PFG | Provident Financial Group

Understanding the big picture and our customers' needs

Annual Report and Financial Statements 2016

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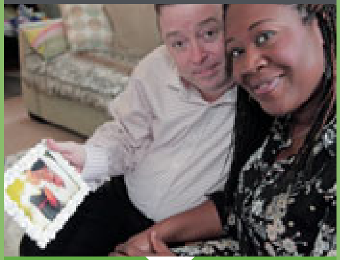
Cautionary statement
All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and business of Provident Financial plc and its strategy, plans and objectives and the markets in which it 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 2006 limits the liability of the directors of Provident Financial plc so that their liability is solely to Provident Financial plc.

Overview

Our mission

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.

Customers



Read more about our customers on pages 26,32 and 40

Responsibility

Read more about our Corporate responsibility on pages 57–67

Governance

Read more about Governance on pages 69–97

Overview

Our social purpose and the market we serve

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

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. This can include the ability to reschedule repayments at no extra cost to the customer.

3,712
Number of employees

£155.6m
Total tax contribution*

£3.1m
Community investment

2.4m
Number of customers

* Comprises both direct and indirect tax contributions

Our values underpin how we do business

This social purpose is driven by our five core values which run throughout everything we do:

Fair
We are fair and reasonable in our dealings with stakeholders.

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

Accessible
We provide our customers with access to products that meet their needs.

Straightforward
We are straightforward, open and honest in all our dealings.

Progressive
We anticipate and respond to the challenges of a changing world.

Overview

Delivering flexible products through our three divisions

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

Provident Financial Group

Vanquis Bank

Non-standard credit cards

VANQUIS BANK

Vanquis Bank Est 2002

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

1.5m
UK customers

1,516
Employees

£204.5m
Adjusted profit before tax[1]

£250–£4,000
Range of credit limits

Read more on Vanquis Bank on pages 28 to 31

Consumer Credit Division

Home credit

Provident EST 1880

Provident Est 1880

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

0.8m
Customers

1,925
Employees[2]

£115.2m
Adjusted profit before tax[1,2]

£100–£2,000
Loan range

Read more on Provident on pages 34–35, 38–39

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

Moneybarn

Online lending

Non-standard vehicle finance

Satsuma
Est 2013 (Start up)

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

55,000
Customers

£100–£1,000
Loan range

Read more on Satsuma on page 36–37, 39

Moneybarn
Est 1992

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

41,000
Customers

195
Employees

£31.1m
Adjusted profit before tax[1]

£4,000–£25,000
Loan range

Read more on Moneybarn on pages 42 to 44

Overview

The value our business creates

We have consistently delivered strong returns and sustainable growth since the demerger of our international business in 2007. Our success can also be measured by our high levels of customer satisfaction and the wider contribution we make to society through our corporate responsibility programme.

Adjusted profit before tax[1] (£m)

2016	**£334.1m** 14.1% ↑
2015	292.9
2014	234.4
2013	196.1
2012	178.4

Dividend per share (p)

2016	**134.6p** 12.1% ↑
2015	120.1
2014	98.0
2013	85.0
2012	77.2

Customer numbers (m)

2016	**2.448m** 2.0% ↑
2015	2.400
2014	2.445
2013	2.635
2012	2.738

Statutory profit before tax (£m)

2016	**£343.9m** 25.7% ↑
2015	273.6
2014	224.6
2013	182.4
2012	194.0

Dividend cover[1] (times)

2016	**1.32 times**
2015	1.35
2014	1.35
2013	1.32
2012	1.30

Community investment (£m)

2016	**3.1m**
2015	3.1
2014	2.4
2013	2.0
2012	1.9

Adjusted basic earnings per share[1] (p)

2016	**177.5p** 9.2% ↑
2015	162.6
2014	132.6
2013	112.0
2012	100.4

Return on assets[2] (%)

2016	**15.3%**
2015	16.1
2014	15.1
2013	14.2
2012	14.5

Employee costs (£m)

2016	**£185.9m** 2.1% ↑
2015	182.1
2014	158.4
2013	158.6
2012	127.0

Basic earnings per share (p)

2016	**181.8p** 19.8% ↑
2015	151.8
2014	126.5
2013	104.2
2012	108.9

Gearing (times)

2016	**2.3 times**
2015	2.2
2014	2.4
2013	3.0
2012	3.2

Total tax contribution[3] (£m)

2016	**£155.6m** 14.8% ↑
2015	135.5
2014	124.5
2013	109.3
2012	110.2

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

Strategic report

Strategic report

Chairman's review

"2016 has been a year of significant change and progress in developing the Provident Financial Group. It is testament to the dedicated employees throughout the group that we have delivered excellent results whilst managing this heavy workload."

Manjit Wolstenholme
Chairman

Overview

In 2016 we continued the delivery of our mission of being 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 have been able to do this by broadening and evolving the distribution of our product base to a wider range of customers, strengthening the compliance functions across our divisions and investing 1% of group profit before tax into the communities we serve.

2016 has been an unprecedented year of political and economic change both globally and in the UK. The UK's decision to leave the EU has resulted in an uncertain economic outlook for the UK with the potential for increased inflation from a weak sterling, rising unemployment and the potential for reduced capital and liquidity as lenders reduce their risk appetite. Despite this backdrop, I am very pleased with how the group has performed during 2016 and I am confident that the group's robust business models and strong balance sheet leaves us well placed to trade through any economic downturn which may impact the UK.

Strategy

Our strategy has remained unchanged since the point of demerger in 2007:

> We invest in high return businesses; which enables us to generate high shareholder returns;

> We maintain a secure funding and capital structure; and

> We act responsibly and with integrity in all we do.

We invest in high return businesses

PFG has a long track record of successfully serving non-standard consumers. As a specialist in non-standard credit, we understand our customers and their needs. We recognise that non-standard consumers require smaller sums of credit, require more frequent contact and need flexibility and a sympathetic response when unexpected events occur. To do this, we have developed sustainable business models which ensure that we lend responsibly and deliver the best possible customer outcomes. Our expertise in distributing, underwriting, managing and collecting through all aspects of the customer journey allow us to maintain a competitive advantage whilst delivering high returns to our shareholders.

During 2016, we started to focus on two areas which will ensure that we maintain our competitive advantage and continue to give our customers the best possible service. Firstly, we are developing our digital capability throughout the group to ensure that we are better placed to serve customers in a more digital world. And secondly, we are making sure our businesses work more closely together so we can develop best practice and ensure that when customers' circumstances change we have the right product to suit their circumstances. We call this 'the bigger picture'. We plan to develop both of these areas further in 2017 and further detail is provided in the Chief Executive's review.

Generate high shareholder returns

We have increased our final dividend per share by 13.0% to 91.4p (2015: 80.9p) which, together with the 10.2% increase in the interim dividend, represents a 12.1% increase in the total dividend per share to 134.6p (2015: 120.1p). Dividend cover for 2016, prior to the amortisation of acquisition intangibles and exceptional items, is 1.32 times (2015: 1.35 times) and is consistent with the group's stated target of maintaining annual dividend cover of at least 1.25 times.

The increase in the full-year dividend is supported by the group's growth in earnings and strong capital generation.

We maintain a secure funding and capital structure

Our secure funding and capital structure continues to provide us with a competitive advantage and enables us to serve our customers in a sustainable manner.

Our balance sheet remains robust with gearing of 2.3 times which is well below our maximum ratio of 3.5 times. Our core equity tier 1 ratio has also remained strong in the year at 21.9%, little changed from last year.

The group has recently entered into a new £450m syndicated bank facility maturing in May 2020 and cancelled the existing committed bank facility. The all-in cost of the new facility is lower than the cancelled facility with broadly consistent terms, conditions and financial covenant package. As at 31 December 2016, headroom on the group's committed facilities amounted to £140m and, after taking account if the renewal of the syndicated bank facility and including the additional capacity available for Vanquis Bank to take retail deposits, total funding capacity amounted to £441m. The group's funding capacity is now sufficient to fund contractual maturities and projected growth of the group until October 2019.

Acting responsibly and with integrity in all we do

The final piece in our strategy is to continually demonstrate and build our social purpose. We promote financial inclusion for those who are not well served by mainstream credit products or who may otherwise be excluded altogether. We know that almost half of adults in the UK do not have enough savings to cover an unexpected bill of £300. And a third of families have no savings whatsoever. This drives us to build a sustainable business model which can help these people when they need it most.

To do this, we provide our customers with appropriate amounts of credit and maintain close contact with them throughout the term of their loan. We ensure our products are transparent and work with them sympathetically if they experience difficulties. The terms and conditions of our products are also designed to meet our customers' particular needs. We then make rigorous checks to ensure that our customers can afford their repayments. We have been doing this successfully for over 135 years.

To support this social purpose we have five core values which run throughout all of our divisions: These are to be:

Fair
We are fair and reasonable in our dealings with stakeholders.

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

Accessible
We provide our customers with access to products that meet their needs.

Straightforward
We are straightforward, open and honest in all our dealings.

Progressive
We anticipate and respond to the challenges of a changing world.

Our social purpose extends beyond our current customers. I'm proud that we invested over £3m in the communities we serve across the UK and Ireland. This investment is made across two areas:

> **Community programmes**
> We have invested in over 50 different projects in 2016 ranging from cash support and creating opportunities for our staff to get involved in local community projects to matching employee giving.

> **Money advice and social research**
> We have also invested in a wide range of free and voluntary money advice organisations which helps educate people on how to make better financial decisions and also helps support those people who may already be in financial difficulty.

Read more about how we act responsibly: CR section, pages 57 to 67

Governance

The group's strategy has continued to be underpinned by the high standards of corporate governance which are critical to its success, and are driven by the board and are embedded in the culture of the group. The board has continued to have detailed and effective oversight of the divisions during 2016 through the corporate governance structure in place, and has complied throughout the year with the provisions of the UK Corporate Governance Code published in September 2014 (the Code).

In accordance with the Code, the board carried out an external board and committee evaluation in 2016 and the actions identified as a result of the evaluation will be implemented over the next 12 months.

Read more about our governance: Governance section, pages 68 to 97

Read more about our board evaluation: Governance section, pages 77 to 78

Board changes

In line with our digital agenda and the ongoing development of the group's channels to market, I'm very pleased to announce the recruitment of two additional independent non-executive directors appointed to the Board on 1 January 2017: David Sear and John Straw. David is a proven financial services professional with a strong track record in digital transformation and customer engagement, in particular within the payment services sector. John is an experienced digital entrepreneur who has led and advised on critical projects across a number of sectors.

Read more about the recruitment of the new non-executive directors: Governance section, page 91

Understanding the big picture and our customers' needs

2016 has been a year of significant change and progress in developing Provident Financial and managing the transition to the more exacting FCA regime. It is testament to the dedicated employees throughout the group that we have delivered excellent results whilst managing this heavy workload.

2017 will be another year of significant change as we drive the digital agenda, develop the way our businesses work together, pursue our plans to enhance the home credit operating model and continue to invest in the growth initiatives within Vanquis Bank, Moneybarn and Satsuma.

I am very confident that the group is well-placed to manage these developments as well as any economic uncertainties arising as a result of Brexit whilst continuing to deliver good returns to our shareholders.

Manjit Wolstenholme
Chairman
28 February 2017

Strategic report

Our business model

Why PFG works

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

The people critical to our success

Our customers See page 59

Our people and suppliers See page 61

The communities in which we operate See page 62

How we create value

1 Secure longer-term, lower rate funding	We borrow longer, at lower rates than we lend, from diverse wholesale and retail sources, always with at least a years' headroom. We do this through strong relationships with our banks, deposit taking, a BBB credit rating and a FTSE 100 listing. We create value by allowing investors to participate in our markets indirectly and our businesses to meet customer demand throughout the cycle. Our funders enjoy a reliable source of good solid diversified income. Our customers enjoy affordable, sustainable, and responsible access to credit.
2 Develop tailored products to meet customers' needs	We focus on the UK non-standard credit market, developing simple, transparent products with flexibility to help customers cope with life. Adapting to the needs of a specific target market, we generate high customer satisfaction and loyalty. We create value by covering the higher cost included in serving non-standard consumers with loans at affordable rates, enabling us to lend to those otherwise financially excluded. We have longer experience, and a wider range of specialised products than our competitors, better suiting the market diversity and dynamism. We continue to innovate to match consumer trends.
3 Attract target customers	We use many ways to reach non-standard consumers. We target our offers using mailing and increasingly digital methods, as well as face-to-face and partners such as brokers, agents and retailers. We create value for customers and third parties by responsibly offering credit to the otherwise excluded and enabling them to make purchases or deal with life on tight incomes. Consumers are able to shop in the modern world, get to work and deal with larger expenses. Partners earn commission, and retailers make more sales. Our longer experience makes us more effective than our competitors. Our ability to lend and commitment throughout the cycle has earnt us trust and loyalty of both intermediaries and customers.
4 Assess affordability and credit worthiness	We carefully assess applicant creditworthiness, along with affordability, suitability and sustainability. We use internal and external data, including face-to-face interactions, taking into account the current situation and the likely future. Our specialisation, experience, and bespoke approach allows us to create value by maximising approvals while maintaining sufficient returns. Customers get the credit they need more often, where responsible, and each assessment and outcome adds experience and knowledge, improving future decisions. We have been active in the non-standard market for longer than most, with a wider range of products at a larger scale helping us to maintain our advantage in assessing applications.
5 Lend responsibly	We tend to lend smaller amounts over shorter periods and take a 'low and grow' approach as customers demonstrate sustainability. Where a vehicle or guarantor is involved, we can lend more, longer and sooner. We create value by helping customers enter or re-enter the credit market, stay in control and build credit scores for greater future access and choice. Our customers are no longer financially excluded from modern life, now or in the future. Our focus and specialised experience makes us better at helping customers on this journey than our direct competitors, and able to lend where mainstream lenders cannot.
6 Collect repayments due	We offer many ways to pay in cash and remotely, maintaining high levels of frequent customer contact. We stay close to customers through call centre, digital communications and face-to-face meetings weekly in the home. We help our customers to stay on track and build better credit scores by adapting our methods to suit the realities of customers' lives in an understanding way. Self-employed agents earn income from successful payments encouraging them to build skills and experience in dealing with customers. The scale of our high-tech contact centres and our experienced well-trained employees set us apart from our competitors, and our volumes help us to maintain our superior performance. We share these best in class collections capabilities across the group to help established and new businesses improve quicker and earlier.
7 Manage arrears and customer difficulties	We establish early contact and an ongoing dialogue with customers who have difficulties, with a sympathetic approach, trying to understand and offer forbearance. Our focus is on making a difficult situation easier to deal with by taking a personal approach to resolving inevitable problems. Our customers value this understanding highly, as it minimises their arrears, and damage to their credit score. It also maximises recoveries, and enables customers to qualify for further credit. Our far more rapid, intensive and personal approach sets us apart from mainstream lenders and our scale, experience and greater investment differentiates us from other specialists. We are able to share our arrears management capabilities across the group to help established and new businesses improve performance and customer satisfaction.
8 Pay for funds and generate surplus capital to deploy	We grow our high ROA, cash and capital generative businesses, under a funding model that pays 80% of earnings in dividends and retains 20% equity to combine with external funds at a low gearing to fund growth. We create shareholder value by delivering superior returns throughout the cycle and our strong capital base sustains our ability to grow and attract external funding. Investors and funders rely on good returns. Business units rely on funding being available, and customers rely on credit availability regardless of constraints elsewhere. We enjoy better capital generation and less reliance on external funding through the cycle, allowing us to plan longer term with confidence to take advantage of market opportunities.

See how the model applies to each of our businesses in the divisional performance reviews.

Strategic report

Chief Executive's review

"2016 has been another successful year for the group. We have delivered a strong financial performance and have made very good progress on a number of important operational developments which will shape the future of the group. This has been achieved against the backdrop of managing the transition to the new FCA regulatory regime and market and economic uncertainties arising from Brexit."

Peter Crook
Chief Executive

Our customers
See page 59

Results

The group has reported profit before tax, amortisation of acquisition intangibles and exceptional items up 14.1% to £334.1m (2015: £292.9m). This reflects strong growth in profits at Vanquis Bank and Moneybarn and an improved profit performance in CCD following a reduction in the start-up losses associated with Satsuma. Statutory profit before tax increased by 25.7% to £343.9m (2015: £273.6m).

Adjusted basic earnings per share of 177.5p (2015: 162.6p) grew by 9.2%, a lower rate than pre-tax profits due to the impact of the 8% bank corporation tax surcharge on Vanquis Bank's profits in excess of £25m which was effective from 1 January 2016. Basic earnings per share increased by 19.8% to 181.8p (2015: 151.8p).

Vanquis Bank has reported profits up 11.3%. Growth is being delivered against continued tight credit standards and I'm particularly pleased with the momentum of new business being generated through a reinvigoration of the credit card proposition and its distribution by the new leadership team.

CCD's profits increased by 9.3%, reflecting a robust profit performance from the repositioned Provident home credit business and a sharp reduction in the Satsuma start-up loss. The home credit business is actively pursuing plans to better serve its customers by migrating to a more efficient field organisation structure during 2017 supported by the deployment of further technology. Satsuma has made great strides in developing its online instalment loan product and it is now on course to deliver profitable growth from the attractive market opportunity available to it.

Moneybarn has again performed extremely well reporting profits up 46.0%. Since its acquisition in August 2014, the business has more than doubled in size and maintained its margins through a period of significant investment.

Operational developments

Enhancing our digital capability

It is vitally important that the products and services we offer to our customers remain relevant in today's modern world where more and more customers wish to transact online and through their mobile phones. We have made good progress in improving our digital capability in a number of areas during 2016 and will continue to build on this work in 2017.

Within Vanquis Bank, we will shortly be launching a new mobile app which will be a significant upgrade to the basic app currently in place which allows customers to view their balance and make payments only. The new app will have a more modern look and feel and will allow customers to perform a significant amount of tasks digitally as well as providing us with the opportunity to make them aware of relevant offers of other group products, such as Moneybarn car loans or unsecured personal loans, which may be available to them. Our leading edge IT platform and IT capability has also enabled us to make a quick entry into the fast-growing retail point of sale market with two third parties, Pay4Later and Unshackled.com. We have seamlessly linked our systems to both of these providers and our IT capability means we are very well placed to further develop such relationships throughout 2017. The Vanquis Bank team have also successfully developed a new loans platform to support the recent launch of a wider loans proposition, including the development of guarantor lending through 2017.

The deployment of handheld technology, in particular the introduction of lending and collections apps for our self-employed agents within home credit has been very successful in improving the returns of the business. We have continued to build on this in 2016, implementing real time performance reporting through a flash app for our field management which enables them to respond very quickly to changes in performance. The significant enhancement in the use of technology over the last three years means that we are now in a position to make the next logical extension to the home credit business model during 2017. I will come back to this shortly. We also have a full IT agenda in 2017, including the introduction of a new customer relationship management system, a new master data management system to enable us to have a single customer view through our home credit and Satsuma brands and the commencement of a programme to update all of our old legacy systems throughout the business.

In Satsuma, a key focus during 2016 was to develop the further lending capability of the business and it is pleasing that we have now introduced customer login functionality and deployed a mobile app to improve the customer journey and improve retention. We have also configured our IT systems to enable us to launch a monthly product which fits more closely with how many customers are paid and manage their budgets. 2017 will see us build on these achievements, including adding greater functionality to the mobile app, improving website speed and a number of developments specifically aimed at improving the customer journey for both new and existing customers.

Moneybarn has completed a number of significant IT projects during 2016 to reinforce its position as the market leader in non-standard vehicle finance. Early in the year, the business launched a new broker management system, which provides better links between Moneybarn's and brokers' systems as well as significantly enhancing functionality for brokers. Moneybarn is the first non-standard car finance provider to launch eID and eSign which allows customers to be both identified and to sign their credit agreements electronically thereby speeding up the application process and improving the customer journey. More recently, Moneybarn has also launched a new website with a more modern look and feel which will assist the business in developing its B2C offering to customers.

As part of our focus on improving our digital capability, we have recently appointed two new non-executive directors, David Sear and John Straw, both of whom have significant digital expertise. Both David and John will be able to provide great insight and assistance to each of our businesses and their appointments will assist us in establishing Provident Financial as the leading digital provider of financial services in the non-standard sector of the market.

A group-wide focus

In conjunction with our digital agenda, we are placing more focus on our businesses working together to reinforce our competitive advantage as the leading non-standard lender in the UK.

Historically, each of our businesses has worked relatively autonomously reflecting the fact that Vanquis Bank and home credit served quite different non-standard consumers, they used different distribution channels and they had varied IT capabilities. The main group-wide synergies therefore have come from the group's funding and capital structure and central tax, legal and public affairs resource. However, developments over recent years, including the launch of Satsuma and the acquisition of Moneybarn together with the deployment of technology in home credit means that we now operate through a number of adjacent brands and our IT capability is more closely aligned between businesses. As a result, we are now well placed to share expertise, best practice and utilise group-wide resources to better serve our customers.

We are already utilising Vanquis Bank's collections capability to perform collections activity for Satsuma and to sell the written

Chief Executive's review (continued)

"Given the expertise we have throughout the group, it is very important that we leverage these skills to ensure that the group's value is much greater than the sum of its divisions."

Peter Crook
Chief Executive

off debt of both home credit and Moneybarn. This is showing good results and we will continue to expand these operations during 2017. During 2016, Vanquis Bank has also assisted Moneybarn in refreshing its underwriting scorecards as well as developing its website and B2C proposition. We aim to expand such activity in 2017 and have recently established two group-wide committees to drive this – a Commercial Forum and a digital committee both of which comprise senior executives from each business.

We have also started work on improving the triage between businesses, by offering Vanquis Bank declines to Satsuma and Satsuma declines to home credit. This is an area which isn't fully established yet but will allow us to potentially offer a customer with an alternative, more suitable product rather than simply decline their application. We will continue to develop this during 2017.

Another area which we have started work on in 2016 but will be completed in 2017 is the development of a group-wide customer prospects database. This will contain details of all of our customers, both past and present, and those that we have prospected and declined. This will give us a rich source of data and allow us to track customers through their credit lifecycle, enabling us to serve them with the right product at the right time, leveraging from our extremely high levels of customer satisfaction to retain customers as their credit circumstances change.

I am very excited by the opportunities for our businesses to work together to improve how we serve our customers. Given the expertise we have throughout the group in each of our divisions and within the corporate office it is very important that we leverage these skills to ensure that the group's value is much greater than the sum of its divisions.

Home credit operating model

Since the end of 2013, the repositioning of the home credit business as a smaller, better-quality business has been very successful in maintaining the profitability of the business and increasing returns in a mature market. In particular, we have: (i) successfully deployed hand held technology to the field force; (ii) reduced the number of self-employed agents from over 10,000 to 4,500; (iii) reduced the field headcount by over 1,000, including the removal of all field administration; and (iv) developed sophisticated central underwriting and data analytics.

The self-employed model for agents that we have used for a very long period of time has been an effective operating model for the home credit business. However, the continually increasing expectations of our customers together with the development of hand held technology and enhanced data analytics have led us to the conclusion that further developments to the current operating model would deliver a more efficient and effective business. As a result, we have developed a proposal, which is subject to workforce consultation, to enhance the home credit operating model in three ways: (i) serving customers through full time employed Customer Experience Managers rather than self-employed agents to take direct control of all aspects of the relationship with the customer; (ii) changing the field management structure in the UK, with newly defined roles and ways of working; and (iii) deploying further technology to improve efficiency and effectiveness.

A migration to the proposed operating model, which features more centralised control over a distributed workforce and greater evidencing of customers interactions, would also enhance regulatory standards. Subject to workforce consultation, we are hoping that the enhanced operating model will be fully operational from July 2017.

We are hosting a Capital Markets Day on 4 April 2017 where we will provide more detail on how the proposed operating model would work, including more detail on the potential financial benefit. We believe the proposed next stage in home credit's development is a logical extension of the excellent progress made by CCD and its management team in repositioning the business since 2013.

External factors

Brexit

The UK's EU referendum on 23 June 2016 has resulted in a decision to leave the EU (Brexit). Brexit has had a significant impact on capital markets. Most economists and market commentators have been predicting a period of instability in the UK economy over the near or medium term which may result in weak GDP growth and may result in increased unemployment and inflation in the UK economy. However, the emergence of such changes is unlikely to have a significant impact on the group through the majority of 2017.

Despite the potential second order risks of Brexit, the group has proven resilient during previous economic downturns due to our specialist low and grow business models which are tailored to serving non-standard customers. In particular, Vanquis Bank demonstrated during the last downturn that it is considerably less sensitive to changes in the employment market than mainstream card issuers, maintaining its target returns, despite a modest increase in impairment. Although the UK employment market has continued to improve, Vanquis Bank has maintained tight credit standards since 2009 and maintains strict discipline over managing card utilisation.

Moneybarn experiences low default rates and has recourse to the vehicle in the event of default. Its robust risk-adjusted margin is capable of absorbing an increase in impairment during a period of rising unemployment.

The home credit business has been repositioned since the last downturn with a significant tightening of underwriting, the standardisation of arrears practices through the implementation of technology and a focus on serving good-quality existing customers. The business is, therefore, in a strengthened position to manage the impact of significant increases in inflation such as those experienced on food, fuel and utility bills during 2011 to 2013 which reduced demand and resulted in an increase in impairment.

In addition, home credit customers' employment tends to be biased towards more casual, temporary and part-time employment and they are, therefore, late cycle and impacted by under employment rather than unemployment.

The group's funding position is strong, with significant headroom on committed facilities and a diverse range of funding sources, including retail deposits which is a valuable source of funds, particularly when wholesale debt markets are weak.

And finally, it is also possible that the group's addressable customer base may increase during a downturn as prime and other wholesale funded non-standard lenders may reduce risk appetite or experience funding constraints. This may provide the group with opportunities for further growth.

Regulation

Authorisation

Vanquis Bank and Moneybarn were both fully authorised by the FCA in 2016. CCD continues to operate under an interim permission awaiting full authorisation, consistent with the other sizable firms operating in the home credit market.

As expected, the new supervisory framework is more exacting than the previous OFT regime, with the regulator placing much more scrutiny on income verification, affordability, forbearance and customer outcomes more generally.

We have changed or enhanced a number of processes, including the greater use of IT, throughout the group both as part of the authorisation process and we continue to expect a greater level of interaction with the FCA going forward.

FCA credit card market study

In July 2016, the FCA published its final report following its market-wide study of the UK credit card industry. The FCA and UK credit card industry have agreed in principle to three informational remedies which we do not expect to have a significant impact on Vanquis Bank. As part of its market-wide study, the FCA is continuing its review of persistent debt and how the industry applies credit limit increases to cardholder accounts. Through the credit card industry body, the UK Cards Association, we continue to be involved in the ongoing dialogue with the FCA.

FCA review of high-cost credit

Towards the end of 2016, the FCA announced that it will undertake a review of the wider high-cost credit market during 2017. The FCA was already scheduled to review the High-Cost, Short-Term Credit remedies introduced in 2015 against payday and short-term credit of less than a year in duration and with an APR in excess of 100%. In addition, following the Competition and Markets Authority report on overdrafts in August 2016, the FCA has decided to review competition in the current account market, in particular, improving transparency for overdraft users which the FCA consider to be high-cost credit. Given this backdrop, the FCA consider it appropriate to review the wider high-cost credit market, including adjacent high-cost products such as home credit, guarantor loans, rent to own and pawn broking as part of this review.

Consistent with all regulatory reviews of this nature, we will respond to information requests as they are received and maintain a constructive dialogue with the regulator to assist them in conducting their review.

Looking ahead

Vanquis Bank continues to deliver a strong financial performance. The momentum of new account bookings is excellent with a good pipeline of initiatives to further augment growth in 2017 and beyond. The performance of the recently launched unsecured loans pilot is encouraging and represents a significant opportunity within both the Vanquis Bank customer base and the wider market which is an under-served area of the non-standard market.

The repositioned Provident home credit business delivered a robust performance in 2016. We are now actively pursuing plans to secure significant financial benefits from migrating to a more effective and efficient field organisation structure during 2017 supported by the deployment of further technology. Satsuma has made good progress in developing the underwriting and marketing of our online instalment loan product and we are now on course to deliver profitable growth from the attractive market opportunity available to us.

Moneybarn has achieved another significant uplift in new business volumes, supported by access to the group's funding lines and product development. This has reinforced our primacy across the broker network which, when combined with further product development opportunities, leaves us in excellent shape to deliver strong growth.

Our funding and liquidity positions are strong, allowing us to meet contractual debt maturities and fund our internal growth plans through to October 2019.

We have made a good start to 2017. Vanquis Bank and Moneybarn have continued to trade very well and the home credit business has produced a sound collections performance.

Peter Crook
Chief Executive
28 February 2017

Strategic report

Our strategy and progress

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

1 Growing high-return businesses in non-standard markets

2 Generating high shareholder returns

3 Maintaining a secure funding and capital structure

4 Acting responsibly and with integrity in all we do

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

KPI descriptions:

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

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

Return on equity (ROE) – Adjusted profit after tax as a percentage of average equity. 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.

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

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

Dividend cover – Adjusted basic earnings per share divided by dividend per share.

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

Funding capacity – Contractual debt facilities plus the additional capacity for Vanquis Bank to take retail deposits to repay its intercompany loan to Provident Financial plc less the group's committed borrowings.

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

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

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

1

Growing high-return businesses in non-standard markets

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

> Generate **high returns** in order to provide high returns to shareholders. High returns are available in the non-standard market to those companies with the right business model which focuses on delivering the best possible customer outcomes.

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

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

> Enjoy a **strong market position**, preferably a top-3 market position in each segment of the non-standard market in order to develop the market in a responsible manner.

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

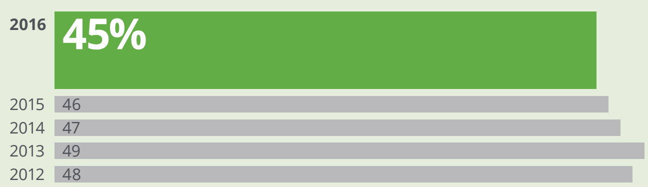
Our progress against our KPIs in 2016

Adjusted profit before tax (£m)

Adjusted profit before tax has increased by 14.1% to £ 334.1m (2015: £292.9m) reflecting strong growth in profits at both Vanquis Bank and Moneybarn and an improved profit performance in CCD following a reduction in the start-up losses associated with Satsuma and glo. Statutory profit before tax increased by 25.7% to £343.9m (£273.6m).

Adjusted profit before tax in 2016 is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2015: £7.5m); and (ii) a net exceptional credit of £17.3m comprising an exceptional gain of £20.2m in respect of Vanquis Bank's interest in Visa Europe following completion of Visa Inc.'s acquisition of Visa Europe on 21 June 2016 and an exceptional impairment charge of £2.9m in respect of glo's IT platform within CCD following the decision to develop guarantor loans as part of the wider Vanquis Bank loans proposition on a separate IT platform (2015: exceptional cost of £11.8m in respect of a business restructuring in CCD).

Group ROE (%)



The ROE has reduced modestly to 45% (2015: 46%) due to the impact of the bank corporation tax surcharge of 8% on Vanquis Bank's profits in excess of £25m which became effective on 1 January 2016.

Group ROA (%)

The reduction in the group's ROA to 15.3% (2015: 16.1%) is primarily due to the impact of the bank corporation tax surcharge on Vanquis Bank's profits. Excluding the impact of the bank tax surcharge, the group's ROA modestly increased to 16.2% due to stronger returns at CCD and Moneybarn,

Continued on page 18

Strategic report

Our strategy and progress (continued)

1

Operational progress in 2016

Vanquis Bank

> Successful expansion of distribution channels including retail point of sale partnerships with Pay4Later and Unshackled.com, and launch of the Chrome nearer prime credit card.

> Development of a new loans platform and launch of a pilot loans proposition to existing credit card customers.

> Enhanced mobile app to be launched in early 2017.

> Implementation of an 'Express Check' service which allows applicants to check their likelihood of acceptance without affecting their credit score.

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

CCD

> Deployment of a real time results app in home credit to assist field management in managing performance.

> Website enhancements in both home credit and Satsuma to improve the customer journey.

> Implementation of customer login functionality and development of a new mobile app in Satsuma.

> Launch of a new credit decision engine in home credit and within Satsuma in early 2017.

> Launch of a new monthly product in Satsuma to better serve those customers who manage their budget on a monthly basis.

> Developed a programme to migrate to a more efficient field organisation structure during 2017 supported by the development of further technology.

Moneybarn

> Implementation of a new broker management system to improve links with brokers and reinforce primacy.

> Development of a refreshed website with a more modern look and feel to enhance the B2C proposition.

> Implementation of eID and eSign to speed up the customer on-boarding process.

> Good traction in developing the light commercial vehicles proposition.

> Implementation of new refreshed scorecards, assisted by Vanquis Bank, during the second half of 2016.

Our focus for 2017

Group wide

> Maintain consistent underwriting standards.

> Develop the digital agenda, including the launch of new apps in Vanquis Bank and Satsuma.

> Improve the interaction between businesses and how best practice is shared, including the development of a group wide customer prospects database.

> Deliver good customer outcomes.

> Maintain a constructive dialogue with the regulator.

> Maintain divisional ROAs above the group's minimum threshold of 12%.

Vanquis Bank

> Increase the investment in the customer acquisition programme following the development of distribution channels established in 2016.

> Continue to develop channels to market, the product proposition and potential other revenue sources.

> Develop the loans proposition pilot, prior to roll-out in the open market and the development of guarantor loans.

CCD

> Manage the migration to a more efficient and effective field organisation through the development of further technology.

> Continue to invest in and improve the IT estate.

> Increase business volumes in Satsuma and deliver a small profit contribution to divisional profits.

Moneybarn

> Continue to capture the growth opportunity in the non-standard vehicle finance market by growing the customer base.

> Continue to investigate and test product extensions beyond the current model, including commercial vehicles, caravans and motorbikes, relationships with prime finance businesses and the potential to provide contract hire.

2

Generating high shareholder returns

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

Our focus for 2017

- Invest in Vanquis Bank growth and the proposed extension to the home credit operating model during 2017 to deliver strong payback from 2018 onwards.
- Deliver further earnings per share and total shareholder return growth.
- Maintain a minimum dividend cover of at least 1.25 times.

Our progress against our KPIs in 2016

Adjusted basic earnings per share[1] (p)

2016	177.5p (9.2% ↑)
2015	162.6
2014	132.6
2013	112.0
2012	100.4

Adjusted basic earnings per share is up 9.2% to 177.5p (2015: 162.6p), a lower rate than the 14.1% growth in adjusted profit before tax. This principally reflects the impact of the bank tax surcharge on Vanquis Bank's profits. Basic earnings per share increased by 19.8% to 181.8p (2015: 151.8p).

Excluding the impact of the bank corporation tax surcharge, adjusted basic earnings per share shows growth of 15.3%. This is higher than the growth in adjusted profit before tax due to a lower underlying effective tax rate of 19.0% in 2016 compared with 20.25% in 2015 reflecting: (i) the change in the UK statutory corporation tax rate from 21% to 20% on 1 April 2015; and (ii) a tax credit in respect of prior years in 2016.

Dividend per share (p)

2016	134.6p (12.1% ↑)
2015	120.1
2014	98.0
2013	85.0
2012	77.2

Dividend cover[1] (times)

2016	1.32 times
2015	1.35
2014	1.35
2013	1.32
2012	1.30

Dividend per share has increased by 12.1% to 134.6p (2015: 120.1p), a higher rate of growth than adjusted basic earnings per share. Accordingly, dividend cover has reduced to 1.32 times (2015: 1.35 times) but is well above the group's minimum dividend cover target of 1.25 times. The group's dividend is supported by strong capital generation.

Total shareholder return (%)

2016	-11.7%
2015	40.9
2014	57.0
2013	25.4
2012	51.9

Annual total shareholder return of -11.7% in 2016 (2015: +40.9%) following five years of strong growth.

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

Strategic report

Our strategy and progress (continued)

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).
- Continue to diversify the group's sources of funding.

Our focus for 2017

- Maintain capital and gearing at prudent levels.
- Continue to manage the flow of retail deposits in Vanquis Bank to ensure an appropriate amount of headroom is maintained on the group's committed facilities.
- Review and consider additional funding options to support growth in Moneybarn and Satsuma.
- Manage regulatory capital and liquidity in accordance with PRA regulations.

Operational progress in 2016

- The syndicated bank facility was renewed on 31 January 2017, with the facility increased from £383m to £450m and the maturity date extended from May 2018 to May 2020. The all in cost of the new facility is approximately 0.25% lower than the previous facility with the covenant package broadly unchanged other than an increase in the net worth covenant to match the increase in group net assets since the previous facility was agreed.

Our progress against our KPIs in 2016

Gearing (times)

Gearing remained stable at 2.3 times (2015: 2.2 times) compared with a maximum of 3.5 times and a banking covenant of 5.0 times. The modest increase from 2.2 times in 2015 reflects the leverage of 3.5 times that supports the funding of receivables growth approaching £300m in 2016.

Headroom on the group's committed facilities amounted to £140m at the end of 2016 and, including the additional capacity available for Vanquis Bank to take retail deposits, total funding capacity amounted to £374m. Including the recent extension to the group's syndicated bank facility, funding capacity increases to £441m and is sufficient to fund contractual maturities and projected growth in the business until October 2019 when the £250m senior bond matures.

4

Acting responsibly and with integrity in all we do

- Operating our core business of lending to our customers in a responsible and sustainable manner, putting their needs at the heart of everything we do.
- Acting responsibly and sustainably in all our stakeholder relationships in order to:
  - Create a working environment that is safe, inclusive and meritocratic;
  - Treat our suppliers fairly; and
  - Support our communities.

Our focus for 2017

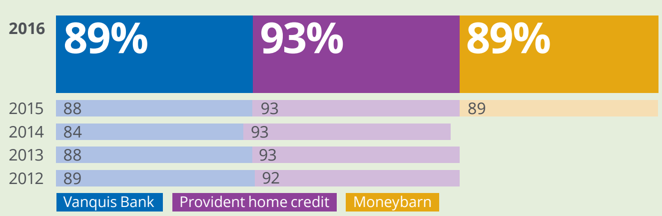
- Maintain or improve customer satisfaction levels in all businesses.
- Maintain an investment of 1% of group profit before tax in the community through various community programmes, money advice programmes and social research.
- Continue to place positive customer outcomes at the forefront of our product and service offering.

Operational progress in 2016

- Implemented 'soft search' capability in Vanquis Bank and Satsuma to allow customers to apply without adversely impacting their credit rating.
- Improved procedures for dealing with vulnerable customers and complaints handling in both home credit and Satsuma.
- Development of enhanced affordability assessments in Satsuma.
- Simplification of the product range in home credit.
- Enhanced forbearance procedures in Moneybarn and the introduction of a simplified handback procedure of cars for defaulted customers to minimise customer costs.
- Continued development of technology to allow customers more options of paying electronically in all businesses, including mobile apps.
- Significant investment in the risk management frameworks supporting the operations throughout all divisions.

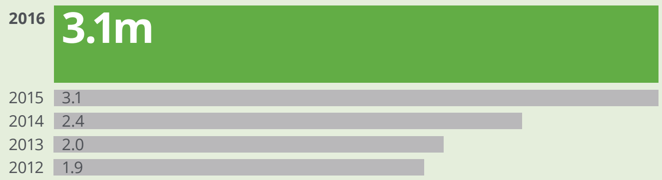
Our progress against our KPIs in 2016

Customer satisfaction (%)



Customer satisfaction of 93% for Provident home credit (2015: 93%), 89% for Vanquis Bank (2015: 88%) and 89% for Moneybarn (2015: 89%).

Community investment (£m)



Invested a total of £3.1m in various community programmes, money advice programmes and social research (2015: £3.1m).

Strategic report

The non-standard credit market

UK non-standard credit is a diverse, dynamic, specialist market...

The UK non-standard credit market comprises c.£72bn gross advances growing at c.5% pa on average.

+

There is a dynamic mix of growing and shrinking product types.

+

75% of lending is through specialist non-standard products and lenders.

The changing patterns of product usage as customer needs and preferences change and regulations are finalised result in a very dynamic market:

+40% → -10%

Change in customer product usage ranges from +40% to -10%, depending on the product.

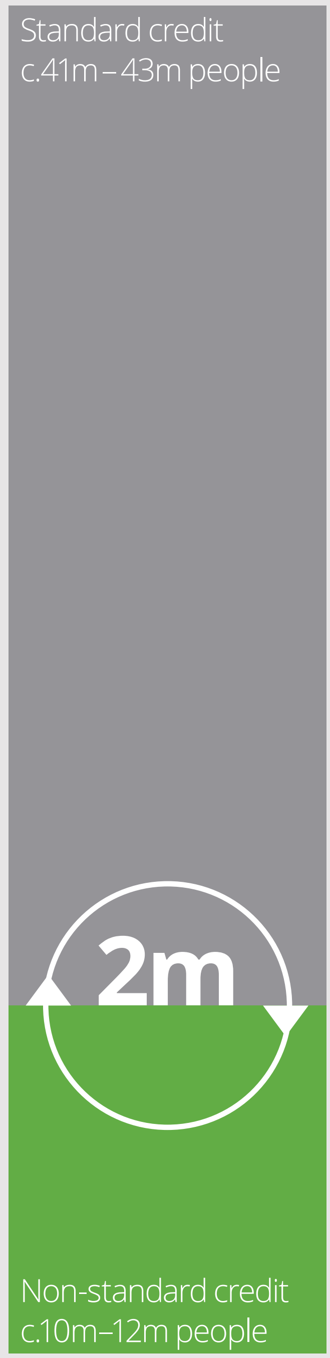
+90% → -20%

Change in product balances (outstanding loans) ranges from +90% to -20%, depending on the product.

+50% → -50%

Change in gross advances (lending) ranges from +50% to -50%, depending on the product.

The dynamics of the UK non-standard credit market



c.0.5% net consumer growth annually in standard credit.

c.20% of non-standard consumers (c.2m people) move annually between standard and non-standard markets through improving or declining credit scores as situations continually change due to unexpected life events.

c.1–2% net consumer growth annually in non-standard.

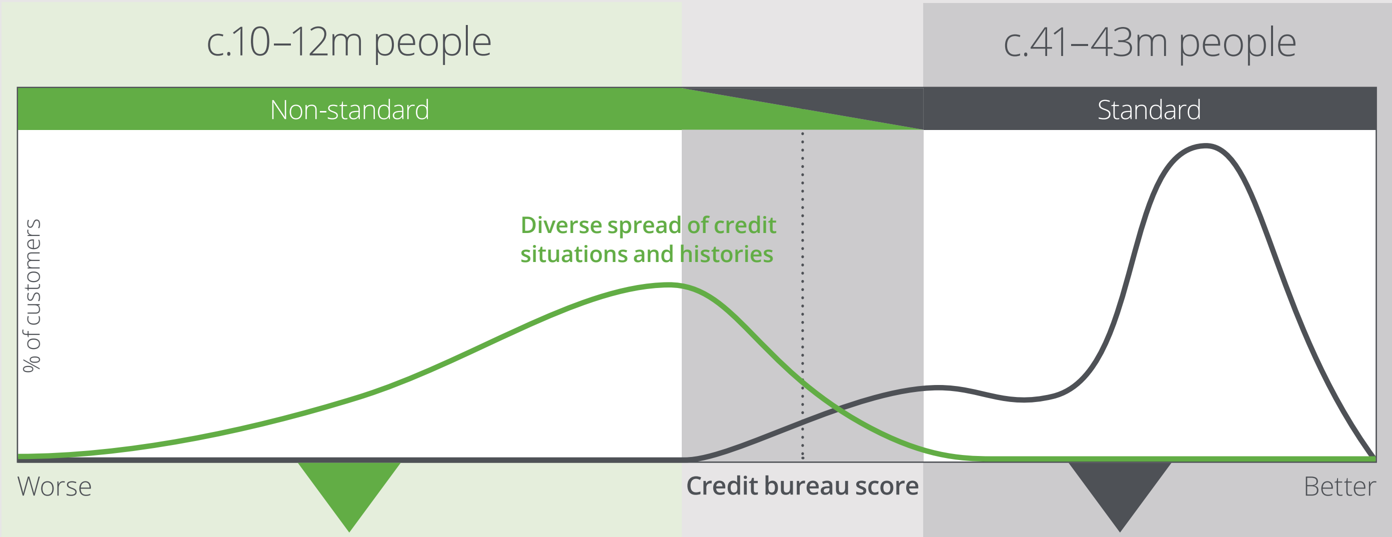
The overall result is a growing, refreshing dynamic non-standard credit market.

...and is very different in nature to the standard credit market.

Non-standard consumer needs and situations are far more varied and changeable than mainstream standard credit consumers.

Specialist providers have developed a range of credit products over time to suit the needs of the non-standard market more closely than general mainstream credit products.

Comparison of the distribution of non-standard and standard credit bureau scores



Diverse range of product solutions including specialist products to suit non-standard customer needs:

- > Low and grow credit cards;
- > Approved and unapproved overdrafts and other line of credit accounts;
- > Non-standard mortgages;
- > Home collected credit;
- > Payday loans;
- > Short-term instalment loans (<12 months);
- > Longer-term instalment loans (>12 months);
- > Second charge secured loans;
- > Guarantor loans;
- > Rent-to-own retail credit;
- > Online mail order credit;
- > Online retail instalment credit;
- > Store cards;
- > Non-standard car finance;
- > Store-based lending including buy-back;
- > Pawn broking;
- > Bill of sale/log book loans; and
- > Credit unions.

Narrower range of mainstream product solutions to suit more standard customer needs:

- > Mortgages;
- > Credit cards;
- > Car finance;
- > Longer-term instalment loans; and
- > Approved overdrafts.

Strategic report

The non-standard credit market (continued)

Our customer circumstances and behaviours have changed, as has the regulatory environment...

The recent past has seen customer circumstances improve as the economy has recovered.

Past

Credit crunch

The credit crunch brought recession, unemployment and underemployment, inflation, austerity, wage stagnation and reduced mainstream lender appetite.

Recovery

As the UK economy has recovered, unemployment has fallen to some of the lowest levels seen, inflation has fallen away creating real wage growth, consumer sentiment and confidence has improved and credit supply has increased rapidly.

Uneven benefits

However, not everyone has benefited equally:

> Underemployment and uncertain employment has persisted, wage growth has been lacklustre and patchy, austerity remains in government plans; and

> Despite general improvements in all credit bureau scores, the non-standard credit market has continued to grow.

...and we know the future shows uncertainty, but recognise what it takes to be successful.

The market is facing the medium-term uncertainty of an expected slowdown.

Future

Continued progress

In the short term, improving customer positions will continue to drive credit demand and affordability despite looming future uncertainty.

Slowdown

In the medium term, a slowdown may undermine individual customer positions but grow the non-standard market as more consumers move down as they run into difficulties:

> Forecasts suggest weakening growth, rising inflation eroding wages and spending power and rising unemployment are to come;

> No sudden recession is anticipated, making any impact more manageable for lenders; and

> More consumers may find themselves less able to cope with existing commitments, in need of credit in the short term and/or unable to qualify for mainstream offers.

Cyclical downturn

The UK is not well placed to offset the cyclical downturn with monetary policy already persistently and historically lax and an unresolved structural fiscal deficit constraining spending.

Brexit

Brexit has contributed to uncertainty and forecasts of a slowdown, but its ultimate form and therefore impact remain unclear:

> The main areas of labour mobility, international market access, exchange rates and international trade are not important issues for the UK non-standard credit market;

> Main impacts on UK non-standard credit likely to come through the normal routes of any cyclical downturn caused, which specialists are well prepared to cope with; and

> Any reduction in risk appetite from lenders or funders in this environment is likely to reduce credit supply and competition.

With ongoing trends continuing to shake up the market.

Present

Regulatory change

Transition to FCA regulation has been tough for certain product sectors, holding back overall average growth:

> Key areas of change driven by the FCA have been upfront affordability assessment, refinancing during an existing loan, and back-end forbearance;

> Single product firms have been particularly susceptible to changed requirements in their area of focus;

> For example, in payday lending the business model has been transformed, and rates capped, resulting in a dramatic fall in lending, only c.60 firms of any scale are left from over 330 who applied for authorisation in the sector; and

> Even after authorisation, rules and guidance continue to evolve under supervision.

Digital preference

Consumers continue to move online/go digital and prefer mobile devices, expecting lenders to do the same:

> Digital interaction increasingly important for effective lead generation, new customer acquisition and ongoing customer relationship management;

> For example, previously 'big book' paper and phone-based mail order lenders have gone completely online and mostly mobile/tablet-based in the last five years, boosting performance; and

> More than 75% of our home credit customers use the internet via a smartphone, up from less than 66% in 2014. The trends have resulted in changes to established business models, requiring sustained people and technology investment alongside new partnerships and ways of working.

What it takes to win in a diverse, dynamic, specialist credit market facing a cyclical downturn.

Success

Resilient specialists

Winners will be resilient specialists with consistent access to funding through the cycle and a range of tailored product offers that keep evolving with customer needs and regulatory change.

Ability to lend responsibly

In the short term serving wider customer needs with specialist models and the ability to lend responsibly where others cannot as credit quality improves and widens competition will continue to be successful in a growing economy.

Access to capital

In the medium term, consistent access to sufficient capital and funding to take advantage of the opportunities despite the challenges of an economic slowdown, plus the ability to lend where others cannot as credit quality deteriorates will win out.

Innovate

Beyond funding certainty, a broad specialist offer and continued innovation to match consumer trends will be key at all times in this market.

Non-standard credit cards

VANQUIS BANK

It’s about celebrating together for Laurence and Joanne

“When I was planning my wedding, I wanted a credit card so I could book things online and pay deposits and organise my big day. As I made regular repayments and was using the card sensibly, Vanquis increased my credit limit, which was handy for some of the larger purchases. I receive regular updates from Vanquis about when my payments are due and to review my bill, and they get the balance right so I feel like I’m being reminded in a friendly way without being harassed. I paid off my balance after the wedding and recently used my card again to celebrate my husband’s 50th birthday. I would not hesitate to recommend this card to anyone else.”

89%

Vanquis Bank customer satisfaction

Everybody deserves to celebrate

Strategic report

Divisional review

Vanquis Bank

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

£204.5m
Adjusted profit before tax

1,516
Employees

£1.4bn
Year-end receivables

1.5m
Customers

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

Chris Sweeney
Managing Director
Vanquis Bank

Overview

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

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

Competitors continue to be active in both the direct mail and internet distribution channels. However, the business continues to generate strong demand from developing the underserved, non-standard UK credit card market. Nonetheless, during 2016 the business has developed a number of actions to expand distribution and the credit card proposition, including the Chrome branded card which extends the business into the nearer prime segment of the non-standard market.

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

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

How our model applies to **Vanquis Bank** and creates value

Read more about the group business model on pages 10 to 11

1 Secure longer-term, lower rate funding

- Stand-alone retail deposits funding.
- Intercompany loan also provided by PFG.

2 Develop tailored products to meet customers' needs

- Simple credit card offering with no teaser rates or rewards programmes.
- Provides utility for modern day life, such as shopping on the internet.
- Allows customers with thin or impaired credit records to rebuild their credit score.
- High levels of customer satisfaction.

3 Attract target customers

Typical customer:
- Full-time employed.
- Average income of between £20,000 and £35,000.
- Limited indebtedness.
- Lives in rented accommodation.
- Average age of between 35 and 45 years old.

Channels to market:
- Multiple brands – Vanquis Bank, Aquis, Black Diamond, Granite, Neo, Original, Origin, Chrome.
- Strong track record of developing channels to market.
- Customers recruited through the internet, direct mail, face-to-face and partnership arrangements.

4 Assess affordability and credit worthiness

- Bespoke underwriting systems.
- Use of external bureau data.
- Welcome call with new customers.
- 14 years of experience of lending to non-standard credit card customers.

5 Lend responsibly

- Initial credit line of between £250 and £500.
- 'Low and grow' approach to extending credit.
- Maximum credit line of £4,000.
- Average life of a card account of around four years.
- Representative APR of 39.9%.

6 Collect repayments due

- Best in class collections centre in Chatham.
- Experienced contact centre staff with compliant remuneration arrangements.
- Leading edge technology and dialler strategies.
- E-Vanquis for electronic payments.

7 Manage arrears and customer difficulties

- Immediate contact when payments are missed.
- Multiple forbearance methods for customers in difficulty.
- Optional ROP product freezes account for up to two years when customers get into difficulty.

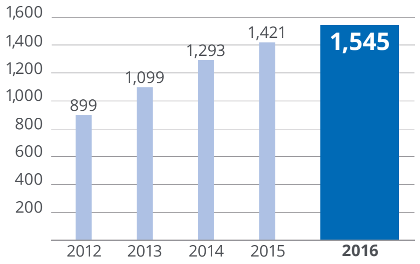
8 Pay for funds and generate surplus capital to deploy

- High ROA business.
- Strong capital generation funds growth and allows surplus capital to be paid in dividends to PFG.

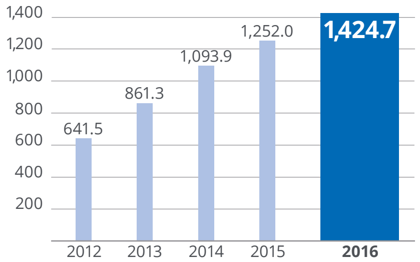
Strategic report

Divisional review – Vanquis Bank (continued)

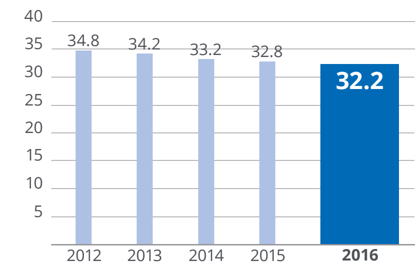
Customers ('000)



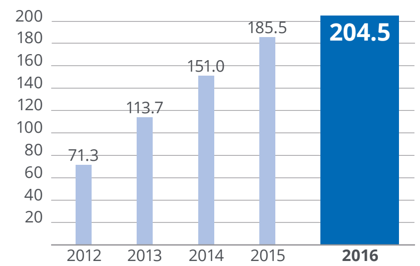
Receivables (£m)



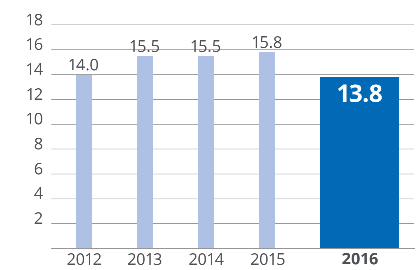
Risk-adjusted margin (%)



Profit before tax (£m)



Return on assets (%)



Financial performance

	Year ended 31 December		
	2016 £m	2015 £m	Change %
Profit/(loss) before tax:			
– UK	**204.5**	185.5	10.2
– Poland	**–**	(1.8)	100.0
Total Vanquis Bank	**204.5**	183.7	11.3

	Year ended 31 December		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**1,545**	1,421	8.7
Year-end receivables	**1,424.7**	1,252.0	13.8
Average receivables	**1,307.0**	1,157.1	13.0
Revenue	**583.7**	538.6	8.4
Impairment	**(162.4)**	(158.9)	(2.2)
Revenue less impairment	**421.3**	379.7	11.0
Risk-adjusted margin[1]	**32.2%**	32.8%	
Costs	**(174.4)**	(151.1)	(15.4)
Interest	**(42.4)**	(43.1)	1.6
Adjusted profit before tax[2]	**204.5**	185.5	10.2
Return on assets[3]	**13.8%**	15.8%	

1 Revenue less impairment as a percentage of average receivables.
2 Adjusted profit before tax is stated before an exceptional gain of £20.2m in respect of Vanquis Bank's interest in Visa Europe following completion of Visa Inc's acquisition of Visa Europe of 21 June 2016 (2015: £nil).
3 Adjusted profit before interest after tax as a percentage of average receivables.

Vanquis Bank has delivered a good performance in 2016, reporting UK profits 10.2% higher than 2015. The business has delivered a return on assets of 13.8% in 2016, lower than 15.8% in 2015 primarily due to the impact of the 8% bank corporation tax surcharge which became effective from 1 January 2016 together with the expected modest reduction in risk-adjusted margin.

Whilst the marketing activity of competitors in both the direct mail and internet channels has continued, demand for non-standard credit cards continues to be strong. Against unchanged credit standards and a stable acceptance rate of around 25%, the business has delivered new account bookings of 406,000 (2015: 433,000), 27,000 lower than 2015. The year-on-year reduction can be attributed to a reduction of 43,000 in bookings through the face-to-face channel. Sales have been curtailed as a response to the lower quality and weak account activation levels experienced in 2015, whilst the proposition and customer acquisition processes are re-engineered.

As reported at the interim results, new account bookings in the first half of the year were 32,000 lower than the first half of 2015 due to the spend on Vanquis Bank's 2016 direct mail programme being weighted towards the second half of the year and the significant reduction in bookings in the face-to-face channel. Bookings in the second half of the year showed year-on-year growth of 5,000 benefiting from the greater weighting of marketing spend to the second half together with a number of actions to expand distribution and the credit card proposition which have been put in place since the new Managing Director, Chris Sweeney, joined the business at the start of the year. These actions include the launch of the Chrome nearer prime credit card, a new 'Express Check' service which allows customers to check their likelihood of acceptance without affecting their credit score, new affiliate arrangements, SMS and email campaigns and a reinvigorated member-get-member offer.

The improved new account booking momentum during the second half of 2016, together with a pipeline of initiatives to augment the medium-term growth of the business, are expected to lead to a step-up in full-year booking volumes in 2017. This would produce the related increase in year one investment associated with all new vintages resulting from the cost of acquiring new customers, early impairments and the progressive revenue from the 'low and grow' approach to issuing credit.

Customer numbers ended the year at 1,545,000 (2015: 1,421,000), up 8.7% on 2015. The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 13.0% increase in average receivables. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of nearly 70% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

The risk-adjusted margin in 2016 was 32.2%, compared with 32.8% in 2015. The reduction in the risk-adjusted margin over the last 12 months primarily reflects a 1.0% decline in the revenue yield from the fall in interchange income following the agreement between Visa and the EU which took full effect from December 2015 together with the further reduction in penetration of the ROP product within the customer base. These are partly offset by a 0.4% benefit from improved delinquency during the first nine months of the year.

Although the UK employment market has continued to improve, Vanquis Bank will continue to apply the tight credit standards which have been in place since the economic downturn between 2008 and 2010, a period when the business successfully delivered its minimum targeted returns. The rate of delinquency progressively reduced to record lows through the first nine months of the year and then remained stable through the fourth quarter. This produced a 1.3% reduction in the rate of impairment compared with 2015. Over the same period, the improving quality of the receivables book has seen the revenue yield from interest and late and over limit fees reduce by around 0.9%. Taken together, these explain the net benefit of 0.4% to the risk-adjusted margin from improved delinquency over the last year.

Based on the stable delinquency trends experienced during the fourth quarter, together with the expected growth of Vanquis Bank's presence in the nearer prime segment of the market and the ongoing changes made to the ROP product, the risk-adjusted margin is expected to moderate towards 30% during 2017.

Costs increased by 15.4%, above the 13.0% growth in average receivables. The cost base in 2016 includes expenditure of approximately £6m during the second half of the year to support the programme of initiatives which will augment the medium-term growth of the business. This rate of expenditure will continue into 2017.

Interest costs reduced by 1.6% during 2016. This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 5.3% in 2015 to 4.6% in 2016 due to a lower blended interest rate on retail deposits and a lower group funding rate on the intercompany loan from PFG.

Business development

Vanquis Bank continues to develop a number of new initiatives to augment the medium-term growth of the business.

During 2016, the business has successfully developed a loans platform and has recently launched a wider loans proposition which is initially focused on providing unsecured loans to existing credit card customers. The loans offered are currently between £1,000 and £2,000 over 12 to 24 months and are priced at a similar or lower rate than the credit card offering. A measured approach to developing the loans proposition will be taken, observing the results from the loans provided to existing credit card customers and refining underwriting and the loans proposition as appropriate. The business then intends to develop an open market proposition and a fresh guarantor loans product during 2017.

Expanding the capability to provide non-standard consumer finance through partnering with other lending institutions, brokers or providers of retail finance represents an attractive opportunity to expand the distribution of Vanquis Bank's credit card proposition. During 2016, a new relationship has been established with Pay4Later who provide the IT platform that acts as the interface between a number of retailers and a panel of lenders. Vanquis Bank is Pay4Later's designated provider of revolving credit and a number of retailer relationships are expected to be established with Vanquis Bank during 2017. Discussions are also progressing with a number of other retailers, brokers and lending institutions.

Vanquis Bank also continues to progress a number of other opportunities including:

1. improving the digital capability of the business, particularly the forthcoming launch of an enhanced mobile app allowing greater functionality and the ability to present other potential offers to customers;
2. the development of a number of customer value management programmes, comprising reactivation and retention programmes and the development of a group wide customer prospects database;
3. purchasing tranches of non-performing debt and applying Vanquis Bank's collections expertise, customer contact data and debt rehabilitation skills in order to generate a strong return on investment as well as generating the opportunity to provide rehabilitated customers with a credit card; and
4. cross-selling third-party home contents, electronic device, car and travel insurance to customers.

Further detail on Vanquis Bank's initiatives to augment the medium-term growth of the business, together with its business plan for developing a loans proposition, will provided at the Capital Markets Day on 4 April 2017.

Home credit

Provident

A family Christmas is everything to Sadie and her sons

"I've been with Provident for years and I normally take a loan out once a year, for Christmas. I'm a full-time carer for my youngest son who has autism and speech difficulties. With the loan I can get some pressies for the boys and family, and food shopping. Christmas is so expensive and without the loan I would've had to have gone without and waited for the sales and I want my boys to be able to celebrate and have fun too.

My agent is a lovely lady and very friendly. If anyone I know needed a loan I would always say Provident first. I've never had cause for complaint, and they provide a nice friendly service and the payments are affordable."

A satisfying feeling

Strategic report

Divisional review

Consumer Credit Division

The Consumer Credit Division is the group's longest running business, stretching back to the company's foundation in 1880. Provident home credit has stood the test of time, serving customers through thick and thin, including two world wars and numerous economic cycles. Satsuma has been established more recently and provides a unique customer proposition for those customers who wish to transact online.

£115.2m
Adjusted profit before tax

1,925
Employees

£585m
Year-end receivables

862,000
Customers

"2017 will see further enhancements to the business model to ensure the businesses can manage every aspect of the customer relationship in order to meet customers' needs in an ever changing world."

Mark Stevens
Managing Director
Consumer Credit Division

Overview

Home credit

The Provident home credit business continues to fill an important need for consumers in the non-standard market, providing access to credit for those who might otherwise be financially excluded. Consumers on low incomes and tight budgets require affordable credit in order to manage the peaks and troughs in their household budgets or one-off items of expenditure which may arise. They value the simple, flexible and transparent nature of the home credit product with its fixed repayments and no additional fees or charges, even if payments are missed. Customers value these features as well as the face-to-face relationship. This is evidenced by consistently high levels of customer satisfaction running in excess of 90%. The regular contact with customers and thorough affordability checking further reinforces Provident's responsible lending approach.

Home credit customers' employment tends to be biased towards more casual, temporary and part-time employment. Demand from home credit customers has continued to improve during 2016 and customer confidence has been robust. Household incomes and the cost of living have both shown a modest improvement.

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

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

Since 2013, the home credit business has been successfully repositioned as a smaller, better quality business, supported by the deployment of technology. Subject to workforce consultation, 2017 will see further enhancements to the business model to ensure the business can manage every aspect of the customer relationship in order to meet customers' needs in an ever changing world.

How our model applies to **Provident** and creates value

Read more about the group business model on pages 10 to 11

1 Secure longer-term, lower rate funding

- Intercompany loan provided by PFG.
- Guarantor to group facilities.

2 Develop tailored products to meet customers' needs

- Simple cash loans delivered by a self-employed agent in the home.
- Enables the customer to manage the household budget.
- Affordable weekly payments.
- All-in fixed charge – no late fees or additional interest.
- 135 years of serving non-standard customers.
- High levels of customer satisfaction.

3 Attract target customers

Typical customer:

- Part-time/casual employment.
- Low incomes – £10,000 to £15,000 per annum.
- Limited indebtedness.
- Typically live in rented accommodation or social housing.
- Often female, middle-aged.

Channels to market:

- Multi channel recommendation, direct mail, internet or through self-employed agents.
- Strong brand with loyal customer base.
- Builds on existing customer relationships.

4 Assess affordability and credit worthiness

- 135 years of experience of lending home credit to non-standard customers.
- Central underwriting generates a 'no' or 'maybe' decision.
- Affordability and lending decision made in the home by a self-employed agent.
- Agents are typically female, have an average of seven years' experience, and live in the communities they serve.

5 Lend responsibly

- Small-sum credit with initial loan of £150.
- Low and grow approach to extending credit.
- Agents only paid commission on what they collect therefore no incentive to over-lend.
- Representative APR of 535.3%.

6 Collect repayments due

- Collections typically made weekly by the agent in cash from the customer's home.

7 Manage arrears and customer difficulties

- Weekly face-to-face visit from the agent allows discussion of the customer's situation.
- Agents can agree reduced payments or a temporary payment holiday.
- No additional fees or interest for late payment.

8 Pay for funds and generate surplus capital to deploy

- High ROA business.
- Strong capital generation funds growth and allows surplus capital to be paid in dividends to PFG.

Note – The above business model does not take account of the proposals to migrate the home credit business to an proposed operating model in 2017 (see page 39).

Strategic report

Divisional review – Consumer Credit Division (continued)

> "Tighter regulation has meant that a number of smaller payday loan companies have already exited the market and larger operators have revised their business models and significantly curtailed their payday lending activities."

Mark Stevens
Managing Director
Consumer Credit Division

Satsuma

Satsuma addresses underserved consumers of adequate credit quality whose preference is to access small-sum credit online and make repayments direct from their bank account without the need for a face-to-face relationship. It is relevant to the significant audience of underserved consumers between Vanquis Bank and the Provident home credit business. In order to maintain the group's responsible approach to lending, the Satsuma product retains many of the features of the home credit product. There are no extra charges with fixed payments based on a predetermined schedule. Customers can have regular contact with a customer account manager and there are a number of forbearance measures in place for those customers who get into financial difficulty. In addition, Satsuma is utilising the highly effective distribution, underwriting and collections capabilities of both CCD and Vanquis Bank.

Customer demand in the online small-sum, short-term unsecured loans market, in which payday lending was previously the most significant participant, continues to be strong. However, as a result of clearer, tighter regulation around payday lending implemented from 1 July 2014, including the introduction of a rate cap from 2 January 2015, there has been a significant shift in supply from payday loans to more affordable and responsible instalment lending products.

Tighter regulation has meant that a number of smaller payday loan companies have already exited the market and larger operators have revised their business models and significantly curtailed their payday lending activities. This has resulted in the online small-sum, short-term credit market, which typically represents lending of up to one year in duration, becoming more crowded with the main participants investing heavily to attract new customers and struggling to make positive returns. There is now evidence that the industry consolidation expected in 2015 is beginning to materialise due to competitive pressures, more exacting FCA regulation and the funding constraints of a number of competitors.

Since its inception in 2013, Satsuma has focused solely on small-sum, short-term credit, primarily through weekly repaid products of between 13 and 52 weeks, consistent with the group's 'low and grow' approach to lending. However, the business continues to invest in developing its product proposition, distribution channels and IT platform to support further lending to good-quality existing customers and has also launched a monthly instalment product in late 2016 as part of its journey to establish a leading position in the online loans market.

How our model applies to Satsuma and creates value

Read more about the group business model on pages 10 to 11

1 Secure longer-term, lower rate funding

- Intercompany loan provided by PFG.
- Guarantor to group bank facilities.

2 Develop tailored products to meet customers' needs

- Simple short-term loans delivered remotely.
- Allows customers fast access to finance.
- Manageable weekly or monthly payments.
- No additional, hidden fees.
- Suited to customers who prefer to transact online, without the need of a face-to-face relationship.
- High levels of customer satisfaction.

3 Attract target customers

Typical customer:

- Full or part-time employments.
- Low to average incomes of between £10,000 and £15,000.
- Limited indebtedness.
- Mainly lives in rented accommodation.
- Typical average age of between 25 and 35 years old.

Channels to market:

- High levels of brand awareness.
- Focus currently on digital and social media.
- Developing B2B relationships.
- Building on existing customer relationships.

4 Assess affordability and credit worthiness

- Use of external credit bureau data.
- Bespoke credit scoring using a range of data sources.
- Perform validated affordability assessments using payslips and external data.

5 Lend responsibly

- Low and grow approach to extending credit.
- Loans of between £200 and £1,000 repayable between 3 and 12 months.
- Typical initial loan of £300.
- Alternative to payday lending with no additional interest or late fees and manageable weekly or monthly repayments rather than 'bullet' repayment.
- Representative APR of 991%.

6 Collect repayments due

- Continuous Payment Authority (CPA) from the customer's bank account.
- Compliant CPA policy with customer contacted after one failed attempt.
- Experienced UK-based contact centre team.
- Dedicated self-serve area on website being developed to allow electronic payments.

7 Manage arrears and customer difficulties

- Immediate contact made when payments are missed.
- Multiple forbearance methods available with no additional fees or charges.

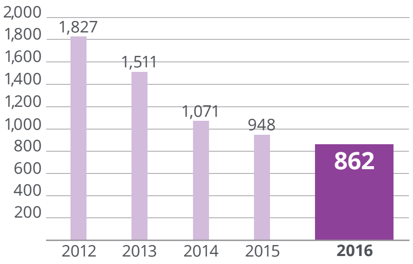
8 Pay for funds and generate surplus capital to deploy

- Progress to date confirms the ability to meet the group's target returns.

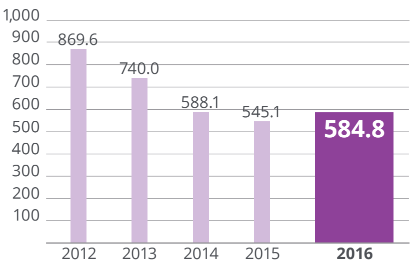
Strategic report

Divisional review – Consumer Credit Division (continued)

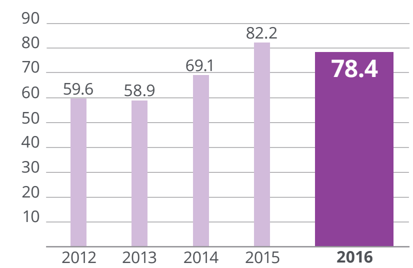
CCD customers ('000)



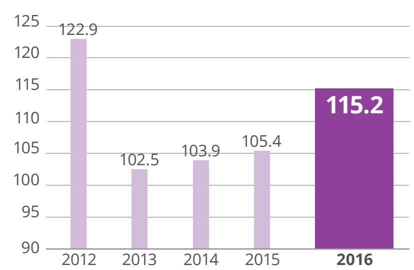
CCD receivables (£m)



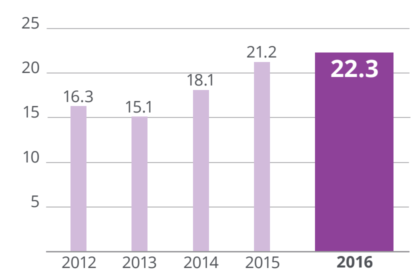
CCD risk-adjusted margin (%)



CCD profit before tax (£m)



CCD return on assets (%)



CCD financial performance

	Year ended 31 December		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**862**	948	(9.1)
Year-end receivables	**584.8**	545.1	7.3
Average receivables	**508.7**	499.5	1.8
Revenue	**518.8**	517.4	0.3
Impairment	**(120.0)**	(106.6)	(12.6)
Revenue less impairment	**398.8**	410.8	(2.9)
Risk-adjusted margin[1]	**78.4%**	82.2%	
Costs	**(257.0)**	(278.3)	7.7
Interest	**(26.6)**	(27.1)	1.8
Adjusted profit before tax[2]	**115.2**	105.4	9.3
Return on assets[3]	**22.3%**	21.2%	

1 Revenue less impairment as a percentage of average receivables.
2 Adjusted profit before tax is stated before an exceptional impairment charge of £2.9m in respect of glo IT platform within CCD following the decision to develop guarantor loans as part of the wider Vanquis Bank loans proposition on a separate IT platform (2015: an exceptional cost of £11.8m in respect of business restructuring).
3 Adjusted profit before interest after tax as a percentage of average receivables.

CCD has made further good progress in executing on its strategic plan to develop a broader based lending business. The repositioned Provident home credit business is delivering strong returns and has supported the continued investment in developing the Satsuma online loans proposition. Profits in 2016 have increased by 9.3% or £9.8m, reflecting a reduction in the start-up losses of Satsuma of approximately £12m. The strategic development of CCD continues to drive improved returns with the return on assets increasing to 22.3% in 2016, up from 21.2% in 2015.

Customer numbers in CCD have remained stable during the second half of 2016 and the majority of the year on year reduction of 9.1% to 862,000 (2015: 948,000) took place in the first half of the year. The reduction on 2015 reflects the tighter credit standards introduced as part of the repositioning of the business in September 2013 which have continued to curtail the recruitment of more marginal customers and improve overall credit quality.

Demand and customer confidence have remained robust and when combined with the focus on serving good-quality existing customers has resulted in a 9% year-on-year improvement in sales during 2016. As a result, CCD receivables ended the year 7.3% higher than December 2015.

The revenue yield in 2016 of 102.0% has reduced modestly from 103.6% in 2015. The reduction reflects the continued focus on serving good quality customers who tend to be served with longer term, lower yielding products.

The benefit of standardised arrears and collections processes coupled with continued tight credit standards have resulted in a stable collections performance and arrears profile in 2016. This compares with the strong improvements in both these metrics during 2015 which benefited the impairment charge last year. As a result, the ratio of impairment to average receivables has increased from 21.4% in 2015 to 23.6% in 2016.

The modest reduction in revenue yield together with the stable delinquency performance compared with the strong improvements seen in 2015 has produced a risk-adjusted margin for CCD of 78.4% in 2016, lower than 82.2% in 2015.

Business performance continues to benefit from the successful completion during 2015 of the programme to deploy technology throughout the field operation to support an improvement in productivity and enhance compliance. Costs in 2016 were £21.3m or 7.7% lower than 2015, with around one third of the reduction resulting from the annualised savings of approximately £14m secured in June 2015 within the field infrastructure. The remaining reduction reflects a reduction in agents' commission costs together with lower costs in Satsuma as a result of much more cost effective marketing.

Interest costs were 1.8% lower than last year compared with a 1.8% increase in average receivables. This reflects a marginal reduction in the funding rate for the business from 6.8% in 2015 to 6.6% in 2016 due to a reduction in group borrowing costs.

CCD business development

Home credit

The repositioning of the home credit business as a smaller, better quality business has been successful in maintaining the profitability of the business and increasing returns in a mature market. In particular, the business has successfully deployed hand held technology to the field force, reduced the number of self-employed agents from over 10,000 to 4,500, reduced the field headcount by over 1,000, including the removal of all field administration, and developed sophisticated central underwriting and data analytics.

The self-employed model for agents has been an effective operating model for the home credit business for a long period of time. However, continually increasing customer service expectations together with the development of hand held technology and enhanced data analytics have led to the conclusion that further developments to the current operating model would deliver a more efficient and effective business. As a result, the business has developed a proposal, which is subject to workforce consultation, to enhance the home credit operating model in three ways: (i) serving customers through full time employed Customer Experience Managers rather than self-employed agents to take direct control of all aspects of the relationship with the customer; (ii) changing the field management structure in the UK, with newly defined roles and ways of working; and (iii) deploying further technology to improve efficiency and effectiveness.

The business is proposing the creation of a number of new roles including over 2,500 full time employed Customer Experience Manager roles which would be tasked with serving customers in a way which is controlled and directed by the business. This means customers would no longer be served by self-employed agents. The proposal will enable the business to manage every aspect of the customer relationship thereby improving the effectiveness of the field organisation and enhancing the customer experience. In addition, the proposed deployment of further technology in 2017 includes route planning and voice recording which provides the business with the opportunity to improve efficiency and provide customers with more choice and flexibility.

Subject to workforce consultation, the business also proposes to change the field management structure in the UK, removing the current Area and Development Manager roles and replacing them with new field roles with different responsibilities which includes separating the collections and arrears elements of the business to maximise efficiency.

A migration to the enhanced operating model, which features more centralised control over a distributed workforce and greater evidencing of customers interactions, would also enhance regulatory standards. The enhanced operating model is proposed to be fully operational from July 2017.

The 2017 Capital Markets Day on 4 April 2017 will provide more detail on how the enhanced operating model would work, including more detail on the potential financial benefit. The proposed next stage in home credit's development is a logical extension of the excellent progress made by CCD in repositioning the business since 2013.

Satsuma

Good progress has been made during 2016 in developing the distribution, digital platform and further lending capability in Satsuma in order to develop a sustainable business both in the competitive online small-sum, short-term credit market and into lending larger amounts of over £1,000 and beyond a year in duration.

Satsuma remains the third most recognised brand within online small-sum, short-term credit and the business has continued to develop its multi-channel distribution capability, focusing on recruiting new customers through more cost effective channels such as digital, social media and the broker channels rather than through the more expensive above the line advertising used in 2015. This has contributed to the £12m reduction in start-up losses associated with Satsuma during 2016 as the business approaches break even.

Satsuma's trading performance in 2016 also reflects the significant tightening of credit standards implemented in the fourth quarter of 2015 and developed further in 2016 as well as the current narrow focus on small-sum, short term, weekly repaid credit of less than a year in duration. Whilst growth during the first nine months of the year was relatively modest, the business has been developing a number of improvements to the customer journey and its product proposition which has supported a 25% year-on-year increase in new business volumes and further lending to established customers during the fourth quarter.

Further lending capability has been boosted by the successful introduction of customer login functionality which allows existing customers to view their account, make electronic payments and apply for further credit in an efficient manner. Further enhancements for 2017 include allowing customers to monitor their credit status and arrears management functionality. The business is now generating a strong flow of further lending to established, good-quality customers which is fundamental to developing strong returns from the business.

Over three quarters of customer applications are made from hand held devices. Consequently, a mobile app is currently in beta testing with a small proportion of the customer base. The app will replicate the majority of the features within customer login and is expected to further improve the customer experience when it is fully rolled out in the first half of 2017.

Consistent with the group's 'low and grow' approach to lending, the business launched a monthly product in late November to meet the needs of the larger population of customers who are paid monthly and prefer to manage their finances on a monthly basis. This new product has been well received. In due course, Satsuma intends to further develop its lending to larger amounts of over £1,000 and beyond a year in duration which remains an underserved area within the non-standard market.

The credit quality of 2016 cohorts of lending are performing in line with expectations and continue to benefit from the highly effective and scalable collections capability of Vanquis Bank's contact centre in Chatham.

The current development trajectory of Satsuma is encouraging and customer numbers and receivables ended 2016 at 55,000 (2015: 49,000) and £18.2m (2015: £12.1m) respectively.

glo

A decision was made to close CCD's guarantor loans business, glo, to new business in early October 2016. This decision reflected the longer than envisaged timescale in CCD obtaining FCA authorisation which had delayed the transfer of glo to Vanquis Bank together with Vanquis Bank being at an advanced stage of developing its own loans platform to provide a wider unsecured loans proposition. As a result, the glo receivables book has been placed into run-off within CCD and an exceptional impairment charge of £2.9m in respect of glo's IT platform has been reflected in 2016. Vanquis Bank will incorporate the learnings from glo when it introduces a fresh guarantor loans product as part of its wider loans proposition during 2017.

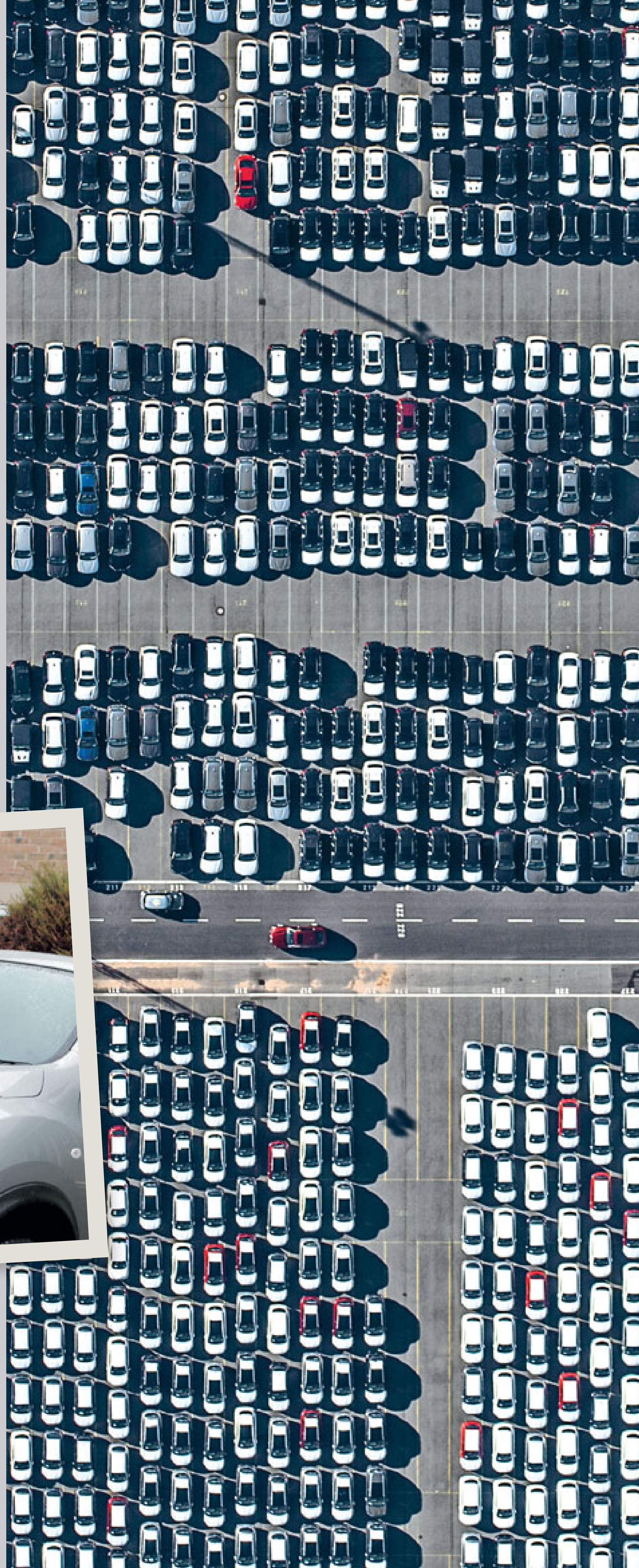
As at 31 December 2016, the run-off of glo had 5,000 customers (2015: 4,000) and a receivables book of £6.6m (2015: £10.8m). The costs of run-off in 2017 are not expected to be material.

Non-standard vehicle finance

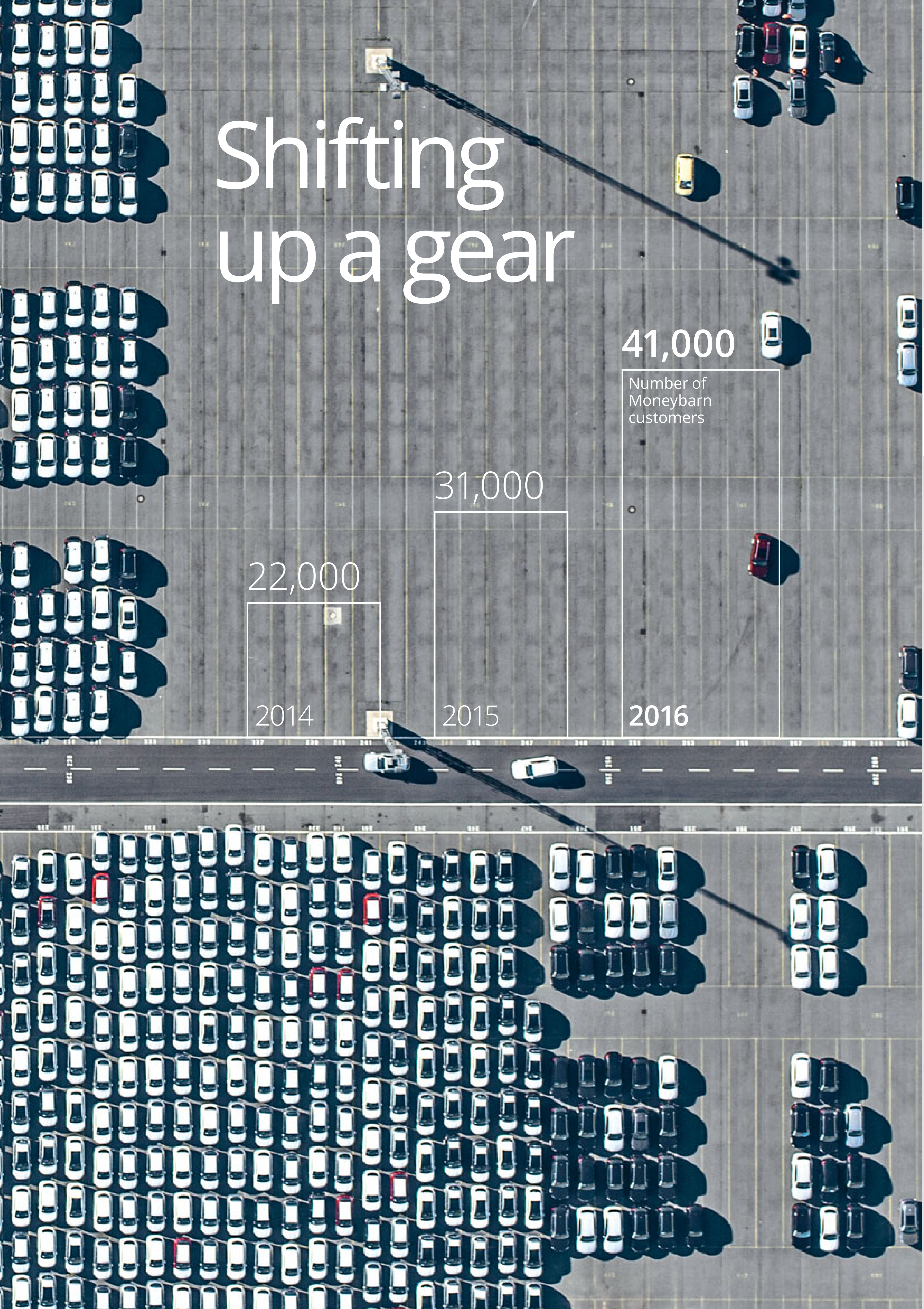
moneybarn
credit you can trust

Taking the pain out of Bob's travelling

"I had been using my old car to travel to visit my family for a long time before I started to suffer with back problems. I realised I needed to get a newer car but could not afford to buy the car outright. Whilst visiting a car supermarket, I arranged finance for my car through Moneybarn. The broker managed to help me with the process which made it quick and easy. I found the repayments manageable and soon noticed an improvement in my health from driving my newer car. I would recommend Moneybarn to my friends."



Shifting up a gear



Strategic report

Divisional review

Moneybarn

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

£31.1m
Adjusted profit before tax

195
Employees

£297.3m
Year-end receivables

41,000
Customers

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

Peter Minter
Managing Director
Moneybarn

Overview

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

The business shares many of the characteristics of the group's other businesses with a strong focus on delivering favourable customer outcomes. Responsible lending is reinforced through robust affordability checks, and straightforward products which do not involve the sale of ancillary products such as PPI or GAP insurance, or hidden fees or charges. Moneybarn has well-developed forbearance measures for those customers who get into financial difficulty.

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

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

Board changes

From 1 January 2017, Peter Minter, Moneybarn's managing director for the last 14 years has moved to the role of non-executive chairman. Peter has driven the growth of the company from a niche finance provider to the UK's leading non-prime motor finance company.

Shamus Hodgson will move from his current role as Commercial Director to the position of Managing Director. Shamus has been with Moneybarn since 2008 and his experience of the business and the wider industry mean that he is the ideal candidate to drive Moneybarn through its next phase of development.

Financial performance

Moneybarn has performed well during 2016, delivering an increase in adjusted profits of 46.0%. Strong growth in the receivables book and robust margins have enabled the business to invest in the necessary headcount and its platform to support growth whilst delivering a return on assets of 13.1% in 2016, marginally higher than 12.9% in 2015.

New business volumes during 2016 have remained strong. Continued development of its best in class customer platform together with the extension of the product, including lending up to retail value and the reduction in the minimum lend from £5,000 to £4,000, has reinforced primacy amongst its broker network. As a result, new business volumes were 28.0% higher than last year and customer numbers ended the year at 41,000 (2015: 31,000), up 32.3% on 2015. The growth rate reduced during the seasonally quieter fourth quarter due to a moderation in demand for second hand cars in the non-standard market and a strong comparative trading period which included the full benefit of the changes made to the product

How our model applies to **Moneybarn** and creates value

Read more about the group business model on pages 10 to 11

1 Secure longer-term, lower rate funding

- Intercompany loan provided by PFG.
- Guarantor to group bank facilities.

2 Develop tailored products to meet customers' needs

- A remotely underwritten conditional sales agreement to buy a second-hand car or van.
- Allows customer to get to work (not a discretionary purchase).
- Security of vehicle provides access to lower cost funding than would otherwise be available.
- Manageable monthly payments.
- High levels of customer satisfaction.

3 Attract target customers

Typical customer:

- Full-time employed;
- Average incomes of between £20,000 and £30,000.
- Limited indebtedness.
- Typically lives in own/rented accommodation.
- Average age of between 35 and 45 years old.

Channels to market:

- Primarily B2B through strong broker and dealer relationships.
- Developing B2C proposition through refreshed website.
- Cross selling to Vanquis Bank customers through digital channels.

4 Assess affordability and credit worthiness

- Bespoke credit scoring using a range of data sources.
- Use of external credit bureau data.
- Perform vehicle valuation check using Glass's guide.
- Leading IT provides an underwriting decision in four seconds.

5 Lend responsibly

- Loans range from £4,000–£25,000. Average loan of c.£8,000.
- Average term of between four and five years.
- Representative APR of 33.0%

6 Collect repayments due

- Repayment taken through a monthly direct debit payment from the customer's bank account.
- Experienced UK-based contact centre team.

7 Manage arrears and customer difficulties

- Immediate contact made when payments are missed.
- Multiple forbearance methods available.
- Car re-possessed when it is in the best interests of the customer and Moneybarn to realise its value.

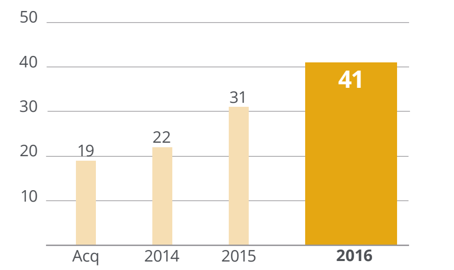
8 Pay for funds and generate surplus capital to deploy

- High ROA business.
- Despite strong growth, the business is already generating sufficient capital to fund its own rapid growth.

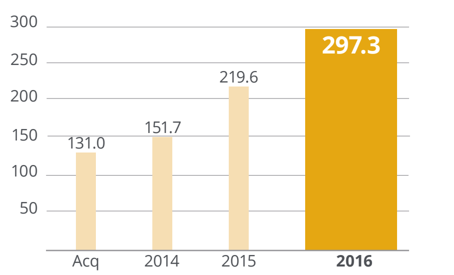
Strategic report

Divisional review – Moneybarn (continued)

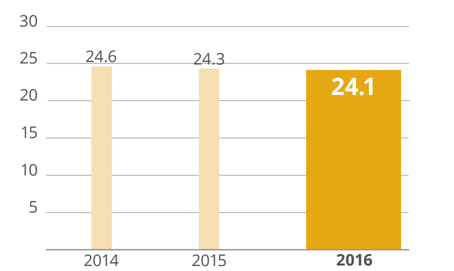
Customers ('000)



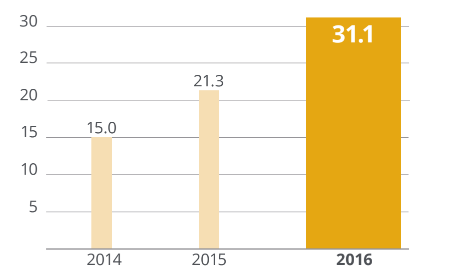
Receivables (£m)



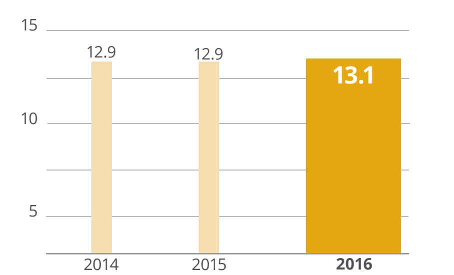
Risk-adjusted margin (%)



Profit before tax (£m)



Return on assets (%)



	Year ended 31 December		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**41**	31	32.3
Year-end receivables	**297.3**	219.6	35.4
Average receivables	**266.6**	190.8	39.7
Revenue	**80.7**	55.3	45.9
Impairment	**(16.4)**	(8.9)	(84.3)
Revenue less impairment	**64.3**	46.4	38.6
Risk-adjusted margin[1]	**24.1%**	24.3%	
Costs	**(20.5)**	(15.6)	(31.4)
Interest	**(12.7)**	(9.5)	(33.7)
Adjusted profit before tax[2]	**31.1**	21.3	46.0
Return on assets[3]	**13.1%**	12.9%	

1 Revenue less impairment as a percentage of average receivables.
2 Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2015: £7.5m).
3 Adjusted profit before interest after tax as a percentage of average receivables.

proposition following acquisition. However, demand has recovered in early 2017 and volumes have been strong.

The strong growth in new business volumes has resulted in receivables growth of 35.4% to £297.3m at December 2016 (2015: £219.6m). Average new loan sizes during 2016 were around £8,200, lower than £8,900 in 2015, reflecting a modest shift in the mix in business towards marginally lower value vehicles which carry a higher yield.

Default rates have increased during 2016 consistent with the mix of business being written. Moneybarn's risk-based pricing models have proved effective in maintaining its risk-adjusted margin at 24.1% in 2016, compared with 24.3% in 2015.

The business has continued to invest in the resources necessary to support future growth as well as meet the more exacting regulatory standards set by the FCA. Accordingly, headcount has increased from 151 at the end of 2015 to 195 at the end of 2016. This has resulted in cost growth of 31.4%, lower than the growth in average receivables as the business has benefited from some operational leverage. This produced a return on assets of 13.1%, up from 12.9% in 2015.

Interest costs have shown growth of 33.7% in 2016 compared with average receivables growth of 39.7%. The group's funding rate for Moneybarn has remained unchanged and, therefore, the lower rate of growth in interest costs reflects the retention of profits since acquisition as the capital base is built towards the group's target gearing ratio of 3.5 times.

Business development

Moneybarn continues to explore other opportunities to develop and extend its product offering. During 2016, Moneybarn has continued to develop its used light commercial vehicles proposition through its existing broker network. The results remain encouraging with volumes expected to increase during 2017. Further opportunities to develop and extend the product offering are under active consideration.

The business has also made good progress in developing its digital proposition. A new broker management system was launched in early 2016 which provides improved links between Moneybarn's and brokers' systems as well as significantly enhancing functionality for brokers. Moneybarn is the first non-standard car finance provider to launch eID and eSign which allows customers to be identified and to sign their credit agreements electronically thereby speeding up the application process and improving the customer journey. In addition, to support the development of Moneybarn's direct to consumer proposition, the business has also redeveloped its website to give it a more modern look and feel, improve the customer application journey and enable it to be fully compatible with mobile phones and tablets. The development of Vanquis Bank's digital platform will also further raise the awareness of Moneybarn's car finance proposition to Vanquis Bank customers.

Strategic report

Risk management and principal risks

The group 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.

Internal control

Monthly management accounts

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

Corporate policies

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

The board

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

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.

Treasury committee

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

Risk advisory committee

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

Internal audit

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

Finance forum

A quarterly finance forum, chaired by the 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.

Risk advisory group

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

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 2016, 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 2016, four complaints were received, which is seven lower than the previous period. All complaints made via the external helpline were thoroughly investigated and dealt with in accordance with the appropriate internal procedures.

Divisional boards

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

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

Strategic report

Risk management and principal risks (continued)

Viability statement

In accordance with the 2014 FRC Corporate Governance Code, the directors confirm that they have a reasonable expectation that the group will continue to operate and meet its liabilities, as they fall due, for the next three years. The directors' assessment has been made with reference to the group's current position and prospects outlined within the strategic report, the group's strategy (see pages 16 to 21), the board's risk appetite and the group's principal risks and how these are managed (see pages 47 to 50).

The group established its current strategy after the demerger of its international business in 2007. The strategy is built on a compelling investment proposition that focuses on delivering to shareholders a combination of strong returns, an attractive dividend and visible growth (see page 8).

The strategy and associated principal risks underpin the group's three-year plan and stress/scenario testing, which the directors review at least annually. The board sets the risk appetite of the group, which seeks to ensure the quality of customer outcomes, maintain sufficient capital and sustain the current dividend policy.

The three-year plan is built on a divisional basis using a bottom up model, as part of a five-year budget. The first three years of the budget plan command the greatest focus, with the later years produced robustly, but at a higher level. The group focuses on relatively short-term lending to consumers and operates a prudent and well-tested 'low and grow' business model (see pages 10 and 11) that has proven resilient to economic and business cycles in the longer term. The longest contractual loan term available in CCD is around two years, while the average time a Vanquis credit card customer remains with the business is only around four years. The first three years of the budget plan therefore forms the basis of this statement. The three-year plan makes certain assumptions about future economic conditions, new strategies, products, the acceptable performance of the group's divisions, the ability to refinance debt as it falls due and the development of the regulatory environment.

The plan is stress tested in a number of different robust downside scenarios as part of the board's review of the group's Internal Capital Adequacy Assessment Process (ICAAP). Stress testing covers significant financial, business, operational and regulatory downsides which are then aggregated into two combined severe downside scenarios encompassing financial and regulatory risks respectively. The financial stress test scenario uses the 2008/09 financial crisis as its basis, and, therefore, reflects a number of the principal risks of the business through reducing new funds raised, lowering the deployment of capital and increasing impairment. The regulatory stress test scenario is based on fundamental changes in the business model as a result of regulatory intervention to control prices or outlaw products.

As part of the ICAAP process, a reverse stress test exercise is also undertaken to identify the circumstances under which the business model becomes unviable. The exercise indicates that only under unprecedented macroeconomic conditions, combined with extreme regulatory intervention and constraints across the group's two main divisions, does group viability come into question. As part of the exercise, it is assumed that both businesses are subjected to controlled run-off, allowing the group to meet contractual maturities as they fall due with significant headroom, in the absence of dividend payments.

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

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

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

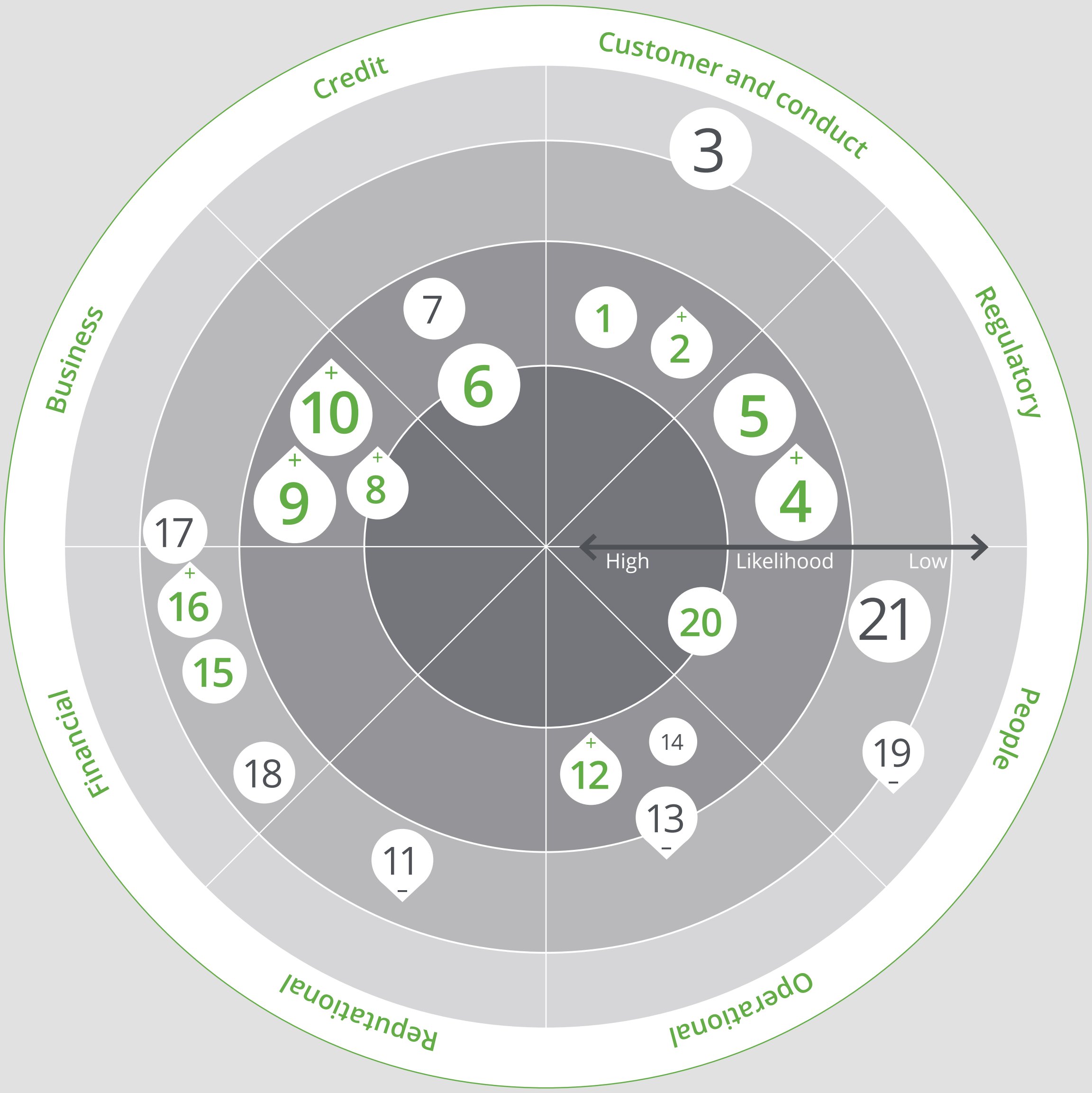
The directors also considered it appropriate to prepare the financial statements on the going concern basis, as set out on page 56.

Risk overview

The diagram opposite reflects the principal risks and uncertainties facing the group in 2016, based on robust quarterly assessment within the divisions and at group level. These 21 risks represent those that are the most pertinent to the business and the company's strategy, with those 12 most relevant and evolving risks discussed in more detail. The risks facing the group are considered within the current evolving regulatory and political environment, and with the group's strategic objectives to broaden the product offer and increasingly meet consumers' digital expectations in mind. As a result, competition, new initiatives, change management, information security, responsible lending, UK regulation and liquidity are all areas of increasing risk and focus, while conduct, credit, EU regulation, capital and recruitment and retention remain important and central to risk management efforts.

Brexit is not identified as a separate risk, nor is it deemed to be a principal risk in its own right. The group is UK focused, with a small home credit operation in the Republic of Ireland that does not rely on passporting rights or single market access arrangements. The group is not dependent on significant groups of foreign workers, foreign customers or imported goods or services that might be directly impacted by the UK leaving the EU. However, the group is exposed to potential indirect and secondary impacts of Brexit such as macroeconomic, market and regulatory uncertainty, which are reflected in risks such as credit, capital, liquidity and EU regulation for example. The group, in common with the rest of the UK, will continue to have to comply with and implement EU legislation in the run up to Brexit, and perhaps also thereafter depending on the outcome of negotiations.

Provident Financial Group net risk map



Principal and emerging risks

1 Conduct
2 Responsible lending
3 Agent/customer relationship
4 UK regulation
5 EU regulation
6 Credit
7 Home credit collections
8 Competition
9 New initiatives
10 Change management
11 Publicity and political
12 Information security
13 Supplier
14 IT change management
15 Capital
16 Liquidity
17 Pension
18 Tax
19 Remuneration
20 Recruitment and retention
21 Self-employment status

Selected risks discussed in more detail

Net impact

6 High
8 Medium
14 Low

+ Increase from 2015

– Decrease from 2015

Risks shown after any mitigating or controlling activities

Net likelihood

High/current principal risks

Low/emerging risks

Strategic report

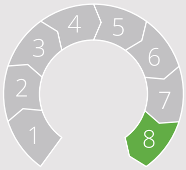
Risk management and principal risks (continued)

	Risk and its importance	Risk management, mitigation and control	Risk impact and response
	**1. Conduct:** **The risk of poor outcomes for customers in any of our divisions.** Good customer outcomes are a central requirement of the way we do business, and with any new offers or ways to interact with customers going forward.	All divisions have policies, practices and procedures in place to: > Minimise the risk of customers potentially receiving loans or lines of credit that are unaffordable or unsustainable; > Ensure that financial promotions are clear, fair and not misleading; and > Ensure effective complaints handling. Regular customer satisfaction surveys are undertaken in all businesses. All businesses have second line committees overseeing all risks, with conduct issues central to the agendas.	A failure in product, sales process or communications design, implementation and oversight might lead to the risk of poor outcomes for a significant number of customers. Poor outcomes could cause customer detriment in the form of financial loss, stress-related health issues and damaged credit histories. The group would respond by understanding and addressing the root causes in a timely way, ensuring they cannot reoccur, and providing appropriate redress to consumers.
	**2. Responsible lending:** **The risk that lending proves to be unaffordable or unsustainable and customers have not been treated fairly.** Responsible and sustainable lending decisions are important to any consumer credit business that wants to attract and retain customers and grow its business.	Divisional policies and procedures that encompass regulatory and industry rules, guidance and best practice. Testing of credit policy changes before roll-out mitigates the risk impact. Comprehensive and timely review of metrics and outcome measures. Ongoing customer satisfaction surveys. Oversight by divisional credit, risk and compliance committees. Internal audit review of compliance.	Failure to design, implement or oversee compliance with appropriate responsible lending practices could lead to unaffordable and unsustainable indebtedness for customers, increased arrears rates and ultimately customer default. These poor outcomes could cause customer detriment in the form of financial loss, stress-related health issues and damaged credit histories. They may also result in regulatory action. The group would seek to identify failures as quickly as possible, act to ensure they do not reoccur and provide appropriate redress to consumers in a timely way.
	**4 and 5. UK and EU Regulation:** **The risk of adverse regulatory change and/or failure to comply with relevant UK and EU regulatory requirements.** We operate within highly regulated consumer credit markets that currently allow us to meet non-standard customer needs in a viable way.	Divisional compliance functions are in place which monitor compliance and report to divisional boards. An experienced central in-house legal team is in place which monitors legislative changes and supports divisional compliance and legal functions. Expert third-party legal advice is taken where necessary. Ongoing constructive dialogue is maintained with regulators. Group Chief Executive Peter Crook and Moneybarn Managing Director Peter Minter are active members of the FCA Practitioner Panel and FCA Smaller Business Practitioner Panel respectively.	A change in UK or EU regulations with which we must comply to operate might undermine our ability to continue to meet customer needs in a viable compliant way. For example, product bans, uneconomic interest rate caps or onerous application assessment requirements. The ongoing supervisory framework is more exacting than was previously the case prior to the change in regulation from the OFT to the FCA. In particular, the FCA places a significant focus on affordability, income verification, forbearance and general customer outcomes with the potential for adverse impacts on the group being inherently uncertain. If all efforts to engage regulators, law makers and other stakeholders to influence requirements fails, the group would seek to develop alternative compliant products, target markets and procedures to continue to offer credit viably, while ensuring good outcomes for existing customers as far as possible.
	**6. Credit:** **The risk of suffering unexpected losses in the event of customer defaults.** Taking credit risk is central to any lending business. Our current and future ability to lend viably where others find it hard differentiates us.	All businesses have first line credit committees that set policy and regularly review credit performance. Comprehensive daily, weekly and monthly reporting on credit KPIs. All businesses have non-standard specific lending experience spanning economic cycles. Home credit loans are underwritten face-to-face in the customer's home and collections made weekly allowing the business to stay up to date with circumstances; application and behavioural scoring is used to assist the in-home underwriting. Vanquis Bank utilise a welcome call and 'low and grow' approach to granting credit appropriately as the customer demonstrates sustainability and affordability.	Failure to identify or predict behaviour of, or significant changes in the circumstances of certain types of customer, or all customers in response to increased unemployment or underemployment might lead to increased arrears rates and ultimately customer default and credit losses. The group would seek to understand the root causes of the unexpected losses and adapt credit policies and scorecards appropriately to avoid similar issues with subsequent lending decisions as quickly as possible. The group may also need to enhance monitoring, oversight and product development processes as a result.

	Risk and its importance	Risk management, mitigation and control	Risk impact and response
	**8. Competition:** **The risk that new or existing competitors impact business performance unexpectedly.** The ability to win and retain customers through better, more targeted offers enables us to maintain our leading position in the UK non-standard credit market.	Ongoing monitoring of all existing markets, consumers and competitors at group and divisional level feeding into the biannual budgeting and strategy review process. Forward-looking as well as current and historic analysis of our consumers, sectors and the UK non-standard credit market in general. Product development frameworks and business development processes in all divisions take explicit account of external environment and competitiveness.	Failures in forward-looking market and competitor analysis and forecasting might result in new or existing competitors offering lower prices, better products or identifying and reaching consumers more effectively than anticipated. This would reduce new customer recruitment, new lending and customer retention, undermining generation of expected returns. The group would rapidly seek to understand and address the sources of competitive disadvantage.
	**9. New initiatives:** **The risk that new businesses and new initiatives under development internally fail, or are delayed in achieving scale or expected returns.** Future growth, returns and competitiveness rely in part on internally developed new offers and capabilities, especially to expand the product range and engage customers in new ways.	Biannual budgeting process. Annual corporate planning conferences in all divisions and at group level where current and potential new initiatives are thoroughly discussed. Plans for new initiatives are reviewed and approved by divisional boards, and as part of the budgeting process by the group board. Comprehensive daily, weekly and monthly reporting on performance KPIs. New businesses and initiatives are subject to pilot testing phases before full implementation is approved.	Failures in conception, design, planning, implementation or oversight could lead to failure of internal initiatives to successfully deliver anticipated new offers, customers, capabilities or returns. If it is not possible to rectify the issues, the group may also suffer lost investment, may undermine confidence in future delivery and may suffer exit costs. The group would seek to identify issues as early as possible and where they cannot be resolved, close and wind-up the new initiative as quickly and cost effectively as possible, paying due attention to the outcomes for any customers involved.
	**10. Change management:** **The risk that operational and technology changes do not align or fail to meet strategy requirements leading to poor business and customer outcomes.** Ongoing improvement in existing businesses in response to developing customer needs, along with development of new offers and methods, rely on the ability to effectively manage change.	External advice and specialist training and coaching for internal change functions. Dedicated divisional change boards and oversight committees monitor the plans and activities of dedicated change functions. Group board reviews, approves and oversees major change programmes. Internal audit and specialist external assurance reviews are undertaken on key change programmes at inception and at critical points during delivery. Overall change and strategic plans and progress reviewed and updated biannually in budgeting process, approved by divisional and group boards.	Failure to appropriately design, plan, implement or oversee a major change programme might leave the group unable to operate effectively or leave it at a current or future competitive disadvantage in responding to customer needs, preferences and expectations. The group would seek to identify developing and actual failures as early as possible and take swift action to address and rectify the situation using both internal and external resources as appropriate and required. The group would also seek to understand the root cause of the failure and ensure there is no repeat.
	**12. Information security:** **The risk of data loss or unauthorised change causing a security issue, data or systems abuse, cyber attack or denial of service to systems.** The quality and integrity of our data and systems is increasingly paramount to our ability to continue to operate and safeguard our customers' interests, especially as their preferences change.	Dedicated internal teams supported by external providers which assess and monitor risk. Internal and external testing of human and system/automated defences and vulnerabilities. Divisional and group risk committees oversee cyber security risks, monitoring and management plans in relation to industry accepted practices and standards. Internal audit and external third-party review and assessment of cyber security status across all businesses. Aim to minimise risks of a breach occurring and maintain procedures to tightly manage any issues should they arise.	Failure to sufficiently protect data or systems against a cyber attack, and/or ineffective procedures to identify, contain and resolve issues arising could leave the group with loss of confidentiality, integrity or availability of confidential customer or business information which may lead to customer detriment, regulatory penalties, loss of revenue, loss of competitiveness and/or loss of reputation. In the event of a successful cyber attack, the group would act as quickly as possible to identify and address the source, keeping all stakeholders fully informed, and acting to redress any customer detriment appropriately in a timely fashion.

Strategic report

Risk management and principal risks (continued)



15. Capital:

Risk and its importance

The risk that we might have insufficient capital to meet our regulatory and/or business requirements or that regulatory capital requirements increase significantly.

The solid foundations of our business model and ability to continue to grow and generate returns going forward rely on sufficient capital availability.

Risk management, mitigation and control

The group maintains surplus regulatory capital.

The group maintains an internal buffer over the PRA stipulated requirement.

Regulatory capital is monitored monthly and regularly reported to the treasury committee and the board.

All budget and plans assess the impact on regulatory capital.

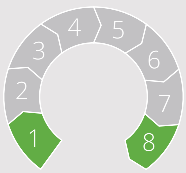
The group has a good working relationship with its supervisor at the PRA.

Senior management and directors from all key functions are involved in the planning of the ICAAP to ensure the internal assessment of the capital requirement is appropriate.

Risk impact and response

Failure to generate the anticipated levels of capital or unexpectedly large increases in the level of capital the group is required to hold could mean that there is insufficient capital available to continue to grow the business and take advantage of market opportunities while maintaining a comfortable capital surplus and current dividend policy.

The group would investigate all opportunities to conserve or reallocate capital, which may include moderating future growth or dividend payments. Ultimately, the group may have to seek to raise further capital should these actions prove insufficient to restore the required capital levels.



16. Liquidity:

Risk and its importance

The ability of the group to make payments in settlement of liabilities when due.

Maintaining confidence in the solid underpinnings of our business model is important to our ability to continue to take advantage of current market opportunities and funding, while planning for future growth capacity.

Risk management, mitigation and control

The group has committed funds and significant headroom on its facilities, which together with access to retail deposits are sufficient to fund the group until October 2019.

The group business model is based on lending over a shorter duration than it borrows.

The ILAAP is approved annually by both the Vanquis Bank and group boards.

Treasury and funding policies are in place to ensure that facilities are in place to provide headroom for future growth plans.

The group and Vanquis Bank treasury committees ensure that there is active management of liquidity risks within established appetites.

Risk impact and response

Failure to correctly anticipate or monitor liquidity requirements or sources, or unexpected lack of access to existing or new sources of funding might leave the group or Vanquis Bank unable to make payments in settlement of liabilities when due.

A liquidity shortage might leave the group unable to satisfy its regulatory requirements and protect depositors leading to the need to activate its RRP.

The group would take all necessary actions to recover and restore the viability of the bank and group, as envisaged in the RRP.

20. Recruitment and retention:

Risk and its importance

The risk that we are unable to recruit and/or retain key management and staff impacting business performance.

At many stages of our business model and for our future strategic aims, the right specialised skills and human resources are important to ensuring delivery in a differentiated way that helps us succeed.

Risk management, mitigation and control

Group-wide workstream in progress to assess succession planning across divisions.

Recruitment strategy established for each critical role prior to commencing recruitment.

Recruitment process embraces competency-based assessments to assist us in finding the right person for the right role.

Focus on retention initiatives such as performance management, development plans, encouraging internal transfers wherever appropriate, performance and quality driven reward framework.

Focus on turnover levels, monitoring exit interviews and identifying trends, implementing changes to recruitment and retention strategies as needed.

Regular business updates given to staff as well as forums encouraging open two way communication.

Employee feedback sought by way of an employee attitude survey.

Turnover/recruitment/attendance activity regularly reviewed as part of the monthly MI pack.

Risk impact and response

Failure to attract and/or retain sufficient numbers of specialised people or sufficient skills and expertise may cause delivery problems in our existing businesses and undermine our ability to deliver key change and internal initiatives programmes planned.

The group may find itself struggling to maintain current performance levels if staffing is insufficient. It may also find that new capabilities, routes to market, product offers and ways of interacting digitally with customers are delayed or not delivered if the right people are not in place and motivated to succeed.

The group would increase efforts to recruit to replace and increase human resources, investigate opportunities to redeploy employees or outsource certain activities or development work in order to ease the internal shortages where delivery of competitive advantage would not be compromised.

Strategic report

Financial review

Our financial strategy

The group's strategy to deliver high returns is underpinned by the group's consistent financial model.

"Maintaining a secure, prudent and well diversified funding structure is central to delivery of our strategy."

Andrew Fisher
Finance Director

High returns business

Dividend policy	Gearing	Growth
Cover ≥1.25x	≤3.5x versus covenant of 5.0x	Supports receivables growth of £300m+

The group's financial strategy is to grow high-return businesses in order to provide high shareholder returns.

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

The financial model has been developed, and applied consistently since demerger of the international business in 2007, to ensure that the group maintains a robust capital structure, providing a comfortable level of headroom against banking covenants, including the gearing covenant, 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 3.5 times. The financial model is underpinned by the group's consistent application of prudent and appropriate accounting policies.

How this works in practice:

- 2016 adjusted pre-tax profit amounts to £334m (prior to the amortisation of acquisition intangibles and exceptional items which equates to an adjusted profit after tax of £257m (corporation tax at effective rate of 23.2%).
- Dividend cover in recent years has been around 1.35 times which amounts to dividends of £190m (£257m/1.35).
- Equity retained in the business to fund growth equals £67m (£257m less £190m).
- Target gearing ratio of 3.5 times allows debt funding of £235m (£67m multiplied by 3.5).
- Provides total funding and capital for receivables growth of £302m (£67m plus £235m).
- Adjusted pre-tax profit in excess of £334m therefore allows dividends to be increased and receivables growth in excess of £302m.

Strategic report

Financial review (continued)

Table 1: **Calculation of ROA**

	2016				2015			
£m	**Vanquis Bank**	**CCD**	**Moneybarn**	**Group**	Vanquis Bank	CCD	Moneybarn	Group
Adjusted profit before tax[1]	**204.5**	**115.2**	**31.1**	**334.1**	185.5	105.4	21.3	292.9
Interest	**42.4**	**26.6**	**12.7**	**81.7**	43.1	27.1	9.5	80.0
Adjusted PBIT[1]	**246.9**	**141.8**	**43.8**	**415.8**	228.6	132.5	30.8	372.9
Corporation tax	**(66.7)**	**(28.4)**	**(8.8)**	**(96.5)**	(46.3)	(26.8)	(6.2)	(75.5)
Adjusted PBIAT[1]	**180.2**	**113.4**	**35.0**	**319.3**	182.3	105.7	24.6	297.4
Average receivables	**1,307.0**	**508.7**	**266.6**	**2,082.3**	1,157.1	499.5	190.8	1,851.2
ROA[1]	**13.8%**	**22.3%**	**13.1%**	**15.3%**	15.8%	21.2%	12.9%	16.1%

1 Prior to the amortisation of acquisition intangibles of £7.5m (2015: £7.5m) and a net exceptional gain of £17.3m (2015: exceptional cost of £11.8m).

Table 2: **Calculation of ROE**

£m	**2016**	2015
Adjusted profit before tax[1]	**334.1**	292.9
Tax	**(77.4)**	(59.3)
Adjusted profit after tax[1]	**256.7**	233.6
Shareholders' equity	**790.1**	707.7
Pension asset	**(72.4)**	(62.3)
Deferred tax on pension asset	**12.3**	11.2
Hedging reserve	**0.2**	0.5
Proposed final dividend	**(132.9)**	(117.0)
Adjusted equity	**597.3**	540.1
Average adjusted equity	**568.7**	510.0
ROE[1]	**45%**	46%

1 Prior to the amortisation of acquisition intangibles of £7.5m (2015: £7.5m) and a net exceptional gain of £17.3m (2015: exceptional cost of £11.8m).

Returns

Delivering high returns remains central to the group's financial model.

Management assesses the relative performance of each business through a return on assets (ROA) measure. The group calculates ROA as profit before interest, amortisation of acquired intangibles and exceptional items, after tax (PBIAT) divided by the average receivables during the period. This ensures that the returns being generated by each business are not distorted by differences in the capital structure of each business and allows for better comparability. Table 1 sets out the calculation of ROA in 2016 and 2015.

Vanquis Bank delivered an ROA of 13.8% in 2016, down from 15.8% in 2015 primarily due to the impact of the 8% bank corporation tax surcharge on Vanquis Bank profits which became effective from 1 January 2016. Excluding the bank corporation tax surcharge, Vanquis Bank's ROA reduced from 15.8% to 15.1% in 2016 due to the expected reduction in revenue yield previously communicated together with a £6m investment in initiatives to augment medium term growth.

CCD's ROA has strengthened from 21.2% in 2015 to 22.3% in 2016, as a result of a reduction in the start-up losses associated with Satsuma.

Moneybarn's ROA has increased marginally to 13.1% (2015: 12.9%), reflecting the benefit of some operational leverage despite the continued investment in additional headcount to support future growth.

The group's overall ROA has reduced from 16.1% in 2015 to 15.3% in 2016 wholly reflecting the impact of the bank corporation tax surcharge on Vanquis Bank profits. Excluding the bank corporation tax surcharge, the group's ROA for 2016 of 16.2%, is modestly higher than 2015 due to the improved returns at CCD and Moneybarn.

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

The group calculates ROE as profit after tax, prior to the amortisation of acquisition intangibles and exceptional items divided by average equity. Average equity is stated after deducting the group's pension asset net of deferred tax, the fair value of derivative financial instruments, and the proposed final dividend, consistent with the calculation of the group's regulatory capital base. Table 2 sets out the calculation of ROE in 2016 and 2015.

The group's ROE of 45% in 2016 is marginally lower than 46% in 2015 reflecting the impact of the bank corporation tax surcharge on Vanquis Bank profits. The ROE, excluding the impact of the surcharge was 48%, reflecting improved returns in CCD following the reduction in start-up losses in Satsuma together with some operational leverage at Moneybarn.

Table 3: **Reconciliation of retail deposits**

£m	2016	2015
At 1 January	731.0	580.3
New funds	316.6	225.7
Maturities	(177.7)	(121.6)
Retentions	76.9	58.5
Cancellations	(15.1)	(19.4)
Capitalised interest	9.5	7.5
At 31 December	**941.2**	731.0

Table 4: **Committed borrowing facilities**

	Maturity	£m
Bank facility[1]	2020	**450.0**
Bonds and private placements:		
Senior public bond	2019	250.0
M&G term loan	2017–2021	90.0
Other sterling/euro medium-term notes	2018	28.5
Retail bond 2010	2020	25.2
Retail bond 2012	2017	120.0
Retail bond 2013	2021	65.0
Retail bond 2015	2023	60.0
Total bonds and private placements		**638.7**
Vanquis Bank retail deposits	2017–2021	**941.2**
Total committed facilities		**2,029.9**
Borrowings on committed facilities[2]		1,822.2
Headroom on committed facilities		**207.7**
Retail deposits capacity[3]		233.5
Funding capacity		**441.2**

1 Reflects the renewal of the syndicated bank facility on 31 January 2017.
2 Borrowings under committed facilities are stated net of £30m of cash held on deposit which was used to repay the syndicated bank facility immediately after the year end.
3 Based on the Vanquis Bank intercompany loan from Provident Financial plc of £233.5m as at 31 December 2016.

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. As Vanquis Bank holds a banking licence, the PRA does not permit the retail deposits to be upstreamed, over and above the value of the intercompany loan between Vanquis Bank and Provident Financial plc.

Group borrowings on committed facilities at the end of 2016 were £1,822.2m after deducting £30m of cash held on deposit which was used to repay the syndicated bank facility immediately after the year end. This was up from £1,588.8m at the end of 2015 due to the strong growth in group receivables of nearly £300m.

On 31 January 2017, the group successfully entered into a new syndicated bank facility of £450m maturing in May 2020 and cancelled the existing facility of £382.5m which was due to expire in May 2018. The syndicate continues to comprise the group's core relationship banks and the all in cost of funds is lower than the previous facility with consistent terms, conditions and financial covenant package.

After taking account of the new syndicated bank facility, the group had committed borrowing facilities of £2,029.9m (2015: £1,811.1m) at the end of 2016. These facilities provided committed headroom of £207.7m as at 31 December 2016 (2015: £222.3m) with an average period to maturity of 2.9 years (2015: 2.8 years).

At the end of 2016, Vanquis Bank had taken £941.2m of retail deposits (66% of Vanquis Bank's receivables), up from £731.0m at 31 December 2015 (58% of Vanquis Bank's receivables). A reconciliation of the movement in retail deposits during 2016 is set out in Table 3. The overall inflow of new funds through Vanquis Bank's retail deposits programme during 2016 was £316.6m (2015: £225.7m). The flow of new funds from the retail deposits programme was managed to relatively modest levels of £38.7m during the first half of 2016 due to the high level of committed debt funding. However, volumes were increased during the second half of the year through appropriate pricing and inflows were strong at £277.9m.

There were £177.7m of retail deposit maturities during the year (2015: £121.6m), of which £76.9m were retained (2015: £58.5m). This represents a retention rate of approximately 43% (2015: 48%), consistent with the positioning of the interest rates offered during the year.

Rates of between 1.00% and 2.96% have been paid on retail deposits during 2016 (2015: 1.51% and 4.65%) and the blended interest rate on the deposit portfolio in 2016 was 2.8% (2015: 3.0%) reflecting the low interest rate environment currently being experienced. Including the cost of holding a liquid asset buffer the overall blended interest rate on retail deposits in 2016 was 3.0% (2015: 3.1%).

The average period to maturity of retail deposits at 31 December 2016 was 2.6 years (2015: 2.3 years).

The retail deposits market represents an excellent source of funding and Vanquis Bank plans to continue to build its deposit portfolio to enable it to repay its intra-group loan from Provident Financial plc, which was £233.5m at the end of 2016 (2015: £283.0m). 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 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

Strategic report

Financial review (continued)

Table 5: **Performance against bank covenants**

Covenant	Limits post-renewal[1]	Limits pre-renewal[6]	2016	2015
Gearing[2]	< 5.0 times	< 5.0 times	**2.3**	2.2
Net worth – group[3]	> £400m	> £265m	**730.2**	657.1
– excluding Vanquis Bank[3]	> £155m	> £140m	**350.5**	302.0
Interest cover[4]	> 2.0 times	> 2.0 times	**5.2**	4.8
Cash cover[5]	> 1.0 times	> 1.1 times	**1.22**	1.26

1 Covenant limits following the renewal of the syndicated bank facility on 31 January 2017.
2 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).
3 Equity less the group's pension asset and fair value of derivative financial instruments, both net of deferred tax.
4 Profit before interest, amortisation, the movement in the fair value of derivative financial instruments, exceptional items and tax divided by the interest charge prior to the movement in the fair value of derivative financial instruments.
5 Cash collected divided by credit issued.
6 The covenant limits prior to the renewal of the syndicated bank facility continue to apply to the M&G term loan facility.

Table 6: **Capital generation**

£m	2016	2015
Operating cash flow	**147.8**	202.0
Interest paid	**(71.7)**	(73.0)
Tax paid	**(64.4)**	(47.5)
Net capital expenditure	**(10.6)**	(25.6)
Add back 80% of receivables growth funded by debt	**232.1**	134.0
Capital generated	**233.2**	189.9
Analysed as:		
– Vanquis Bank	**152.2**	143.5
– CCD	**80.1**	65.1
– Moneybarn	**7.2**	0.2
– Central	**(6.3)**	(18.9)
Dividends declared	**195.7**	(174.4)
Capital retained	**37.5**	15.5
Dividend cover[1]	**1.32**	1.35

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

intra-group loan from Provident Financial plc. The group's funding capacity on this basis amounts to £441.2m (2015: £505.3m).

Excluding the retail deposits programme, maturities on the group's committed debt facilities in 2017 represent: (i) the second instalment of £10m in January 2017 on the M&G term loan; and (ii) £120m in October 2017 in respect of the retail bonds issued in 2012. Following the renewal of the syndicated bank facility, the maturities in 2018 are restricted to: (i) the third instalment on the M&G term loan of £15m in January 2018; and (ii) £20m of private placement loan notes issued under the EMTN in March 2018. After assuming that Vanquis Bank fully funds its receivables with retail deposits, the group's committed facilities, after renewal of the syndicated bank facility, are sufficient to fund both contractual maturities and projected growth until the maturity of the £250m senior bond in October 2019.

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 financing options during 2017.

The group's blended funding rate in 2016 was 5.5%, down from 5.9% in 2015. This primarily reflects the lower overall blended cost of retail deposits and an increase in the mix of retail deposit funding, which represents approximately 51% of the group's funding at the end of 2016 compared with approximately 46% in 2015.

The group is required to comply with its banking covenants in respect of gearing, interest cover, net worth, net worth excluding Vanquis Bank and cash cover. Performance against these bank covenants at 31 December 2016 and 2015 is set out in Table 5.

The group has comfortably complied with these covenants during 2016.

Gearing has remained stable at 2.3 times in 2016 (2015: 2.2 times), against an internal maximum target of 3.5 times and a covenant limit of 5.0 times. The modest increase during 2016 represents the funding required to support strong receivables growth of nearly £300m at the group's maximum ratio of 3.5 times.

The group's credit rating was reviewed by Fitch Ratings in May 2016 and remains at BBB with a stable outlook.

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 to its shareholders. 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.

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. Since 2010, following strong growth in the group's earnings, dividend cover has passed 1.25 times and the group has generated more than sufficient capital to fund receivables growth and increase the group's dividend, whilst retaining surplus capital.

In recent years, dividends have increased broadly in line with earnings, whilst delivering a dividend cover of around 1.35 times and retaining net surplus capital in each year. The group's gearing ratio has been maintained well below the maximum target of 3.5 times. In 2016, the group generated surplus capital of £37.5m (2015: £16.3m). Table 6 sets out an analysis by division.

On a divisional basis, Vanquis Bank generated £152.2m of capital during the year (2015: £143.5m) which reflects the one-off cash proceeds of £12m from the sale of Visa Inc. shares during the year and higher tax payments, primarily due to the bank corporation tax surcharge, which increased tax paid by £14m. The business continues to generate 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 £134m during 2016 and paid a further £67.5m subsequent to the year-end. Vanquis Bank has now paid cumulative dividends of £380m out its surplus capital since it commenced paying dividends in 2011.

"The group's strategy is to invest in businesses which generate high returns to support the group's high distribution policy to its shareholders."

Andrew Fisher
Finance Director

CCD generated £80.1m of capital in 2016, up from £65.1m in 2015. This reflects the reduction in start up losses in Satsuma together with the impact of exceptional costs of £11.8m in 2015. The business continues to be highly capital generative.

Moneybarn generated £7.2m of capital in 2016, supporting its own rapid growth. The business is set to become increasingly capital generative.

Prudential regulation

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

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.

The ICAAP considers all risks facing the business, including credit, operational, counterparty, conduct, pension and market risks, and assesses the capital requirement for such risks in the event of downside stresses.

As stipulated by the Capital Requirements Directive IV (CRD IV), regulatory capital equates to equity share capital and reserves after deducting foreseeable dividends in line with the current dividend policy less: (i) the net book value of goodwill and intangible assets; and (ii) the pension asset, net of deferred tax, and the fair value of derivative financial instruments. As at 31 December 2016, the group's common equity tier one ratio and leverage ratio were 21.9% (2015: 22.0%) and 16.9% (2015: 16.9%) respectively. The levels of regulatory capital held by both the group and Vanquis Bank are comfortably in excess of the ICGs set by the PRA.

In additional to any PRA buffer, set by the PRA, CRD IV requires the group and Vanquis Bank to maintain a capital conservation buffer. From 1 January 2016, the capital conservation buffer was calculated as 0.625% of risk-weighted exposures and, in line with the transitional arrangements within CRD IV, increased to 1.25% from 1 January 2017. The buffer increases further to 1.875% in 2018 and 2.5% in 2019. The countercyclical buffer is currently set by the Bank of England at 0%.

Liquidity

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

The liquid assets buffer is calculated using Individual Liquidity Guidance (ILG) set by the PRA based on the Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken 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 2016, the liquid assets buffer, including the liquid resources held against the daily stress tests, amounted to £168.9m (2015: £134.2m). The increase during the year reflects the growth in the receivables book and retail deposit portfolio of Vanquis Bank. Vanquis Bank holds its liquid assets buffer, including other liquid resources, in a combination of a Bank of England Reserves Account and UK government gilts.

CRD IV introduced further liquidity measures, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR, which became effective in October 2015, and NSFR, which will become effective in January 2018, are applicable to both the group and Vanquis Bank. The group's LCR at 31 December 2016 amounted to 207% (2015: 141%). These measures have not, and are not expected to, result in any additional liquid resource requirements.

Strategic report

Financial review (continued)

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 2016 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 2016 represents an effective rate of 23.20% (2015: 20.25%) on profit before tax, amortisation of acquisition intangibles and exceptional items. The statutory tax rate represents an effective rate of 23.6% (2015: 20.2%).

The rate is higher than the mainstream UK statutory corporation tax rate which reduced from 21% to 20% on 1 April 2015 due to the impact of the bank corporation tax surcharge of 8% which came into force on 1 January 2016.

The bank corporation tax surcharge applies to Vanquis Bank's profits in excess of £25m and placed an additional tax cost on Vanquis Bank of approaching £15m in 2016. The group is expected to benefit in future years from the further UK statutory corporation tax rate reductions to 19% on 1 April 2017 and to 17% on 1 April 2020 announced by the Government and enacted in the Finance Act 2016.

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 125 to 130.

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

In Vanquis Bank and Moneybarn, impairment provisions are made when one contractual monthly payment is missed. In the weekly collected home credit and Satsuma businesses, a loan is impaired when two or more weekly payments have been missed in the previous 12 weeks. In all of the businesses, accounts in arrears are substantially impaired once an account is 90 days overdue. The group's accounting policies reflect timely, realistic provisioning and are prudent when benchmarked against others.

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

IFRS 9 'Financial instruments'

IFRS 9 'Financial instruments' is effective from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. IFRS 9 significantly changes the recognition of impairment on customer receivables by introducing an expected loss model. Under this approach, impairment provisions are recognised on inception of a loan based on the typical average loss incurred on a loan. This differs from the current incurred loss model under IAS 39 whereby impairment provisions are only reflected when there is objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier in the income statement. This will result in a one-off adjustment to receivables and reserves on adoption and will result in a slower build in profits in growing businesses.

The group has been assessing the potential impact of IFRS 9 for the last 18 months. This includes the establishment of a steering committee of senior finance management from throughout the group and the production of a formal timetable for implementation. It also includes working closely with the group's external auditors, Deloitte, to interpret the standard and ascertain emerging industry and best practice. Whilst good progress has been made on quantifying the potential impact of IFRS 9, there are still a number of technical interpretations of the standard which need to be clarified in order to provide quantification. An impact analysis of the standard is expected to be provided with the group's 2017 interim results.

Despite the magnitude of the changes to receivables and net assets, it is important to note that IFRS 9 only changes the timing of profits made on a loan. The group's underwriting and scorecards will be unaffected by the change in accounting, the ultimate profitability of loan is the same under both IAS 39 and IFRS 9 and more fundamentally the cash flows and capital generation from a loan remain unchanged. The group's bank covenants are unaffected by IFRS 9, as they are calculated based on accounting standards in place prior to the introduction of IFRS 9 and, based on latest draft guidance from the European Commission, the regulatory capital impact of IFRS 9 is expected to be phased in on a transitional basis over five years.

The impact of IFRS 9 is therefore expected to be accommodated by: (i) distributable reserves in Provident Financial plc of over £200m at 31 December 2016; (ii) a comfortable level of regulatory capital headroom; and (iii) the group's ongoing strong capital generation.

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.

Andrew Fisher
Finance Director
28 February 2017

Strategic report

Corporate responsibility

Our primary role is to supply credit in a responsible manner to non-standard credit market customers – those with lower incomes, those with no credit history yet or a very limited credit history, those who have had problems with credit in the past but are now over those problems. However, we have long recognised that Provident Financial Group operates in the context of a much bigger picture than the lending relationships we have with customers. As a result, it is essential that we provide an account of these impacts across the other areas our business touches. These impacts relate to the internal governance of our business; the way we treat our employees, suppliers, local communities, wider society, and the environment; and how we deal with regulators and tax authorities.

Peter Crook
Chief Executive

The CR strategy we have in place clearly outlines what our priorities are, and ultimately, what we are committed to achieving. This means continuing to serve our 2.4 million customers in a responsible manner at every stage of their relationship with us, and acting dutifully and with integrity with all our other stakeholders. It is only through doing this that we can deliver our mission.

Provident Financial Group's mission, social purpose and CR strategy underlines our commitment to:

- Put the needs of our customers at the heart of everything we do;
- 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.

Our CR strategy is supported by a balanced scorecard; a range of qualitative and quantitative metrics to help monitor our progress in delivering against the CR strategy. This scorecard can be viewed at www.providentfinancial.com. In addition, we publish a stand-alone annual CR report which sets out a full account of our performance against all the metrics within this scorecard. Our 2016 CR report will be published during the summer of 2017. Information on our CR reports can be found at www.providentfinancial.com.

Strategic report

Corporate responsibility (continued)

What CR means to Provident Financial Group

Our mission is...

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

This commits us to...

...being a **responsible corporate citizen.**

Our social purpose is...

...**financial inclusion** for those who are not well served by mainstream credit products or are excluded altogether.

This commits us to...

...providing non-standard credit customers with **appropriate amounts of credit**, maintaining close contact with them throughout the term of their loan, and **working with them sympathetically** if they experience difficulties. The terms and conditions for our products are also designed to meet their particular needs, and rigorous checks are made to ensure customers can afford their repayments.

Our CR strategy involves...

...operating our core business of **lending to our customers in a responsible manner**, and acting responsibly and sustainably in all our other stakeholder relationships.

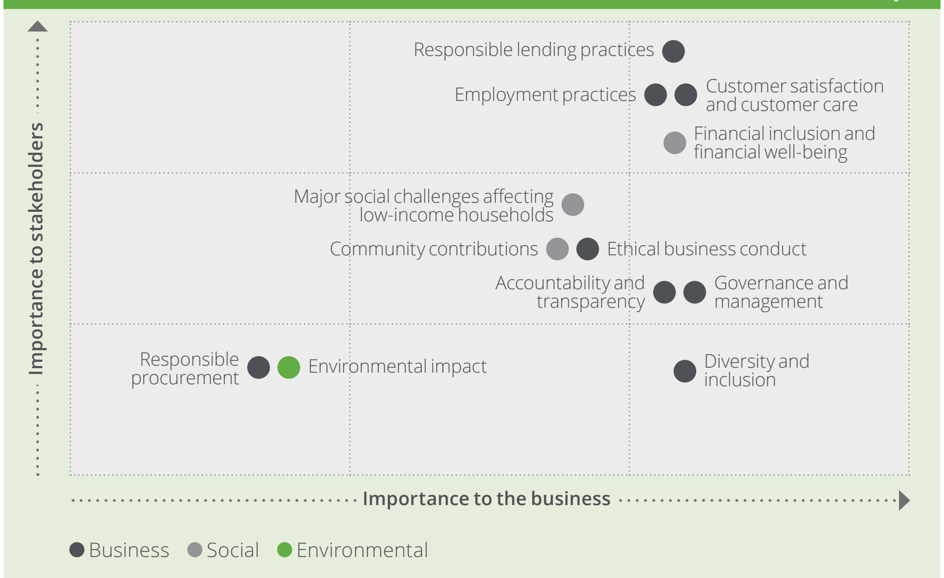
This commits us to...

...putting the **needs of our customers at the heart of everything we do**; creating a working environment that is safe, inclusive and meritocratic; treating our suppliers fairly; supporting our communities; engaging with the investment community on sustainability matters; and minimising the environmental impacts of our business.

Managing the right CR issues

To help ensure that we manage and report on the CR issues that matter most to our business and stakeholders, we undertook an exercise to identify and prioritise our material CR issues, which was completed in May 2015. This materiality assessment was in line with our long-term commitment to treat CR as an essential component of our overall business strategy, and informs our Social Purpose and CR strategy. It also ensures that future CR reports comply with the Global Reporting Initiative's G4 reporting guidelines. The results of this exercise are set out within the materiality matrix on this page. We will repeat the exercise in 2017 to ensure that the group is continuing to manage and report on the CR issues that are material to our businesses and stakeholders.

Materiality matrix



Governance and management of CR

Good corporate governance is an integral part of our CR programme. It ensures that CR continues to be integrated into the strategic decision making of the business which, in turn, enables us to be committed and organised to understand and respond to the short- and long-term CR issues that are material to our businesses, manage our key risks, and respond to the needs and concerns of our stakeholders.

Overall responsibility for our CR programme continues to rest with Peter Crook, the Chief Executive. CR themes are regularly considered by the Provident Financial Group board and 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 and Community Affairs Manager, who are supported by a number of working groups made up of representatives from the subsidiary businesses.

These governance and management structures are underpinned by a range of corporate and division-specific policies which set out the codes of conduct, controls, processes and requirements of all employees and divisions within the group, as well as at the corporate office.

The policies cover a wide range of issues that are of relevance to our CR programme, including treating customers fairly, environmental management, community involvement, procurement, health and safety, equality, diversity and inclusion, and whistleblowing.

Engaging with our stakeholders

Our key stakeholders are our customers, employees, suppliers, communities, shareholders and investors, and regulators. These are the individuals or groups we have identified that have an interest in, or are affected by, the activities of our group. We continue to engage with these stakeholders on a regular basis to listen to their views and concerns, and also gather feedback on our activities. This enables us to take account of different perspectives as we deliver against our mission, social purpose and strategy.

During 2016, our stakeholder engagement activities included:

> **Reviewing Provident Financial Group's approach to community investment** – convening a forum of stakeholders to ensure that their views and recommendations are factored into the group's review of its approach to community investment (see page 62 for more information);

> **Customer engagement** – conducting surveys and focus groups to determine levels of customer satisfaction with our products and services, and gathering information on the profiles of our customers. Our operating businesses also use online review and feedback systems, such as Feefo and Trustpilot, which allow their customers to review their services and products;

> **Employee engagement** – carrying out staff surveys to monitor levels of engagement and gather feedback on our business strategies and communication methods, as well as training and development; and

> **Community engagement** – engaging with our community partners and the employees that take part in community volunteering activities to collect feedback which enables us to assess the impacts of our activities and evaluate the efficacy of our community programmes.

Our core business

Our core business is to provide non-standard credit market customers – that is, those who are not well served by mainstream credit products or are excluded altogether – with opportunities to borrow a sensible amount in a transparent, responsible, sustainable way. This is our Social Purpose. To do this, it is essential that we provide our customers with appropriate amounts of credit, maintain close contact with them throughout the term of their loan, and support them sympathetically if they experience difficulties.

Our market and our products

The focus of our business is to serve the 12 million consumers that make up the non-standard credit market in the UK and Ireland. This market is made up of people who, for a variety of reasons, from relatively low incomes to poor credit histories, are not well served by the mainstream credit market's products and services.

We address this by ensuring that our operating businesses provide our customers with products which share the following characteristics:

> Smaller sums – typically less than a mainstream provider would lend;

> High levels of contact – our customers like someone to talk to about their loan; and

> 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.

Further information on the products we offer to customers in the non-standard credit market is set on pages 4–5 of this report.

Treating our customers fairly and responsibly

Through 137 years of serving the needs of the non-standard credit market, we are experienced in delivering suitable credit products in a responsible way. This responsibility applies across all of the activities we carry out, from marketing our offering to prospective new customers, through to collecting repayments.

Strategic report

Corporate responsibility (continued)

Lending responsibly and sustainably

Our products are tailor-made for our customers. All of the businesses within the group specialise in offering simple products which are delivered in a way which suits our customers' particular needs.

VANQUIS BANK

Vanquis Bank credit limits start as low as £250 in line with our 'low and grow' approach to lending – and we only extend a limit if it is appropriate to do so. We use our tailored underwriting process which has been developed over the last 13 years. Whether we decide to lend to an applicant is based on a combination of external credit reference data and our own scorecards. We follow up approved applications with a welcome phone call, which enables us to develop our relationship with the customer from this early stage, and also gives us the opportunity to collect more data. Alongside this call, new customers receive an information pack on their new credit card, which offers advice on how to increase their credit rating through responsible financial behaviours. A combination of text messages to remind customers of payment dates, and phone calls to follow-up on missed payments, proves an effective way to keep in touch.

Consumer Credit Division

Provident

Our most traditional loan product, Provident home credit, has the relationship between the customer and their agent at its core; the agent visits the customer's home to set up the loan and collect repayments each week. Agents only receive commission on what they collect back from the customer, so there is no reason for them to lend more than customers are likely to be able to pay back. The agent makes the final lending decision using both central underwriting and their own judgement to decide if the customer is likely to be willing, and able, to pay the loan back under the agreed terms. The customer-agent relationship, once developed, enables a sensitive response if a customer encounters financial difficulty. Agents can then put steps in place to help the customer – including reduced or postponed repayments.

Satsuma loans.co.uk

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

moneybarn credit you can trust

The majority of Moneybarn's customers come to us through a network of well-established brokers. Our responsible approach to lending has helped us develop strong relationships with broker staff. Moneybarn's underwriting process is highly automated to allow for rapid provisional approvals. Lending decisions are based on external credit data, our own scorecards, and affordability assessments. Brokers only earn commission on each lead they provide which qualifies for a loan. Customers using a broker can source their vehicle from any car dealership, and payments are made through monthly direct debit. Any missed payments are followed up with contact from Moneybarn.

Maintaining high levels of customer satisfaction

One of our main performance indicators is customer satisfaction. This enables us to monitor whether we are delivering against our Social Purpose and providing our customers with products that meet their needs through an accessible and responsible service. Customer satisfaction is surveyed regularly across our subsidiary businesses through various routes, including online, phone or face-to-face surveys, and via customer focus groups.

Our operating businesses also monitor customer reviews of their products and services which are collected via independent reviewing sites such as Feefo and Trustpilot.

89%
Vanquis Bank customer satisfaction

93%
Provident customer satisfaction

89%
Moneybarn customer satisfaction

Handling customer complaints responsibly

Ensuring that we keep customer complaints to an absolute minimum is another key indicator of whether we are delivering against our Social Purpose. Understanding the reasons which have led to complaints enables us to target improvement areas for the services we offer. Well-established complaint-handling processes, procedures and timescales are in place across the group to guide our customer relations teams and help them resolve issues in a professional and timely way.

We provide the contact details of the Financial Ombudsman Service (FOS) to all our customers, providing them with reassurance that if we are not able to resolve their complaint to their complete satisfaction, they can refer it to the FOS. During 2016, the total number of cases received by the FOS from customers of our operating businesses was 1,194. Of these, 327, or 27% (2015: 23%), referred to the FOS were upheld in favour of the customer.

Supporting vulnerable customers

All of our contact centre teams receive initial and ongoing training to help recognise and deal with potentially vulnerable customers. They use a technique developed by the Money Advice Trust and the Royal College of Psychiatrists – Thank, Explain, eXplicit consent, Ask, Signpost (TEXAS) – as a template for calls.

Specialist members of our teams are able to offer a range of forbearance options to help vulnerable customers, dependent upon their situation and needs. This may include offering breathing space, and short-term or long-term payment plans with interest and charges reduced or frozen. In some serious cases, a decision may be taken that the debt will be written off.

We also use external expertise, including through our partnerships with Macmillan, Shelter, Samaritans and StepChange, as well as guidance from the Financial Conduct Authority and the BBA's Financial Services Vulnerability Taskforce, which brings together the financial services industry, together with charities and consumer groups, to work to improve the outcomes for customers in vulnerable circumstances. All calls are recorded and monitored, and monthly case studies are discussed in detail with senior management.

Our people and suppliers

Creating an inclusive workplace

Our 3,758 people across the group are significant stakeholders. Every one of them contributes to our performance and, partly through their diversity, they drive the development of new services and products to suit the varied needs of our 2.4 million customers.

We are therefore committed to attracting the best people so that we can continue to grow and be successful. We do this by providing all our employees with a safe, inclusive and meritocratic working environment, and giving them opportunities to develop their skills, ultimately helping them to meet their career and personal goals.

The customers and communities we serve are diverse, and having a workforce that is also diverse helps us to deliver, and adapt, services to meet our customers' needs. With this in mind, we are committed to creating a diverse, open, and inclusive place to work, where everyone feels a valued member of the team.

Provident Financial Group's corporate equality, diversity and inclusion policy sets out our commitment to support diversity and to create an inclusive culture for employees and other stakeholders, including customers, suppliers and contractors. At the root of this is the understanding that everyone can bring value to the workplace, regardless of their age, gender, marital or family status, race, sexual orientation, religion or belief, or any disability they may have.

Throughout 2016, we carried on working towards the National Equality Standard (NES), the first industry-recognised standard for equality, diversity and inclusion in the UK, which we signed up to in 2015. This involved undertaking an initial self-assessment review and gap analysis against the NES framework and hosting assessor visits from EY to carry out interviews with key employees in order to validate the findings made during the self-assessment phase in both the Consumer Credit Division and Moneybarn. The initial assessment stage of the NES will commence at Vanquis Bank during March 2017. It is anticipated that the NES assessment will be completed during the summer of 2017.

Spotlight on diversity performance

	Female	Male
Proportion of female/male company directors (%)	22	78
Proportion of female/ male employees in senior management positions (%)	28	72
Proportion of female/male employees (%)	49	51

Percentage of employees from Black, Asian and Minority Ethnic (BAME) communities	17%
Percentage of our employees who have declared a disability	0.7%

Treating our suppliers fairly

Our approach to CR means treating our suppliers fairly and using our purchasing power to choose sustainable products and services. Our supply chain is relatively straightforward, with the majority of our suppliers based in the UK and Ireland. In 2016, our spend on products and services was £179.1m (2015: £194m). This means we have the buying power to engage with, and potentially help, our suppliers to be more sustainable.

The procurement teams within our subsidiary businesses assess the CR performance of the suppliers they engage with using a self-assessment questionnaire. This questionnaire is sent mainly to prospective suppliers at the 'prequalification' and 'invitation to tender' stage of the procurement process, although it is also sent to existing suppliers in some instances. The issues covered by the questionnaire include both environmental and social areas, including management of their supply chain. The results of the questionnaires allow us to identify and act upon any potential sustainability risks, as well as to select products and services which have positive social and environmental impacts. The information is analysed to produce a score which is factored into procurement decision making, and helps us raise awareness of our CR commitments with suppliers and also improve their performance.

Strategic report

Corporate responsibility (continued)

Our response to the Modern Slavery Act

The Modern Slavery Act came into force in October 2015. This introduced a new obligation for organisations (with a turnover of £36m or more) to publicly report the steps they have taken to ensure their operations and supply chains are trafficking- and slavery-free.

To comply, organisations are required to report annually via a statement – for example, on policies, training and due diligence processes, as well as the effectiveness of measures taken to combat modern slavery and trafficking. This annual report must be approved and signed off at the highest level of the organisation and made accessible on the organisation's website.

The self-assessment questionnaire we use with prospective suppliers has covered a range of issues that are material to the Modern Slavery Act 2015 for many years. These issues include child labour, forced and bonded labour, freedom to form/join trade unions, collective bargaining, disciplinary/grievance practices, working hours and overtime, benefits, transparency of employment contracts, minimum/living wages, and payment of wages.

In 2016, we used the impetus of the Act's introduction to build on our existing work. This involved engaging with our subsidiary businesses' procurement teams to raise awareness of the Act's new requirements and to reassess their supply chains, determining whether there are any potential risks from a slavery or human trafficking perspective. Provident Financial Group's first Modern Slavery Act statement was published in April 2016. Go to www.providentfinancial.com for more information.

Investing in our communities

Provident Financial Group's Social Purpose is financial inclusion for those who are not well served by mainstream credit products or are excluded altogether. To achieve this, we make financial products and services available in a responsible manner to consumers in the non-standard credit market.

However, we also recognise we have a duty to invest in the communities where non-standard credit consumers live and address the issues that are relevant to their particular needs. We have done this for many years. However, in 2016 we undertook a review of our approach to community investment to ensure that it was still fit for purpose and meeting the expectations of our stakeholders.

Provident Financial Group's social impact programme

The reason consumers are not accepted for mainstream credit products are many and complex but there are a number of factors which on their own, or acting together, tend to reduce a person's ability to be accepted for credit. Such factors include: unemployment or under-employment; low, uncertain or fluctuating incomes; low educational attainment; and physical or mental health issues.

Our strategy is to invest in community activities that seek to alleviate these underlying problems.

This strategy will deliver support in five ways. It will:

1. Identify and support local projects which address the most relevant social inclusion issues in the communities in which we operate;
2. Identify and support accredited community intermediaries, such as Community Foundations, to deliver programmes of activity in the communities in which we operate;
3. Provide employees with matched funding for fundraising and volunteering activities undertaken, both inside and outside work;
4. Encourage our employees to take part in company-led volunteering initiatives; and
5. Support the money advice sector to address financial education issues, and carry out research into broader, societal matters that relate to non-standard customers.

Reviewing our community investment strategy

Throughout the summer of 2016, we carried out a review of Provident Financial Group's community investment strategy. This work, which was undertaken with the help of Corporate Citizenship, involved reviewing our current community investment activities and the programmes in place within other companies, as well as assessing key trends in community investment.

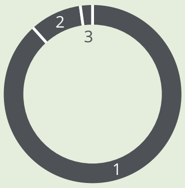
The review also entailed conducting interviews with key individuals from across the group's businesses and hosting a consultation roundtable with a range of external stakeholders to ensure that we took account of the views of people from inside and outside Provident Financial Group.

The review revealed six key findings:

1. The community strategy should continue to be closely aligned to the group's Social Purpose of financial inclusion for those who are not well served by mainstream credit products or who are excluded from them altogether;
2. The community strategy should apply across the corporate office and all the operating businesses;
3. Greater emphasis should be placed on measuring the social impacts that result from the group's community investment work;
4. The publication of the measurable social impacts that result from the community investment activities should be used to enhance the brands of our operating businesses which will help them to attract, retain and develop the best talent from the widest possible pool;
5. The delivery of the strategy should be underpinned by appropriate governance structures which draw on expertise from inside and outside the business and focus on ensuring that all activities are strategically aligned; and
6. Provident Financial Group should, wherever possible, work with accredited community intermediaries, such as Community Foundations, who can work with the group's businesses to connect them with, support and invest in projects and initiatives.

2016 community investment figures

1	Cash	£2,700,944 (2015: £2,829,013)
2	Management costs	£285,744 (2015: £229,147)
3	Value of employee time	£66,756 (2015: £40,399)
Total		**£3,053,444** (2015: £3,098,559)



Community impact in 2016

> Amount of money invested in support of community programmes, money advice programmes and social research: £3.1m (2015: £3.1m);

> Number of people who directly benefited from the support provided by the projects funded through our community investment programmes: 64,021 (2015: 42,938);

> Number of people who experienced a positive change in their behaviour or attitude as a result of involvement in our community investment programmes: 8,308 (2015: not fully measured);

> Number of people supported to develop new skills or improve their personal effectiveness as a result of their involvement in our community investment programmes: 13,731, (2015: 18,872);

> Number of people who have experienced a direct positive impact on their quality of life as a result of their involvement in our community investment programmes: 12,829 (2015: not fully measured);

> Total number of hours volunteered by employees in community involvement activities: 3,632 (2015: 2,255); and

> Number of projects/partnerships supported through our community programmes on a longer-term basis: 53. These can be viewed at www.providentfinancial.com. We have also distributed grants to a further 29 organisations through accredited community intermediaries, such as Community Foundations.

Community case study

Participate

Participate is a community regeneration charity that delivers wide-ranging support to community organisations in some of the most disadvantaged areas of Yorkshire.

In 2016, funding was provided to Participate so that it could work directly with some of Provident Financial's community partners to help them become more sustainable organisations. This work was carried out because the current funding landscape is challenging for many organisations within the third sector, particularly for the smaller, local community organisations that we support through our programmes. By engaging Participate to work with our partners, they have received bespoke support and expertise in areas such as governance, fundraising and strategy formulation.

Building on this work, we also funded Participate to deliver the Provident Financial Good Neighbour Live conference in September 2016 (GNlive2016) so that it could share some of the common themes that emerged through the support it delivers with a wider audience of community organisations. The event, held in Bradford, brought together community partners from across the UK and Ireland to hear from third-sector experts and to spend time networking and sharing insights with their peers.

"GNlive2016 reflected the enthusiasm and energy of the amazing organisations that attended. Feedback from delegates has been fantastic, with some ambitious pledges to implement learnings from the speaker sessions and workshops. The great networking opportunities have started new partnerships between charities across the country."

Anthony Waddington
Project Director at Participate

Our continued investment in Bradford

As a company of over 135 years' standing in the city, we continue to commit our resources to supporting the community through a broad range of activities. Following our sponsorship of the Bradford Literature Festival in 2015 and the forthcoming festival, we announced our title sponsorship for a further five years. Our aim is to support Bradford in its continued regeneration, engaging audiences from our communities, raising aspirations and improving literacy.

Strategic report

Corporate responsibility (continued)

Community case study

Made4U in ML2

Made4U in ML2 is a community centre based in Wishaw, North Lanarkshire. The centre aims to make the local community stronger by working with young people, individuals and families to empower them to have positive lifestyles through a diverse programme of group activities and health and well-being initiatives.

This programme offers friendship, workshops, outreach and partnership working to tackle a wide range of issues such as mental health, obesity, inactivity in young people, isolation, unemployment, drug and alcohol abuse, sectarianism, self-esteem and relationship problems. In addition, they offer a number of volunteering opportunities to local residents. Initial funding from Provident Financial allowed them to move into their own premises from which they are able to run the various activities on offer and our funding continues to cover the cost of the centre's vital work.

This year, through our work with Participate, it was identified that Made4U in ML2 would benefit from mentoring and support around defining their organisational structure, building a strategic vision and then looking to identify and access further sustainable funding.

Through Provident Financial's funding, Made4U in ML2 has received, and continues to receive, support which is focused on ensuring that its governance structures are developed to help it to continue to deliver services and support that meet the needs of the local community.

> "Participate's support has allowed Made4U in ML2 to continue reaching and impacting the community. Through the partnership with Participate, we have gained a better insight into how to shape and develop our organisation to become more sustainable. We are excited about what's to come."

Clare McCormack
Project Manager, Made4U in ML2

Community case study

Project for the Regeneration of Druids Heath (PRODH)

PRODH is a charity that serves Druids Heath and its surrounding areas in Birmingham. It works with local people and other partner organisations to deliver activities and projects which focus on those disadvantaged by financial hardship, disability and low levels of educational attainment.

The activities it delivers include an advice and advocacy drop-in facility, adult education courses in English, maths and beauty, debt advice, and a weekly community lunch for older people on the estate, which includes a 'ring and ride' bus service to pick them up if they are struggling to get to the centre on their own.

Working with Participate, the organisation is currently looking at diversifying its revenue streams in order to help it become more sustainable.

> "The partnership we have with Provident Financial has a massive impact on the motivation of both staff and volunteers. Having a company that believes in you and trusts you to use the funding well is a rare thing in the current climate and vital to our survival. Connecting us with Participate to look at ways of becoming more sustainable is also of high value.

Karen Urwin
Community Regeneration Worker, PRODH

Community case study

Vanquis Bank and Mencap

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

The number of people with a learning disability in paid employment remains chronically low – 8 out of 10 could work but only 2 out of 10 do. The programme will support over 200 people with a learning disability to gain confidence and develop key employability skills. Mencap's aim is that 44 people will be helped into employment, work experience, volunteering or an educational course.

The partnership also provides a good development package for employees as it gives them the opportunity to develop communication, problem solving, management and organisational skills. As well as volunteering with the programmes themselves, Vanquis Bank employees have been supporting Mencap by getting involved in a variety of fundraising events including Step Up Challenge, Paint 'n' Fix, The Manchester Great Run and the Royal Parks Half Marathon.

"Thanks to the support I received from Mencap through its Employ Me and Money Management Programmes in Chatham, I now have a part-time paid job in Asda and I also have a part-time job in The Card Factory. I can now choose to go on holiday if I wish and I have money to buy Christmas and birthday presents for people.

Participant's story
Mencap Medway

Mencap – Learning Disability Work Experience Week (LDWEW)

As part of Vanquis Bank's charity partnership with Mencap, the Bank was a proud sponsor of Learning Disability Work Experience Week 2016.

Since 2013, Mencap has partnered with Inclusive Employers to help provide positive, inclusive and meaningful work placements for people with a learning disability and improve their chances of finding paid work. The Week is also designed to show employers the benefits of employing a person with a learning disability.

Vanquis Bank itself offered six work experience placements giving those individuals their first taste of a work environment. Vanquis Bank is committed to supporting LDWEW for the foreseeable future. Next year, the plan is to engage with more areas of the business and to offer placements within technical areas, taking inspiration from Microsoft's Autism and Asperger's syndrome inclusive recruitment programme.

"My work experience placement was with Vanquis Bank for four days. I got the placement through the Mencap Employment Team as they told me about the placement opportunity. I was based at Vanquis' London office at Fenchurch Street on the 28th Floor of the 'Walkie Talkie' building. I think my overall experience was positive and there wasn't anything that I didn't enjoy. It was also really good to get to know new people and find out what their jobs were and what they have to do within their job."

Participant's story
Mencap London

Strategic report

Corporate responsibility (continued)

Community case study

The Outward Bound Trust

Vanquis Bank has been working with The Outward Bound Trust since 2014. The organisation is an educational charity that runs adventurous and challenging outdoor learning programmes to equip young people from different backgrounds with valuable skills for education, work and life.

A key element of the programme is that Vanquis Bank employees can volunteer as Employee Ambassadors, providing additional emotional and practical support during the course, a 'real-world context' for the learning that takes place during the course, and helping to develop young people's awareness of the workplace and routes to employment.

A total of 360 young people benefited from this support in 2015–16. Based on the evaluation of a selection of courses, 89% experienced a positive change in their attitude to facing challenges in the future and 80% developed confidence, awareness of their own skills, and improved attitude to problem solving.

Supporting the money advice sector

As part of our commitment to help non-standard credit customers, we work with a wide range of free-for-client money advice organisations. Our financial support enables them to help those who 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 a range of money advice providers, including 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 specialist money advice providers on a range of further financial education initiatives and help finance publicly-available, independent research to help understand the financial behaviour of those on modest incomes.

Minimising our impact on the environment

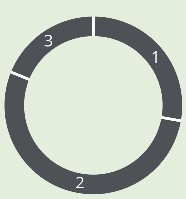
Greenhouse gas reporting

We actively manage and report the GHG emissions that relate to the 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. This not only enables us to meet the requirements of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, it also enables us to meet the needs of investors who are increasingly interested in our GHG emissions as they look to better understand the carbon intensity of our activities.

During 2016, our scope 1 and 2 emissions and associated scope 3 emissions accounted for 5,115 tonnes of CO_2e. These scope 3 emissions are the indirect 'well-to-tank' emissions from the extraction, refining, distribution, storage, transport and retail of the fuel we use.

GHG emissions in 2016 (tonnes of CO_2e)*

1	Direct CO_2 (scope 1) CO_2e emissions	**1,422** (2015: 1,405)
2	Indirect CO_2 (scope 2) CO_2e emissions	**2,728** (2015: 3,207)
3	Associated indirect CO_2 (scope 3) CO_2e emissions	**965** (2015: 1,269)
Total		**5,115** (2015: 5,881)



* Our emissions are reported in accordance with WRI/WBCSD Greenhouse Gas ('GHG') Protocol. We use an operational control consolidation approach to account for our GHG emissions and use emission conversion factors from Defra/DECC's GHG Conversion Factors for Company Reporting 2013. Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use.

5,115
(2015: 5,881)

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

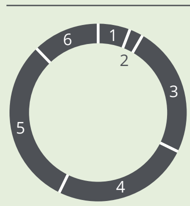
2.22
(2015: 2.92)

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

The business travel of our employees continues to make a significant contribution to Provident Financial Group's overall carbon footprint. During 2016, the business-related journeys made by group employees and the self-employed agents in our Provident home credit business accounted of 1,346 tonnes of CO_2e.

Business travel GHG emissions (tonnes of CO_2e)*

1	Air travel	**261**
2	Rail travel	**105**
3	Car travel – own vehicles	**1,057**
4	Company car fuel use	**1,092**
5	Car travel – self-employed agents	**1,346**
6	Extracting, refining and transportation of raw fuel associated with business travel	**526**
Total		**4,387**



We also monitor the GHG emissions that are associated with the waste that is generated and managed by our businesses. During 2016, Provident Financial Group generated 879 tonnes of waste. Of this, over 99% (875 tonnes) was recycled or had energy recovered from it. The GHG emissions associated with the waste was 20 tonnes of CO_2e.

8,430
overall operational carbon footprint

Carbon offsetting

For over five years, we have offset the GHG emissions associated with Provident Financial Group's business travel activities. We have done this because, while we understand that some amount of travel is an essential part of how our businesses operate, the emissions resulting from this are environmentally damaging and need to be mitigated. These emissions have been offset through our financing of renewable energy projects around the world which help to mitigate the effects of climate change. In 2016, we took the decision to extend the scope of our carbon offsetting work to include all the GHG emissions which we currently capture. This would enable us to operate our business in a carbon neutral manner.

During 2016, we offset the 8,430 metric tonnes of CO_2e which accounted for our overall operational carbon footprint. These emissions were offset through the purchase of carbon credits, which were certified to both the Verified Carbon Standard and SOCIALCARBON standard, in the Kumköy hydropower project in the Antalya Province of Turkey. This is an 18 megawatt hour hydroelectricity project which generates clean energy from the natural flow of the Yeşilırmak river in Kumköy. In the absence of this project, the same electricity would have been generated by fossil fuel powered plants. Through our purchase of credits in this project, greenhouse gas reductions are achieved by displacing carbon-intensive energy with cleaner, renewable energy. The project also benefits the local community as it enables the irrigation of 82,000 hectares of land which is downstream of the Yeşilırmak river.

Governance

Governance

Introduction from the Chairman

Dear shareholder

As chairman of the board, it is my responsibility to ensure that governance structures and principles are in place to balance the interests of the board, management, shareholders, creditors, regulators and other stakeholders. Good governance underpins the rules and procedures in place for making decisions on corporate affairs.

Corporate governance determines the allocation of authority and responsibilities and aligns corporate culture, corporate activities and behaviour with applicable laws and regulations. I am pleased to report that we have complied in full with the principles and provisions of the UK Corporate Governance Code which was published in September 2014 (the Code). A copy of the Code can be found at www.frc.org.uk.

During the year, the board focused on ensuring it has the right skillset in place to enable it to address the changing needs of the group in a developing digital and regulatory environment. This report sets out our approach to governance in practice, the work of the board during 2016 and includes reports from the risk advisory committee, the audit committee and the nomination committee.

Following internal evaluations in both 2014 and 2015, Lintstock, an external evaluator, was appointed to carry out a three-year evaluation of the board, its committees and the individual directors. The key findings from the 2016 board evaluation, the priorities for change and further details on the evaluation process to be undertaken in the future are set out on page 78.

A number of action points arose from our internal board evaluation in 2015 which were reported on in last year's annual report. Progress against these action points is set out in more detail on page 77 of this report.

Following on from previous board evaluation processes and feedback from individual board members as part of internal formal performance evaluations that I carried out during 2016, a number of changes have been made to the board composition, including the appointment of two new non-executive directors, both of whom have extensive digital expertise and experience. We have also recently recruited a new non-executive director, Andrea Blance who will be joining the board on 1 March 2017. As a result of the board composition changes, we will take the opportunity to reconstitute the membership of the board committees during 2017.

Manjit Wolstenholme
Chairman
28 February 2017

Key highlights for 2016

Board Evaluation

During 2016, an independent external evaluator, Lintstock, was appointed to carry out a three-year evaluation of the board, its committees and individual directors.

Read more on page 78

Independence and reappointment to the board

The terms of appointment for Manjit Wolstenholme and Malcolm Le May have both been extended for a further three years.

Read more on page 90

Update on non-executive director recruitment

Two new non-executive directors have been recruited and appointed from 1 January 2017, subject to shareholder approval.

Read more on pages 90-91

Succession Planning

The executive teams in each of the divisions were strengthened and the retiring managing director of Moneybarn was succeeded by an internal appointee.

Read more on pages 91-92

Remuneration

Following consultation with our major shareholders and shareholder institutional bodies, the remuneration policy will be submitted to the 2017 Annual General Meeting (AGM) for approval by shareholders.

Read more on pages 100-105

Governance

Our directors and officers

Peter Crook 53

Chief Executive

Appointed to the board: 2006

Chairman:

Executive committee

Key achievements:

> Overseeing the succession planning at Moneybarn, specifically the appointment of Peter Minter as executive chairman and the appointment of Shamus Hodgson as managing director in his place.

> Enhancing the local profile of the group by becoming Interim Chair of Producer City Board and arranging for the group to be one of the key sponsors of the Bradford Literature Festival.

> Assisting the Vanquis Bank managing director with the reconstitution of the Vanquis Bank executive committee.

Previous board and management experience:

UK managing director, Barclaycard.

Current external appointments:

Non-executive director of Cabot (Group Holdings) Limited.

Manjit Wolstenholme 52

Independent non-executive Chairman

Appointed to the board: 2007

Appointed as Chairman: 2014

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, partner at Gleacher Shacklock and non-executive director of Aviva Investors Holdings Limited.

Current external appointments:

Non-executive director of Future plc, the Unite Group plc, CALA Group (Holdings) Limited and CMC Markets plc.

Andrew Fisher 59

Finance Director

Appointed to the board: 2006

Committee membership:

Executive committee

Key achievements:

> Renegotiating and refinancing the group's core bank facility resulting in an increased facility of £450m, an uplift of £67.5m, with a maturity date of May 2020.

> Assisting and advising the nomination committee on the recruitment of a new non-executive director to assume the role of audit committee chair in 2017.

> Overseeing the submission of the group and Vanquis Bank ICAAP to the PRA.

> Ensuring the audit partner rotation was effectively implemented.

> Realigning the role and responsibilities of the risk advisory group and the risk advisory committee which inter alia included transferring the review and reporting of conduct risk across the group from the risk advisory committee to the risk advisory group.

Previous board and management experience:

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

Current external appointments:

Non-executive director of Arrow Global Group plc.

Malcolm Le May 59

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

Current external appointments:

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

Alison Halsey 61

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 Cambian Group plc, Aon UK Limited, Credit Suisse International and Credit Suisse Securities (Europe) Limited.

Rob Anderson 58

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 officer of Signet Jewelers Limited's UK Division.

Current external appointments:

None.

John Straw 57

Independent non-executive director

Appointed to the board: 1 January 2017

Committee membership:

None

Chairman:

None

Key strengths:

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

Previous board and management experience:

Founder and chief executive officer of NetRank Ltd. Head of the digital advisory board of Premier Farnell plc, various digital transformation positions at Internet Marketing Ltd and chairman of the digital advisory board of Thomas Cook Group plc.

Current external appointments:

Senior advisor, digital transformation, at Mckinsey & Co, senior advisor at IBM, non-executive director of CTRLio Ltd and advisor to Bought By Many Ltd.

Stuart Sinclair 63

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 the financial services market in the UK and overseas.

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

Previous board and management experience:

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

Current external appointments:

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

Ken Mullen 58

General Counsel and Company Secretary

Appointed to the board: 2007

Committee membership:

None

Secretary:

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

Key achievements:

> Reorganising the property and employment legal teams.

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

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

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

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

Previous board and management experience:

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

Current external appointments:

Chairman of Rexel UK Limited Pension Scheme.

David Sear 52

Independent non-executive director

Appointed to the board: 1 January 2017

Committee membership:

None

Chairman:

None

Key strengths:

> Extensive experience and strong track record in digital transformation, in particular in the payment services sector.

Previous board and management experience:

Group chief executive officer at Skrill Ltd (now Paysafe), and chief executive officer of Weve. Divisional managing director and chief executive of two divisions of Travelex, outsourcing and global business payments. Founder and chief operating officer at Worldpay.

Current external appointments:

Chairman of Bango (BGO) and chairman of Semafone. Non-executive director of Fintrax Group.

Governance

Leadership

> "The board ensures that its decisions are of the highest quality. It is responsible and accountable for reviewing performance, strategy and risks and acting in the best interests of the company at all times."

Manjit Wolstenholme
Chairman

An effective board is pivotal to the company delivering sustainable shareholder value through setting the strategy and overseeing its implementation. The board is ultimately responsible for the group's strategy and maintaining an effective system of internal control and regulatory oversight that provides assurance that the divisions operate effectively and that there is an appropriate system of risk management in place consistent with the nature of the group.

The board is responsible to shareholders for the financial and operational performance of the group. This includes clearly laying out the key responsibilities and authorities of the board itself, of senior management and of those responsible for strategic leadership, performance management, investor relations, risk management, governance and succession planning.

The board also plays a key role in establishing the group's culture and values, setting the tone from the top and ensuring that there is not excessive risk taking within the group. The structure of the group is driven by both top down board leadership and bottom up management involvement and the board continually assesses whether the senior management's collective knowledge and expertise remain appropriate given the nature of the group's business and risk profile.

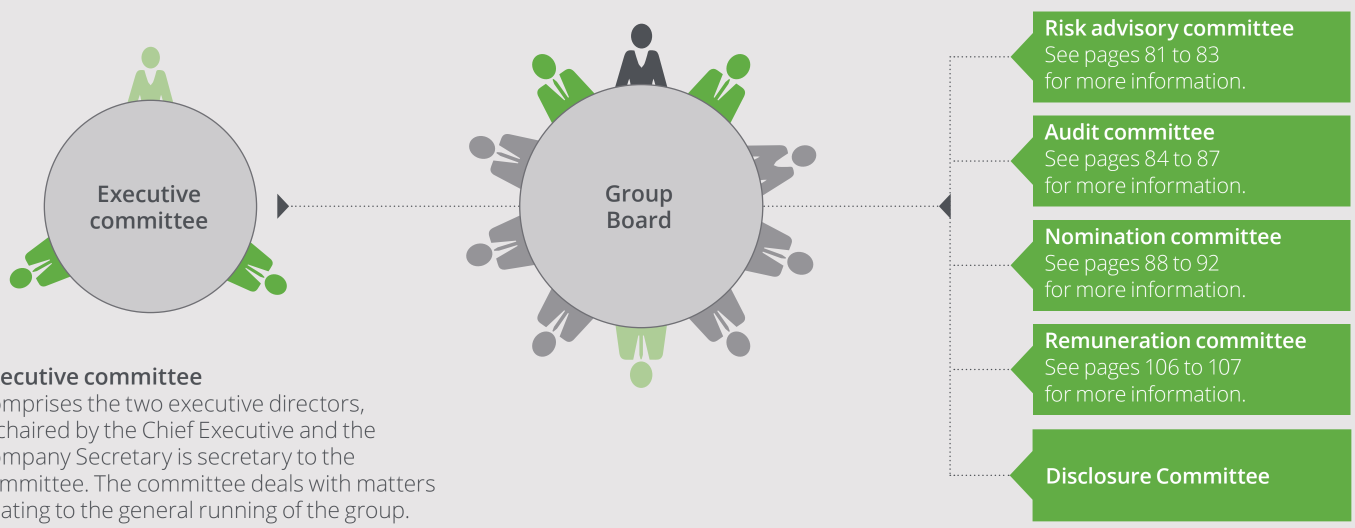
Specific key decisions and matters have been reserved for approval by the board and are set out in its terms of reference. These include: the establishment of, and changes to, the group strategy; determination of interim and recommendation of final dividends having considered the available distributable reserves and regulatory capital requirements of the group; 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 controls.

The board reviews the terms of reference for itself and its committees annually and these were last updated in December 2016. 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 functions to its six principal committees as shown in the diagram below. During 2016, the board reconstituted the disclosure committee to ensure compliance with the company's obligations under the Market Abuse Regulation and is in the process of establishing a digital advisory board to create a focus on the group's future digital requirements. The chairman of each board committee reports to the board on the matters discussed at each committee meeting.

Following the recruitment of two new non-executive directors, the opportunity will be taken to reconstitute the membership of all the board committees in the first quarter of the 2017 financial year to better align and

Governance framework



Executive committee
Comprises the two executive directors, is chaired by the Chief Executive and the Company Secretary is secretary to the committee. The committee deals with matters relating to the general running of the group.

maximise the skillset and experience of each non-executive director. The changes to the committees will be reflected in the Notice of AGM 2017.

There is significant focus on the risk culture in the organisation which 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 group's risk appetite, the nature and extent of the risks facing the group, including the framework to mitigate such risks and notifies the board of changes to the status and control of risks across the group.

Following the realignment of the roles and responsibilities of the risk advisory group and the risk advisory committee, the former now reviews risks across the group and provides a detailed report to the latter. The managing directors and chief risk officers of each division now attend both the risk advisory group and the risk advisory committee meetings which has enhanced the discussion of the risks inherent in the divisions, particularly those relating to regulation and conduct and reflects the ever changing regulatory environment in which the group operates.

In addition, the group has detailed corporate policies which are explained on page 45 of this report and which were updated and approved by the board in December 2016. On a day-to-day basis, the divisions and the corporate office have responsibility for the implementation of the corporate policies and the board is responsible for the general oversight of this process.

Detailed reports on the activities of the risk advisory committee, audit committee and nomination committee are set out in this report on pages 81, 84 and 88 respectively.

Details of the work of the remuneration committee, the composition of which is set out in the table below, together with the annual statement from the remuneration committee chairman, the remuneration policy and the annual report on remuneration, are set out in the directors' remuneration report, on pages 98 to 118.

The right team

The board held nine meetings in 2016. Individual director attendance is set out in the table below.

The board has overall responsibility for the group's governance framework, for corporate culture and for the group's strategic objectives, including approving and overseeing implementation by management. As part of that process and, as in previous years, an annual two-day corporate planning conference (CPC) was held off-site 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 the Director of Corporate Finance and Development, as well as other members of the senior management teams within the divisions as appropriate.

The agenda included:

> A discussion on the implications, opportunities and threats inherent in the current and likely future macroeconomic environment and in the non-standard consumer credit market in which the group operates;

> A review of the overall group strategy including an exercise in applying the group strategy to different potential opportunities;

> A discussion on the implications of the FCA authorisation process and on-going supervision by the FCA; and

> A discussion on the strategic options for the future development of the home credit business of CCD, Satsuma, Moneybarn, Vanquis Bank and Glo.

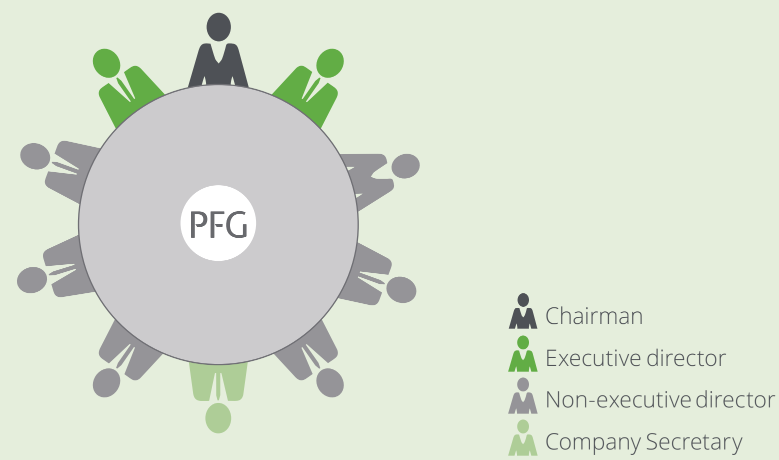
Member attendance at board and committee meetings in 2016

	Board	Audit committee	Nomination committee	Remuneration committee	Risk advisory committee	Percentage attended
Total number of meetings	**9**	**4**	**4**	**6**	**4**	
Manjit Wolstenholme	9	–	4	–	4	100%
Peter Crook	9	–	–	–	–	100%
Andrew Fisher	9	–	–	–	–	100%
Malcolm Le May	9	4	4	6	4	100%
Rob Anderson	9	4	4	6	4	100%
Alison Halsey	9	4	4	6	4	100%
Stuart Sinclair	8	4	4	5	4	92%

Governance

Leadership (continued)

Board composition



The board comprises the Chairman, two executive directors, six independent non-executive directors and the Company Secretary. Their responsibilities are summarised in the table opposite on page 75 and their full biographical details, including the skills and experience they each bring to the board, can be found on pages 70 to 71. 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 and for its effective functioning, whilst the Chief Executive manages and leads the divisions through their respective senior management teams.

At each board meeting

Discussion:

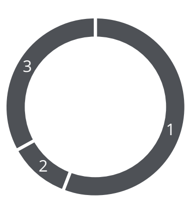
Chief Executive's report
Acquisition opportunities
Trading results and key performance indicators (KPIs)
Finance Director's report
Management accounts and financial commentary
Divisional operational reports
Treasury matters
Legal, company secretarial and regulatory matters
Board committee matters
Investor relations and shareholder feedback
Corporate affairs

Review:

Minutes of previous meetings
Minutes of the meetings of the executive committee
Implementation of actions agreed at previous meetings

Sector experience

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



Key board discussions and actions in 2016

Jan
- Presentation of the group's new corporate website.
- Presentation on the key features of the corporate responsibility report.

Feb
- Review of a potential acquisition opportunity.
- Review and approval of the glo budget for 2016.
- Review of the Annual Report and Financial Statements 2015.
- Presentation by the Group Head of Tax on the group tax strategy and current issues.
- Approval of the recommendation to reappoint Deloitte as auditor to the company.

Apr
- Report on the FCA visit to CCD as part of the authorisation process.
- Presentation of the M&A landscape and opportunities.
- Presentation on the potential impact of Brexit.
- Review of the Satsuma business and financial plan.

May
- Review of a potential acquisition opportunity.
- Approval of the Interim Management Statement.

Jun
- Discussion on an updated succession plan for the group.
- Consideration and approval of the draft output of the CPC.
- Presentation by the festival director of the Bradford Literature Festival.
- Presentation on the impact of the new Market Abuse Regulation by Herbert Smith Freehills.
- Acceptance of the recommendation from the nomination committee to extend Manjit Wolstenholme's term of appointment to 31 July 2018.

Jul
- Consideration of a potential acquisition target.
- Review of the status of the FCA authorisations for Vanquis Bank, CCD and Moneybarn.
- Review and approval of the interim results announcement.
- Approval of the group's internal capital adequacy assessment process (ICAAP).

Sep
- Agreement to consult with the group's top twenty shareholders and shareholder representative bodies on the 2017 remuneration policy.

Oct
- Approval of the Interim Management Statement.
- Approval to renew the 2014 remuneration policy without amendment at the 2017 AGM, subject to shareholder approval.

Dec
- Review of the external board evaluation results.
- Review of non-executive directors' fees and independence.
- Review and approval of the budget 2017–2021.
- Acceptance of the recommendation from the nomination committee to appoint John Straw and David Sear as non-executive directors and to extend Malcolm Le May's term of appointment until 31 January 2020.
- Review and approval of the refreshed corporate policies.

Roles

Chairman	> Chairs the board, the nomination committee and the AGM. > Sets the board meeting agendas with the Chief Executive and Company Secretary to ensure that they are aligned with strategic objectives and that the board devotes its time and attention to the right matters. > Encourages and promotes critical discussion and ensures dissenting views can be freely expressed and discussed within the decision making process. > Ensures board decisions are taken on a sound and well-informed basis. > Facilitates and encourages active engagement and appropriate challenge by all directors. > Ensures the board receives timely and relevant information and is kept advised of key developments.	**Manjit Wolstenholme is also a non-executive director of Future plc, The Unite Group plc, CALA Group (Holdings) Limited and CMC Markets plc. 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 2017. She dedicates sufficient time to the exercise of her responsibilities.** **Manjit Wolstenholme's term of appointment has been extended for an additional three years subject to shareholder approval at the 2017 AGM.**
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 responsibility agenda of the group.	**Peter Crook also chairs the divisional board of CCD and chaired the Moneybarn board until 31 December 2016.**
Executive directors	> Responsible for all matters affecting the performance of the group. > Responsible for implementation of strategy, policies, budgets and the financial performance of the group in a manner consistent with the group strategy, risk appetite and other procedures approved by the board. > Provide specialist knowledge and experience to the board. > Responsible for the successful leadership and management of the risk and finance functions across the group.	**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. > Monitor and review the performance of the executive directors. > Bring experience and knowledge from other sectors which is of relevance to the group.	**The non-executive directors have a wide range of recent and relevant financial services, corporate governance, retail consumer and digital experience as detailed on pages 70 to 71.** **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.** **Malcolm Le May's term of appointment has been extended for an additional three years, subject to shareholder approval at the 2017 AGM.** **Alison Halsey's term of appointment expired on 1 January 2017. She will however remain a non-executive director until the 2017 AGM but will not be seeking reappointment.** **David Sear and John Straw were both appointed as non-executive directors on 1 January 2017 for an initial term of three years, subject to shareholder approval at the 2017 AGM.**
Senior Independent Director (SID)	> Meets with shareholders if they have any concerns which contact through the normal channels has failed to resolve or is inappropriate. > Acts as a sounding board for the other directors and confidant for the Chairman. > Is a conduit, as required, for the views of the other non-executive directors on the performance of the Chairman. > Conducts the Chairman's annual performance evaluation.	**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 wide ranging public company and corporate experience.**
Company Secretary	> Responsible to the board. > Ensures the information sent to the board is fit for purpose and facilitates effective discussions. > Provides comprehensive practical legal support and guidance to directors, both as individuals and collectively. > Provides support for the Chairman and the non-executive directors in maintaining the highest standards of probity and corporate governance. > Responsible for communicating with shareholders, as appropriate, and ensuring that due regard is paid to their interests.	**All directors are able to consult with Ken Mullen as the Company Secretary, who is also secretary to all of the board committees.** **There is also a formal procedure by which any director may take independent professional advice relating to the performance of any aspect of their duties at the company's expense, which is facilitated by the Company Secretary.** **The appointment and removal of the Company Secretary is a matter for the board.**

Governance

Effectiveness

What does effectiveness mean to the company?

Board members are qualified, individually and collectively, for their positions. They develop and promote the collective vision of the company's purpose, its culture, its values and the behaviour they wish to promote in conducting the business of the company. The balance of the board in terms of skills, diversity and expertise is commensurate with the size, complexity and risk profile of the group.

The Chairman creates the conditions for overall board and individual effectiveness and oversees the operation of its committees, with the aim of encouraging all board members to engage in board and committee meetings by drawing on their skills, experience, knowledge and, where appropriate, independence. Part of the annual assessment of the board and its committees is designed to ensure that they remain effective, fit for purpose and appropriately constituted with the right skills and experience to address the strategic direction of and regulatory challenges facing the group.

Induction of new directors

On appointment, to help board members acquire a good understanding and knowledge of the group's businesses and to enable them to fulfil their responsibilities, they are required to participate in a comprehensive induction programme which introduces them to the group's businesses and its senior management.

The programme includes individual meetings with the executive directors and the Company Secretary; meetings with divisional board members and senior management teams; visits to divisional offices; and a meeting with the audit partner from Deloitte LLP.

Two new non-executive directors, John Straw and David Sear, whose details are set out on page 71 joined the group on 1 January 2017. As part of their induction they participated in a two day session when they were introduced to different areas of each of the divisions, which included meetings with key individuals from CCD, Moneybarn, Vanquis Bank and the corporate office. A tailored induction programme is currently being prepared for Andrea Blance, who will be joining the board as an independent non-executive director on 1 March 2017.

Training

Appropriate training and briefing is provided to all directors on appointment to the board, taking into account their individual qualifications, skills and experience. Ongoing training is arranged to suit their specific needs and the Chairman periodically reviews and agrees with each director their training and development needs.

At its meeting in June 2016, the board received a training session on their obligations and responsibilities in relation to inside information and share related transactions following the implementation of the Market Abuse Regulation on 3 July 2016. The training session was delivered by Herbert Smith Freehills.

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 considers and reviews 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, the ability of the director to provide objective challenge to management and each director's other material commitments.

The five non-executive directors on the board in December 2016 were formally determined by the board at that time 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 was based on the fact that, with the exception of Manjit Wolstenholme, they have all served less than nine years on the board, they receive no additional benefits from the group and they have not previously held an executive role within the group.

The board has determined that there are no current or past matters which are likely to affect their independent judgement and that there have been no material changes since the determination was made.

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 of its members.

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

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

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

The board considers these procedures to be working effectively.

Accountability

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

The risk advisory committee assists the board by taking an active role in defining risk appetite and monitoring the risk management and internal control systems across the group. Further details of how the group's processes and internal controls work are at pages 45 and 82.

Board Evaluation

Performance evaluation of the board is crucial for effective governance and the long-term success of the company. Following the internal board evaluation in 2015, a summary of the board's progress against the actions that arose is set out below. The results of the external evaluation carried out by Lintstock in 2016 can be found on page 78.

Board evaluation 2015

Areas	Evaluation (2015)	Action points (2015)	Progress (2016)
1. Role of directors and the board	The board scored well and exceeded requirements on acting effectively. The board gave excellent feedback on the role of the Company Secretary.	It was felt important that the board maintains a clear and rigorous process for identifying, assessing and selecting board candidates.	Two new non-executive directors appointed using a clear and rigorous process which ensured candidates with the appropriate and relevant skillset were recruited.
2. Board composition	The board unanimously felt that additional skills would be beneficial as the group evolves in the technology and digital sphere. It was also agreed that a sufficient amount of time had been spent on succession planning in 2015, and that this should remain a priority for 2016.	The board and the nomination committee should continue to look at succession planning as a priority in 2016. Consideration should be given in the future to recruitment of a board member with technology and/or digital skills.	Succession planning across the group remained a priority and two independent non-executive directors with significant digital and technology experience were appointed to the board, with effect from 1 January 2017.
3. Board meetings	The board agreed that its meetings were effective but that there was still a need for a stronger link to the output from the CPC and to strategy in general.	The timing, content and scope of meetings to be kept under review, particularly regarding the monitoring of the output from the CPC.	The board received a presentation from the newly appointed Director of Corporate Finance and Development on the M&A landscape and strategic options for the group. The output from the CPC was actively monitored by the board and an update considered at the June board meeting.
4. Monitoring performance	The board agreed that the monthly financial and operational performance reporting was very comprehensive but that it should include more information on the important issues that require discussion.	The board agreed to keep under review the content and format of presentations and background information provided for decisions.	The content and format of the management accounts and divisional managing directors' reports presented to the board continue to be reviewed and refreshed as the businesses of the group evolve.
5. Information	The board agreed that this was a particular area that had significantly improved over recent years but thought there was still a lack of information provided between board meetings on occasions.	The executive directors agreed to ensure that more information, particularly on key or strategic issues, would be provided in the form of a regular update between meetings in 2016 as required.	Regular updates on the regulatory status of the divisions and on potential acquisition targets have been provided between board meetings during 2016. The executive directors will continue to provide updates between board meetings.
6. Corporate governance	The board agreed that it continues to maintain a high standard of corporate governance but thought that there could be more briefings on emerging topics.	The executive directors agreed to ensure that effective briefings on any emerging topics are provided to the board as appropriate.	The board received an update from Herbert Smith Freehills on the implications of the new Market Abuse Regulation. The Company Secretary will continue to ensure there are effective briefings on emerging topics.
7. Committees	Overall, the committees scored well and met the requirements of the board. The board agreed that there had been an appropriate level of focus on customer and conduct risk but felt risk management methodology required better alignment across the group.	It was agreed that the following improvements would be implemented: greater alignment of risk reporting across the group; greater links between risk and remuneration; and a continued focus on succession planning.	The risk appetite statements across the group are in the process of being reviewed and revised for inclusion in the updated divisional risk dashboards which will ensure a greater degree of consistency across the group.

Governance

Effectiveness (continued)

Board evaluation 2016

Following the internal evaluations carried out in the two previous years, the board engaged Lintstock to carry out an external board evaluation process over a three-year period. This process commenced in 2016 with a questionnaire which was designed, in part, to enable Lintstock to gain a better understanding of the board composition, its members and the operation of the board and its committees. By using Lintstock as a retained advisor over the longer term, the board believes that they will be able to become more aligned with the priorities, challenges and requirements of the board, ensuring year-on-year progress can be more efficiently measured and learnings captured. As a result, each board review will build upon and evolve from the previous one which will ensure consistency of approach and identification of the key issues to be addressed by the board on an ongoing basis.

In 2017, building on the experience and understanding gained in 2016, Lintstock will carry out a further evaluation by interviewing all board members and key members of the senior management team. The format of the 2018 evaluation will be agreed with the Chairman based on the outputs from 2016 and 2017.

In accordance with the guidance provided under the Code, the company confirms that Lintstock has no other connection with the group and is therefore independent.

A summary of Lintstock's analysis of the 2016 evaluation is as follows:

Board composition	The composition of the board was positively rated although there was an acknowledgment that the addition of digital experience would be beneficial.
Board expertise	The board's understanding of the views and requirements of major investors, employees, customers and regulators was rated positively.
Board dynamics	The board dynamics, particularly the relationship between board members and management, were highly rated overall.
Management of meetings	The management of meetings and the structure of committees, together with board support, was positively rated as was the quality of management presentations and the structure and content of board packs.
Focus of meetings	The focus of board and committee meetings and the oversight of the operating divisions was considered appropriate as was risk management and internal control.
Strategic oversight	The board's testing and development of strategy was rated highly as was the board's oversight of the implementation of the agreed strategy.
Risk management and control	The effectiveness with which the board takes risk into account when making major decisions was positively rated.
Succession planning and human resource management	The structure of the group at a senior level was positively rated. The board's oversight of succession plans for top management was considered adequate, as was the level of interaction between the board and top management in board meetings, in the business and in informal and social settings.

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

1. Regulation;
2. Growth in Vanquis Bank;
3. Maximising current opportunities;
4. Product diversification; and
5. Technology.

The following areas were identified as areas for future consideration:

1. Addressing the board composition, particularly in the areas of digital and regulation;
2. Improving the oversight of each of the divisions' regulatory relationships and risks, as it was recognised that this was one of the key risks facing the group;
3. Strengthening some of the group roles, in the areas of human resources, regulatory compliance and risk management; and
4. Improving succession planning across the group.

Governance

Shareholder engagement

Key themes discussed with shareholders and analysts in 2016

Group
- Potential acquisition activity.
- Rationale for holding a banking licence.
- Preparing for a more demanding FCA regulatory regime.

Provident home credit
- Factors behind the growth in receivables.
- Potential for further efficiency gains through deployment of technology.
- Reasons for the delay in receiving FCA authorisation.
- Potential impact of the FCA's review of high-cost short-term credit in 2017.

Moneybarn
- Reasons for the moderation in the risk-adjusted margin.
- Development of product proposition and distribution channels.
- Potential impact of an economic downturn post Brexit.

Vanquis Bank
- Reasons for the shortfall in new account bookings in Q1.
- Update on the initiatives to augment medium-term growth.
- Impact of remedies from the FCA credit card review.
- Rationale behind the loans pilot and transfer of guarantor loans from CCD.
- Resilience of the business in an economic downturn.

Satsuma
- Reasons for the slower development of the business since inception.
- Development of the customer journey and further lending capabilities.
- Competitive environment in online short-term credit and the impact on business volumes.
- Impact of regulation on the high-cost short-term credit market.

"We seek to engage regularly with shareholders on a wide range of topics including executive remuneration, strategy, risk management and corporate governance to ensure a meaningful and collaborative relationship is maintained."

Manjit Wolstenholme
Chairman

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

The group engages effectively with shareholders through its regular communications, the AGM and other investor relations (IR) activity. Results and other news releases such as changes to our strategy and board composition are published via the London Stock Exchange's Regulatory News Service (RNS). Any announcement published via RNS is also available on the group Investor Relations website at **https://www.providentfinancial.com/investors/**. Regular engagement provides investors with an opportunity to discuss particular areas of interest and raise any concerns. The group is committed to effectively communicating its strategy and understanding shareholder's views on its strategy and performance.

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.

Specific information on the 2016 IR programme can be found in the calendar on page 80. 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 group continually strives to produce a clear and transparent annual report which provides shareholders with a complete and balanced picture of the group;
- The corporate website – provides investors with timely information on the group's performance as well as details of the group's corporate responsibility (CR) activities. The website was refreshed in 2015 to improve its look and feel and to ensure that the website was fully accessible from either a PC, tablet or smartphone without the need for a separate mobile app;

Governance

Shareholder engagement (continued)

- 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. A Capital Markets Day has been scheduled for 4 April 2017 to provide further insight into the group's growth initiatives including the expansion of Vanquis Bank's credit card distribution and the new wider loans proposition, the ongoing development of Satsuma's digital capability, the proposed enhancement of the home credit operating model and the ongoing product developments in Moneybarn;
- 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 to information as investors in the UK. Usually attended by the Chief Executive, the Finance Director and the Head of IR;
- Attending broker conferences – management regularly attend and present at various conferences hosted by brokers to ensure that a wide variety of shareholders, including those from different geographies, have access to management;
- An annual CR report – a stand alone report clearly demonstrating the significant importance placed on corporate responsibilities within the group;
- Shareholder correspondence – the group is committed to responding to shareholders, regardless of the size of their holding, within two working days of receipt of correspondence; and
- 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 board members develop an understanding of the views of major shareholders, there is regular dialogue with institutional shareholders, including meetings after the announcement of the preliminary and interim results. The Chairman and the SID, both in his capacity as senior independent director and as remuneration committee chairman, have both met with shareholders during 2016.

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 through an annual perception audit carried out by h2glenfern limited and reviewed by the board. The group collates broker feedback from roadshows to present in the IR board report and all analyst and broker reports on the company are also distributed to all board members.

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 published via the London Stock Exchange's RNS and on the group's website. It is the company's policy to give shareholders in excess of 20 working days' notice of the AGM and the Notice of the 2017 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 2017 AGM are set out on page 97 of the Directors' Report.

Investor relations programme in 2016

January
- Trading statement.

February
- Preliminary results announcement.
- London investor/sales team roadshows.

March
- US roadshow (New York and Chicago).
- Barclays UK Select Conference.

April
- London wealth manager roadshow.

May
- AGM and Q1 IMS.

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

September
- Edinburgh investor roadshow.

October
- Q3 IMS and analysts call.
- Frankfurt, Zurich and Geneva investor roadshow.
- Amsterdam, Brussels and Madrid investor roadshow.

November
- London wealth manager roadshow.
- JP Morgan 'Best of British' Conference.

December
- Berenberg European Conference.

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

Risk advisory committee

"A key focus of the committee's work in 2016 has been ensuring a greater consistency of risk reporting across the group and overseeing the divisions' work with their regulators."

Stuart Sinclair
Risk advisory committee chairman

Role and responsibilities

The risk advisory committee's principal areas of responsibility are as follows:

> Recommending an overall conduct risk appetite, culture and tone for approval by the board;

> Monitoring the effectiveness of the divisions in establishing and maintaining risk management frameworks, policies and procedures;

> Carrying out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. A description of the principal risks and the actions taken to manage or mitigate those risks is set out in detail on pages 47 to 50 of the strategic report;

> Reviewing the group's capability to identify and manage new risk types, and keeping under review the effectiveness of the group's internal control and risk management systems in conjunction with the audit committee;

> Reviewing the group's identification of current and forward-looking risk exposures;

> Reviewing the group's business continuity plans;

> Notifying the board of any changes in the status and control of risks; and

> Reviewing and approving the Internal Capital Adequacy Assessment Process (ICAAP) stress testing and capital allocation approach and the Internal Liquidity Adequacy Assessment Process (ILAAP) and the recovery and resolution plan (RRP) adopted by Vanquis Bank on an individual and consolidated basis for submission to the board for final approval.

Members

Stuart Sinclair (chairman)
Alison Halsey
Malcolm Le May
Manjit Wolstenholme
Rob Anderson

Secretary

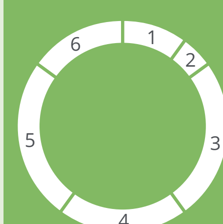
Ken Mullen

Composition of the committee

Other mandatory attendees at the risk advisory committee meetings in 2016, reflecting the terms of reference were: the executive directors, Peter Crook and Andrew Fisher; the group Director of Corporate Strategy and Risk, David Merrett; the Head of Group Internal Audit, David Mortlock; and the managing directors and chief risk officers of each division to discuss, inter alia, conduct risk and related governance issues.

Allocation of time

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



Committee calendar in 2016

January

> Reviewed and approved the updated risk appetite framework.

> Considered and accepted updated terms of reference for the risk advisory group.

> Reviewed and updated the risk management framework for the group.

May

> Reviewed the ICAAP approach and methodology and recommended approval to the board.

> Reviewed and approved the ILAAP for Vanquis Bank.

July

> Reviewed and approved a more consistent approach to assessing the status of risks across the group.

> Reviewed the ICAAP, including the Vanquis Bank RRP and agreed to recommend approval to the board.

October

> Reviewed an update on divisional risk management developments.

Governance

Risk advisory committee (continued)

Annual statement by the chairman of the risk advisory committee

As chairman of the risk advisory committee, I am pleased to present the report of the work of the risk advisory committee during 2016. Risk management is the process of identifying, quantifying, and managing the conduct, strategic, operational, compliance and financial risks that the group faces including those arising from market disruption and the evolving regulatory requirements, particularly in the financial services sector. The primary role of the risk advisory committee is to ensure the divisions understand and manage their risks in a manner consistent with what the board is willing to accept in the context of the overall corporate strategy.

At each meeting, the committee

> Reviewed the overall risk management status of the group;

> Reviewed the key group risks;

> Reviewed the risk appetite status across the group;

> Reviewed the quarterly internal audit opinion on risk management reporting; and

> Reviewed minutes and actions from prior meetings, and of the risk advisory group.

Statement on internal controls

Our risk management framework is firmly embedded within our management and governance processes, and incorporates the process detailed on page 45.

This risk management framework was in operation throughout 2016 and continued to operate up to the date of approval of this Annual Report and Financial Statements 2016. This framework is the process by which group-wide compliance with laws and regulations, the reliability of the financial reporting process (including in relation to the preparation of consolidated accounts) 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.

During 2016, the risk advisory committee:

> Carried out a review of the group's risk appetite framework and worked with the divisions to improve the quality and consistency of risk reporting on these matters at committee meetings;

> Updated the committee's terms of reference to include the provision of advice to the board on the annual viability statement, particularly with regard to the group's principal risks;

> Received conduct risk governance reports from the divisional managing directors and the divisional chief risk officers;

> Implemented structural changes to risk management across the group, the key elements of which were:

(1) to transfer responsibility for the review of all risks, including conduct risk, to the risk advisory group, rather than having it focused on non-conduct risks;

(2) to have divisional managing directors and chief risk officers attend the risk advisory group and the risk advisory committee meetings as regular attendees;

(3) to have the risk advisory committee receive detailed reports from the risk advisory group covering all risks, including specifically conduct risk;

(4) to have other attendees at the risk advisory committee meetings by invitation for particular issues such as deep dives and to discuss significant out of appetite risks identified by the risk advisory group or as requested by the risk advisory committee;

(5) to have the risk advisory group provide quarterly confirmations on capital, liquidity, risk management, internal controls, regulatory notifications, remuneration and prudential regulatory compliance as required by each division under the senior managers regime; and

(6) to have regular reviews of the authorisation status and the material supervisory issues in each of the other divisions.

> The group is exposed to changing regulatory requirements as its activities change and develop. Consequently, the committee received regular updates of known and anticipated regulatory changes and challenged management's approach to preparing for and implementing new requirements.

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 strategic objectives. Risk owners are identified and given responsibility for ensuring actions are implemented with appropriate review dates.

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

The risk registers are reviewed by the risk advisory group and updated at least quarterly. The risk advisory committee, through the risk advisory group is responsible for monitoring the key actions and metrics identified by the divisions and the group in the management of all risks, including in particular conduct risk, and ensures that customer outcomes remain central to the group's risk management programme.

The board is satisfied that the group's risk management and internal control systems, including, in particular, the financial reporting processes, were effective throughout 2016 and up to 28 February 2017 and continue to be so. The board does this through: (1) the risk advisory committee, which carries out a robust assessment of the principal risks facing the group and receives detailed reports from the risk advisory group on all risks, including conduct and regulatory risk; and (2) the audit committee, which reviews the work of the group internal audit function and their opinion on risk and control effectiveness. The audit committee actively monitors the risk management and internal control systems including financial, operational and compliance controls on an ongoing basis. This annual review and ongoing monitoring confirms that the internal control and risk management processes 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 management and control culture exists across the group 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 the finance forum identifies and approves changes to accounting and financial reporting policies.

The board believes that the risk management process including in particular the financial reporting processes, are in accordance with the Financial Reporting Council's (FRC) Guidance on Risk Management, Internal Control and Related Financial and Business Reporting ('the FRC's Guidance') and the FCA's Disclosure Guidance and Transparency Rules.

Further insight into the group's principal risks, and the management of these, can be found on pages 47 to 50 of the strategic report.

Effectiveness

The committee formally considered its effectiveness in 2016 at its meeting in January 2017. This was undertaken as part of the external board and committee evaluation process carried out by Lintstock. Each director was able to comment and rate various aspects of the committee's role by responding to a series of questions relating to the performance of the committee contained in the external questionnaire. On the basis of the evaluation undertaken, the overall view was that it was working effectively to fulfil its responsibilities and duties and no significant actions were identified.

Stuart Sinclair
Risk advisory committee chairman
28 February 2017

Priorities for 2017

- Consideration will be given to the appointment of additional group resources including possibly a group chief risk officer to support the work of the committee.
- Continue to develop and improve the quality and consistency of risk management across the group.
- Increase focus on digital and cyber risk issues in coordination with the audit committee.
- Consider post authorisation requirements for risk management across the group.

Governance

Audit committee and auditor

> The audit committee provides governance and oversight of the financial reporting and disclosure process, the audit process and the system of internal controls and compliance."

Alison Halsey
Audit committee chairman

The role of the committee

General

The primary function of the committee is to assist the board in fulfilling its oversight responsibilities by monitoring the integrity of the financial statements of the group and other financial information before publication, and reviewing the significant financial reporting judgements contained in them. In addition, the committee also reviews:

> The systems of internal financial, operational and compliance controls on a continuing basis, and the arrangements and procedures in place to deal with whistleblowing, fraud and bribery; and

> The accounting and financial reporting processes, along with the roles and effectiveness of both the group internal audit function and the external auditor.

The ultimate responsibility for reviewing and approving the Annual Report and Financial Statements 2016 remains with the board.

Specific

The committee is also specifically responsible for:

> Initiating and oversight of any tender process in relation to the appointment of an external auditor;

> Negotiation of the scope and fee for the audit;

> Assisting the board in assessing the company's ongoing viability, the basis of the assessment and the period of time covered;

> Approving the group internal audit plan annually; and

> Keeping under review the effectiveness of the group's system of internal controls and risk management by considering group internal audit activity reports at each meeting and reporting to the board on a regular basis.

Members

Alison Halsey (chairman)

Malcolm Le May

Stuart Sinclair

Rob Anderson

Secretary

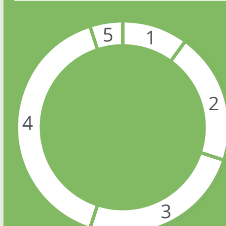
Ken Mullen

Composition of the committee

The members of the committee during 2016 all have a wide range of business and financial experience which is evidenced by their biographical summaries on pages 70 and 71. Malcolm Le May, Stuart Sinclair and Alison Halsey all have considerable recent and relevant financial experience as evidenced by their biographical details which are also set out on these pages. Other attendees at the audit committee meetings in 2016 were, by invitation; Manjit Wolstenholme; the executive directors, Peter Crook and Andrew Fisher; the Group Financial Controller, Gary Thompson; the Head of Group Internal Audit, David Mortlock; and the external auditor, Deloitte LLP.

Allocation of time

1 Governance	10%
2 Financial reporting	20%
3 External Audit	25%
4 Internal audit	40%
5 Other	5%



Committee calendar in 2016

February

> Reviewed and approved the going concern paper and the viability statement for the final results.

> Reviewed and approved the results and the Annual Report and Financial Statements 2015.

> Reviewed the thematic group-wide review of responsible lending.

July

> Reviewed the interim results and announcement.

> Reviewed and approved the going concern paper and the viability statement for the interim results.

October

> Reviewed the external auditor's planning report, schedule of fees and statement of independence.

December

> Reviewed updated terms of reference for the committee.

> Reviewed and approved the 2017 group internal audit plan.

> Reviewed and approved the register of benefits.

> Reviewed the thematic group-wide review of cyber security.

> Approved an update on the proposed themes for the Annual Report and Financial Statements 2016.

Annual statement by the chairman of the audit committee

As chairman of the audit committee, I am pleased to present the audit committee's report for the year ended 31 December 2016. This report is intended to provide a summary of the activities of the audit committee and its key responsibilities as a separate report in accordance with the FRC's guidance and the Financial Reporting Lab's 'Reporting of Audit Committee's Guidance' and confirms compliance with the Competition and Markets Authority's Statutory Services Order.

At each meeting,the committee

> Reviewed the group internal audit activity report;

> Reviewed the minutes of the Vanquis Bank audit committee; and

> Had a discussion with the external auditor without any executive director or employee being present.

Key Activities in 2016:

> During the year, the committee continued to monitor the integrity of the financial statements of the group including, in particular, the annual and half-yearly reports and the interim management statements.

> The committee reviewed the statement set out on page 82 concerning internal controls and risk management.

> The committee continued its focus on internal audit work and any significant issues raised.

Fair, balanced and understandable

At the request of the board, the committee considered whether, in its opinion, the Annual Report and Financial Statements 2016, 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.

Process

In justifying this statement the committee considered the robust process in place to create the Annual Report and Financial Statements 2016 including:

> The full and effective assessments made by the divisions of any conduct risks and the oversight of this process by the risk advisory group and the risk advisory committee;

> The early involvement of the committee in the preparation of the Annual Report and Financial Statements 2016 which enabled it to provide input into the overall messages and tone;

> The input provided by divisional and group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;

> The reviews conducted by external advisors appointed to advise on best practice;

> The regular review of the group internal audit activity reports which are presented at committee meetings and the opportunity for the non-executive directors to meet the external auditor without any employee of the group being present;

> The meetings held by the committee to review and consider the draft Annual Report and Financial Statements 2016 in advance of the final sign-off; and

> The final sign-off process by the board.

When forming its opinion, the committee reflected on the information it had received and its discussions through the year. In particular, the committee considered whether:

The report is fair

> Is the narrative reporting on the divisions consistent with the reporting in the financial statements?

> Are the key messages in the narrative reporting reflected in the financial reporting?

> Are the KPIs disclosed at an appropriate level based on the financial reporting?

The report is balanced

> Is there a good level of consistency between the narrative reporting and the financial reporting and is the messaging in each consistent when read independently of each other?

> Are the statutory and adjusted measures explained clearly and given appropriate priority and prominence?

> Are the key judgements referred to in the narrative reporting and the significant issues reported in this audit committee report consistent with the disclosures and critical judgements set out in the financial statements?

> How do these compare with the risks that the external auditor will include in its report?

The report is understandable

> Is there a clear and understandable structure and presentation to the report?

> Are the important messages highlighted appropriately and consistently throughout the document with clear signposting to where additional information can be found?

This assessment was also underpinned by the following:

> The key judgement papers prepared by management including the impairment of receivables in CCD, Vanquis Bank and Moneybarn, the annual impairment review of goodwill, and the going concern statement 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;

> The consistency between the risks identified and the issues that are of concern to the committee;

> A verification process in relation to the factual content of various aspects of the Annual Report and Financial Statements 2016;

> The comprehensive reviews undertaken at different levels in the group that aim to ensure consistency and overall balance; and

> The external auditor's report on the Annual Report and Financial Statements 2016.

Conclusion

Following its review, the committee was of the opinion that the Annual Report and Financial Statements 2016 is representative of the year, and presents a fair, balanced, and understandable overview, providing the necessary information for shareholders to assess the group's position, performance, business model and strategy.

Internal audit

The group operates an in-house group internal audit function which is managed by the Head of Group Internal Audit, with specialist services provided by third-party consultants where necessary. The group internal audit function also reports to the committee which helps to ensure the function's independence from group management. The committee reviews regular reports on the activity of this function and as chairman of the audit committee, I also meet separately with the Head of Group Internal Audit on a quarterly basis.

The group internal audit function encompasses all divisions within the group and therefore provides a consistent and balanced overview of the group to the committee.

Governance

Audit committee and auditor (continued)

Significant issues and areas of judgement considered by the audit committee

The significant issues and areas of judgement considered by the audit committee in relation to the Annual Report and Financial Statements 2016 are outlined below. We discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus as outlined in the auditor's report on pages 172 to 177.

Issue	Judgement	Actions
Impairment of receivables within CCD Receivables are impaired in CCD when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks. Impairment is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage.	Judgement is applied as to the appropriate point at which receivables are impaired and whether past payment performance provides a reasonable guide as to the collectability of the current receivables book. Accordingly, this is a primary source of audit effort for the group's external auditor, Deloitte LLP (Deloitte).	In order to assess the appropriateness of the judgements applied, management produce a detailed report for the external auditor setting out: (i) the assumptions underpinning the receivables valuation; and (ii) a scenario analysis comparing the receivables valuation with alternative valuations based upon various forecasts of future cash collections, including prior year performance, current performance and budget performance. In assessing the adequacy of CCD's impairment provisions, the committee: > Reviewed management's report on the accounting treatment and assumptions adopted within the impairment calculations across the group and any changes made to this approach during the year; > Reviewed management's report and challenged management on the results and judgements used in the test; > Considered the work performed by Deloitte on validating the data used in the testing performed by management and their challenge of the assumptions used; > Considered the findings within the report in light of current trading performance and expected future performance; and > Considered the work performed by the group internal audit function on information technology controls and operational controls such as cash collections, credit management and arrears management.
Impairment of receivables at Vanquis Bank and Moneybarn Receivables are impaired in Vanquis Bank and Moneybarn when one or more contractual monthly payment(s) have been missed. The impairment provision is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage. Management update the methodology monthly to ensure the assumptions accurately take account of the current economic environment, product mix and recent customer payment performance.	Judgement is applied on whether past payment performance is a good indication of how a customer may pay in the future. Accordingly, this is a primary source of focus for Deloitte during the audit process.	In assessing the adequacy of Vanquis Bank's and Moneybarn's impairment provisions the committee: > Reviewed management's report on the accounting treatment and assumptions adopted within the impairment calculations across the group and any changes made to this approach during the year; > Considered the work performed by Deloitte on validating the data used and their challenge of the assumptions used by management; > Considered the findings in light of current trading performance and expected future performance; > Considered the work performed by the group internal audit function on information technology controls and operational controls such as cash collections, credit management and arrears management; and > Considered the review performed by the Vanquis Bank audit committee on the Vanquis Bank impairment provisions.
Retirement benefit asset The valuation of the retirement benefit asset is dependent upon a series of assumptions. The key assumptions are the discount rate, inflation rates and mortality rates used to calculate the present value of future liabilities.	Judgement is applied in formulating each of the assumptions used in calculating the retirement benefit asset.	The company's external actuary, Willis Towers Watson, propose the appropriate assumptions and calculate the value of the retirement benefit asset. The committee considered the work performed by Deloitte on the valuation and their views on the suitable ranges of assumptions based on their experience.
Annual impairment review of goodwill In accordance with IFRS 3 'Business Combinations', the goodwill of £71.2m arising on acquisition of Moneybarn in August 2014 is subject to an annual impairment review. The impairment review is conducted by comparing the discounted estimated future cash flows of Moneybarn with the carrying value of goodwill in the financial statements.	Judgement is applied in: (i) deriving the forecast cash flows of Moneybarn; and (ii) establishing the appropriate discount rate to apply to the forecast cash flows.	In assessing the reasonableness of the impairment review of goodwill, the committee considered a detailed paper produced by management on the methodology adopted. In addition, the committee also considered the work performed by Deloitte and their views on the appropriateness of the assumptions used by management based on their experience.
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 considered 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.

External audit

Effectiveness of the external auditor

The committee considers the reappointment of the external auditor, including the rotation of the audit partner, annually. This includes an assessment of the independence of the external auditor and an assessment of their performance in the previous year. This is achieved primarily through a questionnaire and scorecard which is completed by key stakeholders involved in the annual audit process, including the audit committee and heads of finance in each of the divisions. The scores and results of the questionnaire are collated and shared with the external auditor and an action plan to address any areas of concern identified is agreed.

External auditor appointment

The group carried out a rigorous audit tender process in June 2012 and, as a result, Deloitte were appointed as the group's external auditor. The committee will continue to assess the performance of the external auditor on an ongoing basis to ensure that it is satisfied with the quality of the services provided. As part of that process, it recommended to the board the reappointment of Deloitte as auditor to the company and a resolution to this effect will be proposed at the 2017 AGM. In accordance with the Code, the external audit contract will be put out to tender at least every 10 years.

The external auditor is required to rotate the audit partner responsible for the group audit every five years. The current lead audit partner has been in place for five years and as a result, the lead audit partner will change in 2017 following completion of the audit on the Annual Report and Financial Statements 2016.

In accordance with best practice and guidance issued by the FRC, the committee will continue to review the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process during the next financial year.

Independence and objectivity

The committee has adopted a policy on the appointment of staff from the external auditor to positions within the various group finance departments. 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 divisional finance director.

Working with the external auditor

At each of its meetings, the committee has a separate session with the external auditor without any executive director or employee of the group being present. This gives members of the committee the opportunity to raise any issues, including any issues on the interim and final results of the group, directly with the external auditor.

Non-audit work

The company has a formal policy on the use of the external auditor for non-audit work. This policy is reviewed annually by the committee.

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

Work is awarded only when, by virtue of their knowledge, skills or experience, the external auditor is clearly to be preferred over alternative suppliers.

The group maintains an active relationship with at least three other professional advisors. The nature and cost of all non-audit work awarded to the group's external auditor for the period since the last meeting and for the year to date is reported at each meeting of the committee, together with an explanation as to why the external auditor was the preferred supplier.

No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the external auditor without my prior written approval and such approval is only given in exceptional circumstances. Where Deloitte is used for non-audit work, prior approval is obtained from the committee. The external auditor may not perform internal audit work. External specialist resource for the group internal audit function is provided by KPMG LLP.

I am also required to approve in advance any single award of non-audit work with an aggregate cost of £250,000 or more. The committee seeks confirmation that Deloitte's objectivity and independence are safeguarded.

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 £206,000 (2015: £438,000) comprising £65,000 for the group interim review, £56,000 for the review of profits for regulatory reporting purposes, £61,000 for agreed upon procedures work in respect of the adoption of IFRS9 throughout the year and £24,000 for other projects. The ratio of audit to non-audit fees during the year was 2.4:1.

Effectiveness

The committee formally considered its performance and effectiveness at its meeting in December 2016. This was undertaken as part of the external board and committee evaluation process carried out by Lintstock. Each director was able to comment and rate various aspects of the committee's role by responding to a series of questions relating to the performance of the committee contained in the external questionnaire. On the basis of the evaluation undertaken, the overall view was that the committee was operating efficiently and effectively and no actions were identified.

Following the conclusion of the AGM, at which I will not be seeking reappointment, Andrea Blance will be appointed as chairman of the audit committee. Details of her appointment can be found on pages 90 to 91. However, I will be available at the AGM on 12 May 2017 to answer any questions on the work of the committee.

Alison Halsey
Audit committee chairman
28 February 2017

Priorities for 2017

- Assist and support Andrea Blance as she takes over chairmanship of the audit committee on 12 May 2017.
- Ensure a smooth and efficient handover and induction of the new lead audit partner.
- Continued focus on effective implementation of remedial actions identified in internal audit reviews.
- Monitoring of significant accounting changes and the implications for the group.

Governance

Nomination committee

"This year our main focus has been on the recruitment of two new non-executive directors in order to strengthen the board's skillset in the key areas identified in various board evaluations which will ensure the board is fit for purpose for the next phase of the group's development."

Manjit Wolstenholme
Chairman

The role of the committee

General

The primary function of the committee is to monitor the balance of skills, knowledge, experience and diversity on the board and make recommendations for change, as appropriate, to the board.

In order to fulfil its role, the committee:

- Regularly reviews the structure, size and composition (including skills, knowledge, experience and diversity) of the board, and makes recommendations to the board for any changes to its composition to ensure it remains appropriately refreshed;
- Fully considers the succession planning requirements for directors and the senior management teams in the corporate office and in the divisions to ensure that succession is managed smoothly and effectively;
- Keeps under review the leadership needs of the group, to ensure it remains competitive in the marketplace;
- Evaluates the balance of skills, knowledge, experience and diversity on the board before any appointments are made and prepares a description of the role and identifies the capabilities required for a particular appointment. The committee considers candidates on merit and against objective criteria with due regard to the benefits of diversity, including gender;
- Identifies and nominates to the board candidates to fill board vacancies; and
- Reviews and considers the performance and effectiveness of the committee through the results of the board and committee performance evaluation process.

Members

Manjit Wolstenholme (chairman)
Alison Halsey
Malcolm Le May
Rob Anderson
Stuart Sinclair

Secretary

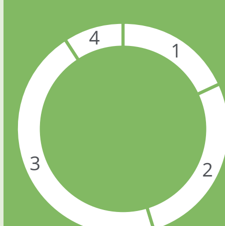
Ken Mullen

Composition of the committee

All non-executive directors are members of the nomination committee which is chaired by Manjit Wolstenholme, the Chairman. The Chief Executive attends meetings by invitation. His role as an attendee is to provide a better understanding of the strategic issues facing the group and the current skills and experience of the senior management teams in the divisions and the corporate office. The committee meets at least once a year. There were also regular updates between meetings on the progress on the recruitment of the new non-executive directors and continuous discussions with the committee members and recruitment advisors. All committee members were given the opportunity to meet with the new non-executive directors.

Allocation of time

1 Succession planning	20%
2 Leadership	30%
3 Recruitment	40%
4 Performance and effectiveness	10%



Committee calendar in 2016

February

- Reviewed and determined the performance and effectiveness of the committee in 2015.

June

- Recommended the extension of Manjit Wolstenholme's term of appointment for three years.

September

- Received an update on the recruitment process for additional non-executive directors.
- Received an update on the talent succession plan.

December

- Received final reports from the recruitment consultants and agreed to recommend to the board the appointment of two new non-executive directors, John Straw and David Sear.
- Recommended the extension of Malcolm Le May's term of appointment for three years and Alison Halsey's extension until 12 May 2017.

Annual statement by the chairman of the nomination committee

I am pleased to present to you the report of the work of the nomination committee during 2016. We have again been active in monitoring the succession planning processes in place across the group for senior positions. The committee also completed a detailed review of the composition of the board, which considered the knowledge and skills required to effectively implement the group strategy and the output from previous board and committee evaluation processes, particularly in relation to the need to address the skills shortfall on the board in the digital space.

The committee also reviewed the appointments of Manjit Wolstenholme and Malcolm Le May as their current terms of office were due to expire during 2016. The committee is pleased to report that it is satisfied with the ongoing performance of both Manjit Wolstenholme and Malcolm Le May and recommended to the board that their terms of appointment be extended for a further three years.

Diversity

The group recognises the importance of diversity, including gender diversity, at all levels of the group, as well as at board level. The group believes that diversity amongst directors helps contribute towards a high performing and effective board. The board, through the nomination committee, strives to recruit directors from different backgrounds, with diverse experience, perspectives, personalities, skills and knowledge. In the case of non-executive directors, the selection process is designed to ensure there is independence of mind given the specific responsibilities of the non-executive directors on the board. For more information about the board's composition, see page 74.

The nomination committee and the group as a whole is committed to increasing diversity across all group operations and supporting the development and promotion of talented individuals, regardless of gender, nationality or ethnic background. As previously reported, the board has been supportive of the recommendations contained in Lord Davies' report 'Women on Boards' and the board remains committed to reaching 33% female representation on the board by 2020. Following the launch of the Hampton Alexander Review in November 2016, the board has also reviewed and accepted the recommendations set out in the report and I am committed to taking an active role in overseeing the progress towards achieving the target of 33% female representation on the executive committee and in direct reports by 2020 across the two populations. The committee will review action plans and assess progress against the plans at least once a year. The nomination committee, however, continues to believe that appointments to the board or to senior management positions should be based on merit. The board nevertheless remains committed to strengthening the pipeline of senior female executives and is satisfied that there are no barriers to women succeeding at the highest levels within the group.

Last year we reported that, despite the progress that has been made, the committee was conscious that the divisional boards were considerably lacking in female representation. The board is committed to working towards improving the position and in 2016 the board oversaw the reconfiguration of the Vanquis Bank executive committee which included the recruitment of a new human resources director and a general counsel, both of whom are female.

In support of our policy on diversity, we will continue to operate in accordance with the following principles and initiatives:

> We will consider candidates for appointment as non-executive directors from a wider pool, including those with little or no listed company board experience;

> We will only engage executive search firms who have signed up to the voluntary code of conduct on gender diversity and best practice;

> We will ensure the board evaluation process includes an assessment of the board's diversity including gender; and

> Where possible, each time a member of a senior management team or a director is recruited, at least one of the shortlisted candidates will be female.

2016 Key achievements:

> Reviewed the group senior management succession plan and talent review updates prepared by the Chief Executive and oversaw its implementation in the divisions;

> Recommended to the board the reappointment of Manjit Wolstenholme as the Chairman of the board, following completion of her current three-year term;

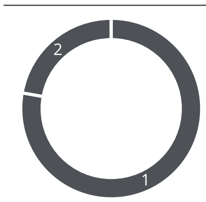
> Recommended to the board the reappointment of Malcolm Le May as a non-executive director and senior independent director of the board following completion of his three-year term;

> Recommended the appointment of two non-executive directors to the board; and

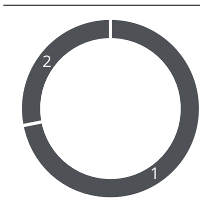
> Further developed the process of senior management mentoring and group coaching through the appointment of non-executive directors to the divisional boards. Following the appointment of Stuart Sinclair to the CCD board in 2015, Rob Anderson was appointed to the board of Moneybarn to replace Malcolm Le May, who joined the board of Vanquis Bank as a non-executive director and chairman of their remuneration committee in 2016. The committee recommended these appointments based on the director's individual skills, experience and ability to enhance value.

Board composition

The board	
1 Male	78%
2 Female	22%



Overall senior management	
1 Male	72%
2 Female	28%



Governance

Nomination committee (continued)

Independence and reappointment to the board

The composition of our board is reviewed annually by the nomination committee to ensure that there is an effective balance of skills, experience and knowledge.

The committee conducted a specific review of the independence of both Manjit Wolstenholme and Malcolm Le May during the year as their current three-year terms were due to expire on 31 July 2016 and 1 January 2017 respectively. Neither Manjit nor Malcolm were present during the committee's discussion which took into account the following considerations:

> Performance;

> Length of tenure on the board;

> Board composition;

> Independence; and

> Other external commitments.

Having conducted its review, the committee was satisfied that it was appropriate to recommend to the board that Manjit and Malcolm's terms of appointment each be extended for a further three years (subject to reappointment by shareholders at the 2017 AGM).

Update on non-executive director recruitment

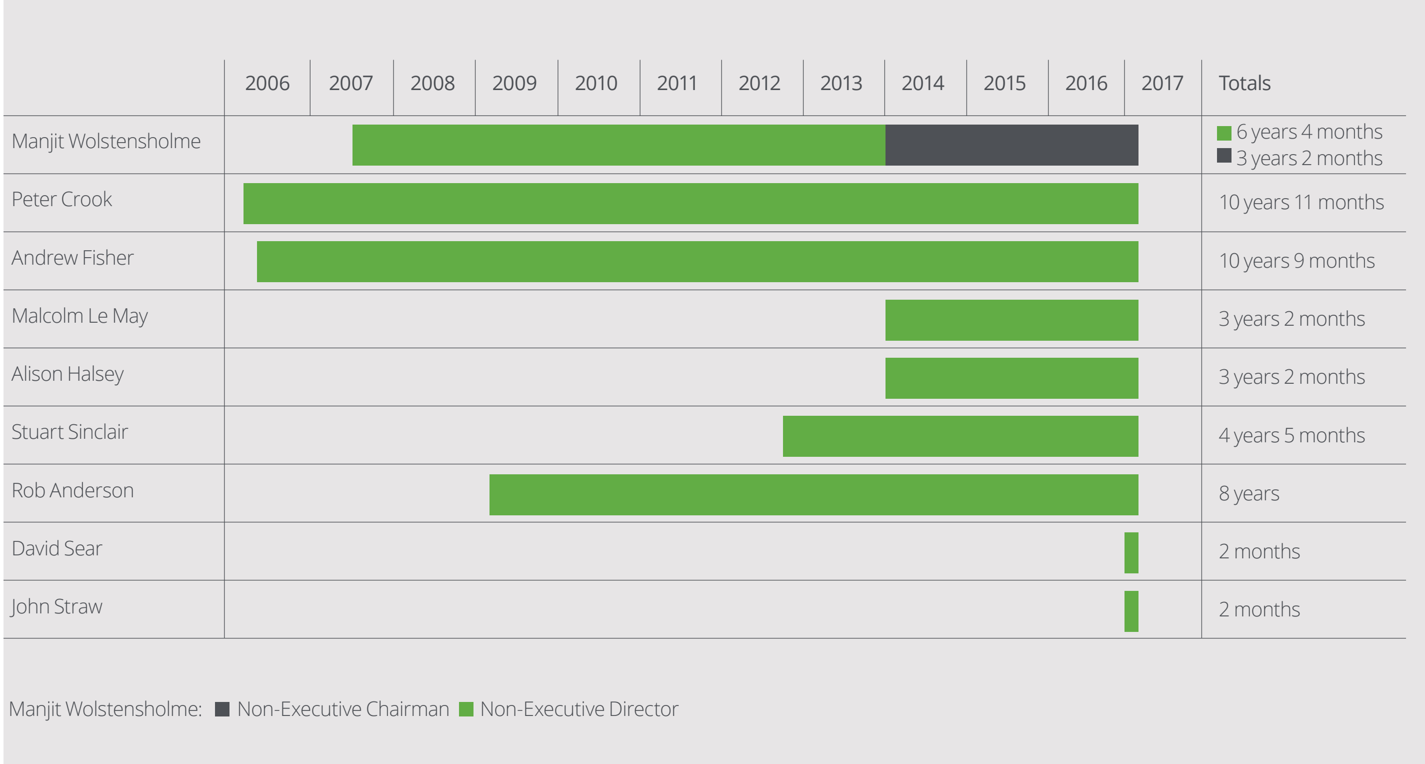
In light of the development of the group and further to the output from previous board and committee evaluations, the committee embarked upon an exercise in 2016 to strengthen the digital expertise amongst the independent non-executive directors. The process was very successful and two candidates with considerable digital experience were identified and recommended to the board for appointment. Details of the appointment process for John Straw and David Sear are set out opposite on page 91. The recommendations were accepted and both joined the board on 1 January 2017 and will significantly enhance and broaden the skillset of the board which will ensure its fit for purpose and able to steer the group through the next stage of its development. Biographical details of both John Straw and David Sear can be found on page 71.

Malcolm Le May, our senior independent director, is also a senior advisor to Heidrick & Struggles. In accordance with the group's conflict of interest policy he declared this interest when it was proposed to appoint Heidrick & Struggles to assist in the recruitment process and their appointment was approved on the basis there was no conflict of interest. Malcolm nevertheless agreed not to participate in the decision process in order to avoid any potential conflict of interest.

Having completed her three year term, Alison Halsey will not seek reappointment at the 2017 AGM. Alison has, however, agreed to remain in post until the conclusion of the 2017 AGM in order to oversee the year-end audit.

Andrea Blance will also join the board as an independent non-executive director in March 2017. Details of the appointment of Andrea Blance is set out opposite on page 91. Andrea has held a variety of finance roles during a 29 year career at Legal & General plc. Latterly she led the strategy and marketing functions and prior to this she was the group chief risk officer where she led contact with the regulator. Andrea is currently a non-executive director at Scottish Widows and Lloyds Banking Group insurance division where she chairs the risk oversight committee. Her experience of conduct risk and the regulatory agenda, particularly regarding customer outcomes, will be invaluable to the group in the current regulatory environment.

Directors' board tenure (as at 28 February 2017)



Governance in action

Appointment of John Straw and David Sear

In order to address the lack of digital experience and expertise on the board, the committee embarked upon an exercise in 2016 to strengthen the board's skills and knowledge in this area.

Select external search consultants	The committee appointed Heidrick & Struggles to carry out an extensive review of the marketplace.
Board composition review	The committee considered the output from previous board and committee evaluations in 2014 and 2015 regarding the need to strengthen the board's existing skillset through the recruitment of a board member with digital and technology experience.
Specification	Based on its review of board composition, feedback from individual directors through the board committee evaluation process, and discussions with Heidrick & Struggles, a role specification was produced.
Long list	Heidrick & Struggles identified 27 candidates, of whom 10 were women, and one was ethnically diverse. Following telephone interviews, they presented a long list of seven candidates, of whom one was a woman. Heidrick & Struggles interviewed the seven candidates and only shortlisted two candidates, David Sear and John Straw, as they were the front runners based on their experience.
Final interviews	All members of the committee interviewed David Sear and John Straw, as did the managing directors of each of the divisions, and as a consequence they were both recommended to the board for appointment as non-executive directors.
Due diligence recommendations	The recommendations were accepted by the board and both joined the board on 1 January 2017 (subject to approval by shareholders at the 2017 AGM).

Heidrick & Struggles is a signatory to the voluntary code of conduct on gender diversity for external search consultants. During 2016, Heidrick & Struggles provided no other services nor had any other connection to the group, other than as set out on page 90.

Appointment of Andrea Blance

Having completed her three year term, Alison Halsey will not seek reappointment at the 2017 AGM. The committee led the selection and appointment process for a new non-executive director and chairman of the audit committee.

Select external search consultants	The committee engaged the Zygos Partnership ('Zygos'), an experienced and reputable executive search firm which specialises in board level appointments.
Board composition review	The committee reviewed the structure, size and composition of the board including skills, knowledge, experience and diversity, to identify any particular gaps that should be covered by the new appointee as well as considering the output from the previous board and committee evaluations.
Specification	Based on its review of the board composition, feedback from individual directors through the board committee evaluation process, and discussions with Zygos, a role specification was produced.
Long list	Following a meeting with the Chairman, Zygos assessed 110 candidates against the agreed specification, of whom 54 were women. Zygos then presented a long list of 16 candidates to the committee, of whom five were women.
Final interviews	After careful consideration of all the candidates' background and experience, the Chairman felt that five candidates most closely fitted the requirements of the specification and should be taken forward to interview. The committee interviewed this shortlist consisting of three men and two women and following that two of these candidates were selected to meet with the executive directors.
Due diligence recommendations	A thorough due diligence and referencing process was conducted. Following satisfactory conclusion of this process, the committee recommended to the board Andrea Blance's appointment to the position of non-executive director with effect from 1 March 2017 and as chairman of the audit committee with effect from 12 May 2017 (subject to approval by shareholders at the 2017 AGM). The appointment was approved by the board on 27 February 2017.

Zygos is a signatory to the voluntary code of conduct on gender diversity for external search consultants. During 2016, Zygos provided no other services nor had any other connection to the group.

Succession planning

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

Below board level, succession planning within the divisions safeguards the pipeline of talented individuals within the group who are capable and have the potential to succeed the executive directors and other members of the senior management team in the short, medium and long term. The committee also monitors candidates externally to ensure that the board is continuously refreshed and strengthened in any areas of perceived weakness. The committee intends to support the group's diversity policy within its succession planning activities by continuing to ensure that the level of female representation within the senior management teams across the group is maintained and, where possible, improved during the course of 2017 whilst ensuring that the right level of knowledge, skills and experience is maintained.

The nomination committee will continue its work of ensuring there are appropriate succession plans in place across the group and a suitable mix of skills and experience amongst both the executive and non-executive directors. The committee keeps under review a detailed succession plan for the executive directors, the Chairman and the most senior management within the divisions. The committee has decided to undertake a thorough refresh of its approach to talent development by engaging, on a part-time basis, the services of the new human resources director recently appointed to the Vanquis Bank executive committee to assist in further developing the pipeline of high calibre talent. Vanquis Bank has agreed to make her services available to the committee and her considerable experience will greatly assist the committee in making the plan fit for purpose as the group moves into the next stage of its development. She will be invited to meetings of the nomination committee in 2017 and thereafter as required.

With a greater emphasis on developing internal candidates, the Chief Executive prepared a report on the talent within the group following the acquisition of Moneybarn which was reviewed by the board and the committee during 2015. The report identified the potential successors for senior management positions (taking into account the group's policy on diversity), the talent pool across the group and areas where external recruitment may be required.

Governance

Nomination committee (continued)

As a result, the sales and commercial director of Moneybarn was appointed as managing director following the retirement of Peter Minter as managing director on 1 January 2017. The committee is now overseeing the restructure of the Moneybarn executive team following this change and will ensure the policies on recruitment and succession planning, including those related to diversity as set out in this report are adhered to.

This report also identified the need to strengthen the IT capabilities of the CCD senior management team, particularly in light of the proposed changes to the home credit business model which makes an increasing use of technology in the delivery of the products and services to customers. As a consequence, an experienced IT director was recruited in February 2016 who has engaged in a programme of strengthening and enhancing the IT team in the business through a combination of internal promotions and external recruits to ensure the technological needs of the business will be met.

The committee has also been kept informed of the other proposed senior management promotions during 2016 which have been made to help broaden and strengthen the divisional senior management teams.

The committee continues to be satisfied that adequate succession planning is in place for the executive directors and senior management teams across the group. Succession planning will remain a key ongoing focus of the committee in 2017 and beyond.

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 long-term strategy in an ever changing regulatory environment.

Policy on board appointments

The board's policy on other directorships is designed to ensure that all directors remain able to discharge their responsibilities to the company.

The letters of appointment of the non-executive directors state that any proposed appointment to the board of another company will require the prior approval of the board. The company's policy is that a non-executive director should have sufficient time to fulfil his/her duties to the company, including, where appropriate, chairing a committee.

The board will consider all requests for permission to accept other directorships carefully, subject to the following principles:

> A non-executive director would not be expected to hold more than four other material non-executive directorships;

> If a non-executive director holds an executive role in a FTSE 350 company, they would not be expected to hold more than two other material non-executive directorships;

> In line with the Code, an executive director will be permitted to hold one non-executive directorship in a FTSE 100 company (and to retain the fees from that appointment) provided that the board considers that this will not adversely affect their executive responsibilities to the company; and

> The board would not permit an executive director to take on the chairmanship of a FTSE 100 company.

Any request for an exception to this policy is considered on its merits and determined by the board.

Effectiveness

At its meeting in February 2017, the committee formally considered its effectiveness in 2016. This was undertaken as part of the external board and committee evaluation process carried out by Lintstock. Each director was able to comment and rate various aspects of the committee's role by responding to a series of questions relating to the performance of the committee contained in the external questionnaire. On the basis of the evaluation which was undertaken, the overall view was that the committee was working effectively and had made good progress in 2016, in particular in relation to board composition through the recruitment of two new non-executive directors with digital experience to fill the perceived gap in the board's digital skillset and in the recruitment of a an additional non-executive director to succeed the audit committee chairman.

Manjit Wolstenholme
Nomination committee chairman
28 February 2017

Priorities for 2017

> Continue to focus on succession planning and future talent development across the group.

> Conduct a further thorough board evaluation following the engagement of Lintstock for the next two years.

> Continue to work towards the target of 33% female representation on the board and executive committee (and its direct reports).

Governance

Directors' report

"Effective governance is of paramount importance for the board to comply with all its statutory requirements and to ensure consideration is given to all its stakeholders in a balanced and transparent manner."

Kenneth J Mullen
General Counsel and Company Secretary

Introduction

In accordance with section 414C(11) of the Companies Act 2006 (the Act), the directors present their report for the year ended 31 December 2016. 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 16 to 44);
> Greenhouse gas emissions (page 67);
> Risk management (pages 45 to 50).

Both the strategic report and the Directors' Report have been prepared and presented in accordance with, and in reliance upon, applicable company law. The liabilities of the directors in connection with both the Directors' Report and the strategic report shall be subject to the limitations and restrictions provided by company law. Other information to be disclosed in the Directors' Report is given in this section.

Directors

The membership of the board and biographical details of the directors at the year end are given on pages 70 to 71 and are incorporated into this report by reference.

All directors served throughout 2016 and up to the date of signing of the Annual Report and Financial Statements 2016. There were no changes in directors in 2016. With effect from the beginning of the 2017 financial year there have been a number of changes to the board composition as detailed on pages 69 and 90 to 91. John Straw and David Sear were appointed as non-executive directors on 1 January 2017, Alison Halsey will not seek reappointment at the 2017 AGM and Andrea Blance will be appointed as a non-executive director with effect from 1 March 2017.

During the year, no director had a material interest in any contract of significance to which the company or a subsidiary undertaking was a party.

Appointment and replacement of directors

Rules about the appointment and replacement of directors are set out in the company's Articles. In accordance with the recommendations of the Code, all directors, except Alison Halsey, will offer themselves for appointment or reappointment, as appropriate, at the 2017 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 Act and the FCA's Disclosure Guidance and Transparency Rules.

A resolution to amend the Articles is being proposed at the 2017 AGM for approval by shareholders, and further information on this and the other resolutions proposed is set out in the Notice of AGM and accompanying circular.

Directors' indemnities

The Articles permit it to indemnify directors of the company (or of any associated company) in accordance with section 234 of the Act.

The company may fund expenditure incurred by directors in defending proceedings against them. If such funding is by means of a loan, the director must repay the loan to the company, if they are convicted in any criminal proceedings or judgment is given against them in any civil proceedings. The company may indemnify any director of the company or of any associated company against any liability.

However, the company may not provide an indemnity against: (i) any liability incurred by the director to the company or to any associated company; (ii) any liability incurred by the director to pay a criminal or regulatory penalty; (iii) any liability incurred by the director in defending criminal proceedings in which they are convicted; (iv) any liability incurred by the director in defending any civil proceedings brought by the company (or an

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Directors' report (continued)

associated company) in which judgment is given against them; or (v) in connection with certain court applications under the Act. No indemnity was provided and no payments pursuant to these provisions were made in 2016 or at any time up to 28 February 2017.

There were no other qualifying indemnities in place during this period.

The company maintains Directors' and Officers' Liability insurance which gives appropriate cover for any legal action brought against its directors.

Information required by Listing Rule 9.8.4R

Information required under LR 9.8.4R (4), (5), (6), (12), and (13) is set out in the directors' remuneration report on pages 98 to 118.

Share capital

During the year, the ordinary share capital in issue increased by 595,770 shares to 147,769,705 shares at 31 December 2016. 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. The rights attached to the ordinary shares are set out in the Articles. Each share carries the right to one vote at general meetings of the company.

During the year, 595,770 ordinary shares in the company with an aggregate nominal value of £123,486, were issued as follows:

> 280,118 shares in relation to the Provident Financial Long Term Incentive Scheme 2015 at a price of 2,726p;

> 132,631 shares in relation to the Provident Financial Performance Share Plan 2013 at a price of 2,726p;

> 10,820 shares in relation to the Provident Financial Executive Share Option Scheme 2006 at a price of 577.25p; and

> 172,201 shares in relation to the Provident Financial Savings Related Share Option Scheme 2013 and the Provident Financial Employee Savings Related Share Option Scheme (2003) at prices ranging between 656p and 2,158p.

Rights of ordinary shares

All of the company's issued ordinary shares are fully paid up and rank equally in all respects and there are no special rights with regard to control of the company. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except:

(1) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Act; or

(2) where their holder is precluded from exercising voting rights by the FCA's Listing Rules or the City Code on Takeovers and Mergers.

Substantial shareholdings

In accordance with the Disclosure Guidance and Transparency Rules (DTR) 5 the company, as at 23 February 2017 (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	18.02%
Woodford Investment Management Limited (UK)	17.40%
BlackRock Investment Management Limited	6.11%
Marathon Asset Management LLP (UK)	4.83%
M&G Investment Management Limited (UK)	4.36%
Aberdeen Asset Management Group	3.71%
Jupiter Asset Management Limited (UK)	3.50%

Interests as at 31 December 2016 were as follows:

Invesco Limited	17.55%
Woodford Investment Management Limited (UK)	17.51%
BlackRock Investment Management Limited	6.71%
Marathon Asset Management LLP (UK)	4.85%
M&G Investment Management Limited (UK)	4.28%
Aberdeen Asset Management Group	3.40%

All interests disclosed to the company in accordance with DTR 5 that have occurred since 23 February 2017 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 2016	31 December 2015
Peter Crook[1]	**520,933**	532,374
Andrew Fisher[1]	**339,827**	346,677
Rob Anderson	**4,178**	4,178
Manjit Wolstenholme	**12,196**	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 shares purchased under the SIP as detailed on pages 112 to 118 of the annual report on remuneration. No director had any non-beneficial interests at 31 December 2016 or at any time up to 28 February 2017.

There were no changes in the beneficial or non-beneficial interests of the directors between 1 January 2017 and 28 February 2017, except for the automatic monthly purchases under the SIP, details of which can be found on the group's website.

Dividend waiver

Information on dividend waivers currently in place can be found on pages 113 and 114.

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 2016 AGM. The board is seeking renewal of these powers at the 2017 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).

The current scheme for employees resident in the Republic of Ireland is the Provident Financial Irish Savings Related Share Option Scheme 2014.

Share schemes are a long-established and successful part of the total reward package offered by the company, encouraging and supporting employee share ownership. The company's four schemes aim to encourage employees' involvement and interest in the financial performance and success of the group through share ownership.

Around 1,419 employees were participating in the company's save as you earn schemes as at 31 December 2016 (2015: 1,093).

The company's SIP offers employees the opportunity to further invest in the company and to benefit from the company's offer to match that investment on the basis of one matching share for every four partnership shares purchased. Around 330 employees were investing in company shares under the SIP as at 31 December 2016 (2015: 283).

Executive share incentive schemes

Awards are also outstanding under the Provident Financial Long Term Incentive Scheme 2006 and the Provident Financial Long Term Incentive Scheme 2015 (the LTIS) and the Provident Financial Performance Share Plan (2013) (the PSP).

As set out on page 112 of the directors' remuneration report, the remuneration committee did not grant any options during the year under the LTIS or PSP.

Provident Financial plc 2007 Employee Benefit Trust (the EBT)

The EBT, a discretionary trust for the benefit of executive directors and employees, was established in 2007. The trustee, Kleinwort Benson (Jersey) Trustees Limited, is not a subsidiary of the company. The EBT operates in conjunction with the LTIS and the PSP and either purchases shares in the market or subscribes for the issue of new shares. The number of shares held by the EBT at any time, when added to the number of shares held by any other trust established by the company for the benefit of employees, will not exceed 5% of the issued share capital of the company. The EBT is funded by loans from the company which are then used to acquire, either via market purchase or subscription, ordinary shares to satisfy conditional share awards granted under the LTIS and awards granted under the PSP. For the purpose of the financial statements, the EBT is consolidated into the company and group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 26 on page 167 of the financial statements.

In relation to its operation in conjunction with the LTIS, the EBT transfers the beneficial interest in the shares to the executive directors and employees when conditional share awards are made, and the legal interest is only transferred on vesting. In relation to the 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 vesting. Full vesting of awards granted under the LTIS and the Matching Award granted under the PSP is subject to the achievement of the relevant performance targets set out on pages 112 to 113 of the directors' remuneration report.

In 2016, the EBT subscribed for the issue of 280,118 new shares in order to satisfy the awards made under the LTIS and 132,631 shares in order to satisfy the awards made under the 2013 PSP.

As at 31 December 2016, the EBT held the non-beneficial interest in 2,339,602 shares in the company (2015: 2,556,478). The EBT may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the employee beneficiaries.

Provident Financial Employee Benefit Trust (the PF Trust)

The PF Trust, a discretionary trust for the benefit of executive directors and employees, was established in 2003 and operated in conjunction with the PSP. The trustee, Provident Financial Trustees (Performance Share Plan) Limited, is a subsidiary of the company. The number of shares held by the PF Trust at any time, when added to the number of shares held by any other trust established by the company for the benefit of employees, will not exceed 5% of the issued share capital of the company.

The PF Trust has not been operated with the PSP since 2012, when the previous PSP expired. As at 31 December 2016, the PF Trust had no interest in any shares in the company (2015: nil).

Provident BAYE Trust

The Provident BAYE Trust (the BAYE Trust) is a discretionary trust which was established in 2013 to operate in conjunction with the SIP. The trustee, YBS Trustees, is not a subsidiary of the company. The BAYE Trust is funded by loans from the company which are then used to acquire ordinary shares via market purchase to satisfy the matching awards for participants of the SIP.

For the purposes of the financial statements, the BAYE Trust is consolidated into the company and group. Participants in the SIP can direct the trustee on how to exercise its voting rights in respect of the shares it holds on behalf of the participant. As at 31 December 2016, the BAYE Trust held the non-beneficial interest in 43,332 shares (2015: 28,499 shares).

Profit and dividends

The profit, before taxation, amortisation of acquisition intangibles and exceptional items, amounts to £334.1m (2015: £292.9m). The directors have declared dividends as follows:

Ordinary shares	(p) per share
Paid interim dividend	43.2p per share (2015: 39.2p per share)
Proposed final dividend	91.4p per share (2015: 80.9p per share)
Total ordinary dividend	134.6p per share (2015: 120.1p per share)

The final dividend will be paid on 23 June 2017 to shareholders whose names are on the register of members at the close of business on 19 May 2017.

Pensions

The group operates four 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 current issues are carried out at meetings of the trustees by the trustees' advisors. The training schedule is based on The Pension Regulator's Trustee Knowledge and Understanding requirements and the sessions are tailored to current issues, emerging issues or to address any 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 an associated action plan and a conflicts of interest policy, both of which are reviewed at least annually.

There are currently four members nominated trustees and two 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.

Governance

Directors' report (continued)

In 2011, the company established an Unfunded Unapproved Retirement Benefits Scheme (UURBS), for the benefit of those employees who are affected by the HMRC annual allowance and lifetime allowance which applies to members of registered pension schemes. The UURBS offers an alternative to a cash payment in lieu of a pension benefit.

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

In 2015, the trustees implemented a new investment strategy which had been agreed with the company. The objective of the new strategy was to reduce the risk that the assets would be insufficient in the future to meet the liabilities of the scheme. The de-risking investment strategy is kept under close review by both the trustees and the company.

The company arranges Pension Trustee Indemnity Insurance to cover all of the group's pension schemes where individuals act as trustees. The trustees are protected by an indemnity within each scheme's rules and this insurance effectively protects the business against the cost of potential claims impacting on the solvency of the pension schemes.

Health and safety

Health and safety standards and benchmarks have been established in the divisions and compliance by the divisions is monitored by the board.

Anti-bribery and corruption

The corporate policies reflect the requirements of the Bribery Act 2010 and a corporate hospitality register is maintained using a risk-based approach. Although the risks for the group arising from the Bribery Act 2010 continue to be assessed as low, the divisions are, nevertheless, required to undergo appropriate training and instruction to ensure that they have effective anti-bribery and corruption policies and procedures in place. Compliance is regularly monitored by the risk advisory committee and is subject to periodic review by the group internal audit function.

Environmental management

The group is committed to conducting its business in a manner that protects the environment. This means ensuring that all relevant environmental legislation, regulations and approved codes of practice are met or exceeded, reducing consumption of resources and increasing the efficiency of the use of these resources, and avoiding or minimising the use of hazardous or toxic material or products and preventing pollution from our operations and facilities. Disclosures relating to the group's direct and indirect greenhouse gas emissions are included in the Strategic Report on page 67.

Overseas branches

The group has an overseas branch in the Republic of Ireland.

Important events since the end of the financial year (31 December 2016)

There have been no important events since the end of the financial year.

Employee involvement

The group is committed to employee involvement in each of its divisions. Employees are kept well informed of the financial and operational performance and strategy of the divisions through weekly huddles or monthly 'town hall' style meetings, personal briefings and through an increasing use of modern technology. The divisions continue to use social network sites, intranet discussion boards and blogs by employees and managing directors. The managing director of CCD also does a regular open invitation forum called 'Question Mark' where colleagues based in Bradford are able to ask questions concerning any aspect of the CCD business. There is also a regular podcast, 'The Big Conversation' featuring members of the CCD board where information is imparted concerning current performance and long-term planning which is accessible to all CCD employees.

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. During 2016 CCD created a new Colleague Forum called the Colleague Voice. This forum's aim is to provide an improved platform to enable more views and opinions to be heard. The Colleague Voice plans to work with leaders in the business to improve the communication of decisions that create long-term growth for CCD and support the delivery of the division's strategic priorities.

As in previous years the divisions have conducted employee surveys and questionnaires, with excellent response rates and opportunities for managers to discuss action plans with their teams to address any issues that have arisen from the surveys.

Additionally, following both Moneybarn's and Vanquis' employee survey/questionnaire, they held further workshops focusing on the top four areas for improvement with employees across the division. Vanquis launched a Recognition Nomination Programme in 2016 whereby employees are able to recognise and nominate fellow colleagues for outstanding achievements and Moneybarn continue to operate its popular 'Golden Cone' nominations programme which is colleague to colleague recognition for outstanding achievement or for going that extra mile. Moneybarn continue to operate a significant on-boarding, induction process for all new colleagues, embedding its culture and values.

The group also continues to be involved in a number of community projects, details of which can be found on pages 62 to 66 of this report.

Employees are also able to share in the group's results through various share schemes as set out on pages 94 to 95 of this report.

Training

The group is fully committed to continued personal and professional development, encouraging employees at all levels to study for relevant educational qualifications. In particular, the group has initiated a series of talent and development initiatives as part of its investment in the career progression of its employees. The group is also fully committed to the launch of the Apprenticeship Levy in 2017 and has plans in place to grow both its Graduate entry and Apprenticeship training programmes.

Moneybarn have also recruited a new training manager in order to enhance the training provided for its employees.

Provident Financial plc is authorised by the Solicitors Regulation Authority and the Institute of Chartered Accountants of England and Wales to issue training contracts to employees wishing to qualify as solicitors or chartered accountants, respectively.

Equal opportunities

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, pregnancy, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The group has recently signed up to the National Equality Standard, and is undertaking a full review of its policies and procedures in relation to equality, diversity and inclusion (EDI). The group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the group to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Corporate governance statement

The group's corporate governance report is set out on pages 68 to 97. The group has complied with the provisions of the Code throughout 2016.

Financial instruments

Details of the financial risk management objectives and policies of the group and the exposure of the group to credit risk, liquidity risk, cash flow risk, price risk, interest rate risk and foreign exchange rate risk are included on pages 131 to 135 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.

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 172 to 177 is made to distinguish for shareholders the respective responsibilities of the directors and of the external auditor in relation to the financial statements.

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable laws and regulations.

The Act requires the directors to prepare financial statements for each financial year. Under this Act, the directors:

> Have prepared the group and company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and

> Must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the directors have:

> Selected suitable accounting policies and applied them consistently;

> Made judgements and accounting estimates that are reasonable and prudent;

> Complied with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and

> Prepared the financial statements on a going concern basis of accounting.

The directors have also considered and accepted the review undertaken and the report provided by the audit committee, as set out on page 85 of the report, and are satisfied that the Annual Report and Financial Statements 2016, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the company's position and performance, business model and strategy.

The directors are also required by the FCA's Disclosure Guidance and Transparency Rules (DTR) to include a management report containing a fair review of the business of the group and the company and a description of the principal risks and uncertainties facing the group and company.

The Directors' Report and the strategic report constitute the management report for the purposes of DTR 4.1.5R and DTR 4.1.8R.

The directors are responsible for keeping proper accounting records that are sufficient to:

> Show and explain the company's transactions;

> Disclose with reasonable accuracy at any time the financial position of the company and group; and

> Enable them to ensure that the financial statements and the directors' remuneration report comply with the Act and as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report and Financial Statements 2016 will be published on the group's website in addition to the normal paper version. The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Each of the directors listed below, confirms that, to the best of their knowledge, the group financial statements which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group, the company and the undertakings included in the consolidation taken as a whole, and that the strategic report contained in this Annual Report and Financial Statements 2016 includes a fair review of the development and performance of the business and the position of the company and group, and the undertakings included in the consolidation taken as a whole, and a description of the principal risks and uncertainties they face.

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 Act, each person who is a director as at the date of this report confirms that:

> So far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and

> They have taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Deloitte, the auditor for the company, was appointed in 2012 and a resolution proposing their reappointment will be proposed at the 2017 AGM.

AGM

The AGM will be held at 10.00 am on 12 May 2017 at the offices of Provident Financial plc, No. 1 Godwin Street, Bradford, West Yorkshire, BD1 2SU. The Notice of AGM, together with an explanation of the items of business, is contained in the circular to shareholders dated 31 March 2017.

Approved by the board on 28 February 2017 and signed by order of the board.

Kenneth J Mullen
General Counsel and Company Secretary
28 February 2017

Directors' remuneration report

Annual statement by the chairman of the remuneration committee

This report sets out details of the remuneration policy for our executive and non-executive directors, describes the implementation of the approved remuneration policy and sets out the remuneration received by the directors for the year ended 31 December 2016. The report complies with the provisions of the Companies Act 2006, Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority (FCA). The company also follows the requirements of the UK Corporate Governance Code published in September 2014.

The remuneration policy (set out on pages 100 to 105) will be put to shareholders for approval in a binding vote at the 2017 Annual General Meeting (AGM). 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 106 to 118) will be subject to an advisory vote at the 2017 AGM.

On behalf of the board, I am pleased to present the directors' remuneration report for the year ended 31 December 2016.

Aligning remuneration with company strategy

Our remuneration policy is designed to encourage achievement of our strategic goals and priorities by rewarding in line with underlying company performance whilst encouraging appropriate leadership behaviour through: (1) an annual bonus linked to achieving profitable growth and specific strategic and personal objectives; and (2) long-term incentives that only reward for absolute shareholder value creation and delivery of long-term earnings growth.

Performance in 2016

The company has continued to deliver sustainable returns and growth for its shareholders during 2016, with the key highlights being as follows:

> Profit before tax, amortisation of acquisition intangibles and exceptional items up by 14.1% to £334.1m (2015: £292.2m);

> Adjusted earnings per share (EPS) growth of 9.2%; and

> A 12.1% increase in dividend for the year from 120.1p to 134.6p.

Key outcomes in respect of 2016

The annual bonus scheme is based on an adjusted EPS[1] target and personal objectives. For 2016, the adjusted EPS target was set at 167.0p, with threshold and maximum EPS at 95% and 105% of the target respectively. Based upon an adjusted EPS[1] of 177.5p, bonuses of 100% of the maximum of the EPS element were awarded to Peter Crook and Andrew Fisher in respect of 2016, 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) (PSP) this year.

Awards made under the Provident Financial Long Term Incentive Scheme (LTIS) in 2014 are due to vest in April 2017. These awards are subject to a performance target based on annualised adjusted EPS[1] growth and absolute annualised TSR over the three financial years ended 31 December 2016. In order for the award to vest in full, annualised TSR of 15% and annualised adjusted EPS[1] growth of 11% was required. Based upon an actual annualised TSR of 26.8% and an annualised adjusted EPS growth of 16.6%, the committee, having satisfied itself that the vesting was consistent with the broader financial performance of the company, determines that 100% of the award will vest in April 2017. Awards made under the 2013 PSP are also due to vest in April 2017. In order for the Basic Award to be matched in full, an average annual adjusted EPS[1] growth of 11% was required over the three financial years ended 31 December 2016. Based upon an actual average annual adjusted EPS growth of 20.0%, the Basic Awards were matched in full and will vest in April 2017.

1 Adjusted EPS excludes any amortisation of the broker relationships intangible asset created on the acquisition of Moneybarn and exceptional items.

Remuneration Policy

The directors' remuneration policy, set out at pages 100 to 105, will be put to shareholders for approval at the 2017 AGM and will have effect from the date approval is obtained.

The company carried out a consultation process with its top twenty shareholders and the shareholder advisory bodies in 2016, during which it confirmed its intention to retain the same remuneration policy as previously approved by shareholders at the 2014 AGM, with no changes. Overall, the company received positive feedback from shareholders about the proposal, particularly with regards to the unchanged quantum in relation to the executive directors' entitlement under the long term incentive schemes and annual bonus scheme.

I will be available to answer questions on the remuneration policy and the annual report on remuneration at the AGM on 12 May 2017.

Malcolm Le May
Remuneration committee chairman
28 February 2017

Directors' remuneration report

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.

The Chief Executive is consulted on proposals relating to the remuneration of the other executive director 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.

The committee recognises and manages any conflict of interest when consulting the Chief Executive or Chairman about its proposals.

Considerations when setting policy

In setting the remuneration policy for the executive directors and senior management, the committee takes into account the following:

1. the need to maintain a clear link between the overall reward policy and the specific performance of the group;
2. the need to achieve alignment to the business strategy both in the short and long term;
3. the requirement for remuneration to be competitive, with a significant proportion dependent on risk-assessed performance targets;
4. the responsibilities of each individual's role and their individual experience and performance;
5. the need to attract, retain and motivate executive directors and senior management when determining benefit packages, including an appropriate proportion of fixed and variable pay;
6. pay and benefits practice and employment conditions both within the group as a whole and within the sector in which it operates; and
7. periodic external comparisons to examine current market trends and practices and equivalent roles in companies of similar size, business complexity and geographical scope.

How employees' pay is taken into account

Pay and conditions elsewhere in the group were considered when finalising the policy for executive directors and the senior management teams. The same principles apply throughout the group but are proportionate relative to an individual's influence at group level. The base salary increases awarded to the executive directors are consistent with the average percentage increases awarded elsewhere in the group and reflect the strong financial performance of the group and each individual director's personal performance. The committee does not formally consult directly with employees on executive pay but does receive periodic updates from the divisions on remuneration issues in general and specifically in relation to remuneration structures throughout the group.

How the executive directors' remuneration policy relates to the senior management teams

Remuneration for the level below executive director (including share incentives, bonus, benefits and pension entitlement) is set primarily by reference to market comparatives.

Long-term incentives are typically only provided to the most senior executives and are reserved for those identified as having the greatest potential to influence group level performance.

How shareholders' views are taken into account

We remain committed to taking into account shareholder views on any proposed changes to our remuneration policy. The committee chairman maintains contact, as required, with the company's principal shareholders about all relevant remuneration issues and the company consulted with its principal shareholders, as well as the shareholder advisory bodies, in relation to the renewal of its remuneration policy. On the basis that the policy is unchanged from the policy approved by shareholders at the 2014 AGM, including in relation to quantum, the proposal was generally supported. Ongoing and transparent dialogue with our shareholders on the topic of executive remuneration is very important to us and the feedback received on the proposed remuneration policy was carefully considered and discussed by the committee.

Executive director remuneration policy

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Salary	To reflect the responsibilities of the individual role. To reflect the individual's skills and experience and their performance over time. To provide an appropriate level of basic fixed income and avoid excessive risk taking arising from over reliance on variable income.	Reviewed annually and effective from 1 January. Typically set following review of the budget for the forthcoming year, taking into account salary levels in companies of a similar size and complexity. Typically targeted at or around median. Annual increases typically linked to those of the wider workforce. Increases beyond those granted to the wider workforce may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, or a significant increase in the scale of the role and/or size, value and/or complexity of the group.	Broad assessment of group and individual performance as part of the review process. Malus and clawback provisions do not apply.
Annual bonus	Incentivises annual delivery of agreed financial and operational goals. Rewards the achievement of an agreed set of annual financial and operational goals.	Financial and operational goals set annually. Maximum opportunity of 120% of salary for the Chief Executive and 100% of salary for the Finance Director and any other executive director. One-third of the bonus is subject to compulsory waiver in which case an award is made under the PSP. Executive directors may waive up to an additional one-third of bonus. Any award granted following waiver of bonus will be eligible for Matching Awards under the PSP. Remainder of bonus paid in cash.	A minimum of 50% of any bonus opportunity will be subject to financial targets (eg EPS) with up to 20% linked to personal objectives. In relation to the EPS element, a graduated scale operates from threshold performance through to the maximum performance level of 105% of adjusted targeted group EPS. In relation to financial targets, none of this part of the bonus becomes payable for achieving the threshold performance target with a graduated scale operating thereafter for higher levels of financial performance. In relation to personal objectives, it is not always practicable to set a sliding scale for each objective. Where it is, a similar proportion of the bonus becomes payable for exceeding the threshold performance level as for financial targets. Malus and clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements or an error in the calculation of the extent to which the bonus targets are achieved. The period of clawback is three years from the date of payment. Details of the bonus measures operating each year will be included in the relevant annual report on remuneration. The committee reserves the power to make changes over the life of the policy to achieve alignment with the group's annual strategy.
Performance Share Plan (PSP)	Alignment of management's long-term strategic interests with long-term interests of shareholders. Encourages an increased shareholding in the group.	Invitations to participate and awards made annually. Opportunity to waive up to two-thirds of annual bonus and receive a basic award together with a matching share award. Executive directors eligible for a matching award of up to two times based on a waiver of up to two-thirds of annual bonus with a minimum compulsory waiver of one-third. Maximum bonus being earned and a maximum bonus waiver, results in a maximum benefit of 160% of salary in the case of the Chief Executive 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 at the time of vesting.	The Basic Awards are subject to certain forfeiture conditions over the three year performance period. The Matching Awards vest based on a three-year performance period against a challenging range of EPS growth targets set and assessed by the committee. 25% of the Matching Award (half of one matching share) vests at the threshold performance level with full vesting (two matching shares), taking place on a graduated scale for achieving the maximum performance level. The performance condition is reviewed annually by the committee prior to grant (in terms of the range of targets and the choice of metric) and may be refined to ensure that the condition remains aligned with the group's strategy and key performance indicators (KPIs). Any substantive reworking of the current performance condition would be accompanied by appropriate dialogue with the group's shareholders and/or approval sought for a revised remuneration policy depending on the nature of the change. Malus and clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements or an error in the calculation of the extent to which the performance target is achieved. The period of clawback is three years from the date of vesting.

Directors' remuneration report

Remuneration policy (continued)

Executive director remuneration policy (continued)

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Long Term Incentive Scheme (LTIS)	Alignment of management's long-term strategic interests with long-term interests of shareholders. Rewards strong financial performance and sustained increase in shareholder value. Encourages an increased shareholding in the group.	Annual grant of share awards (structured as conditional share awards or nil-cost options). Executive directors are eligible for awards of up to 200% of salary which is the maximum opportunity contained within the scheme rules. Dividend equivalent provisions allow the committee to pay dividends on vested shares at the time of vesting. Shareholders approved the renewal of the LTIS at the 2015 AGM.	Awards vest based on a three year performance period against a challenging range of EPS and TSR targets set and assessed by the committee. 20% of the award vests at the threshold performance level with full vesting taking place on a graduated scale for achieving the maximum performance level. The performance targets are reviewed annually by the committee prior to grant (in terms of the range of targets and the choice of metrics) and may be refined to ensure that the targets remain aligned with the group's strategy and KPIs. Any substantive reworking of the current performance targets would be accompanied by appropriate dialogue with the company's shareholders and/or approval sought for a revised remuneration policy depending on the nature of the change. Malus and clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements or an error in the calculation of the extent to which the performance targets are achieved. The period of clawback is three years from the date of vesting.
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 have been required to build and maintain a holding of 200% of salary in the form of shares in the company since 1 January 2016. Executive directors are required to retain half of any shares vesting (net of tax) under the LTIS until the guideline is met. Unvested shares held under the PSP are not taken into account.	Not applicable.

The committee will operate the incentive schemes within the policy detailed above and in accordance with their respective rules. In relation to the discretions included within the scheme rules, these include, but are not limited to: (i) who participates in the schemes; (ii) testing of the relevant performance targets; (iii) undertaking an annual review of performance targets and weightings; (iv) the determination of the treatment of leavers in line with the scheme rules; (v) adjustments to existing performance targets and/or share awards under the incentive scheme if certain relevant events take place (eg a capital restructuring, a material acquisition/divestment etc) with any such adjustments to result in the revised targets being no more or less challenging to achieve; and (vi) dealing with a change of control. For the purposes of incentive pay, EPS is calculated on an adjusted basis to show the EPS generated by the group's underlying operations.

"I was pleased with the feedback we received during our consultation on the Remuneration Policy. We decided to propose a renewal of the 2014 policy without amendment as the committee believes it is fit for purpose and is very much aligned to delivering superior returns to shareholders, which it has."

Malcolm Le May
Remuneration committee chairman

Arrangements from prior years

Whilst this remuneration policy will be proposed at the 2017 AGM for shareholder approval, all variable remuneration arrangements previously disclosed in prior years' directors' remuneration reports will remain eligible to vest or become payable on their original terms and vesting dates, subject to any related clawback provisions.

Regulatory changes

The committee is mindful that regulatory changes in the financial services sector may result in a need to rebalance the executive directors' pay and, accordingly, the committee retains discretion to adjust the current proportions of fixed and variable pay within the current total remuneration package if new legislation were to impact the executive directors in due course. Should this be the case, the company would enter into appropriate dialogue with its major shareholders and, depending on the nature of any changes, may be required to seek shareholder approval for a revised remuneration policy.

Policy for new directors

Base salary levels will be set in accordance with the approved remuneration policy, taking into account the experience and calibre of the individual. Benefits will also be provided in line with the approved 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.

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.

Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual and the point in the financial year that they join the company.

The above policy applies to both an internal promotion to the board or an external hire.

In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving a previous employer), then the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration or benefit being forfeited will be taken into account. The company will not pay any more than necessary and will not pay more than the expected value of the remuneration or benefit being forfeited. The approved 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 PSP have been selected to reflect the key indicators of the group's financial performance.

EPS continues to be considered by the committee as one of the broadest and most well understood measures of the group's long-term financial performance and therefore it remains appropriate to maintain the option to use it as a key metric in our long-term incentive plans.

Furthermore, EPS is fully aligned with the group's objective of continuing to deliver a high dividend yield and thus is aligned with the shareholder base which is weighted towards longer-term income investors.

In 2012, the link to RPI was removed from the performance targets for the LTIS and PSP following consideration by the committee of various factors prevailing at the time. This approach has been retained in relation to awards under the PSP and the LTIS since 2012. Performance targets will, however, be assessed annually when setting targets for future awards to take account of prevailing rates of inflation.

Directors' remuneration report

Remuneration policy (continued)

In addition, TSR is used to provide an appropriate external balance to the internal EPS measure used under the LTIS and is consistent with delivering superior returns to shareholders which remains the group's key, over-arching, long-term objective.

The committee has determined that absolute TSR remains an appropriate performance measure as relevant market indices are considered too diverse 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 group. The committee agreed, however, to keep the appropriateness of this measure under review and at its meeting in February 2017 the committee determined that an absolute TSR target remained appropriate for the 2017 LTIS awards.

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 12 months' notice required to be served by either the executive director or the company.

An executive director's contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. No director has a service contract providing liquidated damages on termination.

In the event of the termination of a service contract, it is the current policy to seek mitigation of loss by the executive director concerned and to aim to ensure that any payment made is the minimum which is commensurate with the company's legal obligations. Payments in lieu of notice are not pensionable.

In the event of a change of control of the company, there is no enhancement to contractual terms.

Notice periods are limited to 12 months. If the company terminates the employment of an executive director without giving the period of notice required under the contract, then the executive director may be entitled to receive up to 12 months' compensation. Compensation is limited to: base salary due for any unexpired notice period; any amount assessed by the committee as representing the value of contractual benefits and pension which would have been received during the period; and any annual bonus which the executive director might otherwise have been eligible to receive on a pro rata basis, subject to the committee's assessment of financial and personal performance.

To the extent that an executive director seeks to bring a claim against the company in relation to the termination of their employment (e.g. for breach of contract or unfair dismissal), the committee retains the right to make an appropriate payment in settlement of such claims.

In the case of a termination by the company of the contract of any new executive director who has been appointed where a payment in lieu of notice is made, the committee would normally seek to limit this to base salary, pension and benefits for up to 12 months. An amount in respect of loss of annual bonus for the period of notice served (pro rata) would only be included in exceptional circumstances and would not apply in circumstances of poor performance. For the avoidance of doubt, in such exceptional circumstances, the director would be eligible to be considered in the normal way for an annual bonus for any period they have served as a director, subject to the normal assessment by the committee of financial and personal performance.

Any share-based entitlements granted to an executive director under the company's share incentive schemes will be determined by reference to the relevant scheme rules. In the case of a 'bad leaver' (e.g. resignation) awards will typically lapse and in certain 'good leaver' circumstances (e.g. ill-health) awards will remain eligible to vest subject to assessment of the relevant performance target and a pro rata reduction (unless the committee determines otherwise).

Any buyout arrangements agreed between the company and the relevant directors would be treated in accordance with the terms agreed on finalisation of the buyout arrangement.

Policy on other appointments

Executive directors are permitted to hold non-executive directorships but may only hold one non-executive directorship in a FTSE 100 company (and may retain the fees from their appointment) provided that the board considers that this will not adversely affect their executive responsibilities.

Copies of directors' service contracts and/or letters of appointment are available from the Company Secretary on request.

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 on page 105 shows details of the terms of appointment for the non-executive directors. All directors, except for Alison Halsey, will seek reappointment at the forthcoming AGM.

Non-executive director remuneration policy

Element	Purpose and link to strategy	Operation including maximum levels
Fees	To attract and retain a high-calibre Chairman and non-executive directors by offering market competitive fees which reflect the individual's skills, experience and responsibilities.	The Chairman and non-executive directors receive annual fees (paid in monthly instalments). The fee for the Chairman is set by the remuneration committee and the fees for the non-executive directors are approved by the board. The Chairman is paid an all-inclusive fee for all board responsibilities. The other non-executive directors receive a basic non-executive director fee, with supplementary fees payable for additional responsibilities, including a fee for chairing a committee and, from 2016, for membership of the risk and audit committees (but not if performing a chairman role). The non-executive directors do not participate in any of the company's incentive arrangements. Relevant expenses and/or benefits may be provided to the non-executive directors. The fee levels are reviewed on a regular basis and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Flexibility is retained to go above the current fee levels and/or to provide the fees in a form other than cash (but not as share options or other performance-related incentives) if necessary to appoint a new Chairman or non-executive director of an appropriate calibre.

Terms of appointment for the non-executive directors

Name	Appointment	Date of most recent term	Expected date of expiry
Manjit Wolstenholme	16 July 2007	31 July 2016	31 July 2019
Rob Anderson	2 March 2009	30 March 2015	30 March 2018
Stuart Sinclair	1 October 2012	31 October 2015	31 October 2018
Malcolm Le May	1 January 2014	1 January 2017	31 January 2020
Alison Halsey	1 January 2014	1 January 2017	12 May 2017
David Sear	1 January 2017	1 January 2017	31 January 2020
John Straw	1 January 2017	1 January 2017	31 January 2020

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
Remuneration committee chairman
28 February 2017

Directors' remuneration report

Annual report on remuneration

Introduction

This annual report on remuneration provides an overview of the workings of the committee during the year, sets out details of how the approved remuneration policy was implemented in 2016, and explains the total remuneration earned by the directors in 2016. It also sets out details of how the proposed remuneration policy will be implemented in 2017.

This report will be subject to an advisory vote at the AGM of the company to be held on 12 May 2017.

Committee role

The role of the committee is set out in its terms of reference which are reviewed annually and were last updated in December 2016. These can be found on the group's website at www.providentfinancial.com. The committee meets at least three times a year and thereafter as circumstances dictate.

The committee regularly reviews the approved remuneration policy in the context of the group's strategy and the group's risk management framework to ensure it does not inadvertently promote irresponsible behaviour. It has coordinated its work with both the audit committee and the risk advisory committee, who assist with the monitoring and assessment of risk management specifically in relation to the incentives provided under the approved remuneration policy.

The remuneration committee reviewed a remuneration framework risk assessment as part of the renewal of the company's remuneration policy. It has been agreed that the 2014 remuneration policy will not be amended and forms the basis of the 2017 remuneration policy to be submitted to shareholders for approval at the 2017 AGM.

Priorities for 2017

- Continue to engage with shareholders and shareholder advisory bodies, as appropriate, in relation to the 2017 Remuneration Policy.
- Continue to monitor upcoming changes relating to remuneration and assess the potential impact on the group's remuneration structure and framework.

At each meeting, the committee

- Reviewed the minutes of the previous meeting and progress against any actions arising; and
- Reviewed the minutes of the Vanquis Bank remuneration committee.

Membership

The members of the committee, all of whom are considered to be independent, and their attendance at meetings during the year, is shown in the table below.

Details of the work undertaken by the committee during the year are set out on page 107.

Effectiveness

On the basis of an external board and committee evaluation carried out by Lintstock, further details of which can be found on page 78, the committee considered its performance and effectiveness in 2016 at its meeting in December 2016.

As part of the external board and evaluation process, 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 an external questionnaire.

Overall, the committee determined that it was operating effectively and that it continued to have appropriate regard for the key issues within its remit.

External advisors

In 2016 the committee again engaged New Bridge Street (NBS), a trading name of Aon plc (NBS's parent company) to provide remuneration consultancy services. The total fees paid to NBS in respect of such services to the committee during the year were £75,170. NBS is a signatory to the Remuneration Consultants' Code of Conduct. Aon plc also provides pension consultancy and investment advice to the company. The committee is satisfied that these additional services in no way compromised the independence of the advice from NBS.

The terms of engagement for NBS are available from the Company Secretary on request.

The Company Secretary is secretary to the committee and on behalf of the committee, agrees the scope of the services to be provided by NBS and a fixed fee in respect of each deliverable. The Company Secretary attended all the meetings of the committee in 2016 and provides legal and technical support.

In selecting advisors, the committee considers a range of factors, such as independence and objectivity, experience, technical ability and market knowledge. These factors are reviewed on a regular basis, and were last considered by the committee at its meeting in February 2017.

Components of the approved remuneration policy

The approved remuneration policy will be implemented in 2017, subject to shareholder approval at the 2017 AGM, as follows:

Executive directors

1. Salary

Salaries for executive directors and the senior management teams are reviewed annually by the committee, although not necessarily increased. At its meeting in December 2016, the committee considered the company's strong financial performance and each individual's responsibilities, abilities, experience and personal performance. The committee also

Committee members and meeting attendance

Name	Notes	Date appointed	2016 Attendance	Percentage attended
Malcolm Le May	Chairman	1 January 2014	6 out of 6	100%
Rob Anderson		2 March 2009	6 out of 6	100%
Alison Halsey		1 January 2014	6 out of 6	100%
Stuart Sinclair		1 October 2012	5 out of 6	83%

considered both the group's own salary structures, pay and conditions and, although used with caution in order to avoid paying more than necessary, market data on salary rates for similar positions in comparative companies[1]. As a result, it agreed to increase the executive directors' salaries in 2017 as follows:

Director's name	% increase 2017	Salary £
Peter Crook	3.4%	755,000
Andrew Fisher	3.4%	537,500

These increases are broadly consistent with the average percentage increases awarded elsewhere in the group.

1 Comparator companies include, for example: 3i Group plc, Aberdeen Asset Management plc, Admiral Group plc, Ashmore Group plc, Close Brothers Group plc, CYBG plc, Direct Line Insurance Group plc, Hargreaves Lansdown plc, Henderson Group plc, Hiscox Ltd, ICAP plc, IG Group Holdings plc, Investec plc, Jupiter Fund Management plc, Man Group plc, Metro Bank plc, Old Mutual plc, RSA Insurance Group plc, Schroders plc, St. James's Place plc, Standard Life plc, The Paragon Group of Companies plc, and Virgin Money Holdings (UK) plc.

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 and any other executive director. The performance conditions for the 2017 annual bonus will continue to 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%	724,800	80%	430,000
Personal objectives	20%	181,200	20%	107,500

EPS 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.

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.

Straight-line vesting will operate between 95% of the targeted group EPS at which point 0% of the bonus subject to this measure will be payable, and the maximum of 105% of the targeted group EPS. 60% of the bonus subject to this measure will be payable for target levels of performance. The personal objectives element of the scheme will continue to be underpinned by the threshold level of the 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 2017 would put the company at a significant commercial disadvantage. When setting EPS targets, the committee takes account of internal and external market forecasts and prevailing economic conditions. Details of the extent to which the bonus targets are achieved will, however, be set out in the next annual report on remuneration.

Malus and clawback provisions also apply to annual bonus payments which will enable the committee to recover 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. The mechanisms open to the committee when undertaking a clawback include the withholding of variable pay to offset the value to be clawed back and/or seeking repayment from the individual of the value overpaid. The period of clawback is three years from the date on which the bonus is paid.

Any bonuses paid are non-pensionable and are not taken into account when determining base salary for performance-related remuneration.

Remuneration committee key items in 2016

January
> Review of schedule of directors' expenses.
> Consideration of gender pay gap disclosures from 2018.
> Update on EBA consultation.
> Review of 2015 directors' remuneration report.

February
> Determination of level of vesting of LTIS, PSP and Deferred Cash Benefit Incentive Plan awards granted in 2013.
> Review of prior year performance against financial and non-financial objectives in relation to the 2015 annual bonus scheme.
> Review and approval of proposed LTIS, PSP and PF Equity Plan awards and applicable performance targets for 2016.
> Assessment of the remuneration risk framework.
> Finalisation of performance targets under the 2016 annual bonus scheme.
> Approval of the 2015 directors' remuneration report.

May
> Discussion on nature and format of the consultation to be undertaken on the proposed 2017 remuneration policy.

June
> Review and approval of the shareholder consultation letter.

October
> Review of remuneration developments and best practice in the market.
> Discussion on the feedback from the shareholder consultation process.

December
> Review of executive directors' shareholdings.
> Review of Chairman's fees for 2017.
> Review and discussion of the application of the proposed 2017 remuneration policy.
> Review of the committee's performance and effectiveness in 2016.
> Review and update of committee terms of reference.

Directors' remuneration report

Annual Report on remuneration (continued)

3. Long-term incentive schemes

The company's long-term incentive arrangements for executive directors are the LTIS and the PSP.

A replacement PSP was approved by shareholders at the 2013 AGM following expiry of the previous PSP in 2012.

The LTIS expired in May 2016 and a resolution to renew the scheme on substantially similar terms was approved by shareholders at the 2015 AGM.

The Provident Financial Executive Share Option Scheme 2006 (the ESOS) also expired in May 2016 and has not been replaced.

In 2017 and future years, executive directors will participate in the LTIS and the PSP.

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 subject to the award.

The aggregate market value of awards made to a participant 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 under the LTIS 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 2017, 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 2016.

The actual range of the EPS targets for awards in 2017 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 2017 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 before any award vests.

PSP

Executive directors are required to waive a minimum of one third of annual bonus payable in which case they receive awards under the PSP. They may also elect to waive up to a further third of bonus. They then receive a Basic Award under the PSP which is subject to forfeiture conditions over a three year period and a Matching Award 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. 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 2017 remains unchanged from 2016 and will be as follows:

Annual average growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one matching 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 PSP since 2013.

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 (SAYE). 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 and monthly savings amounts are subject to HMRC limits.

Share incentive plan

In addition to the SAYE, 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 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 matching share for every four partnership 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 to the right show how much the executive directors 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 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 PSP and 55% of the award under the LTIS; and

> Maximum (performance meets or exceeds maximum) – fixed pay plus maximum bonus (120/100% of salary) and maximum vesting under the PSP and LTIS.

> Fixed pay comprises:

(i) salary – salary effective as at 1 January 2017;

(ii) benefits – amount received by each executive director in the 2016 financial year; and

(iii) pension – pension credit of 30% of salary.

Awards under the PSP and LTIS have been assumed as follows:

(i) PSP – Matching Award of two-thirds of bonus earned at target and maximum performance levels; and

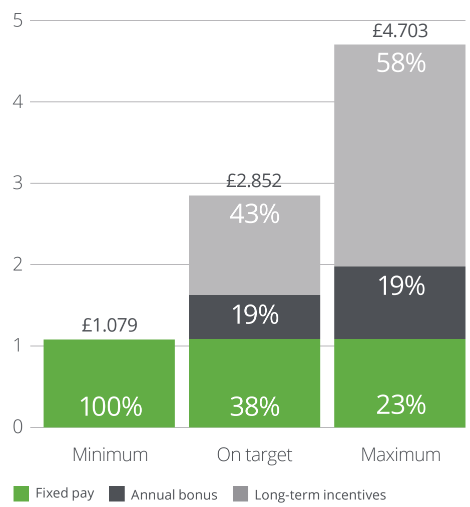
(ii) LTIS – award equal to 200% of salary.

Partnership and matching shares under the SIP and options under the SAYE have not been included.

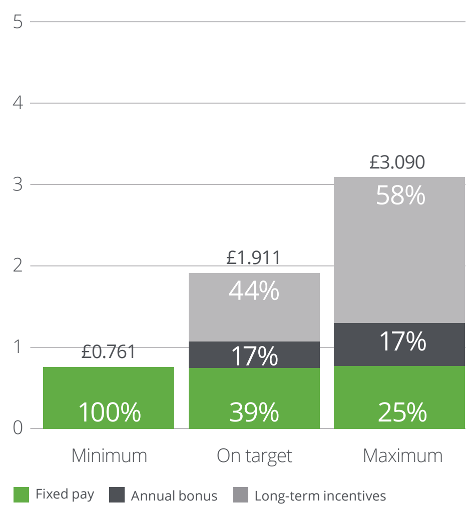
The scenarios do not include any growth or a fall in the share price or any dividend assumptions.

It should be noted that as 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 110 detailing what was actually earned by the executive directors in relation to the financial year ended 31 December 2016, since these values are based on the actual levels of performance achieved to 31 December 2016 and include the impact of share price movements in relation to share awards.

Total remuneration opportunity Peter Crook (£m)



Total remuneration opportunity Andrew Fisher (£m)



Non-executive directors

1. Non-executive directors' fees

At its meeting in December 2016, the board reviewed the non-executive directors' fees in the context of a benchmarking exercise undertaken by NBS, taking due account of the need to use such benchmarking exercises with caution. After taking into account the changes made last year and the increases awarded to the wider workforce, the following fee levels for 2017 were agreed:

> Non-executive director base fee: £68,000 (increased by £2,000);

> Supplementary fee for chairing the audit, remuneration or risk advisory committee: £20,000 (no change);

> Supplementary fee for membership of the audit committee or risk advisory committee: £5,000 (no change). This fee is not paid to the chairman of these committees; and

> Supplementary fee for the role of Senior Independent Director (SID): £10,000 (no change).

2. Chairman's fees

The committee reviewed the Chairman's fees also on the basis of a benchmarking exercise carried out by NBS in December 2016, taking due account of the need to use such benchmarking exercises with caution. The committee agreed that the Chairman's fees for 2017 be increased to £320,000 (2015: £310,000) to reflect the increases awarded to the wider workforce.

Directors' remuneration report

Annual Report on remuneration (continued)

Details of the implementation of the company's approved remuneration policy in 2016 are set out below:

Directors' remuneration

The total aggregate directors' emoluments during the year amounted to £11.181m (2015: £13.002m), analysed as follows:

	Fixed pay								Variable pay										Total	
							Total fixed pay				Share incentive schemes						Total variable pay			
	Salary		Benefits in kind[1]		Pension				Annual cash bonus[3]		LTIS		PSP		PSP dividends					
Director's name	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016[4] £'000**	2015 £'000	**2016[5] £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Executive directors																				
Peter Crook	**730**	706	**102**	97[2]	**248**	223	**1,080**	1,026	**876**	830	**2,107**	2,671	**2,175**	2,892	**77**	81	**5,235**	6,474	**6,315**	7,500
Andrew Fisher	**520**	504	**61**	52	**176**	156	**757**	712	**520**	494	**1,504**	1,908	**1,353**	1,760	**47**	49	**3,424**	4,211	**4,181**	4,923
Total	**1,250**	1,210	**163**	149	**424**	379	**1,837**	1,738	**1,396**	1,324	**3,611**	4,579	**3,528**	4,652	**124**	130	**8,659**	10,685	**10,496**	12,423

Note: Peter Crook and Andrew Fisher do not receive any emoluments in respect of their respective directorships of Vanquis Bank Limited, Provident Financial Management Services Limited and Moneybarn No. 1 Limited.

1 This figure includes amounts in respect of a company car benefit, fuel allowance, private medical insurance and permanent health insurance.
2 From May 2015 Peter Crook has received an allowance due to his place of work changing from Bradford to London.
3 The annual bonus represents the gross bonus payable to the directors in respect of 2016. Each director has agreed to waive two-thirds of gross bonus payable in order to participate in the PSP.
4 Amount calculated based on 100% vesting of 2014 awards multiplied by an average share price for the three months ended 31 December 2016. No account has been taken of the dividend equivalent payable on these shares, which will be calculated on the vesting date of 8 April 2017. The actual value may vary depending on the actual share price on the vesting date.
5 Amount calculated based on 100% vesting of 2014 basic and matching awards multiplied by an average share price for the three months ended 31 December 2016. No account has been taken of the dividend equivalent payable on the matching award shares, which will be calculated on the vesting date of 8 April 2017. The actual value may vary depending on the actual share price on the vesting date.

	Fees		Annual cash bonus		Benefits in kind		Total	
Director's name	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Chairman								
Manjit Wolstenholme	**310**	255	**–**	–	**7**	4	**317**	259
Non-executive directors								
Rob Anderson[1]	**76**	64	**–**	–	**2**	3	**78**	67
Stuart Sinclair[1]	**91**	79	**–**	–	**1**	3	**92**	82
Alison Halsey	**91**	79	**–**	–	**1**	2	**92**	81
Malcolm Le May[2]	**106**	89	**–**	–	**0**	1	**106**	90
Total	**674**	566	**–**	–	**11**	13	**685**	579

Note: The non-executive directors did not receive a pension benefit nor did they receive any bonus or share incentive entitlements.

1 Stuart Sinclair and Rob Anderson each receive an additional fee of £50,000 per annum in respect of their respective directorships of the relevant companies of CCD and Moneybarn. Rob Anderson's fee for 2016 has been pro rated from his date of appointment.
2 Malcolm Le May receives an additional fee of £65,000 per annum in respect of his directorship of Vanquis Bank Limited. This fee has been pro rated for 2016 from his date of appointment. He also received a pro rated fee for the period in 2016 during which he was also a director of Moneybarn.

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 strategy and 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 retains the fee from that appointment. During 2016, these fees amounted to £65,000 (2015: £61,251).

Andrew Fisher was appointed as a non-executive director of Arrow Global Group PLC on 9 December 2016 and retains the fee from that appointment. During 2016, the pro-rated fees amounted to £3,500 (2015: £nil).

Annual bonus scheme

The 2016 annual bonus scheme was based on adjusted targeted group EPS (excluding exceptional items and amortisation of acquisition intangibles) and personal objectives.

The maximum bonus opportunity in respect of 2016 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 2016 adjusted targeted group EPS and the corresponding adjusted targeted group EPS that needed to be achieved, which the committee considered to be challenging, were as follows:

	Threshold	Target	Maximum
% of the adjusted targeted group EPS achieved	95%	100%	105%
% of EPS element of annual bonus paid	0%	60%	100%
Adjusted targeted group EPS	158.7p	167.0p	175.4p

Straight-line vesting operated between 95% and 105% of the adjusted targeted group EPS.

The committee carries out a detailed review of the computations undertaken in determining the group's EPS and ensures that the rules of the scheme are applied consistently. The company's auditor is also asked to perform agreed-upon procedures on behalf of the committee on the EPS calculations.

At its meeting in February 2017, the committee assessed the group's performance against the adjusted targeted group EPS. The adjusted EPS achieved of 177.5p exceeded the adjusted targeted group EPS of 167.0p by more than 5% and the committee therefore determined that 100% of the EPS element of the 2016 annual bonus should be paid.

The balance of the annual bonus, as detailed in the table of directors' remuneration on page 110, was paid on the basis of the committee's assessment of the extent to which the personal objectives for the executive directors were achieved for 2016 as set out in the table opposite.

The bonus payable as a percentage of salary in relation to 2016 was therefore 120% for the Chief Executive and 100% for the Finance Director.

Committee's assessment of the executive directors' personal objectives for 2016:

Peter Crook

Personal Objective	Assessment	Percentage Earned of the Maximum 20%
Specific strategic and performance targets relating to each of the divisions	> Vanquis Bank: introduction of alternative growth strategies. > CCD: redesign of the business model. > Moneybarn: smooth transition in leadership succession.	5
FCA authorisation	> Vanquis Bank: variation of permission secured. > CCD: constructive dialogue but not yet authorised. > Moneybarn: fully authorised.	4
Succession planning for the divisional management teams	> Vanquis Bank: reconstitution of the executive committee. > CCD: recruitment of an experienced IT director to address the future technology needs of the business. > Moneybarn: replaced the retiring managing director by promoting the sales and commercial director. > Group: worked with the Chairman to recruit additional non-executive directors to enhance the board composition.	3
Working relationship with the Chairman	> Assisted and supported the Chairman in the development of relationships with the divisional senior management teams and with external stakeholders.	4
Maintain the group's relationship with external stakeholders	> Continued to have an active role in the FCA's practitioner's panel. > Secured sponsorship of , helped promote and joined the Bradford Literature Festival Advisory Board. > Became interim chair of Producer City Board.	4

Andrew Fisher

Personal Objective	Assessment	Percentage Earned of the Maximum 20%
Achievement of specific divisional strategic and performance targets	> Worked effectively with the Chief Executive in overseeing the development of the growth initiatives in Vanquis Bank.	4
Tax charge for the group	> Group's effective tax rate is 23.2%.	3
Management of group treasury and in particular the ICAAP process	> ICAAP and ILAAP submitted and sufficient regulatory capital in excess of the individual capital guidance maintained at all times.	3
Enhancing the group risk function	> Roles of the risk advisory group and risk advisory committee effectively realigned to enhance the reporting and management of key risks across the group, including in particular conduct risk.	4
Effective management of city expectations	> Effective roadshows undertaken in the UK, Europe and USA following the group's results announcements. No concerns raised by shareholders and positive feedback from investor surveys.	3
Developing and enhancing the finance team	> Involved in recruitment of a new divisional finance director at Vanquis Bank and continued to develop the divisional and corporate office finance teams.	3

Directors' remuneration report

Annual report on remuneration (continued)

Share incentive schemes

In 2016 the committee continued with the policy of making conditional share awards to executive directors and the senior management teams under the LTIS and awards under the PSP. This policy is in line with prevailing market practice and recognises that conditional share awards, and the waiver of annual bonus in the case of the PSP, provide greater alignment with shareholders' interests.

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 of 200% of basic salary. Executive directors received maximum grants in 2016.

2016 awards

The proposed performance targets for awards made under the LTIS in 2016 were reviewed by the committee at its meeting in February 2016 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 2016 is the same in terms of metrics and annual growth requirements as the targets being proposed for the 2017 LTIS awards, further details of which are set out on page 108.

2014 awards

Vesting of the 2014 conditional share awards, which are due to vest on 8 April 2017, was split equally between the company's annualised growth in adjusted EPS and its annualised TSR over the three year performance period as follows:

Annualised growth in adjusted EPS	Percentage vesting (of EPS part of award)
Below 5%	0%
5%	20%
11%	100%

Annualised TSR	Percentage vesting (of TSR part of award)
Below 8%	0%
8%	20%
15%	100%

A sliding scale of vesting (on a straight-line basis) applied between the lower and upper EPS and TSR targets.

Long Term Incentive Scheme

Details of the conditional share awards granted to the executive directors during 2016 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	01.03.2016	44,936	£1,459,970	200%	50% based on absolute TSR and 50% based on absolute EPS growth	Three consecutive financial years ending 31 December 2018	20%
Andrew Fisher	01.03.2016	32,009	£1,039,972	200%			

1 Face value calculation is based on the share price of £32.49 on 29 February 2016. Actual value at vesting may be greater or lesser depending on actual share price at vesting and as a result of any dividend equivalent payable on vested shares.
2 Details of the performance conditions are set out in the notes to the table below.

Awards held by the executive directors under the LTIS at 31 December 2016 were as follows:

Director's name	Date of award	Awards held at 01.01.2016	Awards granted during the year	Awards vested during the year[1]	Awards lapsed during the year	Awards held at 31.12.2016	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	01.03. 2013[2]	90,784	–	90,784	–	–	1,465.0	3,264.98	01.03.2016
	08.04.2014[3]	72,143	–	–	–	72,143	1,899.0	–	08.04.2017
	25.02.2015[3]	51,797	–	–	–	51,797	2,726.0	–	25.02.2018
	01.03.2016[3]	–	44,936	–	–	44,936	3,249.0	–	01.03.2019
Andrew Fisher	01.03. 2013[2]	64,846	–	64,846	–	–	1,465.0	3,264.98	01.03.2016
	08.04.2014[3]	51,500	–	–	–	51,500	1,899.0	–	08.04.2017
	25.02.2015[3]	36,977	–	–	–	36,977	2,726. 0	–	25.02.2018
	01.03.2016[3]	–	32,009	–	–	32,009	3,249.0	–	01.03.2019

1 Dividend shares on awards which vested in 2016 were received as follows: Peter Crook 7,381 shares and Andrew Fisher 5,272 shares.
2 Details of the performance targets for the 2013 award were included in the annual report on remuneration in 2015.
3 Half the award vests subject to EPS growth with 20% of this part of the award vesting for EPS growth of 5% per annum through to full vesting for EPS growth of 11% per annum. The remaining half of the award is subject to absolute TSR with 20% of this part of the award vesting for 8% absolute TSR per annum and full vesting for absolute TSR of 15% per annum. No vesting takes place below the threshold performance levels with straight-line vesting taking place between threshold and maximum performance levels. In addition: (1) with regard to the absolute TSR performance targets, that part of the award will not vest unless the committee is satisfied that the TSR performance is a genuine reflection of the underlying performance of the company; and (2) with regard to the absolute EPS performance targets, that part of the award will not vest unless the committee is satisfied that the vesting is consistent with the broader financial performance of the company. Full details of historic performance targets have been fully set out in previous directors' remuneration reports.

The assessment of the extent to which these performance conditions were met was discussed by the committee at its meeting in February 2017, with assistance from NBS. The company's annualised growth in adjusted EPS over the performance period was 16.6% which exceeded the maximum annualised growth in EPS target 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 26.8%, which exceeded the maximum annualised TSR target of 15%, resulting in 100% of the TSR element of the award vesting.

The committee therefore approved a 100% vesting of the 2014 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 16.6% and the total annualised growth in dividends over the period of 16.6%.

Dividend waiver

The executive directors have waived any entitlement to dividends payable during the performance period on their conditional share awards. To the extent an award vests at the end of the performance period, either additional ordinary shares in the company or a cash amount equivalent to the dividends that would have been paid on the vested awards from the date of grant, will be provided to the executive directors on vesting.

Divisional targets

As in previous years, awards made in 2016 to employees within CCD, Vanquis Bank and Moneybarn are subject to a challenging divisional performance target rather than group EPS and TSR targets.

PSP

2016 awards

In 2016, participation in the PSP included the executive directors, who were able to elect to waive up to two-thirds (with a compulsory minimum of one third) of their annual bonus payable, and other eligible employees who were able to waive up to 50% or 30%, (depending on their level of seniority), of their annual bonus payable. Participants then received a basic award of shares equal to the value of their waived bonus, together with an equivalent Matching Award (on the basis of one share for each share acquired pursuant to the participant's basic award) which is subject to a performance condition over a period of three years.

Awards to executive directors and certain members of the senior management teams in 2016 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.

Performance Share Plan

Details of the awards granted to the executive directors during 2016 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	01.03.2016	Basic	17,036	£553,500	76%	100% based on absolute EPS growth of between 5% and 11%	Three consecutive financial years ending 31 December 2018	Half a matching share
		Matching	34,072	£1,107,000	152%			
Andrew Fisher	01.03.2016	Basic	10,135	£329,286	63%			
		Matching	20,270	£658,572	127%			

1 Face value is calculated based on the share price of £32.49 on 29 February 2016. The 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 vesting shares.
2 Details of the performance condition are set out in the notes to the table below.

Awards held by the executive directors under the PSP at 31 December 2016 were as follows:

Director's name	Date of grant	Basic awards (number of shares) held at 01.01.2016	Matching awards (number of shares) held at 01.01.2016	Total basic awards (number of shares) vested during the year	Total matching awards (number of shares) vested during the year[1]	Total basic awards (number of shares) held at 31.12.2016	Total matching awards (number of shares) held at 31.12.2016	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	09.05.2013[2]	33,243	66,486	33,243	66,486	–	–	1,533.0	2,839.0	09.05.2016
	08.04.2014[3]	24,822	49,644	–	–	24,822	49,644	1,899.0	–	08.04.2017
	25.02.2015[3]	20,103	40,206	–	–	20,103	40,206	2,726.0	–	25.02.2018
	01.03.2016[3]	–	–	–	–	17,036	34,072	3,249.0	–	01.03.2019
Andrew Fisher	09.05.2013[2]	20,222	40,444	20,222	40,444	–	–	1,533.0	2,839.0	09.05.2016
	08.04.2014[3]	15,442	30,884	–	–	15,442	30,884	1,899.0	–	08.04.2017
	25.02.2015[3]	11,959	23,918	–	–	11,959	23,918	2,726.0	–	25.02.2018
	01.03.2016[3]	–	–	–	–	10,135	20,270	3,249.0	–	01.03.2019

1 Dividend shares on awards which vested in 2016 were received as follows: Peter Crook 6,588 shares and Andrew Fisher 4,006 shares.
2 Details of the performance target for the 2013 awards were included in the annual report on remuneration in 2015.
3 The matching awards vest subject to a performance target based on average annual growth in EPS, with 25% of the matching award vesting for EPS growth of 5% per annum (threshold) through to full vesting for EPS growth of 11% per annum. No vesting takes place below the threshold performance level with straight-line vesting taking place between threshold and maximum performance levels. In addition, no awards will vest unless the committee is satisfied that the vesting is consistent with the broader financial performance of the company. Full details of historic performance targets have been fully set out in previous directors' remuneration reports.

Directors' remuneration report

Annual report on remuneration (continued)

For awards granted from 2012, the committee changed the EPS target to an absolute EPS growth target, which is consistent with the absolute EPS target which was introduced for awards under the LTIS from 2012, as set out on page 103.

The actual range of the EPS targets for awards granted in 2016 is as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one matching share
11%	Two matching shares

A sliding scale of vesting (on a straight-line basis) applies between these lower and upper targets which are measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the Matching Award.

2014 awards

For awards granted in 2014, which are due to vest on 8 April 2017, the actual range of the EPS targets was as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one matching share
11%	Two matching shares

A sliding scale of vesting (on a straight-line basis) applied between these lower and upper targets which were measured over a period of three consecutive financial years, the first of which was the 2014 financial year.

At its meeting in February 2017, the committee considered the extent to which the performance target for the awards granted in 2014 had been met. The average annual growth in adjusted EPS over the performance period was 20.0% and this level of EPS growth exceeded the maximum target of 11% resulting in 100% vesting of the 2014 awards, having satisfied itself that the vesting was consistent with the broader financial performance of the company.

Dividends

For awards granted from 2013 onwards, the dividend payable on the Basic Award only is paid to participants on the normal dividend payment date. Any dividend payable on the matching shares granted will be paid to participants as a dividend equivalent on the normal vesting date and to the extent of vesting.

The dividends received in 2016 under the PSP were: Peter Crook £76,894 (2015: £80,591) and Andrew Fisher £46,582 (2015: £49,099). These figures have been included in the table of directors' remuneration on page 110.

Other relevant share incentive scheme information

The mid-market closing price of the company's shares on 30 December 2016 was 2,849p. The range during 2016 was 2,164p to 3,328p.

No consideration is payable on the award of conditional shares.

There were no changes in directors' conditional share awards or PSP awards between 1 January 2017 and 28 February 2017.

Offshore Employee Benefit Trust

The rules of the LTIS and PSP allow these schemes to be operated in conjunction with any employee trust established by the company. The company established the Provident Financial plc 2007 Employee Benefit Trust (EBT) in Jersey with 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 280,118 ordinary shares in March 2016 for the purpose of satisfying the 2016 awards made pursuant to the LTIS. The trustee transferred the beneficial ownership (subject to the performance conditions set out on page 112) in 76,945 of the shares for no consideration to the executive directors on 5 April 2016.

KB Trustees also subscribed for 117,631 ordinary shares in March 2016 for the purpose of satisfying the 2016 awards made pursuant to the PSP. The trustee transferred the beneficial ownership (subject to the performance conditions set out on page 113), in 54,342 of the shares for no consideration to the executive directors on 2 March 2016 and also transferred the legal ownership in 27,171 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 2016 AGM the directors' annual report on remuneration received the following votes from shareholders:

	Total number of votes	% of votes cast
For	116,167,049	95.99
Against	4,861,787	4.01
Total votes cast (for and against)	121,028,836	100.00

The total number of votes withheld was 760,970.

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	100.00

The total number of votes withheld was 984,012.

Savings-related share option schemes

As set out on page 108, 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 September 2016. No consideration is payable on the grant of an option.

During the year, Peter Crook exercised his option over 1,777 shares under the Provident Financial plc Employee Savings Related Share Option Scheme (2003) and Andrew Fisher exercised his option over 689 shares under the Provident Financial Savings Related Share Option Scheme 2013. There was therefore a £35,700 notional gain for Peter Crook and a £10,831 notional gain for Andrew Fisher (representing the difference between the exercise price and the market price of the shares at the date of exercise) on the exercise of share options (2015: £nil).

There were no changes in directors' share options between 1 January 2017 and 28 February 2017. None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

Options held by the executive directors under the company's savings-related share option schemes at 31 December 2016 were as follows:

Director's name	Options held at 01.01.2016	Granted in 2016	Exercised in 2016	Options held at 31.12.2016	Exercise price (p)	Market value at date of exercise (p)	Range of normal exercisable dates of options held at 31.12.2016
Peter Crook	1,777	–	1,777	–	868	2,877.0	–
	–	1,246	–	1,246	2,406	–	01.12.2021 – 31.05.2022
Andrew Fisher	689	–	689	-	1,305	2,877.0	–
	547	–	–	547	1,644	–	01.12.2017 – 31.05.2018
Total	3,013	1,246	2,466	1,793			

Directors' remuneration report

Annual Report on remuneration (continued)

Malus and Clawback

In accordance with the recommendations within the Code and other best practice guidance, the committee, having consulted with NBS, introduced malus and clawback provisions into all awards under the annual bonus scheme, LTIS and the PSP from December 2010. This enables the committee, at its discretion, to clawback value overpaid for a period of three years from the date of vesting/payment in the event of: (i) a material prior period error requiring restatement of the group financial statements; or (ii) an error in assessing the extent to which a performance target (and/or any other condition) has been met.

The mechanisms open to the committee when undertaking a clawback include the withholding of variable pay to offset the value to be clawed back and/or seeking repayment from the individual of the value overpaid.

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 and again at the 2015 AGM in respect of the renewed LTIS. The PSP, approved by shareholders at the 2013 AGM, also has the 5% anti-dilution removed. Information on the relevant resolution was included in the shareholders' circular and notice of the 2008 AGM, the 2013 AGM and the 2015 AGM. Awards granted under the renewed LTIS and PSP 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 and PSP 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	2016	2015
All share schemes	5.1%	4.5%
Shares held in trust	3.3%	3.2%

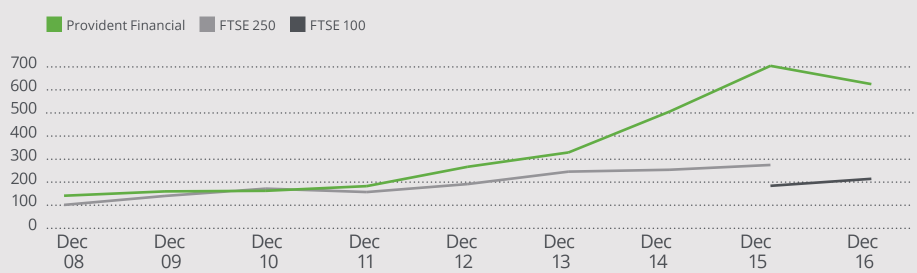
Payments for loss of office

There were no payments for loss of office during the year.

Total shareholder return: Provident Financial plc vs FTSE 250 and FTSE 100

Graph (1) shows the total shareholder return for Provident Financial plc against the FTSE 250 index for the past eight years and the FTSE 100 index for the past year. Both indexes have been chosen for comparison because the company was a member of the FTSE250 index for the vast majority of the eight-year period before its entry into the FTSE 100 Index on 21 December 2015. Graph (2) shows the comparison for the period from demerger of the international business to 31 December 2016 against both the FTSE 100 and FTSE 250 indexes, 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 eight-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.

1. Total shareholder return: Provident Financial plc vs FTSE 250 and FTSE 100 – 2008–2016



2. Total shareholder return: Provident Financial plc vs FTSE 250 and FTSE 100 – 16.07.2007–31.12.2016

3. Chief Executive remuneration 2009 to 2016

	Year ended 31 December							
	2009	2010	2011	2012	2013	2014	2015	2016
Single total figure of remuneration (£'000)	2,023	2,727	3,443	4,326	4,985	6,594	7,500	**6,315**
Annual bonus (%)	–	81	100	98	89	100	98	**100**
LTIS vesting (%)	100	66	49	100	100	100	100	**100**
PSP vesting (%)	–	100	79	–	100	100	100	**100**

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 2014 and 31 December 2016 for Peter Crook, the Chief Executive, compared to the average for the corporate office employees during the same period. A comparison with the corporate office employees is considered to be more suitable due to the range and composition of employees across the group and the wide range of different remuneration structures and practices which operate in the divisions, making any meaningful comparison difficult.

4. Chief Executive relative pay

	2015/2016			2014/2015		
%	Salary	Benefits	Annual bonus	Salary	Benefits	Annual bonus
Chief Executive	**3.4%**	**-14.4%[1]**	**3.4%**	3.1%	118.4%[1]	3.1%
Average corporate office employee	**2.6%**	**8.8%**	**11.4%**	3.4%	16.9%	8.3%

1 From May 2015 Peter Crook has received an allowance due to his place of work changing from Bradford to London. Last year this was reported through the PSA and was inclusive of the relevant income tax element.

Across the group, the budgeted salary increase ranged from 0% to 3.5%.

Relative importance of spend on pay

The table below shows the total pay (including bonuses) for all the group's employees in the 2014, 2015 and 2016 financial years compared to the distributions made to shareholders in the same periods.

Relative importance of spend on pay

	Year ended 31 December			% change 2014/2015	% change 2015/2016
	2016	2015	2014		
Total employee remuneration (£m)	**145.9**	**131.6**	123.2	6.8	**10.9**
Total shareholder distributions (£m)	**180.6**	**148.9**	123.4	20.7	**21.3**

Share ownership guidelines

The company has share ownership guidelines for executive directors which in 2016 required them to acquire and maintain shares in the company with a value of 200% of basic salary. Executive directors are required to retain 50% of vested LTIS awards, net of tax, until this requirement has been reached.

The committee reviews the shareholdings of the executive directors in 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 are not.

The executive directors complied with these guidelines as at 31 December 2016:

Director's name	Actual share ownership as a percentage of salary
Peter Crook	633%
Andrew Fisher	571%

Details of shares held by the executive directors and their connected persons, are shown in the table on page 118.

Directors' share options at 31 December 2016, 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 115.

Directors' remuneration report

Annual Report on remuneration (continued)

Executive directors' share ownership

Director	Type	Owned outright	Unvested: Subject to performance conditions	Unvested: Not subject to performance conditions	Total as at 31.12.16
Peter Crook	Own name	82,949	–	–	82,949
	Held in Barclayshare Nominees Limited	82,979	–	–	82,979
	Held in YBS Trustees (SIP)	246	–	–	246
	LTIS	–	168,876	–	168,876
	PSP	–	123,922	61,961	185,883
Total		166,174	292,798	61,961	520,933
Andrew Fisher	Own name	106,466	–	–	106,466
	Held in YBS Trustees (SIP)	267	–	–	267
	LTIS	–	120,486	–	120,486
	PSP	–	75,072	37,536	112,608
Total		106,733	195,558	37,536	339,827

There have been no changes in the beneficial or non-beneficial interests of the executive directors between 1 January 2017 and 28 February 2017.

Pension entitlements

Defined benefits	Age as at 31 December 2016	Normal retirement age	Accrued retirement account as at 31 December[1] 2016 £'000	Accrued retirement account as at 31 December[1] 2015 £'000	Increase in retirement account[2] 2016 £'000	Increase in retirement account[2] 2015 £'000
Cash balance						
Peter Crook	**53**	60	–	–	–	–
Andrew Fisher	**58**	60	–	–	–	–
UURBS						
Peter Crook	**53**	60	1,262	1,015	248	223
Andrew Fisher	**58**	60	829	654	176	156

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 2016 (which are included in the table of directors' remuneration on page110) were: Peter Crook: £247,000 and Andrew Fisher: £176,000.

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.

Peter Crook and Andrew Fisher were members of the cash balance section of the pension scheme until 3 April 2014 and 4 June 2013 (respectively) when they transferred the value of their pension rights into a Self Invested Personal Pension scheme (SIPP).

If the director dies in service, a death benefit of six times salary is payable.

Pension entitlements

Details of the pension entitlements earned under the company's pension arrangements are set out above.

Provident Financial Staff Pension Scheme

No directors (2015: nil) accrued retirement benefits in the year under the cash balance section of the Provident Financial Staff Pension Scheme (the pension scheme). The pension scheme is a defined benefit scheme with cash balance benefits.

PFG Retirement Plan

No directors (2015: nil) paid or had contributions paid on their behalf into the PFG Retirement Plan in the year. The PFG Retirement Plan is a Group Personal Pension Plan insured with Standard Life.

Personal pension arrangements

Peter Crook and Andrew Fisher also have personal pension arrangements to which the company has made contributions in previous years but did not make any contributions in 2016 (2015: £nil).

Unfunded Unapproved Retirement Benefits Scheme

The company operates an Unfunded Unapproved Retirement Benefits Scheme (UURBS) to provide cash balance benefits to those employees affected by the Lifetime Allowance or the Reduced Annual Allowance. Details of the pension credits earned under the UURBS are set out in the table above. The accumulated UURBS credit increases each year by the lower of the increase in RPI plus 1.5% and 6.5%. At retirement, UURBS benefits will be provided in accordance with current HMRC practice.

Cash supplement

A further option for employees affected by the Lifetime Allowance or the Reduced Annual Allowance is to receive a cash supplement in lieu of other forms of retirement provision.

Audit

The elements of the directors' remuneration report (including pension entitlements and share options set out on pages 110 to 118 of this report) which are required to be audited, have been audited in accordance with the Companies Act 2006.

This annual report on remuneration has been approved by the remuneration committee and the board and signed on its behalf.

Malcolm Le May
Remuneration committee chairman
28 February 2017

Financial statements

Financial statements

Consolidated income statement

For the year ended 31 December

	Note	Group 2016 £m	Group 2015 £m
Revenue	1,2	**1,183.2**	1,113.1
Finance costs	3	**(81.7)**	(80.0)
Operating costs		**(445.9)**	(436.9)
Administrative costs		**(311.7)**	(322.6)
Total costs		**(839.3)**	(839.5)
Profit before taxation	1,4	**343.9**	273.6
Profit before taxation, amortisation of acquisition intangibles and exceptional items	1,4	**334.1**	292.9
Amortisation of acquisition intangibles	11	**(7.5)**	(7.5)
Exceptional items	1	**17.3**	(11.8)
Tax charge	5	**(81.0)**	(55.4)
Profit for the year attributable to equity shareholders		**262.9**	218.2

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Group 2016 £m	Group 2015 £m
Profit for the year attributable to equity shareholders		**262.9**	218.2
Other comprehensive income:			
– fair value movement on available for sale investment	15	**3.1**	17.5
– gain on available for sale investment recycled to the income statement	15	**(20.2)**	–
– fair value movements on cash flow hedges	17	**0.4**	3.6
– actuarial movements on retirement benefit asset	19	**(0.1)**	(5.7)
– exchange differences on translation of foreign operations		**(1.2)**	0.7
– tax on items taken directly to other comprehensive income	5	**4.6**	(3.3)
– impact of change in UK tax rate	5	**0.6**	(0.2)
Other comprehensive income for the year		**(12.8)**	12.6
Total comprehensive income for the year		**250.1**	230.8

Earnings per share

For the year ended 31 December

	Note	Group 2016 pence	Group 2015 pence
Basic	6	**181.8**	151.8
Diluted	6	**179.9**	149.8

Dividends per share

For the year ended 31 December

	Note	Group 2016 pence	Group 2015 pence
Proposed final dividend	7	**91.4**	80.9
Total dividend for the year	7	**134.6**	120.1
Paid in the year*	7	**124.1**	103.1

* The total cost of dividends paid in the year was £180.6m (2015: £148.9m).

Financial statements

Balance sheets

As at 31 December

		Group		Company	
	Note	2016 £m	2015 £m	2016 £m	2015 £m
ASSETS					
Non-current assets					
Goodwill	10	**71.2**	71.2	**–**	–
Other intangible assets	11	**78.1**	85.2	**–**	–
Property, plant and equipment	12	**30.3**	29.5	**6.8**	7.8
Investment in subsidiaries	13	**–**	–	**497.5**	496.3
Financial assets:					
– amounts receivable from customers	14	**307.6**	218.0	**–**	–
– trade and other receivables	18	**–**	–	**871.6**	919.1
Retirement benefit asset	19	**72.4**	62.3	**72.4**	62.3
		559.6	466.2	**1,448.3**	1,485.5
Current assets					
Financial assets:					
– available for sale investment	15	**8.0**	17.5	**–**	–
– amounts receivable from customers	14	**1,999.2**	1,798.7	**–**	–
– cash and cash equivalents	21	**223.7**	153.4	**31.2**	7.0
– trade and other receivables	18	**36.1**	32.4	**706.8**	606.4
		2,267.0	2,002.0	**738.0**	613.4
Total assets	1	**2,826.6**	2,468.2	**2,186.3**	2,098.9
LIABILITIES					
Current liabilities					
Financial liabilities:					
– bank and other borrowings	22	**(320.4)**	(253.4)	**(132.5)**	(72.9)
– derivative financial instruments	17	**(0.2)**	–	**–**	–
– trade and other payables	23	**(104.8)**	(98.3)	**(133.3)**	(118.8)
Current tax liabilities		**(65.6)**	(50.5)	**(5.1)**	(0.5)
		(491.0)	(402.2)	**(270.9)**	(192.2)
Non-current liabilities					
Financial liabilities:					
– bank and other borrowings	22	**(1,534.7)**	(1,342.8)	**(778.8)**	(791.1)
– derivative financial instruments	17	**(0.1)**	(0.6)	**(0.1)**	(0.5)
Deferred tax liabilities	20	**(10.7)**	(14.9)	**(9.8)**	(8.8)
		(1,545.5)	(1,358.3)	**(788.7)**	(800.4)
Total liabilities	1	**(2,036.5)**	(1,760.5)	**(1,059.6)**	(992.6)
NET ASSETS	1	**790.1**	707.7	**1,126.7**	1,106.3
SHAREHOLDERS' EQUITY					
Share capital	24	**30.6**	30.5	**30.6**	30.5
Share premium		**272.7**	270.7	**272.7**	270.7
Other reserves	26	**24.3**	35.6	**634.9**	633.8
Retained earnings		**462.5**	370.9	**188.5**	171.3
TOTAL EQUITY		**790.1**	707.7	**1,126.7**	1,106.3

The financial statements on pages 120 to 171 were approved and authorised for issue by the board of directors on 28 February 2017 and signed on its behalf by:

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

Company Number – 668987

Financial statements

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 2015		30.3	268.3	19.0	295.4	613.0
Profit for the year		–	–	–	218.2	218.2
Other comprehensive income:						
– fair value movement on available for sale investment	15	–	–	17.5	–	17.5
– fair value movements on cash flow hedges	17	–	–	3.6	–	3.6
– actuarial movements on retirement benefit asset	19	–	–	–	(5.7)	(5.7)
– exchange differences on translation of foreign operations		–	–	–	0.7	0.7
– tax on items taken directly to other comprehensive income	5	–	–	(4.5)	1.2	(3.3)
– impact of change in UK tax rate	5	–	–	(1.1)	0.9	(0.2)
Other comprehensive income for the year		–	–	15.5	(2.9)	12.6
Total comprehensive income for the year		–	–	15.5	215.3	230.8
Transactions with owners:						
– issue of share capital	24	0.2	2.4	–	–	2.6
– purchase of own shares		–	–	(0.3)	–	(0.3)
– transfer of own shares on vesting of share awards		–	–	0.1	(0.1)	–
– share-based payment charge	25	–	–	10.5	–	10.5
– transfer of share-based payment reserve on vesting of share awards		–	–	(9.2)	9.2	–
– dividends	7	–	–	–	(148.9)	(148.9)
At 31 December 2015		30.5	270.7	35.6	370.9	707.7
At 1 January 2016		**30.5**	**270.7**	**35.6**	**370.9**	**707.7**
Profit for the year		**–**	**–**	**–**	**262.9**	**262.9**
Other comprehensive income:						
– fair value movement on available for sale investment	15	**–**	**–**	**3.1**	**–**	**3.1**
– gain on available for sale investment recycled to the income statement	15	**–**	**–**	**(20.2)**	**–**	**(20.2)**
– fair value movements on cash flow hedges	17	**–**	**–**	**0.4**	**–**	**0.4**
– actuarial movements on retirement benefit asset	19	**–**	**–**	**–**	**(0.1)**	**(0.1)**
– exchange differences on translation of foreign operations		**–**	**–**	**–**	**(1.2)**	**(1.2)**
– tax on items taken directly to other comprehensive income	5	**–**	**–**	**4.6**	**–**	**4.6**
– impact of change in UK tax rate	5	**–**	**–**	**–**	**0.6**	**0.6**
Other comprehensive income for the year		**–**	**–**	**(12.1)**	**(0.7)**	**(12.8)**
Total comprehensive income for the year		**–**	**–**	**(12.1)**	**262.2**	**250.1**
Transactions with owners:						
– issue of share capital	24	**0.1**	**2.0**	**–**	**–**	**2.1**
– purchase of own shares		**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards		**–**	**–**	**0.1**	**(0.1)**	**–**
– share-based payment charge	25	**–**	**–**	**10.9**	**–**	**10.9**
– transfer of share-based payment reserve on vesting of share awards		**–**	**–**	**(10.1)**	**10.1**	**–**
– dividends	7	**–**	**–**	**–**	**(180.6)**	**(180.6)**
At 31 December 2016		**30.6**	**272.7**	**24.3**	**462.5**	**790.1**

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings are shown after directly writing off cumulative goodwill of £1.6m. In addition, cumulative goodwill of £2.3m has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 26.

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2015		30.3	268.3	629.6	149.2	1,077.4
Profit for the year		–	–	–	170.7	170.7
Other comprehensive income:						
– fair value movements on cash flow hedges	17	–	–	3.9	–	3.9
– actuarial movements on retirement benefit asset	19	–	–	–	(5.7)	(5.7)
– tax on items taken directly to other comprehensive income		–	–	(0.8)	1.2	0.4
– impact of change in UK tax rate		–	–	–	0.9	0.9
Other comprehensive income for the year		–	–	3.1	(3.6)	(0.5)
Total comprehensive income for the year		–	–	3.1	167.1	170.2
Transactions with owners:						
– issue of share capital	24	0.2	2.4	–	–	2.6
– purchase of own shares		–	–	(0.3)	–	(0.3)
– transfer of own shares on vesting of share awards		–	–	0.1	(0.1)	–
– share-based payment charge	25	–	–	5.3	–	5.3
– transfer of share-based payment reserve on vesting of share awards		–	–	(4.0)	4.0	–
– dividends	7	–	–	–	(148.9)	(148.9)
At 31 December 2015		**30.5**	**270.7**	**633.8**	**171.3**	**1,106.3**
At 1 January 2016		**30.5**	**270.7**	**633.8**	**171.3**	**1,106.3**
Profit for the year		**–**	**–**	**–**	**192.3**	**192.3**
Other comprehensive income:						
– fair value movements on cash flow hedges	17	**–**	**–**	**0.4**	**–**	**0.4**
– actuarial movements on retirement benefit asset	19	**–**	**–**	**–**	**(0.1)**	**(0.1)**
– tax on items taken directly to other comprehensive income		**–**	**–**	**(0.1)**	**–**	**(0.1)**
– impact of change in UK tax rate		**–**	**–**	**–**	**0.6**	**0.6**
Other comprehensive income for the year		**–**	**–**	**0.3**	**0.5**	**0.8**
Total comprehensive income for the year		**–**	**–**	**0.3**	**192.8**	**193.1**
Transactions with owners:						
– issue of share capital	24	**0.1**	**2.0**	**–**	**–**	**2.1**
– purchase of own shares		**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards		**–**	**–**	**0.1**	**(0.1)**	**–**
– share-based payment charge	25	**–**	**–**	**5.1**	**–**	**5.1**
– transfer of share-based payment reserve on vesting of share awards		**–**	**–**	**(5.1)**	**5.1**	**–**
– share-based payment movement in investment in subsidiaries		**–**	**–**	**0.8**	**–**	**0.8**
– dividends	7	**–**	**–**	**–**	**(180.6)**	**(180.6)**
At 31 December 2016		**30.6**	**272.7**	**634.9**	**188.5**	**1,126.7**

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 £192.3m (2015: £170.7m).

Other reserves are further analysed in note 26.

Financial statements

Statements of cash flows

For the year ended 31 December

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	30	**147.8**	202.0	**(85.7)**	(48.0)
Finance costs paid		**(71.7)**	(73.0)	**(55.3)**	(59.2)
Finance income received		**–**	–	**83.8**	83.8
Tax paid		**(64.4)**	(47.5)	**(7.7)**	–
Net cash generated from/(used in) operating activities		**11.7**	81.5	**(64.9)**	(23.4)
Cash flows from investing activities					
Purchase of intangible assets	11	**(12.8)**	(15.8)	**–**	–
Purchase of property, plant and equipment	12	**(10.6)**	(11.2)	**(0.5)**	(2.3)
Proceeds from disposal of property, plant and equipment	12	**0.6**	1.4	**–**	0.1
Proceeds from disposal of available for sale investment	15	**12.2**	–	**–**	–
Long-term loans repaid by subsidiaries		**–**	–	**47.5**	64.7
Dividends received from subsidiaries		**–**	–	**179.0**	153.3
Net cash (used in)/generated from investing activities		**(10.6)**	(25.6)	**226.0**	215.8
Cash flows from financing activities					
Proceeds from bank and other borrowings		**505.6**	344.2	**112.1**	60.0
Repayment of bank and other borrowings		**(248.8)**	(254.9)	**(60.0)**	(116.8)
Dividends paid to company shareholders	7	**(180.6)**	(148.9)	**(180.6)**	(148.9)
Proceeds from issue of share capital	24	**2.1**	2.6	**2.1**	2.6
Purchase of own shares	26	**(0.1)**	(0.3)	**(0.1)**	(0.3)
Net cash generated from/(used in) financing activities		**78.2**	(57.3)	**(126.5)**	(203.4)
Net increase/(decrease) in cash, cash equivalents and overdrafts		**79.3**	(1.4)	**34.6**	(11.0)
Cash, cash equivalents and overdrafts at beginning of year		**139.3**	140.7	**(5.9)**	5.1
Cash, cash equivalents and overdrafts at end of year		**218.6**	139.3	**28.7**	(5.9)
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	21	**223.7**	153.4	**31.2**	7.0
Overdrafts (held in bank and other borrowings)	22	**(5.1)**	(14.1)	**(2.5)**	(12.9)
Total cash, cash equivalents and overdrafts		**218.6**	139.3	**28.7**	(5.9)

Cash at bank and in hand includes £168.9m (2015: £134.2m) 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 2016 on this basis was £233.2m (2015: £189.9m) compared with a dividend payable in respect of 2016 of £195.7m (2015: £174.4m) leaving a surplus of £37.5m (2015: £15.5m) retained in the business.

Financial statements

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 and Visa Inc. shareholdings to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the group and company's accounting policies.

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

(a) New and amended standards adopted by the group and company:

There have been no new or amended standards adopted in the financial year beginning 1 January 2016 which 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 2016 and not early adopted:

IFRS 9 'Financial instruments' is effective from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. IFRS 9 significantly changes the recognition of impairment on customer receivables with the standard introducing an expected loss model. Under this approach, impairment provisions are recognised on inception of a loan based on the typical average loss incurred on a loan. This differs from the current incurred loss model under IAS 39 whereby impairment provisions are only reflected when there is objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier in the income statement. This will result in a one-off adjustment to receivables and reserves on adoption and will result in a slower build in profits in growing businesses.

The group has been assessing the potential impact of IFRS 9 for the last 18 months. This includes the establishment of a group steering committee and the production of a formal timetable for implementation. It also includes working closely with the company's external auditors, Deloitte, to interpret the standard and ascertain emerging industry and best practice. Whilst good progress has been made on quantifying the potential impact of IFRS 9, there are still a number of technical interpretations of the standard which need to be clarified in order to provide an accurate impact analysis. The group expects to provide this analysis with its 2017 interim results.

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors. The standard distinguishes between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard requires the recognition of a lease liability, being the present value of the lease payments, and a right-to-use asset which will initially be recognised at the same value of the lease liability. The group and company are in the process of assessing the impact of the standard and will adopt from the expected effective date of 1 January 2019, 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.

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.

Financial statements
Statement of accounting policies (continued)

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units which are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cash flows from the relevant cash-generating unit. Expected future cash flows are derived from the group's latest budget projections and the discount rate is based on the group's weighted average cost of capital at the balance sheet date.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

Investments in subsidiaries
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Impairment is calculated by comparing the carrying value of the investment with the higher of the net asset value of the relevant subsidiary and its discounted expected future cash flows.

Leases
Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the group and company are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Other intangible assets
Other intangible assets include acquisition intangibles in respect of the broker relationships at Moneybarn and stand-alone computer software and computer software development costs across the group.

The fair value of Moneybarn's broker relationships on acquisition was estimated by discounting the expected future cash flows from Moneybarn's core broker relationships over their estimated useful economic life which was deemed to be 10 years. The asset is being amortised on a straight-line basis over its estimated useful life.

Computer software and computer software development assets represent the costs incurred to acquire or develop software and bring it into use. Directly attributable costs incurred in the development of software are capitalised as an intangible asset if the software will generate future economic benefits. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software and computer software development costs are amortised on a straight-line basis over their estimated useful economic life which is generally estimated to be between three and 10 years. The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Other intangible assets are valued at cost less subsequent amortisation. Amortisation is charged to the income statement as part of administrative costs.

Foreign currency translation
Items included in the financial statements of each of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The group's subsidiaries primarily operate in the UK and Republic of Ireland, with a pilot credit card operation in Poland up until the sale of the receivables book on 1 April 2015. 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, Moneybarn and glo, where repayments are typically made monthly, customer balances are deemed to be impaired when one monthly contractual payment is missed. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cash flows discounted at the original effective interest rate. Estimated future cash flows are based on the historical performance of customer balances falling into different arrears stages and are regularly reassessed.

Separate provisions are raised where forbearance is provided to the customer and alternative payment arrangements are established. Accounts under payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows under that payment arrangement, discounted at the original effective interest rate.

Within the weekly home credit and Satsuma businesses 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 33⅓	Straight line
Motor vehicles	25	Reducing balance

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use and its fair value less costs to sell.

Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying value of the asset and are recognised within administrative costs in the income statement.

Depreciation is charged to the income statement as part of administrative costs.

Available for sale investments

Available for sale (AFS) financial assets relate to equity holdings which are measured at fair value in the balance sheet as a reliable estimate of the fair value can be determined. Fair value changes on AFS assets are recognised directly in equity through other comprehensive income, except for impairment losses and foreign exchange gains or losses which are recognised through the income statement. The fair value of AFS monetary assets denominated in foreign currency are determined through translation at the spot rate at the balance sheet date.

Dividends on AFS equity instruments are recognised in the income statement when the group's right to receive the dividends is established.

The cumulative gain or loss that is recognised in equity is recycled to the income statement on disposal of the equity holding.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand which includes amounts invested in the Bank of England account 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.

Derivative financial instruments

The group and company use derivative financial instruments, principally interest rate swaps and forward contracts, to manage the interest rate and foreign exchange rate risk arising from the group's 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 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:

Financial statements

Statement of accounting policies (continued)

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 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

(a) Equity-settled schemes:

The entity grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS). All of these schemes are equity-settled.

The cost of providing options and awards to group and company employees is charged to the income statement of the entity over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The grant by the company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the company's financial statements. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding 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 of the TSR component, no adjustment is made to reflect expected or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest or lapse. In respect of the SAYE options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised.

(b) Cash-settled schemes:

The entity also grants awards under the Provident Financial Equity Plan (PFEP) to eligible employees based on a percentage of their salary. The cost of the awards is based on the performance conditions of either divisional profit before tax, EPS, TSR or share price growth. The scheme is cash settled.

The cost of the award is charged to the income statement over the vesting period and a corresponding credit is made within liabilities. The value of the charge is adjusted at each balance sheet date to reflect expected levels of vesting.

Taxation

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

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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.

Financial statements

Statement of accounting policies (continued)

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 (£2,306.8m)
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 assumptions to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows.

Customer accounts in Vanquis Bank, Moneybarn and glo are deemed to be impaired when one contractual monthly payment has been missed. In the weekly home credit business and Satsuma, 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 £23m (2015: £20m) higher/lower.

Moneybarn goodwill (£71.2m) and acquisition intangible (£57.5m)
The goodwill of £71.2m in respect of Moneybarn represents the surplus of the fair value of consideration over the fair value of identifiable assets and liabilities on the date of acquisition. The fair value of identifiable assets included a valuation of an acquisition intangible of £75.0m attaching to Moneybarn's broker relationships as the relationships are an important influence on the revenue generating capacity of the business.

The broker relationships were valued using a dividend discount model on the forecast surplus cash flows generated by Moneybarn's core broker relationships over their estimated useful life of 10 years.

In accordance with IFRS 3 'Business combinations', the goodwill arising on acquisition of Moneybarn is subject to an annual impairment review. The impairment review is conducted by comparing the discounted estimated future cash flows of Moneybarn, including those derived from broker relationships, with the carrying value of goodwill and the acquisition intangible in the financial statements.

The impairment review conducted by management reflects a number of key judgements and estimates, which have a material effect on the outcome of the impairment review and therefore the carrying value of goodwill and the acquisition intangible. These include:

> Cash flow forecasts have been extracted from the budget produced by Moneybarn, which involves a number of estimates, particularly in respect of new business volumes, collections performance and the cost base of the business.

> 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 assumed 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 the group's weighted average cost of capital.

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 Moneybarn may necessitate a material impairment charge to goodwill and/or the acquisition intangible in future years.

Tax (current tax liabilities £65.6m, deferred tax liabilities £10.7m)
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.

The group carries a current tax provision which is sufficient to cover all legacy outstanding corporation tax matters which have not yet been agreed with HMRC, as well as a provision for other possible tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due.

If the probability assessment of uncertain tax liabilities was adjusted by +/– 5%, it is estimated that the group's tax liabilities would be £0.9m (2015: £0.5m) higher/lower.

Retirement benefit asset (£72.4m)
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 81 to 83.

(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 2016 is the carrying value of amounts receivable from customers of £2,306.8m (2015: £2,016.7m).

Vanquis Bank

Credit risk within Vanquis Bank is managed by the Vanquis Bank credit committee which meets at least quarterly and is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy.

A customer's risk profile and the affordability of the credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historic payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income and employment and data from an external credit bureau. 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 £4,000. For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders' data. Credit lines can go up as well as down according to this point-in-time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing or appropriate forbearance arrangements are put in place.

CCD

Credit risk within CCD is managed by the CCD credit committee which meets at least every two months and is responsible for approving credit control policy and decisioning strategy.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, and a home visit in the home credit business to make a decision on applications for credit.

The loans offered by the weekly home credit business are short term, typically a contractual period of around a year, with an average value of approximately £500. The loans are underwritten in the home by an agent with emphasis placed on any previous lending experience with the customer, affordability 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 typically visits the customer weekly, 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.

The above analysis is prior to the proposed changes to migrate the home credit business to a more efficient and effective operating model during 2017 which is currently the subject of workforce consultation.

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.

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Financial and capital risk management (continued)

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 2016 was £31.8m (2015: £2.6m).

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 fully fund itself through retail deposits and repay its intercompany loan from Provident Financial plc. As at 31 December 2016, the group's committed borrowing facilities had a weighted average period to maturity of 2.5 years (2015: 2.6 years) and the headroom on these committed facilities amounted to £110.2m (2015: £222.3m).

The headroom figure above does not take account of: (i) £30m of cash held on deposit at 31 December 2016 which was used to repay the syndicated bank facility immediately after the year end; (ii) the funding capacity for Vanquis Bank to take retail deposits up to the amount of the intercompany loan with Provident Financial plc which amounted to £233.5m at 31 December 2016; and (iii) the renewal of the bank syndicated bank facility on 31 January 2017 which increased the facility from £382.5m to £450.0m and extended the maturity date from May 2018 to May 2020. After taking account of these factors, the group's funding capacity is £441.2m as follows:

Funding capacity

	£m
Headroom on committed facilities at 31 December 2016	**110.2**
Repayment of bank facility immediately after the year end	**30.0**
Adjusted headroom on committed facilities at 31 December 2016	**140.2**
Additional retail deposit capacity	**233.5**
Total funding capacity	**373.7**
Increase in syndicated bank facility	**67.5**
Adjusted total funding capacity	**441.2**

The weighted average period to maturity of the group's committed facilities increased from 2.5 years to 2.9 years following the renewal of the syndicated bank facility.

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the group's borrowings extend over a number of years.

As a PRA regulated institution, Vanquis Bank is required to maintain a liquid assets buffer, and other liquid resources, based upon daily stress tests, in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. As at 31 December 2016, the liquid assets buffer, including other liquidity resources, held by Vanquis Bank amounted to £168.9m (2015: £134.2m).

In addition, from 1 October 2015 (with a transitional period extending to 1 January 2018), the group and Vanquis Bank have been required to meet the liquidity coverage ratio (LCR). The LCR requires institutions to match net liquidity outflows during a 30-day period with a buffer of 'high quality' liquid assets.

The group and Vanquis Bank developed systems and controls to monitor and forecast the LCR and have been submitting regulatory reports on the ratio since 1 January 2014. The group's LCR at 31 December 2016 amounted to 207% (2015: 141%). Both the group and Vanquis Bank continue to meet the LCR requirements.

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.

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 2018. The maturity of the syndicated bank facility was extended from May 2018 to May 2020 on 31 January 2017.

Financial liabilities

2016 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– bank facilities	5.1	275.6	–	–	–	280.7
– senior public bonds	–	20.0	20.0	270.0	–	310.0
– private placement loan notes	–	15.4	47.3	69.9	–	132.6
– retail bonds	–	137.2	8.9	114.0	66.2	326.3
– retail deposits	–	194.5	211.5	600.7	–	1,006.7
Total bank and other borrowings	5.1	642.7	287.7	1,054.6	66.2	2,056.3
Derivative financial instruments – settled net	–	0.1	–	–	–	0.1
Trade and other payables	–	104.8	–	–	–	104.8
Total	5.1	747.6	287.7	1,054.6	66.2	2,161.2

Financial assets

2016 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled net	–	0.1	–	–	–	0.1
Trade and other receivables	–	36.1	–	–	–	36.1
Total	–	36.2	–	–	–	36.2

Financial liabilities

2015 – 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	14.1	161.1	–	–	–	175.2
– senior public bonds	–	20.0	20.0	290.0	–	330.0
– private placement loan notes	–	16.1	16.1	92.2	25.4	149.8
– retail bonds	–	71.0	137.3	50.9	138.1	397.3
– retail deposits	–	189.5	163.3	434.4	–	787.2
Total bank and other borrowings	14.1	457.7	336.7	867.5	163.5	1,839.5
Derivative financial instruments – settled net	–	0.8	–	–	–	0.8
Trade and other payables	–	98.3	–	–	–	98.3
Total	14.1	556.8	336.7	867.5	163.5	1,938.6

Financial assets

2015 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled net	–	0.1	–	–	–	0.1
Trade and other receivables	–	32.4	–	–	–	32.4
Total	–	32.5	–	–	–	32.5

Financial and capital 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 2016 and 2015 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged.

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

The group's exposure to movements in foreign exchange rates during 2016 arose from: (i) the home credit operations in the Republic of Ireland which are hedged by matching euro-denominated net assets with euro-denominated borrowings or forward contracts as closely as practicable; and (ii) the available for sale investment held by Vanquis Bank in respect of Visa Europe Limited, up until Visa Inc.'s acquisition of Visa Europe on 21 June 2016, and then Visa Inc. following the acquisition. Prior to completion of the acquisition, the available for sale investment comprised expected upfront euro cash consideration, which was hedged through matching the cash consideration with euro-denominated borrowings, together with deferred consideration of preferred stock which was convertible into US dollar denominated Class A common stock of Visa Inc. on completion of the transaction. Due to the inherent uncertainty of the valuation and timing of completion, the valuation of the common stock was not hedged. Following completion of the acquisition, the US dollar denominated Class A common stock of Visa Inc. and an element of euro-denominated deferred cash consideration have not been hedged due to the inherent uncertainty of the valuation and timing of any cash flows.

As at 31 December 2016, a 2% movement in the sterling to euro exchange rate would have led to a £1.2m (2015: £1.1m) movement in customer receivables with an opposite movement of £1.2m (2015: £1.1m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been a minimal impact on reported profits and equity (2015: £nil).

As at 31 December 2016, a 2% movement in the sterling to euro exchange rate would have led to a £0.2m (2015: £0.3m) movement in the available for sale investment and a £0.2m impact on reported profits and equity (2015: £0.3m). A hedge matching the asset with euro-denominated borrowings was put in place subsequent to the 2015 year-end, which reduced the impact to a £0.2m movement in external borrowings and a £0.1m impact on reported profits and equity related to the unhedged deferred consideration.

As at 31 December 2016, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.1m (2015: £0.1m) movement in the available for sale investment. Due to the US dollar element relating to the unhedged deferred consideration at 31 December 2015, there would have been a £0.1m impact on reported profits and equity.

(e) Market risk
Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Capital risk management

The group's 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 gearing ratio of 3.5 times. This provides a comfortable level of headroom against the group's banking covenant of 5.0 times. The maximum 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.

As at 31 December 2016, the gearing ratio stood at 2.3 times (2015: 2.2 times), calculated as follows:

Group	Note	**2016 £m**	2015 £m
Borrowings	22	**1,855.1**	1,596.2
Arrangement fees	22	**2.2**	6.7
Liquid assets buffer, including other liquid resources	21	**(168.9)**	(134.2)
Borrowings for gearing purposes		**1,688.4**	1,468.7
Shareholders' equity		**790.1**	707.7
Pension asset	19	**(72.4)**	(62.3)
Deferred tax on pension asset		**12.3**	11.2
Hedging reserve	26	**0.2**	0.5
Equity for gearing purposes		**730.2**	657.1
Gearing (times)		**2.3**	2.2

The modest increase in gearing from 2.2 times in 2015 to 2.3 times in 2016 reflects the leverage of 3.5 times that supports the funding of receivables growth of nearly £300m in 2016. The gearing ratio is lower than the maximum target of 3.5 times due to: (i) the group's strong capital generation between 2013 and 2015, particularly as a result of the capital released from the reduction in the receivables book of the Provident home credit business following the repositioning of the business as a smaller, better quality business; and (ii) the equity raised to fund the acquisition of Moneybarn in August 2014 in order to preserve regulatory capital.

(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 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 includes a foreseeable dividend deduction based on recognised profits.

A reconciliation of the group's equity to regulatory capital in accordance with CRD IV, is set out below:

Group	Note	**2016 £m**	2015 £m
Shareholders' equity		**790.1**	707.7
Other intangible assets	11	**(78.1)**	(85.2)
Goodwill	10	**(71.2)**	(71.2)
Deferred tax on acquired intangible asset		**9.8**	11.7
Pension asset	19	**(72.4)**	(62.3)
Deferred tax on pension asset		**12.3**	11.2
Hedging reserve	26	**0.2**	0.5
Dividend accrued on profits recognised		**(132.9)**	(117.0)
Total regulatory capital held		**457.8**	395.4

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 2016, the group's total regulatory capital was comfortably in excess of the ICG set by the PRA.

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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	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Vanquis Bank	**583.7**	540.4	**204.5**	183.7
CCD	**518.8**	517.4	**115.2**	105.4
Moneybarn	**80.7**	55.3	**31.1**	21.3
Central costs	**–**	–	**(16.7)**	(17.5)
Total group before amortisation of acquisition intangibles and exceptional costs	**1,183.2**	1,113.1	**334.1**	292.9
Amortisation of acquisition intangibles	**–**	–	**(7.5)**	(7.5)
Exceptional items	**–**	–	**17.3**	(11.8)
Total group	**1,183.2**	1,113.1	**343.9**	273.6

Exceptional items in 2016 comprise: (i) an exceptional credit of £20.2m (2015: £nil) reflecting the gain made on Vanquis Bank's interest in Visa Europe Ltd following its acquisition by Visa Inc. (see note 15); and (ii) an exceptional impairment charge of £2.9m in respect of glo software development costs held as an intangible asset within CCD following the decision to develop guarantor loans as part of the wider Vanquis Bank loans proposition on a separate IT platform (see note 11). An exceptional cost of £11.8m was recognised in 2015 in respect of a business restructuring in CCD. The exceptional cost comprised £14.4m of redundancy costs associated with approximately 500 field managers and field administration employees as a result of the ongoing deployment of technology within CCD and an exceptional pension credit of £2.6m 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	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Vanquis Bank	**1,624.1**	1,423.0	**(1,244.2)**	(1,067.9)	**379.9**	355.1
CCD	**644.9**	597.9	**(489.7)**	(463.3)	**155.2**	134.6
Moneybarn	**321.5**	237.4	**(285.2)**	(221.1)	**36.3**	16.3
Central	**304.2**	286.1	**(85.5)**	(84.4)	**218.7**	201.7
Total before intra-group elimination	**2,894.7**	2,544.4	**(2,104.6)**	(1,836.7)	**790.1**	707.7
Intra-group elimination	**(68.1)**	(76.2)	**68.1**	76.2	**–**	–
Total group	**2,826.6**	2,468.2	**(2,036.5)**	(1,760.5)	**790.1**	707.7

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 £68.1m (2015: £76.2m) 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.

1 Segment reporting (continued)

The group's businesses operate principally in the UK and Republic of Ireland. Vanquis Bank established a branch in Poland as part of a pilot credit card operation during the first half of 2012. A decision was taken to withdraw from the pilot operation in early 2015 and the receivables book was sold to a third party with the economic interest transferring from 1 April 2015. The revenue in respect of the branch in 2015 up until the point at which the economic interest was transferred amounted to £1.8m and the loss amounted to £1.8m. These figures are included within the Vanquis Bank figures in the tables above. There were no assets or liabilities associated with the branch on 31 December 2016 or 31 December 2015.

	Capital expenditure		Depreciation		Amortisation	
Group	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Vanquis Bank	**3.3**	3.4	**1.6**	1.5	**1.1**	1.4
CCD	**17.3**	20.5	**5.1**	4.5	**10.8**	5.6
Moneybarn	**2.3**	0.8	**0.5**	0.3	**0.5**	0.4
Central	**0.5**	2.3	**1.5**	1.4	**7.5**	7.5
Total group	**23.4**	27.0	**8.7**	7.7	**19.9**	14.9

Capital expenditure in 2016 comprises expenditure on intangible assets of £12.8m (2015: £15.8m) and property, plant and equipment of £10.6m (2015: £11.2m). The amortisation charge in 2016 includes £2.9m (2015: £nil) of exceptional impairment in respect of glo software development costs held as an intangible assets within CCD.

The acquired intangible asset in respect of Moneybarn's broker relationships is held on consolidation and, therefore, the amortisation charge has been allocated to central in the above analysis, consistent with the net asset analysis.

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 (eg aggregator/broker fees). In addition, in CCD and Moneybarn the EIR takes account of customers repaying early.

	Group	
	2016 £m	2015 £m
Interest income	**1,039.6**	967.8
Fee income	**143.6**	145.3
Total revenue	**1,183.2**	1,113.1

All fee income earned relates to Vanquis Bank.

Interest income relates to the interest charges on Vanquis Bank credit cards and Moneybarn conditional sale agreements together with the service charge on home credit and Satsuma loans. Fee income relates to Vanquis Bank and predominantly reflects default and over-limit fees as well as other ancillary income streams such as Repayment Option Plan (ROP) fees. Interchange income is also recognised within Vanquis Bank as part of fee income on an accruals basis. Fee income in 2016 represented 24% (2015: 26%) of Vanquis Bank revenue.

3 Finance costs

	Group	
Interest payable on:	**2016 £m**	2015 £m
Bank borrowings	**13.1**	12.8
Senior public and retail bonds	**41.3**	41.2
Private placement loan notes	**5.7**	6.2
Subordinated loan notes	**–**	0.2
Retail deposits	**21.6**	19.6
Total finance costs	**81.7**	80.0

The group's blended funding rate in 2016 was 5.5%, down from 5.9% in 2015. This primarily reflects a lower average blended rate on retail deposits and the increased mix of retail deposits. Retail deposits represent approximately 51% of the group's funding at the end of 2016 compared with approximately 46% in 2015. The all-in blended cost of taking retail deposits in 2016, after the cost of holding a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime, was 3.0% (2015: 3.1%).

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 items, in 2016 was 5.2 times compared with 4.8 times in 2015.

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Notes to the financial statements (continued)

4 Profit before taxation

Profit before taxation is stated after charging/(crediting):	Group 2016 £m	Group 2015 £m
Amortisation of other intangible assets:		
– computer software (note 11)	**9.5**	7.4
– acquisition intangibles (note 11)	**7.5**	7.5
– exceptional impairment charge (note 1)	**2.9**	–
Depreciation of property, plant and equipment (note 12)	**8.7**	7.7
Loss on disposal of property, plant and equipment (note 12)	**0.5**	–
Operating lease rentals:		
– property	**13.3**	13.3
Employment costs (prior to exceptional curtailment credit and redundancy costs (note 9(b))	**185.9**	170.3
Exceptional curtailment credit (note 19(a))	**–**	(2.6)
Exceptional redundancy costs (note 9(b))	**–**	14.4
Impairment of amounts receivable from customers (note 14)	**298.8**	276.0

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 2016 £m	Group 2015 £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	**0.5**	0.3
– other services pursuant to legislation	**0.2**	0.5
Total auditor's remuneration	**0.8**	0.9

5 Tax charge

Tax charge in the income statement	Group 2016 £m	Group 2015 £m
Current tax		
– UK	**(79.4)**	(56.9)
– overseas	**(0.6)**	(0.7)
Total current tax	**(80.0)**	(57.6)
Deferred tax (note 20)	**(1.0)**	(0.2)
Impact of change in UK tax rate (note 20)	**–**	2.4
Total tax charge	**(81.0)**	(55.4)

The tax charge in respect of the exceptional gain in 2016 amounts to £5.1m and represents a £5.7m tax charge on the disposal of Vanquis Bank's interest in Visa Europe Limited at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 28% and a tax credit of £0.6m relating to tax relief for the impairment of glo intangible fixed assets at the mainstream UK corporation tax rate of 20%. The tax credit in respect of exceptional costs in 2015 amounted to £2.4m and represented tax relief in respect of the exceptional restructuring costs in CCD. The tax credit in respect of the amortisation of acquisition intangibles amounted to £1.5m (2015: £1.5m).

The effective tax rate for 2016, prior to the amortisation of acquisition intangibles and exceptional items, is 23.20% (2015: 20.25%). The increase in the rate reflects the impact of the bank corporation tax surcharge of 8%, which came into effect on 1 January 2016 and applies to Vanquis Bank profits in excess of £25m, net of a tax credit in respect of prior years.

5 Tax charge (continued)

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015, changes were also enacted reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In 2016, further reductions to statutory corporation tax rates were enacted, reducing the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. As the temporary differences on which deferred tax is calculated are expected to largely reverse after 1 April 2020 (2015: 1 April 2020), deferred tax at 31 December 2016 has been re-measured at 17% (2015: 18%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2015: 26%). In 2015, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 20% (2015: 20.25%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 28% (2015: 20.25%). A tax charge of £nil (2015: credit of £2.4m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax credit of £0.6m (2015: charge of £0.2m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

	Group	
Tax credit/(charge) on items taken directly to other comprehensive income	**2016 £m**	2015 £m
Deferred tax credit/(charge) on fair value movement in available for sale investment	**4.7**	(3.5)
Deferred tax charge on fair value movements on cash flow hedges	**(0.1)**	(1.0)
Deferred tax credit on actuarial movements on retirement benefit asset	**–**	1.2
Tax credit/(charge) on items taken directly to other comprehensive income prior to impact of change in UK tax rate	**4.6**	(3.3)
Impact of change in UK tax rate	**0.6**	(0.2)
Total tax credit/(charge) on items taken directly to other comprehensive income	**5.2**	(3.5)

The deferred tax charge of £3.5m on the available for sale investment in 2015 represented the deferred tax on the valuation of Vanquis Bank's interest in Visa Europe Limited of £17.5m as at 31 December 2015 which was taken directly to other comprehensive income. Deferred tax was provided on the consideration, comprising cash, deferred cash and preferred stock in Visa Inc., which Vanquis Bank expected to receive on selling its shareholding in Visa Europe Limited and was initially provided at the statutory corporation tax rate for 2015 of 20.25%. Deferred tax was then re-measured at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 28% on that element of the profit attributed to the cash and deferred cash consideration which would be taxed in 2016. Deferred tax on the profit attributable to the preferred stock element was re-measured at 26% as this was not expected to be taxed until the preferred stock, or the shares into which they convert, are sold. The deferred tax charge arising as a result of these rate changes was £1.3m, taking the total deferred tax charge in respect of the available for sale investment to £4.8m.

The £4.7m deferred tax credit in 2016 on the available for sale investment represents the reversal of the £4.8m deferred tax charge in 2015, reflecting the sale of Vanquis Bank's interest in Visa Europe Limited in the year, net of a deferred tax charge of £0.1m arising on the movement in the valuation of the Visa Inc. stock between its acquisition and the end of the year.

The rate of tax charge on the profit before taxation for the year is higher than (2015: in line with) the average rate of mainstream corporation tax in the UK of 20% (2015: 20.25%). This can be reconciled as follows:

	Group	
	2016 £m	2015 £m
Profit before taxation	**343.9**	273.6
Profit before taxation multiplied by the average rate of mainstream corporation tax in the UK of 20% (2015: 20.25%)	**(68.8)**	(55.4)
Effects of:		
– benefit of lower tax rates overseas	**0.4**	0.5
– adjustment in respect of prior years	**3.9**	(2.6)
– non deductible general expenses	**(0.2)**	(0.3)
– impact of bank corporation tax surcharge	**(16.3)**	–
– impact of change in UK tax rate	**–**	2.4
Total tax charge	**(81.0)**	(55.4)

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% (2015: 12.5%) rather than the UK statutory mainstream corporation tax rate of 20% (2015: 20.25%) giving rise to a beneficial impact on the group tax charge of £0.4m (2015: £0.5m).

The £3.9m credit (2015: £2.6m charge) in respect of prior years represents the benefit of settling historic tax liabilities and of securing tax deductions for employee share awards which are higher than those originally anticipated.

The £2.4m tax credit in 2015 arose primarily as a result of taking deferred tax assets in Vanquis Bank, which were originally measured at the mainstream corporation tax rate of 20%, and re-measuring them at the combined mainstream corporation tax and the bank surcharge rate of 26%, along with the benefit of taking deferred tax liabilities elsewhere in the group which were originally measured at 20% and re-measuring these at 18%. The further reduction in the mainstream corporation tax rate enacted in 2016 has not resulted in any impact on the tax charge for 2016.

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Notes to the financial statements (continued)

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:

Group	2016 Earnings £m	2016 Weighted average number of shares m	2016 Per share amount pence	2015 Earnings £m	2015 Weighted average number of shares m	2015 Per share amount pence
Earnings per share						
Shares in issue during the year		147.6			146.9	
Own shares held		(3.0)			(3.2)	
Basic earnings per share	262.9	144.6	181.8	218.2	143.7	151.8
Dilutive effect of share options and awards	–	1.5	(1.9)	–	2.0	(2.0)
Diluted earnings per share	262.9	146.1	179.9	218.2	145.7	149.8

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 in August 2014 (see note 11) and prior to exceptional items (see note 1). This is presented to show the earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted earnings per share to adjusted basic and diluted earnings per share is as follows:

Group	2016 Earnings £m	2016 Weighted average number of shares m	2016 Per share amount pence	2015 Earnings £m	2015 Weighted average number of shares m	2015 Per share amount pence
Basic earnings per share	262.9	144.6	181.8	218.2	143.7	151.8
Amortisation of acquisition intangibles, net of tax	6.0	–	4.1	6.0	–	4.2
Exceptional items, net of tax	(12.2)	–	(8.4)	9.4	–	6.6
Adjusted basic earnings per share	256.7	144.6	177.5	233.6	143.7	162.6
Diluted earnings per share	262.9	146.1	179.9	218.2	145.7	149.8
Amortisation of acquisition intangibles, net of tax	6.0	–	4.2	6.0	–	4.1
Exceptional items, net of tax	(12.2)	–	(8.4)	9.4	–	6.4
Adjusted diluted earnings per share	256.7	146.1	175.7	233.6	145.7	160.3

Adjusted basic EPS has grown by 9.2% in 2016 reflecting strong growth in profits at Vanquis Bank and Moneybarn and an improved profit performance in CCD following a reduction in start-up losses associated with Satsuma. This growth is lower than the 14.1% growth in profit before tax, amortisation of acquisition intangibles and exceptional items due to the impact of the 8% bank corporation tax surcharge on Vanquis Bank's profits in excess of £25m which was effective from 1 January 2016.

7 Dividends

	Group and company	
	2016 £m	2015 £m
2014 final – 63.9p per share	–	92.3
2015 interim – 39.2p per share	–	56.6
2015 final – 80.9p per share	**117.8**	–
2016 interim – 43.2p per share	**62.8**	–
Dividends paid	**180.6**	148.9

The directors are recommending a final dividend in respect of the financial year ended 31 December 2016 of 91.4p per share (2015: 80.9p) which will amount to an estimated dividend payment of £132.9m (2015: £117.8m). If approved by the shareholders at the annual general meeting on 12 May 2017, this dividend will be paid on 23 June 2017 to shareholders who are on the register of members at 19 May 2017. This dividend is not reflected in the balance sheet as at 31 December 2016 as it is subject to shareholder approval.

As a result of adjusted EPS growth of 9.2% in 2016, the directors have proposed an increase in the final dividend of 13.0% which, together with the 10.2% increase in the interim dividend, makes a total full-year dividend increase of 12.1%. Accordingly, dividend cover, prior to the amortisation of acquisition intangibles and exceptional items, in 2016 was 1.32 times (2015: 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	
	2016 £m	2015 £m
Short-term employee benefits	**4.1**	3.4
Post-employment benefits	**0.5**	0.3
Share-based payment charge	**4.0**	4.3
Total	**8.6**	8.0

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 110to 118 which does not include the share-based payment charge of £4.0m (2015: £4.3m) but includes the value of LTIS and PSP share awards due to vest in 2017 of £4.6m (2015: £10.3m). The value is calculated assuming 100% of share awards vest at the average share price during the last three months of the year.

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9 Employee information

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

	Group 2016 Number	2015 Number
Vanquis Bank	**1,370**	1,303
CCD	**1,943**	2,179
Moneybarn	**174**	127
Central	**63**	58
Total group	**3,550**	3,667
Analysed as:		
Full time	**3,261**	3,310
Part time	**289**	357
Total group	**3,550**	3,667

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 4,500 self-employed agents within CCD. The 11% reduction in CCD average employee numbers reflects the impact of the business restructuring which took place during 2015 partly offset by additional headcount to support: (i) increased regulation and compliance; and (ii) the development of Satsuma. Vanquis Bank average employee numbers have increased by 5% during 2016 due to the growth of the business, including the continued expansion of the second contact centre in CCD's head office in Bradford and resource to support collections activity for Satsuma. Moneybarn's 37% increase in average headcount reflects the resource required to support the growth of the business and bring governance processes into line with the rest of the group.

(b) Employment costs

	Group 2016 £m	2015 £m
Aggregate gross wages and salaries paid to the group's employees	**145.9**	131.6
Employers' National Insurance contributions	**16.5**	15.4
Pension charge, prior to exceptional pension credit	**9.2**	11.6
Share-based payment charge (note 25)	**14.3**	11.7
Total employment cost prior to exceptional costs	**185.9**	170.3
Exceptional curtailment credit (note 19)	**–**	(2.6)
Exceptional redundancy costs (note 1)	**–**	14.4
Total employment costs	**185.9**	182.1

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 £11.7m in 2015 to £14.3m in 2016 primarily reflects the charge for an additional PFEP scheme as it has now been in place for two years.

The share-based payment charge of £14.3m (2015: £11.7m) relates to equity settled schemes of £10.9m (2015: £10.5m) and cash settled schemes of £3.4m (2015: £1.2m).

10 Goodwill

	Group 2016 £m	2015 £m
Cost		
At 1 January and 31 December	**73.3**	73.3
Accumulated amortisation		
At 1 January and 31 December	**2.1**	2.1
Net book value at 1 January and 31 December	**71.2**	71.2

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. Management adopt pre-tax discount rates which reflect the time value of money and the risks specific to the Moneybarn business. The cash flow forecasts are based on the most recent financial budgets approved by the group board for the next five years and extrapolates cash flows for the following five years using a terminal growth rate of 3.0% (2015: 3.0%). The rate used to discount the forecast cash flows is 9% (2015: 9%). No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented.

11 Other intangible assets

Group	Acquisition intangibles £m	Computer software £m	Total £m	Acquisition intangibles £m	Computer software £m	Total £m
			2016			2015
Cost						
At 1 January	**75.0**	**59.6**	**134.6**	75.0	44.5	119.5
Additions	**–**	**12.8**	**12.8**	–	15.8	15.8
Disposals	**–**	**–**	**–**	–	(0.7)	(0.7)
At 31 December	**75.0**	**72.4**	**147.4**	75.0	59.6	134.6
Accumulated amortisation						
At 1 January	**10.0**	**39.4**	**49.4**	2.5	32.7	35.2
Charged to the income statement	**7.5**	**9.5**	**17.0**	7.5	7.4	14.9
Exceptional impairment charge (note 1)	**–**	**2.9**	**2.9**	–	–	–
Disposals	**–**	**–**	**–**	–	(0.7)	(0.7)
At 31 December	**17.5**	**51.8**	**69.3**	10.0	39.4	49.4
Net book value at 31 December	**57.5**	**20.6**	**78.1**	65.0	20.2	85.2
Net book value at 1 January	**65.0**	**20.2**	**85.2**	72.5	11.8	84.3

Acquisition intangibles represents the fair value of the broker relationships arising on acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years.

The £12.8m (2015: £15.8m) of computer software expenditure principally relates to: (i) externally purchased and internally developed software in CCD supporting the ongoing deployment of technology in the Provident home credit business and the systems to support the development of Satsuma; and (ii) the development of systems to support the loans proposition in Vanquis Bank.

12 Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2016	**3.9**	**4.7**	**66.1**	**74.7**
Additions	**0.1**	**1.4**	**9.1**	**10.6**
Disposals	**–**	**–**	**(3.7)**	**(3.7)**
At 31 December 2016	**4.0**	**6.1**	**71.5**	**81.6**
Accumulated depreciation				
At 1 January 2016	**3.3**	**0.6**	**41.3**	**45.2**
Charged to the income statement	**–**	**0.5**	**8.2**	**8.7**
Disposals	**–**	**–**	**(2.6)**	**(2.6)**
At 31 December 2016	**3.3**	**1.1**	**46.9**	**51.3**
Net book value at 31 December 2016	**0.7**	**5.0**	**24.6**	**30.3**
Net book value at 1 January 2016	**0.6**	**4.1**	**24.8**	**29.5**

The loss on disposal of property, plant and equipment in 2016 amounted to £0.5m (2015: £nil) and represented proceeds received of £0.6m (2015: £1.4m) less the net book value of disposals of £1.1m (2015: £1.4m).

Additions in 2016 principally comprises expenditure in respect of the routine replacement of IT equipment in CCD, Vanquis Bank and Moneybarn and motor vehicles for field employees within CCD.

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Notes to the financial statements (continued)

12 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 2015	3.9	4.6	59.2	67.7
Additions	–	0.1	11.1	11.2
Disposals	–	–	(4.2)	(4.2)
At 31 December 2015	3.9	4.7	66.1	74.7
Accumulated depreciation				
At 1 January 2015	3.3	0.3	36.7	40.3
Charged to the income statement	–	0.3	7.4	7.7
Disposals	–	–	(2.8)	(2.8)
At 31 December 2015	3.3	0.6	41.3	45.2
Net book value at 31 December 2015	0.6	4.1	24.8	29.5
Net book value at 1 January 2015	0.6	4.3	22.5	27.4

Company	**Freehold land and buildings £m**	**Leasehold land and buildings £m**	**Equipment and vehicles £m**	**Total £m**
Cost				
At 1 January 2016	**3.9**	**0.2**	**12.8**	**16.9**
Additions	**0.1**	**–**	**0.4**	**0.5**
Disposals	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2016	**4.0**	**0.2**	**13.1**	**17.3**
Accumulated depreciation				
At 1 January 2016	**3.3**	**0.1**	**5.7**	**9.1**
Charged to the income statement	**–**	**–**	**1.5**	**1.5**
Disposals	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2016	**3.3**	**0.1**	**7.1**	**10.5**
Net book value at 31 December 2016	**0.7**	**0.1**	**6.0**	**6.8**
Net book value at 1 January 2016	**0.6**	**0.1**	**7.1**	**7.8**

The profit/(loss) on disposal of property, plant and equipment in 2016 amounted to £nil (2015: £nil) and represented proceeds received of £nil m (2015: £0.1m) less the net book value of disposals of £nil m (2015: £0.1m).

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2015	3.9	0.2	10.8	14.9
Additions	–	–	2.3	2.3
Disposals	–	–	(0.3)	(0.3)
At 31 December 2015	3.9	0.2	12.8	16.9
Accumulated depreciation				
At 1 January 2015	3.3	0.1	4.5	7.9
Charged to the income statement	–	–	1.4	1.4
Disposals	–	–	(0.2)	(0.2)
At 31 December 2015	3.3	0.1	5.7	9.1
Net book value at 31 December 2015	0.6	0.1	7.1	7.8
Net book value at 1 January 2015	0.6	0.1	6.3	7.0

13 Investment in subsidiaries

	Company 2016 £m	Company 2015 £m
Cost		
At 1 January	**528.2**	528.2
Additions	**0.8**	–
At 31 December	**529.0**	528.2
Accumulated impairment losses		
At 1 January	**31.9**	31.9
Credited to the income statement	**(0.4)**	–
At 31 December	**31.5**	31.9
Net book value at 31 December	**497.5**	496.3
Net book value at 1 January	**496.3**	496.3

The directors consider the value of investments to be supported by their underlying assets.

The additions in 2016 of £0.8m represent the IFRIC 11 adjustment relating to share options/awards provided to subsidiary employees. Under IFRIC 11, the fair value of the options/awards issued is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/award that have vested. The adjustment in respect of IFRIC 11 in 2016 amounted to a net debit of £0.8m and was therefore treated as an addition. The adjustment for IFRIC 11 in 2015 amounted to £nil.

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the group or are a guaranteeing subsidiary of the group's syndicated bank facility and certain other borrowings. A full list of subsidiary undertakings will be annexed to the next annual return of the company to be filed with the Registrar of Companies (see note 31). 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.

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Notes to the financial statements (continued)

14 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	2016 Due within one year £m	2016 Due in more than one year £m	2016 Total £m	2015 Due within one year £m	2015 Due in more than one year £m	2015 Total £m
Vanquis Bank	**1,424.7**	**–**	**1,424.7**	1,252.0	–	1,252.0
CCD	**496.0**	**88.8**	**584.8**	484.6	60.5	545.1
Moneybarn	**78.5**	**218.8**	**297.3**	62.1	157.5	219.6
Total group	**1,999.2**	**307.6**	**2,306.8**	1,798.7	218.0	2,016.7

Vanquis Bank's receivables grew by 13.8% in 2016 as a result of growth in customer numbers of 13.7% together with the success of the credit line increase programme to good-quality existing customers through the 'low and grow' approach to lending. CCD receivables comprise £560.0m in respect of the Provident home credit business (2015: £522.2m), £18.2m in respect of Satsuma (2015: £12.1m) and £6.6m in respect of glo (2015: £10.8m). Home credit receivables showed growth of 7.2% in 2016 reflecting the combination of robust demand and customer confidence together with the focus on serving good quality existing customers which resulted in a 9% year-on-year improvement in sales. Satsuma receivables showed growth of 50%, benefiting from a 25% year-on-year increase in new business volumes and further lending to established customers during the fourth quarter of the year. The glo receivables book is in run-off following the decision to close glo to new business within CCD from early October 2016 and develop guarantor loans as part of Vanquis Bank's wider loan proposition.

The average effective interest rate for the year ended 31 December 2016 was 29% for Vanquis Bank (2015: 30%), 115% for CCD (2015: 114%) and 30% for Moneybarn (2015: 28%). The average period to maturity of the amounts receivable from customers within CCD is 7.0 months (2015: 6.0 months) and within Moneybarn is 39 months (2015: 37 months). Within Vanquis Bank, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the greater of 2.3% of the amount owed plus any fees and interest charges in the month and £5.

The fair value of amounts receivable from customers is approximately £3.3 billion (2015: £3.3 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. Under IFRS 13, 'Fair value measurement', receivables are classed as Level 3 as they are not traded on an active market and the fair value is therefore determined through future cash flows.

The credit quality of amounts receivable from customers is as follows:

Credit quality of amounts receivable from customers	2016 Vanquis Bank £m	2016 CCD £m	2016 Moneybarn £m	2016 Group £m	2015 Vanquis Bank £m	2015 CCD £m	2015 Moneybarn £m	2015 Group £m
Neither past due nor impaired	**1,338.8**	**323.1**	**235.3**	**1,897.2**	1,168.4	279.9	192.6	1,640.9
Past due but not impaired	**–**	**63.9**	**–**	**63.9**	–	58.1	–	58.1
Impaired	**85.9**	**197.8**	**62.0**	**345.7**	83.6	207.1	27.0	317.7
Total	**1,424.7**	**584.8**	**297.3**	**2,306.8**	1,252.0	545.1	219.6	2,016.7

Credit quality of amounts receivable from customers	2016 Vanquis Bank %	2016 CCD %	2016 Moneybarn %	2016 Group %	2015 Vanquis Bank %	2015 CCD %	2015 Moneybarn %	2015 Group %
Neither past due nor impaired	**94.0**	**55.3**	**79.1**	**82.2**	93.3	51.3	87.7	81.4
Past due but not impaired	**–**	**10.9**	**–**	**2.8**	–	10.7	–	2.9
Impaired	**6.0**	**33.8**	**20.9**	**15.0**	6.7	38.0	12.3	15.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	100.0	100.0	100.0	100.0

Past due but not impaired balances all relate to home credit loans within CCD. There are no accounts/loans within Vanquis Bank or Moneybarn which are past due but not impaired. In home credit, past due but not impaired balances relate to loans which are contractually overdue. However, contractually overdue loans are not deemed to be impaired unless the customer has missed two or more cumulative weekly payments in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate materially.

The improved arrears profile in Vanquis Bank reflects the consistently tight credit standards and an improving employment market which resulted in delinquency ratios progressively improving and reaching record lows of for the business by the end of the third quarter. Delinquency rates remained stable in the fourth quarter. The improvement in the arrears profile of CCD reflects the ongoing 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. The increase in the proportion of impaired accounts within Moneybarn during 2016 reflects an increase in defaults consistent with the mix of business being written.

14 Amounts receivable from customers (continued)

The following table sets out the ageing analysis of past due but not impaired balances within the home credit and Satsuma businesses of CCD based on contractual arrears since the inception of the loan:

	Group	
Ageing analysis of past due but not impaired balances	**2016 £m**	2015 £m
One week overdue	**46.1**	41.1
Two weeks overdue	**10.4**	9.9
Three weeks or more overdue	**7.4**	7.1
Past due but not impaired	**63.9**	58.1

Impairment in Vanquis Bank and Moneybarn is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The movement in the allowance accounts during the year are as follows:

	Group	
Vanquis Bank allowance account	**2016 £m**	2015 £m
At 1 January	**225.0**	178.6
Charge for the year	**162.4**	160.5
Amounts written off during the year	**(153.9)**	(127.1)
Amounts recovered during the year	**27.9**	23.5
Sale of Polish receivables	**–**	(10.5)
At 31 December	**261.4**	225.0

	Group	
Moneybarn allowance account	**2016 £m**	2015 £m
At 1 January	**18.4**	27.1
Charge for the year	**16.4**	8.9
Amounts written off during the period	**(0.7)**	(2.0)
Sale of delinquent receivables	**–**	(15.6)
At 31 December	**34.1**	18.4

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:

	Group	
Impairment charge on amounts receivable from customers	**2016 £m**	2015 £m
Vanquis Bank	**162.4**	160.5
CCD	**120.0**	106.6
Moneybarn	**16.4**	8.9
Total group	**298.8**	276.0

The 2015 impairment charge in Vanquis Bank comprised £158.9m in respect of the UK business and £1.6m in respect of the Polish pilot operation prior to the transfer of the economic interest to a third party on 1 April 2015.

Financial statements

Notes to the financial statements (continued)

14 Amounts receivable from customers (continued)

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

	Group	
Interest income recognised on impaired amounts receivable from customers	**2016 £m**	2015 £m
Vanquis Bank	**38.2**	35.4
CCD	**286.1**	249.9
Moneybarn	**10.0**	6.7
Total group	**334.3**	292.0

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 £1,686.1m (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 £1,424.7m, which is stated after the deduction of the impairment allowance account of £261.4m. 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 Satsuma 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	**2016 £m**	2015 £m
Sterling	**2,248.0**	1,961.6
Euro	**58.8**	55.1
Total group	**2,306.8**	2,016.7

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 10% of CCD's receivables (2015: 10%).

15 Available for sale investment

	Group	
Available for sale investment	**2016 £m**	2015 £m
Fair value of shares in Visa Europe Limited	**8.0**	17.5

On 2 November 2015, Visa Inc. announced the proposed acquisition of Visa Europe Limited to create a single global payments business under the VISA brand. Vanquis Bank was a member and shareholder of Visa Europe and in exchange for its one redeemable ordinary share (previously held at cost of €10) was due to receive a combination of up front consideration in the form of cash, preferred stock in Visa Inc. on completion of the transaction and deferred cash consideration contingent on certain performance thresholds being met. Following announcement of the proposed transaction, Vanquis Bank's interest in Visa Europe was valued at a fair value of £17.5m which reflected the expected upfront cash proceeds and a number of factors and uncertainties relating to the other consideration. The corresponding credit was taken directly to an available for sale reserve within equity.

On 21 June 2016, Visa Inc. completed the acquisition of Visa Europe Limited. The final terms of the transaction resulted in Vanquis Bank receiving cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m due on the third anniversary of the completion date. The preferred stock is convertible into Class A common stock of Visa Inc. at a future date, subject to certain conditions.

Following completion of the transaction during 2016, the gain taken through equity in 2015 in respect of the Visa Europe shares has been recycled through the income statement together with the £2.7m movement in the fair value of the consideration between the year end and completion of the transaction. This has resulted in an exceptional gain of £20.2m (2015: £nil) being recognised in 2016 (see note 1). The fair value of the preferred stock in Visa Inc. held by Vanquis Bank of £8.0m as at 31 December 2016 is held as an available for sale investment and the fair value of the deferred cash consideration of £1.1m is included within debtors. The movement in the fair value of the available for sale investment since completion of the transaction of £3.1m has been recognised in the statement of comprehensive income in 2016.

The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity, as the preferred stock is not tradeable on an open market and can only be transferred to other VISA members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion.

Under IFRS 13, 'Fair value measurement', the investment is classified as Level 3 as the valuation is determined using a combination of observable and unobservable inputs. As the common stock share price is readily available, the inputs are deemed to be observable. However, certain assumptions have been made in respect of the illiquidity adjustment to the share price and the likelihood of litigation costs in the future. These inputs are therefore deemed to be unobservable.

16 Financial instruments

The following table sets out the carrying value of the group's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Group	Loans and receivables £m	Available for sale £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
						2016
Assets						
Available for sale investment	–	8.0	–	–	–	8.0
Cash and cash equivalents	197.5	26.2	–	–	–	223.7
Amounts receivable from customers	2,306.8	–	–	–	–	2,306.8
Trade and other receivables	35.0	1.1	–	–	–	36.1
Retirement benefit asset	–	–	–	–	72.4	72.4
Property, plant and equipment	–	–	–	–	30.3	30.3
Goodwill	–	–	–	–	71.2	71.2
Other intangible assets	–	–	–	–	78.1	78.1
Total assets	2,539.3	35.3	–	–	252.0	2,826.6
Liabilities						
Bank and other borrowings	–	–	(1,855.1)	–	–	(1,855.1)
Derivative financial instruments	–	–	–	(0.3)	–	(0.3)
Trade and other payables	–	–	(104.8)	–	–	(104.8)
Current tax liabilities	–	–	–	–	(65.6)	(65.6)
Deferred tax liabilities	–	–	–	–	(10.7)	(10.7)
Total liabilities	–	–	(1,959.9)	(0.3)	(76.3)	(2,036.5)

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) and the deferred cash and shares in respect of the Visa transaction (see note 15).

Group	Loans and receivables £m	Available for sale £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
						2015
Assets						
Available for sale investment	–	17.5	–	–	–	17.5
Cash and cash equivalents	132.7	20.7	–	–	–	153.4
Amounts receivable from customers	2,016.7	–	–	–	–	2,016.7
Trade and other receivables	32.4	–	–	–	–	32.4
Retirement benefit asset	–	–	–	–	62.3	62.3
Property, plant and equipment	–	–	–	–	29.5	29.5
Goodwill	–	–	–	–	71.2	71.2
Other intangible assets	–	–	–	–	85.2	85.2
Total assets	2,181.8	38.2	–	–	248.2	2,468.2
Liabilities						
Bank and other borrowings	–	–	(1,596.2)	–	–	(1,596.2)
Derivative financial instruments	–	–	–	(0.6)	–	(0.6)
Trade and other payables	–	–	(98.3)	–	–	(98.3)
Current tax liabilities	–	–	–	–	(50.5)	(50.5)
Deferred tax liabilities	–	–	–	–	(14.9)	(14.9)
Total liabilities	–	–	(1,694.5)	(0.6)	(65.4)	(1,760.5)

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Notes to the financial statements (continued)

16 Financial instruments (continued)

The following table sets out the carrying value of the company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

					2016
Company	**Loans and receivables £m**	**Amortised cost £m**	**Hedging derivatives £m**	**Non-financial assets/ liabilities £m**	**Total £m**
Assets					
Cash and cash equivalents	31.2	–	–	–	31.2
Investment in subsidiaries	–	–	–	497.5	497.5
Trade and other receivables	1,578.4	–	–	–	1,578.4
Retirement benefit asset	–	–	–	72.4	72.4
Property, plant and equipment	–	–	–	6.8	6.8
Total assets	1,609.6	–	–	576.7	2,186.3
Liabilities					
Bank and other borrowings	–	(911.3)	–	–	(911.3)
Derivative financial instruments	–	–	(0.1)	–	(0.1)
Trade and other payables	–	(133.3)	–	–	(133.3)
Current tax liabilities	–	–	–	(5.1)	(5.1)
Deferred tax liabilities	–	–	–	(9.8)	(9.8)
Total liabilities	–	(1,044.6)	(0.1)	(14.9)	(1,059.6)

					2015
Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
Assets					
Cash and cash equivalents	7.0	–	–	–	7.0
Investment in subsidiaries	–	–	–	496.3	496.3
Trade and other receivables	1,525.5	–	–	–	1,525.5
Retirement benefit asset	–	–	–	62.3	62.3
Property, plant and equipment	–	–	–	7.8	7.8
Total assets	1,532.5	–	–	566.4	2,098.9
Liabilities					
Bank and other borrowings	–	(864.0)	–	–	(864.0)
Derivative financial instruments	–	–	(0.5)	–	(0.5)
Trade and other payables	–	(118.8)	–	–	(118.8)
Current tax liabilities	–	–	–	(0.5)	(0.5)
Deferred tax liabilities	–	–	–	(8.8)	(8.8)
Total liabilities	–	(982.8)	(0.5)	(9.3)	(992.6)

17 Derivative financial instruments

The derivative financial instruments held by the group are interest rate swaps used to fix the interest rates paid on the group's borrowings and foreign exchange contracts used to manage the foreign exchange risk arising on CCD's operations in the Republic of Ireland.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

	2016			2015		
Group	**Contractual/ notional amount £m**	**Assets £m**	**Liabilities £m**	Contractual/ notional amount £m	Assets £m	Liabilities £m
Interest rate swaps	**110.0**	**–**	**(0.1)**	120.0	–	(0.5)
Foreign exchange contracts	**7.6**	**–**	**(0.2)**	9.0	–	(0.1)
Total group	**117.6**	**–**	**(0.3)**	129.0	–	(0.6)
Analysed as – due within one year		**–**	**(0.2)**		–	–
– due in more than one year		**–**	**(0.1)**		–	(0.6)
		–	**(0.3)**		–	(0.6)

	2016			2015		
Company	**Contractual/ notional amount £m**	**Assets £m**	**Liabilities £m**	Contractual/ notional amount £m	Assets £m	Liabilities £m
Interest rate swaps	**110.0**	**–**	**(0.1)**	120.0	–	(0.5)
Total company	**110.0**	**–**	**(0.1)**	120.0	–	(0.5)
Analysed as – due within one year		**–**	**–**		–	–
– due in more than one year		**–**	**(0.1)**		–	(0.5)
		–	**(0.1)**		–	(0.5)

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		Company	
	2016 £m	**2015 £m**	2016 £m	2015 £m
Interest rate swaps	**0.4**	**3.9**	0.4	3.9
Foreign exchange contracts	**–**	**(0.3)**	–	–
Net credit to the hedging reserve	**0.4**	**3.6**	0.4	3.9

Under IFRS 13, 'Fair value measurement', all derivative financial instruments are classed as Level 2 as they are not traded in an active market and the fair value is therefore determined through discounting future cash flows, using appropriate market rates and yield curves.

(b) Income statement

All cash flow hedges are deemed to be effective. There was no impact on the income statement of the group and the company in the year in respect of the movement in the fair value of ineffective interest rate swaps, previously designated as cash flow hedges (2015: £nil).

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Notes to the financial statements (continued)

17 Derivative financial instruments (continued)

(c) Interest rate swaps

The group and company use interest rate swaps in order to manage the interest rate risk on the group's borrowings. The group has entered into various interest rate swaps which were designated and effective under IAS 39 as cash flow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

	Group and company	
	2016 £m	2015 £m
Liability at 1 January	**(0.5)**	(4.4)
Credited to the hedging reserve	**0.4**	3.9
Liability at 31 December	**(0.1)**	(0.5)

The weighted average interest rate and period to maturity of the interest rate swaps held by the group and company were as follows:

			2016			2015
Group and company	**Weighted average interest rate %**	**Range of interest rates %**	**Weighted average period to maturity years**	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years
Sterling	**0.7**	**0.6–0.8**	**0.1**	3.2	3.1–3.3	0.4

(d) Foreign exchange contracts

The group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from CCD's euro operations in the Republic of Ireland. A liability of £0.2m is held in the group balance sheet as at 31 December 2016 in respect of foreign exchange contracts (2015: liability of £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 £7.6m (2015: £9.0m). These contracts have a range of maturity dates from 17 January 2017 to 12 December 2017 (2015: 18 January 2016 to 13 December 2016). These contracts were designated as cash flow hedges and were effective under IAS 39. Accordingly, the movement in fair value of £nil has been charged to the hedging reserve within equity (2015: credit of £0.3m).

18 Trade and other receivables

	Company	
Non-current assets	**2016 £m**	2015 £m
Amounts owed by group undertakings	**871.6**	919.1

There are no amounts past due and there is no impairment provision held against amounts owed by group undertakings due for repayment in more than one year (2015: £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	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Trade receivables	**0.1**	0.1	**–**	–
Other receivables	**7.7**	7.3	**–**	–
Amounts owed by group undertakings	**–**	–	**704.2**	604.4
Prepayments and accrued income	**28.3**	25.0	**2.6**	2.0
Total	**36.1**	32.4	**706.8**	606.4

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 £nil amounts past due in respect of trade and other receivables due in less than one year (2015: £nil). Within the company, an impairment provision of £123.3m (2015: £123.1m) is held against amounts owed by group undertakings due in less than one year representing the deficiency in the net assets of those group undertakings. There has been a £0.2m charge to the company income statement in 2016 (2015: £0.6m) in respect of the increased provision.

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 (2015: carrying value) set out above.

There is £nil collateral held in respect of trade and other receivables (2015: £nil).

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 2016, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded.

The group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme is of the funded, defined benefit type and has been substantially closed to new members since 1 January 2003.

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

The scheme is a UK registered pension scheme under UK legislation and is not contracted-out of the State Second 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 2015 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits', has been based on results of the 2015 valuation, updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

The group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid.

The group is exposed to a number of risks, the most significant of which are as follows:

> Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match liabilities.

> Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.

> Inflation risk – part of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a long-term de-risking strategy, the scheme has increased its portfolio in inflation matched assets.

> 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			
	2016 £m	**2016 %**	2015 £m	2015 %
Equities	**83.1**	**10**	74.7	11
Other diversified return seeking investments	**73.9**	**9**	67.5	10
Corporate bonds	**141.2**	**17**	133.0	20
Fixed interest gilts	**193.0**	**23**	208.3	31
Index-linked gilts	**337.4**	**41**	181.7	28
Cash and money market funds	**1.5**	**–**	1.2	–
Total fair value of scheme assets	**830.1**	**100**	666.4	100
Present value of funded defined benefit obligation	**(757.7)**		(604.1)	
Net retirement benefit asset recognised in the balance sheet	**72.4**		62.3	

As part of a de-risking strategy agreed between the company and the pension trustees to hedge the inflation and interest rate risks associated with the liabilities of the pension scheme, a substantial amount of more volatile growth funds (equities) were reinvested in liability protection assets (fixed interest and index-linked gilts) in January 2015.

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Notes to the financial statements (continued)

19 Retirement benefit asset (continued)

The valuation of the pension scheme has increased from £62.3m at 31 December 2015 to £72.4m at 31 December 2016. A high level reconciliation of the movement is as follows:

Group and company	£m
Pension asset as at 31 December 2015	62
Cash contributions made by the group	12
Actuarially based cost of new benefits	(2)
Return on assets being held to meet pension obligations	154
Decrease in discount rate used to discount future liabilities	(149)
Increase in inflation rate used to forecast pensions	(10)
Lower inflationary pension increases from 1 January 2017	5
Pension asset as at 31 December 2016	**72**

The amounts recognised in the income statement were as follows:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Current service cost	**(4.0)**	(5.0)	**(4.0)**	(5.0)
Interest on scheme liabilities	**(22.3)**	(23.5)	**(22.3)**	(23.5)
Interest on scheme assets	**24.8**	25.7	**24.8**	25.7
Contributions from subsidiaries	**–**	–	**11.1**	11.6
Net (charge)/credit recognised in the income statement before exceptional curtailment credit	**(1.5)**	(2.8)	**9.6**	8.8
Exceptional curtailment credit	**–**	2.6	**–**	2.6
Net (charge)/credit recognised in the income statement	**(1.5)**	(0.2)	**9.6**	11.4

The exceptional curtailment credit of £2.6m in 2015 related to the reduction in headcount of 500 people following a 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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Fair value of scheme assets at 1 January	**666.4**	700.1	**666.4**	700.1
Interest on scheme assets	**24.8**	25.7	**24.8**	25.7
Contributions by subsidiaries	**–**	–	**11.1**	11.6
Actuarial movement on scheme assets	**153.7**	(52.4)	**153.7**	(52.4)
Contributions by the group/company	**11.7**	12.2	**0.6**	0.6
Net benefits paid out	**(26.5)**	(19.2)	**(26.5)**	(19.2)
Fair value of scheme assets at 31 December	**830.1**	666.4	**830.1**	666.4

The group contributions to the defined benefit pension scheme in the year ending 31 December 2017 are expected to be approximately £11.4m.

19 Retirement benefit asset (continued)

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

	Group and company	
	2016 £m	2015 £m
Present value of the defined benefit obligation at 1 January	(604.1)	(644.1)
Current service cost	(4.0)	(5.0)
Interest on scheme liabilities	(22.3)	(23.5)
Exceptional curtailment credit	–	2.6
Actuarial movement on scheme liabilities	(153.8)	46.7
Net benefits paid out	26.5	19.2
Present value of the defined benefit obligation at 31 December	**(757.7)**	(604.1)

The liabilities of the scheme are based on the current value of expected benefit payments over the next 90 years. The weighted average duration of the scheme liabilities is approximately 19 years.

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

	Group and company	
	2016 %	2015 %
Price inflation – RPI	3.25	3.00
Price inflation – CPI	2.15	2.00
Rate of increase to pensions in payment	3.00	2.80
Inflationary increases to pensions in deferment	2.15	2.00
Discount rate	2.55	3.75

The pension increase assumption shown above applies to pensions increasing in payment each year in line with RPI up to 5%. Pensions accrued prior to 2000 are substantially subject to fixed 5% increases each year. In deferment increases prior to retirement are linked to CPI.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 1 tables, with multipliers of 105% and 115% respectively for males and females. The 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females reflects the lower life expectancies within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2015 model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
Group and company	2016 years	2015 years	2016 years	2015 years
Current pensioner aged 65	21.8	21.7	23.3	23.3
Current member aged 45 from age 65	23.5	23.4	25.2	25.1

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	
	2016 £m	2015 £m
Discount rate decreased by 0.1%	15	11
Inflation increased by 0.1%	7	5
Life expectancy increased by 1 year	30	18

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Notes to the financial statements (continued)

19 Retirement benefit asset (continued)

The actual return on scheme assets compared to the expected return is as follows:

	Group and company	
	2016 £m	2015 £m
Interest on scheme assets	**24.8**	25.7
Actuarial movement on scheme assets	**153.7**	(52.4)
Actual return on scheme assets	**178.5**	(26.7)

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	
	2016 £m	2015 £m
Actuarial movement on scheme assets	**153.7**	(52.4)
Actuarial movement on scheme liabilities	**(153.8)**	46.7
Total movement recognised in other comprehensive income in the year	**(0.1)**	(5.7)
Cumulative movement recognised in other comprehensive income	**(82.0)**	(81.9)

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				
	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Fair value of scheme assets	**830.1**	666.4	700.1	613.8	570.7
Present value of funded defined benefit obligation	**(757.7)**	(604.1)	(644.1)	(584.6)	(547.7)
Retirement benefit asset recognised in the balance sheet	**72.4**	62.3	56.0	29.2	23.0
Experience gains/(losses) on scheme assets:					
– amount (£m)	**153.7**	(52.4)	77.9	20.1	25.3
– percentage of scheme assets (%)	**18.5**	(7.9)	11.9	3.3	4.4
Experience gains/(losses) on scheme liabilities:					
– amount (£m)	**4.5**	25.9	4.1	(0.9)	16.3
– percentage of scheme liabilities (%)	**0.6**	4.3	0.7	(0.2)	3.0

(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 £7.9m for the year ended 31 December 2016 (2015: £5.5m). Contributions made by the company amounted to £0.4m (2015: £0.4m). £0.2m contributions were payable to the fund at the year end (2015: £nil).

The group contributed £nil to individual personal pension plans in the year (2015: £0.2m), £0.6m into the Unfunded, Unapproved Retirement Benefit Scheme (UURBS) (2015: £0.5m) and £0.6m into cash supplements (2015: £0.2m).

20 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences or timing differences between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of derivative financial instruments, the group's pension asset, deductions for employee share awards which are recognised differently for tax purposes, property, plant and equipment which is depreciated on a different basis for tax purposes, certain cost provisions for which tax deductions are only available when the costs are paid and available for sale assets which are taxed only on disposal. The deferred tax liability recognised on the acquisition of Moneybarn relates primarily to the intangible asset in respect of Moneybarn's broker relationships which will be amortised in future periods but for which tax deductions will not be available.

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. During 2015, reductions in corporation tax rates were enacted, reducing the mainstream UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In addition, the Government introduced a bank corporation tax surcharge enacted in the 2015 Finance (No 2) Act which imposes, with effect from 1 January 2016, an additional 8% corporation tax on profits of Vanquis Bank over £25m. As the temporary differences on which deferred tax was calculated at 31 December 2015 were expected to largely reverse after 1 April 2020, deferred tax at 31 December 2015 was measured at 18% and, in the case of Vanquis Bank, at the combined mainstream corporation tax and bank surcharge rate of 26%.

In 2016, further reductions to corporation tax rates were enacted, reducing the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. As the temporary differences on which deferred tax is calculated are expected to largely reverse after 1 April 2020 (2015: 1 April 2020), deferred tax at 31 December 2016 has been re-measured at 17% (2015: 18%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2015: 26%). In 2016, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 20% (2015: 20.25%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 28% (2015: 20.25%). A tax charge of £nil (2015: credit of £2.4m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax credit of £0.6m (2015: charge of £0.2m) 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	**2016 £m**	2015 £m	**2016 £m**	2015 £m
At 1 January	**(14.9)**	(13.6)	**(8.8)**	(8.2)
Charge to the income statement (note 5)	**(1.0)**	(0.2)	**(1.6)**	(1.9)
Credit/(charge) on other comprehensive income prior to impact of change in UK tax rate (note 5)	**4.6**	(3.3)	**(0.1)**	0.4
Impact of change in UK tax rate:				
– credit to the income statement	**–**	2.4	**0.1**	–
– credit/(charge) to other comprehensive income	**0.6**	(0.2)	**0.6**	0.9
At 31 December	**(10.7)**	(14.9)	**(9.8)**	(8.8)

An analysis of the deferred tax liability for the group is set out below:

	2016				2015			
Group – (liability)/asset	**Accelerated capital allowances £m**	**Other temporary differences £m**	**Retirement benefit obligations £m**	**Total £m**	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit obligations £m	Total £m
At 1 January	**2.4**	**(6.3)**	**(11.0)**	**(14.9)**	2.0	(4.7)	(10.9)	(13.6)
Credit/(charge) to the income statement	**0.2**	**0.8**	**(2.0)**	**(1.0)**	0.5	1.7	(2.4)	(0.2)
Credit/(charge) on other comprehensive income prior to change in UK tax rate	**–**	**4.6**	**–**	**4.6**	–	(4.5)	1.2	(3.3)
Impact of change in UK tax rate:								
– (charge)/credit to the income statement	**(0.2)**	**(0.1)**	**0.3**	**–**	(0.1)	2.3	0.2	2.4
– credit/(charge) to other comprehensive income	**–**	**–**	**0.6**	**0.6**	–	(1.1)	0.9	(0.2)
At 31 December	**2.4**	**(1.0)**	**(12.1)**	**(10.7)**	2.4	(6.3)	(11.0)	(14.9)

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Notes to the financial statements (continued)

20 Deferred tax (continued)

An analysis of the deferred tax liability for the company is set out below:

Company – (liability)/asset	2016 Accelerated capital allowances £m	2016 Other temporary differences £m	2016 Retirement benefit obligations £m	2016 Total £m	2015 Accelerated capital allowances £m	2015 Other temporary differences £m	2015 Retirement benefit obligations £m	2015 Total £m
At 1 January	(0.2)	2.4	(11.0)	(8.8)	(0.3)	3.0	(10.9)	(8.2)
Credit/(charge) to the income statement	–	0.4	(2.0)	(1.6)	0.1	0.4	(2.4)	(1.9)
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	–	(0.1)	–	(0.1)	–	(0.8)	1.2	0.4
Impact of change in UK tax rate:								
– (charge)/credit to the income statement	–	(0.2)	0.3	0.1	–	(0.2)	0.2	–
– credit to other comprehensive income	–	–	0.6	0.6	–	–	0.9	0.9
At 31 December	(0.2)	2.5	(12.1)	(9.8)	(0.2)	2.4	(11.0)	(8.8)

Deferred tax assets have been recognised in respect of all temporary differences because it is probable that these assets will be recovered.

21 Cash and cash equivalents

Cash and cash equivalents includes cash at bank and held in short-term deposits, floats held by 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 Process (ILAAP) prepared by Vanquis Bank. In addition, further liquid resources must be maintained based upon daily stress tests linked to three key liquidity risks of Vanquis Bank, namely retail deposits maturities, undrawn credit card lines and operating cash flows. This results in a dynamic liquid resources requirement, largely driven by retail deposits maturities in the following three months. Vanquis Bank's liquid assets buffer, including other liquid resources, amounts to £168.9m at 31 December 2016 (2015: £134.2m) and is held in a combination of UK government gilts of £26.2m (2015: £20.7m) and a Bank of England reserves account of £142.7m (2015: £113.5m).

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash at bank and in hand	223.7	153.4	31.2	7.0

In addition to cash and cash equivalents, the group had £5.1m of bank overdrafts at 31 December 2016 (2015: £14.1m) and the company had £2.5m of bank overdrafts (2015: £12.9m) 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 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Sterling	222.1	153.2	31.2	7.0
Euro	1.6	0.1	–	–
Zloty	–	0.1	–	–
Total cash and cash equivalents	223.7	153.4	31.2	7.0

Cash and cash equivalents are non-interest bearing other than in respect of the cash held on deposit and the amounts held by Vanquis Bank as a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime which bear interest at rates linked to UK government gilts and the Bank of England base rate.

22 Bank and other borrowings

(a) Borrowing facilities and borrowings

Borrowings principally comprise syndicated and bilateral bank facilities, 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 22f)) and retail deposits issued by Vanquis Bank (see note 22(g)). As at 31 December 2016, borrowings under these facilities amounted to £1,855.1m (2015: £1,596.2m).

(b) Maturity profile of bank and other borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

	2016		2015	
Group	**Borrowing facilities available £m**	**Borrowings £m**	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	**24.2**	**5.1**	23.7	14.1
In less than one year	**315.3**	**315.3**	239.3	239.3
Included in current liabilities	**339.5**	**320.4**	263.0	253.4
Between one and two years	**622.3**	**511.7**	279.8	279.0
Between two and five years	**964.8**	**963.7**	1,142.0	918.9
In more than five years	**60.0**	**59.3**	150.0	144.9
Included in non-current liabilities	**1,647.1**	**1,534.7**	1,571.8	1,342.8
Total group	**1,986.6**	**1,855.1**	1,834.8	1,596.2

Borrowings are stated after deducting £2.2m of unamortised arrangement fees (2015: £6.7m).

In order to reconcile the borrowings shown in the table above and the headroom on committed facilities shown in 22(h), the facilities and borrowings in respect of amounts repayable on demand should be deducted and unamortised arrangement fees should be added back to borrowings as follows:

	2016		2015	
Group	**Facilities £m**	**Borrowings £m**	Facilities £m	Borrowings £m
Total group facilities and borrowings	**1,986.6**	**1,855.1**	1,834.8	1,596.2
Repayable on demand	**(24.2)**	**(5.1)**	(23.7)	(14.1)
Unamortised arrangement fees	**–**	**2.2**	–	6.7
Total group committed facilities and borrowings	**1,962.4**	**1,852.2**	1,811.1	1,588.8
Headroom on committed facilities		**110.2**		222.3

	2016		2015	
Company	**Borrowing facilities available £m**	**Borrowings £m**	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	**24.2**	**2.5**	23.7	12.9
In less than one year	**130.0**	**130.0**	60.0	60.0
Included in current liabilities	**154.2**	**132.5**	83.7	72.9
Between one and two years	**426.0**	**315.4**	130.0	129.1
Between two and five years	**405.2**	**404.1**	740.1	517.1
In more than five years	**60.0**	**59.3**	150.0	144.9
Included in non-current liabilities	**891.2**	**778.8**	1,020.1	791.1
Total company	**1,045.4**	**911.3**	1,103.8	864.0

As at 31 December 2016, the weighted average period to maturity of the group's committed facilities, including retail deposits, was 2.5 years (2015: 2.8 years) and for the company's committed facilities was 2.3 years (2015: 3.2 years). Excluding retail deposits, the weighted average period to maturity of the group's committed facilities was 2.3 years (2015: 3.2 years). Following the renewal of the syndicated bank facility on 31 January 2017, the group's weighted average period to maturity of committed facilities including retail deposits increased to 2.9 years and excluding retail deposits increased to 3.1 years.

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Notes to the financial statements (continued)

22 Bank and other borrowings (continued)

(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:

Group	2016 Fixed £m	2016 Floating £m	2016 Total £m	2015 Fixed £m	2015 Floating £m	2015 Total £m
Sterling	1,459.6	335.0	1,794.6	1,295.0	245.4	1,540.4
Euro	–	60.5	60.5	–	55.8	55.8
Total group	1,459.6	395.5	1,855.1	1,295.0	301.2	1,596.2

Company	2016 Fixed £m	2016 Floating £m	2016 Total £m	2015 Fixed £m	2015 Floating £m	2015 Total £m
Sterling	518.4	332.4	850.8	564.0	244.2	808.2
Euro	–	60.5	60.5	–	55.8	55.8
Total company	518.4	392.9	911.3	564.0	300.0	864.0

As detailed in note 17, the group and company have entered into various interest rate swaps to hedge the interest rate exposure on borrowings. After taking account of the aforementioned interest rate swaps, the group's fixed rate borrowings are £1,569.7m (2015: £1,415.0m) and the company's fixed rate borrowings are £628.5m (2015: £684.0m).

(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 13 January 2011, the company entered into a committed £100.0m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years five and ten. The first repayment of £10.0m was repaid in line with its maturity on 13 January 2016 with the second repayment of £10.0m repaid on 13 January 2017. The next instalment of £15m is due on 13 January 2018.

The company has also entered into a £20m private placement loan notes with a third party on 4 March 2011 repayable over a seven-year period at rates linked to LIBOR and a euro 10m facility agreement over a seven year period on 3 February 2011 at rates linked to EURIBOR, which was repaid one year ahead of its maturity date in February 2017.

(f) Retail bonds

The company has four outstanding retail bonds issued on the Order Book for Retail Bonds (ORB) platform established by the London Stock Exchange as follows:

Issue date	Amount £m	Rate %	Maturity date
14 April 2010	25.2	7.5%*	14 April 2020
4 April 2012	120.0	7.0%	4 October 2017
27 March 2013	65.0	6.0%	27 September 2021
9 April 2015	60.0	5.125%	9 October 2023
Total group and company	270.2		

The retail bonds issued on 25 March 2011 amounting to £50.0m and accruing interest at 7.5% were repaid in full on their maturity date of 30 September 2016.

* 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.

22 Bank and other borrowings (continued)

(g) Retail deposits

Vanquis Bank is a PRA regulated bank and commenced taking retail deposits in July 2011. As at 31 December 2016, £941.2m (2015: £731.0m) 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 2016 have been issued at rates of between 1.51% and 2.71%.

A reconciliation of the movement in retail deposits is set out below:

Group	2016 £m	2015 £m
At 1 January	731.0	580.3
New funds received	316.6	225.7
Maturities	(177.7)	(121.6)
Retentions	76.9	58.5
Cancellations	(15.1)	(19.4)
Capitalised interest	9.5	7.5
At 31 December	**941.2**	731.0

(h) Undrawn committed borrowing facilities

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fully fund itself through retail deposits and repay its intercompany loan to Provident Financial plc.

The undrawn committed borrowing facilities at 31 December were as follows:

	Group and company	
	2016 £m	2015 £m
Expiring within one year	–	–
Expiring within one to two years	110.2	–
Expiring in more than two years	–	222.3
Total group and company	**110.2**	222.3

The headroom on committed facilities does not include the impact of £30m of cash held on deposit at 31 December 2016 which was used to repay the syndicated bank facility immediately after the year end. Adjusted headroom, after taking account of this repayment amounts to £140.2m.

The table above also does not include the additional capacity for Vanquis Bank to take retail deposits up to the value of the intercompany loan from Provident Financial plc of £233.5m as at 31 December 2016. Accordingly, Vanquis Bank's retail deposits capacity at 31 December 2016 amounts to £233.5m. The group's total funding capacity therefore amounts to £373.7m, being the group's adjusted headroom on undrawn committed borrowing facilities of £140.2m plus the amount of Vanquis Bank's intercompany loan of £233.5m.

The group's syndicated bank facility was renewed on 31 January 2017, with the facility increasing from £382.5m to £450.0m. For illustrative purposes, headroom on committed facilities increases to £207.7m and funding capacity increases to £441.2m after taking account of the increase in facility.

(i) Weighted average interest rates and periods to maturity

Before taking account of the various interest rate swaps entered into by the group and company, the weighted average interest rate and the weighted average period to maturity of the group and company's fixed-rate borrowings is as follows:

	2016		2015	
Group	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	4.22	2.77	4.80	2.94

	2016		2015	
Company	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	7.14	3.06	7.19	3.77

After taking account of interest rate swaps, the sterling-weighted average fixed interest rate for the group was 3.97% (2015: 4.67%) and for the company was 6.00% (2015: 6.50%). The sterling-weighted average period to maturity on the same basis is 2.5 years (2015: 2.9 years) for the group and 2.9 years (2015: 3.6 years) for the company.

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Notes to the financial statements (continued)

22 Bank and other borrowings (continued)

(j) Fair values

The fair values of the group and company's bank and other borrowings are compared to their book values as follows:

	2016		2015	
Group	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Bank loans and overdrafts	**275.2**	**275.3**	167.6	167.6
Senior public bonds	**250.0**	**288.5**	250.0	283.4
Sterling private placement loan notes	**110.0**	**122.0**	120.0	134.7
Euro private placement loan notes	**8.5**	**9.0**	7.4	8.1
Retail bonds	**270.2**	**285.7**	320.2	333.0
Retail deposits	**941.2**	**954.7**	731.0	746.4
Total group	**1,855.1**	**1,935.2**	1,596.2	1,673.2

	2016		2015	
Company	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Bank loans and overdrafts	**272.6**	**272.7**	166.4	166.4
Senior public bonds	**250.0**	**288.5**	250.0	283.4
Sterling private placement loan notes	**110.0**	**122.0**	120.0	134.7
Euro private placement loan notes	**8.5**	**9.0**	7.4	8.1
Retail bonds	**270.2**	**285.7**	320.2	333.0
Total company	**911.3**	**977.9**	864.0	925.6

The fair value of the sterling 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.

23 Trade and other payables

	Group		Company	
Current liabilities	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Trade payables	**5.4**	2.1	**–**	–
Amounts owed to group undertakings	**–**	–	**103.4**	89.5
Other payables including taxation and social security	**8.0**	9.1	**1.5**	1.5
Accruals	**91.4**	87.1	**28.4**	27.8
Total	**104.8**	98.3	**133.3**	118.8

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 contributions accrued in respect of share-based payments.

24 Share capital

Group and company		2016 Authorised	2016 Issued and fully paid	2015 Authorised	2015 Issued and fully paid
Ordinary shares of 20⁸⁄₁₁p each	**– £m**	**40.0**	**30.6**	40.0	30.5
	– number (m)	**193.0**	**147.8**	193.0	147.2

The movement in the number of shares in issue during the year was as follows:

Group and company	2016 m	2015 m
At 1 January	**147.2**	146.4
Shares issued pursuant to the exercise/vesting of options and awards	**0.6**	0.8
At 31 December	**147.8**	147.2

The shares issued pursuant to the exercise/vesting of options and awards comprised 595,770 ordinary shares (2015: 760,488) with a nominal value of £123,487 (2015: £157,628) and an aggregate consideration of £3.5m (2015: £2.6m).

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 2016, the EBT held 2,020,734 (2015: 2,556,478) shares in the company with a cost of £0.4m (2015: £0.5m) and a market value of £57.6m (2015: £80.1m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006 and the 2013 Performance Share Plan. The Trust was also established to operate in conjunction with the Performance Share Plan (PSP). As at 31 December 2016, awards held in respect of the PSP were 819,962 (2015: 966,020) ordinary shares with a cost of £0.2m (2015: £0.2m) and a market value of £23.4m (2015: £33.5m).

25 Share-based payments

The group issues share options and awards to employees as part of its employee remuneration packages. The group operates three equity settled share schemes: the Long Term Incentive Scheme (LTIS), employees' savings-related share option schemes typically referred to as Save As You Earn schemes (SAYE), and the Performance Share Plan (PSP).The group also operates a cash-settled share incentive scheme, the Provident Financial Equity Plan (PFEP) for eligible employees based on a percentage of salary. The group previously operated senior executive share option schemes (ESOS/SESO), although no options have been granted under these schemes since 2006.

When an equity settled share option or award is granted, a fair value is calculated based on the share price at grant date, the probability of the option/award vesting, the group's recent share price volatility, and the risk associated with the option/award. A fair value is calculated based on the value of awards granted and adjusted at each balance sheet date for the probability of vesting against performance conditions.

The fair value of all options/awards are charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

During 2016, awards/options have been granted under the LTIS, PSP, SAYE and PFEP schemes (2015: awards/options have been granted under the LTIS, PSP, SAYE and PFEP schemes).

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Notes to the financial statements (continued)

25 Share-based payments (continued)

(a) Equity-settled schemes

The charge to the income statement in 2016 for equity settled schemes was £10.9m for the group (2015: £10.5m) and £5.1m for the company (2015: £5.3m).

The fair value per award/option granted and the assumptions used in the calculation of the equity settled share-based payment charges for the group and company are as follows:

			2016			2015
Group	**PSP**	**LTIS**	**SAYE**	PSP	LTIS	SAYE
Grant date	**1 Mar 2016**	**1 Mar 2016**	**28 Sep 2016**	25 Feb 2015	25 Feb 2015	18 Sep 2015
Share price at grant date (£)	**32.49**	**32.49**	**29.30**	27.26	27.26	30.90
Exercise price (£)	**–**	**–**	**24.06**	–	–	21.58
Shares awarded/under option (number)	**117,631**	**274,136**	**179,620**	179,008	319,478	233,006
Vesting period (years)	**3**	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**23.1%**	**23.1%**	**25.4%–27.2%**	20.0%	20.0%	20.8%–22.7%
Award/option life (years)	**3**	**3**	**Up to 5**	3	3	Up to 5
Expected life (years)	**3**	**3**	**Up to 5**	3	3	Up to 5
Risk-free rate	**0.76%**	**0.76%**	**0.42%–0.47%**	1.19%	1.19%	1.21%–1.53%
Expected dividends expressed as a dividend yield	**n/a**	**n/a**	**3.0%**	n/a	n/a	3.0%
Fair value per award/option (£)	**32.49**	**32.49**	**6.21–6.28**	27.26	20.39–27.26	6.57–7.41

			2016			2015
Company	**PSP**	**LTIS**	**SAYE**	PSP	LTIS	SAYE
Grant date	**1 Mar 2016**	**1 Mar 2016**	**28 Sep 2016**	25 Feb 2015	25 Feb 2015	18 Sep 2015
Share price at grant date (£)	**32.49**	**32.49**	**29.30**	27.26	27.26	30.90
Exercise price (£)	**–**	**–**	**24.06**	–	–	21.58
Shares awarded/under option (number)	**90,639**	**115,488**	**7,916**	105,922	126,494	8,678
Vesting period (years)	**3**	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**23.1%**	**23.1%**	**25.4%–27.2%**	20.0%	20.0%	20.8%–22.7%
Award/option life (years)	**3**	**3**	**Up to 5**	3	3	Up to 5
Expected life (years)	**3**	**3**	**Up to 5**	3	3	Up to 5
Risk-free rate	**0.76%**	**0.76%**	**0.42%–0.47%**	1.19%	1.19%	1.21%–1.53%
Expected dividends expressed as a dividend yield	**n/a**	**n/a**	**3.0%**	n/a	n/a	3.0%
Fair value per award/option (£)	**32.49**	**32.49**	**6.21–6.28**	27.26	20.39	6.57–7.41

The expected volatility is based on historical volatility over the last three or five years depending on the length of the option/award. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero coupon UK Government bonds of a similar duration to the life of the share option.

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 2016	**649,026**	**–**	**1,184,417**	**–**	**700,849**	**16.35**	**10,820**	**5.77**
Awarded/granted	**117,631**	**–**	**274,136**	**–**	**179,620**	**24.04**	**–**	**–**
Lapsed	**(3,542)**	**–**	**(141,450)**	**–**	**(80,396)**	**17.07**	**–**	**–**
Exercised	**(263,787)**	**–**	**(355,543)**	**–**	**(174,627)**	**11.67**	**(10,820)**	**5.77**
Outstanding at 31 December 2016	**499,328**	**–**	**961,560**	**–**	**625,446**	**19.42**	**–**	**–**
Exercisable at 31 December 2016	**–**	**–**	**–**	**–**	**9,042**	**11.40**	**–**	**–**

	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 2015	719,525	–	1,356,343	–	814,660	12.25	10,820	5.77
Awarded/granted	179,008	–	319,478	–	233,006	21.65	–	–
Lapsed	–	–	(108,178)	–	(90,407)	14.02	–	–
Exercised	(249,507)	–	(383,226)	–	(256,410)	9.39	–	–
Outstanding at 31 December 2015	649,026	–	1,184,417	–	700,849	16.35	10,820	5.77
Exercisable at 31 December 2015	–	–	–	–	20,851	9.67	10,820	5.77

Share awards outstanding under the LTIS scheme at 31 December 2016 had an exercise price of £nil (2015: £nil) and a weighted average remaining contractual life of 1.1 years (2015: 1.1 years). Share options outstanding under the SAYE schemes at 31 December 2016 had exercise prices ranging from 662p to 2,406p (2015: 656p to 2,158p) and a weighted average remaining contractual life of 1.1 years (2015: 2.0 years). Share awards outstanding under the PSP schemes at 31 December 2016 had an exercise price of £nil (2015: £nil) and a weighted average remaining contractual life of 1.0 years (2015: 1.1 years). There were no share options outstanding under the ESOS/SESO schemes at 31 December 2016 (2015: 10,820).

Financial statements

Notes to the financial statements (continued)

25 Share-based payments (continued)

	PSP		LTIS		SAYE	
Company	**Number**	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**
Outstanding at 1 January 2016	**410,447**	**–**	**521,817**	**–**	**32,815**	**16.56**
Awarded/granted	**90,639**	**–**	**115,488**	**–**	**7,916**	**24.06**
Lapsed	**–**	**–**	**–**	**–**	**(1,298)**	**19.06**
Exercised	**(172,209)**	**–**	**(219,957)**	**–**	**(6,466)**	**12.09**
Outstanding at 31 December 2016	**328,877**	**–**	**417,348**	**–**	**(32,967)**	**19.24**
Exercisable at 31 December 2016	**–**	**–**	**–**	**–**	**689**	**13.05**

	PSP		LTIS		SAYE	
Company	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2015	473,980	–	664,481	–	30,845	13.79
Awarded/granted	105,922	–	126,494	–	8,678	21.58
Lapsed	–	–	(7,788)	–	(878)	15.60
Exercised	(169,455)	–	(261,370)	–	(5,830)	10.58
Outstanding at 31 December 2015	410,447	–	521,817	–	32,815	16.56
Exercisable at 31 December 2015	–	–	–	–	–	–

Share awards outstanding under the LTIS scheme at 31 December 2016 had an exercise price of £nil (2015: £nil) and a weighted average remaining contractual life of 1.1 years (2015: 1.0 years). Share options outstanding under the SAYE schemes at 31 December 2016 had exercise prices ranging from 1,056p to 2,406p (2015: 868p to 2,158p) and a weighted average remaining contractual life of 1.1 years (2015: 2.7 years). Share awards outstanding under the PSP schemes at 31 December 2016 had an exercise price of £nil (2015: £nil) and a weighted average remaining contractual life of 1.1 years (2015: 1.1 years).

(b) Cash-settled schemes

During 2016, cash awards were granted under the PFEP to eligible employees that require the group and company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The charge to the income statement in 2016 was £3.4m for the group (2015: £1.2m) and £0.3m for the company (2015: £0.1m). The group has a liability of £4.6m as at 31 December 2016 (2015: £1.2m) and £0.3m for the company (2015: £0.1m).

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	Available for sale reserve £m	Total other reserves £m
At 1 January 2015	0.8	3.6	(3.3)	(0.8)	18.7	–	19.0
Other comprehensive income:							
– fair value movements on available for sale investment (note 15)	–	–	–	–	–	17.5	17.5
– fair value movements on cash flow hedges (note 17)	–	–	3.6	–	–	–	3.6
– tax on items taken directly to other comprehensive income (note 5)	–	–	(1.0)	–	–	(3.5)	(4.5)
– impact of change in UK tax rate (note 5)	–	–	0.2	–	–	(1.3)	(1.1)
Other comprehensive income for the year	–	–	2.8	–	–	12.7	15.5
Transactions with owners:							
– purchase of own shares	–	–	–	(0.3)	–	–	(0.3)
– transfer of own shares on vesting of share awards	–	–	–	0.1	–	–	0.1
– share-based payment charge (note 25)	–	–	–	–	10.5	–	10.5
– transfer of share-based payment reserve on vesting of share awards	–	–	–	–	(9.2)	–	(9.2)
At 31 December 2015	0.8	3.6	(0.5)	(1.0)	20.0	12.7	35.6
At 1 January 2016	**0.8**	**3.6**	**(0.5)**	**(1.0)**	**20.0**	**12.7**	**35.6**
Other comprehensive income:							
– fair value movements on available for sale investment (note 15)	**–**	**–**	**–**	**–**	**–**	**3.1**	**3.1**
– gain on available for sale investment recycled to the income statement (note 15)	**–**	**–**	**–**	**–**	**–**	**(20.2)**	**(20.2)**
– fair value movements on cash flow hedges (note 17)	**–**	**–**	**0.4**	**–**	**–**		**0.4**
– tax on items taken directly to other comprehensive income (note 5)	**–**	**–**	**(0.1)**	**–**	**–**	**4.7**	**4.6**
Other comprehensive income for the year	**–**	**–**	**0.3**	**–**	**–**	**(12.4)**	**(12.1)**
Transactions with owners:							
– purchase of own shares	**–**	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**
– share-based payment charge (note 25)	**–**	**–**	**–**	**–**	**10.9**	**–**	**10.9**
– transfer of share-based payment reserve on vesting of share awards	**–**	**–**	**–**	**–**	**(10.1)**	**–**	**(10.1)**
At 31 December 2016	**0.8**	**3.6**	**(0.2)**	**(1.0)**	**20.8**	**0.3**	**24.3**

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The hedging reserve reflects the corresponding entry to the fair value of hedging derivatives held on the balance sheet as either assets or liabilities, net of deferred tax (see note 17).

The treasury shares reserve represents shares acquired by the company, through various trusts, both from the market and through a fresh issue to satisfy awards under the group's various share schemes (see note 25). The cost of the shares is treated as a deduction from equity. When the relevant awards vest, the cost of the shares provided to employees is transferred to retained earnings.

The share-based payment reserve reflects the corresponding credit entry to the cumulative share-based payment charges made through the income statement as there is no cash cost or reduction in assets from the charges. When options and awards vest, that element of the share-based payment reserve relating to those awards and options is transferred to retained earnings.

The available for sale reserve reflects the fair value movements in the available for sale investment, net of deferred tax (see note 15).

Financial statements

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 2015	609.2	2.3	3.6	(3.5)	(0.8)	18.8	629.6
Other comprehensive income:							
– fair value movements on cash flow hedges (note 17)	–	–	–	3.9	–	–	3.9
– tax on items taken directly to other comprehensive income	–	–	–	(0.8)	–	–	(0.8)
Other comprehensive income for the year	–	–	–	3.1	–	–	3.1
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.3)	–	(0.3)
– transfer of own shares on vesting of share awards	–	–	–	–	0.1	–	0.1
– share-based payment charge (note 25)	–	–	–	–		5.3	5.3
– transfer of share-based payment reserve on vesting of share awards	–	–	–	–	–	(4.0)	(4.0)
At 31 December 2015	609.2	2.3	3.6	(0.4)	(1.0)	20.1	633.8
At 1 January 2016	**609.2**	**2.3**	**3.6**	**(0.4)**	**(1.0)**	**20.1**	**633.8**
Other comprehensive income:							
– fair value movements on cash flow hedges (note 17)	**–**	**–**	**–**	**0.4**	**–**	**–**	**0.4**
– tax on items taken directly to other comprehensive income	**–**	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
Other comprehensive income for the year	**–**	**–**	**–**	**0.3**	**–**	**–**	**0.3**
Transactions with owners:							
– purchase of own shares	**–**	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
– transfer of own shares on vesting of share awards	**–**	**–**	**–**	**–**	**0.1**	**–**	**0.1**
– share-based payment charge (note 25)	**–**	**–**	**–**	**–**	**–**	**5.1**	**5.1**
– transfer of share-based payment reserve on vesting of share awards	**–**	**–**	**–**	**–**	**–**	**(5.1)**	**(5.1)**
– share-based payment movement in investment in subsidiaries	**–**	**–**	**–**	**–**	**–**	**0.8**	**0.8**
At 31 December 2016	**609.2**	**2.3**	**3.6**	**(0.1)**	**(1.0)**	**20.9**	**634.9**

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Due within one year	**14.5**	12.6	**3.1**	3.0
Due between one and five years	**44.5**	28.9	**12.8**	12.3
Due in more than five years	**66.1**	54.0	**13.6**	17.1
Total	**125.1**	95.5	**29.5**	492.4

Operating lease commitments principally relate to the future rental payments until the first break on: (i) the CCD head office property in Bradford; (ii) the 211 CCD branches nationwide; and (iii) the Vanquis Bank head office in London and contact centre in Chatham.

Other group commitments are as follows:

	Group	
	2016 £m	2015 £m
Unutilised credit card facilities at 31 December	**771.8**	619.0

The company has £nil unutilised credit card facilities at 31 December 2016 (2015: £nil).

	Company	
	2016 £m	2015 £m
Vanquis Bank intercompany loan facility	**305.0**	460.0

The company provides its subsidiary, Vanquis Bank, with a committed intercompany loan facility which is used to fund growth in the business alongside retail deposits. The facility is renewed semi-annually. At 31 December 2016, the facility of £305m (2015: £460m), had a maturity date of 30 June 2019 (2015: 30 June 2018).

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 £0.4m (2015: £0.4m) and the amount due from the pension scheme at 31 December 2016 was £0.2m (2015: £0.2m).

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

	2016			2015		
Company	**Management recharge £m**	**Interest credit £m**	**Outstanding balance £m**	Management recharge £m	Interest credit £m	Outstanding balance £m
Vanquis Bank	**4.4**	**(21.5)**	**227.6**	4.1	(20.8)	275.1
CCD	**7.0**	**(47.8)**	**982.7**	7.4	(48.8)	951.9
Moneybarn	**1.1**	**(18.2)**	**283.0**	0.7	(14.2)	220.2
Other central companies	**–**	**–**	**102.5**	–	–	109.9
Total	**12.5**	**(87.5)**	**1,595.8**	12.2	(83.8)	1,557.1

The outstanding balance represents the gross intercompany balance receivable by the company, against which a provision of £123.4m (2015: £123.1m) is held.

During 2016, the company received a dividend of £45.0m from Provident Financial Management Services Limited, the holding company of the companies forming CCD (2015: £55.0m) and dividends of £134.0m from Vanquis Bank Limited (2015: £98.3m).

There are no transactions with directors other than those disclosed in the directors' remuneration report.

Financial statements

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 £112.8m (2015: £223.4m). At 31 December 2016, the fixed and floating rate borrowings in respect of these guarantees amounted to £2.6m (2015: £1.1m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2016 was not deemed to be material (2015: not material).

A floating charge is held over CCD's receivables of up to £15m in respect of the unfunded pension benefit promises made to executive directors and certain members of senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise.

30 Reconciliation of profit after taxation to cash generated from/(used in) operations

		Group		Company	
	Note	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Profit after taxation		**262.9**	218.2	**192.3**	170.7
Adjusted for:					
– tax charge	5	**81.0**	55.4	**7.4**	2.1
– finance costs	3	**81.7**	80.0	**64.0**	60.4
– finance income		**–**	–	**(83.8)**	(83.8)
– dividends received	28	**–**	–	**(179.0)**	(153.3)
– share-based payment charge	25	**10.9**	10.5	**5.1**	5.3
– retirement benefit charge/(credit) prior to exceptional pension credit	19	**1.5**	2.8	**(9.6)**	(8.8)
– exceptional curtailment credit	19	**–**	(2.6)	**–**	(2.6)
– amortisation of intangible assets	11	**17.0**	14.9	**–**	–
– exceptional amortisation of intangible assets	1	**2.9**	–	**–**	–
– exceptional gain on available for sale investment	15	**(20.2)**	–	**–**	–
– depreciation of property, plant and equipment	12	**8.7**	7.7	**1.5**	1.4
– loss on disposal of property, plant and equipment	12	**0.5**	–	**–**	–
– release of impairment provision against investment in subsidiaries	13	**–**	–	**(0.4)**	–
Changes in operating assets and liabilities:					
– amounts receivable from customers		**(290.1)**	(167.5)	**–**	–
– trade and other receivables		**(2.8)**	(8.1)	**(99.5)**	(26.5)
– trade and other payables		**5.5**	2.9	**16.9**	(12.3)
– contributions into the retirement benefit scheme	19	**(11.7)**	(12.2)	**(0.6)**	(0.6)
Cash generated from/(used in) operations		**147.8**	202.0	**(85.7)**	(48.0)

31 Details of subsidiary undertakings

The subsidiary undertakings of the group at 31 December 2016 are shown below. The company is the parent or ultimate parent of all subsidiaries and they are all 100% owned by the group. All companies are incorporated within the UK with the exception of Erringham Holdings Limited which is incorporated in Jersey.

Company Name	Company number
Registered at 1 Godwin Street, Bradford, BD1 2SU:	
Vanquis Bank Limited	2558509
Provident Financial Management Services Limited	328933
Provident Personal Credit Limited	146091
Greenwood Personal Credit Limited	125150
N&N Simple Financial Solution Limited	3803565
Cheque Exchange Limited	2927947
Provident Investments plc	4541509
Direct Auto Finance Insurance Services Limited	3834656
Direct Auto Finance Limited	3412137
Direct Auto Financial Services Limited	3444409
Provfin Limited	1879771
Provident Limited	575965
Provident Print Limited	2211204
Provident Yes Car Credit Limited	4253314
Yes Car Credit (Holdings) Limited	194214
Yes Car Credit Limited	3459042
Accepted Car Credit Limited	4417055
Aquis Cards Limited[1]	7036307
Arden Insurance Services	670843
Bridgesun (1) Limited	4584597
Colonnade Insurance Services Limited	1877501
Ellaf Limited	1858423
Envoyhead Limited	1910002
Express Car Credit Limited	3906842
HT Greenwood Limited	954387
Impact Collection Services Limited	4584578
I for Insurance Services Limited	2422430
Money Transfers International Limited	4043838
Motorplus Insurance Services Limited	1885139
Peoples Motor Finance Limited	1078365
Policyline Limited	1294141
Provfin Investments Limited	953919
Provident Car Credit Limited	4795225
Provident Car Finance Limited	4806398
Provident Check Traders Limited	1730008
Provident Family Finance Limited	912244
Provident Finance Limited	40725
Provident Financial Group Limited[2]	642504
Provident Financial Trust Limited	811697

1 Previously Provident Financial Investments Limited.
2 Previously Provident balance Limited.
3 Previously Provident Financial Group Limited.
4 Previously Aquis Bank Limited.

Company Name	Company number
Provident Financial Trustees (Performance Share Plan) Limited	4625062
Provident Financial Trustees Limited	3477678
Provident Home Shopping Limited	543498
Provident Motor Finance Limited	4806693
Provident No 1 Limited[3]	1524084
Provident No 2 Limited[4]	4586511
Provident Personal Credit (Ireland) Limited	506462
Provident Personal Credit (London) Limited	499964
Provident Personal Credit (Midlands) Limited	506464
Provident Personal Credit (North) Limited	100957
Provident Personal Credit (South) Limited	716773
Provident Yes Finance Limited	4795230
The Provident Clothing and Supply Company Limited	509371
Yes Car Finance Limited	4063510
Yes Express Car Credit Limited	3834590
Yes Finance Limited	4063490
Registered at The New Barn, Bedford Road, Petersfield, Hampshire, GU32 3LJ:	
Moneybarn No.1 Limited	4496573
Duncton Group Limited	6308608
Moneybarn Group Limited	4525773
Moneybarn Limited	2766324
Moneybarn No. 4 Limited	8582214
Moneybarn Vehicle Finance Limited	7431494
Registered at Suite 2/04 King James VI Business Centre, Friarton Road, Perth, Scotland, PH2 8DY:	
First Tower LP (1) Limited	SC122077
First Tower LP (2) Limited	SC125164
First Tower LP (3) Limited	SC129388
First Tower LP (4) Limited	SC118423
First Tower LP (5) Limited	SC127062
First Tower LP (6) Limited	SC127489
First Tower LP (7) Limited	SC127807
First Tower LP (8) Limited	SC118257
First Tower LP (9) Limited	SC118428
First Tower LP (10) Limited	SC118426
First Tower LP (11) Limited	SC122181
First Tower LP (12) Limited	SC129378
Lawson Fisher Limited	SC004758
Registered at 13 Castle Street, St. Helier, Jersey, Channel Islands, JE4 5UT:	
Erringham Holdings Limited	39894

Financial statements

Independent auditor's report to the members of Provident Financial plc

Opinion on financial statements of Provident Financial plc

In our opinion:

- **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 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 that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Cash Flows;
- the Consolidated and Parent Company Statements of Changes in Shareholders' Equity;
- the Statement of Accounting Policies;
- the financial and capital risk management section; and
- the related notes 1 to 31.

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.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: > Provision for impairment losses against loans and receivables (Consumer Credit Division and Vanquis Bank) > Revenue recognition (Consumer Credit Division and Vanquis Bank) > Defined benefit pension scheme valuation
Materiality	The materiality that we used in the current year was £16.3m which was determined on the basis of 5% of pre-tax profit excluding the £17.3m net exceptional gain recognised in the year as disclosed in note 1 to the financial statements.
Scoping	As in the prior year, our group audit scope focused on all of the principal trading subsidiaries within the group's three reportable segments which account for 100% of the group's profit before tax. Vanquis Bank and Consumer Credit Division is audited by a separate component team, under the supervision of the group team who have maintained regular communication throughout the audit.
Significant changes in our approach	There have been no significant changes to our audit plan.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group	As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting set out on page 97 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report. We are required to state whether we have anything material to add or draw attention to in relation to: > the directors' confirmation on page 46 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; > the disclosures on pages 47-50 that describe those risks and explain how they are being managed or mitigated; > the directors' statement within the directors' report on page 97 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties as to the group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and > the directors' explanation within the directors' report on page 46 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. **We confirm that we have nothing material to add or draw attention to in respect of these matters.** **We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.**
Independence	We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. **We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.**
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.

Financial statements

Independent auditor's report to the members of Provident Financial plc
(continued)

Provision for impairment losses against loans and receivables (Consumer Credit Division and Vanquis Bank)

Risk description	The provision for impairment losses is calculated by modelling portfolios of receivables within the group. The assessment of the group's calculation of the £345.7m (2015: £317.7m) of provisions is complex and requires management to make significant judgements regarding the level and timing of expected future cash flows from loans that have experienced a loss event. Further detail in respect of these assumptions is set out in the governance section on page 86, the key assumptions and estimates section of the accounting policies on page 131 and note 14 of the financial statements. Within the Consumer Credit Division, management uses historical collection curves to determine expected future cash flows; these are formally assessed bi-annually by management with reference to current collections experience and future expectations in order to determine their ongoing accuracy. The key judgements incorporated within these models include the determination of a loss event, the risk rating of the customer and the quantum and timing of future cash flows. Within Vanquis Bank, the impairment provision methodology reflects recent portfolio data and takes into account current economic conditions (e.g. unemployment levels), product mix and recent customer behaviour. Management also calculates an Incurred But Not Reported ('IBNR') loss provision in relation to the up-to-date element of the loan book, and an overlay to take account of macroeconomic risks not reflected in the historical data within the provision models. Whilst there are a number of different elements to the provision, the key judgement areas are the determination of a loss event and the estimate of the expected future cash flows which are generated using data sourcing techniques and SAS scripts (computer programming code) to extract data from the underlying lending system.
How the scope of our audit responded to the risk	Within both the Consumer Credit Division and Vanquis Bank we tested the operating effectiveness of key controls relating to the identification and recording of impairment provisions and the arithmetical accuracy of the models used to calculate impairment. Within the Consumer Credit Division this included using our IT specialists to test the data flows from source systems to the spreadsheet-based models to test their completeness and accuracy. In Vanquis Bank we challenged management's IBNR adjustment using an independently developed range of provision estimates in conjunction with the economic overlay provision. We challenged the key assumptions in the models including the impairment trigger and the projected future cash flows based on actual and historical collections.
Key observations	The provision models across the group were found to be working as intended and our work on the completeness and accuracy of data identified no significant issues. We found the assumptions relating to the identification of impaired accounts within the group's incurred loss models to be appropriate. We found that the collections expectations used within the Consumer Credit Division are materially consistent with recent and budgeted collections. Within Vanquis Bank we found that taken together the modelled provision, the macroeconomic overlay and the IBNR provision are sufficient to cover the level of impairment in the loan book. We found that the impairment models of the group were working materially as intended.

Revenue recognition (Consumer Credit Division and Vanquis Bank)

Risk description	In the Consumer Credit Division management maintains a number of Effective Interest Rate ('EIR') models for the purpose of determining revenue recognition in accordance with the requirements of IAS 39. The EIR method spreads directly attributable revenues and costs over the behavioural life of the loan. These models are reliant on the quality of the underlying data flowing into the models. In Vanquis Bank, the key risk relates to the daily interest charge between the statement cycle date and the month-end. The calculation of the unbilled interest accrual involves manually performed steps, and is therefore more prone to error. Further detail in respect of the accounting policies and revenue recognised is set out in the accounting policies on page 125 and note 1 and 2 of the financial statements.
How the scope of our audit responded to the risk	We tested the key controls relating to the recording of revenue which focused on the flow of data from source systems into EIR models. This included an assessment by our IT specialists of automated controls and SAS scripts to determine whether the data within the EIR models were complete and accurate. We also tested the arithmetical accuracy of the models to assess whether they were working as intended and in compliance with the requirements of IAS 39. We challenged the assumptions used in the recognition of revenue by reference to the group's historical behavioural life experience and macroeconomic factors.
Key observations	We found the models to be working as intended and the underlying assumptions to be reasonable. We found the relevant IT controls to be operating effectively and from the evidence we obtained, the underlying data used were found to be complete and accurate.

Defined benefit pension scheme valuation

Risk description	Under IAS 19, the value of the defined benefit pension scheme is recognised on the group's balance sheet, reflecting an actuarial valuation of the assets and liabilities of the scheme at the balance sheet date. The key risk is the valuation of the pension obligation of £757.7m (2015: £604.1m). This valuation involves judgements in relation to inflation rates, discount rates and mortality rates. The most critical element identified was the discount rate assumption as set out in the sensitivity analysis in note 19. Further detail in respect of these assumptions is set out in the governance section on page 86, the key assumptions and estimates section of the accounting policies on page 130 and note 19 of the financial statements.
How the scope of our audit responded to the risk	We used our actuarial specialists to assist us in evaluating the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation. This involved benchmarking management's assumptions against those used by a range of organisations as at 31 December 2016 and considering the consistency of those judgements compared to prior year.
Key observations	All assumptions, including the discount rate and the RPI inflation rate, adopted by management are within what we deem to be an acceptable range.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Financial statements

Independent auditor's report to the members of Provident Financial plc (continued)

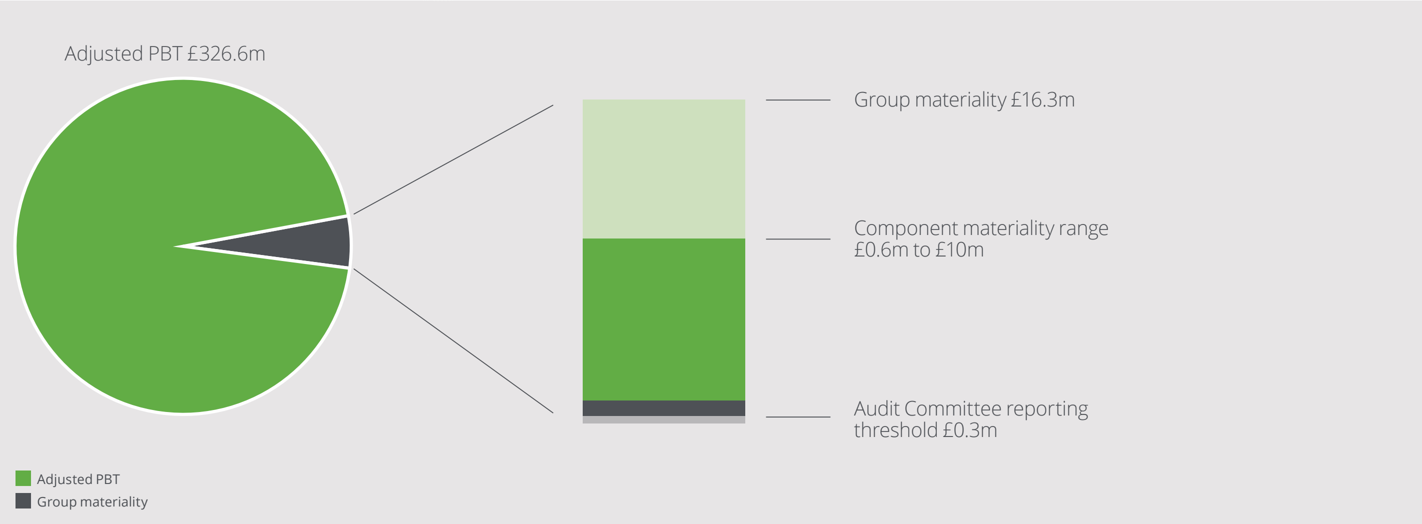
Our application of materiality

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£16.3m (2015: £16.4m)
Basis for determining materiality	We used 5% (2015: 6%) of pre-tax profit adjusted to exclude exceptional items as identified in the financial statements.
Rationale for the benchmark applied	Profit-based measures are the financial measures most relevant to users of the financial statements. We considered the most relevant basis for materiality to be the profits earned from continuing business operations and have therefore excluded the exceptional items as identified by management in note 1 to the financial statements. The Visa share gain is excluded as it is a significant one-off exceptional gain, and the intangible write off is due to a one-off closure of a division. The decrease in the percentage used is to align more closely with comparable companies in the FTSE 100.

Materiality



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.3m (2015: £0.3m), 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.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, and as in the prior year, our group audit scope focused on all of the principal trading subsidiaries within the group's three reportable segments which account for 100% of the group's profit before tax. Moneybarn has the same engagement partner as the group audit; Vanquis Bank and Consumer Credit Division are audited by a separate component team, under the supervision of the group team who have maintained regular communication throughout the audit.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

> the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;

> the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

> the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: > we have not received all the information and explanations we require for our audit; or > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or > the parent company financial statements are not in agreement with the accounting records and returns. **We have nothing to report in respect of these matters.**
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns. **We have nothing to report arising from these matters.**
Corporate Governance Statement	Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain 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 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.**
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). 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 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
28 February 2017

Shareholder information

Shareholder information

Information for shareholders

Financial calendar – 2016 final dividend

Dividend announced	28 February 2017
Annual general meeting	12 May 2017
Ex-dividend date for ordinary shares	18 May 2017
Record date for the dividend	19 May 2017
Payment date for the dividend	23 June 2017

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.

For UK resident individuals, the tax treatment of dividends depends on whether the dividends are received before or after 5 April 2016.

Dividends received on or before 5 April 2016

A UK tax resident individual shareholder who receives a dividend prior to 5 April 2016 will be subject to tax on the dividend as follows:

> The cash dividend you receive (the amount paid into your bank account) is grossed up for a notional 10% tax credit so that you are taxed on a gross dividend of 10/9ths of the cash dividend you receive.

> The gross dividend is then taxed as follows:

- 10% for basic rate taxpayers
- 32.5% for higher rate taxpayers
- 37.5% for additional rate taxpayers

> You can then deduct the notional 10% tax credit.

> The overall result, after deducting the notional tax credit, is that you will have suffered an effective rate of tax on the cash dividend you receive of:

- 0% for basic rate taxpayers
- 25% for higher rate taxpayers
- 30.56% for additional rate taxpayers

Dividends received on or after 6 April 2016

For dividends received after 6 April 2016 the notional tax credit is abolished.

Instead, a UK tax resident individual shareholder will be taxed on the total cash dividends you receive (the amount paid into your bank account) above the new £5,000 annual tax free dividend allowance at the following rates:

> 7.5% for basic rate taxpayers

> 32.5% for higher rate taxpayers

> 38.1% for additional rate taxpayers

The dividend allowance means that you can receive up to £5,000 of dividends tax free no matter what other non-dividend income you have in the tax year.

Registrars

The company's registrar is:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300
(from within the UK)

Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am-5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +44 (0)20 8639 3399
(from outside the UK)

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: 0371 664 0381
(from within the UK)

Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am-5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +371 664 0381
(from outside the UK)

Special requirements

A black-and-white large text version of this document (without pictures) is available on request from the Company Secretary at the address overleaf. A PDF version of the full annual report and financial statements is available on our website.

Shareholder information

Provident Financial plc

Company details

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Company number

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