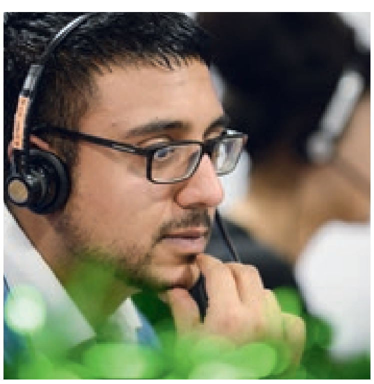
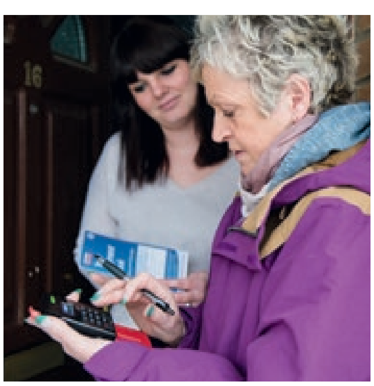
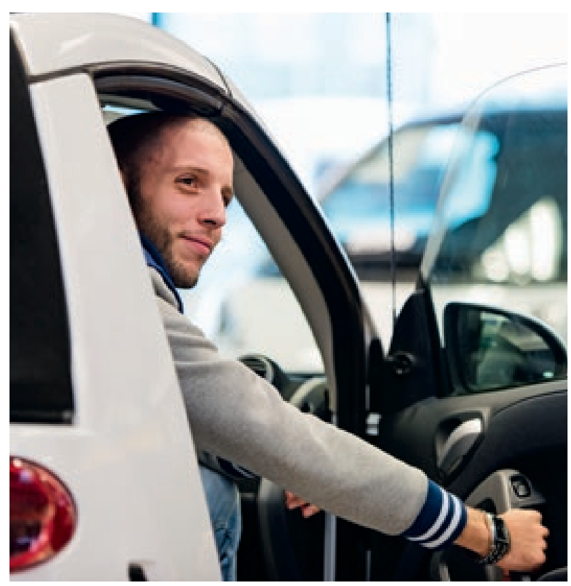
PFG | Provident Financial Group

Serving people in the non-standard credit market

Annual Report and Financial Statements 2014







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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 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 2005 limits the liability of the directors of Provident Financial plc so that their liability is solely to Provident Financial plc.

Our mission

Our mission is to be the leading non-standard specialist lender in our chosen markets, acting responsibly in all our relationships and playing a positive role in the communities we serve.

We're here to serve a particular market

The UK non-standard credit market is made up of around 12 million people who, for a variety of reasons, from relatively low income to a poor credit history, are not well served by the mainstream credit market's products and services.

Our customers look for:

- Smaller sums – typically less than a mainstream provider would lend.
- High levels of contact with their lender – our customers like someone to talk to about their loan.
- Understanding – our customers usually have little leeway in their income, so, if they experience problems during the term of their loan, they want to talk to someone who understands their situation and can offer a solution. With some of our products this can even mean the ability to reschedule repayments at no extra cost to the customer whatsoever.

Read more on our marketplace
on pages 24–27

Highlights

2.4m
Number of customers

3,555
Number of employees

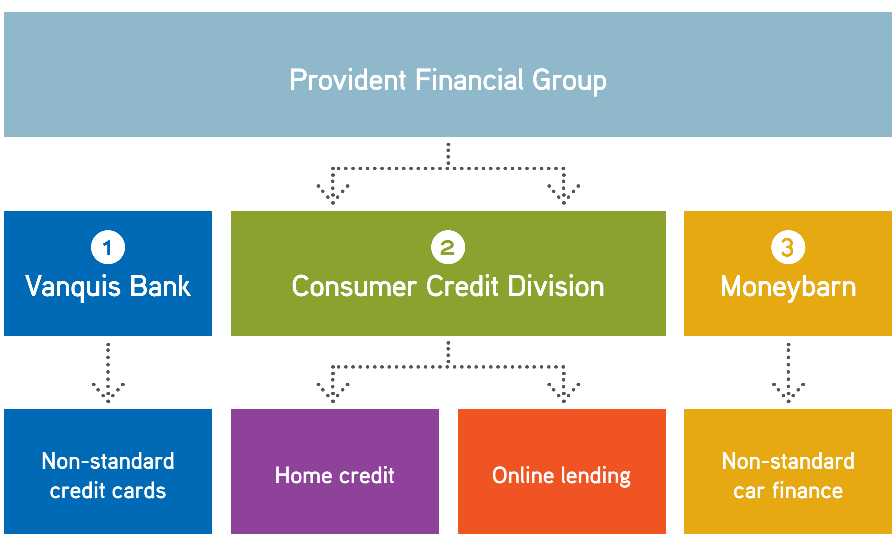
7,700
Number of self-employed agents

£1.8bn
Year-end receivables

£124.5m
Total tax contribution

£2.4m
Community investment

The group has three divisions, covering four distinct types of non-standard lending



Read more on our products and divisions on pages 40–67

Vanquis Bank

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.

1.3m
UK customers

£151.0m
UK profit before tax

1,150
Employees

£150–£3,500
Range of credit limits

Read more on Vanquis Bank on pages 40–47

Provident

Provident offers home credit loans, typically of a few hundred pounds, through a network of 7,700 local agents who call each week at 1.1 million customers' homes in the UK and Ireland. Agents are primarily paid commission on what they collect, not what they lend, so it is in their interests not to lend more than customers can repay. The total amount repayable is fixed at the outset, so there are no extra charges whatsoever.

1.1m
Customers

£103.9m
Profit before tax[1]

2,230
Employees

£100–£2,500
Loan range

Read more on Provident on pages 52–55

Satsuma

Satsuma is our online instalment loan product. We give new customers an initial loan of between £100 and £1,000 and collect repayments by continuous payment authority, either once a week or once a month, on a day agreed with the customer. Existing customers can borrow up to £2,000. Our UK-based call centre is always there to discuss any issues customers may have. Just like our home credit product, the total amount repayable is fixed at the outset, so there are no extra charges whatsoever.

21,000
Customers

£100–£2,000
Loan range

Read more on Satsuma on pages 56–57

Moneybarn

Moneybarn is the market leader in the provision of car 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.

22,000
Customers

£15.0m
Profit before tax[1,2]

115
Employees

£4,000–£25,000
Loan range

Read more on Moneybarn on pages 60–67

1. Before exceptional costs and, in the case of Moneybarn, prior to the amortisation of acquisition intangibles.
2. Pro forma profit for the year ended 31 December 2014, after applying the group's lower cost of funding to pre-acquisition results.

No business can operate sustainably in today's world without a compelling social purpose

Provident Financial's social purpose is financial inclusion for those who are not well served by mainstream credit products or are excluded altogether.

To do this, we provide non-standard credit customers with appropriate amounts of credit, maintain close contact with them throughout the term of their loan and work with them sympathetically if they experience difficulties. Terms and conditions are designed to meet their particular needs and rigorous checks are made to ensure customers can afford the repayments.

We have been doing this successfully since 1880.

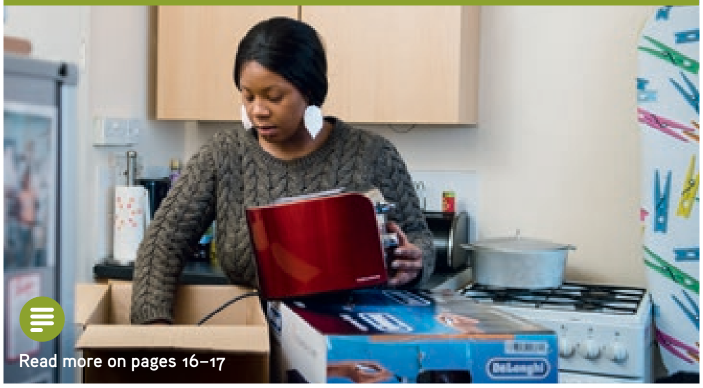
The non-standard credit market

The UK non-standard credit market comprises around 12 million people who, for a variety of reasons, are not well served by the mainstream credit market, either because they would not be accepted by a mainstream lender, or because mainstream credit products would not suit their particular needs.

The main reasons that a customer will turn to the non-standard market is that they have a relatively low income, they have a poor credit history because of past problems, or have a limited credit history, or have no credit history at all. Specialist non-standard lenders such as Provident Financial have the expertise to serve non-standard consumers in a responsible manner.

We help people who are either excluded from the mainstream credit market, or whose needs are not well met by mainstream credit market products, to finance the things they need to get on with their lives.

Helping Anna create a new home for her family



Read more on pages 16–17

Helping Tracy get the lowest prices

Read more on pages 22–23

Helping Tony get to work

Read more on pages 28–29

Helping Jane pay for her best friend's operation

Read more on pages 38–39

Generating consistent returns

We have consistently delivered sustainable growth since the demerger of our international business in 2007, which has benefited all of our stakeholders. In 2014, we once again demonstrated the strength of our customer proposition and delivered another strong financial performance.

Adjusted profit before tax[1] (£m)

£234.4m
+19.5%

2014	234.4
2013	196.1
2012	178.4
2011	157.2
2010	140.0

Adjusted earnings per share[1] (p)

132.6p
+18.4%

2014	132.6
2013	112.0
2012	100.4
2011	86.9
2010	76.2

Statutory profit before tax (£m)

£224.6m
+23.1%

2014	224.6
2013	182.4
2012	194.0
2011	157.2
2010	137.5

Basic earnings per share (p)

126.5p
+21.4%

2014	126.5
2013	104.2
2012	108.9
2011	86.9
2010	74.3

Dividend per share (p)

98.0p
+15.3%

2014	98.0
2013	85.0
2012	77.2
2011	69.0
2010	63.5

Dividend cover[1] (times)

1.35 times

2014	1.35
2013	1.32
2012	1.30
2011	1.26
2010	1.20

Gearing (times)

2.4 times

2014	2.4
2013	3.0
2012	3.2
2011	3.2
2010	3.3

Return on assets[1,2] (%)

15.1%

2014	15.1
2013	14.2
2012	14.5
2011	14.2
2010	14.3

Customer numbers ('000)

2.4m

2014	2,445
2013	2,635
2012	2,738
2011	2,520
2010	2,413

Community investment (£m)

£2.4m

2014	2.4
2013	2.0
2012	1.9
2011	1.6
2010	1.5

Employee costs (£m)

£158.4m

2014	158.4
2013	158.6
2012	127.0
2011	135.7
2010	130.1

Total tax contribution[3] (£m)

£124.5m

2014	124.5
2013	109.3
2012	110.2
2011	102.4
2010	85.0

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

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What we do and why we are successful

Introduction

We have had an excellent year in 2014. Our performance has been very strong and we have made great progress in further developing our businesses to ensure that we always provide our customers with the right products and the right experience throughout the whole customer journey.

Peter Crook
Chief Executive

93%
Home credit customer satisfaction

84%
Vanquis Bank customer satisfaction

15.3%
Increase in dividend per share

57.0%
Total shareholder return in 2014

"We provide much needed access to credit for those who might otherwise be financially excluded. We have been doing this for over 130 years and are proud of what we do."

Provident Financial has a very long track record of serving non-standard consumers. We are successful because we have a specialist model which puts customer outcomes at the forefront of everything we do. I am often asked how we differentiate ourselves from other businesses and other lending models and how we manage to deliver such high levels of customer satisfaction yet still deliver good returns for our shareholders.

I believe that there are four fundamental attributes which are the backbone of our success:

1. We focus solely on serving the non-standard credit market:

We provide much needed access to credit for those who might otherwise be financially excluded. We have been doing this for over 130 years and are proud of what we do. Our customers can be sure that when they borrow from us they are dealing with a business that genuinely understands them and can use its significant knowledge and experience, built over decades, to serve them in the best possible way.

2. We lend responsibly, meeting the specific needs of consumers in the non-standard market:

Lending responsibly is in our DNA. We offer simple and transparent products with no hidden charges. Our manageable weekly or monthly payments ensure that our products are affordable. We are able to do this as each of our businesses has bespoke underwriting procedures, based on our historical experience, to ensure that we properly assess affordability and manage credit risk.

3. We have a tailored business model to serve non-standard consumers:

We maintain close contact with our customers throughout our relationship with them. Whether it's the weekly home visit by an agent in home credit, the welcome call in Vanquis Bank or through our various contact centres, we make sure that customers always have someone to talk to. When customers get into difficulty, we have active and personalised approaches to helping them get back on their feet, including a range of forbearance measures. Customers know that they'll get a sympathetic and appropriate response from us.

4. We have a robust funding model:

We have developed a funding model whereby we borrow long but lend short. Our funding sources are diverse, ensuring that we are not overly reliant on one funding source and that we will be able to serve our customers through thick and thin.

These attributes mean that we lend responsibly to our customers, receive high customer satisfaction levels and have been able to deliver strong growth in both earnings and dividends since the demerger of the international business in 2007. Our Total Shareholder Return (TSR) over this period equates to £20.65 per share or annualised TSR growth of 17%. In short, we are good at what we do and I am very proud of the contribution we make to society and all our stakeholders.

A year of strong performance and business development

2014 has been an excellent year both in terms of performance and the development of the group. We have delivered adjusted EPS growth of 18.4% and increased the full-year dividend by 15.3%. Compared with a year ago, we now have a broader mix of businesses following the recent acquisition of Moneybarn and the development of Satsuma, our online direct repayment loans business. Both of these businesses should contribute materially to the medium-term growth prospects of the group. It is not only our strong performance which is pleasing. I am delighted with the progress each business has made in transitioning to the new Financial Conduct Authority (FCA) regulatory regime and continuing to develop our products and service to meet the needs of our customers.

"The home credit product fits low-income customers like a glove; it is simple and transparent with manageable weekly payments."

Vanquis Bank

Vanquis Bank has once again performed strongly in 2014, increasing UK profits by 32.8% to £151.0m. Continued investment in the customer acquisition programme has generated record new account bookings of 430,000, up from 411,000 in 2013. Vanquis Bank now serves 1.3m customers as more and more non-standard consumers are valuing the utility of owning a credit card in today's modern, digital age. Our high level of service throughout the customer journey ensures that our customer satisfaction level of 84% remains significantly higher than mainstream banks.

Vanquis Bank continues to deliver strong growth and, against unchanged credit standards, our marketing programmes are successfully delivering an increased flow of new customers from the target audience. This has resulted in us reassessing the medium-term potential for the UK customer base from between 1.3m and 1.5m customers to between 1.5m and 1.8m customers with an expected average customer balance of approximately £1,000.

We have recently made the decision to withdraw from the pilot credit card operation in Poland. This reflects our conclusion that the timeframe required to develop a business of sufficient scale to achieve the group's target returns is too long and therefore not the best use of the group's capital. Accordingly, we have commenced the process of winding down the Polish operation. This includes running off the receivables book in an orderly manner which is expected to be largely completed in 2015. We do not expect there to be a material cost from winding down the pilot operation in 2015.

Read more on Vanquis Bank on pages 40–47

Consumer Credit Division (CCD)

CCD has made very good progress during 2014 in positioning itself as a more broadly-based lending business whilst delivering stable profits.

Last year we set ourselves a number of actions to reposition the home credit business as a smaller but leaner, better-quality, more modern business focused on returns. These included: (i) tightening the underwriting and implementing standardised collections processes throughout the organisation to improve the quality of the receivables book; (ii) rightsizing the cost base to maintain profitability; and (iii) deploying technology throughout the field organisation to improve efficiency and effectiveness and deliver high levels of compliance. I am delighted that the whole CCD team has worked tirelessly this year to successfully deliver against each of these actions.

The home credit product fits low-income customers like a glove; it is simple and transparent with manageable weekly payments rather than large one-off bullet payments and customers know they get a sympathetic response when times are tough. The business has very high levels of customer satisfaction of 93% and I am very pleased we have stabilised the business and will continue to serve our customers in the right way whilst other more short-term business models come and go.

Satsuma is a very exciting opportunity in the space between Vanquis Bank and home credit. The continued dislocation caused by the regulatory changes to the payday loans market provides an excellent opportunity to develop a sustainable business with a strong market position capable of delivering the group's target returns. We have invested heavily in our underwriting, systems, processes, governance and management team during 2014 and we are well placed to further develop an excellent business through 2015 and beyond.

Satsuma has many of the features of home credit adapted for the online world. With affordable weekly or monthly repayments, no additional charges, close contact with our customers and a range of forbearance measures for those who get into difficulty, I believe it is the most customer-centric product in the market and a much better alternative for customers than payday lending.

Read more on Consumer Credit Division on pages 48–59

> "Moneybarn's ethos is to help its customers get to work by lending responsibly and providing them with the finance to buy a car."

Moneybarn

We acquired Moneybarn, the UK's largest non-standard vehicle finance group, in August 2014 and it is our first acquisition since the demerger of the international business in 2007. We have very exacting criteria for assessing potential new acquisitions, including the sustainability of the product offering, the quality of the management team, a market-leading position, growth potential and high returns. Moneybarn is the first business to meet all of these criteria.

Founded in 1992, Moneybarn provides car finance to non-standard customers in the UK, operating mainly through brokers with additional distribution sourced through independent car dealers and from its website directly to customers. The business offers secured car loans through conditional sale agreements. Moneybarn's ethos is to help its customers get to work by lending responsibly and providing them with the finance to buy a car. This fits perfectly with the group's own ethos of financial inclusion.

The acquisition of Moneybarn broadens the product offering to the group's target customer base and creates a third leg of earnings that complements the organic growth opportunities available to the group. Moneybarn's new business volumes had been constrained prior to acquisition due to funding restrictions but have picked up significantly following acquisition. Moneybarn is highly scalable given the strength of its relationships with brokers, its market-leading credit decisioning and the strength of the group's balance sheet and I am delighted with the start made by the business under the group's ownership. We intend to develop the product offering at Moneybarn and take advantage of the synergies with the group's existing businesses, including enhancements to underwriting and collections capabilities, the development of a business-to-consumer proposition and leveraging the Vanquis Bank customer base.

Our investment case

The investment case for Provident Financial is very attractive:

- Winners in the non-standard credit market will be larger, well-funded specialist lenders with sustainable business models like us;
- We have an attractive mix of businesses:
  - Strong, profitable and capital generative growth in Vanquis Bank;
  - A cash-generative home credit business with a focus on returns;
  - Potential for strong growth in Moneybarn through developing the under-served non-standard vehicle finance market;
  - Opportunities for growth with Satsuma in the segment of the market between home credit and Vanquis Bank; and
  - The potential for growth into other forms of non-standard lending.
- The transition to the FCA and payday regulation is causing dislocation in the non-standard credit market which provides new opportunities for responsible lending businesses such as Provident Financial;
- Our management teams are highly skilled and experienced, particularly in serving the non-standard credit market;
- We have a robust balance sheet and prudent funding; and
- We generate sufficient capital to support planned growth and business development without compromising our progressive dividend policy.

Our excellent track record, consistent strategy, robust business model and strong market position mean that we are in a very good position to further develop our businesses in 2015 and deliver another year of success for all of our stakeholders.

Peter Crook
Chief Executive

Read more on Moneybarn on pages 60–67

Read more on our markets on pages 24–27

A non-standard credit market business model

All the businesses within our group have a common approach and focus on the non-standard credit market, while also adapting what they do to closely suit the needs of their particular customers.

At the core of our group is a long history and experience in lending a hand where others don't and seeking to increase financial inclusion. Our focus has always been on better customer outcomes in markets typically poorly served by mainstream lenders who either reject our customers or try to serve them with products and approaches not best suited to their needs. Our businesses and group therefore manage the inherent customer conduct, credit and reputation risks better than others through specialisation and close attention to what customers want and need.

Each of our three divisions delivers products created to meet particular needs within the non-standard credit market.

1 Vanquis Bank

Non-standard credit cards

Read more on pages 40–47

2 Consumer Credit Division

Home credit

Online instalment credit

Read more on pages 48–59

3 Moneybarn

Non-standard vehicle finance

Read more on pages 60–67

Overarching purpose to lend where others don't and increase financial inclusion.

130 years of experience in serving non-standard customers.

Specialisation and focus on non-standard credit.

Track record, strong reputation and prudent accounting and governance.

Commitment to corporate social responsibility.

1. Offer simple transparent and suitable products, tailored to non-standard customer needs.
2. Take a different approach to managing the customer relationship, tailored to non-standard customer needs.
3. Learn, refine and improve what we offer based on our experience with non-standard customers.
4. Do the right thing for customers with responsibility, sustainability and compliance fundamental to our proposition.

Financial inclusion and good outcomes for customers.

Consistently high levels of customer satisfaction.

Access to funding through the cycle.

Careers for over 3,500 employees.

Growing returns for shareholders.

Further capital for investment.

Making a positive difference in the communities we serve.

Work for 7,700 self-employed agents.

Anna

Helping Anna create a new home for her family

"With one child, space in our old flat was tight, but we knew there would be no way we could stay there once we found out we were expecting our second. The upfront costs on the new place wiped out all of our savings, leaving us no money to buy the washing machine we needed. With Satsuma, we could borrow the right amount without the debt hanging over our head for ages. And without a single penny in extra charges when we had to miss a couple of payments, I would definitely use them again."

Our strategy and performance

Why we use these KPIs:

The group uses a number of KPIs to assess progress against each of its strategic objectives, including both financial and non-financial measures. Our performance during 2014, measured using these KPIs, together with our plans for 2015, are set out on the following pages.

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

1

Strategy

Growing high-return businesses in non-standard markets

- Maintain strong growth in Vanquis Bank within the UK non-standard credit card market, whilst seeking opportunities to utilise the existing business model to expand into other markets and products;
- Continue to update the home credit business within CCD and maximise returns whilst developing an online loans business to generate sustainable growth;
- Unlock the growth potential within Moneybarn in the non-standard vehicle finance market; and
- Extend our product offerings to ensure that we have the appropriate range of products for our chosen markets.

KPI descriptions:

Adjusted profit before tax – Profit before tax, the amortisation of acquisition intangibles and exceptional costs.

Return on assets (ROA) – Adjusted profit before interest after tax as a percentage of average receivables.

Return on equity (ROE) – Adjusted profit before tax as a percentage of average equity. Equity is stated after deducting the group's pension asset, net of deferred tax, and the fair value of derivative financial instruments, and the proposed final dividend.

Risk-adjusted margin (RAM) – Revenue less impairment as a percentage of average receivables.

Adjusted earnings per share – Profit after tax, excluding the amortisation of acquisition intangibles and exceptional costs, divided by the weighted average number of shares in issue, excluding own shares held by the group.

Dividends per share – The total dividend per share, comprising the interim dividend per share paid and the proposed final dividend per share.

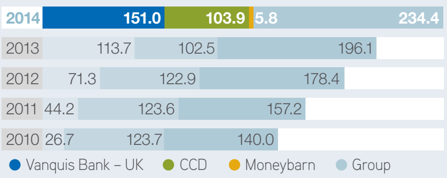
Gearing – Borrowings (based on contracted rates of exchange and excluding deferred arrangement fees) less the liquid assets buffer, including liquid resources, divided by equity. Equity is stated after deducting the group's pension asset, net of deferred tax and the fair value of derivative financial instruments, in line with the group's banking covenants.

Customer satisfaction – The percentage of customers surveyed who are satisfied with the service they have been provided with.

Investment in the community – The amount of money invested in support of community programmes, money advice programmes and social research.

Total shareholder return – The change in the the group's share price, together with any dividend returns made to shareholders.

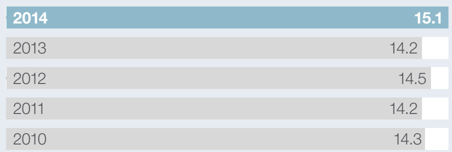
Adjusted profit before tax (£m)



Group profit before tax up 19.5% to £234.4m (2013: £196.1m):

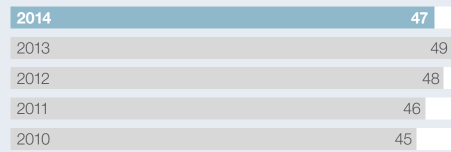
- Continued strong growth and favourable margins at Vanquis Bank generated a 32.8% growth in UK profit before tax to £151.0m (2013: £113.7m);
- CCD delivered stable profits of £103.9m (2013: £102.5m) reflecting the impact of improved margins and cost reductions offsetting the impact of a 20.5% reduction in the receivables book; and
- Encouraging start from Moneybarn, contributing a profit before tax of £5.8m in the four months post acquisition.

Group ROA (%)



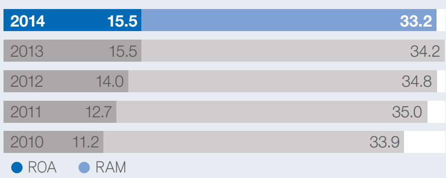
Higher group ROA of 15.1% (2013: 14.2%), reflecting improved returns at CCD.

Group ROE (%)



ROE of 47% (2013: 49%), lower than 2013 due to the impact of the £120m equity raised to fund the Moneybarn acquisition.

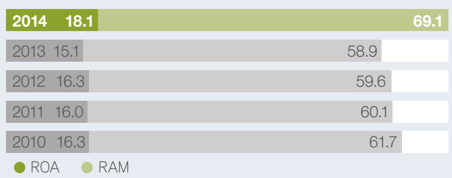
Returns – Vanquis Bank – UK (%)



Moderation in the RAM to 33.2% (2013: 34.2%) reflects the impact of the reduction in the revenue yield following the changes made to the Repayment Option Plan (ROP) product in mid-2013.

Continued strong returns, delivering a stable UK ROA of 15.5% (2013: 15.5%), with the benefit of operational leverage offsetting the reduction in the RAM.

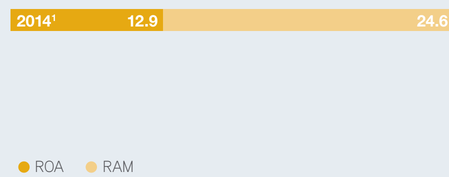
Returns – CCD (%)



Significant uplift in the RAM to 69.1% (2013: 58.9%) due to the marked improvement in the quality of the receivables book from tighter underwriting and the drive to implement standardised arrears and collections processes.

ROA strengthened to 18.1% (2013: 15.1%), resulting from the transition to a smaller but leaner, better-quality, more modern business focused on returns.

Returns – Moneybarn (%)



Pro forma RAM and ROA of 24.6% and 12.9% in 2014.

1 Represents pro forma full-year results restated to apply the group's lower cost of funding to pre-acquisition results.

What it means for us in 2015

Vanquis Bank

- Continue to invest in the customer acquisition programme, maintaining the growth in customer numbers and receivables at similar levels;
- Further develop the channels to market to mitigate any increase in competition;
- Maintain a tight stance on underwriting and credit line increases;
- Deliver a RAM in the range of 31% to 32%, after allowing for the impact of the changes made to the ROP product and its sales process in the third quarter of 2013 and European legislation reducing interchange fees; and
- Ensure an orderly run-off of the Polish receivables book.

CCD

- Continue the programme of updating the home credit business through the further roll-out of technology, standardisation of processes and the development of the people programme;
- Continue to develop the product and marketing proposition in Satsuma to capture the growth opportunity available in the online instalment loans market;
- Complete the pilot of glo and assess whether the business is capable of delivering the group's target returns;
- Further strengthen the RAM by maintaining a tight underwriting stance and further embedding the standardised collections and arrears management processes;
- Maintain tight cost control, subject to investment in business development activities; and
- Seek to grow profits at a modest level.

Moneybarn

- Capture the growth opportunity in the non-standard vehicle finance market by growing the customer base from 22,000 to 30,000;
- Invest in the cost base to support growth and strengthen governance and controls to be in line with the rest of the group; and
- Continue to investigate and test product extensions beyond the current model, including lower value vehicles, commercial vehicles and relationships with prime finance businesses.

Strategy 2

Generating high shareholder returns

- Generate sustainable growth in profits and dividends to deliver increasing shareholder returns; and
- Maintain a dividend cover of at least 1.25 times.

What it means for us in 2015

- Deliver further earnings per share and total shareholder return growth; and
- Maintain a minimum dividend cover of at least 1.25 times.

Strategy 3

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 maximum gearing ratio of 3.5 times to ensure alignment with the minimum dividend cover target of 1.25 times and the group's growth plans, whilst maintaining a comfortable surplus of regulatory capital over the capital requirements set by the Prudential Regulation Authority (PRA); and
- Continue to diversify the group's sources of funding.

What it means for us in 2015

- Maintain capital and gearing at prudent levels;
- Continue to manage the flow of retail deposits in Vanquis Bank to ensure the headroom on the group's committed facilities is maintained at an appropriate, but not excessive, level;
- Review and consider issues into the retail bond and private placement markets to support the growth in Moneybarn and Satsuma; and
- Effectively manage the transitional arrangements within the Capital Requirements Directive IV (CRD IV) for regulatory capital and liquidity reporting to the PRA.

Strategy 4

Acting responsibly and with integrity in all we do, specifically:

- 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;
  - Support our communities;
  - Proactively engage with the investment community on sustainability matters; and
  - Minimise the environmental impacts of our business.

What it means for us in 2015

- Maintain or improve customer satisfaction levels in both Vanquis Bank and CCD;
- Develop a formal customer feedback process in Moneybarn;
- Maintain an investment of 1% of group profit before tax in the community through various community programmes, money advice programmes and social research;
- Embed Moneybarn into the group's community programme;
- Continue to effectively manage the transition of all of our businesses from regulation by the Financial Services Authority (FSA) and Office of Fair Trading (OFT) to the PRA and Financial Conduct Authority (FCA); and
- Continue to place positive customer outcomes at the forefront of our product and service offering.

Adjusted earnings per share (p)

2014	132.6
2013	112.0
2012	100.4
2011	86.9
2010	76.2

Adjusted earnings per share up 18.4% to 132.6p (2013: 112.0p), a lower rate than the 19.5% growth in adjusted profit before tax as a result of the impact of the 5.9m placement of shares for the acquisition of Moneybarn, partly offset by the reduction in the statutory rate of UK corporation tax from 23% to 21% on 1 April 2014.

Dividend per share (p)

2014	98.0
2013	85.0
2012	77.2
2011	69.0
2010	63.5

Dividend per share increased by 15.3% to 98.0p (2013: 85.0p), supported by the group's growth in earnings and strong capital generation resulting in a dividend cover of 1.35 times (2013: 1.32 times).

Total shareholder return (%)

2014	57.0
2013	25.4
2012	51.9
2011	15.1
2010	1.0

Strong annual total shareholder return of 57.0% in 2014 (2013: 25.4%).

Gearing (times)

2014	2.4
2013	3.0
2012	3.2
2011	3.2
2010	3.3

Gearing reduced to 2.4 times (2013: 3.0 times), compared with a maximum target of 3.5 times and a banking covenant of 5.0 times. This reflects: (i) the Moneybarn acquisition was almost wholly funded by an equity issue in order to preserve the group's regulatory capital; and (ii) the shrinkage of the home credit receivables book following the repositioning of the business.

Renewal of committed bank facilities of £382.5m in January 2014 and option exercised in January 2015 to further extend the maturity of the facilities from May 2017 to May 2018.

Vanquis Bank's retail deposits programme increased from 51% of Vanquis Bank's UK receivables to 53% during 2014.

Headroom on committed facilities of £112m at 31 December 2014 which, together with the retail deposits programme at Vanquis Bank and the extension of bank facilities in January 2015, ensures there is sufficient headroom to fund projected growth and contractual maturities until May 2018.

Comfortable regulatory capital surplus against the capital requirements set by the PRA.

Customer satisfaction (%)

	Vanquis Bank	CCD
2014	84	93
2013	88	93
2012	89	92
2011	84	91
2010	84	91

Customer satisfaction of 93% for CCD (2013: 93%) and 84% for Vanquis Bank (2013: 88%).

Community investment (£m)

2014	2.4
2013	2.0
2012	1.9
2011	1.6
2010	1.5

Invested a total of £2.4m in various community programmes, money advice programmes and social research (2013: £2.0m).

Tracy

Helping Tracy access the lowest prices

"I always found it frustrating before I had my Vanquis Bank credit card that things were cheaper online but that I couldn't access them. When it came to buying toys for my kids at Christmas for example, I hated having to pay over the odds when money was tight just because I didn't have a plastic card. Now that I have a credit card I can look for the best deals and make my money go a lot further. I make sure I keep my credit limit low so that I never have to worry about overspending."


amazon

The evolution of the non-standard credit market

Over the last seven years, since the demerger of the group's international business in 2007, the non-standard credit market has evolved significantly. The credit crisis, together with the rapid increase in internet usage, has meant that customer behaviours and preferences have changed and product propositions have had to adapt in response. More recently, regulatory intervention in the rapidly growing payday lending sector has resulted in market dislocation.

In 2007, the non-standard credit market represented around 10 million consumers and was made up of about £100bn of advances per annum. The home-collected segment of the market was around 3 million consumers in 2007.

The direct repayment segment of this market represented around 7 million consumers and was dominated by more mainstream business models and products, although both mainstream businesses and non-standard credit specialists were present in the market. The largest lending format was instalment loans with customers mainly sourced through brokers or a branch network. Loans were typically between £2,000 and £10,000 over a duration of three years or more. Headline APRs were less than 100%, although there were also likely to be additional fees for Payment Protection Insurance (PPI) and default charges. Vanquis Bank represented a relatively small part of the direct repayment market in 2007 as the business was still relatively new.

The home-collected segment of the market is little changed in terms of size, with around 3 million addressable consumers being served by four larger companies and 500 smaller, local operators. This part of the market is not showing any growth and, at the margins, newer formats such as rent-to-own and online lending are reducing the flow of quality new customers into the market.

The credit crisis and much tighter underwriting standards adopted by mainstream lenders mean that the non-standard market in 2014 continued to look quite different. The target audience has increased from approximately 10 million to 12 million consumers but annual advances have reduced from £100bn in 2007 to around £70bn, representing the general reduction in consumer lending following the credit crisis. The market has started to grow again more recently.

The biggest area of change is in the direct repayment segment of the market which has grown from around 7 million consumers to 9 million. This market is now dominated by specialist non-standard lenders providing much smaller loans at higher APRs, with customers typically being recruited online.

The retrenchment of more mainstream lenders or failure of some other lenders provided growth opportunities for credit card providers and payday lenders. In particular, Vanquis Bank has prospered within the non-standard credit card market, growing its customer base from around 300,000 customers in 2007 to 1.3 million in 2014.

More recent regulatory interventions in response to the rapid growth of payday lending have resulted in significant falls in supply of these products as many providers have exited the market. The tighter Financial Conduct Authority (FCA) regime for this sector, along with a cap on the total cost of credit from 2 January 2015, have forced incumbents to change their offers and reduce their prices. This has caused significant dislocation and created opportunities for responsible lenders able to continue to serve these customers.

The UK credit market in 2007

49m

UK credit market 49m

c.33m Prime
Borrowers that are deemed to be the most credit-worthy.

c.6m Near-prime
Borrowers who have somewhat weakened credit histories and a greater risk of loan default than prime borrowers.

Non-standard credit market

c.7m Direct repayment

Market competitors	PFG consumer brands
Black Horse Capital One Beneficial Finance Barclaycard Citifinancial Monument HFC Welcome Ocean Finance	Vanquis Bank

c.3m Home-collected

Home credit	PFG consumer brands
Shopacheck Loansathome4u Morses Club	Provident Personal Credit Greenwood Personal Credit Ltd

PFG customers 0.9m

- Over £100bn of advances per annum;
- Market dominated by mainstream models and products;
- Headline prices less than 100% APR with additional fees for PPI and default charges;
- Mix of mainstream and specialist competitors; and
- Regulation by the Office of Fair Trading (OFT) and the Financial Services Authority (FSA) for banks.

The UK credit market in 2014

52m

UK credit market 52m

c.33m Prime
Borrowers that are deemed to be the most credit-worthy.

c.7m Near-prime
Borrowers who have somewhat weakened credit histories and a greater risk of loan default than prime borrowers.

Non-standard credit market

c.9m Direct repayment

Market competitors	PFG consumer brands
Motor finance Advantage Finance Moneyway First Response	moneybarn
Non-standard credit cards Capital One Aqua Barclays	Vanquis Bank
Online lenders Wonga Quick Quid Pounds to Pocket Sunny	Satsuma loans.co.uk

c.3m Home-collected

Home credit	PFG consumer brands
Shopacheck Loansathome4u Morses Club	Provident

PFG customers 2.6m

- Approximately £70bn of advances per annum but growing;
- Specialist models and products dominate;
- More transparent APRs in excess of 100% and into the thousands but with no PPI;
- Transition to the FCA and tighter payday regulation has caused dislocation which provides new opportunities for responsible lending businesses; and
- Satsuma fills the under-served part of the direct repayment market between Vanquis Bank and home credit.

Market opportunity – Satsuma

Satsuma
loans.co.uk

Read more about Satsuma on pages 56–57

The dislocation of the online high-cost short-term credit (HCSTC)* market

Over the last few years the online HCSTC market and competitive environment has changed dramatically, despite the continued consumer demand for access to small-sum, short-term credit.

Demand for HCSTC is estimated to be at least four times that for home credit.

Online HCSTC market

Prior to the conclusion of the OFT compliance review in 2013, the online market was dominated by payday lending.

Concerns regarding upfront underwriting, rollovers and the abuse of Continuous Payment Authorities (CPAs) led to a full regulatory review of the market.

Around half of the 50 payday lenders reviewed by the OFT have since exited the market.

Payday loans | Instalment loans

Office of Fair Trading (OFT) compliance review (culminating March 2013) and subsequent Competition and Markets Authority (CMA) inquiry (from June 2013)

FCA analysis suggests that between September 2013 and August 2014, although applications rose by 20%, loan values fell by 35% and loan volumes by 40% as acceptance rates halved.

Instalment loans started to emerge as an alternative to payday loans during this period.

Payday loans | Instalment loans

New FCA rules and regime (finalised February 2014, and came into force from April 2014)

Satsuma
loans.co.uk

Satsuma enters the market in November 2013

'Flexible', or 'revolving' products were introduced by some lenders.

The FCA noted that some flexible product variants were "not genuine running account credit", which resulted in all providers withdrawing their recently introduced products.

The FCA expects the price cap introduced on 2 January 2015 to result in a further 4% reduction in loan values, 39% reduction in firm revenue and 43% reduction in operating profits, with the potential for only two or three larger online lenders to survive if firms are unable to adapt.

Payday loans | 'Flexible', 'revolving' products | Instalment loans

FCA price cap on HCSTC (finalised November 2014, and came into force from 2 January 2015)

Instalment loans are now the most dominant product in the online HCSTC market.

Payday loans | Instalment loans

Further market exits likely, along with evolving product formats to which the FCA may react with further rules and/or guidance.

Satsuma
loans.co.uk

Satsuma has always operated below the new price cap level and no major changes have been required throughout the OFT review, CMA inquiry and new FCA regime.

Satsuma aims to have a top-three market position in the online HCSTC market in the next two to four years.

* The FCA defines HCSTC as a regulated credit agreement (including peer-to-peer), where the APR is equal to or exceeds 100%; and either the credit is to be provided for a short term, or due to be repaid or substantially repaid within 12 months, but is not secured by a mortgage, charge or pledge and is not provided by a community finance organisation and is not a home credit loan, a bill of sale loan or an overdraft.

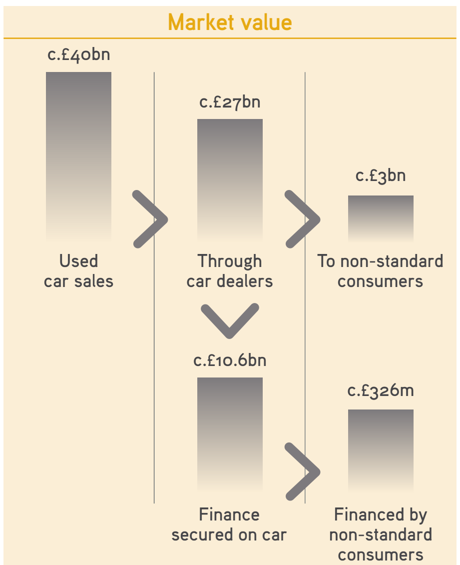
Market opportunity – Moneybarn

moneybarn
credit you can trust

Read more about Moneybarn on pages 60–67

Moneybarn competes in the UK non-standard, dealer-purchased, used car finance market

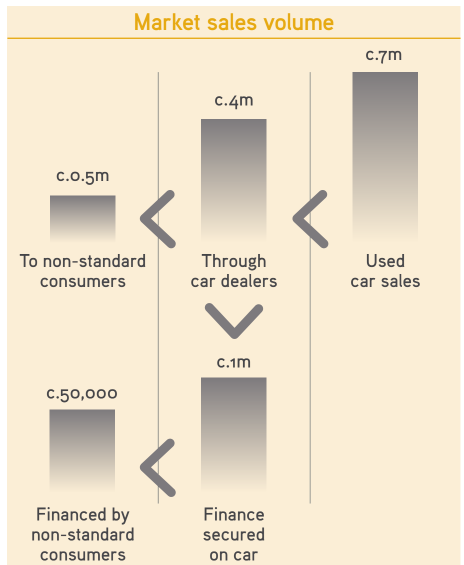
Around half a million used cars are bought by non-standard consumers in car dealerships each year worth around £3bn...



...of these only around 50,000 are bought and financed by non-standard consumers, securing the loan on the value of their car, which in total amounts to around £326m.

Moneybarn currently originates about 10,000 new deals per year, accounting for approximately 20% by volume of the market for non-standard vehicle finance.

The market opportunity, strong broker relationships and the access to the group's funding lines means that Moneybarn has strong growth prospects.



As recently as 2007, prior to the credit crunch, the non-standard car finance market was two to three times this size, served by large specialist lenders and more mainstream finance groups.

Dealers

Evans Halshaw, H.R.OWEN, PERRYS, Arnold Clark, JCT600, Robins & Day, Lookers, Hendy Group

Web

YAHOO!, bing, Google, iva.co.uk, MoneySupermarket.com

Dealers with in-house brokers

cargiant, Listers, Imperial Car Supermarkets, Georgesons

Dealer-supplied brokers

auto union Finance, Eurodrive, MK Car Finance, DSG Finance, Evolution Funding, M Finance, Hippo Leasing, WhatCredit

Internet-supplied brokers

MSGCars, carloan4u, MidlandCredit.co.uk, carfinance247

MB direct

moneybarn

Moneybarn deal processors

Moneybarn serves this market primarily through a mix of internet and dealer-based brokers

Tony

Helping Tony get to work

"Anyone who's been out of work for a while will tell you that you'll do just about anything to get back into a job. When a role I knew I could do came up, I was determined to get it, even though it would mean having to commute. I got the job, which was great, but I then had to figure out a way to get there. Moneybarn gave me the chance I needed to get a reliable car. There's simply no way I would have this job without that chance."

Acting responsibly and with integrity

"At the beginning of 2014, we felt it was time to review our corporate responsibility strategy, one of the elements of the group's overall business strategy, which has stood us in good stead and guided our approach to CR since 2007. Following discussions with stakeholders from inside and outside the financial services industry, we created a CR strategy that supports our stated social purpose and recognises the need to address wider social, environmental and ethical challenges and opportunities."

Peter Crook
Chief Executive

Our CR strategy commits us to:

- Operate our core business of lending to our customers in a responsible and sustainable manner, putting their needs at the heart of everything we do.
- Act responsibly and sustainably in all our other stakeholder relationships in order to: create a working environment that is safe, inclusive and meritocratic; treat our suppliers fairly; support our communities; proactively engage with the investment community on sustainability matters; and minimise the environmental impacts of our business.

Case study

Engaging with stakeholders and reviewing Provident Financial CR strategy

In March 2014, Provident Financial convened a roundtable discussion with its peers on CR in financial services. The session was facilitated by Corporate Citizenship and attended by representatives from a range of financial services companies. The purpose of the roundtable was to discuss best practice, important challenges and key learnings for CR professionals in the financial services sector and use the findings to inform the next iteration of the CR element of the group's overall business strategy. The results of the roundtable were used during 2014 to help review and revise Provident Financial's CR strategy, and ensure that there is continual improvement in the overall performance of the group's CR programme.

Key areas of focus

As a specialist lender that offers an increasingly more diverse range of products to the non-standard credit market, it is essential that we lend responsibly to our 2.4 million customers. This is our most important corporate responsibility and is something we have been doing since 1880. As such, we understand the needs of those who are either excluded from the mainstream credit market, or whose needs are not well met by mainstream credit market products, and have unrivalled experience of providing products and services that are tailored to meet these needs.

But this commitment to act responsibly and sustainably extends well beyond ensuring that we lend in a responsible manner. It is also about ensuring that we systematically manage the other social, environmental and economic issues that are material to our business activities. This encompasses how we treat employees, agents and suppliers, as well as supporting and investing in the many communities we serve, and minimising our impacts on the environment.

Lending responsibly and sustainably to our customers

For Provident Financial, responsible lending is about developing and delivering products that meet the needs of our customers. Our Vanquis Bank credit cards, home credit loans and Satsuma loans and Moneybarn car finance loans all share the same responsible lending characteristics: they are simple and transparent financial products delivered through a friendly and personal service, and they demonstrate high levels of understanding of customers who experience difficulties.

CR governance and management

Overall responsibility for our CR programme rests with Peter Crook, Provident Financial's chief executive. CR and community affairs are regularly considered by the Provident Financial plc board. A corporate affairs activity report is presented at each board meeting. The group's executive committee, which includes the executive directors and senior management, and is chaired by Peter Crook, reviews and approves the CR programme and budget.

Ongoing management of the CR programme is undertaken by Provident Financial's CR manager, community affairs manager and community affairs executive, who are supported by a number of working groups which are made up of representatives drawn from our subsidiary businesses.

CR reporting

We also publish a stand-alone, annual CR report which sets out a full account of our social, environmental and economic performance. Our 2014 CR report will be published during the summer of 2015. Further information on our CR reports can be found at www.providentfinancial.com

Corporate responsibility continued

Vanquis Bank

The Vanquis Bank credit card has initial credit limits as low as £150, which are smaller than those of mainstream credit cards. This enables the bank to observe and understand the behaviour of customers before granting any further lending, in a responsible and sustainable manner.

The bank's bespoke underwriting processes have been developed over the last twelve years. We have a conservative approach to risk, reflected in our decline rates of around 75%. Our credit-granting scorecards are based on our extensive experience of dealing with non-standard credit market consumers.

We are also able to offer customers a range of extra features through our optional Repayment Option Plan. This includes features such as Account Freeze, Payment Holiday, Lifeline, Payment Reminders, and Over-limit Alerts, to help our customers to get back on track.

1.3m

Vanquis Bank customers

84%

Vanquis Bank customer satisfaction

Read more on Vanquis Bank on pages 40–47

Consumer Credit Division

Our Provident home credit loans are for small sums, are simple and transparent, and have their costs fixed at the outset, which means there are no additional charges or fees whatsoever. Repayments are collected on a weekly or monthly basis by a self-employed agent in the customer's home. While credit scoring systems are used in the lending process, agents are ultimately responsible for making the final decision as to whether to lend. They are also paid commission primarily on what they collect, not what they lend, which means they lend only what a customer can afford to repay. High levels of contact are maintained with customers through the agent visits in their homes. This enables customers to raise any difficulties or queries they might have at an early stage and agree an appropriate course of action to resolve them.

Our Satsuma online instalment loan product shares many of the responsible lending characteristics of our home credit loans. All of the costs are fixed upfront and there are no additional charges or fees, even if customers' circumstances change and payments are missed. Underwriting is based on the processes used by Vanquis Bank and for home credit loans, and is supplemented with external credit bureau data, and behavioural and social information. Repayments are collected via Continuous Payment Authority (CPA), based on a pre-agreed amount on a pre-agreed date. If a repayment is missed, the customer is contacted immediately to discuss their situation; the CPA arrangement is never abused.

Read more on Consumer Credit Division on pages 48–59

Moneybarn

Moneybarn offers secured car loans in a responsible manner through conditional sales contracts. This means that the vehicle is owned by Moneybarn until the final instalment has been paid by the customer. The primary source of new customer leads is through a network of well-established brokers who earn commission for each lead they provide which results in a loan being issued.

Moneybarn's underwriting processes are highly automated which allows for rapid profiling and approval of customers, providing us with a competitive advantage. Its credit science is based on a combination of external credit bureau data, company-specific proprietary scorecards and policy rules. The underwriting process includes robust affordability assessments, including obtaining proof of income, to ensure that lending takes place only when it is responsible to do so. Collections are normally made through fixed monthly direct debit payments. If a customer gets into financial difficulties during the term of the loan, the customer services team will work closely with the customer to help them get back on track. This may include a temporary payment arrangement for short-term financial difficulties. However, for those customers that demonstrably can no longer afford the ongoing repayments, the most appropriate exit strategy is often through the repossession and sale of their vehicle to settle their loan before the vehicle depreciates further. This means that the customer often gets a cash sum when the vehicle is sold.

Read more on Moneybarn on pages 60–67

Playing a positive role in the communities we serve

Creating a safe, inclusive and meritocratic workplace

Our 3,555 employees enable us to continually meet the needs of our 2.4 million customers. They are behind the development and delivery of our products, and are a key stakeholder.

The success of our business relies on attracting and retaining talented individuals. We aim to provide a working environment that encourages employees to reach their potential, and trains and develops them to meet their personal goals. Through this, we continue to respond to the needs of our customers, which means our business will flourish.

Through our people departments, we provide training and development to our employees and implement policies on issues such as diversity and health and safety. Our people departments are also integral in the implementation of our CR strategy across our businesses.

	Male	Female
Proportion of male/female company directors (%)	71	29
Proportion of male/female employees in senior management positions (%)	70	30
Proportion of male/female employees (%)	48	52

Treating our suppliers fairly

Part of our corporate responsibility involves treating our suppliers fairly and using our purchasing power to make sustainable procurement decisions. In 2014, our annual spend on products and services was £143.9 million (2013: £129.2 million). This level of spend gives us the potential to encourage and support our suppliers to become more sustainable.

We are committed to paying our suppliers promptly as we recognise that late payment can cause serious cash flow problems, especially for small businesses. Our businesses do not have standard payment terms for suppliers. Rather, we have individually negotiated payment terms with each of our suppliers, although the terms are typical of the wider market. We endeavour to ensure that suppliers are paid in accordance with the agreed payment terms.

The company's primary social benefit is a direct one, in making available financial products and services that meet the particular needs of the people that are not well served, or are excluded altogether, by mainstream credit providers. However, we also recognise that we have a duty to be a good corporate citizen and invest in programmes that support the needs of non-standard credit market customers and those living in local communities. As such, we have committed to investing a minimum of 1% of profit before tax (as measured under the London Benchmarking Group's guidelines) in such programmes.

Indirect help for non-standard credit market customers

As part of our commitment to help non-standard credit market customers, we work with and provide financial support to a wide range of free and voluntary money advice organisations to help those who may have problems repaying their debts to us and others, and to increase the quality and availability of free, independent money advice in the UK. We support Advice UK, Citizens Advice, Step Change Debt Charity, Institute of Money Advisers, Money Advice Liaison Group, Money Advice Scotland, Money Advice Trust, and National Debtline. We also work with more specialised providers on a range of financial education initiatives and help finance publicly-available, independent research to help understand the financial behaviour of those on modest incomes.

What our community project partners say

"We feel we are truly in partnership with Provident. They not only give us money, but they support and care in so many ways.

Brendan Conboy
Chief Executive – The Door

2014 community investment figures

1 Cash	£2,103,946
2 Management costs	£257,405
3 Value of employee time	£53,544

Community involvement in numbers in 2014

31,517
people benefited directly from the support provided by projects we funded

19,432
people accessed new services and activities

30,539
people developed new skills as a result of their involvement in the programmes

Playing a positive role in the communities we serve

Supporting local communities

Through the group's companies and brands, we support local community projects which seek to help those living in deprived communities. Our aim is to not only provide financial help but to get our staff involved in the projects too. This helps motivate and develop our staff and leverages the financial support we give so that even more is achieved. Our projects are spread throughout communities in the UK and Ireland, and in Kenya where we support a local education project. The programmes invest in local community projects by providing cash support and creating opportunities for our staff to get involved. Our cash support can be a one-off investment to a project or a longer-term investment for three years or more. The projects we support on a longer-term basis are mapped out on the page opposite.

£2.4m

invested in community programmes, money advice and social research

> "I want to thank you for organising the amazing group of volunteers who took part in the Osmani Fun Day. It was great to see the whole school benefiting."
>
> **Maya Alexander**
> Corporate Volunteering Coordinator – Kids Company

Responding to community needs

Through the Good Neighbour and Active Community programmes, as at the end of 2014 we had committed long-term support (three years or more) to 48 projects across the UK and Ireland.

Case study
Yorkshire Dance (a Good Neighbour partner)

Our support is funding Rebuzz, a grass-roots dance development project for boys in Rotherham, South Yorkshire. Through a series of outreach projects, in the first year, over 400 boys have had the opportunity to work with inspirational artists in the field of contemporary dance. The project has been able to engage boys who would otherwise not get involved in dance, developing new skills and increasing their confidence and aspirations.

The project has had some notable achievements in its first year. Rebuzz was chosen to present work in the foyer at West Yorkshire Playhouse as part of the Fresh Fringe. The group was also selected by Youth Dance England to perform in the National U.Dance Fringe in Nottingham. There have already been many individual success stories, which are echoed in the positive feedback from both school teachers and parents alike. Some of the older boys are beginning to focus on developing their leadership skills by running lunchtime dance clubs for their younger peers and taking up shadowing opportunities within the outreach programme.

Case study
Bradford Youth Development Partnership (an Active Community partner)

Our work with Bradford Youth Development Partnership (BYDP) demonstrates perfectly our aim of supporting grass-roots organisations and creating opportunities for employees to develop the charity and themselves through volunteering.

The first thing we did together was fund a role which will help manage the business side of the charity and work with us to build a mutually beneficial relationship.

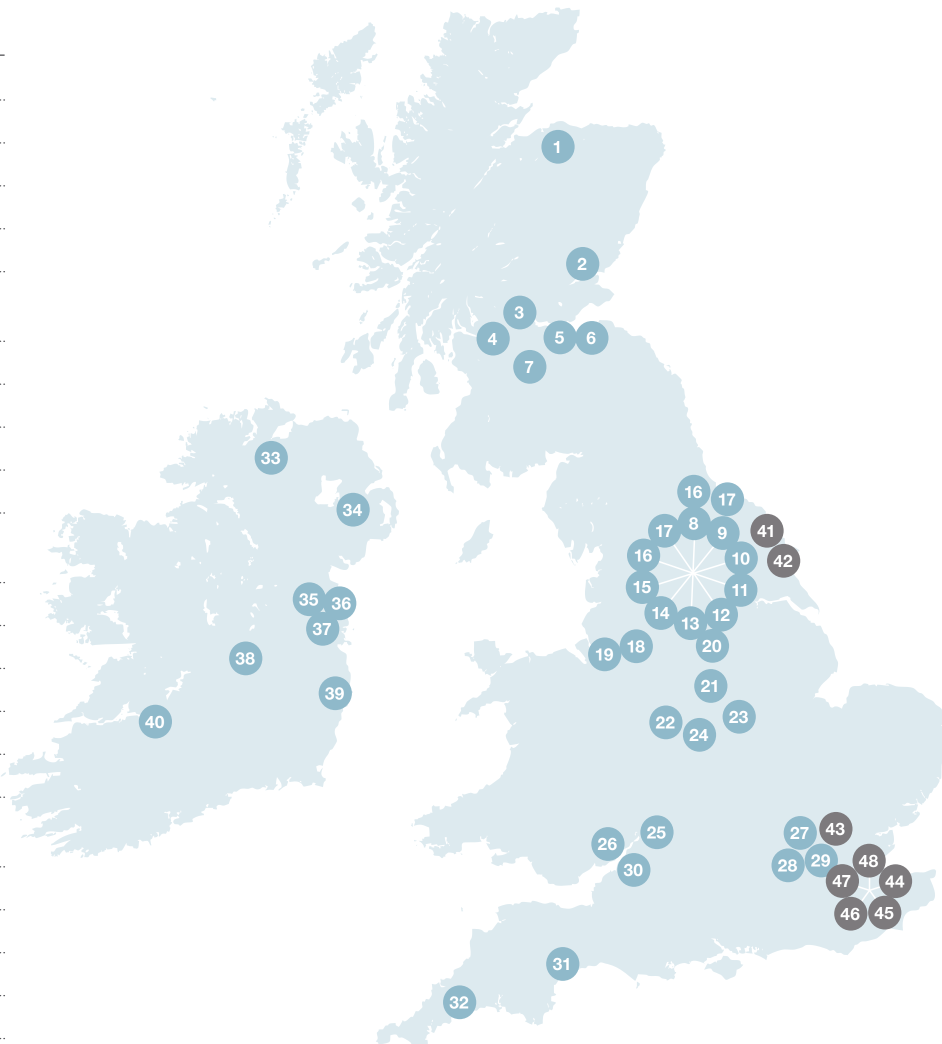
We offered executive expertise to encourage the management team to think more strategically and be creative in how best to support the young people in Bradford.

We then went on to fund a local community event to raise the profile of BYDP. The Summer Blast, a 'pop up' event set up in the centre of Bradford, was a fun, interactive day for children and parents and provided publicity for BYDP's work. It also gave us a chance to offer skills-based volunteering with our communications team who produced all of the materials for the event. We also provided them with funding to join the Bradford Chamber of Commerce with the aim of securing further work experience opportunities for young people in the Bradford area not in employment, education or training.

Local community projects and organisations with long-term funding

Good Neighbour projects (CCD)

1. Aberlour, Elgin
2. Boomerang, Dundee
3. Scottish Youth Hostel Association, Stirling
4. Oasis at Wallacewell, Glasgow
5. The Royal Lyceum, Edinburgh
6. Venchie Children and Young People's Project, Edinburgh
7. Made4U in ML2, Wishaw
8. Scholemoor Beacon, Bradford
9. Joshua Project, Bradford
10. Holmewood Executive, Bradford
11. Sedbergh Youth and Community Centre, Bradford
12. Bradford and District Senior Power, Bradford
13. Participate Projects, Bradford
14. One in a Million, Bradford
15. Immanuel Project, Bradford
16. Bradford City Women's Football Club, Bradford
17. Bradford City Football Club Community Stand, Bradford
18. Sycamore Project (Zac's Bar), Bolton
19. Northfield Sports Association, Bootle
20. Yorkshire Dance, Rotherham
21. Harvey Girls, Burton on Trent
22. Sycamore Adventure, Dudley
23. Mowmacre Young People's Play and Development Association, Leicester
24. Project for the Regeneration of Druids Heath, Birmingham
25. The Door, Stroud
26. Riverfront Theatre, Newport
27. Youth Network MK CIC, Milton Keynes
28. Battersea Arts Centre, London
29. Ahoy Centre, Deptford
30. Baggator, Bristol
31. St Petrock's, Exeter
32. Young People Cornwall, Truro
33. REACH Across, Londonderry
34. Hostelling International Northern Ireland, Belfast
35. Early Focus Project, Dublin
36. Solas Project, Dublin
37. Ballymun Music Programme, Dublin
38. Laois Partnership, Portlaoise
39. An Oige, County Wicklow
40. OLL St Saviours Boxing Club, Limerick



Active Community projects (Vanquis Bank)

41. Bradford Youth Development Partnership, Bradford
42. The Outward Bound Trust, Bradford
43. Kids Company, London
44. Byron Primary School, Gillingham
45. New Road Primary School, Chatham
46. Sure Start All Saints, Chatham
47. Sure Start Lordswood, Chatham
48. Phoenix Junior Academy, Chatham

In addition, Vanquis also funds Hatua, a local education project in Kenya

Engaging with the investment community on sustainability matters

We continue to engage with the socially responsible investment (SRI) community through our participation in the main global sustainability indices and by responding to SRI analysts' enquiries. This is one way we can demonstrate our commitment to running our business responsibly and sustainably. For example, during 2014:

- We continued to be a constituent of the FTSE4Good Index series. Following the September 2014 review of the FTSE4Good Advisory Committee, Provident Financial achieved an overall environmental, social and governance (ESG) rating score of 99, just one point away from the maximum possible score.
- We were included within the Vigeo World 120 index (the 120 most advanced sustainability performing companies in the European, North American and Asia Pacific regions), the Vigeo Europe 120 index (the 120 most advanced sustainability performing European companies) and the Vigeo United Kingdom 20 index (the 20 most advanced UK companies based on their sustainability performance).
- For the ninth successive year, Provident Financial maintained its inclusion in both the Dow Jones Sustainability World Index (DJSI World) and Dow Jones Sustainability Europe Index (DJSI Europe).

FTSE4Good

EURONEXT vigeo INDICES World 120

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

Minimising our environmental impacts

The environmental management system that has been in operation across our business for over a decade allows us to manage systematically our impacts on the environment by:

- Identifying and understanding the environmental impacts of our activities
- Defining environmental responsibilities for staff
- Measuring and monitoring our environmental management performance and setting targets
- Identifying opportunities to continually improve our environmental management performance

Our head office in Bradford continues to be formally certified to the international environmental management standard ISO 14001: 2004.

Greenhouse gas (GHG) emission reporting

We are required to disclose the annual amount of GHG emissions from activities for which we are directly responsible, including combustion of fuel or operation of any facility, and for which we are indirectly responsible, such as the electricity and heat we purchase for our own use. During 2014, these emissions accounted for 5,994 tonnes of CO_2e.

The scope 1 emissions reported relate to our fleet of company cars and the gas used in our offices, and the scope 2 emissions are associated with the electricity we purchased during 2014. We have also reported the associated GHG emissions for which we are indirectly responsible, but occur from sources we do not own or control, which are associated with our scope 1 and 2 emissions. These are referred to as scope 3 emissions and relate to GHG emissions associated with the extraction, refining, distribution, storage, transport and retail of the fuel we use.

GHG emissions 01 January to 31 December 2014 (tonnes of CO_2e)*

1 Direct (scope 1) CO_2e emissions	1,797
2013: 2,487	
2 Indirect (scope 2) CO_2e emissions	3,066
2013: 3,050	
3 Associated indirect (scope 3) CO_2e emissions	1,131
2013: 884	

* Our emissions are reported in accordance with the 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 2013. Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use. The emissions associated with Vanquis Bank's pilot credit card operation in Poland are excluded from the data disclosed above.

5,994

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

2013: 6,421 tonnes

3.24

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

2013: 4.00 kg of CO_2e/£1,000 of receivables

Carbon offsetting

While we aspire to keep levels of business travel to a minimum, it is an important part of how our businesses operate. That said, we recognise that the emissions that result from our business travel activities can be environmentally damaging. This is why we measure and monitor the business journeys our staff make by plane, train and in cars, and also the fuel used in our fleet of company cars, in order to calculate the GHG emissions associated with the group's business travel activities. We then offset these GHG emissions by investing in renewable energy projects.

During 2014, our business-related journeys accounted for 4,194 metric tonnes of CO_2e. These emissions were offset through the purchase of Gold Standard carbon credits in the Soma-Polat wind farm project in the Manisa and Balikesir provinces of Turkey. The project, which consists of 119 wind turbines, is expected to generate 467,364 MWh of electricity per year, resulting in a total reduction of almost 2 million tonnes of carbon emissions during the first seven years of the project. The project also provides a range of environmental and social benefits. On top of the significant reduction of GHG emissions, by reducing the burning of fossil fuels the project will improve air quality in the region. It also employs full-time staff from local communities. A further benefit is provided by the project through the planting of 2,500 trees to compensate for the approximately 300 trees that were removed during the project's construction.

Business travel GHG emissions (tonnes of CO_2e)

1 Air travel	296
2013: 208	
2 Rail travel	41
2013: 56	
3 Car travel – own vehicles	1,618
2013: 1,823	
4 Company car fuel use	1,529
2013: 1,495	
5 Extracting, refining and transportation of raw fuel associated with business travel	710
2013: 740	


CRAGHOPPERS

Jane & Max

Helping Jane pay for her best friend's operation

"Last year I got the devastating news that my dog, Max, had been hit by a car. After a tense wait in the vet's surgery, the vet managed to save Max, but one of his back legs was in need of a serious operation. There was no way I could pay for the operation all at once so I contacted Provident to see if I could borrow the money and pay it back weekly. My agent Sheila was a godsend and talked me through the whole process. I was able to save Max, safe in the knowledge that my repayments were manageable."

1 Vanquis Bank

Introduction

Vanquis Bank is the leading provider of credit cards to people in the non-standard credit market. We promote financial inclusion, bringing credit cards to people who are typically declined by mainstream credit card providers. In doing so, we help people to establish or rebuild a credit history and enable 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.

Michael Lenora
Managing Director
Vanquis Bank

VANQUIS BANK

Non-standard credit cards

£151.0m
UK profit before tax

1,150
UK employees

£1.1bn
UK year-end receivables

1.3m
UK customers

£150–£3,500
Range of credit limits

Provident Financial Group

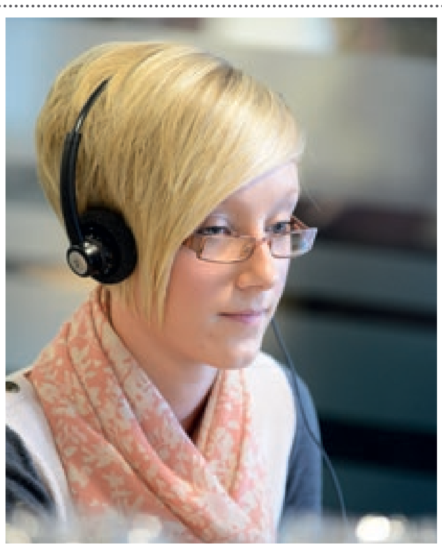
- 1 Vanquis Bank
  - Non-standard credit cards
- 2 Consumer Credit Division
  - Home credit
  - Online lending
- 3 Moneybarn
  - Non-standard car finance

Our strategy

Our strategy at Vanquis Bank is to be the leading non-standard credit card provider in the UK, delivering positive customer outcomes, sustainable growth and high shareholder returns.

To deliver our strategy, we continue to focus on:

- Clear credit management objectives to ensure that we maintain a good quality receivables portfolio with stable levels of impairment;
- Providing customers with a responsive, high-quality service throughout their time with Vanquis Bank, commencing with the unique welcome call to all new customers;
- Offering very straightforward and transparent credit card products with no balance transfers, teaser introductory rates, reward schemes, cashback or other features typical of mainstream lenders;
- Providing customers with the appropriate credit limit and no more, thereby maintaining relatively high levels of credit line utilisation to minimise the level of contingent liability;
- Ensuring that our operations are efficient and effective across all aspects of the customer experience from identifying and welcoming new customers, to ongoing customer service, collections processes and dealing fairly with customers who get into difficulty;
- Developing our products and distribution channels relevant to the markets in which we operate;
- Treating our customers fairly, managing conduct risk and ensuring that we comply fully with all applicable regulation;
- Developing our retail deposits programme; and
- Maintaining a minimum risk-adjusted margin (revenue less impairment as a percentage of average receivables) of at least 30%.



"For many customers, this is the first time they have used a credit card and so they are sometimes a little anxious about how it all works. I like knowing I can make a difference to them, talking things through on the phone and making sure they are comfortable. We make sure their credit limit is not too high and send them text reminders when payments are due to stop them being charged unnecessary interest."

Helen, Chatham call centre

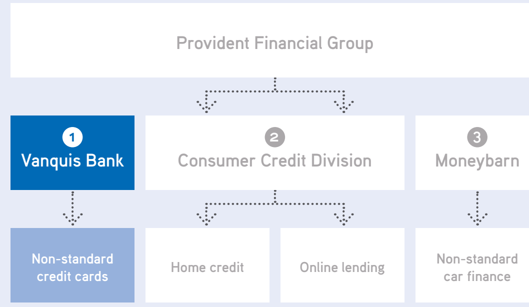
How the Vanquis Bank credit card works

Vanquis Bank operates a business model based on our common approach, but adapted to closely suit the needs of consumers in the non-standard credit card market.

What allows us to do what we do

What we do for our customers

The value this creates



VANQUIS BANK

Specialisation and focus on non-standard credit cards.

650 contact centre staff in two UK locations.

Full deposit-taking PRA and FCA regulated bank.

VISA card issuer status.

Industry standard outsourced credit card systems.

Over 10 years of direct experience in the UK non-standard credit card market since foundation.

Management team with depth of experience in non-standard credit cards.

World-class collections capabilities.

1. Simple non-standard credit card products with no prime offer, no teaser rates, no balance transfers, no reward programmes and no cashback offers.
2. Close customer contact from the outset, with a welcome call and multiple forms of immediate communication in the event of any issues arising.
3. Adopt a responsible and prudent 'low and grow' approach to extending small amounts of credit starting from £150, up to a maximum of £3,500.
4. Offer optional Repayment Option Plan (ROP) only after a customer has their card to allow them to manage any short-term payment difficulties smoothly and painlessly.

Financial inclusion and rebuilding of credit history for over 1.3 million credit card customers.

Improving credit scores whilst providing access to small credit lines over an average of four years with Vanquis Bank.

High levels of customer satisfaction.

Stable risk-adjusted margins through the cycle.

Strong growth from foundation in 2003 to over 1.3 million customers as competitors struggled with appropriate models and access to funding.

Good, safe returns for depositors.

Vanquis Bank continued

We have 12 years of experience in lending responsibly to our chosen target market. Our success is based on a clearly defined strategy and our tailored approach to serving customers in the non-standard credit market.

What is Vanquis Bank?

In many ways Vanquis Bank looks and operates like any other credit card provider:

- We are Visa-branded;
- Our cards are accepted at over 15 million locations;
- Customers enjoy up to a 56-day interest free period on new purchases;
- We use the internet for applications and customer service;
- We accept standard payment methods and issue customer statements; and
- We have contact centres to support our customers.

Our customers spend at many of the major merchants used by prime credit card providers, such as Tesco, Asda, Sainsbury's, Argos, Amazon and PayPal. However, our target customers have a very different profile to prime credit card users. Whilst they are typically employed, their incomes of between £20,000 and £35,000 are, on average, lower than a prime customer and most will have a credit profile which means they have limited access to, and use of, other forms of borrowing compared with prime customers. They are also much less likely to be home owners, with some three quarters living in rented accommodation.

Our customers value a Vanquis Bank credit card for a variety of reasons:

- It provides them with access to credit for the first time if they have a 'thin' credit history and no previous experience of taking out credit;
- They are seeking to rebuild their credit history after problems in the past;
- They value the inherent utility of a credit card, particularly accessing discounts and lower prices on the internet;
- Our customers often have a lack of trust in high street banking, having been declined or experienced financial difficulty in the past with high street banks; and
- They value our high personal contact model.

We have 12 years of experience in lending responsibly to our chosen target market. Our success is based on a clearly defined strategy and our tailored approach to serving customers in the non-standard credit market.

Why we are successful

Our success is built on our tailored approach, comprising a number of important strands which together provide us with a significant competitive advantage in our marketplace.

1. Our proposition

The Vanquis Bank credit card looks and feels the same as any other credit card but importantly we ensure that our product is straightforward, easy to understand and that there is no confusion or ambiguity in the eyes of customers. Accordingly, our core products do not offer short- term balance transfer offers, lower "teaser" or introductory rates which then turn into higher rates after a short period, rewards programmes which lock customers in or cashback offers to incentivise spending.

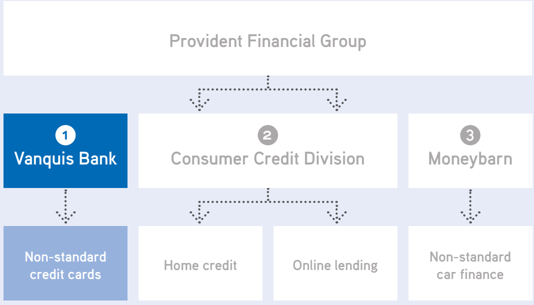
Our customers can also be reassured that Vanquis Bank, as a retail deposit-taking bank, is fully regulated by both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and has the support of a listed parent with a strong capital and liquidity position. As a result, we have well established and robust governance processes, including the oversight by three independent non-executive directors, to ensure that the business is operated in an appropriate and responsible manner.

Our product is designed to provide non-standard consumers with what they want – a sensible amount of credit provided in a responsible and sustainable way that helps them build or repair their credit score.

2. Innovating our channels to market

We have always successfully used the internet and direct mail channels to recruit new customers, and these continue to be our major source of new leads providing around 85% of new account bookings in 2014. However, we continue to develop new distribution channels to ensure that we remain the leading player in the market.

Towards the end of 2014, we commenced a pilot of a credit card with another high street retailer. This follows on from the successful launch of the Argos credit card in 2012 and we will continue to seek other retail partners in the future. We are also successfully using a face-to-face channel, whereby a Vanquis Bank representative introduces potential customers to the Vanquis Bank credit card. This is typically in high street or shopping centre locations, where there is sufficient footfall of potential Vanquis Bank customers.



We supplement our core Vanquis Bank credit card proposition with its 39.9% representative APR with a number of other brands at varying price points to increase our marketing reach. Aquis, Chrome, Black Diamond and Granite are all brand names which we currently use to attract new customers with APRs ranging from 29.8% to 59.9%.

Our continued success in developing our channels to market has resulted in us delivering record new account bookings of 430,000 in 2014, up from 411,000 in 2013, against unchanged credit standards. In light of this, we have reassessed the medium-term potential size of the business, increasing the customer target to between 1.5m and 1.8m customers with an average balance of approximately £1,000 from a previous target of between 1.3m and 1.5m customers with an average balance of between £800 and £1,000.

3. Underwriting capability

Our bespoke underwriting processes have been developed over the last 12 years. We have a conservative approach to risk which is reflected in our decline rates of around 75%. We have created multiple scorecards for each channel to market based on our extensive experience of dealing with non-standard consumers. When a customer applies, we first combine their application data with external credit reference data and process the information through our scorecards.

We supplement the underwriting process with a welcome call from one of our contact centre representatives. This distinguishes Vanquis Bank from other card providers and provides us with the opportunity to gather additional information which is useful to help manage the customer's account as well as establish a more personal relationship. It is an important element in verifying customer circumstances, including affordability, and of completing the underwriting process.

Central to our proposition is our 'low and grow' strategy. Our typical initial credit lines start between £150 and £1,000 which allows us to observe and understand the behaviour of our customers before granting any further lending in a responsible and sustainable manner. This allows those customers with a good payment record who can afford it to progressively improve their credit score and gain access to further credit during their time as a Vanquis Bank customer. Our maximum customer credit limit is currently £3,500.

Vanquis Bank has developed an unparalleled expertise in lending to the non-standard credit market in this way. This 'low and grow' approach has allowed the average customer balance to progress to £846 (2013: £780) whilst underlying credit quality has continued to improve.

4. High customer contact

The relationships with our customers are much, much closer than those of mainstream lenders. We genuinely value our customers and continue to develop new propositions to enhance levels of contact. Customers excluded by mainstream card issuers appreciate the more regular contact provided by Vanquis Bank, including the higher level of help and support provided from our contact centres in Chatham and Bradford.

High customer contact has helped us to maintain some of the highest levels of customer satisfaction in the industry with nine out of ten customers saying they would recommend Vanquis Bank. It is always our aim to treat customers fairly and quickly resolve any complaints that arise. This is reflected in the metrics published by the Financial Ombudsman Service (FOS) which show that of all complaints made to FOS, Vanquis Bank has a much better record than prime card issuers with a consistently high percentage resolved in its favour.

5. Collections processes

Collections are clearly an extremely important aspect of our business and we continue to develop new and innovative collection strategies.

We employ highly trained collections teams and our telephone-based operations use leading-edge technology and techniques. This includes the use of SMS texting to remind customers that their payment is due and contacting a customer immediately via telephone if they miss a payment. All of our processes are designed to help customers stay on track so that they can continue to enjoy the use of their credit card as well as supporting the collections performance of the business. Our success is demonstrated by our 'promise kept' rate – the number of payments actually received from a promise given by a customer – which is currently in excess of 75%, which we believe is 'best in class'.

Our employees are trained to manage the accounts of customers who are identified as vulnerable and support them accordingly. For those customers that get into financial difficulty, we have a range of payment plans to meet their differing requirements, helping them to get back on track. In addition, we offer customers an ROP product which, for a monthly fee, allows customers choosing to take ROP the ability to freeze their account for up to two years if they lose their job or experience certain other financial difficulties. ROP also allows those customers to have one default fee per annum waived and is very flexible as it can be cancelled at any time with one month's notice. These features allow customers to have greater peace of mind around their financial circumstances.

"I started my own business a couple of years ago, which has been going well for the most part. My Vanquis Bank card helps me to smooth out the peaks and troughs in my personal expenditure, allowing me to concentrate on my business.

Paul, London

"

Vanquis Bank continued

Our employees are trained to manage the accounts of customers who are identified as vulnerable and support them accordingly. For those customers that get into financial difficulty, we have a range of payment plans to meet their differing requirements, helping them to get back on track.

Financial performance

Vanquis Bank generated a profit before tax of £140.4m in 2014 (2013: £106.1m) analysed as follows:

	Year ended 31 December		
	2014 £m	2013 £m	Change %
Profit/(loss) before tax:			
– UK	**151.0**	113.7	32.8
– Poland	**(10.6)**	(7.6)	(39.5)
Total Vanquis Bank	**140.4**	106.1	32.3

UK

	Year ended 31 December		
	2014 £m	2013 £m	Change %
Customer numbers ('000)	**1,293**	1,099	17.7
Year-end receivables	**1,093.9**	861.3	27.0
Average receivables	**967.2**	739.1	30.9
Revenue	**465.6**	378.8	22.9
Impairment	**(144.9)**	(126.3)	(14.7)
Revenue less impairment	**320.7**	252.5	27.0
***Risk-adjusted margin*[1]**	***33.2%***	*34.2%*	
Costs	**(130.0)**	(104.3)	(24.6)
Interest	**(39.7)**	(34.5)	(15.1)
Profit before tax	**151.0**	113.7	32.8
***Return on assets*[2]**	***15.5%***	*15.5%*	

1 Revenue less impairment as a percentage of average receivables.

2 Profit before interest after tax as a percentage of average receivables.

Vanquis Bank has performed strongly in 2014, reporting UK profit before tax 32.8% higher than 2013. Further strong growth in the receivables book together with delinquency running at record lows have enabled the UK business to deliver a consistent return on assets of 15.5% (2013: 15.5%).

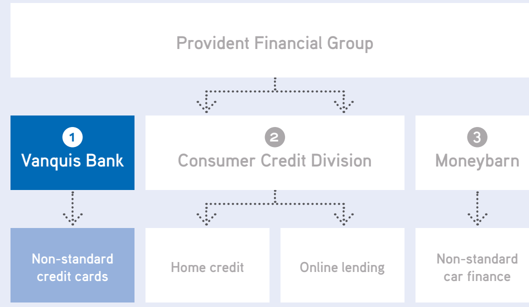
Demand for non-standard credit cards continues to be strong. Despite some increase in the marketing activity of competitors, further investment in the customer acquisition programme has allowed the business to deliver record new customer bookings of 430,000 (2013: 411,000), reflecting an acceptance rate of 25% (2013: 25%) against unchanged underwriting standards. As a result, customer numbers ended the year at nearly 1.3m, up 17.7% on the prior year.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 27.0% increase in year-end receivables to just under £1.1bn. The growth in receivables benefited from the introduction of upgraded credit line increase scorecards in March, following the decision to enhance the sourcing of credit bureau data. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of between 70% and 75% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk to the business from undrawn credit lines.

Against unchanged credit standards, Vanquis Bank's marketing programmes are successfully delivering an increased flow of new customers from its target audience. This has resulted in a reassessment of the medium-term potential for the UK customer base from between 1.3m and 1.5m customers to between 1.5m and 1.8m customers with an expected average customer balance of approximately £1,000.

The risk-adjusted margin has reduced by 1.0% to 33.2% over the past 12 months, comprising a 3.1% reduction in the revenue yield and a 2.1% reduction in the rate of impairment as explained below.

Although UK unemployment has shown a reduction over the last year, Vanquis Bank has, and will continue to, apply tight credit standards. The result is that the rate of delinquency has fallen to a new all time low for the business and produced a 2.1% reduction in the rate of impairment since the start of the year. Over the same period, the improving quality of the book has seen the revenue yield from interest and late and over limit fees reduce by a similar amount.



As previously reported, during the second half of 2013 Vanquis Bank changed the timing of the sale of its ROP product from the customer welcome call to the activation call, which is approximately one week later, and also made a number of enhancements to the product's features. As expected, these two changes have resulted in a moderation in the revenue yield earned by the business, and is the primary reason for the reduction of 1.0% in the risk-adjusted margin since December 2013.

In February 2014, Visa reached an agreement with the European Commission to reduce the interchange fees charged by credit card companies to retailers. Lower cross-border rates came into effect during 2014 and lower domestic rates are likely to come into effect in the last quarter of 2015. Interchange revenue is a less significant source of income for Vanquis Bank than for more mainstream credit card providers. The impact was not significant in 2014 but is expected to be £2m in 2015, increasing to a full year impact of around £9m by 2016, based on current volumes, as the reduced fees on domestic transactions take effect.

Based on current delinquency trends, the changes made to the ROP product and the recent changes to interchange fees, the risk-adjusted margin is expected to moderate to between 31% and 32% during 2015 and remain above the target of 30% thereafter.

Cost growth of 24.6% was well below receivables growth as the business continues to benefit from operational gearing. As previously reported, the business has relocated its central London premises to 20 Fenchurch Street in order to accommodate future growth. The lease on the new property commenced in April and the business incurred additional property costs of approximately £3m in 2014, of which approximately £2m was in respect of the new head office property.

Interest costs of £39.7m (2013: £34.5m) increased by 15.1% during 2014, compared with growth in average receivables of 30.9%. This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 6.4% in 2013 to 5.6% in 2014, due to the progressive benefit from taking retail deposits. Assuming market rates remain unchanged, Vanquis Bank's overall funding rate is expected to reduce further in 2015 as the proportion of funding provided by retail deposits increases.

Poland

The Polish pilot credit card operation has vigorously tested the Polish market since May 2012. This has included deploying talent from the UK business, recruiting senior Polish management with extensive local knowledge of marketing and sales channels and testing multiple revolving credit products and distribution. However, we have recently concluded that the timeframe required to develop a business of sufficient scale to achieve the group's target returns is too long and therefore not the best use of the group's capital. Accordingly, we have made the decision to withdraw from Poland and undertake an orderly run-off the receivables book.

Our conclusion to withdraw was based on a number of factors. Firstly, the main distribution channel remains through high street brokers rather than through online or direct marketing which are better suited to attracting credit card customers. As a result, the progress of the pilot in recruiting new customers has been slower than originally anticipated. Secondly, the credit reference data required to underwrite customers is fragmented, of variable quality and relatively expensive to collect. Finally, the regulatory environment remains uncertain, particularly in relation to the capping of non-interest charges at a time when the cap on interest rates set at four times the Lombard rate is just 12%.

At the end of 2014, the Polish pilot operation had 59,000 customers (2013: 25,000) and a receivables book of £15.5m (2013: £5.3m). The cost of the pilot during 2014 amounted to £10.6m (2013: £7.6m). We do not anticipate any material costs from withdrawing from the pilot operation during 2015 as the infrastructure leveraged significantly from the existing UK platform.

Looking ahead

2014 has been another excellent year for Vanquis Bank with further strong growth in UK customers, receivables and profits. Our customer satisfaction remains high at 84% and we also completed the move to new London headquarters at 20 Fenchurch Street during the year which will continue to provide the capacity for future growth.

We expect 2015 to be a further year of strong growth. We will continue to invest in developing our channels to market and growing the customer base and receivables in a sustainable and responsible manner. However, we remain focused on delivering high shareholder returns and we will not seek growth at the expense of diluting our returns or impacting our high levels of customer satisfaction. Even though the UK recovery is well underway, we will maintain the tight underwriting that has served us so well over recent years.

Looking beyond 2015, we expect the demand for non-standard credit cards in the UK to remain strong. The strength of our new booking volumes and the continued development of our channels to market, against unchanged credit standards, has meant that we have reassessed our medium-term potential. We have increased our medium-term target to between 1.5 and 1.8 million customers, up from the previous target of between 1.3 and 1.5 million, with an average balance of approximately £1,000. However, we do not view these targets as the 'end game' and will seek to continually enhance the potential for the business through developing our channels to market and product proposition. The rate of progress towards our targets will be dictated by future economic conditions, the potential emergence of increased competition and maintaining a minimum risk-adjusted margin of 30%.

The future for Vanquis Bank remains very bright:

- We have a core proposition which is tailor-made for the non-standard market, offering limited amounts of credit in a responsible, straightforward and sustainable way. We allow those consumers who may find it difficult to obtain credit elsewhere the opportunity to participate in modern day life through the utility offered by a credit card. Helping customers to repair or build their credit history is central to our proposition; and
- We are a profitable, growing, capital-generative business and we continue to see excellent growth opportunities for the business in the UK. Vanquis Bank will continue to be a major contributor to the future growth of the group's dividends and the overall returns provided to shareholders.

2 Consumer Credit Division

Introduction

The Consumer Credit Division (CCD) specialises in the provision of relatively small loans to people in the non-standard credit market. Provident, our home-collected credit business, which stretches back to the company's foundation in 1880, satisfies the demand of those who prefer a face-to-face service. Satsuma, our online weekly-instalment loans business, brings the benefit of small loans to those who prefer to handle their loans online but who still sometimes want personal contact.

Mark Stevens
Managing Director
Consumer Credit Division

Provident
Home credit

Satsuma loans.co.uk
Online lending

£103.9m
Profit before tax[1]

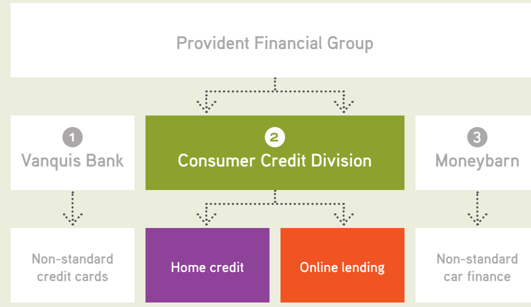
2,230
Employees

£0.6bn
Year-end receivables

1.1m
Customers

£100–2,500
Loan range

1. Stated prior to exceptional costs.



Our strategy

In the second half of 2013, in the face of difficult market conditions and given the evolution of the non-standard market, we developed a new strategy to reposition CCD over a two-year period.

The strategy involves the evolution to a broader lending business, not just a home credit provider. Our new strategy has four elements:

1

Update our home credit business and drive for returns

Our aim is to cement our market leadership in the home credit segment of the non-standard market by:

- Creating a smaller but leaner, better-quality, more modern business focused on returns; and
- Investing in people and technology to enable better customer service, standardisation of best practice, better collections performance, market-leading compliance standards and an efficient cost base.

2

Success in online loans with Satsuma

We aim to achieve a top-three market position within the medium term in the growing online segment of the non-standard loans market by:

- Applying our proven customer-centric approach;
- Using the best capabilities of CCD and Vanquis Bank to get the model right;
- Benefitting from payday market dislocation and clear, tighter regulations; whilst
- Achieving returns as good as home credit.

3

Continued product development

We will continue to seek out and pilot new opportunities to serve non-standard consumers with other products and services by deploying our considerable expertise and customer-centric business model. Our guarantor loans pilot commenced in 2014.

4

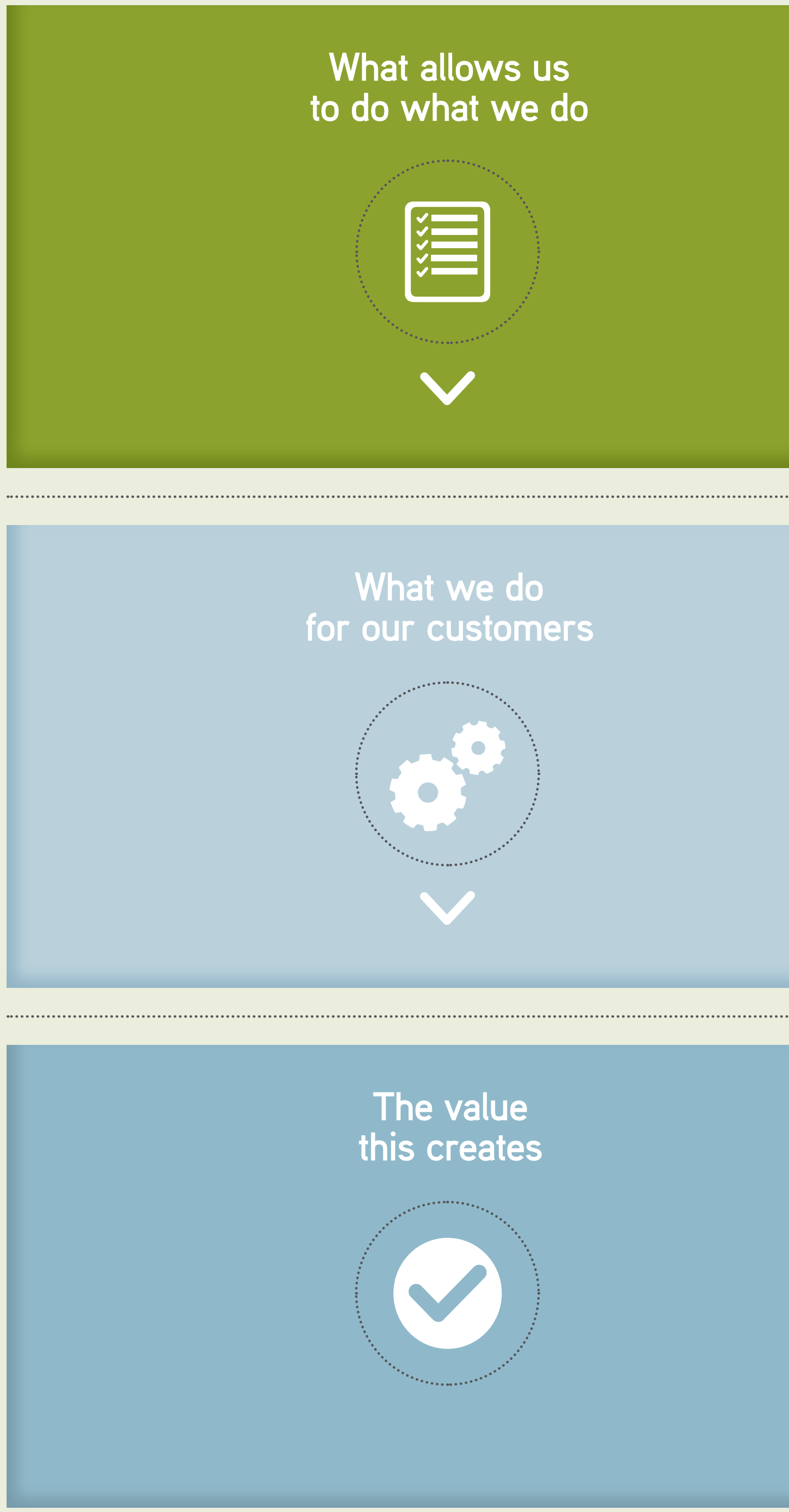
Delivering positive customer outcomes

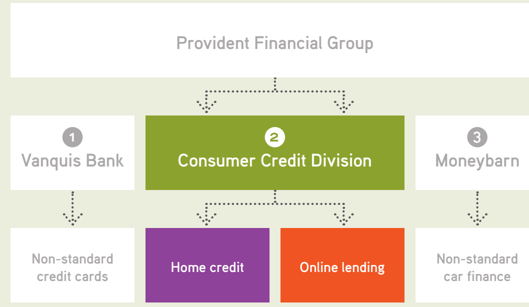
Our strategy is underpinned by:

- Lending responsibly and providing our customers with the right products and services in order to maintain our high levels of customer satisfaction; and
- Using all available information and technology to maintain high levels of compliance with applicable laws and regulations.

How the Consumer Credit Division works

CCD operates a business model based on our common approach, but adapted to closely suit the needs of non-standard consumers in the home credit and online instalment markets.





Provident

130 years of experience with home credit.

Nationwide coverage.

The vast majority of 7,700 self-employed agents using smartphones to conduct their round.

Over 1 million visits per week to over 3% of UK households.

2,230 staff in 300 branches using technology effectively.

1. Simple cash-based loans that come to the customer with nothing extra to pay, ever, no matter what happens.
2. Weekly home visit from self-employed, largely female, agents who collect and lend.
3. Skill and judgement of agent increasingly bolstered by sophisticated affordability assessment and credit scoring systems.
4. Weekly personal assessment of all customer situations and forbearance where necessary at no extra cost to the customer whatsoever.

Financial inclusion and in-built discipline and control for over 1 million customers.

Help for customers coping with cost of living pressures while wages remain subdued.

Improving quality of book as customer numbers fall.

Stable returns in a mature market.

Very high customer satisfaction.

Satsuma loans.co.uk

Long experience with non-standard customer needs as they move on from home credit.

Understanding of the fundamentals of lending that work for customers from home credit experience (small manageable payments, no penalties and transparent pricing).

Prices that are below the high-cost short-term credit (HCSTC) price cap from the outset.

1. Simple online loans with manageable payments and nothing extra to pay, ever, no matter what happens.
2. Close contact from the outset with a representative on the phone whenever a customer needs to talk to somebody.
3. Sophisticated credit scoring and affordability systems using a range of data sources to aid a responsible and sustainable 'low and grow' approach to lending.
4. No fees, charges or added interest whatsoever, along with forbearance when needed and a personal approach to online lending.

Better outcomes for customers, helping them to manage their tight budgets.

Lending that is far better suited to non-standard customer needs than typical online and 'payday' lending.

For customers for whom the home credit market is not suitable, a responsible and sustainable alternative to typical 'payday' and 'payday-style' lending and lender practices.

Strong growth opportunity in a market with large demand, poorly served by mainstream lenders and increasingly constrained 'payday' lenders.

Provident

We are the largest home credit business in the UK and Ireland. Every week, 7,700 local agents visit the majority of our 1.1 million customers, to issue loans and collect repayments. Even after 130 years, the business continues to fill a vital need for customers, providing access to credit for those who might otherwise be financially excluded and helping when others don't.

Why home credit works

Our home credit business is the group's longest-running business, stretching back to the company's foundation in 1880. It is a business that has stood the test of time, serving customers through thick and thin, including two world wars and numerous economic cycles.

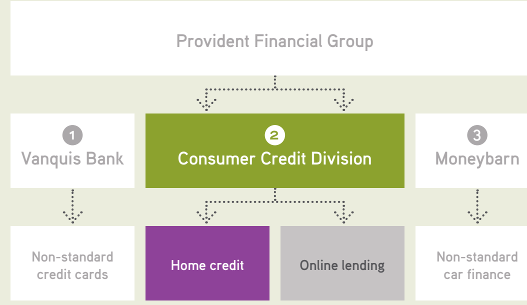
We are the largest home credit business in the UK and Ireland. Every week, 7,700 local agents visit the majority of our 1.1 million customers, to issue loans and collect repayments. Even after 130 years, the business continues to fill a vital need for customers, providing access to credit for those who might otherwise be financially excluded and helping when others don't.

In 2014, we merged our Greenwood Personal Credit business into our Provident Personal Credit business. At the same time, we took the opportunity to rebrand our home credit operations under one brand – 'Provident' – and to support the rebrand with TV advertising. We also ensured that our new logo includes reference to our business being established in 1880 which customers find very reassuring, particularly at a time when many alternative lenders have rapidly come and gone. We aim to promote the Provident brand more during 2015 to ensure that non-standard consumers looking for small loans recognise the benefits of borrowing from Provident.

Whilst we have rebranded our home credit business we have not changed the essence of our product or the way we serve our customers. The home credit service fits the needs of customers 'like a glove':

1. The products are simple and transparent with all costs included up front and no additional fees or charges whatsoever. 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.
2. The affordable weekly repayments suit those managing on tight weekly budgets and the agent's regular visit is not only convenient for the customer but also acts as a useful reminder to put the money aside for the repayment.
3. Forbearance is core to our product offering so that when customers get into difficulty they know they'll get a sympathetic response which could mean either making a reduced payment or missing a weekly payment altogether, depending on the circumstances.
4. The Provident service is face-to-face, with loans being delivered to customers' homes by self-employed agents who then usually call every week, or in some cases every month, to collect repayments. Agents often live in the same communities as their customers and understand their needs, developing an intimate knowledge of their circumstances through the weekly visit. Whilst central underwriting is also used, agents make the final lending decision as they can assess customer capacity and character in the home. Importantly, agents are paid commission primarily on what they collect, not what they lend, so they have no reason to lend more than their customers can afford to repay.

Provident's service is one that customers trust and positively want to use, which helps to explain why our customer satisfaction rates are consistently high. 93% of customers say they are satisfied with the Provident home credit service, and the vast majority say they would recommend Provident to family or friends.



> "I've been a Provident agent for years and so I've seen all the fads come and go. What has never changed is what customers value – no charges for late payments, small amounts repaid weekly and simple, transparent products."

Sue, Bradford

Progress against our strategy

The transition of the home credit business to a leaner, better-quality, modern business managed for returns involved the identification of five key areas for change. We identified that if we could successfully implement these changes then 2013 would be the baseline year for profits. 2014 would be a year of further change before we completed the transformation programme during 2015. This would then allow us to have a solid foundation to develop the business in 2016 and beyond.

It is very pleasing that the home credit business has made excellent progress during 2014 against each of these areas:

1. 'One Best Way'

Historically, there have been differing working practices spanning the 300 branches across the UK and Ireland. The absence of sharing best practice resulted in significant variations in branch and manager performance. Whilst there is still progress to be made, we have made great strides during 2014 in standardising our ways of working, particularly in arrears management, which has been assisted by the deployment of technology and investing in developing our best people, all of which is described further below.

2. Technology & apps

The programme of work to develop our technology through the use of smartphone and tablet apps to standardise best practice, access significant efficiency gains across the field operation and implement market-leading compliance as regulation migrates to the Financial Conduct Authority (FCA) is running well ahead of plan.

In February, the Android version of the collections app was released to supplement the iOS version which was rolled out from September last year. Over 95% of agents are now using their smartphones to conduct their round, up from around 30% at the start of the year, and much higher than the 80% target we set ourselves at the start of the year. We plan to have all of our agents using the collections app by the end of the first quarter in 2015. As well as standardising best practice, we estimate that the collections app saves approximately two to three hours of agent time a week, allowing them to spend more time with customers, as well as improving collections performance, arrears management and evidencing high levels of compliance.

A pilot of a lending app to support electronic loans documentation commenced in May and has now been extended to over 35% of agents. The app eliminates paper, saving a significant amount of agent and back office time, and allows the business to better enforce and evidence compliance. We anticipate 100% use of the lending app by the end of 2015.

In April, tablet devices were rolled out to field managers and have received very positive feedback. These devices effectively provide managers with a 'mobile office' and are starting to free up time, currently spent on office-based administration, for supporting and motivating agents as well as assisting with arrears cases.

Consumer Credit Division continued

Over 95% of agents are now using their smartphones to conduct their round, up from around 30% at the start of the year, and much higher than the 80% target we set ourselves at the start of the year.

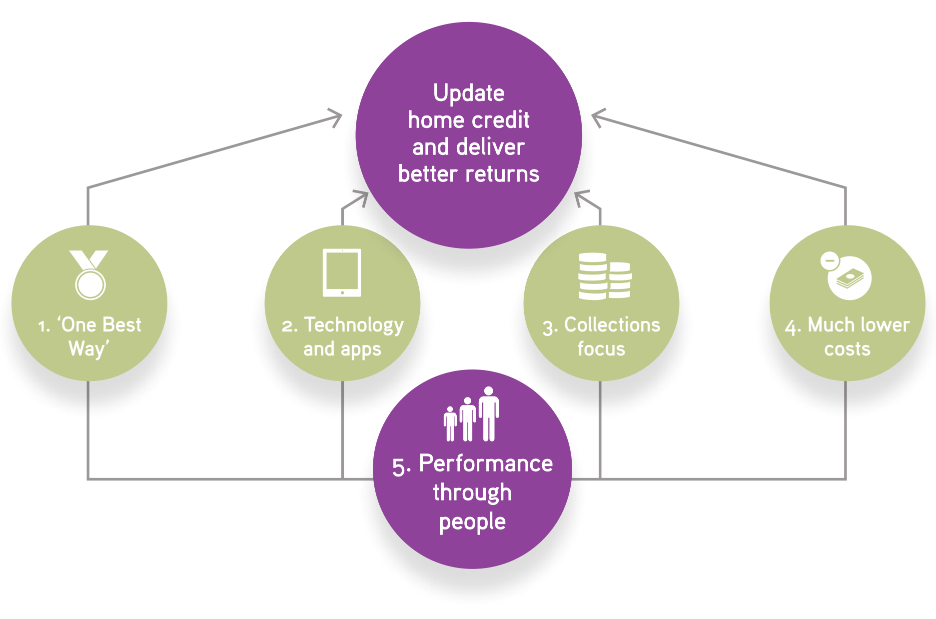
3. Collections focus

Historically, the business has delivered stable credit quality with the ratio of revenue to impairment remaining in a tight range of between 32% and 34%. However, in 2013 the ratio increased beyond this range due to a deterioration in the arrears profile during the first nine months of the year. As a result, underwriting standards for new customers were materially tightened in September 2013 and the business commenced the process of standardising arrears and collections processes, including a focus on early intervention and the better integration of field and central collections activities.

As a result of these decisive measures, the business experienced a marked improvement in the quality of the receivables book in 2014 with the ratio of impairment to revenue reducing significantly from 38.7% in 2013 to 30.0% in 2014. We anticipate further improvements in credit quality in the future as the standardised arrears processes become further embedded throughout the field organisation.

The implementation of tighter credit standards has resulted in a material contraction in the receivables book. In 2013, receivables reduced by 14.9% and have reduced by a further 20.5% in 2014, resulting in an overall 32.4% reduction over a two-year period. This compares with our initial estimate of a 25% reduction over the two-year period.

We are creating a smaller but leaner, better-quality, modern, more profitable home credit business focused on returns.



Provident Financial Group

1 Vanquis Bank — Non-standard credit cards

2 Consumer Credit Division — Home credit | Online lending

3 Moneybarn — Non-standard car finance

"Everyone knows kids don't come cheap and there always seems to be something extra to pay for! I've used Provident to buy school uniforms and last year we were able to get the boys new beds. It might not sound like much, but it has made a big difference to our family."

Emma, Leeds

4. Much lower costs

To ensure that profit levels in the business were at least maintained following the contraction in the receivables book, it was not only necessary for the quality of receivables to improve but the cost base needed to be reduced to reflect the lower volume of business.

Whilst job losses are always regrettable, during 2013 and 2014 we have implemented three phases of cost reduction:

Phase 1 – 180 field managers left the business in June 2013.

Phase 2 – 340 field and head office employees left in December 2013.

Phase 3 – 225 field administration employees left in June 2014.

The reduction in field administration employees in June 2014 was made possible by the programme to deploy technology throughout the field operation running well ahead of schedule.

The headcount reductions, together with other savings and volume reductions, have reduced the CCD cost base by over £28m during 2014. This has allowed the business to invest in developing Satsuma and the regulatory agenda whilst delivering stable profits.

5. Performance through people

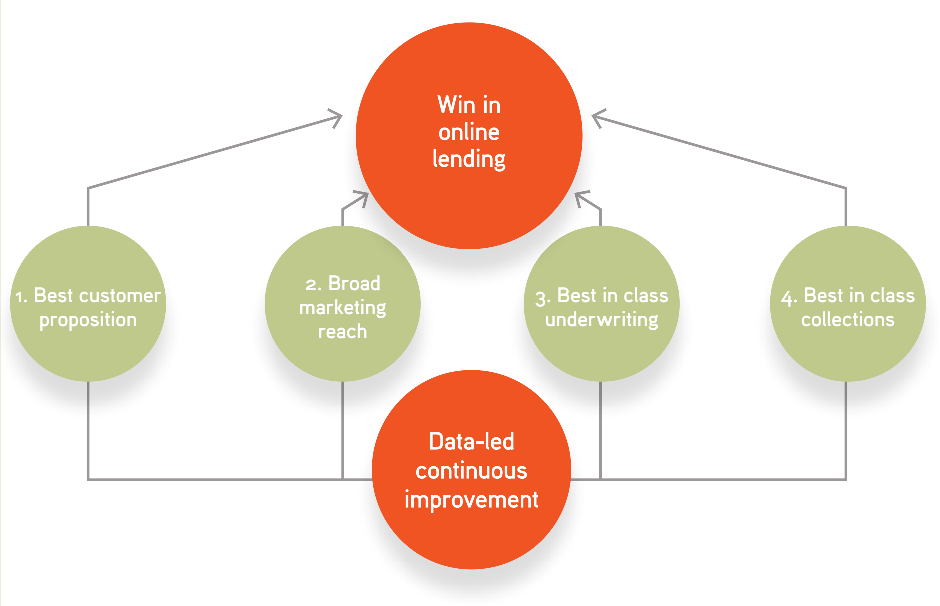
The profitability of an agency increases markedly as the agent gets more experience. As a result, we have significantly changed the way we attract, induct and support agents to drive higher retention and reduce agent turnover. We have also been combining agent rounds to remove less profitable agencies, which are a key driver of agent turnover as the agent's commission is often insufficient for their needs. These changes have resulted in a significant improvement in agent turnover and a halving in the number of vacant agencies.

We have introduced a new development agenda throughout the business to recruit, retain and develop better leaders in our management team. Formal leadership training for managers throughout the business is now well established and has been extremely well received. This will continue to pay dividends in the future.

Satsuma

We believe that Satsuma is a business capable of delivering returns comparable to the Provident home credit business and, very importantly, delivering good customer outcomes. We believe that a Satsuma loan is the best customer proposition in the market, closely aligned with home credit.

We will use our competitive advantage to achieve a top-three market position within two to four years.



Satsuma, our online direct repayment loans product, was launched in November 2013 as part of the repositioning of the CCD business to a broader-based lending business. Since its launch, we have been focusing on building our capability in order to develop a sustainable business with a strong market position capable of delivering the group's target returns.

We believe that Satsuma is a business capable of delivering returns comparable to the Provident home credit business and, very importantly, delivering good customer outcomes. We believe that a Satsuma loan is the best customer proposition in the market, closely aligned with home credit, and we are supporting it with a front-of-mind marketing proposition. Our underwriting and collections capability have been developed significantly over the last 12 months and we believe that they provide us with a competitive advantage in the fast-growing non-standard online loans market. Our experience through 2014 has shown us that the demand for online instalment loan products is strong and we are very excited about the excellent opportunity for Satsuma in this market.

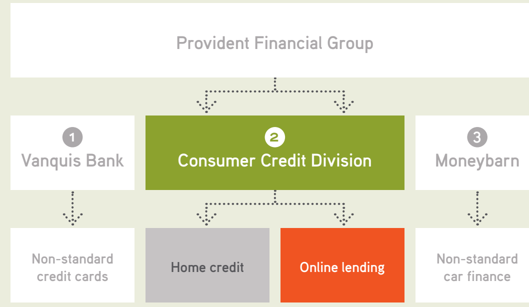
At 31 December 2014, Satsuma had 21,000 customers (2013: 9,000) and a receivables book of £5.0m (2013: £1.8m).

Market opportunity

The online loans market is estimated to be at least four times the size of the home credit market and is growing as customer preferences change. With the backdrop of clearer, tighter regulation around payday lending from 1 July 2014, there has been a shift in demand from payday loans to instalment loans as the restrictions on the use of rollovers and continuous payment authorities by payday lenders has taken effect. We have already seen a number of smaller payday loan companies exiting the market and larger operators are reconfiguring their business models. We expect that the introduction of a rate cap on high-cost short-term credit providers from 2 January 2015 will lead to a further shift towards instalment loans.

Target customer

Satsuma addresses those applicants of sufficient credit quality whose preference is to access small-sum credit online and make weekly or monthly repayments direct from their bank account without the need for an agent visit. It is specifically aimed at the significant audience of non-standard consumers in the segment of the market between Vanquis Bank and our Provident home credit business.



We will use our competitive advantage in the following areas to achieve a top-three market position within two to four years:

1. Proposition

The product proposition of Satsuma is based closely on the proven home credit customer-centric proposition. There are no extra charges whatsoever, even if payments are missed. Customers can have contact with a telephone representative and there are a number of forbearance procedures in place for those who get into financial difficulty. We believe that Satsuma meets customer needs better than payday lending and other instalment loan products currently in the market.

We initially launched the product with a maximum permitted loan amount of £300 for new customers and £800 for existing customers. However, as we have developed our underwriting and collections capability, we have recently increased these amounts to £1,000 for new customers and £2,000 for existing customers, subject to individual affordability checks.

We aim to further develop our product proposition in 2015. In particular, we will shortly be introducing a monthly product in addition to our current weekly product, to reflect that a number of our customers are paid monthly and would therefore prefer to pay via a monthly instalment rather than a weekly one.

2. Marketing

We have positioned Satsuma with a broad marketing reach. Our main focus is the open market but we are also targeting those consumers who do not want the home credit agent service, paid-up former customers of home credit and also those customers declined by Vanquis Bank who are not suitable for open-ended revolving credit. In addition, customers applying for a Satsuma loan who do not meet the higher underwriting criteria or cannot be remotely verified, are referred to home credit.

We are supporting the open market proposition with memorable front-of-mind branding and significant marketing spend. This includes a distinctive, customer-focused website which has a fresh look and feel and TV advertising. Our TV advertising to date has been based on the 'singing Satsuma' with two different adverts focused primarily on building the brand name.

Throughout 2014, we have trialled the adverts on numerous different TV stations and at different times of day to fine-tune our advertising strategy and improve response rates. We have also supplemented this with radio advertising on a regional basis. We have been very pleased with how the Satsuma brand name has developed with non-standard consumers and we have now changed the focus of our TV advertising to promote the core features of the Satsuma product and service rather than on brand name awareness-building. Our third TV advert was launched in January 2015.

3. Underwriting

Our initial underwriting combined the unique proprietary knowledge of issuing weekly loans in the home credit business and remote non-standard credit in Vanquis Bank. We supplemented this with external bureau data and have refined our scorecards for different sources as the business has developed. In October, we implemented enhanced affordability assessments as required by the FCA. These require lenders to verify customers' incomes and consider outgoings as part of the overall credit process. In November, we launched a new decision engine and scorecard which will allow us to include behavioural and social data in our credit decisioning going forward. The business has already experienced an improvement in conversion rates which has, in turn, allowed a step-up in marketing. As a result, weekly new business volumes increased by 50% in December. Consistent with both our Provident home credit business and Vanquis Bank, we are adopting a prudent 'low and grow' approach to issuing further credit.

Our conversion rate of applications has been steadily improving throughout the year and, following the implementation of the new scorecard in November, our current conversion rate has increased materially. We expect the conversion rate to improve further and this will be an important driver in determining the potential size of the Satsuma business.

Just like other Provident Financial businesses, we maintain close, ongoing personal contact with our customers through our telephone representatives which gives us a unique customer insight and provides our customers with peace of mind, knowing that they always have someone they can talk to.

4. Collections

During 2014, we successfully embedded our collections processes into the excellent collections capabilities of Vanquis Bank. Their contact centre representatives in Chatham are now engaged at an early stage to optimise collections performance and work closely with our customers. This will include using all aspects of their technology to contact customers either through the use of their contact centre and SMS capabilities, trace activity for customers where no contact can be made and, very importantly, utilising their extensive range of forbearance measures for those customers whose circumstances have changed.

Just like all of the group's businesses, working closely with our customers to ensure the best possible outcome is a fundamental part of our business and one which distinguishes us from the majority of other lenders in this market. We are very pleased with the progress made during 2014.

When we launched Satsuma we expected default rates to be higher than home credit, reflecting the benefit of the agent relationship within the home credit business model, despite the credit standing of a home credit customer being lower. However, as a result of our significant investment and development of our underwriting and collections capability during 2014, our default rates are currently running marginally ahead of our original forecast.

Guarantor loans – glo

In May 2014, as part of our continuing strategy to develop CCD into a broader lending business, we launched a pilot into the guarantor loans market to test whether a product could be established which is capable of delivering the group's target returns. The guarantor loans market is currently dominated by one large provider but it is a market that has seen considerable growth over recent years.

The guarantor loans proposition is additional and complementary to home credit and Satsuma, comprising larger, longer loans of between £1,000 and £7,000 repayable over a period of between one and five years. The customer is supported by a family member or friend with a good credit record who is prepared to guarantee the loan if the customer's circumstances change. CCD's proposition offers customers competitive pricing and a very customer-centric approach to forbearance, including the high levels of personal service that the group deploys in all its offerings.

We initially trialled the guarantor loans pilot under the brand name of 'Tandem' using only the broker channel. Since its launch, we have significantly developed the customer application and underwriting process through a test and learn approach to improve the overall customer journey. In addition, in November we launched a direct to consumer proposition through the development of a customer-friendly website and rebranded 'Tandem' as 'glo', short for 'guarantor loan option'. This was supported by a small investment in marketing spend, including a TV and radio campaign to test the level of demand and our ability to access the market opportunity. The results of the pilot will be evaluated during the first half of 2015.

CCD – Financial performance

CCD generated a profit before tax and exceptional costs of £103.9m in 2014 (2013: £102.5m) as set out below:

	Year ended 31 December		
	2014 £m	**2013 £m**	**Change %**
Customer numbers ('000)	**1,071**	1,511	(29.1)
Year-end receivables	**588.1**	740.0	(20.5)
Average receivables	**598.5**	725.8	(17.5)
Revenue	**591.1**	697.1	(15.2)
Impairment	**(177.5)**	(269.7)	34.2
Revenue less impairment	**413.6**	427.4	(3.2)
Revenue yield[1]	***98.8%***	*96.0%*	
Impairment % revenue[2]	***30.0%***	*38.7%*	
Risk-adjusted margin[3]	***69.1%***	*58.9%*	
Costs	**(275.8)**	(285.6)	3.4
Interest	**(33.9)**	(39.3)	13.7
Profit before tax[4]	**103.9**	102.5	1.4
Return on assets[5]	***18.1%***	*15.1%*	

1 Revenue as a percentage of average receivables.

2 Impairment as a percentage of revenue.

3 Revenue less impairment as a percentage of average receivables.

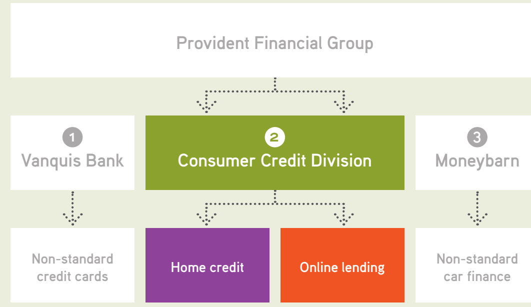
4 Profit before tax is stated before an exceptional cost of £3.4m (2013: £13.7m) in respect of a business restructuring.

5 Profit before interest and exceptional costs after tax as a percentage of average receivables.

CCD delivered profit before tax and exceptional costs 1.4% up on last year. This reflects strong execution against a challenging programme of work to transition the home credit business to a smaller but leaner, better-quality, more modern business focused on returns, whilst investing in the Satsuma online loans proposition. The success in delivering the strategy has resulted in a significant increase in CCD's return on assets from 15.1% in 2013 to 18.1% in 2014.

Whilst the disposable incomes of home credit customers have increased modestly over the last year, customer confidence remains relatively low. Accordingly, the demand for credit from better-quality, existing customers has remained relatively subdued for the majority of the year. In addition, the tighter credit standards implemented during the final quarter of 2013 have continued to restrict the recruitment of more marginal customers into the business. Consequently, customer numbers reduced by 29.1% during 2014 but the quality of the receivables book improved materially. This resulted in sales levels running 19% lower than the previous year during the first 10 months of the year. As expected, the anniversary of tighter credit standards saw the year-on-year sales shortfall moderate to around 9% during the last two months of the year, with the business also benefitting from the rebranding of the home credit business to 'Provident' in November and the associated TV advertising campaign.

Receivables at the end of 2014 were 20.5% lower than the prior year, less marked than the reduction in customer numbers due to the shedding of marginal customers and the corresponding focus on better-quality established customers. The revenue yield remained robust at 98.8%, up from 96.0% in 2013, due to a modest shift in mix towards shorter-term, lower-risk, higher-yielding lending.



The implementation of standardised arrears and collections processes coupled with tighter credit standards produced a significant improvement in arrears during 2014 and resulted in the ratio of impairment to revenue reducing from 38.7% in 2013 to 30.0% in 2014.

The increase in revenue yield and reduction in impairment produced a significant strengthening in the risk-adjusted margin from 58.9% in 2013 to 69.1% in 2014.

Business performance is benefiting from the programme of cost savings implemented primarily during 2013, which secured a year-on-year reduction in the cost base of 3.4%. This was achieved after reinvesting approximately £17m of the previously announced gross cost savings of £28m in enhancing IT, business and people development processes to support the repositioned home credit business, embedding the governance and regulatory framework required to transition CCD to the FCA and funding the start-up of Satsuma.

The programme to deploy technology throughout the field operation to support an improvement in productivity and reinforce compliance continues to run well ahead of schedule. This allowed a reduction in the field administration workforce of 225 in 2014 and resulted in cost savings of £2m in the second half of the year, rising to £4m in 2015, with no impact on customer service levels. An exceptional restructuring cost of £3.4m has been incurred in 2014 in respect of associated redundancy costs (2013: £13.7m).

Interest costs in 2014 were 13.7% lower than last year reflecting the 17.5% reduction in average receivables which has been partly offset by an increase in the funding rate for the business from 6.8% to 7.1%. The increased funding rate reflects CCD absorbing a greater proportion of the higher-cost, fixed-rate, longer-duration borrowings as the average retail deposits held by Vanquis Bank has increased during the year.

CCD – Looking ahead

2014 has been a year of excellent progress against our new strategy. CCD has undergone a transformational amount of change in deploying technology, standardising processes, launching new products, developing underwriting and collections capabilities, investing in systems and controls to deliver high standards of compliance with regulation and developing our people and talent. Yet we have also achieved an important goal which we set at the start of the year – we have delivered stable year-on-year profits and an increase in the return on assets.

In home credit, the transition to a leaner, better-quality, more modern business is running ahead of schedule. This has been an excellent achievement from all of our employees who have made this possible. The home credit market is mature but we are well placed to deliver excellent returns for our shareholders whilst continuing to serve our customers for many more years to come.

In Satsuma, we have developed strong capabilities at every part of the customer journey. We have utilised our core skills in both CCD and Vanquis Bank to lend responsibly and begin to build a sustainable business. The investment we have made in 2014 puts the business on a very sound footing and we believe it will achieve a monthly break-even during 2015 and then make a full-year profit contribution from 2016 onwards. We are confident that we will achieve a top-three market position over the next two to four years.

All of our actions in CCD are driven by the ethos of lending responsibly and providing our customers with the right products and services. Maintaining our high levels of customer satisfaction continues to be central to our business. We have a clear, focused and deliverable strategy and we have a strong management team with a combination of in-house experience and proven external track records to deliver it.

CCD remains a highly profitable and cash-generative business and the bedrock of the group's high dividend payout ratio.

3 Moneybarn

Introduction

Moneybarn is the market leader in the provision of finance to buy cars for people in the non-standard credit market, very often to help them get to work. Through careful consideration of customers' applications and comprehensive affordability assessments, Moneybarn is able to help those who may have had problems with credit in the past but who are now over those problems.

Peter Minter
Managing Director
Moneybarn

moneybarn
credit you can trust

Non-standard car finance

£15.0m
Profit before tax[1,2]

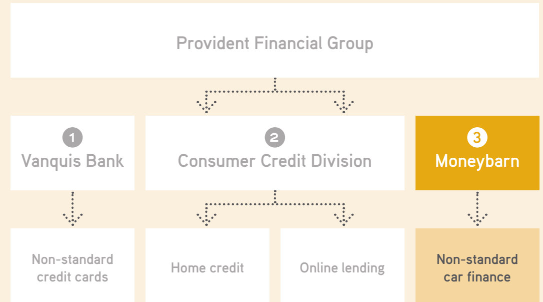
115
Employees

£151.7m
Year-end receivables

£9,000
Average loan

22,000
Customers

1. Pro forma result for the year ended 31 December 2014 based on applying the group's lower cost of funding to pre-acquisition results.
2. Stated prior to amortisation of acquisition intangibles and exceptional costs.



Our strategy

Moneybarn's strategy is to develop its position as the leading non-standard car finance provider in the UK, delivering positive customer outcomes, sustainable growth and high shareholder returns that meet the group's minimum thresholds.

To deliver our strategy, we continue to focus on:

- Using the group's balance sheet strength and funding lines to access the significant growth opportunity that exists in the non-standard vehicle finance segment in the UK;
- Maintaining our strong relationships with brokers and securing a position of primacy where appropriate;
- Developing our product proposition and our channels to market to access additional growth opportunities;
- Capitalising on the synergies available through the group's expertise in credit, marketing and collections as well as its customer footprint;
- Continuing to invest in and develop our IT infrastructure to maintain our market-leading credit decisioning and a smooth customer journey;
- Maintaining clear and consistent credit management objectives to ensure that we maintain a good quality receivables portfolio with stable levels of impairment;
- Offering straightforward and transparent vehicle finance products with no product add-ons or hidden charges;
- Treating our customers fairly throughout their relationship with us, managing conduct risk and ensuring that we comply fully with all applicable regulation; and
- Ensuring that we deal in a responsible and consistent way with customers who get into financial difficulty.

"I'm proud to be part of an organisation that really makes a difference to our customers' lives. Understanding whether a customer can afford a loan really is important to us and gets the relationship off to the best start. We understand that circumstances can change and if this happens it's great to be able to work with a customer to help them get back on track. I love the fact that we're making a difference.

Will, Moneybarn Customer Services Team

"

Moneybarn continued

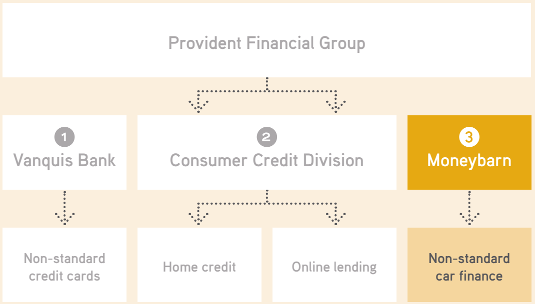
How Moneybarn loans work

Moneybarn operates a business model based on our common approach, but adapted to closely suit the needs of consumers in the non-standard used car finance market.

What allows us to do what we do

What we do for our customers

The value this creates



moneybarn
credit you can trust

Market-leader in non-standard used car finance with over 20 years of experience in the car finance market.

Provide finance for used cars, the primary use of which is to travel to work, bought through dealerships.

Focus on non-standard customers, less well served by mainstream and manufacturer-tied lenders.

Strong broker relationships maintained and built by consistent lending through the cycle.

Simple broker commission structures.

1. Simple hire purchase car finance with no add-ons or insurances focused on the needs of the non-standard second-hand car buyer.
2. Customer relationships established with a welcome call and maintained with individual discussions when issues arise.
3. Investment in automation and credit scoring systems where appropriate, building market-leading service levels with acceptance in principle decisions within four seconds of application.
4. Fairness is at the centre of all discussions with customers, always looking to keep the customer in their car if possible and looking for the best outcome for them overall.

Better outcomes for customers – helping people get to work.

More suitable product than unsecured lending.

Low level of upheld Financial Ombudsman Service (FOS) complaints.

High levels of customer satisfaction.

Strong growth opportunity in a market with large demand, poorly served by mainstream lenders through the cycle.

Primacy with key brokers to access the best leads available.

Moneybarn continued

We believe that Moneybarn is a great fit with the rest of the group. It is very well-positioned to take advantage of the strength of the group's balance sheet and funding lines as well as benefiting from the credit and marketing skills and customer footprint that reside in the group's other businesses to deliver significant growth going forward.

An introduction to Moneybarn

Moneybarn is Provident Financial's first acquisition since the demerger of the international business in 2007. The business shares the same ethos as the group's other businesses in providing access to credit for those who may find it difficult to source credit from other lenders.

The business was originally established in 1992 and initially started out life providing finance to aspirational owners of more expensive vehicles. The average amount lent was approximately £20,000. However, the business model changed significantly around the time of the credit crunch to focus on lower-value, more mainstream vehicle purchases. Significant investment was made in developing a bespoke IT platform to support efficient and effective broker and customer relationships and the management team was strengthened. The business was also successful in securing funding through the recession, unlike many of its competitors.

From 2010, the business enjoyed strong growth but from 2013 its origination of new loans became increasingly restricted by the funding constraints resulting from its ownership structure. In order to allow the management team to realise the growth opportunity in the non-standard car finance market, the owners decided to sell the business to Provident Financial in August 2014. The consideration was £120m which was satisfied by an equity placing of Provident Financial shares.

We believe that Moneybarn is a great fit with the rest of the group. It is very well-positioned to take advantage of the strength of the group's balance sheet and funding lines as well as benefit from the credit and marketing skills and customer footprint that reside in the group's other businesses to deliver significant growth.

1. The non-standard vehicle finance market

Moneybarn is the largest provider of non-standard vehicle finance in the UK, with an approximate market share of between 20% and 25%. Direct competition comes from around 10 other providers, the largest of which are Moneyway, First Response and Advantage.

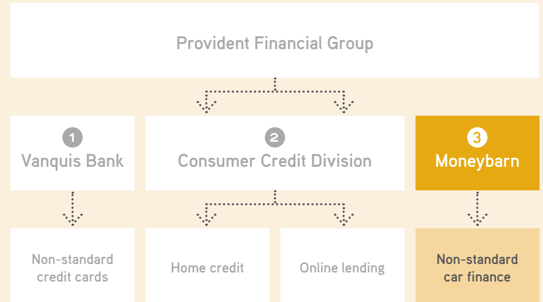
The non-standard vehicle finance market shrank considerably as a result of the credit crunch, as lenders reduced their lending, collapsed or exited the market. It has recovered in recent years but remains less than half of the size it was in 2007.

It is estimated that approximately half a million cars were purchased by non-standard individuals in the UK in 2013, of which about 10% were funded through car finance products with the remainder being funded through cash, loans from families and friends or other forms of credit such as personal and guarantor loans. 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 better value of specialist car finance relative to many other non-standard funding options.

We believe that there is considerable unmet demand in this market and that the market size will be determined principally by supply-side factors. Moneybarn, under the group's ownership, is very well placed to take advantage of this market opportunity.

"I had a few credit problems in the past when my marriage broke down. Even though that was a few years ago and I've now sorted everything out, I still found it very difficult to get a car loan. That's why it was so refreshing when Moneybarn gave me the help I needed."

Pete, Telford



"We often have conversations with our customers who have had difficulties with their finances in the past, but we find by being approachable, straightforward and honest, it incentivises them to do the same."

Jenny, Moneybarn

2. Customers

Our customers are very similar to Vanquis Bank customers. They have a thin or impaired credit history and often find it difficult to access credit from more 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. They are more likely to be male than female.

Surveys of our customers show that they are very satisfied with the service provided by Moneybarn and our complaints levels are very low. Like the rest of the group, this is an intrinsic part of our business model and strategy.

3. Product

We offer secured car loans in a responsible manner through conditional sales contracts. Formally, the vehicle is owned by Moneybarn until the final instalment has been paid by the customer. Over 90% of our deals are for used vehicles.

The car is typically used by our customers for everyday necessities such as travelling to work rather than for leisure purposes. Our ethos is to help ordinary people get to work. Currently, all of our lending is against cars and we don't provide credit for other vehicle classes, such as light commercial vehicles. Product diversification will be explored for future growth potential.

Our contracts are typically for between four and five years with instalments paid monthly. The average value of a loan is approximately £9,000 and the representative APR is 32%. We do not sell any ancillary products, such as PPI or GAP insurance, and we do not have hidden fees or charges, demonstrating a strong cultural fit with the group.

Moneybarn typically requires customers to pay a deposit and has historically lent up to the trade value of the vehicle. We have also recently started lending between trade and retail value. Historically, the loan has been required to be greater than £5,000 and the vehicle to have mileage of less than 100,000. The minimum loan amount was very recently reduced to £4,000 and we continue to explore opportunities to develop and extend our product offering.

An important part of our success at Moneybarn is our people. We have an experienced and respected management team who are all remaining with the business under the Provident Financial umbrella. They are very well supported by our passionate and motivated employees who play a vital role in ensuring that we serve our customers in the best possible way.

4. Distribution channels

The primary source of our new customer leads is through a network of well-established brokers. They value our service levels, technology and the excellent relationships that we forge with them. This is reinforced by approximately 60 staff based within brokers dedicated to Moneybarn business.

Brokers earn commission for each lead that they provide which results in a loan being issued. Customers using a broker can source their vehicle from any car dealership.

We also source leads through independent car dealers and a very small number from our own website **www.moneybarn.com**. We do not have our own dealership network which sells vehicles. We only provide finance.

Going forward, we aim to explore synergies with the group to develop a more well-defined business to consumer proposition and, in particular, seek to develop the synergies available with the Vanquis Bank customer base.

5. Underwriting and collections

We believe that we have developed market-leading credit decisioning. Our underwriting is highly automated which allows for rapid profiling and provisional approval of customers, providing us with a competitive advantage. Our credit science is based on a combination of external credit bureau data, our own proprietary scorecards and policy rules. The underwriting process includes robust affordability assessments, including obtaining proof of income, to ensure that we only lend when it is responsible to do so.

Collections are normally made through fixed monthly direct debit payments. If a customer gets into financial difficulties during the term of the loan, then our customer services team will work closely with the customer to help them get back on track. This may include a temporary payment arrangement for short-term financial difficulties. However, for those customers that demonstrably can no longer afford the ongoing repayments, the most appropriate exit strategy is often through the repossession and sale of their vehicle to settle their loan before the vehicle depreciates further.

We believe that our approach to collections is clear and fair and surveys of our customers support this.

Our default rates and collections performance have remained very consistent since the change in focus of our business in 2010. Our impairment charge represents approximately 3% of receivables. Consistent with Vanquis Bank, we recognise an impairment provision as soon as one contractual monthly payment is missed.

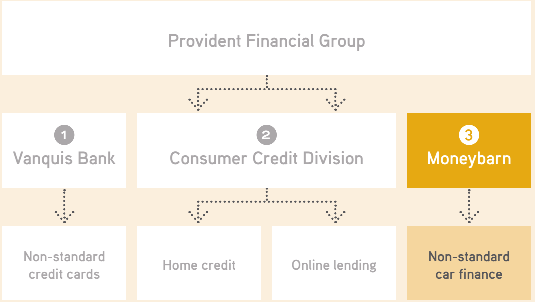
6. Infrastructure

At Moneybarn we have a highly scalable IT platform that supports the end-to-end customer journey. We were the first lender in the market to adopt automated underwriting decision making. Our IT system is completely bespoke, having been developed in house, and our in-house IT team is able to respond quickly to business requirements and ensure that we remain at the forefront of technology.

We have a strong cultural appetite for compliance and meeting our regulatory obligations. Paramount to this is treating customers fairly. The new and used car finance market is now regulated by the FCA and we are well underway in implementing our transition plan in order to submit our application for full authorisation in the first half of 2015.

An important part of our success at Moneybarn is our people. We have an experienced and respected management team who are all remaining with the business under the Provident Financial umbrella. They are very well supported by our passionate and motivated employees who play a vital role in ensuring that we serve our customers in the best possible way.

We are currently investing in our people and additional headcount to support our future growth, meet the higher regulatory standards under the Financial Conduct Authority (FCA) and to bring our governance processes more in line with those of the rest of the group.



Financial performance

Moneybarn has contributed a profit before tax, amortisation of acquisition intangibles and exceptional costs of £5.8m in the four months following its acquisition. The results for the four months, together with the pro forma results for the 2014 financial year restated to apply the group's lower cost of funding to pre-acquisition results, are set out below:

	Post-acquisition Four months ended 31 December 2014 £m	Proforma[1] Year ended 31 December 2014 £m
Customer numbers ('000)	**22**	22
Year-end receivables	**151.7**	151.7
Average receivables	**143.4**	135.1
Revenue	**13.8**	38.0
Impairment	**(1.2)**	(4.7)
Revenue less impairment	**12.6**	33.3
***Risk-adjusted margin*[2]**		*24.6%*
Costs	**(4.2)**	(11.1)
Interest	**(2.6)**	(7.2)
Profit before tax[3]	**5.8**	15.0
***Return on assets*[4]**		*12.9%*

1 Restated to apply the group's lower cost of funding to pre-acquisition results.

2 Revenue less impairment as a percentage of average receivables.

3 Profit before tax for the four months ended 31 December 2014 is stated before the amortisation of acquisition intangibles of £2.5m and an exceptional cost of £3.9m in respect of acquisition-related expenses.

4 Profit before interest, the amortisation of acquisition intangibles and exceptional costs, after tax as a percentage of average receivables.

Moneybarn has performed well, delivering results in line with the internal plans established immediately on acquisition. New business volumes have picked up significantly as a result of access to the group's funding. This has allowed the extension of the product offering to lend up to retail value, reinforcing Moneybarn's primacy across its broker network. Average monthly volumes in the last four months of the year were approximately 1,000 compared with around 730 in the first eight months of the year and around 670 in the corresponding four-month period last year.

Default rates have remained stable and are consistent with the levels incurred in the previous 18 months. This has enabled the business to deliver a risk-adjusted margin for 2014 as a whole of 24.6%, in line with the ratio of 25% communicated at the time of the acquisition.

The business is investing in additional headcount to support future growth, meet the higher regulatory standards under the FCA and to bring governance processes in line with those of the rest of the group. Headcount has increased from 90 at the end of August to 115 at the end of December and is expected to increase to approximately 150 by the end of 2015.

Moneybarn is a high returns business and generated a pro forma return on assets of 12.9% for 2014 as a whole.

Looking ahead

2014 has been a significant year in Moneybarn's history. Becoming part of the Provident Financial group offers us exciting opportunities for further growth and for us to help more non-standard credit market consumers get access to the car they need for everyday life. The increased volume of new business written over the last four months of the year is very encouraging and leaves us well placed as we enter the new year.

2015 is set to be another exciting year as the business is embedded within the group and we take advantage of the growth opportunity available to us. The team's main priorities for 2015 are:

- Using the group's balance sheet strength and funding lines to accelerate growth and capture the market opportunity available in the non-standard car finance market;
- Continuing to develop our product proposition by extending lower-value lending and other potential channels;
- Exploring the potential synergies available with the rest of the group in credit, marketing and collections, as well as bringing the benefits of Moneybarn vehicle finance to the Vanquis Bank customer base;
- Investing further in our infrastructure and IT to support our growth targets, ensure that our IT capability remains a competitive advantage and bring our governance and controls up to the very high standard across the rest of the group; and
- Effectively managing the process of obtaining full authorisation from the FCA and continuing to ensure that our business produces positive customer outcomes.

We are delighted with the start that Moneybarn has made since becoming part of the group. The highly scalable platform, the strong broker relationships and the quality and enthusiasm of our management team and employees gives us confidence that we will develop into a very important contributor to the future growth in the group's earnings.

Financial review

"Delivering high returns remains at the heart of the group's financial model and drives the group's strategy."

Andrew Fisher
Finance Director

The group's financial strategy is to invest in businesses that generate a high return on capital in order to provide high returns to shareholders.

To support the delivery of this strategy, the group operates a strict financial model that aligns dividend policy, gearing and growth plans.

The financial model has been developed to ensure that the group maintains a robust capital structure, providing a comfortable level of headroom against banking covenants, including the gearing covenant of 5.0 times, and the regulatory capital requirements set by the Prudential Regulation Authority (PRA).

The strong capital generation of the businesses in which the group invests supports the distribution of up to 80% of its post-tax earnings by way of dividend. This allows the business to retain sufficient capital to support receivables growth consistent with management's medium-term growth plans and a maximum gearing ratio of around 3.5 times. The financial model is underpinned by the group's consistent application of prudent and appropriate accounting policies.

High returns businesses

Dividend policy	Gearing	Growth
Cover ≥ 1.25x	≤ 3.5x versus covenant of 5.0x	Supports receivables growth of £230m+

How this works in practice:

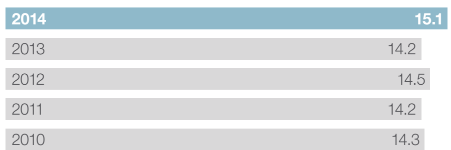
- 2014 ongoing pre-tax profit amounts to £254m (prior to the amortisation of acquisition intangibles and exceptional items and after including Moneybarn pro forma profits for the full year and excluding Vanquis Bank Poland losses) which equates to a profit after tax of £200m (tax at 21.8%);
- Dividend cover in 2014 is 1.35 times which amounts to dividends of £148m (£200m/1.35).;
- Equity retained in the business to fund growth equals £52m (£200m less £148m);
- Target gearing ratio of 3.5 times allows debt funding of £181m (£52m multiplied by 3.5);
- Provides total funding and capital for receivables growth of £233m (£52m plus £181m); and
- Pre-tax profit in excess of £254m allows dividends to be increased and receivables growth in excess of £233m.

Table 1: **Calculation of ROA**

	2014			2013		
£m	Vanquis Bank (UK)	CCD	Group	Vanquis Bank (UK)	CCD	Group
Adjusted profit before tax[1]	**151.0**	**103.9**	**234.4**	113.7	102.5	196.1
Interest	**39.7**	**33.9**	**77.7**	34.5	39.3	74.2
Adjusted PBIT	**190.7**	**137.8**	**312.1**	148.2	141.8	270.3
Taxation (21.5%/22.7%)	**(41.0)**	**(29.6)**	**(67.1)**	(33.6)	(32.2)	(61.4)
Adjusted PBIAT	**149.7**	**108.2**	**245.0**	114.6	109.6	208.9
Average receivables	**967.2**	**598.5**	**1,623.9**	739.1	725.8	1,468.6
ROA	**15.5%**	**18.1%**	**15.1%**	15.5%	15.1%	14.2%

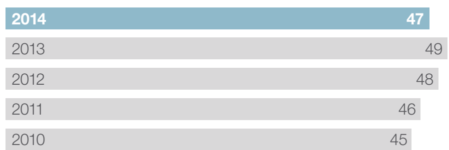
1 Prior to the amortisation of acquisition intangibles of £2.5m (2013: £nil) and exceptional costs of £7.3m (2013: £13.7m).

ROA* (%)



*Prior to amortisation of acquisition intangibles and exceptional items.

ROE* (%)



*Prior to amortisation of acquisition intangibles and exceptional items.

Strategic report

Returns

Delivering high returns remains at the heart of the group's financial model and drives the group's strategy.

Following the acquisition of Moneybarn and the development of Satsuma, management is now assessing the relative performance of each business through a return on assets (ROA) measure. 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.

The group calculates ROA as profit before interest, amortisation of acquired intangibles and exceptional costs, after tax divided by the average receivables during the period. Table 1 sets out the calculation of ROA in 2014 and 2013.

The table excludes Moneybarn as it has only been under the group's ownership for four months. However, the business generated an ROA of 12.9% for 2014 as a whole. The table also currently shows the returns being generated by the Consumer Credit Division (CCD) as a whole as it is both difficult to separately allocate the CCD cost base to each business and it is meaningless to provide a separate ROA for Satsuma in this early stage of its development.

Vanquis Bank delivered an ROA of 15.5% in 2014, in line with 2013. The benefit from operational leverage has offset the impact of a lower margin following the changes made to the timing of the sale of Repayment Option Plan (ROP) and a number of its product features during the third quarter of 2013.

CCD's ROA has strengthened from 15.1% to 18.1% in 2014 as the measures to improve margins through tighter underwriting and better collections processes, together with the cost reduction measures, have generated stable year-on-year profits on a smaller, better-quality receivables book. The ROA has been delivered despite the investment in building the capability at Satsuma and enhancing IT, business and people development processes to support the repositioned home credit business, and embedding the governance and regulatory framework required to transition CCD to the Financial Conduct Authority (FCA).

The group's overall ROA has increased from 14.2% in 2013 to 15.1% in 2014, reflecting the improvement in CCD returns.

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 costs) 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 2 sets out the calculation of ROE in 2014 and 2013.

The group's ROE of 47% in 2014 is lower than 49% in 2013, principally due to the £120m of equity raised to fund the acquisition of Moneybarn to preserve regulatory capital.

Table 2: **Calculation of ROE**

£m	2014	2013
Adjusted profit before tax[1]	**234.4**	196.1
Tax	**(50.4)**	(44.6)
Adjusted profit after tax	**184.0**	151.5
Shareholders' equity	**613.0**	416.8
Pension asset	**(56.0)**	(29.2)
Deferred tax on pension asset	**11.2**	5.8
Hedging reserve	**3.4**	5.1
Proposed final dividend	**(91.6)**	(73.6)
Adjusted equity	**480.0**	324.9
Average adjusted equity	**391.1**	311.8
ROE	**47%**	49%

1 Stated prior to the amortisation of acquisition intangibles of £2.5m (2013: £nil) and exceptional costs of £7.3m (2013: £13.7m).

Acquisition of Moneybarn

The group completed the acquisition of Moneybarn, the UK's largest non-standard vehicle finance business, on 20 August 2014 for consideration of £120m. The consideration was satisfied by the payment of £120m in cash on completion to the Moneybarn shareholders, funded through the proceeds of a placing of new ordinary shares in Provident Financial plc with institutional investors.

The goodwill arising as a result of the acquisition amounted to £71.2m as follows:

	£m	£m
Proceeds from equity placing		**120.0**
Net liabilities on acquisition on an IFRS basis	**(2.3)**	
Fair value adjustments:		
Intangible asset – broker relationships (1)	**75.0**	
Expected losses on receivables (2)	**(3.8)**	
Debt break costs (3)	**(5.0)**	
Tax (4)	**(15.1)**	
Fair value of net assets		**48.8**
Goodwill		**71.2**

Prior to acquisition, Moneybarn reported under UK GAAP. A detailed conversion of Moneybarn's financial statements to IFRS has been completed post acquisition which reduced Moneybarn's net assets on acquisition by approximately £11m, principally in respect of: (i) higher impairment provisions due to the impact of discounting future expected cash flows at the effective interest rate; and (ii) a change in policy in respect of the deferral of the acquisition costs of new accounts.

The fair value adjustments applied to Moneybarn's IFRS net liabilities comprise:

1. £75.0m has been attributed to the fair value of Moneybarn's existing broker relationships which are an important influence on the revenue-generating capacity of the business. The intangible asset has been calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and will be amortised over an estimated useful life of 10 years. Moneybarn's trading results and the group's earnings are disclosed both prior to, and after, the effect of the amortisation of acquisition intangibles to show the underlying profitability of the business.
2. An adjustment to receivables of £3.8m has been made to reflect the fair value of the receivables book. This adjustment principally relates to the expected losses on those accounts which are not yet in arrears and therefore have not yet attracted an impairment provision under IAS 39 'Financial instruments: Recognition and measurement'. Expected losses are currently only taken account of as part of the calculation of fair value on acquisition of a receivables book in accordance with IFRS 3 'Business combinations'. Expected loss provisions have not been established on new Moneybarn accounts originated post acquisition in line with both the group's accounting policies and IAS 39.
3. The existing Moneybarn borrowings were refinanced shortly following acquisition, utilising the group's existing committed facilities at a substantially lower cost of funds. The fair value of debt on acquisition has been increased to include the break costs of £5.0m which were incurred in settling Moneybarn's existing debt.
4. The tax effect of the above adjustments of £14.1m together with £1.0m of additional potential liabilities which were not provided against at the acquisition date have been made.

The goodwill of £71.2m represents the benefit of the group's lower cost funding and synergies available from the acquisition in respect of underwriting, collections and distribution channels. In accordance with IFRS3, goodwill is not amortised but is subject to an annual impairment review.

Costs of £3.9m associated with the acquisition, including due diligence, legal, advisory and tax fees have been charged as an exceptional costs in 2014. Costs of £3.1m associated with the placing of ordinary shares to fund the acquisition have been deducted from the share premium account.

Moneybarn generated a profit before tax, amortisation of acquired intangibles and exceptional items of £5.8m in the four months following acquisition. On a pro forma basis, after restating Moneybarn's pre-acquisition funding rate of 10% to the group's lower marginal cost of funding of 5%, the business generated a full-year profit before tax, amortisation of acquisition intangibles and exceptional costs of £15.0m in 2014.

Table 3: **Reconciliation of retail deposits**

	2014 £m	2013 £m
At 1 January	**435.1**	327.4
New funds	**190.7**	187.7
Maturities	**(69.7)**	(114.9)
Retentions	**26.6**	31.8
Cancellations	**(8.9)**	(3.2)
Capitalised interest	**6.5**	6.3
At 31 December	**580.3**	**435.1**

Table 4: **Committed borrowing facilities**

	Maturity	£m
Bank facility	2018[1]	**382.5**
Bonds and private placements:		
Senior public bond	2019	250.0
M&G term loan	2016–2021	100.0
Other sterling/euro medium-term notes	2015–2018	27.8
Retail bond 2010	2020	25.2
Retail bond 2011	2016	50.0
Retail bond 2012	2017	120.0
Retail bond 2013	2021	65.0
Residual subordinated loan notes	2015	6.0
Total bonds and private placements		**644.0**
Vanquis Bank retail deposits	2015–2019	**580.3**
Total committed facilities		**1,606.8**
Borrowings on committed facilities		**1,495.3**
Headroom on committed facilities		**111.5**
Retail deposits capacity[2]		**342.2**
Funding capacity		**453.7**

1 After taking account of the one-year extension to the syndicated bank facility in January 2015.

2 Based on the Vanquis Bank intercompany loan from Provident Financial plc of £342.2m as at 31 December 2014.

Moneybarn is a high return on capital business and, as such, there will be no change to the group's financial model or dividend policy.

Funding and liquidity

The group's funding strategy is to maintain a secure, prudent and well-diversified funding structure at all times. Central to delivery of this strategy is maintaining the gearing ratio at a maximum of 3.5 times, which provides a comfortable buffer compared with the relevant bank covenant of 5.0 times.

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:

- 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 group's funding and liquidity policy is designed 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. Vanquis Bank is unable to provide finance to other divisions or Provident Financial plc.

Group committed borrowings at the end of 2014 were £1,495.3m compared with £1,277.3m at the end of 2013. Borrowings have increased during the year primarily due to the refinancing of Moneybarn's debt of approximately £150m, using the group's facilities and the strong growth in Vanquis Bank's UK receivables of approximately £233m during the year, partly offset by the contraction in the CCD receivables book of £152m.

At the end of 2014, the group had committed borrowing facilities of £1,606.8m (2013: £1,512.5m). These facilities provided committed headroom of £111.5m as at 31 December 2014 (2013: £235.2m) with an average period to maturity of 3.1 years (2013: 3.2 years).

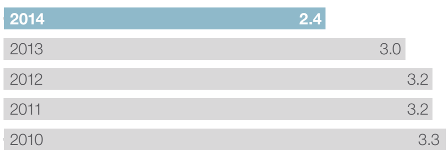
On 31 January 2014, the group entered into a new £382.5m syndicated bank facility maturing in May 2017 and cancelled the existing facility of £382.5m which was due to expire in May 2015. The syndicate comprises the group's core relationship banks and the all-in cost of funds was lower than the cancelled facility with broadly consistent terms, conditions and covenant package. The group exercised its option in January 2015 to further extend the maturity of the syndicated bank facility from May 2017 to May 2018. In addition, the extension was accompanied by a reduction in the interest margin which is expected to reduce the 2015 interest charge by approximately £1m.
After reflecting the extension of the syndicated bank facility, the weighted average period to maturity of the group's committed facilities increases from 3.1 to 3.3 years.

At the end of 2014, Vanquis Bank had taken £580.3m of retail deposits, up from £435.1m at 31 December 2013. A reconciliation of the movement in retail deposits during 2014 is set out in Table 3. The overall inflow of new funds through Vanquis Bank's retail deposits programme during 2014 was again relatively modest at £190.7m (2013: £187.7m), reflecting the high level of headroom on the group's committed debt facilities.

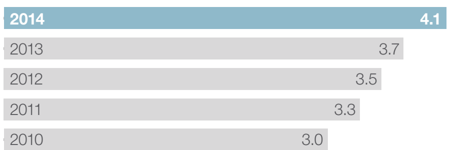
There were £69.7m of maturities during the year (2013: £114.9m), of which £26.6m were retained (2013: £31.8m). This represents a relatively low retention rate of approximately 38% (2013: 28%), in line with the positioning of the interest rates offered during the year.

Rates of between 1.51% and 4.65% (2013: 1.66% and 4.65%) have been paid on retail deposits during 2014 and the overall blended interest rate on the deposit portfolio in 2014 was 3.2% (2013: 3.8%). The average period to maturity of retail deposits at 31 December 2014 was 2.4 years (2013: 2.3 years).

Gearing (times)



Interest cover* (times)



*Prior to interest, amortisation, the movement in the fair value of derivative financial instruments, exceptional costs and tax.

The total balance held in fixed-term bonds or cash savings accounts is £145bn. The key determinant for depositors is the interest rate on offer. The 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 £342.2m at the end of 2014 (2013: £292.1m). 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.

The funding structure of the group's committed facilities as at 31 December 2014, after reflecting the recent extension of the syndicated bank facility, is shown in Table 4.

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 £453.7m (2013: £527.3m).

Excluding the retail deposits programme, maturities on the group's committed debt facilities in 2015 and 2016 are restricted to the repayment of £50.0m of retail bonds issued in 2011, £10.0m of private placements and £6.0m of residual subordinated loan notes. After assuming that Vanquis Bank funds its receivables with deposits and taking account of the extension of the syndicated bank facility in January 2015, the group's committed facilities are sufficient to fund both contractual maturities and projected growth until May 2018.

The group continues with its programme to consider opportunities to further diversify its funding base as well as extending the maturity profile of its debt. As such, the group will continue to review the retail bond and private placement markets during 2015.

The group's blended funding rate in 2014 was 6.6%, reduced from 6.8% in 2013. This primarily reflects the lower blended cost of retail deposits of 3.4% in 2014 compared with 3.8% in 2013 and a marginal increase in the mix of retail deposit funding, which represents approximately 39% of the group's funding at the end of 2014 compared with approximately 34% in 2013. The group funding rate for 2015 is expected to continue to reduce to approximately 6% as the level of retail deposits increases and due to the lower margin on the syndicated bank facility.

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. Following the renewal of the syndicated bank facility in January 2014, the group's bank covenants remained substantially unchanged with the only exception being an increase in the minimum net worth covenant from £220m to £265m, reflecting the uplift in the net asset value of the group since the previous limit of £220m was set. Performance against these bank covenants at 31 December 2014 is set out in Table 5.

The group has comfortably complied with these covenants during 2014.

Table 5: **Performance against bank covenants**

Covenant		Limit	2014	2013
Gearing[1]		< 5.0 times	**2.4**	3.0
Net worth	**– group**[2]	> £265m	**571.6**	398.5
	– excluding Vanquis Bank[2]	> £140m	**287.0**	187.8
Interest cover[3]		> 2.0 times	**4.1**	3.7
Cash cover[4]		> 1.1 times	**1.31**	1.31

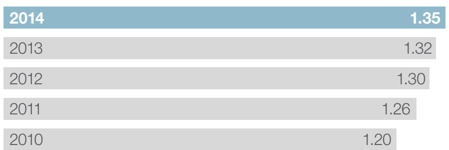
1 Borrowings less the liquid assets buffer and other liquid resources held in satisfaction of the PRA liquidity requirements divided by equity (excluding the group's pension asset, net of deferred tax, and the fair value of derivative financial instruments).

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 costs and tax divided by the interest charge prior to the movement in the fair value of derivative financial instruments.

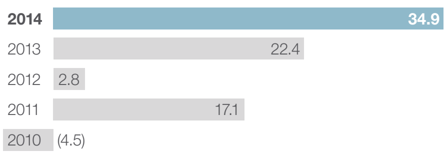
4 Cash collected divided by credit issued.

Dividend cover* (times)



*Prior to amortisation of acquisition intangibles and exceptional costs.

Capital retained/(absorbed) (£m)



Gearing has reduced from 3.0 times in 2013 to 2.4 times in 2014, against an internal maximum target of 3.5 times and a covenant limit of 5.0 times. The reduction over the last 12 months reflects:

(i) the Moneybarn acquisition being almost wholly funded through equity in order to preserve regulatory capital. Goodwill and intangible assets are a deduction from regulatory capital but remain part of the net asset base used in the calculation of gearing; and

(ii) the shrinking of the home credit receivables book resulting from the repositioning of the business. A full calculation of gearing is set out on page 146 in the financial and capital risk management section of the financial statements.

The group's credit rating was reviewed by Fitch Ratings in June 2014 and remains unchanged at BBB. A negative outlook was attached to the rating reflecting Fitch's requirement to fully understand the impact of Vanquis Bank representing the largest proportion of the group's profits. Accordingly, Fitch will observe the development of Vanquis Bank.

Capital generation and dividends

The group's strategy is to invest in businesses which generate high returns to support the group's high distribution policy. The group funds its receivables book through a combination of approximately 20% equity and 80% borrowings. Accordingly, the capital generated by the group is calculated as cash generated from operating activities, after assuming that 80% of the growth in customer receivables is funded with borrowings, less net capital expenditure. This is consistent with a maximum target gearing ratio of 3.5 times and maintaining an adequate level of regulatory capital. The group's dividend policy set at the time of the demerger of the international business in 2007 was to maintain a full-year dividend payment of 63.5p per share whilst moving to a target dividend cover of at least 1.25 times.

In the period from 2007 to 2010, the group absorbed capital in maintaining the group's dividend at 63.5p, whilst building the group's dividend cover to the minimum target of 1.25 times. In 2011, due to the growth in the group's earnings, dividend cover passed 1.25 times and the group generated more than sufficient capital to fund receivables growth and increase the group's dividend, whilst retaining surplus capital.

Table 6: **Capital generation**

	2014 £m	2013 £m
Operating cash flow	**221.5**	183.8
Interest paid	**(72.3)**	(70.0)
Tax paid	**(44.9)**	(39.6)
Net capital expenditure	**(17.9)**	(8.8)
Add back 80% of receivables growth funded by debt	**89.1**	73.8
Capital generated	**175.5**	139.2
Analysed as:		
Vanquis Bank	**70.2**	53.0
CCD	**115.0**	98.5
Moneybarn	**(1.3)**	–
Central	**(8.4)**	(12.3)
Dividends declared	**(140.6)**	(116.8)
Capital retained	**34.9**	22.4
Dividend cover*	**1.35**	1.32

* Prior to the amortisation of acquisition intangibles and exceptional costs.

Financial review continued

In the last three years, further growth in group earnings, together with continued strong capital generation, has enabled the group to increase its dividend broadly in line with earnings, deliver a dividend cover of around 1.30 times and retain net surplus capital in each year. Throughout this period the group's gearing ratio has been maintained below the maximum target of 3.5 times. In 2014, the group generated surplus capital of £34.9m (2013: £22.4m). Table 6 sets out an analysis by division.

On a divisional basis, Vanquis Bank generated £70.2m of capital during the year (2013: £53.0m), showing another strong year-on-year increase. The business is generating surplus capital over and above that required to fund its receivables growth and maintain sufficient regulatory capital. Accordingly, Vanquis Bank paid dividends to Provident Financial plc of £42.5m during 2014 and paid a further £39.0m subsequent to the year end.

CCD generated £115.0m of capital in 2014, up from £98.5m in 2013. The stronger capital generation in 2014 primarily reflects lower exceptional costs of £10.0m and a marginally higher release of capital from the reduction in the receivables book. CCD's capital generation in 2014 benefitted by £30m from the shrinkage in the receivables book and has cumulatively benefitted by £56m over the last two years. The business continues to be highly capital generative and provides the bedrock for the group's high dividend payout ratio.

Prudential regulation

As a result of holding a banking licence, Vanquis Bank is regulated by the PRA which sets requirements for Vanquis Bank as a solo entity relating to capital adequacy, liquidity and large exposures. Vanquis Bank is also regulated by the FCA for conduct purposes.

CCD operated under a number of consumer credit licences granted by the Office of Fair Trading (OFT). With effect from 1 April 2014, CCD was regulated for conduct purposes by the FCA when it assumed control of consumer credit regulation from the OFT. 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 and large exposures.

Regulatory capital

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 Individual Capital Guidance (ICG). This is determined following consideration of the Internal Capital Adequacy Assessment Process (ICAAP) conducted by the firm. During 2014, the PRA reviewed the ICAAP for Vanquis Bank and the group. Revised ICGs were set for both the group and Vanquis Bank and the level of regulatory capital held by both the group and Vanquis Bank as at 31 December 2014 was comfortably in excess of the ICGs set by the PRA.

The ICG is specified as a percentage of the minimum Pillar I requirement and comprises credit, operational, counterparty and market risk, calculated using predetermined formulae together with certain additional capital add-ons to cover any additional risks.

The Capital Requirements Directive IV (CRD IV) came into force on 1 January 2014 and revised existing capital and liquidity requirements and reporting. Under these new regulations, the group is required to deduct dividends from regulatory capital when they are 'foreseeable'. Under CRD IV, the definition of 'foreseeable' has been more clearly defined to ensure harmonisation across all applicable jurisdictions. CRD IV defines 'foreseeable' as being in line with a company's normal practice for paying dividends relative to the profits being accrued and not when they are declared, which was the group's practice. Accordingly, as profits are verified on a periodic basis the group deducts dividends in line with the group's current dividend cover of approximately 1.3 times.

Regulatory capital equates to equity share capital and reserves after deducting foreseeable dividends and after adding back subordinated loan notes less: (i) the net book value of goodwill and intangible assets; and (ii) the pension asset, net of deferred tax, and the fair value of derivative financial instruments. As at 31 December 2014, the group's common equity tier one ratio and leverage ratio were 20% and 16% respectively. The level of regulatory capital held by both the group and Vanquis bank was comfortably in excess of the ICG set by the PRA.

CRD IV will require the group and Vanquis Bank to maintain a capital conservation buffer and a countercyclical buffer. From 1 January 2016, the capital conservation buffer will be calculated as 0.625% of risk-weighted exposures to the extent that it exceeds the capital planning buffer set by the PRA. The buffer increases to 1.25% in 2017, 1.875% in 2018 and 2.5% in 2019. The countercyclical buffer is subject to the same transitional rules as the capital conservation buffer and will be set at a rate of between 0% and 2.5% by the Bank of England dependant on economic circumstances.

Liquidity

To ensure that sufficient liquid resources are available to fulfil operational plans and meet financial obligations as they fall due, 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 using Individual Liquidity Guidance (ILG) set by the PRA based on the Individual Liquidity Adequacy Assessment (ILAA) prepared by Vanquis Bank. In addition, 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.

As at 31 December 2014, the liquid assets buffer, including the liquid resources held against the daily stress tests, amounted to £121.4m (2013: £86.3m). The increase during the year reflects the growth in the receivables book of Vanquis Bank, together with the increased level of retail deposits maturing in the first quarter of 2015 compared with the same period in 2014. Vanquis Bank holds its liquid assets buffer, including other liquid resources, in a combination of UK government gilts and a designated money market fund.

CRD IV introduced two further liquidity measures, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR and NSFR will be applicable to both the group and Vanquis Bank and are expected to be introduced in October 2015 and January 2018 respectively. These are not expected to significantly affect the group's liquidity position.

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 2014 Annual Report and Financial Statements. The group's full Pillar III disclosures can be found on the group's website, **www.providentfinancial.com**.

Tax

The tax charge for 2014 represents an effective rate of 21.5% (2013: 22.7%) on profit before tax, the amortisation of acquired intangible assets and exceptional items and is in line with the UK corporation tax rate which reduced from 23% to 21% on 1 April 2014.

The group is expected to benefit in future years from the further rate reduction to 20% on 1 April 2015 announced by the Government and enacted in the 2013 Finance Act.

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 135 to 140.

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

In Vanquis Bank, Moneybarn and CCD's Satsuma business, impairment provisions based on expected future cash flows discounted at the effective interest rate (EIR) are made once a contractual monthly payment is missed. The level of provision progressively builds through each arrears stage with a full provision, subject to recoveries, being made against accounts which are 90 days in arrears. For customers entering special payment arrangements, impairment provisions based on historic payment performance discounted at the EIR are immediately reflected. This accounting policy is realistic and prudent when benchmarked against other monthly direct repayment businesses.

In the weekly home credit business of CCD, a loan is impaired when more than one weekly payment has been missed in the previous 12 weeks and the provision is progressively increased to over 95% once no payment has been received in the last 12 weeks. This reflects timely, realistic provisioning which reinforces the right behaviour amongst agents and employees.

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.

Going concern

In adopting the going concern assumption in preparing the financial statements, the directors have considered the activities of its principal subsidiaries, as set out in the strategic report, as well as the group's principal risks and uncertainties as set out in the governance report. The board has considered the group's latest financial projections from the most recent budget, including:

- Funding levels and headroom against committed borrowing facilities;
- Cash flow and liquidity requirements;
- Funding capacity from Vanquis Bank's retail deposit programme;
- Regulatory capital projections against the PRA's regulatory capital requirements; and
- Forecast compliance against banking covenants.

Based on these forecasts and projections, the board is satisfied that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the group continues to adopt the going concern basis in preparing the financial statements.

Governance and Remuneration

Governance

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Introduction from the Chairman

Dear shareholder

This was my first year as Chairman and I am delighted to update you on the key corporate governance highlights in 2014.

This year has been an exciting and challenging year with changes to the composition of the board and committees in January, changes to the committee chairmanships in March, the change in regulator to the Financial Conduct Authority (FCA) from the Office of Fair Trading (OFT) and Financial Services Authority (FSA) in April and the acquisition of Duncton Group Limited (Moneybarn) in August.

As you are aware from our previous reports, we take corporate governance and the reporting of it very seriously and I am extremely pleased to report that we won 'Best Board Disclosure' at the Institute of Chartered Secretaries and Administrators' 'Excellence in Governance Awards 2014' for our 2013 Annual Report. It is our aim and intention to uphold this high standard of reporting in this year's board disclosure.

On appointment, I agreed to develop my relationship with the Chief Executive, as I believe this is central to the smooth running of the board. I have set up monthly meetings for the two of us and these will continue in 2015.

Moneybarn

The acquisition of Moneybarn in August was a key highlight for the board in 2014, being the first acquisition approved by the board since the demerger of the international business in 2007. The board has received and assessed several acquisition opportunities since the demerger of our international business, all of which represented an opportunity to expand the group's product offering in the non-standard credit sector. However, only Moneybarn has met the board's exacting demands of a strategic acquisition and this acquisition marks a key addition to the group's product offering.

UK Corporate Governance Code

Our approach to governance is based on the concept that good corporate governance enhances longer-term shareholder value and sets the culture, ethics and values for the rest of the group. Consistent with our belief in the importance of corporate governance, I am pleased to report that we have complied in full with the principles and provisions of the 2012 UK Corporate Governance Code which was published in September 2012 (the Code). A copy of the Code can be found at **www.frc.gov.uk**.

Corporate policies

We have embedded the corporate governance principles in our corporate policies which are updated annually to reflect changing requirements and best practice. The corporate policies were updated in July to reflect the change in regulator and the new requirements on customer and conduct risk. The corporate policies reflect the best practice we expect from our divisions and key corporate functions. They are designed to strengthen the corporate governance framework and provide an overview and guidance on expected working behaviours which ensures consistency throughout the group in accordance with its vision and values. Further information is set out at page 81 of the report.

Board evaluation

A number of action points arose from the 2013 external board evaluation which were reported on in last year's annual report. These included considering opportunities for board members to spend more time with senior management and for non-executive directors to spend more time in the businesses.

An internal board evaluation was undertaken in December 2014. As part of this review, I am pleased to report that the board felt that there had been improved interaction with the businesses and that contact with the senior management teams had increased. Earlier this year I also assigned each of the non-executive directors to a division in order to gain further insight into and a better understanding of the business. The board also agreed to hold a board meeting in a different business location every year and we continue to invite the managing directors of the divisions (including Moneybarn from August) to attend the board meetings to present strategic and operational reports on their divisions. Further information on this is set out on pages 85 to 87, including details of the action points that have been identified from this process. I intend to address these action points over the course of 2015 and I will meet with the non-executive directors to review the issues raised during the board evaluation process. As part of the 2014 board evaluation process, I am already assessing the training needs for the independent non-executive directors for 2015 so that tailored training plans can be developed.

Focus on risk management

As reported last year, the transition to regulation by the FCA has meant that in 2014 there has been increased focus on customer and conduct risk.

Following a review of the group's risk management framework and processes, we agreed it was appropriate to have the risk advisory committee review conduct risk rather than establish a sub-committee. The risk advisory committee terms of reference have therefore been extended to specifically include oversight of customer and conduct risk within the divisions and the managing director and chief risk officer of each division will attend committee meetings for this agenda item.

We have continued to maintain our focus on monitoring risk through the work of our audit and risk advisory committees. Further information on risk management can be found on pages 90 to 96.

Board composition

Following a formal performance evaluation carried out in January 2015, the nomination committee agreed to extend Rob Anderson's term of appointment by three years. The committee's recommendation was based on Rob's recent and relevant operational experience, knowledge of the group and the fact that his length of tenure creates a balance with the two new non-executive directors who joined the board in January 2014.

I am pleased to report that the board accepted the nomination committee's recommendation at its meeting in February 2015.

Manjit Wolstenholme
Chairman
24 February 2015

Our directors and officers

Peter Crook (51)

Chief Executive

Appointed to the board: 2006

Chairman:
Executive committee and group executive committee

Key achievements:

- Driving and executing the agreed strategies of the group and achieving above plan financial performance.
- The identification and oversight of strategic acquisition opportunities, including the completion of the purchase of Moneybarn.
- Providing strategic input into the FCA full authorisation process being undertaken by each of the divisions.
- Providing strategic input into the future options for the Vanquis Bank Polish pilot operation resulting in the decision in early 2015 to withdraw from the pilot.

Previous board and management experience:
UK managing director, Barclaycard.

Current external appointments:
Non-executive director of Cabot (Group Holdings) Limited.

Andrew Fisher (57)

Finance Director

Appointed to the board: 2006

Committee membership:
Executive committee and group executive committee

Key achievements:

- Extending the group's £382.5m syndicated bank facility by one year to May 2018.
- Providing oversight on the commercial and financial due diligence exercise undertaken in respect of the acquisition of Moneybarn.
- Taking the lead role in the group's discussions with the Prudential Regulation Authority (PRA) on regulatory requirements.
- Realignment of risk across the group to reflect the transition to the FCA and the focus on customer and conduct risk.

Previous board and management experience:
Finance Director of Premier Farnell plc and partner at Price Waterhouse LLP.

Current external appointments:
None.

Manjit Wolstenholme (50)

Independent non-executive Chairman

Appointed to the board: 2007

Committee membership:
Risk advisory committee

Chairman:
Nomination committee

Key strengths:

- Extensive experience of corporate finance matters, having spent 13 years in investment banking.

Previous board and management experience:
Co-head of investment banking at Dresdner Kleinwort Wasserstein and Partner at Gleacher Shacklock.

Current external appointments:
Non-executive director of Future plc, The Unite Group plc and Aviva Investors Holdings Limited.

Malcolm Le May (57)

Independent non-executive director
Senior Independent Director

Appointed to the board: 2014

Committee membership:
Audit committee, risk advisory committee and nomination committee

Chairman:
Remuneration committee

Key strengths:

- Over 30 years' experience in banking, asset management and insurance.

Previous board and management experience:
Co-head of banking for Barclays in New York; head of investment banking, Europe at UBS and 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 advisor to Ernst & Young, non-executive director of REG (UK) Limited, Chairman of Juno Capital LLP, senior advisor to Heidrick & Struggles and Partner at Opus Corporate Finance.

Alison Halsey (59)

Independent non-executive director

Appointed to the board: 2014

Committee membership:
Remuneration committee, risk advisory committee and nomination committee

Chairman:
Audit committee

Key strengths:
- 34 years with KPMG specialising in financial services with audit and advisory responsibilities for UK and international banks.

Previous board and management experience:
Partner at KPMG. Advised a number of UK charities and was a board member of the National Autistic Society for five years.

Current external appointments:
Non-executive director of Cambien Group plc and Teachers Assurance and an Ambassador for Alzheimer's Society.

Stuart Sinclair (61)

Independent non-executive director

Appointed to the board: 2012

Committee membership:
Remuneration committee, audit committee and nomination committee

Chairman:
Risk advisory committee

Key strengths:
- Extensive experience in financial services in the UK and overseas.
- 10 years in US-based management consulting, 14 years as CEO or equivalent in retail banking organisations and seven years on financial services boards.

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 and non-executive director at Liverpool Victoria.

Current external appointments:
Director of Vitality Health, Senior Independent Director of Swinton Group Limited, QBE Insurance (Europe) Limited and QBE Underwriting Limited; non-executive director of TSB Bank plc and Council Member of the Royal Institute for International Affairs (Chatham House).

Rob Anderson (56)

Independent non-executive director

Appointed to the board: 2009

Committee membership:
Remuneration committee, audit committee, risk advisory 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 childrenswear business unit of Marks & Spencer and Chief Executive of Signet Jewelers Limited's UK Division.

Current external appointments:
None.

Ken Mullen (56)

General Counsel and Company Secretary

Appointed to the board: 2007

Committee membership:
Group executive committee

Secretary:
Executive committee, remuneration committee, audit committee, risk advisory committee and nomination committee

Key achievements:
- Project management of the legal due diligence exercise, through a combination of internal and external legal resources, on two potential acquisition targets.
- Completion of the sale and purchase agreement in respect of Moneybarn.
- In his capacity as chairman of the Trustees, revised the group defined benefit pension scheme's investment strategy which has resulted in a significant de-risking of the scheme.
- Close management of the group's regulatory relationships, both in the UK and overseas.

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.

Governance

Leadership

> **"Collective and effective leadership ensures the delivery of the group's strategy and maintaining strong governance practices is a key board responsibility in support of this goal."**
>
> **Manjit Wolstenholme**
> Chairman

This report looks at board members, their role, their performance and their oversight. It also looks at their induction, succession, independence, and effectiveness.

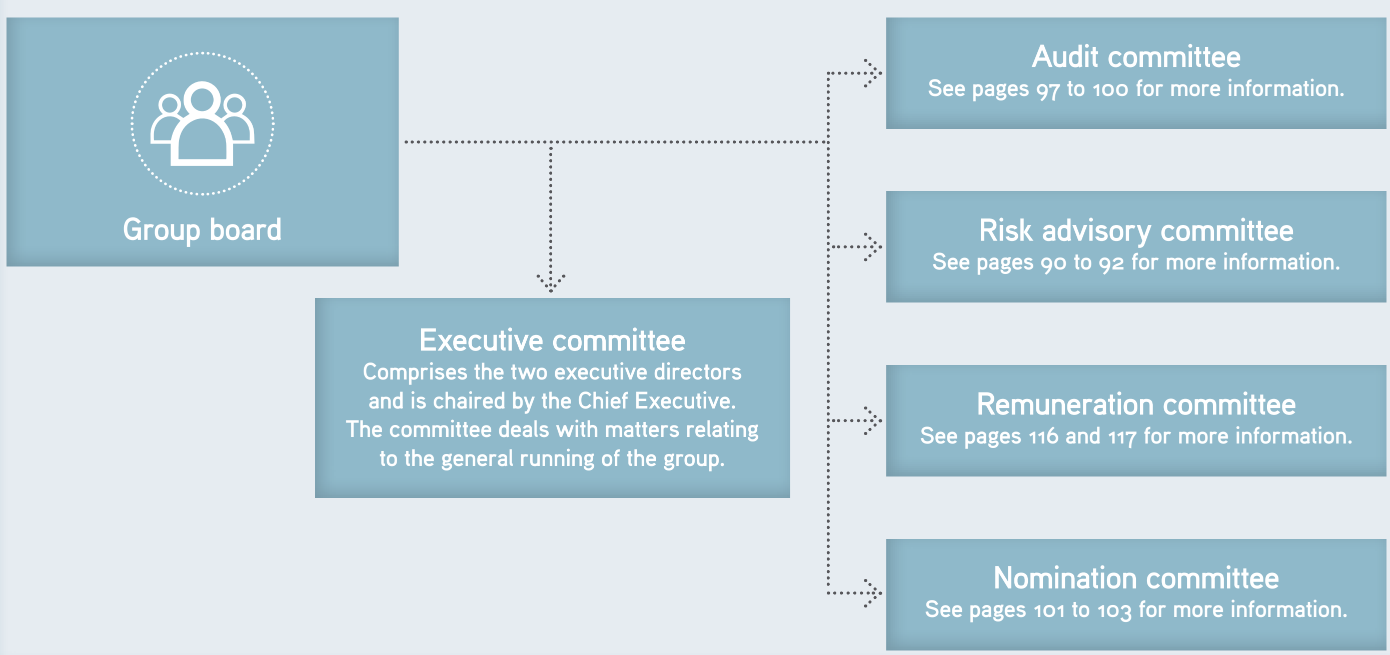
The principal responsibility of the board is to promote the long-term success of the group in a manner consistent with its culture, values and standards and so create and deliver sustainable shareholder value. The board leads and provides direction by setting the strategy and overseeing its implementation by management. The board seeks to ensure that the right balance is achieved between the ultimate focus on long-term growth and the delivery by management of its short-term objectives. In setting and monitoring the execution of the group's strategy, consideration is given to the impact that those decisions will have on the group's obligations to various stakeholders, such as shareholders, employees, suppliers and the community in which it operates as a whole.

Specific key decisions and matters have been reserved for approval by the board and are set out in its terms of reference. These include: the establishment of, and changes to, the group strategy; determination of interim and recommendation of final dividends; approval of all major transactions; approval of the group budget and financial results; approval of the Vanquis Bank controls required by the PRA safety and soundness objectives; and the annual review of the effectiveness of the group's system of internal control.

The board reviews the terms of reference for itself and its committees annually. It last updated its terms of reference and those of its committees in January 2015. The full formal schedule of matters reserved to the board and each of its committees can be found on the group's website at www.providentfinancial.com.

To assist the board in carrying out its functions and to ensure that there is independent oversight of internal controls and risk management, the board delegates certain responsibilities to its five principal committees as shown in the diagram below. Membership of these committees consists primarily of the independent non-executive directors and, in some cases, the Chairman, with the exception of the executive committee which consists of the executive directors only.

Governance framework



The chairmen of each board committee reports to the board on the matters discussed at the committee meetings.

Identification and management of risk is central to the creation of long-term shareholder value and is overseen by the risk advisory committee on behalf of the board. The risk advisory committee considers the nature and extent of the risks facing the group, keeps them under review, including the framework to mitigate such risks and notifies the board of changes to the status and control of risks.

In addition, the group has detailed corporate policies which are explained on pages 77 and 92 of this report. On a day-to-day basis, the divisions and the corporate office team have responsibility for the implementation of the corporate policies and the group executive committee 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 90, 97 and 101 respectively.

Details of the work of the remuneration committee together with the Annual Statement from the remuneration committee chairman, the Remuneration Policy and the Annual Report on Remuneration, are set out in the director's remuneration report, on pages 109 to 128.

The right team

The board held 12 meetings in 2014. Individual director attendance is set out in the table below.

The board is responsible for the establishment of and changes to the group strategy. As part of that process and, as in previous years, an annual two-day corporate planning conference (CPC) was held away from the office to review and develop the group's strategy. The CPC is attended by all board members, the General Counsel and Company Secretary, the Director of Corporate Strategy and Risk and other members of senior management where appropriate.

In 2014, the Director of Corporate Affairs, the managing directors and commercial directors of Vanquis Bank and the Consumer Credit Division (CCD), the Operations Director of the home credit business of CCD and the Finance Director of Vanquis Bank also attended and were involved in the discussions on market developments and competitive threats. Further, for the first time external speakers were also in attendance. The agenda included:

- A discussion on the general macro-economic environment and the non-standard credit market in which the group operates;
- An analysis of the key characteristics of non-standard credit consumers;
- An overview of the available methods to capture and use customer and operational data;
- A synopsis of what regulatory changes mean for market structure, particularly in the sub-prime and high-cost short-term credit sectors;
- A facilitated discussion on payment technologies and new types of competitors from outside the lending sector; and
- A review of the human resources capabilities within the group.

Attendance at board and committee meetings

	Board	Audit committee	Nomination committee	Remuneration committee	Risk advisory committee	Percentage attended
Total number of meetings in 2014	**12**	**6**	**1**	**4**	**3**	**100%**
Manjit Wolstenholme	12	–	1	–	3	100%
Peter Crook	12	–	–	–	–	100%
Andrew Fisher	12	–	–	–	–	100%
Malcolm Le May	12	6	1	4	3	100%
Rob Anderson	12	6	1	4	3	100%
Alison Halsey	12	6	1	4	3	100%
Stuart Sinclair	11	6	1	4	3	96%

Leadership continued

Key board discussions and actions in 2014

JAN
- Consideration of the board evaluation report and discussion of the recommendations.
- Review of the talent and succession planning report.

FEB
- Consideration of potential acquisition opportunities.
- Review of non-executive directors' fees.
- Review and approval of changes in committee chairmanship.

MAY
- Review of due diligence reports in respect of a potential acquisition.

JUN
- Review of potential acquisition opportunities.
- Review of the group's contingency plans to address a cyber attack.
- Review and approval of the 2014 budget update.
- Two-day CPC.

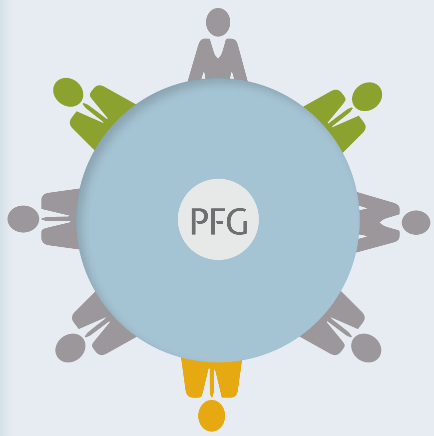
JUL
- Review and approval of the decision to expand the terms of reference of the risk advisory committee to include conduct risk.
- Approval of due diligence reports for the proposed acquisition of Moneybarn.
- Approval of the group's ICAAP.

AUG
- Approval of the acquisition of Moneybarn, including the sale and purchase agreement.

NOV
- Consideration and approval of actions arising from discussions with the Central Bank of Ireland in respect of CCD.

DEC
- Review of the internal board evaluation.
- Review and approval of the 2015 budget and profit plan 2015–2019.
- Review and approval of the funding plan 2015–2019.
- Review and approval of the response to the PRA in order to finalise the group's ICAAP.

Board composition



- Executive director
- Non-executive director
- Company Secretary

At each main meeting

Discuss:

Strategic matters
Acquisition opportunities
Trading results and key performance indicators (KPIs)
Management accounts and financial commentary
Operational reports from each division
Treasury matters
Legal, company secretarial and regulatory matters
Board committee matters
Investor relations and shareholder feedback
Corporate affairs

Review:

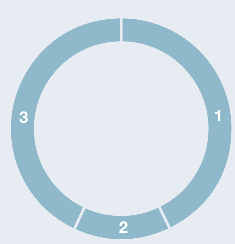
Minutes of previous meetings
Minutes of the meetings of the executive committee
The implementation of actions agreed at previous meetings

Sector experience

1 Financial services	72%
2 Retail	14%
3 Other	14%

Tenure

1 0–3 years	43%
2 4–6 years	14%
3 +6 years	43%



The board comprises the Chairman, two executive directors and four independent non-executive directors. Their responsibilities are summarised in the table below. The names of the directors and their full biographical details, including the skills and experience they each bring to the board, can be found on pages 78 and 79. There is a clear division of responsibility at the head of the group as the Chairman has overall responsibility for the leadership of the board, while the Chief Executive manages and leads the businesses.

Roles

The Chairman	• Chairs the board, the nomination committee and the AGM. • Sets the board meeting agendas with the Chief Executive to ensure that the board devotes its time and attention to the right matters. • Builds an effective board. • 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.	**Manjit Wolstenholme is also a non-executive director of Future plc, The Unite Group plc and Aviva Investors Holding Limited. These appointments involve no more than one and a half days' work per week and there have been no material changes in her other commitments since 1 January 2015.**
The 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 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 social responsibilities of the group.	**Peter Crook also chairs the divisional boards of Vanquis Bank, CCD and Moneybarn.**
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. • Provide specialist knowledge and experience to the board. • Responsible for the successful leadership and management of risk and finance functions across the group.	**Peter Crook and Andrew Fisher comprise the 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. • Review management performance.	**The non-executive directors have a range of recent and relevant financial services, corporate governance and consumer experience as detailed on pages 78 and 79.** **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.** **Rob Anderson's term of appointment has been extended for an additional three years, subject to shareholder approval at the 2015 AGM.**
Senior Independent Director (SID)	• Is available for 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 confidante 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 perfomance evaluation.	**Malcolm Le May assumed the role of SID on 1 January 2014. He was selected for this role on account of his extensive experience in the financial services sector and his corporate finance background.**
Company Secretary	• Responsible to the board. • Provides comprehensive practical support and guidance to directors, both as individuals and collectively. • Particular emphasis on supporting 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, who is also secretary to all of the board 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 can be 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?

The composition, experience and balance of skills on the board are regularly reviewed to ensure that there is the right mix on the board and its committees to enable them to work effectively. The balance of the board is illustrated on page 82.

The Chairman manages the board and oversees the operation of its committees with the aim of ensuring that they operate effectively by fully utilising the diverse range of skills and experience of the various board members. The board and its committees are annually assessed to ensure their effectiveness is maintained, that they remain fit for purpose, and that they continue to evolve and develop, to address the ever-changing regulatory environment in which the group operates. Evaluating the board's performance can lead to fresh insights into the functioning of the board, whilst potentially identifying areas that might need to be strengthened and developed.

Induction of a new director

On appointment, each director undertakes a comprehensive induction programme which introduces the director to the group's businesses and its senior management. On 1 January 2014, Malcolm Le May and Alison Halsey joined the group as new non-executive directors and undertook the following as part of their induction:

- Had individual meetings with the executive directors and the Company Secretary;
- Met with the divisional boards and senior management teams in each division;
- Spent a day at one of the CCD branches; and
- Met with the audit partner from Deloitte LLP.

Training

Appropriate training and briefing is provided to all directors on appointment to the board, taking into account their individual qualifications and experience. Ongoing training is arranged to suit their specific needs and the Chairman regularly reviews and agrees with each director their training and development needs. The Chairman is in the process of addressing individual directors' requirements in order to create individual development plans for each of the non-executive directors which will focus on areas where they can add value to key strategic matters facing the group and which may feature as a board agenda item throughout 2015.

Independence of non-executive directors

Non-executive directors are expected to be independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of that judgement. The board and the nomination committee consider and review the independence of each non-executive director on an annual basis. In carrying out the review, consideration is given to factors such as length of tenure and the ability of the director to provide objective challenge to management.

Each of the five non-executive directors has been formally determined by the board to be independent for the purposes of the effective governance of the group, in line with the independence expectations of the Code. The board's assessment is based on the fact that they have all served less then nine years in their current roles, they receive no additional benefits from the group and they have not previously held an executive role within the group.

The board believes that there are no current or past matters which are likely to affect their independent judgement.

Conflicts of interest

The Companies Act 2006 ('the Act') and the company's articles of association ('the Articles') require the board to consider any potential conflicts of interest. The board 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 wider duties is affected.

The board has put procedures in place to deal with situations where a director has a conflict of interest. Each director abstains from approving their own reported conflicts, and as part of these procedures the board:

- Considers each conflict situation separately based on its particular facts;
- Considers any conflict situation in conjunction with the other duties of directors under the Act;
- Keeps records and board minutes on authorisations granted by directors and the scope of any approvals given; and
- Regularly reviews conflict authorisations.

The board has complied with these procedures during the year.

Board evaluation 2013

Following the external board evaluation in 2013, a summary of the board's progress against the actions that arose is set out below.

Actions	Progress/outcomes
1. Consider restructuring the CPC to cut down on presentation time and allow more time for debate, big picture issues and less formal time with the executive team.	The 2014 CPC was more interactive and included a more thorough analysis of issues on the agenda rather than formal presentations. Formal presentations were avoided by providing materials to read in advance of the conference and by break-out sessions where individuals were able to analyse and discuss issues in smaller groups using external presenters to facilitate discussions.
2. Consider opportunities throughout the year for the senior management team to spend more time with board members and increase the visibility of the non-executive directors within the operations.	In February, the Chairman assigned the non-executive directors to divisions to enable them to gain a better understanding of the issues facing the business and to enhance and inform board discussions. Alison Halsey and Stuart Sinclair were assigned to spend time with the senior management team in CCD, and Malcolm Le May and Rob Anderson were assigned to the Vanquis Bank senior management team. In 2015, the Chairman will reassign the non-executive directors and the process will include Moneybarn. There has been greater interaction between the senior management team and the non-executive directors through the invitation of a number of senior managers to attend and present at board meetings. The divisional managing directors have continued to be invited to present their operational and strategic reports at each of the board meetings. This has been a huge success, adding value to the board meetings and giving the non-executive directors increased visibility of divisional performance and management. The board has agreed to have an offsite visit each year at a business location. In 2014 the offsite visit was held in Edinburgh. This visit was followed by an informal session where issues were discussed in greater depth. During the offsite visit, the board also met with the CCD Divisional Operations Manager in Scotland and his team. The non-executive directors have also made a number of site visits throughout 2014 in order to gain first-hand experience of the group's businesses.
3. Consider increasing the number of non-executive director meetings outside board meetings to provide an opportunity to talk informally and to get to know new board members in due course.	The non-executive directors have held a number of meetings in 2014 in order to discuss a range of issues without the executive directors being present. This is intended to continue in 2015.
4. Consider creating development plans for board members which focus on individual roles and encourage board members to concentrate on one aspect of the business in more detail.	Individual training plans for the non-executive directors are in the process of being developed. Non-executive directors have been assigned to a specific division (referred to above).
5. Bring committee membership in line with best practice.	The Chairman is no longer a member of the audit committee or the remuneration committee. The Chief Executive is no longer a member of the nomination committee. The Finance Director is no longer a member of the risk advisory committee.
6. Consider ways of ensuring that board papers are sent out in a more timely manner to allow non-executive directors more time to prepare for meetings.	Papers are now circulated by means of BoardPad when available and at the earliest possible opportunity, rather than waiting for a full set of papers to be available before circulation.

Effectiveness continued

Board evaluation 2014

Following the external board evaluation in 2013, this year's evaluation of the board, its committees, individual directors and the Chairman was carried out internally in December 2014, by way of a detailed questionnaire.

The results of the evaluation were discussed by the board as a whole at its meeting in December 2014, and at the committee meetings in December 2014 and January 2015. The evaluation confirmed that the board and its committees were working effectively and efficiently as a team and a high overall score. was achieved. The evaluation confirmed that improvements had been made since the external board evaluation in 2013 and also identified a number of areas for further improvement.

Areas	Progress	Action points
1. Overview	The board overall scored well, either meeting or exceeding requirements. The executive directors felt that the board enhanced their ability to run the business effectively in the interests of the stakeholders and the non-executives felt that they were listened to and that their input was appreciated.	No significant actions were identified.
2. Role of directors and the board	The board scored highly and exceeded requirements on acting effectively. It did, however, consider that this would need to be reviewed following transition of the group to FCA regulation. The board gave good feedback on the role of the Company Secretary.	No significant actions were identified.
3. Board composition	The board felt that its composition gave the right balance at this time. It did note that additional skills would be beneficial as the group evolves in the technology and digital sphere. Further development of succession planning was identified, particularly for the executive directors.	The board and the nomination committee intends to continue to develop and extend its work on succession planning, which will include consideration of high potential individuals and their development in the business. The nomination committee has requested a report from the Chief Executive which considers the future shape of the business, and prioritises management development and succession planning which will be reviewed by the nomination committee and the board. Whilst satisfied with the current composition and collective performance of the board, it was agreed that consideration should be given to complementing and strengthening its existing skill set and experience.
4. Non-executive directors	The board was extremely satisfied with the addition of the new non-executive directors and their contribution to the board's effectiveness. The board believes that the non-executive directors' discussions without the executive directors had improved but must be maintained in 2015 in order to continue being beneficial. The non-executives' integration with senior management and the businesses had also improved.	The board will continue to encourage interaction between the non-executive directors and the businesses and senior management. Responses also indicated that additional site visits and exposure to site management below the group executive committee level would be beneficial. As a result, a further site visit is planned for 2015, where the board will take the opportunity to meet local management, employees and stakeholders.
5. Executive directors	The board agreed that the executive directors had a strong and balanced relationship which was good for the business.	No significant actions required.
6. Board meetings	The board agreed that its meetings had improved with the presence of the divisional managing directors who present formal reports. It was, however, felt that future agendas should include a broader variety of topics for discussion. Whilst work could be done on achieving a greater integration of the output from the CPC into the objectives set for the divisions, it was felt that the CPC had greatly improved this year under the new Chairman. The board agreed that the current annual pattern of board meetings together with the two-day off site strategy review and one meeting at a UK branch location works well.	Agreed to assess the schedule of meetings in 2015 and corresponding agendas to ensure that at each meeting there is a substantial element of strategy discussed. Further integration of the CPC output required. Agreed to consider more regular reviews and discussions on broader topics and more variety on presentation and themes in order to enhance the board agenda.

Areas	Progress	Action points
7. **Monitoring performance**	The board agreed that performance reporting had improved and that the presentation of strategic objectives and financial information was highly visible. Overall the board was satisfied with performance monitoring.	The board identified the need to address the specific requirements of regulation by the FCA, including in particular the need to enhance the reporting on, and monitoring of conduct issues.
8. **Information**	The board agreed that the addition of the divisional managing director reports added visibility and context to the board meetings. The use of iPads for board papers worked well and made information easily accessible. The board did have concerns over 'run of the mill' reporting.	It was agreed there was a need for a more detailed analysis into the strategic issues facing the group on a rolling basis. In 2015 the board will consider improvements to the agenda to avoid 'run of the mill' reporting and will look to ensure it focuses on potential pitfalls and future opportunities.
9. **Leadership and culture**	The board, excluding the Chairman, agreed that the Chairman demonstrates effective leadership and has a good relationship with the Chief Executive, the Finance Director and the board as a whole. The board considered that discussion was more free flowing and that all directors were able to fully contribute.	No significant actions were identified.
10. **Corporate governance**	The board agreed that it continues to maintain a high standard of corporate governance although it noted the need to enhance processes as part of the transition to regulation by the FCA.	The board agreed to consider its visibility and control over the divisions, whilst allowing FCA approved persons within the divisions to fulfil their responsibilities. A project has been established, with external assistance, to identify the appropriate corporate governance structure for the group which balances the board's oversight responsibilities with the regulatory status of its divisions and the responsibilities of its approved persons.
11. **Committees**	Overall the committees scored well, and met the requirements of the board. The board agreed that the remuneration committee and risk advisory committee liaison had improved with regard to risks and controls which related to remuneration strategy.	No significant actions were identified.

Shareholder engagement

> "The board believes that open and regular dialogue with investors provides the foundation for a long and trusted relationship."

Manjit Wolstenholme
Chairman

Key themes discussed with shareholders in 2014

Home credit
- Rationale for the repositioning of the home credit business.
- Drivers of the improvement in performance in home credit.

Moneybarn
- Background on the Moneybarn business and growth potential.
- Reasons for the Moneybarn acquisition being funded by an equity placing.
- Progress with the transition to the new FCA regulatory regime.

Satsuma
- Impact of payday regulation on the online instalment market.
- Progress in building capability of Satsuma and competition.

Vanquis Bank
- Potential for Vanquis Bank UK to exceed its medium-term growth targets.
- Potential impact of forthcoming FCA credit card review on Vanquis Bank.
- Update on the potential Polish pilot operation and timescales for any growth targets.

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.

Regular engagement provides investors with an opportunity to discuss particular areas of interest and raise any concerns. The group is eager to ensure that it understands shareholders' views and that it is able to effectively communicate its strategy. The group works to engage effectively with shareholders through its regular communications, the AGM and other investor relations (IR) activity.

IR programme

The group has a comprehensive IR programme through which the Chief Executive, 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.

The effectiveness of the group's IR programme has been recognised in the UK PLC Awards for three consecutive years. The group won the award for 'Best Investor Communications' in 2012, was included in a shortlist of four in 2013 and has once again been shortlisted for the same award in 2014.

Specific information on the 2014 IR programme can be found in the calendar on page 89. Further communication is achieved through:

- The annual report – this is the most significant communication tool, ensuring that investors are kept fully informed regarding developments in the group.
- The corporate website – provides investors with timely information on the company's performance as well as details of the group's corporate social responsibility (CSR) activities.
- A web app – enables shareholders to view key website data on their tablet devices and mobile phones including videos, presentations and results announcements.
- Regular investor days – inviting institutional shareholders and sell-side analysts to an on-site facility or an external location to provide them with a more detailed insight into the group. The next investor day will take place at Vanquis Bank's London headquarters on 16 April 2015.
- 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.

- US and European roadshow programmes – allows overseas investors better access to management, enabling them to receive the same access as investors in the UK. Usually attended by the Chief Executive, the Finance Director and the Head of IR.
- An annual CSR report – a stand alone report demonstrating the importance placed on CSR.
- Responding promptly– the group is committed to respond to shareholders, regardless of the size of their holding, within two working days.
- 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.

Board oversight

Communications with shareholders are given a high priority by the board. In order to ensure that the 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 year-end and half-yearly results. Shareholders occasionally meet with the Chairman or SID, and meet with the remuneration committee chairman when required to discuss remuneration matters.

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

This year there have been no significant issues raised by shareholders in relation to the company. Had there been, these would have been reported to the board, discussed in detail, and an appropriate corrective action plan developed to address any concerns raised.

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 made available by means of an announcement to the London Stock Exchange 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 2015 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 2015 AGM are set out on page 108 of the Directors' report.

Investor relations programme in 2014

JAN	• Trading statement.
FEB	• Preliminary results announcement. • London and Edinburgh investor/sales team roadshows.
MAR	• US investor lunch hosted by Macquarie.
APR	• Paris and Brussels investor roadshow.
MAY	• AGM and Q1 IMS. • US investor roadshow (New York, Connecticut and Boston).
JUN	• Societe Generale UK Economy Investor Conference.
JUL	• Interim results. • London and Edinburgh investor/sales teams roadshow.
SEP	• Scandinavia investor roadshow. • Frankfurt and Zurich investor roadshow.
OCT	• Q3 IMS and analysts call.
NOV	• US investor roadshow (New York, Boston, Chicago, Los Angeles). • JP Morgan 'Best of British' Conference.
DEC	• Berenberg European Investor Conference. • Citi 'Diversified Financials' Conference.

Governance

Find out more online – we publish our results and presentations on our investor website at www.providentfinancial.com

Risk advisory committee

Accountability

The board has ultimate responsibility for determining the nature and extent of the principal risks it is willing to accept to achieve its strategic objectives and for maintaining a sound system of risk management and internal controls, in accordance with the Code.

The risk advisory committee assists the board by monitoring and managing the risk management and internal control systems across the group and reports to the board.

Risk advisory committee

Members	Secretary
Stuart Sinclair[1] (Chairman)	Ken Mullen
Alison Halsey	
Malcolm Le May	
Manjit Wolstenholme	
Rob Anderson	

Attendees by invitation

Peter Crook
Andrew Fisher
David Mortlock (Head of Audit)
David Merrett (Director of Corporate Strategy and Risk)

1 Appointed as Chairman on 1 March 2014

Governance in action

Risk management

Following the change in regulator from the FSA and OFT to the FCA and PRA, the group has invested considerable time reviewing its risk management framework and processes.

At the outset the overall group statement on risk appetite was redefined. This sets out the maximum level of risk the group is prepared to accept. This statement focuses on the need to ensure that customers are at the heart of what the business does, whilst maintaining the dividend and sufficient capital to protect against losses. Divisional statements have also been redefined to support the group statement.

It was also agreed that the risk advisory committee was best suited to review the group's management of customer and conduct risk, as part of its wider review of risk management and monitoring of risk management across the group. As the overall group statement now includes customer and conduct risk, a principal purpose of the risk advisory committee is to monitor the effectiveness of the divisions in establishing and maintaining frameworks, policies and procedures to identify and manage customer and conduct risk. This ensures that customers' needs are at the heart of what the divisions and the group does and that there is a fair deal between the divisions and their customers. The risk advisory committee will also recommend to the board an overall group customer and conduct risk appetite, culture and tone for approval.

The time allocated for risk advisory committee meetings has been significantly extended to allow a full review to be undertaken of each division's conduct risk framework and conduct risk governance policies.

During 2015, the risk advisory committee meetings and other board committee meetings will be held on a separate day to the board meeting in order to allow the committees sufficient time to consider and debate those matters falling within their terms of reference.

Risk governance and oversight is particularly important for the group as the structure is different to most financial services groups and banks. Under the FCA regime, the divisions are FCA authorised and regulated, and include approved persons for controlled functions and independent non-executive director oversight where appropriate. However, Provident Financial plc, as the holding company, is not authorised or regulated by the FCA and there are no approved persons at group board level. A project has been established to identify the appropriate corporate governance structure for the group. In the meantime, both the group board (under the Code) and the divisions (under the FCA) have responsibilities to maintain sound risk management and internal control systems. The group therefore operates a 'three lines of defence' model: the first line involves the operational identification, assessment and management of risk; the second line involves independent review and challenge of first line actions against established risk appetites; and the third line is independent assurance.

Going into 2015, the risk advisory committee is confident that the group has an effectively designed risk management framework in place. 2015 will continue to be a transition to FCA regulation as the group embeds the new approach to decisions and processes which have been enhanced to address customer and conduct issues. The risk advisory committee will monitor this transition closely and will report on progress in the 2015 Annual Report and Financial Statements.

Role and responsibilities of the risk advisory committee

The risk advisory committee's principal purposes are to recommend to the board an overall customer and conduct risk appetite, culture and tone for approval and to monitor the effectiveness of the divisions in establishing and maintaining risk management frameworks, policies and procedures.

In addition to the responsibilities mentioned above, the committee is also responsible for:

- Considering the nature and extent of the risks facing the group, the likelihood of risks materialising and the group's ability to reduce the incidence and the impact of the risks which do materialise;
- Reviewing the group's capability to identify and manage new risk types, and keeping under review the effectiveness of the group's internal control systems and risk management systems in conjunction with the audit committee;
- Reviewing the group's business continuity plans; and
- Notifying the board of any changes in the status and control of risks.

Update on 2014 activities

During 2014, the risk advisory committee has:

- Updated its terms of reference and the group risk management framework to explicitly include customer and conduct risk, to reflect the separation of risk and audit and to reflect the new risk assessment descriptions;
- Appointed a new chairman; and
- Undertaken the activities set out in the calendar on the right.

Statement on internal controls

Our risk management framework is firmly embedded within our management and governance processes, and incorporates the process detailed in the diagram on page 92. This risk management framework has been in operation throughout 2014 and continues to operate up to the date of approval of this annual report. This framework is the process by which compliance with laws and regulations, the reliability of financial reporting and the effectiveness and efficiency of operations are reviewed. The framework assists in the identification, evaluation, and management of principal risks as required by the Code, and is designed to manage rather than eliminate the risk of failure to achieve business objectives. The board believes the framework provides reasonable, but not absolute assurance against material misstatement or loss.

The board provides oversight to help ensure that the group and its divisions maintain sound risk management and internal control systems. Through the risk advisory committee, it reviews the assessment of risks and the risk management framework.

A consistently applied method is used at divisional and group level to identify the key risks that could have a significant impact on the ability of the group to achieve its objectives. Risk owners within the divisions and the corporate office are identified and given responsibility for ensuring actions are implemented with appropriate review dates. The risk registers are reviewed by the risk advisory group and updated at least quarterly. The risk advisory committee is responsible for monitoring the key metrics identified by all divisions and the corporate office in the management of risk and ensures in particular that customer outcomes remain central to the group's risk management programme.

The board are satisfied that the company's risk management and internal control systems are effective and were effective throughout 2014 and up to 24 February 2015. The board does this through the audit committee, which carries out an annual review and issues an opinion on risk and control effectiveness. This review confirms that the risk management and internal control systems effectively support and manage the achievement of the overall group objectives and provide suitable protection of the group's assets, reputation and sustainability. A strong risk and control culture was identified in all divisions and areas where improvements could be made were identified. An action plan has been established to ensure that the systems and processes continue to evolve as the regulatory environment in which the group operates continues to change.

The group finance function establishes the process and timetable for financial reporting and consolidation activities and identifies and approves changes to accounting and financial reporting standards.

The board believes the process and the key elements of the internal control system, including in particular the financial reporting processes, are in accordance with the FRC's revised Guidance for Directors on the Combined Code ('the FRC's Guidance') and the FCA's Disclosure and Transparency Rules.

Further insight into the group's principal risks, and the management of these is on pages 93 to 96.

Effectiveness

The committee formally considered its effectiveness in 2014. On the basis of the internal board and committee evaluation undertaken, the overall view was that it was working effectively and no significant actions were required.

Risk advisory committee key items in 2014

JAN

- Updated terms of reference.
- Reviewed cyber risk.
- Reviewed and approved the revised group risk appetite framework, risk management framework and risk profile.
- Actioned the recommendations of the independent board evaluation in 2013.
- Reviewed and updated the risk processes for new territories.
- Reviewed and identified major issues in the changing regulatory and political environment.
- Andrew Fisher stepped down as member of the committee, in line with best practice.

JUL

- ICAAP reviewed and agreed to recommend approval to the board.
- Conduct risk management approach tabled, discussed and noted. Conduct risk was agreed to be added to the terms of reference of the risk advisory committee meetings were increased to at least four a year and the time allocated to each meeting was significantly increased.

OCT

- Reviewed key group risks.
- Vanquis Bank and CCD conduct risk, framework and appetite was tabled, discussed and noted.
- Post-acquisition action plan for Moneybarn discussed.
- Vanquis Bank's and CCD's CROs attended the committee for the first time.

Risk advisory committee continued

Internal control

Internal audit

Regularly reviews the adequacy of internal controls (including financial, operational and compliance controls) in conjunction with the external auditor 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.

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 2014, 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 2014, only one issue (which was human resources related) was raised via this system and this was appropriately responded to through the group's human resources function.

New whistleblowing legislation in the Republic of Ireland (ROI) has required CCD to review and update its whistleblowing procedures for ROI and ensure that employees in ROI are aware of the availability of the external helpline.

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 risk advisory committee.

Risk advisory committee

Independent of the business units and chaired by a non-executive director of the board. Responsible for ensuring that there is an appropriate risk management framework embedded across the group.

The board

Reviews the framework annually to ensure that it remains fit for purpose and complies with relevant requirements.

Risk advisory group

Formally reviews the divisional risk registers four times a year, and reports to the risk advisory committee.

Monthly management accounts

Monthly management accounts are prepared comparing actual trading results by division to 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 pack. 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.

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 July 2014.

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.

Finance forum

A six-weekly finance forum, chaired by the 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.

Risks

Details of the group's key risks, together with the controls and procedures in place to mitigate the risks and progress made against each risk in 2014, are as follows:

Customer and conduct risk

The risk of poor outcomes for customers.

- **The FCA replaced the OFT as the regulatory body for consumer credit on 1 April 2014. Under the FCA regime there is increased focus on customer and conduct risk, in particular, ensuring that customer's interests are at the heart of what our businesses do.**
- **Ensuring poor customer outcomes are avoided requires focus on treating customers fairly through, in particular, designing appropriate incentive schemes, ensuring affordability and sustainability of all lending and handling vulnerable customers sensitively.**

Mitigation

- Risk and compliance committees within Vanquis Bank, and a customer and conduct risk committee within CCD oversee compliance with the FCA rules and guidelines, including treating customers fairly.
- Vanquis Bank has in place a customer experience forum which considers issues from a customer's perspective and ensures that adequate consideration has been given to conduct risk.
- CCD have in place a compliance assurance team which provides conduct and regulatory assurance across its business in order to ensure that CCD is delivering fair customer outcomes and meeting its regulatory obligations.
- Moneybarn is developing its formal approach to customer and conduct risk as part of its transition to FCA regulation.
- The risk advisory committee has oversight of the divisional risk frameworks including in particular the customer and conduct risk frameworks.
- Regular customer satisfaction surveys are undertaken in all businesses.
- Vanquis Bank has had the FSA principle of treating customers fairly firmly embedded into its business since it was introduced in 2007 and continues to develop policies and processes since the move to FCA regulation.
- Responsible lending policies, practices and procedures in place in all businesses in order to minimise the risk of customers potentially receiving loans or lines of credit that are unaffordable or unsustainable.
- All divisions have policies and procedures in place to ensure that financial promotions are clear, fair and not misleading.
- All divisions have policies and procedures to ensure effective complaints handling is in place, should customers voice any concerns.

Progress in 2014

- Customer satisfaction remains high in both CCD (93%) and Vanquis Bank (84%).
- Customer complaints remain low in all businesses.
- Vanquis Bank has an extremely high success rate through the Financial Ombudsman Scheme (FOS).
- CCD has implemented a conduct risk framework and dashboards in each of its businesses to capture, assess and monitor conduct risk. 12 key risks were identified.
- Vanquis Bank has implemented changes arising from the transfer of consumer credit regulation from the OFT to the FCA, including enhanced controls to limit detriment to customers, further support for vulnerable customers and focus on sustainability and affordability of customer debt.
- Vanquis Bank has carried out risk assessments on internal and third party incentive schemes to identify and assess any customer risks from incentive programmes and implemented a strategy to reduce the risks.
- Vanquis Bank's senior management attended customer listening sessions with a view to identifying conduct issues throughout the product lifecycle.
- Moneybarn has redesigned its broker commission schemes in light of FCA work and guidance on incentive structures and their potential to encourage inappropriate behaviours.

Regulatory risk

The risk of adverse regulatory change for the group and/or the failure to comply with relevant regulatory requirements.

- **The risk that the group suffers a loss due to non-compliance with regulatory requirements.**
- **There is increased focus on regulation, particularly for non-standard credit lenders.**
- **The FCA replaced the OFT as the regulatory body for consumer credit businesses on 1 April 2014. FCA authorisation, supervision and enforcement regimes as well as conduct rules and guidance are now fully in force.**
- **At the end of November 2013, the government announced that it intended to legislate to introduce a cap on the total cost of credit for payday loans. The duty imposed on the FCA was to introduce the cap by January 2015 and was formally established through the Financial Services (Banking Reform) Act in December 2013. The FCA introduced a cap on the total cost of credit for high-cost short-term credit on 2 January 2015. The only group business to which this applies is Satsuma, which continues to operate below the cap.**
- **The FCA has published the terms of reference for its credit card market study which will enable the FCA to build a detailed understanding of the UK retail credit card market.**

Mitigation

- A central in-house legal team is in place which monitors legislative changes and supports divisional compliance functions.
- Expert third-party legal advice is taken where necessary.
- Divisional compliance functions are in place which monitor compliance and report to divisional boards.
- There is ongoing constructive dialogue with regulators.
- Full and active participation in all relevant regulatory reviews and consultation processes in the UK and EU.
- The group does not provide payday lending.
- Long relationships and established credibility with key regulators who recognise the different dynamics of the home credit and credit card sectors compared with the payday lending model.

Progress in 2014

- On 1 January 2014, the Chief Executive, Peter Crook was appointed to the FCA Practitioner Panel allowing the group to fully participate in discussions on the transition to FCA regulation.
- Transitionary programmes in order to achieve full FCA authorisation have been established in CCD, Vanquis Bank and Moneybarn.
- Peter Minter, managing director of Moneybarn (acquired in August 2014) is a member of the FCA Smaller Business Practitioner Panel.
- Ongoing proactive engagement with regulators both in the UK and the EU.
- No changes were required to the pricing of Satsuma products in order to comply with the FCA cap.
- Vanquis Bank is currently responding to initial information requests from the FCA in its planning stage, and will continue to assist the FCA in its work. The FCA expects to reach its conclusions towards the end of the year.

Credit risk

The risk that the group will suffer unexpected losses in the event of customer defaults.

- **Defaults in the non-standard market are typically higher than in more mainstream markets.**
- **There is continued pressure on home credit customers' incomes.**
- **Any deterioration in the employment market could increase the level of defaults.**

Mitigation

- The Vanquis Bank and CCD credit committees set policy and regularly review credit performance.
- Credit risk is subject to ongoing review in the current economic climate and management continues to maintain its tight underwriting stance.
- Comprehensive daily, weekly and monthly reporting on KPIs.
- Vanquis Bank uses highly bespoke underwriting including full external bureau data; a welcome call is conducted prior to issuing credit; initial credit lines are low (typically £250); customers are re-scored monthly; an intensive call centre-based operation focuses on collections.
- Home credit loans are underwritten face-to-face by agents in the customer's home; agents generally maintain weekly contact with the customer and stay up to date with their circumstances; agents' commission is predominantly based on collections not credit issued; application and behavioural scoring is used to assist agents' underwriting; loans are small-sum and short-term in nature.
- Satsuma used the knowledge from the home credit business and built a bespoke scorecard using proprietary knowledge data as well as additional bureau data. This has been augmented in 2014 by the implementation of a state of the art decisioning system which allows greater flexibility to improve scorecards including the use of behavioural and social data. This is combined with Vanquis Bank's underwriting and collections techniques such as the initial welcome call. Close customer contact is maintained through a dedicated 'representative on the phone' and ongoing communication through email, SMS and telephone.

Progress in 2014

- Vanquis Bank has continued to apply consistently tight underwriting standards on both new accounts and credit line increases.
- Stable delinquency levels in Vanquis Bank has enabled the business to generate a risk-adjusted margin of 33.2%, well ahead of the minimum target of 30%.
- The focus on collections performance in home credit has resulted in a significant improvement in credit quality and a strengthening in CCD's risk-adjusted margin from 58.9% to 69.1%.
- The Satsuma business model has been developed by combining the experience and knowledge of home credit and Vanquis Bank with an inherent customer focus.
- Moneybarn (acquired in August 2014) has recently upgraded its already market-leading credit scoring approach and will work with other group companies to continue to develop its capabilities.

Business risk

The risk of loss arising from the failure of the group's strategy or management actions over the planning horizon.

- **Increased marketing activity from existing competitors may impact Vanquis Bank's growth rates.**
- **CCD may not be able to build the necessary capability to capture the growth opportunity in the online loans market with Satsuma. Pressure on customers' incomes from rises in fuel, food and utility costs could impact the demand for credit, increase impairment and reduce profitability in home credit.**
- **Potential increased competition from competing formats such as online mail order credit and rent-to-own may further reduce the flow of new customers into home credit.**
- **Increased competition or the cyclical nature of the used car finance market may limit Moneybarn's ability to pursue its strategy to grow significantly with access to new funding,**

Mitigation

- A clear board strategy is in place.
- A corporate planning conference (CPC) is held annually.
- Central resource is in place to develop the corporate strategy.
- New products and processes are thoroughly tested prior to roll-out.
- There is comprehensive monitoring of competitor products, pricing and strategy.
- Robust business change functions oversee change programmes.
- The group has comprehensive monthly management accounts, a monthly rolling forecast and a biannual budgeting process.
- Loans are short-term in nature and, in home credit, agents visit customers in their homes and are therefore able to stay up to date with their circumstances.
- The group has demonstrated the ability to manage the business through the deterioration seen in the UK economy and employment market during recent years.

Progress in 2014

- Despite a modest increase in marketing activity by competitors, Vanquis Bank remains the most active participant in the non-standard credit card market and booked a record 430,000 accounts in 2014 through the continued development of distribution channels.
- A decision was made in January 2015 to cease the Polish pilot operation as the board do not consider that a business can be built which is capable of delivering the group's target returns in a suitable timeframe.
- The repositioning of CCD's home credit business as a smaller but leaner, better-quality, more modern business focused on returns, is substantially complete.
- Satsuma has begun to show early signs of its capacity to grow strongly as marketing spend has been increased in Q4 2014, having built capabilities throughout 2014.
- Since acquisition in August 2014, Moneybarn has been able to grow strongly as funding constraints have been lifted.

Reputational risk

The risk that an event or circumstance could adversely impact on the group's reputation, including adverse publicity from the activities of legislators, pressure groups and the media.

- **Media and pressure group activity increases during an economic downturn or when the company is performing well.**
- **There is a reputational impact from increased focus on regulation, particularly of non-standard credit lenders.**

Mitigation

- Credit and collection policies are designed to ensure that all businesses adhere to responsible lending principles.
- The group invests in a centrally coordinated community programme. For more information see pages 30 to 37.
- The over 130-year-old home credit business is well understood and has been subject to regular regulatory review and scrutiny.
- Specialist in-house teams, external advisors and established procedures are in place for dealing with media issues.
- A proactive communication programme is targeted at key opinion formers and is coordinated centrally.

Progress in 2014

- Continued investment and focus on corporate responsibility and in the community programme.
- Achieved an overall rating score of 99 out of a maximum possible of 100 in the FTSE4Good Index Series which measures the environmental, social and governance ratings of listed companies worldwide.

Operational risk

The risk of loss resulting from IT systems failure.

- **Vanquis Bank is reliant on third-party IT applications and systems providers: FDI for its core customer credit card platform and Newcastle Building Society for its retail deposit platform.**
- **The repositioning of the home credit business relies heavily on the development and effective roll-out of technology, in particular mobile technology and apps.**
- **Moneybarn operates industry leading IT systems which are developed and maintained in-house.**

Mitigation	Progress in 2014
• IT is managed in the businesses by experienced teams. • There is significant experience of managing third-party IT arrangements within the businesses. • There are established disaster recovery procedures which are tested on a regular basis. • Specialist project teams are used to manage change programmes. • Well established change control and testing processes are established for new business developments. • Insurance policies are in place to cover eventualities such as business interruption, loss of IT systems and crime. • Rigorous selection processes are in place for third-party suppliers to ensure that they are 'best in class'.	• CCD's development and roll-out of the smartphone collections app is now at an advanced stage with over 95% of agents using the app to conduct their rounds. CCD's 'Chip and Pin' technology development which will allow agents to accept electronic payments is at an advanced stage. Tablet computers have also been introduced, providing its field management with a mobile office which has freed up significant time previously spent on office-based administration. • The group's IT systems are hosted by proven external specialist suppliers and recovery arrangements have been extensively tested during 2014.

Threats to agent safety make it unsafe to operate home collection.

- **Home credit agents are required to carry cash to issue credit and they receive cash as a result of their collections activities.**

Mitigation	Progress in 2014
• Significant time and expenditure is invested in ensuring staff are safety conscious. • Assistance is given to agents to ensure that they are safety aware. • Induction sessions and regular updates are provided on safety awareness. • Safety awareness weeks form part of the annual calendar. • Safety incidents are monitored closely by management with follow-up actions taken. • Periodic independent audits of health and safety policies and procedures are carried out by the group's insurers.	• The group continues to spend a significant amount of time and goes to great lengths to promote and train staff on safety and provides assistance to agents to ensure they remain safety aware. • CCD's development of 'Chip and Pin' technology will reduce the level of cash carried by agents.

The risk of loss resulting from loss or abuse of confidential data or systems, including cyber risk and the risk that IT systems are compromised leading to financial and/or reputational losses.

- **There continues to be a heightened focus and emphasis on cyber risk management, coordinated by the UK government including the new Cyber Hygiene standards.**
- **Vanquis Bank, CCD and Moneybarn utilise and store sensitive personal data as part of their day-to-day operations.**
- **There continues to be heightened focus and emphasis on data loss by the Information Commissioner's Office (ICO).**

Mitigation	Progress in 2014
• IT and physical security policies are in place. • Dedicated resources are in place to support the management of information security. • Reporting of security-related incidents to divisional risk committees. • Specialist departments are in place in each business to prevent, detect and monitor fraud. • There is regular fraud reporting to divisional boards and to the group audit committee. • Hierarchical field management structure and weekly agent meetings ensure a strong controls environment within home credit including periodic LMS training for agents and employees on data privacy, as well as a number of other regulatory training modules.	• A programme of IT security upgrades within Vanquis Bank including new firewalls, new network management tools and the migration to a new payment processing firm. • Vanquis Bank achieved compliance with PCI DSS version 2 in 2014. • Processes surrounding physical security of data in home credit have been further enhanced. Additional controls have been implemented to manage physical data distribution supported by a training and awareness programme. • Responding to the increasing relevance of cyber and IT risk in CCD, six IT managers have been added, along with 25 people in the IT change team and 40 people in the development and testing team.

Loss of key management or reduction in staff morale impacts business performance.

- **The risk of loss of key staff has increased following the group's successful performance over recent years.**

Mitigation	Progress in 2014
• Effective recruitment, retention and succession planning strategies are in place. • The group has competitive remuneration and incentive structures. • Effective training and personal development plans are in place throughout the group.	• Detailed benchmarking of Vanquis Bank management's remuneration against industry peers. • Senior management turnover remained low through 2014. • CCD held an off site event to explain the new direction of CCD, build employee morale and encourage employee involvement in CCD's future. • CCD developed a new effective induction and continuous training regime for its employees in 2014.

Risks continued

Liquidity risk

The risk that the group will have insufficient liquid resources available to fulfil its operational plans and/or meet its financial obligations as they fall due.

Mitigation

- The model of 'borrowing long and lending short' results in a positive maturity mismatch, which means the duration of the receivables book is significantly less than the average duration of the group's funding. This profile significantly reduces the liquidity risk for the group.
- A board-approved policy is in place to maintain committed borrowing facilities which provide funding headroom for at least the following 12 months, after assuming that Vanquis Bank will fully fund its receivables book through retail deposits.
- The group's strategy of maintaining committed facility headroom and diversifying funding sources has resulted in a strong balance sheet position.
- Liquidity is managed by an experienced central treasury department.
- Vanquis Bank maintains a liquid assets buffer in line with the PRA's liquidity guidelines.
- There is daily monitoring of liquid resources.

Progress in 2014

- The group has continued to make excellent progress in strengthening its funding base in 2014.
- The group exercised its option in January 2015 to extend its £382.5m syndicated bank facility by 12 months to May 2018.
- Retail deposits have increased from £435m to £580m during 2014, representing 53% of Vanquis Bank's receivables against a PRA permitted level of 100%.
- Headroom on committed facilities of £112m as at 31 December 2014 which, together with the recent extension of the syndicated bank facility and the retail deposits programme at Vanquis Bank, is sufficient to meet projected growth and contractual maturities until May 2018.
- The group remains an investment grade credit, with a credit rating of BBB with a negative outlook.

Financial risk

The risk that the group suffers a loss as a result of unexpected tax liabilities.

- **Tax authorities are placing greater emphasis on taxation controls in assessing tax risk and the associated level of scrutiny placed on companies.**

Mitigation

- The group has a board-approved tax strategy which is aligned with its mission and core values and which has been shared with HMRC. The strategy sets out the group's overall approach to tax, including its tax governance framework, how tax risk management is embedded within the group's overall corporate governance structure and how the group ensures it complies with the tax obligations in the territories in which it operates.
- Policies and procedures are in place which support the management of key tax risks, along with documented systems, processes and controls to support the UK taxes which the group pays and the preparation and submission of related tax returns. This includes policies and procedures which seek to ensure that the agents engaged by the home credit business maintain their self-employed status. Processes and controls supporting the calculation of UK taxes and preparation of related returns are subject to annual internal audit review.
- The group is committed to building open and straightforward relationships with tax authorities, including having a regular and constructive dialogue with HMRC. This regularly includes advance discussion of transactions and keeping HMRC informed of key business developments, particularly those that could potentially impact on self-employed status of agents.
- An experienced in-house team, supported by tax-aware personnel in the businesses, deals with all of the group's tax matters. Advice is sought from external advisors on material transactions and whenever the necessary expertise is not available in-house.

Progress in 2014

- The group continues to have advance discussions with HMRC in relation to the various business developments impacting on the self employed status of agents, including the contractual changes required as a result of the transition to FCA regulation and the various strategic changes that have taken place in the home credit business since 2013.
- With input and expertise from external advisors, and working alongside the in-house team, due diligence was undertaken on Moneybarn, as well as work on the tax aspects of the sale and purchase and on Moneybarn's conversion to IFRS post acquisition.
- Work has commenced on improving and enhancing the various systems and processes in place to support Moneybarn's tax returns and tax compliance obligations.
- Due diligence processes were completed to ensure that the group can comply with its obligations under the US Foreign Account Tax Compliance Act and similar provisions, and that Vanquis Bank can identify and report information about retail deposit account holders who are residents or citizens of particular territories.

Pension risk

The risk that there may be insufficient assets to meet the liabilities of the group's defined benefit pension scheme.

- **The current economic environment results in increased volatility in equity markets and corporate bond yields.**
- **Improving mortality rates in the UK.**

Mitigation

- The defined benefit pension scheme was substantially closed to new members from 1 January 2003.
- Cash balance arrangements are now in place within the defined benefit pension scheme to reduce the exposure to improving mortality rates and market volatility.
- The pension investment strategy aims to maintain an appropriate balance of assets between equities and bonds.
- New employees since 2003 have been invited to join the group's defined contribution pension schemes which carry no investment or mortality risk for the group.
- The defined benefit pension scheme was amended in 2012 so that accrued pension benefits are now linked to increases in the Consumer Price Index rather than future salary increases. This reduces the future liabilities of the scheme.

Progress in 2014

- The group's pension asset for accounting purposes stands at £56.0m as at 31 December 2014 (2013: £29.2m).
- The company and trustees agreed to revise the investment strategy of the group's defined benefit scheme by significantly reducing the holding in equities to 20%, reducing the holding in corporate bonds to 20% and increasing the holding in matching assets to 60% using leveraged gilts to increase the extent of the liability matching to close to 100%. This repositioning of investments has resulted in a de-risking of the scheme by substantially reducing the inflation and interest rate risk.

Audit committee and auditor

Annual statement by the chairman of the audit committee

Following my appointment as chairman of the audit committee on 1 March 2014, I am delighted to be presenting the audit committee report to you as a separate report in accordance with the FRC's Guidance and the Financial Reporting Laboratory's 'Reporting of Audit Committees' guidance.

"Integrity, quality and challenge remain the key areas of focus for the committee in our overriding aim to protect shareholders' interests."

Alison Halsey Audit committee chairman

Audit committee

Members	Secretary
Alison Halsey[1] (Chairman)	Ken Mullen
Malcolm Le May	
Stuart Sinclair	
Rob Anderson	

Attendees by invitation

Manjit Wolstenholme
Peter Crook
Andrew Fisher
Gary Thompson (Group Financial Controller)
David Mortlock (Head of Audit)
Deloitte LLP (External auditor)

1 Appointed as Chairman on 1 March 2014.

Update on 2014 activities

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.

Significant issues and areas of judgement considered by the audit committee

The following significant issues and areas of judgement were considered by the committee in relation to the 2014 Annual Report and Financial Statements:

Impairment of receivables within the Consumer Credit Division (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 both the audit committee and 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 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, expected future performance and the potential benefit of operational initiatives in the business; and
- Considered the work performed by the 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 has 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.

Audit committee and auditor continued

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:

- 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 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 committee reviewed the advice of the company's external actuary, Towers Watson, who propose the appropriate assumptions and calculate the valuation of the retirement benefit asset. In addition, the committee considered the work performed by Deloitte and their views on the suitable ranges of assumptions based on their experience.

Valuation of acquisition intangible asset

The valuation of the broker relationship intangible asset on the acquisition of Moneybarn has been calculated based on the estimated cash flows associated with the business generated from Moneybarn's broker relationships discounted over their expected useful life.

Management apply judgement in: (i) deriving the forecast cash flows from broker relationships by extracting them from Moneybarn's budget; (ii) establishing the appropriate discount rate to apply to forecast cash flows; and (iii) calculating the estimated useful life of broker relationships of 10 years.

In assessing the reasonableness of the valuation of the acquisition intangible asset, the committee considered a detailed paper produced by management on the valuation methodology. In addition, the committee also considered the work performed by Deloitte and their views on the appropriateness of the assumptions used by management.

Taxation

The group provides for tax liabilities based on an assessment of the probability of such liabilities falling due. Judgement is applied to determine the quantum of such liabilities and the probability of them occurring. The committee considers management's assessment of the likelihood and quantum of any potential liability and the views and work performed by Deloitte in considering the reasonableness of the assessment carried out.

Fair, balanced and understandable

A specific area of focus, discussion and oversight for the committee throughout 2014 has been the requirement to provide the board with an assurance that the content of the Annual Report and Financial Statements 2014, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the group's position and performance, business model and strategy.

In justifying this statement the committee considered the robust process which operated in creating the Annual Report and Financial Statements in 2014 including:

- The full and effective disclosure by the divisions of their customer and conduct risk and the review undertaken by the risk advisory committee and the committee;
- The early discussion by the board which enabled it, and the committee, to provide input into the overall messages and tone of the Annual Report and Financial Statements;
- Input which is provided by senior management from each division and the corporate function and the process of review, evaluation and verification to ensure balance, accuracy and consistency;
- The review conducted by external advisors appointed to advise on best practice;
- The regular review of the internal audit activity reports which are presented at committee meetings and the opportunity to meet the external auditor without the executive directors or members of the senior management team being present;
- The meetings of the committee held to review and consider the draft Annual Report and Financial Statements in advance of the final sign-off; and
- The final sign-off process by the board of directors.

This assessment was underpinned by the following:

- Key judgement papers prepared by management covering impairment of receivables across the group, but specifically at CCD, the valuation of acquisition intangibles and growing concern which were carefully reviewed and challenged by the committee with the assistance of the external auditor who also fully analysed the papers as part of the year-end process;
- Comprehensive guidance issued to all contributors involved in the preparation of the Annual Report and Financial Statements at all levels;
- The fact that the risks reflected the issues which were of concern to the committee;
- A verification process dealing with the factual content of various aspects of the Annual Report and Financial Statements;
- Comprehensive reviews undertaken at different levels in the group that aim to ensure consistency and overall balance; and
- Comprehensive review by the senior management team.

Composition of the committee

The other members of the committee during 2014, Rob Anderson, Malcolm Le May and Stuart Sinclair, all have a wide range of business and financial experience which is evidenced by their biographical summaries on pages 78 and 79. Malcolm Le May and I joined the committee on 1 January 2014 and I took over chairmanship of the committee on 1 March 2014. Both Malcolm and I have considerable recent and relevant business and financial experience as evidenced by our biographical details set out on pages 78 and 79.

Internal audit

The group operates an in-house internal audit function which is managed by the group Head of Audit with specialist services provided by third-party consultants where necessary. The 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 I also meet separately with the Head of Audit on a quarterly basis.

External auditor

The committee considers the reappointment of the external auditor, including the rotation of the audit partner, annually. This also includes an assessment of the external auditor's independence and an assessment of the performance in the previous year, taking into account detailed feedback from directors and senior management across the group.

The external auditor is required to rotate the audit partner responsible for the group audit every five years. The current lead audit partner has been in place for three years. The group carried out a rigorous audit tender in June 2012 and as a result of the tender, Deloitte replaced PricewaterhouseCoopers LLP 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 they are satisfied with the quality of the services provided. In accordance with the Code, the external audit contract will be put out to tender at least every 10 years.

The role of the committee

General

The primary function of the committee is to assist the board in fulfilling its oversight responsibilities by reviewing the financial statements of the group and other financial information before publication. 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 internal audit function and the external auditor.

The ultimate responsibility for reviewing and approving the Annual Report and Financial Statements remains with the board.

Specific

The committee is also specifically responsible for:

- All matters relating to the appointment and reappointment of the external auditor, the auditor's remuneration and the policy on the supply of non-audit services to the company by the external auditor;
- Approving the internal audit plan annually;
- Keeping under review the effectiveness of the group's system of internal controls by considering internal audit activity reports at each meeting and reporting to the board on a regular basis. The committee also reviewed and approved the statement set out on page 91 concerning internal controls and risk management; and
- Reviewing and approving the register of benefits offered to directors in accordance with the company's code of practice on benefits.

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.

The committee has adopted a policy on the appointment of staff from the external auditor to positions within the various group finance departments. It grades appointments into four categories and sets out the approvals required. Neither a partner of the audit firm who has acted as engagement partner, the quality review partner, 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 a divisional Finance Director.

At its February and July meetings, the committee had a separate session with the external auditor without any executive director or employee of the company or 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 auditor for non-audit work. This policy is reviewed annually.

The award of non-audit work to the auditor is managed in order to ensure that the auditor is able to conduct an independent audit and is perceived to be independent by the group's shareholders and other stakeholders.

The performance of non-audit work by the external auditor is monitored and work is awarded only when, by virtue of their knowledge, skills or experience, the auditor is clearly to be preferred over alternative suppliers.

The group maintains an active relationship with at least two 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 auditor was the preferred supplier.

Audit committee and auditor continued

No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the auditor without my prior written approval and such approval is only given in exceptional circumstances. I am required to approve in advance any single award of non-audit work with an aggregate cost of £250,000 or more. The auditor may not perform internal audit work. External specialist resource for the internal audit function is provided by KPMG LLP.

Where Deloitte has been used in 2014 for non-audit work under the terms of this policy, prior approval was obtained from the committee. On each occasion the committee sought confirmation that Deloitte's objectivity and independence would be safeguarded. A paper requesting approval was presented to the committee which set out details of Deloitte's internal controls which have been designed to ensure independence and objectivity and a confirmation that Deloitte had the knowledge, skills and experience to carry out the work in preference to any other supplier.

During the year, the committee regularly considered a schedule of audit and non-audit work carried out by Deloitte. This fell broadly into four categories; fees payable for the audit of the parent company and consolidated financial statements; audit of the company's subsidiaries pursuant to legislation; other services pursuant to legislation; and tax services.

Fees paid to Deloitte for non-audit work during the year amounted to £823,000 (2013: £93,000) comprising £60,000 for the group interim review, £49,000 for the review of profits for regulatory reporting purposes, £568,000 for transactional due diligence advice and £146,000 for agreed upon procedures work throughout the year.

Effectiveness

The committee formally considered its effectiveness in 2014. This was undertaken as part of the board evaluation. 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 internal board and committee evaluation questionnaire. On the basis of the evaluation undertaken, the overall view was that the committee was operating efficiently and effectively.

Alison Halsey
Chairman of the audit committee
24 February 2015

Audit committee key items in 2014

FEB

- Review of CCD receivables valuation.
- Review and approval of the going concern paper which confirmed it was appropriate to prepare the Annual Report and Financial Statements for year ended 31 December 2013 on a going concern basis.
- Review of full year results.
- Discussion with the external auditor without any executive director or employee present.
- Review of statement on Internal Controls.
- Independence of external auditor discussed.
- Recommendation to the board regarding reappointment of external auditor.
- Consideration of a new reporting structure for Vanquis Bank and group internal audit function.

JUL

- Review of CCD receivables valuation.
- Review and approval of the going concern paper which confirmed it was appropriate to prepare the interim results for the six months ended 30 June 2014 on a going concern basis.
- Review of interim results.
- Discussion with the external auditor without any executive director or employee present.
- Review of effectiveness of external auditor.

OCT

- Review of the external auditor's planning report for forthcoming year end.
- Consideration of a report on the effectiveness of the controls in CCD's central collections department.
- Review and approval of the 2015 internal audit plan.
- Review and approval of the organisation and reporting structure for the group and Vanquis Bank internal audit functions.

DEC

- Proposed internal audit plan for 2015 approved.
- Review of the annual report on external whistleblowing activity.
- Review of register of benefits received by directors.
- Review of performance and effectiveness of the committee.
- Draft Internal Audit Charter agreed in principle.
- External review of the internal audit function approved and agreed.
- Review of CCD central collections department strategy.

Nomination committee

The nomination committee comprises all of the non-executive directors and is chaired by Manjit Wolstenholme, the Chairman. The Chief Executive attends all meetings by invitation. The committee meets at least once a year.

The committee intends to develop its succession planning process which will be extended to include an insight into the opportunities for certain high potential individuals. The committee has commissioned a report with a view to creating a more extensive succession plan which is fit for purpose.

Nomination committee

Members	Secretary
Manjit Wolstenholme (Chairman)	Ken Mullen
Alison Halsey	
Malcolm Le May	
Rob Anderson	
Stuart Sinclair	

Attendees by invitation

Peter Crook[1]

1 Ceased to be a member from 1 January 2014.

> "Succession planning has been recognised as a key priority for 2015 as the group continues to grow and expand, particularly following its recent acquisition.
>
> **Manjit Wolstenholme** Chairman

Role and responsibilities

- Regularly reviews the structure, size and composition (including skills, knowledge, experience and diversity) of the board, and makes recommendations for change to the board to ensure it remains appropriately refreshed;
- Gives full consideration to the succession planning for directors and the senior management team which ensures that succession is managed smoothly and effectively;
- Keeps under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- Identification and nomination of candidates for approval by the board to fill board vacancies;
- Evaluation of the balance of skills, knowledge, experience and diversity on the board before any appointments and the preparation of a description of the role and 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; and
- Reviews the results of the board performance evaluation process.

Update on 2014 activities

Details of the committees' activities during the year are set out in the calendar on page 102.

Diversity

The group recognises the importance of diversity, including gender diversity, at all levels of the group, as well as at board level. The nomination committee and the group as a whole is committed to increasing diversity across our operations and supporting the development and promotion of talented individuals, regardless of gender, nationality and ethnic background. The board is supportive of the recommendations contained in Lord Davies' report 'Women on Boards' for female board representation to increase to 25% by the end of 2015 and is compliant with this recommendation.

Nomination committee continued

The board has had 29% female representation since last year's annual report. The board uses the nomination committee to ensure that its composition is diverse, particularly in terms of different backgrounds and experience as this brings a variety of perspectives, skills, and knowledge to the board. For more information about the board's composition, see page 82.

We remain committed to at least maintaining this level of female representation in the medium term, whilst ensuring that diversity in its broadest sense remains a key feature of the board. The nomination committee will continue to recommend appointments to the board based on merit. The board remains committed to strengthening the pipeline of senior female executives within the business and has taken steps to ensure that there are no barriers to women succeeding at the highest levels within the group.

The group believes that diversity amongst directors contributes towards a high performing and effective board. The board works hard to ensure that it is able to recruit directors from different backgrounds, with diverse experience, perspectives, personalities, skills and knowledge.

Last year, we reported that the company was committed to achieving a target of 25% women within the wider senior management group by 2015. We have made good progress in terms of gender diversity within the wider senior management group and we are happy to report that as at 31 December 2014, 30% of the group's senior management are female.

The board, through the nomination committee, is committed to increasing diversity across the group. Despite the progress that has been made, the committee is conscious that, whilst the group board has 29% female representation, the divisional boards are considerably lacking in female representation. 20% of the CCD board are female, whilst no females sit on the Vanquis Bank or Moneybarn boards. The committee intends to look at this over the course of 2015 with a view to increasing female representation, where it can, whilst continuing to consider appointments on merit.

In support of our policy on diversity, we intend to report annually on the following objectives and initiatives that promote gender and other forms of diversity amongst our board and senior management:

- 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 on gender diversity and best practice; and
- We will ensure the topic of diversity is raised during every board evaluation.

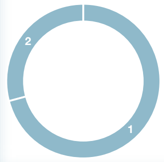
Succession planning

As discussed above, the group remains committed to maintaining and improving, where necessary, its level of female representation, whilst ensuring that the right skills and experience are being sought. The committee intends to support the group's diversity policy within its succession planning by strengthening its senior female management within the business over the course of 2015.

The nomination committee will continue its work of ensuring there are appropriate succession plans in place and a mix of skills 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 persons discharging managerial responsibility. Below board level, succession planning safeguards the pipeline of talented individuals within the group who are capable and have potential to succeed the executive directors and other members of the senior management team in the short, medium and long term.

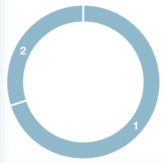
The Chief Executive has been tasked with preparing a report on the future of the group, reflecting its new composition, for review by the board in February 2015 and by the committee in May 2015. This report will identify the potential successors for senior management positions, taking into account gender, the talent pool across the group and possible recruitment.

The board



1	Male	71%
2	Female	29%

Overall senior management



1	Male	70%
2	Female	30%

Group nationality

Geographical mix of directors and senior management across the group and divisions.

Nomination committee key items in 2014

2014

- Reviewed the medium term succession plan provided by an external evaluator as part of the 2013 external board evaluation;
- Identified and discussed potential successors for executive directors and divisional managing directors;
- Tasked the Chief Executive with preparing a report on the future of the group; and
- Recognised that succession planning in 2015 is a key priority for the development of the group.

A programme of work has also been developed for 2015 which will establish talent management and succession planning on a group-wide basis. The key objectives of the programme are:

- The creation of a talent map of all divisions and the corporate office;
- A talent review of potential candidates for succession purposes; and
- A talent assessment of those potential candidates.

Board composition

As the board continues to work towards securing FCA authorisation for each division, the committee will ensure that the board composition retains an appropriately balanced range of skills, experience and technical ability so that the group is well placed to achieve its objectives and longer term strategy in the new regulatory environment.

During the year, the composition of the committees was refreshed and details are contained on page 85.

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 their duties to the company, including, where appropriate, chairing a committee.

The board will consider all requests for permission for 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; and
- 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. 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.

Effectiveness

At its meeting in February 2015 the committee formally considered its effectiveness in 2014, and on the basis of the internal board and committee evaluation undertaken, the overall view was that the committee was working effectively.

Manjit Wolstenholme
Chairman of the nomination committee
24 February 2015

Directors' report

Introduction

In accordance with section 415 of the Companies Act 2006, the directors present their report for the year ended 31 December 2014. 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 40 to 67);
- Greenhouse gas emissions (pages 36 and 37);
- Risk management (pages 93 to 96).

Both the Strategic Report and the Directors' Report have been prepared and presented in accordance with and in reliance upon applicable English 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 such 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 are given on pages 78 and 79 and are incorporated into this report by reference.

All directors served throughout 2014 and up to the date of signing of the financial statements. There were no changes in directors.

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 Articles. In accordance with the recommendations of the Code, all directors will offer themselves for reappointment at the 2015 AGM. 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 Companies Act 2006 and the FCA's Disclosure and Transparency Rules.

Directors' indemnities

The Articles permit it to indemnify directors of the company (or of any associated company) in accordance with section 234 of the Companies Act 2006. 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) 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 Companies Act 2006. No indemnity was provided and no payments pursuant to these provisions were made in 2014 or at any time up to 24 February 2015.

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

Share capital

During the year, the ordinary share capital in issue increased by 6,797,827 shares to 146,413,447 shares at 31 December 2014. Details are set out in note 24 to the financial statements.

The company's issued ordinary share capital comprises a single class of ordinary share. Details of movements in issued share capital can be found in note 24 to the financial statements. 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 period, 6,797,827 ordinary shares in the company were issued as follows:

- 202,689 shares in relation to the Provident Financial Performance Share Plan 2013 at a price of 1899p;
- 413,853 shares in relation to the Provident Financial Long Term Incentive Scheme 2006 at prices of 1899p and 2139p;
- 269,955 shares in relation to the employee share option schemes at prices ranging between 491p and 1305p; and
- 5,911,330 shares were placed at a price of £20.30 per placing share in relation to the acquisition of the Moneybarn group of companies.

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 Companies Act 2006; 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 and Transparency Rules DTR 5, the company as at 20 February 2015 (being the latest practicable date before publication of this report), has been notified of the following disclosable interests in its issued ordinary shares:

Invesco Limited	**17.90%**
M&G Investment Management Limited	**6.23%**
Woodford Investment Management Limited (UK)	**5.80%**
BlackRock Investment Management Limited	**5.21%**
Marathon Asset Management (UK)	**4.93%**
Tweedy Browne Company LLC (US)	**3.87%**
Cantillon Capital Management LLC	**3.69%**

Interests as at 31 December 2014 were as follows:

Invesco Limited	**18.07%**
M&G Investment Management Limited (UK)	**6.24%**
Woodford Investment Management Limited (UK)	**5.75%**
BlackRock Investment Management Limited	**5.19%**
Marathon Asset Management (UK)	**4.87%**
Tweedy Browne Company LLC (US)	**4.14%**
Cantillon Capital Management LLC	**3.80%**

Note: all interests disclosed to the company in accordance with DTR 5 that have occurred since 20 February 2015 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 2014	31 December 2013
Peter Crook[1]	**629,669**	708,897
Andrew Fisher[1]	**411,870**	462,710
Rob Anderson	**4,047**	3,897
Manjit Wolstenholme	**5,663**	5,663
Malcolm Le May	**–**	–
Stuart Sinclair	**–**	–
Alison Halsey	**–**	–

1 These interests include conditional share awards granted under the LTIS, awards under the PSP and 2013 PSP and shares purchased under the SIP as detailed on pages 118 to 125 of the Annual Report on Remuneration.

No director had any non-beneficial interests at 31 December 2014 or at any time up to 24 February 2015.

There were no changes in the beneficial or non-beneficial interests of the directors between 1 January 2015 and 24 February 2015.

Dividend waiver

Information on dividend waivers currently in place can be found on page 125.

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 AGM on 8 May 2014. The board is seeking renewal of these powers at the 2015 AGM.

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).

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. The company operates two savings-related share option schemes aimed at encouraging employees' involvement and interest in the financial performance and success of the group through share ownership.

In particular, around 1,246 employees were participating in the company's save as you earn schemes as at 31 December 2014 (2013: 1,304).

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 share for every four shares purchased. 285 employees were investing in company shares under the SIP as at 31 December 2014.

Executive share incentive schemes

Options are outstanding under the Provident Financial Executive Share Option Scheme 2006 (the ESOS). Awards are also outstanding under the Provident Financial Long Term Incentive Scheme 2006 (the LTIS) and both the Provident Financial Performance Share Plan (the PSP) and the Provident Financial Performance Share Plan (2013) (the 2013 PSP).

As set out on page 118 of the directors' remuneration report, the remuneration committee did not grant any options during the year under either the ESOS or the LTIS.

Provident Financial plc 2007 Employee Benefit Trust (the EBT)

The EBT, a discretionary trust for the benefit of executive directors and employees, was established on 11 September 2007. The trustee, Kleinwort Benson (Jersey) Trustees Limited, is not a subsidiary of the company. The EBT operates in conjunction with the LTIS, and the 2013 PSP and has previously purchased shares in the market for the purpose of the LTIS. Following the passing of a resolution at the 2008 AGM, the EBT is able to subscribe 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

Directors' report continued

or subscription, ordinary shares to satisfy conditional share awards granted under the LTIS, and awards granted under the 2013 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 26 on page 183 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. In relation to the 2013 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 the vesting of the Matching Award. Full vesting of awards granted under the LTIS and the Matching Award granted under the 2013 PSP is subject to the achievement of the performance targets set out on pages 122 to 124 of the directors' remuneration report.

In April 2014, the EBT subscribed for the issue of 395,037 new shares in order to satisfy the awards made under the LTIS on 8 April 2014. In September 2014, the EBT subscribed for the issue of 18,816 new shares in order to satisfy further awards under the LTIS on 1 September 2014.

In addition to this, the EBT in April 2014 subscribed for the issue of 202,689 shares in order to satisfy awards made under the 2013 PSP on 8 April 2014.

As at 31 December 2014, the EBT held the non-beneficial interest in 2,535,307 shares in the company (2013: 2,809,850). 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. As at 31 December 2014, the PF Trust had no interest in any shares in the company (2013: nil).

The PF Trust has previously subscribed for shares for the purpose of satisfying awards granted under the PSP. When the PF Trust subscribed for shares, it was funded by loans from the company which were then used to acquire ordinary shares for the purposes of satisfying awards granted under the PSP. For the purposes of the financial statements, the PF Trust 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 the PSP expired in July 2012, no further awards were made under the PSP and no further loans to the PF Trust were made during 2014.

The PF Trust operated in conjunction with the PSP and the legal and beneficial interest in the Basic Award and the Matching Award was transferred from the PF Trust to executive directors and employees when awards were made but was subject to certain forfeiture provisions. In addition, full vesting of the Matching Award was subject to the achievement of the performance targets set out on pages 123 and 124 of the Annual Report on Remuneration.

Profit and dividends

The profit for the financial year, before taxation and exceptional items, amounts to £234.4m (2013: £196.1m). The directors have declared dividends as follows:

Ordinary shares	(p) per share
Paid interim dividend	**34.1p per share (2013: 31.0p per share)**
Proposed final dividend	**63.9p per share (2013: 54.0p per share)**
Total ordinary dividend	**98.0p per share (2013: 85.0p per share)**

The final dividend will be paid on 19 June 2015 to shareholders whose names are on the register of members at the close of business on 22 May 2015.

Pensions

The group operates three pension schemes. 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 topical 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 topical issues or to address any skill 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 associated action plan and a conflicts of interest policy, both of which are reviewed at least annually.

In January 2014, three new member-nominated trustees were appointed, bringing the total to four. In addition, there are three trustees appointed by the company.

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.

In October 2013, the group auto-enrolled all eligible staff into a new scheme designed for auto-enrolment.

In January 2015, the trustees implemented a new investment strategy with the agreement of the company, the object of which was to reduce the risk that the assets would be insufficient in the future to meet the liabilities of the scheme. The de-risking was completed on 9 February 2015.

In 2011, the company established an Unfunded Unapproved Retirement Benefits Scheme (UURBS), for the benefit of those employees who were affected by the HMRC reduced annual allowance which applies to registered pension schemes and was introduced in October 2010.

The UURBS offers an alternative to a cash payment in lieu of a pension benefit over the annual allowance.

Health and safety

Health and safety standards and benchmarks have been established in the divisions and the performance of the divisions in meeting these standards is closely monitored by the board.

Anti-bribery and corruption

The corporate policies were updated in 2011 to reflect the introduction of the Bribery Act in July 2011 and a corporate hospitality register was established using a risk-based approach. Although the risks for the group arising from the Bribery Act 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.

Overseas branches

The group has overseas branches in the Republic of Ireland and Poland.

Important events since the end of the financial year (31 December 2014)

The group's syndicated bank facility of £382.5m was extended to May 2018 in accordance with a provision in the facility in January 2015. Further information can be found on page 71 of the Strategic Report.

On 24 February 2015, the group announced its decision to withdraw from the pilot credit card operation in Poland as the timeframe required to develop a business of sufficient scale to achieve the group's target returns is too long and therefore is not the best use of the group's capital.

Corporate governance statement

The group's corporate governance report is set out on pages 76 to 108. The group has complied with the provisions of the UK Corporate Governance Code published in September 2012 (the Code) throughout 2014.

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, interest rate risk and foreign exchange rate risk are included on pages 142 to 146 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.

Employee involvement

The group is committed to employee involvement in each of its divisions. Employees are kept well informed of the performance and strategy of the group through weekly huddles or monthly 'town hall' style meetings, personal briefings and through an increasing use of modern technology. The divisions now use social network sites such as 'Yammer' for employee communication and discussions, intranet discussion boards, blogs by employees and managing directors and there is now a monthly podcast called the BIG Conversation within CCD.

The group consults with employees regularly, including through employee forums, trade unions and employee surveys, so that their views can be taken into account when making decisions that are likely to affect their interests.

The group also provides a wellbeing programme within each division. CCD recently opened a fitness and wellbeing centre at the group's head office. These are designed to promote physical and mental health across the business.

The group also has a number of community programmes in place. Further detail of this is set out on pages 30 to 37 of the Strategic Report.

Employees are also able to share in the group's results through various share schemes as set out on page 105 of this report.

Training

The company is fully committed to encouraging employees at all levels to study for relevant educational qualifications and to training employees at all levels in the group. In particular, the company has initiated a series of talent and development initiatives as part of its investment in the career progression of its employees.

The company 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. 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.

Directors' report continued

There are no significant agreements to which the company is a party that take effect, alter or terminate upon a change of control following a takeover bid for the company.

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 192 is made to distinguish for shareholders the respective responsibilities of the directors and of the 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 law and regulations.

The Companies Act 2006 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. Under this Act, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group 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.

The directors have also considered the review undertaken and the report provided by the audit committee and are satisfied that the Annual Report and Financial Statements 2014, taken as a whole, are 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 have accepted the audit committee report on the basis of the review undertaken by it as set out in page 98 of the report.

The directors are also required by the FCA's Disclosure 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 Companies Act 2006 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 2014 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, 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 2014 includes a fair review of the development and performance of the business and the position of the company and group, and a description of the principal risks and uncertainties it faces.

Manjit Wolstenholme	Chairman
Malcolm Le May	Senior Independent Director
Alison Halsey	Non-executive director
Stuart Sinclair	Non-executive director
Rob Anderson	Non-executive director
Peter Crook	Chief Executive
Andrew Fisher	Finance Director

Disclosure of information to auditor

In accordance with section 418 of the Companies Act 2006, each person who is a director 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 LLP, the auditor for the company, was appointed in 2012 and a resolution proposing their reappointment will be proposed at the forthcoming AGM.

Annual general meeting (AGM)

The AGM will be held at 10 am on 7 May 2015 at the offices of Provident Financial plc, No. 1 Godwin Street, Bradford, West Yorkshire, BD1 2SU. The Notice of Meeting, together with an explanation of the items of business, will be contained in a circular to shareholders to be dated 31 March 2015.

Approved by the board on 24 February 2015 and signed by order of the board.

Kenneth J Mullen
General Counsel and Company Secretary

Directors' remuneration report

This report sets out details of the remuneration policy for our executive and non-executive directors, describes the implementation of the policy and sets out the remuneration received by the directors for the year ended 31 December 2014. 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 followed the requirements of the UK Corporate Governance Code published in September 2012.

For completeness and transparency, this part of the directors' remuneration report includes a summary of the remuneration policy approved by shareholders at last year's AGM (set out on pages 110 to 115) and intended to operate until the AGM in 2017 unless any significant changes to the policy are proposed that require shareholder approval prior to this date. The Annual Statement by the chairman of the remuneration committee (set out on this page) and the Annual Report on Remuneration (set out on pages 116 to 128) will be subject to an advisory vote at the 2015 AGM.

Malcolm Le May
Chairman of the remuneration committee

Annual Statement by the chairman of the remuneration committee

On behalf of the board, I am pleased to present the directors' remuneration report for the year ended 31 December 2014 following my first year as chairman of the remuneration committee.

Performance in 2014

The company has continued to deliver sustainable returns and growth for its shareholders during 2014, with the key highlights being as follows:

- Profit before tax, amortisation of acquisition intangibles and exceptional costs up by 19.5% to £234.4m;
- TSR growth of 57.0%;
- Adjusted EPS growth of 18.4%;
- A 15.3% increase in dividend for the year from 85.0p to 98.0p; and
- The acquisition of Moneybarn in August which was immediately earnings accretive.

Key outcomes in respect of 2014

The annual bonus scheme is based on an adjusted EPS target* and personal objectives. For 2014, the adjusted EPS target, prior to the investment in Poland, any amortisation of the broker relationships intangible asset created on the acquisition of Moneybarn and exceptional costs, was set at 125.2p, with threshold and maximum EPS at 95% and 105% of the target respectively. Based upon an adjusted EPS of 138.6p, bonuses of 100% of the maximum of the EPS element were awarded to Peter Crook and Andrew Fisher in respect of 2014, reflecting the strong financial performance of the company. Having considered the achievement against personal objectives, overall bonuses of 100% of the maximum were awarded to Peter Crook and Andrew Fisher. Both executive directors have chosen to waive the maximum two-thirds of their annual bonus in order to participate in the Provident Financial Performance Share Plan (2013) (2013 PSP).

Awards made under the Provident Financial Long Term Incentive Scheme (LTIS) in 2012 are due to vest in March 2015. These awards are subject to a performance target based on annualised EPS growth and absolute annualised TSR over the three financial years ended 31 December 2014. In order for the award to vest in full, annualised TSR of 15% and annualised EPS growth of 11% was required. Based upon an actual annualised TSR of 43% and an annualised EPS growth of 16.3%, 100% of the award will vest in March 2015.

Awards made under the Provident Financial Performance Share Plan (PSP) in 2012 are also due to vest in March 2015. In order for the basic award to be matched in full, an average annual EPS growth of 11% was required over the three financial years ended 31 December 2014. Based upon an actual average annual EPS growth of 19.1%, the basic awards were matched in full.

* For the purposes of incentive pay, EPS is calculated on an adjusted basis.

Remuneration policy

The directors' remuneration policy, which was approved by shareholders at the 2014 AGM, is summarised on pages 110 to 115 for information and is consistent with the policy approved by shareholders at last year's AGM.

In accordance with the terms of the approved remuneration policy, the committee is seeking shareholder approval to renew the LTIS, which is due to expire in 2016, at the 2015 AGM. The terms of the new LTIS are substantially similar to the expiring LTIS, and were communicated to shareholders and the shareholder advisory bodies during the consultation carried out in December 2014 and January 2015. In general, the proposals were well received.

Following the consultation, the committee agreed to increase the executive directors' share ownership requirements from 125% to 175% of salary in 2015 and 200% of salary in 2016.

I will be available to answer questions on the remuneration policy, the renewal of the LTIS, and the Annual Report on Remuneration at the AGM in May 2015.

Malcolm Le May
Chairman of the remuneration committee

Remuneration policy

Committee role

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 team.

The Chief Executive is consulted on proposals relating to the remuneration of the other executive directors and the senior management teams and the Chairman is consulted on proposals relating to the Chief Executive's remuneration. When appropriate, both are invited by the committee to attend meetings but are not present when their own remuneration is considered.

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 responsibilities of each individual's role, experience and performance;
2. 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;
3. Pay and benefits practice and employment conditions both within the group as a whole and within the sector in which it operates;
4. Periodic external comparisons to examine current market trends and practices and equivalent roles in companies of similar size, business complexity and geographical scope;
5. The need to maintain a clear link between the overall reward policy and specific company performance;
6. The need to achieve alignment to the business strategy both in the short and long term; and
7. The requirement for remuneration to be competitive, with a significant proportion dependent on risk-assessed performance targets.

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 team. 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 company and reflect the strong financial performance of the company 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 divisional human resources directors 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 team

Remuneration for the level below executive director (including share incentives, bonus 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. Following consultation with shareholders on the proposed renewal of the LTIS, it has been agreed that the current share ownership guidelines for executive directors be increased to 175% of salary in 2015 and 200% of salary in 2016. This change improves the current policy's alignment with the company's shareholders vis-à-vis the share ownership guidelines included in the remuneration policy approved by shareholders at the 2014 AGM.

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 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. 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 company and individual performance as part of the review process. 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 and 100% of salary for the Finance Director. One-third of bonus earned is subject to compulsory deferral into the 2013 PSP, typically for a period of three years. May defer up to an additional third of bonus. Any deferred bonus will be eligible for Matching Awards under the 2013 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. A graduated scale operates from threshold performance through to the maximum performance level. In relation to financial targets, 0% 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 achieving the threshold performance level as for financial targets. Clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements. Details of the bonus measures operated 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.
Performance Share Plan	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 defer up to two-thirds of annual bonus and receive a basic award together with a matching share award. Executive directors eligible for a Matching Award of up to two times based on a deferral of up to two-thirds of annual bonus with a minimum compulsory deferral of one-third. Maximum bonus being earned and a maximum bonus deferral, results in a maximum benefit of 160% of salary in the case of the Chief Executive and 133% of salary in the case of the 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 or cash at the time of vesting.	Awards vest based on three-year performance 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 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 company's strategy and KPIs. Any substantive reworking of the current performance condition 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. Clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements. Clawback provisions apply to the Matching Award only.

Remuneration continued

Remuneration policy continued

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Long Term Incentive Scheme	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 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 plan rules. Dividend equivalent provisions allow the committee to pay dividends on vested shares or cash at the time of vesting. The Long Term Incentive Scheme expires in May 2016 and a resolution to renew the scheme on substantially similar terms is being presented to shareholders for approval 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 conditions 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 conditions remain aligned with the company's strategy and KPIs. Any substantive reworking of the current performance conditions 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. Clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements.
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.	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 are required to hold a minimum of 125% of salary in the form of shares in the company. 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 are not taken into account.	Not applicable.

The committee will operate the incentive schemes within the policy detailed above and in line 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.

"The committee's objective is to ensure that our remuneration policy is aligned to our business objectives and is motivational for our executives so that we can grow the business and deliver long-term returns to shareholders."

Malcolm Le May
Remuneration committee chairman

Regulatory changes

The committee is mindful that proposed regulatory changes in the financial services sector may result in a need to rebalance the executive directors' pay and, as a result, 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 remuneration policy 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 remuneration policy. This limit does not include the value of any buyout arrangements.

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.

Any incentive offered above these limits would be contingent on the company receiving shareholder approval for an amendment to the approved remuneration policy at its next AGM.

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 (ie 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 remuneration policy 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 2013 PSP have been selected to reflect the key indicators of the company's financial performance.

EPS continues to be considered by the committee as one of the broadest and most well understood measures of the company'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 our objective of continuing to deliver a high dividend yield and thus is aligned with our shareholder base which is weighted towards longer-term income investors.

Remuneration policy continued

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 2013 PSP and the LTIS since 2012, and it is intended that this will be the approach for all awards made under the 2013 PSP and the LTIS. 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 under the LTIS to provide an appropriate external balance to the internal EPS measure and is consistent with delivering superior returns to shareholders which remains the company's key, over-arching, long-term objective.

The committee has determined that absolute TSR continues to be an appropriate performance measure as the FTSE 250 is considered too diverse a group against which to compare relative TSR performance. Also, the general financial sector is a diverse group of companies, none of which is considered to be directly comparable to the company. However, the committee will continue to keep the appropriateness of this measure under review.

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 27 April 2006 for the Chief Executive and 1 January 2008 for the Finance Director. All contracts operate on a rolling basis with a 12-month notice period.

A 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 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 one year's 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 group and personal performance.

To the extent that a director seeks to bring a claim against the company in relation to the termination of their employment (eg for breach of contract or unfair dismissal), the committee retains the right to make an appropriate payment in settlement of such claims.

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 chairing a committee. 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 for the non-executive directors

Name	Appointment	Date of most recent term	Expected date of expiry
Manjit Wolstenholme	16 July 2007	31 July 2013	31 July 2016
Rob Anderson	2 March 2009	30 March 2015	30 March 2018
Stuart Sinclair	1 October 2012	1 October 2012	31 October 2015
Malcolm Le May	1 January 2014	1 January 2014	31 January 2017
Alison Halsey	1 January 2014	1 January 2014	31 January 2017

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, 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 of group and personal performance.

Any share-based entitlements granted to an executive director under the company's share incentive schemes will be determined based on the relevant scheme rules. In the case of a bad leaver the awards normally lapse and in certain good leaver circumstances (eg ill health) awards would remain eligible to vest subject to an assessment of the performance target and a pro rata reduction (unless the committee determines otherwise).

Policy on other appointments

Executive directors are 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.

Copies of directors' service contracts and/or letters of appointment are available from the Company Secretary on request.

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 above shows details of the terms of appointment for the non-executive directors. Following the extension of Rob Anderson's term to 30 March 2018, all directors will seek reappointment at the forthcoming AGM.

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.

Malcolm Le May
Chairman of the remuneration committee
24 February 2015

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration (in conjunction with the approved remuneration policy described earlier) complies with the Companies Act 2006 (the Companies Act), 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 followed the requirements of the UK Corporate Governance Code published in September 2012 (the Code).

This report will be subject to an advisory vote at the AGM of the company to be held on 7 May 2015 and sets out details of how the approved remuneration policy will be implemented in 2015 as well as details of the implementation of the policy in 2014.

Committee role and membership

The role of the committee is set out in its terms of reference which are reviewed annually and were last updated in January 2015. 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.

Details of the work undertaken by the committee during the year are set out on page 117.

The members of the committee, all of whom are considered to be independent, and their attendance at meetings during the year is as shown in the table below.

The committee has reviewed and considered the impact of the FCA Remuneration Code (FCA Code). Whilst the FCA Code applies to Vanquis Bank, it does not apply to the group executive directors, based on the company's interpretation of the FCA Code, in relation to their executive roles. As a consequence, a Vanquis Bank remuneration committee has been established to identify those Vanquis Bank employees who are Remuneration Code Staff and to ensure that Vanquis Bank complies with the FCA Code on an ongoing basis. The committee reviews the work undertaken by the Vanquis Bank remuneration committee through regular reports submitted to it.

The committee regularly reviews the approved remuneration policy in the context of 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 remuneration policy.

The committee considers corporate performance on environmental, social and governance (ESG) issues when setting the performance conditions for the annual bonus scheme and share incentive plans and will use its discretion to ensure that, where appropriate, the management of ESG risks is reflected in the rewards granted to executive directors and the senior management team.

Committee members and meeting attendance

Name	Notes	Date appointed	To	Attendance	Percentage attended
Malcolm Le May	Chairman (from 1 January 2014)	1 January 2014	To date	4 out of 4	100%
Rob Anderson		2 March 2009	To date	4 out of 4	100%
Alison Halsey		1 January 2014	To date	4 out of 4	100%
Stuart Sinclair		1 October 2012	To date	4 out of 4	100%

Effectiveness

On the basis of the internal board and committee evaluation, the committee considered its effectiveness in 2014 at its meeting in January 2015. Overall the committee determined that it was operating effectively and that it continued to have the appropriate regard for the key issues within its remit.

External advisors

During the year, New Bridge Street (NBS), a trading name of Aon plc (NBS's parent company), was engaged by the committee to provide remuneration consultancy services. The Company Secretary, on behalf of the committee, agrees the scope of the services to be provided and a fixed fee in respect of each deliverable. The total fees paid to NBS in respect of such services to the committee during the year were £29,028. 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 advice from NBS.

The terms of engagement for NBS are available from the Company Secretary on request. The committee also engaged Addleshaw Goddard LLP to provide advice and support in relation to the establishment of the replacement LTIS which is being submitted for shareholder approval at the 2015 AGM. The total fees paid to Addleshaw Goddard LLP in 2014 in respect of this work were £4,000. Addleshaw Goddard LLP has also provided other services to the company during the year in relation to the establishment of a new savings related share option scheme for employees in the Republic of Ireland.

The Company Secretary is secretary to the committee and instructed the external advisors on behalf of the committee. The Company Secretary attended all the meetings of the committee in 2014 and provides legal and technical support.

In selecting advisors, the committee considers a range of factors (eg 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 in December 2014.

Components of the approved remuneration policy

The approved remuneration policy will be implemented in 2015 as follows:

Executive directors

1. Salary

Salaries for executive directors and the senior management team are reviewed annually by the committee, although not necessarily increased. At its meeting in December 2014, the committee considered the company's strong financial performance and each individual's responsibilities, abilities, experience and personal performance. The committee also considered both the group's own salary structures, pay and conditions and, although used with caution, market data on salary rates for similar positions in comparative companies where appropriate. Accordingly, it agreed to increase the executive directors' salaries in 2015 as follows:

Director's name	% increase 2015	Salary £
Peter Crook	3.0	706,000
Andrew Fisher	3.0	504,000

These increases are consistent with the average percentage increases awarded elsewhere in the group.

2. Annual bonus

The group operates an annual bonus scheme which provides the framework for an annual incentive for executive directors. The aim of the scheme is to improve the company's performance through the achievement of certain financial and operational goals. The maximum bonus opportunity will continue to be restricted to 120% of salary for the Chief Executive and 100% of salary for the Finance Director. The performance conditions for the 2015 annual bonus will be based on the group's EPS and personal objectives as follows:

	Peter Crook		Andrew Fisher	
Measure	Maximum bonus opportunity		Maximum bonus opportunity	
Targeted group EPS	80%	£677,760	80%	£403,200
Personal objectives	20%	£169,440	20%	£100,800

Remuneration committee key items in 2014

JAN
- Review of 2013 remuneration report.
- Review of directors' expenses.
- Review of committee performance (2013).

FEB
- Determination of vesting of LTIS and PSP awards granted in 2011.
- Finalisation of the 2014 remuneration policy.
- Agreement on the format of the 2013 remuneration report.
- Review of a schedule of proposed LTIS and PSP awards and applicable performance targets.
- Review of Chairman's fees.
- Review of prior year performance against financial and non-financial objectives in relation to the annual bonus scheme.

OCT
- Review of executive remuneration landscape.
- Review of feedback from committee chairman's shareholder visits.

DEC
- Review of executive directors' shareholdings.
- Review and approval of shareholder consultation process for LTIS renewal.
- Review of the application of the approved remuneration policy in 2015.

Annual Report on Remuneration continued

EPS (excluding exceptional items) is the key internal measure of financial performance as it is the broadest measure of the group's financial performance and is aligned to the shareholder base which is weighted towards longer-term income investors.

Straight-line vesting will operate between 95% of targeted group EPS and the maximum of 105% of targeted group EPS. The personal objectives element of the scheme will continue to be underpinned by the threshold level of targeted group EPS. On the basis that the vast majority of the group's competitors are unlisted, and on the basis that the EPS target is consistent with the group's objective of continuing to deliver a high dividend yield, the committee considers that disclosure of the actual EPS target for the annual bonus scheme in 2015 would put the company at a significant commercial disadvantage. Details of the extent to which the bonus targets are achieved will, however, be set out in the next Annual Report on Remuneration.

Clawback provisions also apply to annual bonus awards which will enable the committee to clawback value overpaid in the event of a restatement of the company's Annual Report and Financial Statements or an error in the calculation of the extent to which the performance target has been met. Any bonuses paid are non-pensionable and are not taken into account when determining base salary for performance-related remuneration.

3. Long-term incentive schemes

The company's long-term incentive arrangements for executive directors are the LTIS, the 2013 PSP and the Provident Financial Executive Share Option Scheme 2006 (the ESOS).

The LTIS expires in May 2016 and a resolution to renew the scheme on substantially similar terms is being presented to shareholders for approval at the 2015 AGM.

LTIS

The committee is responsible for selecting eligible employees, including executive directors, to participate in the LTIS and for granting conditional share awards under the LTIS. Participants are eligible to be considered for awards annually. No payment is required on grant or vesting of an award. Until an award vests, a participant has no voting, dividend or other rights in respect of the shares. The aggregate market value of awards made under the LTIS in any one financial year may not exceed 200% of basic salary which is the normal grant policy under the LTIS and the committee intends to grant awards at this level in respect of the current financial year. This 200% limit does not include the value of any dividend equivalent payable on shares vesting under an LTIS award which is also paid on the vesting date.

For awards in 2015, it is proposed that the performance targets continue to be based on absolute EPS growth and absolute TSR, with the range of targets remaining unchanged from 2014.

The actual range of the EPS targets for awards in 2015 will be as follows (with a sliding scale of vesting on a straight-line basis between these lower and upper targets):

Annualised growth in EPS	Percentage vesting (of EPS part of award)
Below 5%	0%
5%	20%
11%	100%

The actual range of the TSR targets for awards in 2015 will be as follows (with a sliding scale of vesting on a straight-line basis between these lower and upper targets):

Annualised TSR	Percentage vesting (of TSR part of award)
Below 8%	0%
8%	20%
15%	100%

Notwithstanding achievement against the challenging EPS targets, vesting will only take place to the extent that the committee considers the vesting to be consistent with the broader financial performance of the company and the committee may scale back vesting if this is not considered to be the case. The committee introduced this underpin to the already demanding EPS targets to ensure that the executive directors do not place too great an emphasis on EPS alone. There is also a general underpin which applies to the TSR target whereby the committee needs to be satisfied that the TSR performance is a genuine reflection of the underlying performance of the company.

Similarly challenging targets, having had regard to prevailing circumstances, will apply to the first awards under the 2015 LTIS in 2016.

PSP

The 2013 PSP was approved by shareholders at the AGM in May 2013 following expiry of the previous PSP in 2012.

Executive directors are required to defer a minimum of one-third of annual bonus payable into the 2013 PSP. They may also elect to defer up to a further third of bonus. They then receive a Matching Award under the 2013 PSP which is subject to a performance target based on absolute EPS growth.

At the lower end of the performance target range, one-half of a matching share will vest up to a maximum of two matching shares at the upper end of the performance target range for each basic share awarded following bonus waiver into the 2013 PSP. The value of the award can therefore increase or decrease depending on the prevailing share price at the date of vesting.

The actual range of the EPS targets for awards in 2015 will be as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one share
11%	Two matching shares

The same general underpin to the EPS targets in the LTIS (as set out above) applies to all awards granted under the 2013 PSP.

Awards made under the previous PSP are subject to different performance measures, have different award levels and will vest in accordance with the terms of their grant in due course. Further details are set out on pages 123 to 125.

ESOS

The committee does not intend to make further grants to executive directors under the ESOS in 2015.

4. All-employee share schemes

Savings-related share option scheme

The executive directors (together with other eligible employees) may participate in the Provident Financial Savings Related Share Option Scheme 2013. Participants save a fixed sum each month for three or five years and may use these funds to purchase shares after three or five years. The exercise price is fixed at up to 20% below the market value of the shares at the date directors and employees are invited to participate in the scheme and monthly savings amounts are subject to HMRC limits.

Share incentive plan
In addition to the Provident Financial Savings Related Share Option Scheme 2013, the executive directors may participate in the Provident Financial Share Incentive Plan (SIP). This is an all-employee plan which offers a further mechanism through which employees can acquire shares in a tax-approved manner. Executive directors and the senior management team are invited to participate in the SIP on the same terms as other eligible employees. The SIP provides an opportunity to invest in the company's shares and benefit from the company's offer to match that investment on the basis of one share for every four shares purchased.

The amount an executive director could earn under the approved remuneration policy

A significant proportion of remuneration is linked to performance, particularly at maximum performance levels. The charts below show how much the Chief Executive and the Finance Director could earn under the policy under different performance scenarios. The following assumptions have been made:

- Minimum (performance below threshold) – fixed pay only with no vesting under the LTIS or 2013 PSP and no annual bonus;
- On target – fixed pay plus a bonus at target (60% of the maximum opportunity) and vesting of 55% of the Matching Award under the 2013 PSP and 55% of the award under the LTIS;
- Maximum (performance meets or exceeds maximum) – fixed pay plus maximum bonus (120/100% of salary) and maximum vesting under the PSP 2013 and LTIS;
- Fixed pay comprises:

(i) salaries – salary effective as at 1 January 2015;

(ii) benefits – amount received by each executive director in the 2014 financial year; and

(iii) pension – pension credit of 30% of salary.

Awards under the 2013 PSP and LTIS have been assumed as follows:

(i) 2013 PSP – Matching Award of two-thirds of bonus earned at target and maximum performance levels; and

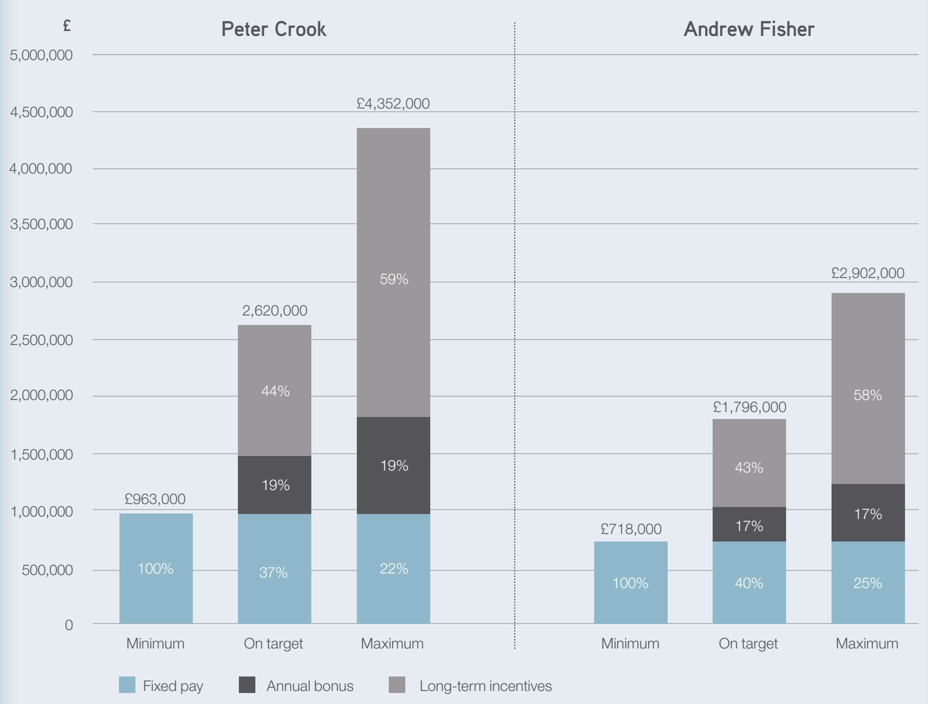
(ii) LTIS – award equal to 200% of salary.

Partnership and matching shares under the all-employee SIP and options under the SAYE have not been included.

The scenarios do not include any growth or a fall in the share price or dividend assumptions.

It should be noted that since this analysis shows what could be earned by the executive directors based on the approved remuneration policy (ignoring the potential impact of share price movements) the numbers will be different to the values included in the table on page 120 detailing what was actually earned by the executive directors in relation to the financial year ended 31 December 2014, since these values are based on the actual levels of performance achieved to 31 December 2014 and include the impact of share price movements in relation to share awards.

Total remuneration opportunity



Non-executive directors

1. Non-executive directors' fees

Fee levels for current incumbents for 2015 are as follows:

- Non-executive director base fee: £64,000;
- Supplementary fee for chairing the audit, remuneration or risk advisory committee: £15,000; and
- Supplementary fee for the role of Senior Independent Director (SID): £10,000.

At its meeting in February 2015, the board reviewed the non-executive directors' fees in the context of a benchmarking exercise undertaken by NBS. After taking due account of the anticipated ongoing time commitment for the role, it was agreed that the fees would remain unchanged.

2. Chairman's fees

On the basis of a benchmarking exercise carried out by NBS in January 2015 and the anticipated ongoing time commitment for the role, the committee agreed that the Chairman's fees would remain unchanged at £255,000.

Annual Report on Remuneration continued

Details of the implementation of the company's approved remuneration policy in 2014 are set out below.

Directors' remuneration

The total aggregate directors' emoluments during the year amounted to £11,566,000 (2013: £8,592,000), analysed as follows:

	Fixed pay								Variable pay										Total	
							Total fixed pay				Share incentive schemes						Total variable pay			
	Salary		Benefits in kind		Pension				Annual cash bonus[1]		LTIS[2]		PSP[3]		PSP dividends					
Director's name	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Executive directors																				
Peter Crook	685	665	45	42	239	262	969	969	822	707	2,492	2,127	2,174	1,004	137	178	5,625	4,016	6,594	4,985
Andrew Fisher	489	475	63	59	181	183	733	717	489	440	1,783	1,519	1,294	582	83	105	3,649	2,646	4,382	3,363
Sub-total	1,174	1,140	108	101	420	445	1,702	1,686	1,311	1,147	4,275	3,646	3,468	1,586	220	283	9,274	6,662	10,976	8,348

Note: Peter Crook and Andrew Fisher have agreed to waive any emoluments in respect of their directorships of Vanquis Bank Limited, Provident Financial Management Services Limited and Moneybarn No. 1 Limited.

1 The annual bonus represents the gross bonus payable to the directors in respect of 2014. Each director has agreed to waive two-thirds of gross bonus in order to participate in the 2013 PSP.

2 Amount calculated based on 100% vesting of 2012 awards multiplied by an average share price for the three months ended 31 December 2014. No account has been taken of the dividend equivalent payable on these shares, which will be calculated on the vesting date of 26 March 2015. The actual value may vary depending on the actual share price on 26 March 2015.

3 Amount calculated based on 100% vesting of 2012 awards multiplied by an average share price for the three months ended 31 December 2014. The actual value may vary depending on the actual share price on the vesting date of 26 March 2015.

	Fees		Annual cash bonus		Benefits in kind		Total	
Director's name	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Chairman								
Manjit Wolstenholme	255	85	–	–	3	2	258	87
Non-executive directors								
Rob Anderson	66	75	–	–	11	7	77	82
Stuart Sinclair	79	75	–	–	11	–	90	75
Alison Halsey[1]	76	–	–	–	–	–	76	–
Malcolm Le May[1]	89	–	–	–	–	–	89	–
Sub-total	565	235	–	–	25	9	590	244

Note: The non-executive directors did not receive a pension benefit nor did they receive any bonus or share incentive entitlements.

1 Appointed on 1 January 2014.

Directors' fees

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 future growth of the company. Full details of the non-executive directors' fees are set out in the table above. 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 above.

Fees from other directorships

Peter Crook is a non-executive director of Cabot (Group Holdings) Limited and he retains the fee from that appointment. During 2014 these fees amounted to £50,000.

Annual bonus scheme

The 2014 annual bonus scheme was based on adjusted targeted group EPS (as defined in the rules of the scheme) and personal objectives.

The maximum bonus opportunity in respect of 2014 was restricted to 120% of salary for the Chief Executive and 100% of salary for the Finance Director and was split as follows:

	Peter Crook	Andrew Fisher
Measure	Maximum bonus opportunity	
Targeted group EPS	80%	80%
Personal objectives	20%	20%

The actual proportions of the 2014 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%

Straight-line vesting operated between 95% of the adjusted targeted group EPS and the maximum of 105% of 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 in February 2015, the committee assessed the group's performance against the adjusted targeted group EPS. The adjusted EPS achieved of 138.6p exceeded the adjusted targeted group EPS of 125.2p by more than 5% and the committee therefore determined that 100% of the EPS element of the 2014 annual bonus would be paid.

The balance of the annual bonus, as detailed in the table of directors' remuneration on page 120, was paid on the basis of the committee's assessment of the extent to which the personal objectives for the executive directors were achieved.

The Chief Executive's personal objectives included, but were not limited to: (1) refreshing the vision and strategy for the group to reflect the changed economic and competitive landscape; (2) reviewing further options to broaden participation in the non-standard market; (3) effectively managing the funding position of the group; (4) effectively leading the activity to maintain the group's reputation with external stakeholders; (5) close involvement in the turnaround and repositioning of the home credit business; (6) ensuring that the group has adequate facilities to comply with its treasury policy; and (7) building the capability and experience of the senior management team. The committee's assessment, having considered performance against each objective, was that the level of achievement against these objectives was 100%.

The Finance Director's personal objectives included, but were not limited to: (1) undertaking a review of strategic options to develop the group; (2) effective management of the treasury and taxation functions; (3) effective management of the group's external regulators; (4) effective management of the group's risk function; and (5) effective management of the group's IR programme. The committee's assessment, having considered performance against these objectives, was that the level of achievement against these objectives was 100%.

The bonus payable as a percentage of salary in relation to 2014 was therefore 100% for the Finance Director and 120% for the Chief Executive.

Share incentive schemes

In 2014, the committee continued with the policy of making conditional share awards to executive directors and the senior management team under the LTIS and awards under the 2013 PSP. This policy is in line with prevailing market practice and recognises that conditional share awards, and the deferral of annual bonus in the case of the 2013 PSP, provide greater alignment with shareholders' interests.

Annual Report on Remuneration continued

LTIS

Historically, and dependent upon satisfactory personal and corporate performance the committee's policy has been to grant conditional share awards at the maximum level. Grants under the scheme are restricted to no more than 200% of a participant's basic salary and executive directors received maximum grants in 2014.

2014 awards

The performance targets for awards made under the LTIS in 2014 were reviewed by the committee at its meeting in February 2014 and it was considered that they remained appropriately challenging given market forecasts and the economic environment prevailing at the time. The actual range of the targets for awards in 2014 are the same in terms of metrics and annual growth requirements as the proposed 2015 LTIS awards, further details of which are set out on page 118.

2011 awards

Vesting of the 2011 awards was split equally between the company's annualised growth in EPS and its annualised TSR as follows:

Annualised growth in EPS	Percentage vesting (of EPS part of award)
Below RPI +3%	0%
RPI +3%	25%
RPI +8%	100%

Annualised TSR	Percentage vesting (of TSR part of award)
Below 10%	0%
10%	25%
15%	100%

A sliding scale of vesting (on a straight-line basis) applied between these lower and upper EPS and TSR targets.

The target is 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 award.

The assessment of the extent to which these performance conditions were met was discussed by the committee at its meeting in January 2014, with assistance from NBS. The company's annualised growth in EPS over the performance period was 14.8%, and the annualised growth in RPI over the same period was 3.5%. As the level of growth exceeded the maximum target of annualised EPS growth of RPI plus 8%, this resulted in 100% of the EPS element of the award vesting.

Long Term Incentive Scheme

Details of the conditional share awards granted to the executive directors during 2014 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	08.04.2014	72,143	£1,369,996	200%	50% based on absolute TSR and 50% based on absolute EPS	Three consecutive financial years ending 31 December 2016	20%
Andrew Fisher	08.04.2014	51,500	£977,985	200%			

1 Face value calculation is based on the share price of £18.99 on 7 April 2014. 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 Performance conditions are set out on page 118.

Executive directors' total conditional share awards at 31 December 2014 were as follows:

Director's name	Date of award	Awards held at 01.01.2014	Awards granted during the year	Awards vested during the year[1]	Awards lapsed during the year	Awards held at 31.12.2014	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	04.03.2011	132,283	–	132,283	–	–	952.5	1,864.0	04.03.2014
	26.03.2012[2]	111,876	–	–	–	111,876	1,162.0	–	26.03.2015
	01.03.2013[2]	90,784	–	–	–	90,784	1,465.0	–	01.03.2016
	08.04.2014[2]	–	72,143	–	–	72,143	1,899.0	–	08.04.2017
Andrew Fisher	04.03.2011	94,488	–	94,488	–	–	952.5	1,864.0	04.03.2014
	26.03.2012[2]	80,034	–	–	–	80,034	1,162.0	–	26.03.2015
	01.03.2013[2]	64,846	–	–	–	64,846	1,465.0	–	01.03.2016
	08.04.2014[2]	–	51,500	–	–	51,500	1,899.0	–	08.04.2017

1 Dividend shares on awards vesting in 2014 were received as follows: Peter Crook 17,494 shares and Andrew Fisher 12,475 shares.

2 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) where absolute TSR performance targets operate, 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) where absolute EPS performance targets operate, 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.

NBS also confirmed that the company's annualised TSR over the three-year performance period was 31.4%, which exceeded the maximum target of annualised TSR of 15%, resulting in 100% of the TSR element of the award vesting. The committee therefore approved a 100% vesting of the 2011 awards, having satisfied itself that the TSR performance was a genuine reflection of the underlying business performance This assessment included consideration of various factors, including the increase in profit before tax and exceptional items over the period of 17.8% and the increase in dividend over the period of 15.7%.

2012 awards

Vesting of the 2012 conditional share awards is split equally between the company's annualised growth in EPS and its annualised TSR as follows:

Annualised growth in 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) applies between the lower and upper EPS and TSR targets.

The assessment of the extent to which these performance conditions were met was discussed by the committee at its meeting in February 2015, with assistance from NBS. The company's annualised growth in EPS over the performance period was 16.3% which exceeded the maximum target annualised growth in EPS of 11%. The committee therefore approved a 100% vesting of the EPS element of the award, having satisfied itself that the vesting was consistent with the broader financial performance of the company.

NBS also confirmed that the company's annualised TSR over the three-year performance period was 43%, which exceeded the maximum target of annualised TSR of 15%, resulting in 100% of the TSR element of the award vesting.

The committee therefore approved a 100% vesting of the 2012 awards, having also satisfied itself that the TSR performance was a genuine reflection of the underlying performance of the company. This assessment included consideration of various factors, including the annualised increase in profit before tax, amortisation of acquisition intangibles and exceptional items over the period of 19.5% and the increase in dividend over the period of 14.1%.

There were no changes in directors' conditional share awards between 1 January 2015 and 24 February 2015.

The executive directors have waived an entitlement to any dividend in respect of the conditional share awards during the performance period. 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, will be provided to the executive directors if and when the award vests.

As in previous years, awards made in 2014 to employees within the Consumer Credit Division (CCD), Vanquis Bank and Moneybarn are subject to a challenging divisional target rather than group EPS and TSR targets.

The mid-market closing price of the company's shares on 31 December 2014 was 2,462p. The range during 2014 was 1,625p to 2,481p. No consideration is payable on the award of conditional shares.

PSP

2014 awards

In 2014, participation in the 2013 PSP included the executive directors, who were able to elect to waive up to two-thirds (with a minimum of one-third) of their annual bonus, and other eligible employees who were able to waive up to 50% or 30%, (depending on their level of seniority), of their annual bonus. 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 a performance condition over a period of three years.

Awards to executive directors and certain members of the senior management team in 2014 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 2014 is as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one 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.

2011 awards

For awards granted in 2011, the actual range of the EPS targets was as follows:

Average annual percentage growth in EPS	Matching shares vesting
Below RPI +3%	No vesting
RPI +3%	One matching share
RPI +8%	Two matching shares

A sliding scale of vesting (on a straight-line basis) applied between these lower and upper targets.

The target is 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.

At its meeting in January 2014, the committee considered the extent to which the performance target for the awards granted in 2011 had been met. The average annual percentage growth in EPS over the performance period was 16.0% and the average annual percentage growth in RPI over the same period was 3.6%. This level of EPS growth exceeded the maximum target of RPI plus 8% resulting in 100% of the Matching Awards vesting.

2012 awards

For awards granted since 2012, the committee changed the EPS target to an absolute EPS target, which is consistent with the absolute EPS target which was introduced for awards under the LTIS from 2012, as set out on page 114.

Annual Report on Remuneration continued

Performance Share Plan

Details of the awards granted to the executive directors during 2014 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	08.04.14	Basic	24,822	£471,370	69%	100% based on absolute EPS growth of between 5% and 11%	Three consecutive financial years ending 31 December 2016	Half a matching share
		Matching	49,644	£942,740	138%			
Andrew Fisher	08.04.14	Basic	15,442	£293,244	60%			
		Matching	30,884	£586,487	120%			

1 Face value is calculated based on the share price of £18.99 on 7 April 2014. The actual value at vesting may be greater or lesser depending on actual share at vesting and as a result of any dividend payable on vesting shares.

2 Performance conditions are set out on pages 123 and 124.

Awards held under the PSP and 2013 PSP at 31 December 2014 were as follows:

Director's name	Date of grant	Basic awards (number of shares) held at 01.01.2014	Matching awards (number of shares) held at 01.01.2014	Total basic awards (number of shares) vested during the year	Total matching awards (number of shares) vested during the year	Total basic awards (number of shares) held at 31.12.2014	Total matching awards (number of shares) held at 31.12.2014	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	04.03.2011	31,216	62,432	31,216	62,432	–	–	952.5	1,864.0	04.03.2014
	26.03.2012	32,530	65,060	–	–	32,530	65,060	1,162.0		26.03.2015
	09.05.2013	33,243	66,486	–	–	33,243	66,486	1,533.0		09.05.2016
	08.04.2014	–	–	–	–	24,822	49,644	1,899.0		08.04.2017
Andrew Fisher	04.03.2011	18,094	36,188	18,094	36,188	–	–	952.5	1,864.0	04.03.2014
	26.03.2012	19,363	38,726	–	–	19,363	38,726	1,162.0		26.03.2015
	09.05.2013	20,222	40,444	–	–	20,222	40,444	1,533.0		09.05.2016
	08.04.2014	–	–	–	–	15,442	30,884	1,899.0		08.04.2017

For awards granted in 2012, the actual range of the EPS targets was as follows:

Average annual percentage growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	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 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.

At its meeting in February 2015, the committee considered the extent to which the performance target for the awards granted in 2012 had been met. The average annual percentage growth in EPS over the performance period was 19.1% and this level of EPS growth exceeded the maximum target of 11% resulting in 100% of the Matching Award vesting.

For awards granted in 2011 and 2012, the dividends payable on the basic and matching shares were paid to the directors on the normal dividend payment date.

For awards granted in 2013 and 2014, the dividend payable on the basic award only is paid to the directors on the normal payment date. Any dividend payable on the matching shares granted will be paid to the directors as a dividend equivalent on the normal vesting date.

The dividends received in 2014 under the PSP and 2013 PSP were: Peter Crook £137,132 (2013: £178,237) and Andrew Fisher £82,596 (2013: £105,278). These figures have been included in the table of directors' remuneration on page 120.

Offshore Employee Benefit Trust

The rules of the LTIS allow it to be operated in conjunction with any employee trust established by the company. Accordingly, the company established the Provident Financial plc 2007 Employee Benefit Trust (EBT) in Jersey on 11 September 2007 with Kleinwort Benson (Jersey) Trustees 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 395,037 ordinary shares in April 2014 and 18,816 in September 2014 for the purpose of satisfying the 2014 awards made pursuant to the LTIS. The trustee transferred the beneficial ownership (subject to the performance conditions set out on page 118) in 123,643 of the shares for no consideration to the executive directors on 6 June 2014.

KB Trustees also subscribed for 202,689 ordinary shares in April 2014 for the purpose of satisfying the 2014 awards made pursuant to the 2013 PSP. The trustee transferred the beneficial ownership (subject to the performance conditions set out on page 123), in 80,528 of the shares for no consideration to the executive directors on 8 April 2014 and also transferred the legal ownership in 40,264 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.

Statement of shareholder voting at AGM

At the 2014 AGM the directors' remuneration policy received the following votes from shareholders:

	Total number of votes	% of votes cast
For	104,365,608	96.0
Against	4,254,554	4.0
Total votes cast (for and against)	108,620,162	100.0

The total number of votes withheld was 984,012.

At the 2014 AGM the directors' Annual Report on Remuneration received the following votes from shareholders:

	Total number of votes	% of votes cast
For	104,737,176	96.0
Against	4,316,421	4.0
Total votes cast (for and against)	109,053,597	100.0

The total number of votes withheld was 550,577.

Savings-related share option scheme

As set out on page 118, the executive directors may participate in the Provident Financial Savings Related Share Option Scheme 2013.

This 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 August 2014. No consideration is payable on the grant of an option.

No directors exercised share options under the Provident Financial plc Employee Savings-Related Share Option Scheme (2003) or Provident Financial Savings Related Share Option Scheme 2013 during the year. There was therefore no notional gain (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 (2013: £12,672).

There were no changes in directors' share options between 1 January 2015 and 24 February 2015.

None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

Clawback

In accordance with the recommendations within the Code and other best practice guidance, the committee, having consulted with NBS, introduced clawback provisions into all awards under the annual bonus scheme, LTIS and the PSP from December 2010 and into all awards under the 2013 PSP. This enables the committee, at its discretion, to clawback value overpaid 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) had been met.

Dilution and use of equity

Following the demerger of the international business in 2007 and the subsequent share consolidation, the number of shares in issue was halved. As a consequence of this, the 5% anti-dilution limit contained within the company's executive share incentive schemes was completely utilised so that it was no longer possible for the company to satisfy any new awards granted under the executive share incentive schemes using newly issued shares (as opposed to satisfying awards by making market purchases of shares). Had the demerger not occurred, the company would have had sufficient headroom under the then existing 5% limit to continue to satisfy awards under the executive share incentive schemes using newly issued shares.

The committee considers the LTIS an important means of incentivising and retaining the executive directors and senior management and consequently a resolution seeking shareholder approval for the removal of the 5% anti-dilution limit from the rules of the LTIS was passed at the company's 2008 AGM. Information on the resolution was included in the shareholders' circular and notice of the 2008 AGM. Awards granted under the LTIS can therefore be satisfied using newly issued shares, up to the 10% anti-dilution limit in any 10 years, which applies to all share schemes operated by the company. In due course, the committee intends to re-introduce the 5% limit when the LTIS can be effectively operated in accordance with, and subject to, a 5% anti-dilution limit.

The table below sets out the headroom available for all share schemes and shares held in trust as at 31 December.

Headroom	2014	2013
All share schemes	2.8%	2.1%
Shares held in trust	3.2%	2.9%

Payments for loss of office

There were no payments for loss of office during the year.

Remuneration

Savings-related share option scheme

Director's name	Options held at 01.01.2014	Granted in 2014	Exercised in 2014	Options held at 31.12.2014	Exercise price (p)	Market value at date of exercise (p)	Range of normal exercisable dates of options held 31.12.2014
Peter Crook	1,777	–	–	1,777	868	–	01.12.2016 – 31.05.2017
Andrew Fisher	689	–	–	689	1,305	–	01.12.2016 – 31.05.2017
	–	547	–	547	1,644		01.12.2017 – 31.05.2018
Total	2,466	547	–	3,013			

Annual Report on Remuneration continued

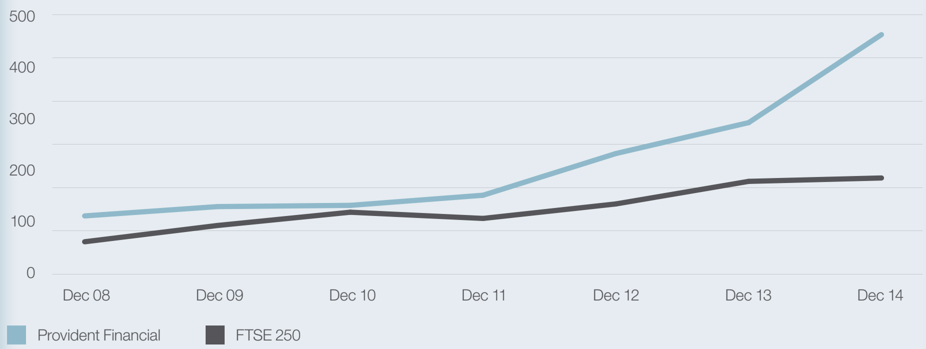
Total shareholder return: Provident Financial plc vs FTSE 250

Graph (1) shows the total shareholder return for Provident Financial plc against the FTSE 250 index for the past six years. This index was chosen for comparison because the company has been a member of this index for the six-year period. Graph (2) shows the comparison for the period from demerger of the international business to 31 December 2014, which the committee believes is a more accurate representation of the company's performance. Table (3) shows the total remuneration figure for Peter Crook, the Chief Executive, over the six-year period. The total remuneration figure includes the annual bonus paid together with LTIS and PSP awards which vested based on the relevant performance targets in those years. The annual bonus, LTIS and PSP percentages show the payout for each year as a percentage of the maximum opportunity.

Chief executive relative pay

Table (4) shows the percentage year-on-year change in salary, benefits and annual bonus earned between the years ended 31 December 2012 and 31 December 2014 for Peter Crook, the Chief Executive, compared to the average for the corporate office employees during the same period. The corporate office employees are considered to be a more suitable comparator group due to the range and composition of employees and the wide range of different remuneration structures and practices which operate across the group.

1. Total shareholder return: Provident Financial vs. FTSE 250 – 2008 to 2014



2. Total shareholder return: Provident Financial vs. FTSE 250 – 16.07.07 to 31.12.14

3. Chief Executive remuneration 2009-2014

	Year ended 31 December					
	2009	2010	2011	2012	2013	2014
Single total figure of remuneration (£'000)	2,023	2,727	3,443	4,326	4,985	6,601
Annual bonus (%)	–	81	100	98	89	100
LTIS vesting (%)	100	66	49	100	100	100
PSP vesting (%)	–	100	79	–	100	100

4. Chief Executive relative pay

	2013/2014			2012/2013		
%	Salary	Benefits	Annual bonus	Salary	Benefits	Annual bonus
Chief Executive	3.0%	1.1%	16.3%	2.3%	13.5%	(7.0)%
Average corporate office employee	1.9%	11.4%	9.5%	4.9%	13.0%	(9.0)%

Across the group, the budgeted salary increase ranged from 0% to 3.5%.

Relative importance of spend on pay

	Year ended 31st December 2014	2013	2012	% change 2012/2013	% change 2013/2014
Total employee remuneration (£m)	123.2	116.0	114.3	1.4	6.2
Total shareholder distributions (£m)	123.4	108.4	96.1	12.8	13.8

Relative importance of spend on pay

The table above shows the total pay (including bonuses) for all the group's employees in the 2012, 2013 and 2014 financial years compared to the distributions made to shareholders in the same periods.

Share ownership guidelines

The company has share ownership guidelines for executive directors which in 2014 required them to acquire and maintain shares in the company with a value of 125% of basic salary. This guideline will be increased to 175% of basic salary in 2015 and 200% of basic salary in 2016. 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 the 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 and 2013 PSP are not.

The executive directors complied with these guidelines as at 31 December 2014:

Director's name	Actual share ownership as a percentage of salary
Peter Crook	298%
Andrew Fisher	253%

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 to a value of £50,000 in any year which reduced to £40,000 from April 2014. As a result, the company has provided a range of options through which executive directors can choose to receive retirement benefits with a value equivalent to 30% of basic salary.

Pension entitlements

Details of the pension entitlements earned under the company's pension arrangements are set out on page 128.

Provident Financial Staff Pension Scheme

There is one director (2014: two) for whom retirement benefits accrued 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.

Details of shares held by directors and their connected persons, are shown below.

Director	Type	Owned outright	Unvested: Subject to performance conditions	Unvested: Not subject to performance conditions	Total as at 31.12.14
Peter Crook	Own name	–	–	–	–
	Held in Barclayshare Nominees Limited	82,979	–	–	82,979
	Held in YBS Trustees (SIP)	102	–	–	102
	LTIS	–	274,803	–	274,803
	PSP	–	181,190	90,595	271,785
Total		**83,081**	**455,993**	**90,595**	**629,669**
Andrew Fisher	Own name	50,297	–	–	50,297
	Held in YBS Trustees (SIP)	112	–	–	112
	LTIS	–	196,380	–	196,380
	PSP	–	110,054	55,027	165,081
Total		**50,409**	**306,434**	**55,027**	**411,870**

Directors' share options at 31 December 2014, granted under the Provident Financial plc Employee Savings-Related Share Option Scheme (2003) and the Provident Financial Savings Related Share Option Scheme 2013 are set out in the table on page 125.

Annual Report on Remuneration continued

	Age as at 31 December 2014	Normal retirement age	Accrued retirement account as at 31 December[1]		Increase in retirement account[2]	
			2014	2013	2014	2013
Defined benefits			£'000	£'000	£'000	£'000
Cash balance						
Peter Crook[3]	51	60	–	1,105	7	65
Andrew Fisher[4]	56	60	–	–	0	28
UURBS						
Peter Crook	51	–	792	553	239	197
Andrew Fisher	56	–	498	317	181	137
Non-defined benefits						
Self Invested Personal Pension						
Andrew Fisher	56	–	–	–	–	18

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 2014 (which are included in the table of directors' remuneration on page 120) were: Peter Crook: £246,000 and Andrew Fisher: £181,000.

3 On 3 April 2014 Peter Crook opted out of the Cash Balance section of the pension scheme and took a transfer value of £1,112,000 to his Self Invested Personal Pension.

4 On 4 June 2013 Andrew Fisher opted out of the Cash Balance section of the pension scheme and took a transfer value of £830,000 to his Self Invested Personal Pension.

Note – Any request for early retirement will require the consent of the Trustees of the pension scheme.

Peter Crook was a member of the cash balance section of the pension scheme until 3 April 2014, when he transferred the value of his pension rights into a Self Invested Personal Pension (SIPP).

The accumulated cash balance credit increases each year by the lower of the increase in RPI plus 1.5% and 6.5%. At retirement, up to 25% of the total value of the director's retirement account can be taken as a lump sum, with the balance used to purchase an annuity. If the director dies in service, a death benefit of six times salary plus the value of the retirement account is payable.

Personal pension arrangements

Andrew Fisher also has a personal pension arrangement to which the company did not make any contributions in 2014 (2013: £18,364).

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 Reduced Annual Allowance. Details of the pension credits earned under the UURBS are set out in the table above.

Cash supplement

A further option is for directors to receive a cash supplement in lieu of the benefits payable in excess of the Reduced Annual Allowance.

Both the UURBS and the cash supplement can also be used where employees are affected by the HMRC Lifetime Allowance of £1.5m, which reduced to £1.25m from 6 April 2014.

Audit

The elements of the directors' remuneration report (including pension entitlements and share options set out on pages 120 to 128 of this report) which are required to be audited, have been audited in accordance with the Companies Act.

This Annual Report on Remuneration has been approved by the remuneration committee and the board and signed on its behalf.

Malcolm Le May
Chairman of the remuneration committee
24 February 2015

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Consolidated income statement

For the year ended 31 December

	Note	Group 2014 £m	Group 2013 £m
Revenue	1,2	**1,075.7**	1,078.1
Finance costs	3	**(77.5)**	(74.2)
Operating costs		**(491.6)**	(559.5)
Administrative costs		**(282.0)**	(262.0)
Total costs		**(851.1)**	(895.7)
Profit before taxation	1,4	**224.6**	182.4
Profit before taxation, amortisation of acquisition intangibles and exceptional costs	1,4	**234.4**	196.1
Amortisation of acquisition intangibles	12	**(2.5)**	–
Exceptional costs	1	**(7.3)**	(13.7)
Tax charge	5	**(49.0)**	(41.4)
Profit for the year attributable to equity shareholders		**175.6**	141.0

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Group 2014 £m	Group 2013 £m
Profit for the year attributable to equity shareholders		**175.6**	141.0
Other comprehensive income:			
– cash flow hedges	17	**2.2**	2.7
– actuarial movements on retirement benefit asset	19	**17.5**	(3.9)
– exchange differences on translation of foreign operations		**0.5**	(0.2)
– tax on items taken directly to other comprehensive income	5	**(4.2)**	0.3
– impact of change in UK tax rate	5	**0.3**	0.3
Other comprehensive income for the year		**16.3**	(0.8)
Total comprehensive income for the year		**191.9**	140.2

Earnings per share

For the year ended 31 December

	Note	Group 2014 pence	Group 2013 pence
Basic	6	**126.5**	104.2
Diluted	6	**124.5**	102.2

Dividends per share

For the year ended 31 December

	Note	Group 2014 pence	Group 2013 pence
Proposed final dividend	7	**63.9**	54.0
Total dividend for the year	7	**98.0**	85.0
Paid in the year*	7	**88.1**	79.4

*The total cost of dividends paid in the year was £123.4m (2013: £108.4m).

Balance sheets

As at 31 December

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
ASSETS					
Non-current assets					
Goodwill	11	**71.2**	–	**–**	–
Other intangible assets	12	**84.3**	8.1	**–**	–
Property, plant and equipment	13	**27.4**	22.8	**7.0**	7.7
Investment in subsidiaries	14	**–**	–	**496.3**	376.8
Financial assets:					
– amounts receivable from customers	15	**155.6**	79.7	**–**	–
– trade and other receivables	18	**–**	–	**983.8**	930.3
Retirement benefit asset	19	**56.0**	29.2	**56.0**	29.2
Deferred tax assets	20	**–**	3.5	**–**	–
		394.5	143.3	**1,543.1**	1,344.0
Current assets					
Financial assets:					
– amounts receivable from customers	15	**1,693.6**	1,526.9	**–**	–
– derivative financial instruments	17	**0.2**	5.5	**–**	–
– cash and cash equivalents	21	**145.9**	119.0	**7.7**	13.6
– trade and other receivables	18	**24.5**	15.5	**580.5**	569.5
		1,864.2	1,666.9	**588.2**	583.1
Total assets	1	**2,258.7**	1,810.2	**2,131.3**	1,927.1
LIABILITIES					
Current liabilities					
Financial liabilities:					
– bank and other borrowings	22	**(135.3)**	(121.2)	**(8.6)**	(2.9)
– trade and other payables	23	**(94.3)**	(65.8)	**(130.1)**	(178.6)
Current tax liabilities		**(40.4)**	(36.3)	**(1.1)**	(2.7)
		(270.0)	(223.3)	**(139.8)**	(184.2)
Non-current liabilities					
Financial liabilities:					
– bank and other borrowings	22	**(1,357.7)**	(1,163.4)	**(901.5)**	(796.7)
– derivative financial instruments	17	**(4.4)**	(6.7)	**(4.4)**	(6.7)
Deferred tax liabilities	20	**(13.6)**	–	**(8.2)**	(2.8)
		(1,375.7)	(1,170.1)	**(914.1)**	(806.2)
Total liabilities	1	**(1,645.7)**	(1,393.4)	**(1,053.9)**	(990.4)
NET ASSETS	1	**613.0**	416.8	**1,077.4**	936.7
SHAREHOLDERS' EQUITY					
Share capital	24	**30.3**	28.9	**30.3**	28.9
Share premium		**268.3**	150.6	**268.3**	150.6
Other reserves	26	**19.0**	17.2	**629.6**	627.7
Retained earnings		**295.4**	220.1	**149.2**	129.5
TOTAL EQUITY		**613.0**	416.8	**1,077.4**	936.7

The financial statements on pages 130 to 186 were approved by the board of directors on 24 February 2015 and signed on its behalf by:

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

Company Number – 668987

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 2013		28.7	148.1	13.2	185.4	375.4
Profit for the year		–	–	–	141.0	141.0
Other comprehensive income:						
– cash flow hedges	17	–	–	2.7	–	2.7
– actuarial movements on retirement benefit asset	19	–	–	–	(3.9)	(3.9)
– exchange differences on translation of foreign operations		–	–	–	(0.2)	(0.2)
– tax on items taken directly to other comprehensive income	5	–	–	(0.6)	0.9	0.3
– impact of change in UK tax rate	5	–	–	(0.2)	0.5	0.3
Other comprehensive income for the year		–	–	1.9	(2.7)	(0.8)
Total comprehensive income for the year		–	–	1.9	138.3	140.2
Transactions with owners:						
– issue of share capital	24	0.2	2.5	–	–	2.7
– purchase of own shares		–	–	(0.5)	–	(0.5)
– transfer of own shares on vesting of share awards		–	–	0.6	(0.6)	–
– share-based payment charge	25	–	–	7.4	–	7.4
– transfer of share-based payment reserve		–	–	(5.4)	5.4	–
– dividends	7	–	–	–	(108.4)	(108.4)
At 31 December 2013		28.9	150.6	17.2	220.1	416.8
At 1 January 2014		**28.9**	**150.6**	**17.2**	**220.1**	**416.8**
Profit for the year		**–**	**–**	**–**	**175.6**	**175.6**
Other comprehensive income:						
– cash flow hedges	17	**–**	**–**	**2.2**	**–**	**2.2**
– actuarial movements on retirement benefit asset	19	**–**	**–**	**–**	**17.5**	**17.5**
– exchange differences on translation of foreign operations		**–**	**–**	**–**	**0.5**	**0.5**
– tax on items taken directly to other comprehensive income	5	**–**	**–**	**(0.4)**	**(3.8)**	**(4.2)**
– impact of change in UK tax rate	5	**–**	**–**	**–**	**0.3**	**0.3**
Other comprehensive income for the year		**–**	**–**	**1.8**	**14.5**	**16.3**
Total comprehensive income for the year		**–**	**–**	**1.8**	**190.1**	**191.9**
Transactions with owners:						
– issue of share capital	24	**1.4**	**117.7**	**–**	**–**	**119.1**
– purchase of own shares		**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards		**–**	**–**	**0.2**	**(0.2)**	**–**
– share-based payment charge	25	**–**	**–**	**8.7**	**–**	**8.7**
– transfer of share-based payment reserve		**–**	**–**	**(8.8)**	**8.8**	**–**
– dividends	7	**–**	**–**	**–**	**(123.4)**	**(123.4)**
At 31 December 2014		**30.3**	**268.3**	**19.0**	**295.4**	**613.0**

The movement of £117.7m in the share premium account in 2014 is stated net of £3.1m of costs associated with the placing of ordinary shares in respect of the acquisition of Moneybarn (see note 10).

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 (2013: £1.6m). In addition, cumulative goodwill of £2.3m (2013: £2.3m) has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 26.

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2013		28.7	148.1	623.7	111.0	911.5
Profit for the year		–	–	–	127.6	127.6
Other comprehensive income:						
– cash flow hedges	17	–	–	2.7	–	2.7
– actuarial movements on retirement benefit asset	19	–	–	–	(3.9)	(3.9)
– tax on items taken directly to other comprehensive income		–	–	(0.6)	0.9	0.3
– impact of change in UK tax rate		–	–	(0.2)	0.5	0.3
Other comprehensive income for the year		–	–	1.9	(2.5)	(0.6)
Total comprehensive income for the year		–	–	1.9	125.1	127.0
Transactions with owners:						
– issue of share capital	24	0.2	2.5	–	–	2.7
– purchase of own shares		–	–	(0.5)	–	(0.5)
– transfer of own shares on vesting of share awards		–	–	0.6	(0.6)	–
– share-based payment charge	25	–	–	3.6	–	3.6
– share-based payment movement in investment in subsidiaries	14	–	–	0.8	–	0.8
– transfer of share-based payment reserve		–	–	(2.4)	2.4	–
– dividends	7	–	–	–	(108.4)	(108.4)
At 31 December 2013		28.9	150.6	627.7	129.5	936.7
At 1 January 2014		**28.9**	**150.6**	**627.7**	**129.5**	**936.7**
Profit for the year		**–**	**–**	**–**	**125.1**	**125.1**
Other comprehensive income:						
– cash flow hedges	17	**–**	**–**	**2.3**	**–**	**2.3**
– actuarial movements on retirement benefit asset	19	**–**	**–**	**–**	**17.5**	**17.5**
– tax on items taken directly to other comprehensive income		**–**	**–**	**(0.5)**	**(3.8)**	**(4.3)**
– impact of change in UK tax rate		**–**	**–**	**–**	**0.3**	**0.3**
Other comprehensive income for the year		**–**	**–**	**1.8**	**14.0**	**15.8**
Total comprehensive income for the year		**–**	**–**	**1.8**	**139.1**	**140.9**
Transactions with owners:						
– issue of share capital	24	**1.4**	**117.7**	**–**	**–**	**119.1**
– purchase of own shares		**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards		**–**	**–**	**0.2**	**(0.2)**	**–**
– share-based payment charge	25	**–**	**–**	**4.6**	**–**	**4.6**
– share-based payment movement in investment in subsidiaries	14	**–**	**–**	**(0.4)**	**–**	**(0.4)**
– transfer of share-based payment reserve		**–**	**–**	**(4.2)**	**4.2**	**–**
– dividends	7	**–**	**–**	**–**	**(123.4)**	**(123.4)**
At 31 December 2014		**30.3**	**268.3**	**629.6**	**149.2**	**1,077.4**

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 profit for the financial year reported in the financial statements of the company was £125.1m (2013: £127.6m).

Other reserves are further analysed in note 26.

Statements of cash flows

For the year ended 31 December

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Cash flows from operating activities					
Cash generated from operations	30	**221.5**	183.8	**(33.9)**	107.5
Finance costs paid		**(72.3)**	(70.0)	**(62.0)**	(56.5)
Finance income received		**–**	–	**83.3**	81.4
Tax paid		**(44.9)**	(39.6)	**–**	–
Net cash generated from/(used in) operating activities		**104.3**	74.2	**(12.6)**	132.4
Cash flows from investing activities					
Purchase of intangible assets	12	**(7.4)**	(3.0)	**–**	–
Purchase of property, plant and equipment	13	**(11.6)**	(7.3)	**(0.7)**	(0.4)
Proceeds from disposal of property, plant and equipment	13	**1.1**	1.5	**0.3**	0.4
Acquisition of Moneybarn	10	**(120.0)**	–	**(120.0)**	–
Long-term loans provided to subsidiaries		**–**	–	**(53.5)**	(88.1)
Dividends received from subsidiaries		**–**	–	**112.5**	105.0
Net cash (used in)/generated from investing activities		**(137.9)**	(8.8)	**(61.4)**	16.9
Cash flows from financing activities					
Proceeds from bank and other borrowings		**341.0**	287.6	**123.7**	65.0
Repayment of bank and other borrowings		**(277.2)**	(206.8)	**(12.1)**	(43.3)
Dividends paid to company shareholders	7	**(123.4)**	(108.4)	**(123.4)**	(108.4)
Proceeds from issue of share capital	24	**119.1**	2.7	**119.1**	2.7
Purchase of own shares	26	**(0.1)**	(0.5)	**(0.1)**	(0.5)
Repayment of loans from subsidiaries		**–**	–	**(38.8)**	(49.3)
Net cash generated from/(used in) financing activities		**59.4**	(25.4)	**68.4**	(133.8)
Net increase/(decrease) in cash, cash equivalents and overdrafts		**25.8**	40.0	**(5.6)**	15.5
Cash, cash equivalents and overdrafts at beginning of year		**109.7**	69.7	**10.7**	(4.8)
Cash and cash equivalents acquired with Moneybarn	10	**5.2**	–	**–**	–
Cash, cash equivalents and overdrafts at end of year		**140.7**	109.7	**5.1**	10.7
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	21	**145.9**	119.0	**7.7**	13.6
Overdrafts (held in bank and other borrowings)	22	**(5.2)**	(9.3)	**(2.6)**	(2.9)
Total cash, cash equivalents and overdrafts		**140.7**	109.7	**5.1**	10.7

Cash at bank and in hand includes £121.4m (2013: £86.3m) 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.

The statutory cash flow statement reflects the cash inflow/(outflow) after funding the growth in the receivables book. The group's financial model is to fund the receivables book through a combination of 20% equity and 80% debt. Accordingly, to assess the group's capital generation to pay dividends to the company's shareholders, capital generation is calculated as net cash generated from/(used in) operating activities, after assuming that 80% of the growth in receivables is funded with borrowings, less net capital expenditure. Capital generated in 2014 on this basis was £175.5m (2013: £139.2m) compared with a dividend payable in respect of 2014 of £140.6m (2013: £116.8m).

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, 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 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.

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:

'Offsetting financial assets and financial liabilities (amendments to IAS 32)' clarifies the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial instruments: Presentation'. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to a net settlement. The amendment has not had a material impact on the group or company.

'Recoverable amount disclosures (amendments to IAS 36 (May 2013))' are narrow-scope amendments to IAS 36 'Impairment of assets'. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment has not had a material impact on the group or company.

'Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)' are narrow-scope amendments which allow hedge accounting to continue in a situation where a derivative financial instrument, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendment has not had a material impact on the group or company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not early adopted:

'Defined benefit plans: Employee contributions (amendments to IAS 19 (Nov 2013))' simplifies the accounting for contributions that are independent of the number of years of employee service (e.g. employee contributions that are calculated according to a fixed percentage of salary). The amendment is mandatory for accounting periods starting on or after 1 July 2014. The amendment will be adopted from 1 January 2015 following endorsement by the EU in December 2014, and is not expected to have a material impact on the group or company.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The final version of the standard was issued in July 2014. The standard primarily impacts the classification and measurement of financial assets and liabilities and introduces the 'expected credit loss' model for the measurement of the impairment of financial assets so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The group and company are in the process of assessing the impact of standard and will adopt the standard in line with the mandatory effective date of 1 January 2018, subject to endorsement by the EU.

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 interest income earned by the Consumer Credit Division (CCD) and Moneybarn.

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.

Statement of accounting policies continued

Finance costs

Finance costs principally comprise the interest on bank and other borrowings (including retail deposits) and, for the company, on intra-group loan arrangements, and are recognised on an effective interest rate basis. Finance costs also include the 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 that 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 to the higher of the net asset value of the relevant subsidiary and its discounted expected future cash flows.

Leases

Leases in which a significant portion 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 and computer software development costs across the group

The fair value of Moneybarn's broker relationships on acquisition has been estimated by discounting the expected future cash flows from Moneybarn's core broker relationships over their estimated useful economic life of 10 years. The asset will be amortised on a straight-line basis over its estimated useful life. For more detail see key assumptions and estimates on page 141.

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 five 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, with a pilot credit card operation in Poland. 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.

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 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 to predict future expected cash flows which are discounted at the original effective interest rate.

Within the weekly home credit business of CCD, 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.

Impairment is charged to the income statement as part of operating costs.

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	–
Freehold and long leasehold buildings	2½	Straight line
Short leasehold buildings	Over the lease period	Straight line
Equipment (including computer hardware)	10 to 33 ⅓	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 or its fair value less costs to sell.

Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand which includes amounts invested in money market funds and UK government gilts 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.

Statement of accounting policies continued

Derivative financial instruments

The group and company use derivative financial instruments, principally interest rate swaps, cross-currency swaps and forward contracts, to manage the interest rate and foreign exchange rate risk arising from the group's underlying business operations. 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 accordingly 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:

Fair value hedges

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement as part of finance costs, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 both fair value and 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 26. 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 parent'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 parent'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 with previous gains or losses deferred within equity being recycled to the income statement.

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.

Where borrowings are the subject of a fair value hedge, changes in the fair value of the borrowing that are attributable to the hedged risk are recognised in the income statement and a corresponding adjustment made to the carrying value of borrowings.

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.
- 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, together with adjustments for unrecognised past service costs. 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, unless changes to the pension schemes are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

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 equity 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.

Share-based payments

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 the schemes are equity-settled.

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

Statement of accounting policies continued

Taxation

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

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

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

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 shareholders and other users of the group's financial statements, supplementary commentary has been provided within the group's financial statements within highlighted boxes. This supplementary information does not form part of the statutory, audited financial statements.

Key assumptions and estimates

In applying the accounting policies set out above, the group and company make significant estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

Amounts receivable from customers (£1,849.2m)

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 as this is considered to be the most reliable indication of future payment performance. The group makes judgements 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 and Moneybarn are deemed to be impaired when one contractual monthly payment has been missed. In the weekly home credit business, 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.

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.

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 £18m (2013: £16m) higher/lower.

Key assumptions and estimates continued

Other intangible assets – broker relationships (£72.5m)

Moneybarn's broker relationships have been allocated a fair value on acquisition as the relationships are an important influence on the revenue-generating capacity of the business.

The broker relationships have been valued using a dividend discount model on the forecast surplus cash flows generated by Moneybarn's core broker relationships. This methodology is in line with the group's existing valuation model used for budgeting purposes. Forecast surplus cash flows have been derived against the group's target capital structure of a maximum gearing ratio of 3.5 times and then discounted at an appropriate cost of capital to derive the fair value of the intangible asset.

The calculation of the broker relationships intangible asset reflects a number of key judgements and estimates, which have a material effect on the carrying value of the asset. These include:

- Cash flow forecasts have been extracted from the budget produced by Moneybarn following acquisition, which involves a number of judgements and estimates, particularly in respect of new business volumes, collections performance and the cost base of the business.
- A useful economic life of 10 years has been applied to Moneybarn's core broker relationships. Management consider this to be a reasonable estimate based on Moneybarn's current business model and that used in constructing the budget.
- Moneybarn's budget has been extended by a further five years from five years to 10 years using high-level growth rates to reflect management's estimate of surplus cash flows over the whole useful economic life of broker relationships.
- The surplus cash flows generated by Moneybarn have been calculated as those over and above the equity retained in the business to meet the group's target capital structure. The group's target capital structure of 20% equity and 80% debt is considered to be an appropriate capital structure for the Moneybarn business.
- The discount rate applied to the forecast surplus cash flows has been estimated based on Moneybarn's cost of capital prior to acquisition.

The nature and inherent uncertainty relating to the above judgements and estimates means that the forecast cash flows may be materially different from actual cash flows. A material future reduction in forecast surplus cash flows from broker relationships would necessitate a full impairment review and the possibility of a material impairment charge in future years.

Tax (current tax liabilities £40.4m, deferred tax liabilities £13.6m)

The tax treatment of certain items cannot be determined precisely until tax audits or enquiries have been completed by the tax authorities. In some instances, this can be years after the item has first been reflected in the financial statements. The group recognises liabilities for anticipated tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due. If the outcome of such audits is that the final liability is different from the amount originally estimated, such differences will be recognised in the period in which the tax audit or enquiry is concluded. Any differences may necessitate a material adjustment to the level of tax balances held in the balance sheet.

If the probability assessment of uncertain tax liabilities was adjusted by +/– 5%, it is estimated that the group's tax liabilities would be £1m (2013: £1m) higher/lower.

Retirement benefit asset (£56.0m)

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.

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.

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 90 to 96.

(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 2014 is the carrying value of amounts receivable from customers of £1,849.2m (2013: £1,606.6m).

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 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. Each potential new customer receives a welcome call from contact centre staff to verify details and complete the underwriting process. Initial credit limits are low, typically between £250 and £500 and the maximum credit limit is £3,500. 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 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 £500. The loans are underwritten in the home by an agent with emphasis placed on any previous lending experience with the customer and the agent's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the agent visits the customer weekly, or in some cases monthly, to collect payment. The agent 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 agent 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.

Agents are primarily paid commission for what they collect and not for what they lend, so their main focus is on ensuring loans are affordable at the point of issue and then on collecting cash. Affordability is reassessed by the agent 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.

Financial risk management continued

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.

(ii) Bank counterparties

The group's maximum exposure to credit risk on bank counterparties as at 31 December 2014 was £12.1m (2013: £21.1m).

Counterparty credit risk arises as a result of cash deposits placed with banks 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 fund 100% of its receivables book through retail deposits. As at 31 December 2014, the group's committed borrowing facilities had a weighted average period to maturity of 3.1 years (2013: 3.2 years) and the headroom on these committed facilities amounted to £111.5m (2013: 235.2m). Following the one-year extension to May 2018 of the group's syndicated bank facility in January 2015, the weighted average period to maturity of the group's committed borrowing facillity increased to 3.3 years.

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, 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 2014, the liquid assets buffer, including other liquidity resources, held by Vanquis Bank amounted to £121.4m (2013: £86.3m).

In addition, from 1 October 2015 (with a transitional period extending to 1 January 2018), the group and Vanquis Bank will be 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 have developed systems and controls to monitor and forecast the LCR and have been submitting regulatory reports on the ratio since 1 January 2014. Reporting and forecasting to date has provided assurance to the group and Vanquis Bank boards that the LCR requirement can be met both in advance of and following the implementation date.

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 in May 2017 (note – the syndicated revolving bank facility was extended by a further year in January 2015 and now has a maturity date of May 2018).

Financial liabilities

2014 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– bank facilities	**5.2**	**288.7**	**–**	**–**	**–**	**293.9**
– senior public bonds	**–**	**20.0**	**20.0**	**310.0**	**–**	**350.0**
– private placement loan notes	**–**	**6.4**	**16.0**	**79.8**	**51.6**	**153.8**
– subordinated loan notes	**–**	**6.3**	**–**	**–**	**–**	**6.3**
– retail bonds	**–**	**17.9**	**67.9**	**145.8**	**98.9**	**330.5**
– retail deposits	**–**	**130.8**	**146.7**	**352.1**	**–**	**629.6**
Total bank and other borrowings	**5.2**	**470.1**	**250.6**	**887.7**	**150.5**	**1,764.1**
Derivative financial instruments – settled net	**–**	**3.2**	**0.7**	**–**	**–**	**3.9**
Trade and other payables	**–**	**94.3**	**–**	**–**	**–**	**94.3**
Total	**5.2**	**567.6**	**251.3**	**887.7**	**150.5**	**1,862.3**

Financial assets

2014 – 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	**–**	**0.2**	**–**	**–**	**–**	**0.2**
Trade and other receivables	**–**	**24.5**	**–**	**–**	**–**	**24.5**
Total	**–**	**24.7**	**–**	**–**	**–**	**24.7**

Financial liabilities

2013 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– bank facilities	7.3	168.1	–	–	–	175.4
– senior public bonds	–	20.0	20.0	60.0	270.0	370.0
– private placement loan notes	–	43.8	16.6	78.0	69.5	207.9
– subordinated loan notes	–	0.3	6.3	–	–	6.6
– retail bonds	–	18.0	18.0	207.9	104.7	348.6
– retail deposits	–	75.4	115.0	281.1	–	471.5
Total bank and other borrowings	7.3	325.6	175.9	627.0	444.2	1,580.0
Derivative financial instruments – settled net	–	3.5	3.4	0.8	–	7.7
Trade and other payables	–	65.8	–	–	–	65.8
Total	7.3	394.9	179.3	627.8	444.2	1,653.5

Financial assets

2013 – 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 gross	–	6.2	–	–	–	6.2
Derivative financial instruments – settled net	–	0.1	–	–	–	0.1
Trade and other receivables	–	15.5	–	–	–	15.5
Total	–	21.8	–	–	–	21.8

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 2014 and 2013 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 is monitored monthly by the treasury committee and is governed by a board-approved foreign exchange rate risk management policy which forms part of the group's treasury policies.

The group's exposures to foreign exchange rate risk during 2014 arise solely from: (i) the issuance of US dollar private placement loan notes, which were fully hedged into sterling through the use of cross-currency swaps; and (ii) the home credit operations in the Republic of Ireland and the Vanquis Bank operations in Poland, which are hedged by matching euro/zloty-denominated net assets with euro/zloty-denominated borrowings or forward contracts as closely as practicable. All US dollar private placement loan notes were settled in August 2014.

As at 31 December 2014, a 2% movement in the sterling to US dollar exchange rate would have led to a £nil (2013: £nil) movement in external borrowings with an opposite movement of £nil (2013: £nil) in the hedging reserve within equity. Due to the hedging arrangements in place, there would have been no impact on reported profits in 2014 (2013: £nil).

As at 31 December 2014, a 2% movement in the sterling to euro exchange rate would have led to a £1.1m (2013: £1.1m) movement in customer receivables with an opposite movement of £1.1m (2013: £1.1m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been a £nil impact on reported profits and equity (2013: £nil).

As at 31 December 2014, a 2% movement in the sterling to zloty exchange rate would have led to a £0.3m (2013: £nil) movement in customer receivables with an opposite movement of £0.3m (2013: £nil) in the borrowings. Due to the net investment hedge in place, there would have been no impact on reported profits or equity (2013: £nil).

(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 objective in respect of capital risk management is to maintain an efficient capital structure whilst satisfying the requirements of the group's banking covenants and the regulatory capital requirements set by the PRA. The group primarily manages its capital base against two measures as described below:

(a) Gearing

In order to maintain an efficient capital structure, the group has a maximum target gearing ratio of 3.5 times. This provides a comfortable level of headroom against the group's banking covenant of 5.0 times and regulatory capital requirements. The maximum target gearing ratio of 3.5 times is fully aligned with the group's target of distributing 80% of post-tax earnings by way of dividends whilst retaining sufficient capital to support receivables growth consistent with management's medium-term growth plans for the group.

Financial and capital risk management continued

Capital risk management continued

(a) Gearing continued

As at 31 December 2014, the gearing ratio stood at 2.4 times (2013: 3.0 times), calculated as follows:

Group	Note	2014 £m	2013 £m
Borrowings	22	**1,493.0**	1,284.6
Exchange rate adjustment	22	**–**	(5.2)
Arrangement fees	22	**7.5**	7.2
Liquid assets buffer, including other liquid resources	21	**(121.4)**	(86.3)
Borrowings for gearing purposes		**1,379.1**	1,200.3
Shareholders' equity		**613.0**	416.8
Pension asset	19	**(56.0)**	(29.2)
Deferred tax on pension asset	20	**11.2**	5.8
Hedging reserve	26	**3.3**	5.1
Equity for gearing purposes		**571.5**	398.5
Gearing (times)		**2.4**	3.0

The gearing ratio is lower than the maximum target of 3.5 times due to: (i) the group's strong capital generation over the last 2 years, particularly as a result of the capital released from the 32.5% reduction in the receivables book of the home credit business over that period; and (ii) the equity raised to fund the acquisition of Moneybarn in August 2014 in order to preserve regulatory capital. The group's gearing ratio would have been 2.7 times at 31 December 2014 had the Moneybarn acquisition and associated raising of equity not taken place.

(b) Regulatory capital

The group is the subject of consolidated supervision by the PRA. As part of this supervision, it is required to maintain a certain level of regulatory capital (known as its Individual Capital Guidance (ICG)) in order to mitigate against unexpected losses. The ICG remains confidential between the PRA and the relevant institution and should not be publicly disclosed.

The group has complied with the Capital Requirements Directive (CRD) IV since 1 January 2014. Regulatory capital differs from the group's shareholders' equity included in the balance sheet as it excludes goodwill and other intangible assets, the group's pension asset, net of deferred tax, the fair value of derivative financial instruments, and the proposed dividend, but includes the group's subordinated loan notes. The proposed dividend is calculated in accordance with the group's recent practice of maintaining 1.3 times dividend cover on profits generated in the year.

A reconciliation of the group's equity to regulatory capital in accordance with CRD IV, is set out below:

Group	Note	2014 £m	2013 £m
Shareholders' equity		**613.0**	416.8
Other intangible assets	12	**(84.3)**	(8.1)
Goodwill	11	**(71.2)**	–
Deferred tax on acquired intangible asset		**14.2**	–
Pension asset	19	**(56.0)**	(29.2)
Deferred tax on pension asset	20	**11.2**	5.8
Hedging reserve	26	**3.3**	5.1
Dividend accrued on profits recognised		**(86.7)**	(66.3)
Tier 1 capital		**343.5**	324.1
Tier 2 capital – subordinated loan notes		**0.5**	1.7
Total regulatory capital held		**344.0**	325.8

When tier 2 subordinated loan notes have less than five years until maturity, the amount eligible for inclusion within regulatory capital reduces by 20% per annum for each year. Accordingly, the amount of the subordinated loan notes eligible for regulatory capital purposes as at 31 December 2014 amounts to 20% of the balance outstanding (2013: 40%).

The treasury committee is responsible for monitoring the level of regulatory capital. The level of surplus regulatory capital against the ICG is reported to the board on a monthly basis in the group's management accounts. The group regularly forecasts regulatory capital requirements as part of the budgeting and strategic planning process. The group is required to report quarterly to the PRA on the level of regulatory capital it holds. As at 31 December 2014, the group's total regulatory capital was comfortably in excess of the ICG set by the PRA.

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 comprising both Peter Crook (Chief Executive), and Andrew Fisher (Finance Director) 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		Profit/(loss) before taxation	
Group	2014 £m	2013 £m	2014 £m	2013 £m
Vanquis Bank	**470.8**	381.0	**140.4**	106.1
CCD	**591.1**	697.1	**103.9**	102.5
Moneybarn	**13.8**	–	**5.8**	–
Central costs	**–**	–	**(15.7)**	(12.5)
Total group before amortisation of acquisition intangibles and exceptional costs	**1,075.7**	1,078.1	**234.4**	196.1
Amortisation of acquisition intangibles	**–**	–	**(2.5)**	–
Exceptional costs	**–**	–	**(7.3)**	(13.7)
Total group	**1,075.7**	1,078.1	**224.6**	182.4

Exceptional costs in 2014 of £7.3m comprise: (i) £3.4m of business restructuring costs in CCD which represent £4.0m of redundancy costs associated with 225 field administration employees following the ongoing deployment of technology in CCD, net of a £0.6m exceptional credit associated with those employees made redundant who were part of the group's defined benefit pension scheme (see note 19); and (ii) £3.9m of expenses incurred in relation to the acquisition of Moneybarn (see note 10). The exceptional cost in 2013 of £13.7m related to the cost of a business restructuring within CCD, including the redundancy costs associated with a headcount reduction of 520 employees. The exceptional cost was stated net of an exceptional curtailment credit of £1.6m associated with those employees made redundant who were part of the group's defined benefit pension scheme (see note 19).

All of the above activities relate to continuing operations. Revenue between business segments is not material.

	Segment assets		Segment liabilities		Net assets	
Group	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Vanquis Bank	**1,252.1**	969.8	**(961.7)**	(753.3)	**290.4**	216.5
CCD	**628.6**	783.8	**(500.3)**	(612.5)	**128.3**	171.3
Moneybarn	**166.7**	–	**(163.7)**	–	**3.0**	–
Central	**271.7**	85.4	**(80.4)**	(56.4)	**191.3**	29.0
Total before intra-group elimination	**2,319.1**	1,839.0	**(1,706.1)**	(1,422.2)	**613.0**	416.8
Intra-group elimination	**(60.4)**	(28.8)	**60.4**	28.8	**–**	–
Total group	**2,258.7**	1,810.2	**(1,645.7)**	(1,393.4)	**613.0**	416.8

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 80%. The impact of this is an increase in the notional allocation of group borrowings to CCD of £60.4m (2013: £28.8m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

The significant increase in central net assets reflects the goodwill (£71.2m), and intangible assets (£72.5m) arising on acquisition of Moneybarn which are held on consolidation.

Notes to the financial statements continued

1 Segment reporting continued

The group's businesses operate principally in the UK and Republic of Ireland, other than a branch in Poland which was established as part of Vanquis Bank's pilot credit card operation in Poland. The revenue in respect of the branch in 2014 amounted to £5.2m (2013: £2.2m) and the loss amounted to £10.6m (2013: £7.6m). The net liabilities of the branch amounted to £18.7m at 31 December 2014 (2013: £9.5m), comprising assets of £22.3m (2013: £16.0m) and liabilities of £41.0m (2013: £25.5m). These figures are included within the Vanquis Bank figures in the tables above. Subsequent to the 2014 year end, a decision was made to withdraw from the Polish pilot credit card operation.

	Capital expenditure		Depreciation		Amortisation	
Group	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Vanquis Bank	**6.1**	2.0	**1.5**	1.3	**0.5**	0.8
CCD	**12.0**	7.9	**3.9**	4.2	**4.1**	3.6
Moneybarn	**0.2**	–	**0.1**	–	**0.1**	–
Central	**0.7**	0.4	**1.1**	1.2	**2.5**	–
Total group	**19.0**	10.3	**6.6**	6.7	**7.2**	4.4

Capital expenditure in 2014 comprises expenditure on intangible assets of £7.4m (2013: £3.0m) and property, plant and equipment of £11.6m (2013: £7.3m).

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.

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 the EIR takes account of customers repaying early.

	Group	
	2014 £m	2013 £m
Interest income	**942.0**	962.0
Fee income	**133.7**	116.1
Total revenue	**1,075.7**	1,078.1

All fee income earned relates to Vanquis Bank.

Interest income relates to the interest charges on Vanquis Bank credit cards and the service charge on home credit loans. Fee income in Vanquis Bank predominantly reflects default and overlimit fees as well as other ancillary income streams such as interchange income and Repayment Option Plan (ROP) fees. Fee income in 2014 represented 28% (2013: 30%) of Vanquis Bank revenue.

3 Finance costs

	Group	
Interest payable on:	2014 £m	2013 £m
Bank borrowings	**15.4**	13.1
Senior public and retail bonds	**38.9**	37.9
Private placement loan notes	**6.7**	8.2
Subordinated loan notes	**0.3**	0.3
Retail deposits	**16.2**	14.7
Total finance costs	**77.5**	74.2

The group's blended funding rate in 2014 was 6.5%, down from 6.8% in 2013. This primarily reflects the development of the retail deposits programme in Vanquis Bank during 2014. Retail deposits represent approximately 38% of the group's funding at the end of 2014 compared with approximately 34% in 2013. The all-in blended cost of taking retail deposits in 2014, after the cost of holding a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime, was 3.4% (2013: 3.8%). The group funding rate is expected to moderate further to approximately 6% in 2015.

Interest cover continues to be one of the group's banking covenants. It is calculated as profit before tax, 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 costs, in 2014 was 4.1 times compared with 3.7 times in 2013.

4 Profit before taxation

Profit before taxation is stated after charging/(crediting):	Group 2014 £m	Group 2013 £m
Amortisation of other intangible assets:		
– computer software (note 12)	**4.7**	4.4
– acquired intangibles (note 12)	**2.5**	–
Depreciation of property, plant and equipment (note 13)	**6.6**	6.7
Loss on disposal of property, plant and equipment (note 13)	**0.2**	0.2
Operating lease rentals:		
– property	**12.6**	10.0
Employment costs (prior to exceptional curtailment credit and redundancy costs (note 9(b)))	**155.0**	147.6
Exceptional curtailment credit (note 19(b))	**(0.6)**	(1.6)
Exceptional redundancy costs (note 9(b))	**4.0**	12.6
Exceptional fees incurred on the acquisition of Moneybarn (note 10)	**3.9**	-
Impairment of amounts receivable from customers (note 15)	**327.8**	399.1

Operating costs include impairment of amounts receivable from customers; commission paid to self-employed agents (which broadly represents 40% of home credit's costs) and marketing and customer acquisition costs. Administrative costs reflect all other costs incurred in running the business, the largest of which is employment costs (see note 9).

Auditor's remuneration	Group 2014 £m	Group 2013 £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	**0.3**	0.2
– other services pursuant to legislation	**0.8**	0.1
Total auditor's remuneration	**1.2**	0.4

5 Tax charge

Tax charge in the income statement	Group 2014 £m	Group 2013 £m
Current tax		
– UK	**(46.6)**	(37.7)
– overseas	**(0.7)**	(0.5)
Total current tax	**(47.3)**	(38.2)
Deferred tax (note 20)	**(3.0)**	(2.5)
Impact of change in UK tax rate (note 20)	**1.3**	(0.7)
Total tax charge	**(49.0)**	(41.4)

The tax credit in respect of exceptional costs in 2014 amounted to £0.8m (2013: credit of £3.2m) and represents tax relief in respect of the exceptional restructuring costs in CCD.

The effective tax rate for 2014 prior to the amortisation of acquisition intangibles and exceptional costs, is 21.5% in line with the UK statutory corporation tax rate which reduced from 23% to 21% with effect from 1 April 2014. A further reduction in the UK statutory corporation tax rate will take place with effect from 1 April 2015 when the rate reduces from 21% to 20%. The group is expected to benefit from the rate reduction and the effective tax rates for future periods are expected to be similar to the UK statutory corporation tax rate.

Notes to the financial statements continued

5 Tax charge continued

As the changes to the UK statutory corporation tax rate were enacted in the 2013 Finance Act, deferred tax balances at 31 December 2013 were re-measured at 20% on the basis that that the temporary differences on which the deferred tax balances were calculated were expected to reverse after 1 April 2015. In 2014, movements in the deferred tax balances have been measured at the statutory corporation tax rate for the year of 21.50% (2013: 23.25%). The deferred tax balances at 31 December 2014 have then been re-measured at 20% as the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2015. A tax credit of £1.3m in 2014 (2013: charge of £0.7m) represents the income statement adjustment as a result of this change and an additional deferred tax credit of £0.3m (2013: £0.3m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

	Group	
Tax (charge)/credit on items taken directly to other comprehensive income	**2014 £m**	**2013 £m**
Current tax charge on cash flow hedges	**(0.4)**	(0.6)
Deferred tax (charge)/credit on actuarial movements on retirement benefit asset	**(3.8)**	0.9
Tax (charge)/credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	**(4.2)**	0.3
Impact of change in UK tax rate	**0.3**	0.3
Total tax (charge)/credit on items taken directly to other comprehensive income	**(3.9)**	0.6

The rate of tax charge on the profit before taxation for the year is higher than (2013: lower than) the average standard rate of corporation tax in the UK of 21.50% (2013: 23.25%). This can be reconciled as follows:

	Group	
	2014 £m	**2013 £m**
Profit before taxation	**224.6**	182.4
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)	**(48.3)**	(42.4)
Effects of:		
– benefit of lower tax rates overseas	**0.6**	0.7
– adjustment in respect of prior years	**(1.4)**	1.3
– non deductible general expenses	**(0.4)**	(0.3)
– non deductible expenses relating to the acquisition of Moneybarn	**(0.8)**	–
– impact of change in UK tax rate	**1.3**	(0.7)
Total tax charge	**(49.0)**	(41.4)

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% (2013: 12.5%) rather than the UK statutory tax rate of 21.50% (2013: 23.25%) giving rise to a beneficial impact on the group tax charge of £0.6m (2013: £0.7m).

The £1.4m charge (2013: £1.3m credit) in respect of prior years represents an increase in the prior year tax charge in respect of historic tax liabilities net of the benefit of securing tax deductions for employee share awards which are higher than those originally anticipated.

During 2014, the group incurred £3.9m of expenses in relation to the acquisition of Moneybarn which have been included in exceptional costs. As tax deductions are unlikely to be available for such costs, these give rise to an increase in the tax charge of £0.8m (2013: £nil).

6 Earnings per share

The group presents basic and diluted 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 earnings per share are set out below:

		2014			2013	
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Earnings per share						
Shares in issue during the year		**142.3**			139.1	
Own shares held		**(3.5)**			(3.8)	
Basic earnings per share	**175.6**	**138.8**	**126.5**	141.0	135.3	104.2
Dilutive effect of share options and awards	**–**	**2.2**	**(2.0)**	–	2.7	(2.0)
Diluted earnings per share	**175.6**	**141.0**	**124.5**	141.0	138.0	102.2

The directors have elected to show an adjusted earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn on 20 August 2014 (see note 10) and prior to exceptional costs (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 earnings per share to adjusted basic and diluted earnings per share is as follows:

		2014			2013	
Group	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 earnings per share	**175.6**	**138.8**	**126.5**	141.0	135.3	104.2
Amortisation of acquisition intangibles, net of tax	**1.9**	**–**	**1.4**	–	–	–
Exceptional costs, net of tax	**6.5**	**–**	**4.7**	10.5	–	7.8
Adjusted basic earnings per share	**184.0**	**138.8**	**132.6**	151.5	135.3	112.0
Diluted earnings per share	**175.6**	**141.0**	**124.5**	141.0	138.0	102.2
Amortisation of acquisition intangibles, net of tax	**1.9**	**–**	**1.4**	–	–	–
Exceptional costs, net of tax	**6.5**	**–**	**4.6**	10.5	–	7.6
Adjusted diluted earnings per share	**184.0**	**141.0**	**130.5**	151.5	138.0	109.8

Adjusted basic EPS has grown by 18.4% in 2014 primarily due to the strong performance of Vanquis Bank. This growth is lower than the 19.5% growth in profit before tax, amortisation of acquisition intangibles and exceptional costs as a result of the 5.9m placement of shares for the acquisition of Moneybarn, partly offset by the reduction in the corporation tax rate from 23% to 21% on 1 April 2014.

Notes to the financial statements continued

7 Dividends

		Group and company	
		2014 £m	2013 £m
2012 final	– 48.4p per share	**–**	66.0
2013 interim	– 31.0p per share	**–**	42.4
2013 final	– 54.0p per share	**74.4**	–
2014 interim	– 34.1p per share	**49.0**	–
Dividends paid		**123.4**	108.4

The directors are recommending a final dividend in respect of the financial year ended 31 December 2014 of 63.9p per share (2013: 54.0p) which will amount to an estimated dividend payment of £91.6m (2013: £74.4m). If approved by the shareholders at the annual general meeting on 7 May 2015, this dividend will be paid on 19 June 2015 to shareholders who are on the register of members at 22 May 2015. This dividend is not reflected in the balance sheet as at 31 December 2014 as it is subject to shareholder approval.

As a result of adjusted EPS growth of 18.4% in 2014, the directors have proposed an increase in the final dividend of 18.3% which, together with the 10.0% increase in the interim dividend, makes a total full-year dividend increase of 15.3%. Accordingly, dividend cover, prior to the amortisation of acquisition intangibles and exceptional costs, in 2014 was 1.35 times, compared with the minimum target of 1.25 times.

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	
	2014 £m	2013 £m
Short-term employee benefits	**3.6**	4.0
Post-employment benefits	**0.4**	0.6
Share-based payment charge	**3.7**	2.9
Total	**7.7**	7.5

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 charge is the proportion of the group's share-based payment charge that relates to those options and awards granted to the directors.
- This differs to the director's remuneration report on pages 116 to 128 which does not include the share-based payment charge of £3.7m (2013: £2.9m) but includes the value of LTIS and PSP share awards due to vest in 2015 of £6.6m (2013: £5.2m). The value is calculated assuming 100% of share awards vest at the average share price during the last three months of the year.

9 Employee information

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

	Group 2014 Number	Group 2013 Number
Vanquis Bank	**1,021**	909
CCD	**2,390**	2,869
Moneybarn	**102**	–
Central	**55**	55
Total group	**3,568**	3,833
Analysed as:		
Full time	**3,105**	3,236
Part time	**463**	597
Total group	**3,568**	3,833

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 does not include the 7,700 self-employed agents within CCD. The 16.7% reduction in CCD employee numbers reflects the impact of the business restructuring which took place during 2013 and 2014. Vanquis Bank employee numbers have increased by 12% during 2014 due to the growth of the business, including the continued expansion of the second contact centre in CCD's head office in Bradford.

(b) Employment costs

	Group 2014 £m	Group 2013 £m
Aggregate gross wages and salaries paid to the group's employees	**123.2**	116.0
Employers' National Insurance contributions	**14.4**	13.5
Pension charge, prior to exceptional pension credit	**8.7**	10.7
Share-based payment charge (note 25)	**8.7**	7.4
Total employment cost prior to exceptional costs	**155.0**	147.6
Exceptional pension credit (note 19)	**(0.6)**	(1.6)
Exceptional redundancy costs (note 1)	**4.0**	12.6
Total employment costs	**158.4**	158.6

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 UURBS. The increase in the share-based payment charge from £7.4m in 2013 to £8.7m in 2014 primarily reflects the impact of prior year provision releases in 2013 following the departure of Chris Gillespie, a former executive director.

Notes to the financial statements continued

10 Acquisition of Moneybarn

The group completed the acquisition of the entire share capital of Duncton Group Limited, which trades as Moneybarn, the UK's largest non-standard vehicle finance business, on 20 August 2014 for consideration of £120m. The consideration was satisfied by the payment of £120m in cash on completion to Duncton Group Limited's shareholders, funded through the proceeds of a placing of 5.9m new ordinary shares in Provident Financial plc with institutional investors. The acquisition of Moneybarn broadens the product offering to the group's target customer base and creates a third leg of earnings that complements the group's organic growth opportunities.

Costs of £3.9m associated with the acquisition including due diligence, legal, advisory and tax fees have been charged as an exceptional cost in 2014 (see note 1). Costs of £3.1m associated with the placing of ordinary shares in respect of the acquisition have been deducted from the share premium account.

Prior to acquisition, Moneybarn reported under UK GAAP. A detailed conversion of Moneybarn's financial statements to IFRS has been completed post acquisition which reduced Moneybarn's net assets on acquisition by approximately £11m, principally in respect of: (i) higher impairment provisions due to the impact of discounting future expected cash flows at the effective interest rate; and (ii) a change in policy in respect of the deferral of the acquisition costs of new accounts.

The provisional fair values of the identifiable assets and liabilities of Moneybarn as at the acquisition date were as follows:

	Book value on acquisition £m	Fair value adjustments £m	Recognised on acquisition £m
Intangible assets (a)	1.0	75.0	**76.0**
Property, plant and equipment	0.9	–	**0.9**
Deferred tax assets/(liabilities) (c)	2.6	(14.1)	**(11.5)**
Amounts receivable from customers (b)	135.0	(3.8)	**131.2**
Cash and cash equivalents	5.2	–	**5.2**
Trade and other receivables	4.8	–	**4.8**
Trade and other payables (c)	(5.2)	(1.0)	**(6.2)**
Corporation tax liabilities	(1.7)	–	**(1.7)**
Bank and other borrowings (d)	(144.9)	(5.0)	**(149.9)**
Net identifiable (liabilities)/assets acquired	(2.3)	51.1	**48.8**
Goodwill			**71.2**
Cash consideration			**120.0**

The fair value adjustments applied to Moneybarn's net assets comprise:

a) £75.0m has been attributed to the fair value of Moneybarn's existing broker relationships which are an important influence on the revenue-generating capacity of the business (see note 12).

b) An adjustment to receivables of £3.8m has been made to reflect the fair value of the receivables book at the acquisition date. This adjustment principally relates to the expected losses on those accounts which are not yet in arrears and therefore have not yet attracted an impairment provision under IAS 39 'Financial instruments: Recognition and measurement'. Expected losses are currently only taken account of as part of the calculation of fair value on the acquisition of a receivables book in accordance with IFRS 3 'Business combinations'. Expected loss provisions have not been established on new Moneybarn accounts originated post acquisition in line with both the group's accounting policies and IAS 39.

c) The tax effect of the other fair value adjustments of £14.1m together with £1.0m of additional potential liabilities which were not provided against at the acquisition date have been made.

d) The existing Moneybarn borrowings were refinanced shortly following acquisition, utilising the group's existing committed facilities at a substantially lower cost of funds. The fair value of debt on acquisition has been increased to include the break costs of £5.0m that were incurred in settling Moneybarn's existing debt.

The goodwill of £71.2m represents the benefit of the group's lower cost funding and synergies available from the acquisition in respect of underwriting, collections and distribution channels. In accordance with the group's accounting policies, goodwill is not amortised but is subject to an annual impairment review. None of the goodwill is expected to be deductible for corporation tax purposes.

10 Acquisition of Moneybarn continued

An analysis of the fair value of the receivables acquired compared with the gross contractual amounts of the receivables book and the contractual cash flows not expected to be collected is as follows:

	Fair value £m	Gross contractual amounts £m	Contractual cash flows not expected to be collected £m
Amounts receivable from customers	131.2	225.0	24.7

The gross contractual amounts of receivables relates to the total contractual amount due from the customers over the life of the contract. Cash flows not expected to be collected are the undiscounted cash flows not expected to be collected based on historical experience.

Moneybarn generated revenue of £13.8m and a profit before tax, amortisation of acquired intangible assets and exceptional items of £5.8m in the four months following acquisition. In the eight months prior to acquisition, Moneybarn generated revenue of £24.2m and a profit before tax and exceptional costs of £4.6m. Had the acquisition completed on the first day of the financial year and Moneybarn had benefited from the group's lower cost of funding in the first eight months of the year, the group's revenue would have been £24.2m higher at £1,099.9m and group profit before tax, amortisation of acquisition intangibles and exceptional costs would have been £9.2m higher at £243.6m.

11 Goodwill

	Group	
	2014 £m	2013 £m
Cost		
At 1 January	**2.1**	2.1
Acquisition of Moneybarn	**71.2**	–
At 31 December	**73.3**	2.1
Accumulated amortisation		
At 1 January and 31 December	**2.1**	2.1
Net book value at 31 December	**71.2**	–
Net book value at 1 January	**–**	–

The £71.2m of goodwill in 2014 reflects the surplus of consideration over identifiable assets of Moneybarn (see note 10). In 2012, the carrying value of goodwill in respect of Cheque Exchange Limited, a small subsidiary originally acquired in 2001 and now subsumed within CCD, was fully impaired based on expected future cash flows.

Notes to the financial statements continued

12 Other intangible assets

Group	2014 Acquisition intangibles £m	2014 Computer software £m	2014 Total £m	2013 Acquisition intangibles £m	2013 Computer software £m	2013 Total £m
Cost						
At 1 January	**–**	**39.7**	**39.7**	–	36.8	36.8
Acquisition of Moneybarn (note 10)	**75.0**	**1.6**	**76.6**	–	–	–
Additions	**–**	**7.4**	**7.4**	–	3.0	3.0
Disposals	**–**	**(4.2)**	**(4.2)**	–	(0.1)	(0.1)
At 31 December	**75.0**	**44.5**	**119.5**	–	39.7	39.7
Accumulated amortisation						
At 1 January	**–**	**31.6**	**31.6**	–	27.3	27.3
Acquisition of Moneybarn (note 10)	**–**	**0.6**	**0.6**	–	–	–
Charged to the income statement	**2.5**	**4.7**	**7.2**	–	4.4	4.4
Disposals	**–**	**(4.2)**	**(4.2)**	–	(0.1)	(0.1)
At 31 December	**2.5**	**32.7**	**35.2**	–	31.6	31.6
Net book value at 31 December	**72.5**	**11.8**	**84.3**	–	8.1	8.1
Net book value at 1 January	**–**	**8.1**	**8.1**	–	9.5	9.5

Acquisition intangibles represents the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014 (see note 10). The intangible asset has been 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 £7.4m (2013: £3.0m) of computer software expenditure principally relates to externally purchased and internally developed software in CCD supporting modernisation of the home credit business and the systems to support the build-out of Satsuma.

13 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 2014	**3.9**	**0.8**	**54.1**	**58.8**
Acquisition of Moneybarn (note 10)	**–**	**0.6**	**0.7**	**1.3**
Additions	**–**	**3.7**	**7.9**	**11.6**
Disposals	**–**	**(0.5)**	**(3.5)**	**(4.0)**
At 31 December 2014	**3.9**	**4.6**	**59.2**	**67.7**
Accumulated depreciation				
At 1 January 2014	**3.3**	**0.6**	**32.1**	**36.0**
Acquisition of Moneybarn (note 10)	**–**	**0.1**	**0.3**	**0.4**
Charged to the income statement	**–**	**0.1**	**6.5**	**6.6**
Disposals	**–**	**(0.5)**	**(2.2)**	**(2.7)**
At 31 December 2014	**3.3**	**0.3**	**36.7**	**40.3**
Net book value at 31 December 2014	**0.6**	**4.3**	**22.5**	**27.4**
Net book value at 1 January 2014	**0.6**	**0.2**	**22.0**	**22.8**

The loss on disposal of property, plant and equipment in 2014 amounted to £0.2m (2013: £0.2m) and represented proceeds received of £1.1m (2013: £1.5m) less the net book value of disposals of £1.3m (2013: £1.7m).

Additions in 2014 principally comprises expenditure in respect of the new Vanquis Bank head office at 20 Fenchurch Street, London and the routine replacement of IT equipment in both CCD and Vanquis Bank and motor vehicles for field employees within CCD.

13 Property, plant and equipment continued

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2013	4.1	0.8	52.6	57.5
Additions	0.1	–	7.2	7.3
Disposals	(0.3)	–	(5.7)	(6.0)
At 31 December 2013	3.9	0.8	54.1	58.8
Accumulated depreciation				
At 1 January 2013	3.2	0.6	29.8	33.6
Charged to the income statement	0.1	–	6.6	6.7
Disposals	–	–	(4.3)	(4.3)
At 31 December 2013	3.3	0.6	32.1	36.0
Net book value at 31 December 2013	0.6	0.2	22.0	22.8
Net book value at 1 January 2013	0.9	0.2	22.8	23.9

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2014	**3.9**	**0.2**	**10.9**	**15.0**
Additions	**–**	**–**	**0.7**	**0.7**
Disposals	**–**	**–**	**(0.8)**	**(0.8)**
At 31 December 2014	**3.9**	**0.2**	**10.8**	**14.9**
Accumulated depreciation				
At 1 January 2014	**3.3**	**0.1**	**3.9**	**7.3**
Charged to the income statement	**–**	**–**	**1.1**	**1.1**
Disposals	**–**	**–**	**(0.5)**	**(0.5)**
At 31 December 2014	**3.3**	**0.1**	**4.5**	**7.9**
Net book value at 31 December 2014	**0.6**	**0.1**	**6.3**	**7.0**
Net book value at 1 January 2014	**0.6**	**0.1**	**7.0**	**7.7**

The loss on disposal of property, plant and equipment in 2014 amounted to £nil (2013: £nil) and represented proceeds received of £0.3m (2013: £0.4m) less the net book value of disposals of £0.3m (2013: £0.4m).

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2013	4.1	0.2	10.9	15.2
Additions	0.1	–	0.3	0.4
Disposals	(0.3)	–	(0.3)	(0.6)
At 31 December 2013	3.9	0.2	10.9	15.0
Accumulated depreciation				
At 1 January 2013	3.2	0.1	3.0	6.3
Charged to the income statement	0.1	–	1.1	1.2
Disposals	–	–	(0.2)	(0.2)
At 31 December 2013	3.3	0.1	3.9	7.3
Net book value at 31 December 2013	0.6	0.1	7.0	7.7
Net book value at 1 January 2013	0.9	0.1	7.9	8.9

Notes to the financial statements continued

14 Investment in subsidiaries

	Company 2014 £m	Company 2013 £m
Cost		
At 1 January	**408.6**	407.8
Additions	**120.0**	0.8
Disposals	**(0.4)**	–
At 31 December	**528.2**	408.6
Accumulated impairment losses		
At 1 January	**31.8**	31.8
Charged to the income statement	**0.1**	–
At 31 December	**31.9**	31.8
Net book value at 31 December	**496.3**	376.8
Net book value at 1 January	**376.8**	376.0

The directors consider the value of investments to be supported by their underlying assets.

The additions to investments in 2014 represent the gross consideration of £120.0m in respect of the acquisition of Moneybarn (see note 10). The additions to investments in 2013 of £0.8m represented the issue of share options/awards by the company to its subsidiaries' employees. Under IFRIC 11, the fair value of these options/awards is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/awards that have vested. The adjustment in respect of IFRIC 11 in 2014 amounted to a credit of £0.4m and has been treated as a disposal.

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. 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. 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.

15 Amounts receivable from customers

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.

Illustrative examples of revenue and impairment accounting in home credit can be found in the investor section of the company's website.

Group	2014 Due within one year £m	2014 Due in more than one year £m	2014 Total £m	2013 Due within one year £m	2013 Due in more than one year £m	2013 Total £m
Vanquis Bank	**1,109.4**	**–**	**1,109.4**	866.6	–	866.6
CCD	**532.8**	**55.3**	**588.1**	660.3	79.7	740.0
Moneybarn	**51.4**	**100.3**	**151.7**	–	–	–
Total group	**1,693.6**	**155.6**	**1,849.2**	1,526.9	79.7	1,606.6

Vanquis Bank's UK receivables grew by 28.0% in 2014 as a result of growth in UK customer numbers of 27.0% together with the success of the credit line increase programme to good-quality existing customers through the 'low and grow' approach to lending. £15.5m of Vanquis Bank's receivables at the end of 2014 relate to the pilot credit card operation in Poland (2013: £5.3m). CCD receivables comprise £583.1m in respect of the home credit business (2013: £738.2m), £5.0m in respect of Satsuma (2013: £1.8m). Home credit receivables showed a 21.1% fall in 2014 reflecting the impact of significantly tighter credit standards which restricted the recruitment of more marginal customers into the business together with relatively subdued demand for the majority of the year.

The average effective interest rate for the year ended 31 December 2014 was 31% for Vanquis Bank (2013: 32%), 112% for CCD (2012: 110%) and 29% for Moneybarn. The average period to maturity of the amounts receivable from customers within CCD is 6.0 months (2013: 6.0 months) and within Moneybarn is 32 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 1.5% 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 £2.9 billion (2013: £2.3 billion). Fair value has been derived by discounting expected future cash flows (net of collection costs) at the group's weighted average cost of capital at the balance sheet date. The credit quality of amounts receivable from customers is as follows:

Credit quality of amounts receivable from customers	2014 Vanquis Bank £m	2014 CCD £m	2014 Moneybarn £m	2014 Group £m	2013 Vanquis Bank £m	2013 CCD £m	2013 Group £m
Neither past due nor impaired	**1,022.0**	**258.4**	**119.2**	**1,399.6**	785.9	259.3	1,045.2
Past due but not impaired	**–**	**64.6**	**–**	**64.6**	–	99.4	99.4
Impaired	**87.4**	**265.1**	**32.5**	**385.0**	80.7	381.3	462.0
Total	**1,109.4**	**588.1**	**151.7**	**1,849.2**	866.6	740.0	1,606.6

Credit quality of amounts receivable from customers	2014 Vanquis Bank %	2014 CCD %	2014 Moneybarn %	2014 Group %	2013 Vanquis Bank %	2013 CCD %	2013 Group %
Neither past due nor impaired	**92.1**	**43.9**	**78.6**	**75.7**	90.7	35.1	65.0
Past due but not impaired	**–**	**11.0**	**–**	**3.5**	–	13.4	6.2
Impaired	**7.9**	**45.1**	**21.4**	**20.8**	9.3	51.5	28.8
Total	**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.

The improved arrears profile in Vanquis Bank reflects the record low arrears currently being experienced by the business. The improvement in the arrears profile of CCD reflects the significant improvement in the credit quality of the receivables book as a result of the tighter credit standards introduced in September 2013 and the benefit from the implementation of standardised arrears and collections processes.

Notes to the financial statements continued

15 Amounts receivable from customers continued

The following table sets out the ageing analysis of past due but not impaired balances within the home credit business of CCD based on contractual arrears since the inception of the loan:

Ageing analysis of past due but not impaired balances	Group 2014 £m	Group 2013 £m
One week overdue	**44.8**	63.3
Two weeks overdue	**11.6**	19.2
Three weeks or more overdue	**8.2**	16.9
Past due but not impaired	**64.6**	99.4

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 account during the year is as follows:

Vanquis Bank allowance account	Group 2014 £m	Group 2013 £m
At 1 January	**128.8**	91.4
Charge for the year	**149.1**	129.4
Amounts written off during the year	**(123.3)**	(99.4)
Amounts recovered during the year	**24.0**	7.4
At 31 December	**178.6**	128.8

Moneybarn allowance account	Group 2014 £m
On acquisition	**27.0**
Charge for the period	**1.2**
Amounts written off during the period	**(1.1)**
Amounts recovered during the period	**–**
At 31 December	**27.1**

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 reflected within operating costs can be analysed as follows:

Impairment charge on amounts receivable from customers	Group 2014 £m	Group 2013 £m
Vanquis Bank	**149.1**	129.4
CCD	**177.5**	269.7
Moneybarn	**1.2**	–
Total group	**327.8**	399.1

The impairment charge in Vanquis Bank comprises £144.9m (2013: £126.3m) in respect of the UK business and £4.2m (2013: £3.1m) in respect of the Polish pilot operation.

15 Amounts receivable from customers continued

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

	Group	
Interest income recognised on impaired amounts receivable from customers	2014 £m	2013 £m
Vanquis Bank	**30.9**	28.2
CCD	**299.8**	367.2
Moneybarn	**2.5**	–
Total group	**333.2**	395.4

IFRS 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 £1,288.0m (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 £1,109.4m, which is stated after the deduction of the impairment allowance account of £178.6m. The non-standard customers served by the group are generally more likely to miss payments compared with more mainstream customers. As the group recognises impairment events early – after missing two weekly payments in the last 12 weeks in home credit 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:

	Group	
Currency profile of amounts receivable from customers	2014 £m	2013 £m
Sterling	**1,779.8**	1,545.1
Euro	**53.9**	56.2
Zloty	**15.5**	5.3
Total group	**1,849.2**	1,606.6

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 9% of CCD's receivables (2013: 8%). Zloty receivables relate to the Vanquis Bank pilot credit card operation in Poland.

Under IFRS 7, 'Financial Instruments', receivables are classed as Level 2 as they are not traded on an active market and the fair value is therefore determined through future cash flows.

Notes to the financial statements continued

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:

2014

Group	Loans and receivables £m	Available for sale £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
Assets						
Cash and cash equivalents	**80.2**	**65.7**	**–**	**–**	**–**	**145.9**
Amounts receivable from customers	**1,849.2**	**–**	**–**	**–**	**–**	**1,849.2**
Derivative financial instruments	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Trade and other receivables	**24.5**	**–**	**–**	**–**	**–**	**24.5**
Retirement benefit asset	**–**	**–**	**–**	**–**	**56.0**	**56.0**
Property, plant and equipment	**–**	**–**	**–**	**–**	**27.4**	**27.4**
Goodwill	**–**	**–**	**–**	**–**	**71.2**	**71.2**
Other intangible assets	**–**	**–**	**–**	**–**	**84.3**	**84.3**
Total assets	**1,953.9**	**65.7**	**–**	**0.2**	**238.9**	**2,258.7**
Liabilities						
Bank and other borrowings	**–**	**–**	**(1,493.0)**	**–**	**–**	**(1,493.0)**
Derivative financial instruments	**–**	**–**	**–**	**(4.4)**	**–**	**(4.4)**
Trade and other payables	**–**	**–**	**(94.3)**	**–**	**–**	**(94.3)**
Current tax liabilities	**–**	**–**	**–**	**–**	**(40.4)**	**(40.4)**
Deferred tax liabilities	**–**	**–**	**–**	**–**	**(13.6)**	**(13.6)**
Total liabilities	**–**	**–**	**(1,587.3)**	**(4.4)**	**(54.0)**	**(1,645.7)**

Financial assets held as available for sale relate to UK government gilts held as part of Vanquis Bank's liquid assets buffer (see note 21).

2013

Group	Loans and receivables £m	Available for sale £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
Assets						
Cash and cash equivalents	58.6	60.4	–	–	–	119.0
Amounts receivable from customers	1,606.6	–	–	–	–	1,606.6
Derivative financial instruments	–	–	–	5.5	–	5.5
Trade and other receivables	15.5	–	–	–	–	15.5
Retirement benefit asset	–	–	–	–	29.2	29.2
Property, plant and equipment	–	–	–	–	22.8	22.8
Other intangible assets	–	–	–	–	8.1	8.1
Deferred tax assets	–	–	–	–	3.5	3.5
Total assets	1,680.7	60.4	–	5.5	63.6	1,810.2
Liabilities						
Bank and other borrowings	–	–	(1,284.6)	–	–	(1,284.6)
Derivative financial instruments	–	–	–	(6.7)	–	(6.7)
Trade and other payables	–	–	(65.8)	–	–	(65.8)
Current tax liabilities	–	–	–	–	(36.3)	(36.3)
Total liabilities	–	–	(1,350.4)	(6.7)	(36.3)	(1,393.4)

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:

Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	2014 Total £m
Assets					
Cash and cash equivalents	**7.7**	**–**	**–**	**–**	**7.7**
Investment in subsidiaries	**–**	**–**	**–**	**496.3**	**496.3**
Trade and other receivables	**1,564.3**	**–**	**–**	**–**	**1,564.3**
Retirement benefit asset	**–**	**–**	**–**	**56.0**	**56.0**
Property, plant and equipment	**–**	**–**	**–**	**7.0**	**7.0**
Total assets	**1,572.0**	**–**	**–**	**559.3**	**2,131.3**
Liabilities					
Bank and other borrowings	**–**	**(910.1)**	**–**	**–**	**(910.1)**
Derivative financial instruments	**–**	**–**	**(4.4)**	**–**	**(4.4)**
Trade and other payables	**–**	**(130.1)**	**–**	**–**	**(130.1)**
Current tax liabilities	**–**	**–**	**–**	**(1.1)**	**(1.1)**
Deferred tax liabilities	**–**	**–**	**–**	**(8.2)**	**(8.2)**
Total liabilities	**–**	**(1,040.2)**	**(4.4)**	**(9.3)**	**(1,053.9)**

Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	2013 Total £m
Assets					
Cash and cash equivalents	13.6	–	–	–	13.6
Investment in subsidiaries	–	–	–	376.8	376.8
Trade and other receivables	1,499.8	–	–	–	1,499.8
Retirement benefit asset	–	–	–	29.2	29.2
Property, plant and equipment	–	–	–	7.7	7.7
Total assets	1,513.4	–	–	413.7	1,927.1
Liabilities					
Bank and other borrowings	–	(799.6)	–	–	(799.6)
Derivative financial instruments	–	–	(6.7)	–	(6.7)
Trade and other payables	–	(178.6)	–	–	(178.6)
Current tax liabilities	–	–	–	(2.7)	(2.7)
Deferred tax liabilities	–	–	–	(2.8)	(2.8)
Total liabilities	–	(978.2)	(6.7)	(5.5)	(990.4)

Notes to the financial statements continued

17 Derivative financial instruments

The majority of derivative financial instruments held by the group are interest rate swaps used to fix the interest rates paid on the group's borrowings. Until August 2014, cross currency swaps were also held to fix the foreign exchange rate on the group's borrowings denominated in US dollars. The cross currency swaps matured on repayment of the US dollar private placements.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

Group		2014 Contractual/ notional amount £m	2014 Assets £m	2014 Liabilities £m	2013 Contractual/ notional amount £m	2013 Assets £m	2013 Liabilities £m
Interest rate swaps		**120.0**	**–**	**(4.4)**	120.0	–	(6.7)
Cross-currency swaps		**–**	**–**	**–**	36.3	5.4	–
Foreign exchange contracts		**6.5**	**0.2**	**–**	7.1	0.1	–
Total group		**126.5**	**0.2**	**(4.4)**	163.4	5.5	(6.7)
Analysed as	– due within one year		**0.2**	**–**		5.5	–
	– due in more than one year		**–**	**(4.4)**		–	(6.7)
			0.2	**(4.4)**		5.5	(6.7)

Company		2014 Contractual/ notional amount £m	2014 Assets £m	2014 Liabilities £m	2013 Contractual/ notional amount £m	2013 Assets £m	2013 Liabilities £m
Interest rate swaps		**120.0**	**–**	**(4.4)**	120.0	–	(6.7)
Total company		**120.0**	**–**	**(4.4)**	120.0	–	(6.7)
Analysed as	– due within one year		**–**	**–**		–	–
	– due in more than one year		**–**	**(4.4)**		–	(6.7)
			–	**(4.4)**		–	(6.7)

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 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Interest rate swaps	**2.3**	2.7	**2.3**	2.7
2004 cross-currency swaps	**(0.2)**	(0.2)	**–**	–
Foreign exchange contracts	**0.1**	0.2	**–**	–
Net credit to the hedging reserve	**2.2**	2.7	**2.3**	2.7

Under IFRS 7, 'Financial instruments: Disclosures', 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.

17 Derivative financial instruments continued

(b) Income statement

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 (2013: £nil).

(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	
	2014 £m	2013 £m
Liability at 1 January	**(6.7)**	(9.4)
Credited to the hedging reserve	**2.3**	2.7
Liability at 31 December	**(4.4)**	(6.7)

The weighted average interest rate and period to maturity of the interest rate swaps held by the group and company were as follows:

	2014			2013		
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	**3.2**	**3.1-3.3**	**1.4**	3.2	3.1-3.3	2.4

(d) Cross-currency swaps

The group and company used cross-currency swaps in order to manage the interest rate and foreign exchange rate risk arising on the group's US private placement loan notes issued in 2003 and 2004. All of the cross-currency swaps have now matured, in line with the maturity and repayment of the underlying borrowing.

2003 private placement loan notes

The group and company put in place cross-currency swaps to swap the principal and fixed-rate interest of the 2003 US dollar private placement loan notes into fixed-rate sterling liabilities. The maturity dates of the cross-currency swaps matched the underlying loan notes. These swaps were designated as cash flow hedges and were effective under IAS 39 until maturity. The fair value movements in the swaps and the corresponding exchange rate movements on the underlying loan notes were deferred in the hedging reserve within equity.

The cross-currency swaps used to hedge the 2003 US dollar private placement loan notes matured in 2013. The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2014 £m	2013 £m
Liability at 1 January	**–**	(1.9)
Exchange rate movement	**–**	1.9
Liability at 31 December	**–**	–

There was no difference between the translation of the 2003 US dollar private placement loan notes at the year-end exchange rate compared with the contracted exchange rate (2013: £nil). There was no exchange rate movement in the year of this difference in translation (2013: debit of £1.9m). Corresponding entries were made within borrowings.

Notes to the financial statements continued

17 Derivative financial instruments continued

2004 private placement loan notes

The group put in place cross-currency swaps to swap the principal and fixed rate interest of the 2004 US dollar private placement loan notes into floating rate sterling-denominated interest liabilities. The maturity dates of the cross-currency swaps matched the underlying loan notes which were repaid on 14 August 2014.

The swaps were designated as cash flow and fair value hedges. The cash flow hedge portion of the swaps were designated as cash flow hedges and were effective under IAS 39 until maturity. The fair value movements in the swaps and the exchange movements in the underlying loan notes were deferred in the hedging reserve within equity.

The fair value hedge portion of the swaps were designated and were effective under IAS 39 as fair value hedges during the year. As a result, fair value movements in the swaps were charged to the income statement with a corresponding entry made to the underlying loan notes within borrowings for the effective portion of the swaps, leaving a net charge within the income statement reflecting the net fair value loss on the fair value hedge in the year.

In 2013, the swaps had a range of interest rates of LIBOR + 1.61% to LIBOR + 1.63% and a weighted average period to maturity of 0.6 years.

The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2014 £m	2013 £m
Asset at 1 January	**5.4**	8.1
Exchange rate movement	**(5.2)**	(2.5)
Charged to the hedging reserve	**(0.2)**	(0.2)
Asset at 31 December	**–**	5.4

There is no difference between the translation of the 2004 US dollar private placement loan notes at the year-end exchange rate compared with the contracted exchange rate (2013: debit of £5.2m). The exchange rate movement of £5.2m credit (2013: £2.5m) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

The amount charged to the hedging reserve reflects the difference between the movement in the fair value of the cash flow hedge portion of the cross-currency swaps and the cash flow hedge portion of the exchange rate movements described above.

(e) 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 and Vanquis Bank's branch in Poland. An asset of £0.2m is held in the group balance sheet as at 31 December 2014 in respect of foreign exchange contracts (2013: £0.1m).

The group's foreign exchange contracts comprise forward foreign exchange contracts to buy sterling and sell euros for a total notional amount of £6.5m (2013: £7.1m). These contracts have a range of maturity dates from 20 January 2015 to 20 October 2015 (2013: 18 February 2014 to 16 December 2014). 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 (2013: £0.2m).

18 Trade and other receivables

	Company	
Non-current assets	2014 £m	2013 £m
Amounts owed by group undertakings	**983.8**	930.3

There are £nil amounts past due and there is no impairment provision held against amounts owed by group undertakings due for repayment in more than one year (2013: £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.

	Group		Company	
Current assets	2014 £m	2013 £m	2014 £m	2013 £m
Trade receivables	**0.1**	0.1	**–**	–
Other receivables	**8.5**	3.6	**–**	–
Amounts owed by group undertakings	**–**	–	**578.1**	567.5
Prepayments and accrued income	**15.9**	11.8	**2.4**	2.0
Total	**24.5**	15.5	**580.5**	569.5

Trade and other receivables include utility prepayments, prepaid marketing costs, amounts receivable from CCD voucher providers and amounts paid on behalf of the group's pension scheme but not yet recharged.

There are no amounts past due in respect of trade and other receivables due in less than one year (2013: £nil). Within the company, an impairment provision of £122.5m (2013: £122.5m) 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 no charge or credit to the company income statement in 2014 (2013: credit of £0.8m).

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 (2013: carrying value) set out above. There is no collateral held in respect of trade and other receivables (2013: £nil).

Notes to the financial statements continued

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 2014, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded. The group's defined benefit pension scheme has been substantially closed to new members since 1 January 2003.

The group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme has been substantially closed to new members since 1 January 2003. The scheme covers 22% of employees with company-provided pension arrangements and is of the funded, defined benefit type.

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 that 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 and is not contracted-out of the Second State Pension. 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 2012 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of the 2012 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 will further increase its portfolio in inflation matched assets.
- Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

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

	Group and company			
	2014 £m	2014 %	2013 £m	2013 %
Equities	**249.2**	**36**	237.4	39
Other diversified return seeking investments	**65.5**	**9**	–	–
Corporate bonds	**137.8**	**20**	156.7	25
Fixed interest gilts	**80.6**	**11**	–	–
Index-linked gilts	**164.9**	**24**	145.2	24
Cash and money market funds	**2.1**	**–**	74.5	12
Total fair value of scheme assets	**700.1**	**100**	613.8	100
Present value of funded defined benefit obligation	**(644.1)**		(584.6)	
Net retirement benefit asset recognised in the balance sheet	**56.0**		29.2	

19 Retirement benefit asset continued

The valuation of the pension scheme has increased from £29.2m at 31 December 2013 to £56.0m at 31 December 2014. A high level reconciliation of the movement is as follows:

Group and company	£m
Pension asset as at 31 December 2013	29
Cash contributions made by the group	13
Return on assets being held to meet pension obligations	77
Reduction in future liabilities due to CCD business restructuring	1
Actuarially based cost of new benefits	(4)
Increase in discount rate used to discount future liabilities	(84)
Increase in inflation rates used to forecast pensions	24
Pension asset as at 31 December 2014	**56**

The amounts recognised in the income statement were as follows:

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Current service cost	**(5.8)**	(7.1)	**(5.8)**	(7.1)
Interest on scheme liabilities	**(25.5)**	(24.5)	**(25.5)**	(24.5)
Interest on scheme assets	**26.9**	25.6	**26.9**	25.6
Contributions from subsidiaries	**–**	–	**12.4**	13.7
Net (charge)/credit recognised in the income statement before exceptional curtailment credit	**(4.4)**	(6.0)	**8.0**	7.7
Exceptional curtailment credit	**0.6**	1.6	**0.6**	1.6
Net (charge)/credit recognised in the income statement	**(3.8)**	(4.4)	**8.6**	9.3

The exceptional curtailment credit of £0.6m (2013: £1.6m) relates to the reduction in headcount of 225 (2013: 520) following the business restructuring within CCD (see note 1).

The net (charge)/credit recognised in the income statement of the group and company has been included within administrative costs.

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

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Fair value of scheme assets at 1 January	**613.8**	570.7	**613.8**	570.7
Interest on scheme assets	**26.9**	25.6	**26.9**	25.6
Contributions by subsidiaries	**–**	–	**12.4**	13.7
Actuarial movement on scheme assets	**77.9**	20.1	**77.9**	20.1
Contributions by the group/company	**13.1**	14.5	**0.7**	0.8
Net benefits paid out	**(31.6)**	(17.1)	**(31.6)**	(17.1)
Fair value of scheme assets at 31 December	**700.1**	613.8	**700.1**	613.8

Notes to the financial statements continued

19 Retirement benefit asset continued

The group contributions to the defined benefit pension scheme in the year ending 31 December 2015 are expected to be approximately £12m.

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

	Group and company	
	2014 £m	2013 £m
Present value of the defined benefit obligation at 1 January	**(584.6)**	(547.7)
Current service cost	**(5.8)**	(7.1)
Interest on scheme liabilities	**(25.5)**	(24.5)
Exceptional curtailment credit	**0.6**	1.6
Actuarial movement on scheme liabilities	**(60.4)**	(24.0)
Net benefits paid out	**31.6**	17.1
Present value of the defined benefit obligation at 31 December	**(644.1)**	(584.6)

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 is approximately 22 years.

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

	Group and company	
	2014 %	2013 %
Price inflation – RPI	**3.1**	3.4
Price inflation – CPI	**2.1**	2.4
Rate of increase to pensions in payment	**2.9**	3.1
Inflationary increases to pensions in deferment	**2.1**	2.4
Discount rate	**3.7**	4.4

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 used in the valuation of the defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy.

The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- Future mortality improvements are in line with CMI 2013 projections with long-term trend improvements of 1.25% per annum.

In more simple terms, it is assumed that members who retire in the future at age 65 will live on average for a further 24 years if they are male (2013: 24 years) and for a further 25 years if they are female (2013: 25 years).

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	
	2014 £m	2013 £m
Discount rate decreased by 0.1%	**14.3**	12.0
Inflation increased by 0.1%	**9.1**	8.0
Life expectancy increased by one year	**19.0**	18.0

19 Retirement benefit asset continued

The actual return on scheme assets compared to the expected return is as follows:

	Group and company	
	2014 £m	2013 £m
Interest on scheme assets	**26.9**	25.6
Actuarial movement on scheme assets	**77.9**	20.1
Actual return on scheme assets	**104.8**	45.7

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 comprehensive income is as follows:

	Group and company	
	2014 £m	2013 £m
Actuarial movement on scheme assets	**77.9**	20.1
Actuarial movement on scheme liabilities	**(60.4)**	(24.0)
Total movement recognised in other comprehensive income in the year	**17.5**	(3.9)
Cumulative movement recognised in other comprehensive income	**(76.2)**	(93.7)

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				
	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Fair value of scheme assets	**700.1**	613.8	570.7	525.0	514.1
Present value of funded defined benefit obligation	**(644.1)**	(584.6)	(547.7)	(511.5)	(473.1)
Retirement benefit asset recognised in the balance sheet	**56.0**	29.2	23.0	13.5	41.0
Experience gains/(losses) on scheme assets:					
– amount (£m)	**77.9**	20.1	25.3	(13.4)	26.0
– percentage of scheme assets (%)	**11.9**	3.3	4.4	(2.6)	5.1
Experience gains/(losses) on scheme liabilities:					
– amount (£m)	**4.1**	(0.9)	16.3	(6.1)	–
– percentage of scheme liabilities (%)	**0.7**	(0.2)	3.0	(1.2)	–

(b) Pension schemes – defined contribution

The group operates a stakeholder 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 3.0% and 8.0%). The assets of the scheme are held separately from those of the group and company. The pension charge in the consolidated income statement represents contributions paid by the group in respect of the plan and amounted to £4.5m for the year ended 31 December 2014 (2013: £4.3m). Contributions made by the company amounted to £0.4m (2013: £0.4m). No contributions were payable to the fund at the year-end (2013: £nil).

The group contributed £0.1 to personal pension plans in the year (2013: £nil), £0.4m into the Undefined, Unapproved Retirement Benefit Scheme (UURBS) (2013: £0.4m) and £nil into cash supplements (2013: £0.1m).

Notes to the financial statements continued

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 and property, plant and equipment which is depreciated on a different basis for tax purposes. 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. This is presented net of deferred tax assets in respect of the transitional adjustments arising in Moneybarn on adoption of IFRS, tax relief for which is available in post acquisition periods.

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. Following the changes in corporation tax rates in 2013, deferred tax balances at 31 December 2013 were re-measured at 20% on the basis that the temporary differences on which the deferred tax was calculated were expected to reverse after 1 April 2015. In 2014, movements in the deferred tax balances have been measured at the statutory corporation tax rate for the year of 21.50% (2013: 23.25%). The deferred tax balances at 31 December 2014 have then been re-measured at 20% as the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2015. A tax credit of £1.3m in 2014 (2013: charge of £0.7m) represents the income statement adjustment as a result of this change. An additional deferred tax credit of £0.3m (2013: £0.3m) 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)/asset	2014 £m	2013 £m	2014 £m	2013 £m
At 1 January	**3.5**	6.1	**(2.8)**	(0.9)
Charge to the income statement (note 5)	**(3.0)**	(2.5)	**(1.5)**	(2.7)
Acquisition of Moneybarn (note 10)	**(11.5)**	–	**–**	–
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate (note 5)	**(4.2)**	0.3	**(4.3)**	0.3
Impact of change in UK tax rate:				
– credit/(charge) to the income statement	**1.3**	(0.7)	**0.1**	0.2
– credit to other comprehensive income	**0.3**	0.3	**0.3**	0.3
At 31 December	**(13.6)**	3.5	**(8.2)**	(2.8)

An analysis of the deferred tax (liability)/asset for the group is set out below:

	2014				2013			
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	**1.7**	**7.6**	**(5.8)**	**3.5**	1.7	9.7	(5.3)	6.1
Credit/(charge) to the income statement	**0.3**	**(1.6)**	**(1.7)**	**(3.0)**	0.3	(0.5)	(2.3)	(2.5)
Acquisition of Moneybarn (note 10)	**–**	**(11.5)**	**–**	**(11.5)**	–	–	–	–
(Charge)/credit on other comprehensive income prior to change in UK tax rate	**–**	**(0.4)**	**(3.8)**	**(4.2)**	–	(0.6)	0.9	0.3
Impact of change in UK tax rate:								
– credit/(charge) to the income statement	**–**	**1.2**	**0.1**	**1.3**	(0.3)	(0.8)	0.4	(0.7)
– credit/(charge) to other comprehensive income	**–**	**–**	**0.3**	**0.3**	–	(0.2)	0.5	0.3
At 31 December	**2.0**	**(4.7)**	**(10.9)**	**(13.6)**	1.7	7.6	(5.8)	3.5

20 Deferred tax continued

An analysis of the deferred tax liability for the company is set out below:

Company – liability	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit obligations £m	2014 Total £m	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit obligations £m	2013 Total £m
At 1 January	**(0.4)**	**3.4**	**(5.8)**	**(2.8)**	(0.6)	5.0	(5.3)	(0.9)
Credit/(charge) to the income statement	**0.1**	**0.1**	**(1.7)**	**(1.5)**	0.2	(0.6)	(2.3)	(2.7)
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	**–**	**(0.5)**	**(3.8)**	**(4.3)**	–	(0.6)	0.9	0.3
Impact of change in UK tax rate:								
– credit/(charge) to the income statement	**–**	**–**	**0.1**	**0.1**	–	(0.2)	0.4	0.2
– credit/(charge) to other comprehensive income	**–**	**–**	**0.3**	**0.3**	–	(0.2)	0.5	0.3
At 31 December	**(0.3)**	**3.0**	**(10.9)**	**(8.2)**	(0.4)	3.4	(5.8)	(2.8)

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences because it is probable that these assets will be recovered.

21 Cash and cash equivalents

Cash and cash equivalents includes cash at bank, floats held by agents 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 (ILAA) 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 £121.4m in 2014 (2013: £86.3m) and is held in a combination of UK government gilts of £65.7m (2013: £60.4m) and a designated money market fund with exposure to the UK government only of £55.7m (2013: £25.9m)

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Cash at bank and in hand	**145.9**	119.0	**7.7**	13.6

In addition to cash and cash equivalents, the group had £5.2m of bank overdrafts at 31 December 2014 (2013: £9.3m) and the company had £2.6m of bank overdrafts (2013: £2.9m) 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 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Sterling	**143.5**	117.6	**7.0**	13.5
Euro	**0.2**	–	**–**	–
Zloty	**2.2**	1.4	**0.7**	0.1
Total cash and cash equivalents	**145.9**	119.0	**7.7**	13.6

Cash and cash equivalents are non-interest bearing other than the amounts held by Vanquis Bank as a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime which bear interest at rates linked to sterling Government bonds.

Notes to the financial statements continued

22 Bank and other borrowings

(a) Borrowing facilities and borrowings

Borrowings principally comprise syndicated and bilateral bank facilities arranged for periods of up to five years, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 22(d)), loan notes privately placed with UK institutions (see note 22(e)), retail bonds (see note 22(f)), retail deposits issued by Vanquis Bank (see note 22(g)) and subordinated loan notes (see note 22(h)). As at 31 December 2014, borrowings under these facilities amounted to £1,493.0m (2013: £1,284.6m).

(b) Maturity profile of bank and other borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

Group	2014 Borrowing facilities available £m	2014 Borrowings £m	2013 Borrowing facilities available £m	2013 Borrowings £m
Repayable:				
On demand	**23.9**	**5.2**	24.1	9.3
In less than one year	**130.1**	**130.1**	111.9	111.9
Included in current liabilities	**154.0**	**135.3**	136.0	121.2
Between one and two years	**192.4**	**192.1**	508.5	270.1
Between two and five years	**1,144.1**	**1,030.8**	492.1	489.3
In more than five years	**140.2**	**134.8**	405.2	404.0
Included in non-current liabilities	**1,476.7**	**1,357.7**	1,405.8	1,163.4
Total group	**1,630.7**	**1,493.0**	1,541.8	1,284.6

Borrowings are stated after deducting £7.5m of unamortised arrangement fees (2013: £7.2m) and after £nil in respect of the fair value adjustment of derivative financial instruments (2013: credit of £5.2m) (see note 17(d)).

In order to reconcile the borrowings shown in the table above and the headroom on committed facilities shown in 22(i), the facilities and borrowings in respect of amounts repayable on demand should be deducted and unamortised arrangement fees should be added back to borrowings and the fair value adjustments in respect of derivative financial instruments should be deducted from borrowings as follows:

Group	2014 Facilities £m	2014 Borrowings £m	2013 Facilities £m	2013 Borrowings £m
Total group facilities and borrowings	**1,630.7**	**1,493.0**	1,541.8	1,284.6
Repayable on demand	**(23.9)**	**(5.2)**	(24.1)	(9.3)
Unamortised arrangement fees	**–**	**7.5**	–	7.2
Fair value adjustment in respect of derivative financial instruments	**–**	**–**	(5.2)	(5.2)
Total group committed facilities and borrowings	**1,606.8**	**1,495.3**	1,512.5	1,277.3
Headroom on committed facilities		**111.5**		235.2

Company	2014 Borrowing facilities available £m	2014 Borrowings £m	2013 Borrowing facilities available £m	2013 Borrowings £m
Repayable:				
On demand	**23.9**	**2.6**	24.1	2.9
In less than one year	**6.0**	**6.0**	–	–
Included in current liabilities	**29.9**	**8.6**	24.1	2.9
Between one and two years	**60.0**	**59.7**	400.6	162.2
Between two and five years	**820.3**	**707.0**	233.3	230.5
In more than five years	**140.2**	**134.8**	405.2	404.0
Included in non-current liabilities	**1,020.5**	**901.5**	1,039.1	796.7
Total company	**1,050.4**	**910.1**	1,063.2	799.6

22 Bank and other borrowings continued

(b) Maturity profile of bank and other borrowings (continued)

As at 31 December 2014, the weighted average period to maturity of the group's committed facilities, including retail deposits, was 3.1 years (2013: 3.2 years) and for the company's committed facilities was 3.5 years (2013: 3.7 years). Excluding retail deposits, the weighted average period to maturity of the group's committed facilities was 3.5 years (2013: 3.6 years). On 12 January 2015, the group exercised its options to extend its £382.5m syndicated bank facility maturing in May 2017 by a further year to May 2018. After adjusting for this renewal, the weighted average period to maturity of the group's committed facilities is 3.3 years, 3.9 years, excluding retail deposits and the weighted average period to maturity of the company's committed facilities is 3.9 years.

(c) Interest rate and currency profile of bank and other 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:

			2014			2013
Group	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	**1,089.6**	**331.5**	**1,421.1**	950.1	230.1	1,180.2
US dollar	**–**	**–**	**–**	41.5	–	41.5
Euro	**–**	**54.5**	**54.5**	–	56.3	56.3
Zloty	**–**	**17.4**	**17.4**	–	6.6	6.6
Total group	**1,089.6**	**403.4**	**1,493.0**	991.6	293.0	1,284.6

			2014			2013
Company	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	**509.3**	**328.9**	**838.2**	513.0	223.7	736.7
Euro	**–**	**54.5**	**54.5**	–	56.3	56.3
Zloty	**–**	**17.4**	**17.4**	–	6.6	6.6
Total company	**509.3**	**400.8**	**910.1**	513.0	286.6	799.6

As detailed in note 17, the group and company have entered into various interest rate swaps and had entered into various cross-currency swap arrangements to hedge the interest rate and foreign exchange rate exposures on borrowings. After taking account of the aforementioned interest rate swaps, the group's fixed rate borrowings are £1,209.6m (2013: £1,111.6m) and the company's fixed rate borrowings are £629.3m (2013: £633.0m). After taking account of cross-currency swaps, the group and company have no foreign exchange rate exposure to borrowings denominated in US dollars (2013: £nil).

(d) 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.

(e) Private placement loan notes

On 24 April 2003, the group issued loan notes as follows:

(i) US$44m of 5.81% loan notes matured and repaid on 24 April 2010; and
(ii) US$76m of 6.34% loan notes matured and repaid on 24 April 2013.

On 12 August 2004, the group issued loan notes as follows:

(i) US$30m of 6.02% loan notes matured and repaid on 12 August 2011;
(ii) US$67m of 6.45% loan notes matured and repaid on 12 August 2014; and
(iii) £2m of 7.01% loan notes matured and repaid on 12 August 2014.

As set out in note 22(c), cross-currency swaps had been put in place to swap the proceeds and liabilities for principal and interest under the US dollar-denominated loan notes into sterling.

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 10. The first repayment of £10.0m is due on 13 January 2016. The facility bears interest at rates linked to LIBOR.

Notes to the financial statements continued

22 Bank and other borrowings continued

The company subsequently entered into the following arrangements with third-party debt providers:

- 3 February 2011 – €10m facility agreement over a seven-year period at rates linked to EURIBOR, repaid at the company's option, one year ahead of maturity, on 24 May 2014;
- 4 March 2011 – £20m private placement loan notes over a seven-year period at rates linked to LIBOR; and
- 24 May 2011 – €14.5m private placement loan notes over a four-year period at rates linked to EURIBOR.

(f) Retail bonds

The company has issued four retail bonds on the 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
25 March 2011	50.0	7.5%	30 September 2016
4 April 2012	120.0	7.0%	4 October 2017
27 March 2013	65.0	6.0%	27 September 2021
Total group and company	260.2		

*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.

(g) Retail deposits

Vanquis Bank is a PRA regulated bank and commenced taking retail deposits in July 2011. As at 31 December 2014, £580.3m (2013: £435.1m) 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 2014 have been issued at rates of between 1.66% and 4.65%.

A reconciliation of the movement in retail deposits is set out below:

	Group 2014 £m	Group 2013 £m
At 1 January	**435.1**	327.4
New funds received	**190.7**	187.7
Maturities	**(69.7)**	(114.9)
Retentions	**26.6**	31.8
Cancellations	**(8.9)**	(3.2)
Capitalised interest	**6.5**	6.3
At 31 December	**580.3**	435.1

(h) Subordinated loan notes

On 15 June 2005, the company issued £100.0m of subordinated loan notes repayable on 15 June 2015. £94.0m of the liability was settled in 2009. The rights of repayment to holders of the loan notes are subordinated to all other borrowings and liabilities of the company upon a winding up of the company and, in certain circumstances, upon its administration.

(i) 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 to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fund 100% of its receivables book through retail deposits.

22 Bank and other borrowings continued

The undrawn committed borrowing facilities at 31 December were as follows:

	Group and company 2014 £m	Group and company 2013 £m
Expiring within one year	–	–
Expiring within one to two years	–	235.2
Expiring in more than two years	**111.5**	–
Total group and company	**111.5**	235.2

The table above excludes the additional capacity for Vanquis Bank to take retail deposits up to the value of the intercompany loan from Provident Financial plc of £342.2m as at 31 December 2014. Accordingly, Vanquis Bank's retail deposits capacity at 31 December 2014 amounts to £342m. The group's total funding capacity at the end of 2014 therefore amounts to £453.1m, being the group's headroom on undrawn committed borrowing facilities of £111.5m plus the amount of Vanquis Bank's intercompany loan of £342.2m.

(j) Weighted average interest rates and periods to maturity

Before taking account of the various interest rate swaps and cross-currency swap arrangements 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:

	2014		2013	
Group	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	**5.18**	**3.27**	5.66	3.90
US dollar	–	–	6.39	0.61

	2014		2013	
Company	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	**7.41**	**4.26**	7.41	5.26

After taking account of interest rate swaps and cross-currency swaps, the sterling-weighted average fixed interest rate for the group was 4.98% (2013: 5.70%) and for the company was 6.62% (2013: 6.62%). The sterling-weighted average period to maturity on the same basis is 3.3 years (2013: 4.1 years) for the group and 4.3 years (2013: 5.2 years) for the company. There is £nil foreign exchange or interest rate risk denominated in US dollars after taking account of cross-currency swaps (2013: £nil).

(k) Fair values

The fair values of the group and company's bank and other borrowings are compared to their book values as follows:

	2014		2013	
Group	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	**268.7**	**268.7**	154.6	154.6
Senior public bonds	**250.0**	**284.8**	250.0	279.0
Sterling private placement loan notes	**120.0**	**138.5**	122.0	135.0
US dollar private placement loan notes	–	–	36.3	36.8
Euro private placement loan notes	**7.8**	**8.6**	20.4	22.2
Retail bonds	**260.2**	**278.2**	260.2	279.9
Retail deposits	**580.3**	**607.1**	435.1	457.4
Subordinated loan notes	**6.0**	**6.3**	6.0	6.6
Total group	**1,493.0**	**1,592.2**	1,284.6	1,371.5

Notes to the financial statements continued

22 Bank and other borrowings continued

	2014		2013	
Company	**Book value £m**	**Fair value £m**	**Book value £m**	**Fair value £m**
Bank loans and overdrafts	**266.1**	**266.1**	143.0	143.0
Senior public bonds	**250.0**	**284.8**	250.0	279.0
Sterling private placement loan notes	**120.0**	**138.5**	120.0	135.0
Euro private placement loan notes	**7.8**	**8.6**	20.4	22.2
Retail bonds	**260.2**	**278.2**	260.2	281.1
Subordinated loan notes	**6.0**	**6.3**	6.0	6.6
Total company	**910.1**	**982.5**	799.6	866.9

The fair value of the sterling, US dollar and euro private placement loan notes, the retail deposits and the subordinated loan notes have 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 the senior public bonds and retail bonds equate to their publicly quoted market price at the balance sheet date.

23 Trade and other payables

	Group		Company	
Current liabilities	**2014 £m**	**2013 £m**	**2014 £m**	**2013 £m**
Trade payables	**3.3**	4.5	**–**	–
Amounts owed to group undertakings	**–**	–	**104.5**	156.3
Other payables including taxation and social security	**11.0**	6.1	**1.4**	1.4
Accruals	**80.0**	55.2	**24.2**	20.9
Total	**94.3**	65.8	**130.1**	178.6

The amounts owed to group undertakings are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR.

Accruals principally relate to normal operating accruals such as rent, rates and utilities, interest accrued on the group's borrowings and national insurance accrued in respect of share-based payments. The increase during 2014 principally reflects the acquisition of Moneybarn and interest accruals relating to retail deposits.

24 Share capital

Group and company		2014 Authorised	2014 Issued and fully paid	2013 Authorised	2013 Issued and fully paid
Ordinary shares of 20 8/11p each	**– £m**	**40.0**	**30.3**	40.0	28.9
	– number (m)	**193.0**	**146.4**	193.0	139.6

The movement in the number of shares in issue during the year was as follows:

Group and company	2014 m	2013 m
At 1 January	**139.6**	138.4
Shares issued pursuant to the exercise/vesting of options and awards	**0.9**	1.2
Placing of ordinary shares to in respect of the acquisition of Moneybarn	**5.9**	–
At 31 December	**146.4**	139.6

The shares issued pursuant to the exercise/vesting of options and awards comprised 886,497 ordinary shares (2013: 1,198,034) with a nominal value of £183,746 (2013: £248,320) and an aggregate consideration of £2.2m (2013: £2.7m). In addition the shares issued as part of the placing in respect of Moneybarn comprised 1,225,257 ordinary shares with a nominal value of 5,911,330 and an aggregate consideration of £120.0m. Costs associated with the placement, amounting to £3.1m, have been deducted from the share premium account.

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 Kleinwort Benson (Jersey) Trustees 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 2014, the EBT held 3,100,176 (2013: 2,789,343) shares in the company with a cost of £0.6 (2013: £0.6m) and a market value of £76.3 m (2013: £45.3m). 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.

Provident Financial plc also sponsors the Performance Share Plan Trust which was established to operate in conjunction with the Performance Share Plan (PSP). As at 31 December 2014, awards under the PSP, held in the name of the individual subject to the award, were 942,626 (2013: 994,627) ordinary shares with a cost of £0.2 m (2013: £0.2m) and a market value of £23.2 m (2013: £16.2m).

Notes to the financial statements continued

25 Share-based payments

The group issues share options and awards to senior employees as part of its employee remuneration packages. The group operates three 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 previously operated senior executive share option schemes (ESOS/SESO), although no options have been granted under these schemes since 2006.

When a share option or award is granted, a fair value is calculated based on the current share price, probability of the option/award vesting, the group's recent share price volatility, and the risk associated with the option/award. The fair value of all options is charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

The charge to the income statement in 2014 was £8.7m for the group (2013: £7.4m) and £4.6m for the company (2013: £3.6m).

During 2014, awards/options have been granted under the LTIS, PSP and SAYE schemes (2013: awards/options granted under the LTIS, PSP and SAYE schemes). The increase in the share-based payment charge from £7.4m in 2013 to £8.7m in 2014, principally reflects the release of prior year provisions in 2013 following the departure of Chris Gillespie, a former executive director.

The fair value per award/option granted and the assumptions used in the calculation of the share-based payment charge are as follows:

	2014			2013		
Group	**PSP**	**LTIS**	**SAYE**	**PSP**	**LTIS**	**SAYE**
Grant date	**8 April 2014**	**8 April 2014**	**5 Sep 2014**	9 May 2013	1 Mar 2013	23 Aug 2013
Share price at grant date (£)	**18.99**	**18.99**	**21.31**	16.00	15.01	17.15
Exercise price (£)	**–**	**–**	**16.44**	–	–	13.05
Shares awarded/under option (number)	**202,689**	**413,853**	**269,202**	299,618	535,014	200,259
Vesting period (years)	**3**	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**21.8%**	**21.8%**	**21.2%-22.2%**	24.0%	23.9%	23.7%-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	**1.41%**	**1.41%**	**1.23%-1.75%**	0.69%	0.67%	0.88%-1.64%
Expected dividends expressed as a dividend yield	**n/a**	**n/a**	**4.4%**	n/a	n/a	5.0%
Fair value per award/option (£)	**18.99**	**13.97-18.99**	**4.16-4.27**	16.00	6.03-15.01	3.37-3.72

	2014			2013		
Company	**PSP**	**LTIS**	**SAYE**	**PSP**	**LTIS**	**SAYE**
Grant date	**8 April 2014**	**8 April 2014**	**5 Sep 2014**	9 May 2013	1 Mar 2013	23 Aug 2013
Share price at grant date (£)	**18.99**	**18.99**	**21.31**	16.00	15.01	17.15
Exercise price (£)	**–**	**–**	**16.44**	–	–	13.05
Shares awarded/under option (number)	**132,316**	**175,366**	**15,290**	204,498	282,755	5,931
Vesting period (years)	**3**	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**21.8%**	**21.8%**	**21.2%-22.2%**	24.0%	23.9%	23.7%-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	**1.41%**	**1.41%**	**1.23%-1.75%**	0.69%	0.67%	0.88%-1.64%
Expected dividends expressed as a dividend yield	**n/a**	**n/a**	**4.4%**	n/a	n/a	5.0%
Fair value per award/option (£)	**18.99**	**13.97**	**4.16-4.27**	16.00	10.52	3.37-3.72

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.

25 Share-based payments continued

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

	PSP		LTIS		SAYE		ESOS/SESO	
Group	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2014	**775,506**	**–**	**1,938,223**	**–**	**902,784**	**9.56**	**10,820**	**5.77**
Awarded/granted	**202,689**	**–**	**413,853**	**–**	**269,202**	**16.44**	**–**	**–**
Lapsed	**(655)**	**–**	**(265,058)**	**–**	**(86,737)**	**10.56**	**–**	**–**
Exercised	**(258,015)**	**–**	**(730,675)**	**–**	**(270,589)**	**7.91**	**–**	**–**
Outstanding at 31 December 2014	**719,525**	**–**	**1,356,343**	**–**	**814,660**	**12.25**	**10,820**	**5.77**
Exercisable at 31 December 2014	**–**	**–**	**–**	**–**	**22,650**	**8.12**	**10.820**	**5.77**

	PSP		LTIS		SAYE		ESOS/SESO	
Group	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2013	623,886	–	2,271,742	–	1,185,345	7.97	14,890	5.77
Awarded/granted	299,618	–	535,014	–	200,259	13.05	–	–
Lapsed	(86,623)	–	(74,548)	–	(97,910)	8.95	–	–
Exercised	(61,375)	–	(793,985)	–	(384,910)	6.62	(4,070)	5.77
Outstanding at 31 December 2013	775,506	–	1,938,223	–	902,784	9.56	10,820	5.77
Exercisable at 31 December 2013	–	–	–	–	24,945	6.81	10,820	5.77

Share awards outstanding under the LTIS scheme at 31 December 2014 had an exercise price of £nil (2013: £nil) and a weighted average remaining contractual life of 1.2 years (2013: 1.0 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2014 had an exercise price of 577p (2013: 577p) and a weighted average remaining contractual life of nil years (2013: nil years). Share options outstanding under the SAYE schemes at 31 December 2014 had exercise prices ranging from 656p to 1,644p (2013: 491p to 1,305p) and a weighted average remaining contractual life of 2.0 years (2013: 1.9 years). Share awards outstanding under the PSP schemes at 31 December 2014 had an exercise price of £nil (2013: £nil) and a weighted average remaining contractual life of 1.2 years (2013: 1.3 years).

Notes to the financial statements continued

25 Share-based payments continued

	PSP		LTIS		SAYE		ESOS/SESO	
Company	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2014	**505,134**	**–**	**1,050,358**	**–**	**25,508**	**9.90**	**–**	**–**
Awarded/granted	**132,316**	**–**	**175,366**	**–**	**15,290**	**16.44**	**–**	**–**
Lapsed	**–**	**–**	**(235,799)**	**–**	**(1,591)**	**8.88**	**–**	**–**
Exercised	**(163,470)**	**–**	**(325,444)**	**–**	**(8,362)**	**7.71**	**–**	**–**
Outstanding at 31 December 2014	**473,980**	**–**	**664,481**	**–**	**30,845**	**13.79**	**–**	**–**
Exercisable at 31 December 2014	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

	PSP		LTIS		SAYE		ESOS/SESO	
Company	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2013	419,748	–	1,197,956	–	36,032	7.97	4,070	5.77
Awarded/granted	204,498	–	282,755	–	5,931	13.05	–	–
Lapsed	(75,164)	–	(1,234)	–	(852)	10.56	–	–
Exercised	(43,948)	–	(429,119)	–	(15,603)	6.60	(4,070)	5.77
Outstanding at 31 December 2013	505,134	–	1,050,358	–	25,508	9.90	–	–
Exercisable at 31 December 2013	–	–	–	–	4,055	6.85	–	–

Share awards outstanding under the LTIS scheme at 31 December 2014 had an exercise price of £nil (2013: £nil) and a weighted average remaining contractual life of 1.1 years (2013: 1.1 years). Share options outstanding under the SAYE schemes at 31 December 2014 had exercise prices ranging from 662p to 1,644p (2013: 656p to 1,305p) and a weighted average remaining contractual life of 2.3 years (2013: 1.7 years). Share awards outstanding under the PSP schemes at 31 December 2014 had an exercise price of £nil (2013: £nil) and a weighted average remaining contractual life of 1.2 years (2013: 1.3 years). There were no share options outstanding under the ESOS/SESO schemes at 31 December 2014.

26 Other reserves

Group	Profit retained by subsidiary £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2013	0.8	3.6	(7.0)	(1.0)	16.8	13.2
Other comprehensive income:						
– cash flow hedges (note 17)	–	–	2.7	–	–	2.7
– tax on items taken directly to other comprehensive income (note 5)	–	–	(0.6)	–	–	(0.6)
– impact of change in UK tax rate	–	–	(0.2)	–	–	(0.2)
Other comprehensive income for the year	–	–	1.9	–	–	1.9
Transactions with owners:						
– purchase of own shares	–	–	–	(0.5)	–	(0.5)
– transfer of own shares on vesting of share awards	–	–	–	0.6	–	0.6
– share-based payment charge (note 25)	–	–	–	–	7.4	7.4
– transfer of share-based payment reserve	–	–	–	–	(5.4)	(5.4)
At 31 December 2013	0.8	3.6	(5.1)	(0.9)	18.8	17.2
At 1 January 2014	**0.8**	**3.6**	**(5.1)**	**(0.9)**	**18.8**	**17.2**
Other comprehensive income:	**–**	**–**	**–**	**–**	**–**	**–**
– cash flow hedges (note 17)	**–**	**–**	**2.2**	**–**	**–**	**2.2**
– tax on items taken directly to other comprehensive income (note 5)	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**
Other comprehensive income for the year	**–**	**–**	**1.8**	**–**	**–**	**1.8**
Transactions with owners:						
– purchase of own shares	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards	**–**	**–**	**–**	**0.2**	**–**	**0.2**
– share-based payment charge (note 25)	**–**	**–**	**–**	**–**	**8.7**	**8.7**
– transfer of share-based payment reserve	**–**	**–**	**–**	**–**	**(8.8)**	**(8.8)**
At 31 December 2014	**0.8**	**3.6**	**(3.3)**	**(0.8)**	**18.7**	**19.0**

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 (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 24). 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.

Notes to the financial statements continued

26 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 2013	609.2	2.3	3.6	(7.2)	(1.0)	16.8	623.7
Other comprehensive income:							
– cash flow hedges (note 17)	–	–	–	2.7	–	–	2.7
– tax on items taken directly to other comprehensive income	–	–	–	(0.6)	–	–	(0.6)
– impact of change in UK tax rate	–	–	–	(0.2)	–	–	(0.2)
Other comprehensive income for the year	–	–	–	1.9	–	–	1.9
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.5)	–	(0.5)
– transfer of own shares on vesting of share awards	–	–	–	–	0.6	–	0.6
– share-based payment charge (note 25)	–	–	–	–	–	3.6	3.6
– share-based payment movement in investment in subsidiaries (note 14)	–	–	–	–	–	0.8	0.8
– transfer of share-based payment reserve	–	–	–	–	–	(2.4)	(2.4)
At 31 December 2013	609.2	2.3	3.6	(5.3)	(0.9)	18.8	627.7
At 1 January 2014	**609.2**	**2.3**	**3.6**	**(5.3)**	**(0.9)**	**18.8**	**627.7**
Other comprehensive income:							
– cash flow hedges (note 17)	**–**	**–**	**–**	**2.3**	**–**	**–**	**2.3**
– tax on items taken directly to other comprehensive income	**–**	**–**	**–**	**(0.5)**	**–**	**–**	**(0.5)**
– impact of change in UK tax rate	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other comprehensive income for the year	**–**	**–**	**–**	**1.8**	**–**	**–**	**1.8**
Transactions with owners:							
– purchase of own shares	**–**	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
– share-based payment charge (note 25)	**–**	**–**	**–**	**–**	**–**	**4.6**	**4.6**
– share-based payment movement in investment in subsidiaries (note 14)	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
– transfer of share-based payment reserve	**–**	**–**	**–**	**–**	**–**	**(4.2)**	**(4.2)**
At 31 December 2014	**609.2**	**2.3**	**3.6**	**(3.5)**	**(0.8)**	**18.8**	**629.6**

The non-distributable reserve was created as a result of an intra-group reorganisation to create a more efficient capital structure that more accurately reflects the group's management structure.

27 Commitments

Commitments under operating leases are as follows:

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Due within one year	**13.8**	13.7	**2.5**	1.9
Due between one and five years	**30.7**	34.0	**12.0**	9.7
Due in more than five years	**59.7**	51.9	**20.3**	13.7
Total	**104.2**	99.6	**34.8**	25.3

Operating lease commitments relate to the future rental payments until the first break on: (i) the CCD head office property in Bradford; (ii) the 240 CCD branches nationwide; and (iii) the new Vanquis Bank head office in London and contact centre in Chatham.

Other group commitments are as follows:

	Group	
	2014 £m	2013 £m
Unutilised credit card facilities at 31 December	**505.2**	361.0

The company has £nil unutilised credit card facilities at 31 December 2014 (2013: £nil).

The group and company had £nil capital expenditure commitments contracted with third parties but not provided for at 31 December 2014 (2013: £nil).

28 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 £0.6m (2013: £0.6m) and the amount due from the pension scheme at 31 December 2014 was £0.2m (2013: £0.1m).

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:

	2014			2013		
Company	Management recharge £m	Interest (credit)/ charge £m	Outstanding balance £m	Management recharge £m	Interest (credit)/ charge £m	Outstanding balance £m
Vanquis Bank	**3.2**	**(23.5)**	**339.8**	2.6	(18.1)	286.2
CCD	**7.3**	**(55.5)**	**969.1**	7.8	(63.2)	1,114.4
Moneybarn	**–**	**(4.4)**	**161.5**	–	–	–
Other central companies	**–**	**0.5**	**109.5**	–	2.1	63.3
Total	**10.5**	**(82.9)**	**1,579.9**	10.4	(79.2)	1,463.9

The outstanding balance represents the gross intercompany balance receivable by the company, against which a provision of £122.5m (2013: £122.5m) is held.

During 2014, the company received a dividend of £70.0m from Provident Financial Management Services Limited, a subsidiary within CCD (2013: £75.0m) and a £42.5m dividend from Vanquis Bank Limited (2013: £30.0m).

There are no transactions with directors other than those disclosed in the directors' remuneration report.

Notes to the financial statements continued

29 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. The only contingent liabilities within the group relate to bank guarantees provided from one subsidiary to another and a charge in respect of the 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 £114.1m (2013: £285.1m). At 31 December 2014, the fixed and floating rate borrowings in respect of these guarantees amounted to £2.6m (2013: £49.9m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2014 was £nil (2013: £nil).

A floating charge is held over CCD's receivables of up to £15m in respect of the funded pension benefit promises made to executive directors and certain members of the senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise.

30 Reconciliation of profit after taxation to cash generated from/(used in) operations

		Group		Company	
	Note	2014 £m	2013 £m	2014 £m	2013 £m
Profit after taxation		**175.6**	141.0	**125.1**	127.6
Adjusted for:					
– tax charge	5	**49.0**	41.4	**1.7**	4.2
– finance costs	3	**77.5**	74.2	**61.4**	59.7
– finance income		**–**	–	**(83.3)**	(81.4)
– dividends received	28	**–**	–	**(112.5)**	(105.0)
– share-based payment charge	25	**8.7**	7.4	**4.6**	3.6
– retirement benefit charge/(credit) prior to exceptional pension credit	19	**4.4**	6.0	**(8.0)**	(7.7)
– exceptional curtailment credit	19	**(0.6)**	(1.6)	**(0.6)**	(1.6)
– amortisation of intangible assets	12	**7.2**	4.4	**–**	–
– depreciation of property, plant and equipment	13	**6.6**	6.7	**1.1**	1.2
– loss on disposal of property, plant and equipment	13	**0.2**	0.2	**–**	–
– impairment provision in investment in subsidiaries	14	**–**	–	**0.1**	–
Changes in operating assets and liabilities:					
– amounts receivable from customers		**(111.4)**	(92.3)	**–**	–
– trade and other receivables		**(4.4)**	7.3	**(11.7)**	105.5
– trade and other payables		**21.8**	3.6	**(11.1)**	2.2
– contributions into the retirement benefit scheme	19	**(13.1)**	(14.5)	**(0.7)**	(0.8)
Cash generated from/(used in) operations		**221.5**	183.8	**(33.9)**	107.5

Independent auditor's report

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 2014 and of the group's profit 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.** The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statement of cash flows, the consolidated and parent company statement of changes in shareholders' equity, the statement of accounting policies, the financial and capital risk management section and the related notes 1 to 30. 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.
Going concern	As required by the Listing Rules we have reviewed the directors' statement contained within the Directors' report on page 108 that the group is a going concern. We confirm that: • we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and • we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Independent auditor's report continued

Risk	How the scope of our audit responded to the risk
Impairment losses against loans and receivables (Consumer Credit Division, Vanquis Bank and Moneybarn) The assessment of the group's calculation of impairment losses against loans and receivables is complex and requires management to make significant judgements regarding the level and timing of future cash flows to be received from customers. Further detail in respect of these assumptions is set out in the critical judgements and uncertainties section of the accounting policies note on page 140.	We tested the key controls relating to the identification and recording of impairment losses and the mechanical accuracy of the models used to calculate impairment. This included using our in-house IT specialists to test the data flows from source systems to the models in order to determine whether the data used to calculate impairment provisions was complete and accurate. For each of the models, we have understood the complexities and key judgements and have tailored our work to address these accordingly. We challenged the appropriateness of the key assumptions used in the impairment models, including specifically the identification of impaired accounts and the estimation of future cash flows. This involved analysis of the group's historical cash collection experience and challenging the appropriateness of those key assumptions in the context of internal and external factors affecting the business, including operational changes in the Consumer Credit Division and current macroeconomic trends.
Revenue recognition (Consumer Credit Division, Vanquis Bank and Moneybarn) Revenue recognition and specifically the application of the requirement in IAS 39 to recognise income on loans using an effective interest rate ('EIR') method is a complex area. It requires management to make significant judgements relating to the expected life of each loan and the timing of cash flows with the accounting entries generated through the use of complex spreadsheet models. Further detail in respect of these assumptions is set out in the critical judgements and uncertainties section of the accounting policies note on page 140.	We tested the key controls relating to the recording of revenue which focused on the flow of data from source systems into the revenue models and automated IT controls, with support from our in-house IT specialists, to determine whether the data used was complete and accurate. We also tested the mechanical accuracy of the models which are used to determine revenue and the related controls. For each of the models, we have understood the complexities and key judgements and have tailored our work to address these accordingly. We challenged the assumptions used in the recognition of revenue, including the impact of early redemptions by assessing whether the revenue recognition policies adopted were in compliance with IFRS. We considered the assumptions in respect of future behavioural cash flows by reference to the group's historical experience and macroeconomic factors including inflation rates, benefit changes and utility prices.
Defined benefit pension scheme asset Determining the key assumptions used to calculate the present value of the £56.0m retirement benefit obligation requires significant management judgement in relation to inflation rates, discount rates and mortality rates.	We used our in-house actuarial specialists to assist us in evaluating the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation, as set out in note 19. This involved benchmarking management's assumptions against those used by a range of organisations as at 31 December 2014 and considering the consistency of those judgements compared to prior year.
Provision for taxation liabilities The group is required to exercise judgement in the assessment of the key assumptions used to determine the taxation liabilities, including the probability of liabilities arising and the quantum of any such liabilities.	Utilising the experience of our in-house taxation specialists, we evaluated the completeness of the group's taxation liabilities, including the appropriateness of the key assumptions relating to the likely quantum of any liabilities and the probability of them occurring in order to assess whether the level of provision is appropriate. We also reviewed correspondence with tax authorities to determine whether the liabilities considered by management were complete.

Moneybarn fair value adjustments

In August 2014, the group acquired the entire share capital of Duncton Group Limited for £120m, as set out in note 10. On acquisition, IFRS 3 requires assets and liabilities acquired to be recognised at their fair values. Intangible assets must also be recognised at fair value if they are separable or arise from other contractual rights.

The determination of fair values requires the exercise of significant judgement and our work in this respect was focused on two key areas:

- the recognition of the £75.0m broker relationship intangible which was determined by using a discounted cash flow model. This required the exercise of management judgement in the estimation of the forecast future cash flows, useful economic life and selection of an appropriate discount rate; and
- the £3.8m adjustment to recognise the loan book at fair value which required judgement to be applied in respect of the estimated discounted future cash flows to be derived from unimpaired loans at the acquisition date.

We performed a detailed review of the acquisition accounting against the requirements of IAS 38 and IFRS 13, which involved an independent challenge of management's identification of intangibles on acquisition.

In respect of the broker relationship intangible we:

- challenged the key judgements in respect of the valuation of the intangible broker relationships, related to the forecast cash flows, the discount rate and its estimated useful economic life with reference to management's historical budgeting accuracy and external economic data.

In relation to the loan book valuation we:

- tested the underlying controls used to calculate the provision, using our in-house data specialists to review the scripts used to generate the cash flow model; and
- challenged the assumptions used in the calculation with reference to historical data.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee on pages 97 and 98.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Independent auditor's report continued

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. We determined materiality for the group to be £16.8m (2013: £14.7m), which is 7.5% (2013: 7.5%), normalised by adding back one-off restructuring costs of pre-tax profit (as set out on page 130). The increase in our materiality level has been driven solely by an increased in reported profit before tax. We agreed with the audit committee that we would report to the Committee all audit differences in excess of £336,000 (2013: £297,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements. Our audit work on the principal trading subsidiaries comprised statutory audits which were executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £300,000 to £15m.
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, 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. Two of the segments are audited directly by the group audit team and the other is audited by a separate component team, under the supervision of the group team who have maintained continual communication throughout the audit. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: • the part of the Directors' Remuneration Report to be audited (pages 120 to 128) has been properly prepared in accordance with the Companies Act 2006; and • 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.

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 arising from these matters.
Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Independent auditor's report continued

Matters on which we are required to report by exception continued

Respective responsibilities of directors and auditor	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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews. 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 those further matters we have expressly agreed to report to them on in our engagement letter 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.
Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Peter Birch FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
24 February 2015

Shareholder information

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Information for shareholders

Financial calendar – 2014 final dividend

Dividend announced	24 February 2015
Annual general meeting	7 May 2015
Ex-dividend date for ordinary shares	21 May 2015
Record date for the dividend	22 May 2015
Payment date for the dividend	19 June 2015

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 share dealing services. Shareholders who are eligible and who wish to discuss associated fees and charges should contact:

Phil Armitage
Redmayne-Bentley LLP
9 Bond Court
Leeds
LS1 2JZ
Telephone: 0113 200 6433

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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.

A UK tax resident individual shareholder who receives a dividend is entitled to a tax credit in respect of the dividend.

The tax credit is 1/9th of the dividend (corresponding to 10% of the dividend and the associated tax credit).

A UK tax resident individual shareholder is therefore treated as having paid tax at 10% on the aggregate of the dividend and the associated tax credit; as basic rate taxpayers are liable to tax on the dividend and the associated tax credit at 10%, they will have no further liability to tax in respect of the dividend. UK tax resident individuals cannot claim a refund of the 10% tax credit.

The tax liability on dividends for UK tax resident higher-rate taxpayers is an amount equal to 32.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 25% of the dividend.

For taxpayers whose income exceeds £150,000 and are subject to tax at the additional rate, the tax liability on dividends (the 'dividend additional rate') is an amount equal to 37.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 30.55% of the dividend.

Registrars

The company's registrar is:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300
(from within the UK)

Calls cost 10p a minute plus network extras.

Telephone: +44 (0)20 8639 3399
(from outside the UK)

Lines are open 8.30am–5.30pm
Monday to Friday.

Capita share portal

Capita 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.capitashareportal.com**

Capita Dividend Reinvestment Plan

Capita 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 Capita Asset Services:

Telephone: 0871 664 0381
(from within the UK)

Calls cost 10p a minute plus network extras.

Telephone: +44 (0)20 8639 3402
(from outside the UK)

Lines are open 8.30am–5.30pm
Monday to Friday

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 overleaf. A PDF version of the full annual report including financial statements is available on our website.

Provident Financial plc

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Notes

Paper and print specifications
This report has been printed on Lumi 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.

Designed and produced by **Radley Yeldar**

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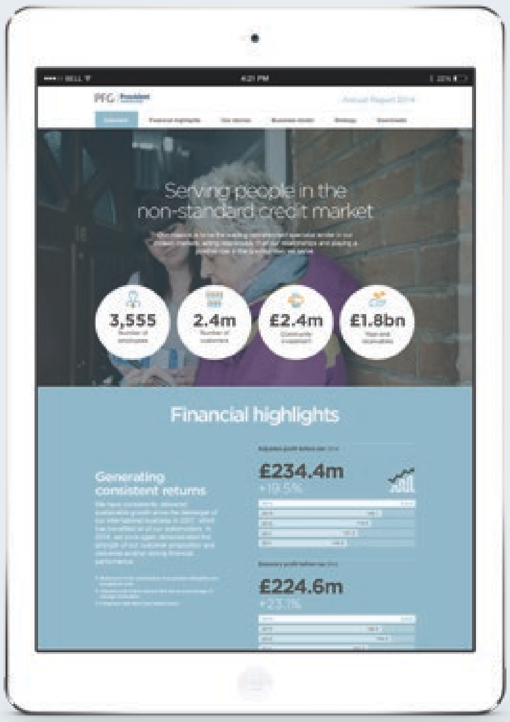

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