Provident Financial plc

Pillar 3 disclosures

Year ended 31 December 2015

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1. Introduction

1.1 Background

The Provident Financial plc group (the group) comprises three principal trading divisions:

- Vanquis Bank, which provides credit cards to the non-standard UK consumer credit market and accepts retail deposits;
- Consumer Credit Division (CCD), which provides home credit and online lending to the non-standard UK consumer credit market; and
- Moneybarn, which is the UK's largest non-standard vehicle finance provider.

Vanquis Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Vanquis Bank continues to operate under an interim Consumer Credit permission awaiting formal approval of its application for a variation of permissions. The PRA sets requirements for Vanquis Bank relating to capital and liquidity adequacy and large exposures.

The group, incorporating Vanquis Bank, CCD and Moneybarn, is the subject of consolidated supervision by the PRA by virtue of Provident Financial plc being the parent company of Vanquis Bank. The PRA sets requirements for the consolidated group in respect of capital and liquidity adequacy and large exposures. The group is subject to the new PRA liquidity provisions which came into force on 1 October 2015.

The FCA regulation of the consumer credit industry commenced on 1 April 2014. CCD and Moneybarn obtained interim permissions under the new regime and submitted their applications for full authorisation prior to the 31 May 2015 deadline.

1.2 BASEL requirements

The BASEL regulatory framework has been implemented in the European Union via the Capital Requirements Directive (CRD). The latest iteration of CRD, CRD IV, was implemented and adopted by the group from 1 January 2014. The CRD comprises three Pillars:

- Pillar 1 is the calculation of minimum regulatory capital requirements which firms are required to hold against risk, the most significant elements for the group being credit risk and operational risk.
- Pillar 2 aims to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. For the group, Pillar 2 requires an Internal Capital Adequacy Assessment Process (ICAAP) to assess whether additional regulatory capital over and above Pillar 1 should be held based on the risks faced by a firm and the risk management processes in place. For the PRA, Pillar 2 constitutes a supervisory review and evaluation process (SREP) to ensure that institutions have adequate arrangements, strategies, processes and mechanisms and capital and liquidity to ensure sound management and coverage of their risks. Within Pillar 2, Pillar 2A considers any supplementary requirements not captured by Pillar 1 with the risk categories to be covered depending on the specific circumstances of a firm and the nature and scale of its business. Pillar 2B consists of a capital buffer required by a firm in adverse circumstances that may be largely outside the firm's normal and direct control, for example during a severe but plausible downturn stress.
- Pillar 3 complements Pillars 1 and 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk management processes, leverage and remuneration.

1.3 Pillar 3 disclosure policy

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

Frequency of disclosures

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

Media and location of Pillar 3 disclosures

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

There are a number of required Pillar 3 disclosures which are set out separately in the group's annual report and financial statements. Such disclosures are referenced as appropriate in this document.

Under CRD IV, the group is required to prepare remuneration code Pillar 3 disclosures. These disclosures are the subject of a separate and stand-alone document and are published on Vanquis Bank's website, www.vanquis.co.uk, on an annual basis.

1.4 Basis of Pillar 3 disclosures

The Pillar 3 disclosures have been prepared for the group as a whole in accordance with the rules laid out in article 13 of the Capital Requirements Regulation (CRR). The results of Provident Financial plc and all subsidiary undertakings have been included in the Pillar 3 disclosures and there are no differences between the basis of consolidation for accounting and prudential purposes.

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

Vanquis Bank's requirement to maintain regulatory capital and liquid resources above a level determined by the PRA could restrict the ability and size of dividend payments by Vanquis Bank to Provident Financial plc and the ability to repay amounts under a loan facility from Provident Financial plc to Vanquis Bank. Furthermore, Vanquis Bank is not permitted, and therefore does not lend, any funds to Provident Financial plc or any other group company. There are no other current or foreseen material, practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between Provident Financial plc and its subsidiary undertakings.

The group has no encumbered assets and no securitised assets and as such no further disclosure is included.

The Pillar 3 disclosures were approved for publication by Provident Financial plc and Vanquis Bank in March 2016.

2. Risk

A comprehensive overview of the group's risk management objectives, policies, and governance arrangements are set out in the governance section of Provident Financial plc's annual report and financial statements.

Replication of this disclosure has not been included in this document. The group's annual report and financial statements are published on the group's website www.providentfinancial.com.

3. Own funds and capital ratios

3.1 Composition of own funds

The group's own funds comprise entirely of common equity tier 1 (£386.0m). The template in Appendix 1 sets out the composition of the group's regulatory capital resources as at 31 December 2015.

It should be noted that there are no transitional provisions which are applicable to the group which impact the calculation of own funds.

3.2 Reconciliation of audited shareholders' equity to own funds

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

The group's retained earnings and other reserves included in the 2015 audited financial statements have been reconciled to the group's regulatory capital at 31 December 2015 below:

		2015	
	Note	£m	£m
Shareholders' equity per the financial statements:			
Called-up share capital		30.5	
Share premium account		270.7	
Retained earnings and other reserves		406.5	
			707.7
Adjustments to retained earnings and other reserves:			
Deduction of unaudited and unverified profits and gains at 31 December	1	(81.2)	
Deduction of foreseeable dividends on verified profits	2	(45.3)	
			(126.5)
Common equity tier 1 adjustments:			
Pension asset (net of deferred tax)	3	(51.0)	
Fair value of derivative financial instruments (net of deferred tax)	4	0.5	
Goodwill	5	(71.2)	
Intangible assets (net of deferred tax)	6	(73.5)	
			(195.2)
Total common equity tier 1 capital after deductions			386.0
Total regulatory capital			386.0

As noted, and in accordance with the regulations set out in Capital Requirements Regulation (CRR), the profits and movements in other comprehensive income (OCI) for the final quarter of the financial year of the group have not been included within the regulatory capital since they were not verified or audited by the external auditors as at 31 December 2015. On 23 February 2016 the audited results of the group for the year ended 31 December 2015 were announced. The profits and movements in OCI for the final quarter of £81.2m, less the deduction of the foreseeable dividend on such profits of £71.8m, were therefore eligible on 23 February 2016 to be included within the common equity tier 1 of the group. The common equity tier 1 incorporating these final quarter movements is £395.4m. The reconciliation of the common equity tier 1 to the group's retained earnings on such a basis is shown on page 149 of the Annual Report and Financial Statements 2015.

Notes:

1. Any profits or gains not audited or verified by the external auditors at the balance sheet date are deducted from own funds. These profits relate to the period from 1 October 2015 to 31 December 2015.

2. Under CRD IV, the group is required to deduct accrued dividends from own funds when they are 'foreseeable' rather than when they are declared. Foreseeable is determined to be in line with the group's current dividend policy of dividend cover of approximately 1.3 times. The foreseeable dividend relates to the profits accrued and verified for the period between 1 July 2015 and 30 September 2015.

3. The pension asset, net of deferred tax, is required to be deducted from own funds in order to calculate common equity tier 1.

4. The fair value of derivative financial instruments, net of deferred tax, shall not be included in any element of own funds and as such are deducted from common equity tier 1.

5. Goodwill reflects the surplus of consideration over identifiable assets acquired and identifiable intangible assets following the acquisition of Moneybarn on 20 August 2014. This is required to be deducted from common equity tier 1.

6. Intangible assets comprise the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014, and capitalised software and software development costs. These are required to be deducted from common equity tier 1.

3.3 Main features of own funds instruments

The group's common equity tier 1 consists of the group's equity share capital and reserves after adjusting for the amounts set out in section 3.2 above. The equity share capital consists of ordinary shares, the main features of the ordinary shares are set out in Appendix 2.

4. Capital requirements

4.1 Capital management and controls

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

The group prudently manages regulatory capital to ensure that it is always maintained at a sufficient level in excess of the Individual Capital Guidance (ICG) and PRA buffer set by the PRA.

The key controls in achieving this objective are:

- Monitoring the level of regulatory capital against the ICG and PRA buffer on a monthly basis as part of the group's management accounts;
- Producing a monthly rolling forecast, projecting regulatory capital and the ICG and PRA buffer for the remainder of the current financial year;
- Forecasting regulatory capital for the following five years and comparing to the group's projected ICG and PRA buffer over the same period as part of the budget and budget update processes in December and June each year;
- Assessing the impact that strategic projects could have upon regulatory capital;
- Submitting regulatory capital reports to the PRA periodically; and
- Assessing the appropriateness of the ICG and PRA buffer as part of the group's ICAAP process (see 4.1.2), including stress and scenario testing, and reporting to the PRA if it is no longer considered to be appropriate.

4.1.2 ICAAP process

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

The key output of the ICAAP is a document which:

- Provides a background to the group including the group structure, strategy, key management and the internal control framework and risk management processes;
- Calculates the minimum capital required under Pillar 1 of the regulations for the group;
- Identifies the various additional risks facing the group not included in Pillar 1 and considers the required level of additional capital to be held against those risks (Pillar 2a);
- Considers the level of additional capital to be held in the PRA prescribed capital planning buffer (Pillar 2b);
- Calculates the overall regulatory capital requirement of the group as a result of Pillar 1 and Pillar 2; and
- Performs stress testing on the group's budget projections to ensure that both the group's calculated regulatory capital requirement and the ICG is sufficient even under extreme scenarios.

The ICAAP is embedded into the group's risk management framework. Within the monthly management accounts, the group's and Vanquis Bank's regulatory capital resources are compared to the existing ICG. 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.

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

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

The ICAAP process, including the modelling and methodology, is periodically subject to review by the group internal audit function and external advisors.

4.2.1 Pillar 1 minimum capital requirements

In calculating the Pillar 1 minimum capital requirements, the group has adopted the standardised approach to credit risk and the alternative standardised approach (ASA) to operational risk.

An analysis of the Pillar 1 minimum capital requirements and risk weighted exposures as at 31 December 2015 is as follows:

		2015	
	Ref	Pillar 1 minimum	Risk weighted exposure
		£m	£m
Credit risk	4.3	132.9	1,661.7
Operational risk	4.4	10.7	134.2
Other risks		-	0.1
Pillar 1 minimum capital requirement as at 31 December		143.6	1,796.0

The calculations for the following risks are included in the Pillar 1 requirements calculation but the value of the requirement rounds to zero:

Counterparty credit risk - The group measures exposure value on counterparty credit exposures under the counterparty credit risk (CCR) mark-to-market method as permitted under CRD IV. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contract's potential credit exposure, which is derived by applying a multiple based on the contract's residual maturity to the notional value of the contract. The group uses derivative financial instruments to hedge the interest rate risk and foreign exchange rate risk on its borrowings and overseas profits. The group does not enter into speculative transactions or positions.

Credit valuation adjustment (CVA) risk - CVA represents the market value of counterparty credit risk and is calculated for all group derivatives. The group uses derivative financial instruments to hedge the interest rate risk and foreign exchange rate risk on its borrowings and overseas profits. The group does not enter into speculative transactions or positions.

Market risk - 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 has operations in the Republic of Ireland and therefore has an element of foreign currency market risk. The group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

These risks are not material and therefore no further analysis or discussion has been disclosed.

The group is required to include information on their exposure to interest rate risk and as such this information is set out in section 4.5.

4.3 Credit risk

An analysis of the Pillar 1 minimum capital requirements and risk weighted exposures as at 31 December 2015 is as follows:

	2015	
	Pillar 1 minimum	Risk weighted exposure
	£m	£m
Retail exposures – not past due	110.5	1,380.8
Retail exposures – past due	15.8	197.8
Exposures to institutions with a short term credit assessment	0.3	3.6
Equity exposures	1.4	17.5
Other exposures	4.9	62.0
Total credit risk	132.9	1,661.7

The retail exposures constitute the group customer receivables and further disclosure on the retail exposures is set out in 4.3.1 to 4.3.4 below.

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

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

4.3.1 Method for determining specific credit risk adjustments - accounting policy for customer receivables

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 on an ongoing basis. The principal criteria for determining whether there is objective evidence of impairment is delinquency in contractual payments.

Within Vanquis Bank and Moneybarn, where repayments are typically made monthly, customer balances are deemed to be impaired when one monthly contractual payment is missed. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cash flows discounted at the original effective interest rate. Estimated future cash flows are based on the historical performance of customer balances falling into different arrears stages and are regularly reassessed.

Separate provisions are raised where forbearance is provided to the customer and alternative payment arrangements are established. Accounts under payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows to predict future expected cash flows which are discounted at the original effective interest rate.

Within the weekly home credit business of CCD, objective evidence of impairment is based on the payment performance of loans in the previous 12 weeks as this is considered to be the most appropriate

indicator of credit quality. Loans are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate significantly. Loans with one missed weekly payment over the previous 12-week period are not deemed to be impaired. The amount of impairment loss is calculated on a portfolio basis by reference to arrears stages and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate. Subsequent cash flows are regularly compared to estimated cash flows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

In Vanquis Bank and Moneybarn impairment is recorded through the use of an allowance account whilst in CCD impairment charges are deducted directly from the carrying value of receivables. CCD includes the home credit, Satsuma and glo (in pilot) products.

Impairment is charged to the income statement as part of operating costs.

4.3.2 Analysis of credit risk exposures

The group's maximum exposure to credit risk on customer receivables is the carrying value of customer receivables recorded in the group's balance sheet.

All customer receivables are classed as retail exposures. Vanquis Bank exposures are revolving retail exposures.

Exposures analysed by business division are as follows:

	2015 £m
Vanquis Bank	1,252.0
CCD	545.1
Moneybarn	219.6
Total	2,016.7

The average exposure in the year ended 31 December 2015 was £1,851.2m.

Exposures analysed by geographical area are as follows:

	2015 £m
UK	1,961.6
Republic of Ireland	55.1
Total	2,016.7

Republic of Ireland exposures relate to loans issued by the home credit business.

The following table shows the residual maturity of exposures by business on a contractual basis:

	2015		
	Due within one year	Due in more than one year	Total
	£m	£m	£m
Vanquis Bank	1,252.0	-	1,252.0
CCD	484.6	60.5	545.1
Moneybarn	62.1	157.5	219.6
Total	1,798.7	218.0	2,016.7

4.3.3 Credit quality of customer receivables

Within Vanquis Bank and Moneybarn, customer balances are deemed to be impaired as soon as customers miss one contractual monthly payment. Therefore, within Vanquis Bank and Moneybarn, there are no accounts/balances which are past due but not impaired.

In the home credit business, 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 significantly.

The credit quality of customer receivables is as follows:

	2015
	£m
Neither past due nor impaired	1,640.9
Past due but not impaired	58.1
Impaired	317.7
Total	2,016.7

The credit quality of customer receivables analysed by business division is as follows:

	2015			
	Vanquis Bank	CCD	Moneybarn	Total
	£m	£m	£m	£m
Neither past due nor impaired	1,168.4	279.9	192.6	1,640.9
Past due but not impaired	-	58.1	-	58.1
Impaired	83.6	207.1	27.0	317.7
Total	1,252.0	545.1	219.6	2,016.7

The credit quality of customer receivables analysed by geographical area is as follows:

	2015		
	UK	ROI	Total
	£m	£m	£m
Neither past due nor impaired	1,607.9	33.0	1,640.9
Past due but not impaired	52.9	5.2	58.1
Impaired	300.8	16.9	317.7
Total	1,961.6	55.1	2,016.7

4.3.4 Movement in impairment provisions

The impairment charge to the income statement in respect of customer receivables analysed by business division is as follows:

	2015
	£m
Vanquis Bank	160.5
CCD	106.6
Moneybarn	8.9
Total	276.0

The movement in the impairment allowance account within Vanquis Bank in the year is as follows:

	2015
	£m
At 1 January	178.6
Charge for the year	160.5
Amounts written off during the year	(127.1)
Amounts recovered during the year	23.5
Sale of Polish receivables	(10.5)
At 31 December	225.0

The movement in the impairment allowance account within Moneybarn in the year is as follows:

	2015
	£m
At 1 January	27.1
Charge for the period	8.9
Amounts written off during the period	(2.0)
Sale of delinquent receivables	(15.6)
At 31 December	18.4

For CCD, impairment charges are deducted directly from the carrying value of receivables without the use of an impairment allowance account. Accordingly, it is not possible to disclose movements in an impairment allowance account for CCD.

4.4 Operational risk

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

- The group has a well-documented assessment and management system for operational risk with clear responsibilities assigned for this system. In addition, the group is able to identify exposures to operational risk, has systems of reporting operational risk matters to senior management and has procedures in place for taking appropriate action. These systems of control are comprehensive and proportionate to the nature, scale and complexity of the firm's activities;

- The operations of the group are wholly focused in retail banking as defined within CRR, 100% of all revenue activities are derived from this activity;

- The group issues credit to non-standard customers and there is a higher probability of default; and

- Management has concluded that the ASA provides an appropriate basis for calculating the own funds requirement for operational risk.

4.5 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 continually monitored and is formally reported to the group treasury committee under a board-approved interest rate hedging policy on a quarterly basis or more frequently as deemed appropriate.

The group measures its interest rate exposure by quantifying the impact of an immediate and sustained movement of 200bp in LIBOR rates upon its forecast profit before taxation.

In calculating this exposure, the group assumes that it will re-price products for new lending. It is possible for Vanquis Bank to re-price its receivables within 2 months and for CCD and Moneybarn loans to be issued at re-priced levels within 1 month. Given the short duration of the receivables book, on average the group would be able to re-price its receivables portfolio on average within 6 months to mitigate the impact upon forecast borrowing costs.

The level of fixed and floating-rate receivables and borrowings beyond the next 6 months are forecast to be matched, resulting in a neutral interest rate position.

The level of downside risk resulting from exposure to interest rates calculated on the basis set out above as at 31 December 2015 is as follows:

	2015
	£m
Sterling	1.2
Euro	0.4
Total	1.6

4.6 Other risks – non-trading book exposures in equities

At 31 December 2015, the group had equity investments in the non-trading book of £17.5m (2014: £nil), relating entirely to the item noted as follows.

On 2 November 2015, Visa Inc. announced the proposed acquisition of Visa Europe Limited to create a single global payments business under the Visa brand. Vanquis Bank, a wholly owned subsidiary of the group, is a member and shareholder of Visa Europe and in exchange for its one redeemable ordinary share (previously held at par of €10) will receive upfront consideration in the form of cash and preferred stock on completion of the transaction. Following the announcement of the proposed transaction, Vanquis Bank's interest in Visa Europe Limited has been valued at fair value which reflects the expected upfront cash proceeds and a number of factors and uncertainties relating to the preferred stock. The preferred stock will convert at a point in the future to ordinary shares in Visa Inc. As the item was recognised for the first time at 31 December 2015 there has been no impairment of Available for Sale (AFS) equities.

Details of the accounting policy for AFS equity investments and the valuation of financial instruments may be found in the group's Annual Report and Financial Statements 2015. The group's Annual Report and Financial Statements 2015 are published on the group's website www.providentfinancial.com.

5. Capital buffers

CRD IV establishes a number of capital buffers to be met with common equity tier 1 capital:

Capital conservation buffer - Designed to enable firms to absorb losses in stressed periods and is set at 2.5% of risk weighted assets. The buffer applies to the group and has commenced being phased in from 1 January 2016 with full implementation due on 1 January 2019.

Countercyclical capital buffer - CRD IV introduces a countercyclical capital buffer to ensure banks build up capital outside periods of stress that can be drawn down when losses are incurred.

The institution-specific buffer rate for the group will be based on the weighted average of the buffer rates that apply in the jurisdictions where relevant credit exposures are located. As set out in section 4.3.2, the group's credit exposures are located in the UK and the Republic of Ireland. In March 2016, the Financial Policy Committee set the countercyclical capital buffer at 0.5% of risk-weighted assets with effect from 29 March 2017.

Systemic risk buffer (SRB) - In addition to the measures above, CRD IV sets out an SRB with a view to mitigating structural macroprudential risk. The SRB is to be applied to ring fenced banks and building societies over a certain threshold, which are together defined as 'SRB institutions'. The SRB does not apply to either the group or Vanquis Bank.

Globally systemically important institutions (G-SII) and other systemically important institutions (O-SII) buffers - Additional buffers are required for institutions defined as globally systemic or of other systemic importance. The G-SII and O-SII buffers do not apply to either the group or Vanquis Bank.

Pillar 2 and the PRA buffer - Under the Pillar 2 framework, banks are required to hold capital in respect of the internal capital adequacy assessment and supervisory review which leads to a final determination by the PRA of individual capital guidance (Pillar 2A capital requirement).

The Pillar 2A capital requirement is a point in time assessment of the amount of capital the PRA considers that a bank should hold to meet the overall financial adequacy rule. It is therefore subject to change as part of the PRA's supervisory review process.

In addition, the PRA have introduced a PRA buffer that replaces the previous capital planning buffer. The PRA buffer is intended to avoid duplication with CRD IV buffers (set out above) and is set for a particular firm depending on its vulnerability in a stress scenario or where the PRA has identified risk management and governance failings. Where the PRA considers there is overlap between the CRD IV buffers and the PRA buffer assessment, the PRA sets the PRA buffer as the excess capital required over and above the CRD IV buffers.

6. Leverage and capital ratios

6.1 Leverage ratio

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

Work is ongoing by the European Banking Authority (EBA) and by the Financial Policy Committee (FPC) in order to review the design of the leverage ratio framework and to assess the impact of the ratio as a binding measure.

The leverage ratio for the group at 31 December 2015 is as follows:

	2015 £m
Total assets per the audited financial statements	2,468.2
Reversal of accounting value of derivatives	-
Add back market value of derivatives	0.1
Addition of off balance sheet commitments[1]	61.9
Exclusion of items deducted from own funds (see 3.2)	(195.2)
Total leverage exposure	2,335.0
Tier 1 capital (see 3.2)	386.0
Leverage ratio	16.5%

[1]The exposure of off balance sheet commitments relate to undrawn credit card lines in Vanquis Bank.

There are no transitional provisions which are applicable to the group which impact the calculation of the leverage ratio.

Excessive leverage is managed through the group's secure funding and capital structure. The group has a stated maximum gearing ratio (calculated in accordance with the group's banking covenants) of 3.5 times which is aligned with the group's growth targets and dividend pay-out policy.

As explained in section 3.2, the tier 1 capital of £386.0m excludes profits and movements in other comprehensive income (OCI) during the final quarter of the group's financial year ended 31 December 2015 in accordance with the regulations set out in the Capital Requirements Regulation. Following the announcement of the audited results of the group on 23 February 2016, the tier 1 capital including the profits and movements in OCI in the final quarter, less the deduction of the foreseeable dividend on such profits, is £395.4m and the leverage ratio reported on this basis is 16.9% as reported on page 72 of the group's Annual Report and Financial Statements 2015. An analysis of the Tier 1 capital is shown in section 3.2.

6.2 Capital ratios

The common equity tier 1 and total capital ratios for the group are as follows:

	2015
	£m
Common equity tier 1 capital (see 3.2)	386.0
Total capital	386.0
Risk exposure amount (see 4.2)	1,796.0
Common equity tier 1 capital ratio	21.5%
Total capital ratio	21.5%

The group has no additional tier 1 capital and as such there is no difference between the common equity tier 1 capital ratio and the tier 1 capital ratio.

There are no transitional provisions which are applicable to the group which impact the calculation of the capital ratios.

As explained in section 3.2, the tier 1 capital of £386.0m excludes profits and movements in other comprehensive income (OCI) during the final quarter of the group's financial year ended 31 December 2015 in accordance with the regulations set out in the Capital Requirements Regulation. Following the announcement of the audited results of the group on 23 February 2016, the tier 1 capital including the profits and movements in other comprehensive income (OCI) in the final quarter, less the deduction of the foreseeable dividend on such profits, is £395.4m and the leverage ratio reported on this basis is 22.0% as reported on page 72 of the group's Annual Report and Financial Statements 2015. An analysis of the Tier 1 capital is shown in section 3.2.

APPENDIX 1 – Own funds template

Common Equity Tier 1 Capital: Instruments and reserves		Amount at Disclosure Date £m
1	Capital instruments and the related share premium accounts	301.2
	of which: Ordinary share capital	301.2
2	Retained earnings	203.1
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	29.1
3a	Funds for general banking risk	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Minority interests (amount allowed in consolidated CET1)	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	47.8
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	581.2
Common Equity Tier 1 Capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-
8	Intangible assets (net of related tax liability) (negative amount)	(144.7)
9	Empty Set in the EU	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-
11	Fair value reserves related to gains or losses on cash flow hedges	0.5
12	Negative amounts resulting from the calculation of expected loss amounts	-
13	Any increase in equity the results from securitised assets (negative amount)	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
15	Defined-benefit pension fund assets (negative amount)	(51.0)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
20	Empty Set in the EU	-
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
21	Deferred tax assets arising form temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-
22	Amount exceeding the 15% threshold (negative amount)	-
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-
24	Empty Set in the EU	-
25	of which: deferred tax assets arising from temporary differences	-
25a	Losses for the current financial year (negative amount)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and decoctions required pre CRR	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	Qualifying AT1 deduction that exceed the AT1 capital of the institution (negative amount)	-
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	(195.2)
29	**Common Equity Tier 1 (CET1) capital**	386.0

Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-
	Public sector capital injections grandfathered until 1 January 2018	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-
Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount about the 10% threshold and net of eligible short positions) (negative amount)	-
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative	-
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-
	Of which items to be detailed line by line, eg Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	-
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and decoctions required pre CRR	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-
44	**Additional Tier 1 (AT1) capital**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	-
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-
	Public sector capital injections grandfathered until 1 January 2018	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Credit risk adjustments	-
51	**Tier 2 (T2) capital before regulatory adjustments**	-

Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
54	Direct and indirect holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount about the 10% threshold and net of eligible short positions) (negative amount)	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-
	Of which items to be detailed line by line, eg Reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	-
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-
58	Tier 2 (T2) capital	-
59	Total capital (TC = T1 + T2)	386.0
60	**Total risk weighted assets**	1796.0
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	21.5%
62	Tier 1 (as a percentage of risk exposure amount)	21.5%
63	Total capital (as a percentage of risk exposure amount)	21.5%
64	Institution specific buffer requirement (CET1 requirements in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	-
65	of which: capital conservation buffer requirement	-
66	of which: countercyclical buffer requirement	-
67	of which: systemic risk buffer requirement	-
67a	of which: Global Systemically Important Institution (G-SII) or other Systemically Important Institution (O-SII) buffer	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	21.5%
Capital ratios and buffers		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
74	Empty Set in the EU	-
75	Deferred tax assets arising form temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
78	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

APPENDIX 2 – Main features of the ordinary shares of Provident Financial plc

1	Issuer	Provident Financial plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law(s) of the instrument	English Law
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo / (sub-) consolidated/ solo & (sub-) consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£298.6m of ordinary share capital and share premium
9	Nominal amount of instrument (Currency in million)	£30.3m
9a	Issue price	n/a
9b	Redemption price	n/a
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	n/a
15	Optional call date, contingent call dates and redemption amount	n/a
16	Subsequent call dates, if applicable	n/a
17	Fixed or floating dividend/coupon	n/a
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	n/a
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	n/a
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Write-down features	No
31	If write-down, write-down trigger(s)	n/a
32	If write-down, full or partial	n/a
33	If write-down, permanent or temporary	n/a
34	If temporary write-down, description of write-up mechanism	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2 subordinated loan notes are immediately senior to the ordinary share capital
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	n/a