Pillar 3 Disclosures

Provident Financial plc
31 December 2021

Provident Financial plc

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Year ended 31 December 2021

Contents

1. Introduction

1.1 Overview
This document sets out the consolidated Provident Financial plc Pillar 3 disclosures (together Provident Financial Group, the Group, and its subsidiaries) at 31 December 2021 in accordance with the requirements of the Capital Requirements Regulation (CRR), now referred to as the UK CRR. This document should be read in conjunction with the Provident Financial plc Annual Report and Financial Statements (the Annual Report) for the year ended 31 December 2021.

At 31 December 2021 the Group comprised two principal trading divisions:

- Vanquis Bank, which provides credit cards to the non-standard UK consumer credit market, offers unsecured personal loans and accepts retail deposits; and
- Moneybarn, which provides vehicle finance in the UK.

Vanquis Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The PRA sets requirements for Vanquis Bank relating to capital and liquidity adequacy and large exposures.

The Group, incorporating Vanquis Bank 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 and liquidity adequacy and large exposures. Moneybarn is regulated by the FCA.

1.2 Basis, policy and frequency of disclosures
This disclosure document has been prepared for the Group in accordance with the rules laid out in Article 13 of the CRR. The results of Provident Financial plc and all subsidiary undertakings have been included in the Pillar 3 disclosures and there are no differences between the basis of consolidation for accounting and prudential purposes.

Article 432 of the CRR states that institutions may omit one or more of the Pillar 3 disclosures if the information is not regarded as material. Information in disclosures shall be regarded as not material if the Group does not expect that its omission or misstatement would change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. Any disclosures omitted on the grounds of materiality have been identified as such in the body of the document.

The Group's approved Pillar 3 disclosure policy is as follows:

Pillar 3 disclosures will be made on an annual basis using the Group's financial year-end date of 31 December. The disclosures will be published in line with the publication of the Group's Annual Report. More frequent disclosures will be made if there is a material change in the nature of the Group's risk profile during any particular year.

These Pillar 3 disclosures will be published on the Group's corporate website, www.providentfinancial.com.

There are a number of required Pillar 3 disclosures which are set out separately in the Group's Annual Report. Such disclosures are referenced as appropriate in this document.

These disclosures have been subject to internal verification and have been reviewed by the Board of Provident Financial plc. These disclosures have not been externally audited and do not constitute any part of the Group's financial statements; however, some of the information within the disclosures also appears in the Annual Report.

1.3 Future regulatory developments
Since leaving the EU, the Financial Services Bill received Royal Assent in April 2021 and the Financial Services Act 2021 was written into law. This gave a basis for UK regulators to adopt and implement regulations. Following this, in October 2021 the PRA issued a policy statement PS22/21 – Implementation of Basel standards: Final rules. This contains the PRA Rulebook (CRR) Instrument, CRR2 Revocations and Other Amendments Instrument, Statement of Policies (SoP), Supervisory Statements (SS), regulatory templates and instructions, with these rules applying to UK regulated firms from 1 January 2022.

Additional Pillar 3 disclosures required by CRR2 are not required in this document but will be incorporated into the 31 December 2022 disclosures.

In October 2021 the PRA issued a policy statement PS21/21 – The UK leverage ratio framework. This provides further guidance on leverage reporting templates applicable from 1 January 2022 and additional leverage requirement threshold criteria. Currently a formal leverage requirement exists where firms have equal to or greater than £50bn retail deposits. This new threshold criteria extend the scope of application of the leverage ratio requirement to firms with equal to or greater than £10bn non-UK assets, with criteria applying from 1 January 2023. A formal leverage requirement does not apply to the Group unless these thresholds are met; however, leverage reporting and disclosures are still required.

The UK countercyclical capital buffer (CCyB) rate remained at 0% as at 31 December 2021. The FPC announced in December 2021 this would increase to 1% from 13 December 2022 in line with the usual 12-month implementation period.

1.4 Development in disclosures
The Group's Pillar 3 disclosures have been prepared considering new regulations and market practice.

There are four new tables within this document compared to the prior year Pillar 3 disclosures:

- summary of key metrics;
- credit risk exposure and risk weighted exposure density;
- credit risk exposure by risk weight group; and
- geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.

There are noteworthy changes expected in next year's Pillar 3 disclosures for the financial year end 31 December 2022 aligning to the new disclosures as per the PRA policy statement PS22/21 – Implementation of Basel standards: Final rules.

1.5 Other developments

The Consumer Credit Division (CCD), which provided home credit and online lending to the non-standard UK consumer credit market, was closed on schedule at the end of December 2021 and in accordance with the previously announced closure costs of £100m. For the financial year ended 31 December 2021 CCD had zero amounts receivable. Prior year CCD disclosures have been included within this document to provide a comparison.

In October 2021 the Group issued Tier 2 subordinated notes for gross proceeds of £200m; this further strengthened the Group's balance sheet and increased total capital resources.

In October 2021, Vanquis Bank announced it was expanding its product offering by introducing a range of new personal loans to the open market, where previously it had only offered this product to existing card customers. The personal loan balances are fully included in the Pillar 3 disclosures where applicable.

1.6 Summary of key metrics

The below table summarises the key metrics reported within this document.

Table 1: Summary of key metrics

31 December	2021 £m	2020 £m
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	506.5	674.8
Tier 1 capital	506.5	674.8
Total capital	706.5	674.8
Risk weighted exposure amounts		
Total risk weighted exposure amount	1,740.6	1,973.5
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	29.1%	34.2%
Tier 1 ratio (%)	29.1%	34.2%
Total capital ratio (%)	40.6%	34.2%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer (%)	2.5%	2.5%
Countercyclical capital buffer (%)	0.0%	0.0%
Total of CET1 specific buffer requirements (%)	2.5%	2.5%
Leverage ratio		
Leverage ratio total exposure measure (£m)	2,798.0	3,236.7
Leverage ratio	18.1%	20.8%
Liquidity coverage ratio (LCR)		
Liquidity coverage ratio	2,073%	2,830%

The Group has no additional Tier 1 capital and as such there is no difference between the CET1 capital ratio and the Tier 1 capital ratio.

The Group had no Tier 2 capital in the previous financial year and as such there was no difference between the CET1 capital ratio, Tier 1 capital ratio and total capital ratio in the previous year.

All metrics within the Pillar 3 disclosures are calculated on a verified basis with profits and gains verified by the external auditor at the balance sheet date.

2.1 Regulatory capital framework

The BASEL regulatory framework was implemented in the European Union (EU) via the CRD and subsequently has been enshrined into UK law following the UK's exit from the EU. Further details of this are included within section 1. The framework consists of three 'pillars', as summarised below:

– **Pillar 1** is the calculation of minimum regulatory capital requirements that firms are required to hold against risk, the most significant elements for the Group being credit risk and operational risk.

– **Pillar 2** aims to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. The Group performs an Internal Capital Adequacy Assessment Process (ICAAP) on at least an annual basis to assess whether additional regulatory capital over and above Pillar 1 should be held based on the risks faced by the Group and the risk management processes in place. The amount of any proposed additional capital requirement is also assessed by the PRA during its capital supervisory review and evaluation process (C-SREP), which also aims to ensure that institutions have adequate arrangements, strategies, processes and mechanisms and capital and liquidity to ensure sound management and coverage of their risks.

– **Pillar 3** complements Pillars 1 and 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk management processes, leverage and remuneration.

2.2 Capital requirements

The following table provides a summary of the capital requirements of the Group and brief details of the calculation method applied by the Group.

Table 2: Summary of the Group's capital requirements

Pillar 1			
Requirement	Calculation method	Description	Reference
Credit risk	Standardised approach	The Group applies the standardised method to the entire loan book. The standardised approach applies a standardised set of risk weightings to credit risk exposures. A capital requirement of 8% of risk weighted exposures (RWE) is applied.	6
Operational risk	Alternative standardised approach (ASA)	As the Group's activities are primarily classified as retail banking, the Group applies the ASA for operational risk capital requirements. A 0.035 multiplier is applied to the historical average gross receivables of the last three year ends. A capital requirement of 12% is applied as per Article 317 of the CRR.	7
Market risk	Standardised approach	Subject to a de minimis level, the Group's exposure is calculated in each currency. A capital requirement of 8% of the exposure is applied.	8
Counterparty credit risk	Standardised approach	The Group measures exposure value on counterparty credit risk exposures under the counterparty credit risk (CCR) mark-to-market method as permitted under CRD IV. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contract's potential credit exposure, which is derived by applying a multiple based on the contract's residual maturity to the notional value of the contract.	6.5
Credit valuation adjustment (CVA)	Standardised approach	A CVA is an adjustment to the fair value of a derivative contract reflecting the counterparty credit risk inherent in the contract. Calculated in accordance with the CRR Article 384.	6.5

2.2 Capital requirements continued

Table 2: Summary of the Group's capital requirements continued

Pillar 2			
Requirement	**Calculation method**	**Description**	**Reference**
Pillar 2a	Set by the PRA based on the ICAAP submission and expressed as a percentage of RWE.	Set as a percentage of RWE, which may also include a fixed add-on.	n/a
Pillar 2b – the capital conservation buffer (CCoB)	Expressed as a percentage of RWE.	The capital conservation buffer and countercyclical buffer are part of the CRD combined buffer. They are held in combination with the PRA buffer to ensure firms can withstand an adverse stress.	5.2
Pillar 2b – the countercyclical buffer (CCyB)	Expressed as a percentage of RWE.	The CRD combined buffer is to be fully met by CET1 capital.	5.2
Pillar 2b – the PRA buffer	Set by the PRA based on the ICAAP submission and expressed as a percentage of RWE.	When applicable, the PRA buffer, in combination with the CRD combined buffer, is held to ensure firms can withstand an adverse stress. The PRA buffer has to be fully met with CET1 capital.	n/a

Although the UK has implemented the provisions on capital buffers outlined in the CRD to create the combined capital buffer, no additional buffers apply to the Group other than the ones listed above.

2.3 Capital resources

Table 3: Summary of the Group's capital resources

Type of capital	Description	Further information
Common Equity Tier 1 (CET1)	Comprises ordinary share capital, share premium and allowable reserves including retained earnings, after required regulatory adjustments.	Details of the main features of the ordinary share capital of Provident Financial plc are provided in appendix 3. The template in appendix 1 sets out the composition of the Group's regulatory capital resources as at 31 December 2021. Quantitative disclosures can be found in section 4.
Tier 2 (T2)	Comprises Tier 2 subordinated notes.	Details of the main features of the tier 2 capital issuance are provided in appendix 3. The template in appendix 1 sets out the composition of the Group's regulatory capital resources as at 31 December 2021.

As at 31 December 2021 the Group's own funds comprised CET1 and Tier 2 capital; the Group had no Additional Tier 1 capital.

3. Risk management

A comprehensive overview of the Group's risk management objectives, policies and governance arrangements is set out in the Governance section of the Annual Report.

Replication of this disclosure has not been included in this document. The Group's Annual Report is published on the Group's corporate website, www.providentfinancial.com.

4. Capital management and resources

4.1 Capital management and controls

The Group uses a number of key performance indicators to assess progress against each of its strategic objectives, including both financial and non-financial measures. The maintenance of a secure funding and capital structure is a key Group performance indicator.

The Group has established risk appetite metrics above the regulatory minimum requirement, with these measures set by the Group Board and reviewed by the Group Risk Committee (GRC).

The Group prudently manages regulatory capital to ensure that it is always maintained at a sufficient level in excess of the PRA prescribed Overall Capital Requirement (OCR).

The key controls in achieving this objective are:

- monitoring the level of regulatory capital against the OCR on a monthly basis as part of the Group's management accounts by the Group's Assets and Liabilities Committee;
- producing a monthly rolling forecast, projecting regulatory capital and the OCR for the remainder of the current financial year;
- forecasting regulatory capital for the following five years and comparing to the Group's projected OCR over the same period as part of the budget processes;
- assessing the impact that strategic projects could have upon regulatory capital;
- submitting regulatory capital reports to the PRA periodically; and
- assessing the appropriateness of the OCR as part of the Group's ICAAP (see section 4.2), including stress and scenario testing, and reporting to the PRA if it is no longer considered to be appropriate.

4.2 Internal Capital Adequacy Assessment Process (ICAAP)

In accordance with the regulations, the Group is required to conduct an ICAAP on an annual basis or more frequently if there is a material change in the nature, trading status or risk profile of the Group. The ICAAP allows the Board to assess whether the Group's risk management objective is being met.

The key output of the ICAAP is a document which:

- provides a background to the Group including the Group structure, strategy, key management and internal control framework and risk management processes;
- sets out the minimum capital required under Pillar 1 of the regulations for the Group;
- identifies the various additional risks facing the Group not included in Pillar 1 and considers the required level of additional capital to be held against those risks (Pillar 2a);
- considers the level of additional capital to be held in the PRA buffer (Pillar 2b), if any;
- calculates the overall regulatory capital requirement of the Group as a result of Pillars 1, 2a and 2b; and
- performs stress testing on the Group's budget projections to ensure that both the Group's calculated regulatory capital requirement and the OCR are sufficient even under severe scenarios.

The ICAAP is embedded into the Group's risk management framework. Within the monthly Chief Financial Officer (CFO) report, the Group's and Vanquis Bank's regulatory capital resources are compared to the existing OCR. The CFO report is distributed to the executive directors and senior members of the management team on a monthly basis and is distributed to the Board for each Board meeting.

All material elements of the internal assessment of capital requirements, which are summarised in the ICAAP, are revisited periodically through the year.

The key divisional risks are reviewed by the Group Risk Committee on a quarterly basis. Any material movement in any of the key risks would be highlighted in this review and would trigger a revision of the internal assessment of capital requirements and, if appropriate, the ICAAP.

The ICAAP, including the modelling and methodology, is periodically subject to review by the Group Internal Audit function and external advisors.

4.3 Capital resources

The template in appendix 1 sets out the composition of the Group's reported regulatory capital resources as at 31 December 2021.

The Group's shareholders' equity is adjusted in order to arrive at a Group regulatory capital figure. The adjustments include deduction of the Group's pension asset, intangible assets, goodwill and fair value of derivative financial instruments, all net of related deferred tax. In addition, if any profits and gains had not been audited or verified by the external auditor at the balance sheet date these would have been deducted from retained earnings and a foreseeable dividend accrued on any audited or verified profits based on the Group's dividend policy.

IFRS 9 'Financial Instruments' was mandatory from 1 January 2018 and replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 significantly changes the recognition of impairment on amounts receivable from customers by introducing an expected loss model. Further information on the application of IFRS 9 is set out in the Annual Report. The Group has adopted the regulatory transitional arrangements, including paragraph four within Article 473a of the CRR, published by the EU on 27 December 2017 for IFRS 9. Under the arrangements the regulatory capital impact of IFRS 9 is phased in on a transitional basis over five years as follows: 5% from the start of 2018, 15% in 2019, 30% in 2020, 50% in 2021, 75% in 2022 and 100% from the start of 2023. This applies to the initial IFRS 9 transition adjustment plus any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period.

The PRA ratified additional capital mitigation proposed by the Basel Committee in response to Covid-19 known as the CRR 'quick fix', with these measures coming into force from 27 June 2020. The new measures allow for the increase in ECL in the non-credit impaired book arising after 1 January 2020, with full relief in 2020 and 2021. This relief is then phased out over the following three years on a straight-line basis (2022: 75%; 2023: 50%; 2024: 25%; 2025: 0%). At 31 December 2021, the Group had no transitional adjustment relating to these measures as consolidated ECL had fallen below the level of 1 January 2020. The impact of the transitional arrangements on own funds, capital ratios and the leverage ratio is set out in section 4.5.

The Group's retained earnings and other reserves included in the 2021 audited financial statements have been reconciled to the Group's regulatory capital at 31 December 2021 below.

Table 4: Reconciliation of the Group's financial statements to regulatory capital

31 December	Note	2021 £m	2020 £m
Shareholders' equity per the financial statements:			
Share capital		52.6	52.6
Share premium		273.3	273.2
Retained earnings and other reserves		305.3	321.9
Shareholders' equity per the financial statements		631.2	647.7
Deduction of foreseeable dividends on verified profits	1	(30.4)	–
Common Equity Tier 1 before regulatory adjustments		600.8	647.7
Common Equity Tier 1 adjustments:			
Defined benefit pension assets (net of deferred tax)	2	(84.2)	(64.6)
Goodwill	3	(71.2)	(71.2)
Intangible assets (net of deferred tax)	4	(47.3)	(40.1)
IFRS 9 transitional adjustment	5	108.4	203.0
Total Common Equity Tier 1 adjustments		(94.3)	27.1
Common Equity Tier 1 capital		506.5	674.8
Tier 2 capital		200.0	–
Total regulatory capital		706.5	674.8

Notes:

1. The Group is required to deduct accrued dividends from own funds when they are 'foreseeable' rather than when they are declared. For the year ended 31 December 2021, the foreseeable dividend was £30.4m in respect of the period 1 January 2021 to 31 December 2021. For the year ended 31 December 2020, the foreseeable dividend was £nil.
2. The defined benefit pension asset, net of deferred tax, is required to be deducted from own funds in order to calculate CET1 capital.
3. Goodwill principally reflects the surplus of consideration over identifiable net assets acquired and identifiable intangible assets following the acquisition of Moneybarn on 20 August 2014 and is required to be deducted from CET1 capital.
4. Intangible assets comprise the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014, and capitalised software and software development costs. These are required to be deducted from CET1 capital.
5. The Group is applying the IFRS 9 transitional arrangements to the fullest extent permitted by the PRA as detailed above.

4.4 Main features of own funds instruments

The Group's CET1 capital consists of the Group's equity share capital and reserves after adjusting for the amounts set out in section 4.3 above. The equity share capital consists of ordinary shares and the main features of the ordinary shares are set out in appendix 3.

The Group's Tier 2 capital consists of a Tier 2 subordinated bond issued in October 2021, with the main features set out in appendix 3.

4.5 Impact of IFRS 9 transitional arrangements

The following table sets out the key regulatory capital metrics on an IFRS 9 transitional basis and on a fully loaded basis (as if IFRS 9 transitional arrangements had not been applied) as at 31 December.

Table 5: Impact of IFRS 9 transitional arrangements on key regulatory capital metrics

31 December	2021 £m	2020 £m
Available capital		
Common Equity Tier 1 (CET1) capital	506.5	674.8
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	398.1	471.8
Tier 1 capital	506.5	674.8
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	398.1	471.8
Total capital	706.5	674.8
Total capital as if IFRS 9 transitional arrangements had not been applied	598.1	471.8
Risk weighted exposures		
Total risk weighted exposures	1,740.6	1,973.5
Total risk weighted exposures as if IFRS 9 transitional arrangements had not been applied	1,706.7	1,887.6
Capital ratios		
Common Equity Tier 1 (CET1) ratio	29.1%	34.2%
Common Equity Tier 1 (CET1) ratio as if IFRS 9 transitional arrangements had not been applied	23.3%	25.0%
Tier 1 ratio	29.1%	34.2%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	23.3%	25.0%
Total capital ratio	40.6%	34.2%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied	35.0%	25.0%
Leverage ratio		
Leverage ratio total exposure measure	2,798.0	3,236.7
Leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied	2,689.6	3,033.7
Leverage ratio	18.1%	20.8%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	14.8%	15.6%

All disclosures in the remainder of the document are set out on an IFRS 9 transitional basis consistent with the position reported under the regulatory return process.

4.6 Leverage ratio

The leverage ratio is a monitoring tool which aims to facilitate an assessment of the risk of excessive leverage in an institution. The ratio is calculated as Tier 1 capital divided by on and off-balance sheet exposures in accordance with the provisions set out in the CRR Article 429.

The PRA policy statement PS21/17 – UK leverage ratio: treatment of claims on central banks issued in October 2017 raised the minimum leverage ratio requirement from 3% to 3.25% with immediate effect. The Group maintains a leverage ratio above this threshold. This is only a formal requirement for firms with retail deposits equal to or greater than £50bn. The PRA policy statement PS21/21 – The UK leverage ratio framework will expand this threshold criteria further to include firms with equal to or greater than £10bn non-UK assets from 1 January 2023. The Group will only have a formal leverage ratio requirement once either of these thresholds are reached.

The leverage ratio for the Group is as follows:

Table 6: Leverage ratio

31 December	2021 £m	2020 £m
Total assets per audited financial statements	2,725.3	3,078.1
Netted derivative adjustments	1.7	–
IFRS 9 transitional adjustment	108.4	203.0
Off-balance sheet items[1]	122.9	118.1
Other regulatory adjustments[2]	42.4	13.4
Items deducted from own funds	(202.7)	(175.9)
Leverage ratio exposure	2,798.0	3,236.7
Tier 1 capital	506.5	674.8
Leverage ratio	18.1%	20.8%

1. The exposure of off-balance sheet items relates to undrawn credit card lines in Vanquis Bank.
2. Other regulatory adjustments consist of other balance sheet assets that are required to be added to the exposure under CRD.

Excessive leverage is managed through the Group's secure funding and capital structure.

As explained in section 1.6, the capital ratios set out above are calculated on a verified basis with any profits or gains not audited or verified by the external auditor at the balance sheet date deducted from own funds. This is consistent with the disclosures included in the regulatory reporting submissions.

5. Capital requirements

5.1 Total capital requirement (TCR)

Following publication of PRA policy statement PS30/17 – Pillar 2A capital requirements and disclosure in December 2017, the Group is required to disclose the PRA prescribed TCR at the highest level of consolidation in the UK.

The minimum amount of regulatory capital held by the Group is 18.33% of total RWE (2020: 18.33%). This sets the minimum total capital that the Group must hold under Pillar 1 and Pillar 2A requirements and is driven both by balance sheet growth and risk factors determined by the PRA. The Group comfortably meets this requirement with CET1 capital alone.

5.2 Regulatory capital buffers

The table below details the regulatory capital buffers applicable to the Group. It does not include the PRA buffer, if any, which is a firm specific buffer set by the PRA and the PRA requires that this buffer is not publicly disclosed.

Table 7: Regulatory capital buffers

	2021		2020	
31 December	£m	% of RWE	£m	% of RWE
Capital conservation buffer	43.5	2.5%	49.3	2.5%
Countercyclical capital buffer	—	0.0%	—	0.0%
Total combined buffer requirement	43.5	2.5%	49.3	2.5%

Additional buffers provided for by CRD do not apply to the Group.

Further details can be found within appendix 13.5 showing the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.

5.3 Pillar 1 minimum requirement

The Pillar 1 requirements against which the Group holds capital as set out in section 4 are detailed below:

Table 8: Pillar 1 requirements

	2021		2020	
	Risk weighted exposure £m	Pillar 1 minimum £m	Risk weighted exposure £m	Pillar 1 minimum £m
Credit risk (excluding CCR)	1,595.0	127.6	1,793.1	143.5
Counterparty credit risk (CCR)	4.1	0.3	—	—
Operational risk	141.5	11.3	159.3	12.7
Market risk	—	—	21.1	1.7
Total	1,740.6	139.2	1,973.5	157.9

The counterparty credit risk row in the above table includes both the risk calculated using the mark-to-market method and the credit valuation adjustment (CVA). Further details on counterparty credit risk can be found in section 6.5.

The Group is required to include information on its exposure to market risk and interest rate risk and as such this information is set out in section 8.

6. Credit risk

Credit risk is the risk of an exposed loss if a customer or counterparty fails to meet its financial obligations to the Group, including failing to perform them in a timely manner.

6.1 Pillar 1 credit risk requirement

An analysis of the Pillar 1 minimum capital requirements and risk weighted exposures by business division is as follows:

Table 9: Pillar 1 capital requirements and risk weighted exposures by business division

	2021			2020		
31 December (£m)	Total reported assets	RWE	Pillar 1 minimum	Total reported assets	RWE	Pillar 1 minimum
Amounts receivable from customers:						
Vanquis Bank	1,091.5	836.6	66.9	1,094.2	849.7	68.0
Moneybarn	586.2	477.5	38.2	566.6	440.6	35.2
CCD - discontinued operations	—	—	—	139.0	119.3	9.5
Total amounts receivable from customers	1,677.7	1,314.1	105.1	1,799.8	1,409.6	112.7
Counterparty credit risk (inc. CVA)	3.1	4.1	0.3	—	—	—
Other assets	1,044.5	247.0	19.8	1,278.3	202.9	16.4
Total assets as per published financial statements	2,725.3	1,565.2	125.2	3,078.1	1,612.5	129.1
IFRS 9 transitional adjustment	108.4	33.9	2.7	—	180.6	14.4
Total	2,833.7	1,599.1	127.9	3,078.1	1,793.1	143.5

An analysis of the Pillar 1 minimum capital requirements and risk weighted exposures by exposure class is as follows:

Table 10: Pillar 1 capital requirements and risk weighted exposures by exposure class

	2021		2020	
31 December (£m)	RWE	Pillar 1 minimum	RWE	Pillar 1 minimum
Central governments or central banks	32.1	2.6	66.2	5.3
Retail exposures – not past due	1,192.1	95.4	1,360.9	109.0
Retail exposures – past due	223.6	17.9	229.3	18.3
Institutions	65.8	5.3	17.7	1.4
Equities	9.1	0.7	9.2	0.7
Other exposures	76.4	6.1	109.8	8.8
Total	1,599.1	127.9	1,793.1	143.5

Institutions includes credit valuation adjustments.

6.1 Pillar 1 credit risk requirement continued

An analysis of the total exposure, risk weighted exposure and risk weighted exposure density by exposure class is as follows:

Table 11: Credit risk exposure and RWE density

31 December 2021 (£m)	Exposures before CCF		Exposures post CCF		RWE and RWE density	
	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWE	RWE density
Central governments or central banks	427.6	–	427.6	–	32.1	7.5%
Retail exposures – not past due	1,589.5	1,229.3	1,589.5	–	1,192.1	75.0%
Retail exposures – past due	223.6	–	223.6	–	223.6	100.0%
Institutions	311.1	–	311.1	–	65.8	21.2%
Equities	9.1	–	9.1	–	9.1	100.0%
Other exposures	81.1	–	81.1	–	76.4	94.1%
Total	2,642.0	1,229.3	2,642.0	–	1,599.1	60.5%

31 December 2020 (£m)	Exposures before CCF		Exposures post CCF		RWE and RWE density	
	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWE	RWE density
Central governments or central banks	859.9	–	859.9	–	66.2	7.7%
Retail exposures – not past due	1,814.6	1,180.6	1,814.6	–	1,360.9	75.0%
Retail exposures – past due	226.0	–	226.0	–	229.3	101.4%
Institutions	87.5	–	87.5	–	17.7	20.2%
Equities	9.2	–	9.2	–	9.2	99.8%
Other exposures	115.9	–	115.9	–	109.8	94.8%
Total	3,113.1	1,180.6	3,113.1	–	1,793.1	57.6%

An analysis of the total exposure (post CCF) by risk weight group is as follows:

Table 12: Credit risk exposure by risk weight group

31 December 2021 (£m)	Risk weight							
	0%	20%	50%	75%	100%	150%	250%	Total
Central governments or central banks	414.8	–	–	–	–	–	12.8	427.6
Retail exposures – not past due	–	–	–	1,589.5	–	–	–	1,589.5
Retail exposures – past due	–	–	–	–	223.6	–	–	223.6
Institutions	–	309.7	1.4	–	–	–	–	311.1
Equities	–	–	–	–	9.1	–	–	9.1
Other exposures	–	6.0	–	–	75.1	–	–	81.1
Total	414.8	315.7	1.4	1,589.5	307.8	–	12.8	2,642.0

31 December 2020 (£m)	Risk weight							
	0%	20%	50%	75%	100%	150%	250%	Total
Central governments or central banks	833.4	–	–	–	–	–	26.5	859.9
Retail exposures – not past due	–	–	–	1,814.6	–	–	–	1,814.6
Retail exposures – past due	–	–	–	–	219.4	6.6	–	226.0
Institutions	–	86.8	0.7	–	–	–	–	87.5
Equities	–	–	–	–	9.2	–	–	9.2
Other exposures	1.1	6.2	–	–	108.6	–	–	115.9
Total	834.5	93.0	0.7	1,814.6	337.2	6.6	26.5	3,113.1

The retail exposures constitute the Group's amounts receivable from customers and further disclosure on the retail exposures is set out in sections 6.2 to 6.4.

External credit assessment institutions (ECAIs) are used when calculating the Pillar 1 minimum capital requirements for exposures to institutions. The Group relies principally on two ECAIs – Moody's and Fitch Ratings.

Further disclosure on the equity exposure has been set out in section 8.2.

The exposures to corporates, institutions and other exposures are not deemed material for further disclosure.

6.2 Amounts receivable from customers

Customer receivables are initially recognised at fair value which represents the amount advanced to the customer plus directly attributable issue costs less an impairment provision for expected losses. The impairment provision recognised is based on the probability of default (PD) within 12 months, the loss given default (LGD) and the exposure at default (EAD). Receivables are subsequently increased by revenue and reduced by cash collections and impairment.

On initial recognition, all accounts are recognised in IFRS 9 stage 1.

The account moves to stage 2 when a significant increase in credit risk (SICR) becomes evident, such as a missed payment or a significant increase in PD, but has not defaulted.

An account moves to stage 3 and is deemed to have defaulted when further payments are missed or a payment arrangement is initiated.

Credit cards and personal loans

On inception an expected loss impairment provision is recognised using PD/LGD/EAD models which forecast customer behaviour to calculate losses.

For credit cards, the PD is determined by utilising a customer's behavioural score used for underwriting the credit card. The LGD discounts the exposure at default (EAD) which adjusts the current card balance for future expected spend and interest. It does not include any future credit line increases.

For personal loans, the EAD follows the amortisation schedules of the loan and is adjusted for expected missed payments at point of default.

Following a SICR, evident from a missed monthly payment or a significant increase in PD, lifetime losses are recognised.

A customer is deemed to have defaulted when they become three minimum monthly payments in arrears or they enter a temporary payment arrangement. A customer is written off in the following cycle after becoming six minimum monthly payments in arrears.

Vehicle finance

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to historical customer data and outcomes.

An account moves from stage 1 to stage 2 when there has been a SICR or when the customer is assessed as vulnerable. Lifetime losses are recognised for all accounts in stage 2 and 3.

A customer is deemed to have defaulted when they become three monthly payments in arrears or enter into a forbearance arrangement. Customer agreements which have been terminated, either voluntarily, by the customer settling their agreement early, or through the agreement being default terminated, are also included within stage 3. Cure from stage 3 is limited to some default reasons and for contracts not already terminated.

A customer's debt is written off when they are sold to debt collection agencies.

CCD

Following the wind-down of CCD and the decision to stop collections, all customers' debt was written off in 2021.

Customers under forbearance

Customers are moved to IFRS 9 stage 3 and lifetime losses are recognised for all divisions where forbearance is provided to the customer and alternative payment arrangements are established.

Customers under temporary payment arrangements are separately identified according to the type of 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.

Macroeconomic scenarios

Separate macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their agreements and the losses which are expected to be incurred given default, in addition to the core impairment provisions, already recognised.

For credit cards and personal loans, the provision reflects an adjustment for future losses based on changes in unemployment under a range of forecasts provided by a number of economists, as approved by the Group Treasury Committee.

For vehicle finance, both changes in unemployment and used car sales values are used to calculate a separate macroeconomic provision.

6.3 Analysis of credit risk exposures on amounts receivable from customers

The Group's maximum exposure to credit risk on amounts receivable from customers is the carrying value of amounts receivable from customers recorded in the Group's balance sheet.

All amounts receivable from customers are classed as retail exposures.

The following table shows the exposures analysed both by product and the residual maturity of exposures on a contractual basis. (Note, this table does not include IFRS 9 transitional adjustments made to retail exposures like the regulatory reported exposure tables.)

Table 13: Exposures by product and the residual maturity of exposures on a contractual basis

2021 (£m)	Due within one year	Due in more than one year	Total
Credit cards and personal loans	1,083.1	8.4	1,091.5
Vehicle finance	168.5	417.7	586.2
CCD	—	—	—
Total	1,251.6	426.1	1,677.7

2020 (£m)	Due within one year	Due in more than one year	Total
Credit cards and personal loans	1,092.7	1.5	1,094.2
Vehicle finance	174.8	391.8	566.6
CCD - discontinued operations	126.5	12.5	139.0
Total	1,394.0	405.8	1,799.8

Exposures analysed by geographical area are as follows:

Table 14: Exposures by geographical area

31 December (£m)	2021	2020
United Kingdom	1,677.7	1,781.5
Republic of Ireland	—	18.3
Total	1,677.7	1,799.8

Republic of Ireland exposures for the financial year ended 31 December 2020 relate to loans issued by the Consumer Credit Division.

6.4 Credit quality of amounts receivable from customers

Impairment provisions are recognised on inception of a loan based on the PD and the typical LGD:

- **Stage 1** – Accounts at initial recognition. The expected loss is based on a 12-month PD, based on historical experience, and revenue is recognised on the gross receivable before impairment provision.
- **Stage 2** – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historical experience, and revenue is recognised on the gross receivable before impairment provision.
- **Stage 3** – Accounts which have defaulted. The expected loss is based on a lifetime PD, based on historical experience. Revenue is recognised on the net receivable after impairment provision.

The impairment charge to the income statement in respect of amounts receivable from customers analysed by business division is as follows:

Table 15: Customer amounts receivable impairment charge by product

Impairment charge on amounts receivable from customers (£m)	2021	2020
Credit cards	3.7	233.3
Vehicle finance	44.6	72.7
Personal loans	2.1	6.6
Total impairment charge – continuing operations	50.4	312.6
CCD - discontinued operations	59.6	47.5
Total impairment charge	110.0	360.1

Significant impairment charges were taken in 2020 in light of the onset of the Covid-19 pandemic. Given the improving macroeconomic environment in 2021 and significantly lower than expected deterioration in credit quality of customers, provisions taken in 2020 were not required and thus the net impairment charges above are lower in 2021.

6.4 Credit quality of amounts receivable from customers continued

Amounts receivable from credit cards and personal loans customers are reconciled as follows:

Table 16: Credit cards and personal loans amounts receivable

	2021			
Credit cards and personal loans (£m)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
At 1 January	1,044.5	188.3	335.6	1,568.4
New financial assets originated and new drawdowns	2,003.1	81.3	34.6	2,119.0
Net transfers and changes in credit risk:				
– From stage 1 to stage 2	(835.2)	835.2	–	–
– From stage 1 to stage 3	(51.8)	–	51.8	–
– From stage 2 to stage 1	545.0	(545.0)	–	–
– From stage 2 to stage 3	–	(121.8)	121.8	–
– From stage 3 to stage 1	63.5	–	(63.5)	–
– From stage 3 to stage 2	–	24.9	(24.9)	–
Write-offs	(11.2)	(11.1)	(159.7)	(182.0)
Recoveries	(2,171.3)	(176.1)	(127.9)	(2,475.3)
Revenue	321.5	60.4	14.8	396.7
Other movements	5.6	6.6	11.9	24.1
At 31 December	913.7	342.7	194.5	1,450.9
Allowance account				
At 1 January	170.0	90.2	214.0	474.2
Movements through income statement				
Drawdowns and net transfers and changes in credit risk				
– From stage 1 to stage 2	(157.5)	331.1	–	173.6
– From stage 1 to stage 3	(9.9)	–	24.3	14.4
– From stage 2 to stage 1	122.2	(248.3)	–	(126.1)
– From stage 2 to stage 3	–	(80.3)	93.0	12.7
– From stage 3 to stage 1	6.3	–	(9.4)	(3.1)
– From stage 3 to stage 2	–	6.5	(3.8)	2.7
Other movements	(18.1)	13.4	(63.7)	(68.4)
Total movements through income statement	(57.0)	22.4	40.4	5.8
Other movements				
Write-offs	(11.2)	(11.1)	(159.7)	(182.0)
Amounts recovered	1.4	1.4	58.6	61.4
Allowance account at 31 December	103.2	102.9	153.3	359.4
Reported amounts receivable from customers at 31 December	810.5	239.8	41.2	1,091.5
Reported amounts receivable from customers at 1 January	874.5	98.1	121.6	1,094.2

6.4 Credit quality of amounts receivable from customers continued

Table 16: Credit cards and personal loans amounts receivable continued

	2020			
Credit cards and personal loans (£m)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
At 1 January	1,367.9	171.6	363.6	1,903.1
New financial assets originated and new drawdowns	1,931.7	47.5	31.6	2,010.8
Net transfers and changes in credit risk:				
– From stage 1 to stage 2	(664.7)	664.7	–	–
– From stage 1 to stage 3	(127.5)	–	127.5	–
– From stage 2 to stage 1	412.9	(412.9)	–	–
– From stage 2 to stage 3	–	(224.9)	224.9	–
– From stage 3 to stage 1	46.0	–	(46.0)	–
– From stage 3 to stage 2	–	23.8	(23.8)	–
Write-offs	(12.2)	(13.4)	(253.1)	(278.7)
Recoveries	(2,334.5)	(127.0)	(115.3)	(2,576.8)
Revenue	418.3	56.4	6.7	481.4
Other movements	6.6	2.5	19.5	28.6
At 31 December	1,044.5	188.3	335.6	1,568.4
Allowance account				
At 1 January	146.6	85.2	209.8	441.6
Movements through income statement				
Drawdowns and net transfers and changes in credit risk:				
– From stage 1 to stage 2	(137.3)	334.5	–	197.2
– From stage 1 to stage 3	(20.7)	–	62.8	42.1
– From stage 2 to stage 1	95.5	(212.5)	–	(117.0)
– From stage 2 to stage 3	–	(153.2)	167.5	14.3
– From stage 3 to stage 1	3.4	–	(7.1)	(3.7)
– From stage 3 to stage 2	–	2.3	(1.6)	0.7
Other movements	93.6	46.1	(33.4)	106.3
Total movements through income statement	34.5	17.2	188.2	239.9
Other movements				
Write-offs	(12.2)	(13.4)	(253.1)	(278.7)
Amounts recovered	1.1	1.2	69.1	71.4
Allowance account at 31 December	170.0	90.2	214.0	474.2
Reported amounts receivable from customers at 31 December	874.5	98.1	121.6	1,094.2
Reported amounts receivable from customers at 1 January	1,221.3	86.4	153.8	1,461.5

6.4 Credit quality of amounts receivable from customers continued

Amounts receivable from vehicle finance customers are reconciled as follows:

Table 17: Vehicle finance amounts receivable

	2021			
Vehicle finance (£m)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
At 1 January	443.8	100.1	221.4	765.3
New financial assets originated and new drawdowns	272.8	–	–	272.8
Net transfers and changes in credit risk:				
– From stage 1 to stage 2	(108.2)	108.2	–	–
– From stage 1 to stage 3	(156.1)	–	156.1	–
– From stage 2 to stage 1	2.8	(2.8)	–	–
– From stage 2 to stage 3	–	(73.8)	73.8	–
– From stage 3 to stage 1	0.1	–	(0.1)	–
– From stage 3 to stage 2	–	0.5	(0.5)	–
Write-offs	(0.3)	(0.7)	(15.6)	(16.6)
Recoveries	(199.6)	(47.3)	(103.7)	(350.6)
Revenue	93.7	27.6	46.3	167.6
Other changes	1.2	1.1	0.9	3.2
At 31 December	350.2	112.9	378.6	841.7
Allowance account				
At 1 January	21.8	17.9	159.0	198.7
Movements through income statement				
New financial assets originated and new drawdowns	39.1	–	–	39.1
Transfers due to changes in credit risk:				
– From stage 1 to stage 2	(12.7)	15.0	–	2.3
– From stage 1 to stage 3	(23.5)	–	46.8	23.3
– From stage 2 to stage 1	0.1	(0.4)	–	(0.3)
– From stage 2 to stage 3	–	(12.5)	23.6	11.1
– From stage 3 to stage 1	–	–	(0.1)	(0.1)
– From stage 3 to stage 2	–	–	(0.2)	(0.2)
Remeasurements within existing stage	(10.2)	(3.5)	(23.2)	(36.9)
Other changes	–	–	6.3	6.3
Total movements through income statement	(7.2)	(1.4)	53.2	44.6
Amounts netted off against revenue for stage 3 assets	–	–	29.7	29.7
Other movements				
Write-offs	(0.3)	(0.7)	(15.6)	(16.6)
Other changes	–	–	(0.9)	(0.9)
Allowance account at 31 December	14.3	15.8	225.4	255.5
Reported amounts receivable from customers at 31 December	335.9	97.1	153.2	586.2
Reported amounts receivable from customers at 1 January	422.0	82.2	62.4	566.6

6.4 Credit quality of amounts receivable from customers continued

Table 17: Vehicle finance amounts receivable continued

	2020			
Vehicle finance (£m)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
At 1 January (Restated)	335.4	131.0	120.4	586.8
New financial assets originated	286.5	–	–	286.5
Transfers due to changes in credit risk:				
– From stage 1 to stage 2	(69.2)	69.2	–	–
– From stage 1 to stage 3	(52.5)	–	52.5	–
– From stage 2 to stage 1	21.0	(21.0)	–	–
– From stage 2 to stage 3	–	(56.0)	56.0	–
– From stage 3 to stage 1	1.7	–	(1.7)	–
– From stage 3 to stage 2	–	4.8	(4.8)	–
Write-offs	–	–	(1.0)	(1.0)
Recoveries	(171.4)	(47.0)	(44.4)	(262.8)
Revenue	91.6	29.2	41.9	162.7
Other changes	0.7	(10.1)	2.5	(6.9)
At 31 December	443.8	100.1	221.4	765.3
Allowance account				
At 1 January	9.5	12.4	75.8	97.7
Movements through income statement				
New financial assets originated and new drawdowns	10.0	–	–	10.0
Transfers due to changes in credit risk:				
– From stage 1 to stage 2	(1.3)	6.4	–	5.1
– From stage 1 to stage 3	(1.1)	–	13.4	12.3
– From stage 2 to stage 1	0.7	(3.1)	–	(2.4)
– From stage 2 to stage 3	–	(9.6)	21.5	11.9
– From stage 3 to stage 1	–	–	(0.4)	(0.4)
– From stage 3 to stage 2	–	0.6	(1.3)	(0.7)
Remeasurements within existing stage	4.0	11.2	22.7	37.9
Other changes	–	–	(1.0)	(1.0)
Total movements through income statement	12.3	5.5	54.9	72.7
Amounts netted off against revenue for stage 3 assets	–	–	28.7	28.7
Other movements				
Write-offs	–	–	–	–
Other changes	–	–	(0.4)	(0.4)
Allowance account at 31 December	21.8	17.9	159.0	198.7
Reported amounts receivable from customers at 31 December	422.0	82.2	62.4	566.6
Reported amounts receivable from customers at 1 January	325.9	118.6	44.6	489.1

The annual report sets out details of a prior year restatement in respect of vehicle finance impairments as shown in table 17 above. For the avoidance of doubt, this had no impact on amounts receivables from customers. Therefore no restatements required for prior year comparatives in respect of capital and risk weighted exposures.

6.4 Credit quality of amounts receivable from customers continued

Due to the closure of CCD during 2021 amounts receivable from CCD customers as at 31 December 2021 was £nil.

Table 18: CCD - discontinuing operations amounts receivable

	2021			
CCD (£m)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	76.9	17.9	359.4	454.2
At 1 January				
New financial assets originated and new drawdowns	13.8	0.3	–	14.1
Net transfers and changes in credit risk:				
– From stage 1 to stage 2	(8.3)	8.3	–	–
– From stage 1 to stage 3	(16.9)	–	16.9	–
– From stage 2 to stage 1	1.4	(1.4)	–	–
– From stage 2 to stage 3	–	(15.0)	15.0	–
– From stage 3 to stage 1	0.5	–	(0.5)	–
– From stage 3 to stage 2	–	2.9	(2.9)	–
Write-offs	(8.1)	(6.7)	(360.1)	(374.9)
Recoveries	(102.4)	(17.2)	(41.0)	(160.6)
Revenue	43.3	10.9	13.8	68.0
Other movements	(0.2)	–	(0.6)	(0.8)
At 31 December	–	–	–	–
Allowance account				
At 1 January	5.7	3.8	305.7	315.2
Movements through income statement				
New financial assets originated	0.5	–	–	0.5
Transfers due to changes in credit risk:				
– From stage 1 to stage 2	(2.1)	2.1	–	–
– From stage 1 to stage 3	(4.2)	–	4.2	–
– From stage 2 to stage 1	0.6	(0.6)	–	–
– From stage 2 to stage 3	–	(6.9)	6.9	–
– From stage 3 to stage 1	0.4	–	(0.4)	–
– From stage 3 to stage 2	–	2.4	(2.4)	–
Remeasurements within existing stages	7.1	5.9	46.1	59.1
Other movements	–	–	–	–
Total movements through income statement	2.3	2.9	54.4	59.6
Other movements				
Write-offs	(8.0)	(6.7)	(360.1)	(374.8)
Other movements	–	–	–	–
Allowance account at 31 December	–	–	–	–
Reported amounts receivable from customers at 31 December	–	–	–	–
Reported amounts receivable from customers at 1 January	71.2	14.1	53.7	139.0

6.4 Credit quality of amounts receivable from customers continued

Table 18: CCD – discontinuing operations amounts receivable continued

	2020			
CCD (£m)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
At 1 January	155.9	36.0	402.0	593.9
New financial assets originated and new drawdowns	160.7	3.4	–	164.1
Transfers due to changes in credit risk:				
– From stage 1 to stage 2	(13.0)	13.0	–	–
– From stage 1 to stage 3	(58.2)	–	58.2	–
– From stage 2 to stage 1	3.5	(3.5)	–	–
– From stage 2 to stage 3	–	(18.9)	18.9	–
– From stage 3 to stage 1	3.2	–	(3.2)	–
– From stage 3 to stage 2	–	3.7	(3.7)	–
Write-offs	(0.2)	(0.3)	(80.5)	(81.0)
Recoveries	(299.3)	(41.5)	(76.9)	(417.7)
Revenue	123.4	25.7	42.2	191.3
Other movements	0.9	0.3	2.4	3.6
At 31 December	76.9	17.9	359.4	454.2
Allowance account				
At 1 January	10.4	10.1	324.4	344.9
Movements through income statement				
New financial assets originated	7.6	0.5	–	8.1
Transfers due to changes in credit risk:				
– From stage 1 to stage 2	(0.6)	0.6	–	–
– From stage 1 to stage 3	(2.9)	–	2.9	–
– From stage 2 to stage 1	0.5	(0.5)	–	–
– From stage 2 to stage 3	–	(5.9)	5.9	–
– From stage 3 to stage 1	0.9	–	(0.9)	–
– From stage 3 to stage 2	–	1.1	(1.1)	–
Remeasurements within existing stage	11.4	(2.2)	53.1	39.5
Other movements	–	–	(0.1)	(0.1)
Total movements through income statement	(5.9)	(6.4)	59.8	47.5
Other movements				
Write-offs	(0.2)	(0.3)	(80.5)	(81.0)
Other movements	1.4	0.4	2.0	3.8
Allowance account at 31 December	5.7	3.8	305.7	315.2
Reported amounts receivable from customers at 31 December	71.2	14.1	53.7	139.0
Reported amounts receivable from customers at 1 January	145.5	25.9	77.6	249.0

6.5 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a derivative financial instrument could default. The Group uses derivative financial instruments such as interest rate swaps to manage interest rate risk. This creates counterparty credit risk exposure which is calculated using the mark-to-market method as detailed in section 2.2. This is then risk weighted under the standardised approach.

The Group calculates a CVA capital charge for derivatives to reflect the risk of an adverse movement in the creditworthiness of the counterparty.

Total derivative exposure as at 31 December 2021 was £4.8m (2020: £nil).

7. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate internal processes and failures in relation to people and systems or from external events.

Consistent with the approach adopted in previous years, the Group has elected to use the ASA for measuring operational risk. The ASA is an approach which is tailored specifically to firms whose primary business lines involve retail banking and/or commercial banking and can only be adopted provided certain criteria are met. Management is satisfied that it can adopt the ASA in accordance with the CRR Articles 319 and 320 as follows:

- The Group has a well-documented assessment and management system for operational risk with clear responsibilities assigned for this system. In addition, the Group is able to identify exposures to operational risk, has systems of reporting operational risk matters to senior management and has procedures in place for taking appropriate action. These systems of control are comprehensive and proportionate to the nature, scale and complexity of the firm's activities.
- The operations of the Group are wholly focused in retail banking as defined within the CRR; 100% of all revenue activities are derived from this activity.
- The Group issues credit to non-standard customers and there is a higher probability of default.
- Management has concluded that the ASA provides an appropriate basis for calculating the own funds requirement for operational risk.

8. 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. Until 31 December 2021, the Group had CCD operations in the Republic of Ireland and therefore previously had an element of foreign currency market risk. 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.

The exposure at 31 December 2020, noted in section 5.3, in relation to market risk principally relates to amounts receivable from Visa Inc, details of which are noted below.

On 21 June 2016, Visa Inc confirmed the acquisition of Visa Europe Limited to create a single global payments business under the Visa brand. Vanquis Bank, a wholly owned subsidiary of Provident Financial plc, was a member and shareholder of Visa Europe and in exchange for its one redeemable ordinary share (previously held at par of €10), Vanquis Bank received upfront consideration in the form of cash and deferred consideration in the form of cash and preferred stock on completion of the transaction which concluded in June 2019.

The Group has applied the guidance set out in Articles 351 and 352 of the CRR. The total reported original exposure of foreign currency market risk at 31 December 2021 of £9.7m (2020: £21.1m) was below the threshold set out in the CRR and accordingly £0.0m Pillar 1 capital allocation was recognised at 31 December 2021 (2020: £1.7m).

8.1 Interest rate risk

Interest rate risk is the risk of losses arising from adverse movements in interest rates affecting the Group's earnings and/or its economic value. It is generated through unhedged or mismatched asset and liability re-pricing profiles. The Group does not actively take interest rate positions and has no trading book nor does it pursue income generation through maturity transformation and has operated a largely matched asset and liability profile on a behaviouralised basis.

The Group calculates its interest rate risk exposure considering both earnings (earnings at risk) and value (market value sensitivity) metrics. These are mainly assessed against 100 and 200 basis point parallel shifts in rates respectively.

The Group monitors its exposure to the economic value of equity (EVE) as a proportion of own funds and Tier 1 capital against a 200 basis point parallel shift in rates, as well as the six standardised shocks set out in the Internal Capital Adequacy Assessment part of the PRA Rulebook. The Group also measures its exposure to basis risk. All such exposures are maintained within the risk appetite set by the Board and are monitored by Group Treasury Committee.

In calculating its position, the Group assumes that it will re-price products for new lending. It is possible for Vanquis Bank to re-price its receivables within two months and for Moneybarn loans to be issued at re-priced levels within one month. The Group would re-price its receivables to mitigate the impact upon forecast borrowing costs.

8.2 Non-trading book exposures in equities

At 31 December 2021, the Group had equity investments in the non-trading book of £9.1m (2020: £9.2m), relating to the acquisition of Visa Europe Limited by Visa Inc.

As the proposed transaction was announced on 2 November 2015, the item was revalued at 31 December 2015. Subsequent to recognition, there has been no impairment of equity investments held at fair value through profit and loss.

Details of the accounting policy for equity investments held at fair value through profit and loss and the valuation of financial instruments can be found in the Annual Report.

9. Securitisation

The Group uses securitisation activities to raise wholesale funding directly and to create collateral which can be used to source additional funding.

The Group had no purchased securitisation positions at 31 December 2021 (2020: £nil) and therefore no further disclosure is made.

9.1 Originated securitisations

9.1.1 Moneybarn Financing Limited securitisations programme

On 14 January 2020, the Group established a bilateral securitisation facility to fund Moneybarn business flows. Under the terms of the facility loans originated by Moneybarn are transferred to Moneybarn Financing Limited, a special purpose vehicle (SPV) that is bankruptcy remote from the Group, which in turn is funded by the issuance of senior notes in variable funding form to investors and junior notes to Moneybarn No.1 Limited within the Group. Only auto loans have been included within originated securitisations. The SPV is fully consolidated into the Group financial statements.

The transfers of the loans to the SPV are not treated as sales by the Group and therefore no gains or losses are recognised, as this structure is not intended to achieve significant transfer of credit risk away from the Group. The Group continues to recognise the loans on its own balance sheet after transfer because the risks relating to the underlying loan pool company, and rewards through the receipt of substantially all of the profits or losses on the securitised loans, remain with the Group. These assets are held at amortised cost and are included in the receivables from customers relating to Moneybarn set out in this document.

There are no specific capital requirements for the securitisation vehicle as there has not been a transfer of significant credit risk. The Group does not calculate risk weighted asset amounts for any positions it holds in the securitisations and these continue to be calculated in line with capital requirements applied to the underlying assets.

The SPV is subject to the risk of insufficiency of funds on any interest payment date as a result of payments being made late by the borrowers of the underlying loans after the end of the relevant collection period. This risk is addressed in respect of the notes by the provision of liquidity from a General Reserve Fund.

9.1.2 Vanquis Bank securitisation programme

In January 2021, Vanquis Bank established a securitisation programme backed by a revolving portfolio of credit card receivables originated by Vanquis Bank. Oban Cards 2021-1 was the inaugural issuance from the master trust structure with two classes of notes.

The A notes were rated (AAAsf/Aaa(sf)/AAAsf) by Fitch Ratings, Kroll Bond Rating Agency and Standard & Poor's. Kroll Bond Rating Agency has subsequently reaffirmed the AAA rating on 28 January 2022 with Fitch Ratings and Standard & Poor's to follow in due course. The bonds are listed on the London Stock Exchange. The D notes are unrated.

Both of the notes were initially held internally as an additional liquidity contingency option. By October 2021, the majority of the AAA rated notes were pledged with the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME) and £174m was drawn from the scheme. Although Vanquis Bank remains primarily retail deposit funded, this enhanced its funding diversification. The unrated D notes continue to be retained.

Credit enhancement on the Class A notes consists of i) subordination and ii) excess spread generated by the pool of credit card receivables. The transaction has a liquidity reserve of approximately £10m at inception and includes a minimum transferor interest of 0.75%.

Table 19: Originated securitisations

	31 December 2021				
Originated securitisations (£m) **Securitisation company**	Type of securitisation	Receivables secured	Notes in issue	Retained notes	Underlying assets past due and impaired
Moneybarn Financing Limited	Auto loans	357.0	275.0	82.0	8.8
Oban Cards 2021-1	Credit card ABS	453.1	232.0	221.1	18.6[1]
Total Group		810.1	507.0	303.1	27.4

	31 December 2020				
Originated securitisations (£m) Securitisation company	Type of securitisation	Receivables secured	Notes in issue	Retained notes	Underlying assets past due and impaired
Moneybarn Financing Limited	Auto loans	319.1	150.0	172.6	22.4
Oban Cards 2021-1	Credit card ABS	–	–	–	–
Total Group		319.1	150.0	172.6	22.4

1. Defaulted assets are repurchased monthly. The balance comprises accounts in three plus months arrears plus accrued interest.

10. Liquidity

10.1 Liquidity risk

Liquidity risk is the risk that the Group will have insufficient liquid resources to meet current and future financial commitments as they fall due.

A key objective of the Group in relation to liquidity risk is to ensure that, at all times, the Group has a minimum level of liquid funds available to fund its forecast peak borrowing requirement in the following 12-month period plus an adequate buffer.

The Group's liquidity position is managed in accordance with the Group and Vanquis Bank's treasury policies and Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP is undertaken by Vanquis Bank on an individual and consolidated basis and is reviewed by the Boards of the Group and Vanquis Bank at least once annually.

Vanquis Bank maintains appropriate levels of liquidity which is held in a Bank of England Reserve Account.

The Group's Treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding outside of Vanquis Bank. Further qualitative information on the Group's management of liquidity risk is contained in the Annual Report.

10.2 Liquidity ratios

The Liquidity Coverage Ratio (LCR) aims to improve the resilience of banks to liquidity risks over a 30-day period. The Net Stable Funding Ratio (NSFR) aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one-year period of extended stress. The Group, by virtue of Provident Financial plc being the parent company of Vanquis Bank, is subject to the PRA liquidity provisions that came into force on 1 October 2015.

10.2.1 Liquidity coverage ratio (LCR)

The Group's LCR at 31 December 2021 was 2,073% (2020: 2,830%). The PRA's mandated minimum requirement is 100%.

The figures presented represent the average of the 12 months preceding the quarter end stated:

Table 20: Liquidity coverage metrics

2021	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Liquidity buffer (£m)	866	340	367	439
Net cash outflows (£m)	204	77	160	21
LCR (%)	831	456	747	2,073

2020	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Liquidity buffer (£m)	244	925	915	842
Net cash outflows (£m)	113	106	95	64
LCR (%)	279	1,217	979	1,756

10.2.2 Net stable funding ratio (NSFR)

A binding Pillar 1 NSFR will be implemented in the UK from 1 January 2022 on implementation of CRR2. No further disclosure on NSFR is required at 31 December 2021.

11. Other risks

11.1 Climate change risk

The Group recognises the risks that will arise due to climate change. Many firms are increasingly facing both physical and transition risks. The Group has set several long-term objectives which are aligned with the UN's Sustainable Development Goals and Task Force on Climate-related Financial Disclosures (TCFD). It has set up a Climate Risk Committee (CRC) to provide oversight and direction for the assessment of risks and opportunities.

12. Remuneration policies and practices

The Group is required to prepare Remuneration Code Pillar 3 disclosures in addition to the regulatory capital disclosures. These disclosures are set out below.

Introduction

The following disclosure is made in accordance with the requirements of Article 450 of the Capital Requirements Regulation (CRR) and provides information regarding the remuneration policies and practices for staff identified in accordance with the PRA Rulebook and fifth iteration of the Capital Requirements Directive (CRD V) which collectively establishes qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on the firm's risk profile.

Governance

The Board of directors of Provident Financial Group plc (PFG) has delegated the responsibility for oversight of PFG's Remuneration Policy and the remuneration decision making process to its Remuneration Committee (RemCo).

The RemCo is comprised of three wholly independent non-executive directors, including the RemCo Chairman. The RemCo meets at least four times a year. The terms of reference for the RemCo have been approved by the PFG Board of directors. The RemCo's mandate is to:

1. determine Remuneration Policy in relation to fixed and variable pay for all employees (including executive directors, senior management function holders, material risk takers and control function staff);
2. provide oversight for the design and implementation of the Group's remuneration policy, which is subject to annual review by the Committees as well as an annual review by Internal Audit;
3. ensure that remuneration outcomes appropriately reflect long-term performance and support effective risk management;
4. determine which employees are material risk takers (Group Code Staff) for the purposes of the Remuneration Code. PFG operates criteria aligned to the PRA Rulebook and CRD V criteria:
   i. Group executive directors and non-executive directors;
   ii. members of the Group's Executive Committee;
   iii. heads of EBA-identified functions and identified control function senior managers; and
   iv. selected roles which have a significant influence on the Group's risk profile including selected control functions;
5. determine levels of fixed and variable pay for individual Group Code Staff and control functions;
6. oversee the setting of bonus pools and the application of any ex-ante or ex-post-risk adjustments;
7. ensure that its decisions are consistent with an assessment of PFG's financial condition, future prospects and shareholder outcomes; and
8. monitor that PFG's remuneration policies and practices remain fully compliant with the requirements of the PRA/FCA's Remuneration Code (CRD V).

PFG's dual regulated banking division, Vanquis Bank Ltd (VBL), operates a subsidiary-level remuneration committee, which, in coordination with the Group-level RemCo, is responsible for comparable areas of remuneration governance for VBL-employed material risk takers.

The Directors' Remuneration Report, which can be found in the 2021 Annual Report and Accounts, provides more information on the RemCo and the pay policy for PFG directors.

Since June 2020, the RemCo has received advice on regulatory matters and executive remuneration from PricewaterhouseCoopers LLP (PwC), assisting in the determination of the Remuneration Policy.

Link between pay and performance

As a performance driven organisation PFG's Remuneration Policy ensures that the appropriate elements of fixed and variable reward are applicable to all roles across the Group. Variable remuneration for all annual bonus eligible colleagues is determined by an independently assessed balanced scorecard of financial, non-financial and risk objectives. PFG operates a rigorous performance appraisal process that includes assessment of both delivery and behaviour objectives, ensuring positive risk culture and risk management outcomes are underpinned by remuneration outcomes. As a PRA/FCA level three firm, the Group has the ability to disapply the use of deferral and instruments in variable pay; however, Group Code Staff will receive a portion of variable remuneration in long-term incentives, using deferred restricted stock (Restricted Share Plan – RSP), to ensure a value at risk and the alignment of interests with shareholders. The current deferred restricted stock awards are not subject to formal performance criteria to qualify for vesting; however, the RemCo performs a qualitative performance underpin review to ensure the vesting of stock awards is consistent with key performance considerations and the shareholder outcomes. The Directors' Remuneration Report, which can be found in the 2021 Annual Report and Accounts, provides more information on the deferred RSP.

PFG operates an independent variable pay risk adjustment assessments both during the review of bonus funding and at the point of vesting of any deferred awards. These assessments form part of the Group's Variable Pay Risk Adjustment Framework which maintains the integrity between effective risk management outcomes and executive pay awards. These assessments consider whether variable pay funding should be reduced, or granted awards reduced or recouped, based on the profile of risk control and risk events experienced over the performance period the variable pay relates to. The Group's Malus and Clawback policy, which is applicable to the Company, operates in conjunction with these assessments and ensures that the Company has a legal capability to enforce the reduction or repayment of historical awards. Control functions are managed independently from the business units they oversee, and while the business area may provide feedback on performance as part of the normal performance management process, variable pay outcomes are generally weighted towards non-financial and individual performance objectives. Control functions also review the material risk takers identification criteria and annually reviews the Group Remuneration Policy.

Link between pay and performance continued

Both fixed and variable remuneration for Group Code Staff across PFG are reviewed annually to ensure levels of reward are aligned with long-term business performance measures (including non-financial measures aligned to drive the right behaviours within the Group including Company values (our Blueprint), compliance, ethics, behaviour towards customers and risk management). The review takes into account individual performance and market competitiveness.

The RemCo continues to apply the CRD V provisions relating to the cap on the ratio of fixed to variable pay which are set out in Article 94(1g) of the Capital Requirements Directive (2013/36/EU) to all Group Code Staff and maintains a malus and clawback policy applicable to all Group Code Staff consistent with FCA and PRA Rulebook expectations. Additionally, the Group applies the requirements of the PRA's Buy-out Regime.

The following tables set out aggregate quantitative information on remuneration of Group Code Staff who are employed by the following PFG divisions:

Table 21: Remuneration of Group Code Staff

£m	2021 Provident Financial	Vanquis Bank	Moneybarn	Consumer Credit Division	Total
Total remuneration	14.21	10.10	1.78	2.51	28.59

	Senior Management	Other Code staff	Total
Number of staff	46	41	87
Total remuneration (£m)	21.19	7.40	28.59

£m	2020 Provident Financial	Vanquis Bank	Moneybarn	Consumer Credit Division	Total
Total remuneration	7.83	7.88	1.25	1.35	18.31

	Senior Management	Other Code staff	Total
Number of staff	29	53	82
Total remuneration (£m)	9.74	8.57	18.31

13.1 Appendix 1 – Own funds disclosures

Presented in accordance with Annex IV of the Commission Implementing Regulation (EU) No 1423/2013 and based on reported own funds at 31 December 2021.

Table 22: Own funds disclosures

Common Equity Tier 1 capital: instruments and reserves		2021 £m	2020 £m
1	Capital instruments and the related share premium accounts	325.9	325.8
	Of which: ordinary share capital	325.9	325.8
2	Retained earnings	(13.1)	29.1
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	288.0	292.8
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	600.8	647.7
7	Additional value adjustments (negative amount)	–	–
8	Intangible assets (net of related tax liability) (negative amount)	(118.5)	(111.3)
12a	Other CET1 transitional adjustments	108.4	203.0
15	Defined benefit pension fund assets (negative amount)	(84.2)	(64.6)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(94.3)	27.1
29	**Common Equity Tier 1 (CET1) capital**	506.5	674.8
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	–	–
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	–	–
44	**Additional Tier 1 (AT1) capital**	–	–
45	**Tier 1 capital (T1 = CET1 + AT1)**	506.5	674.8
46	Capital instruments and the related share premium accounts	200.0	–
51	**Tier 2 (T2) capital before regulatory adjustments**	200.0	–
57	**Total regulatory adjustments to Tier 2 (T2) capital**	–	–
58	**Tier 2 (T2) capital**	200.0	–
59	**Total capital (TC = T1 + T2)**	706.5	674.8
60	**Total risk weighted assets**	1,740.6	1,973.5
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	29.1%	34.2%
62	Tier 1 (as a percentage of risk exposure amount)	29.1%	34.2%
63	Total capital (as a percentage of risk exposure amount)	40.6%	34.2%
64	Institution specific buffer requirement (CET1 requirements in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	7.0%	7.0%
65	Of which: capital conservation buffer requirement	2.5%	2.5%
66	Of which: countercyclical buffer requirement	–	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	24.6%	29.7%

13.2 Appendix 2 – Leverage ratio disclosures

Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200 and based on the reported leverage ratio position at 31 December 2021.

Reference date	31 December 2021
Entity name	Provident Financial plc
Level of application	Consolidated

Table 23: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable amount	
		2021 £m	2020 £m
1	Total assets as per published financial statements	2,725.3	3,078.1
4	Adjustments for derivative financial instruments	1.7	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	122.9	118.1
7	Other adjustments	(51.9)	40.5
8	**Total leverage ratio exposure**	2,798.0	3,236.7

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures	
		2021 £m	2020 £m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,873.0	3,294.5
2	(Asset amounts deducted in determining Tier 1 capital)	(202.7)	(175.9)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	2,670.3	3,118.6
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	3.1	–
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1.7	–
11	**Total derivative exposures (sum of lines 4 to 10)**	4.8	–
Securities financing transaction exposures			
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	–	–
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	1,229.3	1,180.6
18	(Adjustments for conversion to credit equivalent amounts)	(1,106.4)	(1,062.5)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	122.9	118.1
Exempted exposures in accordance with CRR Article 429(7) and (14) (on and off-balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet))	–	–
EU-19b	(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	–	–
Capital and total exposures			
20	**Tier 1 capital**	506.5	674.8
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	2,798.0	3,236.7
Leverage ratio			
22	**Leverage ratio**	18.1%	20.8%
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	–	–

13.2 Appendix 2 – Leverage ratio disclosures continued

Table LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures	
		2021 £m	2020 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2,873.0	3,294.5
EU-3	Banking book exposures, of which:	2,873.0	3,294.5
EU-5	Exposures treated as sovereigns	427.6	897.8
EU-7	Institutions	306.3	87.5
EU-9	Retail exposures	1,562.6	1,776.7
EU-11	Exposures in default	223.6	226.0
EU-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	352.9	306.5

Qualitative information on managing the risk of excessive leverage

(a) Description of the processes used to manage the risk of excessive leverage

Excessive leverage is managed through the Group's secure funding and capital structure. Leverage risk appetite forms part of the Group's risk appetite framework set by the Group Board and reviewed by the Group Risk Committee (GRC). The leverage ratio is monitored by the Board.

(b) Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

The leverage ratio as at 31 December 2021 was 18.1% (2020: 20.8%). This reduction is driven by a decrease in Tier 1 capital resources largely due to losses incurred to close the CCD business and a decrease in the IFRS 9 transitional adjustment to CET1 resources, with this more than offsetting the reduction in leverage exposure due to the closure of CCD reducing amounts receivable.

13.3 Appendix 3 – Capital instruments main features

Based on reported ordinary shares at 31 December 2021.

Table 24: Capital instruments main features

1	Issuer	Provident Financial plc	Provident Financial plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00B1Z4ST84	XS2397348801
3	Governing law(s) of the instrument	English Law	English Law
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£326.0m of ordinary share capital and share premium	£200m
9	Nominal amount of instrument (currency in million)	£52.5m	£200m
9a	Issue price	n/a	100%
9b	Redemption price	n/a	100%
10	Accounting classification	Shareholders' equity	Liability– amortised cost
11	Original date of issuance	Various	13/10/2021
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	13/01/2032
14	Issuer call subject to prior supervisory approval	n/a	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	Optional call date = any day from (and including) 13 October 2026 to (and including) 13 January 2027 Redemption price = 100%
16	Subsequent call dates, if applicable	n/a	n/a
17	Fixed or floating dividend/coupon	n/a	Fixed
18	Coupon rate and any related index	n/a	8.875%
19	Existence of a dividend stopper	n/a	n/a
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	n/a	n/a
22	Non-cumulative or cumulative	Non-cumulative	n/a
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a
25	If convertible, fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a
30	Write down features	No	No
31	If write down, write down trigger(s)	n/a	n/a
32	If write down, full or partial	n/a	n/a
33	If write down, permanent or temporary	n/a	n/a
34	If temporary write down, description of write up mechanism	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n/a	Subordinated to senior creditors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	n/a	n/a

13.4 Appendix 4 – Group asset encumbrance

Under Article 443 of the CRR, additional disclosure on unencumbered and encumbered assets is required.

The following disclosures are presented in line with PRA regulatory reporting requirements. Asset encumbrance occurs through the pledging of assets to secured creditors. The Group encumbers assets to attain long-term funding through secured funding transactions via the Moneybarn bilateral securitisation and the Vanquis Bank securitisation programme.

In all the tables below the values use the median of the four end of quarter period values for the previous 12 months and as such differ from any disclosures contained in the Annual Report or in this document.

Table 25: Template A: Encumbered and unencumbered assets

		Carrying amount of encumbered assets	Of which: central banks eligible	Fair value of encumbered assets	Of which: central banks eligible	Carrying amount of unencumbered assets	Of which: central banks eligible	Fair value of unencumbered assets	Of which: central banks eligible
31 December 2021 (£m)		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	493.7	91.3			2,224.2	827.9		
020	Loans on demand	34.8	—			680.0	568.6		
030	Equity instruments	—	—	—	—	9.2	—	9.2	—
100	Loans and advances other than loans on demand	458.9	91.3			1,205.0	259.2		
110	Of which: mortgage loans	—	—			—	—		
120	Other assets	—	—			329.9	—		

1. Loans and advances other than loans on demand that are central bank eligible relate to the A notes pledged by Vanquis Bank Limited to support drawings on the TFSME.

		Carrying amount of encumbered assets	Of which: central banks eligible	Fair value of encumbered assets	Of which: central banks eligible	Carrying amount of unencumbered assets	Of which: central banks eligible	Fair value of unencumbered assets	Of which: central banks eligible
31 December 2020 (£m)		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	229.4	—			2,895.3	812.6		
020	Loans on demand	15.2	—			812.6	812.6		
030	Equity instruments	—	—	—	—	15.6	—	15.6	—
100	Loans and advances other than loans on demand	214.2	—			1,693.7	—		
110	Of which: mortgage loans	—	—			—	—		
120	Other assets	—	—			373.4	—		

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. Details on the Group's contingent liabilities are set out in the Annual Report. No assets of the Group are encumbered as a result of any contingent liabilities described in the Annual Report.

13.4 Appendix 4 – Group asset encumbrance continued

Template B: Collateral

In Supervisory Statement SS6/17 the PRA waived the Template B requirements subject to a firm meeting certain criteria. The Group meets that criteria and therefore Template B is not disclosed.

Table 26: Template C: Sources of encumbrance

		31 December 2021		31 December 2020	
		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m	Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
		010	030	040	050
010	Carrying amount of selected financial liabilities	306.0	458.9	108.8	214.2
040	Deposits	68.5	91.3	–	–
070	Collateralised deposits other than repurchase agreements	68.5	91.3	–	–
080	Of which: central banks	68.5	91.3	–	–
090	Debt securities issued	237.5	367.5	108.8	214.2
110	Of which: asset-backed securities issued	237.5	367.5	108.8	214.2
120	Other sources of encumbrance	–	34.8	–	15.2
170	**Total sources of encumbrance**	306.0	493.7	108.8	229.4

Template D – Information on importance of encumbrance

The Group reviews all assets against the criteria of being able to finance them in a secured form (encumbrance) but certain asset types lend themselves more readily to encumbrance. The typical characteristics that support encumbrance are an ability to pledge those assets to another counterparty or entity through operation of law with necessarily requiring prior notification, homogeneity, predictable and measurable cash flows and a consistent and uniform underwriting and collection process. Retail assets, including auto loans and credit card receivables, display many of these features.

The Group encumbers assets to serve as collateral to support certain wholesale funding initiatives. The principal form of encumbrance used by the Group is own asset securitisation. At 31 December 2021, the Group holds encumbered assets in the form of loans and advances to customers secured within Moneybarn's SPV and in the form of credit card receivables to customers within the Vanquis Bank securitisation programme. No other assets of the Group were encumbered at that date.

13.5 Appendix 5 – Countercyclical capital buffer

The following table provides the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer, with exposures defined as per Commission Delegated Regulation (EU) 2015/1555.

In accordance with Commission Delegated Regulation (EU) 1152/2014, due to foreign exposures not exceeding 2% of the Group's aggregate exposures, all exposures have been allocated to the UK.

Table 27: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

		General credit exposures	Own funds requirements			
		Exposure value for SA £m	Of which: general credit exposures £m	Total £m	Own funds requirement weights	Countercyclical capital buffer rate %
31 December 2021		010	070	100	110	120
010	Breakdown by country: UK	2,214.5	127.9	127.9	1.0	0%
020	**Total**	2,214.5	127.9	127.9	1.0	0%

		General credit exposures	Own funds requirements			
		Exposure value for SA £m	Of which: general credit exposures £m	Total £m	Own funds requirement weights	Countercyclical capital buffer rate %
31 December 2020		010	070	100	110	120
010	Breakdown by country: UK	2,253.1	143.5	143.5	1.0	0%
020	**Total**	2,253.1	143.5	143.5	1.0	0%

Table 28: Amount of institution specific countercyclical capital buffer

		2021	2020
31 December		010	010
010	Total risk exposure amount (£m)	1,740.6	1,973.5
020	Institution specific countercyclical buffer rate	0%	0%
030	Institution specific countercyclical buffer requirement	–	–

Abbreviations

ASA	Alternative standardised approach
CCD	Consumer Credit Division
CCoB	Capital conservation buffer
CCR	Counterparty credit risk
CCyB	Countercyclical buffer
CET1	Common Equity Tier 1
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
C-SREP	Capital supervisory review and evaluation process
CVA	Credit valuation adjustment
ECAI	External credit assessment institutions
EBA	European Banking Authority
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
GRC	Group Risk Committee
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LCR	Liquidity coverage ratio
LGD	Loss given default
NSFR	Net stable funding ratio
NWM	NatWest Markets
OCI	Other comprehensive income
PD	Probability of default
PRA	Prudential Regulation Authority
RWE	Risk weighted exposures
SPV	Special purpose vehicle
TCR	Total capital requirement

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