PFG | Provident Financial Group

Tailor-made solutions for the non-standard credit market

Annual Report & Financial Statements 2013

Who we are

Provident Financial is the leading lender in the non-standard credit market.

Customers in the non-standard credit market have particular needs that are different to those in the mainstream credit market. They want products tailor-made to meet these needs:

- Small sums; typically, a few hundred pounds rather than a few thousand.
- High levels of contact with their lender; our customers like to be able to discuss issues concerning their loan at any time.
- Forbearance and flexibility; our customers typically have little leeway in their income and so if they experience problems during the term of their loan they want the ability to reschedule their repayments.

We have three main products in this market:

- Vanquis Bank: credit cards with smaller credit limits allowing customers to build their credit profile with additional flexibility options
- Provident Personal Credit: small home credit loans, serviced by a local agent in the customer's home, with weekly repayments, and no extra charges whatsoever.
- Satsuma loans: online loans, with weekly repayments over the term of the loan, a UK-based contact centre for customers to discuss any issues they may have, and no extra charges whatsoever.

Our mission

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

? What is the non-standard credit market?

The UK non-standard credit market comprises around 12 million people who, for a variety of reasons, are not well served by the mainstream credit market, either because they would not be accepted by a mainstream lender, or because mainstream credit products would not suit their particular needs. One of the main reasons that a customer is best served by the non-standard market is having a relatively low income. Other reasons include having a poor credit history because of past problems, or having a limited credit history or no credit history at all.

In this report

Welcome to our 2013 Annual Report and Financial Statements.

With new reporting regulations now in place, we have set out the contents to help you navigate the report.

1 Strategic report

2 Governance

3 Remuneration

4 Financial statements

5 Shareholder information

For more detail on our business:
www.providentfinancial.com

For more on our corporate responsibility approach:
www.providentfinancial.com

To join the conversation.

Cautionary Statement
All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and business of Provident Financial plc and its strategy, plans and objectives and the markets in which it operates, are forward-looking statements. Such forward-looking statements which reflect the directors' assumptions made on the basis of information available to them at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Provident Financial plc or the markets in which it operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in the document shall be regarded as a profit forecast and its directors accept no liability to third parties in respect of this report save as would arise under English law. In particular, section 463 of the Companies Act 2005 limits the liability of the directors of Provident Financial plc so that their liability is solely to Provident Financial plc.

Welcome to our 2013 Annual Report and Financial Statements

"2013 saw the group make excellent progress. Despite continuing tough market conditions, we increased pre-exceptional profits by 9.9% and have put the group in shape to achieve yet further growth in 2014."

Peter Crook
Chief Executive

Our 2013 Annual Report and Financial Statements sets out our progress in 2013, our strategy moving forward, and provides considerable detail as to how we operate our business.

Board changes

Following the retirement of John van Kuffeler as Chairman in January 2014, Manjit Wolstenholme, who served as a non-executive director for the past six years, has been appointed Chairman. We have also appointed two new non-executive directors whose experience will further strengthen the board.

Strategy

With Vanquis Bank continuing to grow strongly, the repositioning of the home credit business as a leaner, better-quality, more modern, high-returns business and the encouraging start made by the Satsuma loans online instalment lending product, we are well placed for continued growth in 2014 and beyond.

Corporate responsibility

We continue to take our corporate responsibility seriously: lending responsibly to our customers, investing in community outreach programmes, minimising our impact on the environment, and fulfilling our responsibilities to all of our stakeholders.

Key financial highlights

Profit before tax and exceptional items[1,2] (£m)

£196.1m
+9.9%

2013	196.1
2012	178.4
2011	157.2
2010	140.0
2009	129.6

Adjusted earnings per share[1,2] (p)

112.0p
+11.6%

2013	112.0
2012	100.4
2011	86.9
2010	76.2
2009	71.1

Dividend per share (p)

85.0p
+10.1%

2013	85.0
2012	77.2
2011	69.0
2010	63.5
2009	63.5

Dividend cover[1,2] (times)

1.32 times

2013	1.32
2012	1.30
2011	1.26
2010	1.20
2009	1.12

Gearing (times)

3.0 times

2013	3.0
2012	3.2
2011	3.2
2010	3.3
2009	3.3

Community investment (£m)

£2.0m

2013	2.0
2012	1.9
2011	1.6
2010	1.5
2009	1.3

Return on equity (%)

+49%

2013	49
2012	48
2011	46
2010	45
2009	45

Receivables (£m)

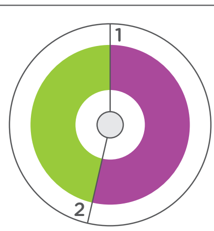
£1,606.6m
+6.1%

2013	1,606.6
2012	1,513.8
2011	1,332.7
2010	1,219.3
2009	1,139.3

Receivables by division 2013 (£m)

1 Vanquis Bank
54%
£866.6m

2 Consumer Credit Division
46%
£740.0m



Profit before tax and exceptional items by division 2013 (%)

1 Vanquis Bank
54%
£106.1m

2 Consumer Credit Division
52%
£102.5

3 Central costs
(6%)
(£12.5m)

1 Vanquis Bank	54
2 Consumer Credit Division	52
3 Central costs	(6)

[1] Profit before tax in 2013 is stated before an exceptional item of £13.7m in respect of the cost of a business restructuring within the Consumer Credit Division. Profit before tax in earlier years is stated before an exceptional credit of £15.6m in 2012 and exceptional costs of £2.5m and £4.4m in 2010 and 2009 respectively. Statutory profit before tax, after exceptional items, amounts to £182.4m in 2013 (2012: £194.0m, 2011: £157.2m, 2010: £137.5m, 2009: £125.2m).

[2] Profit before tax and exceptional items in prior years has been restated following the mandatory adoption and retrospective application of the amended IAS 19, 'Employee Benefits' from 1 January 2013 (2012: £181.1m to £178.4m, 2011: £162.1m to £157.2m, 2010: £144.5m to £140.0m, 2009: £130.1m to £129.6m).

At a glance

The group has two divisions. Vanquis Bank comprises both the well-established UK credit card business and our pilot operation in Poland.

The Consumer Credit Division encompasses the traditional home credit business which stretches back to the company's foundation in 1880, alongside the recently launched Satsuma loans business extending our offering into the fast-growing online instalment loans arena.

Quick facts

Our business

See pages 40-41 for more

£1.6bn year-end receivables

3,600 employees

2.6m customers

Our marketplace

See pages 28-31 for more

18% of total UK lending was to the non-standard market sector

£69bn lent to non-standard credit sector

major changes to regulatory framework

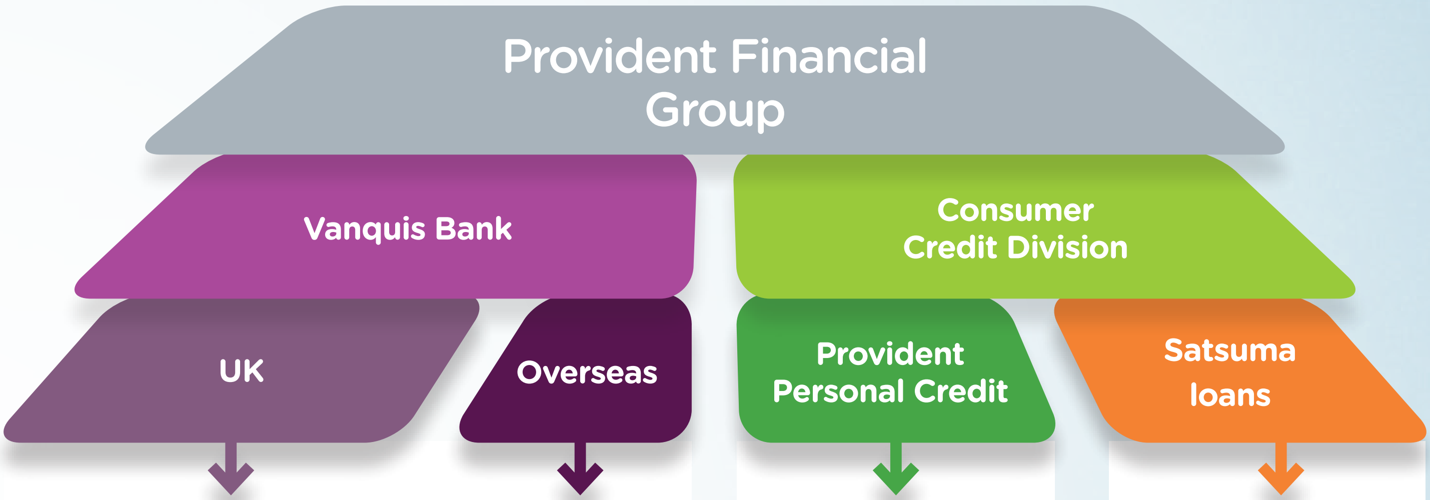
Our corporate responsibility

See pages 32-39 for more

lend appropriately

care for our customers and communities

strong governance



What we do

Vanquis Bank is the leading supplier of credit cards in the non-standard credit market. We give new customers a low credit limit, as low as £250, and only increase that 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.

Our products

Visa credit cards with a representative 39.9% APR.

1, 2, 3, 4 and 5-year, fixed-rate deposit accounts for savers.

Customer profile

Socio-economic groups C1, C2 and D, 52% men, annual household income of £15,000 to £30,000, typically full-time employment, mostly tenants, average balance of £780, 88% customer satisfaction, loans used for internet spending, utility/everyday spending.

Vanquis Bank in Poland

We are testing the market in Poland with the Vanquis Bank credit card. Following the passporting of our UK banking licence into Poland in April 2012, we have been operating at a pilot level to test the various channels of distribution and to build and refine an in-house scorecard. We have now successfully developed the credit tools necessary to deliver our target returns. The current focus is on the development, marketing and distribution of the product proposition.

What we do

Provident Personal Credit offers home credit loans, typically of a few hundred pounds, through a network of 9,000 local agents who call each week at 1.5 million customers' homes in the UK and Ireland. Agents are primarily paid commission on what they collect, not what they lend, so it is in their interests not to lend more than customers can repay. The total amount repayable is fixed at the outset, so there are no extra charges whatsoever.

Our products

Amounts, typically of a few hundred pounds, in the form of cash, shopping vouchers or our 24/7 re-loadable MasterCard.

Customer profile

Socio-economic groups C2, D and E, 62% women, average household net weekly income of £280, part-time/casual/manual employment, mostly tenants, average loan of £500, 93% customer satisfaction, loans used for Christmas, household items, holidays.

What we do

Satsuma loans is our new, online instalment loan product. We collect repayments by continuous payment authority, once a week only, on a day agreed with the customer. Our UK-based call centre is always there to discuss any issues customers may have. Just like our home credit product, the total amount repayable is fixed at the outset, so there are no extra charges whatsoever.

Our products

Online loans repayable in weekly instalments over 13 or 26 weeks. Loans are for up to £300 for new customers with a maximum of £800 for customers with whom we have built up some experience.

Customer profile

54% women, average customer net weekly income of £363, generally in full-time or part-time employment, mostly living with parents, taking an average loan of £260, typically using the loans for personal items, family, vehicle repairs.

Committed to being responsible

Our commitment to being responsible starts with putting the particular needs of our customers at the centre of what we do: small sums, high levels of customer contact, forbearance and flexibility.

However, we are also committed to running our operations in a responsible way across all our relationships – whether internal or external, commercial or charitable. Acting responsibly and with integrity in all we do is a fundamental part of our overall strategy and the bedrock of long-term value creation.

Manjit Wolstenholme
Chairman

Peter Crook
Chief Executive

Our values

To assist in the delivery of our mission to be the leading non-standard lender in our chosen markets, we have a number of core values that are embedded in our business.

Our values help us to run our business in a sustainable, responsible way, to the benefit of all our stakeholders.

1. Fair

We are fair and reasonable in our dealings with stakeholders.

2. Responsible

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

3. Accessible

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

4. Straightforward

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

5. Progressive

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

Our clearly defined roles

Chairman

Our board: ensuring balance and effectiveness

Our board sets the tone from the top. It is responsible to shareholders for the long-term success of the company and ensuring that the company is appropriately managed. We are committed to getting the right team in place and that means one with an effective and diverse balance of skills and experience.

Please go to page 76 for more on the key strengths of each of our board members, the results of our latest board evaluation and detail of our recent board appointments

Our ethics: principles which guide our day-to-day behaviour

Our corporate principles are embodied in our values and policies, which set the standard for the way in which we expect our employees to behave and how we interact with third parties, our customers and agents. These guide us in our day-to-day operations and are embedded throughout our organisation. Compliance with values are closely monitored and reported regularly to the board.

Please go to page 32 for more on how we manage our corporate responsibility

Our governance and remuneration: rewarding ourselves in line with shareholder expectations

Our approach to governance is based on the concept that good corporate governance enhances longer-term shareholder value and, for us, this is a far cry from mere box-ticking. Linked to strong governance is our determination to demonstrate that our pay and benefits are linked to tangible and measurable performance against our strategy. Our remuneration policy sets out our thinking in this area.

Please go to page 108 for more on our remuneration policy

Chief Executive

Our mission

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.

Leading non-standard lender

With over 130 years of experience of lending in the non-standard credit market, we understand our customers' requirements for small sums, a high level of ongoing contact with their lender, and forbearance – such as the ability to miss repayments at no extra cost to the customer whatsoever. This understanding gives us a competitive advantage in our marketplace and provides support for our customers.

Acting responsibly in all our relationships

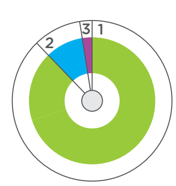
Our desire to act responsibly extends to all of our stakeholders, including customers, staff and agents, suppliers, the local communities we serve, and the environment. We publish a corporate responsibility report annually which sets out our progress in meeting our objective of being a good corporate citizen.

Please go to page 32 for more details

Playing a positive role in the communities we serve

We have a well-developed community outreach programme which supports grass roots projects in the communities we serve throughout the UK and Ireland. We also support the money advice sector and financial research projects that benefit society at large.

2013 community investment



1 Cash
£1,767,279

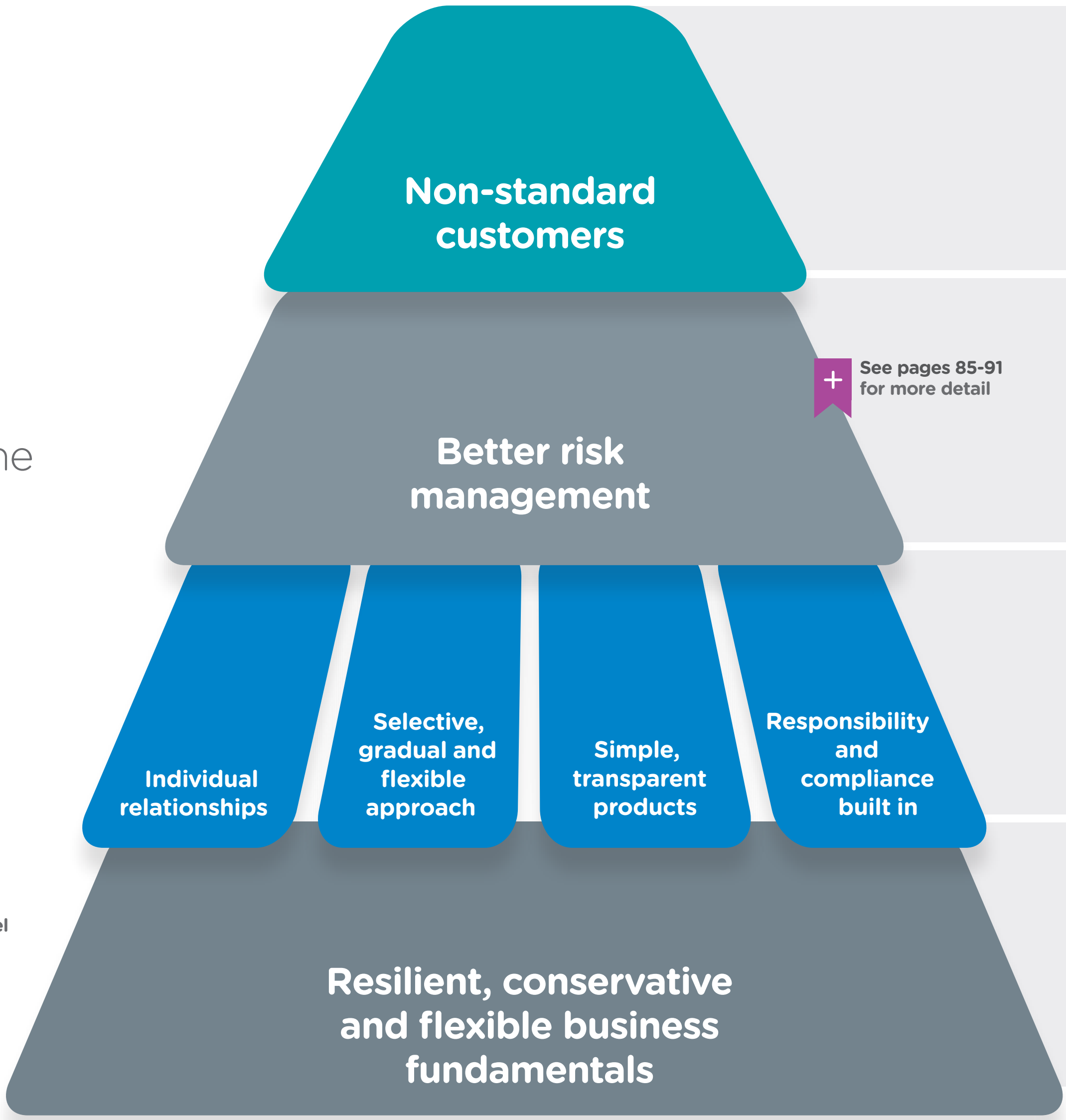
2 Management costs
£191,998

3 Value of employee time
£49,918

Our target is to maintain an investment of 1% of group profit before tax in the communities we serve through various community initiatives, in support of the money advice sector and in social research. In 2013 we invested £2m.

Our business model, tailor-made for the non-standard marketplace

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.



See pages 85-91 for more detail

For more detail on how our business model operates at a divisional level see

page 43 for Vanquis Bank

page 53 for Consumer Credit Division

Our key differentiators

Small sums

We start our customers with access to small amounts of credit, only slowly and gradually increasing amounts responsibly and sustainably over time. Our largest credit lines are still well below mainstream averages.

High customer contact

We begin all our customer relationships with a far higher level of customer contact than mainstream lenders, either face-to-face or over the phone, and maintain this closer and more frequent contact throughout the relationship.

1

We lend to non-standard customers whom others find it hard to serve

We specialise in non-standard credit; our business model benefits from 130 years of experience.

2

We manage the inherent risk of non-standard lending better than others

3

Our approach is highly adapted to our marketplace

We pay close attention to lending and collecting activities, ensuring that we maintain high levels of contact.

We offer simple, flexible products which underpin our responsible lending approach.

4

We underpin our business with solid financial foundations

We focus on organic growth through high return on equity businesses which are cash- and capital-generative.

We have a diverse range of funding sources and borrow long and lend short.

We adopt prudent, appropriate accounting policies.

Forbearance/ flexibility

Our products and approach have the forbearance and flexibility that non-standard customers value highly, built in from the outset.

Being a responsible lender

We have built a reputation for responsible lending over many years through our continued presence in communities nationwide, helping non-standard customers to stay in control and use credit sustainably.

Our business model in action

Typically, Provident customers are hard-working people living on modest incomes. They borrow relatively small amounts, but they need it to be easy to make repayments and they like the flexibility to adjust those payments if their circumstances change.

Our customers

What are they looking for?

- **Reliability**

  Providing credit when others won't, we establish a routine with our customers, be it a weekly home visit or a telephone call, and help them manage their finances.

- **Affordability**

  We offer our customers sensible levels of credit with small, affordable repayments aiming to never overburden their limited incomes but to be there at their time of need.

- **Flexibility**

  We know that the circumstances of our customers can change – be it reduced hours at work or a change in a relationship. Customers value the fact that their repayments can be flexible at such times.

- **Certainty**

  In the home credit business and Satsuma loans, the amount to be repaid is fixed, so the amount our customers agree to repay never rises, even if they miss some payments. There are no extra charges whatsoever.

What attracts them to us?

- We lend to those often overlooked by high street banks and mainstream lenders.
- Our approach and products are highly adapted to their needs.
- Long history and reputation.

The value added

The household income of most Vanquis Bank customers is between £15,000 and £30,000 a year. They use the credit card in a similar way to users of mainstream cards, on the high street, and for internet shopping. Growth in online shopping and changes in merchants' payment policies have made everyday tasks increasingly difficult without a payment card. The card therefore has a high utility value and offers useful additional consumer protection – it is often the only credit card they have.

Vanquis Bank

Our differentiators

- Personal welcome call to all new customers to establish a close relationship.
- Customer satisfaction levels of just below 90%, much higher than mainstream card issuers.
- Highly-skilled, UK-based contact centres.
- Robust selection criteria with only a quarter of new applications being approved.
- Starting with small and manageable initial credit limits, as low as £250.
- Technology-driven, with online account access and management.
- Early engagement with customers to identify signs of problems and implement appropriate forbearance measures.
- Manageable monthly payments, priced appropriately and transparently.
- Option of payment flexibility.

1.1m
customers

Home credit customers are not always the main breadwinners, but they often control the household budget. The household income tends to be from hourly-paid or part-time casual work rather than from salaried employment, and just under half of our customers are in receipt of non-universal benefits. Home credit customers value the discipline of the weekly visit and appreciate having flexibility on repayments.

Consumer Credit Division

Our differentiators

- Personal contact every step of the way, ensuring that we treat our customers as individuals.
- Industry-leading customer satisfaction levels of 93%.
- Highly-skilled, locally-based agents in home credit who really understand their customers' needs and circumstances.
- Robust selection criteria with only around 20% of new home credit applications being approved.
- Starting customers on small and manageable amounts of credit with £300 being the typical loan issued.
- Embracing new technologies to meet the needs of our customers.
- Using continuous payment authorities responsibly within Satsuma loans, only taking payments on the agreed day, based around a pre-agreed schedule with the customer.
- Fixed weekly payments, priced appropriately and transparently, with no additional charges whatsoever.

1.5m
customers

Our key differentiators

Small sums...

People in the non-standard credit market tend to have relatively low incomes or have had trouble with credit in the past, so it makes sense for them to borrow smaller sums. This means borrowing the few hundred pounds they can afford on a Vanquis Bank credit card, a home credit loan, or a Satsuma loan, rather than the few thousand they can't afford from a mainstream lender.

? So what does it mean for us?

"When I tell customers we are allowing them the relatively low level of a £250 credit limit initially, rather than being disappointed, they often thank me for not putting them in a position where they might spend more than they could afford."

Vanquis Bank contact centre representative

Home credit loans start as low as **£50**

Satsuma loans for new customers up to **£300**

Vanquis Bank credit limits as low as **£250**

...tailor-made advances

Our
key differentiators

High customer contact...

Those with little leeway in their income have to budget much more carefully than those with greater leeway. We've found that staying in close contact with customers to discuss at an early stage the inevitable bumps in the road that come along, helps our customers to stay in control of their credit. It also helps us keep bad debt in check, which may allow us to lend to the customer again.

? So what does it mean for us?

"I really appreciate having a named person in the contact centre who is handling my Satsuma loan that I can speak with to iron out any problems. Other online lenders I've used don't do this."

Satsuma loans customer

- **Home credit agents call at customers' homes every week.**
- **Satsuma loans customers have a named person they can call to discuss any issues.**
- **Vanquis Bank has a welcome call and contacts customers by SMS text and telephone.**

...tailor-made relationships

Our
key differentiators

Forbearance/ flexibility...

Over 130 years of serving the non-standard credit market has taught us that customers on relatively low incomes will occasionally have trouble in making repayments. In the mainstream market, the likelihood is that the customer would have to pay default charges and additional interest at the time they can least afford to. Our home credit and Satsuma loans have no extra charges whatsoever when this occurs and Vanquis Bank offers a product which allows extra flexibility.

? So what does it mean for us?

"As a home credit agent, if the customer is experiencing difficulty I am able to reduce their weekly repayments or stop them altogether for a while. And this is done at no extra cost to the customer whatsoever."

Provident Personal Credit agent

- **Home credit agents can stop repayments at no extra cost to the customer.**
- **Satsuma loans representatives can stop repayments at no extra cost to the customer.**
- **Vanquis Bank customers have the option to take out a plan which gives them extra flexibility and freezes their account when they get into difficulty.**

...tailor-made solutions

Our
key differentiators

Being a responsible lender...

Small sums advanced, high levels of customer contact, forbearance and flexibility, together with good regulatory compliance, add up to lending responsibly in the non-standard credit market. Our high levels of customer satisfaction and low levels of customer complaints go some way to showing that we have tailor-made our products to ensure they meet the particular needs of our customers.

? So what does it mean for us?

"My Provi agent has always acted responsibly when giving me loans. She will sometimes suggest I borrow a bit less than I've asked for – which usually works out for the best in the end. And she's allowed me to miss repayments from time to time when I've been under particular financial pressure. I feel she's always got my interests in mind as well as her own."

Provident Personal Credit customer

- Products that meet customers' needs.
- High levels of customer satisfaction.
- Low levels of complaint.

...tailor-made for customer satisfaction

Our strategy

1 Growing high return on equity businesses in non-standard markets

We specialise in investing in and developing businesses that provide high returns on a relatively small amount of equity capital deployed. In particular, we focus on small-sum unsecured credit as: (i) this area of the market offers high margins and high returns to companies with sustainable business models such as ours; and (ii) lending small amounts to millions of customers who do not have much indebtedness elsewhere means that our risks are well spread.

What we said we'd do in 2013

- Maintain strong growth in Vanquis Bank within the UK non-standard credit card market, whilst seeking opportunities to utilise the existing business model to expand into other geographic markets and products.
- Deliver on the business effectiveness programme in our home credit business to generate sustainable growth.
- Extend our product offerings to ensure that we have the appropriate range of products for our chosen markets.

What we've achieved in 2013

- Generated further strong, profitable growth in Vanquis Bank, delivering record new account volumes and UK profits growth of 60%. We have continued to develop the pilot credit card operation in Poland, including refining underwriting and developing the product proposition and distribution channels.
- Developed a strategic plan to reposition the Consumer Credit Division (CCD) over the next two years to become a lending business, not just a home credit business:
  - We are updating the home credit business to create a leaner, better-quality, modern, more profitable business; and
  - We have launched Satsuma loans, an online loans proposition, to address the target market directly between Vanquis Bank and our home credit business.
- We have continued to explore the potential for growth into other forms of non-standard lending.

What's next?

- Continuing the growth in the UK business of Vanquis Bank by further developing our distribution channels.
- Developing the marketing and distribution of the revolving credit proposition in Poland.
- Continuing the programme to update the home credit business, through the roll-out of technology, standardisation of processes and the development of the people programme.
- Developing the platform, underwriting, brand and channels to market for Satsuma loans to capture the growth opportunity available in the online instalment loans market.

2 Generating high shareholder returns

Our strategy of developing businesses which generate strong returns on equity capital underpins our dividend policy which aims to distribute up to 80% of our profits to shareholders. We aim to generate sustainable growth in profits and dividends to continue to deliver attractive shareholder returns.

What we said we'd do in 2013

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

What we've achieved in 2013

- Group profit before tax and exceptional items growth of 9.9%.
- Growth in dividends per share of 10.1%.
- Total shareholder return of 25.4%.
- Dividend cover maintained at 1.32 times, consistent with 2012.

What's next?

- Generating further profits and dividends growth whilst maintaining a dividend cover of around 1.30 times, to generate continued growth in total shareholder return.

3 Maintaining a secure funding and capital structure

We maintain a strong balance sheet and prudent funding structure. Our business model is based on borrowing long and lending short and maintaining a diverse funding base, including bank funding, public and private bonds, private placements and retail deposit-taking in Vanquis Bank. Our maximum target gearing ratio is 3.5 times, comfortably inside our banking covenant of 5.0 times. This means that we have not had the funding or capital strain that has affected other lending businesses through the credit crisis.

What we said we'd do in 2013

- 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.

What we've achieved in 2013

- Renewed our syndicated bank facility of £382.5m through to May 2017.
- Strong capital generation has led to a reduction in gearing from 3.2 times to 3.0 times.
- The group now has sufficient headroom on committed facilities, together with the retail deposits programme at Vanquis Bank, to fund contractual maturities and growth through to the seasonal peak in 2017.

What's next?

- Maintain our commitments on gearing and headroom on committed facilities to ensure that we maintain a prudent funding and capital structure.

4 Acting responsibly in our relationships with customers and making a positive contribution to the communities served by the group's businesses

We are passionate about providing our customers with an excellent product proposition and service. Agents see the majority of customers every week in our home credit business and we have much higher levels of contact than mainstream lenders in our direct repayment businesses, including a welcome call to all new customers.

What we said we'd do in 2013

- Earn high levels of customer satisfaction.
- Meet or exceed regulatory requirements.
- Follow our corporate values in the treatment of our stakeholders.
- Invest in the communities in which our customers and agents live and in which our staff work.
- Maintain a system to manage corporate responsibility.

What we've achieved in 2013

- Maintained very high levels of customer satisfaction in both Vanquis Bank and CCD.
- Developed Satsuma loans to be a unique proposition in the online instalment loans market, including certainty on costs with no penalty charges, a welcome call and a representative on the phone for all customers.
- Developed the programme for ensuring a smooth transition from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA) in 2014.
- Continued to invest at least 1% of our profits in our community programme.

What's next?

- Continuing to ensure that the customer is placed at the heart of everything we do.

Key performance indicators
Measuring our performance

Strategy

1 Growing high return businesses in non-standard markets

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

Why we use these KPIs

The group uses a number of KPIs to assess progress against each of its strategic objectives, including both financial and non-financial measures. Our performance during 2013, measured using these KPIs, together with our plans for 2014, are set out on the following pages.

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

KPI description

Return on equity

Profit after tax for the year, excluding exceptional items, divided by average equity. Equity is stated after deducting the group's pension asset and the fair value of derivative financial instruments, both net of deferred tax, and the proposed final dividend.

Group

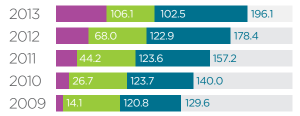
Return on equity[1,2] (%)

Profit before tax

The financial result for the year, excluding exceptional items, before deducting corporation tax.

Vanquis Bank | CCD | Group

Profit before tax[1,2] (£m)



Amounts receivable from customers

Amounts lent to customers plus revenue earned to date, less any repayments and impairment.

Amounts receivable from customers (£m)

	Vanquis Bank		CCD		Group	
2013	*34.7%*	**866.6**	*14.9%*	**740.0**	*6.1%*	**1,606.6**
2012	*41.9%*	**643.3**	*(0.7%)*	**870.5**	*13.6%*	**1,513.8**
2011	*31.4%*	**453.4**	*1.1%*	**876.7**	*9.3%*	**1,332.7**
2010	*35.0%*	**345.0**	*0.1%*	**867.2**	*7.0%*	**1,219.3**
2009	*24.4%*	**255.5**	*3.9%*	**866.0**	*7.1%*	**1,139.3**

Risk-adjusted margin (Vanquis Bank)

Revenue less impairment as a percentage of average receivables for the year.

Vanquis Bank

Risk-adjusted margin (%)

Revenue yield (CCD)

Revenue as a percentage of average receivables for the year.

CCD

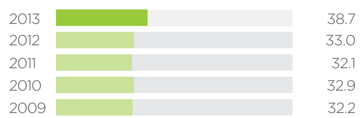
Revenue yield (%)

Impairment % revenue (CCD)

Impairment as a percentage of revenue for the year.

CCD

Impairment % revenue



[1] Prior to exceptional items.
[2] Restated for the mandatory adoption and retrospective application of the revised IAS 19 from 1 January 2013.

Performance in 2013

- High group return on equity of 49%[1] (2012 restated: 48%[1,2]).
- Vanquis Bank continued to deliver a return on equity well above its threshold limit of 30%.

- Group profit before tax and exceptional items of £196.1m[1], up by 9.9% (2012 restated: £178.4m[1,2]).
  - Strong Vanquis Bank performance, delivering profit before tax of £106.1m (2012: £68.0m).
  - CCD generated a profit before tax of £102.5m (2012 restated: £122.9m) reflecting a reduction in customer numbers and receivables due to weak demand and tightened credit standards.

- Group receivables up by 6.1% to £1,606.6m (2012: £1,513.8m).
  - Vanquis Bank receivables showed strong growth of 34.7% to £866.6m (2012: £643.3m) due to strong customer growth and the success of the credit line increase programme.
  - 15.0% reduction in CCD receivables to £740.0m (2012: £870.5m) due to weak demand and tighter credit standards following the re-positioning of the home credit business in September 2013.

- Risk-adjusted margin of 34.2% (2012: 34.8%), well above the minimum target of 30%, reflecting strong margins and favourable arrears levels.

- Revenue yield increased to 96.0% (2012: 89.0%), reflecting the shift in mix of loans to shorter-term products with a higher yield due to the reduction in demand for longer duration loans which carry a lower yield.

- Impairment as a percentage of revenue in 2013 was 38.7% (2012: 33.0%). Approximately 3% of the uplift was due to the increase in the revenue yield with the remaining increase due to the deterioration in the arrears profile in the first nine months of the year. Arrears levels and collections performance stabilised in the last quarter, benefiting from the focus on collections and arrears management processes following the re-positioning of the home credit business.

What it means for us in 2014

Vanquis Bank

- Continue to invest in the customer acquisition programme, maintaining the growth in customer numbers and receivables at similar levels.
- Further develop the channels to market to mitigate any increase in competition.
- Maintain a tight stance on underwriting and credit line increases.
- Deliver a risk-adjusted margin in the range of 32% to 33%, after allowing for the impact of the changes made to the Repayment Option Plan (ROP) product and its sales process in the third quarter of 2013.
- Develop the marketing and product proposition in Poland in order to build volumes.

CCD

- Continue the programme of updating the home credit business through the roll-out of technology, standardisation of processes and the development of the people programme.
- Developing the platform, underwriting, brand and channels to market for Satsuma loans to capture the growth opportunity available in the online instalment loans market.
- Maintain the tight underwriting stance deployed in the third quarter of 2013, which will lead to a further reduction in customer and receivables levels.
- Maintain a robust revenue yield.
- Further develop the collections and arrears management process to reduce the ratio of impairment to revenue from the current level of 38.7%.
- Cost reductions of £26m secured for 2014 following the implementation of the cost reduction programme during 2013.
- Maintain profits at a level similar to 2013.

Key performance indicators continued
Measuring our performance continued

Strategy

2 Generating high shareholder returns

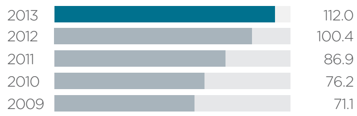
- Generate sustainable growth in profits and dividends to deliver increasing shareholder returns.
- Maintain a dividend cover of at least 1.25 times.

KPI description

Adjusted earnings per share (EPS)

Profit after tax, excluding exceptional items, divided by the weighted average number of shares in issue, excluding own shares held by the group.

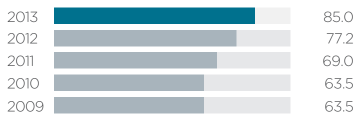
Adjusted earnings per share[1,2] (p)



Dividend per share (DPS)

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

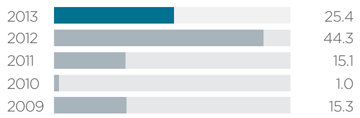
Dividend per share (p)



Total shareholder return (TSR)

The change in the value of the group's shares, together with any dividend returns made to shareholders.

Total shareholder return (%)



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 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.

Gearing

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

Gearing (times)

4 Acting responsibly in our relationships with customers and making a positive contribution to the communities served by the group's businesses

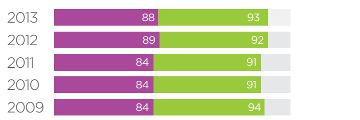
- Earn high levels of customer satisfaction.
- Meet or exceed regulatory requirements.
- Follow our corporate values in the treatment of our stakeholders, particularly our customers.
- Invest in the communities in which our customers and agents live and in which our staff work.

Customer satisfaction

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

Vanquis Bank   CCD

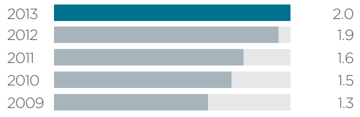
Customer satisfaction (%)



Investment in the community

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

Community investment (£m)



[1] Prior to exceptional items.
[2] Restated for the mandatory adoption and retrospective application of the revised IAS 19 from 1 January 2013.

Performance in 2013

- Adjusted earnings per share up 11.6%[1] to 112.0p (2012 restated: 100.4p).[1,2]
- Dividend per share increased by 10.1% to 85.0p (2012: 77.2p), producing a dividend cover of 1.32 times (2012: 1.30 times).
- Strong TSR of 25.4% in 2013 (2012: 44.3%).

What it means for us in 2014

- Deliver further EPS and TSR growth.
- Maintain a minimum dividend cover of at least 1.25 times.

- Gearing reduced to 3.0 times (2012: 3.2 times), compared with a maximum target of 3.5 times and a banking covenant of 5.0 times.
- Issue of a fourth retail bond of £65m in March 2013.
- Renewal of committed bank facilities of £382.5m in January 2014.
- Vanquis Bank retail deposits programme increased from £327m to £435m during 2013.
- Headroom on committed facilities of £235m at 31 December 2013 which together with the retail deposits programme at Vanquis Bank and the renewal of bank facilities in January 2014, ensures there is sufficient headroom to fund growth and contractual maturities until the seasonal peak in 2017.
- Comfortable regulatory capital surplus against the capital requirements set by the PRA.

What it means for us in 2014

- Maintain capital and gearing at prudent levels.
- Continue to manage the flow of retail deposits in Vanquis Bank to ensure the headroom on the group's committed facilities is maintained at an appropriate, but not excessive, level.
- Effectively manage the transition to the Capital Requirements Directive IV (CRD IV) for regulatory capital and liquidity reporting to the PRA.

- Customer satisfaction of 93% for CCD (2012: 92%) and 88% for Vanquis Bank (2012: 89%).
- Invested a total of £2.0m in various community programmes, money advice programmes and social research (2012: £1.9m).

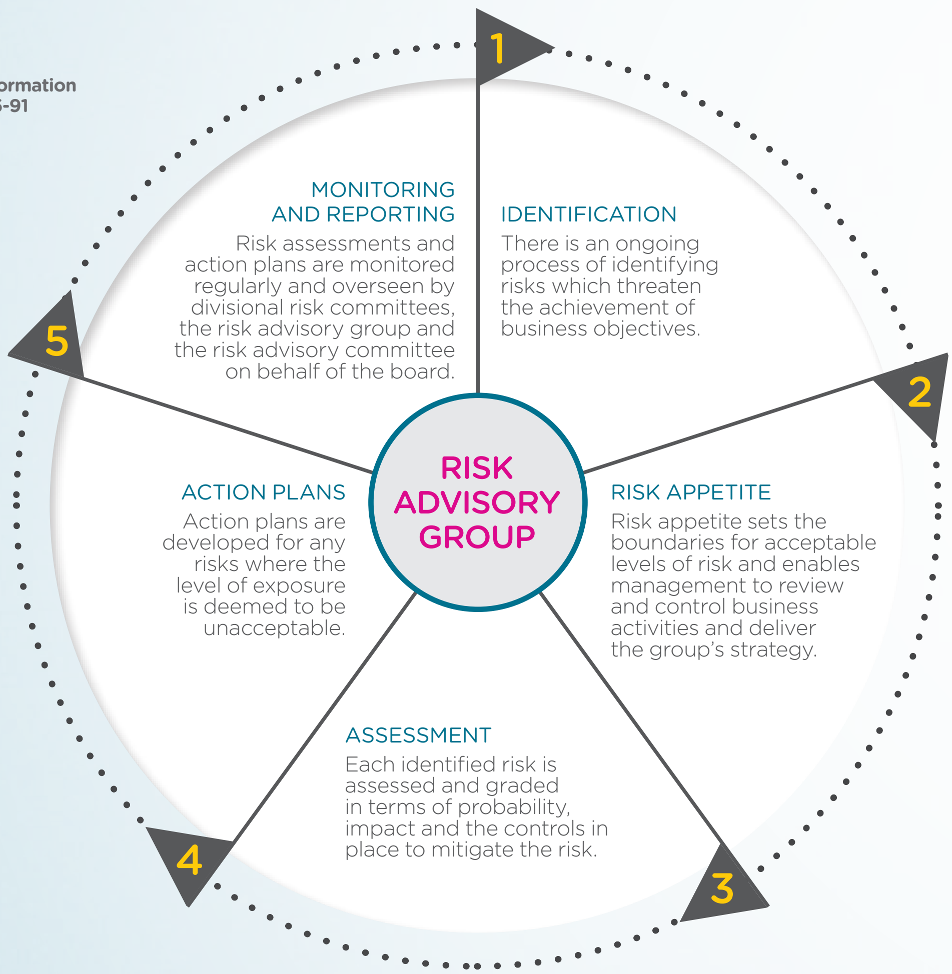
What it means for us in 2014

- Maintain or improve customer satisfaction levels in both Vanquis Bank and CCD.
- Maintain an investment of 1% of group profit before tax in the community through various community programmes, money advice programmes and social research.
- Effectively manage the transition from regulation by the OFT to the FCA during 2014.
- Continue to place customers' needs at the forefront of our product offering.

Managing our risks

The group has a robust risk management framework which is overseen by the risk advisory committee on behalf of the board. The committee is required to consider the nature and extent of the risks facing the group, keep them under review, review the framework to mitigate such risks and notify the board of changes in the status and control of risks. The risk advisory group reviews the divisional risk register four times a year and reports to the risk advisory committee.

For more information see pages 85-91



What we've achieved in 2013

- Reviewed and approved the revised group's risk appetite framework.
- Performed a full financial risk review.
- Established an overall risk management status report.
- Began to develop a separate conduct risk framework, approach and processes due to the transition to the FCA regime from 1 April 2014.

What we have scheduled for 2014

- Finalise the frameworks, approach and processes to manage conduct risk within Vanquis Bank and CCD and the group as a whole.
- Split the roles of Head of Audit and Risk to a Head of Audit (David Mortlock) and a Director of Strategy and Risk (David Merrett) from 1 January 2014.
- Enhance the risk management framework which focuses on both the Vanquis Bank Polish pilot operation and the Satsuma loans business.

Our key risk overview

Regulatory risk
- The risk of loss arising from a breach of existing regulation or adverse future regulatory changes in the markets within which the group operates.

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

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

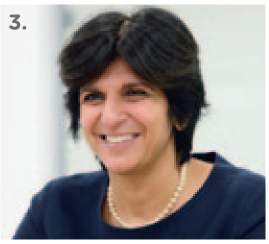
Credit risk
- The risk that the group will suffer unexpected losses in the event of customer defaults.

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

Operational risk
- The risk of loss resulting from IT systems failure.
- Threats to agent safety make it unsafe to operate home-collected credit.
- The risk of loss resulting from loss or abuse of confidential data or systems.
- Loss of key management or reduction in staff morale impacting business performance.

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

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



The risk advisory committee delegates a number of responsibilities to the risk advisory group which comprises the executive directors, the Company Secretary and General Counsel, the Group Financial Controller, the Group Treasurer, the Head of Audit, and the Director of Strategy and Risk. The risk advisory group considers the nature and magnitude of the risks facing the group, the acceptable risk tolerance, the likelihood of any risk materialising, the group's ability to mitigate any risk, and the costs of operating particular controls relative to the benefits obtained. It also reviews the key risk registers prepared by the group and the divisional risk committees quarterly, challenging where appropriate. A schedule of key risks, a summary of the group and divisional key risk registers and the ICAAP document is provided to the risk advisory committee for review and approval.

Our risk advisory committee

Members:

1. Rob Anderson (Chairman)
2. Stuart Sinclair
3. Manjit Wolstenholme
4. Malcolm Le May[1]
5. Alison Halsey[1]

Attendees by invitation:

Peter Crook

Andrew Fisher[2]

David Mortlock
(Head of Audit)

David Merrett
(Director of Strategy and Risk)

[1] Appointed on 1 January 2014

[2] Resigned as a member on 1 January 2014 but attends by invitation

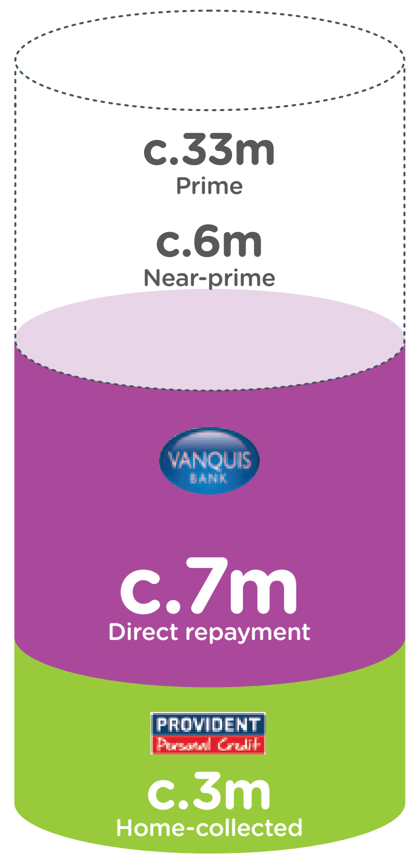
Our marketplace
The evolution of the non-standard credit market

Over the last six years, since the demerger of the group's international business in 2007, the non-standard credit market has evolved significantly. The credit crisis, together with the rapid increase in internet usage, has meant that customer behaviours and preferences have changed and product propositions have had to adapt in response.

The UK non-standard credit market in 2007

Market competitors

- Black Horse
- Capital One
- Beneficial Finance
- Barclaycard
- Citifinancial
- Monument
- HFC
- Welcome
- Ocean Finance



- Over £100bn of advances per annum.
- Market dominated by mainstream models and products.
- Headline prices less than 100% APR with additional fees for PPI and default charges.

- Mix of mainstream and specialist competitors.
- Regulation by the Office of Fair Trading (OFT) and the Financial Services Authority (FSA) for banks.

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

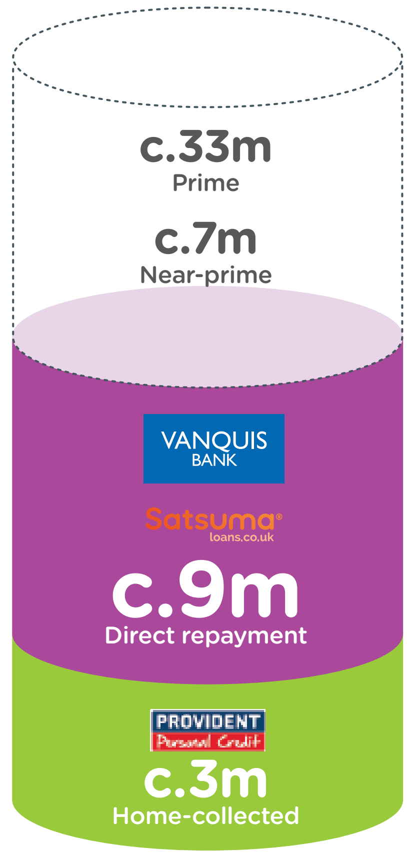
The direct repayment segment of this market represented around seven million consumers and was dominated by more mainstream business models and products, although both mainstream businesses and non-standard credit specialists were present in the market. The largest lending format was instalment loans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

The credit crisis and much tighter underwriting standards adopted by mainstream lenders have meant that the non-standard market in 2013 looks quite different. The target audience has increased from approximately 10 million to 12 million consumers but annual advances have reduced from £100 billion in 2007 to around £70 billion, representing the general reduction in consumer lending following the credit crisis. The market has started to grow again more recently.

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

The biggest area of change is in the direct repayment segment of the market which has grown from around seven million consumers to nine million. This market is now dominated by specialist non-standard lenders providing much smaller loans at higher APRs with customers typically being recruited online. The retrenchment of more mainstream lenders or failure of some other lenders has provided growth opportunities for credit card providers and payday lenders. In particular, Vanquis Bank has prospered within the non-standard credit card market, growing its customer base from around 300,000 customers in 2007 to over 1 million in 2013.

The UK non-standard credit market in 2013



Market competitors

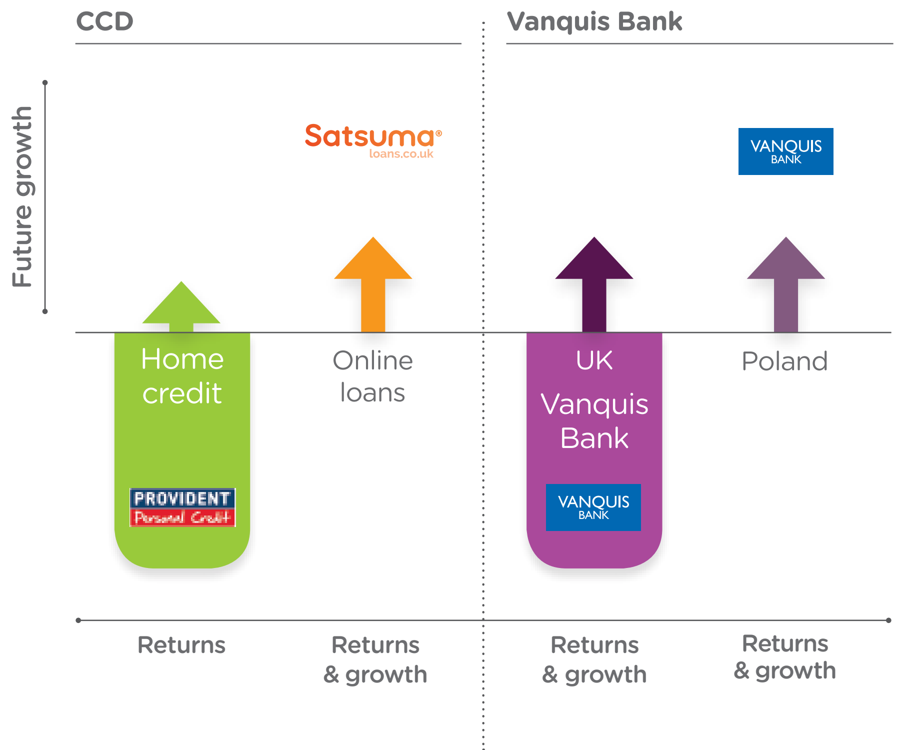
- Wonga
- CapitalOne
- PaydayUK
- Aqua
- QuickQuid
- Payday Express
- Pounds to Pocket
- Ladder Loans
- Cash Converters
- BrightHouse
- PerfectHome

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

Our marketplace continued
The evolution of the non-standard credit market continued

Our businesses

Higher-return businesses with strong growth potential



In response to the evolution of the non-standard lending market, we have repositioned the Consumer Credit Division (CCD) to be a more broadly-based lending business. The changing preferences of some consumers to source credit online together with the continuing pressure on disposable incomes from the rising cost of utility bills means that our home credit business needs to be updated and our product proposition broadened. As a result, we are focusing on running a high-quality, leaner and more modern home credit business to respond to changing customer needs and deliver better returns for shareholders.

In addition, we have launched an online instalment lending business, branded Satsuma loans, which will operate in the under-served part of the direct repayment market between Vanquis Bank and home credit. The business shares many of the core strengths of both our home credit business and Vanquis Bank and is positioned as a sustainable and responsible alternative to payday lending.

We will continue to develop the non-standard credit card market in the UK with Vanquis Bank and seek to expand overseas through our Polish pilot operation.

Market opportunity

We believe that Satsuma loans is the best product for the target demographic and directly meets the core customer needs of certainty and flexibility.

	Payday, one-off bullet repayment	Instalment loan, fixed schedule with no flexibility	Flexible and affordable weekly repayments
Certain total cost from the outset			Satsuma loans.co.uk
Late fees or rollover charges	• MYJAR • Pounds Till Payday • WageDayAdvance • Payday Express • CFO Lending • PaydayUK • Mr Lender • Wonga	• Pounds to Pocket • Zebit • QuickQuid • Peachy • Ladder Loans • Lending Stream	

So what does it mean for us?

Satsuma loans

The online loans market, which is primarily served by payday lending at present, is estimated to be some four times the size of the home credit market and is growing as customer preferences change. With the backdrop of clearer, tighter regulation around payday lending, there is likely to be a shift in demand from payday loans to instalment loan products, such as Satsuma loans.

Vanquis Bank products

Credit cards

Visa credit cards with a representative 39.9% APR.

Home credit products

Cash loans

Small, cash, home credit loans, typically of a few hundred pounds, with repayment over periods from 14 to 110 weeks.

Gold Card

The Gold Card is a pre-loaded plastic card offered to our best customers which can be used at over 60 online and high street retailers.

24/7

'24/7' is a pre-paid MasterCard loaded with the customer's loan, enabling them to spend in shops, via the telephone or online, and to withdraw cash via ATMs. It has the additional benefit of being secure, and can be replaced if the card is lost or stolen. Repayments are made via agents, in the same way as cash loans.

Our ability to develop higher-return businesses in non-standard markets can only be achieved if we put our market knowledge and consumer understanding into practice.

Our current UK product portfolio is actively tailored to meet customer needs and we engage regularly with them to ensure we are meeting their expectations.

Corporate responsibility

"Being a successful and sustainable business requires more than generating strong financial results and returns for our shareholders. We believe our continued success cannot be separated from the responsibilities we have to our customers, employees and other stakeholders."

Peter Crook Chief Executive

Key areas of focus

As a leading lender to non-standard customers, our most important corporate responsibility (CR) is to lend to our 2.6 million customers in a responsible manner. We do this by ensuring that our products are tailor-made to meet the needs and behaviours of our customers. We are transparent and straightforward about the costs and terms and conditions of our products. We behave responsibly throughout a customer's relationship with us – from the first time they get in touch with us to apply for one of our products through to their final payment, and if they experience difficulty in meeting their repayments along the way. But our approach to CR extends beyond this; it guides how we treat our 3,600 employees, and the suppliers we engage with, as well as committing us to play a positive role in the many communities we serve and to manage our environmental impacts.

How CR is governed

Overall responsibility for our CR programme rests with the Chief Executive, Peter Crook. CR and community affairs are regularly considered by the board, and a corporate affairs activity report, which includes updates on the group's CR and community involvement activities, is presented at each board meeting. The group executive committee, which includes the executive directors and senior management, and is chaired by Peter Crook, reviews and approves the CR programme and budget.

Management of CR

Day-to-day management of the CR programme is undertaken by the CR Manager, Community Affairs Manager and Community Affairs Executive. To support this team, the following working groups have been established:

- Corporate responsibility working group;
- Environmental working groups within Vanquis Bank and CCD;
- Vanquis Bank's Active Community Programme board; and
- Head office travel plan steering group.

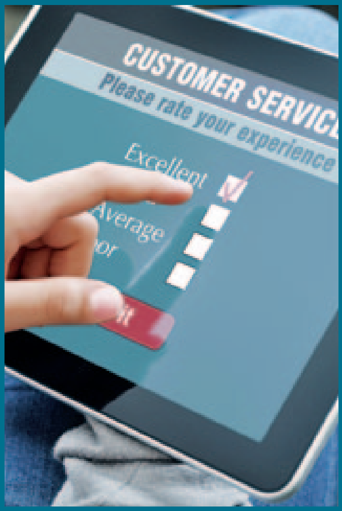
Our CR strategy

Our CR strategy involves acting responsibly in our relationships with customers and making a positive contribution to the communities served by the group's businesses, and is organised around the following themes:

- Earning high levels of customer satisfaction.
- Meeting or exceeding regulatory requirements on responsible lending.
- Following our corporate mission and values in the treatment of our stakeholders.
- Investing in the communities in which our customers and agents live and in which our staff work.
- Maintaining a system to manage wider corporate responsibility issues.

Case study:

Engaging with stakeholders to improve our CR performance



During 2013, we worked with Corporate Citizenship to convene an invitation-only online forum for stakeholders to share opinions and engage with the business. The aim of the forum was to foster transparent discussion among a variety of important stakeholders on CR issues in general, as well as more specific views on the performance and responsibilities of the group. The feedback which was generated by the forum will ensure that there is continual improvement in the performance of our CR programme.

Our key stakeholders

We have identified six main stakeholder groups that have an interest in, or are affected by, our business activities. They are: customers, communities, employees, suppliers, shareholders and regulators.

To understand whether we are delivering against our strategic objectives and aware of these stakeholders' views and concerns, we engage with them on an ongoing basis. We do this by conducting regular surveys and focus groups, and by participating in consultation exercises.

Corporate responsibility continued
Lending responsibly

Lending responsibly

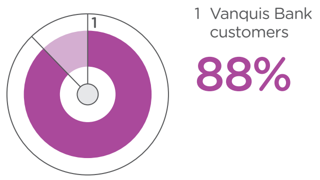
For Provident, responsible lending is about developing and delivering products that meet the needs of our customers. We do this by offering Vanquis Bank credit cards, home credit loans and Satsuma loans, which share the same responsible lending characteristics; they are all simple and transparent financial products which are delivered through a friendly and personal service and which have higher levels of forbearance and flexibility than the products offered by other lenders.

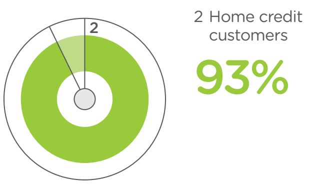
Being a responsible lender
We have unrivalled experience and expertise in supplying financial products which are tailor-made to the specific requirements of those in the non-standard credit market.

The Vanquis Bank credit card has credit limits as low as £250, which are smaller than those of mainstream credit cards. This enables Vanquis Bank employees to observe and understand the behaviour of customers before granting any further lending, in a responsible and sustainable manner. Vanquis Bank maintains higher levels of contact with its customers than mainstream credit card providers, which enables it to provide a higher level of help and support to customers and resolve any issues which arise. Vanquis Bank is also able to offer customers a range of extra features through its optional Repayment Option Plan with features such as Account Freeze, Payment Holiday, Lifeline, Payment Reminders, and Over-limit Alerts, to assist them whilst they get back on track.

Our home credit and Satsuma loans are for small sums and have their costs fixed at the outset – with no extra charges whatsoever. Repayments are collected on a weekly basis, by a self-employed agent in the customer's home in the case of our home credit loans, and via a Continuous Payment Authority on a pre-agreed day for a pre-agreed amount only, in the case of Satsuma loans. High levels of contact are maintained with home credit and Satsuma loans customers through face-to-face meetings or over the telephone, which enables the customer to discuss any difficulties or queries that they might have at an early stage and agree a course of action to resolve them.

Customer satisfaction





The percentage of customers who are satisfied with the service they have been given by Vanquis Bank and our home credit business.

Playing a positive role in the communities we serve

Supporting money advice

As a responsible lender, we continue to work with and support a wide range of free and voluntary money advice organisations, to help consumers who may have problems repaying their debts to us and others. These include: Advice UK, Citizens Advice, Step Change Debt Charity, Institute of Money Advisers, Money Advice Liaison Group, Money Advice Scotland, Money Advice Trust, and National Debtline.

We also work with more specialised providers on a range of financial education initiatives and support publicly available, independent research to help understand the financial behaviour of those on modest incomes and increase the quality and availability of free, independent money advice in the UK.

39
The number of three-year funded Good Neighbour projects

£2.0m
Community investment

Community investment
As we serve customers in so many communities across the UK and Ireland, we believe we have a duty to be a model corporate citizen and a positive force in people's lives. The strategy behind our community activities has stood the test of time and comprises two strands:

(i) Helping to address the social inclusion needs of people who live in deprived communities; and

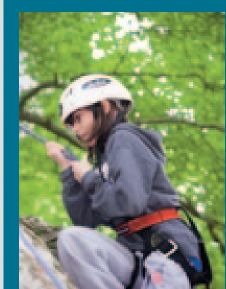
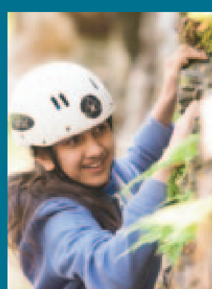
(ii) Supporting the money advice sector to address financial education issues and carrying out social research into matters that relate to our customers.

Our community outreach activities are delivered through two programmes:

- The Good Neighbour programme, which delivers local project support and provides employees with volunteering and matched-giving opportunities in the many communities we serve across the UK and Ireland.
- The Vanquis Bank Active Community Programme, which encourages employee volunteering and provides support to local charities in London, Chatham and Bradford, and through the international charity 'Hatua' in Nairobi, Kenya.

Vanquis Bank supports the UK-registered charity Hatua which means "the next step" in Swahili. Hatua helps talented children from Nairobi's slums, typically from families living on less than $1 a day. Every Vanquis Bank employee has the opportunity to support the initiative, be it by fundraising in the UK or through a visit to schools in Nairobi.

Corporate responsibility continued
Playing a positive role in the communities we serve continued



Case study:
Community project support

As of 31 December 2013, the Good Neighbour programme was supporting 39 local community projects across the UK and Ireland.

These include:

- **Young People Cornwall**

  Young People Cornwall supports young people aged 11 to 25 through projects including health education, youth clubs and the arts.

  Cornwall has one of the highest rates of suicide in the UK amongst young people and of those, only 14% were known to the mental health authorities. The project also works with young people who are experiencing, or likely to experience, mental health issues.

  We're funding a professional trainer for the 'Heads Up' programme, part of the 'Hear Our Voice' project. 'Hear Our Voice' has been running for over 15 years, working with young people who have, or are at risk of developing, mental health issues. The programme increases the resilience of young people through the use of simple tools such as personal plans and coping strategies. It also improves awareness of emotional literacy and tackles stigma through interactive and group activities.

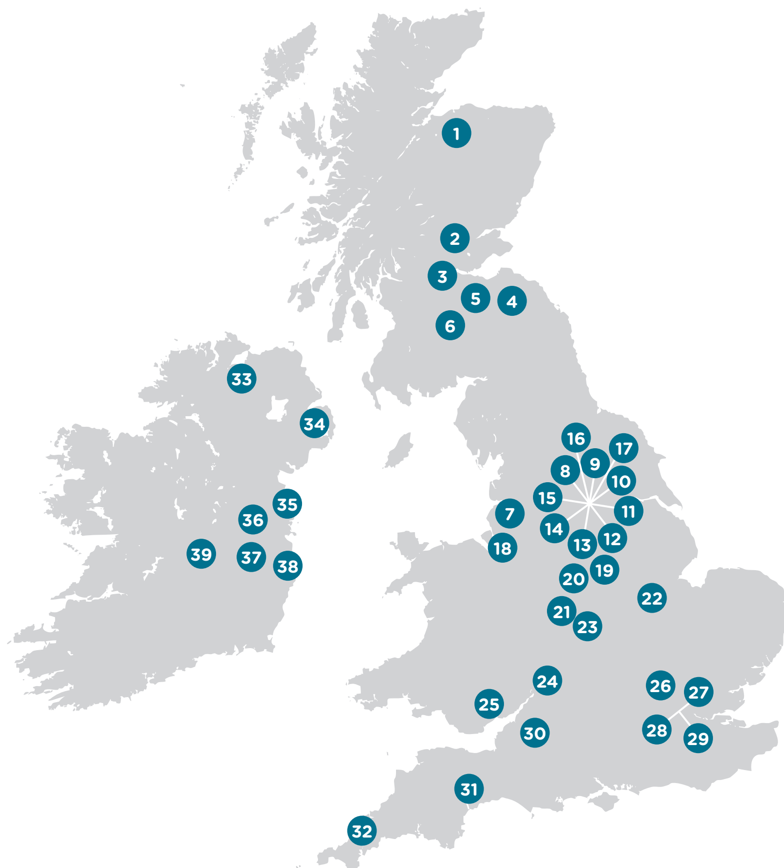
- **Scottish Youth Hostel Association (SYHA) – 'Give Us A Break'**

  Since our partnership with the SYHA began in 2004, over 3,000 young people have had the opportunity to enjoy a break through the 'Give Us A Break' programme.

  The programme aims to tackle social exclusion through the provision of hostel-based short breaks for groups of disadvantaged young people; for many it is the first time they have stayed away from home. Activity breaks are designed to encourage the young people to broaden their horizons, develop new ideas and skills, and to build their self-confidence to tackle everyday situations. As a result of the breaks, the young people feel more confident after facing their fears and being out of their comfort zone. These newly-acquired skills and personal development have also been observed back in the classroom, where teachers have found that the young people listen more and work better as a team.

  Several of our employees have been volunteers on the breaks and we've been able to link up with some of the other projects which we fund by providing breaks for the young people they support.

Our Good Neighbour three-year projects



1	Aberlour, Elgin
2	Boomerang, Dundee
3	Scottish Youth Hostel Association, Stirling
4	Venchie Children and Young People's Project, Edinburgh
5	The Royal Lyceum, Edinburgh
6	Made4U in ML2, Wishaw
7	Sycamore Project (Zac's Bar), Bolton
8	Scholemoor Beacon, Bradford
9	Joshua Project, Bradford
10	Holmewood Executive, Bradford
11	Sedbergh Youth and Community Centre, Bradford
12	Bradford and District Senior Power, Bradford
13	Participate Projects, Bradford
14	One in a Million, Bradford
15	Immanuel Project, Bradford
16	Bradford City Women's Football Club, Bradford
17	Bradford City Football Club Community Stand, Bradford
18	Northfield Sports Association, Bootle
19	Yorkshire Dance, Rotherham
20	Harvey Girls, Burton on Trent
21	Sycamore Adventure, Dudley
22	Mowmacre Young People's Play and Development Association, Leicester
23	Project for the Regeneration of Druids Heath, Birmingham
24	The Door, Stroud
25	Riverfront Theatre, Newport
26	Youth Network MK CIC, Milton Keynes
27	Battersea Arts Centre, London
28	Ahoy Centre, Deptford
29	CEN8, New Cross
30	Baggator, Bristol
31	St Petrock's, Exeter
32	Young People Cornwall, Truro
33	REACH Across, Londonderry
34	Hostelling International Northern Ireland, Belfast
35	Early Focus Project, Dublin
36	Solas Project, Dublin
37	Ballymun Music Programme, Dublin
38	An Oige, County Wicklow
39	Laois Partnership, Portlaoise

Community involvement in numbers

- 79,347 – the number of people who, in 2013, benefited directly from the support provided by the projects we funded through our Good Neighbour programme.
- 34,736 – the number of people who accessed new services and activities delivered through our Good Neighbour-funded projects during 2013.
- 12,173 – the number of people who developed new skills during 2013 as a result of their involvement in the programmes supported by Good Neighbour.

Employee volunteering in numbers

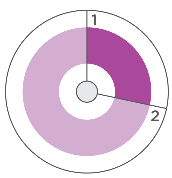
We continue to encourage employees from across our businesses to participate in their communities through volunteering and matched-giving.

- 97% – the percentage who felt that team challenges improve employee morale.
- 96% – the percentage of volunteers who felt that team challenges make a positive contribution to the community.

Corporate responsibility continued
Managing our environmental impacts

Key statistics for the period 1 January to 31 December 2013 [1, 2, 3]

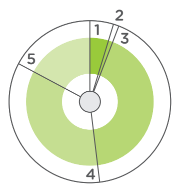
GHG emissions
(Tonnes of CO_2e)



1 Direct (scope 1) CO_2 emissions
1,826 tonnes

2 Indirect (scope 2) CO_2 emissions
4,595 tonnes

Business travel GHG emissions
(Tonnes of CO_2e)



1 Air travel
208 tonnes

2 Rail travel
56 tonnes

3 Car travel – own vehicles
1,823 tonnes

4 Company car fuel use
1,495 tonnes

5 Extracting, refining and transportation of raw fuel associated with business travel
740 tonnes

6,421 tonnes
Total scope 1 and 2 emissions in tonnes of CO_2e

4.00
Scope 1 and 2 carbon intensity ratio (kg CO_2e/£1,000 of receivables)

[1] Our emissions are reported in accordance with the WRI/WBCSD Greenhouse Gas (GHG) Protocol. We use an operational control consolidation approach to account for our GHG emissions and use emission conversion factors from Defra/DECC's GHG Conversion Factors for Company Reporting 2013.

[2] Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use.

[3] The emissions associated with Vanquis Bank's pilot credit card operation in Poland are excluded from the data disclosed above.

Environmental management
We recognise the importance of minimising the environmental impacts of our business activities and ensuring that we contribute to building a more environmentally sustainable society. We do this through an environmental management programme which enables us to reduce the energy and natural resources we use, and the waste we generate.

Greenhouse gas (GHG) emission reporting
UK legislation on mandatory GHG emission reporting, which came into force on 1 October 2013, requires us to disclose the annual amount of GHG emissions from activities for which we are directly responsible (scope 1), including combustion of fuel or operation of any facility, and for which we are indirectly responsible (scope 2), such as the electricity and heat we purchase.

Case study:
Carbon offsetting
One of the ways we reduce the carbon intensity of our business activities is by offsetting some of the GHG emissions for which we are responsible. During 2013, we offset 4,322 metric tonnes of carbon emissions associated with the company's business travel. These emissions were offset through an investment in the Gold Standard Datça Aegean Wind Project in the Mugla Province of Turkey.

Our role as an employer of choice

All of the 3,600 people that we employ across the UK and Ireland are important to us. They play a key role in developing and delivering products that meet the needs of our 2.6 million customers, so they are one of our key stakeholder groups. By creating a working environment that helps our employees to achieve their potential, we also help our businesses flourish. To run our business successfully, we need to attract talented individuals and provide a working environment that trains and develops them. We provide our staff with training and development opportunities. This enables our people to meet their own personal goals as well as to continue to respond to the needs of our customers.

Human rights

A component of our CR programme relates to ensuring that our business activities are conducted in such a way that we are not complicit in the abuse of fundamental human rights and labour rights. This commitment is enshrined in our corporate code of ethics which has been in place since 2005. This code states that 'all fundamental human rights should be respected and, in the conduct of our business, should be guided by the provisions of the United Nations Universal Declaration of Human Rights and the core standards of the International Labour Organisation'.

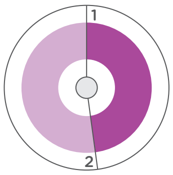
CR reporting

We also publish a stand-alone, annual CR report which sets out a full account of our social, environmental and economic performance. Our 2013 CR report will be published during the summer of 2014.

Further information on our CR reports can be found at **www.providentfinancial.com**

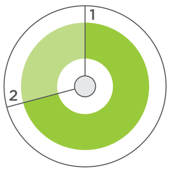
Key diversity statistics

Proportion of male/female employees (%)



1 Male
48%
2 Female
52%

Proportion of male/female senior managers (%)



1 Male
66%
2 Female
34%

Our investment case

"Our excellent track record, consistent strategy, robust business model and strong market position means that we are in a very good position to further develop our business in 2014 and deliver another year of success for all of our stakeholders."

Peter Crook Chief Executive

Our strategy, together with our robust business model, has allowed us to generate strong, profitable growth since the demerger of our international business in 2007 and through the credit crisis. Adjusted earnings per share has cumulatively increased by over 60% over the last five years.

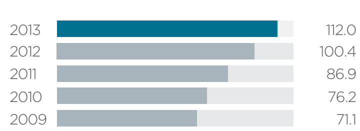
Our strong earnings growth has allowed us to deliver on our dividend commitment stated at the time of the demerger. We maintained dividends of 63.5p through to 2010 whilst we built dividend cover to our minimum target of 1.25 times. Subsequently, we have been able to adopt a progressive dividend policy based on distributing 80% of post-tax earnings. We have increased dividends by 8.7%, 11.9% and 10.1% over the last three years.

At the same time, our funding and capital positions have remained robust and we have maintained our gearing level below the maximum target level of 3.5 times. Strong capital generation in 2013 has resulted in gearing reducing to 3.0 times, our lowest level since demerger.

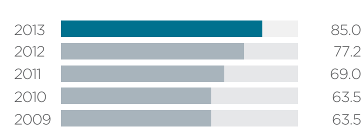
Our growth in earnings and dividends has meant that we have now generated Total Shareholder Return (TSR) of over £11 per share since demerger. This equates to annualised TSR growth of 13%.

Our businesses are generating sufficient capital to support planned growth and business development without compromising on our progressive dividend policy. We now have funding secured to cover our growth plans until the seasonal peak in 2017, following the renewal of our core syndicated bank facility in January 2014.

Earnings per share[1,2] (EPS)



Dividends per share (DPS)



[1] Prior to exceptional items.

[2] Restated for the mandatory adoption and retrospective application of the revised IAS 19 from 1 January 2013.

We expect the UK non-standard credit market to show steady growth in 2014 and beyond, reflecting structural changes in the employment market which is increasing the number of part-time, casual and temporary workers. It is our firm aim to remain the leading lender in this market.

At Vanquis Bank, we will look to maintain the strong momentum built up over recent years in the customer acquisition programme through continuing to develop our distribution channels. We will also focus on the development, marketing and distribution of our credit proposition in Poland. Vanquis Bank remains well on track to meet its current UK external targets of between 1.3 and 1.5 million customers with an average balance of between £800 to £1,000 as the business approaches a more mature state. In practice, the medium-term rate of growth will be dictated by economic conditions, the emergence of competition and the strict financial objective of maintaining a minimum post-tax return on equity of 30%.

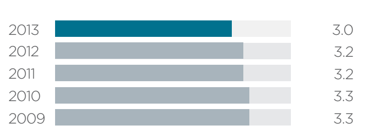
We expect economic conditions in the UK to remain difficult for home credit customers in 2014, with continued pressure on disposable incomes from rising food, fuel and utility bills. As a result, we will continue to focus on driving through the repositioning of the home credit business to a smaller, higher-quality customer and receivables base with corresponding cost savings derived from greater operational effectiveness and cost efficiencies enabled by the roll-out of mobile technology. In addition, as part of the medium-term repositioning of the Consumer Credit Division (CCD), we will continue to broaden the customer and product proposition through the further development of Satsuma loans, our online instalment loans product.

The investment case for Provident Financial is very attractive:

- Winners in the non-standard credit market will be larger, well-funded specialist lenders with sustainable business models like us;
- We have an attractive mix of businesses:
  - Strong, profitable and capital-generative growth in Vanquis Bank;
  - An excellent UK credit card platform, channels to market and credit expertise which has the potential of being exported into other territories such as Poland;
  - A cash-generative home credit business with a focus on returns;
  - Opportunities for growth in the online instalment market with Satsuma loans in the segment of the market between home credit and Vanquis Bank; and
  - The potential for growth into other forms of non-standard lending.
- The transition to the Financial Conduct Authority (FCA) and payday regulation is causing dislocation in the non-standard credit market which provides new opportunities for responsible lending businesses such as Provident Financial;
- Our management teams are highly skilled and experienced, particularly in serving the non-standard credit market;
- We have a robust balance sheet and prudent funding; and
- We generate sufficient capital to support planned growth and business development without compromising our progressive dividend policy.

Our excellent track record, consistent strategy, robust business model and strong market position mean that we are in a very good position to further develop our businesses in 2014 and deliver another year of success for all of our stakeholders.

Gearing (times)



25%
TSR in 2013

30%
Minimum post-tax return on equity target for our businesses

Vanquis Bank

Vanquis Bank brings the advantages of credit cards to non-standard credit customers, many of whom are excluded by mainstream card issuers. We are specialists in the non-standard credit market. We lend responsibly to new and existing customers and provide information and support to help them manage their finances.

Quick facts

£106.1m
Profit before tax

950
Employees

1.1m
Customers

£866.6m
Year-end receivables

£250
Low initial credit limits

12,000
Savers using our retail deposits offering

How it works

1. First contact

We now recruit new customers through a number of different channels, the most popular being via direct mail and the internet.

2. Applying for a card

Online applicants get a provisional response within minutes. We interview customers by phone before making a final decision.

3. Transparent terms

Every new customer receives a 'welcome pack' outlining their rights and responsibilities and offering tips on managing their finances and improving their credit rating.

4. Payment channels

Payments can be made online through internet account servicing (eVanquis) or directly at **www.vanquis.co.uk**. Debit card payments can be made by phone, standing order, direct debit or over the counter.

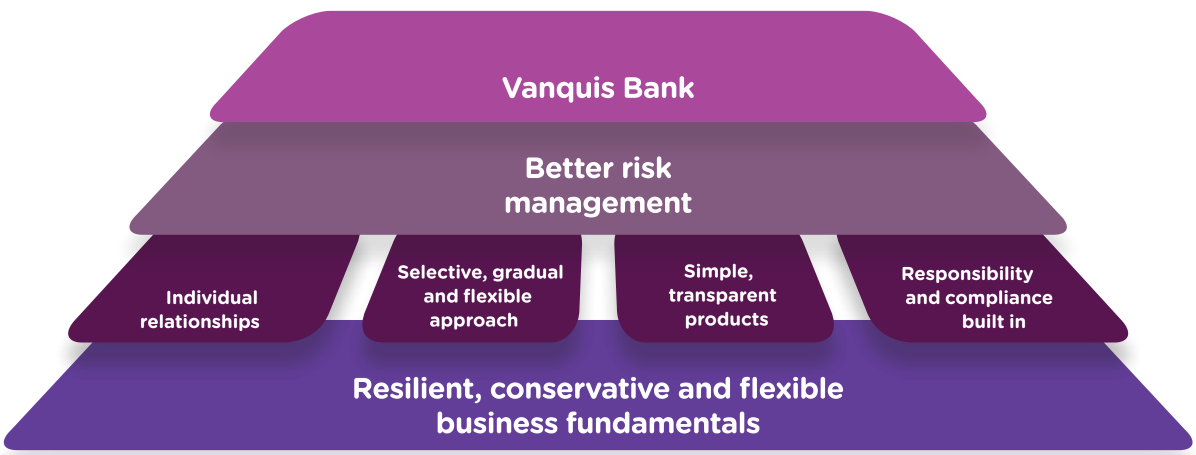
5. Building trust

With our 'low and grow' lending policy, new customers typically receive an initial credit limit as low as £250. We will then review the account after four months for potential credit line adjustments.

Vanquis Bank business model

At Vanquis Bank, we apply our successful non-standard credit business model to the credit card market.

Our credit card product, approach to lending, and customer relationships are highly adapted to the market we serve.



Our key differentiators

Individual relationships

- Welcome call for all new customers to establish personal contact.
- Over 650 contact centre staff.
- Online account access and management.
- Early engagement with customers before/as they show signs of problems.
- Customer satisfaction rating of 88%.
- For around half our customers, we are their first or only credit card.

Selective, gradual and flexible approach

- ‘Low and grow’ approach with credit limits starting as low as £250.
- Selective lending criteria – only 25% of applications are approved.
- Selective credit line increase criteria with credit limits increased progressively over time.
- Repayment Option Plan allows customers to freeze their balance and suspend payments when they get into difficulty.

Simple, transparent products

- No teaser rates, no cash back incentives, no balance transfer deals, just simple, clear credit card products.
- Representative APR reflects risk.
- Customers tell us they understand their statements and that we treat them fairly.

Responsibility and compliance built in

- Continuous account monitoring.
- Fact-based, analytical approach to credit issue and extension.
- Full deposit-taking regulated bank.
- Card and deposit systems outsourced to major industry suppliers.

Vanquis Bank continued

Michael Lenora
Managing Director, Vanquis Bank

Vanquis Bank has established itself as the leading specialist provider of credit cards to customers in the non-standard segment of the UK credit market. We promote financial inclusion, bringing the benefits of credit cards to consumers who are typically declined by mainstream lenders, helping people to establish or rebuild their credit profiles and enjoy the increasing utility of card-based credit, including online shopping.

Our 'low and grow' approach to extending credit and high levels of customer contact underpin a sustainable, responsible lending model.

"We have over 10 years of experience in lending responsibly to our chosen target market. Our success is based on a clearly defined strategy and our tailored approach to serving customers in the non-standard credit market."

What is Vanquis Bank?

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

- We are Visa-branded;
- Our cards are accepted at over 15 million locations;
- We use internet sales and servicing;
- We accept standard payment methods and issue customer statements; and
- We have contact centres to support our customers.

Our customers spend at many of the major merchants used by prime credit card providers, such as Tesco, Asda, Sainsbury's, Argos, Amazon and PayPal. However, our target customers have a very different profile to prime credit card users. Whilst they are typically employed, their incomes of between £15,000 and £30,000 are lower than a prime customer, they typically live in rented accommodation (approximately 75%) compared with prime customers who are predominantly home owners, and their use of debt and other credit cards is very low compared with prime customers who have a greater access to, and use of, other forms of debt.

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

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

"I'm the first to admit I haven't been great at managing money in the past. For me, the best thing about Vanquis Bank is the text reminders when a payment is due. It stops me getting behind and I can easily keep on top of things."

Sarah, Northampton

"Last year I got the job I'd been after for a while – which was great until I realised I couldn't afford the travel expenses to get there. I applied for a Vanquis Bank card and used it to buy a bike that I now commute on. I honestly don't know what I would have done without it."

Nick, London

"Sustainable growth is vital to our strategy as we continue to enhance our reputation as a responsible lender and to put the needs of our customers first."

We have over 10 years of experience in lending responsibly to our chosen target market. Our success is based on a clearly defined strategy and our tailored approach to serving customers in the non-standard credit market.

Our strategy

Our strategy at Vanquis Bank is to deliver sustainable growth and high returns with a minimum 30% post-tax return on equity.

To deliver our strategy, we continue to focus on:

- Clear credit management objectives to ensure that we maintain stable levels of impairment;
- Providing customers with a responsive, high-quality service throughout their time with Vanquis Bank, commencing with the unique welcome call to all new customers;
- Offering very simple credit card products with no balance transfers, teaser introductory rates, reward schemes, cash back or other features of typical mainstream lenders;
- Providing customers with the appropriate credit limit and no more, thereby maintaining relatively high levels of credit line utilisation to minimise the level of contingent liability;
- Ensuring that our operations are efficient and effective across all aspects of the customer experience from identifying and welcoming new customers, to ongoing customer service, collections processes and dealing fairly with customers who get into difficulty;
- Developing our products, distribution channels and the markets in which we operate;
- Treating our customers fairly and managing conduct risk, while ensuring that we comply fully with all applicable regulation;
- Developing our retail deposits programme to fund up to 90% of our receivables book in due course; and
- Maintaining a minimum risk-adjusted margin (revenue less impairment as a percentage of average receivables) of at least 30%.

Vanquis Bank continued

Our tailored approach

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

1. Channels to market

We are continuing to seek new ways to attract customers to Vanquis Bank. We have always successfully used the internet and direct mail channels, and these continue to be our major source of new leads providing over 80% of new account bookings in 2013. However, we continue to develop new distribution channels to ensure that we remain the leading player in the market.

In 2012, in partnership with Argos, we launched an Argos credit card and we will continue to seek other retail partners in the future. During 2013, we successfully developed the face to face channel, whereby a Vanquis Bank representative introduces potential customers to the Vanquis credit card in a location on the high street or in a shopping centre, where there is sufficient footfall of potential Vanquis Bank customers. This channel has proved successful in attracting new customers and mitigating some of the impact from a modest increase in competition.

We supplement our core Vanquis Bank credit card proposition with a number of other brands and price points to increase our marketing reach. Aquis, Chrome and Granite are all brand names which we currently use to attract new customers with APRs ranging from 29.9% to 39.9%.

2. Underwriting capability

Our bespoke underwriting processes have been developed over the last 10 years. We have a conservative approach to risk which is reflected in our decline rates of around 75%. We have created multiple scorecards for each channel to market based on our extensive experience of dealing with non-standard consumers. When a customer applies, we combine their application data with bureau data and feed the information through our scorecards. We supplement the underwriting process with a welcome call from one of our contact centre representatives. This is unique in the credit card industry and provides us with the opportunity to gather additional information which is useful to help manage the customer's account at a later date and establish a more personal relationship. It is also an important element of completing our underwriting and we will generally turn down an application if we cannot contact a potential customer. All of our processes are the subject of ongoing development and enhancement.

"When you're living on a tight income, every penny counts. Having a credit card means I can go online and look for the best bargains, rather than having to rely on the high street which often has a mark up. I'm always trawling eBay and Amazon for deals now!"

Faye, Birmingham

3. 'Low and grow'

Booking the majority of our accounts on a small initial credit line is at the core of our 'low and grow' strategy. The initial credit line is typically as low as £250 and this allows us to observe and understand the behaviour of our customers before granting any further lending in a responsible and sustainable manner. Vanquis Bank has developed an unparalleled expertise in lending to the non-standard market in this way. This 'low and grow' approach has allowed the average customer balance to continue to grow to £780 (2012: £750) whilst continuing to improve underlying credit quality.

4. High customer contact

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

High customer contact has helped us to maintain some of the best levels of customer satisfaction in the industry with nine out of 10 customers saying they would recommend us. It is always our aim to treat customers fairly and quickly resolve any complaints that arise. This is reflected in the fact that when complaints are escalated to the Financial Ombudsman Service (FOS), they find in our favour over 90% of the time, which makes us one of the best performers in the industry.

5. Collections processes

Collections are an extremely important aspect of the business and we continue to develop new and innovative collection strategies designed to help customers stay on track. Our telephone-based operations use leading-edge technology and techniques to maximise efficiency and cash collected. Our collections teams are highly trained and our 'promise kept' rate – the number of payments actually received from a promise given by a customer – is consistently in excess of 70%, which we believe is 'best in class'. Our employees are trained to manage the accounts of customers who are identified as vulnerable and support them accordingly. For those customers that get into financial difficulty, we have a suite of forbearance options to assist them whilst they get back on track.

6. High levels of utilisation

Maintaining high levels of utilisation is very important in non-standard credit cards. Utilisation is the amount of a customer's credit line that they are actually using. We ensure that we only extend customers' credit limits if their circumstances indicate they are suitable for extra credit and we believe they will use it. If customers don't use their cards and they have no balance, we will actively contact them and reduce their credit limit or close their account. This proactive management of card utilisation means that our average utilisation on the portfolio is around 75%. This ensures that we maintain a good stream of revenue whilst reducing the level of 'contingent risk' attached to the undrawn element of credit lines. In a prime portfolio you need a much larger number of good customers to cover the losses incurred from a single bad customer due to their relatively low levels of utilisation. This is not the case at Vanquis Bank and, provided we maintain a stable level of impairment, we can provide a good, consistent return to our shareholders.

Why utilisation matters

	Typical prime card customer	Typical Vanquis Bank customer
Average credit limit	£10,000	£1,000
Average utilisation	25%	75%
'Good' account balance	£2,500	£750
'Bad' account balance	£9,000	£900
Revenue yield	20%	50%
Revenue per 'good' customer	£500	£375
No. of 'good' customers to offset one 'bad'	18	2.4

Vanquis Bank continued

7. Stability of bad debts

Our bespoke underwriting, robust collections processes and approach to lending to customers with limited debt elsewhere, results in low volatility of bad debt compared to prime/standard lenders.

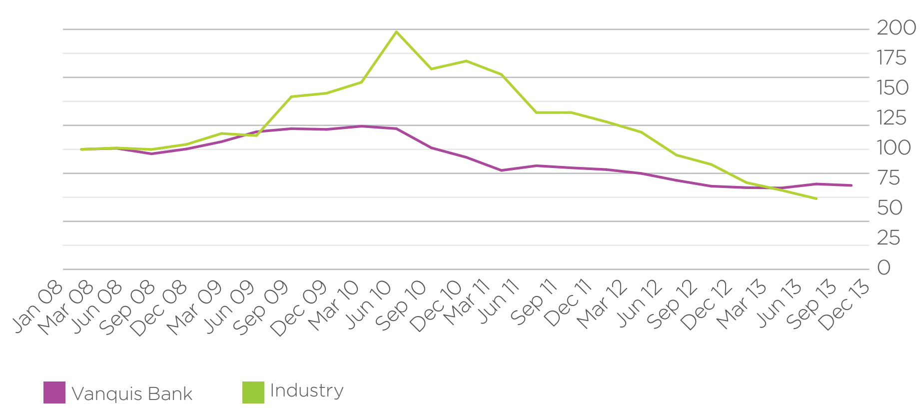
Through the credit crisis of 2009 and 2010, Vanquis Bank write offs increased only marginally compared with the write offs of prime portfolios which showed marked increases. It is this stability, together with the high levels of utilisation, that allows us to price appropriately and ensure that we deliver high returns to our shareholders.

8. Management and staff

We have a strong management team at Vanquis Bank. Our senior directors have over 90 years of credit card and 170 years of financial services experience. Importantly, this team has been together for over five years, ensuring continuity in direction and leadership for the business. However, it is not just at director level where our strength lies, we have a very strong senior management team of around 50 individuals and we have great talent and expertise running throughout the whole organisation. We support the development of our team with a strong performance culture.

As a regulated bank, we have a well-established and robust governance framework to ensure that our employees can develop the business and themselves but in a controlled and appropriate manner. We operate a number of internal control and risk management processes, typically only held at a group level in many organisations. These include a risk committee, audit committee, remuneration committee and compliance committee, all of which are chaired by one of the two independent non-executive directors, to provide the appropriate level of challenge and oversight.

Credit card write offs % of outstanding balances indexed to 100 to 1 January 2008



(Source: Bank of England and internal data)

9. Funding

We are currently funded by a mix of retail deposits and an intercompany loan from Provident Financial plc.

Like our credit card offering, our retail deposit product is designed to be a straightforward proposition but aimed at a different customer base:

- We issue fixed-rate deposits for fixed terms of either 1, 2, 3, 4 or 5 years – we do not offer instant access savings products;
- Depositors have no right to withdraw early, other than in the event of death or bankruptcy, which ensures that we have a stable and fixed maturity profile;
- The offer is internet-based through our own website, www.highyieldaccount.co.uk;
- Our products are also marketed through the best buy tables such as moneysupermarket.com, moneyfacts.co.uk and moneysavingexpert.com;
- As a PRA-regulated bank, the first £85,000 of deposits are covered by the Financial Services Compensation Scheme; and
- The deposit-taking platform is outsourced to Newcastle Building Society, the market-leading specialist in providing a scalable service for the industry.

Over the medium term, we will build steadily our retail deposits base towards our maximum permitted limit of 90% of UK receivables, which will allow us to repay our intercompany loan and be fully self-funded. At a time when many non-standard companies are struggling for funding, this provides a very strong position to finance future growth.

Poland

Vanquis Bank's development in the UK over the last 10 years has been a real success. However, it is appropriate that we continue to explore potential new medium-term growth opportunities to supplement the UK business.

During 2011 and 2012, we undertook a review of potential overseas markets which have a critical mass of under-served, non-standard consumers, into which we could transport our successful UK business model and develop a customer proposition capable of delivering the group's target returns. Our review focused on EU territories as: (i) consumer finance regulation is substantially similar across the EU; and (ii) we can passport our UK banking licence and raise local currency funding in other EU territories.

Poland emerged as the most attractive opportunity for the following reasons:

- Poland has a population of just under 40 million, of which approximately 10 million are within our target market;
- The Polish economy has been robust through the global economic downturn, being one of the few economies not to have entered technical recession;
- The political and regulatory environment in Poland is relatively stable; and
- Polish consumers have good attitudes to borrowing and repaying, similar to the UK.

Following the necessary approvals from the UK and Polish regulators to passport our banking licence for the purpose of issuing credit cards in Poland, we commenced a pilot credit card operation in Poland in May 2012.

During 2013, we have successfully developed the credit tools required to underwrite new business capable of supporting Vanquis Bank's target returns. Following the introduction of first generation scorecards based on bank bureau data in May 2013, second generation scorecards were implemented in October 2013 which draw on much broader data from multiple bureau sources. These scorecards are proving effective at underwriting risks in the target market.

Our focus is now on developing the marketing and distribution of the credit card in order to lift new customer volumes which, to date, have been running at around 2,500 per month based on distribution through brokers, which are a traditional and still important sales channel in Poland, and to a lesser extent the emerging internet channel. We are actively trialling telesales, direct mail and face-to-face sales, as well as testing TV and radio advertising for the first time. Alongside the credit card, we are also starting to test other products that deliver our revolving credit proposition so that we can broaden our appeal to the target audience.

Credit line utilisation in Poland is comparable with the UK, which is important to generating a healthy revenue stream whilst managing the risk associated with undrawn credit lines. At present, however, the Polish customer has a much greater propensity to use the card to access cash rather than use it at the point of sale. This is likely to change as online shopping develops and as recent EU legislation reduces the interchange fees payable by retailers on credit card transactions.

The Ministry of Finance in Poland issued draft proposals containing amendments to Polish consumer law in August 2013. The draft proposals were updated in December 2013 and include introducing a further restriction on the cost of credit that limits non-interest charges to 50% of the credit granted. This is in addition to the existing limit on interest charges of four times the Lombard rate (currently 4%, giving a limit of 16%). The draft proposals may be subject to further amendment and require clarification in a number of areas. The final regulatory changes are expected to be published and incorporated in legislation in the coming months. Whilst the current draft proposals are not expected to have a material impact on our business in Poland, it is almost certain to have a significant impact on providers of high-cost, short-term credit, including payday lenders, that have grown very rapidly in Poland in recent years. This may alter the competitive landscape for consumer credit in Poland and allow us to position our credit card and possibly other revolving credit products to meet the opportunity this may present.

We remain confident that the progress of the pilot operation to date provides a foundation for developing a Polish credit card business capable of delivering the group's target returns.

Vanquis Bank continued

Financial performance

Vanquis Bank generated a profit before tax of £106.1m in 2013 (2012: £68.0m) analysed as follows:

	2013 £m	2012 £m	Change %
Profit/(loss) before tax:			
- UK	**113.7**	71.3	59.5
- Poland	**(7.6)**	(3.3)	(130.3)
Total Vanquis Bank	**106.1**	68.0	56.0

UK

	2013 £m	2012 £m	Change %
Customer numbers ('000)	**1,099**	899	22.2
Year-end receivables	**861.3**	641.5	34.3
Average receivables	**739.1**	537.4	37.5
Revenue	**378.8**	283.0	33.9
Impairment	**(126.3)**	(95.9)	(31.7)
Revenue less impairment	**252.5**	187.1	35.0
Risk-adjusted margin[1]	***34.2%***	*34.8%*	
Costs	**(104.3)**	(87.4)	(19.3)
Interest	**(34.5)**	(28.4)	(21.5)
Profit before tax	**113.7**	71.3	59.5

[1] Revenue less impairment as a percentage of average receivables for the year ended 31 December.

Vanquis Bank performed very strongly in 2013, reporting UK profits ahead of management's internal plans and 59.5% higher than last year. Further strong growth in the receivables book together with delinquency running at record lows have enabled the UK business to deliver a post-tax return on equity well above its target rate of 30%. Surplus distributable capital generated in 2013 amounted to £53.0m, up from £26.1m in 2012. Accordingly, the business paid dividends of £30.0m to Provident Financial plc during the year and paid a further £25.0m subsequent to the year end.

The demand for non-standard credit cards has remained strong and the business generated a flow of 1.62 million (2012: 1.56 million) applications during 2013 as a result of continued investment in its customer acquisition programme. New customer bookings of 411,000 (2012: 375,000) were a record high and reflected an acceptance rate of 25% (2012: 24%) against unchanged underwriting standards.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, produced a 37.5% increase in average receivables and a 33.9% increase in revenue. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of around 75% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

The combination of a stable UK employment market and the application of consistently tight underwriting resulted in delinquency levels continuing to run at record lows for the business. Accordingly, the increase in impairment of 31.7% was lower than the 37.5% increase in average receivables.

The favourable delinquency performance through the year has resulted in an annualised risk-adjusted margin of 34.2% compared with 34.8% in 2012. The risk-adjusted margin in 2012 benefited from a more significant fall in delinquency levels than that experienced in 2013.

As previously reported, during the second half of 2013 Vanquis Bank changed the timing of the sale of its Repayment Option Plan (ROP) product to customers from the welcome call to the activation call, which is approximately one week later. This has had a modest impact on the penetration of the product into the customer base. In addition, following feedback from a series of customer focus groups, the business has also taken the opportunity to make further enhancements to the product's features, including the waiver of one default fee per annum for all ROP customers.

Based on current delinquency trends and after taking into account the changes made to the ROP product, the risk-adjusted margin is expected to moderate to between 32% and 33% during 2014 and remain above the target level of 30% thereafter.

Cost growth of 19.3% was well below the 33.9% increase in revenue as the business continues to benefit from operational gearing. The business has outgrown its central London premises on which the lease is due to expire in 2014. New space has now been secured nearby which will accommodate future growth and result in an increase in property costs of £1.5m.

"I started my own business a few months ago and things were very difficult at the beginning, especially because I had very little credit history. Vanquis Bank gave me the chance I needed and it has helped to ease out the peaks and troughs when things don't always go to plan."

Stuart, Derby

Interest costs of £34.5m (2012: £28.4m) increased by 21.5% during 2013 compared with the growth in average receivables of 37.5%. This reflects the reduction in Vanquis Bank's blended funding rate from 7.2% in 2012 to 6.4% in 2013 due to the progressive benefit from taking retail deposits. Assuming market rates remain stable, Vanquis Bank's overall funding rate is expected to reduce to just below 6% in 2014 as the proportion of funding provided by retail deposits increases.

Poland

At the end of 2013, the Polish pilot operation had 25,000 customers (2012: 9,000) and a receivables book of £5.3m (2012: £1.8m). In line with expectations, the cost of the pilot in 2013 was £7.6m (2012: £3.3m). The start-up losses associated with the pilot will continue at a similar rate through the first half of 2014.

Looking ahead

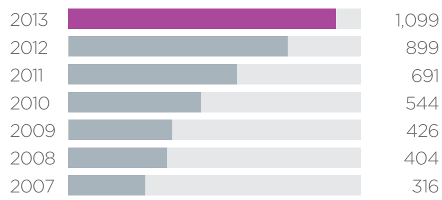
We expect 2014 to be a further year of strong growth. We will continue to invest in growing the customer base and receivables. However, we remain focused on delivering a post-tax return on equity of at least 30% and we will not seek growth at the expense of diluting returns. Even though there are signs of recovery in the UK economy, we will maintain the tight underwriting that has served us so well over recent years.

The pilot credit card operation in Poland has developed an effective set of credit tools and the focus has now shifted to the development, marketing and distribution of our revolving credit product. We continue to see a good growth opportunity in Poland.

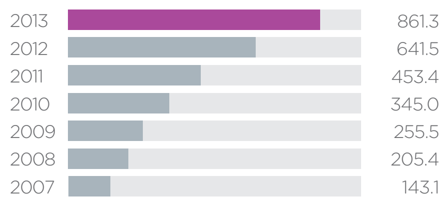
Looking beyond 2014, we expect the demand for non-standard credit cards in the UK to remain strong. We believe that the UK business of Vanquis Bank has the medium-term potential to grow to between 1.3 and 1.5 million customers with an average balance of between £800 and £1,000. However, we will continue to develop our channels to market and product proposition and will try to exceed those targets in the longer term. The rate of progress towards our targets will be dictated by future economic conditions, the potential emergence of competition and our key principle of maintaining our minimum targeted post-tax return on equity of 30%.

The future for Vanquis Bank is very bright. It is a profitable, growing, capital-generative business and we continue to see excellent growth opportunities for the business both in the UK and overseas. Vanquis Bank will continue to be a major contributor to the future growth in the group's dividends and the overall returns provided to shareholders.

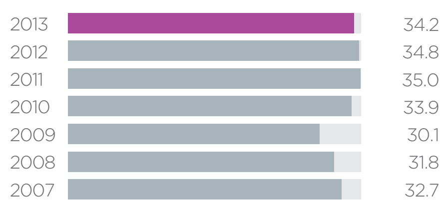
UK customers ('000)



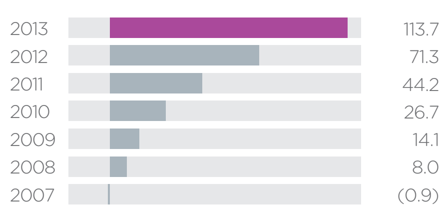
UK receivables (£m)



UK risk-adjusted margin (%)



UK profit before tax (£m)



Strategic report
Governance
Remuneration
Financial statements
Shareholder information

Consumer Credit Division

For families on modest incomes, juggling finances can be problematic. Often with limited ability to save, negotiating peaks and troughs in spending is challenging.

Quick facts

£102.5m
Profit before tax

2,600
Employees

1.5m
Customers

£740.0m
Year-end receivables

£300
Typical initial loan amount

9,000
Self-employed agents

How it works

Home credit

1. First contact
Many customers hear about us through a recommendation. Much of our new business comes from word of mouth, direct mail, the internet or is sourced through our network of agents.

2. The agent's visit
After receiving a request to call at the customer's home, the agent will visit to discuss the various products the company offers and make an appointment to call back.

3. Transparent terms
There are no hidden charges. The maximum amount to be repaid is clear and fixed at the start, even if a customer misses payments.

4. Applying for a loan
An agent will visit the customer in their own home to conduct affordability and creditworthiness checks, complete the paperwork required, and agree a suitable loan amount, having fully explained the loan terms and determined the loan to be suitable.

5. Building trust
We operate a 'low and grow' policy. First-time borrowers typically get smaller, shorter-term loans. Those able to manage their repayments become eligible for larger amounts over longer periods.

Satsuma loans

1. First contact
Most of our customers hear about us through our TV advertisement. Customers also hear about us through the internet and other affiliate company websites.

2. Online application
Our application process is simple and easy to understand and typically takes under 15 minutes to complete. Customers go onto our Satsuma loans website and click 'Apply now'. Once they complete their application, we give them a decision there and then. We use affordability and credit bureau information to help us to decide whether to offer the loan to the customer.

3. Transparent terms
We have absolutely no hidden fees or charges. Customers always know the full cost of their loan up front.

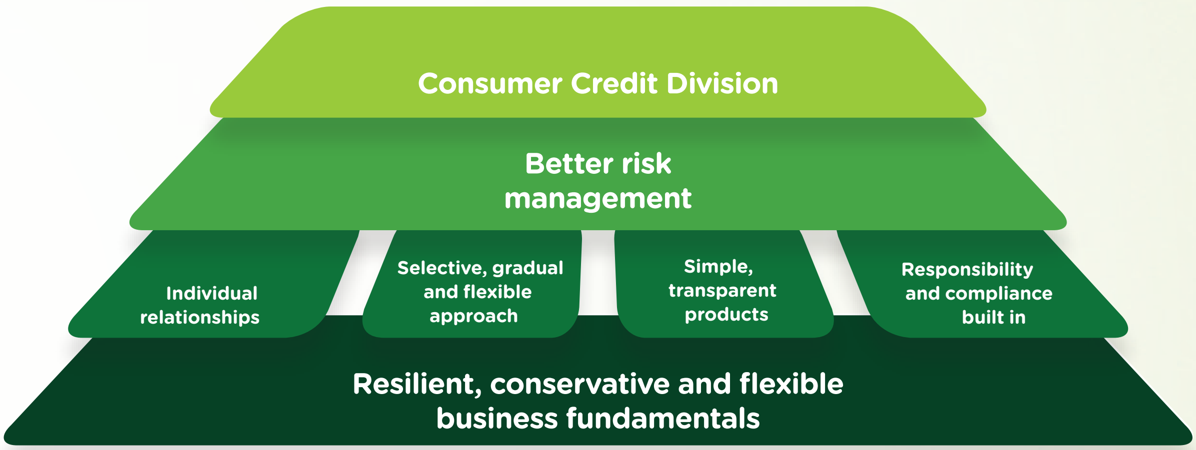
4. Welcome call
To complete the application process, we carry out a 'welcome call' with every customer, to introduce ourselves, check details and ensure the customer knows the details of their credit agreement. Following the completion of the welcome call, the amount borrowed is sent direct to the customer's bank account.

5. Building trust
We operate a 'low and grow' policy. First-time borrowers typically get smaller, shorter-term loans. Those able to manage their repayments become eligible for larger amounts over longer periods.

Consumer Credit Division business model

We have a specialist non-standard business model which has been successfully applied to the home credit market for 130 years and we are now applying many of the same characteristics to Satsuma loans.

Our financial products, approach to lending and customer relationships are highly adapted to the markets we serve.



Our key differentiators

Individual relationships

- Establish individual contact from the outset with the home visit in home credit or the welcome call in Satsuma loans.
- Treat customers as individuals.
- Customer satisfaction rating of 93%.
- 9,000 home credit agents with excellent local knowledge.
- Social investment in the communities we serve.

Selective, gradual and flexible approach

- Selective lending criteria – only 20% of applications from new customers are approved.
- 'Low and grow' approach with loan sizes starting at only £50.
- No charge for missing payments.

Simple, transparent products

- Cash, prepaid cards, shopping vouchers and online instalment loans.
- Priced appropriately and transparently – customers tell us we are clear and offer good value for money.
- Fixed weekly repayments that never go up. Our customers say that we are straightforward and trustworthy.

Responsibility and compliance built in

- Agents are paid primarily based on what they collect and therefore have every reason not to lend more than customers can afford.
- Lending decisions are made by the agent in the customer's home within home credit.
- Rigorous controls and limits over lending.

Consumer Credit Division continued

Mark Stevens
Managing Director,
Consumer Credit Division

Our new strategy

During 2013, in the face of difficult market conditions and given the evolution of the non-standard market, we have developed a strategy to reposition the Consumer Credit Division (CCD) over the next two years.

We have become a lending business, not just a home credit business.

Our new strategy has two elements:

1 Update home credit and drive for returns

- Investing in people and technology is a key enabler...

  of better customer service...

  of standardising best practice...

  of improved collections...

  of market-leading compliance...

  of material cost reduction.

Leaner, better-quality, modern, more profitable business relevant in the digital age

2 Win in online loans

- Applying the proven home credit 'DNA'
- Targeting customers in the space between home credit and Vanquis Bank
- Using the best capabilities of home credit and Vanquis Bank to get the model right
- Benefitting from payday dislocation and clear, tighter regulations
- Achieving returns as good as home credit

Top 3 market position within 3 to 5 years

Our strategy is underpinned by:

(i) lending responsibly and providing our customers with the right products and services in order to maintain our high levels of customer satisfaction; and

(ii) ensuring that we maintain high levels of compliance with applicable laws and regulation.

Home credit – a great business that has stood the test of time

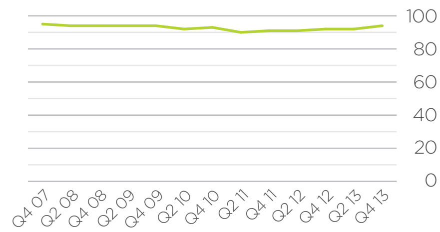
Our home credit business is Provident Financial's longest running business, stretching back to the company's foundation in 1880. It is the largest home credit business in the UK and Ireland. Every week, 9,000 local agents visit the majority of our 1.5 million customers, to issue loans and collect repayments. Even after 130 years, the business continues to fill a vital need for customers, providing access to credit for those who might otherwise be financially excluded and helping when others won't.

The home credit service fits the needs of customers 'like a glove':

1. The products are simple and transparent with all costs included up front and no additional fees or charges whatsoever. For those managing on a tight budget, it's important to know that the amount to be repaid is fixed at the start and will never go up.
2. The affordable weekly repayments suit those managing on tight weekly budgets and the agent's regular visit is not only convenient for the customer but also acts as a useful reminder to put the money aside for the repayment.
3. Forbearance is core to the product offering so that when customers get into difficulty they know they'll get a sympathetic response which could mean either making a reduced payment or missing a weekly payment altogether, depending on the circumstances.
4. The home credit service is face-to-face with loans being delivered to customers' homes by self-employed agents who then usually call every week, or in some cases every month, to collect repayments. Agents often live in the same communities as their customers and understand their needs, developing an intimate knowledge of their circumstances through the weekly visit. Whilst central underwriting is also used, agents make the final lending decision as they can assess customer capacity and character in the home. Importantly, agents are paid commission primarily on what they collect, not what they lend, so they have every reason not to lend more than their customers can afford to repay.

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

Strong, historic trend in customer satisfaction



(Source: Internal data)

Brand attributes:

- 97% of customers agree that Provident is 'friendly'
- 96% that we are 'accessible'
- 96% that we are 'trustworthy'
- 96% that we are 'straightforward'
- 93% that we are 'flexible'

"I used to dread birthdays and Christmas, it was so hard wanting to give the kids the day they wanted without the money we needed. With Provident, I can borrow as little as £50 and pay it back in small chunks. It has made all the difference to our family."

Angela, Bradford

Consumer Credit Division continued

"We moved into a new house and used a home credit loan when we wanted to do some decorating. The moving costs ate up all of our savings so there's no way we could have done the work without it."

James, Peterborough

Home credit – a long-term future, but a business which needs updating

Our home credit business has a long and proud track record over a considerable period of time. However, it is clear that the current economic backdrop and the evolution of the non-standard market are having a significant impact on the business.

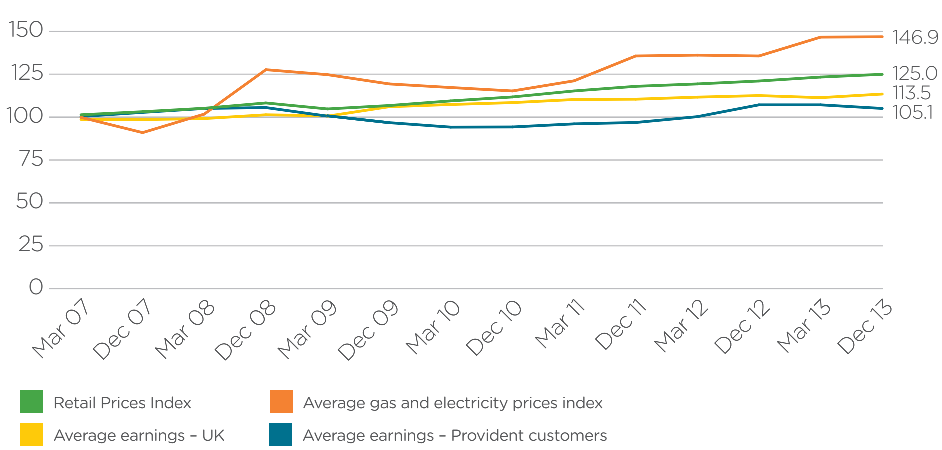
1. Cost of living pressures

Home credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. Average household incomes are approximately £12,000 per annum. Household disposable incomes continue to be adversely affected by the persistent rise in day-to-day living costs and, in particular, the higher winter utility charges billed during the first quarter of the year. Over the last three years, winter fuel bill inflation has been 7.3% in 2012/2013, 12.0% in 2011/2012 and 4.9% in 2010/2011. Food price inflation has been on average 4% per annum over that period. All this has been at a time when wage inflation has been minimal. This has placed customers' disposable incomes under significant pressure and they have restricted their spending on discretionary items such as upgrading white and brown goods and holidays.

2. Very low customer confidence

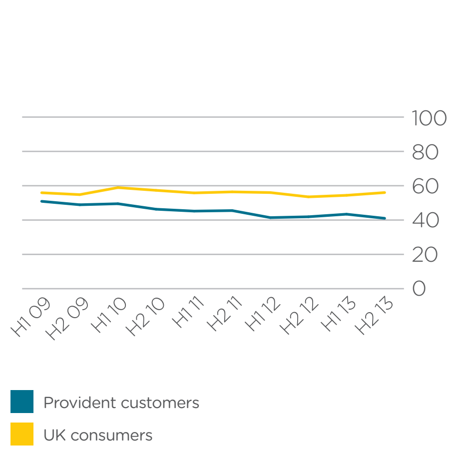
The pressure on disposable incomes has resulted in home credit customer confidence falling consistently over recent years. Currently, 63% of our customers agree that 'in the last 12 months I have felt a lot worse off than before', which is the highest level we have ever recorded. As a result of the pressure on disposable incomes and the very low customer confidence, demand for credit is weak and the home credit market is currently contracting as the nature of our customers' employment means that they are typically 'late cycle' and the uptick in their circumstances will tend to lag behind the broader UK economy by at least 12 months. Whilst this is only a temporary position and, as disposable incomes recover, confidence will improve and demand may recover, we do not expect things to improve in the short term.

The cost of everyday essentials has risen much faster than incomes



(Source: Office of National Statistics and internal data)

Home credit customer confidence remains at historically low levels



(Source: Internal data)

3. More creditworthy customers have other options

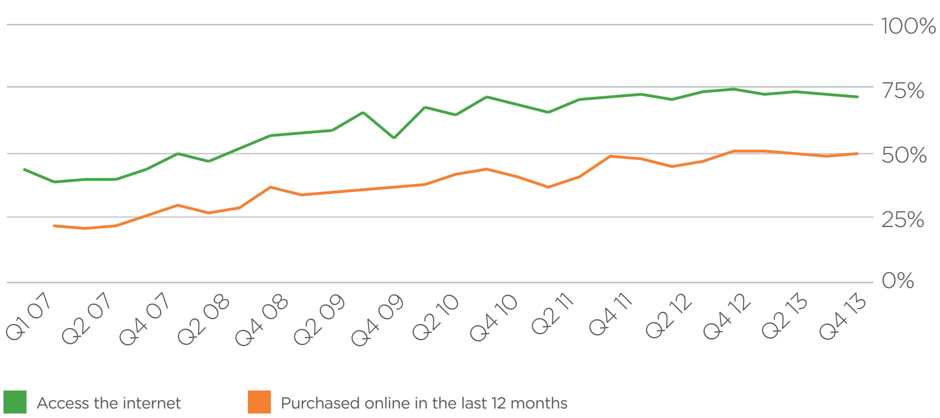
Our better-quality customers now have more credit options compared with five years ago. This is reflected in the growth in rent-to-own providers and, to a lesser extent, payday lenders. Whilst this only impacts the upper end of the home credit customer base, as remote lenders cannot typically lend to traditional home credit customers, newer format lenders are restricting the flow of new, better-quality customers into the business.

4. Changing customer behaviours and preferences

More and more customers are moving online to source their credit. This has been accelerated by the rapid increase in the use of smartphones and tablet devices which are now relatively cheap. Over 75% of our customers now use the internet, whilst 50% of visits to our website are via smartphones, up from 10% two years ago. It is therefore harder to attract new customers with the traditional cash-only, home credit model.

Home credit is a sustainable and highly customer-centric business, currently in cyclical downturn. Our leading market position should enable us to benefit from the expected consolidation over the next two to three years arising from the changing regulatory landscape which will place more onerous requirements on lenders. However, to ensure that we continue to deliver high returns and strong capital generation, we need to update the home credit business.

75% of customers are on the internet and half shop online



(Source: Internal data)

"We really wanted to take the kids on holiday this year but without any overtime at work we just couldn't stretch to it. That's when I saw a Satsuma loans advert and once we'd applied online, we got just what we needed to be able to go away for the first time in ages."

Heather, Wolverhampton

Consumer Credit Division continued

Home credit – the future

As part of a repositioning of CCD, we are creating a leaner, better-quality, modern and more profitable home credit business. We have established five key areas for change to achieve our goal.

1. Technology & apps

Historically, home credit has been a very paper-based business. The use of paper is costly, slow and can result in differing practices and makes compliance harder to monitor and evidence. As a result, we are in the process of developing technology through the use of smartphone and tablet apps which will enable agents and our field managers to use their time more efficiently by focussing on improving collections performance, arrears management and spending more time with customers. The improved use of technology will also have significant compliance benefits.

We have already introduced a collections app for agents at a very low cost. The app is currently being used by almost all of the 2,500 agents that carry iPhones, and has been very well received, saving each agent an estimated two to three hours a week previously spent on administrative paperwork. The Android version of the app that runs on the smartphones carried by the majority of agents has now been released with strong early uptake.

We are trialling the use of tablet devices for field managers which effectively provides them with a mobile office. This will free up significant time currently spent on office-based administration as the technology is rolled out during 2014, allowing managers to spend more time with agents and assisting with arrears cases.

We are also well on the way to allowing customers to make electronic payments through 'Chip and Pin' technology and developing an app for agents to issue electronic loan documentation which is scheduled to be available later in 2014. This will eliminate paper, saving a significant amount of agent and back office time. Equally importantly, it will allow the business to enforce and evidence compliance to a level that is virtually impossible to achieve in a paper-based environment.

Finally, the trial of '24/7', a prepaid reloadable MasterCard, together with an online customer portal which allows customers to top up their card against agent pre-approved limits, was launched in September in one region and continues to progress well. Full roll-out will take place in the second half of 2014.

2. 'One Best Way'

There are differing working practices spanning the 240 branches across the UK and Ireland. Some of the branches are performing very well whilst others are not and best practice is not often shared. To some extent this reflects the maturity of the business and the average tenure of the field management team which is approximately 15 years, meaning it can be difficult to change working practices. Too much time has been spent undertaking administration duties with less time for supporting agents and customers. Significant benefits will be gained from enforcing standardised best-practice processes across the whole branch network, assisted by the deployment of technology and investing in developing our best people.

3. Collections focus

The difficult market conditions over recent years has meant that the key impairment to revenue metric has moved out of its historic band of between 32% and 34%, ending 2013 at 38.7%. The business has already taken significant steps to standardise arrears processes, including a focus on early intervention and the better integration of field and central collections activities during 2013. This resulted in a stabilisation of arrears during the second half of 2013. Tighter underwriting for new customers and further developments in technology, including 'Chip and Pin', which gives customers more ways to pay, should result in an improvement in collections performance in 2014 and beyond.

4. Much lower costs

The business has already taken significant actions on costs during 2013. Whilst job losses are always regrettable, we have reduced headcount in the field and in our head office by approximately 520 during 2013 to better align the workforce to customer numbers. The headcount reduction together with other savings and volume reductions are expected to reduce the CCD cost base by over £40m between 2012 and 2014, net of investing £16m in new business development. The volume reduction in the business is consistent with a 20% reduction in receivables over the same period. We expect further cost efficiencies in 2015 and beyond once technology is deployed. We incurred an exceptional cost of £13.7m in 2013 associated with the restructuring in CCD.

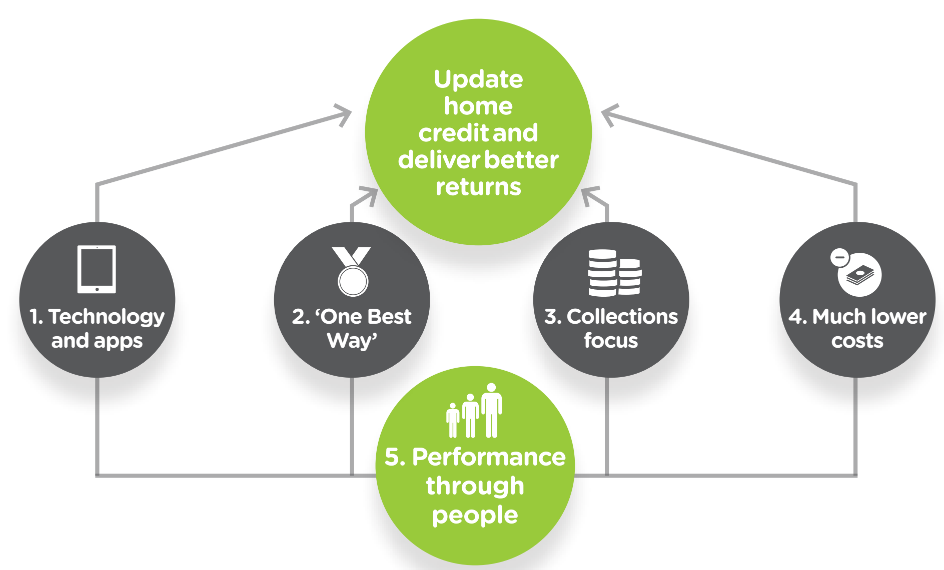
5. Performance through people

The profitability of an agency increases markedly as the agent gets more experience. As a result, we have significantly changed the way we attract, induct and support agents to drive higher retention and reduce agent turnover. We are also combining agent rounds to remove less profitable agencies, which are a key driver of agent turnover as the agent's commission is often insufficient for their needs. To support agents, we are introducing a new development agenda throughout the business to recruit, retain and develop better leaders in our management team.

The changes we have made, particularly around reducing costs, should ensure that 2013 is the baseline year for profits. 2014 will be a year of further change before we complete the transformation programme during mid-2015. We will then have a solid foundation to grow our profits and the returns from the business.

Home credit is a great customer proposition and adds significant value to our customers' lives. The changes we are making will ensure that we can continue to meet our customers' needs and maintain the high levels of returns and cash generation for our shareholders.

We will create a leaner, better-quality, modern, more profitable home credit business



Consumer Credit Division continued

Satsuma loans – win in online lending

Market opportunity

Whilst the home credit market is in cyclical downturn, there are significant opportunities outside the home credit market. Importantly:

- The non-standard market is growing, as banks continue to tighten underwriting and the macro environment is leading to more consumers entering the market. We estimate that there are approximately 12 million consumers in the non-standard market.
- The non-standard market is the domain of specialists and supply is constrained as small and medium-sized specialists lack funding for growth.
- There is likely to be consolidation in the market, driven by higher regulatory standards following the transition of regulation from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA) in 2014.
- There is rapid growth in the demand for online lending, accelerated by smartphone and tablet device proliferation.
- The economics of the payday lending model are under threat due to increased regulation which provides opportunities for responsible lending businesses, such as Provident Financial.

We estimate that the online loans market, primarily served by payday lenders at present, is roughly four times the size of the home credit market and will grow further as customer preferences change. With the backdrop of clearer, tighter regulation around payday lending, there is likely to be a shift in demand from payday loans to instalment loans as the restrictions on the use of rollovers and continuous payment authorities (CPA) by payday lenders take effect. We believe that there are only two to three well-funded payday loan companies which have the scale and flexibility to build the different capability to succeed in instalment loans. As part of the repositioning of CCD as a broader loans business, we believe that now is the right time to enter the online loans market with a unique customer proposition.

Getting the model right

Following trials of online loan products on the Provident website between May and October, we launched Satsuma loans, an online instalment loans product, in November.

The Satsuma loans target customer is incremental to the home credit customer base and sits in the wide space between Vanquis Bank and home credit. This demographic is, therefore, not currently served by the group.

Product

The product proposition of Satsuma loans is based closely on proven home credit 'DNA'. Loans are for small amounts of up to £300 initially and are repayable weekly. Just like home credit, all the costs are set up front and there are no additional charges, even if customers' circumstances change or payments are missed due to financial difficulties. All customers have a 'welcome call' with one of our telephone representatives who is always on the end of a phone to discuss a customer's account throughout the term of the loan. Payments are collected via CPA, based on a pre-agreed amount on a pre-agreed date. If a repayment is missed, we contact the customer immediately to discuss their situation and do not abuse the use of the CPA. We adopt similar forbearance procedures to those successfully used currently in both home credit and Vanquis Bank. We believe that Satsuma loans is better than payday lending and other instalment loan products currently in the market.

Marketing

We have positioned Satsuma loans with a broad marketing reach including those consumers who do not want the home credit agent service, paid-up former customers of home credit, Vanquis Bank declines and the open market. We are supporting the open market proposition with memorable front of mind branding and significant marketing spend. This includes a distinctive, customer-focused website which has a fresh look and feel and TV advertising with the launch of the 'singing Satsuma'. In addition, customers applying for a Satsuma loan who do not meet the higher underwriting criteria, are referred to home credit.

Underwriting

Our initial underwriting combines the unique proprietary knowledge of issuing weekly loans in the home credit business and remote non-standard credit in Vanquis Bank. We supplement this with external bureau data and will refine our scorecards for different sources as the business develops. The 'welcome call' and ongoing personal contact from our telephone representatives provides us with a unique customer insight. Consistent with both our home credit business and Vanquis Bank, we are adopting a prudent 'low and grow' approach to issuing further credit. Whilst it is early days, our default rates are currently better than our original forecast.

Satsuma®
loans.co.uk

Collections

Our collections process will utilise the excellent collections capabilities of Vanquis Bank which will be engaged at the earliest stage to optimise collections performance. This will include using their technology to contact customers through the use of their contact centre and SMS capabilities, trace activity for customers where no contact can be made and utilising their suite of forbearance measures for those customers whose circumstances have changed.

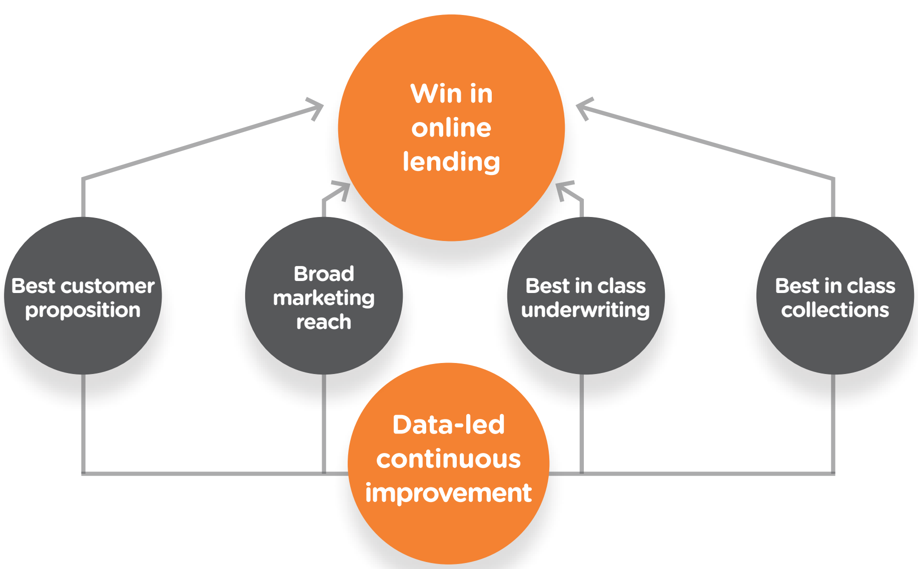
We have strong capabilities at every part of the customer journey. We are utilising our core skills in both CCD and Vanquis Bank to lend responsibly and build a successful business.

We believe that the business will broadly break even in 2014 as the investment takes place to build scale and make a financial contribution from 2015 onwards. We will use our competitive advantage and understanding of customer needs to achieve a top-3 market position within three to five years.

Getting the model right:
We believe Satsuma is the best customer proposition in the market, closely aligned with home credit

	Provident Personal Credit	Satsuma	Payday	Typical instalment loan
Customers with little leeway in income need...				
Small sums (on first loan)	Up to £300/£500	Up to £300	Up to £1,000	Up to £2,000
Manageable rate	APR in 100s	APR in 100s	APR in 1,000s	APR in 100s
Affordable schedule	Weekly	Weekly	One-off bullet	Monthly
Certainty on costs	Yes – not a penny more	Yes – not a penny more	No (rollover fees)	No (late fees)
Flexibility if things change	No penalties at all	No penalties at all	Rollover fees	Late fees
Someone to talk to if things change	Weekly agent visit	Welcome call and ongoing 'representative on the phone'	Online relationship only	Online relationship only
Certainty on when payments taken	Agent calls weekly to collect repayments	CPA on pre-agreed day for pre-agreed amount	Multiple use of CPA	Multiple use of CPA

We will use our competitive advantage to achieve a top-3 market position within 3 to 5 years



Consumer Credit Division continued

Financial performance

CCD generated a profit before tax of £102.5m in 2013 (2012 restated: £122.9m) as set out below:

	2013[1] £m	2012[2] £m	Change %
Customer numbers ('000)	**1,511**	1,827	(17.3)
Year-end receivables	**740.0**	869.6	(14.9)
Average receivables	**725.8**	782.7	(7.3)
Revenue	**697.1**	696.9	–
Impairment	**(269.7)**	(230.2)	(17.2)
Revenue less impairment	**427.4**	466.7	(8.4)
Revenue yield[3]	***96.0%***	*89.0%*	
Impairment % revenue[4]	***38.7%***	*33.0%*	
Risk-adjusted margin[5]	***58.9%***	*59.6%*	
Costs	**(285.6)**	(297.6)	4.0
Interest	**(39.3)**	(46.2)	14.9
Profit before tax	**102.5**	122.9	(16.6)

1 2013 profit before tax is stated before an exceptional item of £13.7m in respect of the cost of a business restructuring within CCD.

2 Profit before tax in 2012 has been restated from £125.1m to £122.9m following the mandatory adoption and retrospective application of the amended IAS 19, 'Employee Benefits' from 1 January 2013.

3 Revenue as a percentage of average receivables for the year ended 31 December.

4 Impairment as a percentage of revenue for the year ended 31 December.

5 Revenue less impairment as a percentage of average receivables for the year ended 31 December.

CCD's performance during 2013 reflected difficult trading conditions. Demand for credit was weak with customer confidence at the lowest level recorded for many years. Customers' household incomes were little changed on the previous year but disposable incomes saw further erosion due to continued rises in food, fuel and utility bills. Weaker demand has been particularly apparent amongst better-quality existing customers who are typically served with high value, longer duration loans that tend to be used for more discretionary items of expenditure. In addition, as part of the focus on driving returns in the home credit business, significantly tighter credit standards have been implemented which reduced the flow of new customers into the business through the final quarter of the year and contributed to customer numbers ending the year 17.3% lower than 2012.

Receivables at the end of December were 14.9% lower than the previous year and average receivables showed a year-on-year reduction of 7.3% due to a combination of weaker demand, tighter credit standards and lower customer recruitment.

The annualised revenue yield has strengthened to 96.0% at the end of December, up significantly from 89.0% at the end of last year. This primarily reflects the shift in mix of loans resulting from the reduction in demand for longer duration loans which carry a lower yield than shorter-term products.

The ratio of impairment to revenue increased from 33.0% at December 2012 to 38.7% at the end of 2013. Approximately 3% of the increase is attributable to the increase in the revenue yield. The other influence, was the deterioration in the arrears profile that occurred during the first nine months of the year. This resulted from weaker demand as those existing customers not wishing to take further credit have less incentive to bring their accounts up to date and typically remained in mild arrears. Whilst demand through the last quarter of the year remained weak, it is encouraging that early benefits from the implementation of standardised arrears and collections processes coupled with tighter credit standards mitigated any further deterioration and has produced a consistent improvement in year-on-year collections performance and arrears through the first two months of 2014.

Costs remained under close scrutiny throughout 2013 and the first phase of the cost reduction programme was implemented in July 2013. This included a reduction in field headcount of approximately 180 which delivered second-half cost savings of £10m and a 4% reduction in the cost base for 2013 as a whole. In November, the business announced the second phase of the cost reduction programme including further field and head office headcount reductions totalling 340. The related consultation period was successfully concluded in December. The cost reduction programme has secured £26m of further year-on-year savings in 2014. The headcount reductions recalibrate the ratio of customer numbers to employees and operational spans of control back to 2007 levels based on planned business volumes in 2014.

Interest costs in 2013 were 14.9% lower than last year reflecting the 7.3% reduction in average receivables and a reduction in the funding rate for the business from 7.4% to 6.8%.

Looking ahead

2013 has been a year of significant change. The repositioning of CCD to a broader lending business will ensure that we continue to meet customer needs and deliver strong returns to our shareholders. We have a clear, focused and deliverable strategy and have strengthened the management team with a combination of Provident experience and proven external track records. We have good initial momentum from our two-year programme to transform CCD and have established some measurable outcomes to monitor our progress:

- 2013 profits of approximately £100m will be the baseline for CCD profits.
- Performance in 2014 will reflect the transition to a smaller, higher-quality home credit customer and receivables base with corresponding net cost savings.
- For 2014 and 2015, we will focus on driving home credit returns and not on growing customer numbers, sales or the number of agents.
- The substantial home credit transformation programme will be completed by mid-2015.
- Satsuma loans will make a financial contribution from 2015 onwards.

We will also continue to explore the potential for growth into other forms of non-standard lending.

All of our actions will be driven by lending responsibly and providing our customers with the right products and services for them. Maintaining our high levels of customer satisfaction will always be central to our business.

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

"It's when things go wrong that life can get very tough. I always dread it when the MOT is due, but now that I've discovered Satsuma loans, I know I can handle whatever comes our way."

Paul, Worcester

Financial review

Andrew Fisher
Finance Director

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

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

The financial model has been developed to ensure that the group maintains a robust capital structure providing a comfortable level of headroom against the group's banking covenants, including the gearing covenant of 5.0 times, and the regulatory capital requirements set by the Prudential Regulation Authority (PRA). The strong capital generation of the businesses in which the group invests supports the distribution of up to 80% of its post-tax earnings by way of dividend. This allows the business to retain sufficient capital to support receivables growth consistent with management's medium-term growth plans for the group and a maximum gearing ratio of around 3.5 times. The financial model is underpinned by the group's consistent application of prudent and appropriate accounting policies.

Return on equity (ROE)

	2013 £m	2012[2] £m
Adjusted profit before tax[1]	**196.1**	178.4
Tax	**(44.6)**	(43.7)
Adjusted profit after tax	**151.5**	134.7
Shareholders' equity	**416.8**	375.4
Pension asset	**(29.2)**	(23.0)
Deferred tax on pension asset	**5.8**	5.3
Hedging reserve	**5.1**	7.0
Proposed final dividend	**(73.6)**	(66.0)
Adjusted equity	**324.9**	298.7
Average adjusted equity	**311.8**	282.0
ROE	**49%**	48%

1 Adjusted profit before tax is stated before an exceptional item of £13.7m in respect of the cost of a business restructuring within the Consumer Credit Division in 2013 and an exceptional credit of £15.6m in 2012.

2 Profit before tax in 2012 has been restated from £181.1m to £178.4m following the mandatory adoption and retrospective application of the amended IAS 19, 'Employee Benefits' from 1 January 2013.

Return on equity

Maintaining a high return on equity (ROE) remains at the heart of the group's financial model and drives the group's strategy. The group calculates ROE as profit after tax (prior to the impact of 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.

The group generated a strong ROE of 49% in 2013 (2012: 48%), benefiting from the continued excellent performance from Vanquis Bank which delivered an ROE of 44% (2012: 40%) versus a minimum threshold for the business of 30%.

An illustration of how this works in practice

- 2013 pre-tax profit of £196m (prior to exceptional items) equates to a profit after tax of £152m.
- 2013 dividend of 85.0p per share amounts to a £116m dividend cost.
- Dividend cover in 2013 is 1.32 times.
- Equity retained in the business to fund growth equals £36m (£152m less £116m).
- Target gearing ratio of 3.5 times broadly equates to a debt to equity ratio of 80:20 and allows debt funding of £144m (£36m multiplied by 4).
- Provides total funding and capital for receivables growth of £180m (£36m plus £144m).
- Pre-tax profit in excess of £196m allows dividends to be increased and receivables growth in excess of £180m.

High ROE business

Dividend policy	Gearing	Growth
Cover ≥ 1.25x	≤ 3.5x versus covenant of 5.0x	Supports receivables growth of £180m+

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, US 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 permission that Vanquis Bank has to fund up to 90% of its receivables book through retail deposits.

Group committed borrowings at the end of 2013 were £1,277.3m compared with £1,196.0m at the end of 2012. Borrowings have increased during the year primarily due to the strong growth in Vanquis Bank's receivables of approximately £220m during the year, partly offset by the contraction in the Consumer Credit Division (CCD) receivables book of £130m.

At the end of 2013, the group had committed borrowing facilities of £1,512.5m (2012: £1,387.9m). These facilities provided committed headroom of £235.2m as at 31 December 2013 (2012: £191.9m) with an average period to maturity of 3.2 years (2012: 3.7 years).

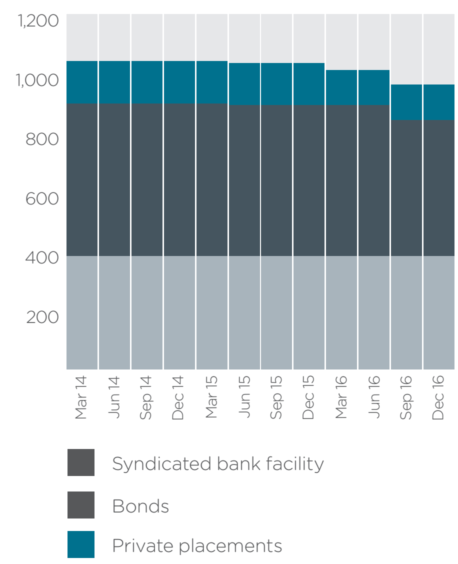
The group continued to strengthen its funding base through the successful launch of its fourth retail bond in March 2013 raising £65.0m at a coupon of 6.0% and a duration of 8.5 years. Consistent with the retail bonds issued in each of the three previous years, the 2013 bond is quoted on the ORB platform established by the London Stock Exchange. The retail bond market continues to be an excellent source of funding for the group.

At the end of 2013, Vanquis Bank had taken £435.1m of retail deposits, up from £327.4m at 31 December 2012. This represents 51% (2012: 51%) of Vanquis Bank's UK receivables, compared with the maximum permitted by the PRA of 90%.

Group return on equity* (%)

* All years stated before exceptional items and restated following the mandatory adoption and retrospective application of the amended IAS 19, 'Employee Benefits', from 1 January 2013.

Maturity profile of debt* (£m)



* Excluding retail deposits and stated following the renewal of the syndicated bank facility on 31 January 2014.

Financial review continued

Reconciliation of retail deposits

	2013 £m	2012 £m
At 1 January	**327.4**	139.7
New funds	**187.7**	202.4
Maturities	**(114.9)**	(33.5)
Retentions	**31.8**	16.4
Cancellations	**(3.2)**	(1.1)
Capitalised interest	**6.3**	3.5
At 31 December	**435.1**	327.4

Committed borrowing facilities

	Maturity	£m
Bank facility	2017[1]	**382.5**
Bonds and private placements:		
Senior public bond	2019	**250.0**
M&G term loan	2016 - 2021	**100.0**
Other sterling/euro medium-term notes	2015 - 2018	**40.4**
Retail bond 2010	2020	**25.2**
Retail bond 2011	2016	**50.0**
Retail bond 2012	2017	**120.0**
Retail bond 2013	2021	**65.0**
US private placements	2014	**38.3**
Residual subordinated loan notes	2015	**6.0**
Total bonds and private placements		**694.9**
Vanquis Bank retail deposits	2014 - 2018	**435.1**
Total committed facilities		**1,512.5**
Borrowings on committed facilities		**1,277.3**
Headroom on committed facilities		**235.2**
Retail deposits capacity[2]		**292.1**
Funding capacity		**527.3**

1 After taking account of the renewal of the syndicated bank facility on 31 January 2014.
2 Based on the lower of: (i) 90% of Vanquis Bank's UK receivables of £861.3m, less retail deposits as at 31 December 2013 of £435.1m, after setting aside the necessary liquid assets buffer of £25.5m. This amounts to £314.6m; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £292.1m as at 31 December 2013.

The overall inflow of new funds through Vanquis Bank's one, two, three, four and five-year fixed-rate deposits during 2013 amounted to £187.7m (2012: £202.4m).

Due to the high level of committed debt funding and the contraction in the CCD receivables book, the flow of new funds from the retail deposits programme has been managed through appropriate pricing to relatively modest levels during 2013.

There were £114.9m of maturities during the year (2012: £33.5m) of which £31.8m were retained (2012: £16.4m). This represents a relatively low retention rate of approximately 28% (2012: 49%), in line with the positioning of the interest rates offered during the year.

Rates of between 1.66% and 4.65% (2012: 2.21% and 4.65%) have been paid on retail deposits during 2013 and the overall blended interest rate on the deposit portfolio in 2013 was 3.8% (2012: 4.2%). The average period to maturity of retail deposits at 31 December 2013 was 2.3 years (2012: 2.3 years).

The non-branch, fixed-term retail deposits market in the UK is very large with around £70bn of cash and renewals being available for investment each year. The key determinant for depositors is the interest rate on offer. The market represents an excellent source of funding and Vanquis Bank plans to continue to build its deposit portfolio to the maximum threshold permitted by the PRA of 90% of receivables over the medium term. 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.

On 31 January 2014, the group entered into a new £382.5m syndicated bank facility maturing in May 2017 and cancelled the existing facility of £382.5m which was due to expire in May 2015. The syndicate continues to comprise the group's core relationship banks and the all-in cost of funds is lower than the cancelled facility with broadly consistent terms, conditions and covenant package. After reflecting the renewal of the syndicated bank facility, the weighted average period to maturity of the group's committed facilities increases from 3.2 to 3.8 years.

The funding structure of the group's committed facilities as at 31 December 2013, after reflecting the recent renewal of the syndicated bank facility, is shown in the table to the left. The funding structure takes into account the available capacity for Vanquis Bank to take retail deposits up to its permitted level of 90% of receivables, which is consistent with the full repayment of the intercompany loan from Provident Financial plc. The group's funding capacity on this basis amounts to £527.3m.

Excluding the retail deposits programme, maturities on the group's committed debt facilities in 2014 and 2015 are restricted to the repayment of £38.3m of private placements, €14.5m of medium-term notes and £6.0m of residual subordinated loan notes. After assuming that Vanquis Bank funds 90% of its receivables with deposits and taking account of the renewal of the syndicated bank facility on 31 January 2014, the group's committed facilities are sufficient to fund both contractual maturities and growth until the seasonal peak in 2017.

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.

The group's blended funding rate in 2013 was 6.8%, reduced from 7.5% in 2012. This primarily reflects the lower blended cost of retail deposits of 3.8% in 2013 compared with 4.2% in 2012 and a marginal increase in the mix of retail deposit funding, which represents approximately 34% of the group's funding at the end of 2013 compared with approximately 27% in 2012. The group funding rate for 2014 is expected to continue to reduce to approximately 6.5%.

The group is required to comply with its banking covenants in respect of gearing, interest cover, net worth, net worth excluding Vanquis Bank and cash cover. Following the renewal of the syndicated bank facility on 31 January 2014, the group's bank covenants have remained substantially unchanged with the only exception being an increase in the minimum net worth covenant from £220m to £265m, reflecting the uplift in the net asset value of the group since the previous limit of £220m was set. Performance against these bank covenants at 31 December 2013 is set out below. The group has comfortably complied with these covenants during 2013.

The group's credit rating was reviewed by Fitch Ratings in June 2013 and was reaffirmed at BBB with a stable outlook.

Gearing (times)

Interest cover* (times)

* All years stated before exceptional items and restated following the mandatory adoption and retrospective application of the amended IAS 19, 'Employee Benefits', from 1 January 2013.

Performance against bank covenants

Covenant		Limit	2013	2012
Gearing[1]		< 5.0 times	**3.0**	3.2
Net worth	**– group**[2]	> £265m	**398.5**	364.7
	– excluding Vanquis Bank[2]	> £140m	**187.8**	212.0
Interest cover[3]		> 2.0 times	**3.7**	3.5
Cash cover[4]		> 1.1 times	**1.31**	1.27

[1] Borrowings less the liquid assets buffer and other liquid resources held in satisfaction of the PRA liquidity requirements divided by equity (excluding the group's pension asset and fair value of derivative financial instruments, both net of deferred tax).
[2] Equity less the group's pension asset and fair value of derivative financial instruments, both net of deferred tax.
[3] Profit before interest, tax, amortisation, the movement in the fair value of derivative financial instruments and exceptional items divided by the interest charge prior to the movement in the fair value of derivative financial instruments.
[4] Cash collected divided by credit issued.

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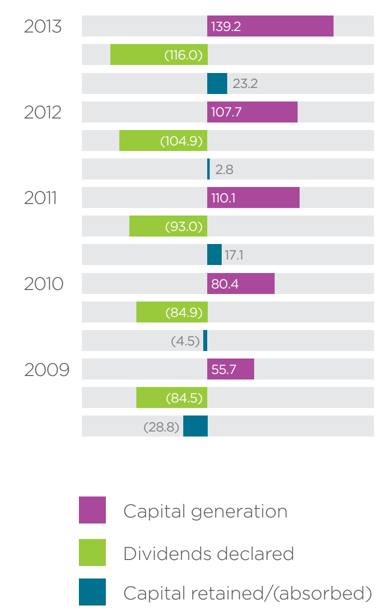
Financial review continued

Capital generated/(absorbed) (£m)



Capital generation and dividends

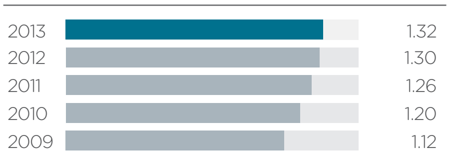
The group's strategy is to invest in businesses which generate high returns on equity to support the group's high distribution policy.

The group funds its receivables book through a combination of approximately 20% equity and 80% borrowings. Accordingly, the capital generated by the group is calculated as cash generated from operating activities, after assuming that 80% of the growth in customer receivables is funded with borrowings, less net capital expenditure. This is consistent with a maximum target gearing ratio of 3.5 times and maintaining an adequate level of regulatory capital.

The group's dividend policy set at the time of the demerger of the international business in 2007 was to maintain a full-year dividend payment of 63.5p per share whilst moving to a target dividend cover of at least 1.25 times.

In the period from 2007 to 2010, the group absorbed capital in maintaining the group's dividend at 63.5p, whilst building the group's dividend cover to the minimum target of 1.25 times. In 2011, due to the growth in the group's earnings, dividend cover passed 1.25 times and the group generated more than sufficient capital to fund receivables growth and increase the group's dividend, whilst retaining surplus capital. In 2012 and 2013, further growth in group earnings together with continued strong capital generation has enabled the group to increase its dividend by 11.9% and 10.1% respectively, deliver a dividend cover of around 1.30 times in both years and retain net surplus capital of £2.8m and £23.2m respectively. Throughout this period the group's gearing ratio was maintained below the maximum target of 3.5 times.

Dividend cover* (times)



* All years stated before exceptional items and restated following the mandatory adoption and retrospective application of the amended IAS 19, 'Employee Benefits', from 1 January 2013.

Capital generation

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Operating cash flow	183.8	89.6	138.7	150.5	86.8
Interest paid	(70.0)	(73.1)	(69.9)	(80.0)	(51.1)
Tax paid	(39.6)	(46.3)	(42.0)	(36.5)	(28.4)
Net capital expenditure	(8.8)	(7.4)	(7.4)	(17.6)	(12.5)
Add back 80% of receivables growth funded by debt	73.8	144.9	90.7	64.0	60.9
Capital generated	139.2	107.7	110.1	80.4	55.7
Analysed as:					
Vanquis Bank	53.0	26.1	14.8	6.3	5.1
CCD	98.5	102.4	103.9	93.3	67.6
Central	(12.3)	(20.8)	(8.6)	(19.2)	(17.0)
Dividends declared	(116.0)	(104.9)	(93.0)	(84.9)	(84.5)
Capital retained/(absorbed)	23.2	2.8	17.1	(4.5)	(28.8)
Dividend cover*	1.32	1.30	1.26	1.20	1.12

* Stated before exceptional items and restated following the mandatory adoption and retrospective application of the amended IAS 19, 'Employee Benefits', from 1 January 2013.

On a divisional basis, CCD generated £98.5m of capital in 2013, lower than £102.4m in 2012. The impact of the weaker trading performance and the cost of the business restructuring was substantially offset by the £26m of capital released due to the contraction in the receivables book during the year. The business continues to be highly capital generative and provides the bedrock for the group's high dividend payout ratio.

Vanquis Bank generated £53.0m of capital during the year (2012: £26.1m), showing another strong year-on-year increase. The business is generating surplus capital over and above that required to fund its receivables growth and maintain sufficient regulatory capital. Accordingly, Vanquis Bank paid dividends to Provident Financial plc of £30.0m during 2013 and paid a further £25.0m subsequent to the year end.

Regulatory capital and liquidity

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

CCD currently operates under a number of consumer credit licences granted by the Office of Fair Trading (OFT). With effect from 1 April 2014, CCD will be regulated for conduct purposes by the FCA when it takes control of consumer credit regulation from the OFT. In addition, the group, incorporating both Vanquis Bank and CCD, is the subject of consolidated supervision by the PRA by virtue of Provident Financial plc being the parent company of Vanquis Bank. The PRA sets requirements for the consolidated group in respect of capital adequacy and large exposures but not in respect of liquidity.

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 last ICAAP reviewed by the PRA was in 2011 prior to the commencement of deposit-taking activities by Vanquis Bank. Revised ICGs were set for both the group and Vanquis Bank which were not materially different from previous ICGs.

The ICG is specified as a percentage of the minimum Pillar I requirement and is comprised of credit, operational, counterparty and market risk, calculated using predetermined formulae together with certain additional capital add-ons to cover any additional risks. The ICG remains confidential between the PRA and the relevant institution and should not be publicly disclosed.

Regulatory capital equates to equity share capital and reserves after adding back subordinated loan notes less: (i) the net book value of intangible assets; and (ii) the pension asset and fair value of derivative financial instruments, both net of deferred tax. As at 31 December 2013, the group held total regulatory capital of £392.8m (2012: £358.8m), whilst Vanquis Bank held total regulatory capital of £183.6m (2012: £151.6m).

The level of regulatory capital held by both the group and Vanquis Bank as at 31 December 2013 was comfortably in excess of the ICGs set by the PRA.

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

Financial review continued

Liquidity
To ensure that sufficient liquid resources are available to fulfil operational plans and meet financial obligations as they fall due, the PRA requires that all BIPRU-regulated entities maintain a liquid assets buffer held in the form of high-quality, unencumbered assets. Historically, Vanquis Bank had been a simplified firm under the PRA's liquidity regime. However, from 1 February 2013, it has not met the definition due to the increased proportion of funding from retail deposits as well as the formation of the Polish branch. Accordingly, Vanquis Bank is now classified as a standard firm for liquidity purposes.

Following the reclassification to a standard firm, the liquid assets buffer is now calculated using Individual Liquidity Guidance (ILG) set by the PRA based on the Individual Liquidity Adequacy Assessment (ILAA) prepared by Vanquis Bank. In addition, further liquid resources must be maintained based upon daily stress tests linked to the three key liquidity risks of Vanquis Bank, namely retail deposit maturities, undrawn credit card lines and operating cash flows. This results in a dynamic liquid resources requirement, largely driven by retail deposits maturities in the following three months.

As at 31 December 2013, the liquid assets buffer, including the liquid resources held against the daily stress tests, amounted to £86.3m (2012: £52.3m). The relatively significant increase during the year reflects the growth in the receivables book of Vanquis Bank, together with the increased level of retail deposits maturing in the first quarter of 2014 compared with the same period in 2013. As a standard firm, Vanquis Bank holds its liquid assets buffer, including other liquid resources, in a combination of UK government gilts and a designated money market fund. Previously, as a simplified firm, the liquid assets buffer was held wholly in a designated money market fund.

The PRA's liquidity requirements relate to Vanquis Bank only and do not apply to the consolidated group.

There is not expected to be any significant impact on Vanquis Bank from the additional liquidity measures under CRD IV.

Pillar III disclosures
As part of the regulation/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 2013 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 2013 represents an effective rate of 22.7% (2012: 24.5%) on profit before tax prior to exceptional items and is close to the UK corporation tax rate which reduced from 24% to 23% on 1 April 2013. The group is expected to benefit in future years from the rate reductions announced by the Government and enacted in the 2013 Finance Act.

Accounting policies

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (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 other than in respect of the mandatory adoption and retrospective application of the amended IAS 19 'Employee Benefits', are set out on pages 138 to 145.

IAS 19 was amended in June 2011 and was applicable from 1 January 2013 with retrospective application required. The changes to the standard require the group to calculate its annual pension charge as the current service cost plus or minus the discount rate applied to the net pension asset. This replaces the previous calculation which was the current service cost plus the expected return on plan assets less the unwinding of the discount rate on liabilities. In effect, this requires the group to replace its long-term rate of return on assets assumption with its discount rate thereby reducing the assumed return on assets and increasing the pension charge. The retrospective application results in an increase in administrative costs and, therefore, a reduction in earnings with a corresponding adjustment to the actuarial movement on the retirement benefit asset taken through the statement of comprehensive income. There is, therefore, no balance sheet impact.

Restatement of 2012 following the mandatory adoption of IAS 19, 'Employee Benefits'

	Reported £m	Adjustment £m	Restated £m
Vanquis Bank	68.0	–	68.0
CCD	125.1	(2.2)	122.9
Central	(12.0)	(0.5)	(12.5)
Total group profit before tax and exceptional items	181.1	(2.7)	178.4
Actuarial movements on retirement benefit asset	(14.1)	2.7	(11.4)
Retirement benefit asset	23.0	–	23.0

The group's prudent accounting policies are reflected in the impairment policies adopted across the group. In Vanquis Bank, a provision of around 25% is made once one contractual monthly payment is missed which progressively builds to over 80% once accounts are 90 days in arrears. This is a realistic accounting policy which is prudent when benchmarked against other card issuers. In the weekly home credit business of CCD, a loan is impaired once two or more weekly payments have been missed in the previous 12 weeks and the provision is progressively increased to over 95% once no payment has been received in the last 12 weeks. This reflects timely, realistic provisioning which reinforces the right behaviour amongst agents and employees.

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

Going concern

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

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

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

In this section...

Governance

Directors' remuneration report

Introduction from the Chairman

"Corporate governance at Provident Financial is about more than just following a set of rules and guidelines.

We are constantly seeking to develop our practices and frameworks to ensure that we remain at the forefront of best practice."

Manjit Wolstenholme Chairman

Managing governance

Following John van Kuffeler's retirement from the board on 1 January 2014 and my appointment as Chairman from that date, I am delighted to present the key highlights arising from the board's work on corporate governance in 2013.

As you are aware from our previous reports, corporate governance at Provident Financial is about more than just following a set of rules and guidelines.

We have established a set of good corporate governance principles which are fully embedded in our corporate policies manual and they reflect the best practice we expect from our employees.

We are constantly seeking to develop our practices and framework to ensure that we remain at the forefront of best practice.

The key corporate functions and the senior divisional management are required to confirm compliance with the corporate policies biannually. However, not only do they confirm compliance, we encourage them to suggest improvements to ensure that our divisions and corporate office are always operating at the highest level.

Our approach to governance is very much based on the concept that good corporate governance enhances longer-term shareholder value and this includes taking action where necessary to ensure that what we do fully reflects and complies with the principles and provisions of the UK Corporate Governance Code (the Code).

The Code principles establish good governance practice and in the next few pages, I will explain how they have been applied by the board. The Chairman sets the board agenda with the Company Secretary having received input from the Chief Executive to ensure that the board has visibility and input into key decisions at an early stage. A wide range of topics was reviewed by the board during the year. Details are set out in the board calendar on page 81.

It is important that the non-executive directors are fully informed about decisions and therefore every opportunity is taken by the non-executive directors, particularly when meetings are held at operational sites, to meet with the senior management teams and to spend some time understanding the workings of the operations. Indeed, this was one of the matters arising from our external board evaluation in 2013 which confirmed the board's desire to hold more board meetings at operational sites around the country. This involves more members of the senior management team in board presentations in order to improve the board's understanding of key strategic and operational issues. As the new Chairman, I have committed to continuing the programme of senior management engagement in 2014.

The use of an iPad and the Boardpad2 application produced by the Institute of Chartered Secretaries and Administrators has significantly enhanced the workings of the board and its committees and has been welcomed by the board as improving the quality and efficiency of distribution of the meeting papers, not to mention the environmental impact of not producing paper board packs. We will continue to explore other technological developments which enhance the operation of the board.

Recent developments

We announced the retirement of John van Kuffeler as Chairman at our Annual General Meeting (AGM) in May 2013 with effect from 1 January 2014 and in the interim period, I have worked with him to determine the future composition and running of the board. In particular, I assumed the lead role in the recruitment of our two new non-executive directors, Malcolm Le May and Alison Halsey, both of whom have relevant and recent financial services experience in regulated sectors,

Introduction from the Chairman continued

Highlights

- Recruitment of two new independent non-executive directors
- Appointment of a new independent Chairman
- Restructuring the composition of the board and its committees to reflect the new regulatory environment
- Approval of the revised CCD strategy
- Recalibration of the risk management framework in light of regulatory changes
- Review of the guidance: 'Effective Internal Audit in the Financial Services Sector' issued by the Chartered Institute of Internal Auditors in July 2013 and completion of a gap analysis in respect of the policies and practices of the group internal audit function
- Annual independent external board evaluation carried out

which I believe not only strengthens the board and is consistent with our diversity policy but places us in a much better position to deal with the challenges created by the new regulatory regime which will apply to the group from 1 April 2014. From that date the group will be regulated by the Financial Conduct Authority (FCA), having previously been regulated by the Office of Fair Trading (OFT) and the Financial Services Authority (FSA). The recruitment process is reported in more detail in the report of the nomination committee.

I was also primarily responsible for the appointment of Independent Board Evaluation to carry out our annual board evaluation. This enabled me to receive feedback from my board colleagues on how they wanted the board meetings to be run under my chairmanship and understand their thoughts on the future composition of the board. In particular, Independent Board Evaluation were asked to carefully consider and report on any issues that were concerning board colleagues, including any perceived issues on the dynamics of the new board, bearing in mind its new composition.

Following the resignation of Chris Gillespie in September 2013, the board took the opportunity to review the strategy for the Consumer Credit Division (CCD). The board oversaw the appointment of a new managing director, the restructure of the CCD board and at an additional board meeting in November 2013, approved the revised strategy for the Consumer Credit Division which repositions the business as a broader lending business and repositions the core home credit and introduces a new online instalment product known as Satsuma.

Our responsibilities

The role and responsibilities of the board, which are set out later in this report, have changed to reflect the imminent change in the regulatory environment. The risk advisory committee has recalibrated the risk management framework in light of this change to increase the committee and board's focus on customer outcomes and conduct risk. The board has a clear view of the steps it needs to take to support the development of the business and is well placed to provide the leadership necessary to address the challenges ahead in the new regulatory environment.

Board composition

Following the departure of Chris Gillespie, we considered the mix of executive and non-executive directors on the board. After careful consideration by the nomination committee, a recommendation was made to the board that membership be restricted to myself, as independent Chairman, together with two executive directors and four independent non-executive directors. This recommendation was accepted.

In addition to significant strengths in the development and implementation of strategy, the board collectively has extensive experience in financial management, risk control, corporate governance, regulatory matters and corporate affairs issues.

Following the recent recruitment of two new independent non-executive directors, the board has also strengthened its experience in conduct risk and customer outcomes which will be key requirements in the new regulatory environment.

Following my appointment as Chairman on 1 January 2014, I relinquished the chairmanship of the remuneration committee and also my role as Senior Independent Director. Malcolm Le May took over as Chairman of the remuneration committee and was appointed Senior Independent Director with effect from 1 January 2014.

From October 2013 we have invited the managing directors of each of the divisions to attend part of each board meeting to present a strategic and operational report on their division. This is consistent with and addresses some of the feedback received following the 2012 board evaluation process.

Board membership

The mix of individuals on the board largely determines the quality of the board as a whole. Through the nomination committee, we pay a great deal of attention to the composition of the board and succession planning. When considering the composition of the board, we look for the right mix of knowledge, experience and key skills, whilst always giving due consideration to diversity.

It is important that the right balance is achieved as this will enhance the workings of the board and this was a key principle underpinning the recruitment process we initiated for Malcolm Le May and Alison Halsey, with the assistance of an external advisor. I believe the new board composition has the right mix of executive and non-executive directors and achieves the appropriate degree of challenge on both operational and strategic issues.

Board effectiveness

Following on from the external review in 2010 and in accordance with the requirements of the Code, we commissioned Independent Board Evaluation in September 2013 to: (a) undertake a thorough evaluation of the effectiveness of the board, its committees and key attendees; (b) help determine the board's requirements of the new Chairman; and (c) identify any concerns over the new composition of the board following the resignation of one of the executive directors. The process involved both observation at a meeting of the board, the audit committee, the remuneration committee and the risk advisory committee and one-to-one interviews.

The actions identified from the evaluation will be implemented through 2014. Further details can be found on page 82.

Independent Board Evaluation were selected to carry out this process following a review of the proposals submitted by two shortlisted providers. Independent Board Evaluation have no other connection with and provide no other services to the company.

As Chairman, I intend to meet with the independent non-executive directors during 2014 to review the issues raised during the board evaluation process. As the Senior Independent Director during the period, I also met with John van Kuffeler in December 2013 to review any issues raised concerning his performance.

Diversity

The board supports diversity in its broadest sense and considers it an essential driver of board effectiveness. The board recognises the benefits to the company of diversity in its workforce and in the composition of the board itself.

The board aims to have an optimum balance of skills, backgrounds and relevant sector experience in order to create a diversity of perspective in the boardroom. We will therefore pursue a policy of appointing the best people for relevant roles whilst recognising the benefits of greater diversity when considering any particular appointment.

Whilst there is more than a 20% representation of women in management positions, the board nevertheless recognises the benefits of increasing the representation of female employees at the most senior level in the company. The board now comprises 28.6% women and although it has therefore exceeded its target of 25% by 2015 over a year early, it remains committed to achieving a target of 25% women within the wider senior management group by 2015.

Remuneration

Details of the work of the remuneration committee together with the Annual Statement from the remuneration committee chairman, the Remuneration Policy and the Annual Report on Remuneration, all of which will be subject to a shareholder vote at the AGM in May 2014, are set out in the directors' remuneration report, on pages 108 to 130.

Risk and internal audit

We put a significant emphasis on monitoring the level of risk through the work of our audit committee and risk advisory committee. The outputs of this process are set out in greater detail on pages 85 to 91. We remain committed to building upon and indeed improving our understanding of the key risks facing the group and refining our appetite and tolerance of such risks. During the year we specifically reviewed the guidance: 'Effective Internal Audit in the Financial Services Sector' issued by the Chartered Institute of Internal Auditors in July 2013 and carried out a gap analysis of the policies and practices of the group internal audit function. As a result we: (a) removed the responsibility for risk from the Head of Audit and created a new position of Head of Risk; (b) changed the reporting line for the Head of Audit; and (c) despite a contrary recommendation in the guidance, retained the independence of the Vanquis Bank internal audit team, on the basis that Vanquis Bank was a regulated entity. We did, however, consider it appropriate that the group internal audit function retain oversight of the risks and controls across the group and accordingly it will continue to work in close cooperation with the Vanquis Bank internal audit team.

Compliance

The group complied with the provisions of the Code throughout 2013. A copy of the Code can be found at **www.frc.gov.uk**

Manjit Wolstenholme
Chairman

Our directors and officers

Peter Crook (50)

Chief Executive

Appointed to the board: 2006

Committee membership:
Chairman: executive committee and group executive committee.

Key achievements:
- Repositioning of the CCD business and developing a revised strategy with the new managing director and the new management team.
- Developing a relationship with the new regulator and overseeing the preparations for the group to transition to the FCA.
- Developing a detailed succession plan for the level of management below board level with the assistance of external advisors.
- Providing strategic direction in the development of the Vanquis Bank international project.
- Appointment to the FCA Practitioner Panel from 1 January 2014.

Previous board and management experience:
UK Managing Director, Barclaycard.

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

Andrew Fisher (56)

Finance Director

Appointed to the board: 2006

Committee membership:
Member: executive committee and group executive committee.

Key achievements:
- Renewing the group's £382.5m syndicated bank facility through to May 2017.
- Realigning the roles and responsibilities of internal audit and risk following the publication of the guidance: Effective Internal Audit in the Financial Services Sector issued by the Chartered Institute of Internal Auditors.

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

Current external appointments:
None.

Manjit Wolstenholme (49)

Independent non-executive Chairman

Appointed to the board: 2007

Committee membership:
Chairman: nomination committee.
Member: audit committee and risk advisory committee.

Key strengths:
Extensive experience of corporate finance matters, having spent 13 years in investment banking, enabling her to make a significant contribution to the corporate and financial structure of the group.

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

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

Malcolm Le May (56)

Independent non-executive director
Senior Independent Director

Appointed to the board: 2014

Committee membership:
Chairman: remuneration committee.
Member: audit committee, risk advisory committee and nomination committee.

Key strengths:
Over 30 years' experience in banking, asset management and insurance.

Previous board and management experience:
Co-head of banking for Barclays in New York; head of investment banking, Europe at UBS and global head of corporate and investment banking at ING Barings. Also Deputy CEO at Morley Fund Management (now Aviva Investors), and President of JER Europe.

Current external appointments:
Senior advisor to Ernst & Young, Senior Independent Non-executive director of Pendragon plc, Non-executive director of RSA Insurance Group plc and Chairman of Juno Capital LLP.

Rob Anderson (55)

Independent non-executive director

Appointed to the board: 2009

Committee membership:
Chairman: risk advisory committee.
Member: remuneration committee, audit committee and nomination committee.

Key strengths:
Extensive retail experience and knowledge of the type of consumer served by the group. As a recently serving Chief Executive he has current operational business experience which is relevant to the group's businesses.

Previous board and management experience:
Director of childrenswear business unit of Marks & Spencer and Chief Executive of Signet Jewelers Limited's UK Division.

Current external appointments:
None.

Alison Halsey (58)

Independent non-executive director

Appointed to the board: 2014

Committee membership:
Member: audit committee, remuneration committee, risk advisory committee and nomination 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: 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 Teachers Assurance and an Ambassador for Alzheimer's Society.

Ken Mullen (55)

General Counsel and Company Secretary

Appointed to the board: 2007

Committee membership:
Member: group executive committee.
Secretary to executive committee, audit committee, remuneration committee, risk advisory committee and nomination committee.

Key achievements:
- Winding up the group's defined benefit pension schemes in the Republic of Ireland.
- Provision of legal advice to the management of CCD on the implementation and execution of its recent redundancy programmes.

Previous board and management experience:
Company Secretary and General Counsel for Premier Farnell plc, Silentnight plc and Whessoe plc.

Current external appointments:
Chairman of Rexel UK Limited Pension Scheme.

Stuart Sinclair (60)

Independent non-executive director

Appointed to the board: 2012

Committee membership:
Chairman: audit committee.
Member: remuneration committee, risk advisory committee and nomination committee.

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

Previous board and management experience:
Chairman of GE Capital China and GE Capital Bank (UK), Chief Executive Officer of Tesco Personal Finance, Director of Virgin Direct; Director of Retail Banking at The Royal Bank of Scotland and non-executive director at Liverpool Victoria.

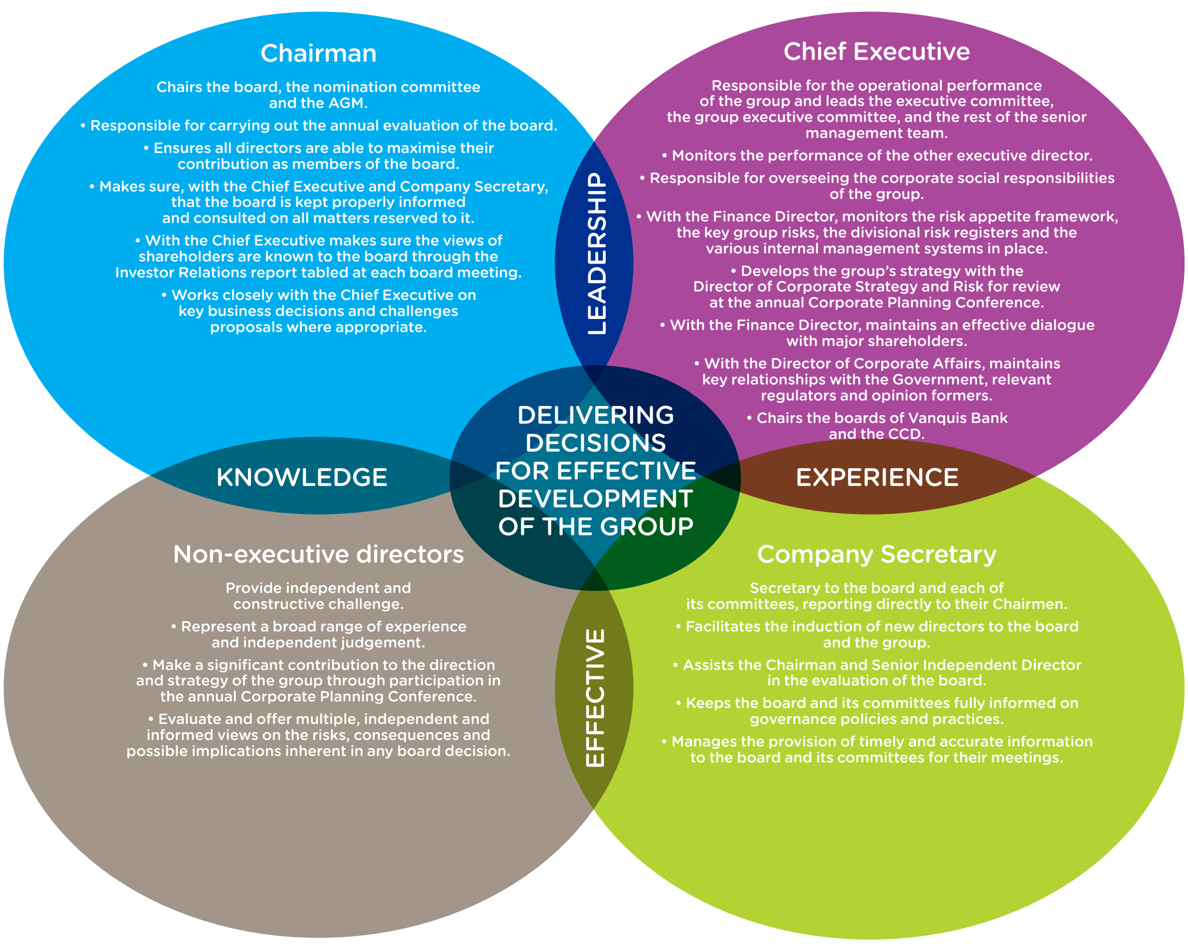
Current external appointments:
Director of Pru Health, Non-executive director of Platinum Bank (Kiev), Senior Independent Non-executive Director of Swinton Group Limited; Non-executive director of QBE Insurance (Europe) Limited and QBE Underwriting Limited; and Council Member of the Royal Institute for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

Key
- Executive directors
- Non-executive directors
- Company Secretary

Leadership

The board has recently updated its terms of reference in accordance with the Institute of Chartered Secretaries and Administrators (ICSA) guidance notes issued in July 2013. The terms of reference include a schedule of matters specifically reserved to the board for decision, including responsibility for leadership and setting the group's values and standards; corporate strategy; approval of budgets and financial results, new board appointments, dividend payment proposals, all major transactions, extension of the group's activities into new markets or geographies, appointment or removal of the Company Secretary; litigation which is material to the group's interests; authorisation of directors' interests that conflict, or may conflict, with the interests of the company; approval of the Vanquis Bank controls required by the Prudential Regulation Authority's (PRA) safety and soundness objectives. The board's five committees have also updated their terms of reference in light of the ICSA guidance and full details can be found on the company's website at **www.providentfinancial.com**. In particular, the audit committee terms of reference have been updated to address the new financial and narrative reporting requirements imposed on audit committees which include, inter alia, the role of the audit committee to report to the board that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the necessary information for shareholders to assess the group's performance, business model and strategy. In addition, the group has a detailed corporate policies manual which sets out authority levels within the group, which was last reviewed and updated in July 2012. Divisional boards and the corporate office are required to report on compliance with the corporate policies manual on a biannual basis.

Following the reduction in the number of executive directors, the opportunity was taken to realign the terms of reference of the executive committee with those of the group management committee. At the same time, the group management committee was renamed the group executive committee and now comprises the two executive directors together with the managing directors of the Consumer Credit Division and Vanquis Bank, the General Counsel and Company Secretary, the Director of Corporate Strategy and Risk and the Director of Corporate Affairs. The executive committee deals with matters relating to the running of the group, other than those reserved to the board and those specifically assigned to the other committees. The additional matters



reserved to it, which were previously reserved to the board, include changes to the group's management and control structure, management development and succession planning, appointments to the finance forum and treasury committee, and approval of the appointment and removal of financial advisers and city solicitors. There is a formal schedule of matters reserved to it for decision which can be found on the company's website. The terms of reference of the group executive committee include certain matters which were previously reserved to the executive committee including the review and approval of budgets, approval and monitoring of the corporate responsibility programme and its budget, review and approval of the corporate policies manual, approval of the treasury policies, approval of any political donations, review of the group risks and controls, and the development and implementation of a range of group policies.

The right team

Chairman
In addition to the responsibilities set out in the diagram on page 78, John Van Kuffeler chaired the boards of Hyperion Insurance Group Limited and Marlin Financial Group Limited. These appointments did not involve more than two and a half days' work per week.

In addition to the responsibilities set out in the diagram on page 78, Manjit Wolstenholme is also a non-executive director of Future plc, The Unite Group plc and Aviva Investors Holding Limited. These appointments involve no more than one and a half days' work per week and there have been no material changes in her other commitments since her appointment as Chairman on 1 January 2014.

Senior Independent Director (SID)
Following the appointment of Manjit Wolstenholme as Chairman, Malcolm Le May assumed the role of SID on 1 January 2014. He will be available to shareholders, and will act as a sounding board for the other directors and as a confidante for the Chairman.

Advisory
All directors are able to consult with the Company Secretary, who is secretary to all of the board committees. The appointment and removal of the Company Secretary is a matter for the board.

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.

Risk management
Identification and management of risk is central to the creation of long-term shareholder value and is overseen by the risk advisory committee on behalf of the board. The board receives regular updates on the key group risks and ensures that the risk management framework and the risk profile for the group support its strategic goals. In light of the change in the regulatory environment in which the group will operate from 1 April 2014, conduct risk and particularly customer outcomes has been added to the risk dashboard of CCD which together with the conduct risk dashboard established by Vanquis Bank whilst regulated by the FSA, are considered key risks for the group. The risk advisory committee is responsible on behalf of the board for monitoring the key metrics identified by both divisions in the management of conduct risk and ensures in particular that customer outcomes remain central to the group's risk management programme.

Strategy
The board is responsible for the development of, and changes to, the group strategy. In addition to the regular discussion and review at board meetings of progress against this strategy, an annual two-day Corporate Planning Conference (CPC) is held which is dedicated to reviewing and developing the group's strategy. The CPC is attended by all board members, the General Counsel and Company Secretary and the Director of Corporate Strategy and Risk. In addition, in 2013 the Managing Director and Commercial Director of Vanquis Bank and the Commercial Director of CCD attended the CPC and the agenda included:

- a review of the overall performance of the group and identification of those areas of the business which could be developed further or which required repositioning;
- a discussion on the general macro-economic environment in which the group operates;
- a review of the UK non-standard lending market including an analysis of the main competitors of CCD in the unsecured lending part of the market;
- a review of the CCD business model including an update on the modernisation programme and a presentation from the Commercial Director on the growth opportunities;
- a presentation by the Managing Director on the trading performance of Vanquis Bank and a review of the strengths, weaknesses opportunities and threats to the current model in an ever changing competitive and regulatory environment;
- a progress update from the Vanquis Bank Commercial Director on the Polish pilot and a review of the outline business plan;
- a restatement of the group's business model, mission, vision and strategy and a decision to explore identified opportunities to develop the group.

As part of the output from the 2013 external board evaluation and in light of the new composition of the board it has been decided to adopt a new approach for the 2014 CPC which will provide a clearer focus on strategy and longer-term strategic issues including strategic choices to enhance the group's competitive advantage. This is likely to involve a different approach to the process and content and will involve facilitated discussions, working sessions, case studies and a significant degree of emphasis on customer outcomes and conduct risk.

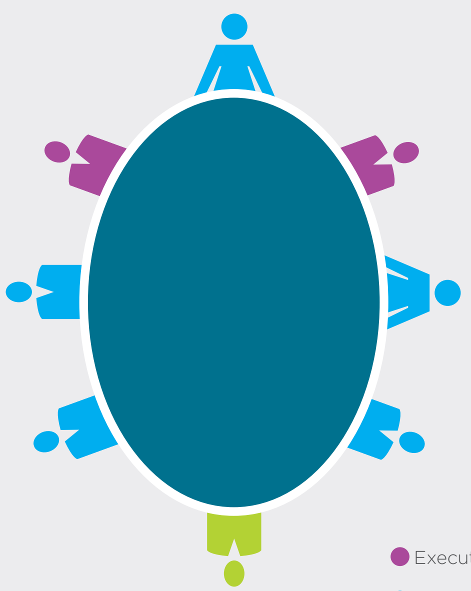
Leadership continued

Attendance at board and committee meetings

	Board	Audit committee	Nomination committee	Remuneration committee	Risk advisory committee
Total number of meetings in 2013	**9**	**6**	**5**	**7**	**3**
John van Kuffeler[1]	9	–	4	–	–
Peter Crook	9	6	5	–	–
Andrew Fisher	9	6	–	–	3
Chris Gillespie[2]	6	4	–	–	–
Rob Anderson	9	6	5	7	3
Manjit Wolstenholme	9	6	5	7	3
Stuart Sinclair	9	6	5	6	3

[1] Retired on 1 January 2014.
[2] Resigned on 13 September 2013.

Board composition



At each main meeting

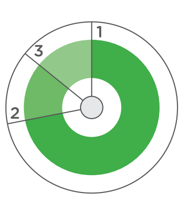
Review and discuss:

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

Review of:

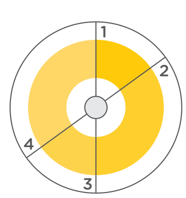
- Minutes of previous meetings
- Minutes of the meetings of the executive committee
- Review of implementation of actions agreed at previous meetings

Sector experience



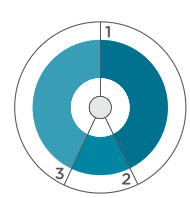
1. Financial services **72%**
2. Retail **14%**
3. Other **14%**

Board composition



1. Female **30%**
2. Male **70%**
3. Executive **30%**
4. Non-Executive **70%**

Tenure



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

Key board discussions and actions

During 2013, the board discussed and implemented the following key actions:

- It identified the need to address certain operational issues within CCD and developed a revised strategy to reposition the business as a broader lending business which involved the repositioning of home credit and the introduction of a new online instalment loan product.
- It commissioned Independent Board Evaluation to carry out an evaluation of its performance and that of its committees and individual directors.
- The composition of the board was reviewed which resulted in: (a) the appointment of Manjit Wolstenholme as Chairman following the retirement of John van Kuffeler; (b) the recruitment of two new independent non-executive directors; (c) the reduction in the number of executive directors to two following the resignation of Chris Gillespie; and (d) the appointment of Malcolm Le May as the SID.
- It changed the composition and chairmanship of the board committees following the change in board composition which will also address the new requirements arising from regulation by the FCA.
- It proposed the establishment of a Share Incentive Plan for all employees and renewal of the Performance Share Plan and the Save As You Earn Scheme, all of which were approved by the shareholders at the 2013 AGM.
- It approved the renewal of the group's £382.5m syndicated bank facility through to May 2017.
- It realigned the roles and responsibilities of risk management and internal audit following publication of the guidance: 'Effective Internal Audit in the Financial Services Sector' issued by the Chartered Institute of Internal Auditors.

Board calendar in 2013

January

- Review of the growth opportunities for CCD
- Approval of new counterparty limits under the treasury policy

February

- Review of CCD advertising campaign
- Accepted the audit committee recommendation to reappoint the auditor
- Review and approval of the annual results, including:
  - Report of the audit committee
  - Preliminary announcement
  - Results presentation
  - Annual Report and Financial Statements
  - Report of the remuneration committee
- Consider a recommendation regarding the final dividend
- Review of divisional health and safety annual reports
- Approval of proposals to be submitted to the AGM
- Review of divisional and corporate office compliance with the corporate policies manual
- Consideration of a benchmark report on non-executive director fees
- Approval of the update to the group's EMTN programme and the issue of a fourth retail bond under the programme

May

- Review of corporate governance reports on AGM resolutions
- Review and approval of interim management statement
- Two-day CPC

June

- Review of the Pension Scheme for Republic of Ireland employees
- Review of the CPC conclusions and actions
- Review and approval of the 2013 budget update
- Review of the proposed CCD redundancy programme

July

- Review and approval of the interim results including:
  - Report of the audit committee
  - Interim results announcement
  - Results presentation
  - Recommendation regarding the interim dividend
- Review of divisional and corporate office compliance with the corporate policies manual
- Approval of updated counterparty limits
- Approval of external board appointment for a non-executive director

September

- Review of international expansion plans for Vanquis Bank
- Approval of the Vanquis Bank recovery and resolution plan for submission to the FCA
- Received a PRA update
- Acceptance of the resignation of an executive director
- Acceptance of a recommendation from the nomination committee that the board be restructured to include only two executive directors

October

- Review of CCD revised strategy
- Review and approval of interim management statement
- Receive an update of board and committee terms of reference

November

- Review and approval of the CCD revised strategy and presentation for the Investor and Analyst Event

December

- Update on CPC 2013 actions
- Review and approval of 2014 budget
- Review of results of board evaluation
- Agreement of actions from board evaluation
- Review of independence of non-executive directors
- Review of group tax strategy
- Acceptance of a recommendation from the nomination committee to appoint two new non-executive directors
- Review of proposed CCD redundancy programme
- Review of results of annual health and safety audit

Effectiveness

What does effectiveness mean to the company?

The Chairman manages the board and oversees the operation of its committees with the aim of ensuring that they operate effectively by fully utilising the diverse range of skills and experience of the various board members. The board and its committees are annually assessed to ensure their effectiveness is maintained and that they remain fit for purpose, as it is only possible to create value by having the right people in place operating within an environment that encourages effective decision making. It is also important that the board and its committees evolve and develop, to address the ever-changing regulatory environment in which the group operates. Evaluating the board's performance can lead to fresh insights into the functioning of the board whilst potentially identifying areas that might need to be strengthened and developed.

Board evaluation

Following the internal board evaluations in 2011 and 2012, the eleventh evaluation of the performance of the board and that of its committees and individual directors was carried out by Independent Board Evaluation during the period October to December 2013. The process was carried out by means of one to one discussions between Independent Board Evaluation and all executive and non-executive directors, one to one discussions with board and committee attendees as well as observation of the conduct of the board and its committees at their meetings in October 2013.

The evaluation included a review of the collective and individual performance of the members of the board and committees, the quality and timeliness of the information supplied to it, a peer group comparison and a best practice review.

The results of the evaluation, which were discussed by the board as a whole at its meetings in December 2013 and January 2014, confirmed that the board was well balanced in terms of public company experience, both present and past. However, the following recommendations were made by Independent Board Evaluation with a view to enhancing the performance of the board; and an action plan to implement the recommendations was reviewed and approved by the board.

1. Consider restructuring the strategic away days to cut down on presentation time and allow more time for debate, big picture issues and less formal time with the executive team.

2. Consider opportunities throughout the year for the senior management team to spend more time with board members.

3. Consider ways in which non-executive directors can spend more time in the business to increase their knowledge and so increase the visibility of the non-executive directors within the operations.

4. Consider putting in place a process to encourage more informal contact between the senior management team and board members.

5. Consider holding board meetings in different locations around the country and build on opportunities to meet senior management teams.

6. Consider increasing the number of non-executive director meetings outside board meetings to provide an opportunity to talk informally and to get to know new board members in due course.

7. Consider creating development plans for board members which focus on individual roles and encourage board members to concentrate on one aspect of the business in more detail.

8. Bring committee membership into line with best practice.

9. Consider ways of ensuring that board papers are sent out in a more timely manner to allow non-executive directors more time to prepare for meetings.

The evaluation confirmed that the board was strong on shareholder accountability and relationship and was very focused on governance and compliance.

In accordance with the requirements of the Code, an external evaluation will continue to be carried out every three years. The next such evaluation will therefore be carried out in 2016.

Induction of new director

On appointment, each director undertakes a comprehensive induction programme which involves time with the executive directors, the Company Secretary, members of the divisional boards and visits to the key operations. During 2014, Malcolm Le May and Alison Halsey, our new non-executive directors will:

- have individual meetings with the executive directors and the Company Secretary;
- meet with the divisional boards and senior management team in each division;
- visit a Vanquis Bank contact centre and meet with key staff;
- spend a day at one of the CCD branches;
- accompany a CCD agent on their customer round; and
- meet with the audit partner from Deloitte LLP.

Training

Appropriate training and briefing is provided to all directors on appointment to the board, taking into account their individual qualifications and experience. Ongoing training is arranged to suit their individual needs (including environmental, social and governance training as appropriate) and the Chairman regularly reviews and agrees with each director their training and development needs. Following the 2013 board evaluation, the Chairman is in the process of creating individual development plans for each of the non-executive directors which will focus on areas where they can add value to key strategic matters facing the group and which will be board agenda items throughout 2014.

Non-executive directors

Each of the five non-executive directors has been formally determined by the board to be independent for the purposes of the effective governance of the group, in line with the independence expectations of the Code. The board believes that there are no current or past matters which are likely to affect their independent judgement.

Non-executive directors are currently appointed for fixed periods of three years, subject to confirmation by shareholders at the AGM following appointment. The initial three-year period may be extended for one further three-year period (and, in exceptional cases, further extended), subject always 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 was appointed as the SID with effect from 1 January 2014 and is available to consult with shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

In December 2013, John van Kuffeler, as the Chairman, met with the non-executive directors without any executive director present and the non-executive directors met without the Chairman present to discuss the Chairman's performance. Manjit Wolstenholme, the SID at that time, discussed comments arising out of this process with the Chairman.

Reappointment of directors

Under the company's articles of association, each director should retire, but may be reappointed, at least at every third AGM, as well as at the first AGM following appointment. Also, after nine years, a director must offer themself for reappointment annually.

Notwithstanding the articles, in accordance with the recommendations of the Code, all directors offered themselves for reappointment at the 2013 AGM and biographical details of the directors were supplied in the shareholders' circular and notice of the 2013 AGM. All directors will offer themselves for appointment/reappointment at the 2014 AGM and for reappointment at all future AGMs.

Effectiveness continued

Policy on board appointments

The board's policy on other directorships is designed to ensure that all directors remain able to discharge their responsibilities to the company.

The letters of appointment of the non-executive directors state that any proposed appointment to the board of another company will require the prior approval of the board. The company's policy is that a non-executive director should have sufficient time to fulfil their duties to the company, including, where appropriate, chairing a committee.

The board will consider all requests for permission for other directorships carefully, subject to the following principles:

- a non-executive director would not be expected to hold more than four other material non-executive directorships; and
- if they hold an executive role in a FTSE 350 company, they would not be expected to hold more than two other material non-executive directorships.

In line with the Code, an executive director will be permitted to hold one non-executive directorship in a FTSE 100 company (and to retain the fees from that appointment) provided that the board considers that this will not adversely affect their executive responsibilities. The board would not permit an executive director to take on the chairmanship of a FTSE 100 company. Any request for an exception to this policy is considered on its merits. In July 2013, Peter Crook, Chief Executive, was given permission by the board to join Cabot (Group Holdings) Limited as a non-executive director on the basis that it would not adversely affect his executive responsibilities. He retains the fees from this appointment.

Conflicts of interest

The board has put procedures in place to deal with situations where a director has a conflict of interest. As part of these procedures the board:

- considers each conflict situation separately based on its particular facts;
- considers any conflict situation in conjunction with the other duties of directors under the Companies Act 2006;
- keeps records and board minutes as to authorisations granted by directors and the scope of any approvals given; and
- regularly reviews conflict authorisations.

The board has complied with these procedures during the year.

Accountability

Risk management and internal control

The board is responsible for the alignment of strategy and risk, and for maintaining a sound system of risk management and internal controls. We continue to drive improvements to our risk management processes and systems, which are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The group has a robust governance and internal control framework. The key elements of the internal control system, including the financial reporting processes, have been established in accordance with the FRC's Internal Control: Guidance for Directors and the FCA's Disclosure and Transparency Rules.

Risk advisory committee

Members:

Rob Anderson (Chairman)

Stuart Sinclair

Manjit Wolstenholme

Robert Hough[1]

Malcolm Le May[2]

Alison Halsey[2]

Attendees by invitation:

Ken Mullen (Company Secretary and General Counsel)

Peter Crook

Andrew Fisher[3]

David Mortlock (Head of Audit)

David Merrett (Director of Corporate Strategy and Risk)

[1] Retired from the board on 31 January 2013.
[2] Appointed 1 January 2014.
[3] Resigned as a member on 1 January 2014 but attends by invitation.

CONTROLS

Committees

Audit committee

The audit committee comprises the non-executive directors and is chaired by Stuart Sinclair. The Finance Director, Chief Executive, Head of Audit, Group Financial Controller and the external audit partner from Deloitte LLP normally attend all meetings by invitation. The audit committee meets six times a year and is responsible for monitoring group-wide internal financial controls, appointment and appraisal of the external auditor, agreeing the internal audit plan each year, reviewing the reports produced by internal audit and reviewing the group's whistleblowing policy. The audit committee also reviews the financial statements, interim reports and preliminary announcements including any significant accounting judgements made in preparing them.

Nomination committee

The nomination committee comprises the non-executive directors and is chaired by Manjit Wolstenholme, the Chairman. The Chief Executive attends all meetings by invitation. The nomination committee meets at least twice a year and is responsible for reviewing the structure, size and composition of the board, considering succession planning for directors and other members of the senior management team and recommending candidates for appointment to the board, having considered the skills, knowledge, experience and diversity of the board.

Supporting documents and structures

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.

Monthly management accounts

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

Internal audit

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

Finance forum

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

Accountability continued

Role and responsibilities of the risk advisory committee

- Design, implement and monitor the risk management framework.
- Consider the nature and extent of the risks facing the group and appropriate mitigation.
- Review and approve the group's Internal Capital Adequacy Assessment Process (ICAAP) for submission to the board.
- Review the group's business continuity plans.
- Notify the board of any changes in the status and control of risks.

Risk advisory group

The risk advisory committee delegates a number of responsibilities to the risk advisory group which comprises the executive directors, the Company Secretary and General Counsel, the Group Financial Controller, the Director of Strategy and Risk and the Group Treasurer. The Deputy Company Secretary and divisional risk managers also attend the meetings by invitation. The risk advisory group considers the extent and nature of the risks facing the group, the extent and categories of risk which are acceptable to bear, the likelihood of any risk materialising, the group's ability to mitigate any risk, and the costs of operating particular controls relative to the benefits obtained. It also reviews the key risk registers prepared by the group and the divisional risk committees three times a year, challenging and making changes where appropriate. It submits a schedule of key risks, the group and divisional risk registers and the ICAAP to the risk advisory committee for review and approval.

CONTROLS

Committees

Executive committee

The executive committee comprises the two executive directors and is chaired by the Chief Executive. The committee normally meets at least once a week, and more frequently as required, and deals with matters relating to the general running of the group. These matters include monitoring the weekly performance of the group's businesses, approving capital expenditure projects and long-term contracts subject to certain limits, approving treasury-related transactions and approving all transactions that have the potential to impact adversely on the group's capital ratio.

Risk advisory committee

Considers the nature and extent of the risks facing the group, keeps them under review, reviews the framework to mitigate such risks, and notifies the board of changes in the status and control of risks. It reports to the board on a regular basis.

Remuneration committee

The remuneration committee comprises the non-executive directors and is chaired by Malcolm Le May and is responsible for the remuneration of the Chairman, the executive directors and the Company Secretary. The committee, which meets at least three times a year, also reviews the remuneration of the senior management team. The Chief Executive is consulted on proposals relating to the remuneration of the other executive directors and the senior management team and the Chairman is consulted on proposals relating to the Chief Executive's remuneration. The committee regularly reviews the remuneration policy in the context of the group's risk management framework to ensure it does not inadvertently promote irresponsible behaviour. It coordinates its work with the audit committee and risk advisory committee who assist with the monitoring and assessment of risk management specifically in relation to the remuneration incentives in place.

Supporting documents and structures

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 and submission to the risk advisory committee.

Corporate policies manual

The board requires the divisions and the corporate office to operate in accordance with the corporate policies manual and the divisions and the corporate office are obliged to certify compliance on a biannual basis.

Risk advisory group

The risk advisory group formally reviews the divisional risk registers at least three times a year and it reports to the risk advisory committee.

Treasury committee

The treasury committee is chaired by the Finance Director and comprises the Group Treasurer, divisional finance directors, Group Financial Controller, Head of Tax and other key members of the finance function. The treasury committee manages the treasury activities of the group and meets at least six times a year. The treasury committee is not a formal sub-committee of the board but it regularly reports to the board on compliance with treasury policies and other treasury matters. The treasury committee is also responsible for monitoring the group's capital adequacy and liquidity positions.

Update on 2013 activities

During 2013, the risk advisory committee has: (i) updated its terms of reference and the risk management framework; (ii) updated the group's risk appetite framework to reflect the imminent change in the regulatory environment in which the group operates, specifically to address conduct risk and customer outcomes and to reflect the changes to the strategic and operational objectives of the group; (iii) reviewed and approved the divisional business continuity and recovery plans, and (iv) reviewed and approved the realignment of the responsibility for risk to the Director of Corporate Strategy and Risk.

Statement on internal controls

In accordance with the revised Guidance for Directors on the Combined Code, the board has reviewed the effectiveness of the group's framework of internal controls during 2013. The process for identifying, evaluating and managing the significant risks faced by the group was in place throughout 2013 and up to 25 February 2014 and no significant failings or weaknesses were identified during this period.

Effectiveness

The committee formally considered its effectiveness in 2013. On the basis of the board and committee evaluation undertaken, the overall view was that it was working effectively. On the recommendation of Independent Board Evaluation who carried out the 2013 evaluation of the committee, Mr Fisher resigned as a member of the committee on 1 January 2014 but agreed to attend the meetings by invitation.

Risk advisory committee calendar in 2013

At specific meetings:

January

- Update of terms of reference
- Risk management framework update
- Performance and effectiveness of the committee
- Review and approve the revised group risk appetite framework

July

- ICAAP review and approval
- Risk appetite framework review and approval
- Consider the overall risk management status
- Business continuity and disaster recovery review

October

- Assess overall risk management status
- Financial risk review
- Review and approve the realignment of the responsibility for risk to the Director of Corporate Strategy and Risk

At each main meeting

- Review minutes of previous meetings
- Review of implementation of actions agreed at previous meetings
- Consideration of divisional risk registers
- Review of risk appetite reports

Strategic report
Governance
Remuneration
Financial statements
Shareholder information

Risks

Details of the group's key risks, together with the controls and procedures in place to mitigate the risks and progress made against each risk in 2013, are as follows:

REGULATORY RISK

The risk of loss arising from a breach of existing regulation or regulatory changes in the markets within which the group operates.

- **There is increased focus on regulation, particularly for non-standard lenders and there is a potential read-across from any legislation or regulatory measures introduced to address the practices of payday lenders.**
- **The FCA will replace the Office of Fair Trading (OFT) as the regulatory body for consumer credit businesses from 1 April 2014. The consultation on the authorisation, supervision and enforcement regimes as well as conduct rules and guidance has now closed and final guidance was issued in March 2014.**
- **At the end of November 2013, the government announced that it intended to legislate to introduce a cap on the total cost of credit for payday loans. The duty on the FCA is to introduce the cap by January 2015 and was formally established through the Financial Services (Banking Reform) Act in December 2013. The FCA will determine the level and nature of the cap, as well as the precise definition of the loans to be covered by the cap. The FCA intends to conduct research and economic analysis before consulting on specific proposals during 2014. It will also consider the lessons of other countries that have adopted this power to ensure that any cap is right for UK consumers.**

MITIGATION

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

PROGRESS IN 2013

- Bristol University Personal Finance Research Centre study into a variable cap on total cost of credit concluded consistently with previous studies against rate caps.
- On 1 January 2014, Chief Executive, Peter Crook was appointed a member of the FCA Practitioner Panel allowing the group to fully participate in discussions on the transition of regulation to the FCA and develop transitionary programmes in both the Consumer Credit Division (CCD) and Vanquis Bank.
- Ongoing proactive engagement with regulators both in the UK and the EU.
- Satsuma has been closely positioned to home credit in terms of fixed cost, flexibility and close customer contact.

CREDIT RISK

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

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

MITIGATION

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

PROGRESS IN 2013

- Vanquis Bank has continued to apply consistently tight credit standards on both new accounts and credit line increases.
- Record low delinquency levels in Vanquis Bank has enabled the business to generate a risk-adjusted margin of 34.2%, well ahead of the minimum target of 30%.
- Underwriting has been tightened in home credit during the final quarter of 2013.
- The focus on collections performance in home credit has resulted in a stabilisation of the arrears profile in late 2013 and a subsequent improvement through early 2014.
- The Satsuma business model has been developed by combining the experience and knowledge of home credit and Vanquis Bank with an inherent customer focus.

BUSINESS RISK

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

- **Increased marketing activity from existing competitors may impact Vanquis Bank's growth rates.**
- **Polish customers have a much greater propensity to use the credit card to access cash rather than at the point of sale which may impact the ability to export the UK business of Vanquis Bank into Poland.**
- **CCD may not be able to build the necessary capability to capture the growth opportunity in the online loans market with Satsuma.**
- **The continued pressure on customers' incomes from rises in fuel, food and utility costs could impact the demand for credit, impairment and profitability in home credit.**
- **Potential increased competition from competing formats such as direct mail and rent-to-own may reduce further the flow of new customers into home credit.**

MITIGATION	PROGRESS IN 2013
• A clear board strategy is in place. • A corporate planning conference (CPC) is held annually. • Central resource is in place to develop the corporate strategy. • New products and processes are thoroughly tested prior to roll-out. • There is comprehensive monitoring of competitor products, pricing and strategy. • Robust business change functions oversee change programmes. • The group has comprehensive monthly management accounts, a monthly rolling forecast and a biannual budgeting process. • Loans are short-term in nature and, in home credit, agents visit customers in their homes and are therefore able to stay up to date with customer circumstances. • The group has demonstrated the ability to manage the business through the deterioration seen in the UK economy and employment market over the past five years.	• Despite a modest increase in marketing activity by competitors, Vanquis Bank remains the most active participant in the non-standard credit card market and booked a record 411,000 accounts in 2013 through the continued development of distribution channels. • The pilot credit card operation in Poland has developed an effective set of credit tools and the focus has now shifted to the development, marketing and distribution of its revolving credit proposition. • CCD's home credit business continues to be repositioned as a leaner, better-quality, more modern, high returns business. • Satsuma loans has made an encouraging start since its launch in November 2013. The capability is being built to support a more rapid development of the business from late 2014.

REPUTATIONAL RISK

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

- **Media and pressure group activity increases during an economic downturn or when the company is performing well.**
- **There is a reputational impact from increased focus on regulation, particularly of non-standard lenders and the read-across from any legislation or regulatory measures introduced to address the practices of payday lenders.**

MITIGATION	PROGRESS IN 2013
• Credit and collection policies are designed to ensure that both businesses adhere to responsible lending principles. • A compliance committee oversees the application of the FCA's treating customers fairly regime in Vanquis Bank and both the risk and credit committee within CCD oversee compliance with the OFT's guidelines. • Regular customer satisfaction surveys are undertaken in both businesses. • The group invests in a centrally coordinated community programme. • Specialist in-house teams, external advisors and established procedures are in place for dealing with media issues. • A proactive communication programme is targeted at key opinion formers and is coordinated centrally. • The 130-year-old home credit business is well understood and has been subject to regular regulatory review and scrutiny.	• Customer satisfaction remains high in both CCD (93%) and Vanquis Bank (88%). • Customer complaints remain low in both businesses. • Vanquis Bank has an extremely high success rate through the Financial Ombudsman Scheme (FOS). • Continued investment and focus on Corporate Responsibility and investment in the community programme. • Achieved maximum score rating and ranked joint first globally for the second year running amongst financial services companies in the FTSE4Good Index Series which measures the environmental, social and governance ratings of listed companies worldwide.

Risks continued

OPERATIONAL RISK

The risk of loss resulting from IT systems failure.

- **Vanquis Bank is reliant on third-party IT applications and systems providers: FDI for its core customer credit card platform; and Newcastle Building Society (NBS) for its retail deposit platform.**
- **The repositioning of the home credit business relies heavily on the development and effective roll-out of technology.**

MITIGATION	PROGRESS IN 2013
• IT is managed in Vanquis Bank and CCD by experienced teams. • There is significant experience of managing third party IT arrangements within the businesses. • There are established disaster recovery procedures which are tested on a regular basis. • Specialist project teams are used to manage change programmes. • Well established change control and testing processes are established for new business developments. • Insurance policies are in place to cover eventualities such as business interruption, loss of IT systems and crime. • Rigorous selection processes for third-party suppliers to ensure that they are 'best in class'.	• CCD's development and roll-out of the smartphone collections app and related 'Chip and Pin' technology which allows agents to accept electronic payments is at an advanced stage. Tablet computers for field managers will also be launched shortly which provides them with a mobile office. This will free up significant time currently spent on office-based administration. • The group's IT systems are hosted by proven external specialist suppliers and recovery arrangements have been extensively tested during 2013.

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

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

MITIGATION	PROGRESS IN 2013
• Significant time and expenditure is invested in ensuring staff are safety conscious. • Assistance is given to agents to ensure that they are safety aware. • Induction sessions and regular updates are provided on safety awareness. • Safety awareness weeks form part of the annual calendar. • Safety incidents are monitored closely by management with follow-up actions taken. • An annual independent audit of health and safety policies and procedures is carried out by the group's insurers, AIG.	• The group continues to focus significant time and effort promoting and training staff on safety and providing assistance to agents to ensure they remain safety aware. • AIG continue to confirm that the group has a high standard of safety awareness across the group and its safety policies are properly implemented and followed. • CCD's development of 'Chip and Pin' technology will reduce the level of cash carried by agents.

The risk of loss resulting from loss or abuse of confidential data or systems.

- **Both Vanquis Bank and CCD utilise and store sensitive personal data as part of their day-to-day operations.**
- **There continues to be heightened focus and emphasis on data loss by the Information Commissioner's Office (ICO).**

MITIGATION	PROGRESS IN 2013
• IT and physical security policies are in place. • Dedicated resources are in place to support the management of information security. • Reporting of security-related incidents to divisional risk committees. • Specialist departments are in place in each business to prevent, detect and monitor fraud. • There is regular fraud reporting to divisional boards and to the group audit committee. • Hierarchical field management structure and weekly agent performance reviews ensure a strong controls environment within home credit.	• A programme of IT security upgrades within Vanquis Bank including new firewalls, new network management tools and the migration to a new payment processing firm. • Processes surrounding physical security in home credit have been further enhanced. Additional controls have been implemented to manage physical data distribution supported by a training and awareness programme.

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

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

MITIGATION	PROGRESS IN 2013
• Effective recruitment, retention and succession planning strategies are in place. • The group has competitive remuneration and incentive structures. • Effective training and personal development plans are in place throughout the group.	• Detailed benchmarking of Vanquis Bank management's remuneration against industry peers. • Senior management turnover remained low through 2013.

LIQUIDITY RISK

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

MITIGATION	PROGRESS IN 2013
• The model of 'borrowing long and lending short' results in a positive maturity mismatch, which means the duration of the receivables book is significantly less than the average duration of the group's funding. This profile significantly reduces the liquidity risk for the group. • A board-approved policy is in place to maintain committed borrowing facilities which provide funding headroom for at least the following 12 months, after assuming that Vanquis Bank will fund 90% of its receivables book through retail deposits. • The group's strategy of maintaining committed facility headroom and diversifying funding sources has resulted in a strong balance sheet position. • Liquidity is managed by an experienced central treasury department. • Vanquis Bank maintains a liquid assets buffer in line with the PRA's liquidity guidelines. • There is daily monitoring of liquid resources.	• The group has continued to make excellent progress in strengthening its funding base in 2013. • On 31 January 2014, the group renewed its syndicated bank facility of £382.5m through to May 2017. • Successful issue of a fourth retail bond of £65m in March 2013. • Retail deposits base increased from £327m to £435m during 2013, representing 51% of Vanquis Bank's receivables against a permitted target ratio of 90%. • Headroom on committed facilities of £235m as at 31 December 2013 which, together with the retail deposits programme at Vanquis Bank, is sufficient to meet growth and contractual maturities until the seasonal peak in 2017. • The group remains an investment grade credit, with a credit rating maintained at BBB with a stable outlook.

FINANCIAL RISK

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

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

MITIGATION	PROGRESS IN 2013
• The group has a board-approved tax strategy which is aligned with its mission and core values and which has been shared with HMRC. The strategy sets out the group's overall approach to tax, including its tax governance framework, how tax risk management is embedded within the group's overall corporate governance structure and how the group ensures it complies with the tax obligations in the territories in which it operates. • Policies and procedures are in place which support the management of key tax risks, along with documented systems, processes and controls to support the UK taxes which the group pays and the preparation and submission of related tax returns. This includes policies and procedures which seek to ensure that the agents engaged by the home credit business maintain their self-employed status. Processes and controls supporting the calculation of UK taxes and preparation of related returns is subject to annual internal audit review. • The group is committed to building open and straightforward relationships with tax authorities, including having a regular and constructive dialogue with HMRC. This regularly includes advance discussion of transactions and keeping HMRC informed of key business developments, particularly those that could potentially impact on self-employed status of agents. • An experienced in-house team, supported by tax-aware personnel in the businesses, deals with all of the group's tax matters. Advice is sought from external advisors on material transactions and whenever the necessary expertise is not available in-house.	• Procedures for verifying compliance with self-employed agent policies have continued to be improved and embedded, and the group has continued to seek advance HMRC approval on a number of business developments potentially impacting on self-employed status. • Worked positively and constructively with HMRC as part of HMRC's review of the group's tax governance structure. • Continued the work which commenced in 2012 to ensure that Vanquis Bank's expansion into Poland complies with local tax obligations. • Confirmed the unconditional adoption of HMRC's Code of Practice on Taxation for Banks, which sets out the principles and behaviours expected of banks with regard to tax.

PENSION RISK

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

The current economic environment results in increased volatility in equity markets and corporate bond yields.

Improving mortality rates in the UK.

MITIGATION	PROGRESS IN 2013
• The defined benefit pension scheme was substantially closed to new members from 1 January 2003. • Cash balance arrangements are now in place within the defined benefit pension scheme to reduce the exposure to improving mortality rates. • The pension investment strategy aims to maintain an appropriate balance of assets between equities and bonds. • New employees since 2003 have been invited to join the group's defined contribution pension schemes which carry no investment or mortality risk for the group. • The defined benefit pension scheme was amended in 2012 so that accrued pension benefits are now linked to increases in CPI rather than future salary increases. This reduces the future liabilities of the scheme.	• The group's pension asset for accounting purposes stands at £29.2m as at 31 December 2013 (2012: £23.0m). • Annual contributions to the defined benefit scheme increased from £10m to £16m in 2013, following the triennial funding valuation performed as at 1 June 2012. • A revised investment strategy which includes an element of liability-driven investments was developed and implemented in 2013.

Engagement

Listening to the views of our shareholders is a key part of managing our business. We frequently meet with shareholders, shareholder advisory bodies and governance organisations in order to discuss the group's strategy and performance as a means of encouraging our shareholders to become more informed investors.

Investor relations

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 company has a comprehensive investor relations (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.

IR programme

Senior management devote a large proportion of time to the group's IR programme to ensure that the group is effective in communicating with all investors, analysts and other stakeholders. This is achieved by the following means:

- The annual report is the most significant communication method, ensuring that investors are kept fully informed regarding developments in the business.
- The corporate website provides investors with timely information on the company's performance as well as details of the group's corporate social responsibility (CSR) activities.
- A web app to enable shareholders to view key website data on their tablet devices and mobile phones including videos, presentations and results announcements.
- Regular investor days inviting institutional shareholders and sell-side analysts to an on-site facility or an external location to provide them with a more detailed insight into the business.
- A proactive approach to inviting investors and sell-side analysts to meet with divisional senior management and to visit operational facilities.
- A longstanding US roadshow programme, held on both the East and West Coasts, to build knowledge of the group's business outside the UK. Over the last two years this has been supplemented by a European roadshow programme to allow European shareholders access to the Chief Executive, Finance Director and Head of IR.
- An annual CSR report for stakeholders.
- A commitment to respond to shareholders, regardless of the size of their holding, within two working days.
- An annual perception audit designed to obtain formal independent feedback from investors and sell-side analysts. This enables management to note and respond to any concerns in the investment community.

Board oversight

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.

The board considers an IR report at each board meeting which outlines the general nature of matters communicated and discussed with institutional investors, including feedback. Independent reviews of shareholder views are also commissioned annually and reviewed by the board.

AGM

Regular dialogue with shareholders is important for good governance. At the centre of the company's engagement with its shareholders is the AGM, which provides a forum for meeting with all shareholders. The chairman of each of the board committees is available to answer questions from shareholders at the AGM and there is an opportunity for shareholders to ask questions on each resolution proposed. The company has thousands of shareholders, most of whom do not wish, or are unable to attend the actual meeting. However, all shareholders have the opportunity to ensure that their votes are cast. To help facilitate this they are provided with the following:

- **Electronic and postal voting:** shareholders can vote on all the resolutions either electronically via our website or by post.
- **Questions and answers:** all shareholders have the opportunity to submit questions by email or post.
- **Results:** the results of the voting on all resolutions are published on the company's website and through an RNS announcement.

The 2013 AGM was held in the company's head office building in Bradford. The company proposed separate resolutions on substantially separate issues and will continue to do so. It is the company's policy to give shareholders in excess of 20 working days' notice of the AGM.

Those who are able to attend our AGM have the opportunity to ask questions and hear the views of other shareholders before deciding how to cast their votes. The Code requires that all directors are subject to annual re-election by shareholders and, as a consequence, all members of the board stood for re-election in 2013 and will continue to do so in future years.

The 2014 AGM will be held on 8 May 2014 at the company's head office in Bradford and shareholders are encouraged to attend and raise any questions they may have on this governance report and other matters covered by the resolutions to be put to the meeting.

Investor relations programme in 2013

January
- Trading statement

February
- Preliminary results announcement
- London and Edinburgh investor/sales teams roadshows

April
- Vienna investor roadshow
- US investor roadshow (New York, Connecticut, Boston)

May
- AGM and IMS
- Milan and Paris investor roadshows

June
- Numis mid-cap investor conference

July
- Interim results
- London and Edinburgh investor/sales teams roadshows

September
- Scandinavia investor roadshow

October
- IMS and analysts' call
- Frankfurt, Zurich and Dublin investor roadshows

November
- US investor roadshow (New York, Connecticut, Chicago)

December
- Berenberg European investor conference

Audit committee and auditor

Stuart Sinclair
Chairman of the audit committee

Annual statement by the Chairman of the audit committee

This is my first full year as Chairman of the audit committee having taken over the Chair on 1 October 2012. On appointment I was and continue to be considered as having the recent and relevant financial experience required by the provisions of the Code. In light of the Financial Reporting Council (FRC) Guidance on Audit Committees issued in September 2012 and the Financial Reporting Laboratory's 'Reporting on Audit Committees' issued in October 2013 I have taken the opportunity to personalise the report of the audit committee this year and am presenting the audit committee report as a separate report.

Audit committee

Members:

Stuart Sinclair (Chairman)

Rob Anderson

Robert Hough[1]

Manjit Wolstenholme

Malcolm Le May[2]

Alison Halsey[2]

Attendees by invitation:

Ken Mullen (Company Secretary and General Counsel)

Peter Crook

Andrew Fisher

David Mortlock (Head of Audit)

Gary Thompson (Group Financial Controller)

Deloitte LLP (External auditor)

[1] Retired from the board on 31 January 2013.
[2] Appointed on 1 January 2014.

Update on 2013 activities

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

Significant issues and areas of judgement considered by the audit committee

The following significant issues and areas of judgement were considered by the committee in relation to the 2013 Annual Report and Financial Statements:

Impairment of receivables within the Consumer Credit Division (CCD)
Receivables are impaired in CCD when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks. Impairment is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage.

Judgement is applied as to the appropriate point at which receivables are impaired and whether past payment performance provides a reasonable guide as to the collectability of the current receivables book. Accordingly, this is a primary source of audit effort for the group's external auditor, Deloitte LLP.

In order to assess the appropriateness of the judgements applied, management produce a detailed report for both the audit committee and the external auditor setting out: (i) the assumptions underpinning the receivables valuation; and (ii) a scenario analysis comparing the receivables valuation with alternative valuations based upon various forecasts of future cash collections, including prior year performance, current performance and budget performance.

In assessing the adequacy of CCD's impairment provisions, the committee:

- Reviewed management's reports and challenged management on the results and judgements used in the test;

- Considered the work performed by Deloitte LLP on validating the data used in the testing performed by management and their challenge of the assumptions used;
- Considered the findings within the report in light of current trading performance, expected future performance and the potential benefit of operational initiatives in the business; and
- Considered the work performed by the internal audit function on information technology controls and operational controls such as cash collections, credit management and arrears management.

Impairment of receivables at Vanquis Bank
Receivables are impaired in Vanquis Bank when one or more contractual monthly payment has been missed. The impairment provision is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage. Management update the methodology monthly to ensure the assumptions accurately take account of the current economic environment, product mix and recent customer payment performance.

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 LLP during the audit process.

In assessing the adequacy of Vanquis Bank's impairment provisions, the committee:

- Reviewed the work performed by Deloitte LLP on validating the data used and their challenge of the assumptions used by management;
- Considered the findings in light of current trading performance and expected future performance;
- Considered the work performed by the internal audit function on information technology controls and operational controls such as cash collections, credit management and arrears management; and
- Considered the review performed by the Vanquis Bank audit committee on the Vanquis Bank impairment provisions.

Retirement benefit asset
The valuation of the retirement benefit asset is dependent upon a series of assumptions. The key assumptions are the discount rate, inflation rates and mortality rates used to calculate the present value of future liabilities.

Judgement is applied in formulating each of the assumptions used in calculating the retirement benefit asset. The committee reviewed the advice of the company's external actuary, Towers Watson, who propose the appropriate assumptions and calculate the valuation of the retirement benefit asset. In addition, the committee considered the work performed by Deloitte LLP and their views on the suitable ranges of assumptions 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 considers management's assessment of the likelihood and quantum of any potential liability and the views and work performed by Deloitte LLP in considering the reasonableness of the assessment carried out.

Other matters considered by the committee in 2013
In addition, during the year the committee also considered the guidance: 'Effective Internal Audit in the Financial Services Sector' issued by the Chartered Institute of Internal Auditors in July 2013. Whilst it was satisfied that overall the group internal audit function was in line with the guidance, particularly regarding overall objectives, direction, risk appetite, resources and skills, it noted that it did not fully meet the strict requirements of the guidance in relation to reporting lines and responsibilities. Accordingly, the following actions were implemented by the committee:

- The responsibility for the group's risk management framework, risk management oversight and reporting was transferred from the group Head of Audit to the Director of Corporate Strategy who assumed the additional role of Head of Risk;
- The dotted reporting line of the group Head of Audit was changed from the Finance Director to the Chief Executive; and
- It approved a charter for the internal audit function, in accordance with the requirements of the guidance. A copy of the charter is available on the company's website **www.providentfinancial.com**

However, the committee determined that the Vanquis Bank Head of Internal Audit should continue to report to the Vanquis Bank Audit Committee and the Managing Director of Vanquis Bank in light of the regulated nature of Vanquis Bank, the unique nature of the group's structure and the importance of maintaining the independence, accountability and governance frameworks within Vanquis Bank. The group internal audit function continues to validate and oversee the work of the Vanquis Bank internal audit function and this includes a formalised escalation procedure. The committee was satisfied with the quality and depth of the group internal audit function which it believes mitigates any risks that might arise from the retention of the Vanquis Bank internal audit reporting lines.

The committee also reviewed the content of the 2013 Annual Report and Financial Statements and advised the board that, taken as a whole, it was fair, balanced and understandable and provided the necessary information for shareholders to assess the group's performance, business model and strategy.

Audit committee and auditor continued

General role of the committee

General

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

- The systems of internal financial, operational and compliance controls on a continuing basis, and the arrangements and procedures in place to deal with whistleblowing, fraud and bribery; and
- The accounting and financial reporting processes, along with the roles and effectiveness of both the internal audit function and the external auditor.

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

Specific

The committee is also specifically responsible for:

- All matters relating to the appointment and reappointment of the external auditor, the auditor's remuneration and the policy on the supply of non-audit services to the company by the external auditor;
- Approving the internal audit plan annually;
- Keeping under review the effectiveness of the group's system of internal controls by considering internal audit activity reports at each meeting and reporting to the board on a regular basis. The committee also reviewed and approved the statement set out on page 87 concerning internal controls and risk management; and
- Reviewing and approving the register of benefits offered to directors in accordance with the company's code of practice on benefits.

Composition of the committee

The other members of the committee during 2013, Rob Anderson and Manjit Wolstenholme, both have a wide range of business and financial experience which is evidenced by their biographical summaries on pages 76 and 77. The capability of the committee has been significantly strengthened by the appointment of Malcolm Le May and Alison Halsey who joined the committee on 1 January 2014. They also have considerable recent and relevant business and financial experience as evidenced by their biographical details set out on page 76 and 77.

Internal audit

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

External auditor

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

The external auditor is required to rotate the audit partner responsible for the group audit every five years. The current lead audit partner has been in place for one year. The group carried out a rigorous audit tender in June 2012. This was five years following the demerger of the group's international division in 2007. As a result of the tender, Deloitte LLP replaced PricewaterhouseCoopers LLP as the group's external auditor.

The committee will continue to assess the performance of the external auditor on an ongoing basis to ensure that they are satisfied with the quality of the services provided. In accordance with the Code the external audit contract will be put out to tender at least every 10 years.

In accordance with best practice and guidance from the Financial Reporting Council, the committee will continue to review the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process during the next financial year.

The committee has adopted a policy on the appointment of staff from the external auditor to positions within the various group finance departments. It grades appointments into four categories and sets out the approvals required. Neither a partner of the audit firm who has acted as engagement partner, the quality review partner, other key audit partners or partners in the chain of command, nor a senior member of the audit engagement team, may be employed as Group Finance Director, Group Financial Controller or a divisional Finance Director.

At its February and July meetings, the committee had a separate session with the external auditor without any executive director or employee of the company or group being present. This gives members of the committee the opportunity to raise any issues, including any issues on the final results of the group directly with the external auditor.

I also meet separately with the Head of Audit on a quarterly basis.

Non-audit work

The company has a formal policy on the use of auditors for non-audit work. This policy is reviewed annually.

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

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

The group maintains an active relationship with at least two other professional accounting 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 to each meeting of the committee, together with an explanation as to why the auditor was the preferred supplier.

No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the auditor without my prior written approval and such approval is only given in exceptional circumstances. I am required to approve in advance any single award of non-audit work with an aggregate cost of £250,000 or more. The auditor may not perform internal audit work. Accordingly, following the appointment of Deloitte LLP as the group's auditor, they ceased to provide supporting external resource to the internal audit function, although they did complete a review which was in progress. External specialist resource for the internal audit function is now provided by KPMG LLP.

During the year, the committee regularly considered a schedule of audit and non-audit work carried out by Deloitte LLP. 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 LLP for non-audit work during the year amounted to £93,000 (2012 : £107,000) comprising £50,000 for the group interim review, £25,000 for comfort letters in respect of the 2013 retail bond, £10,000 for the review of profits for regulatory reporting purposes and £8,000 for agreed upon procedures work throughout the year.

Effectiveness

The committee formally considered its effectiveness in 2013. On the basis of the external board and committee evaluation undertaken, the overall view was that the committee was operating efficiently and effectively. It was, however, agreed that consideration should be given to the timing of the committee meetings to ensure that adequate time was made available to discuss all of the issues in sufficient detail.

Stuart Sinclair
Chairman of the audit committee
25 February 2014

Audit committee calendar in 2013

At specific meetings:

February (2 meetings)

- Review of full-year results including:
  - External auditor's report for the year ended 31 December
  - Draft preliminary announcement for the year ended 31 December
  - Draft Annual Report and Financial Statements for the year ended 31 December
  - Board statement on internal controls within the Annual Report and Financial Statements
  - Discussion with the external auditor without any executive director or employee present
  - Recommendation to the board regarding reappointment of auditor

July (2 meetings)

- Review of interim results, including:
  - External auditor's report for the six months ended 30 June
  - Draft interim results announcement
- Discussion with the external auditor without any executive director or employee present
- Review of effectiveness of external auditor

October

- External Auditor's planning report for forthcoming year-end
- Review of the new Audit Committee Reporting Requirements
- Review of the requirements of the guidance: 'Effective Internal Audit in the Financial Services Sector' issued by the Chartered Institute of Internal Auditors

December

- Proposed internal audit plan for 2014
- Annual report on external whistleblowing activity
- Review of register of benefits received by directors
- Review of performance and effectiveness of the committee

At each main meeting

- Review of minutes of previous meetings
- Review of implementation of actions from previous meetings
- Review of Vanquis Bank audit committee minutes
- Internal audit activity reports
- Schedule of fees paid to the external auditor, including for any non-audit work
- Fraud report

Nomination committee

Manjit Wolstenholme
Chairman of the nomination committee

The committee keeps under review a detailed succession plan for the executive directors, the Chairman and the persons discharging managerial responsibility. Below board level, succession planning safeguards the pipeline of talented individuals within the group who are capable and have potential to succeed the executive directors and other members of the senior management team in the short, medium and long term. As a consequence, a series of bespoke training and development plans have been prepared and are being implemented as appropriate.

Role and responsibilities

- Regularly reviews the structure, size and composition of the board, and makes recommendations for change to the board to ensure it remains constantly refreshed.
- Consideration of the succession planning for directors and the senior management team to ensure the succession of candidates is managed smoothly and effectively.
- Identification and nomination of candidates for approval by the board to fill board vacancies.
- Evaluation of the balance of skills, knowledge, experience and diversity on the board before any appointments and preparation of a description of the role and the capabilities required for a particular appointment. The committee is required to consider candidates on merit and against objective criteria with due regard to the benefits of diversity on the board, including gender.

Nomination committee

Members:

Manjit Wolstenholme[1] (Chairman)

John van Kuffeler[2]

Robert Hough[3]

Rob Anderson

Stuart Sinclair

Malcolm Le May[4]

Alison Halsey[4]

Attendees by Invitation:

Ken Mullen (Company Secretary and General Counsel)

Peter Crook[5]

[1] Appointed Chairman 1 January 2014 following the retirement of John van Kuffeler.
[2] Retired from the board on 1 January 2014.
[3] Retired from the board on 31 January 2013.
[4] Appointed on 1 January 2014.
[5] Ceased to be member from 1 January 2014.

General duties

The committee ensures that the balance of directors on the board remains appropriate as the group develops. Succession planning allows the board to analyse the balance of skills, experience and knowledge in the boardroom and identify and address any gaps as part of the natural refreshment of the board. It has a formal schedule of matters reserved to it for decision which can be found on the company's website at **www.providentfinancial.com**

The committee keeps under review a detailed succession plan for the executive directors, the Chairman and the persons discharging managerial responsibility. Below board level, succession planning safeguards the pipeline of talented individuals within the group who are capable and have potential to succeed the executive directors and other members of the senior management team in the short, medium and long term.

The board's policy on diversity is set out in the Chairman's letter in the corporate governance report on page 75.

Nomination committee calendar in 2013

At specific meetings:

February

- Review of the performance and effectiveness of the committee

March

- Identification of potential internal candidates to succeed the Chairman
- Establish a process to identify a successor Chairman with external assistance
- Appointment of a sub-committee

May

- Review of the report on internal candidates to succeed the Chairman
- Recommendation to the board to appoint Manjit Wolstenholme as Chairman

September

- Consideration of a status report on the recruitment of two non-executive directors
- Succession planning update on the most senior positions in the group

November

- Consideration of a short list of candidates for the two non-executive director positions
- Recommendation to the board to appoint Malcolm Le May and Alison Halsey as non-executive directors with effect from 1 January 2014

At each main meeting

- Review of minutes of previous meetings
- Review of implementation of actions arising from previous meetings

Replacement of Chairman

With the assistance of Egon Zehnder (who have signed up to the voluntary code of conduct on gender diversity best practice), a sub-committee of the nomination committee, comprising Rob Anderson as Chairman and Peter Crook, updated the job specification for the Chairman role and conducted interviews with two potential internal candidates. Neither of the internal candidates nor the retiring Chairman were involved in the process.

As part of the process to replace the retiring Chairman the sub-committee initially considered two internal candidates as opposed to initiating an external search as the committee had only recently carried out a recruitment search for an independent non-executive director with potential to succeed the Chairman and so the data on potential candidates was still valid.

The sub-committee interviewed the two internal candidates who had expressed an interest in the role of Chairman and used Egon Zehnder to assist in benchmarking them against the marketplace. Following a rigorous interview process using detailed candidate reports prepared by Egon Zehnder which included external references, the sub-committee recommended to the board the appointment of Manjit Wolstenholme as Chairman. She was appointed on 1 January 2014.

Egon Zehnder had previously advised the committee on the recruitment of Stuart Sinclair as an independent non-executive director in 2012 and had assisted in the development of succession plans for the Chief Executive, executive directors and other members of the senior management team.

Appointment of non-executive directors

With the assistance of Ridgeway Partners, a recruitment consultancy firm who have signed up to the voluntary code of conduct on gender diversity best practice, the committee recommended to the board the appointment of Malcolm Le May and Alison Halsey as non-executive directors with effect from 1 January 2014.

Nomination committee continued

Succession planning

As part of the senior management succession programme, the Chief Executive engaged Ridgeway Partners to carry out an assessment of certain members of the senior management team and assist in the creation of development plans for those participants who were identified as having potential in relation to certain key executive positions. The process involved psychometric tests and feedback interviews with selected line managers, peers and direct reports. The project focused on future senior leadership potential, identified development priorities for each participant and provided an analysis of each participant's potential relative to the positions of group Chief Executive, divisional Managing Director and group Finance Director.

The board has considered the report in detail and although no general themes or topics for development were identified as being applicable to the whole group, it has requested the committee to work with the Chief Executive to develop individual development plans for each of the participants which are personal and specific. The development plans will be monitored by the committee as part of its regular review of the group wide succession plan.

The report also confirmed that all the participants were performing strongly in their current roles.

Ridgeway Partners do not provide any other services to the group.

Effectiveness

At its meeting in February 2014 the committee formally considered its effectiveness in 2013, and on the basis of the external board and committee evaluation undertaken, the overall view was that the committee was working effectively. The report recommended however that the Chief Executive should not, in line with best practice, be a member of the committee and that there should be an even greater focus on succession planning in order to mitigate against the risk of significant key person loss. During 2014 the committee therefore intends to: (i) develop the succession planning work commenced by the Chief Executive, with the assistance of Ridgeway Partners; and (ii) carry out further work in order to prioritise the skills and experience of board members.

The board requested that Peter Crook step down as a member of the committee which he did with effect from 1 January 2014. He agreed however to attend future meetings by invitation.

Further details of the committee's work during the year are set out in the table on page 99.

Manjit Wolstenholme
Chairman of the nomination committee
25 February 2014

Directors' report

Directors

The directors of the company during the year were as follows:

John van Kuffeler	**Chairman**
Rob Anderson	**Independent non-executive director**
Peter Crook	**Chief Executive**
Andrew Fisher	**Finance Director**
Chris Gillespie	**Managing Director, CCD**
Robert Hough	**Independent non-executive director**
Stuart Sinclair	**Independent non-executive director**
Manjit Wolstenholme	**Independent non-executive director**

All directors served throughout 2013 and up to the date of signing of the financial statements, with the exception of Robert Hough, whose term of appointment expired on 31 January 2013 and Chris Gillespie, who resigned on 13 September 2013. In addition, John van Kuffeler retired from the board on 1 January 2014 and Malcolm Le May and Alison Halsey were appointed as independent non-executive directors on 1 January 2014.

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.

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 2013	31 December 2012
John van Kuffeler	18,000	18,000
Peter Crook[1]	708,897	658,928
Andrew Fisher[1]	462,710	441,061
Rob Anderson	3,897	3,701
Manjit Wolstenholme	5,663	5,663
Stuart Sinclair	–	–

[1] These interests include conditional share awards granted under the LTIS, awards under the PSP and 2013 PSP and shares purchased under the SIP as detailed on pages 123 to 126 of the Annual Report on Remuneration.

No director had any non-beneficial holdings at 31 December 2013 or at any time up to 25 February 2014.

There were no changes in the beneficial or non-beneficial interests of the directors between 1 January 2014 and 25 February 2014.

Directors' indemnities

The company's articles of association permit it to indemnify directors of the company (or of any associated company) in accordance with the Companies Act 2006. The company may fund expenditure incurred by directors in defending proceedings against them.

If such funding is by means of a loan, the director must repay the loan to the company if they are convicted in any criminal proceedings or judgment is given against them in any civil proceedings. The company may indemnify any director of the company or of any associated company against any liability.

However, the company may not provide an indemnity against; (i) any liability incurred by the director to the company or to any associated company; or (ii) against any liability incurred by the director to pay a criminal or regulatory penalty; or (iii) against any liability incurred by the director in defending criminal proceedings in which they are convicted; or (iv) in defending any civil proceedings brought by the company (or an associated company) in which judgment is given against them; or (v) in connection with certain court applications under the Companies Act 2006.

No indemnity was provided and no payments pursuant to these provisions were made in 2013 or at any time up to 25 February 2014.

There were no other qualifying indemnities in place during this period.

Directors' report continued

Share capital

Increase in issued ordinary share capital
During the year, the ordinary share capital in issue increased by 1,198,034 shares to 139,615,620 shares. Details are set out in note 23 to the financial statements.

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 company's articles of association. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except:

(1) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or

(2) where their holder is precluded from exercising voting rights by the FCA's Listing Rules or the City Code on Takeovers and Mergers.

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 (2013 SAYE) and the Provident Financial Share Incentive Plan (SIP). The 2013 SAYE and the SIP were approved by shareholders at the AGM in May 2013.

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

The PSP expired in July 2012 and was replaced by the 2013 PSP which was approved by shareholders at the AGM in May 2013.

As set out on page 122 of the directors' remuneration report, the remuneration committee did not grant any options during the year under either the ESOS or the LTIS.

Provident Financial plc 2007 Employee Benefit Trust (the EBT)
The EBT, a discretionary trust for the benefit of executive directors and employees, was established on 11 September 2007. The trustee, Kleinwort Benson (Jersey) Trustees Limited, is not a subsidiary of the company. The EBT operates in conjunction with the LTIS and the 2013 PSP and has previously purchased shares in the market for the purpose of the LTIS. Following the passing of a resolution at the 2008 AGM, the EBT is able to subscribe for the issue of new shares. The number of shares held by the EBT at any time, when added to the number of shares held by any other trust established by the company for the benefit of employees, will not exceed 5% of the issued share capital of the company. The EBT is funded by loans from the company which are then used to acquire, either via market purchase or subscription, ordinary shares to satisfy conditional share awards granted under the LTIS, and awards granted under the 2013 PSP. For the purpose of the financial statements, the EBT is consolidated into the company and group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 25 on page 188 of the financial statements.

In relation to its operation in conjunction with the LTIS, the EBT transfers the beneficial interest in the shares to the executive directors and employees when conditional share awards are made. In relation to the 2013 PSP, the legal and beneficial interest in the Basic Award is transferred to the executive directors and other participants when the awards are made. However, only the beneficial interest in the Matching Award is transferred when the award is made. Full vesting of awards granted under the LTIS and the 2013 PSP is subject to the achievement of the performance targets set out on pages 122 to 125 of the directors' remuneration report.

In March 2013, the company provided a loan of £118,472 to the EBT for the purpose of acquiring ordinary shares of 20 8/11p in the company. The EBT subscribed for the issue of 508,802 new shares in order to satisfy the awards made under the LTIS on 1 March 2013 and then transferred the beneficial ownership in those shares to the participants. In April 2013, the EBT transferred the beneficial ownership in 16,465 shares in order to satisfy a further award made under the LTIS on 2 April 2013.

In addition to this, the company also provided a loan of £200,000 to the EBT in May 2013 for the purpose of acquiring ordinary shares of 20 8/11p in the company. The EBT subscribed for the issue of 299,618 shares in order to satisfy the awards made under the 2013 PSP on 9 May 2013.

As at 31 December 2013, the EBT held the non-beneficial interest in 2,809,850 shares in the company (2012: 3,005,588). The EBT may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the employee beneficiaries.

Provident Financial Employee Benefit Trust (the PF Trust)
The PF Trust, a discretionary trust for the benefit of executive directors and employees, was established in 2003 and operated in conjunction with the PSP. The trustee, Provident Financial Trustees (Performance Share Plan) Limited, is a subsidiary of the company. The number of shares held by the PF Trust at any time, when added to the number of shares held by any other trust established by the company for the benefit of employees, will not exceed 5% of the issued share capital of the company. As at 31 December 2013, the PF Trust had no interest in any shares in the company (2012: nil).

The PF Trust has previously subscribed for shares for the purpose of satisfying awards granted under the PSP. When the PF Trust subscribed for shares, it was funded by loans from the company which were then used to acquire ordinary shares for the purposes of satisfying awards granted under the PSP. For the purposes of the financial statements, the PF Trust is consolidated into the company and group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 25 to the financial statements. As the PSP expired in July 2012 no further awards were made under the PSP and no further loans to the PF Trust were made during 2013.

The PF Trust operated in conjunction with the PSP and the legal and beneficial interest in shares was transferred from the PF Trust to executive directors and employees when awards were made. Full vesting of such shares is subject to the achievement of the performance targets set out on page 124 of the Annual Report on Remuneration.

Authority to purchase shares
At the 2013 AGM, shareholders authorised the company to purchase up to 13,896,591 of its ordinary shares up until 8 November 2014 or, if earlier, the conclusion of the next AGM. No shares were purchased pursuant to this authority. A further authority for the company to purchase its own shares will be sought from shareholders at the forthcoming AGM to be held on 8 May 2014.

Power to allot shares for cash
At the 2013 AGM, shareholders authorised the directors to allot equity securities (as defined by the Companies Act 2006) up to an aggregate nominal amount of £9,505,268. A further authority for the directors to allot shares will be sought from shareholders at the forthcoming AGM to be held on 8 May 2014.

Substantial shareholdings

On the basis of the information available to the company as at 16 February 2014, the following investment managers (through segregated managed funds) have interests (though not necessarily beneficial ownership) in aggregate amounting to over 3% (5% for investment trusts and collective investment companies) in the issued ordinary share capital of the company:

Invesco Limited	23.62%
M&G Investment Management Limited	6.71%
Marathon Asset Management Limited	5.33%
Tweedy Browne Company LLC	4.49%
Cantillon Capital Management LLP	4.11%
BlackRock Inc.	3.19%
Alken Asset Management LLP	3.03%

Interests as at 31 December 2013 were as follows:

Invesco Limited	23.91%
M&G Investment Management Limited	6.84%
Marathon Asset Management Limited	5.47%
Tweedy Browne Company LLC	4.37%
Cantillon Capital Management LLP	4.26%
BlackRock Inc.	3.96%
Alken Asset Management LLP	3.03%

Directors' report continued

Employee involvement

The group systematically provides employees with information on matters of concern to them. It consults with them or their representatives regularly, including through surveys, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the group is encouraged as achieving a common awareness on the part of all employees of the financial and economic factors affecting the group plays a major role in maintaining its competitive position. The group encourages the involvement of employees by means of company newsletters, weekly performance updates, regular management team briefings, regular listening groups, staff meetings and conferences including trade union meetings in those companies which recognise unions.

Save As You Earn

The company operates two savings-related share option schemes (referred to on page 102), aimed at encouraging employees' involvement and interest in the financial performance and success of the group through share ownership. 1,304 employees are currently saving to buy shares in the company under these schemes (2012: 1,469).

Share Incentive Plan

The company also operates an all-employee Share Incentive Plan (SIP) which was approved by shareholders at the AGM in May 2013 and offers employees the opportunity to further invest in the company and to benefit from the company's offer to match that investment on the basis of one share for every four shares purchased. 234 employees are currently investing in company shares under the SIP.

Training

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

In 2012, the company applied to register as an authorised training provider with the Solicitors Regulation Authority and is now authorised to issue training contracts to trainee solicitors who are able to qualify with the company.

At the start of 2014 the company was authorised as an Associate Chartered Accountant (ACA) Training Employer by the Institute of Chartered Accountants of England and Wales (ICAEW). This allows the company to issue training contracts to employees wishing to qualify as chartered accountants, provide and support their training and professional development and sign off their training, professional development and final competency as a chartered accountant prior to consideration by ICAEW for membership.

Pensions

The group operates two pension schemes. Employee involvement in the group defined benefit pension scheme is achieved by the appointment of member-nominated trustees and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pension matters. The trustees manage the assets of the defined benefit pension scheme, which are held under trust separately from the assets of the group. Each trustee is encouraged to undertake training and regular training sessions on topical issues are carried out at meetings of the trustees by the trustees' advisors. The training schedule is based on The Pension Regulator's Trustee Knowledge and Understanding requirements and the sessions are tailored to current topical issues or to address any skill gaps. The trustees have a business plan and, at the start of each year, review performance against the plan and objectives from the previous year. In addition they agree objectives and a budget for the current year. The trustees are committed to clear member communication and also have a risk register and associated action plan and a conflicts of interest policy and register, all of which are reviewed at least annually.

The group also operates a group personal pension plan for employees who joined the group from 1 January 2003. Employees in this plan have access to dedicated websites which provide information on their funds and general information about the plan.

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

Environmental, social and governance matters

Further information on the group's corporate responsibility activities is set out on pages 32 to 39 and on the company's website at **www.providentfinancial.com**.

The significance of environmental, social and governance (ESG) matters to the businesses of the group is regularly considered by the board. A corporate affairs activity report, which covers corporate responsibility and community affairs, is presented at each board meeting. The Chief Executive has responsibility for this area.

The group's risk management processes, details of which are set out on pages 85 to 86, enable the board to review and manage material risks arising from ESG matters. The board has systems in place to identify and manage significant ESG risks and considers that it has adequate information relating to these risks.

There are no specific remuneration incentives in the group based on ESG matters. However, the annual bonus scheme for executive directors comprises specific personal objectives, and ESG matters are considered when setting these objectives. Details are set out on page 118 of the directors' remuneration report. Details of training for directors is set out on page 83.

The group manages its corporate responsibility (CR) impacts as a responsible citizen and to ensure it treats its customers in a fair manner. The programme continues to be informed by the feedback it receives from its key stakeholders which enables the group to respond to the ESG issues that are material to its operations. Through the CR programme, which is overseen centrally with support provided by divisional working groups, the group is able to manage a range of customer, local community, environmental and supply chain issues. The company publicly discloses its CR performance through an annual CR report and through making regular submissions to mainstream sustainability indices such as the FTSE4Good and Dow Jones Sustainability Indexes. The CR programme is subject to an ongoing programme of independent assurance to reassure stakeholders that the programme is well managed, in line with legislation and best practice, and continually improves.

Greenhouse gas (GHG) emission reporting

Details of the group's environmental impact and the amount of GHG emissions are set out on page 38 of the strategic report.

Health and safety

The group attaches great importance to the health and safety of its employees, to the self-employed agents it engages and other people who may be affected by its activities.

The board has approved a group-wide health and safety policy and a framework for health and safety. Each divisional board is responsible for the issue and implementation of its own health and safety policy in order to comply with the division's day to day responsibility for health and safety. Health and safety is considered regularly at divisional board meetings and each divisional board produces a formal written report on compliance with the group-wide health and safety policy and framework which is reviewed annually by the board at its meeting in February.

An annual audit of the health and safety policies established by CCD, in particular those relating to agent safety, is carried out by the company's lead insurer, AIG. The results of the 2013 audit indicated that there continued to be an excellent understanding of company expectations, rules and procedures in relation to health and safety throughout CCD, with communication and training on health and safety matters working effectively. The majority of the recommendations made as a result of the audit in 2012 were implemented in 2013 and further recommendations to enhance the current processes following the 2013 audit will be implemented during the course of 2014. In addition, a follow up audit of the head office building in Bradford was carried out in 2013 after completion of the audit by AIG in 2012. This confirmed that the high standards of health and safety within the head office continued to be maintained and that the recommendations made by AIG had been appropriately implemented.

Equal opportunities

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, pregnancy, maternity, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group. If members of staff become disabled, every effort is made by the group to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Directors' report continued

Anti-bribery and corruption

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

Dividends

The board has recommended a final dividend of 54.0p per ordinary share to be paid on 20 June 2014 to shareholders on the register at close of business on 23 May 2014. This makes a total dividend for the year of 85.0p per ordinary share.

Overseas branches

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

Important events since the end of the financial year (31 December 2013)

On 31 January 2014 the group entered into a new £382.5m syndicated bank facility maturing in May 2017 and cancelled the existing committed syndicated bank facility of £382.5m which was due to expire in May 2015. Further information can be found on page 66 in the strategic report.

Corporate governance statement

The group's corporate governance report is set out on pages 73 to 107. The group complied with the provisions of the UK Corporate Governance Code (the Code) throughout 2013 and a copy of the Code can be found at **www.frc.gov.uk**

Whistleblowing

The group has a system by which staff may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters. During 2013 the system was operational throughout the group. 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 2013, group employees used this system to raise concerns about four issues, all of which were appropriately responded to through the group's human resources functions.

Financial instruments

Details of the financial risk management objectives and policies of the group and the exposure of the group to credit risk, liquidity risk, interest rate risk and foreign exchange rate risk are included on pages 146 to 149 of the financial statements.

Appointment and replacement of directors

Rules about the appointment and replacement of directors are set out in the articles of association and on page 83. The directors' powers are conferred on them by UK legislation and by the company's articles of association. Changes to the articles of association must be approved by shareholders passing a special resolution and must comply with the provisions of the Companies Act 2006 and the FCA's Disclosure and Transparency Rules.

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.

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

Directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the independent auditor report on pages 193 to 197, is made to distinguish for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

The Companies Act 2006 requires the directors to prepare financial statements for each financial year. Under this Act, the directors have prepared the group and company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under this Act, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- complied with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on a going concern basis.

The directors have also considered the review undertaken by the audit committee and is satisfied that the Annual Report and Financial Statements 2013, taken as a whole, are fair, balanced and understandable and provides the necessary information for shareholders to assess the company's performance, business model and strategy.

The directors are also required by the FCA's Disclosure and Transparency Rules 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;
- enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report and Financial Statements 2013 will be published on the company'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, whose names and functions are set out on page 101, confirms that, to the best of their knowledge, the group financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group and company, and that the Strategic Report contained in this Annual Report and Financial Statements 2013 includes a fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties it faces.

Disclosure of information to auditor

In accordance with section 418 of the Companies Act 2006, each person who is a director at the date of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Deloitte LLP, the auditor for the company, was appointed on 29 June 2012 and a resolution proposing their reappointment will be proposed at the forthcoming AGM.

Annual general meeting (AGM)

The AGM will be held at 10 am on 8 May 2014 at the offices of Provident Financial plc, No. 1 Godwin Street, Bradford, West Yorkshire, BD1 2SU. The Notice of Meeting, together with an explanation of the items of business, will be contained in a circular to shareholders to be dated 2 April 2014.

Approved by the board on 25 February 2014 and signed by order of the board.

Kenneth J Mullen
General Counsel and
Company Secretary

Directors' Remuneration Report

Manjit Wolstenholme
Chairman of the remuneration committee for the year ended 31 December 2013

This report sets out details of the remuneration policy for our executive and non-executive directors, describes the implementation of the policy and sets out the remuneration received by the directors for the year ended 31 December 2013. The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority (FCA). The company also followed the requirements of the UK Corporate Governance Code (the Code).

The remuneration policy (set out on pages 109 to 115) will be put to shareholders for approval in a binding vote for the first time under the new reporting rules at the 2014 Annual General Meeting (AGM). The policy will have effect from the date shareholder approval is obtained. The annual statement by the Chairman of the remuneration committee (set out on this page) and the Annual Report on Remuneration (set out on pages 116 to 130) will be subject to an advisory vote at the AGM.

Annual statement by the chairman of the remuneration committee

On behalf of the board, I am pleased to present the directors' remuneration report for the year ended 31 December 2013.

Performance in 2013

The company has continued to deliver sustainable returns and growth for its shareholders during 2013, with the key highlights being as follows:

- Profit before tax and exceptional items up by 9.9% to £196.1m;
- TSR growth of 25.4%;
- Adjusted EPS growth of 11.4%; and
- A 10.1% increase in dividend for the year from 77.2p to 85.0p.

Key outcomes in respect of 2013

The annual bonus scheme is based on an adjusted EPS target* and personal objectives. For 2013, target adjusted EPS, prior to the investment in Poland and exceptional items, was set at 111.8p, with threshold and maximum EPS at 95% and 105% of the target respectively. Based upon adjusted EPS of 116.4p, bonuses of 92% of the maximum of the EPS element were awarded to Peter Crook and Andrew Fisher in respect of 2013, reflecting the strong financial performance of the company. Having considered the achievement against personal objectives overall bonuses of 88.6% and 92.6% of the maximum were awarded to Peter Crook and Andrew Fisher respectively. Both executive directors have chosen to invest the maximum two-thirds of their annual bonus into the Provident Financial Performance Share Plan (2013) (2013 PSP).

Awards made under the Provident Financial Long Term Incentive Scheme (LTIS) in 2011 are due to vest in March 2014. These awards are subject to a performance target based on annualised EPS growth relative to RPI and absolute annualised TSR over the three financial years ended 31 December 2013. In order for the award to vest in full, annualised TSR of 15% and annualised EPS growth of 8% over RPI was required. Based upon actual annualised TSR of 31.4% and annualised EPS growth of 11.3% over RPI, 100% of the award will vest in March 2014.

Awards made under the Provident Financial Performance Share Plan (PSP) in 2011 are also due to vest in March 2014. These awards are subject to a performance target based on average annual EPS growth relative to RPI over the three financial years ended 31 December 2013. In order for the basic award to be matched in full, an average annual EPS growth of 8% over RPI was required. Based upon actual average annual EPS growth of 12.4% over RPI, the basic awards were matched in full.

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

Remuneration policy

The directors' remuneration policy is set out for shareholder approval on pages 109 to 115.

Following the approval and adoption of the 2013 PSP at the AGM in 2013, which included a comprehensive shareholder consultation, there are no structural changes proposed for the coming year and accordingly we have decided that it is not necessary to consult with our major shareholders or the shareholder advisory bodies on the remuneration policy.

Following my appointment as Chairman of the company on 1 January 2014, Malcolm Le May has assumed the role of Chairman of the remuneration committee. Although no longer a member of the committee I, together with Malcolm, will be available to answer questions on the Remuneration Policy and the Annual Report on Remuneration at the AGM in May 2014.

Manjit Wolstenholme

Chairman of the remuneration committee for the year ended 31 December 2013

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 team.

The Chief Executive is consulted on proposals relating to the remuneration of the other executive directors and the senior management team and the Chairman is consulted on proposals relating to the Chief Executive's remuneration. When appropriate, both are invited by the committee to attend meetings but are not present when their own remuneration is considered.

Considerations when setting policy

In setting the remuneration policy for the executive directors and senior management, the committee takes into account the following:

1. The responsibilities of each individual role, the individual's experience and their individual performance;
2. The need to attract, retain and motivate executive directors and senior management when determining benefit packages, including an appropriate proportion of fixed and variable pay;
3. Pay and benefits practice and employment conditions both within the group as a whole and within the sector in which it operates;
4. Periodic external comparisons to examine current market trends and practices and equivalent roles in companies of similar size, business complexity and geographical scope;
5. The need to maintain a clear link between the overall reward policy and specific company performance;
6. The need to achieve alignment to the business strategy both in the short and long term; and
7. The requirement for remuneration to be competitive, with a significant proportion dependent on risk-assessed performance targets.

How employees' pay is taken into account

Pay and conditions elsewhere in the group were considered when finalising the policy for executive directors and the senior management team. The same principles apply throughout the group but are proportionate relative to an individual's influence at group level. The base salary increases awarded to the executive directors are consistent with the average percentage increases awarded elsewhere in the company and reflect the strong financial performance of the company and each individual director's personal performance. The committee does not formally consult directly with employees on executive pay but does receive periodic updates from the divisional Human Resources directors on remuneration issues in general and specifically in relation to remuneration structures throughout the group.

How the executive directors' remuneration policy relates to the senior management team

Remuneration for the level below executive director (including share incentives, bonus and pension entitlement) is set primarily by reference to market comparatives.

Long-term incentives are not typically provided outside of 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 and for 2013 a number of changes were made in light of feedback received during the company's shareholder consultation process. It has not been deemed necessary to consult with shareholders on the proposed policy in light of the fact that there have been minimal changes from the 2013 policy which was supported by shareholders at the 2013 AGM.

Remuneration Policy continued

Executive director remuneration policy

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION INCLUDING MAXIMUM LEVELS	PERFORMANCE TARGETS AND PROVISIONS FOR RECOVERY OF SUMS PAID
Salary	To reflect the responsibilities of the individual role. To reflect the individual's skills and experience and their performance over time. To provide an appropriate level of basic fixed income and avoid excessive risk arising from over reliance on variable income.	Reviewed annually and effective from 1 January. Typically set following review of the budget for the forthcoming year, taking into account salary levels in companies of a similar size and complexity. Targeted at or around median. Annual increases typically linked to those of the wider workforce. Increases beyond those granted to the wider workforce may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, or a significant increase in the scale of the role and/or size, value and/or complexity of the group. Salary levels for the 2014 financial year are as follows: • Chief Executive: £685,000 • Finance Director: £489,000	Broad assessment of company and individual performance as part of the review process.
Annual bonus	Incentivises annual delivery of agreed financial and operational goals. Rewards the achievement of an agreed set of annual financial and operational goals.	Financial and operational goals set annually. Maximum opportunity of 120% of salary for the Chief Executive and 100% of salary for the Finance Director. One-third of bonus earned is subject to compulsory deferral into the 2013 PSP, typically for a period of three years. May defer up to an additional third of bonus. Any deferred bonus will be eligible for Matching Awards under the 2013 PSP. Remainder of bonus paid in cash.	A minimum of 50% of any bonus opportunity will be subject to financial targets (e.g. EPS) with up to 20% linked to personal objectives. A graduated scale operates from threshold performance through to the maximum performance level. In relation to financial targets, 0% of this part of the bonus becomes payable for achieving the threshold performance target with a graduated scale operating thereafter for higher levels of financial performance. In relation to personal objectives, it is not always practicable to set a sliding scale for each objective. Where it is, a similar proportion of the bonus becomes payable for achieving the threshold performance level as for financial targets. Clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements. Details of the bonus measures operated each year will be included in the relevant Annual Report on Remuneration. The committee reserves the power to make changes over the life of the policy to achieve alignment with the group's annual strategy.
Performance Share Plan	Alignment of management's long-term strategic interests with long-term interests of shareholders. Encourages an increased shareholding in the group.	Invitations to participate and awards made annually. Opportunity to defer up to two-thirds of annual bonus and receive a Basic Award together with a matching share award. Executive directors eligible for a Matching Award of up to two times based on a deferral of up to two-thirds of annual bonus with a minimum compulsory deferral of one-third. Maximum bonus being earned and a maximum bonus deferral, results in a maximum benefit of 160% of salary in the case of the Chief Executive and 133% of salary in the case of the Finance Director. Dividends may also be payable on Basic Awards and in addition, dividend equivalent provisions allow the committee to pay dividends on vested Matching Awards or cash at the time of vesting.	Awards vest based on three-year performance against a challenging range of EPS growth targets set and assessed by the committee. 25% of the Matching Award (half of one matching share) vests at the threshold performance level with full vesting taking place on a graduated scale for achieving the maximum performance level. The performance condition is reviewed annually by the committee prior to grant (in terms of the range of targets and the choice of metric) and may be refined to ensure that the condition remains aligned with the company's strategy and KPIs. Any substantive reworking of the current performance condition would be accompanied by appropriate dialogue with the company's shareholders and/or approval sought for a revised policy depending on the nature of the change. Clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements. Clawback provisions apply to the Matching Award only.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION INCLUDING MAXIMUM LEVELS	PERFORMANCE TARGETS AND PROVISIONS FOR RECOVERY OF SUMS PAID
Long Term Incentive Scheme	Alignment of management's long-term strategic interests with long-term interests of shareholders. Rewards strong financial performance and sustained increase in shareholder value. Encourages an increased shareholding in the group.	Annual grant of share awards (structured as conditional awards or nil-cost options). Executive directors are eligible for awards of up to 200% of salary which is the maximum opportunity contained within the plan rules. Dividend equivalent provisions allow the committee to pay dividends on vested shares or cash at the time of vesting. The Long Term Incentive Scheme expires in May 2016 and the intention is to present to shareholders, at the AGM in 2015, a resolution to renew the scheme on substantially similar terms.	Awards vest based on a three-year performance against a challenging range of EPS and TSR targets set and assessed by the committee. 20% of the award vests at the threshold performance level with full vesting taking place on a graduated scale for achieving the maximum performance level. The performance conditions are reviewed annually by the committee prior to grant (in terms of the range of targets and the choice of metrics) and may be refined to ensure that the conditions remain aligned with the company's strategy and KPIs. Any substantive reworking of the current performance conditions would be accompanied by appropriate dialogue with the company's shareholders and/or approval sought for a revised policy depending on the nature of the change. Clawback provisions apply where there is a material prior period error requiring restatement of the group financial statements.
Retirement benefits	Provision of a range of schemes and arrangements to enable executive directors to fund their retirement.	Available pension arrangements include the Cash Balance section of the group Final Salary Pension Scheme, an Unfunded Unapproved Retirement Benefits Scheme, a cash supplement in lieu of pension and/or a contribution to individual 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. • 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 management and shareholders.	Executive directors are required to hold a minimum of 125% of salary in the form of shares in the company. Executive directors are required to retain half of any shares vesting (net of tax) under the LTIS until the guideline is met. Unvested shares held under the PSP are not taken into account.	Not applicable

The committee will operate the incentive schemes within the policy detailed above and in line with their respective rules. In relation to the discretions included within the scheme rules, these include, but are not limited to: (i) who participates in the schemes; (ii) testing of the relevant performance targets; (iii) undertaking an annual review of performance targets and weightings; (iv) the determination of the treatment of leavers in line with the scheme rules; (v) adjustments to existing incentive plans performance targets and/or share awards if certain relevant events take place (e.g. 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.

Remuneration Policy continued

Arrangements from prior years

The outstanding share incentive awards which are detailed on pages 122 to 126 of the Annual Report on Remuneration will remain eligible to vest based on their original award terms. In addition, all arrangements previously disclosed in prior years' directors' remuneration reports will remain eligible to vest or become payable on their original terms.

Regulatory changes

The committee is mindful that proposed regulatory changes in the financial services sector may result in a need to rebalance the executive directors' pay and, as a result, the committee retains discretion to adjust the current proportions of fixed and variable pay within the current total remuneration package if new legislation were to impact the executive directors in due course. Should this be the case, the company would enter into appropriate dialogue with its major shareholders and, depending on the nature of any changes, may be required to seek shareholder approval for a revised remuneration policy.

Policy for new directors

Base salary levels will be set in accordance with the approved policy, taking into account the experience and calibre of the individual. Benefits will also be provided in line with the approved 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 policy. This limit does not include the value of any buyout arrangements.

Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual and the point in the financial year that they join the company.

Any incentive offered above these limits would be contingent on the company receiving shareholder approval for an amendment to its approved policy at its next AGM.

The above policy applies to both an internal promotion to the board or an external hire.

In the case of an external hire, if it is necessary to buyout 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 policy will apply to the balance of the remuneration package. The company will also not make a golden hello payment.

In the case of an internal promotion, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the board appointment, even if inconsistent with the policy prevailing when the commitment is fulfilled).

On the appointment of a new Chairman or non-executive director, the fees will be set taking into account the experience and calibre of the individual. Where specific cash or share arrangements are delivered to non-executive directors, these will not include share options or other performance-related elements.

Choice of performance metrics

The performance metrics used for the annual bonus scheme, the LTIS and the 2013 PSP have been selected to reflect the key indicators of the company's financial performance.

EPS continues to be considered by the committee as one of the broadest and most well understood measures of the company's long-term financial performance and therefore it remains appropriate to maintain the option to use it as a key metric in our long-term incentive plans.

Furthermore, EPS is fully aligned with our objective of continuing to deliver a high dividend yield and thus is aligned with our shareholder base which is weighted towards longer-term income investors.

In 2012, the link to RPI was removed from the targets set for awards made under the LTIS and the PSP given: (a) the negative impact of higher rates of inflation on customers' circumstances which had the potential to encourage excessive risk-taking; (b) the funding costs of the group which are linked not only to UK financial markets but global financial markets (including private placements and/or bonds in the US and Europe); and (c) that RPI is considered to have the potential to devalue awards from an executive director's perspective and is outside of their direct control.

In light of these factors, delinking the performance targets for the LTIS and PSP from RPI was considered appropriate by the committee in 2012 and this approach was retained in relation to awards under the 2013 PSP and the LTIS in 2013. It is intended that this will also be the approach for awards made under the 2013 PSP and the LTIS during the three-year period to which this policy applies. Performance targets will, however, be assessed annually when setting targets for future awards to take account of prevailing rates of inflation.

In addition, TSR is used under the LTIS to provide an appropriate external balance to the internal EPS measure and is consistent with delivering superior returns to shareholders which remains the company's key, over-arching, long-term objective.

The committee has determined that absolute TSR continues to be an appropriate performance measure as the FTSE 250 is considered too diverse a group against which to compare relative TSR performance. Also, the general financial sector is a diverse group of companies, none of which is considered to be directly comparable to the company. However, the committee will continue to keep the appropriateness of this measure under review.

No performance targets are set for options granted under the company's Save As You Earn (SAYE) Scheme or awards under the Share Incentive Plan as they form part of the company's all-employee arrangements which are designed to encourage employee share ownership across the group.

The amount an executive director could earn under the approved policy

A significant proportion of remuneration is linked to performance, particularly at maximum performance levels. The charts below show how much the Chief Executive and the Finance Director could earn under the policy under different performance scenarios. The following assumptions have been made:

- Minimum (performance below threshold) – fixed pay only with no vesting under the LTIS or 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.
- Maximum (performance meets or exceeds maximum) – fixed pay plus maximum bonus (120/100% of salary) and maximum vesting under the PSP and LTIS.

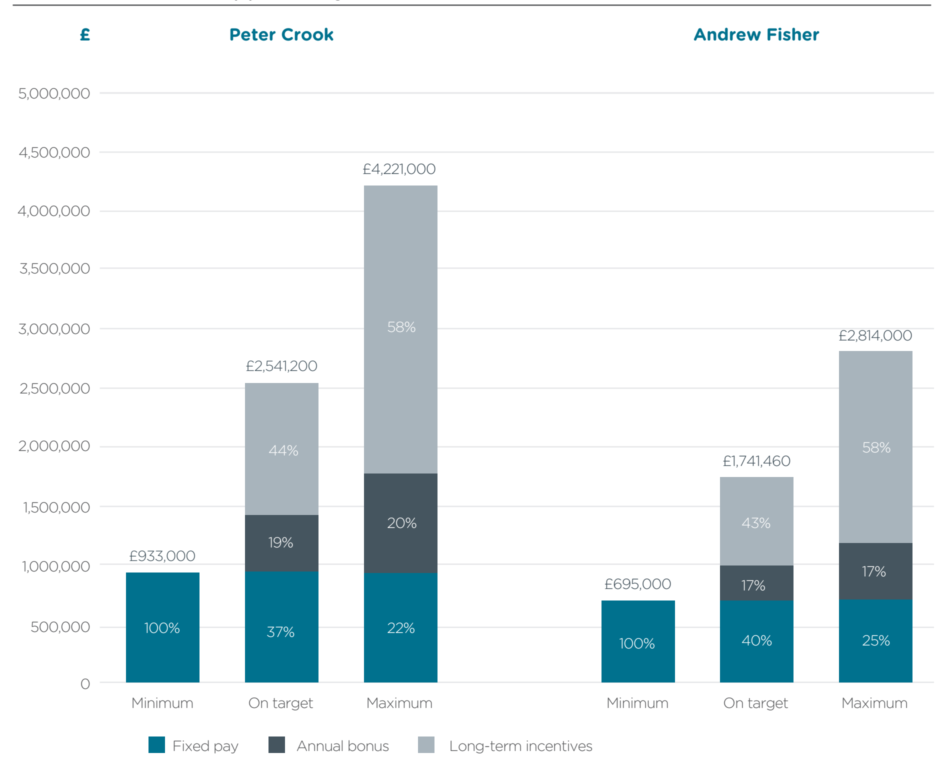
- Fixed pay comprises:
  - (i) salaries – salary effective as at 1 January 2014;
  - (ii) benefits – amount received by each executive director in the 2013 financial year; and
  - (iii) pension – pension credit of 30% of salary.
- Awards under the PSP and LTIS have been assumed as follows:
  - (i) PSP – 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 all-employee Share Incentive Plan and options under the SAYE Scheme have not been included.

The scenarios do not include any growth or a fall in the share price or dividend assumptions.

It should be noted that since this analysis shows what could be earned by the executive directors based on the approved policy (ignoring the potential impact of share price movements) the numbers will be different to the values included in the table on page 120 detailing what was actually earned by the executive directors in relation to the financial year ended 31 December 2013, since these values are based on the actual levels of performance achieved to 31 December 2013 and include the impact of share price movements in relation to share awards.

Total remuneration opportunity



Remuneration Policy continued

Non-executive director remuneration policy

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION INCLUDING MAXIMUM LEVELS
Fees	To attract and retain a high-calibre Chairman and non-executive directors by offering market competitive fees which reflect the individual's skills, experience and responsibilities.	The Chairman and non-executive directors receive annual fees (paid in monthly instalments). The fee for the Chairman is set by the remuneration committee and the fees for the non-executive directors are approved by the board. The Chairman is paid an all-inclusive fee for all board responsibilities. The other non-executive directors receive a basic non-executive director fee, with supplementary fees payable for additional responsibilities, including chairing a committee. The non-executive directors do not participate in any of the company's incentive arrangements. Relevant expenses and/or benefits may be provided to the non-executive directors. The fee levels are reviewed on a regular basis, and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Flexibility is retained to go above the current fee levels and/or to provide the fees in a form other than cash (but not as share options or other performance-related incentives) if necessary to appoint a new Chairman or non-executive director of an appropriate calibre. Fee levels for current incumbents for 2014 are as follows: • Non-executive Chairman: £255,000 • Non-executive director base fee: £64,000 • Supplementary fee for chairing the audit, remuneration or risk advisory committee: £15,000; and • Supplementary fee for the role of Senior Independent Director (SID): £10,000

Service contracts and exit policy
The committee ensures that the contractual terms for the executive directors take due account of best practice.

Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. All service contracts contain provisions for early termination. The contracts of the executive directors are dated 27 April 2006 for the Chief Executive and 1 January 2008 for the Finance Director. All contracts operate on a rolling basis with a 12-month notice period.

A director's contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. No director has a service contract providing liquidated damages on termination.

In the event of the termination of a service contract, it is the current policy to seek mitigation of loss by the director concerned and to aim to ensure that any payment made is the minimum which is commensurate with the company's legal obligations.

Payments in lieu of notice are not pensionable.

In the event of a change of control of the company there is no enhancement to contractual terms.

Notice periods are limited to twelve months. If the company terminates the employment of an executive director without giving the period of notice required under the contract, then the executive director may be entitled to receive up to one year's compensation. Compensation is limited to: base salary due for any unexpired notice period; any amount assessed by the committee as representing the value of contractual benefits and pension which would have been received during the period; and any annual bonus which the executive director might otherwise have been eligible to receive on a pro rata basis, subject to the committee's assessment of group and personal performance.

To the extent that a director seeks to bring a claim against the company in relation to the termination of their employment (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 twelve months. An amount in respect of loss of annual bonus for the period of notice served (pro rata) would only be included in exceptional circumstances and would not apply in circumstances of poor performance. For the avoidance of doubt, the director would be eligible to be considered in the normal way for an annual bonus for any period they have served as a director, subject to the normal assessment of group and personal performance.

Any share-based entitlements granted to an executive director under the company's share incentive schemes will be determined based on the relevant scheme rules. In the case of a bad leaver the awards normally lapse and in certain good leaver circumstances (e.g. ill health) awards would remain eligible to vest subject to an assessment of the performance target and a pro rata reduction (unless the committee determines otherwise).

Non-executive directors

Non-executive directors are not employed under service contracts and do not receive compensation for loss of office. They are appointed for fixed terms of three years, renewable for a further three-year term and, in exceptional circumstances, further extended if both parties agree. Any such extension will be subject to annual reappointment by shareholders.

The table below shows details of the terms of appointment for the non-executive directors. In accordance with their terms of appointment, Robert Hough retired from the board on 31 January 2013 and John van Kuffeler retired from the board on 1 January 2014. All other directors will seek appointment/reappointment at the forthcoming AGM.

Policy on other appointments

Executive directors are permitted to hold one non-executive directorship in a FTSE 100 company (and to retain the fees from that appointment) provided that the board considers that this will not adversely affect their executive responsibilities.

Copies of directors' service contracts and/or letters of appointment are available from the Company Secretary on request.

Name	Appointment	Date of most recent term	Expected /actual date of expiry
John van Kuffeler	29 January 2002	29 January 2002	1 January 2014
Manjit Wolstenholme	16 July 2007	31 July 2013	31 July 2016
Rob Anderson	2 March 2009	30 March 2012	30 March 2015
Robert Hough	1 February 2007	31 January 2010	31 January 2013
Stuart Sinclair	1 October 2012	1 October 2012	31 October 2015
Malcolm Le May	1 January 2014	1 January 2014	31 January 2017
Alison Halsey	1 January 2014	1 January 2014	31 January 2017

Remuneration payments and payments for loss of office will only be made if consistent with the approved policy or otherwise approved by ordinary resolution of shareholders.

Manjit Wolstenholme
Chairman of the
remuneration committee
for the year ended 31 December 2013

25 February 2014

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration (in conjunction with the approved policy described earlier) complies with the Companies Act 2006 (the Companies Act), Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority (FCA). The company also followed the requirements of the UK Corporate Governance Code (the Code).

This report will be subject to an advisory vote at the AGM of the company to be held on 8 May 2014 and sets out details of how the approved policy will be implemented in 2014 as well as details of the implementation of the policy for the financial year just ended.

Committee role and membership

The role of the committee is set out in its terms of reference which are reviewed annually and were last updated in October 2013. These can be found on the group's website at **www.providentfinancial.com**. The committee meets at least three times a year and thereafter as circumstances dictate.

Details of the work undertaken by the committee during the year are set out on page 117.

During the year the members of the committee and their attendance at meetings were as shown below.

The committee has reviewed and considered the impact of the FCA Remuneration Code (FCA Code). Whilst the FCA Code applies to Vanquis Bank, it does not apply to the group. As a consequence, a Vanquis Bank remuneration committee has been established which has identified those Vanquis Bank employees who are Remuneration Code Staff and it ensures that Vanquis Bank complies with the FCA Code on an ongoing basis. The committee reviews the work undertaken by the Vanquis Bank remuneration committee through regular reports submitted to it.

The committee regularly reviews remuneration policy in the context of the group's risk management framework to ensure it does not inadvertently promote irresponsible behaviour. It has coordinated its work with both the audit committee and the risk advisory committee who assist with the monitoring and assessment of risk management specifically in relation to the remuneration incentives in place.

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 are reflected in the rewards granted to executive directors and the senior management team.

Effectiveness

On the basis of the external board and committee evaluation undertaken by Independent Board Evaluation, the committee formally considered its effectiveness in 2013 at its meeting in January 2014. In the interests of continuity and in light of the importance of the ongoing relationship between the new Chairman and the Chief Executive it was agreed that the new Chairman be invited to attend future meetings of the committee but not as a member. The committee also considered it important for the new committee chairman to explain the approved policy, its ongoing implementation and its impact to the senior management team on an annual basis as this would improve transparency of the remuneration priorities and principles being deployed by the committee. It was also felt such action would create a wider and better understanding of the approved policy across the group. Overall the committee determined that it was operating effectively and that it continued to have the appropriate regard for the key issues within its remit.

Name	Notes	Appointed	To	Attendance
Manjit Wolstenholme[1]	Chairman (until 1 January 2014)	16 July 2007	1 January 2014	7 out of 7
Robert Hough[2]		1 February 2007	31 January 2013	1 out of 7
Rob Anderson		2 March 2009	To date	7 out of 7
Stuart Sinclair		1 October 2012	To date	6 out of 7
Malcolm Le May[3]	Chairman (from 1 January 2014)	1 January 2014	To date	n/a
Alison Halsey[3]		1 January 2014	To date	n/a

1 Ceased to be chairman and member from 1 January 2014, but will continue to attend meetings by invitation.
2 Retired from the board on 31 January 2013.
3 Appointed 1 January 2014.

Remuneration committee calendar in 2013

January

- Consideration of shareholder feedback on proposed 2013 remuneration policy
- Determination of vesting of LTIS awards granted in 2010
- Review of directors' expenses

February

- Finalisation of the 2013 remuneration policy
- Agreement on the format of the 2012 remuneration report
- Review of Chairman's fees
- Review of prior year performance against financial and non-financial objectives in relation to the annual bonus scheme

May

- Adoption and approval of the operation of the Performance Share Plan 2013 (2013 PSP)
- Grant of awards under the 2013 PSP
- Adoption and approval of the operation of the Savings Related Share Option Scheme 2013
- Adoption and approval of the operation of the Share Incentive Plan 2013

September

- Review of executive remuneration landscape
- Review of changes to remuneration reporting requirements
- Agreement of terms of departure for Chris Gillespie

October

- Consideration of an outline remuneration policy

November

- Further consideration of the outline remuneration policy.
- Consideration of an outline 2013 Annual Report on Remuneration

December

- Establishment of the proposed remuneration policy for shareholder approval
- Further consideration of the 2013 Annual Report on Remuneration
- Review of executive directors' shareholdings

At each main meeting

- Review of minutes of previous meetings
- Review of implementation of actions from previous meetings
- Vanquis Bank remuneration committee update

External advisors

During the year, New Bridge Street (NBS), a trading name of Aon plc (NBS's parent company), was engaged by the committee to provide remuneration consultancy services. The total fees paid to NBS in respect of such services to the committee during the year were £45,197. NBS is a signatory to the Remuneration Consultants' Code of Conduct. Aon plc also provides pension consultancy, accounting and actuarial advice to the company. The committee is satisfied that these additional services in no way compromised the independence of advice from NBS.

The terms of engagement for NBS are available from the Company Secretary on request. The committee also engaged Addleshaw Goddard LLP to provide advice and support to the committee in relation to the establishment of a replacement Performance Share Plan, the Provident Financial Savings Related Share Option Scheme 2013 and the Provident Financial Share Incentive Plan, all of which were approved by shareholders at the 2013 AGM. The total fees paid to Addleshaw Goddard in respect of this work were £11,400. Addleshaw Goddard has provided other legal advisory services to the company during the year, chiefly relating to financial regulation.

The Company Secretary is secretary to the committee and instructed the advisors on behalf of the committee. The secretary attended all the meetings of the committee in 2013 and provides legal and technical support.

In selecting advisers the committee considers a range of factors (e.g. independence and objectivity, experience, technical ability and market knowledge). These factors are reviewed on a regular basis by the committee.

Annual Report on Remuneration continued

Components of the approved policy

The approved policy will be implemented in 2014 as follows:

Executive Directors

1. Salary and fees

Salaries for executive directors and the senior management team are reviewed annually by the committee, although not necessarily increased. At its meeting in December 2013, the committee considered the company's strong financial performance and each individual's responsibilities, abilities, experience and personal performance. The committee also considered both the group's own salary structures, pay and conditions and, although used with caution, market data on salary rates for similar positions in comparative companies where appropriate. Accordingly, it agreed to increase the executive directors' salaries in 2014 as follows:

Director's name	% increase 2014	Salary £
Peter Crook	3.0	685,000
Andrew Fisher	3.0	489,000

These increases are consistent with the average percentage increases awarded elsewhere in the group.

2. Annual bonus

The group operates an annual bonus scheme which provides the framework for an annual incentive for executive directors. The aim of the scheme is to improve the company's performance through the achievement of certain financial and operational goals. The maximum bonus opportunity will continue to be restricted to 120% of salary for the Chief Executive and 100% of salary for the Finance Director. The performance conditions for the 2014 annual bonus will be based on the group's EPS and personal objectives as follows:

	Peter Crook		Andrew Fisher	
Measure		Maximum bonus opportunity		Maximum bonus opportunity
Group EPS	80%	£657,600	80%	£391,200
Personal objectives	20%	£164,400	20%	£97,800

EPS (excluding exceptional items) is the key internal measure of financial performance as it is the broadest measure of the group's financial performance and is aligned to the shareholder base which is weighted towards longer-term income investors.

Straight-line vesting will operate between 95% of targeted group EPS and the maximum of 105% of targeted group EPS. The personal objectives element of the scheme will continue to be underpinned by a threshold level of targeted group EPS performance. 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 2014 would put the company at a significant commercial disadvantage. Details of the extent to which the bonus targets are achieved will however be set out in the next Annual Report on Remuneration.

Clawback provisions also apply to annual bonus awards which will enable the committee to clawback value overpaid in the event of a restatement of the company's Annual Report and Financial Statements or an error in the calculation of the extent to which the performance target has been met. Any bonuses paid are non-pensionable and are not taken into account when determining base salary for performance-related remuneration.

3. Long-term incentive schemes

The company's long-term incentive arrangements for executive directors are the Provident Financial Executive Share Option Scheme 2006 (the ESOS), the LTIS and the 2013 PSP.

LTIS

The committee is responsible for selecting eligible employees, including executive directors, to participate in and for granting conditional share awards under the LTIS. 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. Participants are eligible to be considered for awards annually. The aggregate market value of awards made under the LTIS in any one financial year may not exceed 200% of basic salary which is the normal grant policy under the LTIS and the committee intends to grant awards at this level in respect of the current financial year. This 200% limit does not include the value of any dividend equivalent payable on shares vesting under an LTIS award which is also paid on the vesting date.

For awards to be made in 2014, it is proposed that the performance targets for the LTIS continue to be based on absolute EPS and absolute TSR, with the range of targets remaining unchanged from 2013.

The actual range of the EPS targets for awards made in 2014 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 made in 2014 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 a similar general underpin which applies to the TSR target and is set out on page 122.

PSP

The previous PSP expired in 2012 and a replacement PSP (the 2013 PSP) was approved by shareholders at the AGM in May 2013.

Under the 2013 PSP, executive directors are required to defer a minimum of one-third of annual bonus payable into the 2013 PSP. They may also elect to defer up to a further third of bonus. They then receive matching awards under the 2013 PSP which are subject to a performance target based on absolute EPS.

At the lower end of the performance target range, one half of a matching share will vest up to a maximum of two matching shares at the upper end of the performance target range for each basic share awarded following bonus waiver into the 2013 PSP. The value of the award can therefore increase or decrease depending on the prevailing share price at the date of vesting.

The actual range of the EPS targets for awards made in 2014 will be as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one share
11%	Two matching shares

The same general underpin to the EPS targets in the LTIS (as set out opposite) applies to all awards granted under the 2013 PSP.

Awards made under the previous PSP are subject to different performance measures, have different award levels and will vest in accordance with the terms of their grant in due course. Further details are set out on pages 124 to 125.

ESOS

The committee does not intend to make further grants to executive directors under the ESOS in 2014.

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 which was approved by shareholders at the 2013 AGM. Participants save a fixed sum each month for three or five years and may use these funds to purchase shares after three or five years. The exercise price is fixed at up to 20% below the market value of the shares at the date directors and employees are invited to participate in the scheme and monthly savings amounts are subject to HMRC limits.

Share incentive plan

In addition to the Provident Financial Savings Related Share Option Scheme 2013, an all-employee, HMRC-approved Share Incentive Plan (SIP) was approved by shareholders at the 2013 AGM. The introduction of a SIP is a further mechanism through which the company encourages employees to acquire shares in a tax-approved manner and runs alongside the Provident Financial Savings Related Share Option Scheme 2013. Executive directors and the senior management team are invited to participate in the SIP on the same terms as all other eligible employees. The SIP provides an opportunity to invest in the company's shares and benefit from the company's offer to match that investment on the basis of one share for every four shares purchased.

Non-executive directors

1. Non-executive directors' fees

At its meeting in February 2014, the board reviewed the non-executive directors' fees in the context of a benchmarking exercise undertaken by NBS and after taking due account of the anticipated ongoing time commitment for the role. On this basis, the base fee was increased by £1,500 to £64,000 with effect from 1 March 2014.

2. Chairman's fees

On 1 January 2014, Manjit Wolstenholme was appointed as Chairman, and on the basis of a benchmarking exercise carried out by NBS in December 2013 and taking into account the anticipated time commitment, the committee agreed to increase the Chairman's fees to £255,000 with effect from 1 January 2014.

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Annual Report on Remuneration continued

Details of the implementation of the company's remuneration policy in 2013 are set out below.

Directors' remuneration

Robert Hough retired from the board on 31 January 2013 and Chris Gillespie resigned from the board on 13 September 2013. The total aggregate directors' emoluments during the year amounted to £9,549,000 (2012: £10,578,000) analysed as follows:

	Fixed pay								Variable pay										Total	
							Total fixed pay				Share incentive schemes						Total variable pay			
	Salary		Benefits in kind		Pension				Annual cash bonus[1]		LTIS		PSP[4]		PSP dividends					
Director's name	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000[3]	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Executive directors																				
Peter Crook	665	650	42	37	262	254	969	941	707	764	2,127	2,485	1,004	–	178	136	4,016	3,385	4,985	4,326
Andrew Fisher	475	465	59	45	183	203	717	713	440	465	1,519	1,772	582	–	105	80	2,646	2,317	3,363	3,030
Chris Gillespie[2]	447[3]	450	35	42	95	154	577	646	–	248	–	1,711	–	–	41	53	41	2,012	618	2,658
Sub-total	1,587	1,565	136	124	540	611	2,263	2,300	1,147	1,477	3,646	5,968	1,586	–	324	269	6,703	7,714	8,966	10,014

Note: Peter Crook and Andew Fisher have agreed to waive any emoluments in respect of their directorships of Vanquis Bank Limited and Provident Financial Management Services Limited.

1 The annual bonus represents the gross bonus payable to the directors in respect of 2013. Each director has agreed to waive two-thirds of gross bonus in order to participate in the 2013 PSP.

2 In addition to his salary for the period to 13 September 2013, Chris Gillespie received a payment in lieu of two months' notice (£102,467), which is included in the salary figure in the table above. He also received a payment of £51,234, comprising: £25,617 in respect of new post termination restrictions, and £25,617 in respect of new confidentiality restrictions; both of which provide enhanced protection to the company over and above the provisions in his contract of employment. These restrictions formed part of his settlement agreement. His bonus in respect of 2013 lapsed along with his outstanding LTIS awards and his Matching Awards under the PSP and 2013 PSP. The Basic Awards under the PSP and 2013 PSP (i.e. the deferred element of his historic bonus awards) vested in full in accordance with the rules of the schemes.

3 Amount calculated based on 100% vesting of 2011 awards multiplied by an average share price for the three months ended 31 December 2013. No account has been taken of the dividend equivalent payable on these shares, which will be calculated on the vesting date of 4 March 2014. The actual value may vary depending on the actual share price on 4 March 2014.

4 Amount calculated based on 100% vesting of 2011 awards multiplied by an average share price for the three months ended 31 December 2013. Actual vesting date is 4 March 2014 and so the actual value may vary depending on the actual share price on 4 March 2014.

Director's name	Fees 2013 £'000	Fees 2012 £'000	Annual cash bonus 2013 £'000	Annual cash bonus 2012 £'000	Benefits in kind 2013 £'000	Benefits in kind 2012 £'000	Total 2013 £'000	Total 2012 £'000
Chairman								
John van Kuffeler[1]	280	265	–	–	49	40	329	305
Non-executive directors								
Rob Anderson	75	75	–	–	7	4	82	79
Manjit Wolstenholme	85	75	–	–	2	1	87	76
Robert Hough[2]	7	80	–	–	3	5	10	85
Stuart Sinclair	75	19	–	–	–	–	75	19
Sub-total	522	514	–	–	61	50	583	564

[1] £25,000 of this fee was paid to John van Kuffeler's service company, Parchester Limited. Retired from the board on 1 January 2014.
[2] Retired from the board on 31 January 2013.
Note: The non-executive directors did not, except John van Kuffeler, receive a pension benefit nor did they receive any bonus or share incentive entitlements. John van Kuffeler received a pension benefit of £30,000 in 2012 and 2013.

Directors' fees

Non-executive directors

Non-executive directors' fees are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the company. Full details of the non-executive directors' fees are set out in the table above. Non-executive directors' remuneration 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 was appointed as a non-executive director of Cabot (Group Holdings) Limited on 1 September 2013 and he retains the fee from that appointment. During 2013 these fees amounted to £16,668.

Annual bonus scheme

The 2013 annual bonus scheme was based on a group audited EPS target (as defined in the rules of the scheme), personal objectives and a divisional financial target (in the case of Chris Gillespie).

The maximum bonus opportunity in respect of 2013 was restricted to 120% of salary for the Chief Executive and 100% of salary for the other executive directors and was split as follows:

	Peter Crook	Andrew Fisher	Chris Gillespie
Measure	Maximum bonus opportunity		
Group EPS	80%	80%	20%
Divisional financial target	–	–	60%
Personal objectives	20%	20%	20%

The actual proportions of the 2013 targeted group EPS that needed to be delivered, which the committee considered to be challenging, were as follows:

	Threshold	Target	Maximum
% of the targeted group EPS achieved	95%	100%	105%
% of EPS element of annual bonus paid	0%	60%	100%

Straight-line vesting operated between 95% of targeted group EPS and the maximum of 105% of targeted group EPS. A similar principle applied to the divisional financial target set for Chris Gillespie.

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 2014, the committee assessed the group's performance against the targeted group EPS. The EPS achieved of 116.4p exceeded the targeted group EPS of 111.8p and the committee therefore determined that 92.0% of the EPS element of the 2013 annual bonus would be paid.

The balance of the annual bonus, as detailed in the table of directors' remuneration on page 120, was paid on the basis of the committee's assessment of the extent to which the personal objectives for Peter Crook and Andrew Fisher were achieved.

Annual Report on Remuneration continued

The Chief Executive's personal objectives included, but were not limited to, undertaking a strategic review for the ongoing group, in particular the repositioning of CCD and taking steps to implement its key outcomes, effectively managing the funding position of the group and effective management of internal and external regulators and stakeholders. The committee's assessment, having considered performance against each objective, was that the level of achievement against these objectives was 75%.

The Finance Director's personal objectives included, but were not limited to, undertaking a review of strategic options to develop the group, effective management of the treasury and taxation functions, and effective management of the group's external regulators. The committee's assessment, having considered performance against these objectives, was that the level of achievement against these objectives was 95%

The range of bonus payable as a percentage of salary in relation to 2013 was therefore 93% to 106%.

Following Chris Gillespie's resignation from the board on 13 September 2013 the committee determined that no bonus was payable.

Share incentive schemes

In 2013, the committee continued with the policy of making conditional share awards to executive directors and the senior management team under the LTIS and awards under the 2013 PSP. This policy is in line with prevailing market practice and recognises that conditional share awards, and the deferral of annual bonus in the case of the 2013 PSP, provide greater alignment with shareholders' interests.

LTIS

Grants under the scheme are restricted to no more than 200% of a participant's basic salary. Historically, and dependent upon satisfactory personal and corporate performance the committee's policy has been to grant conditional share awards at the maximum level. Executive directors received maximum grants in 2013.

2013 Awards

The performance targets for awards to be made under the LTIS in 2013 were reviewed by the committee at its meeting in February 2013 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 2013 are the same in terms of metrics and annual growth requirements as the proposed 2014 LTIS awards, further details of which are set out on pages 118 and 119.

2010 and 2011 Awards

Vesting of the 2010 and 2011 conditional share awards is split equally between the company's annualised growth in EPS and its annualised TSR. Under the EPS measure, no award will vest if annualised growth in EPS is below RPI plus 3% over the performance period. For annual growth of RPI plus 3%, 25% of the award vests (12.5% of the total award). The level of award vesting increases on a straight-line basis so that for annualised growth in RPI plus 8% over a period of three consecutive financial years, the award vests in full (50% of the total award).

Under the annualised TSR measure, no award will vest if the annualised TSR is below 10% over the performance period. For annualised TSR of 10%, 25% of the award vests (12.5% of the total award). The level of award vesting increases on a straight-line basis so that for annualised TSR of 15% the award vests in full (50% of the total award).

(i) 2010 Awards

The assessment of the extent to which these performance conditions were met for the conditional share awards granted in 2010 was discussed by the committee at its meeting in January 2013, with assistance from NBS. The company's annualised growth in EPS over the performance period was 12.6%, and the annualised growth in RPI over the same period was 4.2%. As the level of growth exceeded the maximum target of annualised growth of RPI plus 8%, this resulted in 100% of the EPS element of the award vesting.

NBS also confirmed that the company's annualised TSR over the three-year performance period was 21.5%, which exceeded the maximum target of annualised TSR of 15%, resulting in 100% of the TSR element of the award vesting. The committee therefore approved a 100% vesting of the 2010 awards, having satisfied itself that the TSR performance was a genuine reflection of the underlying business performance.

This assessment included consideration of various factors, including the annualised increase in profit before tax and exceptional items over the period of 11.7% and the annualised increase in dividend over the period of 6.7%.

(ii) 2011 Awards

The assessment of the extent to which these performance conditions were met for the conditional share awards granted in 2011 was discussed by the committee at its meeting in January 2014, with assistance from NBS. The company's annualised growth in EPS over the performance period was 14.8%, and the annualised growth in RPI over the same period was 3.5%. As the level of growth exceeded the maximum target of annualised EPS growth of RPI plus 8%, this resulted in 100% of the EPS element of the award vesting.

NBS also confirmed that the company's annualised TSR over the three-year performance period was 31.4%, which exceeded the maximum target of annualised TSR of 15%, resulting in 100% of the TSR element of the award vesting. The committee therefore approved a 100% vesting of the 2011 awards, having satisfied itself that the TSR performance was a genuine reflection of the underlying business performance. This assessment included consideration of various factors, including the increase in profit before tax and exceptional items over the period of 17.8% and the increase in dividend over the period of 15.7%.

There were no changes in directors' conditional share awards between 1 January 2014 and 25 February 2014.

The executive directors have waived an entitlement to any dividend in respect of the conditional share awards during the performance period. To the extent an award vests at the end of the performance period, either additional ordinary shares in the company or a cash amount equivalent to the dividends that would have been paid on the vested awards from the date of grant, will be provided to the executive directors if and when the award vests.

As in previous years, awards made in 2012 and 2013 to employees within the Consumer Credit Division (CCD) and Vanquis Bank are subject to a challenging divisional target rather than group EPS and TSR targets.

The mid-market closing price of the company's shares on 31 December 2013 was 1623.5p. The range during 2013 was 1377p to 1773p. No consideration is payable on the award of conditional shares.

Long Term Incentive Scheme

Details of the conditional share awards granted to the executive directors during 2013 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	01.03.2013	90,784	£1,330,000	200%	50% based on absolute TSR and 50% based on absolute EPS	3 financial years ending 31 December 2015	20%
Andrew Fisher	01.03.2013	64,846	£950,000	200%			
Chris Gillespie	01.03.2013	62,798	£920,000	200%			

[1] Face value calculation is based on the share price of £14.65 on 28 February 2013. Actual award achievable at vesting may be greater or lesser depending on actual share price at vesting and as a result of any dividend equivalent payable on vested shares.
[2] Performance conditions are set out on pages 118 and 119.

Executive directors' total conditional share awards at 31 December 2013 were as follows:

Director's name	Date of award	Awards held at 01.01.2013	Awards granted during the year	Awards vested during the year[1]	Awards lapsed during the year	Awards held at 31.12.2013	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	12.04.2010	140,552	–	158,046	–	–	868.0	1,572.3	12.04.2013
	04.03.2011	132,283	–	–	–	132,283	952.5		04.03.2014
	26.03.2012[3]	111,876	–	–	–	111,876	1,162.0		26.03.2015
	01.03.2013[3]	–	90,784	–	–	90,784	1465.0		01.03.2016
Andrew Fisher	12.04.2010	100,230	–	112,705	–	–	868.0	1,572.3	12.04.2013
	04.03.2011	94,488	–	–	–	94,488	952.5		04.03.2014
	26.03.2012[3]	80,034	–	–	–	80,034	1,162.0		26.03.2015
	01.03.2013[3]	–	64,846	–	–	64,846	1465.0		01.03.2016
Chris Gillespie[2]	12.04.2010	96,774	–	108,819	–	–	868.0	1,572.3	12.04.2013
	04.03.2011	91,338	–	–	91,338	–	952.5		LAPSED
	26.03.2012[3]	77,452	–	–	77,452	–	1,162.0		LAPSED
	01.03.2013[3]	–	62,798	–	62,798	–	1465.0		LAPSED

[1] Dividend shares on awards vesting in 2013 were received as follows: Peter Crook 17,494 shares; Andrew Fisher 12,475 shares; Chris Gillespie 12,045 shares.
[2] In accordance with the rules of the LTIS, Chris Gillespie's awards granted under the LTIS in 2011, 2012 and 2013 lapsed on 13 September 2013.
[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 vests subject to absolute TSR with 20% of this part of the award vesting for 8% absolute TSR per annum and full vesting for absolute TSR of 15% per annum. No vesting takes place below the threshold performance levels with straight line vesting taking place between threshold and maximum performance levels. In addition; (1) where absolute TSR performance targets operate, that part of the award will not vest unless the committee is satisfied that the TSR performance is a genuine reflection of the underlying performance of the company; and (2) where absolute EPS performance targets operate, that part of the award will not vest unless the committee is satisfied that the vesting is consistent with the broader financial performance of the company. Full details of historic performance targets have been fully set out in previous directors' remuneration reports.

Annual Report on Remuneration continued

Offshore Employee Benefit Trust
The rules of the LTIS allow it to be operated in conjunction with any employee trust established by the company. Accordingly, the company established the Provident Financial plc 2007 Employee Benefit Trust (EBT) in Jersey on 11 September 2007 with Kleinwort Benson (Jersey) Trustees Limited 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.

Kleinwort Benson (Jersey) Trustees Limited, as trustee of the EBT, subscribed for 508,802 ordinary shares in March 2013 for the purpose of satisfying the 2013 awards made pursuant to the LTIS. The trustee transferred the beneficial ownership (subject to the performance conditions set out on page 121) in 218,428 of the shares for no consideration to the executive directors on 27 March 2013.

Kleinwort Benson (Jersey) Trustees Limited also subscribed for 299,618 ordinary shares in March 2013 for the purpose of satisfying the 2013 awards made pursuant to the 2013 PSP. The trustee transferred the beneficial ownership (subject to the performance conditions set out opposite), in 128,456 of the shares for no consideration to the executive directors on 9 May 2013 and also transferred the legal and beneficial ownership in 64,228 of the shares for no consideration to the executive directors. The trustee has entered into a dividend waiver agreement in respect of all the shares it holds in the company at any time.

PSP

In 2013, participation in the 2013 PSP included the executive directors, who were able to elect to waive up to two-thirds (with a minimum of one-third) of their annual bonus for a period of three years, and other eligible employees who were able to waive up to 50% or 30%, (depending on their level of seniority), of their annual bonus for a period of three years. 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 by a participant pursuant to their basic award) which is subject to a performance condition.

Awards to executive directors and certain members of the senior management team in 2013 were made on the basis of up to two shares for each share acquired pursuant to their basic award, the second share being subject to a more stretching performance target.

For awards granted in 2011, the first matching share granted on the basis of one share for each share acquired pursuant to the basic award only vests in full if the company's average annual percentage growth in EPS is equal to, or greater than, the average annual percentage growth in RPI plus 3% 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. The second matching award is subject to a more stretching performance target and only vests in full if the company's average annual percentage growth in EPS is equal to, or greater than, the average annual percentage growth in RPI plus 8%, 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. A sliding scale of vesting (on a straight-line basis) applies between these lower and upper targets.
At its meeting in January 2014 the committee considered the extent to which the performance target for the awards granted in 2011 had been met. The average annual growth in EPS over the performance period was 16.0% and the average annual growth in RPI over the same period was 3.6%. This level of EPS growth exceeded the maximum target of RPI plus 8% resulting in 100% of the matching awards vesting.

For awards granted in 2012 and 2013, the committee changed the EPS target to an absolute EPS target, which is consistent with the absolute EPS target which was introduced for awards under the LTIS from 2012, as set out on page 112.

Performance is measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the matching award.

A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper targets.

The actual range of the EPS targets for awards granted in 2012 is as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	One matching share
11%	Two matching shares

The actual range of the EPS targets for awards granted in 2013 is as follows:

Average annual growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one share
11%	Two matching shares

For awards granted in 2011 and 2012, the dividends payable on the basic and matching shares are paid to the directors on the normal dividend payment date. For awards granted in 2013, the dividend payable on the basic award only is paid to the directors on the normal payment date. Any dividend payable on the matching shares granted in 2013 will be paid to the directors as a dividend equivalent on the normal vesting date.

The dividends received in 2013 under the PSP and 2013 PSP were: Peter Crook £178,237 (2012: £135,970), Andrew Fisher £105,278 (2012: £79,896), and Chris Gillespie £41,290 (2012: £53,003). These figures have been included in the table of directors' remuneration on page 120.

Performance Share Plan

Details of the awards granted to the executive directors under the 2013 PSP during 2013 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	09.05.2013	Basic	33,243	£509,615	77%	100% based on absolute EPS growth of between 5% and 11%	3 financial years ending 31 December 2015	Half a matching share
		Matching	66,486	£1,019,230	153%			
Andrew Fisher	09.05.2013	Basic	20,222	£310,003	65%			
		Matching	40,444	£620,006	131%			
Chris Gillespie	09.05.2013	Basic	10,763	£164,997	35.9%			
		Matching	21,526	£329,994	71.7%			

[1] Face value calculated based on the 15 March 2013 share price of £15.33. As disclosed in the 2012 remuneration report, these awards were granted based on the share price on 15 March 2013 notwithstanding the grant of the awards in May 2013 following shareholder approval of the 2013 PSP, to ensure that the market value used was the same as the market value on the date of the payment of the cash element of the bonus.
[2] Performance conditions are set out on page 124.

Awards held under the PSP and 2013 PSP at 31 December 2013 were as follows:

Director's name	Date of grant	Basic awards (number of shares) held at 01.01.2013	Matching awards (number of shares) held at 01.01.2013	Total basic awards (number of shares) vested during the year	Total matching awards (number of shares) vested during the year	Total basic awards (number of shares) held at 31.12.2013	Total matching awards (number of shares) held at 31.12.2013	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	04.03.2011	31,216	62,432	–	–	31,216	62,432	952.5		04.03.2014
	26.03.2012	32,530	65,060	–	–	32,530	65,060	1,162.0		26.03.2015
	09.05.2013	–	–	–	–	33,243	66,486	1,533.0		09.05.2016
Andrew Fisher	04.03.2011	18,094	36,188	–	–	18,094	36,188	952.5		04.03.2014
	26.03.2012	19,363	38,726	–	–	19,363	38,726	1,162.0		26.03.2015
	09.05.2013	–	–	–	–	20,222	40,444	1,533.0		09.05.2016
Chris Gillespie	04.03.2011	14,742	29,484	14,742	–	–	–	952.5	1,576.0	13.09.2013
	26.03.2012	10,107	20,214	10,107	–	–	–	1,162.0	1,576.0	13.09.2013
	09.05.2013	–	–	10,763[1]	–	–	–	1,533.0	1,576.0	13.09.2013

[1] In accordance with the rules of the 2013 PSP, the committee agreed to bring forward the vesting date for Chris Gillespie's basic award under the 2013 PSP to the same date as the basic awards vesting under the previous PSP, the Provident Financial Performance Share Plan, to ensure consistency. All the corresponding matching awards lapsed on 13 September 2013.

Savings-related share option scheme

As set out on page 119 the executive directors may participate in the Provident Financial Savings Related Share Option Scheme 2013.

This scheme does not contain performance conditions as it is an HMRC-approved scheme designed for employees at all levels. Invitations to join the scheme were issued to eligible employees in August 2013 following approval of the scheme by shareholders at the 2013 AGM. No consideration is payable on the grant of an option.

One director exercised share options under the Provident Financial plc Employee Savings-Related Share Option Scheme (2003) during the year and there was a £12,672 notional gain (representing the difference between the exercise price and the market price of the shares at the date of exercise) on the exercise of this share option (2012: £nil).

There were no changes in directors' share options between 1 January 2014 and 25 February 2014.

None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

Annual Report on Remuneration continued

Statement of shareholder voting at AGM

At the 2013 AGM the directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	111,393,785	99.5
Against	549,773	0.5
Total votes cast (for and against)	111,943,558	100.0

The total number of votes withheld was 129,601

Clawback

In accordance with the recommendations within the Code and other best practice guidance, the committee, having consulted with NBS, introduced clawback provisions into all awards under the Annual Bonus Scheme, LTIS and the Provident Financial Performance Share Plan from December 2010 and into all awards under the 2013 PSP. This enables the committee, at its discretion, to clawback value overpaid in the event of: (i) a material prior period error requiring restatement of the group financial statements; or (ii) an error in assessing the extent to which a performance target (and/or any other condition) had been met.

Directors' share options at 31 December 2013, 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 below. In addition, both Peter Crook and Andrew Fisher each held eight shares under the Provident Financial Share Incentive Plan.

Director's name	Options held at 01.01.2013	Granted in 2013	Exercised in 2013	Options held at 31.12.2013	Exercise price (p)	Market value at date of exercise (p)	Range of normal exercisable dates of options held 31.12.2013
Peter Crook	1,777	–	–	1,777	868		01.12.2016 – 31.05.2017
Andrew Fisher	1,359	–	1,359	–	662	1,594.5	01.12.2016 – 31.05.2017
	–	689	–	689	1,305		
Chris Gillespie	–	–	–	–			–
Total	3,136	689	1,359	2,466			

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 key executives and senior management and consequently a resolution seeking shareholder approval for the removal of the 5% anti-dilution limit from the rules of the LTIS was passed at the company's 2008 AGM. Information on the resolution was included in the shareholders' circular and notice of the 2008 AGM. Awards granted under the LTIS can therefore be satisfied using newly issued shares, up to the 10% anti-dilution limit in any 10 years, which applies to all share schemes operated by the company. In due course, the committee intends to re-introduce the 5% limit when the LTIS can be effectively operated in accordance with, and subject to, a 5% anti-dilution limit.

The table below sets out the headroom available for all employee share schemes and shares held in trust as at 31 December.

Headroom	2013	2012
All-employee share schemes	2.1%	1.9%
Shares held in trust	2.9%	2.8%

Payments for loss of office

Details of the payments made to Chris Gillespie in relation to his departure from the board are set out in the footnote to the directors' remuneration table on page 120.

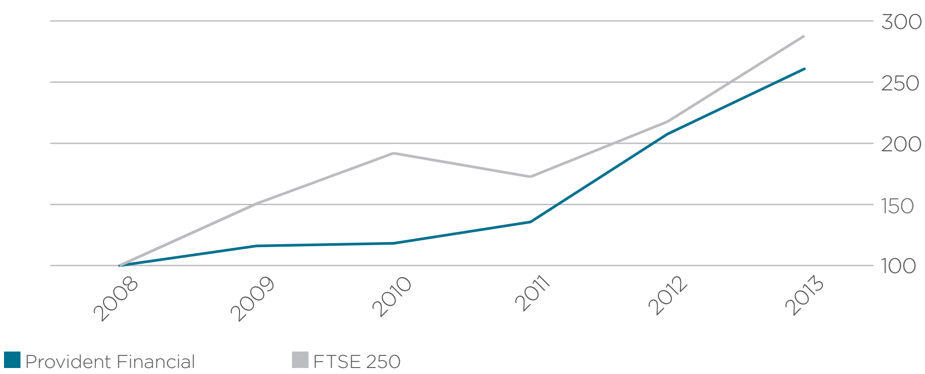
Total shareholder return: Provident Financial plc vs FTSE 250

The first graph (1) shows the total shareholder return for Provident Financial plc against the FTSE 250 index for the past five years. This index was chosen for comparison because the company has been a member of this index for the five-year period. The second graph (2) shows the comparison for the period from demerger of the international business to 31 December 2013, which the committee believes is a more accurate representation of the company's performance. The table (3) below these graphs shows the total remuneration figure for Peter Crook, the Chief Executive, over the five-year period. The total remuneration figure includes the annual bonus paid together with LTIS and PSP awards which vested based on the relevant performance targets in those years. The annual bonus, LTIS and PSP percentages show the payout for each year as a percentage of the maximum opportunity.

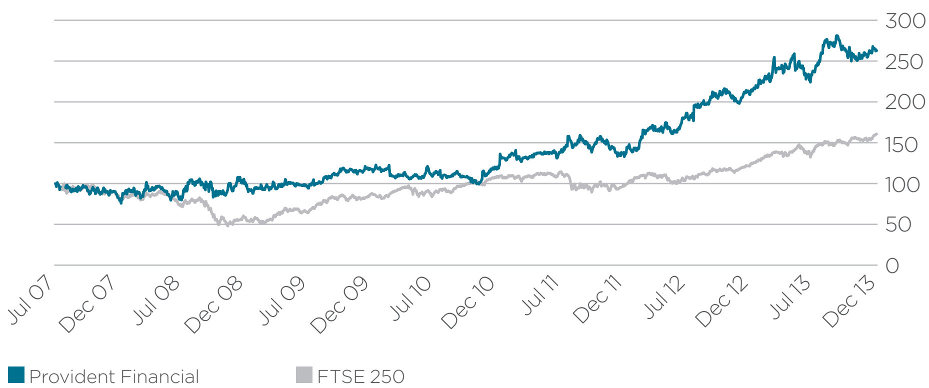
Chief executive relative pay

The table (4) opposite shows the percentage year-on-year change in salary, benefits and annual bonus earned between the year ended 31 December 2012 and the year ended 31 December 2013 for Peter Crook, the Chief Executive, compared to the average for the corporate office employees during the same period. The corporate office employees are considered to be a more suitable comparator group due to the range and composition of employees and the wide range of different remuneration structures and practices which operate across the group.

1. Total shareholder return: Provident Financial vs. FTSE 250 – 2008 to 2013



2. Total shareholder return: Provident Financial vs. FTSE 250 – 16.07.2007 to 31.12.2013



3. Chief Executive remuneration 2009-2013

	Year ended 31 December				
	2009	2010	2011	2012	2013
Single total figure of remuneration (£'000)	2,023	2,727	3,443	4,326	4,990
Annual bonus (%)	–	81	100	98	89
LTIS vesting (%)	100	66	49	100	100
PSP vesting (%)	–	100	79	–	100

4. Chief Executive relative pay

%	Salary	Benefits	Annual bonus
Chief Executive	2.3%	13.5%	(7.0)%
Average corporate office employee	4.9%	13.0%	(9.0)%

Across the group, the budgeted salary increase ranged from 0% to 3.5%.

Annual Report on Remuneration continued

Relative importance of spend on pay

The table below shows the total pay (including bonuses) for all the group's employees in the 2012 and 2013 financial years compared to the distributions made to shareholders in the same periods.

	Year ended 31 December 2013	Year ended 31 December 2012	% change
Total employee remuneration (£m)	115.9	114.3	1.4
Total shareholder distributions (£m)	108.4	96.1	12.8

Share ownership guidelines

The company has share ownership guidelines for executive directors which in 2013 required them to acquire and maintain shares in the company with a value of 125% 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 and 2013 PSP are not.

The executive directors complied with these guidelines as at 31 December 2013:

Director's name	Actual share ownership as a percentage of salary
Peter Crook	203%
Andrew Fisher	172%

Details of shares held by directors and their connected persons, are shown below.

Director	Type	Owned outright	Unvested: Subject to performance conditions	Unvested: Not subject to performance conditions	Total as at 31.12.13
Peter Crook	Own name	82,979	–	–	82,979
	Held in YBS Trustees (SIP)	8	–	–	8
	LTIS	–	334,943	–	334,943
	PSP	–	193,978	96,989	290,967
Total		**82,987**	**528,921**	**96,989**	**708,897**
Andrew Fisher	Own name	50,297	–	–	50,297
	Held in YBS Trustees (SIP)	8	–	–	8
	LTIS	–	239,368	–	239,368
	PSP	–	115,358	57,679	173,037
Total		**50,305**	**354,726**	**57,679**	**462,710**

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. 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 salary.

Pension entitlements

Details of the pension entitlements earned under the company's pension arrangements are set out on page 130.

Provident Financial Staff Pension Scheme

There are three directors (2012: three) for whom retirement benefits accrued in the year under the cash balance section of the Provident Financial Staff Pension Scheme (the pension scheme). The pension scheme is a defined benefit scheme with cash balance benefits.

Peter Crook was a member of the cash balance section of the pension scheme throughout 2013. Andrew Fisher was a member of the cash balance section of the pension scheme until 4 June 2013, when he transferred the value of his pension rights into a Self Invested Personal Pension (SIPP). Chris Gillespie was a deferred member of the cash balance section of the pension scheme from 3 April 2012. The Reduced Annual Allowance significantly impacts the benefits that can be received through the pension scheme on a tax-efficient basis. The accumulated cash balance credit increases each year by the lower of the increase in RPI plus 1.5% and 6.5%. At retirement, up to 25% of the total value of the director's retirement account can be taken as a lump sum, with the balance used to purchase an annuity. If the director dies in service, a death benefit of six times salary plus the value of the retirement account is payable.

Details of the pension entitlements earned under the cash balance section of the pension scheme are set out in the table on page 130.

Personal pension arrangements

John van Kuffeler had a defined contribution personal pension arrangement. A life assurance benefit of four times his fees was also provided by the company through its Group Life Scheme in the event of death in service. During 2013 the company contributed £29,900 (2012: £29,900) to his pension arrangement.

Andrew Fisher also has a personal pension arrangement to which the company contributed £18,364 in 2013 (2012: £38,391).

Unfunded Unapproved Retirement Benefits Scheme

The company operates an Unfunded Unapproved Retirement Benefits Scheme (UURBS) to provide cash balance benefits to those employees affected by the Reduced Annual Allowance. Details of the pension credits earned under the UURBS are set out in the table on page 130.

Cash supplement

A further option is for directors to receive a cash supplement in lieu of the benefits payable in excess of the Reduced Annual Allowance.

Benefits paid under the Cash Supplement are set out in the table on page 130.

Both the UURBS and the Cash Supplement can also be used where employees are affected by the HMRC Lifetime Allowance of £1.5m which is reducing to £1.25m from 6 April 2014.

Annual Report on Remuneration continued

	Age as at 31 December 2013	Normal retirement age[5]	Accrued retirement account as at 31 December[1]		Increase in retirement account[2]	
			2013	2012	2013	2012
Defined benefits			£'000	£'000	£'000	£'000
Cash balance						
Peter Crook	50	60	1,105	1,040	65	81
Andrew Fisher[3]	55	60	–	802	28	42
Chris Gillespie[4]	50	60	618	615	3	19
UURBS						
Peter Crook	50		553	356	197	173
Andrew Fisher	55		317	180	137	123
Non-defined benefits						
Cash Supplement						
Chris Gillespie	50		–	–	92	135
Self Invested Personal Pension						
Andrew Fisher	55		–	–	18	38
John van Kuffeler	65	65	–	–	30	30

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 2013 (which are included in the table of directors' remuneration on page 120) were: Peter Crook: £262,000; Andrew Fisher: £183,000 and Chris Gillespie: £95,000.
3 On 4 June 2013 Andrew Fisher opted out of the Cash Balance section of the Scheme and took a transfer value of £830,000 to his Self Invested Personal Pension.
4 Chris Gillespie ceased to be a director on 13 September 2013 and the values shown are as at that date.
5 Any request for early retirement will require the consent of the Trustees of the pension scheme.

Audit

The elements of the directors' remuneration (including pension entitlements and share options set out on pages 120 to 130 of this report) which are required to be audited, have been audited in accordance with the Companies Act.

This Annual Report on Remuneration has been approved by the remuneration committee and the board and signed on its behalf.

Manjit Wolstenholme
Chairman of the remuneration committee for the year ended 31 December 2013

25 February 2014

In this section...

Financial statements

Consolidated income statement

For the year ended 31 December

	Note	Group 2013 £m	Group 2012 (restated) £m
Revenue	1,2	**1,078.1**	980.0
Finance costs	3	**(74.2)**	(74.7)
Operating costs		**(559.5)**	(478.8)
Administrative costs		**(262.0)**	(232.5)
Administrative costs before exceptional items		**(248.3)**	(248.1)
Exceptional items	1	**(13.7)**	15.6
Total costs		**(895.7)**	(786.0)
Profit before taxation	1,4	**182.4**	194.0
Profit before taxation and exceptional items	1,4	**196.1**	178.4
Exceptional items	1	**(13.7)**	15.6
Tax charge	5	**(41.4)**	(48.0)
Profit for the year attributable to equity shareholders		**141.0**	146.0

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Group 2013 £m	Group 2012 (restated) £m
Profit for the year attributable to equity shareholders		**141.0**	146.0
Other comprehensive income:			
– cash flow hedges	16	**2.7**	(0.6)
– actuarial movements on retirement benefit asset	18	**(3.9)**	(11.4)
– exchange differences on translation of foreign operations		**(0.2)**	–
– tax on items taken directly to other comprehensive income	5	**0.3**	2.8
– impact of change in UK tax rate	5	**0.3**	(0.1)
Other comprehensive income for the year		**(0.8)**	(9.3)
Total comprehensive income for the year		**140.2**	136.7

Earnings per share

For the year ended 31 December

	Note	Group 2013 pence	Group 2012 (restated) pence
Basic	6	**104.2**	108.9
Diluted	6	**102.2**	106.9

Dividends per share

For the year ended 31 December

	Note	Group 2013 pence	Group 2012 pence
Proposed final dividend	7	54.0	48.4
Total dividend for the year	7	85.0	77.2
Paid in the year*	7	79.4	71.1

*The total cost of dividends paid in the year was £108.4m (2012: £96.1m).

Balance sheets

As at 31 December

		Group		Company		
	Note	2013 £m	2012 £m	2013 £m	2012 (restated) £m	2011 (restated) £m
ASSETS						
Non-current assets						
Goodwill	10	**–**	–	**–**	–	–
Other intangible assets	11	**8.1**	9.5	**–**	–	–
Property, plant and equipment	12	**22.8**	23.9	**7.7**	8.9	9.8
Investment in subsidiaries	13	**–**	–	**376.8**	376.0	375.3
Financial assets:						
– amounts receivable from customers	14	**79.7**	97.5	**–**	–	–
– derivative financial instruments	16	**–**	8.1	**–**	–	–
– trade and other receivables	17	**–**	–	**930.3**	842.2	649.0
Retirement benefit asset	18	**29.2**	23.0	**29.2**	23.0	13.5
Deferred tax assets	19	**3.5**	6.1	**–**	–	1.3
		143.3	168.1	**1,344.0**	1,250.1	1,048.9
Current assets						
Financial assets:						
– amounts receivable from customers	14	**1,526.9**	1,416.3	**–**	–	–
– derivative financial instruments	16	**5.5**	–	**–**	–	–
– cash and cash equivalents	20	**119.0**	79.1	**13.6**	2.6	2.1
– trade and other receivables	17	**15.5**	23.0	**569.5**	674.7	719.4
		1,666.9	1,518.4	**583.1**	677.3	721.5
Total assets	1	**1,810.2**	1,686.5	**1,927.1**	1,927.4	1,770.4
LIABILITIES						
Current liabilities						
Financial liabilities:						
– bank and other borrowings	21	**(121.2)**	(169.8)	**(2.9)**	(7.4)	(16.3)
– derivative financial instruments	16	**–**	(2.0)	**(6.7)**	–	–
– trade and other payables	22	**(65.8)**	(60.6)	**(178.6)**	(174.2)	(121.1)
Current tax liabilities		**(36.3)**	(37.7)	**(2.7)**	(3.5)	(6.0)
		(223.3)	(270.1)	**(190.9)**	(185.1)	(143.4)
Non-current liabilities						
Financial liabilities:						
– bank and other borrowings	21	**(1,163.4)**	(1,031.6)	**(796.7)**	(771.9)	(594.4)
– derivative financial instruments	16	**(6.7)**	(9.4)	**–**	(9.4)	(9.5)
– trade and other payables	22	**–**	–	**–**	(48.6)	(86.9)
Deferred tax liabilities	19	**–**	–	**(2.8)**	(0.9)	–
		(1,170.1)	(1,041.0)	**(799.5)**	(830.8)	(690.8)
Total liabilities	1	**(1,393.4)**	(1,311.1)	**(990.4)**	(1,015.9)	(834.2)
NET ASSETS	1	**416.8**	375.4	**936.7**	911.5	936.2
SHAREHOLDERS' EQUITY						
Share capital	23	**28.9**	28.7	**28.9**	28.7	28.5
Share premium		**150.6**	148.1	**150.6**	148.1	146.0
Other reserves	25	**17.2**	13.2	**627.7**	623.7	619.4
Retained earnings		**220.1**	185.4	**129.5**	111.0	142.3
TOTAL EQUITY		**416.8**	375.4	**936.7**	911.5	936.2

The financial statements on pages 132 to 192 were approved by the board of directors on 25 February 2014 and signed on its behalf by:

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

Company Number - 668987

Statements of changes in shareholders' equity

Group	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings (restated) £m	Total (restated) £m
At 1 January 2012		28.5	146.0	9.4	142.3	326.2
Profit for the year		–	–	–	146.0	146.0
Other comprehensive income:						
– cash flow hedges	16	–	–	(0.6)	–	(0.6)
– actuarial movements on retirement benefit asset	18	–	–	–	(11.4)	(11.4)
– tax on items taken directly to other comprehensive income	5	–	–	0.1	2.7	2.8
– impact of change in UK tax rate	5	–	–	(0.1)	–	(0.1)
Other comprehensive income for the year		–	–	(0.6)	(8.7)	(9.3)
Total comprehensive income for the year		–	–	(0.6)	137.3	136.7
Transactions with owners:						
– issue of share capital	23	0.2	2.1	–	–	2.3
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	3.7	(3.7)	–
– share-based payment charge	24	–	–	6.4	–	6.4
– transfer of share-based payment reserve		–	–	(5.6)	5.6	–
– dividends	7	–	–	–	(96.1)	(96.1)
At 31 December 2012		28.7	148.1	13.2	185.4	375.4
At 1 January 2013		**28.7**	**148.1**	**13.2**	**185.4**	**375.4**
Profit for the year		**–**	**–**	**–**	**141.0**	**141.0**
Other comprehensive income:						
– cash flow hedges	16	**–**	**–**	**2.7**	**–**	**2.7**
– actuarial movements on retirement benefit asset	18	**–**	**–**	**–**	**(3.9)**	**(3.9)**
– exchange differences on translation of foreign operations		**–**	**–**	**–**	**(0.2)**	**(0.2)**
– tax on items taken directly to other comprehensive income	5	**–**	**–**	**(0.6)**	**0.9**	**0.3**
– impact of change in UK tax rate	5	**–**	**–**	**(0.2)**	**0.5**	**0.3**
Other comprehensive income for the year		**–**	**–**	**1.9**	**(2.7)**	**(0.8)**
Total comprehensive income for the year		**–**	**–**	**1.9**	**138.3**	**140.2**
Transactions with owners:						
– issue of share capital	23	**0.2**	**2.5**	**–**	**–**	**2.7**
– purchase of own shares		**–**	**–**	**(0.5)**	**–**	**(0.5)**
– transfer of own shares on vesting of share awards		**–**	**–**	**0.6**	**(0.6)**	**–**
– share-based payment charge	24	**–**	**–**	**7.4**	**–**	**7.4**
– transfer of share-based payment reserve		**–**	**–**	**(5.4)**	**5.4**	**–**
– dividends	7	**–**	**–**	**–**	**(108.4)**	**(108.4)**
At 31 December 2013		**28.9**	**150.6**	**17.2**	**220.1**	**416.8**

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to International Financial Reporting Standards (IFRS). Accordingly, retained earnings are shown after directly writing off cumulative goodwill of £1.6m (2012: £1.6m). In addition, cumulative goodwill of £2.3m (2012: £2.3m) has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 25.

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings (restated) £m	Total (restated) £m
At 1 January 2011 as previously reported		28.1	144.0	610.7	130.0	912.8
Prior year adjustment		–	–	–	20.7	20.7
At 1 January 2011 as restated		28.1	144.0	610.7	150.7	933.5
Profit for the year		–	–	–	105.4	105.4
Other comprehensive income:						
– cash flow hedges		–	–	1.6	–	1.6
– actuarial movements on retirement benefit asset	18	–	–	–	(32.2)	(32.2)
– tax on items taken directly to other comprehensive income		–	–	(0.4)	8.6	8.2
– impact of change in UK tax rate		–	–	(0.2)	–	(0.2)
Other comprehensive income for the year		–	–	1.0	(23.6)	(22.6)
Total comprehensive income for the year		–	–	1.0	81.8	82.8
Transactions with owners:						
– issue of share capital		0.4	2.0	–	–	2.4
– purchase of own shares		–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards		–	–	6.2	(6.2)	–
– share-based payment charge		–	–	4.0	–	4.0
– share-based payment movement in investment in subsidiaries		–	–	0.5	–	0.5
– transfer of share-based payment reserve		–	–	(2.8)	2.8	–
– dividends		–	–	–	(86.8)	(86.8)
At 31 December 2011		28.5	146.0	619.4	142.3	936.2
At 1 January 2012		28.5	146.0	619.4	142.3	936.2
Profit for the year		–	–	–	74.1	74.1
Other comprehensive income:						
– cash flow hedges	16	–	–	0.1	–	0.1
– actuarial movements on retirement benefit asset	18	–	–	–	(11.4)	(11.4)
– tax on items taken directly to other comprehensive income		–	–	(0.1)	2.7	2.6
– impact of change in UK tax rate		–	–	(0.1)	–	(0.1)
Other comprehensive income for the year		–	–	(0.1)	(8.7)	(8.8)
Total comprehensive income for the year		–	–	(0.1)	65.4	65.3
Transactions with owners:						
– issue of share capital	23	0.2	2.1	–	–	2.3
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	3.7	(3.7)	–
– share-based payment charge	24	–	–	3.3	–	3.3
– share-based payment movement in investment in subsidiaries	13	–	–	0.6	–	0.6
– transfer of share-based payment reserve		–	–	(3.1)	3.1	–
– dividends	7	–	–	–	(96.1)	(96.1)
At 31 December 2012		28.7	148.1	623.7	111.0	911.5

Statements of changes in shareholders' equity continued

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings (restated) £m	Total (restated) £m
At 1 January 2013		28.7	148.1	623.7	111.0	911.5
Profit for the year		–	–	–	127.6	127.6
Other comprehensive income:						
– cash flow hedges	16	–	–	2.7	–	2.7
– actuarial movements on retirement benefit asset	18	–	–	–	(3.9)	(3.9)
– tax on items taken directly to other comprehensive income		–	–	(0.6)	0.9	0.3
– impact of change in UK tax rate		–	–	(0.2)	0.5	0.3
Other comprehensive income for the year		–	–	1.9	(2.5)	(0.6)
Total comprehensive income for the year		–	–	1.9	125.1	127.0
Transactions with owners:						
– issue of share capital	23	0.2	2.5	–	–	2.7
– purchase of own shares		–	–	(0.5)	–	(0.5)
– transfer of own shares on vesting of share awards		–	–	0.6	(0.6)	–
– share-based payment charge	24	–	–	3.6	–	3.6
– share-based payment movement in investment in subsidiaries	13	–	–	0.8	–	0.8
– transfer of share-based payment reserve		–	–	(2.4)	2.4	–
– dividends	7	–	–	–	(108.4)	(108.4)
At 31 December 2013		28.9	150.6	627.7	129.5	936.7

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 £127.6m (2012 restated: £74.1m).

Other reserves are further analysed in note 25.

Statements of cash flows

For the year ended 31 December

	Note	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Cash flows from operating activities					
Cash generated from operations	29	**183.8**	89.6	**107.5**	48.8
Finance costs paid		**(70.0)**	(73.1)	**(56.5)**	(66.7)
Finance income received		**–**	–	**81.4**	87.3
Tax paid		**(39.6)**	(46.3)	**–**	(8.5)
Net cash generated from/(used in) operating activities		**74.2**	(29.8)	**132.4**	60.9
Cash flows from investing activities					
Purchase of intangible assets	11	**(3.0)**	(1.6)	**–**	–
Purchase of property, plant and equipment	12	**(7.3)**	(7.1)	**(0.4)**	(0.9)
Proceeds from disposal of property, plant and equipment	12	**1.5**	1.3	**0.4**	0.6
Long-term loans provided to subsidiaries		**–**	–	**(88.1)**	(200.0)
Repayment of long-term loans by subsidiaries		**–**	–	**–**	6.8
Dividends received from subsidiaries		**–**	–	**105.0**	55.0
Net cash (used in)/generated from investing activities		**(8.8)**	(7.4)	**16.9**	(138.5)
Cash flows from financing activities					
Proceeds from bank and other borrowings		**287.6**	531.8	**65.0**	310.6
Repayment of bank and other borrowings		**(206.8)**	(363.2)	**(43.3)**	(129.7)
Dividends paid to company shareholders	7	**(108.4)**	(96.1)	**(108.4)**	(96.1)
Proceeds from issue of share capital	23	**2.7**	2.3	**2.7**	2.3
Purchase of own shares	25	**(0.5)**	(0.1)	**(0.5)**	(0.1)
Repayment of loans from subsidiaries		**–**	–	**(49.3)**	–
Net cash (used in)/generated from financing activities		**(25.4)**	74.7	**(133.8)**	87.0
Net increase in cash, cash equivalents and overdrafts		**40.0**	37.5	**15.5**	9.4
Cash, cash equivalents and overdrafts at beginning of year		**69.7**	32.2	**(4.8)**	(14.2)
Cash, cash equivalents and overdrafts at end of year		**109.7**	69.7	**10.7**	(4.8)
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	20	**119.0**	79.1	**13.6**	2.6
Overdrafts (held in bank and other borrowings)	21	**(9.3)**	(9.4)	**(2.9)**	(7.4)
Total cash, cash equivalents and overdrafts		**109.7**	69.7	**10.7**	(4.8)

Cash at bank and in hand includes £86.3m (2012: £52.3m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the Prudential Regulation Authority's (PRA) liquidity regime (see note 20). 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 2013 on this basis was £139.2m (2012: £107.7m) compared with a dividend payable in respect of 2013 of £116.0m (2012: £104.9m).

Statement of accounting policies

General information

The company is a public limited company incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU. The company is listed on the London Stock Exchange.

Basis of preparation

The financial statements are prepared in accordance with IFRS adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the group and company's accounting policies.

The group and company's principal accounting policies under IFRS, which have been consistently applied to all the years presented unless otherwise stated, are set out below:

(a) New and amended standards adopted by the group and company:

IAS 19, 'Employee Benefits' was amended in June 2011 and was applicable from 1 January 2013 with retrospective application required. The changes to the standard require the group and company to calculate its annual pension charge as the current service cost plus or minus the discount rate applied to the net pension asset. This replaces the previous calculation which was the current service cost plus the expected return on plan assets less the unwinding of the discount rate on liabilities. In effect, this requires the group and company to replace its long-term rate of return on assets assumption with its discount rate thereby reducing the assumed return on assets and increasing the pension charge. The retrospective application results in an increase in administrative costs and, therefore, a reduction in earnings with a corresponding adjustment to the actuarial movement on the retirement benefit asset taken through the statement of comprehensive income. There is, therefore, no balance sheet impact. The impact of the retrospective application of the revised IAS 19 is set out in note 18. In addition, the group has undertaken a full review of the treatment of retirement benefits within the company and its subsidiaries. This has resulted in a change in the treatment of the allocation of the group's retirement benefit asset between the company and its subsidiaries resulting in the full group retirement benefit asset being recognised within the company. Further explanation is set out in note 18. The change in treatment has resulted in the 2012 comparatives of the company being restated. As the change in treatment is not the result of the adoption of a new accounting standard, 2011 restated comparatives have also been included in the balance sheet, the statement of changes in shareholders' equity and the retirement benefit asset and deferred tax notes, as these are the areas of the financial statements affected by the change in treatment.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the group's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 has been adopted from its effective date of 1 January 2013. As all of the subsidiaries within the group are wholly-owned, there has been no impact on the group's consolidated financial statements.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 has been adopted from its effective date of 1 January 2013. As all of the subsidiaries within the group are wholly-owned, there has been no impact on the group's consolidated financial statements.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. IFRS 13 has been adopted from its effective date of 1 January 2013. There has been no material impact on the measurement of fair values within the group or company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not early adopted:

'Offsetting financial assets and financial liabilities (amendments to IAS 32)' clarifies the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial instruments: Presentation'. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to a net settlement. The amendment will be adopted from its effective date of 1 January 2014 and will not have a material impact on the group or company.

'Recoverable amount disclosures (amendments to IAS 36 (May 2013))' are narrow-scope amendments to IAS 36 'Impairment of assets'. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment will be adopted from its effective date of 1 January 2014 and will not have a material impact on the group or company.

Basis of preparation (continued)

'Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)' are narrow-scope amendments which allow hedge accounting to continue in a situation where a derivative financial instrument, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendment will be adopted from its effective date of 1 January 2014 and is not expected to have a material impact on the group or company.

'Defined benefit plans: Employee contributions (amendments to IAS 19 (Nov 2013))' simplifies the accounting for contributions that are independent of the number of years of employee service (e.g. employee contributions that are calculated according to a fixed percentage of salary). The amendment is mandatory for accounting periods starting on or after 1 July 2014. The amendment will be adopted from 1 January 2015, subject to endorsement by the EU, and is not expected to have a material impact on the group or company.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was originally issued in November 2009, reissued in October 2010, and then amended in November 2013. The current version of IFRS 9 does not include a mandatory effective date. This will be added when all phases of the project are complete and a final version of IFRS 9 is issued. The group and company continues to assess the updates to the project and will adopt the standard in line with the mandatory effective date when determined, 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).

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, 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.

Statement of accounting policies continued

Goodwill

All acquisitions are accounted for using the purchase method of accounting.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cash flows from the relevant cash-generating unit. Expected future cash flows are derived from the group's latest budget projections and the discount rate is based on the group's weighted average cost of capital at the balance sheet date.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

Other intangible assets

Other intangible assets, which comprise stand-alone computer software and computer software development costs, represent the costs incurred to acquire or develop the specific software and bring it into use. These are valued at cost less subsequent amortisation.

Directly attributable costs associated with the development of software that will generate future economic benefits are capitalised as an intangible asset. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software is amortised on a straight-line basis over its estimated useful economic life which is generally estimated to be between five and 10 years.

The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Amortisation is charged to the income statement as part of administrative costs.

Foreign currency translation

Items included in the financial statements of each of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The group's subsidiaries primarily operate in the UK and Republic of Ireland, with a pilot credit card operation in Poland. The consolidated and company financial statements are presented in sterling, which is the company's functional and presentational currency.

Transactions that are not denominated in the group's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as effective cash flow hedges.

If a foreign operation were to be disposed of, the cumulative amount of the differences arising on translation recognised in other comprehensive income would be recognised in the income statement when the gain or loss on disposal is recognised.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Impairment is calculated by comparing the carrying value of the investment to the higher of the net asset value of the relevant subsidiary and its discounted expected future cash flows.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the group and company are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

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 criterion for determining whether there is objective evidence of impairment is delinquency in contractual payments.

Within Vanquis Bank, where repayments are typically made monthly, customer balances are deemed to be impaired when one monthly contractual payment is missed. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cash flows discounted at the original effective interest rate. Estimated future cash flows are based on the historical performance of customer balances falling into different arrears stages and are regularly reassessed.

Separate provisions are raised where forbearance is provided to the customer and alternative payment arrangements are established. Accounts under payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows to predict future expected cash flows which are discounted at the original effective interest rate.

Within the weekly home credit business of CCD, objective evidence of impairment is based on the payment performance of loans in the previous 12 weeks as this is considered to be the most appropriate indicator of credit quality. Loans are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate significantly. Loans with one missed weekly payment over the previous 12-week period are not deemed to be impaired. The amount of impairment loss is calculated on a portfolio basis by reference to arrears stages and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate. Subsequent cash flows are regularly compared to estimated cash flows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

In Vanquis Bank, 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	2 ½	Straight line
Short leasehold buildings	Over the lease period	Straight line
Equipment (including computer hardware)	10 to 33 ⅓	Straight line
Motor vehicles	25	Reducing balance

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying value of the asset and are recognised within administrative costs in the income statement.

Depreciation is charged to the income statement as part of administrative costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand which includes amounts invested in money market funds and UK government gilts held in accordance with the PRA's liquidity regime. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Statement of accounting policies continued

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.

Derivative financial instruments

The group and company use derivative financial instruments, principally interest rate swaps, cross-currency swaps and forward contracts, to manage the interest rate and foreign exchange rate risk arising from the group's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39, 'Financial instruments: Recognition and measurement'. Derivative financial instruments that meet the hedge accounting requirements of IAS 39 are accordingly designated as either: hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operations.

The relationship between hedging instruments and hedged items is documented at the inception of a transaction, as well as the risk management objectives and strategy for undertaking various hedging transactions. The assessment of whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items is documented, both at the hedge inception and on an ongoing basis.

Derivative financial instruments are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date to their fair value. Where derivative financial instruments do not qualify for hedge accounting, movements in the fair value are recognised immediately within the income statement. Where hedge accounting criteria have been met, the resultant gain or loss on the derivative financial instrument is recognised as follows:

Fair value hedges

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement as part of finance costs, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts deferred in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Hedge accounting for both fair value and cash flow hedges is discontinued when:

- it is evident from testing that a derivative financial instrument is not, or has ceased to be, highly effective as a hedge; or
- the derivative financial instrument expires, or is sold, terminated or exercised; or
- the underlying hedged item matures or is sold or repaid.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss deferred in equity at that time is immediately transferred to the income statement.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve in shareholders' equity are shown in note 25. 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.

Provisions

Provisions are recognised when the group or company has a present obligation as a result of a past event, which is reliably measurable and when it is probable that the group or company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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-based payments

The company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS). All of the schemes are equity-settled.

The cost of providing options and awards to group and company employees is charged to the income statement of the group and company over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The grant by the company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the company's financial statements. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding credit to the share-based payment reserve within equity.

The cost of options and awards is based on their fair value. For PSP schemes, the performance conditions are based on earnings per share (EPS). Accordingly, the fair value of options and awards is determined using a binomial option pricing model which is a suitable model for valuing options with internal related targets such as EPS. A binomial model is also used for calculating the fair value of SAYE options which have no performance conditions attached. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

Statement of accounting policies continued

Share-based payments (continued)

For LTIS schemes, performance conditions are based on either divisional profit before tax, EPS or TSR targets. Accordingly, the fair value of awards is determined using a combination of the binomial and Monte Carlo option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses. Where the Monte Carlo option pricing model is used to determine fair value, no adjustment is made to reflect expected or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest or lapse. In respect of the SAYE options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised or lapse.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is included within a treasury shares reserve and deducted from equity until the shares are no longer held by a group company or cancelled. Where such shares are reissued outside of the group, any consideration received, net of any directly attributable transaction costs, is included within the treasury shares reserve.

Taxation

The tax charge represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Exceptional items

Exceptional items are items that are unusual because of their size, nature or incidence and which the directors consider should be disclosed separately to enable a full understanding of the group's results.

Supplementary information

In order to assist shareholders and other users of the group's financial statements, supplementary commentary has been provided within the group's financial statements within highlighted boxes. This supplementary information does not form part of the statutory, audited financial statements.

Key assumptions and estimates

In applying the accounting policies set out above, the group and company make significant estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

Amounts receivable from customers (£1,606.6m)
The group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable indication of future payment performance. The group makes judgements to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows.

Customer accounts in Vanquis Bank are deemed to be impaired when one contractual monthly payment has been missed. In the weekly home credit business, receivables are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly.

The level of impairment in both 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 £16m (2012: £15m) higher/lower.

Tax (current tax liabilities £36.3m, deferred tax assets £3.5m)
The tax treatment of certain items cannot be determined precisely until tax audits or enquiries have been completed by the tax authorities. In some instances, this can be years after the item has first been reflected in the financial statements. The group recognises liabilities for anticipated tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due. If the outcome of such audits is that the final liability is different from the amount originally estimated, such differences will be recognised in the period in which the tax audit or enquiry is concluded. Any differences may necessitate a material adjustment to the level of tax balances held in the balance sheet.

If the probability assessment of uncertain tax liabilities was adjusted by +/– 5%, it is estimated that the group's tax liabilities would be £1.0m (2012: £0.9m) higher/lower.

Retirement benefit asset (£29.2m)
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 18.

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. These risks are monitored and managed through a centralised treasury function on a group basis. Accordingly, it would not be relevant to disclose the impact of these risks on an individual statutory entity basis.

Financial risk management is overseen by the risk advisory committee. Further details of the group's risk management framework are described on pages 85 to 91.

(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 2013 is the carrying value of amounts receivable from customers of £1,606.6m (2012: £1,513.8m).

Vanquis Bank

Credit risk within Vanquis Bank is managed by the Vanquis Bank credit committee which meets at least quarterly and is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy.

A customer's risk profile and 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 £250. For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders' data. Credit lines can go up as well as down according to this point-in-time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing or appropriate forbearance arrangements are put in place.

CCD

Credit risk within CCD is managed by the CCD credit committee which meets at least every two months and is responsible for approving credit control policy and decisioning strategy.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, and a home visit to make a decision on applications for credit.

The loans offered by the weekly home credit business are short-term, typically a contractual period of around a year, with an average value of approximately £500. The loans are underwritten in the home by an agent with emphasis placed on any previous lending experience with the customer and the agent's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the agent visits the customer weekly, or in some cases monthly, to collect payment. The agent is well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the agent has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This can be in the form of taking part-payments, allowing missed payments or occasionally restructuring the debt in order to maximise cash collections.

Agents are primarily paid commission for what they collect and not for what they lend, so their main focus is on ensuring loans are affordable at the point of issue and then on collecting cash. Affordability is reassessed by the agent each time an existing customer is re-served, or not as the case may be. This normally takes place within 12 months of the previous loan because of the short-term nature of the product.

Arrears management within the home credit business is a combination of central letters, central telephony, and field activity undertaken by field management. This will often involve a home visit to discuss the customer's reasons for non-payment and to agree a suitable resolution.

(a) Credit risk (continued)

(ii) Bank counterparties

The group's maximum exposure to credit risk on bank counterparties as at 31 December 2013 was £21.1m (2012: £15.4m).

Counterparty credit risk arises as a result of cash deposits placed with banks and the use of derivative financial instruments with banks and other financial institutions which are used to hedge interest rate risk and foreign exchange rate risk.

Counterparty credit risk is managed by the group's treasury committee and is governed by a board-approved counterparty policy which ensures that the group's cash deposits and derivative financial instruments are only made with high-quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, regardless of credit rating. This is linked to the group's regulatory capital base in line with the group's regulatory reporting requirements on large exposures to the PRA.

(b) Liquidity risk

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

Liquidity risk is managed by the group's centralised treasury department through daily monitoring of expected cash flows in accordance with a board-approved group funding and liquidity policy. This process is monitored regularly by the treasury committee.

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fund 90% of its receivables book through retail deposits. As at 31 December 2013, the group's committed borrowing facilities had a weighted average maturity of 3.2 years (2012: 3.7 years) and the headroom on these committed facilities amounted to £235.2m (2012: £191.9m).

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the group's borrowings extend over a number of years.

As a PRA-regulated institution, Vanquis Bank is required to maintain a liquid assets buffer, and other liquid resources, in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. As at 31 December 2013, the liquid assets buffer, including other liquidity resources, held by Vanquis Bank amounted to £86.3m (2012: £52.3m).

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 2015 (note - the syndicated revolving bank facility was renewed on 31 January 2014 and now has a maturity date of May 2017).

Financial liabilities

2013 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– bank facilities	7.3	168.1	–	–	–	175.4
– senior public bonds	–	20.0	20.0	60.0	270.0	370.0
– private placement loan notes	–	43.8	16.6	78.0	69.5	207.9
– subordinated loan notes	–	0.3	6.3	–	–	6.6
– retail bonds	–	18.0	18.0	207.9	104.7	348.6
– retail deposits	–	75.4	115.0	281.1	–	471.5
Total bank and other borrowings	7.3	325.6	175.9	627.0	444.2	1,580.0
Derivative financial instruments – settled net	–	3.5	3.4	0.8	–	7.7
Trade and other payables	–	65.8	–	–	–	65.8
Total	7.3	394.9	179.3	627.8	444.2	1,653.5

Financial and capital risk management continued

(b) Liquidity risk (continued)

Financial assets

2013 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled gross	–	6.2	–	–	–	6.2
Derivative financial instruments – settled net	–	0.1	–	–	–	0.1
Trade and other receivables	–	15.5	–	–	–	15.5
Total	–	21.8	–	–	–	21.8

Financial liabilities

2012 – 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	5.4	192.0	–	–	–	197.4
– senior public bonds	–	20.0	20.0	60.0	290.0	390.0
– private placement loan notes	–	55.8	41.6	48.2	117.3	262.9
– subordinated loan notes	–	0.3	0.3	6.4	–	7.0
– retail bonds	–	14.0	14.0	208.4	29.9	266.3
– retail deposits	–	120.4	56.5	190.5	–	367.4
Total bank and other borrowings	5.4	402.5	132.4	513.5	437.2	1,491.0
Derivative financial instruments – settled net	–	3.2	3.1	3.6	–	9.9
Trade and other payables	–	60.6	–	–	–	60.6
Total	5.4	466.3	135.5	517.1	437.2	1,561.5

Financial assets

2012 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled gross	–	(0.1)	7.0	–	–	6.9
Trade and other receivables	–	23.0	–	–	–	23.0
Total	–	22.9	7.0	–	–	29.9

(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 2013 and 2012 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged.

(d) Foreign exchange rate risk
Foreign exchange rate risk is the risk of a change in foreign currency exchange rates leading to a reduction in profits or equity.

The group's exposure to movements in foreign exchange rates is monitored monthly by the treasury committee and is governed by a board-approved foreign exchange rate risk management policy which forms part of the group's treasury policies.

The group's exposures to foreign exchange rate risk arise solely from: (i) the issuance of US dollar private placement loan notes, which are fully hedged into sterling through the use of cross-currency swaps; and (ii) the home credit operations in the Republic of Ireland and the Vanquis Bank operations in Poland, which are hedged by matching euro/zloty-denominated net assets with euro/zloty-denominated borrowings or forward contracts as closely as practicable.

As at 31 December 2013, a 2% movement in the sterling to US dollar exchange rate would have led to a £nil (2012: £0.9m) movement in external borrowings with an opposite movement of £nil (2012: £0.9m) in the hedging reserve within equity. Due to the hedging arrangements in place, there would have been no impact on reported profits (2012: £nil).

As at 31 December 2013, a 2% movement in the sterling to euro exchange rate would have led to a £1.1m (2012: £1.1m) movement in customer receivables with an opposite movement of £1.1m (2012: £1.1m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been a £nil impact on reported profits and equity (2012: £nil).

As at 31 December 2013, a 2% movement in the sterling to zloty exchange rate would have led to a £nil (2012: £nil) movement in customer receivables with an opposite movement of £nil (2012: £nil) in the valuation of forward contracts. Due to the net investment hedge in place, there would have been no impact on reported profits or equity (2012: £nil).

(e) Market risk
Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Capital risk management
The group's objective in respect of capital risk management is to maintain an efficient capital structure whilst satisfying the requirements of the group's banking covenants and the regulatory capital requirements set by the PRA. The group primarily manages its capital base against two measures as described below:

(a) Gearing
In order to maintain an efficient capital structure, the group has a maximum target gearing ratio of 3.5 times. This provides a comfortable level of headroom against the group's banking covenant of 5.0 times and regulatory capital requirements. The maximum target gearing ratio of 3.5 times is fully aligned with the group's target of distributing 80% of post-tax earnings by way of dividends whilst retaining sufficient capital to support receivables growth consistent with management's medium-term growth plans for the group.

As at 31 December 2013, the gearing ratio stood at 3.0 times (2012: 3.2 times), calculated as follows:

Group	Note	2013 £m	2012 £m
Borrowings	21	**1,284.6**	1,201.4
Exchange rate adjustment	21	**(5.2)**	(5.8)
Arrangement fees	21	**7.2**	9.8
Liquid assets buffer, including other liquid resources	20	**(86.3)**	(52.3)
Borrowings for gearing purposes		**1,200.3**	1,153.1
Shareholders' equity		**416.8**	375.4
Pension asset	18	**(29.2)**	(23.0)
Deferred tax on pension asset	19	**5.8**	5.3
Hedging reserve	25	**5.1**	7.0
Equity for gearing purposes		**398.5**	364.7
Gearing (times)		**3.0**	3.2

The gearing ratio is lower than the maximum target of 3.5 times due to the strong capital generation of the group and the contraction in CCD's receivables book during 2013.

Financial and capital risk management continued

Capital risk management (continued)

(b) Regulatory capital

The group is the subject of consolidated supervision by the PRA. As part of this supervision, it is required to maintain a certain level of regulatory capital (known as its Individual Capital Guidance (ICG)) in order to mitigate against unexpected losses. The ICG remains confidential between the PRA and the relevant institution and should not be publicly disclosed.

Regulatory capital differs from the group's shareholders' equity included in the balance sheet as it excludes intangible assets, the group's pension asset and the fair value of derivative financial instruments, both net of deferred tax, but includes the group's subordinated loan notes.

A reconciliation of the group's equity to regulatory capital is set out below:

Group	Note	2013 £m	2012 £m
Shareholders' equity		**416.8**	375.4
Intangible assets	11	**(8.1)**	(9.5)
Pension asset	18	**(29.2)**	(23.0)
Deferred tax on pension asset	19	**5.8**	5.3
Hedging reserve	25	**5.1**	7.0
Tier 1 capital		**390.4**	355.2
Tier 2 capital – subordinated loan notes		**2.4**	3.6
Total regulatory capital held		**392.8**	358.8

When tier 2 subordinated loan notes have less than five years until maturity, the amount eligible for inclusion within regulatory capital reduces by 20% per annum for each year. Accordingly, the amount of the subordinated loan notes eligible for regulatory capital purposes as at 31 December 2013 amounts to 40% of the balance outstanding (2012: 60%).

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 twice annually to the PRA on the level of regulatory capital it holds. As at 31 December 2013, the group's total regulatory capital of £392.8m (2012: £358.8m) was comfortably in excess of the ICG set by the PRA.

Notes to the financial statements

1 Segment reporting

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The group's chief operating decision maker is deemed to be the executive committee comprising both Peter Crook (Chief Executive), and Andrew Fisher (Finance Director) whose primary responsibility it is to manage the group's day-to-day operations and analyse trading performance. The group's segments comprise Vanquis Bank, CCD 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	**2013 £m**	2012 £m	**2013 £m**	2012 (restated) £m
Vanquis Bank	**381.0**	283.1	**106.1**	68.0
CCD	**697.1**	696.9	**102.5**	122.9
Central costs	**–**	–	**(12.5)**	(12.5)
Total group before exceptional items	**1,078.1**	980.0	**196.1**	178.4
Exceptional items	**–**	–	**(13.7)**	15.6
Total group	**1,078.1**	980.0	**182.4**	194.0

The 34.6% growth in revenue in Vanquis Bank in 2013 reflects the 22.2% increase in UK customer numbers in the year together with the continued success of the credit line increase programme to existing customers. Revenue in CCD was in line with 2012 despite a 7.3% fall in average receivables due to the revenue yield strengthening to 96.0% from 89.0%. This reflects the shift in mix of loans resulting primarily from the reduction in demand for longer duration loans which carry a lower yield than shorter-term products.

Central costs reflect the cost of the group's corporate office including legal, finance, treasury, tax, pensions, internal audit, community programme and media and corporate affairs costs. The costs of £12.5m in 2013 were unchanged on 2012, reflecting higher share-based payment charges offset by a reduction in costs following the departure of Chris Gillespie during the year.

During the year, the group has mandatorily adopted the revised IAS 19, 'Employee Benefits' (see note 18). The retrospective application of the revised standard has resulted in a restatement of the 2012 group and divisional profit/(loss) before tax and exceptional items as follows:

Group	Previously reported £m	Adjustment £m	Restated £m
Vanquis Bank	68.0	–	68.0
CCD	125.1	(2.2)	122.9
Central	(12.0)	(0.5)	(12.5)
Total group profit before tax and exceptional items	181.1	(2.7)	178.4

An exceptional item of £13.7m has been incurred in 2013 relating to the cost of a business restructuring within CCD, including the redundancy costs of £12.6m associated with a headcount reduction of 520. The exceptional cost is stated net of an exceptional curtailment credit of £1.6m associated with those employees made redundant who were part of the group's defined benefit pension scheme (see note 18). The exceptional credit in 2012 comprised: (i) a £17.7m curtailment credit in respect of the group's defined benefit pension scheme (see note 18); and (ii) a £2.1m charge relating to the impairment of goodwill in respect of Cheque Exchange Limited, a business originally acquired in 2001 and now subsumed within CCD (see note 10).

All of the above activities relate to continuing operations. Revenue between business segments is not material.

	Segment assets		Segment liabilities		Net assets	
Group	**2013 £m**	2012 (restated) £m	**2013 £m**	2012 (restated) £m	**2013 £m**	2012 (restated) £m
Vanquis Bank	**969.8**	716.1	**(753.3)**	(564.1)	**216.5**	152.0
CCD	**783.8**	930.0	**(612.5)**	(724.5)	**171.3**	205.5
Central	**85.4**	71.7	**(56.4)**	(53.8)	**29.0**	17.9
Total before intra-group elimination	**1,839.0**	1,717.8	**(1,422.2)**	(1,342.4)	**416.8**	375.4
Intra-group elimination	**(28.8)**	(31.3)	**28.8**	31.3	**–**	–
Total group	**1,810.2**	1,686.5	**(1,393.4)**	(1,311.1)	**416.8**	375.4

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%, in line with the group's maximum target gearing ratio of 3.5 times. The impact of this is an increase in the notional allocation of group borrowings to CCD of £28.8m (2012: £31.3m) 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. Vanquis Bank's borrowings broadly equate to 80% of receivables in line with their regulatory capital requirement.

Notes to the financial statements continued

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. The revenue in respect of the branch in 2013 amounted to £2.2m (2012: £0.1m) and the loss amounted to £7.6m (2012: £3.3m). The net liabilities of the branch amounted to £9.5m at 31 December 2013 (2012: £1.2m), comprising assets of £16.0m (2012: £2.8m) and liabilities of £25.5m (2012: £4.0m). These figures are included within the Vanquis Bank figures in the tables above.

	Capital expenditure		Depreciation		Amortisation	
Group	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Vanquis Bank	**2.0**	1.3	**1.3**	0.9	**0.8**	0.8
CCD	**7.9**	6.5	**4.2**	6.5	**3.6**	4.2
Central	**0.4**	0.9	**1.2**	1.2	**–**	–
Total group	**10.3**	8.7	**6.7**	8.6	**4.4**	5.0

Capital expenditure in 2013 comprises expenditure on intangible assets of £3.0m (2012: £1.6m) and property, plant and equipment of £7.3m (2012: £7.1m). The amortisation charge in 2012 excludes £2.1m of impairment of goodwill (see note 10).

2 Revenue

Revenue is recognised by applying the effective interest rate (EIR) to the carrying value of a loan. The EIR is calculated at inception and represents the rate which exactly discounts the future contractual cash receipts from a loan to the amount of cash advanced under that loan, plus directly attributable issue costs (e.g. aggregator/broker fees). In addition, in CCD the EIR takes account of customers repaying early.

	Group	
	2013 £m	2012 £m
Interest income	**962.0**	888.2
Fee income	**116.1**	91.8
Total revenue	**1,078.1**	980.0

All fee income earned relates to Vanquis Bank.

Interest income relates to the interest charges on Vanquis Bank credit cards and the service charge on home credit loans. Fee income wholly relates to Vanquis Bank and predominantly reflects default and overlimit fees as well as other ancillary income streams such as interchange income and Repayment Option Plan (ROP) fees. Fee income in 2013 represented 30% (2012: 32%) of Vanquis Bank revenue.

3 Finance costs

	Group	
Interest payable on:	2013 £m	2012 £m
Bank borrowings	**13.1**	19.9
Senior public and retail bonds	**37.9**	32.7
Private placement loan notes	**8.2**	11.1
Subordinated loan notes	**0.3**	0.3
Retail deposits	**14.7**	10.7
Total finance costs	**74.2**	74.7

The group's blended funding rate in 2013 was 6.8%, down from 7.5% in 2012. This primarily reflects the development of the retail deposits programme in Vanquis Bank during 2013. Retail deposits represent approximately 34% of the group's funding at the end of 2013 compared with approximately 27% in 2012. The all-in blended cost of taking retail deposits in 2013, after the cost of holding a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime, was 3.8% (2012: 4.2%). The group funding rate for 2014 is expected to be around 6.5%.

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 2013 was 3.7 times compared with 3.5 times in 2012.

4 Profit before taxation

Profit before taxation is stated after charging/(crediting):	Group 2013 £m	Group 2012 (restated) £m
Amortisation of other intangible assets:		
– computer software (note 11)	**4.4**	5.0
Exceptional impairment of goodwill (note 10)	**–**	2.1
Depreciation of property, plant and equipment (note 12)	**6.7**	8.6
Loss on disposal of property, plant and equipment (note 12)	**0.2**	0.1
Operating lease rentals:		
– property	**10.0**	9.5
Employment costs (prior to exceptional curtailment credit and redundancy costs (note 9(b)))	**147.6**	144.7
Exceptional curtailment credit (note 18)	**(1.6)**	(17.7)
Exceptional redundancy costs (note 9(b))	**12.6**	–
Impairment of amounts receivable from customers (note 14)	**399.1**	326.1

Operating costs include impairment of amounts receivable from customers; commission paid to self-employed agents (which broadly represents 40% of home credit's costs) and marketing and customer acquisition costs. Administrative costs reflect all other costs incurred in running the business, the largest of which is employment costs (see note 9).

During 2012, following a rigorous audit tender process, Deloitte LLP was appointed as auditor from 29 June 2012 and PricewaterhouseCoopers LLP, who had been the group's auditor for a number of years, resigned. The tables below set out the audit and non-audit fees of Deloitte LLP since 29 June 2012 and of PricewaterhouseCoopers LLP prior to this date.

Deloitte LLP	Group 2013 £m	Group 2012 £m
Auditor's remuneration		
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	**0.2**	0.2
– other services pursuant to legislation	**0.1**	0.2
Total auditor's remuneration payable to Deloitte LLP	**0.4**	**0.5**

PricewaterhouseCoopers LLP	Group 2013 £m	Group 2012 £m
Auditor's remuneration		
Fees payable to the company's auditor and its associates for other services:		
– audit of company's subsidiaries pursuant to legislation	**–**	0.1
– other services pursuant to legislation	**–**	0.1
Total auditor's remuneration paid to PricewaterhouseCoopers LLP	**–**	**0.2**

Notes to the financial statements continued

5 Tax charge

Tax charge in the income statement	Group 2013 £m	Group 2012 (restated) £m
Current tax		
– UK	**(37.7)**	(43.0)
– overseas	**(0.5)**	(0.9)
Total current tax	**(38.2)**	(43.9)
Deferred tax (note 19)	**(2.5)**	(3.7)
Impact of change in UK tax rate (note 19)	**(0.7)**	(0.4)
Total tax charge	**(41.4)**	(48.0)

The tax credit in respect of exceptional items in 2013 amounted to £3.2m (2012: charge of £4.3m).

The effective tax rate for 2013 prior to exceptional items is 22.7%, close to the UK statutory corporation tax rate which reduced from 24.0% to 23.0% on 1 April 2013. Further changes to the UK statutory corporation tax rate were included in the Finance Act 2013 which reduce the rate from 23.0% to 21.0% from 1 April 2014 and from 21.0% to 20.0% from 1 April 2015. The group is expected to benefit from the progressive rate reductions and the effective tax rates for future periods are expected to be similar to the UK statutory corporation tax rate.

As a result of the changes in the UK corporation tax rate, deferred tax balances have been re-measured at 20% (2012: 23%) on the basis that the temporary differences on which the deferred tax balances have been calculated are expected to reverse after 1 April 2015 (2012: 1 April 2013). A tax charge of £0.7m in 2013 (2012: £0.4m) represents the income statement adjustment to deferred tax as a result of this change, which primarily arises as a result of revaluing the benefit of future tax deductions at the lower 20% tax rate. An additional deferred tax credit of £0.3m in 2013 (2012: charge of £0.1m) has been taken directly to other comprehensive income, reflecting the change in UK corporation tax rates on items previously reflected directly in other comprehensive income.

Tax credit on items taken directly to other comprehensive income	Group 2013 £m	Group 2012 (restated) £m
Current tax (charge)/credit on cash flow hedges	**(0.6)**	0.1
Deferred tax credit on actuarial movements on retirement benefit asset	**0.9**	2.7
Tax credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	**0.3**	2.8
Impact of change in UK tax rate	**0.3**	(0.1)
Total tax credit on items taken directly to other comprehensive income	**0.6**	2.7

The rate of tax charge on the profit before taxation for the year is lower than (2012: higher than) the average standard rate of corporation tax in the UK of 23.25% (2012: 24.50%). This can be reconciled as follows:

	Group 2013 £m	Group 2012 (restated) £m
Profit before taxation	**182.4**	194.0
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 23.25% (2012: 24.50%)	**(42.4)**	(47.5)
Effects of:		
– benefit of lower tax rates overseas	**0.7**	1.0
– impairment of goodwill not deductible for tax purposes	**–**	(0.5)
– adjustment in respect of prior years	**1.3**	(0.5)
– expenses not deductible for tax purposes, net of non-taxable income	**(0.3)**	(0.1)
– impact of change in UK tax rate	**(0.7)**	(0.4)
Total tax charge	**(41.4)**	(48.0)

The profits of the home credit business in the Republic of Ireland have been taxed at the Republic of Ireland statutory corporation tax rate of 12.5% (2012: 12.5%) rather than the UK tax rate of 23.25% (2012: 24.5%), giving rise to a beneficial impact on the group tax charge of £0.7m (2012: £1.0m).

The £1.3m credit (2012: £0.5m charge) in respect of prior years arises primarily from securing tax deductions for employee share options and awards which are higher than those originally anticipated, together with the impact of agreeing prior year tax returns with tax authorities.

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, excluding the impact of any exceptional items.

Reconciliations of basic and diluted earnings per share are set out below:

			2013			2012
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings (restated) £m	Weighted average number of shares m	Per share amount (restated) pence
Earnings per share						
Shares in issue during the year		139.1			138.0	
Own shares held		(3.8)			(3.9)	
Basic earnings per share	141.0	135.3	104.2	146.0	134.1	108.9
Dilutive effect of share options and awards	–	2.7	(2.0)	–	2.5	(2.0)
Diluted earnings per share	141.0	138.0	102.2	146.0	136.6	106.9

Earnings in 2012 have been restated following the mandatory adoption and retrospective application of the amended IAS 19, 'Employee Benefits' from 1 January 2013.

The directors have elected to show an adjusted earnings per share 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:

			2013			2012
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings (restated) £m	Weighted average number of shares m	Per share amount (restated) pence
Basic earnings per share	141.0	135.3	104.2	146.0	134.1	108.9
Exceptional items, net of tax	10.5	–	7.8	(11.3)	–	(8.5)
Adjusted basic earnings per share	151.5	135.3	112.0	134.7	134.1	100.4
Diluted earnings per share	141.0	138.0	102.2	146.0	136.6	106.9
Exceptional items, net of tax	10.5	–	7.6	(11.3)	–	(8.3)
Adjusted diluted earnings per share	151.5	138.0	109.8	134.7	136.6	98.6

Adjusted basic EPS has grown by 11.6% in 2013 due to the strong performance of Vanquis Bank. This growth is higher than the 9.9% growth in profit before tax and exceptional items principally due to the fall in the corporation tax rate from 24% to 23% on 1 April 2013.

Notes to the financial statements continued

7 Dividends

		Group and company	
		2013 £m	2012 £m
2011 final	– 42.3p per share	–	57.2
2012 interim	– 28.8p per share	–	38.9
2012 final	– 48.4p per share	66.0	–
2013 interim	– 31.0p per share	42.4	–
Dividends paid		**108.4**	96.1

The directors are recommending a final dividend in respect of the financial year ended 31 December 2013 of 54.0p (2012: 48.4p) per share which will amount to an estimated dividend payment of £73.6m (2012: £66.0m). If approved by the shareholders at the annual general meeting on 8 May 2014, this dividend will be paid on 20 June 2014 to shareholders who are on the register of members at 23 May 2014. This dividend is not reflected in the balance sheet as at 31 December 2013 as it is subject to shareholder approval.

As a result of adjusted EPS growth of 11.6% in 2013, the directors have proposed an increase in the final dividend of 11.6% which, together with the 7.6% increase in the interim dividend, makes a total full-year dividend increase of 10.1%. Accordingly, dividend cover, prior to exceptional items, in 2013 was 1.32 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'. Further information in respect of directors' remuneration, share options and awards, pension contributions and pension entitlements is set out in the directors' remuneration report on pages 108 to 130.

	Group and company	
	2013 £m	2012 £m
Short-term employee benefits	4.0	4.0
Post-employment benefits	0.6	0.6
Share-based payment charge	2.9	2.7
Total	**7.5**	7.3

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.

9 Employee information

(a) The average monthly number of persons employed by the group was as follows:

	Group	
	2013 Number	2012 Number
Vanquis Bank	909	728
CCD	2,869	3,003
Central	55	55
Total group	**3,833**	3,786
Analysed as:		
Full time	3,236	3,189
Part time	597	597
Total group	**3,833**	3,786

Employees comprise all head office and branch employees within CCD, head office and contact centre employees within Vanquis Bank and Corporate Office employees and executive directors. It does not include the 9,000 self-employed agents within CCD. The 4% reduction in CCD employee numbers reflects the business restructuring which took place during 2013. Vanquis Bank employee numbers have increased by 25% during 2013 due to the growth of the business, including the continued expansion of the second contact centre in CCD's head office in Bradford.

(b) Employment costs

	Group	
	2013 £m	2012 (restated) £m
Aggregate gross wages and salaries paid to the group's employees	116.0	114.3
Employers' National Insurance contributions	13.5	12.7
Pension charge, prior to exceptional pension credit	10.7	11.3
Share-based payment charge (note 24)	7.4	6.4
Total employment cost prior to exceptional pension credit	147.6	144.7
Exceptional pension credit (note 18)	(1.6)	(17.7)
Exceptional redundancy costs	12.6	–
Total employment costs	**158.6**	127.0

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 £6.4m in 2012 to £7.4m in 2013 primarily reflects the impact of prior year provision releases in 2012 following lower than expected vesting levels from the 2009 Long Term Incentive Scheme.

Notes to the financial statements continued

10 Goodwill

	Group	
	2013 £m	2012 £m
Cost		
At 1 January	**2.1**	93.1
Amounts written off	**–**	(91.0)
At 31 December	**2.1**	2.1
Accumulated amortisation		
At 1 January	**2.1**	91.0
Amounts written off	**–**	(91.0)
Exceptional impairment charge	**–**	2.1
At 31 December	**2.1**	2.1
Net book value at 31 December	**–**	–
Net book value at 1 January	**–**	2.1

During 2012, the cost and accumulated amortisation of goodwill in relation to Yes Car Credit was fully written off as there were no future economic benefits expected from the business. The goodwill had previously been fully impaired in 2005 following the closure of that business. Based on expected future cash flows, the carrying value of goodwill in respect of Cheque Exchange Limited, a small subsidiary originally acquired in 2001 and now subsumed within CCD, was fully impaired in 2012.

11 Other intangible assets

	Computer software	
Group	2013 £m	2012 £m
Cost		
At 1 January	**36.8**	35.3
Additions	**3.0**	1.6
Disposals	**(0.1)**	(0.1)
At 31 December	**39.7**	36.8
Accumulated amortisation		
At 1 January	**27.3**	22.4
Charged to the income statement	**4.4**	5.0
Disposals	**(0.1)**	(0.1)
At 31 December	**31.6**	27.3
Net book value at 31 December	**8.1**	9.5
Net book value at 1 January	**9.5**	12.9

Other intangible assets represent purchased or internally developed software. The largest components of intangible assets are the field operating system within CCD (Focus) and the development associated with the core customer IT platform (First Vision) and underwriting software (Transact) at 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 2013	**4.1**	**0.8**	**52.6**	**57.5**
Additions	**0.1**	**–**	**7.2**	**7.3**
Disposals	**(0.3)**	**–**	**(5.7)**	**(6.0)**
At 31 December 2013	**3.9**	**0.8**	**54.1**	**58.8**
Accumulated depreciation				
At 1 January 2013	**3.2**	**0.6**	**29.8**	**33.6**
Charged to the income statement	**0.1**	**–**	**6.6**	**6.7**
Disposals	**–**	**–**	**(4.3)**	**(4.3)**
At 31 December 2013	**3.3**	**0.6**	**32.1**	**36.0**
Net book value at 31 December 2013	**0.6**	**0.2**	**22.0**	**22.8**
Net book value at 1 January 2013	**0.9**	**0.2**	**22.8**	**23.9**

The loss on disposal of property, plant and equipment in 2013 amounted to £0.2m (2012: £0.1m) and represented proceeds received of £1.5m (2012: £1.3m) less the net book value of disposals of £1.7m (2012: £1.4m).

Additions in 2013 principally comprise the routine replacement of IT equipment in both CCD and Vanquis Bank and motor vehicles for field employees within CCD.

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2012	4.1	0.8	50.5	55.4
Additions	0.5	–	6.6	7.1
Disposals	(0.5)	–	(4.5)	(5.0)
At 31 December 2012	4.1	0.8	52.6	57.5
Accumulated depreciation				
At 1 January 2012	3.2	0.6	24.8	28.6
Charged to the income statement	–	–	8.6	8.6
Disposals	–	–	(3.6)	(3.6)
At 31 December 2012	3.2	0.6	29.8	33.6
Net book value at 31 December 2012	0.9	0.2	22.8	23.9
Net book value at 1 January 2012	0.9	0.2	25.7	26.8

Notes to the financial statements continued

12 Property, plant and equipment (continued)

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2013	**4.1**	**0.2**	**10.9**	**15.2**
Additions	**0.1**	**–**	**0.3**	**0.4**
Disposals	**(0.3)**	**–**	**(0.3)**	**(0.6)**
At 31 December 2013	**3.9**	**0.2**	**10.9**	**15.0**
Accumulated depreciation				
At 1 January 2013	**3.2**	**0.1**	**3.0**	**6.3**
Charged to the income statement	**0.1**	**–**	**1.1**	**1.2**
Disposals	**–**	**–**	**(0.2)**	**(0.2)**
At 31 December 2013	**3.3**	**0.1**	**3.9**	**7.3**
Net book value at 31 December 2013	**0.6**	**0.1**	**7.0**	**7.7**
Net book value at 1 January 2013	**0.9**	**0.1**	**7.9**	**8.9**

The loss on disposal of property, plant and equipment in 2013 amounted to £nil (2012: £nil) and represented proceeds received of £0.4m (2012: £0.6m) less the net book value of disposals of £0.4m (2012: £0.6m).

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2012	4.1	0.2	10.7	15.0
Additions	0.5	–	0.4	0.9
Disposals	(0.5)	–	(0.2)	(0.7)
At 31 December 2012	4.1	0.2	10.9	15.2
Accumulated depreciation				
At 1 January 2012	3.2	0.1	1.9	5.2
Charged to the income statement	–	–	1.2	1.2
Disposals	–	–	(0.1)	(0.1)
At 31 December 2012	3.2	0.1	3.0	6.3
Net book value at 31 December 2012	0.9	0.1	7.9	8.9
Net book value at 1 January 2012	0.9	0.1	8.8	9.8

13 Investment in subsidiaries

	Company 2013 £m	Company 2012 £m
Cost		
At 1 January	**407.8**	407.2
Additions	**0.8**	0.6
At 31 December	**408.6**	407.8
Accumulated impairment losses		
At 1 January	**31.8**	31.9
Credited to the income statement	**–**	(0.1)
At 31 December	**31.8**	31.8
Net book value at 31 December	**376.8**	376.0
Net book value at 1 January	**376.0**	375.3

The directors consider the value of investments to be supported by their underlying assets.

The additions to investments in 2013 of £0.8m (2012: £0.6m) represent the issue of share options/awards by the company to its subsidiaries' employees. Under IFRIC 11, the fair value of these options/awards is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/awards that have vested.

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the group. A full list of subsidiary undertakings will be annexed to the next annual return of the company to be filed with the Registrar of Companies. All subsidiaries are consolidated and held directly by the company except for those noted below, which are held by wholly owned intermediate companies.

		Activity	Country of incorporation	Class of capital	% holding
Vanquis Bank	Vanquis Bank Limited	Financial services	England	Ordinary	100
CCD	Provident Financial Management Services Limited	Management services	England	Ordinary	100
	Provident Personal Credit Limited	Financial services	England	Ordinary	100*
	Greenwood Personal Credit Limited	Financial services	England	Ordinary	100*
Central	Provident Investments plc	Financial intermediary	England	Ordinary	100

* Shares held by wholly owned intermediate companies.

The above companies operate principally in their country of incorporation.

Notes to the financial statements continued

14 Amounts receivable from customers

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.

Revenue, impairment and receivables example for home credit

The simple examples below illustrate the calculation of the receivables balance within the home credit business of CCD and its interaction with revenue and impairment. Within the home credit business, loans are deemed impaired when two payments are missed within a 12-week cycle.

The following examples are based on a £100 loan with a total amount payable of £182 over 52 weeks which equates to a weekly payment of £3.50. The effective interest rate (EIR) applied to the loan is 2.5597% per week. In the first example, the customer pays in full in line with the loan agreement and in the second example the customer does not repay the full amount due.

	1. Customer pays to contract				2. Customer pays to contract for four weeks, misses two payments and then pays £2.00 per week for 50 weeks and nothing thereafter				
Week	Receivable B/F £	Revenue £	Collections £	Receivable C/F £	Receivable B/F £	Revenue £	Collections £	Impairment £	Receivable C/F £
Issue	–	–	–	100.00	–	–	–	–	100.00
1	100.00	2.56	(3.50)	99.06	100.00	2.56	(3.50)	–	99.06
2	99.06	2.54	(3.50)	98.10	99.06	2.54	(3.50)	–	98.10
3	98.10	2.51	(3.50)	97.11	98.10	2.51	(3.50)	–	97.11
4	97.11	2.49	(3.50)	96.10	97.11	2.49	(3.50)	–	96.10
5	96.10	2.46	(3.50)	95.06	96.10	2.46	–	–	98.56
6	95.06	2.43	(3.50)	93.99	98.56	2.52	–	(45.03)*	56.05
7	93.99	2.41	(3.50)	92.90	56.05	1.43	(2.00)	–	55.48
8	92.90	2.38	(3.50)	91.78	55.48	1.42	(2.00)	–	54.90
51	6.74	0.17	(3.50)	3.41	11.00	0.28	(2.00)	–	9.28
52	3.41	0.09	(3.50)	–	9.28	0.24	(2.00)	–	7.52
55					3.85	0.10	(2.00)	–	1.95
56					1.95	0.05	(2.00)	–	–
Total		82.00	(182.00)			59.03	(114.00)	(45.03)	

Revenue less impairment = £82.00

Revenue less impairment = £14.00

* Calculated as the difference between the receivable balance of £101.08 (£98.56 + £2.52) and expected cash flows of £2.00 per week over 50 weeks discounted at the weekly effective interest rate of 2.5597% which amounts to £56.05.

Where the customer pays to contract, the revenue of £82.00 equals the service charge on the loan. In the second example, the customer pays to contract for four weeks, misses two payments and then pays £2.00 per week for 50 weeks but then nothing thereafter. Cash collected amounts to £114.00 compared with the contractual amount due of £182.00. Revenue in this example is £59.03 and impairment is £45.03 which results in revenue less impairment of £14.00.

The above are simple examples produced to show the mechanics of how revenue and impairment within home credit works and are for illustrative purposes only. They ignore the impact of early settlement rebates on the calculation of the EIR and are not based on actual impairment rates used by the home credit business.

	2013			2012		
Group	**Due within one year £m**	**Due in more than one year £m**	**Total £m**	Due within one year £m	Due in more than one year £m	Total £m
Vanquis Bank	**866.6**	**–**	**866.6**	643.3	–	643.3
CCD	**660.3**	**79.7**	**740.0**	773.0	97.5	870.5
Total group	**1,526.9**	**79.7**	**1,606.6**	1,416.3	97.5	1,513.8

Vanquis Bank's UK receivables grew by 34.3% in 2013 as a result of growth in UK customer numbers of 22.2% together with the success of the credit line increase programme to good-quality existing customers through the 'low and grow' approach to lending. £5.3m of Vanquis Bank's receivables at the end of 2013 relate to the pilot credit card operation in Poland (2012: £1.8m). CCD receivables comprise £738.2m in respect of the home credit business (2012: £869.6m), £1.8m in respect of Satsuma (2012: £nil) and £nil in respect of the collect-out of the Real Personal Finance receivables book (2012: £0.9m). Home credit receivables showed a 15.1% fall in 2013 reflecting the combination of weaker demand, tighter credit standards and lower customer recruitment.

14 Amounts receivable from customers (continued)

The average effective interest rate for the year ended 31 December 2013 was 32% for Vanquis Bank (2012: 33%) and 110% for CCD (2012: 105%). The average period to maturity of the amounts receivable from customers within CCD is 6.0 months (2012: 6.0 months). Within Vanquis Bank, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the greater of 1.5% of the amount owed plus any fees and interest charges in the month and £5.

The fair value of amounts receivable from customers is approximately £2.3 billion (2012: £2.1 billion). Fair value has been derived by discounting expected future cash flows (net of collection costs) at the group's weighted average cost of capital at the balance sheet date. The credit quality of amounts receivable from customers is as follows:

	2013						2012					
Credit quality of amounts receivable from customers	£m	Vanquis Bank %	£m	CCD %	£m	Group %	£m	Vanquis Bank %	£m	CCD %	£m	Group %
Neither past due nor impaired	785.9	*90.7*	259.3	*35.1*	1,045.2	*65.0*	580.9	*90.3*	296.4	*34.0*	877.3	*58.0*
Past due but not impaired	–	–	99.4	*13.4*	99.4	*6.2*	–	–	138.0	*15.9*	138.0	*9.1*
Impaired	80.7	*9.3*	381.3	*51.5*	462.0	*28.8*	62.4	*9.7*	436.1	*50.1*	498.5	*32.9*
Total	**866.6**	***100.0***	**740.0**	***100.0***	**1,606.6**	***100.0***	643.3	*100.0*	870.5	*100.0*	1,513.8	*100.0*

Past due but not impaired balances all relate to home credit loans within CCD. There are no accounts/loans within Vanquis Bank 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 broadly unchanged arrears profile in Vanquis Bank reflects delinquency remaining stable at record lows for the business against the backdrop of an improving UK employment market. The arrears profile in CCD has been relatively stable over a number of years. The marginal improvement in 2013 reflects the benefit from the implementation of standardised arrears and collections processes combined with tighter credit standards in the fourth quarter of the year.

The following table sets out the ageing analysis of past due but not impaired balances within the home credit business of CCD based on contractual arrears since the inception of the loan:

	Group	
Ageing analysis of past due but not impaired balances	**2013 £m**	2012 £m
One week overdue	**63.3**	90.7
Two weeks overdue	**19.2**	20.6
Three weeks or more overdue	**16.9**	26.7
Past due but not impaired	**99.4**	138.0

Impairment in Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The movement in the allowance account during the year is as follows:

	Group	
Vanquis Bank allowance account	**2013 £m**	2012 £m
At 1 January	**91.4**	62.4
Charge for the year	**129.4**	95.9
Amounts written off during the year	**(99.4)**	(71.2)
Amounts recovered during the year	**7.4**	4.3
At 31 December	**128.8**	91.4

Notes to the financial statements continued

14 Amounts receivable from customers (continued)

The core customer IT platform within the home credit business of CCD is cash based. This reflects the fact that the business provides a product whereby all charges are fixed at the outset through the service charge and the focus of the business is on collecting cash. As a result, the system records the total contractual outstanding amount due from a customer (comprising the amount lent to the customer plus the service charge on the loan) less cash repayments to date. The system does not accrue interest revenue as is the case with Vanquis Bank and more mainstream lenders. In order to translate the cash transactions from the core home credit customer IT platform into an IFRS receivables balance, a separate database is used. IFRS permits revenue and impairment to be performed on a portfolio basis. Accordingly, home credit's loans are allocated into portfolios based on their product length. Initial recognition within each portfolio is the cash amount advanced to customers. Revenue is applied to each portfolio as a whole based on the effective interest rate of that product. Weekly cash repayments are deducted from each portfolio as cash is collected to arrive at a carrying value. On a weekly basis, an impairment review is conducted. Accounts within individual portfolios are placed into arrears stages based on the number of weekly payments missed in the last 12 weeks. The current carrying value of each arrears stage is then compared with the expected cash flows (based on historic performance) of each arrears stage discounted at the original effective interest rate (the net carrying value). The net carrying value is the carrying value to which revenue, cash repayments and impairment are applied in the future and the difference between the carrying value prior to impairment and the net carrying value is recorded as an impairment charge in the income statement. As revenue and impairment is calculated on the net receivable, a separate gross receivable and allowance (or provision) account similar to Vanquis Bank and more mainstream banks is not maintained. Vanquis Bank's systems are interest bearing and allow revenue and impairment to be calculated on an account-by-account basis and, therefore, it discloses a gross receivable and an allowance account. Whilst home credit and Vanquis Bank adopt different accounting approaches to recording receivables, the carrying value of receivables in the balance sheet and the income statement impact of revenue and impairment is not affected.

UK impairment in Vanquis Bank increased by 31.7% in 2013 compared with a 37.5% increase in UK average receivables. This reflects the combination of a stable UK employment market and the application of consistently tight underwriting which have resulted in delinquency levels continuing to run at record lows for the business.

Impairment in CCD increased by 17.2% during 2013 and the ratio of annualised impairment to revenue increased from 33.0% in 2012 to 38.7%. Approximately 3% of the increase is attributable to the uplift in the revenue yield with the remaining variance being due to the deterioration in the arrears profile that occurred during the first nine months of the year. This resulted from weaker demand, as those existing customers not wishing to take further credit have less incentive to bring their accounts up to date and typically remained in mild arrears.

The impairment charge and impairment to revenue metric in CCD do not represent what is usually considered as 'bad debt'. 'Bad debt' is often deemed to be the amount of principal that is not recovered on loans made. Within the home credit business, the service charge on a loan is fixed regardless of the time taken by a customer to repay a loan. There is no penalty interest or penalty charges. Due to their personal circumstances and the variability of their income streams, home credit customers often take longer than the contracted period to repay their loans. IFRS requires revenue to be recognised on the outstanding receivables at the original EIR set at the outset. The EIR assumes that a customer pays in line with the contractual term of the loan. Therefore, when a customer misses a payment, revenue continues to be recognised at the EIR as though penalty interest was being charged to the customer even though contractually it is not. Because this revenue is never going to be charged to the customer, a corresponding impairment charge is made.

This 'gross up' of revenue and impairment is illustrated in the following example.

The example is based on a £100 loan with a total amount payable of £182 over 52 weeks which equates to a weekly payment of £3.50. The EIR applied to the loan is 2.5597% per week. In this example, the customer pays to contract for four weeks, misses two payments and then pays £3.00 per week for the following 56 weeks. The total amount payable of £182 is received in full but over a total period of 62 weeks instead of 52 weeks.

Week	Receivable B/F £	Revenue £	Collections £	Impairment £	Receivable C/F £
Issue	–	–	–	–	100.00
1	100.00	2.56	(3.50)	–	99.06
2	99.06	2.54	(3.50)	–	98.10
3	98.10	2.51	(3.50)	–	97.11
4	97.11	2.49	(3.50)	–	96.10
5	96.10	2.46	–	–	98.56
6	98.56	2.52	–	(12.34)*	88.74
7	88.74	2.27	(3.00)	–	88.01
8	88.01	2.25	(3.00)	–	87.26
61	5.78	0.15	(3.00)	–	2.93
62	2.93	0.07	(3.00)	–	–
Total		94.34	(182.00)	(12.34)	

Revenue less impairment = £82.00

* Calculated as the difference between the receivable balance of £101.08 (£98.56 + £2.52) and expected cash flows of £3.00 per week over 56 weeks discounted at the weekly effective interest rate of 2.5597% which amount to £88.74.

Revenue less impairment in this example is £82.00, consistent with a customer paying to contract. However, because the customer took 10 more weeks to pay their loan, revenue increases to £94.34 and is offset by impairment of £12.34. The 'gross up' of revenue and impairment is therefore £12.34.

The above is a simple example produced to show the mechanics of how the 'gross up' within the home credit business works and is for illustrative purposes only. It ignores the impact of early settlement rebates on the calculation of the EIR and is not based on actual impairment rates used by the home credit business.

The income statement for the home credit business therefore includes a 'gross up' of revenue and impairment representing the additional revenue and impairment on loans which take longer than contract to repay. In practice, based on the total amount of cash collected against the amount lent to a customer plus the service charge on loans, 'bad debt' in the home credit business is less than half of the 38.7% impairment to revenue metric.

14 Amounts receivable from customers (continued)

The impairment charge in respect of amounts receivable from customers reflected within operating costs can be analysed as follows:

Impairment charge on amounts receivable from customers	Group 2013 £m	2012 £m
Vanquis Bank	**129.4**	95.9
CCD	**269.7**	230.2
Total group	**399.1**	326.1

The impairment change in Vanquis Bank comprises £126.3m (2012: £95.9m) in respect of the UK business and £3.1m (2012: £nil) in respect of the Polish pilot operation.

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

Interest income recognised on impaired amounts receivable from customers	Group 2013 £m	2012 £m
Vanquis Bank	**28.2**	22.9
CCD	**367.2**	344.8
Total group	**395.4**	367.7

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 £995.4m (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 £866.6m, which is stated after the deduction of the impairment allowance account of £128.8m. The non-standard customers served by the group are generally more likely to miss payments compared with more mainstream customers. As the group recognises impairment events early – after missing two weekly payments in the last 12 weeks in home credit and after missing one monthly payment in Vanquis Bank – the group's level of revenue on impaired loans is comparatively high.

The currency profile of amounts receivable from customers is as follows:

Currency profile of amounts receivable from customers	Group 2013 £m	2012 £m
Sterling	**1,545.1**	1,451.0
Euro	**56.2**	61.0
Zloty	**5.3**	1.8
Total group	**1,606.6**	1,513.8

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 8% of CCD's receivables (2012: 7%). Zloty receivables relate to the Vanquis Bank pilot credit card operation in Poland.

Notes to the financial statements continued

15 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	2013 Total £m
Assets						
Cash and cash equivalents	**58.6**	**60.4**	**–**	**–**	**–**	**119.0**
Amounts receivable from customers	**1,606.6**	**–**	**–**	**–**	**–**	**1,606.6**
Derivative financial instruments	**–**	**–**	**–**	**5.5**	**–**	**5.5**
Trade and other receivables	**15.5**	**–**	**–**	**–**	**–**	**15.5**
Retirement benefit asset	**–**	**–**	**–**	**–**	**29.2**	**29.2**
Property, plant and equipment	**–**	**–**	**–**	**–**	**22.8**	**22.8**
Intangible assets	**–**	**–**	**–**	**–**	**8.1**	**8.1**
Deferred tax assets	**–**	**–**	**–**	**–**	**3.5**	**3.5**
Total assets	**1,680.7**	**60.4**	**–**	**5.5**	**63.6**	**1,810.2**
Liabilities						
Bank and other borrowings	**–**	**–**	**(1,284.6)**	**–**	**–**	**(1,284.6)**
Derivative financial instruments	**–**	**–**	**–**	**(6.7)**	**–**	**(6.7)**
Trade and other payables	**–**	**–**	**(65.8)**	**–**	**–**	**(65.8)**
Current tax liabilities	**–**	**–**	**–**	**–**	**(36.3)**	**(36.3)**
Total liabilities	**–**	**–**	**(1,350.4)**	**(6.7)**	**(36.3)**	**(1,393.4)**

Financial assets held as available for sale relate to UK government gilts held as part of Vanquis Bank's liquid assets buffer (see note 20).

Group	Loans and receivables £m	Available for sale £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	2012 Total £m
Assets						
Cash and cash equivalents	79.1	–	–	–	–	79.1
Amounts receivable from customers	1,513.8	–	–	–	–	1,513.8
Derivative financial instruments	–	–	–	8.1	–	8.1
Trade and other receivables	23.0	–	–	–	–	23.0
Retirement benefit asset	–	–	–	–	23.0	23.0
Property, plant and equipment	–	–	–	–	23.9	23.9
Intangible assets	–	–	–	–	9.5	9.5
Deferred tax assets	–	–	–	–	6.1	6.1
Total assets	1,615.9	–	–	8.1	62.5	1,686.5
Liabilities						
Bank and other borrowings	–	–	(1,201.4)	–	–	(1,201.4)
Derivative financial instruments	–	–	–	(11.4)	–	(11.4)
Trade and other payables	–	–	(60.6)	–	–	(60.6)
Current tax liabilities	–	–	–	–	(37.7)	(37.7)
Total liabilities	–	–	(1,262.0)	(11.4)	(37.7)	(1,311.1)

15 Financial instruments (continued)

The following table sets out the carrying value of the company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Company					2013
	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
Assets					
Cash and cash equivalents	**13.6**	**–**	**–**	**–**	**13.6**
Investment in subsidiaries	**–**	**–**	**–**	**376.8**	**376.8**
Trade and other receivables	**1,499.8**	**–**	**–**	**–**	**1,499.8**
Retirement benefit asset	**–**	**–**	**–**	**29.2**	**29.2**
Property, plant and equipment	**–**	**–**	**–**	**7.7**	**7.7**
Total assets	**1,513.4**	**–**	**–**	**413.7**	**1,927.1**
Liabilities					
Bank and other borrowings	**–**	**(799.6)**	**–**	**–**	**(799.6)**
Derivative financial instruments	**–**	**–**	**(6.7)**	**–**	**(6.7)**
Trade and other payables	**–**	**(178.6)**	**–**	**–**	**(178.6)**
Current tax liabilities	**–**	**–**	**–**	**(2.7)**	**(2.7)**
Deferred tax liabilities	**–**	**–**	**–**	**(2.8)**	**(2.8)**
Total liabilities	**–**	**(978.2)**	**(6.7)**	**(5.5)**	**(990.4)**

Company					2012
	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities (restated) £m	Total (restated) £m
Assets					
Cash and cash equivalents	2.6	–	–	–	2.6
Investment in subsidiaries	–	–	–	376.0	376.0
Trade and other receivables	1,516.9	–	–	–	1,516.9
Retirement benefit asset	–	–	–	23.0	23.0
Property, plant and equipment	–	–	–	8.9	8.9
Total assets	1,519.5	–	–	407.9	1,927.4
Liabilities					
Bank and other borrowings	–	(779.3)	–	–	(779.3)
Derivative financial instruments	–	–	(9.4)	–	(9.4)
Trade and other payables	–	(222.8)	–	–	(222.8)
Current tax liabilities	–	–	–	(3.5)	(3.5)
Deferred tax liabilities	–	–	–	(0.9)	(0.9)
Total liabilities	–	(1,002.1)	(9.4)	(4.4)	(1,015.9)

Notes to the financial statements continued

16 Derivative financial instruments

The majority of derivative financial instruments held by the group are interest rate swaps used to fix the interest rates paid on the group's borrowings and cross currency swaps to fix the foreign exchange rate on the group's borrowings denominated in US dollars.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

Group		2013 Contractual/ notional amount £m	2013 Assets £m	2013 Liabilities £m	2012 Contractual/ notional amount £m	2012 Assets £m	2012 Liabilities £m
Interest rate swaps		120.0	–	(6.7)	120.0	–	(9.4)
Cross-currency swaps		36.3	5.4	–	84.9	8.1	(1.9)
Foreign exchange contracts		7.1	0.1	–	7.5	–	(0.1)
Total group		**163.4**	**5.5**	**(6.7)**	212.4	8.1	(11.4)
Analysed as	– due within one year		5.5	–		–	(2.0)
	– due in more than one year		–	(6.7)		8.1	(9.4)
			5.5	(6.7)		8.1	(11.4)

Company		2013 Contractual/ notional amount £m	2013 Assets £m	2013 Liabilities £m	2012 Contractual/ notional amount £m	2012 Assets £m	2012 Liabilities £m
Interest rate swaps		120.0	–	(6.7)	120.0	–	(9.4)
Foreign exchange contracts		–	–	–	1.4	–	–
Total company		**120.0**	**–**	**(6.7)**	121.4	–	(9.4)
Analysed as	– due within one year		–	–		–	–
	– due in more than one year		–	(6.7)		–	(9.4)
			–	(6.7)		–	(9.4)

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 group's US private placement borrowings denominated in US dollars are recognised in the balance sheet at the year-end exchange rate. As these borrowings are subject to cross currency swaps which fix the translation rate of the borrowings, the difference between the borrowing based on the contracted rate of exchange and the borrowing based on the year-end rate of exchange is recorded in the hedging reserve. The value of this adjustment at 31 December 2013 is £5.2m (2012: £5.8m).

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 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Interest rate swaps	**2.7**	0.1	**2.7**	0.1
2004 cross-currency swaps	**(0.2)**	(0.3)	**–**	–
Foreign exchange contracts	**0.2**	(0.4)	**–**	–
Net credit/(charge) to the hedging reserve	**2.7**	(0.6)	**2.7**	0.1

Under IFRS 7, 'Financial instruments: Disclosures', all derivative financial instruments are classed as Level 2 as they are not traded in an active market and the fair value is therefore determined through discounting future cash flows, using appropriate observable rates.

16 Derivative financial instruments (continued)

(b) Income statement (charge)/credit

The net (charge)/credit to 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, is £nil (2012: £nil).

(c) Interest rate swaps

The group and company use interest rate swaps in order to manage the interest rate risk on the group's borrowings. The group has entered into various interest rate swaps which were designated and effective under IAS 39 as cash flow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

	Group and company	
	2013 £m	2012 £m
Liability at 1 January	**(9.4)**	(9.5)
Credited to the hedging reserve	**2.7**	0.1
Liability at 31 December	**(6.7)**	(9.4)

The weighted average interest rate and period to maturity of the interest rate swaps held by the group and company were as follows:

			2013			2012
Group and company	**Weighted average interest rate %**	**Range of interest rates %**	**Weighted average period to maturity years**	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years
Sterling	**3.2**	**3.1-3.3**	**2.4**	3.2	3.1-3.3	3.1

(d) Cross-currency swaps

The group and company use cross-currency swaps in order to manage the interest rate and foreign exchange rate risk arising on the group's US private placement loan notes issued in 2003 and 2004.

2003 private placement loan notes

The group and company put in place cross-currency swaps to swap the principal and fixed-rate interest of the 2003 US dollar private placement loan notes into fixed-rate sterling liabilities. The maturity dates of the cross-currency swaps matched the underlying loan notes. These swaps were designated as cash flow hedges and were effective under IAS 39. The fair value movements in the swaps and the corresponding exchange rate movements on the underlying loan notes were deferred in the hedging reserve within equity.

The cross-currency swaps used to hedge the 2003 US dollar private placement loan notes also matured in 2013. As at 31 December 2012, the cross currency swaps had an interest rate of 6.8% and a weighted average period to maturity of 0.3 years. The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2013 £m	2012 £m
Liability at 1 January	**(1.9)**	0.3
Exchange rate movement	**1.9**	(2.2)
Liability at 31 December	**–**	(1.9)

The difference between the translation of the 2003 US dollar private placement loan notes at the year-end exchange rate compared with the contracted exchange rate amounts to £nil (2012: credit of £1.9m). The exchange rate movement of £1.9m debit (2012: credit of £2.2m) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

Notes to the financial statements continued

16 Derivative financial instruments (continued)

2004 private placement loan notes
The group has put in place cross-currency swaps to swap the principal and fixed rate interest of the US dollar private placement loan notes issued in 2004 into floating rate sterling-denominated interest liabilities. The maturity dates of the cross-currency swaps match the underlying loan notes.

The swaps comprise both cash flow hedges and fair value hedges. The cash flow hedge portion of the swaps were designated as cash flow hedges and continue to be effective under IAS 39 in the year ended 31 December 2013. The fair value movements in the swaps and the exchange movements in the underlying loan notes have been deferred in the hedging reserve within equity.

The fair value hedge portion of the swaps were designated and were effective under IAS 39 as fair value hedges during the year. As a result, fair value movements in the swaps were charged to the income statement with a corresponding entry made to the underlying loan notes within borrowings for the effective portion of the swaps, leaving a net charge within the income statement reflecting the net fair value loss on the fair value hedge in the year.

The swaps have a range of interest rates of LIBOR + 1.61% to LIBOR + 1.63% (2012: LIBOR + 1.61% to LIBOR + 1.63%) and a weighted average period to maturity of 0.6 years (2012: 1.6 years).

The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2013 £m	2012 £m
Asset at 1 January	**8.1**	11.6
Exchange rate movement	**(2.5)**	(3.2)
Charged to the hedging reserve	**(0.2)**	(0.3)
Asset at 31 December	**5.4**	8.1

The difference between the translation of the 2004 US dollar private placement loan notes at the year-end exchange rate compared with the contracted exchange rate amounts to a debit of £5.2m (2012: debit of £7.7m). The exchange rate movement of £2.5m credit (2012: credit of £3.2m) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

The amount charged to the hedging reserve reflects the difference between the movement in the fair value of the cash flow hedge portion of the cross-currency swaps and the cash flow hedge portion of the exchange rate movements described above.

(e) Foreign exchange contracts
The group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from CCD's euro operations in the Republic of Ireland and Vanquis Bank's branch in Poland. An asset of £0.1m is held in the group balance sheet as at 31 December 2013 in respect of foreign exchange contracts (2012: 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 £7.1m (2012: £6.1m) and sell zloty for £nil (2012: £1.4m). These contracts have a range of maturity dates from 18 February 2014 to 16 December 2014 (2012: 31 January 2013 to 15 October 2013). These contracts were designated as cash flow hedges and were effective under IAS 39. Accordingly, the movement in fair value of £0.2m has been credited to the hedging reserve within equity (2012: charge of £0.4m).

17 Trade and other receivables

Non-current assets	Company 2013 £m	Company 2012 £m
Amounts owed by group undertakings	**930.3**	842.2

There are £nil amounts past due and there is no impairment provision held against amounts owed by group undertakings due for repayment in more than one year (2012: £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	2013 £m	2012 £m	2013 £m	2012 £m
Trade receivables	**0.1**	0.1	**–**	–
Other receivables	**3.6**	12.1	**–**	–
Amounts owed by group undertakings	**–**	–	**567.5**	672.0
Prepayments and accrued income	**11.8**	10.8	**2.0**	2.7
Total	**15.5**	23.0	**569.5**	674.7

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. The significant reduction in other receivables during 2013 is due to lower business volumes in CCD and the general timing of payments around the year-end.

There are no amounts past due in respect of trade and other receivables due in less than one year (2012: £nil). Within the company, an impairment provision of £122.5m (2012: £123.3m) is held against amounts owed by group undertakings due in less than one year representing the deficiency in the net assets of those group undertakings. The movement in the provision in the year of £0.8m has been credited to the income statement of the company (2012: charge of £1.6m).

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 (2012: carrying value) set out above. There is no collateral held in respect of trade and other receivables (2012: £nil).

Notes to the financial statements continued

18 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 2013, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded. The group's defined benefit pension scheme has been substantially closed to new members since 1 January 2003.

The group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme has been substantially closed to new members since 1 January 2003. The scheme covers 29% of employees with company-provided pension arrangements and is of the funded, defined benefit type.

All future benefits in the scheme are now provided on a 'cash balance' basis, with a defined amount being made available at retirement, based on a percentage of salary that is revalued up to retirement with reference to increases in price inflation. This retirement account is then used to purchase an annuity on the open market. The scheme also provides pension benefits that were accrued in the past on a final salary basis, but which are no longer linked to final salary.

The scheme also provides death benefits.

The scheme is a UK registered pension scheme under UK legislation and is not contracted-out of the Second State Pension. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The Trustees work closely with the group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2012 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee Benefits' has been based on the results of the 2012 valuation, updated to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

The group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid.

The group is exposed to a number of risks, the most significant of which are as follows:

- Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match liabilities.
- Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.
- Inflation risk – part of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a long-term de-risking strategy, the scheme will further increase its portfolio in inflation matched assets.
- Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

18 Retirement benefit asset (continued)

From 1 January 2013, the group has mandatorily adopted and retrospectively applied the revised IAS 19, 'Employee Benefits'. The revision to the standard requires companies to change the assumed expected return on scheme assets used in the calculation of the pension charge from equities and bonds to a much more prudent expected rate of return based on high-quality corporate bond rates relevant to the duration of the plan. The retrospective application results in an increase in the pension charge and, therefore, a reduction in earnings with a corresponding adjustment to the actuarial movement on the retirement benefit asset taken through the statement of comprehensive income. The associated deferred tax charges/credits taken through the income statement and through the statement of comprehensive income have also been restated. There is, therefore, no balance sheet impact. The adoption of the revised IAS 19 has resulted in the group's prior year comparatives being restated as set out in the following table:

Group	Reported £m	Adjustment £m	2012 Restated £m
Income statement/statement of comprehensive income			
Retirement benefit charge before exceptional curtailment credit	(4.2)	(2.7)	(6.9)
Exceptional curtailment credit	17.7	–	17.7
Retirement benefit credit	13.5	(2.7)	10.8
Actuarial movements on retirement benefit asset	(14.1)	2.7	(11.4)
Balance sheet			
Retirement benefit asset	23.0	–	23.0
Deferred tax assets	6.1	–	6.1

In addition, the group has undertaken a full group review of retirement benefits within the company and its subsidiaries. Historically, the retirement benefit asset and its cost were allocated to the company and its subsidiaries on a pro rata basis based upon the actual employer cash contributions made by each company. However, as there is not a contractual agreement or stated policy for allocating the retirement benefit asset or its costs to each subsidiary within the group, it is considered more appropriate to recognise the full group retirement benefit asset in the financial statements of the company, as the sponsoring company, and to account for retirement benefits on a contribution basis in the subsidiaries. The contributions made to the defined benefit pension plan by the subsidiaries are now therefore treated as a credit to the retirement benefit charge of the company.

The change in treatment, together with the adoption of the revised IAS 19, has resulted in the company's prior year comparatives being restated. Where prior year comparatives are restated for material items, the group and the company are required to disclose a third balance sheet as at the beginning of the preceding period and an explanation of the impact of those material items on that period. The impact of changes to IAS 19 are not material to the balance sheet of either the group or the company. However, the impact of the change in treatment of the pension asset on the balance sheet of the company is material. Accordingly, a third balance sheet as at 31 December 2011 has been included in addition to the current year balance sheet as at 31 December 2013 and the prior year balance sheet as at 31 December 2012. Comparative figures in the statement of changes in shareholders' equity, the retirement benefit asset note and the deferred tax note also include comparatives for both 2012 and 2011 as these are the only areas of the balance sheet affected by the change in treatment. All other notes relating to the company include only comparatives relating to 2012 as they were not affected by the change in treatment. The table below sets out the adjustments to the retirement benefit asset, deferred tax asset/(liability) and retained earnings as at 31 December 2012 and 31 December 2011.

			2012			2011
Company	Reported £m	Adjustment £m	Restated £m	Reported £m	Adjustment £m	Restated £m
Retirement benefit asset	1.9	21.1	23.0	4.2	9.3	13.5
Deferred tax asset/(liability)	4.0	(4.9)	(0.9)	3.6	(2.3)	1.3
Retained earnings	94.8	16.2	111.0	135.3	7.0	142.3

Notes to the financial statements continued

18 Retirement benefit asset (continued)

The net retirement benefit asset recognised in the balance sheet of the group is as follows:

	Group			
	£m	2013 %	£m	2012 %
Equities	**237.4**	**39**	249.2	44
Corporate bonds	**156.7**	**25**	187.4	33
Index-linked gilts	**145.2**	**24**	103.9	18
Cash and money market funds	**74.5**	**12**	30.2	5
Total fair value of scheme assets	**613.8**	**100**	570.7	100
Present value of funded defined benefit obligation	**(584.6)**		(547.7)	
Net retirement benefit asset recognised in the balance sheet	**29.2**		23.0	

The valuation of the pension scheme has increased from £23.0m at 31 December 2012 to £29.2m at 31 December 2013. A high level reconciliation of the movement is as follows:

Group and company	£m
Pension asset as at 31 December 2012	23
Cash contributions made by the group	15
Return on assets being held to meet pension obligations	28
Reduction in future liabilities due to CCD business restructuring	2
Actuarially based cost of new benefits	(6)
Increase in mortality assumptions	(6)
Increase in discount rate used to discount future liabilities	(11)
Increase in inflation rates used to forecast pensions	(16)
Pension asset as at 31 December 2013	29

The net retirement benefit asset recognised in the balance sheet of the company is as follows:

	Company					
	£m	2013 %	£m	2012 (restated) %	£m	2011 (restated) %
Equities	**237.4**	**39**	249.2	44	218.4	42
Corporate bonds	**156.7**	**25**	187.4	33	173.9	33
Fixed interest gilts	**–**	**–**	–	–	28.4	5
Index-linked gilts	**145.2**	**24**	103.9	18	103.2	20
Cash and money market funds	**74.5**	**12**	30.2	5	1.1	–
Total fair value of scheme assets	**613.8**	**100**	570.7	100	525.0	100
Present value of funded defined benefit obligation	**(584.6)**		(547.7)		(511.5)	
Net retirement benefit asset recognised in the balance sheet	**29.2**		23.0		13.5	

18 Retirement benefit asset (continued)

The amounts recognised in the income statement were as follows:

	Group		Company		
	2013 £m	2012 (restated) £m	2013 £m	2012 (restated) £m	2011 (restated) £m
Current service cost	**(7.1)**	(7.6)	**(7.1)**	(7.6)	(7.6)
Interest on scheme liabilities	**(24.5)**	(24.9)	**(24.5)**	(24.9)	(25.4)
Interest on scheme assets	**25.6**	25.6	**25.6**	25.6	27.7
Contributions from subsidiaries	**–**	–	**13.7**	9.7	9.5
Net (charge)/credit recognised in the income statement before exceptional curtailment credit	**(6.0)**	(6.9)	**7.7**	2.8	4.2
Exceptional curtailment credit	**1.6**	17.7	**1.6**	17.7	–
Net (charge)/credit recognised in the income statement	**(4.4)**	10.8	**9.3**	20.5	4.2

The exceptional curtailment credit in 2013 of £1.6m for the group and company relates to the headcount reductions associated with the business restructuring within CCD (see note 1).

The exceptional curtailment credit in 2012 of £17.7m for the group and company relates to the change during the year to applying statutory revaluations to accrued final salary benefits, rather than in line with future salary increases.

The net (charge)/credit recognised in the income statement of the group has been included within administrative costs.

Movements in the fair value of scheme assets were as follows:

	Group		Company		
	2013 £m	2012 (restated) £m	2013 £m	2012 (restated) £m	2011 (restated) £m
Fair value of scheme assets at 1 January as previously reported					132.1
Prior year adjustment					382.0
Fair value of scheme assets at 1 January as restated	**570.7**	525.0	**570.7**	525.0	514.1
Interest on scheme assets	**25.6**	25.6	**25.6**	25.6	27.7
Contributions by subsidiaries	**–**	–	**13.7**	9.7	9.5
Actuarial movement on scheme assets	**20.1**	25.3	**20.1**	25.3	(14.1)
Contributions by the group/company	**14.5**	10.1	**0.8**	0.4	0.5
Net benefits paid out	**(17.1)**	(15.3)	**(17.1)**	(15.3)	(12.7)
Fair value of scheme assets at 31 December	**613.8**	570.7	**613.8**	570.7	525.0

The group contributions to the defined benefit pension scheme in the year ending 31 December 2014 are expected to be approximately £13m.

Movements in the present value of the defined benefit obligation were as follows:

	Group		Company		
	2013 £m	2012 (restated) £m	2013 £m	2012 (restated) £m	2011 (restated) £m
Present value of the defined benefit obligation at 1 January as previously reported					(119.5)
Prior year adjustment					(353.6)
Present value of the defined benefit obligation at 1 January as restated	**(547.7)**	(511.5)	**(547.7)**	(511.5)	(473.1)
Current service cost	**(7.1)**	(7.6)	**(7.1)**	(7.6)	(7.6)
Interest on scheme liabilities	**(24.5)**	(24.9)	**(24.5)**	(24.9)	(25.4)
Exceptional curtailment credit	**1.6**	17.7	**1.6**	17.7	–
Actuarial movement on scheme liabilities	**(24.0)**	(36.7)	**(24.0)**	(36.7)	(18.1)
Net benefits paid out	**17.1**	15.3	**17.1**	15.3	12.7
Present value of the defined benefit obligation at 31 December	**(584.6)**	(547.7)	**(584.6)**	(547.7)	(511.5)

Notes to the financial statements continued

18 Retirement benefit asset (continued)

The liabilities of the scheme are based on the current value of expected benefit payments over the next 90 years. The weighted average duration of the scheme is approximately 20 years.

The principal actuarial assumptions used at the balance sheet date were as follows:

	Group and company	
	2013 %	2012 %
Price inflation – RPI	**3.40**	3.00
Price inflation – CPI	**2.40**	2.25
Rate of increase to pensions in payment	**3.10**	2.80
Inflationary increases to pensions in deferment	**2.40**	2.25
Discount rate	**4.40**	4.50

The pension increase assumption shown above applies to pensions increasing in payment each year in line with RPI up to 5%. Pensions accrued prior to 2000 are substantially subject to fixed 5% increases each year. In deferment increases prior to retirement are linked to CPI.

The mortality assumptions used in the valuation of the defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy.

In 2012, the group updated the mortality assumption following the 1 June 2012 actuarial valuation. For IAS19, the group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- Future mortality improvements are in line with CMI 2013 projections with long-term trend improvements of 1.25% per annum.

In more simple terms, it is assumed that members who retire in the future at age 65 will live on average for a further 24 years if they are male (2012: 24 years) and for a further 25 years if they are female (2012: 26 years). The table below shows the sensitivity on the defined benefit obligation (not including any impact on assets) of changes in the key assumptions. Depending on the scenario, there would also be compensating asset movements.

	Group and company	
	2013 £m	2012 £m
Discount rate decreased by 0.1%	**12.0**	11.0
Inflation increased by 0.1%	**8.0**	7.0
Life expectancy increased by one year	**18.0**	20.0

The actual return on scheme assets compared to the expected return is as follows:

	Group		Company		
	2013 £m	2012 (restated) £m	**2013** £m	2012 (restated) £m	2011 (restated) £m
Interest on scheme assets	**25.6**	25.6	**25.6**	25.6	27.7
Actuarial movement on scheme assets	**20.1**	25.3	**20.1**	25.3	(14.1)
Actual return on scheme assets	**45.7**	50.9	**45.7**	50.9	13.6

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		Company		
	2013 £m	2012 (restated) £m	**2013** £m	2012 (restated) £m	2011 (restated) £m
Actuarial movement on scheme assets	**20.1**	25.3	**20.1**	25.3	(14.1)
Actuarial movement on scheme liabilities	**(24.0)**	(36.7)	**(24.0)**	(36.7)	(18.1)
Total movement recognised in other comprehensive income in the year	**(3.9)**	(11.4)	**(3.9)**	(11.4)	(32.2)
Cumulative movement recognised in other comprehensive income	**(90.4)**	(86.5)	**(60.9)**	(57.0)	(45.6)

18 Retirement benefit asset (continued)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the group is as follows:

					Group
	2013 £m	2012 (restated) £m	2011 (restated) £m	2010 (restated) £m	2009 (restated) £m
Fair value of scheme assets	**613.8**	570.7	525.0	514.1	464.6
Present value of funded defined benefit obligation	**(584.6)**	(547.7)	(511.5)	(473.1)	(444.7)
Retirement benefit asset recognised in the balance sheet	**29.2**	23.0	13.5	41.0	19.9
Experience gains/(losses) on scheme assets:					
– amount (£m)	**20.1**	25.3	(13.4)	26.0	29.1
– percentage of scheme assets (%)	**3.3**	4.4	(2.6)	5.1	6.3
Experience gains/(losses) on scheme liabilities:					
– amount (£m)	**(0.9)**	16.3	(6.1)	–	10.3
– percentage of scheme liabilities (%)	**(0.2)**	3.0	(1.2)	–	2.3

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the company is as follows:

					Company
	2013 £m	2012 (restated) £m	2011 (restated) £m	2010 (restated) £m	2009 (restated) £m
Fair value of scheme assets	**613.8**	570.7	525.0	514.1	464.6
Present value of funded defined benefit obligation	**(584.6)**	(547.7)	(511.5)	(473.1)	(444.7)
Retirement benefit asset recognised in the balance sheet	**29.2**	23.0	13.5	41.0	19.9
Experience gains/(losses) on scheme assets:					
– amount (£m)	**20.1**	25.3	(13.4)	26.0	29.1
– percentage of scheme assets (%)	**3.3**	4.4	(2.6)	5.1	6.3
Experience gains/(losses) on scheme liabilities:					
– amount (£m)	**(0.9)**	16.3	(6.1)	–	10.3
– percentage of scheme liabilities (%)	**(0.2)**	3.0	(1.2)	–	2.3

(b) Pension schemes – defined contribution

The group operates a stakeholder pension plan into which group companies contribute a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice arrangement (typically ranging between 3.0% and 8.0%). The assets of the scheme are held separately from those of the group and company. The pension charge in the consolidated income statement represents contributions paid by the group in respect of the plan and amounted to £4.3m for the year ended 31 December 2013 (2012: £3.8m). Contributions made by the company amounted to £0.4m (2012: £0.4m). No contributions were payable to the fund at the year-end (2012: £nil).

The group contributed £nil to personal pension plans in the year (2012: £0.1m).

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 £50,000 in any year. This limit is in addition to HMRC's Lifetime Allowance of £1.5m. As a result of these limits, those affected have been provided with a number of alternative options by the group, principally: (i) participation in an Unfunded, Unapproved Retirement Benefit Scheme (UURBS); (ii) a cash supplement payable in lieu of pension contributions payable; and (iii) contributions payable into a self-invested personal pension plan (SIPP). In 2013, the group has contributed £0.4m into the UURBS (2012: £0.6m), £0.1m into cash supplements (2012: £0.1m) and £nil into SIPPs (2012: £0.1m). In 2013, the company has contributed £0.4m into the UURBS (2012: £0.5m) and £0.1m into cash supplements (2012: £0.1m).

Notes to the financial statements continued

19 Deferred tax

Deferred tax is a future tax liability or asset, resulting from temporary differences or timing differences between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of derivative financial instruments, the group's pension asset, deductions for employee share awards which are recognised differently for tax purposes and property, plant and equipment which are depreciated on a different basis for tax purposes.

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. As a result of the changes in the UK corporation tax rates, deferred tax balances have been re-measured at 20% (2012: 23%) on the basis that the differences are expected to reverse after 1 April 2015 (2012: 1 April 2013). A tax charge of £0.7m in 2013 (2012: £0.4m) represents the income statement adjustment to deferred tax as a result of this change, which primarily arises as a result of revaluing the benefit of future tax deductions at the lower 20% tax rate. An additional deferred tax credit of £0.3m in 2013 (2012: charge of £0.1m) has been taken directly to other comprehensive income, reflecting the impact of the change in UK corporation tax rates on items previously reflected directly in other comprehensive income. The movement in the deferred tax asset during the year can be analysed as follows:

	Group		Company		
Asset/(liability)	**2013 £m**	2012 (restated) £m	**2013 £m**	2012 (restated) £m	2011 (restated) £m
At 1 January as previously reported					1.9
Prior year adjustment (note 18)					(7.7)
At 1 January as restated	**6.1**	7.5	**(0.9)**	1.3	(5.8)
Charge to the income statement (note 5)	**(2.5)**	(3.7)	**(2.7)**	(5.0)	(0.8)
Credit on other comprehensive income prior to impact of change in UK tax rate (note 5)	**0.3**	2.8	**0.3**	2.6	8.2
Impact of change in UK tax rate:					
– (charge)/credit to the income statement	**(0.7)**	(0.4)	**0.2**	0.3	(0.1)
– credit/(charge) to other comprehensive income	**0.3**	(0.1)	**0.3**	(0.1)	(0.2)
At 31 December	**3.5**	6.1	**(2.8)**	(0.9)	1.3

Details of the prior year adjustment and restatement of comparative financial information are set out in note 18.

An analysis of the deferred tax asset for the group is set out below:

	2013				2012			
Group – asset/(liability)	**Accelerated capital allowances £m**	**Other temporary differences £m**	**Retirement benefit asset £m**	**Total £m**	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset (restated) £m	Total (restated) £m
At 1 January	**1.7**	**9.7**	**(5.3)**	**6.1**	0.9	10.0	(3.4)	7.5
Credit/(charge) to the income statement	**0.3**	**(0.5)**	**(2.3)**	**(2.5)**	0.9	0.4	(5.0)	(3.7)
(Charge)/credit on other comprehensive income prior to change in UK tax rate	**–**	**(0.6)**	**0.9**	**0.3**	–	0.1	2.7	2.8
Impact of change in UK tax rate:								
– (charge)/credit to the income statement	**(0.3)**	**(0.8)**	**0.4**	**(0.7)**	(0.1)	(0.7)	0.4	(0.4)
– (charge)/credit to other comprehensive income	**–**	**(0.2)**	**0.5**	**0.3**	–	(0.1)	–	(0.1)
At 31 December	**1.7**	**7.6**	**(5.8)**	**3.5**	1.7	9.7	(5.3)	6.1

19 Deferred tax (continued)

An analysis of the deferred tax asset for the company is set out below:

Company – asset/(liability)	2013 Accelerated capital allowances £m	2013 Other temporary differences £m	2013 Retirement benefit asset £m	2013 Total £m	2012 Accelerated capital allowances £m	2012 Other temporary differences £m	2012 Retirement benefit asset (restated) £m	2012 Total (restated) £m
At 1 January as restated	(0.6)	5.0	(5.3)	(0.9)	(0.5)	5.2	(3.4)	1.3
Credit/(charge) to the income statement	0.2	(0.6)	(2.3)	(2.7)	(0.1)	0.1	(5.0)	(5.0)
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	–	(0.6)	0.9	0.3	–	(0.1)	2.7	2.6
Impact of change in UK tax rate:								
– (charge)/credit to the income statement	–	(0.2)	0.4	0.2	–	(0.1)	0.4	0.3
– (charge)/credit to other comprehensive income	–	(0.2)	0.5	0.3	–	(0.1)	–	(0.1)
At 31 December	(0.4)	3.4	(5.8)	(2.8)	(0.6)	5.0	(5.3)	(0.9)

Company – asset/(liability)	2011 Accelerated capital allowances £m	2011 Other temporary differences £m	2011 Retirement benefit asset (restated) £m	2011 Total (restated) £m
At 1 January as previously reported	(0.1)	5.4	(3.4)	1.9
Prior year adjustment (note 18)	–	–	(7.7)	(7.7)
At 1 January as restated	(0.1)	5.4	(11.1)	(5.8)
(Charge)/credit to the income statement	(0.4)	0.4	(0.8)	(0.8)
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	–	(0.4)	8.6	8.2
Impact of change in UK tax rate:				
– charge to the income statement	–	–	(0.1)	(0.1)
– charge to other comprehensive income	–	(0.2)	–	(0.2)
At 31 December	(0.5)	5.2	(3.4)	1.3

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences because it is probable that these assets will be recovered.

Notes to the financial statements continued

20 Cash and cash equivalents

Cash and cash equivalents includes cash at bank, floats held by agents within CCD and Vanquis Bank's liquid assets buffer, including other liquid resources, held in accordance with the PRA's liquidity regime. The PRA requires regulated entities to maintain a liquid assets buffer and other liquid resources to ensure they have available funds to help protect against unforeseen circumstances. The amount of the liquid assets buffer is calculated using Individual Liquidity Guidance (ILG) set by the PRA based on the Individual Liquidity Adequacy Assessment (ILAA) prepared by Vanquis Bank. In addition, further liquid resources must be maintained based upon daily stress tests linked to three key liquidity risks of Vanquis Bank, namely retail deposits maturities, undrawn credit card lines and operating cash flows. This results in a dynamic liquid resources requirement, largely driven by retail deposits maturities in the following three months. Vanquis Bank's liquid assets buffer, including other liquid resources, amounts to £86.3m in 2013 (2012: £52.3m) and is held in a combination of UK government gilts and a designated money market fund with exposure to the UK government only.

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash at bank and in hand	**119.0**	79.1	**13.6**	2.6

In addition to cash and cash equivalents, the group had £9.3m of bank overdrafts at 31 December 2013 (2012: £9.4m) and the company had £2.9m of bank overdrafts (2012: £7.4m) both of which are disclosed within bank and other borrowings (see note 21).

The currency profile of cash and cash equivalents is as follows:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Sterling	**117.6**	78.1	**13.5**	2.6
Zloty	**1.4**	1.0	**0.1**	–
Total cash and cash equivalents	**119.0**	79.1	**13.6**	2.6

Cash and cash equivalents are non-interest bearing other than the amounts held by Vanquis Bank as a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime which bear interest at rates linked to sterling Government bonds.

21 Bank and other borrowings

(a) Borrowing facilities and borrowings

Borrowings principally comprise syndicated and bilateral bank facilities arranged for periods of up to five years, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 21(d)), loan notes privately placed with US and UK institutions (see note 21(e)), retail bonds (see note 21(f)), retail deposits issued by Vanquis Bank (see note 21(g)) and subordinated loan notes (see note 21(h)). As at 31 December 2013, borrowings under these facilities amounted to £1,284.6m (2012: £1, 201.4m).

(b) Maturity profile of bank and other borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

Group	2013 Borrowing facilities available £m	2013 Borrowings £m	2012 Borrowing facilities available £m	2012 Borrowings £m
Repayable:				
On demand	**24.1**	**9.3**	24.1	9.4
In less than one year	**106.7**	**111.9**	162.2	160.4
Included in current liabilities	**130.8**	**121.2**	186.3	169.8
Between one and two years	**508.5**	**270.1**	89.3	96.9
Between two and five years	**492.1**	**489.3**	753.1	552.7
In more than five years	**405.2**	**404.0**	383.3	382.0
Included in non-current liabilities	**1,405.8**	**1,163.4**	1,225.7	1,031.6
Total group	**1,536.6**	**1,284.6**	1,412.0	1,201.4

Borrowings are stated after deducting £7.2m of unamortised arrangement fees (2012: £9.8m) and after a £5.2m credit in respect of the fair value adjustment of derivative financial instruments (2012: £5.8m) (see note 16(d)).

In order to reconcile the borrowings shown in the table above and the headroom on committed facilities shown in 21(i), the facilities and borrowings in respect of amounts repayable on demand should be deducted and unamortised arrangement fees should be added back to borrowings and the fair value adjustments in respect of derivative financial instruments should be deducted from borrowings as follows:

Group	2013 Facilities £m	2013 Borrowings £m	2012 Facilities £m	2012 Borrowings £m
Total group facilities and borrowings	1,536.6	1,284.6	1,412.0	1,201.4
Repayable on demand	(24.1)	(9.3)	(24.1)	(9.4)
Unamortised arrangement fees	–	7.2	–	9.8
Fair value adjustment in respect of derivative financial instruments	–	(5.2)	–	(5.8)
Total group committed facilities and borrowings	1,512.5	1,277.3	1,387.9	1,196.0
Headroom on committed facilities		235.2		191.9

Company	2013 Borrowing facilities available £m	2013 Borrowings £m	2012 Borrowing facilities available £m	2012 Borrowings £m
Repayable:				
On demand	**24.1**	**2.9**	24.1	7.4
In less than one year	**–**	**–**	–	–
Included in current liabilities	**24.1**	**2.9**	24.1	7.4
Between one and two years	**400.6**	**162.2**	–	–
Between two and five years	**233.3**	**230.5**	590.3	389.9
In more than five years	**405.2**	**404.0**	383.3	382.0
Included in non-current liabilities	**1,039.1**	**796.7**	973.6	771.9
Total company	**1,063.2**	**799.6**	997.7	779.3

Notes to the financial statements continued

21 Bank and other borrowings (continued)

(b) Maturity profile of bank and other borrowings (continued)
As at 31 December 2013, the weighted average period to maturity of the group's committed facilities, including retail deposits, was 3.2 years (2012: 3.7 years) and for the company's committed facilities was 3.7 years (2012: 4.5 years). Excluding retail deposits, the weighted average period to maturity of the group's committed facilities was 3.6 years (2012: 4.2 years). On 31 January 2014, the group entered into a new £382.5m syndicated bank facility maturing in May 2017 and cancelled the existing facility which was due to expire in May 2015. After adjusting for this renewal, the weighted average period to maturity of the group's committed facilities is 3.8 years (4.3 years, excluding retail deposits) and the weighted average period to maturity of the company's committed facilities is 4.5 years.

(c) Interest rate and currency profile of bank and other borrowings
Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the group and company, the interest rate and foreign exchange rate exposure on borrowings is as follows:

			2013			2012
Group	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	**950.1**	**230.1**	**1,180.2**	777.7	271.2	1,048.9
US dollar	**41.5**	**–**	**41.5**	90.7	–	90.7
Euro	**–**	**56.3**	**56.3**	–	61.8	61.8
Zloty	**–**	**6.6**	**6.6**	–	–	–
Total group	**991.6**	**293.0**	**1,284.6**	868.4	333.0	1,201.4

			2013			2012
Company	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	**513.0**	**223.7**	**736.7**	448.3	269.2	717.5
Euro	**–**	**56.3**	**56.3**	–	61.8	61.8
Zloty	**–**	**6.6**	**6.6**	–	–	–
Total company	**513.0**	**286.6**	**799.6**	448.3	331.0	779.3

As detailed in note 16, the group and company have entered into various interest rate swaps and cross-currency swap arrangements to hedge the interest rate and foreign exchange rate exposures on borrowings. After taking account of the aforementioned interest rate swaps, the group's fixed rate borrowings are £1,111.6m (2012: £988.4m) and the company's fixed rate borrowings are £633.0m (2012: £568.3m). After taking account of cross-currency swaps, the group and company have no foreign exchange rate exposure to borrowings denominated in US dollars (2012: £nil).

(d) Senior public bonds
On 23 October 2009, the company issued £250.0m of senior public bonds. The bonds have an annual coupon of 8.0% and are repayable on 23 October 2019.

(e) Private placement loan notes
On 24 April 2003, the group issued loan notes as follows:

(i) US$44m of 5.81% loan notes matured and repaid on 24 April 2010; and

(ii) US$76m of 6.34% loan notes matured and repaid on 24 April 2013.

On 12 August 2004, the group issued loan notes as follows:

(i) US$30m of 6.02% loan notes matured and repaid on 12 August 2011;

(ii) US$67m of 6.45% loan notes repayable on 12 August 2014; and

(iii) £2m of 7.01% loan notes repayable on 12 August 2014.

As set out in note 21(c), cross-currency swaps have been put in place to swap the proceeds and liabilities for principal and interest under the US dollar-denominated loan notes into sterling.

On 13 January 2011, the company entered into a committed £100.0m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years five and 10. The facility bears interest at rates linked to LIBOR.

The company subsequently entered into the following arrangements with third-party debt providers:

- 3 February 2011 – €10m facility agreement over a seven-year period at rates linked to EURIBOR;
- 4 March 2011 – £20m private placement loan notes over a seven-year period at rates linked to LIBOR; and
- 24 May 2011 – €14.5m private placement loan notes over a four-year period at rates linked to EURIBOR. The company has the option to repay the notes after three years.

21 Bank and other borrowings (continued)

(f) Retail bonds

The company has issued four retail bonds on the ORB platform established by the London Stock Exchange as follows:

Issue date	Amount £m	Rate %	Maturity date
14 April 2010	25.2	7.5%*	14 April 2020
25 March 2011	50.0	7.5%	30 September 2016
4 April 2012	120.0	7.0%	4 October 2017
27 March 2013	65.0	6.0%	27 September 2021
Total group and company	**260.2**		

*represents an all-in cost of 7.5%, comprising a 7.0% interest rate payable to the bond holder and 0.5% payable to the distributor.

(g) Retail deposits

Vanquis Bank is a PRA regulated bank and commenced taking retail deposits in July 2011. As at 31 December 2013, £435.1m (2012: £327.4m) of fixed-rate, fixed-term retail deposits of one, two, three, four and five years had been taken. The deposits have been issued at rates of between 1.66% and 4.65%.

A reconciliation of the movement in retail deposits is set out below:

	Group	
	2013 £m	2012 £m
At 1 January	327.4	139.7
New funds received	187.7	202.4
Maturities	(114.9)	(33.5)
Retentions	31.8	16.4
Cancellations	(3.2)	(1.1)
Capitalised interest	6.3	3.5
At 31 December	435.1	327.4

(h) Subordinated loan notes

On 15 June 2005, the company issued £100.0m of subordinated loan notes repayable on 15 June 2015. £94.0m of the liability was settled in 2009. The rights of repayment to holders of the loan notes are subordinated to all other borrowings and liabilities of the company upon a winding up of the company and, in certain circumstances, upon its administration.

(i) Undrawn committed borrowing facilities

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fund 90% of its receivables book through retail deposits.

The undrawn committed borrowing facilities at 31 December were as follows:

	Group and company	
	2013 £m	2012 £m
Expiring within one year	–	–
Expiring within one to two years	**235.2**	–
Expiring in more than two years	–	191.9
Total group and company	**235.2**	191.9

The table above excludes the additional capacity for Vanquis Bank to take retail deposits up to the permitted level of 90% of its receivables set by the PRA. As a PRA-regulated business, Vanquis Bank cannot lend funds to its parent as this would breach its large exposures rules. As a result, the additional retail deposits capacity at 31 December 2013 is the lower of: (i) 90% of Vanquis Bank's UK receivables of £861.3m less retail deposits of £435.1m after setting aside the necessary liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime of £25.5m – this amounts to £314.6m; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £292.1m as at 31 December 2013. Accordingly, Vanquis Bank's retail deposits capacity at 31 December 2013 amounts to £292.1m. The group's total funding capacity at the end of 2013 therefore amounts to £527.3m, being the group's headroom on undrawn committed borrowing facilities of £235.2m plus the amount of Vanquis Bank's intercompany loan of £292.1m.

Notes to the financial statements continued

21 Bank and other borrowings (continued)

(j) Weighted average interest rates and periods to maturity
Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the group and company, the weighted average interest rate and the weighted average period to maturity of the group and company's fixed-rate borrowings is as follows:

Group	2013 Weighted average interest rate %	2013 Weighted average period to maturity years	2012 Weighted average interest rate %	2012 Weighted average period to maturity years
Sterling	**5.66**	**3.90**	6.06	4.36
US dollar	**6.39**	**0.61**	6.39	0.87

Company	2013 Weighted average interest rate %	2013 Weighted average period to maturity years	2012 Weighted average interest rate %	2012 Weighted average period to maturity years
Sterling	**7.41**	**5.26**	7.62	5.90

After taking account of interest rate swaps and cross-currency swaps, the sterling-weighted average fixed interest rate for the group was 5.70% (2012: 5.69%) and for the company was 6.62% (2012: 6.69%). The sterling-weighted average period to maturity on the same basis is 4.1 years (2012: 4.6 years) for the group and 5.2 years (2012: 5.9 years) for the company. There is £nil foreign exchange or interest rate risk denominated in US dollars after taking account of cross-currency swaps (2012: £nil).

(k) Fair values
The fair values of the group and company's bank and other borrowings are compared to their book values as follows:

Group	2013 Book value £m	2013 Fair value £m	2012 Book value £m	2012 Fair value £m
Bank loans and overdrafts	**154.6**	**154.6**	196.0	196.0
Senior public bonds	**250.0**	**279.0**	250.0	268.1
Sterling private placement loan notes	**122.0**	**135.0**	122.0	144.4
US dollar private placement loan notes	**36.3**	**36.8**	84.9	85.4
Euro private placement loan notes	**20.4**	**22.2**	19.9	22.1
Retail bonds	**260.2**	**279.9**	195.2	209.6
Retail deposits	**435.1**	**457.4**	327.4	364.8
Subordinated loan notes	**6.0**	**6.6**	6.0	6.9
Total group	**1,284.6**	**1,371.5**	1,201.4	1,297.3

Company	2013 Book value £m	2013 Fair value £m	2012 Book value £m	2012 Fair value £m
Bank loans and overdrafts	**143.0**	**143.0**	186.2	186.2
Senior public bonds	**250.0**	**279.0**	250.0	268.1
Sterling private placement loan notes	**120.0**	**135.0**	122.0	144.4
Euro private placement loan notes	**20.4**	**22.2**	19.9	22.1
Retail bonds	**260.2**	**281.1**	195.2	209.6
Subordinated loan notes	**6.0**	**6.6**	6.0	6.9
Total company	**799.6**	**866.9**	779.3	837.3

The fair value of the sterling, US dollar and euro private placement loan notes, the retail deposits and the subordinated loan notes have been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date. The fair value of the senior public bonds and retail bonds equate to their publicly quoted market price at the balance sheet date.

22 Trade and other payables

Current liabilities	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Trade payables	**4.5**	3.9	**–**	–
Amounts owed to group undertakings	**–**	–	**156.3**	151.1
Other payables including taxation and social security	**6.1**	9.1	**1.4**	3.6
Accruals	**55.2**	47.6	**20.9**	19.5
Total	**65.8**	60.6	**178.6**	174.2

The amounts owed to group undertakings are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR.

Accruals principally relate to normal operating accruals such as rent, rates and utilities, interest accrued on the group's borrowings and national insurance accrued in respect of share-based payments. The increase during 2013 principally reflects interest accruals relating to retail deposits and costs associated with the restructuring within CCD.

Non-current liabilities	Company 2013 £m	Company 2012 £m
Amounts owed to group undertakings	**–**	48.6

The amounts owed to group undertakings are unsecured, due for repayment in more than one year and accrue interest at rates linked to LIBOR.

23 Share capital

Group and company		2013 Authorised	2013 Issued and fully paid	2012 Authorised	2012 Issued and fully paid
Ordinary shares of 20 8/11p each	**– £m**	**40.0**	**28.9**	40.0	28.7
	– number (m)	**193.0**	**139.6**	193.0	138.4

The movement in the number of shares in issue during the year was as follows:

Group and company	2013 m	2012 m
At 1 January	**138.4**	137.2
Shares issued pursuant to the exercise/vesting of options and awards	**1.2**	1.2
At 31 December	**139.6**	138.4

The shares issued pursuant to the exercise/vesting of options and awards comprised 1,198,034 ordinary shares (2012: 1,191,195) with a nominal value of £248,320 (2012: £246,902) and an aggregate consideration of £2.7m (2012: £2.3m).

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 2013, the EBT held 2,789,343 (2012: 3,173,526) shares in the company with a cost of £0.6m (2012: £0.9m) and a market value of £45.3m (2012: £43.1m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006.

Provident Financial plc also sponsors the Performance Share Plan Trust which was established to operate in conjunction with the Performance Share Plan (PSP). As at 31 December 2013, awards under the PSP, held in the name of the individual subject to the award, were 994,627 (2012: 695,009) ordinary shares with a cost of £0.2m (2012: £0.1m) and a market value of £16.2m (2012: £9.4m).

Notes to the financial statements continued

24 Share-based payments

The group issues share options and awards to senior employees as part of its employee remuneration packages. The group operates three share schemes: the Long Term Incentive Scheme (LTIS), employees' savings-related share option schemes typically referred to as Save As You Earn schemes (SAYE), and the Performance Share Plan (PSP). The group also previously operated senior executive share option schemes (ESOS/SESO), although no options have been granted under these schemes since 2006.

When a share option or award is granted, a fair value is calculated based on the current share price, probability of the option/award vesting, the group's recent share price volatility, and the risk associated with the option/award. The fair value of all options is charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

The charge to the income statement in 2013 was £7.4m for the group (2012: £6.4m) and £3.6m for the company (2012: £3.3m).

During 2013, awards/options have been granted under the LTIS, PSP and SAYE schemes (2012: awards/options granted under the LTIS, PSP and SAYE schemes). The increase in the share-based payment charge from £6.4m in 2012 to £7.4m in 2013, principally reflects the impact of prior year provision releases in 2012 following lower than expected vesting levels from the 2009 Long Term Incentive Scheme.

The fair value per award/option granted and the assumptions used in the calculation of the share-based payment charge are as follows:

			2013			2012
Group	PSP	LTIS	SAYE	PSP	LTIS	SAYE
Grant date	9 May 2013	1 Mar 2013	23 Aug 2013	26 Mar 2012	26 Mar 2012	28 Sep 2012
Share price at grant date (£)	16.00	15.01	17.15	11.62	11.62	13.75
Exercise price (£)	–	–	13.05	–	–	10.56
Shares awarded/under option (number)	299,618	535,014	200,259	311,150	572,857	275,940
Vesting period (years)	3	3	3 and 5	3	3	3 and 5
Expected volatility	24.0%	23.9%	23.7%-27.2%	23.8%	23.8%	24.3%-30.9%
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	0.69%	0.67%	0.88%-1.64%	0.65%	0.65%	0.30%-0.69%
Expected dividends expressed as a dividend yield	n/a	n/a	5.0%	n/a	n/a	5.8%
Fair value per award/option (£)	16.00	6.03-15.01	3.37-3.72	11.62	7.47	2.18-2.51

			2013			2012
Company	PSP	LTIS	SAYE	PSP	LTIS	SAYE
Grant date	9 May 2013	1 Mar 2013	23 Aug 2013	26 Mar 2012	26 Mar 2012	28 Sep 2012
Share price at grant date (£)	16.00	15.01	17.15	11.62	11.62	13.75
Exercise price (£)	–	–	13.05	–	–	10.56
Shares awarded/under option (number)	204,498	282,755	5,931	205,800	346,610	8,403
Vesting period (years)	3	3	3 and 5	3	3	3 and 5
Expected volatility	24.0%	23.9%	23.7%-27.2%	23.8%	23.8%	24.3%-30.9%
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	0.69%	0.67%	0.88%-1.64%	0.65%	0.65%	0.30%-0.69%
Expected dividends expressed as a dividend yield	n/a	n/a	5.0%	n/a	n/a	5.8%
Fair value per award/option (£)	16.00	10.52	3.37-3.72	11.62	7.47	2.18-2.51

The expected volatility is based on historical volatility over the last three, five or seven 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.

24 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 2013	623,886	–	2,271,742	–	1,185,345	7.97	14,890	5.77
Awarded/granted	299,618	–	535,014	–	200,259	13.05	–	–
Lapsed	(86,623)	–	(74,548)	–	(97,910)	8.95	–	–
Exercised	(61,375)	–	(793,985)	–	(384,910)	6.62	(4,070)	5.77
Outstanding at 31 December 2013	775,506	–	1,938,223	–	902,784	9.56	10,820	5.77
Exercisable at 31 December 2013	–	–	–	–	24,945	6.81	10,820	5.77

Share awards outstanding under the LTIS scheme at 31 December 2013 had an exercise price of £nil (2012: £nil) and a weighted average remaining contractual life of 1.0 years (2012: 1.1 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2013 had an exercise price of 577p (2012: 577p) and a weighted average remaining contractual life of nil years (2012: nil years). Share options outstanding under the SAYE schemes at 31 December 2013 had exercise prices ranging from 491p to 1,305p (2012: 491p to 1,056p) and a weighted average remaining contractual life of 1.9 years (2012: 2.1 years). Share awards outstanding under the PSP schemes at 31 December 2013 had an exercise price of £nil (2012: £nil) and a weighted average remaining contractual life of 1.3 years (2012: 1.7 years).

	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 2012	669,855	–	2,580,917	–	1,321,589	7.05	14,890	5.77
Awarded/granted	311,150	–	572,857	–	275,940	10.56	–	–
Lapsed	(33,692)	–	(497,662)	–	(92,278)	7.41	–	–
Exercised	(323,427)	–	(384,370)	–	(319,906)	6.60	–	–
Outstanding at 31 December 2012	623,886	–	2,271,742	–	1,185,345	7.97	14,890	5.77
Exercisable at 31 December 2012	–	–	–	–	50,757	6.62	14,890	5.77

Notes to the financial statements continued

24 Share-based payments (continued)

Company	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £
Outstanding at 1 January 2013	419,748	–	1,197,956	–	36,032	7.97	4,070	5.77
Awarded/granted	204,498	–	282,755	–	5,931	13.05	–	–
Lapsed	(75,164)	–	(1,234)	–	(852)	10.56	–	–
Exercised	(43,948)	–	(429,119)	–	(15,603)	6.60	(4,070)	5.77
Outstanding at 31 December 2013	505,134	–	1,050,358	–	25,508	9.90	–	–
Exercisable at 31 December 2013	–	–	–	–	4,055	6.85	–	–

Company	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £
Outstanding at 1 January 2012	469,903	–	1,283,496	–	37,885	7.07	4,070	5.77
Awarded/granted	205,800	–	346,610	–	8,403	10.56	–	–
Lapsed	(33,692)	–	(229,968)	–	(2,739)	6.56	–	–
Exercised	(222,263)	–	(202,182)	–	(7,517)	6.75	–	–
Outstanding at 31 December 2012	419,748	–	1,197,956	–	36,032	7.97	4,070	5.77
Exercisable at 31 December 2012	–	–	–	–	3,429	6.56	4.070	5.77

Share awards outstanding under the LTIS scheme at 31 December 2013 had an exercise price of £nil (2012: £nil) and a weighted average remaining contractual life of 1.1 years (2012: 1.2 years). Share options outstanding under the SAYE schemes at 31 December 2013 had exercise prices ranging from 656p to 1,305p (2012: 491p to 1,056p) and a weighted average remaining contractual life of 1.7 years (2012: 1.7 years). Share awards outstanding under the PSP schemes at 31 December 2013 had an exercise price of £nil (2012: £nil) and a weighted average remaining contractual life of 1.3 years (2012: 1.7 years). There were no share options outstanding under the ESOS/SESO schemes at 31 December 2013.

25 Other reserves

Group	Profit retained by subsidiary £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2012	0.8	3.6	(6.4)	(4.6)	16.0	9.4
Other comprehensive income:						
– cash flow hedges (note 16)	–	–	(0.6)	–	–	(0.6)
– tax on items taken directly to other comprehensive income	–	–	0.1	–	–	0.1
– impact of change in UK tax rate	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	(0.6)	–	–	(0.6)
Transactions with owners:						
– purchase of own shares	–	–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards	–	–	–	3.7	–	3.7
– share-based payment charge (note 24)	–	–	–	–	6.4	6.4
– transfer of share-based payment reserve	–	–	–	–	(5.6)	(5.6)
At 31 December 2012	0.8	3.6	(7.0)	(1.0)	16.8	13.2
At 1 January 2013	**0.8**	**3.6**	**(7.0)**	**(1.0)**	**16.8**	**13.2**
Other comprehensive income:						
– cash flow hedges (note 16)	**–**	**–**	**2.7**	**–**	**–**	**2.7**
– tax on items taken directly to other comprehensive income	**–**	**–**	**(0.6)**	**–**	**–**	**(0.6)**
– impact of change in UK tax rate	**–**	**–**	**(0.2)**	**–**	**–**	**(0.2)**
Other comprehensive income for the year	**–**	**–**	**1.9**	**–**	**–**	**1.9**
Transactions with owners:						
– purchase of own shares	**–**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
– transfer of own shares on vesting of share awards	**–**	**–**	**–**	**0.6**	**–**	**0.6**
– share-based payment charge (note 24)	**–**	**–**	**–**	**–**	**7.4**	**7.4**
– transfer of share-based payment reserve	**–**	**–**	**–**	**–**	**(5.4)**	**(5.4)**
At 31 December 2013	**0.8**	**3.6**	**(5.1)**	**(0.9)**	**18.8**	**17.2**

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The hedging reserve reflects the corresponding entry to the fair value of hedging derivatives held on the balance sheet as either assets or liabilities (see note 16).

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 23). 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 payments reserve reflects the corresponding credit entry to the cumulative share-based payment charges made through the income statement as there is no cash cost or reduction in assets from the charges. When options and awards vest, that element of the share-based payment reserve relating to those awards and options is transferred to retained earnings.

Notes to the financial statements continued

25 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 2012	609.2	2.3	3.6	(7.1)	(4.6)	16.0	619.4
Other comprehensive income:							
– cash flow hedges (note 16)	–	–	–	0.1	–	–	0.1
– tax on items taken directly to other comprehensive income	–	–	–	(0.1)	–	–	(0.1)
– impact of change in UK tax rate	–	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	–	(0.1)	–	–	(0.1)
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards	–	–	–	–	3.7	–	3.7
– share-based payment charge (note 24)	–	–	–	–	–	3.3	3.3
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	0.6	0.6
– transfer of share-based payment reserve	–	–	–	–	–	(3.1)	(3.1)
At 31 December 2012	609.2	2.3	3.6	(7.2)	(1.0)	16.8	623.7
At 1 January 2013	**609.2**	**2.3**	**3.6**	**(7.2)**	**(1.0)**	**16.8**	**623.7**
Other comprehensive income:							
– cash flow hedges (note 16)	**–**	**–**	**–**	**2.7**	**–**	**–**	**2.7**
– tax on items taken directly to other comprehensive income	**–**	**–**	**–**	**(0.6)**	**–**	**–**	**(0.6)**
– impact of change in UK tax rate	**–**	**–**	**–**	**(0.2)**	**–**	**–**	**(0.2)**
Other comprehensive income for the year	**–**	**–**	**–**	**1.9**	**–**	**–**	**1.9**
Transactions with owners:							
– purchase of own shares	**–**	**–**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
– transfer of own shares on vesting of share awards	**–**	**–**	**–**	**–**	**0.6**	**–**	**0.6**
– share-based payment charge (note 24)	**–**	**–**	**–**	**–**	**–**	**3.6**	**3.6**
– share-based payment movement in investment in subsidiaries (note 13)	**–**	**–**	**–**	**–**	**–**	**0.8**	**0.8**
– transfer of share-based payment reserve	**–**	**–**	**–**	**–**	**–**	**(2.4)**	**(2.4)**
At 31 December 2013	**609.2**	**2.3**	**3.6**	**(5.3)**	**(0.9)**	**18.8**	**627.7**

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.

26 Commitments

Commitments under operating leases are as follows:

	Group		Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Due within one year	**13.7**	11.4	**1.9**	1.9
Due between one and five years	**34.0**	29.7	**9.7**	8.5
Due in more than five years	**51.9**	17.0	**13.7**	14.2
Total	**99.6**	58.1	**25.3**	24.6

Operating lease commitments relate to the future rental payments until the first break on: (i) the CCD head office property in Bradford; (ii) the 240 CCD branches nationwide; and (iii) the new Vanquis Bank head office in London and contact centre in Chatham.

Other group commitments are as follows:

	Group	
	2013 £m	2012 £m
Unutilised credit card facilities at 31 December	**361.0**	251.4

The company has £nil unutilised credit card facilities at 31 December 2013 (2012: £nil).

The group and company had £nil capital expenditure commitments contracted with third parties but not provided for at 31 December 2013 (2012: £nil).

27 Related party transactions

The company recharges the pension scheme referred to in note 18 with a proportion of the costs of administration and professional fees incurred by the company. The total amount recharged during the year was £0.6m (2012: £0.3m) and the amount due from the pension scheme at 31 December 2013 was £0.1m (2012: £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:

	2013			2012		
Company	Management recharge £m	Interest charge/ (credit) £m	Outstanding balance £m	Management recharge £m	Interest charge/ (credit) £m	Outstanding balance £m
Vanquis Bank	**2.6**	**32.8**	**286.2**	2.3	26.8	203.2
CCD	**7.8**	**63.2**	**1,114.4**	6.8	72.5	1,220.0
Other central companies	**–**	**(21.8)**	**63.3**	–	(24.6)	14.6
Total	**10.4**	**74.2**	**1,463.9**	9.1	74.7	1,437.8

The outstanding balance represents the gross intercompany balance receivable by the company, against which a provision of £122.5m (2012: £123.3m) is held.

During 2013, the company received a dividend of £75.0m from Provident Financial Management Services Limited, a subsidiary within CCD (2012: £50.0m) and a £30.0m dividend from Vanquis Bank Limited (2012: £5.0m).

There are no transactions with directors other than those disclosed in the directors' remuneration report.

Notes to the financial statements continued

28 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 £285.1m (2012: £286.6m). At 31 December 2013, the fixed and floating rate borrowings in respect of these guarantees amounted to £49.9m (2012: £94.7m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2013 was £nil (2012: £nil).

A floating charge is held over CCD's receivables of up to £15m in respect of the funded pension benefit promises made to executive directors and certain members of the senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise.

29 Reconciliation of profit after taxation to cash generated from operations

		Group		Company	
	Note	2013 £m	2012 (restated) £m	2013 £m	2012 (restated) £m
Profit after taxation		**141.0**	146.0	**127.6**	74.1
Adjusted for:					
- tax charge	5	**41.4**	48.0	**4.2**	10.7
- finance costs	3	**74.2**	74.7	**59.7**	65.6
- finance income		**–**	–	**(81.4)**	(87.3)
- dividends received	27	**–**	–	**(105.0)**	(55.0)
- share-based payment charge	24	**7.4**	6.4	**3.6**	3.3
- retirement benefit charge prior to exceptional pension credit	18	**6.0**	6.9	**(7.7)**	(2.8)
- exceptional curtailment credit	18	**(1.6)**	(17.7)	**(1.6)**	(17.7)
- amortisation of intangible assets	11	**4.4**	5.0	**–**	–
- exceptional impairment of goodwill	10	**–**	2.1	**–**	–
- depreciation of property, plant and equipment	12	**6.7**	8.6	**1.2**	1.2
- loss on disposal of property, plant and equipment	12	**0.2**	0.1	**–**	–
- release of impairment provision in investments in subsidiaries	13	**–**	–	**–**	(0.1)
Changes in operating assets and liabilities:					
- amounts receivable from customers		**(92.3)**	(181.1)	**–**	–
- trade and other receivables		**7.3**	(2.3)	**105.5**	44.3
- trade and other payables		**3.6**	3.0	**2.2**	12.9
- contributions into the retirement benefit scheme	18	**(14.5)**	(10.1)	**(0.8)**	(0.4)
Cash generated from operations		**183.8**	89.6	**107.5**	48.8

Independent auditor's report

Opinion on financial statements of Provident Financial plc	**In our opinion:** **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;** **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;** **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and** **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.** The financial statements comprise the group income statement, the group statement of comprehensive income, the group and company balance sheets, the group and company cash flow statements, the group and 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 29. 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 company financial statements, as applied in accordance with the provisions of the Companies Act 2006.
Going concern	As required by the Listing Rules we have reviewed the directors' statement set out on page 107 that the group is a going concern. We confirm that: • we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and • we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Strategic report
Governance
Remuneration
Financial statements
Shareholder information

Independent auditor's report continued

Risk	How the scope of our audit responded to the risk
Provision for impairment losses against loans and receivables The assessment of the group's calculation of provisions for impairment losses against loans and receivables is complex and requires management to make significant judgements regarding expectations of future cash flows arising from customers. The quantum of the provision is set out in note 14 to the financial statements.	We considered the appropriateness of the key assumptions used in the impairment calculations for loans and receivables, including specifically the estimation of future cash flows, and the identification of impaired accounts. This involved analysis of the group's historical experience and challenging the key assumptions in the context of internal and external factors affecting the business, including macro-economic trends. Sensitivity analysis was also performed in relation to the key assumptions in order to assess the potential for management bias. We also tested the principal operating controls relating to the management of credit risk and the mechanical accuracy of the models on which impairments are calculated.
Revenue recognition Revenue recognition and specifically the application of the requirement in IAS 39 'Financial Instruments' ('IAS 39') to recognise income on loans using an effective interest rate method is a complex area, requiring management to make significant judgements relating to the expected life of each loan and the cash flows thereto related. This is set out in the critical judgements and uncertainties section of the accounting policies note on page 145.	We challenged the assumptions used in the recognition of revenue using the effective interest rate method including the impact of early redemptions, and assessed whether the revenue recognition policies adopted were in compliance with IFRS. We tested the mechanical accuracy of the models which are used to determine revenue and the controls around them, to assess whether the data used was complete and accurate. We considered the assumptions of future behavioural cash flows by reference to the group's historical experience and the macro-economy.
Retirement benefit asset Determining the key assumptions used to calculate the present value of the retirement benefit obligation requires significant management judgement in relation to inflation rates, discount rates and mortality rates.	We worked with an in-house actuarial expert to evaluate the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation, as set out in note 18. The expert used market data detailing the range of assumptions used as at 31 December 2013. We also assessed the calculation of the impact of the revisions to IAS 19 which became effective in the year.
Provision for taxation liabilities The group is required to exercise judgement in the assessment of the key assumptions used to determine the taxation liabilities, including the probability of liabilities arising and the quantum of any such liabilities.	Utilising the experience of our in-house taxation specialists, we evaluated the completeness of the assessment of the group's taxation liabilities, including the appropriateness of the key assumptions relating to the likely quantum of any liabilities and the probability of them occurring. We also reviewed correspondence with tax authorities to determine whether the liabilities are complete.

The audit committee's consideration of these risks is set out on pages 94 to 95.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined materiality for the group to be £14.7 million, which is 7.5% of pre-tax profit. Pre-tax profit has been normalised by adding back one-off restructuring costs. We agreed with the audit committee that we would report to the committee all audit differences in excess of £297,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
An overview of the scope of our audit	Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, our group audit scope focused on all of the principal trading subsidiaries within the group's three reportable segments which account for 100% of the group's profit before tax. Two of the segments are audited directly by the group audit team and the other is audited by a separate component team, under the supervision of the group team. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work on the principal trading subsidiaries comprised statutory audits which were executed at levels of materiality applicable to each individual entity which were lower than group materiality.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report continued

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 company, or returns adequate for our audit have not been received from branches not visited by us; or the 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 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.
Our duty to read other information in the annual report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: materially inconsistent with the information in the audited financial statements; or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of thswe 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 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
25 February 2014

Information for shareholders

Financial calendar – 2013 final dividend

Dividend announced	25 February 2014
Annual general meeting	8 May 2014
Ex-dividend date for ordinary shares	21 May 2014
Record date for the dividend	23 May 2014
Payment date for the dividend	20 June 2014

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

A UK tax resident individual shareholder who receives a dividend is entitled to a tax credit in respect of the dividend.

The tax credit is $^1/_9$th of the dividend (corresponding to 10% of the dividend and the associated tax credit).

A UK tax resident individual shareholder is therefore treated as having paid tax at 10% on the aggregate of the dividend and the associated tax credit; as starting and basic rate taxpayers are liable to tax on the dividend and the associated tax credit at 10%, they will have no further liability to tax in respect of the dividend. UK tax resident individuals cannot claim a refund of the 10% tax credit.

The tax liability on dividends for UK tax resident higher-rate taxpayers is an amount equal to 32.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 25% of the dividend.

For taxpayers whose income exceeds £150,000 and are subject to tax at the additional rate, the tax liability on dividends (the 'dividend additional rate') is an amount equal to 42.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 36.11% of the dividend. The Government has announced that from 6 April 2013, the dividend additional rate will reduce to 37.5% which equates to a liability for additional tax equal to 30.55% of the dividend.

Registrars

The company's registrar is:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

Telephone: 0871 664 0300
(from within the UK)
Calls cost 10p a minute plus network extras.

Telephone: +44 (0)20 8639 3399
(from outside the UK)

Lines are open 8.30am–5.30pm
Monday to Friday.

Capita share portal

Capita Asset Services offers a share portal service which enables registered shareholders to manage their Provident Financial shareholdings quickly and easily online. Once registered for this service, you will have access to your personal shareholding and a range of services including: setting up or amending dividend bank mandates, proxy voting and amending personal details. For further information visit **www.capitashareportal.com**.

Capita Dividend Reinvestment Plan

Capita Asset Services offers a Dividend Reinvestment Plan whereby shareholders can acquire further shares in the company by using their cash dividends to buy additional shares. For further information contact Capita Asset Services:

Telephone: 0871 664 0381
(from within the UK)

Calls cost 10p a minute plus network extras.

Telephone: +44 (0)20 8639 3402
(from outside the UK)

Lines are open 8.30am - 5.30pm
Monday to Friday

Special requirements

A black-and-white large text version of this document (without pictures) is available on request from the Company Secretary at the address overleaf. An accessible HTML summary of the annual report is available on our website as well as a PDF version of the full annual report including financial statements

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Notes

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This report has been printed on Lumi Silk – an FSC®-certified paper containing 100% ECF pulp and manufactured at a mill accredited with the ISO 14001 and EMAS environmental standards.

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