim Executive Chairman in August 2017 following the resignation of Peter Crook).

1.16.2 Pension entitlements

Details of the pension entitlements earned under the company's pension arrangements are set out above.

Provident Financial Staff Pension Scheme

No directors (2016: nil) accrued retirement benefits in the year under the cash balance section of the Provident Financial Staff Pension Scheme (the pension scheme). The pension scheme is a defined benefit scheme with cash balance benefits.

PFG Retirement Plan

No directors (2016: nil) paid or had contributions paid on their behalf into the PFG Retirement Plan in the year. The PFG Retirement Plan is a Group Personal Pension Plan insured with Standard Life.

Personal pension arrangements

Andrew Fisher also has personal pension arrangements to which the company has made contributions in previous years but did not make any contributions in 2017 (2016: £nil).

Unfunded Unapproved Retirement Benefits Scheme

The company operates an Unfunded Unapproved Retirement Benefits Scheme (UURBS) to provide cash balance benefits to those employees affected by the Lifetime Allowance or the Reduced Annual Allowance. Details of the amounts payable under the UURBS are set out in the table above. The accumulated amounts payable under the UURBS increase each year by the lower of the increase in RPI plus 1.5% and 6.5%. At retirement, UURBS benefits will be paid in accordance with current HMRC practice.

Cash supplement

A further option for employees affected by the Lifetime Allowance or the Reduced Annual Allowance is to receive a cash supplement in lieu of other forms of retirement provision. This option was elected by Andrew Fisher from June 2017.

1.17 Audit

The elements of the directors' remuneration report (including pension entitlements and share options set out on pages 106 to 115 of this report) which are required to be audited, have been audited in accordance with the Companies Act 2006.

This annual report on remuneration has been approved by the remuneration committee and the Board and signed on its behalf.

Andrea Blance
Remuneration committee chairman
27 February 2018

Annual report on remuneration continued

2. Implementation of the approved DRP in 2018

2.1 Proposed policy changes

Executive remuneration is set by the committee in accordance with the DRP approved by the shareholders at a general meeting. The company's current DRP was approved by over 93% of shareholders at the AGM in May 2017.

During 2017 and 2018, the committee reviewed the operation of the DRP taking into account the new circumstances facing the company and the latest shareholder feedback. Following this review, the committee approved a number of changes to the operation of the DRP, which do not require a change to the approved DRP itself. The changes are:

> no further grants of Matching Awards under the PSP (however, part of the annual bonus will continue to be deferred);

> a more comprehensive annual bonus scorecard, with an appropriate balance of financial, customer, risk and strategic metrics;

> no further use of absolute TSR as a metric in the LTIS, and its replacement by the common metric of relative TSR against a more common comparator group;

> reduction in the level of pension and benefits for new executive director appointments; and

> introduction of a post-vesting holding period of two years for new LTIS grants.

A comparison of the current and new arrangements is provided in the table to the right:

	Current arrangements	New arrangements
Bonus Matching Awards ('PSP')	Under the PSP, Matching Awards vest after three years subject to performance conditions. Executive directors are eligible for a Matching Award of up to two times based on a waiver of up to two-thirds of annual bonus with a minimum compulsory waiver of one-third.	The committee will not grant any further Matching Awards under the PSP. However the waiver of part of the annual bonus over three years which is mandatory for executive directors will continue.
Performance conditions	**Annual Bonus** A minimum of 50% of the annual bonus opportunity is subject to financial targets with up to 20% linked to personal objectives. Currently 80% of the annual bonus opportunity is subject to an EPS performance condition, with the remaining 20% linked to personal objectives. **PSP and LTIS** The extent to which the PSP and LTIS awards vest is subject to two performance conditions, absolute TSR performance of the company and the EPS growth achieved by the company.	**Annual Bonus** The committee will introduce a balanced scorecard approach to determine the annual performance of executive directors. The balanced scorecard approach will contain a more rounded set of metrics including profit, risk and strategic/non-financial measures eg. people and customer. **LTIS** The committee intends to replace the absolute TSR condition with a relative TSR condition against a suitable peer group. The committee is also considering the application of a risk metric for the LTIS. EPS growth targets for the 2018 grant of LTIS will be set taking account of the company's new business plan, and designed to support value creation for shareholders. The targets will be reported in the remuneration report for 2018.
Pension and benefit harmonisation for new appointments	Executive directors are entitled to up to 30% of base salary as a cash pension allowance. Executive directors also receive benefits in kind, principally company car benefits, private health care and life assurance.	For new appointments of executive directors, the committee will align the executive director pension entitlement to the wider workforce. The committee will bring the benefits in kind in line with the wider market practice for new executive director appointments.
Post-vesting holding period	There is currently no post-vesting holding in place.	In line with market best practice, the committee will introduce a post-vesting holding period of two years for LTIS awards granted from 2018 onwards. The executive directors will therefore be required to retain their net of tax number of vested shares (if any) delivered under the LTIS for two years from the point of vesting.

Further details on the remuneration of the company's directors can be found on pages 106 to 115 of the company's Annual Report and Financial Statements 2017.

2.2 Appointment of Malcolm Le May as Chief Executive Officer

Malcolm Le May, who has served as Interim Executive Chairman since 24 November 2017, was appointed as Chief Executive Officer on 2 February 2018. His remuneration package for 2018 is as follows:

- Base salary of £700,000, which is lower than the salary of the previous Chief Executive Officer;
- Pension allowance of 6%, which compares with 30% for the previous Chief Executive Officer;
- Annual bonus up to a maximum of 120% of base salary, in accordance with the limit in the DRP. 40% of the annual bonus will be waived in return for a Basic Award of shares equal to the value of the waived bonus under the PSP. Unlike the previous Chief Executive Officer, the Basic Award will not be eligible for a Matching Award. The mandatory 40% deferral of annual bonus is higher than the one third that applied to the previous Chief Executive Officer;
- LTIS award of up to 200% of base salary subject to a performance target measured over three years. These LTIS awards, net of tax, will also be subject to a two-year post vesting holding period;
- With the lower base salary, lower pension, lower car allowance and absence of PSP Matching Awards, the package for the new Chief Executive Officer is significantly lower than his predecessor; and
- Malcolm Le May will also have a requirement to build a shareholding equal to 200% of base salary over a maximum of five years.

2.3 Non-executive directors

2.3.1 Non-executive directors' fees

At its meeting in December 2017, the Board reviewed the non-executive directors' fees in the context of a benchmarking exercise undertaken by NBS, taking due account of the need to use such benchmarking exercises with caution. After taking into account the circumstances facing the company the Board determined to award no increases to the fees for 2018. The unchanged fee levels are as follows:

- Non-executive director base fee: £68,000 (no change);
- Supplementary fee for chairing the audit, remuneration or risk advisory committee: £20,000 (no change);
- Supplementary fee for membership of the audit committee or risk advisory committee: £5,000 (no change). This fee is not paid to the chairman of these committees; and
- Supplementary fee for the role of Senior Independent Director (SID): £10,000 (no change).

2.3.2 Chairman's fee

The committee reviewed the Chairman's fee, also on the basis of a benchmarking exercise carried out by NBS in December 2017, taking due account of the need to use such benchmarking exercises with caution. Taking into account the circumstances facing the company, the committee determined that the Chairman's fee for 2018 should remain at £320,000.

Annual report on remuneration continued

3. Committee effectiveness and governance

3.1 Committee role

The role of the committee is set out in its terms of reference which are reviewed annually and were last updated in January 2018. These can be found on the group's website at www.providentfinancial.com. The committee meets at least three times a year and thereafter as circumstances dictate.

The committee regularly reviews the approved DRP in the context of the group's strategy and the group's risk management framework to ensure it does not inadvertently promote irresponsible behaviour. It has coordinated its work with both the audit committee and the risk advisory committee, who assist with the monitoring and assessment of risk management specifically in relation to the incentives provided under the approved DRP.

Priorities for 2018

Continue to monitor upcoming changes relating to remuneration and assess the potential impact on the group's remuneration structure and framework.

Continue to engage with shareholders and shareholder advisory bodies, as appropriate, in relation to the implementation of the DRP in 2018.

At each meeting, the committee:

- Reviewed the minutes of the previous meeting and progress against any actions arising; and
- Reviewed the minutes of the Vanquis Bank remuneration committee.

3.2 Membership

The members of the committee, all of whom are considered to be independent, and their attendance at meetings during the year, is shown in the table below.

Details of the work undertaken by the committee during the year are set out on page 119.

3.3 Effectiveness

On the basis of an external Board and committee evaluation carried out by Lintstock, the committee considered its performance and effectiveness in 2017 at its meeting in January 2018.

As part of the external Board and committee evaluation process, each director was asked to comment and rate various aspects of the committee's role by responding to a series of questions relating to the performance of the committee as contained in a questionnaire.

Overall, the committee determined that it was operating effectively and that it continued to have appropriate regard for the key issues within its remit.

3.4 External advisors

In 2017 the committee again engaged New Bridge Street (NBS), a trading name of Aon plc (NBS's parent company) to provide remuneration consultancy services. The total fees paid to NBS in respect of the provision of such services to the committee during the year were £75,000 (not including VAT). NBS is a signatory to the Remuneration Consultants' Code of Conduct. Aon plc also provides pension consultancy and investment advice to the company. The committee is satisfied that these additional services in no way compromised the independence of the advice received from NBS.

The terms of engagement for NBS are available from the Company Secretary on request.

The Company Secretary is secretary to the committee.

In selecting advisors, the committee considers a range of factors, such as independence and objectivity, experience, technical ability and market knowledge. These factors are reviewed on a regular basis, and were last considered by the committee at its meeting on the 22 February 2018.

Committee members and meeting attendance

Name	Notes	Date appointed	2017 Attendance	Percentage attended
Andrea Blance	Chairman	27 November 2017	6/6	100%
	Member	1 March 2017		
Malcolm Le May (to 27 November 2017)	Ex-Chairman	1 January 2014	6/6	100%
Rob Anderson		2 March 2009	8/8	100%
Alison Halsey (to 12 May 2017)		1 January 2014	3/3	100%
Stuart Sinclair (to 27 February 2017 then reappointed on 15 December 2017)		1 October 2012	4/4	100%

3.5 Remuneration committee key items in 2017

January

- Review of annual bonus scheme for executive directors;
- Finalisation of EPS target under 2017 bonus scheme for Executive Directors;
- Review of 2017 PSP Awards; and
- Review of draft 2016 directors' remuneration report.

February

- Approval of the senior pay awards within the Consumer Credit Divisions;
- Confirmation of the personal objectives under the 2017 EPS annual bonus scheme for executive directors;
- Review of the independence of the committee external advisors;
- Review of the schedule of directors' expenses in 2016;
- Review and approval of the level of LTIS, PSP and PF Equity Plan vestings;
- Approval of the 2017 LTIS, PSP and PF Equity Plan awards and applicable performance targets for 2017;
- Review of prior year performance against financial and non-financial objectives in relation to the 2016 annual bonus scheme;
- Assessment and review of the remuneration risk framework; and
- Approval in principle of the 2016 directors' remuneration report.

May

- Approval of the LTIS vesting in relation to Moneybarn employees;
- Review and discussion on retention bonuses; and
- Approval of company car allowances.

August

- Approval of the appointment of a new managing director, Home Credit within the Consumer Credit Division;
- Approval of the Section 430 (2B) Companies Act 2006 Statement in relation to the former Chief Executive Officer; and
- Agreement to progress an independent review of the clawback provisions under the group's share schemes and variable remuneration policy.

October

- Review of remuneration developments and best practice in the market;
- Discussion on potential retention tools;
- Review of the benchmarking exercise commissioned in relation to the appointment of a Chief Executive Officer;
- Approval of the benefits package in relation to the appointment of the interim group CRO; and
- Review and discussion in relation to gender-pay gap reporting.

November

- Discussion and review of the existing 2017 DRP; and
- Review of variations to several service contracts.

December

- Further review and approval of a range of materials to be included within the DRP;
- Discussion of the draft 2017 directors' remuneration report;
- Review and approval of the senior management pay and bonus proposals;
- Review of executive directors' shareholdings as at 30 November 2017;
- Review and approval of the committee terms of reference;
- Discussion and review of the good leavers policy;
- Discussion and review of key group senior management appointments;
- Discussion and review of the non-executive directors' fees;
- Discussion and review of gender-pay gap reporting; and
- Review and approval of the Interim Executive Chairman's fees.
- Reviewed malus and clawback provisions in the group's share scheme.

Andrea Blance
Remuneration committee chair
27 February 2018

Directors' remuneration policy

Introduction

The committee is responsible for the remuneration of the Chairman, the executive directors and the Company Secretary. The remuneration and terms of appointment of the non-executive directors are determined by the Board as a whole. The committee also reviews the remuneration of the senior management teams within the three divisions and the corporate office.

The Chief Executive Officer is consulted on proposals relating to the remuneration of the other executive directors and the senior management teams. The Chairman is consulted on proposals relating to the Chief Executive Officer's remuneration. When appropriate, both are invited by the committee to attend meetings but are not present when their own remuneration is considered.

The committee recognises and manages any conflict of interest when consulting the Chief Executive Officer and Chairman about its proposals.

The directors' remuneration policy was approved by shareholders at the 2017 AGM on 12 May 2017, and no changes to the approved policy are proposed at the 2018 AGM.

Considerations when setting policy

In setting the remuneration policy for the executive directors and senior management, the committee takes into account the following:

1. The need to maintain a clear link between the overall reward policy and the specific performance of the group;
2. The need to achieve alignment to the business strategy both in the short- and long-term;
3. The requirement for remuneration to be competitive, with a significant proportion dependent on risk-assessed performance targets;
4. The responsibilities of each individual's role and their individual experience and performance;
5. The need to attract, retain and motivate executive directors and senior management when determining benefit packages, including an appropriate proportion of fixed and variable pay;
6. Pay and benefits practice and employment conditions both within the group as a whole and within the sector in which it operates; and
7. Periodic external comparisons to examine current market trends and practices and equivalent roles in companies of similar size, business complexity and geographical scope.

How employees' pay is taken into account

Pay and conditions elsewhere in the group were considered when finalising the policy for executive directors and the senior management teams. The same principles apply throughout the group but are proportionate relative to an individual's influence at group level. The base salary increases awarded to the executive directors are consistent with the average percentage increases awarded elsewhere in the group and reflect the strong financial performance of the group and each individual director's personal performance. The committee does not formally consult directly with employees on executive pay but does receive periodic updates from the divisions on remuneration issues in general and specifically in relation to remuneration structures throughout the group.

How the executive directors' remuneration policy relates to the senior management teams

Remuneration for the level below executive director (including share incentives, bonus, benefits and pension entitlement) is set primarily by reference to market comparatives.

Long-term incentives are typically only provided to the most senior executives and are reserved for those identified as having the greatest potential to influence group level performance.

How shareholders' views are taken into account

We remain committed to taking into account shareholder views on any proposed changes to our remuneration policy. The committee chairman maintains contact, as required, with the company's principal shareholders about all relevant remuneration issues and the company consulted with its principal shareholders, as well as the shareholder advisory bodies, in relation to the renewal of its remuneration policy. Ongoing and transparent dialogue with our shareholders on the topic of executive remuneration is very important to us and the feedback received on the proposed remuneration policy was carefully considered and discussed by the committee.

Executive director remuneration policy

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Salary	To reflect the responsibilities of the individual role. To reflect the individual's skills and experience and their performance over time. To provide an appropriate level of basic fixed income and avoid excessive risk taking arising from over reliance on variable income.	Reviewed annually and effective from 1 January. Typically set following review of the budget for the forthcoming year, taking into account salary levels in companies of a similar size and complexity. Typically targeted at or around median. Annual increases typically linked to those of the wider workforce. Increases beyond those granted to the wider workforce may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, or a significant increase in the scale of the role and/or size, value and/or complexity of the group.	Broad assessment of group and individual performance as part of the review process. Malus and clawback provisions do not apply.
Annual bonus	Incentivises annual delivery of agreed financial and operational goals. Rewards the achievement of an agreed set of annual financial and operational goals.	Financial and operational goals set annually. Maximum opportunity of 120% of salary for the Chief Executive Officer and 100% of salary for the group Finance Director and any other executive director. One-third of the bonus is subject to compulsory waiver in which case an award is made under the PSP. Executive directors may waive up to an additional one-third of bonus. Any award granted following waiver of bonus will be eligible for Matching Awards under the PSP. Remainder of bonus paid in cash.	A minimum of 50% of any bonus opportunity will be subject to financial targets (eg EPS) with up to 20% linked to personal objectives. In relation to the EPS element, a graduated scale operates from threshold performance through to the maximum performance level of 105% of adjusted targeted group EPS. In relation to financial targets, none of this part of the bonus becomes payable for achieving the threshold performance target with a graduated scale operating thereafter for higher levels of financial performance. In relation to personal objectives, it is not always practicable to set a sliding scale for each objective. Where it is, a similar proportion of the bonus becomes payable for exceeding the threshold performance level as for financial targets. Malus and clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements or an error in the calculation of the extent to which the bonus targets are achieved. The period of clawback is three years from the date of payment. Details of the bonus measures operating each year will be included in the relevant annual report on remuneration. The committee reserves the power to make changes over the life of the policy to achieve alignment with the group's annual strategy. **Changes to practice from 2018** As discussed elsewhere in the report, whilst maintaining the DRP limits described above, a new, more balanced scorecard of metrics, including financial, customer, risk and strategic indicators will be applied. These will give a more rounded view of performance, and alignment with company strategy going forward. As detailed earlier in the report, the malus and clawback provisions in the plan rules have been further strengthened.

Directors' remuneration policy continued

Executive director remuneration policy continued

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Performance Share Plan (PSP)	Alignment of management's long-term strategic interests with long-term interests of shareholders. Encourages an increased shareholding in the group.	Invitations to participate and awards made annually. Opportunity to waive up to two-thirds of annual bonus and receive a Basic Award together with a Matching Award. Executive directors eligible for a Matching Award of up to two times based on a waiver of up to two-thirds of annual bonus with a minimum compulsory waiver of one-third. Maximum bonus being earned and a maximum bonus waiver, results in a maximum benefit of 160% of salary in the case of the Chief Executive Officer and 133% of salary in the case of the group Finance Director. Dividends may also be payable on Basic Awards and in addition, dividend equivalent provisions allow the committee to pay dividends on vested Matching Awards at the time of vesting.	The Basic Awards are subject to certain forfeiture conditions over the three-year performance period. The Matching Awards vest based on a three-year performance period against a challenging range of EPS growth targets set and assessed by the committee. 25% of the Matching Award (half of one matching share) vests at the threshold performance level with full vesting (two matching shares), taking place on a graduated scale for achieving the maximum performance level. The performance condition is reviewed annually by the committee prior to grant (in terms of the range of targets and the choice of metric) and may be refined to ensure that the condition remains aligned with the group's strategy and key performance indicators (KPIs). Any substantive reworking of the current performance condition would be accompanied by appropriate dialogue with the group's shareholders and/or approval sought for a revised remuneration policy depending on the nature of the change. Malus and clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements or an error in the calculation of the extent to which the performance target is achieved. The period of clawback is three years from the date of vesting. **Changes to practice from 2018** With effect from 1 January 2018, there will be no further Matching Awards granted. There will however continue to be a requirement for a portion of the annual bonus to be waived in return for a Basic Award of shares equal to the value of the waived bonus under the PSP, but with no Matching Award.
Long Term Incentive Scheme (LTIS)	Alignment of management's long-term strategic interests with long-term interests of shareholders. Rewards strong financial performance and sustained increase in shareholder value. Encourages an increased shareholding in the group.	Annual grant of share awards (structured as conditional share awards or nil-cost options). Executive directors are eligible for awards of up to 200% of salary which is the maximum opportunity contained within the scheme rules. Dividend equivalent provisions allow the committee to pay dividends on vested shares at the time of vesting. Shareholders approved the renewal of the LTIS at the 2015 AGM.	Awards vest based on a three-year performance period against a challenging range of EPS and TSR targets set and assessed by the committee. 20% of the award vests at the threshold performance level with full vesting taking place on a graduated scale for achieving the maximum performance level. The performance targets are reviewed annually by the committee prior to grant (in terms of the range of targets and the choice of metrics) and may be refined to ensure that the targets remain aligned with the group's strategy and KPIs. Any substantive reworking of the current performance targets would be accompanied by appropriate dialogue with the company's shareholders and/or approval sought for a revised remuneration policy depending on the nature of the change. Malus and clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements or an error in the calculation of the extent to which the performance targets are achieved. The period of clawback is three years from the date of vesting. **Changes to practice from 2018** As discussed elsewhere in the report, whilst maintaining the DRP limits described above, and the performance and vesting period, the absolute TSR metric will be replaced by a relative TSR measure with effect from 2018. With effect from 1 January 2018, all new awards to executive directors will also have a requirement to retain vested LTIS shares, net of tax, for a further period of two years. As detailed earlier in the report, the malus and clawback provisions in the LTIS rules have been further strengthened.

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Retirement benefits	Provision of a range of schemes and arrangements to enable executive directors to fund their retirement.	Available pension arrangements include the cash balance section of the Provident Financial Staff Pension Scheme, an Unfunded Unapproved Retirement Benefits Scheme, a cash supplement in lieu of pension and/or a contribution to individual Self Invested Personal Pensions (SIPPs). Pension credit of up to 30% of salary per annum is given to all executive directors. **Changes to practice from 2018** With effect from 1 January 2018, the pension allowance for any new executive director appointments will be limited to the same level that applies to the wider group workforce.	Not applicable.
Other benefits	Provision of a range of insured and non-insured benefits commensurate with the role.	Benefits will be appropriate to an executive director's circumstances and include: > Life cover of six times salary (subject to the provision of satisfactory medical evidence), a permanent health insurance benefit of 75% of basic salary after six months' illness and membership of the group's private medical insurance scheme; > Fully expensed company car or a cash equivalent; and > Participation in any all-employee share plans operated by the company on the same basis as other eligible employees.	Not applicable.
Share ownership	To ensure alignment of the long-term interests of executive directors and shareholders.	Executive directors have been required to build and maintain a holding of 200% of salary in the form of shares in the company since 1 January 2016. Executive directors are required to retain half of any shares vesting (net of tax) under the LTIS until the guideline is met. Unvested shares held under the PSP and LTIS are not taken into account.	Not applicable.

The committee will operate the incentive schemes within the policy detailed above and in accordance with their respective rules. In relation to the discretions included within the scheme rules, these include, but are not limited to: (i) who participates in the schemes; (ii) testing of the relevant performance targets; (iii) undertaking an annual review of performance targets and weightings; (iv) the determination of the treatment of leavers in line with the scheme rules; (v) adjustments to existing performance targets and/or share awards under the incentive scheme if certain relevant events take place (eg a capital restructuring, a material acquisition/divestment etc) with any such adjustments to result in the revised targets being no more or less challenging to achieve; and (vi) dealing with a change of control. For the purposes of incentive pay, EPS is calculated on an adjusted basis to show the EPS generated by the group's underlying operations.

Directors' remuneration policy continued

Arrangements from prior years

All variable remuneration arrangements previously disclosed in prior years' directors' remuneration reports will remain eligible to vest or become payable on their original terms and vesting dates, subject to any related clawback provisions.

Regulatory changes

The committee is mindful that regulatory changes in the financial services sector may result in a need to rebalance the executive directors' pay and, accordingly, the committee retains discretion to adjust the current proportions of fixed and variable pay within the current total remuneration package if new legislation were to impact the executive directors in due course. Should this be the case, the company would enter into appropriate dialogue with its major shareholders and, depending on the nature of any changes, may be required to seek shareholder approval for a revised remuneration policy.

Policy for new directors

Base salary levels will be set in accordance with the approved remuneration policy, taking into account the experience and calibre of the individual. Benefits will also be provided in line with the approved DRP and relocation expenses/arrangements may be provided if necessary.

The maximum level of variable pay that may be offered on an ongoing basis and the structure of remuneration will be in accordance with the approved DRP. This limit does not include the value of any buyout arrangements.

Any incentive offered above these limits would be contingent on the company receiving shareholder approval for an amendment to the approved DRP at its next AGM.

Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual and the point in the financial year that they join the company.

The above policy applies to both an internal promotion to the Board or an external hire.

In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving a previous employer), then the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration or benefit being forfeited will be taken into account. The company will not pay any more than necessary and will not pay more than the expected value of the remuneration or benefit being forfeited. The approved DRP will apply to the balance of the remuneration package. The company will also not make a golden hello payment.

In the case of an internal promotion, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the Board appointment), even if inconsistent with the policy prevailing when the commitment is fulfilled.

On the appointment of a new chairman or non-executive director, the fees will be set taking into account the experience and calibre of the individual. Where specific cash or share arrangements are delivered to non-executive directors, these will not include share options or other performance-related elements.

Choice of performance metrics

The performance metrics used for the annual bonus scheme, the LTIS and the PSP have been selected to reflect the key indicators of the group's financial performance.

EPS continues to be considered by the committee as one of the broadest and most well understood measures of the group's long-term financial performance and therefore it remains appropriate to maintain the option to use it as a key metric in our long-term incentive plans.

Furthermore, EPS is fully aligned with the group's objective of continuing to deliver a high dividend yield and thus is aligned with the shareholder base which is weighted towards longer-term income investors.

In 2012, the link to RPI was removed from the performance targets for the LTIS and PSP following consideration by the committee of various factors prevailing at the time. This approach has been retained in relation to awards under the PSP and the LTIS since 2012. Performance targets will, however, be assessed annually when setting targets for future awards to take account of prevailing rates of inflation.

In addition, TSR is used to provide an appropriate external balance to the internal EPS measure used under the LTIS and is consistent with delivering superior returns to shareholders which remains the group's key, over-arching, long-term objective.

From 2018, the committee plans to change the performance condition from absolute TSR to a more common relative TSR metric, in relation to a suitable comparator group for all new grants. Furthermore, the committee will introduce a post-vesting holding period of two years to all new LTIS grants, and have enhanced the withholding (malus) and recovery (clawback) provisions currently in place.

No performance targets are set for options granted under the company's Save As You Earn Scheme (SAYE) or for awards under the company's Share Incentive Plan (SIP) as they form part of the all-employee arrangements which are designed to encourage employee share ownership across the group.

Service contracts and exit policy

The committee ensures that the contractual terms for the executive directors take due account of best practice.

Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. All service contracts contain provisions for early termination. The contracts of the executive directors are dated 1 February 2018 for the Chief Executive Officer and 1 January 2008 for the Finance Director. All contracts operate on a rolling basis with 12 months' notice required to be served by either the executive director or the company.

An executive director's contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. No director has a service contract providing liquidated damages on termination.

In the event of the termination of a service contract, it is the current policy to seek mitigation of loss by the executive director concerned and to aim to ensure that any payment made is the minimum which is commensurate with the company's legal obligations. Payments in lieu of notice are not pensionable.

In the event of a change of control of the company, there is no enhancement to contractual terms.

Notice periods are limited to 12 months. If the company terminates the employment of an executive director without giving the period of notice required under the contract, then the executive director may be entitled to receive up to 12 months' compensation. Compensation is limited to: base salary due for any unexpired notice period; any amount assessed by the committee as representing the value of contractual benefits and pension which would have been received during the period; and any annual bonus which the executive director might otherwise have been eligible to receive on a pro rata basis, subject to the committee's assessment of financial and personal performance.

To the extent that an executive director seeks to bring a claim against the company in relation to the termination of their employment (e.g. for breach of contract or unfair dismissal), the committee retains the right to make an appropriate payment in settlement of such claims.

In the case of a termination by the company of the contract of any new executive director who has been appointed where a payment in lieu of notice is made, the committee would normally seek to limit this to base salary, pension and benefits for up to 12 months. An amount in respect of loss of annual bonus for the period of notice served (pro rata) would only be included in exceptional circumstances and would not apply in circumstances of poor performance. For the avoidance of doubt, in such exceptional circumstances, the director would be eligible to be considered in the normal way for an annual bonus for any period they have served as a director, subject to the normal assessment by the committee of financial and personal performance.

Any share-based entitlements granted to an executive director under the company's share incentive schemes will be determined by reference to the relevant scheme rules. In the case of a 'bad leaver' (e.g. resignation) awards will typically lapse and in certain 'good leaver' circumstances (e.g. ill-health) awards will remain eligible to vest subject to assessment of the relevant performance target and a pro rata reduction (unless the committee determines otherwise).

Any buyout arrangements agreed between the company and the relevant directors would be treated in accordance with the terms agreed on finalisation of the buyout arrangement.

Policy on other appointments

Executive directors are permitted to hold non-executive directorships but may only hold one non-executive directorship in a FTSE 100 company (and may retain the fees from their appointment) provided that the Board considers that this will not adversely affect their executive responsibilities.

Copies of directors' service contracts and/or letters of appointment are available from the Company Secretary on request.

Directors' remuneration policy continued

Non-executive directors

Non-executive directors are not employed under service contracts and do not receive compensation for loss of office. They are appointed for fixed terms of three years, renewable for a further three-year term and, in exceptional circumstances, further extended if both parties agree. Any such extension will be subject to annual reappointment by shareholders.

The table below shows details of the terms of appointment for the non-executive directors. All directors will seek reappointment at the forthcoming AGM.

Non-executive director remuneration policy

Element	Purpose and link to strategy	Operation including maximum levels
Fees	To attract and retain a high-calibre Chairman and non-executive directors by offering market competitive fees which reflect the individual's skills, experience and responsibilities.	The Chairman and non-executive directors receive annual fees (paid in monthly instalments). The fee for the Chairman is set by the remuneration committee and the fees for the non-executive directors are approved by the Board. The Chairman is paid an all-inclusive fee for all Board responsibilities. The other non-executive directors receive a basic non-executive director fee, with supplementary fees payable for additional responsibilities, including a fee for chairing a committee and, from 2017, for membership of the risk and audit committees (but not if performing a chairman role). The non-executive directors do not participate in any of the company's incentive arrangements. Relevant expenses and/or benefits may be provided to the non-executive directors. The fee levels are reviewed on a regular basis and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Flexibility is retained to go above the current fee levels and/or to provide the fees in a form other than cash (but not as share options or other performance-related incentives) if necessary to appoint a new Chairman or non-executive director of an appropriate calibre.

Terms of Appointment of the Non-executive directors

Name	Appointment	Date of most recent term	Expected & (Actual) date of expiry
Rob Anderson	2 March 2009	30 March 2015	**31 December 2018**
Stuart Sinclair	1 October 2012	31 October 2015	**31 October 2018**
Andrea Blance	1 March 2017	1 March 2017	**31 March 2020**
Alison Halsey	1 January 2014	1 January 2017	**(12 May 2017)**
David Sear	1 January 2017	1 January 2017	**(26 January 2018)**[1]
John Straw	1 January 2017	1 January 2017	**31 January 2020**

1 David Sear's term was expected to expire on 31 January 2020, prior to him stepping down from the Board on 26 January 2018.

Remuneration payments and payments for loss of office will only be made if consistent with this approved remuneration policy or otherwise approved by an ordinary resolution of shareholders.

Andrea Blance
Remuneration committee chairman
27 February 2018

Financial statements

Our results

The group continues to operate a financial model that is founded on investing in customer-centric businesses that offer attractive returns.

Financial statements

Consolidated income statement

For the year ended 31 December

	Note	Group 2017 £m	2016 £m
Revenue	1,2	**1,196.3**	1,183.2
Finance costs	3	**(77.0)**	(81.7)
Impairment charges		**(476.1)**	(298.8)
Administrative and operating costs		**(766.2)**	(458.8)
Total costs		**(1,319.3)**	(839.3)
(Loss)/profit before taxation	1,4	**(123.0)**	343.9
Profit before taxation, amortisation of acquisition intangibles and exceptional items	1,4	**109.1**	334.1
Amortisation of acquisition intangibles	11	**(7.5)**	(7.5)
Exceptional items	1	**(224.6)**	17.3
Tax charge	5	**(11.4)**	(81.0)
(Loss)/profit for the year attributable to equity shareholders		**(134.4)**	262.9

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Group 2017 £m	2016 £m
(Loss)/profit for the year attributable to equity shareholders		**(134.4)**	262.9
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	19	**17.5**	(0.1)
– gain on available for sale investment recycled to the income statement	15	**–**	(20.2)
– tax on items that will not be reclassified subsequently to the income statement	5	**(3.4)**	4.7
– impact of change in UK tax rate on items that will not be reclassified subsequently to the income statement	5	**0.4**	0.6
Items that may be reclassified subsequently to the income statement:			
– fair value movement on available for sale investment	15	**1.9**	3.1
– fair value movements on cash flow hedges	17	**0.2**	0.4
– exchange differences on translation of foreign operations		**(0.2)**	(1.2)
– tax on items that may be reclassified subsequently to the income statement	5	**(0.4)**	(0.1)
– impact of change in UK tax rate on items that may be reclassified subsequently to the income statement	5	**(0.1)**	–
Other comprehensive income/(expense) for the year		**15.9**	(12.8)
Total comprehensive (expense)/income for the year		**(118.5)**	250.1

(Loss)/earnings per share

For the year ended 31 December

	Note	Group 2017 pence	2016 pence
Basic	6	**(90.7)**	181.8
Diluted	6	**(90.7)**	179.9

Dividends per share

For the year ended 31 December

	Note	Group 2017 pence	2016 pence
Proposed final dividend	7	**–**	91.4
Total dividend for the year	7	**–**	134.6
Paid in the year*	7	**91.4**	124.1

* The total cost of dividends paid in the year was £133.4m (2016: £180.6m).

Balance sheets

As at 31 December

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
ASSETS					
Non-current assets					
Goodwill	10	**71.2**	71.2	**–**	–
Other intangible assets	11	**79.4**	78.1	**–**	–
Property, plant and equipment	12	**30.9**	30.3	**4.6**	6.8
Investment in subsidiaries	13	**–**	–	**482.3**	497.5
Financial assets:					
– amounts receivable from customers	14	**328.2**	307.6	**–**	–
– trade and other receivables	18	**–**	–	**76.9**	871.6
Retirement benefit asset	19	**102.3**	72.4	**102.3**	72.4
		612.0	559.6	**666.1**	1,448.3
Current assets					
Financial assets:					
– available for sale investments	15	**45.8**	8.0	**–**	–
– amounts receivable from customers	14	**1,981.2**	1,999.2	**–**	–
– cash and cash equivalents	21	**282.9**	223.7	**35.6**	31.2
– trade and other receivables	18	**44.0**	36.1	**744.4**	706.8
		2,353.9	2,267.0	**780.0**	738.0
Total assets	1	**2,965.9**	2,826.6	**1,446.1**	2,186.3
LIABILITIES					
Current liabilities					
Financial liabilities:					
– retail deposits	22	**(348.4)**	(185.3)	**–**	–
– bank and other borrowings	22	**(38.1)**	(135.1)	**(35.3)**	(132.5)
Total borrowings	22	**(386.5)**	(320.4)	**(35.3)**	(132.5)
– derivative financial instruments	17	**(0.1)**	(0.2)	**–**	–
– trade and other payables	23	**(115.8)**	(104.8)	**(106.7)**	(133.3)
Current tax liabilities		**(15.9)**	(65.6)	**(0.4)**	(5.1)
Provisions	24	**(104.6)**	–	**–**	–
		(622.9)	(491.0)	**(142.4)**	(270.9)
Non-current liabilities					
Financial liabilities:					
– retail deposits	22	**(943.4)**	(755.9)	**–**	–
– bank and other borrowings	22	**(844.2)**	(778.8)	**(844.2)**	(778.8)
Total borrowings	22	**(1,787.6)**	(1,534.7)	**(844.2)**	(778.8)
– derivative financial instruments	17	**–**	(0.1)	**–**	(0.1)
Deferred tax liabilities	20	**(20.3)**	(10.7)	**(15.9)**	(9.8)
		(1,807.9)	(1,545.5)	**(860.1)**	(788.7)
Total liabilities	1	**(2,430.8)**	(2,036.5)	**(1,002.5)**	(1,059.6)
NET ASSETS	1	**535.1**	790.1	**443.6**	1,126.7
SHAREHOLDERS' EQUITY					
Share capital	25	**30.7**	30.6	**30.7**	30.6
Share premium		**273.0**	272.7	**273.0**	272.7
Other reserves	27	**13.4**	24.3	**51.1**	634.9
Retained earnings		**218.0**	462.5	**88.8**	188.5
TOTAL EQUITY		**535.1**	790.1	**443.6**	1,126.7

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the company has not presented its own income statement or statement of other comprehensive income. The retained loss for the financial year reported in the financial statements of the company was £556.0m (2016: profit of £192.3m).

The financial statements on pages 128 to 186 were approved and authorised for issue by the Board of directors on 27 February 2018 and signed on its behalf by:

Malcolm Le May
Chief Executive Officer

Andrew Fisher
Finance Director

Company Number – 668987

Financial statements continued

Statements of changes in shareholders' equity

Group	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2016		30.5	270.7	35.6	370.9	707.7
Profit for the year		–	–	–	262.9	262.9
Other comprehensive (expense)/income:						
– actuarial movements on retirement benefit asset	19	–	–	–	(0.1)	(0.1)
– gain on available for sale investment recycled to the income statement	15	–	–	(20.2)	–	(20.2)
– fair value movement on available for sale investment	15	–	–	3.1	–	3.1
– fair value movements on cash flow hedges	17	–	–	0.4	–	0.4
– exchange differences on translation of foreign operations		–	–	–	(1.2)	(1.2)
– tax on items taken directly to other comprehensive income	5	–	–	4.6	–	4.6
– impact of change in UK tax rate	5	–	–	–	0.6	0.6
Other comprehensive expense for the year		–	–	(12.1)	(0.7)	(12.8)
Total comprehensive (expense)/income for the year		–	–	(12.1)	262.2	250.1
Transactions with owners:						
– issue of share capital	25	0.1	2.0	–	–	2.1
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	0.1	(0.1)	–
– share-based payment charge	26	–	–	10.9	–	10.9
– transfer of share-based payment reserve on vesting of share awards		–	–	(10.1)	10.1	–
– dividends	7	–	–	–	(180.6)	(180.6)
At 31 December 2016		30.6	272.7	24.3	462.5	790.1
At 1 January 2017		**30.6**	**272.7**	**24.3**	**462.5**	**790.1**
Loss for the year		**–**	**–**	**–**	**(134.4)**	**(134.4)**
Other comprehensive income/(expense):						
– actuarial movements on retirement benefit asset	19	**–**	**–**	**–**	**17.5**	**17.5**
– fair value movement on available for sale investment	15	**–**	**–**	**1.9**	**–**	**1.9**
– fair value movements on cash flow hedges	17	**–**	**–**	**0.2**	**–**	**0.2**
– exchange differences on translation of foreign operations		**–**	**–**	**–**	**(0.2)**	**(0.2)**
– tax on items taken directly to other comprehensive income	5	**–**	**–**	**(0.4)**	**(3.4)**	**(3.8)**
– impact of change in UK tax rate	5	**–**	**–**	**(0.1)**	**0.4**	**0.3**
Other comprehensive income for the year		**–**	**–**	**1.6**	**14.3**	**15.9**
Total comprehensive income/(expense) for the year		**–**	**–**	**1.6**	**(120.1)**	**(118.5)**
Transactions with owners:						
– issue of share capital	25	**0.1**	**0.3**	**–**	**–**	**0.4**
– purchase of own shares		**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards		**–**	**–**	**1.1**	**(1.1)**	**–**
– share-based payment credit	26	**–**	**–**	**(3.4)**	**–**	**(3.4)**
– transfer of share-based payment reserve on vesting of share awards		**–**	**–**	**(10.1)**	**10.1**	**–**
– dividends	7	**–**	**–**	**–**	**(133.4)**	**(133.4)**
At 31 December 2017		**30.7**	**273.0**	**13.4**	**218.0**	**535.1**

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings are shown after directly writing off cumulative goodwill of £1.6m. In addition, cumulative goodwill of £2.3m has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 27.

Statements of changes in shareholders' equity continued

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2016		30.5	270.7	633.8	171.3	1,106.3
Profit for the year		–	–	–	192.3	192.3
Other comprehensive (expense)/income:						
– actuarial movements on retirement benefit asset	19	–	–	–	(0.1)	(0.1)
– fair value movements on cash flow hedges	17	–	–	0.4	–	0.4
– tax on items taken directly to other comprehensive income		–	–	(0.1)	–	(0.1)
– impact of change in UK tax rate		–	–	–	0.6	0.6
Other comprehensive income for the year		–	–	0.3	0.5	0.8
Total comprehensive income for the year		–	–	0.3	192.8	193.1
Transactions with owners:						
– issue of share capital	25	0.1	2.0	–	–	2.1
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	0.1	(0.1)	–
– share-based payment charge	26	–	–	5.1	–	5.1
– transfer of share-based payment reserve on vesting of share awards		–	–	(5.1)	5.1	–
– share-based payment movement in investment in subsidiaries		–	–	0.8	–	0.8
– dividends	7	–	–	–	(180.6)	(180.6)
At 31 December 2016		30.6	272.7	634.9	188.5	1,126.7
At 1 January 2017		**30.6**	**272.7**	**634.9**	**188.5**	**1,126.7**
Loss for the year		**–**	**–**	**–**	**(556.0)**	**(556.0)**
Other comprehensive income/(expense):						
– actuarial movements on retirement benefit asset	19	**–**	**–**	**–**	**17.5**	**17.5**
– fair value movements on cash flow hedges	17	**–**	**–**	**0.1**	**–**	**0.1**
– tax on items taken directly to other comprehensive income		**–**	**–**	**–**	**(3.4)**	**(3.4)**
– impact of change in UK tax rate		**–**	**–**	**–**	**0.4**	**0.4**
Other comprehensive income for the year		**–**	**–**	**0.1**	**14.5**	**14.6**
Total comprehensive income/(expense) for the year		**–**	**–**	**0.1**	**(541.5)**	**(541.4)**
Transactions with owners:						
– issue of share capital	25	**0.1**	**0.3**	**–**	**–**	**0.4**
– purchase of own shares		**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards		**–**	**–**	**1.1**	**(1.1)**	**–**
– share-based payment credit	26	**–**	**–**	**(2.2)**	**–**	**(2.2)**
– transfer of share-based payment reserve on vesting of share awards		**–**	**–**	**(5.0)**	**5.0**	**–**
– share-based payment movement in investment in subsidiaries		**–**	**–**	**(6.4)**	**–**	**(6.4)**
– dividends	7	**–**	**–**	**–**	**(133.4)**	**(133.4)**
– transfer of non-distributable reserve following write downs of investment and loans to subsidiaries	13	**–**	**–**	**(571.3)**	**571.3**	**–**
At 31 December 2017		**30.7**	**273.0**	**51.1**	**88.8**	**443.6**

Other reserves are further analysed in note 27.

Financial statements continued

Statements of cash flows

For the year ended 31 December

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	31	**72.0**	147.8	**(76.1)**	(85.7)
Finance costs paid		**(73.7)**	(71.7)	**(49.9)**	(55.3)
Finance income received		**–**	–	**76.1**	83.8
Tax paid		**(55.0)**	(64.4)	**(5.1)**	(7.7)
Net cash (used in)/generated from operating activities		**(56.7)**	11.7	**(55.0)**	(64.9)
Cash flows from investing activities					
Purchase of intangible assets	11	**(20.5)**	(12.8)	**–**	–
Purchase of property, plant and equipment	12	**(12.2)**	(10.6)	**(0.3)**	(0.5)
Proceeds from disposal of property, plant and equipment	12	**1.7**	0.6	**0.7**	–
Proceeds from disposal of Visa shares held as an available for sale investment	15	**–**	12.2	**–**	–
Purchase of government gilts held as an available for sale investment	15	**(35.9)**	–	**–**	–
Long-term loans repaid by subsidiaries		**–**	–	**156.6**	47.5
Dividends received from subsidiaries		**–**	–	**70.2**	179.0
Net cash (used in)/generated from investing activities		**(66.9)**	(10.6)	**227.2**	226.0
Cash flows from financing activities					
Proceeds from bank and other borrowings		**650.0**	505.6	**106.0**	112.1
Repayment of bank and other borrowings		**(332.1)**	(248.8)	**(138.5)**	(60.0)
Dividends paid to company shareholders	7	**(133.4)**	(180.6)	**(133.4)**	(180.6)
Proceeds from issue of share capital	25	**0.4**	2.1	**0.4**	2.1
Purchase of own shares	27	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Net cash generated from/(used in) financing activities		**184.8**	78.2	**(165.6)**	(126.5)
Net increase in cash, cash equivalents and overdrafts		**61.2**	79.3	**6.6**	34.6
Cash, cash equivalents and overdrafts at beginning of year		**218.6**	139.3	**28.7**	(5.9)
Cash, cash equivalents and overdrafts at end of year		**279.8**	218.6	**35.3**	28.7
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	21	**282.9**	223.7	**35.6**	31.2
Overdrafts (held in bank and other borrowings)	22	**(3.1)**	(5.1)	**(0.3)**	(2.5)
Total cash, cash equivalents and overdrafts		**279.8**	218.6	**35.3**	28.7

Cash at bank and in hand includes £227.5m (2016: £168.9m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the Prudential Regulation Authority's (PRA) liquidity regime (see note 21). This buffer is not available to finance the group's day-to-day operations.

Statement of accounting policies

General information

The company is a public limited company incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, England, BD1 2SU. The company is listed on the London Stock Exchange.

Basis of preparation

The financial statements are prepared in accordance with IFRS adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments and Visa Inc. shareholdings 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 group and company's accounting policies.

Note 32 refers to the group and Vanquis Bank's regulatory capital positions and the intention to raise £300m by way of a proposed rights issue to meet the costs of resolving the FCA investigations, restore the group's prudent capital position, seek to maintain the group's investment grade rating and re-establish normal access to funding from the bank and debt capital markets.

As at 31 December 2017, the group's regulatory capital on a consolidated basis is below the minimum requirement set by the PRA. Without the benefit of the net proceeds from the proposed rights issue, the group would continue to be unable to meet its minimum regulatory capital requirement. In such event, there is a risk that the PRA would have the ability to exercise its wide-ranging powers over the group which could include a variation of the group's permissions, restricting the group's business, or, in conjunction with other regulatory bodies and authorities, imposing a resolution procedure on Vanquis Bank and/or any other member of the group under the UK Banking Act 2009, as amended. Even if the PRA were to exercise forbearance in respect of such breaches of minimum regulatory capital requirements, it could at a later date revisit that decision or the basis upon which any forbearance was granted. This could have a material adverse effect on the group's business, financial condition, results of operations, cash flows and prospects.

The group has agreed with its lending banks and M&G that they will amend or waive certain covenant compliance requirements under the terms of the revolving credit facility and the M&G term loan respectively. The net worth covenant has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant is being temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. If the proposed rights issue does not proceed the waivers obtained by the group will cease to remain effective and the bridge facility would also be due. In these circumstances, the group would seek to obtain further waivers of a breach of its financial covenants or the agreement of the lending banks and M&G not to accelerate repayment of the revolving credit facility and the M&G term loan respectively. However, if such waivers were not granted or such agreement was not forthcoming, then the accelerated repayment in full of any amounts outstanding thereunder might result in insolvency proceedings being initiated against the group which could result in shareholders losing all or a substantial amount of the value of their investment in the company.

The Board has concluded that the resolutions which are necessary for the proposed rights issue to proceed are likely to be passed and that the equity proceeds are likely to be raised in line with the timetable so that there will be no further breach of regulatory capital requirements or a breach of bank covenants once the capital is raised.

The Board acknowledges that there are risks that may prevent the proposed rights issue proceeding in line with the expected timetable or at all. There is a risk that sufficient shareholders will not vote in favour of the resolutions to enable the equity raise to occur. Note 32 explains that the proposed rights issue is fully underwritten subject to customary conditions. These conditions allow the underwriters to not fund the equity in a number of circumstances including there being a material adverse change in the affairs of the company or financial markets.

The Board believes that it is unlikely that the proposed rights issue will not occur but the consequences of not being successful indicate the existence of a material uncertainty. This may cast significant doubt about the group's and company's ability to continue as a going concern so it is appropriate to make full disclosure as required by accounting standards. The Board believes that adopting the going concern basis in preparing both the company and consolidated group financial statements is appropriate and the financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

The group has made the following disclosure reclassifications within the statutory financial statements for the year ended 31 December 2017 and within the financial information:

(a) Separate disclosure of impairment on the face of the income statement

Historically, costs have been analysed between operating costs, administrative costs and finance costs on the face of the income statement. Operating costs comprised impairment, agents' commissions and marketing and acquisition costs. However, under the new home credit operating model agent's commission costs have been replaced with salaries which will be shown under administrative costs. Given that impairment costs will comprise a significant proportion of the remaining operating costs and due to its significance to the group as a financial institution, it is considered appropriate to disclose impairment separately on the face of the income statement. The residual operating costs comprising marketing and acquisition costs have been incorporated within administrative and operating costs with 2016 comparatives reclassified.

(b) Separate disclosure of retail deposits on the face of the balance sheet

All external borrowings held by the group have historically been shown as 'bank and other borrowings' on the face of the balance sheet and split between current (where settlement is within the subsequent 12 months) and non-current (where settlement can be deferred beyond 12 months). Retail deposits have now become the most material part of the group's funding structure. Most retail deposit taking institutions disclose retail deposits separately on the face of the balance sheet and this disclosure has now been adopted by the group with 2016 comparatives reclassified.

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

(a) New and amended standards adopted by the group and company:

There have been no new or amended standards adopted in the financial year beginning 1 January 2017 which had a material impact on the group or company.

Statement of accounting policies continued

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not early adopted:

IFRS 9 'Financial instruments' is effective from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. The standard has been applied prospectively and prior year comparatives will not be restated.

IFRS 9 prescribes: (i) classification and measurement of financial instruments; (ii) expected loss accounting for impairment, and (ii) hedge accounting. The only area which materially affects the group is expected loss accounting for impairment. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss arising on default:

> Stage 1 – Accounts at initial recognition. The expected loss is based on a 12 month probability of default (PD), based on historic experience, and revenue is recognised on the gross receivable before impairment provision.

> Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historic experience, and recognised on the gross receivable before impairment provision.

> Stage 3 – Accounts which have missed a payment and are in arrears. Provisions are based on expected losses based on historic cash flows. Revenue is recognised on the net receivables after impairment provision. This stage is effectively the current IAS 39 treatment for impairment.

> Provisions are calculated based on an unbiased probability-weighted outcome which take into account historic performance and considers the outlook for macro-economic conditions.

The impairment approach under IFRS 9 differs from the current incurred loss model under IAS 39 where impairment provisions are only reflected when there is objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This will result in a one-off adjustment to receivables, deferred tax and reserves on adoption and will result in delayed recognition of profits. To illustrate the impact of IFRS 9, an unaudited pro forma 2017 income statement and balance sheet as at 31 December are presented on page 44.

The group's unaudited IFRS 9 profits in 2017 of £101.3m were £7.8m lower than IAS 39 profits. This reflects the impact of the growth in receivables in Vanquis Bank, Moneybarn and Satsuma partly offset by the impact of the shrinkage in home credit receivables. Profits in growing businesses tend to be lower under IFRS 9 whilst conversely profits of shrinking business tend to be higher.

The adoption of IFRS 9 into the opening balance sheet on 1 January 2018 results in a reduction in receivables of £223.4m, which net of deferred tax, results in a reduction in net assets of £172.5m.

Despite the adjustments required to receivables, net assets and earnings, it receivables, net assets and earnings, it is important to note that IFRS 9 only changes the timing of profits made on a loan. The group's underwriting and scorecards will be unaffected by the change in accounting, the ultimate profitability of loan is the same under both IAS 39 and IFRS 9 and more fundamentally the cash flows and capital generation over the life of a loan remain unchanged. The calculation of the group's bank covenants are unaffected by IFRS 9, as they are based on accounting standards in place at the time they were set. Based on finalised transitional arrangements, the regulatory capital impact of IFRS 9 will be phased in on a transitional basis over five years as follows: 5% from the start of 2018, 15% in 2019, 30% in 2020, 50% in 2021, 75% in 2022 and 100% from the start of 2023.

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

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

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The classification of cash flows will be also affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

The group and company are in the process of assessing the impact of the standard and will adopt from the effective date of 1 January 2019.

Basis of consolidation

The consolidated income statement, consolidated statement of comprehensive income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and notes to the financial statements include the financial statements of the company and all of its subsidiary undertakings drawn up from the date control passes to the group until the date control ceases.

Control is achieved when the group:

> Has the power over the investee;

> Is exposed, or has rights, to variable return from its involvement with the investee; and

> Has the ability to use its power to affect returns.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

The accounting policies of subsidiaries are consistent with the accounting policies of the group.

Revenue

Revenue comprises interest and fee income earned by Vanquis Bank and Moneybarn and interest income earned by the Consumer Credit Division (CCD).

Revenue excludes value added tax and intra-group transactions.

Within Vanquis Bank, interest is calculated on credit card advances to customers using the effective interest rate on the daily balance outstanding. Annual fees charged to customers' credit card accounts are recognised as part of the effective interest rate. Penalty charges and other fees are recognised at the time the charges are made to customers on the basis that performance is complete.

Within CCD and Moneybarn, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers repaying early but excluding the anticipated impact of customers paying late or not paying at all. Directly attributable incremental issue costs are also taken into account in calculating the effective interest rate. Interest income continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value.

Finance costs

Finance costs principally comprise the interest on retail deposits, bank and other borrowings and, for the company, on intra-group loan arrangements, and are recognised on an effective interest rate basis. Finance costs also include any fair value movement on those derivative financial instruments held for hedging purposes which do not qualify for hedge accounting under IAS 39.

Dividend income

Dividend income is recognised in the income statement when the company's right to receive payment is established.

Goodwill

All acquisitions are accounted for using the purchase method of accounting.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units which are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cash flows from the relevant cash-generating unit. Expected future cash flows are derived from the group's latest budget projections and the discount rate is based on the group's weighted average cost of capital at the balance sheet date.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Impairment is calculated by comparing the carrying value of the investment with the higher of the net asset value of the relevant subsidiary and its discounted expected future cash flows.

Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the group and company are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Other intangible assets

Other intangible assets include acquisition intangibles in respect of the broker relationships at Moneybarn and stand-alone computer software development costs of intangible assets across the group.

The fair value of Moneybarn's broker relationships on acquisition was estimated by discounting the expected future cash flows from Moneybarn's core broker relationships over their estimated useful economic life which was deemed to be 10 years. The asset is being amortised on a straight-line basis over its estimated useful life.

Computer software and computer software development assets represent the costs incurred to acquire or develop software and bring it into use. Directly attributable costs incurred in the development of software are capitalised as an intangible asset if the software will generate future economic benefits. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software and computer software development costs are amortised on a straight-line basis over their estimated useful economic life which is generally estimated to be between three and 10 years. The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Other intangible assets are valued at cost less subsequent amortisation. Amortisation is charged to the income statement as part of administrative costs.

Foreign currency translation

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

Transactions that are not denominated in the group's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as effective cash flow hedges.

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

Statement of accounting policies continued

Amounts receivable from customers

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

The group assesses whether there is objective evidence that customer receivables are impaired at each balance sheet date. The principal criteria for determining whether there is objective evidence of impairment is delinquency in contractual payments.

Within Vanquis Bank credit cards and loans, Satsuma's monthly business and Moneybarn, where repayments are typically made monthly, customer balances are deemed to be impaired when one monthly contractual payment is missed. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cash flows discounted at the original effective interest rate. Estimated future cash flows are based on the historical performance of customer balances falling into different arrears stages and are regularly reassessed.

Separate provisions are raised where forbearance is provided to the customer and alternative payment arrangements are established. Accounts under payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows under that payment arrangement, discounted at the original effective interest rate.

Within the weekly home credit and Satsuma's weekly business, objective evidence of impairment is based on the payment performance of loans in the previous 12 weeks as this is considered to be the most appropriate indicator of credit quality. Loans are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate significantly. Loans with one missed weekly payment over the previous 12-week period are not deemed to be impaired. The amount of impairment loss is calculated on a portfolio basis by reference to arrears stages 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.

In Vanquis Bank and Moneybarn, impairment is recorded through the use of an allowance account whilst in CCD impairment charges are deducted directly from the carrying value of receivables.

Property, plant and equipment

Property, plant and equipment is shown at cost less accumulated depreciation and impairment, except for land, which is shown at cost less impairment.

Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable values over their useful economic lives.

The following principal bases are used:

	%	Method
Land	Nil	–
Short leasehold buildings	Over the lease period	Straight line
Equipment (including computer hardware)	10 to 33⅓	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, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use and its fair value less costs to sell. Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying value of the asset and are recognised within administrative costs in the income statement.

Depreciation is charged to the income statement as part of administrative costs.

Available for sale investments

Available for sale investments includes UK government gilts and equity investment holdings.

Government gilts comprise UK government gilts which form part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime. The gilts had a maturity on origination in excess of three months and are therefore disclosed as an available for sale investment.

Equity investment holdings are measured at fair value in the balance sheet as a reliable estimate of the fair value can be determined.

Fair value changes on AFS assets including any impairment losses and foreign exchange gains or losses are recognised directly in equity through other comprehensive income. The fair value of AFS monetary assets denominated in foreign currency are determined through translation at the spot rate at the balance sheet date.

Dividends on AFS equity instruments are recognised in the income statement when the group's right to receive the dividends is established.

The cumulative gain or loss that is recognised in equity is recycled to the income statement on disposal of the equity holding.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand which includes amounts invested in the Bank of England account held in accordance with the Prudential Regulation Authority's (PRA) liquidity regime. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Derivative financial instruments

The group and company use derivative financial instruments, principally interest rate swaps and forward contracts, to manage the interest rate and foreign exchange rate risk arising from the group's operations in the UK and Republic of Ireland. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39, 'Financial instruments: Recognition and measurement'. Derivative financial instruments that meet the hedge accounting requirements of IAS 39 are designated as either: hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operations.

The relationship between hedging instruments and hedged items is documented at the inception of a transaction, as well as the risk management objectives and strategy for undertaking various hedging transactions. The assessment of whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items is documented, both at the hedge inception and on an ongoing basis.

Derivative financial instruments are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date to their fair value. Where derivative financial instruments do not qualify for hedge accounting, movements in the fair value are recognised immediately within the income statement. Where hedge accounting criteria have been met, the resultant gain or loss on the derivative financial instrument is recognised as follows:

Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts deferred in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Hedge accounting for cash flow hedges is discontinued when:

> it is evident from testing that a derivative financial instrument is not, or has ceased to be, highly effective as a hedge; or

> the derivative financial instrument expires, or is sold, terminated or exercised; or

> the underlying hedged item matures or is sold or repaid.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss deferred in equity at that time is immediately transferred to the income statement.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 17. Movements on the hedging reserve in shareholders' equity are shown in note 27. The full fair value of a derivative financial instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months from the balance sheet date and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months from the balance sheet date.

Net investment hedges

The group uses a combination of borrowings denominated in overseas currencies and foreign currency forward contracts as a hedge against the translation exposure on the company's net investment in overseas branches. Where the hedge is fully effective at hedging the variability in the net assets of those operations and/or the company's investment caused by changes in exchange rates, the changes in value of the borrowings and forward contracts are recognised in the statement of comprehensive income and accumulated in the hedging reserve. When a hedge is no longer deemed to be highly effective, the ineffective part of any change in value caused by changes in exchange rates is recognised in the income statement. Amounts recognised in equity are recycled to the income statement on disposal of the foreign operation.

Borrowings

Borrowings are recognised initially at fair value, being issue proceeds less any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds less transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate.

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

Dividends paid

Dividend distributions to the company's shareholders are recognised in the group and company's financial statements as follows:

> Final dividend: when approved by the company's shareholders at the annual general meeting; and

> Interim dividend: when paid by the company.

Retirement benefits

Defined benefit pension schemes

The charge in the income statement in respect of defined benefit pension schemes comprises the actuarially assessed current service cost of working employees, together with the interest on pension liabilities offset by the interest on pension scheme assets. All charges are recognised within administrative costs in the income statement.

The retirement benefit asset recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of the schemes' assets less the present value of the defined benefit obligation at the balance sheet date. A retirement benefit asset is recognised to the extent that the group and company have an unconditional right to a refund of the asset or if it will be recovered in future years as a result of reduced contributions to the pension scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement.

Defined contribution pension schemes

Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's share capital, the consideration paid, including any directly attributable incremental costs, is included within a treasury shares reserve and deducted from equity until the shares are no longer held by a group company or cancelled. Where such shares are reissued outside of the group, any consideration received, net of any directly attributable transaction costs, is included within the treasury shares reserve.

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)) and makes awards under the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS). All of these schemes are equity-settled.

The cost of providing options and awards to group and company employees is charged to the income statement of the entity over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The grant by the company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the company's financial statements. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding adjustment to the share-based payment reserve within equity.

The cost of options and awards is based on their fair value. For PSP schemes, the performance conditions are based on earnings per share (EPS). Accordingly, the fair value of options and awards is determined using a binomial option pricing model which is a suitable model for valuing options with internal related targets such as EPS. A binomial model is also used for calculating the fair value of SAYE options which have no performance conditions attached. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

For LTIS schemes, performance conditions are based on either divisional profit before tax, EPS or Total Shareholder Return (TSR) targets. Accordingly, the fair value of awards is determined using a combination of the binomial and Monte Carlo option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses. Where the Monte Carlo option pricing model is used to determine fair value of the TSR component, no adjustment is made to reflect expected or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest or lapse. In respect of the SAYE options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised.

Cash-settled schemes

The company also grants awards under the Provident Financial Equity Plan (PFEP) to eligible employees based on a percentage of their salary. The cost of the awards is based on the performance conditions of either divisional profit before tax, EPS, TSR or share price growth. The scheme is cash settled.

The cost of the award is charged to the income statement over the vesting period and a corresponding credit is made within liabilities. The value of the charge is adjusted at each balance sheet date to reflect expected levels of vesting.

Taxation

The tax charge represents the sum of current and deferred tax.

Current tax

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

Deferred tax

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Contingent liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but information about them is disclosed unless the possibility of any economic outflow in relation to settlement is remote.

Exceptional items

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

Supplementary information

In order to assist users of the financial statements, supplementary commentary has been provided within the financial statements within highlighted boxes. This supplementary information does not form part of the statutory, audited financial statements.

Critical accounting assumptions and key sources of estimation uncertainty

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

Amounts receivable from customers (£2,309.4m)

The group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages and cohorts which are considered to be the most reliable indication of future payment performance. The group makes assumptions to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows.

Customer accounts in Vanquis Bank, Moneybarn and on the Satsuma monthly product are deemed to be impaired when one contractual monthly payment has been missed. In CCD receivables are deemed to be impaired when the cumulative amount of two or more contractual 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.

Key sources of estimation uncertainty:

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

> To the extent that the net present value of estimated future cash flows differs by +/– 1%, it is estimated that the amounts receivable from customers would be approximately £23m (2016: £23m) higher/lower. Given the recent trading performance of the home credit business, the suitability of the 1% sensitivity has been reviewed and considered appropriate given ongoing improvement in collections performance and the linear relationship of the impact.

Retirement benefit asset (£102.3m)

Key sources of estimation uncertainty:

> The valuation of the retirement benefit asset is dependent upon a series of assumptions; the key assumptions being mortality rates, the discount rate applied to liabilities and inflation rates. The most significant assumption which could lead to material adjustment is a change in mortality rates; and

> Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the group's own expected experience. Discount rates are based on the market yields of high quality corporate bonds which have terms closely linked with the estimated term of the retirement benefit obligation. Inflation assumptions reflect long-term market expectations for retail price inflation.

Sensitivity analysis of the group's main assumptions is set out in note 19.

Provisions for customer restitution costs (£104.6m)

Provisions for customer restitution are established based on the following conditions being present: (i) a present obligation (legal or constructive) has arisen as a result of a past event; (ii) payment is probable (more likely than not); and (iii) the amount can be estimated reliably. Judgement is applied to determine whether the criteria for establishing a provision have been met, including obtaining legal advice from the group's lawyers. Any provisions established are based on either: (i) the basis of any settlement agreed with the FCA; (ii) any future claims which may arise outside the settlement agreement reached with the FCA; and (iii) the expected costs of administering the restitution programme.

Judgement is applied to determine the quantum of such liabilities, particularly those relating to future claims volumes, including making assumptions regarding the number of future complaints that will be received and the extent to which they will be upheld, average restitution payments and related administrative costs. Past experience is used as a predictor of future expectations with management applying overlays where necessary depending on the nature and circumstances of any restitution programme.

The total amount provided for redress represents the group's best estimate of the likely future cost. However a number of risks and uncertainties remain in particular with respect to future claim volumes outside of any settlement agreed with the FCA. The cost could differ from the group's estimates and the assumptions underpinning them, and could result in a further provision being required.

Key sources of estimation uncertainty:

> There is significant uncertainty around the impact of the proposed regulatory changes, FCA media campaign and Claims Management Companies and customer activity; and

> Sensitivity analysis of the group's main assumptions is set out in note 24.

Financial and capital risk management

Financial risk management

The group's activities expose it to a variety of financial risks, which can be categorised as credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The objective of the group's risk management framework is to identify and assess the risks facing the group and to minimise the potential adverse effects of these risks on the group's financial performance. Financial risk management is overseen by the risk advisory committee.

Further details of the group's risk management framework are described on pages 80 to 84.

(a) Credit risk

Credit risk is the risk that the group 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 group's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2017 is the carrying value of amounts receivable from customers of £2,309.4m (2016: £2,306.8m).

Vanquis Bank

Credit risk within Vanquis Bank is managed by the Vanquis Bank credit committee which meets at least quarterly and is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy.

A customer's risk profile and the affordability of the credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historic payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income and employment and data from an external credit bureau. Potential new customers receive a welcome call from the company's contact centre to verify details and complete the underwriting process. Initial credit limits are low, typically between £250 and £500 and the maximum credit limit is £4,000.

For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders' data. Credit lines can go up as well as down according to this point-in-time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing or appropriate forbearance arrangements are put in place.

CCD

Credit risk within CCD is managed by the CCD credit committee which meets at least every two months and is responsible for approving credit control policy and decisioning strategy.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, and a home visit in the home credit business to make a decision on applications for credit.

The loans offered by the weekly home credit business are short term, typically a contractual period of around a year, with an average value of approximately £600. The loans are underwritten in the home by a Customer Experience Manager (CEM) with emphasis placed on any previous lending experience with the customer, affordability and the CEM's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the CEM typically visits the customer weekly, to collect payment. The CEM is well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the CEM has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This can be in the form of taking part-payments, allowing missed payments or occasionally restructuring the debt in order to maximise cash collections.

Affordability is reassessed by the CEM each time an existing customer is re-served, or not as the case may be. This normally takes place within 12 months of the previous loan because of the short-term nature of the product.

Arrears management within the home credit business is a combination of central letters, central telephony, and field activity undertaken by field management. This will often involve a home visit to discuss the customer's reasons for non-payment and to agree a suitable resolution.

Moneybarn

Credit risk within Moneybarn is managed by the Moneybarn credit committee which meets at least monthly and is responsible for approving underwriting parameters, decisioning strategy and credit control policy.

A customer's credit risk profile and ability to afford the proposed contract is initially evaluated both at the point of application, and subsequently should the customer fall into arrears. A scorecard based on historic payment patterns of customers is used to assess the applicant's potential default risk. The scorecard incorporates data from the applicant, such as income and employment, and data from an external credit bureau. The application assessment process involves verification of key aspects of the customer data. Certain policy rules including customer age, proposed loan size and vehicle type are also assessed in the decisioning process, as well as affordability checks to ensure that, at the time of application, the customer can afford the loan repayments.

Arrears management is conducted by way of a combination of letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing and retaining use of the vehicle. These include appropriate forbearance arrangements, or where the contract has become unsustainable for the customer, then an appropriate exit strategy is implemented.

Financial risk management continued

(ii) Bank and government counterparties

The group's maximum exposure to credit risk on bank and government counterparties as at 31 December 2017 was £301.7m (2016: £200.7m).

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 PRA.

(b) Liquidity risk

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

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

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fully fund itself through retail deposits and repay its intercompany loan from Provident Financial plc. As at 31 December 2017, the group's committed borrowing facilities had a weighted average period to maturity of 2.2 years (2016: 2.5 years) and the headroom on these committed facilities amounted to £66.2m.

In addition, the group has additional funding capacity for Vanquis Bank to take retail deposits of £76.9m and cash resources held of £34.3m. Funding capacity as at 31 December 2017 is as follows:

Funding capacity

	£m
Headroom on committed facilities at 31 December 2017	66.2
Additional retail deposit capacity	76.9
Cash on deposit	34.3
Total funding capacity	177.4

In 2017, 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.

As a PRA regulated institution, Vanquis Bank is required to maintain a liquid assets buffer, and other liquid resources, based upon daily stress tests, in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. As at 31 December 2017, the liquid assets buffer, including other liquidity resources, held by Vanquis Bank amounted to £263.4m (2016: £168.9m), comprising £227.5m (2016: £168.9m) held within cash and cash equivalents and £35.9m (£2016:£nil) held as an available for sale investment.

Both the group and Vanquis Bank are required to meet the liquidity coverage ratio (LCR). The LCR requires institutions to match net liquidity outflows during a 30-day period with a buffer of 'high-quality' liquid assets.

The group and Vanquis Bank developed systems and controls to monitor and forecast the LCR and have been submitting regulatory reports on the ratio since 1 January 2014. The group's LCR at 31 December 2017 amounted to 189% (2016: 207%). Both the group and Vanquis Bank continue to meet the LCR requirements.

On 20 February 2018 the company entered into an £85m bridge facility with Barclays Bank plc and JP Morgan Securities plc. The bridge facility will be used to provide sufficient funds to allow Vanquis Bank to draw down £85m under an intercompany term loan between Provident Financial plc and Vanquis Bank, providing Vanquis Bank with an additional £85m of funding which Vanquis Bank intends to hold as additional liquid resources. At the same time, committed headroom under an existing intercompany facility was cancelled and will, in the future, reduce the reliance of Vanquis Bank on Provident Financial plc in due course. Subject to the success of the proposed rights issue, the net proceeds of £300m will be received on 12 April 2018 and £85m of the proceeds will be used to repay the bridge facility. £50m of the proceeds will be injected into Vanquis Bank via a subscription of equity. The capital injection will be used by Vanquis Bank, together with its cash and additional borrowings from retail depositors, to pay for the costs of resolving the FCA's investigation into ROP. Subject to regulatory approval and the liquidity profile of Vanquis Bank continuing to be satisfactory, Vanquis Bank intends to repay the intercompany loan facility provided by Provident Financial by 2019 and be fully funded through retail deposits thereafter.

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 shown below.

Financial and capital risk management continued

Financial risk management continued

The table below shows the future cash payable under current drawings. This reflects both the interest payable and the repayment of the borrowing on maturity. Due to the seasonal nature of the home credit business, drawings under the group's revolving bank facilities are typically drawn for only three months at any time despite having the ability to draw the borrowings for much longer under the committed borrowing facility. In the table below, the cash flows of borrowings made under the group's syndicated revolving bank facility are required to be shown as being due within one year, despite the group having the ability to redraw these amounts until the contractual maturity of the underlying facility.

Financial liabilities

2017 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Retail deposits	–	363.6	288.8	712.0	–	1,364.4
Bank and other borrowings:						
– bank facilities	3.1	388.5	–	–	–	391.6
– senior public bonds	–	20.0	270.0	–	–	290.0
– private placement loan notes	–	38.7	17.9	52.1	–	108.7
– retail bonds	–	8.9	8.8	108.2	63.1	189.0
Total borrowings	3.1	819.7	585.5	872.3	63.1	2,343.7
Trade and other payables	–	115.8	–	–	–	115.8
Total	3.1	935.5	585.5	872.3	63.1	2,459.5

Financial assets

2017 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Trade and other receivables	–	44.0	–	–	–	44.0
Total	–	44.0	–	–	–	44.0

Financial liabilities

2016 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Retail deposits	–	194.5	211.5	600.7	–	1,006.7
Bank and other borrowings:						
– bank facilities	5.1	275.6	–	–	–	280.7
– senior public bonds	–	20.0	20.0	270.0	–	310.0
– private placement loan notes	–	15.4	47.3	69.9	–	132.6
– retail bonds	–	137.2	8.9	114.0	66.2	326.3
Total borrowings	5.1	642.7	287.7	1,054.6	66.2	2,056.3
Derivative financial instruments – settled net	–	0.1	–	–	–	0.1
Trade and other payables	–	104.8	–	–	–	104.8
Total	5.1	747.6	287.7	1,054.6	66.2	2,161.2

Financial assets

2016 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled net	–	0.1	–	–	–	0.1
Trade and other receivables	–	36.1	–	–	–	36.1
Total	–	36.2	–	–	–	36.2

Financial risk management continued

(c) Interest rate risk

Interest rate risk is the risk of a change in external interest rates which leads to an increase in the group's cost of borrowing.

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

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

A 2% movement in the interest rate applied to borrowings during 2017 and 2016 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged.

(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 2017 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. In 2016 the available for sale investment held by Vanquis Bank in respect of Visa Europe Limited, up until Visa Inc.'s acquisition of Visa Europe on 21 June 2016, and then Visa Inc. following the acquisition. Prior to completion of the acquisition, the available for sale investment comprised expected upfront euro cash consideration, which was hedged through matching the cash consideration with euro-denominated borrowings, together with deferred consideration of preferred stock which was convertible into US dollar denominated Class A common stock of Visa Inc. on completion of the transaction. Due to the inherent uncertainty of the valuation and timing of completion, the valuation of the common stock was not hedged. Following completion of the acquisition, the US dollar denominated Class A common stock of Visa Inc. and an element of euro-denominated deferred cash consideration have not been hedged due to the inherent uncertainty of the valuation and timing of any cash flows.

As at 31 December 2017, a 2% movement in the sterling to euro exchange rate would have led to a £0.9m (2016: £1.2m) movement in customer receivables with an opposite movement of £0.9m (2016: £1.2m) 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.

As at 31 December 2017, a 2% movement in the sterling to euro exchange rate would have led to a £nil (2016: £0.2m) movement in the available for sale investment and a £nil impact on reported profits and equity (2016: £0.2m).

As at 31 December 2017, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.2m (2016: £0.1m) movement in the available for sale investment. Due to the US dollar element relating to the unhedged deferred consideration at 31 December 2016, there would have been a £0.2m impact on reported profits and equity.

(e) Market risk

Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Capital risk management

The group's results in 2017 have been adversely impacted by the significant losses incurred by CCD's home credit business as a result of the operational disruption following the transition to a new operating model and the estimated costs associated with the resolution of the FCA investigation into Vanquis Bank and the ongoing FCA investigation into affordability, forbearance and termination options in Moneybarn.

The group is seeking to raise additional capital of approximately £300.0m (£331m gross proceeds before deduction of expenses of £31m) through a fully underwritten rights issue. During February 2018, the group shared a revised capital plan with the PRA, which incorporated the proposed rights issue. As a result, on a fully loaded basis, the group's minimum regulatory capital requirement was increased, primarily due to an increase of approximately £100m in respect of conduct and operational risk assessments. As a result, on a fully loaded basis, the group's minimum regulatory capital requirement going forward is a CET ratio of 25.5%. The successful completion of the rights issue will ensure that the group has the appropriate levels of regulatory capital to meet its current and future regulatory capital requirements and strengthens its balance sheet with the appropriate level of buffers in order to enable it to capture underlying organic growth opportunities. In addition, the rights issue will allow the group to seek to maintain its investment grade rating and should re-establish normal access to funding from the bank and debt capital markets.

To support the delivery of the group's strategy, the group will continue to operate a financial model which is founded on investing in customer-centric businesses which offer attractive returns and which aligns an appropriate capital structure with the group's dividend policy and future growth plans whilst maintaining sufficient regulatory capital headroom.

Going forward, the group will fund its receivables book through a combination of 25% equity and 75% debt. This equates to meeting the group's minimum regulatory capital requirement of a CET 1 ratio of 25.5%. Accordingly, the capital generated by the group will be calculated as cash generated from operating activities, after assuming that 75% of the growth in customer receivables is funded with borrowings, less net capital expenditure.

Financial and capital risk management continued

Capital risk management continued

Regulatory capital

As a result of holding a banking licence and accepting retail deposits, Vanquis Bank is regulated by the PRA which sets requirements for Vanquis Bank as an individual entity relating to capital adequacy, liquidity and large exposures. Vanquis Bank is also regulated by the FCA for conduct purposes. In addition, the group, incorporating Vanquis Bank, CCD and Moneybarn, is the subject of consolidated supervision by the PRA as Provident Financial plc being the parent company of Vanquis Bank. The PRA sets requirements for the consolidated group in respect of capital adequacy, liquidity and large exposures.

The minimum amount of regulatory capital held by the group and Vanquis Bank represents the higher of the PRA imposed requirement, being their respective Target Capital Requirement (TCR) together with the CRD IV stipulated buffers, and their respective internal assessments of minimum capital requirements based upon an assessment of risks facing the group. The Internal Capital Adequacy Assessment Process (ICAAP) considers all risks facing the business, including credit, operational, counterparty, conduct, pension and market risks, and assesses the capital requirement for such risks in the event of downside stresses.

In addition, the group and Vanquis Bank continually monitor and assess the internal assessment of minimum regulatory capital requirements. The minimum regulatory capital requirements of each of Vanquis Bank and the group reflects the expected TCR, together with a fixed add-on in respect of pension risk, expected to be effective from April 2018 following completion of the rights issue. The group's and Vanquis Bank's minimum regulatory capital requirements are expected to be 25.5% and 24.9% of total risk weighted assets respectively. These assessments include fully loaded CRD IV buffers of 3.5% of total risk weighted assets, the minimum Pillar 1 prescribed requirement of 8.0% of risk weighted assets and Pillar 2a regulatory capital requirements of 14.0% and 13.4% of total risk weighted assets for the group and Vanquis Bank, respectively.

A reconciliation of the group's equity to regulatory capital, is set out below:

	2017					2016
Regulatory capital	Pre FCA investigations £m	FCA investigations[1] £m	**Reported £m**	Rights issue[2] £m	Pro forma unaudited £m	Reported £m
Net assets	729.6	(194.5)	**535.1**	300.0	835.1	790.1
Pension	(102.3)	–	**(102.3)**	–	(102.3)	(72.4)
Deferred tax on pension	17.4	–	**17.4**	–	17.4	12.3
Hedging reserve	–	–	**–**	–	–	0.2
Goodwill	(71.2)	–	**(71.2)**	–	(71.2)	(71.2)
Other intangible assets	(79.4)	–	**(79.4)**	–	(79.4)	(78.1)
Deferred tax on acquired intangible asset	8.5	–	**8.5**	–	8.5	9.8
Proposed dividend	–	–	**–**	–	–	(132.9)
Total regulatory capital (Tier 1)	502.6	(194.5)	**308.1**	300.0	608.1	457.8
Risk weighted exposures	2,185.1	(67.1)	**2,118.0**	–	2,118.0	2,091.8
CET 1	23.0%		**14.5%**		28.7%	21.9%

1 Comprises the estimated cost of the ROP settlement in Vanquis Bank of £172.1m and the estimated cost of £20.0m in respect of the ongoing FCA investigation at Moneybarn together with a net tax charge on these costs of £2.4m.

2 Expected net proceeds from the proposed rights issue of £300.0m.

The group's CET 1 ratio prior to the recognition of the expected impact of the FCA investigations at Vanquis Bank and Moneybarn increased from 21.9% at 31 December 2016 to 23.0% at 31 December 2017. After recognising the exceptional costs in respect of FCA investigations, the group's CET 1 decreased to 14.5% at 31 December 2017, which is below the group's minimum regulatory capital requirement. On an unaudited pro forma basis, after assuming completion of the proposed rights issue, the CET 1 ratio increases to 28.7%, comfortably higher than the group's revised TCR.

IFRS 9 'Financial instruments' is effective from 1 January 2018. Based on finalised transitional arrangements, the regulatory capital impact of IFRS 9 will be phased in on a transitional basis over five years. The group's future capital generation, together with the minimum dividend cover target of 1.4 times is expected to absorb the transitional impact of IFRS 9.

The treasury committee is responsible for monitoring the level of regulatory capital. The level of surplus regulatory capital against the TCR is reported to the Board on a monthly basis in the group's management accounts.

Capital risk management continued

Borrowings to tangible net worth

To seek to maintain its investment grade rating, the group targets a borrowings to tangible net worth ratio of 2.8 times or below. The calculation of borrowings to tangible net worth is set out below:

	2017					2016
	Pre FCA settlements £m	FCA settlements[1] £m	**Reported £m**	Rights issue[2] £m	Pro forma unaudited £m	Reported £m
Total borrowings	2,174.1	–	**2,174.1**	(165.0)	2,009.1	1,855.1
Less cash on deposits	(35.6)	–	**(35.6)**	–	(35.6)	(30.0)
Net borrowings	2,138.5	–	**2,138.5**	(165.0)	1,973.5	1,825.1
Net assets	729.6	(194.5)	**535.1**	300.0	835.1	790.1
Goodwill	(71.2)	–	**(71.2)**	–	(71.2)	(71.2)
Other intangible assets	(79.4)	–	**(79.4)**	–	(79.4)	(78.1)
Deferred tax on acquired intangible asset	8.5	–	**8.5**	–	8.5	9.8
Tangible net worth	587.5	(194.5)	**393.0**	300.0	693.0	650.6
Borrowings to tangible net worth	3.6		**5.4**		2.8	2.8

1 Comprises the estimated cost of the ROP settlement in Vanquis Bank of £172.1m and the estimated cost of £20.0m in respect of the ongoing FCA investigation at Moneybarn together with a net tax charge on these costs of £2.4m.

2 Expected net proceeds from the proposed rights issue of £300.0m with £165.0m applied as a reduction in borrowings and £135.0m applied as an increase in the liquid assets buffer.

The group's underlying borrowings to tangible net worth ratio has increased from 2.8 times at 31 December 2016 to 3.6 times at 31 December 2017 reflecting the significant losses in the home credit businesses, the strong growth in Vanquis Bank, Moneybarn and Satsuma receivables and payment of the £133.4m 2016 final dividend in June 2017. After recognising the exceptional costs in respect of the FCA investigations, the group's borrowings to tangible net worth ratio increases to 5.4 times before decreasing to 2.8 times on an unaudited pro forma basis after the proposed rights issue.

The group's credit rating from Fitch ratings was downgraded from BBB to BBB- and placed on ratings watch negative following the group's announcement on 22 August 2017.

Gearing

In order to maintain an efficient capital structure, the group historically targeted a gearing ratio of 3.5 times. As a result of the expected increase in the group's regulatory capital requirements following the proposed rights issue, the group's minimum regulatory capital requirement as opposed to gearing will be the main determinant of the group's capital structure going forward. The group's gearing covenant is calculated as follows:

	2017					2016
	Pre FCA settlements £m	FCA settlements[1] £m	**Reported £m**	Rights issue[2] £m	Pro forma unaudited £m	Reported £m
Total borrowings	2,174.1	–	**2,174.1**	(165.0)	2,009.1	1,855.1
Liquid assets buffer	(263.4)	–	**(263.4)**	(135.0)	(398.4)	(168.9)
Arrangement fees	4.8	–	**4.8**	–	4.8	2.2
Borrowings for gearing purposes	1,915.5	–	**1,915.5**	(300.0)	1,615.5	1,688.4
Net assets	729.6	(194.5)	**535.1**	300.0	835.1	790.1
Pension	(102.3)	–	**(102.3)**	–	(102.3)	(72.4)
Other intangible assets	17.4	–	**17.4**	–	17.4	12.3
Hedging reserve	–	–	**–**	–	–	0.2
Net assets for gearing purposes	644.7	(194.5)	**450.2**	300.0	750.2	730.2
Gearing	3.0		**4.3**		2.2	2.3

1 Comprises the estimated cost of the ROP settlement in Vanquis Bank of £172.1m and the estimated cost of £20.0m in respect of the ongoing FCA investigation at Moneybarn together with a net tax charge on these costs of £2.4m.

2 Expected net proceeds from the proposed rights issue of £300.0m with £165.0m applied as a reduction in borrowings and £135.0m applied as an increase in the liquid assets buffer.

The group's underlying gearing increased from 2.3 times at 31 December 2016 to 3.0 times at 31 December 2017, consistent with the increase in the borrowings to tangible net worth ratio. After recognising the exceptional costs in respect of the FCA investigations, the group's gearing increases to 4.3 times as reported at 31 December 2017, before decreasing to 2.2 times on an unaudited pro forma basis after assuming successful completion of the proposed rights issue. This compares with a covenant limit of 5.0 times.

Notes to the financial statements

1 Segment reporting

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The group's chief operating decision maker is deemed to be the executive committee whose primary responsibility it is to manage the group's day-to-day operations and analyse trading performance. The group's segments comprise Vanquis Bank, CCD, Moneybarn and Central which are those segments reported in the group's management accounts used by the executive committee as the primary means for analysing trading performance. The executive committee assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the group financial statements.

	Revenue		(Loss)/profit before taxation	
Group	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Vanquis Bank	**638.8**	583.7	**206.6**	204.5
CCD	**451.2**	518.8	**(118.8)**	115.2
Moneybarn	**106.3**	80.7	**34.1**	31.1
Central costs	**–**	–	**(12.8)**	(16.7)
Total group before amortisation of acquisition intangibles and exceptional items	**1,196.3**	1,183.2	**109.1**	334.1
Amortisation of acquisition intangibles	**–**	–	**(7.5)**	(7.5)
Exceptional items	**–**	–	**(224.6)**	17.3
Total group	**1,196.3**	1,183.2	**(123.0)**	343.9

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. The amortisation charge in 2017 amounted to £7.5m (2016: £7.5m).

Exceptional items in 2017 comprise:

	2017 £m
Estimated costs of settlement of the FCA investigation into ROP at Vanquis Bank:	
– balance reduction applied to receivables in respect of existing customers	**(75.4)**
– cash restitution to customers, higher expected future complaint costs, expenses and fine	**(96.7)**
Total Vanquis Bank	**(172.1)**
Estimated costs of settlement of the FCA investigation at Moneybarn:	
– balance reduction applied to receivables in respect of existing customers	**(12.1)**
– cash restitution to customers, fine and costs of administering redress	**(7.9)**
Total Moneybarn	**(20.0)**
CCD costs in respect of the migration to the new home credit operating model:	
– redundancy, retention, training and consultancy costs	**(32.5)**
Total CCD	**(32.5)**
Total exceptional items	**(224.6)**

1 Segment reporting continued

On 27 February 2018, a resolution was reached with the FCA in respect of their investigation into ROP in Vanquis Bank. The investigation concluded that Vanquis Bank did not adequately disclose in its sales calls that the charges for ROP would be treated as a purchase transaction and therefore potentially incur interest. A settlement has been reached with the FCA to refund those customers with the interest element of ROP charges in the period between inception of the product in 2003 and the communication to ROP customers which was conducted in December 2016. The total estimated cost of settlement amounts to £172.1m and comprises: (i) restitution to customers of £127.1m, comprising balance reductions to existing customers of £75.4m, being a gross balance reduction of £90.1m less release of impairment provisions of £14.7m, and cash settlements to customers of £51.7m; (ii) higher expected forward flow of ROP complaints more generally in respect of which compensation may have to be paid of £30.7m; (iii) administration costs of £12.3m; and (iv) the fine levied by the FCA of just under £2.0m. The release of impairment provisions of £14.7m has been reflected as a credit to impairment with the remaining estimated costs of £186.8m being reflected within administrative and operating costs.

The FCA investigation into affordability, forbearance and termination options in Moneybarn is continuing. Based on the work undertaken to date and the status of discussions with the FCA, the estimated cost of restitution and fine is estimated to be £20.0m of which £12.1m, comprising a gross balance reduction of £32.5m less release of impairment provisions of £20.4m, has been reflected as a reduction in receivables and £7.9m has been reflected as a provision in the 2017 year-end balance sheet. The release of impairment provisions of £20.4m has been reflected as a credit to impairment with the remaining estimated costs of £40.4m being reflected within administrative and operating costs.

Costs of £32.5m have been incurred in 2017 in respect of the migration to the new home credit operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration. The costs comprise £32.5m in respect of redundancy, retention, training and consultancy costs which are stated net of an exceptional pension credit of £3.9m associated with those employees made redundant who were part of the group's defined benefit pension scheme (see note 19).

A net exceptional credit of £17.3m was recognised in 2016 comprising an exceptional gain of £20.2m in respect of Vanquis Bank's interest in Visa Europe following completion of Visa Inc.'s acquisition of Visa Europe on 21 June 2016 (see note 15) and an exceptional impairment charge of £2.9m in respect of glo's IT platform within CCD following the decision to develop guarantor loans as part of the wider Vanquis Bank loans proposition on a separate IT platform (see note 11).

All of the above activities relate to continuing operations. Revenue between business segments is not material.

	Segment assets		Segment liabilities		Net assets	
Group	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Vanquis Bank	**1,854.5**	1,624.1	**(1,559.1)**	(1,244.2)	**295.4**	379.9
CCD	**454.4**	644.9	**(274.3)**	(489.7)	**180.1**	155.2
Moneybarn	**393.5**	321.5	**(350.8)**	(285.2)	**42.7**	36.3
Central	**81.6**	304.2	**(64.7)**	(85.5)	**16.9**	218.7
Total before intra-group elimination	**2,784.0**	2,894.7	**(2,249.0)**	(2,104.6)	**535.1**	790.1
Intra-group elimination	**181.9**	(68.1)	**(181.9)**	68.1	**–**	–
Total group	**2,965.9**	2,826.6	**(2,430.8)**	(2,036.5)	**535.1**	790.1

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing the borrowings of CCD to reflect a borrowings to receivables ratio of 75%, in line with the group's revised minimum regulatory capital requirement (prior to 2017, a borrowings to receivables ratio of 80% was used, equivalent to a gearing ratio of 3.5 times). The impact of this is a reduction in the notional allocation of group borrowings to CCD of £181.9m (2016: increase of £68.1m) and an equivalent reduction (2016: increase) in the notional cash allocated to central activities of the same amount. Historically, the notional allocation has been to increase the borrowings of CCD. However, following the significant losses incurred by CCD during 2017 the notional allocation is a reduction for the first time. The intra-group elimination adjustment removes the notional allocation to state borrowings and cash on a consolidated group basis.

The group's businesses operate principally in the UK and Republic of Ireland.

	Capital expenditure		Depreciation		Amortisation	
Group	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Vanquis Bank	**6.5**	3.3	**1.7**	1.6	**2.8**	1.1
CCD	**24.8**	17.3	**5.2**	5.1	**8.3**	10.8
Moneybarn	**1.0**	2.3	**0.6**	0.5	**0.6**	0.5
Central	**0.4**	0.5	**1.8**	1.5	**7.5**	7.5
Total group	**32.7**	23.4	**9.3**	8.7	**19.2**	19.9

Capital expenditure in 2017 comprises expenditure on intangible assets of £20.5m (2016: £12.8m) and property, plant and equipment of £12.2m (2016: £10.6m). The amortisation charge in 2016 included £2.6m of exceptional impairment in respect of glo software development costs held as an intangible assets within CCD.

The acquired intangible asset in respect of Moneybarn's broker relationships is held on consolidation and, therefore, the amortisation charge has been allocated to central in the above analysis, consistent with the net asset analysis.

Notes to the financial statements continued

2 Revenue

Revenue is recognised by applying the effective interest rate (EIR) to the carrying value of a loan. The EIR is calculated at inception and represents the rate which exactly discounts the future contractual cash receipts from a loan to the amount of cash advanced under that loan, plus directly attributable issue costs (e.g. aggregator/broker fees). In addition, in CCD and Moneybarn the EIR takes account of customers repaying early. Fee income is recognised at the time the charges are made to the customer on the basis the performance is complete. As a result, the introduction of IFRS 15, effective from 1 January 2018, does not have a material impact on the group or company.

	Group	
	2017 £m	2016 £m
Interest income	**1,047.5**	1,039.6
Fee income	**148.8**	143.6
Total revenue	**1,196.3**	1,183.2

All fee income earned relates to Vanquis Bank and Moneybarn.

Interest income relates to the interest charges on Vanquis Bank credit cards and Moneybarn conditional sale agreements together with the service charge on home credit and Satsuma loans. Fee income relates to Vanquis Bank and Moneybarn and predominantly reflects default and over-limit fees as well as other ancillary income streams such as ROP fees within Vanquis Bank. Interchange income is also recognised within Vanquis Bank as part of fee income on an accruals basis. Fee income in 2017 represented 23% (2016: 24%) of Vanquis Bank revenue and 1% of Moneybarn revenue.

3 Finance costs

	Group	
Interest payable on:	**2017 £m**	2016 £m
Bank borrowings	**10.7**	13.1
Senior public and retail bonds	**36.0**	41.3
Private placement loan notes	**5.0**	5.7
Retail deposits	**25.3**	21.6
Total finance costs	**77.0**	81.7

The group's blended funding rate in 2017 was 4.5%, down from 5.5% in 2016. This primarily reflects a lower average blended rate on retail deposits and the increased mix of retail deposits. Retail deposits represent approximately 59% of the group's funding at the end of 2017 compared with approximately 51% in 2016. The all-in blended cost of taking retail deposits in 2017, after the cost of holding a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime, was 2.9% (2016: 3.0%).

Interest cover continues to be one of the group's banking covenants. It is calculated as profit before tax and exceptional items, interest and amortisation divided by finance costs, excluding net hedge ineffectiveness, and has a minimum requirement of 2.0 times. Interest cover, prior to exceptional items, in 2017 was 2.6 times compared with 5.2 times in 2016. The reduction in this measure reflects the impact of the significant trading disruption within the home credit business during 2017.

4 (Loss)/profit before taxation

	Group	
Loss/(profit) before taxation is stated after charging/(crediting):	**2017 £m**	2016 £m
Amortisation of other intangible assets:		
– computer software (note 11)	**11.7**	9.5
– acquisition intangibles (note 11)	**7.5**	7.5
– exceptional impairment charge (note 1)	**–**	2.9
Depreciation of property, plant and equipment (note 12)	**9.3**	8.7
Loss on disposal of property, plant and equipment (note 12)	**0.6**	0.5
Operating lease rentals:		
– property	**14.1**	13.3
Impairment of amounts receivable from customers (note 14)	**511.2**	298.8
Employment costs (prior to exceptional redundancy costs and curtailment credit) (note 9(b))	**204.6**	185.9
Exceptional items:		
Exceptional redundancy cost in CCD (note 1)	**18.4**	–
Exceptional curtailment credit (note 19(a))	**(3.9)**	–
Exceptional retention, training and consultancy costs in CCD	**18.0**	–
Exceptional release of impairment provision as part of balance reduction at Vanquis Bank (note 1)	**(14.7)**	–
Estimated costs of settlement of the investigation into ROP at Vanquis Bank (note 1)	**186.8**	–
Exceptional release of impairment provision as part of balance reduction at Moneybarn (note 1)	**(20.4)**	–
Estimated costs of settlement of the FCA investigation at Moneybarn (note 1)	**40.4**	–

Administrative and operating costs include costs incurred in running the business, the largest of which is employment costs (see note 9), marketing, customer acquisition costs and previously commission paid to self employed agents. Commission paid to self employed agents has reduced from £90.7m in 2016 to £46.9m in 2017 due to the change in operation model in the UK home credit operating model and the employment of customer experience managers (CEMs) from 6 July 2017. The home credit business in ROI continues to operate a self employed model.

4 (Loss)/profit before taxation continued

Auditor's remuneration	Group 2017 £m	2016 £m
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	**0.1**	0.1
Fees payable to the company's auditor and its associates for other services:		
– audit of company's subsidiaries pursuant to legislation	**0.9**	0.5
– other non audit services	**0.2**	0.2
Total auditor's remuneration	**1.2**	0.8

An additional £1.4m in respect of 2017 was paid to the company's auditors relating to work undertaken in respect of the proposed rights issue in 2018 and has therefore not been recognised in the income statement.

5 Tax charge

Tax charge in the income statement	Group 2017 £m	2016 £m
Current tax		
– UK	**(5.1)**	(79.4)
– overseas	**(0.2)**	(0.6)
Total current tax	**(5.3)**	(80.0)
Deferred tax (note 20)	**(6.7)**	(1.0)
Impact of change in UK tax rate (note 20)	**0.6**	–
Total tax charge	**(11.4)**	(81.0)

The tax credit in respect of the exceptional costs in 2017 amounts to £3.8m and represents: (i) tax relief of £12.5m in respect of the exceptional restructuring costs in CCD, the estimated balance reductions and restitution payable to Moneybarn customers and the settlement administration costs in Vanquis Bank; net of (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to Vanquis Bank customers which are treated as bank compensation payments and the release of the impairment provision.

The tax charge in respect of the exceptional gain in 2016 amounted to £5.1m and represents a £5.7m tax charge on the disposal of Vanquis Bank's interest in Visa Europe Limited at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 28% and a tax credit of £0.6m relating to tax relief for the impairment of glo intangible assets at the mainstream UK corporation tax rate of 20%. The tax credit in respect of the amortisation of acquisition intangibles amounts to £1.4m (2016: £1.5m).

The effective tax rate for 2017, prior to the amortisation of acquisition intangibles and exceptional items, is 15.1% (2016: 23.2%). The decrease in the rate reflects a tax credit in respect of prior years, including a release of part of the provision for uncertain tax liabilities, net of the impact of the bank corporation tax surcharge of 8% which came into effect on 1 January 2016 and applies to Vanquis Bank's taxable profits in excess of £25m.

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015, changes were also enacted reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In 2016, a further change was enacted, which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2017 have been measured at 17% (2016: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2016: 25%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2016: 1 April 2020). In 2017, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.25% (2016: 20.00%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.25% (2016: 28.00%). A tax credit of £0.6m (2016: £nil) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax credit of £0.3m (2016: £0.6m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

Tax (charge)/credit on items taken directly to other comprehensive income	Group 2017 £m	2016 £m
Deferred tax (charge)/credit on fair value movement in available for sale investment	**(0.4)**	4.7
Deferred tax charge on fair value movements on cash flow hedges	**–**	(0.1)
Deferred tax charge on actuarial movements on retirement benefit asset	**(3.4)**	–
Tax (charge)/credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	**(3.8)**	4.6
Impact of change in UK tax rate	**0.3**	0.6
Total tax (charge)/credit on items taken directly to other comprehensive income	**(3.5)**	5.2

Notes to the financial statements continued

5 Tax charge continued

The £4.7m deferred tax credit in 2016 on the available for sale investment represents the reversal of the £4.8m deferred tax charge in 2015, reflecting the sale of Vanquis Bank's interest in Visa Europe Limited in the year net of a deferred tax charge of £0.1m arising on the movement in the valuation of the Visa Inc. preferred stock between its acquisition and the end of the year. The £0.4m deferred tax charge on the available for sale investment in 2017 represents deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 27.25% on the change in valuation of the Visa Inc. preferred stock during the year.

The rate of tax charge on the loss (2016: profit) before taxation for the year is higher than (2016: higher than) the average rate of mainstream corporation tax in the UK of 19.25% (2016: 20%). This can be reconciled as follows:

	Group	
	2017 £m	2016 £m
(Loss)/profit before taxation	**(123.0)**	343.9
(Loss)/profit before taxation multiplied by the average rate of mainstream corporation tax in the UK of 19.25% (2016: 20%)	**23.7**	(68.8)
Effects of:		
– benefit of lower tax rates overseas	**0.1**	0.4
– adjustment in respect of prior years	**22.5**	3.9
– non deductible general expenses	**(0.2)**	(0.2)
– impact of change in UK tax rate	**0.6**	–
– tax rate difference on tax losses carried back to prior years	**0.6**	–
– write off of deferred tax asset in relation to share based payment reserve	**(0.9)**	–
– non deductible bank compensation expenses	**(35.3)**	–
– additional 10% of bank compensation expenses	**(3.5)**	–
– non deductible fines and expenses	**(1.2)**	–
– impact of bank corporation tax surcharge	**(17.8)**	(16.3)
Total tax charge	**(11.4)**	(81.0)

The profits of the home credit business in the Republic of Ireland have been taxed at the Republic of Ireland statutory tax rate of 12.5% (2016: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.25% (2016: 20%) giving rise to a beneficial impact on the group tax charge of £0.1m (2016: £0.4m).

The £22.5m credit (2016: £3.9m) in respect of prior years represents the benefit of settling historic tax liabilities and of securing tax deductions for employee share awards which are higher than those originally anticipated and the release of part of the provision for uncertain tax liabilities which is no longer required.

The £0.6m (2016: £nil) impact of the change in UK tax rate on tax losses carried back represents the benefit of carrying back 2017 tax losses in CCD to 2016 when the higher mainstream corporation tax rate of 20% applied.

Deferred tax assets are typically recognised on share-based payment charges on the basis that these represent a good estimate of the tax relief that will be available when the share awards vest. The write off of the deferred tax asset of £0.9m (2016: £nil) represents the reduction in tax relief expected to arise because of the reduction in the share price, where such reduction in share price has not been reflected through the share-based payments charges.

The settlements payable to Vanquis Bank customers following the resolution reached with the FCA, are in accordance with the bank compensation provisions which apply to banking companies, and are non deductible in computing Vanquis Bank's profits for tax purposes (see note 24). This gives rise to an adverse impact on the tax charge of £35.3m (2016: £nil). It also gives rise to an additional 10% deemed taxable receipt under the bank compensation provisions which is intended to equate to a disallowance of the administration costs associated with the compensation. This gives rise to a further adverse impact on the tax charge of £3.5m. As Moneybarn is not a banking company, the bank compensation provisions do not apply to the estimated restitution payable to Moneybarn customers.

The actual and estimated fines levied by the FCA (see note 24) and certain other expenses are not tax deductible for both Vanquis Bank and Moneybarn. This gives rise to an adverse impact on the tax charge of £1.2m (2016: £nil).

The adverse impact of the bank corporation tax surcharge amounts to £17.8m (2016: £16.3m) and represents tax at the bank corporation tax surcharge rate of 8% on Vanquis Bank's taxable profits in excess of £25m where taxable profits are calculated after adding back bank compensation payments, the 10% deemed taxable receipt, the FCA fine and other add backs.

6 (Loss)/earnings per share

The group presents basic and diluted (loss)/earnings per share (EPS) data on its ordinary shares. Basic EPS is calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares (own shares held). Diluted EPS calculates the effect on EPS assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

(i) For share awards outstanding under performance-related share incentive schemes such as the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS), the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met as at that date.

(ii) For share options outstanding under non-performance related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares. The group also presents an adjusted EPS, prior to the amortisation of acquisition intangibles and exceptional items.

Reconciliations of basic and diluted (loss)/earnings per share are set out below:

			2017			2016
Group	**(Loss)/ earnings £m**	**Weighted average number of shares m**	**Per share amount pence**	Earnings £m	Weighted average number of shares m	Per share amount pence
(Loss)/earnings per share						
Shares in issue during the year		**148.1**			147.6	
Own shares held		**–**			(3.0)	
Basic (loss)/earnings per share	**(134.4)**	**148.1**	**(90.7)**	262.9	144.6	181.8
Dilutive effect of share options and awards	**–**	**–**	**–**	–	1.5	(1.9)
Diluted (loss)/earnings per share	**(134.4)**	**148.1**	**(90.7)**	262.9	146.1	179.9

Potential ordinary shares should be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share. As the group has reported a basic loss per share in 2017, the dilutive effect of share options and awards has been removed.

The Directors have elected to show an adjusted (loss)/earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 (see note 11) and prior to exceptional items (see note 1). This is presented to show the earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted (loss)/earnings per share to adjusted basic and diluted earnings per share is as follows:

			2017			2016
Group	**(Loss)/ earnings £m**	**Weighted average number of shares m**	**Per share amount pence**	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	**(134.4)**	**148.1**	**(90.7)**	262.9	144.6	181.8
Amortisation of acquisition intangibles, net of tax	**6.2**	**–**	**4.2**	6.0	–	4.1
Exceptional items, net of tax	**220.8**	**–**	**149.0**	(12.2)	–	(8.4)
Adjusted basic earnings per share	**92.6**	**148.1**	**62.5**	256.7	144.6	177.5
Basic (loss)/earnings per share	**(134.4)**	**148.1**	**(90.7)**	262.9	144.6	181.8
Dilutive effect of share options and awards	**–**	**0.8**	**0.4**	–	1.5	(1.9)
Diluted (loss)/earnings per share	**(134.4)**	**148.9**	**(90.3)**	262.9	146.1	179.9
Amortisation of acquisition intangibles, net of tax	**6.2**	**–**	**4.2**	6.0	–	4.2
Exceptional items, net of tax	**220.8**	**–**	**148.3**	(12.2)	–	(8.4)
Adjusted diluted earnings per share	**92.6**	**148.9**	**62.2**	256.7	146.1	175.7

Adjusted basic EPS has reduced by 65% in 2017 reflecting the significant disruption from the migration of the home credit business to a new operating model.

Notes to the financial statements continued

7 Dividends

	Group and company	
	2017 £m	2016 £m
2015 final – 80.9p per share	**–**	117.8
2016 interim – 43.2p per share	**–**	62.8
2016 final – 91.4p per share	**133.4**	–
Dividends paid	**133.4**	180.6

Following the significant deterioration in home credit trading, the proposed interim dividend for 2017 of 43.2p (2016: 43.2p) was withdrawn on 22 August 2017 in order to retain liquidity and balance sheet stability. At the same time, the Board indicated that it was unlikely that a final dividend (2016: 91.4p) would be paid and subsequently confirmed this at the third quarter trading update.

8 Directors' remuneration

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24, 'Related party disclosures'.

	Group and company	
	2017 £m	2016 £m
Short-term employee benefits	**2.0**	4.1
Post-employment benefits	**1.2**	0.5
Share-based payment (credit)/charge	**(1.6)**	4.0
Total	**1.6**	8.6

The directors' remuneration above reflects:

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year.

Post-employment benefits represent the sum of: (i) the increase in the transfer value of the accrued pension benefits (less directors' contributions) for those directors who are members of the group's defined benefit pension scheme; (ii) company contributions into personal pension arrangements for all other directors; and (iii) amounts accrued under the Unfunded, Unapproved Retirement Benefit Scheme (UURBS).

The share-based payment credit reflects the lower expected vesting of any of the group's share-based incentives following the downturn in trading in the home credit business and the settlement of regulatory matters at Vanquis Bank and Moneybarn.

This differs from the director's remuneration report on pages 105 to 126 which does not include the share-based payment credit of £1.6m (2016: £4.0m charge) but includes the value of LTIS and PSP share awards due to vest in 2018 of £nil (2016: £4.6m). The value was calculated assuming 100% of share awards vested at the average share price during the last three months of 2016.

No directors (2016: nil) accrued retirement benefits in the year under the cash balance section of the Provident Financial Staff Pension Scheme (the pension scheme). The pension scheme is a defined benefit scheme with cash balance benefits.

No directors (2016: nil) paid or had contributions paid on their behalf into the PFG Retirement Plan in the year. The PFG Retirement Plan is a Group Personal Pension Plan insured with Standard Life.

The company operates an Unfunded Unapproved Retirement Benefits Scheme (UURBS) to provide cash balance benefits to those employees affected by the Lifetime Allowance or the Reduced Annual Allowance. During 2017 the increase in the UURBS relating to Andrew Fisher and Peter Crook was £0.3m (2016: £0.4m) and the balance outstanding at 31 December 2017 was £nil (2016: £829m) for Andrew Fisher and £1,441m (2016: £1,262m) for Peter Crook.

Andrew Fisher elected to receive a cash supplement from June 2017. The balance outstanding at 31 December amounted to £0.1m (2016: £nil).

9 Employee information

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

	Group	
	2017 Number	2016 Number
Vanquis Bank	**1,469**	1,370
CCD	**3,118**	1,943
Moneybarn	**211**	174
Central	**66**	63
Total group	**4,864**	3,550
Analysed as:		
Full-time	**4,466**	3,261
Part-time	**398**	289
Total group	**4,864**	3,550

Employees comprise all head office and branch employees within CCD, head office and contact centre employees within Vanquis Bank, Moneybarn and corporate office employees and executive directors. It did not include the 4,500 self employed agents within CCD at the end of 2016. The 60% increase in CCD average employee numbers reflects the impact of the change in the UK operating model in 2016 from self employed agents to an employed workforce. Vanquis Bank average employee numbers have increased by 7% during 2017 due to the growth of the business, including the continued expansion of the second contact centre in CCD's head office in Bradford and resource to support collections activity for Satsuma. Moneybarn's 21% increase in average headcount reflects the resource required to support the growth of the business and bring processes into line with the rest of the group.

(b) Employment costs

	Group		Company	
	2017 £m	2016 £m	2017 £m	2017 £m
Aggregate gross wages and salaries paid to the group's employees	**177.5**	145.9	**7.2**	8.2
Employers' National Insurance contributions	**19.0**	16.5	**1.1**	1.0
Pension charge, prior to exceptional pension credit	**10.5**	9.2	**(7.2)**	(9.0)
Share-based payment (credit)/charge (note 26)	**(2.4)**	14.3	**(2.5)**	5.4
Total employment cost prior to exceptional costs	**204.6**	185.9	**(1.4)**	5.6
Exceptional redundancy cost	**18.4**	–	**–**	–
Exceptional curtailment credit (note 19)	**(3.9)**	–	**(3.9)**	–
Total employment costs	**219.1**	185.9	**(5.3)**	5.6

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan, contributions to personal pension arrangements and amounts accrued under the Unfunded, Unapproved Retirement Benefit Scheme (UURBS). The £7.2m (2016: £9.0m) credit in the company for the pension charge represents contributions received from the subsidiaries in relation to the defined benefit schemes, partly offset by the charge in relation to the defined contribution schemes. The decrease in the share-based payment charge from £14.3m in 2016 to a credit of £2.4m in 2017 primarily reflects the lower expected vesting levels across the group. The share-based payment credit of £2.4m (2016: £14.3m charge) relates to equity settled schemes of £3.4m (2016: £10.9m charge) partly offset by a cash settled schemes charge of £1.0m (2016: £3.4m charge).

Notes to the financial statements continued

10 Goodwill

	Group 2017 £m	Group 2016 £m
Cost		
At 1 January and 31 December	**73.3**	73.3
Accumulated impairment		
At 1 January and 31 December	**2.1**	2.1
Net book value at 1 January and 31 December	**71.2**	71.2

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. Management adopt pre-tax discount rates which reflect the time value of money and the risks specific to the Moneybarn business. The cash flow forecasts are based on the most recent financial budgets approved by the group Board for the next five years and extrapolates cash flows for the following five years using a terminal growth rate of 1.5% (2016: 3.0%). The rate used to discount the forecast cash flows is 11% (2016: 9%). No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented.

11 Other intangible assets

	2017			2016		
Group	**Acquisition intangibles £m**	**Computer software £m**	**Total £m**	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	**75.0**	**72.4**	**147.4**	75.0	59.6	134.6
Additions	**–**	**20.5**	**20.5**	–	12.8	12.8
Disposals	**–**	**(0.8)**	**(0.8)**	–	–	–
At 31 December	**75.0**	**92.1**	**167.1**	75.0	72.4	147.4
Accumulated amortisation						
At 1 January	**17.5**	**51.8**	**69.3**	10.0	39.4	49.4
Charged to the income statement	**7.5**	**11.7**	**19.2**	7.5	9.5	17.0
Exceptional impairment charge (note 1)	**–**	**–**	**–**	–	2.9	2.9
Disposals	**–**	**(0.8)**	**(0.8)**	–	–	–
At 31 December	**25.0**	**62.7**	**87.7**	17.5	51.8	69.3
Net book value at 31 December	**50.0**	**29.4**	**79.4**	57.5	20.6	78.1
Net book value at 1 January	**57.5**	**20.6**	**78.1**	65.0	20.2	85.2

Acquisition intangibles represents the fair value of the broker relationships arising on acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. Additions in the year of £20.5m comprise £7.2m of internally generated assets and £13.3m of externally purchased software.

The £20.5m (2016: £12.8m) of computer software expenditure principally relates to: (i) the development of systems and mobile app in Vanquis Bank; (ii) systems to support the development of Satsuma including a new mobile app; and (iii) software to support the new operating model in home credit.

12 Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2017	4.0	6.1	71.5	81.6
Additions	–	0.4	11.8	12.2
Disposals	(0.6)	–	(4.6)	(5.2)
At 31 December 2017	3.4	6.5	78.7	88.6
Accumulated depreciation				
At 1 January 2017	3.3	1.1	46.9	51.3
Charged to the income statement	–	–	9.3	9.3
Disposals	–	–	(2.9)	(2.9)
At 31 December 2017	3.3	1.1	53.3	57.7
Net book value at 31 December 2017	0.1	5.4	25.4	30.9
Net book value at 1 January 2017	0.7	5.0	24.6	30.3

The loss on disposal of property, plant and equipment in 2017 amounted to £0.6m (2016: £0.5m) and represented proceeds received of £1.7m (2016: £0.6m) less the net book value of disposals of £2.3m (2016: £1.1m).

Additions in 2017 principally comprises expenditure in respect of the routine replacement of IT equipment in CCD, Vanquis Bank and Moneybarn and motor vehicles for field employees within CCD.

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2016	3.9	4.7	66.1	74.7
Additions	0.1	1.4	9.1	10.6
Disposals	–	–	(3.7)	(3.7)
At 31 December 2016	4.0	6.1	71.5	81.6
Accumulated depreciation				
At 1 January 2016	3.3	0.6	41.3	45.2
Charged to the income statement	–	0.5	8.2	8.7
Disposals	–	–	(2.6)	(2.6)
At 31 December 2016	3.3	1.1	46.9	51.3
Net book value at 31 December 2016	0.7	5.0	24.6	30.3
Net book value at 1 January 2016	0.6	4.1	24.8	29.5

Notes to the financial statements continued

12 Property, plant and equipment continued

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2017	**4.0**	**0.2**	**13.1**	**17.3**
Additions	**–**	**–**	**0.3**	**0.3**
Disposals	**(0.6)**	**–**	**(0.4)**	**(1.0)**
At 31 December 2017	**3.4**	**0.2**	**13.0**	**16.6**
Accumulated depreciation				
At 1 January 2017	**3.3**	**0.1**	**7.1**	**10.5**
Charged to the income statement	**–**	**–**	**1.7**	**1.7**
Disposals	**–**	**–**	**(0.2)**	**(0.2)**
At 31 December 2017	**3.3**	**0.1**	**8.6**	**12.0**
Net book value at 31 December 2017	**0.1**	**0.1**	**4.4**	**4.6**
Net book value at 1 January 2017	**0.7**	**0.1**	**6.0**	**6.8**

The profit/(loss) on disposal of property, plant and equipment in 2017 amounted to £0.1m (2016: £nil) and represented proceeds received of £0.7m (2016: £nil) less the net book value of disposals of £0.8m (2016: £nil).

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2016	3.9	0.2	12.8	16.9
Additions	0.1	–	0.4	0.5
Disposals	–	–	(0.1)	(0.1)
At 31 December 2016	4.0	0.2	13.1	17.3
Accumulated depreciation				
At 1 January 2016	3.3	0.1	5.7	9.1
Charged to the income statement	–	–	1.5	1.5
Disposals	–	–	(0.1)	(0.1)
At 31 December 2016	3.3	0.1	7.1	10.5
Net book value at 31 December 2016	0.7	0.1	6.0	6.8
Net book value at 1 January 2016	0.6	0.1	7.1	7.8

13 Investment in subsidiaries

	Company 2017 £m	2016 £m
Cost		
At 1 January	**529.0**	528.2
Additions	**251.2**	0.8
Disposals	**(6.4)**	–
At 31 December	**773.8**	529.0
Accumulated impairment losses		
At 1 January	**31.5**	31.9
Exceptional charge to the income statement	**258.0**	–
Charge/(credit) to the income statement	**2.0**	(0.4)
At 31 December	**291.5**	31.5
Net book value at 31 December	**482.3**	497.5
Net book value at 1 January	**497.5**	496.3

The directors consider the value of investments to be supported by their underlying assets and cash flow forecasts.

Following the significant losses incurred in CCD during 2017, a full review has been undertaken of the company's £258.0m investment in Provident Financial Management Services Limited (the holding company within CCD) and the loans of £438.0m provided to Provident Financial Management Services Limited in 2004 and £200.0m provided to Provident Personal Credit Limited in 2012. As a result of this review:

> The investment in Provident Financial Management Services Limited of £258.0m has been fully impaired in the company's income statement.

> The company has released Provident Financial Management Services Limited from its obligations under the £438.0m loan and released Provident Personal Credit Limited from its obligations under the £200.0m loan.

> As a result of the intercompany loan releases, an amount of £386.8m has been booked as an impairment to the company's income statement and the remaining balance of the intercompany loans of £251.2m has been capitalised as an investment in Provident Financial Management Services Limited. The investment value in Provident Financial Management Services Limited is supported by the forecast future cash flows from CCD.

> The total exceptional impairment charges taken to the company's income statement in 2017 amounts to £644.8m.

> A reserve transfer of £571.3m has been made from the non-distributable reserve to retained earnings to offset the impact of the above impairment charges. The non-distributable reserve was created on the sale of Provident Personal Credit Limited by the company to Provident Financial Management Services Limited in 2000 (see note 27). £73.5m of the impairment charges have not been matched with a transfer from the non-distributable reserve as this amount represents the company's original cost of investment in Provident Personal Credit Limited.

The disposal in 2017 of £6.4m represents the IFRIC 11 adjustment relating to share options/awards provided to subsidiary employees. Under IFRIC 11, the fair value of the options/awards issued is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/award that have vested. The adjustment in respect of IFRIC 11 in 2017 amounted to a net credit of £6.4m and was therefore treated as a disposal. The adjustment for IFRIC 11 in 2016 amounted to a £0.8m debit and was treated as an addition.

The impairment charge to the income statement in 2017 of £2.0m represents the impairment of investments in various dormant companies following a dormant company rationalisation to eliminate dormant companies through liquidation and striking off dividends being paid up to the parent.

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the group or are a guaranteeing subsidiary of the group's syndicated bank facility and certain other borrowings. A full list of subsidiary undertakings will be annexed to the next annual return of the company to be filed with the Registrar of Companies (see note 33). All subsidiaries are consolidated and held directly by the company except for those noted below, which are held by wholly owned intermediate companies.

		Activity	Country of incorporation	Class of capital	% holding
Vanquis Bank	Vanquis Bank Limited	Financial services	England	Ordinary	100
CCD	Provident Financial Management Services Limited	Management services	England	Ordinary	100
	Provident Personal Credit Limited	Financial services	England	Ordinary	100*
	Greenwood Personal Credit Limited	Financial services	England	Ordinary	100*
Moneybarn	Duncton Group Limited	Financial services	England	Ordinary	100
	Moneybarn Group Limited	Financial services	England	Ordinary	100*
	Moneybarn No. 1 Limited	Financial services	England	Ordinary	100*
Central	Provident Investments plc	Financial intermediary	England	Ordinary	100

* Shares held by wholly owned intermediate companies.

The above companies operate principally in their country of incorporation.

Notes to the financial statements continued

14 Amounts receivable from customers

Under IAS 39, on inception of a loan, receivables represent the amounts initially advanced to customers plus directly attributable issue costs. Subsequently, receivables are increased by the revenue recognised and reduced by cash collections and any deduction for impairment. Revenue is recognised on the net value of the receivable after deduction for impairment and not on the gross receivable prior to impairment.

The group adopted IFRS 9 from 1 January 2018 which requires an impairment provision to be recognised on inception of a loan based on the expected losses, further details can be found on page 44.

			2017			2016
Group	**Due within one year £m**	**Due in more than one year £m**	**Total £m**	Due within one year £m	Due in more than one year £m	Total £m
Vanquis Bank	**1,540.2**	**14.5**	**1,554.7**	1,424.7	–	1,424.7
CCD	**339.2**	**51.4**	**390.6**	496.0	88.8	584.8
Moneybarn	**101.8**	**262.3**	**364.1**	78.5	218.8	297.3
Total group	**1,981.2**	**328.2**	**2,309.4**	1,999.2	307.6	2,306.8

Vanquis Bank receivables comprise £1,538.9m (2016: £1,424.3m) in respect of credit cards and £15.8m (2016: £3.4m) in respect of loans. The balance at 31 December 2017 is stated net of an estimated balance reduction of £75.4m, comprising a gross balance reduction of £90.1m less release of impairment provisions of £14.7m, following the resolution of the FCA investigation into ROP on 27 February 2018 (see note 1). CCD receivables comprise £352.2m in respect of the Provident home credit business (2016: £560.0m), £35.8m in respect of Satsuma (2016: £18.2m) and £2.6m in respect of glo (2016: £6.6m). Moneybarn receivables are stated net of an estimated balance reduction of £12.1m, comprising a gross balance reduction of £32.5m less release of impairment provisions of £20.4m, in respect of the ongoing FCA investigation into affordability, forbearance and termination options which is continuing (see note 1).

The average effective interest rate for the year ended 31 December 2017 was 28% for Vanquis Bank (2016: 29%), 111% for CCD (2016: 115%) and 30% for Moneybarn (2016: 30%). The average period to maturity of the amounts receivable from customers within CCD is seven months (2016: seven months) and within Moneybarn is 40.0 months (2016: 39.0 months). Within Vanquis Bank, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the greater of 2.3% of the amount owed plus any fees and interest charges in the month and £5.

The fair value of amounts receivable from customers is approximately £3.6 billion (2016: £3.3 billion). Fair value has been derived by discounting expected future cash flows (net of collection costs) at the credit risk adjusted discount rate at the balance sheet date. Under IFRS 13, 'Fair value measurement', receivables are classed as Level 3 as they are not traded on an active market and the fair value is therefore determined through future cash flows.

The credit quality of amounts receivable from customers is as follows:

				2017				2016
Credit quality of amounts receivable from customers	**Vanquis Bank £m**	**CCD £m**	**Moneybarn £m**	**Group £m**	Vanquis Bank £m	CCD £m	Moneybarn £m	Group £m
Neither past due nor impaired	**1,456.3**	**145.8**	**268.6**	**1,870.7**	1,338.8	323.1	235.3	1,897.2
Past due but not impaired	**–**	**50.2**	**–**	**50.2**	–	63.9	–	63.9
Impaired	**98.4**	**194.6**	**95.5**	**388.5**	85.9	197.8	62.0	345.7
Total	**1,554.7**	**390.6**	**364.1**	**2,309.4**	1,424.7	584.8	297.3	2,306.8

				2017				2016
Credit quality of amounts receivable from customers	**Vanquis Bank %**	**CCD %**	**Moneybarn %**	**Group %**	Vanquis Bank %	CCD %	Moneybarn %	Group %
Neither past due nor impaired	**93.7**	**37.3**	**73.8**	**81.0**	94.0	55.3	79.1	82.2
Past due but not impaired	**–**	**12.9**	**–**	**2.2**	–	10.9	–	2.8
Impaired	**6.3**	**49.8**	**26.2**	**16.8**	6.0	33.8	20.9	15.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	100.0	100.0	100.0	100.0

Past due but not impaired balances all relate to home credit loans within CCD. There are no accounts/loans within Vanquis Bank or Moneybarn which are past due but not impaired. In home credit, past due but not impaired balances relate to loans which are contractually overdue. However, contractually overdue loans are not deemed to be impaired unless the customer has missed two or more cumulative weekly payments in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate materially.

In Vanquis Bank delinquency levels have remained broadly stable through 2017 reflecting the sound quality of the receivables book and the stable UK employment market. This compares with the improving profile of delinquency experienced in the first nine months of 2016. The CCD arrears profile has deteriorated during 2017 reflecting the higher level of arrears and impairment arising on the transition to the new operating model. The Moneybarn profile has deteriorated during 2017 reflecting: (i) the flow through of defaults on higher risk categories of business prior to the tightening of underwriting in the second quarter of the year; and (ii) an increased number of customers on payment arrangements due to increased forbearance.

14 Amounts receivable from customers continued

The following table sets out the ageing analysis of past due but not impaired balances within CCD based on contractual arrears since the inception of the loan:

	Group	
Ageing analysis of past due but not impaired balances	**2017 £m**	2016 £m
One week overdue	**33.4**	46.1
Two weeks overdue	**9.7**	10.4
Three weeks or more overdue	**7.1**	7.4
Past due but not impaired	**50.2**	63.9

Impairment in Vanquis Bank and Moneybarn is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The movement in the allowance accounts during the year are as follows:

	Group	
Vanquis Bank allowance account	**2017 £m**	2016 £m
At 1 January	**261.4**	225.0
Charge for the year	**186.6**	162.4
Exceptional release of impairment provision as part of balance reduction (see note 1)	**(14.7)**	–
Amounts written off during the year	**(176.0)**	(153.9)
Amounts recovered during the year	**31.6**	27.9
At 31 December	**288.9**	261.4

	Group	
Moneybarn allowance account	**2017 £m**	2016 £m
At 1 January	**34.1**	18.4
Charge for the year	**31.1**	16.4
Exceptional release of impairment provision as part of balance reduction (see note 1)	**(20.4)**	–
Amounts written off during the period	**(0.4)**	(0.7)
At 31 December	**44.4**	34.1

Within CCD, impairments are deducted directly from amounts receivable from customers without the use of an allowance account.

The impairment charge in respect of amounts receivable from customers can be analysed as follows:

	Group	
Impairment charge on amounts receivable from customers	**2017 £m**	2016 £m
Vanquis Bank	**186.6**	162.4
Exceptional release of impairment provision as part of balance reduction (see note 1)	**(14.7)**	–
Total Vanquis Bank	**171.9**	162.4
CCD	**293.5**	120.0
Moneybarn	**31.1**	16.4
Exceptional release of impairment provision as part of balance reduction (see note 1)	**(20.4)**	–
Total Moneybarn	**10.7**	16.4
Total group	**476.1**	298.8

Impairment in CCD showed a significant increase of 144.6% to £293.5m in 2017 (2016: £120.0m) reflecting the significant disruption experienced on migration to the new operating model and the rate of reconnection with those customers whose relationship had been adversely impacted being at the lower end of expectations.

Notes to the financial statements continued

14 Amounts receivable from customers continued

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

Interest income recognised on impaired amounts receivable from customers	Group 2017 £m	2016 £m
Vanquis Bank	**44.0**	38.2
CCD	**243.4**	286.1
Moneybarn	**14.2**	10.0
Total group	**301.6**	334.3

IAS 39 requires interest revenue to be recognised on the net carrying value of a receivable after deductions for impairment and not on the outstanding amount of the loan prior to impairment. Using Vanquis Bank as an example, whilst interest revenue for customer statement balances is broadly calculated on the gross receivables balance of £1,843.6m (subject to the normal suspension of interest, where applicable, and the timing of customer payments), interest revenue for IFRS purposes is calculated based on the net receivables balance of £1,554.7m, which is stated after the deduction of the impairment allowance account of £288.9m. The non-standard customers served by the group are generally more likely to miss payments compared with more prime customers. As the group recognises impairment events early – after missing two weekly payments in the last 12 weeks in CCD and after missing one monthly payment in Vanquis Bank and Moneybarn – the group's level of revenue on impaired loans is comparatively high.

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

Currency profile of amounts receivable from customers	Group 2017 £m	2016 £m
Sterling	**2,263.0**	2,248.0
Euro	**46.4**	58.8
Total group	**2,309.4**	2,306.8

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 12% of CCD's receivables (2016: 10%).

15 Available for sale investment

Available for sale investments	Group 2017 £m	2016 £m
Government gilts	**35.9**	–
Visa shares	**9.9**	8.0
Total group	**45.8**	8.0

(a) Government gilts

Government gilts comprise UK government gilts which form part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime. The gilts had a maturity on origination in excess of three months and are therefore disclosed as an available for sale investment. Vanquis Bank's total liquid assets buffer and other liquid resources, including £227.5m held in cash and cash equivalents, held in accordance with the PRA's liquidity regime amounted to £263.4m at 31 December 2017 (2016: £168.9m).

(b) Visa shares

The Visa shares represents preferred stock in Visa Inc. held by Vanquis Bank following completion of Visa Inc.'s acquisition of Visa Europe Limited on 21 June 2016. In consideration for Vanquis Bank's interest in Visa Europe Limited, Vanquis Bank received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m due on the third anniversary of the completion date. The preferred stock is convertible into Class A common stock of Visa Inc. at a future date, subject to certain conditions. Following completion of the transaction in 2016, the gain of £17.5m taken through equity in 2015 in respect of the Visa Europe shares was recycled through the income statement together with the £2.7m movement in the fair value of the consideration between the 2015 year-end and completion of the transaction resulting in an exceptional gain on disposal of £20.2m.

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 31 December 2017 of £9.9m is held as an available for sale investment and the fair value of the deferred cash consideration of £1.2m is included within debtors. The movement in the fair value of the available for sale investment during the year of £1.9m in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates has been recognised in the statement of comprehensive income.

The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity, as the preferred stock is not tradeable on an open market and can only be transferred to other VISA members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion.

Under IFRS 13, 'Fair value measurement', the investment is classified as Level 3 as the valuation is determined using a combination of observable and unobservable inputs. As the common stock share price is readily available, the inputs are deemed to be observable. However, certain assumptions have been made in respect of the illiquidity adjustment to the share price and the likelihood of litigation costs in the future. These inputs are therefore deemed to be unobservable.

16 Financial instruments

The following table sets out the carrying value of the group's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

						2017
Group	**Loans and receivables £m**	**Available for sale £m**	**Amortised cost £m**	**Hedging derivatives £m**	**Non-financial assets/ liabilities £m**	**Total £m**
Assets						
Available for sale investments	–	45.8	–	–	–	45.8
Cash and cash equivalents	282.9	–	–	–	–	282.9
Amounts receivable from customers	2,309.4	–	–	–	–	2,309.4
Trade and other receivables	42.8	1.2	–	–	–	44.0
Retirement benefit asset	–	–	–	–	102.3	102.3
Property, plant and equipment	–	–	–	–	30.9	30.9
Goodwill	–	–	–	–	71.2	71.2
Other intangible assets	–	–	–	–	79.4	79.4
Total assets	2,635.1	47.0	–	–	283.8	2,965.9
Liabilities						
Retail deposits	–	–	(1,291.8)	–	–	(1,291.8)
Bank and other borrowings	–	–	(882.3)	–	–	(882.3)
Derivative financial instruments	–	–	–	(0.1)	–	(0.1)
Trade and other payables	–	–	(115.8)	–	–	(115.8)
Current tax liabilities	–	–	–	–	(15.9)	(15.9)
Deferred tax liabilities	–	–	–	–	(20.3)	(20.3)
Provisions	–	–	–	–	(104.6)	(104.6)
Total liabilities	–	–	(2,289.9)	(0.1)	(140.8)	(2,430.8)

						2016
Group	Loans and receivables £m	Available for sale £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
Assets						
Available for sale investment	–	8.0	–	–	–	8.0
Cash and cash equivalents	197.5	26.2	–	–	–	223.7
Amounts receivable from customers	2,306.8	–	–	–	–	2,306.8
Trade and other receivables	35.0	1.1	–	–	–	36.1
Retirement benefit asset	–	–	–	–	72.4	72.4
Property, plant and equipment	–	–	–	–	30.3	30.3
Goodwill	–	–	–	–	71.2	71.2
Other intangible assets	–	–	–	–	78.1	78.1
Total assets	2,539.3	35.3	–	–	252.0	2,826.6
Liabilities						
Retail deposits	–	–	(941.2)	–	–	(941.2)
Bank and other borrowings	–	–	(913.9)	–	–	(913.9)
Derivative financial instruments	–	–	–	(0.3)	–	(0.3)
Trade and other payables	–	–	(104.8)	–	–	(104.8)
Current tax liabilities	–	–	–	–	(65.6)	(65.6)
Deferred tax liabilities	–	–	–	–	(10.7)	(10.7)
Total liabilities	–	–	(1,959.9)	(0.3)	(76.3)	(2,036.5)

Notes to the financial statements continued

16 Financial instruments continued

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 IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

					2017
Company	**Loans and receivables £m**	**Amortised cost £m**	**Hedging derivatives £m**	**Non-financial assets/ liabilities £m**	**Total £m**
Assets					
Cash and cash equivalents	35.6	–	–	–	35.6
Investment in subsidiaries	–	–	–	482.3	482.3
Trade and other receivables	821.3	–	–	–	821.3
Retirement benefit asset	–	–	–	102.3	102.3
Property, plant and equipment	–	–	–	4.6	4.6
Total assets	856.9	–	–	589.2	1,446.1
Liabilities					
Bank and other borrowings	–	(879.5)	–	–	(879.5)
Trade and other payables	–	(106.7)	–	–	(106.7)
Current tax liabilities	–	–	–	(0.4)	(0.4)
Deferred tax liabilities	–	–	–	(15.9)	(15.9)
Total liabilities	–	(986.2)	–	(16.3)	(1,002.5)

					2016
Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
Assets					
Cash and cash equivalents	31.2	–	–	–	31.2
Investment in subsidiaries	–	–	–	497.5	497.5
Trade and other receivables	1,578.4	–	–	–	1,578.4
Retirement benefit asset	–	–	–	72.4	72.4
Property, plant and equipment	–	–	–	6.8	6.8
Total assets	1,609.6	–	–	576.7	2,186.3
Liabilities					
Bank and other borrowings	–	(911.3)	–	–	(911.3)
Derivative financial instruments	–	–	(0.1)	–	(0.1)
Trade and other payables	–	(133.3)	–	–	(133.3)
Current tax liabilities	–	–	–	(5.1)	(5.1)
Deferred tax liabilities	–	–	–	(9.8)	(9.8)
Total liabilities	–	(1,044.6)	(0.1)	(14.9)	(1,059.6)

17 Derivative financial instruments

The derivative financial instruments held by the group are interest rate swaps used to fix the interest rates paid on the group's borrowings and foreign exchange contracts used to manage the foreign exchange risk arising on CCD's operations in the Republic of Ireland.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

Group	2017 Contractual/ notional amount £m	2017 Assets £m	2017 Liabilities £m	2016 Contractual/ notional amount £m	2016 Assets £m	2016 Liabilities £m
Interest rate swaps	**20.0**	**–**	**–**	110.0	–	(0.1)
Foreign exchange contracts	**3.2**	**–**	**(0.1)**	7.6	–	(0.2)
Total group	**23.2**	**–**	**(0.1)**	117.6	–	(0.3)
Analysed as – due within one year		**–**	**(0.1)**		–	(0.2)
– due in more than one year		**–**	**–**		–	(0.1)
		–	**(0.1)**		–	(0.3)

Company	2017 Contractual/ notional amount £m	2017 Assets £m	2017 Liabilities £m	2016 Contractual/ notional amount £m	2016 Assets £m	2016 Liabilities £m
Interest rate swaps	**20.0**	**–**	**–**	110.0	–	(0.1)
Total company	**20.0**	**–**	**–**	110.0	–	(0.1)
Analysed as – due within one year		**–**	**–**		–	–
– due in more than one year		**–**	**–**		–	(0.1)
		–	**–**		–	(0.1)

The fair value of derivative financial instruments has been calculated by discounting contractual future cash flows using relevant market interest rate yield curves and foreign exchange rates prevailing at the balance sheet date.

(a) Hedging reserve movements

The fair value of derivative financial instruments is required to be reflected in the balance sheet. Generally, providing the derivative financial instruments meet certain accounting requirements, any movement in the fair value of the derivative financial instruments caused by fluctuations in interest rates or foreign exchange rates is deferred in the hedging reserve and does not impact the income statement. The group's derivative financial instruments all currently meet these criteria. If the interest rates payable on interest rate swaps are higher than the current interest rate at the balance sheet date, then a derivative liability is recognised. Conversely, if the interest rates payable on interest rate swaps are lower than the current floating interest rate at the balance sheet date, then a derivative asset is recognised.

The movement in the hedging reserve within equity as a result of the changes in the fair value of derivative financial instruments can be summarised as follows:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Interest rate swaps	**0.1**	0.4	**0.1**	0.4
Foreign exchange contracts	**0.1**	–	**–**	–
Net credit to the hedging reserve	**0.2**	0.4	**0.1**	0.4

Under IFRS 13, 'Fair value measurement', all derivative financial instruments are classed as Level 2 as they are not traded in an active market and the fair value is therefore determined through discounting future cash flows, using appropriate market rates and yield curves.

(b) Income statement

All cash flow hedges are deemed to be effective. There was no impact on the income statement of the group and the company in the year in respect of the movement in the fair value of ineffective interest rate swaps, previously designated as cash flow hedges (2016: £nil).

Notes to the financial statements continued

17 Derivative financial instruments continued

(c) Interest rate swaps

The group and company use interest rate swaps in order to manage the interest rate risk on the group's borrowings. The group has entered into various interest rate swaps which were designated and effective under IAS 39 as cash flow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

	Group and company	
	2017 £m	2016 £m
Liability at 1 January	**(0.1)**	(0.5)
Credited to the hedging reserve	**0.1**	0.4
Liability at 31 December	**–**	(0.1)

The weighted average interest rate and period to maturity of the interest rate swaps held by the group and company were as follows:

	2017			2016		
Group and company	**Weighted average interest rate %**	**Range of interest rates %**	**Weighted average period to maturity years**	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years
Sterling	**0.7**	**0.6–0.8**	**0.2**	0.7	0.6–0.8	0.1

(d) Foreign exchange contracts

The group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from CCD's euro operations in the Republic of Ireland. A liability of £0.1m is held in the group balance sheet as at 31 December 2017 in respect of foreign exchange contracts (2016: liability of £0.2m).

The group's foreign exchange contracts comprise forward foreign exchange contracts to buy sterling and sell euros for a total notional amount of £3.2m (2016: £7.6m). These contracts have a range of maturity dates from 16 January 2018 to 14 August 2018 (2016: 17 January 2017 to 12 December 2017). These contracts were designated as cash flow hedges and were effective under IAS 39. Accordingly, the movement in fair value of £0.1m has been credited to the hedging reserve within equity (2016: £nil).

18 Trade and other receivables

	Company	
Non-current assets	**2017 £m**	2016 £m
Amounts owed by group undertakings	**76.9**	871.6

There are no amounts past due and there is no impairment provision held against amounts owed by group undertakings due for repayment in more than one year (2016: £nil). The amounts owed by group undertakings are unsecured, due for repayment in more than one year and accrue interest at rates linked to LIBOR.

Amounts owed to group undertakings have reduced from £871.6m in 2016 to £76.9m in 2017 as the company has waived loans of £638.0m to PFMSL and PPC during the year (see note 13).

	Group		Company	
Current assets	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Trade receivables	**0.1**	0.1	**–**	–
Other receivables	**8.9**	7.7	**–**	–
Amounts owed by group undertakings	**–**	–	**739.2**	704.2
Prepayments and accrued income	**35.0**	28.3	**5.2**	2.6
Total	**44.0**	36.1	**744.4**	706.8

Trade and other receivables include utility prepayments, prepaid broker costs and amounts paid on behalf of the group's pension scheme but not yet recharged. There are £nil amounts past due in respect of trade and other receivables due in less than one year (2016: £nil). Within the company, an impairment provision of £122.9m (2016: £123.3m) is held against amounts owed by group undertakings due in less than one year representing the deficiency in the net assets of those group undertakings. There has been a £0.4m credit to the company income statement in 2017 (2016: £0.2m charge) in respect of the decreased provision.

Prepayments and accrued income have increase by £6.7m due to: (i) higher consultancy costs; (ii) higher broker fees and; (iii) higher licence fees.

Amounts owed by group undertakings 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 equates to the carrying value (2016: carrying value) set out above. The fair value of trade and other receivables approximately equates to the carrying value.

19 Retirement benefit asset

(a) Pension schemes – defined benefit

The retirement benefit asset reflects the difference between the present value of the group's obligation to current and past employees to provide a defined benefit pension and the fair value of assets held to meet that obligation. As at 31 December 2017, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded.

The group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme is of the funded, defined benefit type and has been substantially closed to new members since 1 January 2003.

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

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2015 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits', has been based on results of the 2015 valuation, updated to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

The group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid.

The group is exposed to a number of risks, the most significant of which are as follows:

> Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match liabilities;

> Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets;

> Inflation risk – part of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a long-term de-risking strategy, the scheme has increased its portfolio in inflation matched assets; and

> Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

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

	Group and company			
		2017		2016
	£m	%	£m	%
Equities	68.7	8	83.1	10
Other diversified return seeking investments	75.8	9	73.9	9
Corporate bonds	141.6	17	141.2	17
Fixed interest gilts	202.9	24	193.0	23
Index-linked gilts	341.6	41	337.4	41
Cash and money market funds	4.9	1	1.5	–
Total fair value of scheme assets	835.5	100	830.1	100
Present value of funded defined benefit obligation	(733.2)		(757.7)	
Net retirement benefit asset recognised in the balance sheet	**102.3**		72.4	

As part of a de-risking strategy agreed between the company and the pension trustees to hedge the inflation and interest rate risks associated with the liabilities of the pension scheme, a substantial amount of more volatile growth funds (equities) were reinvested in liability protection assets (fixed interest and index-linked gilts) in January 2015. Further work was undertaken to refine the liability protection assets in early 2016.

Notes to the financial statements continued

19 Retirement benefit asset continued

The valuation of the pension scheme has increased from £72.4m at 31 December 2016 to £102.3m at 31 December 2017. A high level reconciliation of the movement is as follows:

Group and company	2017 £m	2016 £m
Pension asset as at 1 January	72	62
Cash contributions made by the group	11	12
Actuarially based cost of new benefits	(2)	(2)
Exceptional curtailment credit	4	–
Return on assets being held to meet pension obligations	18	154
Change in mortality assumptions	21	–
Decrease in discount rate used to discount future liabilities	(20)	(149)
Decrease/(increase) in inflation rate used to forecast pensions	2	(10)
Higher/(lower) inflationary pension increases from 1 January 2018	(4)	5
Pension asset as at 31 December	102	72

The amounts recognised in the income statement were as follows:

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Current service cost	(4.2)	(4.0)	(4.2)	(4.0)
Interest on scheme liabilities	(19.1)	(22.3)	(19.1)	(22.3)
Interest on scheme assets	21.1	24.8	21.1	24.8
Contributions from subsidiaries	–	–	10.1	11.1
Net (charge)/credit recognised in the income statement before exceptional curtailment credit	(2.2)	(1.5)	7.9	9.6
Exceptional curtailment credit	3.9	–	3.9	–
Net credit/(charge) recognised in the income statement	1.7	(1.5)	11.8	9.6

The exceptional curtailment credit of £3.9m in 2017 (2016: £nil) represents the reduction in headcount following a business restructuring within CCD (see note 1).

The net credit/(charge) recognised in the income statement of the group and company has been included within administrative and operating costs.

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Fair value of scheme assets at 1 January	830.1	666.4	830.1	666.4
Interest on scheme assets	21.1	24.8	21.1	24.8
Contributions by subsidiaries	–	–	10.1	11.1
Actuarial movement on scheme assets	18.2	153.7	18.2	153.7
Contributions by the group/company	10.7	11.7	0.6	0.6
Net benefits paid out	(44.6)	(26.5)	(44.6)	(26.5)
Fair value of scheme assets at 31 December	835.5	830.1	835.5	830.1

The group contributions to the defined benefit pension scheme in the year ending 31 December 2018 are expected to be approximately £5.3m.

19 Retirement benefit asset continued

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

	Group and company	
	2017 £m	2016 £m
Present value of the defined benefit obligation at 1 January	**(757.7)**	(604.1)
Current service cost	**(4.2)**	(4.0)
Interest on scheme liabilities	**(19.1)**	(22.3)
Exceptional curtailment credit	**3.9**	–
Actuarial movement – experience	**(3.7)**	4.5
Actuarial movement – demographic assumptions	**21.3**	–
Actuarial movement – financial assumptions	**(18.3)**	(158.3)
Net benefits paid out	**44.6**	26.5
Present value of the defined benefit obligation at 31 December	**(733.2)**	(757.7)

The liabilities of the scheme are based on the current value of expected benefit payments over the next 90 years. The weighted average duration of the scheme liabilities is approximately 19 years (2016: 19 years).

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

	Group and company	
	2017 %	2016 %
Price inflation – RPI	**3.20**	3.25
Price inflation – CPI	**2.10**	2.15
Rate of increase to pensions in payment	**2.95**	3.00
Inflationary increases to pensions in deferment	**2.10**	2.15
Discount rate	**2.40**	2.55

The pension increase assumption shown above applies to pensions increasing in payment each year in line with RPI up to 5%. Pensions accrued prior to 2000 are substantially subject to fixed 5% increases each year. In deferment increases prior to retirement are linked to CPI.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 1 tables, with multipliers of 105% and 115% respectively for males and females. The 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females reflects the lower life expectancies within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2016 model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
Group and company	**2017 years**	2016 years	**2017 years**	2016 years
Current pensioner aged 65	**21.4**	21.8	**22.9**	23.3
Current member aged 45 from age 65	**22.9**	23.5	**24.5**	25.2

The table below shows the sensitivity on the defined benefit obligation (not including any impact on assets) of changes in the key assumptions. Depending on the scenario, there would also be compensating asset movements.

	Group and company	
	2017 £m	2016 £m
Discount rate decreased by 0.1%	**14**	15
Inflation increased by 0.1%	**6**	7
Life expectancy increased by 1 year	**30**	30

Notes to the financial statements continued

19 Retirement benefit asset continued

The actual return on scheme assets compared to the expected return is as follows:

	Group and company	
	2017 £m	2016 £m
Interest on scheme assets	21.1	24.8
Actuarial movement on scheme assets	18.2	153.7
Actual return on scheme assets	**39.3**	178.5

Actuarial gains and losses are recognised through other comprehensive income in the period in which they occur.

An analysis of the amounts recognised in the statement of other comprehensive income is as follows:

	Group and company	
	2017 £m	2016 £m
Actuarial movement on scheme assets	18.2	153.7
Actuarial movement on scheme liabilities	(0.7)	(153.8)
Total movement recognised in other comprehensive income in the year	**17.5**	(0.1)
Cumulative movement recognised in other comprehensive income	**64.5**	(82.0)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the group is as follows:

	Group and company				
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Fair value of scheme assets	835.5	830.1	666.4	700.1	613.8
Present value of funded defined benefit obligation	(733.2)	(757.7)	(604.1)	(644.1)	(584.6)
Retirement benefit asset recognised in the balance sheet	**102.3**	72.4	62.3	56.0	29.2
Experience gains/(losses) on scheme assets:					
– amount (£m)	18.2	153.7	(52.4)	77.9	20.1
– percentage of scheme assets (%)	2.2	18.5	(7.9)	11.1	3.3
Experience gains/(losses) on scheme liabilities:					
– amount (£m)	(3.7)	4.5	25.9	4.1	(0.9)
– percentage of scheme liabilities (%)	(0.5)	0.6	4.3	0.6	(0.2)

(b) Pension schemes – defined contribution

The group operates a Group Personal Pension plan into which group companies contribute a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice arrangement (typically ranging between 3% and 8%). The assets of the scheme are held separately from those of the group and company. The group also operates a separate pension scheme for auto-enrolment into which the company and subsidiaries contribute a proportion of qualifying earnings of the member of 1%. The assets of the scheme are held separately from those of the group or company. The pension charge in the consolidated income statement represents contributions paid by the group in respect of these plans and amounted to £8.1m for the year ended 31 December 2017 (2016: £7.9m). Contributions made by the company amounted to £0.4m (2016: £0.4m). £0.6m contributions were payable to the fund at the year end (2016: £0.2m).

The group contributed less than £0.1m in 2017 and 2016 into individual personal pension plans in the year. The Unfunded, Unapproved Retirement Benefit Scheme (UURBS) increased by £0.2m (2016: £0.6m), as a result of the transfer of Andrew Fisher's scheme to a personal pension plan, and £1.6m into cash supplements (2016: £0.6m).

20 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences or timing differences between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of derivative financial instruments, the group's pension asset, deductions for employee share awards which are recognised differently for tax purposes, property, plant and equipment which is depreciated on a different basis for tax purposes, certain cost provisions for which tax deductions are only available when the costs are paid and available for sale assets which are taxed only on disposal. The deferred tax liability recognised on the acquisition of Moneybarn relates primarily to the intangible asset in respect of Moneybarn's broker relationships which will be amortised in future periods but for which tax deductions will not be available.

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. During 2015, reductions in corporation tax rates were enacted, reducing the mainstream UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In addition, the Government introduced a bank corporation tax surcharge enacted in the 2015 Finance (No 2) Act which imposes, with effect from 1 January 2016, an additional 8% corporation tax on profits of Vanquis Bank over £25m. During 2016, a further change was enacted which further reduced the mainstream UK corporation tax rate from 18% to 17% with effect from 1 April 2020.

Deferred tax at 31 December 2017 has been measured at 17% (2016: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2016: 25%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2016: 1 April 2020). In 2017, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.25% (2016: 20.0%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.25% (2016: 28.0%). A tax credit of £0.6m (2016: £nil) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax credit of £0.3m (2016: £0.6m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

The movement in the deferred tax balance during the year can be analysed as follows:

	Group		Company	
Liability	**2017 £m**	2016 £m	**2017 £m**	2016 £m
At 1 January	**(10.7)**	(14.9)	**(9.8)**	(8.8)
Charge to the income statement (note 5)	**(6.7)**	(1.0)	**(3.5)**	(1.6)
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate (note 5)	**(3.8)**	4.6	**(3.4)**	(0.1)
Impact of change in UK tax rate:				
– credit to the income statement	**0.6**	–	**0.4**	0.1
– credit to other comprehensive income	**0.3**	0.6	**0.4**	0.6
At 31 December	**(20.3)**	(10.7)	**(15.9)**	(9.8)

An analysis of the deferred tax liability for the group is set out below:

	2017				2016			
Group – (liability)/asset	**Accelerated capital allowances £m**	**Other temporary differences £m**	**Retirement benefit obligations £m**	**Total £m**	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit obligations £m	Total £m
At 1 January	**2.4**	**(1.0)**	**(12.1)**	**(10.7)**	2.4	(6.3)	(11.0)	(14.9)
Credit/(charge) to the income statement	**0.3**	**(4.6)**	**(2.4)**	**(6.7)**	0.2	0.8	(2.0)	(1.0)
(Charge)/credit on other comprehensive income prior to change in UK tax rate	**–**	**(0.4)**	**(3.4)**	**(3.8)**	–	4.6	–	4.6
Impact of change in UK tax rate:								
– credit/(charge) to the income statement	**–**	**0.3**	**0.3**	**0.6**	(0.2)	(0.1)	0.3	–
– (charge)/credit to other comprehensive income	**–**	**(0.1)**	**0.4**	**0.3**	–	–	0.6	0.6
At 31 December	**2.7**	**(5.8)**	**(17.2)**	**(20.3)**	2.4	(1.0)	(12.1)	(10.7)

Notes to the financial statements continued

20 Deferred tax continued

An analysis of the deferred tax liability for the company is set out below:

Company – (liability)/asset	2017 Accelerated capital allowances £m	2017 Other temporary differences £m	2017 Retirement benefit obligations £m	2017 Total £m	2016 Accelerated capital allowances £m	2016 Other temporary differences £m	2016 Retirement benefit obligations £m	2016 Total £m
At 1 January	(0.2)	2.5	(12.1)	(9.8)	(0.2)	2.4	(11.0)	(8.8)
Credit/(charge) to the income statement	0.1	(1.2)	(2.4)	(3.5)	–	0.4	(2.0)	(1.6)
Charge on other comprehensive income prior to impact of change in UK tax rate	–	–	(3.4)	(3.4)	–	(0.1)	–	(0.1)
Impact of change in UK tax rate:								
– credit/(charge) to the income statement	–	0.1	0.3	0.4	–	(0.2)	0.3	0.1
– credit to other comprehensive income	–	–	0.4	0.4	–	–	0.6	0.6
At 31 December	(0.1)	1.4	(17.2)	(15.9)	(0.2)	2.5	(12.1)	(9.8)

Deferred tax assets have been recognised in respect of all temporary differences because it is probable that these assets will be recovered.

21 Cash and cash equivalents

Cash and cash equivalents includes cash at bank and held in short-term deposits, floats held by CEMs within CCD and Vanquis Bank's liquid assets buffer, including other liquid resources, held in accordance with the PRA's liquidity regime. The PRA requires regulated entities to maintain a liquid assets buffer and other liquid resources to ensure they have available funds to help protect against unforeseen circumstances. The amount of the liquid assets buffer is calculated using Individual Liquidity Guidance (ILG) set by the PRA based on the Individual Liquidity Adequacy Assessment Process (ILAAP) prepared by Vanquis Bank. In addition, further liquid resources must be maintained based upon daily stress tests linked to three key liquidity risks of Vanquis Bank, namely retail deposits maturities, undrawn credit card lines and operating cash flows. This results in a dynamic liquid resources requirement, largely driven by retail deposits maturities in the following three months. Vanquis Bank's liquid assets buffer, including other liquid resources, amounts to £263.4m at 31 December 2017 (2016: £168.9m) and is held in a combination of UK government gilts of £35.9m (2016: £nil) (held within available for sale investments) and a Bank of England reserves account of £227.5m (2016: £168.9m) which is held within cash and cash equivalents.

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash at bank and in hand	282.9	223.7	35.6	31.2

In addition to cash and cash equivalents, the group had £3.1m of bank overdrafts at 31 December 2017 (2016: £5.1m) and the company had £0.3m of bank overdrafts (2016: £2.5m) both of which are disclosed within bank and other borrowings (see note 22).

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Sterling	280.5	222.1	34.4	31.2
Euro	2.4	1.6	1.2	–
Total cash and cash equivalents	282.9	223.7	35.6	31.2

Cash and cash equivalents are non-interest bearing other than in respect of the cash held on deposit and the amounts held by Vanquis Bank as a liquid assets buffer and other liquid resources which bear interest at rates linked to the Bank of England base rate.

The fair value of cash and cash equivalents approximately equates to the carrying value.

22 Borrowings

Current liabilities	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Retail deposits	348.4	185.3	–	–
Bank and other borrowings	38.1	135.1	35.3	132.5
Total	386.5	320.4	35.3	132.5
Non-current liabilities				
Retail deposits	943.4	755.9	–	–
Bank and other borrowings	844.2	778.8	844.2	778.8
Total	1,787.6	1,534.7	844.2	778.8
Total borrowings	2,174.1	1,855.1	879.5	911.3

(a) Facilities and borrowings

Borrowings principally comprise retail deposits issued by Vanquis Bank (see note 22(b)), syndicated and bilateral bank facilities, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 22(e)), loan notes privately placed with UK institutions (see note 22(f)) and retail bonds (see note 22(g)). As at 31 December 2017, borrowings under these facilities amounted to £2,174.1m (2016: £1,855.1m).

(b) Retail deposits

Vanquis Bank is a PRA-regulated bank which commenced taking retail deposits in July 2011. As at 31 December 2017, £1,291.8m (2016: £941.2m) of fixed-rate, fixed-term retail deposits of one, two, three, four and five years had been taken. The deposits in issue at 31 December 2017 have been issued at rates of between 1.60% and 2.50%.

A reconciliation of the movement in retail deposits is set out below:

Group	2017 £m	2016 £m
At 1 January	941.2	731.0
New funds received	456.1	316.6
Maturities	(180.6)	(177.7)
Retentions	82.4	76.9
Cancellations	(18.5)	(15.1)
Capitalised interest	11.2	9.5
At 31 December	1,291.8	941.2

(c) Maturity profile borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

Group	2017 Borrowing facilities available £m	2017 Borrowings £m	2016 Borrowing facilities available £m	2016 Borrowings £m
Repayable:				
On demand (uncommitted)	24.5	3.1	24.2	5.1
In less than one year	383.3	383.4	315.3	315.3
Included in current liabilities	407.8	386.5	339.5	320.4
Between one and two years	536.1	535.7	622.3	511.7
Between two and five years	1,262.6	1,192.5	964.8	963.7
In more than five years	60.0	59.4	60.0	59.3
Included in non-current liabilities	1,858.7	1,787.6	1,647.1	1,534.7
Total group	2,266.5	2,174.1	1,986.6	1,855.1

Notes to the financial statements continued

22 Borrowings continued

Borrowings are stated after deducting £4.8m of unamortised arrangement fees (2016: £2.2m).

In order to reconcile the borrowings shown in the table above and the headroom on committed facilities shown in 22(h), the facilities and borrowings in respect of amounts repayable on demand should be deducted and unamortised arrangement fees should be added back to borrowings as follows:

Group	2017 Facilities £m	2017 Borrowings £m	2016 Facilities £m	2016 Borrowings £m
Total group facilities and borrowings	**2,266.5**	**2,174.1**	1,986.6	1,855.1
Repayable on demand	**(24.5)**	**(3.1)**	(24.2)	(5.1)
Unamortised arrangement fees	**–**	**4.8**	–	2.2
Total group committed facilities and borrowings	**2,242.0**	**2,175.8**	1,962.4	1,852.2
Headroom on committed facilities		**66.2**		110.2

Company	2017 Borrowing facilities available £m	2017 Borrowings £m	2016 Borrowing facilities available £m	2016 Borrowings £m
Repayable:				
On demand (uncommitted)	**24.4**	**0.3**	24.2	2.5
In less than one year	**35.0**	**35.0**	130.0	130.0
Included in current liabilities	**59.4**	**35.3**	154.2	132.5
Between one and two years	**265.0**	**264.8**	426.0	315.4
Between two and five years	**590.2**	**520.1**	405.2	404.1
In more than five years	**60.0**	**59.3**	60.0	59.3
Included in non-current liabilities	**915.2**	**844.2**	891.2	778.8
Total company	**974.6**	**879.5**	1,045.4	911.3

As at 31 December 2017, the weighted average period to maturity of the group's committed facilities, including retail deposits, was 2.3 years (2016: 2.5 years) and for the company's committed facilities was 2.5 years (2016: 2.3 years). Excluding retail deposits, the weighted average period to maturity of the group's committed facilities was 2.5 years (2016: 2.3 years).

(d) Interest rate and currency profile of borrowings

Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the group and company, the interest rate and foreign exchange rate exposure on borrowings is as follows:

Group	2017 Fixed £m	2017 Floating £m	2017 Total £m	2016 Fixed £m	2016 Floating £m	2016 Total £m
Sterling	**1,687.5**	**437.8**	**2,125.3**	1,459.6	335.0	1,794.6
Euro	**–**	**48.8**	**48.8**	–	60.5	60.5
Total group	**1,687.5**	**486.6**	**2,174.1**	1,459.6	395.5	1,855.1

Company	2017 Fixed £m	2017 Floating £m	2017 Total £m	2016 Fixed £m	2016 Floating £m	2016 Total £m
Sterling	**395.7**	**435.0**	**830.7**	518.4	332.4	850.8
Euro	**–**	**48.8**	**48.8**	–	60.5	60.5
Total company	**395.7**	**483.8**	**879.5**	518.4	392.9	911.3

As detailed in note 17, the group and company have entered into various interest rate swaps to hedge the interest rate exposure on borrowings. After taking account of the aforementioned interest rate swaps, the group's fixed rate borrowings are £1,707.5m (2016: £1,569.7m) and the company's fixed rate borrowings are £415.7m (2016: £628.5m).

22 Borrowings continued

(e) Senior public bonds

On 23 October 2009, the company issued £250.0m of senior public bonds. The bonds have an annual coupon of 8.0% and are repayable on 23 October 2019.

(f) Private placement loan notes

On 13 January 2011, the company entered into a committed £100.0m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years five and ten. The first two repayments of £10.0m were repaid in 2016 and 2017. The third instalment of £15.0m was paid on 31 January 2018.

The company also entered into a £20m private placement loan note with a third party on 4 March 2011 repayable over a seven-year period at a rate linked to LIBOR and a euro 10m facility agreement over a seven-year period on 3 February 2011 at a rate linked to EURIBOR, which was repaid one year ahead of its maturity date in February 2017.

(g) Retail bonds

The company has three outstanding retail bonds issued on the Order Book for Retail Bonds (ORB) platform established by the London Stock Exchange as follows:

Issue date	Amount £m	Rate %	Maturity date
14 April 2010	25.2	7.5%*	14 April 2020
27 March 2013	65.0	6.0%	27 September 2021
9 April 2015	60.0	5.125%	9 October 2023
Total group and company	150.2		

The retail bonds issued on 4 April 2012 amounting to £120.0m and accruing interest at 7.0% were repaid in full on their maturity date of 4 October 2017.

* Represents an all-in cost of 7.5%, comprising a 7.0% interest rate payable to the bond holder and 0.5% payable to the distributor.

(h) Undrawn committed borrowing facilities

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities, together with cash held on deposit, to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fully fund itself through retail deposits and repay its intercompany loan to Provident Financial plc.

The undrawn committed borrowing facilities at 31 December were as follows:

	Group and company	
	2017 £m	2016 £m
Expiring within one year	**–**	–
Expiring within one to two years	**–**	110.2
Expiring in more than two years	**66.2**	–
Total group and company	**66.2**	110.2

The group has committed borrowing facilities of £2,242.0m (2016: £1,962.4m) at the end of 2017.

The table above also does not include the additional capacity for Vanquis Bank to take retail deposits up to the value of the intercompany loan from Provident Financial plc of £76.9m as at 31 December 2017. Accordingly, Vanquis Bank's retail deposits capacity at 31 December 2017 amounts to £76.9m. The group's total funding capacity therefore amounts to £177.4m, being the group's adjusted headroom on undrawn committed borrowing facilities of £100.5m plus the amount of Vanquis Bank's intercompany loan of £76.9m plus surplus cash held on deposit of £34.3m, excluding the liquid assets buffer held by Vanquis Bank.

Notes to the financial statements continued

22 Borrowings continued

(i) Weighted average interest rates and periods to maturity

Before taking account of the various interest rate swaps entered into by the group and company, the weighted average interest rate and the weighted average period to maturity of the group and company's fixed-rate borrowings is as follows:

Group	2017 Weighted average interest rate %	2017 Weighted average period to maturity years	2016 Weighted average interest rate %	2016 Weighted average period to maturity years
Sterling	3.36	2.31	4.22	2.77

Company	2017 Weighted average interest rate %	2017 Weighted average period to maturity years	2016 Weighted average interest rate %	2016 Weighted average period to maturity years
Sterling	7.18	2.75	7.14	3.06

After taking account of interest rate swaps, the sterling-weighted average fixed interest rate for the group was 3.32% (2016: 3.97%) and for the company was 6.87% (2016: 6.00%). The sterling-weighted average period to maturity on the same basis is 2.3 years (2016: 2.5 years) for the group and 2.6 years (2016: 2.9 years) for the company.

(j) Fair values

The fair values of the group and company's borrowings are compared to their book values as follows:

Group	2017 Book value £m	2017 Fair value £m	2016 Book value £m	2016 Fair value £m
Retail deposits	1,291.8	1,302.6	941.2	954.7
Bank loans and overdrafts	382.1	382.1	275.2	275.3
Senior public bonds	250.0	238.2	250.0	288.5
Sterling private placement loan notes	100.0	107.0	110.0	122.0
Euro private placement loan notes	–	–	8.5	9.0
Retail bonds	150.2	136.1	270.2	285.7
Total group	**2,174.1**	**2,166.0**	1,855.1	1,935.2

Company	2017 Book value £m	2017 Fair value £m	2016 Book value £m	2016 Fair value £m
Bank loans and overdrafts	379.3	379.3	272.6	272.7
Senior public bonds	250.0	238.2	250.0	288.5
Sterling private placement loan notes	100.0	107.0	110.0	122.0
Euro private placement loan notes	–	–	8.5	9.0
Retail bonds	150.2	136.1	270.2	285.7
Total company	**879.5**	**860.6**	911.3	977.9

Under IFRS13, 'Fair value measurement', the senior public bonds and retail bonds are classed as Level 1. The sterling and euro private placement loan notes and subordinated loan notes are classed as Level 2 as their fair value has been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date.

The fair value of retail deposits have been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date and are categorised within Level 3 of the fair value hierarchy.

23 Trade and other payables

Current liabilities	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Trade payables	**6.8**	5.4	**–**	–
Amounts owed to group undertakings	**–**	–	**77.8**	103.4
Other payables including taxation and social security	**11.2**	8.0	**1.6**	1.5
Accruals	**97.8**	91.4	**27.3**	28.4
Total	**115.8**	104.8	**106.7**	133.3

The amounts owed to group undertakings are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR. The fair value of trade and other payables approximately equates to their carrying value.

Accruals principally relate to normal operating accruals such as rent, rates and utilities and interest accrued on the group's borrowings.

24 Provisions

Provisions	Group 2017 £m	Group 2016 £m
At 1 January	**–**	–
Created in the year	**104.6**	–
Total	**104.6**	–

On 27 February 2018, Vanquis Bank agreed a settlement with the FCA into the investigation into ROP. The investigation concluded that Vanquis Bank did not adequately disclose in its sales calls that the charges for ROP would be treated as a purchase transaction and therefore potentially incur interest. A settlement has been reached with the FCA to refund those customers with the interest element of ROP charges in the period between inception of the product in 2003 and the communication to ROP customers which was conducted in December 2016. The total estimated cost of settlement amounts to £172.1m and comprises: (i) restitution to customers of £127.1m comprising balance reductions to existing customers of £75.4m and cash settlements of £51.7m; (ii) higher expected forward flow of ROP complaints more generally in respect of which compensation may need to be paid of £30.7m; (iii) administration costs of £12.3m; and (iv) the fine levied by the FCA of just under £2.0m. The balance reductions of £75.4m have been applied to amounts receivable from customers at 31 December 2017 with the remaining estimated cost of £96.7m being recognised as a provision at 31 December 2017. The estimated costs of the balance reductions, cash settlements and fine are based on the settlement agreement with the FCA. The provision in respect of anticipated future claims in respect of ROP complaints more generally represents management's best estimate of the group's liability for customer restitution costs based on: (i) the total number of complaints that the group may receive; (ii) the proportion that may result in restitution; and (iii) the average cost of restitution. The timing of the resulting economic outflows is uncertain and will depend on, but not limited to, whether the claims will be made and the timing of any claims. A 10% increase/decrease in the number of expected claims would result in a +/- £3m impact on the provision for future claims. Provisions in respect of the expected costs of administering the restitution programme are based on management's best estimates, taking into account the level of the restitution programme and the current cost base of Vanquis Bank.

Moneybarn continues to cooperate with the FCA with its ongoing investigation into affordability, forbearance and termination options. Management's best estimate in respect of the potential liability in respect of the investigation, based on the work of external consultants and management's own analysis of potentially affected customers within the areas being investigated, is estimated to be £20.0m. This comprises £12.1m in respect of balance reductions to existing customers and £7.9m in respect of potential cash restitution, administration costs and an FCA fine. The balance reductions of £12.1m have been applied to amounts receivable from customers at 31 December 2017 with the remaining estimated cost of £7.9m being recognised as a provision at 31 December 2017.

Notes to the financial statements continued

25 Share capital

Group and company		2017 Issued and fully paid	2016 Issued and fully paid
Ordinary shares of 20 $\frac{8}{11}$p each	– £m	**30.7**	30.6
	– number (m)	**148.2**	147.8

The movement in the number of shares in issue during the year was as follows:

Group and company	2017 m	2016 m
At 1 January	**147.8**	147.2
Shares issued pursuant to the exercise/vesting of options and awards	**0.4**	0.6
At 31 December	**148.2**	147.8

The shares issued pursuant to the exercise/vesting of options and awards comprised 463,504 ordinary shares (2016: 595,770) with a nominal value of £96,072 (2016: £123,487) and an aggregate consideration of £0.4m (2016: £2.2m).

Provident Financial plc sponsors the Provident Financial plc 2007 Employee Benefit Trust (EBT) which is a discretionary trust established for the benefit of the employees of the group. The company has appointed SG Kleinwort Hambros Trust Company (CI) Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2017, the EBT held 2,174,534 (2016: 2,339,602) shares in the company with a cost of £2.3m (2016: £0.4m) and a market value of £19.5m (2016: £66.7m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006 and the 2013 Performance Share Plan. The Trust was also established to operate in conjunction with the Performance Share Plan (PSP). As at 31 December 2017, awards held in respect of the PSP were 272,191 (2016: 314,305) ordinary shares with a cost of £0.1m (2016: £0.1m) and a market value of £2.4m (2016: £9.0m).

26 Share-based payments

The group issues share options and awards to employees as part of its employee remuneration packages. The group operates three equity settled share schemes: the Long Term Incentive Scheme (LTIS), employees' savings-related share option schemes typically referred to as Save As You Earn schemes (SAYE), and the Performance Share Plan (PSP). The group also operates a cash-settled share incentive scheme, the Provident Financial Equity Plan (PFEP) for eligible employees based on a percentage of salary. The group previously operated senior executive share option schemes (ESOS/SESO), although no options have been granted under these schemes since 2006.

When an equity settled share option or award is granted, a fair value is calculated based on the share price at grant date, the probability of the option/award vesting, the group's recent share price volatility, and the risk associated with the option/award. A fair value is calculated based on the value of awards granted and adjusted at each balance sheet date for the probability of vesting against performance conditions.

The fair value of all options/awards are charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

During 2017, awards/options have been granted under the LTIS, PSP, SAYE and PFEP schemes (2016: awards/options have been granted under the LTIS, PSP, SAYE and PFEP schemes).

(a) Equity-settled schemes

The credit to the income statement in 2017 for equity settled schemes was £3.4m for the group (2016: charge of £10.9m) and £2.2m for the company (2016: charge of £5.1m).

The fair value per award/option granted and the assumptions used in the calculation of the equity settled share-based payment charges for the group and company are as follows:

			2017			2016
Group	**PSP**	**LTIS**	**SAYE**	PSP	LTIS	SAYE
Grant date	**24 Mar 2017**	**24 Mar 2017**	**29 Sep 2017**	1 Mar 2016	1 Mar 2016	28 Sep 2016
Share price at grant date (£)	**29.28**	**29.28**	**8.31**	32.49	32.49	29.30
Exercise price (£)	**–**	**–**	**6.90**	–	–	24.06
Shares awarded/under option (number)	**135,389**	**300,086**	**1,833,284**	117,631	274,136	179,620
Vesting period (years)	**3**	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**27.7%**	**27.7%**	**60.7%-76.8%**	23.1%	23.1%	25.4%–27.2%
Award/option life (years)	**3**	**3**	**Up to 5**	3	3	Up to 5
Expected life (years)	**3**	**3**	**Up to 5**	3	3	Up to 5
Risk-free rate	**0.75%**	**0.75%**	**0.92%-1.09%**	0.76%	0.76%	0.42%–0.47%
Expected dividends expressed as a dividend yield	**n/a**	**n/a**	**3.0%**	n/a	n/a	3.0%
Fair value per award/option (£)	**29.28**	**29.28**	**2.01-2.76**	32.49	32.49	6.21–6.28

			2017			2016
Company	**PSP**	**LTIS**	**SAYE**	PSP	LTIS	SAYE
Grant date	**24 Mar 2017**	**24 Mar 2017**	**29 Sep 2017**	1 Mar 2016	1 Mar 2016	28 Sep 2016
Share price at grant date (£)	**29.28**	**29.28**	**8.31**	32.49	32.49	29.30
Exercise price (£)	**–**	**–**	**6.90**	–	–	24.06
Shares awarded/under option (number)	**106,614**	**133,702**	**89,535**	90,639	115,488	7,916
Vesting period (years)	**3**	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**27.7%**	**27.7%**	**60.7%-76.8%**	23.1%	23.1%	25.4%–27.2%
Award/option life (years)	**3**	**3**	**Up to 5**	3	3	Up to 5
Expected life (years)	**3**	**3**	**Up to 5**	3	3	Up to 5
Risk-free rate	**0.75%**	**0.75%**	**0.92%-1.09%**	0.76%	0.76%	0.42%–0.47%
Expected dividends expressed as a dividend yield	**n/a**	**n/a**	**3.00%**	n/a	n/a	3.0%
Fair value per award/option (£)	**29.28**	**29.28**	**2.01-2.76**	32.49	32.49	6.21–6.28

The expected volatility is based on historical volatility over the last three or five years depending on the length of the option/award. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero coupon UK Government bonds of a similar duration to the life of the share option.

Notes to the financial statements continued

26 Share-based payments continued

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

Group	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £
Outstanding at 1 January 2017	499,328	–	961,560	–	625,446	19.42
Awarded/granted	135,389	–	300,086	–	1,833,284	6.90
Lapsed	(142,264)	–	(306,720)	–	(499,579)	19.58
Exercised	(195,712)	–	(359,423)	–	(26,419)	12.13
Outstanding at 31 December 2017	296,741	–	595,503	–	1,932,732	7.28
Exercisable at 31 December 2017	–	–	–	–	57,076	14.34

Group	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £
Outstanding at 1 January 2016	649,026	–	1,184,417	–	700,849	16.35	10,820	5.77
Awarded/granted	117,631	–	274,136	–	179,620	24.04	–	–
Lapsed	(3,542)	–	(141,450)	–	(80,396)	17.07	–	–
Exercised	(263,787)	–	(355,543)	–	(174,627)	11.67	(10,820)	5.77
Outstanding at 31 December 2016	499,328	–	961,560	–	625,446	19.42	–	–
Exercisable at 31 December 2016	–	–	–	–	9,042	11.40	–	–

Share awards outstanding under the LTIS scheme at 31 December 2017 had an exercise price of £nil (2016: £nil) and a weighted average remaining contractual life of 1.3 years (2016: 1.1 years). Share options outstanding under the SAYE schemes at 31 December 2017 had exercise prices ranging from 662p to 2,406p (2016: 662p to 2,406p) and a weighted average remaining contractual life of 3.2 years (2016: 1.1 years). Share awards outstanding under the PSP schemes at 31 December 2017 had an exercise price of £nil (2016: £nil) and a weighted average remaining contractual life of 1.1 years (2016: 1.0 years). There were nil share options outstanding under the ESOS/SESO schemes at 31 December 2017 (2016: nil).

26 Share-based payments continued

Company	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £
Outstanding at 1 January 2017	328,877	–	417,348	–	32,967	19.24
Awarded/granted	106,614	–	133,702	–	89,535	6.85
Lapsed	(114,170)	–	(148,304)	–	(26,414)	17.99
Exercised	(132,316)	–	(175,366)	–	(1,370)	11.81
Outstanding at 31 December 2017	189,005	–	227,380	–	94,718	7.51
Exercisable at 31 December 2017	–	–	–	–	5,349	16.44

Company	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £
Outstanding at 1 January 2016	410,447	–	521,817	–	32,815	16.56
Awarded/granted	90,639	–	115,488	–	7,916	24.06
Lapsed	–	–	–	–	(1,298)	19.06
Exercised	(172,209)	–	(219,957)	–	(6,466)	12.09
Outstanding at 31 December 2016	328,877	–	417,348	–	32,967	19.24
Exercisable at 31 December 2016	–	–	–	–	689	13.05

Share awards outstanding under the LTIS scheme at 31 December 2017 had an exercise price of £nil (2016: £nil) and a weighted average remaining contractual life of 1.2 years (2016: 1.1 years). Share options outstanding under the SAYE schemes at 31 December 2017 had exercise prices ranging from 685p to 2,406p (2016: 1,056p to 2,406p) and a weighted average remaining contractual life of 3.4 years (2016: 1.1 years). Share awards outstanding under the PSP schemes at 31 December 2017 had an exercise price of £nil (2016: £nil) and a weighted average remaining contractual life of 1.2 years (2016: 1.1 years).

(b) Cash-settled schemes

During 2017, cash awards were granted under the PFEP to eligible employees that require the group and company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The charge to the income statement in 2017 was £1.0m for the group (2016: £3.4m) and a credit to the income statement of £0.3m for the company (2016: charge of £0.3m). The group has a liability of £5.6m as at 31 December 2017 (2016: £4.6m) and £nil for the company (2016: £0.3m).

Notes to the financial statements continued

27 Other reserves

Group	Profit retained by subsidiary £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Available for sale reserve £m	Total other reserves £m
At 1 January 2016	0.8	3.6	(0.5)	(1.0)	20.0	12.7	35.6
Other comprehensive income:							
– fair value movements on available for sale investment (note 15)	–	–	–	–	–	3.1	3.1
– gain on available for sale investment recycled to the income statement (note 15)	–	–	–	–	–	(20.2)	(20.2)
– fair value movements on cash flow hedges (note 17)	–	–	0.4	–	–		0.4
– tax on items taken directly to other comprehensive income (note 5)	–	–	(0.1)	–	–	4.7	4.6
Other comprehensive income for the year	–	–	0.3	–	–	(12.4)	(12.1)
Transactions with owners:							
– purchase of own shares	–	–	–	(0.1)	–	–	(0.1)
– transfer of own shares on vesting of share awards	–	–	–	0.1	–	–	0.1
– share-based payment charge (note 26)	–	–	–	–	10.9	–	10.9
– transfer of share-based payment reserve on vesting of share awards	–	–	–	–	(10.1)	–	(10.1)
At 31 December 2016	0.8	3.6	(0.2)	(1.0)	20.8	0.3	24.3
At 1 January 2017	**0.8**	**3.6**	**(0.2)**	**(1.0)**	**20.8**	**0.3**	**24.3**
Other comprehensive income:							
– fair value movements on available for sale investment (note 15)	**–**	**–**	**–**	**–**	**–**	**1.9**	**1.9**
– fair value movements on cash flow hedges (note 17)	**–**	**–**	**0.2**	**–**	**–**	**–**	**0.2**
– tax on items taken directly to other comprehensive income (note 5)	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
– impact of change in UK tax rate				**–**	**–**	**(0.1)**	**(0.1)**
Other comprehensive income for the year	**–**	**–**	**0.2**	**–**	**–**	**1.4**	**1.6**
Transactions with owners:							
– purchase of own shares	**–**	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards	**–**	**–**	**–**	**1.1**	**–**	**–**	**1.1**
– share-based payment credit (note 26)	**–**	**–**	**–**	**–**	**(3.4)**	**–**	**(3.4)**
– transfer of share-based payment reserve on vesting of share awards	**–**	**–**	**–**	**–**	**(10.1)**	**–**	**(10.1)**
At 31 December 2017	**0.8**	**3.6**	**–**	**–**	**7.3**	**1.7**	**13.4**

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The hedging reserve reflects the corresponding entry to the fair value of hedging derivatives held on the balance sheet as either assets or liabilities, net of deferred tax (see note 17).

The treasury shares reserve represents shares acquired by the company, through various trusts, both from the market and through a fresh issue to satisfy awards under the group's various share schemes (see note 26). The cost of the shares is treated as a deduction from equity. When the relevant awards vest, the cost of the shares provided to employees is transferred to retained earnings.

The share-based payment reserve reflects the corresponding credit entry to the cumulative share-based payment charges made through the income statement as there is no cash cost or reduction in assets from the charges. When options and awards vest, that element of the share-based payment reserve relating to those awards and options is transferred to retained earnings.

The available for sale reserve reflects the fair value movements in the available for sale investment, net of deferred tax (see note 15).

27 Other reserves continued

Company	Non-distributable reserve £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2016	609.2	2.3	3.6	(0.4)	(1.0)	20.1	633.8
Other comprehensive income:							
– fair value movements on cash flow hedges (note 17)	–	–	–	0.4	–	–	0.4
– tax on items taken directly to other comprehensive income	–	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	–	0.3	–	–	0.3
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards	–	–	–	–	0.1	–	0.1
– share-based payment charge (note 26)	–	–	–	–	–	5.1	5.1
– transfer of share-based payment reserve on vesting of share awards	–	–	–	–	–	(5.1)	(5.1)
– share-based payment movement in investment in subsidiaries	–	–	–	–	–	0.8	0.8
At 31 December 2016	609.2	2.3	3.6	(0.1)	(1.0)	20.9	634.9
At 1 January 2017	**609.2**	**2.3**	**3.6**	**(0.1)**	**(1.0)**	**20.9**	**634.9**
Other comprehensive income:							
– fair value movements on cash flow hedges (note 17)	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**
Other comprehensive income for the year	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**
Transactions with owners:							
– purchase of own shares	**–**	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards	**–**	**–**	**–**	**–**	**1.1**	**–**	**1.1**
– share-based payment credit (note 26)	**–**	**–**	**–**	**–**	**–**	**(2.2)**	**(2.2)**
– transfer of share-based payment reserve on vesting of share awards	**–**	**–**	**–**	**–**	**–**	**(5.0)**	**(5.0)**
– share-based payment movement in investment in subsidiaries	**–**	**–**	**–**	**–**	**–**	**(6.4)**	**(6.4)**
– transfer of non-distributable reserve following write down of investments and loans to subsidiaries (note 13)	**(571.3)**	**–**	**–**	**–**	**–**	**–**	**(571.3)**
At 31 December 2017	**37.9**	**2.3**	**3.6**	**–**	**–**	**7.3**	**51.1**

The non-distributable reserve arose on the sale of Provident Personal Credit Limited by the company to Provident Financial Management Services Limited in 2000. The transaction enabled Provident Financial Management Services Limited to be established as a central service function for its subsidiaries Provident Personal Credit Limited and Greenwood Personal Credit Limited and ensured that the entities forming CCD were consolidated into one sub-group which more accurately reflected the group's structure. The original gain on sale of £809.2m was recognised as a non-distributable reserve as the consideration provided by Provident Financial Management Services comprised cash funded by the issue of debt and shares by Provident Financial Management Services Limited to Provident Financial plc. The debt was refinanced in 2004 with a new £638m term loan from Provident Financial plc. £200m of the original gain was made distributable in 2005 following the settlement in cash of £200m of the £638m loan by Provident Financial Management Services Limited.

Following the significant losses incurred in CCD during 2017, a full review has been undertaken of the company's investment in Provident Financial Management Services Limited and the intercompany loans of £438m and £200m provided to Provident Financial Management Services Limited and Provident Personal Credit Limited respectively. As a result of this review, the company has released Provident Financial Management Services Limited and Provident Personal Credit Limited from their obligations under the intercompany loans and impairment charges of £644.8m have been taken to the company's income statement in 2017. £571.3m of the non-distributable reserve has been transferred to retained earnings to offset these impairment charges (see note 13). The remaining £73.5m of impairment charges have not been matched with a transfer from the non-distributable reserve as this amount represents the company's original cost of investment in Provident Personal Credit Limited.

For the purposes of declaring dividends distributable reserves include: (i) retained earnings, adjusted to reflect the unrealised gain on the retirement benefit asset; (ii) share-based payment reserve net of deferred tax; (iii) merger reserve; (iv) treasury share reserve and; (v) an element of the intra-group loan receivable created as part of the group reorganisation in 2000.

Historically, approximately £50m of the intra-group loan receivable from Provident Financial Management Services Limited created as part of the aforementioned group reorganisation in 2000 met the criteria for qualifying consideration in accordance with Tech 02/17. This was on the basis that the debtor was capable of settling the receivable within a reasonable period of time, there was reasonable certainty that the debtor would be capable of settling when called upon to do so, and there was an expectation that the receivable would be settled. Based on historic dividends levels, £50m was considered to be an appropriate amount that Provident Financial Management Services Limited could settle within a year. Accordingly, the company had historically included £50m as part of distributable reserves for the purposes of assessing dividend distributions. Following the significant deterioration in performance of CCD during 2017 and the subsequent release of the intra-group loan receivable, there is no longer any intra-group loan receivables capable of meeting the criteria for qualifying consideration.

The distributable reserves do not include distributable reserves held within subsidiary companies.

The proposed rights issue is being undertaken through a cash box structure which will allow merger relief to be applied to the issue of shares rather than recording share premium and thereby create distributable reserves for the company where capital is not injected in Vanquis Bank. The net proceeds of the proposed rights issue of £300m, will be recorded as an increase in share capital and the creation of a merger reserve. £50.0m of the capital raised will be injected into Vanquis Bank with the remaining £250m being retained in the company.

Notes to the financial statements continued

28 Commitments

Commitments under operating leases are as follows:

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Due within one year	**13.2**	14.5	**3.2**	3.1
Due between one and five years	**47.9**	44.5	**15.8**	12.8
Due in more than five years	**67.8**	66.1	**22.2**	13.6
Total	**128.9**	125.1	**41.2**	29.5

Operating lease commitments principally relate to the future rental payments until the first break on: (i) head office properties in Bradford; (ii) CCD branches nationwide; and (iii) Vanquis Bank head office in London and contact centre in Chatham.

Other group commitments are as follows:

	Group	
	2017 £m	2016 £m
Unutilised credit card facilities at 31 December	**969.2**	771.8
Vehicles held as collateral	**239.1**	217.6

Vehicles are held as collateral against a Moneybarn conditional sales agreement until it is repaid in full. At 31 December 2017, £239.1m of collateral is held against the net amounts receivable from customers of £364.1m (see note 14), representing 66% of the balance.

The company has £nil unutilised credit card facilities and £nil vehicles held as collateral at 31 December 2017 (2016: £nil).

	Company	
	2017 £m	2016 £m
Vanquis Bank intercompany loan facility	**140.0**	305.0

The company provides its subsidiary, Vanquis Bank, with a committed intercompany loan facility which is used to fund growth in the business alongside retail deposits. The facility is renewed semi-annually. At 31 December 2017, the facility of £140m (2016: £305m), had a maturity date of 28 February 2020 (2016: 30 June 2019). On 26 February 2018, the company and Vanquis Bank agreed a new intercompany term loan of £125m, expected to be drawn on 27 February 2018, and cancelled the existing facility. All undrawn commitments were cancelled and the company expects to use the proceeds of a bridge facility of £85m entered into with Barclays Bank plc and JP Morgan Securities plc on 20 February 2018 to fund the increase in the drawing under the new term loan.

29 Related party transactions

The company recharges the pension scheme referred to in note 19 with a proportion of the costs of administration and professional fees incurred by the company. The total amount recharged during the year was £0.4m (2016: £0.4m) and the amount payable to the pension scheme at 31 December 2017 was £nil (2016: £0.2m).

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

	2017			2016		
Company	**Management recharge £m**	**Interest credit £m**	**Outstanding balance £m**	Management recharge £m	Interest credit £m	Outstanding balance £m
Vanquis Bank	**2.7**	**(10.7)**	**76.9**	4.4	(21.5)	227.6
CCD	**5.5**	**(23.1)**	**347.0**	7.0	(47.8)	982.7
Moneybarn	**0.7**	**(15.6)**	**337.6**	1.1	(18.2)	283.0
Other central companies	**–**	**–**	**99.7**	–	–	102.5
Total	**8.9**	**(49.4)**	**861.2**	12.5	(87.5)	1,595.8

The outstanding balance represents the gross intercompany balance receivable by the company, against which a provision of £122.9m (2016: £123.4m) is held.

During 2017 the company received dividends of £67.3m from Vanquis Bank Limited (2016: £134.0m) and £2.9m from other non-trading companies as part of a rationalisation and wind up process (2016: £nil) which was offset by a write down in investments. In 2016, Vanquis Bank and the PRA agreed a voluntary requirement for Vanquis Bank not to pay dividends to, or enter into certain transactions outside the normal cause of business with, the Provident Financial group without the PRA's consent pending the outcome of the FCA's investigations into ROP. The voluntary requirement remains in place whilst the customer redress programme agreed with the FCA is sufficiently progressed. With the consent of the PRA, Vanquis Bank paid dividends to Provident Financial plc of £67.3m during 2017. Vanquis Bank has now paid cumulative dividends of £380m out of its surplus capital since it commenced paying dividends in 2011.

29 Related party transactions continued

In 2016 the company also received a dividend of £45.0m from Provident Financial Management Services Limited, the holding company of the companies forming CCD.

There are no transactions with directors other than those disclosed in the directors' remuneration report.

30 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty exists regarding the outcome of future events.

(a) Threatened proceedings in respect of the company's alleged failure to disclose previously certain matters contained in the company's public announcement on 22 August 2017.

On 26 January 2018, the company received a letter on behalf of an institutional investor (which has a number of subsidiary investment funds) in connection with certain matters disclosed in its public announcement on 22 August 2017. On that date, as part of a trading update, the company announced, among other things, that Vanquis Bank was co-operating with an investigation by the FCA into ROP, had agreed with the FCA to enter into a voluntary requirement to suspend all new sales of ROP in April 2016 and had agreed with the PRA, pending the outcome of the FCA investigation, not to pay dividends to, or enter into certain transactions outside the normal course of business with, the group without the PRA's consent. The institutional investor asserts that the company is liable to compensate it and its subsidiary investment funds for losses suffered as a result of the fact that certain matters disclosed in the trading update were not publicly announced earlier or disclosed to them by the company in investor meetings. The institutional investor has not quantified the losses that it alleges have been incurred, although it alleges that it and its subsidiary investment funds held significant positions in the company's shares at the time. The institutional investor also asserts that the company's earlier public announcements were false or misleading or, alternatively, the delay in disclosing those matters publicly was dishonest pursuant to Section 90A of the Financial Services and Markets Act 2000, and the company made actionable misstatements during those investor meetings.

Whilst the matters alleged on behalf of the institutional investor are complex and the company is at an early stage of analysing the claims, the company currently believes the claims by the institutional investor are unmeritorious and considers the prospects of the claims being upheld to be limited. As such, the company intends to defend its position vigorously and to the fullest extent possible. In the event these claims, or claims brought by any other investors in connection with these, or other, announcements or investor meetings, were upheld, the compensation which the company may be required to pay could have a material adverse effect on the group's business, financial condition, results of operations, cash flows and prospects.

(b) Other legal actions and regulatory matters

In addition, during the ordinary course of business the group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, agents, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However the group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

(c) Bank guarantees and Unfunded Unapproved Retirement Benefits Scheme (UURBS)

The company has a contingent liability for guarantees given in respect of borrowing facilities of certain subsidiaries to a maximum of £69.0m (2016: £112.8m). At 31 December 2017, the fixed and floating rate borrowings in respect of these guarantees amounted to £2.8m (2016: £2.6m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2017 was not deemed to be material (2016: not material).

A floating charge is held over CCD's receivables of up to £15m in respect of the unfunded pension benefit promises made to executive directors and certain members of senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise.

Notes to the financial statements continued

31 Reconciliation of (loss)/profit after taxation to cash generated from/(used in) operations

		Group		Company	
	Note	**2017 £m**	2016 £m	**2017 £m**	2016 £m
(Loss)/profit after taxation		**(134.4)**	262.9	**(556.0)**	192.3
Adjusted for:					
– tax charge	5	**11.4**	81.0	**3.5**	7.4
– finance costs	3	**77.0**	81.7	**51.7**	64.0
– finance income		**–**	–	**(76.1)**	(83.8)
– dividends received	29	**–**	–	**(70.2)**	(179.0)
– share-based payment charge	26	**(3.4)**	10.9	**(2.2)**	5.1
– retirement benefit charge/(credit) prior to exceptional pension credit	19	**2.2**	1.5	**(7.9)**	(9.6)
– exceptional curtailment credit	19	**(3.9)**	–	**(3.9)**	–
– amortisation of intangible assets	11	**19.2**	17.0	**–**	–
– exceptional amortisation of intangible assets	1	**–**	2.9	**–**	–
– exceptional gain on available for sale investment	15	**–**	(20.2)	**–**	–
– depreciation of property, plant and equipment	12	**9.3**	8.7	**1.7**	1.5
– loss on disposal of property, plant and equipment	12	**0.6**	0.5	**0.1**	–
– increase/(release) of impairment provision against investment in subsidiaries	13	**–**	–	**260.0**	(0.4)
Changes in operating assets and liabilities:					
– amounts receivable from customers		**(90.1)**	(290.1)	**–**	–
– balance reduction on amounts receivable from customers	14	**87.5**	–	**–**	–
– trade and other receivables		**(8.1)**	(2.8)	**349.1**	(99.5)
– trade and other payables		**10.8**	5.5	**(25.3)**	16.9
– provisions	24	**104.6**	–	**–**	–
– contributions into the retirement benefit scheme	19	**(10.7)**	(11.7)	**(0.6)**	(0.6)
Cash generated from/(used in) operations		**72.0**	147.8	**(76.1)**	(85.7)

32 Post balance sheet events

The group reached resolution on 27 February 2018 with the FCA on the investigation into ROP within Vanquis Bank and continues to cooperate with the FCA in respect of its ongoing investigation into affordability and forbearance at Moneybarn. The total cost of redress and fines is estimated to be £172.1m in respect of the Vanquis Bank investigation and £20.0m in respect of the Moneybarn investigation.

The aggregate payments agreed to be made by Vanquis Bank in respect of the FCA investigations and the estimated cost in respect of Moneybarn has materially adversely impacted both Vanquis Bank's and the group's regulatory capital. As a result, the group has concluded that it is necessary action to raise additional capital of £300.0m (gross proceeds of £331m net of expenses of £31m) by way of a proposed rights issue to meet the costs of resolving the investigations, restore the group's prudent capital position, seek to maintain the group's investment grade rating and re-establish normal access to funding from the bank and debt capital markets. The proposed rights issue is expected to complete in April 2018 and has been fully underwritten subject to customary conditions.

During February 2018, the group took the following actions in respect of its funding and capital position, prior to the launch of the proposed rights issue:

> Agreed amendments and waivers of certain covenants with the group's banks in respect of the syndicated revolving bank facility and with M&G in respect of the term loan in order to provide the group with greater covenant headroom to address the impact arising from the disruption in the home credit business in 2017 and the impact of the provisions taken by the group in the balance sheet as at 31 December 2017 relating to the FCA investigations. The net worth covenant has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. These amendments and waivers will cease to have effect if the proposed rights issue were not to proceed and complete.

> Arranged an £85m bridge facility with Barclays Bank and JP Morgan Securities. The bridge facility was used to provide sufficient funds to allow Vanquis Bank to draw down £85m under an intercompany loan facility between Provident Financial plc and Vanquis Bank, providing Vanquis Bank with an additional £85m of funding which Vanquis Bank intends to hold as additional liquid resources. At the same time, committed headroom under an existing intercompany faculty was cancelled and will, in the future reduce the reliance of Vanquis Bank on Provident Financial plc in due course. Subject to the success of the proposed rights issue, the net proceeds of £300m will be received on 12 April 2018 and £85m of such proceeds will be used to repay the bridge facility provided by the underwriting banks. £50m of the proceeds will be injected into Vanquis Bank via a subscription of equity. The capital injection will be used by Vanquis Bank, together with its cash and additional borrowings from retail depositors, to pay for the costs of resolving the FCA's investigation into ROP. Subject to regulatory approval and the liquidity profile of Vanquis Bank continuing to be satisfactory, Vanquis Bank intends to repay the intercompany loan facility provided by Provident Financial by 2019 and be fully funded through retail deposits thereafter.

> Shared a revised capital plan with the PRA which resulted in an increase in the group's regulatory capital requirement, primarily due to an increase of approximately £100m in respect of conduct and operational risk assessments. In finalising its new capital plan reflecting its current and expected capital requirements, the group has taken into account, amongst other things: (i) the receipt of £300m net proceeds from the proposed rights issue; (ii) the group's revised dividend policy and estimated future levels of dividends to be paid by the company and Vanquis Bank; (iii) the estimated payments to be made in connection with Vanquis Bank's settlement with the FCA in connection with ROP; (iv) Moneybarn's estimated liability in connection with the FCA's investigation; (v) the amendment and waiver of certain covenants under the syndicated revolving bank facility and M&G term loan; and (vi) management actions planned and proposed to be taken.

Notes to the financial statements continued

33 Details of subsidiary undertakings

The subsidiary undertakings of the group at 31 December 2017 are shown below. The company is the parent or ultimate parent of all subsidiaries and they are all 100% owned by the group. All companies are incorporated within the UK with the exception of Erringham Holdings Limited which is incorporated in Jersey.

Company Name	Company number
Registered at 1 Godwin Street, Bradford, BD1 2SU:	
Vanquis Bank Limited	2558509
Provident Financial Management Services Limited	328933
Provident Personal Credit Limited*	146091
Greenwood Personal Credit Limited*	125150
N&N Simple Financial Solution Limited	3803565
Cheque Exchange Limited*	2927947
Provident Investments plc	4541509
Direct Auto Finance Insurance Services Limited	3834656
Direct Auto Finance Limited	3412137
Direct Auto Financial Services Limited	3444409
Provfin Limited*	1879771
Provident Limited	575965
Provident Print Limited	2211204
Provident Yes Car Credit Limited	4253314
Yes Car Credit (Holdings) Limited	194214
Yes Car Credit Limited	3459042
Aquis Cards Limited	7036307
Arden Insurance Services	670843
Colonnade Insurance Services Limited	1877501
Ellaf Limited	1858423
Envoyhead Limited	1910002
HT Greenwood Limited*	954387
I for Insurance Services Limited	2422430
Peoples Motor Finance Limited	1078365
Policyline Limited	1294141
Provfin Investments Limited	953919
Provident Check Traders Limited	1730008
Provident Family Finance Limited	912244
Provident Finance Limited	40725
Provident Financial Group Limited	642504
Provident Financial Trustees (Performance Share Plan) Limited	4625062
Provident Home Shopping Limited	543498
Provident No 1 Limited	1524084
Provident Personal Credit (London) Limited	499964
Provident Personal Credit (North) Limited	100957
Provident Personal Credit (South) Limited	716773
The Provident Clothing and Supply Company Limited	509371
Registered at The New Barn, Bedford Road, Petersfield, Hampshire, GU32 3LJ:	
Moneybarn No.1 Limited*	4496573
Duncton Group Limited	6308608
Moneybarn Group Limited*	4525773
Moneybarn Limited*	2766324
Moneybarn No. 4 Limited*	8582214
Moneybarn Vehicle Finance Limited	7431494

* Companies whose immediate parent is not Provident Financial plc.

Company Name	Company number
Registered at Suite 2/04 King James VI Business Centre, Friarton Road, Perth, Scotland, PH2 8DY:	
First Tower LP (1) Limited	SC122077
First Tower LP (2) Limited	SC125164
First Tower LP (3) Limited	SC129388
First Tower LP (4) Limited	SC118423
First Tower LP (5) Limited	SC127062
First Tower LP (6) Limited	SC127489
First Tower LP (7) Limited	SC127807
First Tower LP (8) Limited	SC118257
First Tower LP (9) Limited	SC118428
First Tower LP (10) Limited	SC118426
First Tower LP (11) Limited	SC122181
First Tower LP (12) Limited	SC129378
Lawson Fisher Limited	SC004758
Registered at 13 Castle Street, St. Helier, Jersey, Channel Islands, JE4 5UT:	
Erringham Holdings Limited	39894

Companies dissolved during 2017:

Company Name	Company number
Registered at 1 Godwin Street, Bradford, BD1 2SU:	
Bridgesun (1) Limited	4584597
Provident Personal Credit (Ireland) Limited	506462
Money Transfers International Limited	4043838
Provident Personal Credit (Midlands) Limited	506464
Motorplus Insurance Services Limited	1885139
Provident Yes Finance Limited	4795230
Yes Finance Limited	4063490
Provident Financial Trust Limited	811697
Provident Motor Finance Limited	4806693
Provident Car Credit Limited	4795225
Express Car Credit Limited	3906842
Impact Collection Services Limited	4584578
Provident No 2 Limited	4586511
Provident Financial Trustees Limited	3477678
Provident Car Finance Limited	4806398
Yes Car Finance Limited	4063510
Yes Express Car Credit Limited	3834590
Accepted Car Credit Limited	4417055

Independent auditor's report to the members of Provident Financial plc

Opinion on financial statements of Provident Financial plc

In our opinion:

- **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements of Provident Financial plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- The consolidated income statement;
- The consolidated statement of comprehensive income;
- The consolidated and parent company balance sheets;
- The consolidated and parent company statements of changes in equity;
- The consolidated and parent company cash flow statements;
- The statement of accounting policies; and
- The related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

Material uncertainty relating to going concern

We draw attention to the statement of accounting policies in the financial statements, which disclose the intention to raise additional capital of £300 million (gross proceeds £331 million net of expenses of £31 million) by way of rights issue.

Without the benefit of the net proceeds from the rights issue, the group is unable to meet certain regulatory capital requirements, namely the minimum level of regulatory capital which the PRA expects the group to hold and covenant waivers and relaxations which have been obtained would cease to be effective.

The rights issue is fully underwritten, subject to both customary and other conditions.

In response to this, we:

- Assessed management's own going concern assessment including reasonableness of the Group's financial forecasts and reasonable downside sensitivities;
- Assessed the historical accuracy of forecasts prepared by management;
- Obtained and reviewed the terms of agreements for new and amended banking facilities;
- Engaged a Deloitte regulatory specialist to perform a review of the capital plan;
- Considered the Directors' Working Capital Statement in the Offering Circular;
- Held a bilateral meeting with the PRA to discuss the capital position of the group;
- Reviewed management's covenant calculations and verified that these are being calculated in line with the loan agreement definitions; and
- Considered the adequacy of the extent of disclosure around the uncertainty affecting the going concern assumption.

As stated in the statement of accounting policies, these events or conditions, along with the other matters as set forth in the statement of accounting policies in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's and the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent auditor's report to the members of Provident Financial plc continued

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: > Material uncertainty related to going concern (see material uncertainty relating to going concern section) > Provision for impairment losses against loans and receivables in Consumer Credit Division, Vanquis Bank and Moneybarn > Conduct provisions > Revenue recognition in Consumer Credit Division and Vanquis Bank > Defined benefit pension scheme valuation Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ▶
Materiality	The materiality that we used for the group financial statements was £8.3 million which was determined on the basis of 3.5% of the average profit before tax and exceptional items for the past three years.
Scoping	As in the prior year, our group audit scope focused on all of the principal trading subsidiaries within the group's three reportable segments which account for 100% of the group's profit before tax.
Significant changes in our approach	Our risk assessment has identified two new key audit matters in the current year being the provision for impairment losses against loans and receivables at Moneybarn and conduct provisions. We have identified provisions for impairment losses at Moneybarn as a new key audit matter owing to the increased significance of Moneybarn in the context of the Group. We have identified conduct provisions as a key audit matter as increased regulatory scrutiny and the regulatory investigations into Vanquis Bank and Moneybarn give rise to the need for significant management judgement and estimation in determining appropriate provisions and disclosures in accordance with IAS 37. Our materiality is based upon 3.5% of the average profit before tax and exceptional items for the past three years (FY16: 5% of profit before tax and exceptional items). We have chosen to use an average measure in determining materiality as, despite the loss reported in FY17, profit based measures remain the most relevant to the users of the financial statements. Our risk assessment has ensured our work is sufficiently focussed on our significant risks. The percentage applied to the benchmark has been reduced from 5% to 3.5% to take account of the fact that an average measure results in a higher benchmark being used.

Conclusions relating to going concern, principal risks and viability statement

Going concern	We have reviewed the directors' statement in the statement of accounting policies in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.	**As noted above, the directors have identified matters indicating that a material uncertainty relating to going concern exists.**
	We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**Aside from the matters disclosed in that section, we confirm that we have nothing material to report, add or draw attention in respect of these requirements.**
Principal risks and viability statement	Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: > the disclosures on pages 47-50 that describe the principal risks and explain how they are being managed or mitigated; > the directors' confirmation on page 101 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or > the directors' explanation on page 46 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**Aside from the impact of the matters disclosed in the material uncertainty relating to going concern section and on page 45, we confirm that we have nothing material to add or draw attention to in respect of these requirements.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Together with the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have identified two new key audit matters in the current year being the provision for impairment losses against loans and receivables at Moneybarn as well as conduct provisions in respect of the FCA investigations into Vanquis Bank and Moneybarn divisions.

Independent auditor's report to the members of Provident Financial plc continued

Provision for impairment losses against loans and receivables (Consumer Credit Division ▶, Vanquis Bank ▶ and Moneybarn ▲)	
Key audit matter description	The provision for impairment losses is calculated by modelling portfolios of receivables within the group. The assessment of the group's calculation of provisions is complex and requires management to make significant judgements regarding the level and timing of expected future cash flows from loans that have experienced a loss event. There is further judgement involved in assessing whether the model and any adjustments capture all relevant factors that have a significant influence on impairment. Due to the ability of management to introduce inappropriate bias to judgements made in the estimation process, we have determined that there was a potential for fraud through possible manipulation of any provision for loan impairment. Further detail in respect of these assumptions is set out on page 136 and in note 14 of the financial statements and also on page 89 within the governance section. Within the Consumer Credit Division the implementation of Project Accelerate has resulted in a deterioration in collections performance during the second half of the year which has led to an increased risk that historic cash flows do not reflect recent collections performance. As a result, the assumptions within the impairment models require re-evaluation as to whether they continue to be appropriate under the new operating model. Within Vanquis Bank modelling techniques are applied by management to estimate the provision for impairment of credit card receivables. The provision calculation is complex and consists of a number of elements and steps. Historical payment patterns are generated using data extracted from the company's DataWarehouse. The extracted data go through a series of operations, some of which are automated (using programming code) and some of which are manual. The extent of manual operations is significant leading to an increased risk of material misstatement. Within Moneybarn historic cash flows are extracted from the system and used to derive provisioning rates and the continuing validity of the impairment assumptions is assessed periodically by management.
How the scope of our audit responded to the key audit matter	**Controls procedures** Within the Consumer Credit Division and Vanquis Bank we assessed the design and tested the implementation and operating effectiveness of key controls relating to identification, valuation and recording of impairment provisions. Within the Consumer Credit Division this included using our IT specialists to test the data flow of loans made and collections received from source systems to the spreadsheet-based models to test their completeness and accuracy. Within Moneybarn we evaluated the design and implementation of key controls relating to the recording of impairment provisions. **Substantive procedures** Within the Consumer Credit Division we utilised our data specialists to reperform the extract of the entire population from the data warehouse and reconciled this to the spreadsheet-based models. We assessed whether the methodology applied by management is in line with IAS 39, including assessing the trigger points and the estimate and timing of future cash flows. We challenged the methodology for forecasting collections under the new operating model by assessing both the historical forecasting accuracy and the appropriateness of forecasting assumptions made going forward. Within Vanquis Bank we evaluated whether the methodology applied by management is compliant with the requirements of IAS 39. This included the appropriateness of portfolio segmentation into homogeneous cohorts and of impairment triggers identified by management. We further considered whether there are any indications of bias in the methodology applied or in the estimate of the level and timing of expected future cash flows. We tested the data used in the models including historical data used to generate expected future cash flows and the current portfolio data. We utilised our IT specialists to check that the code used to perform the automated data operations is in accordance with the approved methodology. We independently reperformed manual data operations to test the mathematical integrity of the calculations. Within Moneybarn we engaged our IT specialists to re-perform the SAS code which extracts cash flows that are used in deriving the provisioning rates and evaluated the mechanical accuracy of the spreadsheet based provisioning rate calculations. We assessed whether the methodology applied by management is in line with IAS 39, including evaluating the estimation and timing of cash flows. In addition, we assessed the appropriateness of any adjustments made to the provisioning model.
Key observations	The provision models across the group were found to be working as intended and the methodology used is compliant with requirements of IAS 39. Our work on the completeness and accuracy of data identified no significant issues. We found the assumptions relating to the identification of impaired accounts within the group's incurred loss models to be appropriate. We found that the collections expectations used in the Consumer Credit Division are materially consistent with recent and budgeted collections. Within Vanquis Bank a deficiency was identified in model governance controls, including controls over access and change management and independent validation. We did not place reliance on these controls and addressed the corresponding audit risks substantively. We found that the provisioning rate calculations within Moneybarn were performing in line with our expectation and adjustments made to the model output were supportable.

Conduct provisions ▲	
Key audit matter description	On 27 February 2018 the company reached a settlement with the Financial Conduct Authority ("FCA") in respect of their investigation into the Repayment Option Plan ("ROP") product sold by the company. Significant management judgement was required to assess the level of provision which should be recognised and the nature of any contingent liability disclosure made. There is also an ongoing FCA investigation into Moneybarn in relation to the processes applied to customer affordability assessments for vehicle finance and the treatment of customers in financial difficulties. Significant management judgement is required to determine a best estimate of the group's liability for customer redress costs and the timing of any settlement. As disclosed in note 24, management has recognised a provision of £104.6 million in relation to these matters. Further detail in respect of the investigation is set out in note 24, in note 32 and in the statement of accounting policies.
How the scope of our audit responded to the key audit matter	In order to understand the basis of the ROP settlement and the Moneybarn investigation we obtained and reviewed the correspondence between the companies and the FCA in relation to ROP and the Moneybarn investigation and enquired of the company's legal advisors. We also considered the information that has become available up to the date of our audit report. We also held a bilateral meeting with the FCA to enhance our understanding of the investigation status and findings. We have tested the completeness and accuracy of the source data used to identify affected customers and engaged data specialists to review the SQL scripts used to extract determine the of customers that will be due redress. For Vanquis Bank we have reviewed and tested the accuracy of the calculations supporting the valuation of the provision recognised by management and of the contingent liability. We have evaluated whether the underlying assumptions are reasonable and supportable. We have tested the data used in the calculations. For Moneybarn we have reviewed and tested the accuracy of the calculations supporting the valuation of the Moneybarn provision recognised by management. We have evaluated whether the underlying assumptions are reasonable and supportable. We also evaluated whether the provision disclosures contained within note 24 were appropriate and in accordance with the requirements of IAS 37.
Key observations	No material issues were identified in the data used in the calculations. We did not identify any material issues in the methodology used to calculate the redress or in the calculations themselves. The disclosures are in line with the requirements of IAS 37.

Independent auditor's report to the members of Provident Financial plc continued

Revenue recognition (Consumer Credit Division and Vanquis Bank)

Key audit matter description

In the Consumer Credit Division, management maintains product level Effective Interest Rate ("EIR") models for the purpose of determining revenue recognition in accordance with the requirements of IAS 39. The EIR method spreads directly attributable revenues and costs over the behavioural life of the loan. These models are reliant on the quality of the underlying data flowing into the models.

For Vanquis Bank we concluded that manual adjustments to revenue pose a significant risk of material misstatement.

These manual adjustments are necessary to ensure revenue is recognised in compliance with IAS 39 which requires that interest revenue should be accrued using the original EIR applied to the net carrying value of the asset. Vanquis Bank's systems accrue revenue on a gross contractually billed basis, and therefore an adjustment is necessary.

The Group's revenue is £1,196.3 million (FY16: £1,183.2 million) and further detail in respect of the accounting policies and revenue recognised is set out in the accounting policies on page 134 and 135 and note 1 and 2 of the financial statements.

How the scope of our audit responded to the key audit matter

Controls procedures

We tested the operating effectiveness of key controls within the Consumer Credit Division relating to the recording of revenue which focused on the flow of data from source systems into spreadsheet based EIR models.

Within Vanquis Bank we evaluated the design and implementation of the controls over the manual adjustments to revenue.

Substantive procedures

Within the Consumer Credit Division we tested the spreadsheet based models to assess whether they were working as intended and in compliance with the requirements of IAS 39.

We challenged the assumptions used in the recognition of revenue by reference to behavioural history and sensitivity to macroeconomic factors.

Within Vanquis Bank we critically assessed the methodology used to calculate the manual adjustments to revenue against the requirements of IAS 39. We independently reperformed certain elements of the calculation.

Key observations

Within Vanquis Bank we identified a deficiency in the control over the calculation of the manual adjustments to revenue, which resulted in the methodology for one of the recognised adjustments being inappropriately designed. We identified a reclassification misstatement between revenue and impairment, but overall concluded that the treatment was appropriate.

Within the Consumer Credit Division we found the models to be working as intended and the underlying assumptions to be reasonable. From the evidence we obtained, the underlying data used were found to be complete and accurate.

Defined benefit pension scheme valuation

Key audit matter description

Under IAS 19, the value of the defined benefit pension scheme is recognised on the Group's balance sheet, reflecting an actuarial valuation of the assets and liabilities of the scheme at the balance sheet date. The key risk of material misstatement is the valuation of the pension obligation of £733.2 million (2016: £757.7 million). This valuation involves judgements in relation to inflation rates, discount rates and mortality rates. The most critical element identified was the discount rate assumption as set out in the sensitivity analysis in note 19.

Further detail in respect of these assumptions is set out in the accounting policies on page 137 and note 19 of the financial statements and also on page 89 in the governance section.

How the scope of our audit responded to the key audit matter

We used our actuarial specialists to assist us in evaluating the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation. This involved benchmarking management's assumptions against those used by a range of organisations as at 31 December 2017 and considering the consistency of those judgements compared to prior year.

Key observations

All assumptions, including the discount rate and the RPI inflation rate, adopted by management are within what we deem to be an acceptable range.

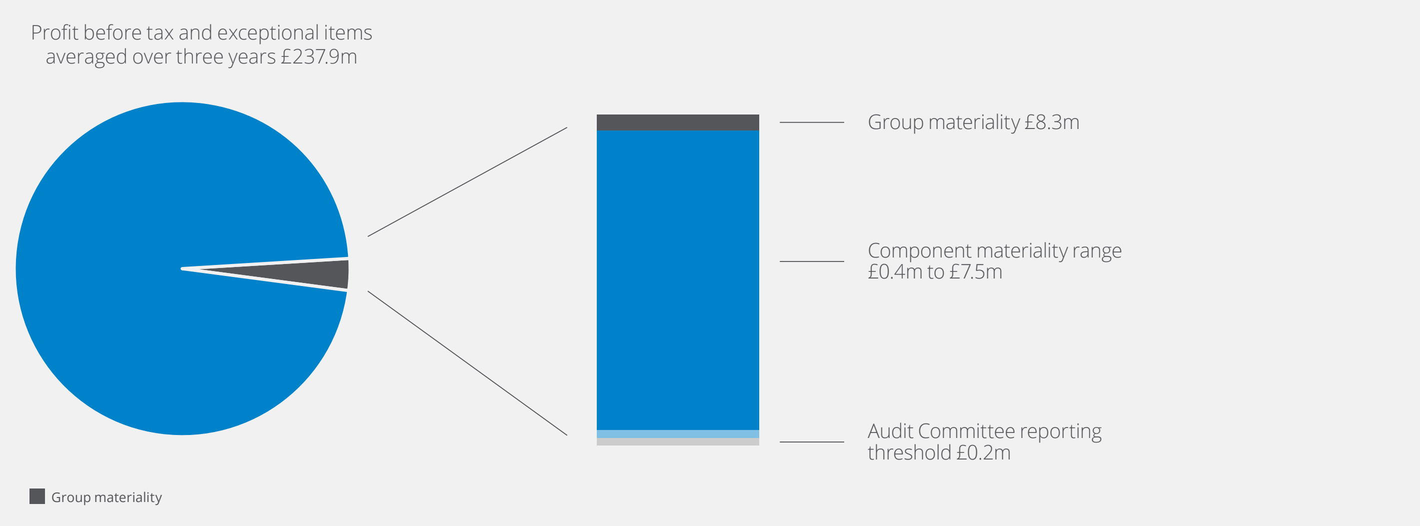
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£8.3 million (2016: £16.3 million)	£4.6 million (2016: £9.7 million)
Basis for determining materiality	3.5% of profit before tax and exceptional items averaged over the previous three years (2016: 5% of profit before tax and exceptional items).	5% of profit before tax and exceptional items (2016: 5% of profit before tax)
Rationale for the benchmark applied	Profit based measures are the financial measures most relevant to users of the financial statements. We considered the most relevant basis for materiality to be the profits earned from continuing business operations and have therefore excluded the exceptional items as identified by management in note 1 to the financial statements. This includes the exceptional costs in relation to Project Accelerate being redundancy, retention and training, consultancy costs and the conduct provisions for Vanquis Bank and Moneybarn. We have chosen to use an average measure in determining materiality as, despite the loss reported in FY17, profit based measures remain the most relevant to the users of the financial statements. Our risk assessment has ensured our work is sufficiently focussed on our significant risks. The percentage applied to the benchmark has been reduced from 5% to 3.5% to reflect the need to take account of the fact that an average measure is being used as the benchmark.	We considered the most relevant basis for materiality to be the profits earned from continuing business operations and have therefore excluded the exceptional items. Exceptional items in 2017 related to the waiver of certain intercompany balances.

Materiality



We agreed with the Audit Committee that we would report all audit differences in excess of £0.2 million (2016: £0.3 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report to the members of Provident Financial plc continued

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, and as in the prior year, our group audit scope focused on all of the principal trading subsidiaries within the group's three reportable segments which account for 100% of the group's profit before tax. Moneybarn and the Consumer Credit Division are audited by separate engagement teams led by the group audit partner; Vanquis Bank is audited by a separate component team, under the supervision of the group team who have maintained regular communication throughout the audit.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic Report, the Governance section and the Directors' remuneration report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

> **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

> **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

> **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

> the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

> the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

> we have not received all the information and explanations we require for our audit; or

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed by the Directors of Provident Financial plc on 29 June 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2012 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Matthew Perkins, (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
27 February 2018

Shareholder Information

Information for shareholders

Financial calendar

General meeting	21 March 2018
Annual general meeting	9 May 2018

Share price

The company's shares are listed on the London Stock Exchange under share code 'PFG.L'. The share price is quoted daily in a number of national newspapers and is available on our website at www.providentfinancial.com

Individual Savings Account (ISA)

Shareholders may take out an ISA which includes shares in the company with a provider of their choice. However, the company has made arrangements for its shareholders and employees to use Redmayne Bentley's ISA and general stockbroking services. Shareholders who are eligible and who wish to discuss associated fees and charges should contact:

Redmayne Bentley LLP
9 Bond Court
Leeds
LS1 2JZ

Telephone: 0113 243 6941

Redmayne Bentley LLP is a Limited Liability Partnership. Registered in England and Wales. Registered No: OC344361 Registered office: 9 Bond Court, Leeds LS1 2JZ. Members of the London Stock Exchange Authorised and Regulated by the Financial Conduct Authority. VAT number: GB 165 8810 81 LEI: 21380053IRIPK1R3JQ58.

Tax on dividends

The following information is intended to provide general guidance to individuals who are tax resident in the UK.
It does not constitute professional advice. Shareholders who are in any doubt as to their personal tax position should seek their own professional advice, as should shareholders who are not resident in the UK.

For UK resident individuals, the tax treatment of dividends depends on whether the dividends are received before or after 5 April 2016.

Dividends received on or before 5 April 2016

A UK tax resident individual shareholder who receives a dividend prior to 5 April 2016 will be subject to tax on the dividend as follows:

- The cash dividend you receive (the amount paid into your bank account) is grossed up for a notional 10% tax credit so that you are taxed on a gross dividend of 10/9ths of the cash dividend you receive.
- The gross dividend is then taxed as follows:
  - 10% for basic rate taxpayers;
  - 32.5% for higher rate taxpayers; and
  - 37.5% for additional rate taxpayers.
- You can then deduct the notional 10% tax credit.
- The overall result, after deducting the notional tax credit, is that you will have suffered an effective rate of tax on the cash dividend you receive of:
  - 0% for basic rate taxpayers;
  - 25% for higher rate taxpayers; and
  - 30.56% for additional rate taxpayers.

Dividends received on or after 6 April 2016

For dividends received after 6 April 2016 the notional tax credit is abolished.

Instead, a UK tax resident individual shareholder will be taxed on the total cash dividends you receive (the amount paid into your bank account) above the new £5,000 annual tax free dividend allowance at the following rates:

- 7.5% for basic rate taxpayers;
- 32.5% for higher rate taxpayers; and
- 38.1% for additional rate taxpayers.

The dividend allowance means that you can receive up to £5,000 of dividends tax free no matter what other non-dividend income you have in the tax year.

Registrars

The company's registrar is:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300 (from within the UK)

Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am-5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +44 (0)20 371 664 0300 (from outside the UK)

Link Signal Hub

Link Asset Services offers a share portal service which enables registered shareholders to manage their Provident Financial shareholdings quickly and easily online. Once registered for this service, you will have access to your personal shareholding and a range of services including: setting up or amending dividend bank mandates, proxy voting and amending personal details. For further information visit www.linksignalhub.com

Link Dividend Reinvestment Plan

Link Asset Services offers a Dividend Reinvestment Plan whereby shareholders can acquire further shares in the company by using their cash dividends to buy additional shares. For further information contact Link Asset Services:

Telephone: 0371 664 0381
(from within the UK)

Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am-5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +371 664 0381
(from outside the UK)

Special requirements

A black-and-white large text version of this document (without pictures) is available on request from the Company Secretary at the address opposite. A PDF version of the full annual report and financial statements is available on our website.

Advisors

Independent auditor

Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ

Company advisors and stockbrokers

J.P. Morgan Cazenove
25 Bank Street
London
E14 5JP

Barclays
1 Churchill Place
Canary Wharf
London
E14 4BB

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Addleshaw Goddard LLP
Sovereign House
Sovereign Street
Leeds
LS1 1HQ

Allen & Overy LLP
One Bishops Square
London
E1 6AD

Eversheds LLP
Bridgewater Place
Water Lane
Leeds
LS11 5DR

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London
EC2A 2EG

Company Details

Registered office and contact details:

Provident Financial plc
No. 1 Godwin Street
Bradford
West Yorkshire
England
BD1 2SU

Telephone: +44 (0)1274 351 351
Fax: +44 (0)1274 730 606
Website www.providentfinancial.com

Company number

668987

Designed and produced by Radley Yeldar
ry.com

Paper and print specifications
This report has been printed on Chorus Lux Silk – an FSC®-certified paper containing 100% ECF pulp and manufactured at a mill accredited with the ISO 14001 and EMAS environmental standards and is printed by an FSC® and ISO 14001-certified printer using vegetable oil-based inks and an alcohol-free (0% IPA) process. The carbon footprint of this publication was calculated and carbon credits bought to offset and make this publication completely CarbonNeutral®. These carbon credits are invested in projects around the world that save equivalent amounts of CO_2.

FSC www.fsc.org MIX Paper from responsible sources FSC® C016486

Printed by CPI Colour

View and download the online version here:

www.providentfinancial.com/ar2017

Provident Financial plc

No. 1 Godwin Street
Bradford
West Yorkshire
England
BD1 2SU
+44 (0)1274 351351

www.providentfinancial.com

Company number 668987