PFG | Provident Financial Group

Annual Report & Financial Statements 2011

We see things differently

KEY FINANCIAL HIGHLIGHTS

For the year ended 31 December 2011

PROFIT BEFORE TAX*

£162.1m (+12.2%)

2007 (£115.2m)
2008 (£128.8m)
2009 (£130.1m)
2010 (£144.5m)
2011 (£162.1m)

EARNINGS PER SHARE*

89.6p (+14.0%)

2007 (63.5p)
2008 (70.9p)
2009 (71.4p)
2010 (78.6p)
2011 (89.6p)

DIVIDEND PER SHARE

69.0p (+8.7%)

2007 (63.5p)
2008 (63.5p)
2009 (63.5p)
2010 (63.5p)
2011 (69.0p)

DIVIDEND COVER*

1.30 times

2007 (0.97 times)
2008 (1.12 times)
2009 (1.12 times)
2010 (1.24 times)
2011 (1.30 times)

GEARING

3.2 times

2007 (2.7 times)
2008 (3.2 times)
2009 (3.3 times)
2010 (3.3 times)
2011 (3.2 times)

COMMUNITY INVESTMENT

£1.6m

2007 (£0.6m)
2008 (£0.8m)
2009 (£1.3m)
2010 (£1.5m)
2011 (£1.6m)

*prior to exceptional costs.

CAUTIONARY STATEMENT

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and business of Provident Financial plc and its strategy, plans and objectives and the markets in which it operates, are forward-looking statements. Such forward-looking statements which reflect the directors' assumptions made on the basis of information available to them at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Provident Financial plc or the markets in which it operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in the document shall be regarded as a profit forecast and its directors accept no liability to third parties in respect of this report save as would arise under English law. In particular, section 463 of the Companies Act 2006 limits the liability of the directors of Provident Financial plc so that their liability is solely to Provident Financial plc.

TO SUCCEED IN OUR MARKET, IT HELPS TO SEE THINGS DIFFERENTLY

We see things differently because we have unique experience and insight in the non-standard lending market. Balancing effective business processes with our personal approach to customer relationships keeps us relevant, agile and successful. And in the current environment, this all helps us deliver well-designed and practical products to our customers while continuing to deliver value to our shareholders and the communities we serve.

DIRECTORS' REPORT: OVERVIEW

DIRECTORS' REPORT: BUSINESS REVIEW AND MANAGEMENT REPORT

DIRECTORS' REPORT: GOVERNANCE

DIRECTORS' REMUNERATION REPORT

FINANCIAL STATEMENTS

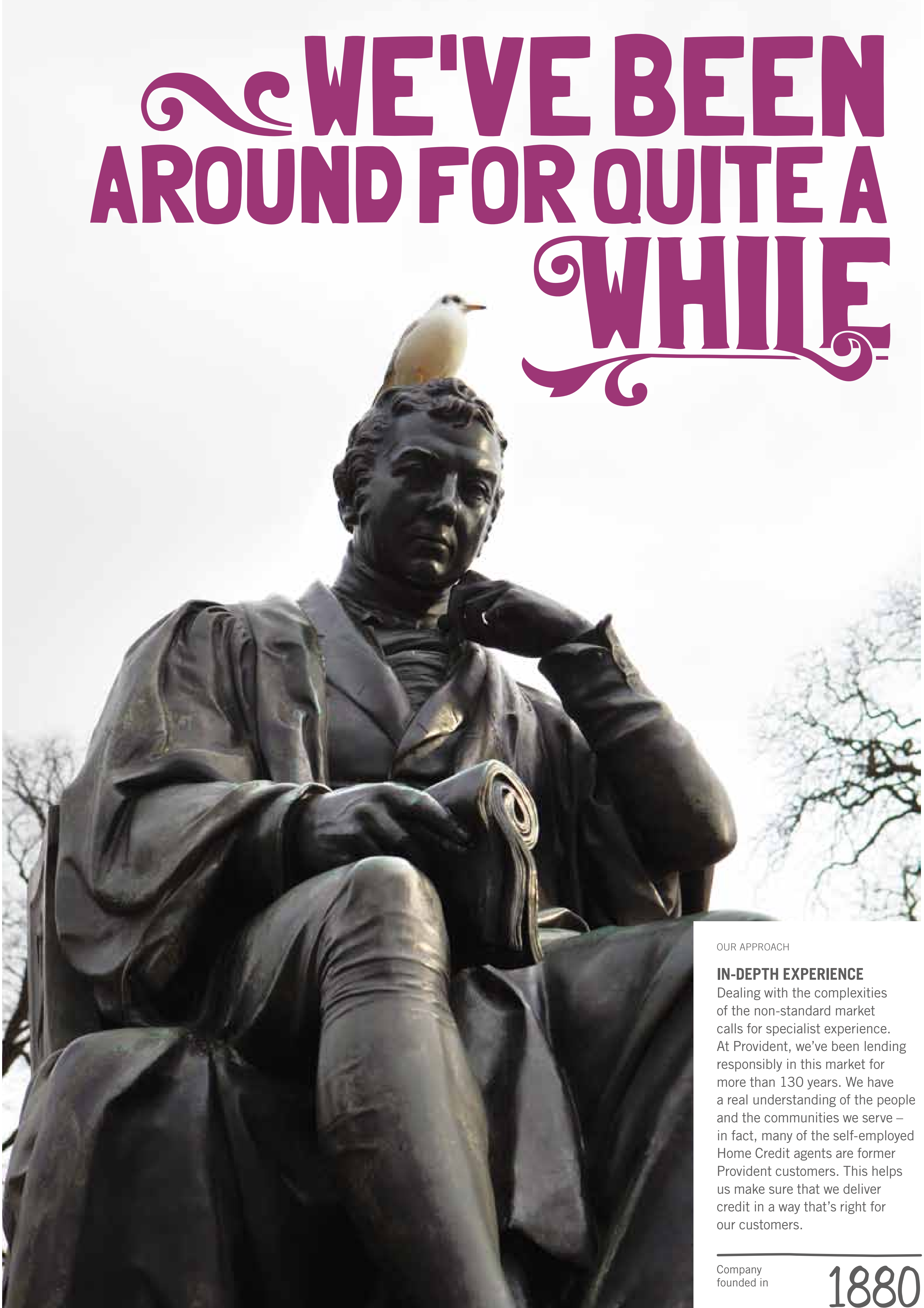
UNIQUE MARKET

For over 10m people in the UK, borrowing isn't just a convenience – it's an important way of making ends meet. Non-standard credit is a lifeline for people on modest incomes, as they are often overlooked by mainstream banks and lenders who see them as too much of a risk. Thanks to our specialist focus and knowledge of this unique market, we help 2.5m people navigate life's financial hurdles.

Number of Home Credit customers	1.8m
Number of Vanquis Bank customers	0.7m

WE TREAT OUR CUSTOMERS AS INDIVIDUALS

WE'VE BEEN AROUND FOR QUITE A WHILE



OUR APPROACH

IN-DEPTH EXPERIENCE

Dealing with the complexities of the non-standard market calls for specialist experience. At Provident, we've been lending responsibly in this market for more than 130 years. We have a real understanding of the people and the communities we serve – in fact, many of the self-employed Home Credit agents are former Provident customers. This helps us make sure that we deliver credit in a way that's right for our customers.

Company founded in **1880**

SECURE FUNDING

We have medium- and long-term funding from banks, other lending institutions, the public debt market and from retail deposits. By keeping our funding channels diverse, we make sure we always have plenty of funding available. This means we can seize opportunities to grow when the market is thriving. And when the outlook is less rosy, we can continue to be there for the people who need us most.

Average period to maturity of funding **3.5 years**

KEEPING AN EYE ON THE ROAD AHEAD

OUR APPROACH

EFFECTIVE PROCESSES

To react quickly to change, it helps if you can see what lies ahead. We have unique systems and processes in place that analyse payment and spending patterns, so we can keep track of our customers' changing circumstances and adjust our lending and their repayment plans accordingly. At the same time, our investments in IT infrastructure help us operate at a more efficient level, boosting growth and productivity.

Home Credit customer satisfaction 91%

OUR APPROACH

PERSONAL APPROACH

The more we get to know our customers, the better we can serve them. That's why building trusting, personal relationships is such a vital part of our approach. We talk with our customers regularly – face-to-face or on the phone – so we can offer a listening ear and provide individual support. By understanding their particular circumstances, we can tailor our products to match.

Percentage of female agents 69%

ACTING RESPONSIBLY

It's in nobody's interests for us to lend more than people can afford to repay, so we structure our loans in a way that takes account of customers' circumstances. And if they hit a bump in the road, our close relationship with them means we can respond quickly and flexibly. Lending responsibly helps our customers to meet their repayments and the company to keep impairment to a minimum. And as well as looking after our customers, we also invest in their communities, making them safer and more vibrant places in which to live and work.

Investment in community projects **£1.6m**

AND WE HAVE RESPONSIBILITY AT OUR HEART

OUR BUSINESS

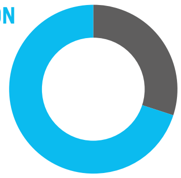
Provident Financial provides tailored credit products to 2.5 million non-standard borrowers in the UK and Ireland. The Consumer Credit Division (CCD) has been providing small loans, issued in the home and collected weekly, since 1880. Vanquis Bank issues credit cards to people often excluded by mainstream card issuers, allowing them to participate more fully in the modern world.

GROUP BY NUMBERS

GROUP RECEIVABLES BY DIVISION

CCD 66%

Vanquis Bank 34%



GROUP YEAR-END RECEIVABLES

£1.3bn

GROUP EMPLOYEES

3,680

GROUP CUSTOMERS

2.5m

CONSUMER CREDIT DIVISION

CCD offers Home Credit loans through a network of local agents. It has offices throughout the UK and Ireland. 10,500 agents call weekly on our 1.8m customers, reaching around one in 20 households in the UK.

- Home Credit cash loans over periods from 14 weeks to 106 weeks
- Shopping vouchers typically over periods from 25 weeks to 48 weeks
- Direct repayment loans over periods from 12 months to 36 months

YEAR-END RECEIVABLES	CUSTOMERS	EMPLOYEES
£879.3m	1.8m	3,000

VANQUIS BANK

Vanquis Bank, our credit card and savings business, continues to make excellent progress and now serves almost 700,000 credit card customers and has over 4,000 savers through its retail deposits programme. Its headquarters are in central London with contact centres in Chatham and Bradford which handle over 400,000 customer calls per month.

- Visa credit cards with representative 39.9% APR
- 1, 2, 3 and 5-year high-yield fixed-rate deposits

YEAR-END RECEIVABLES	CUSTOMERS	EMPLOYEES
£453.4m	0.7m	630

OUR MISSION AND VALUES

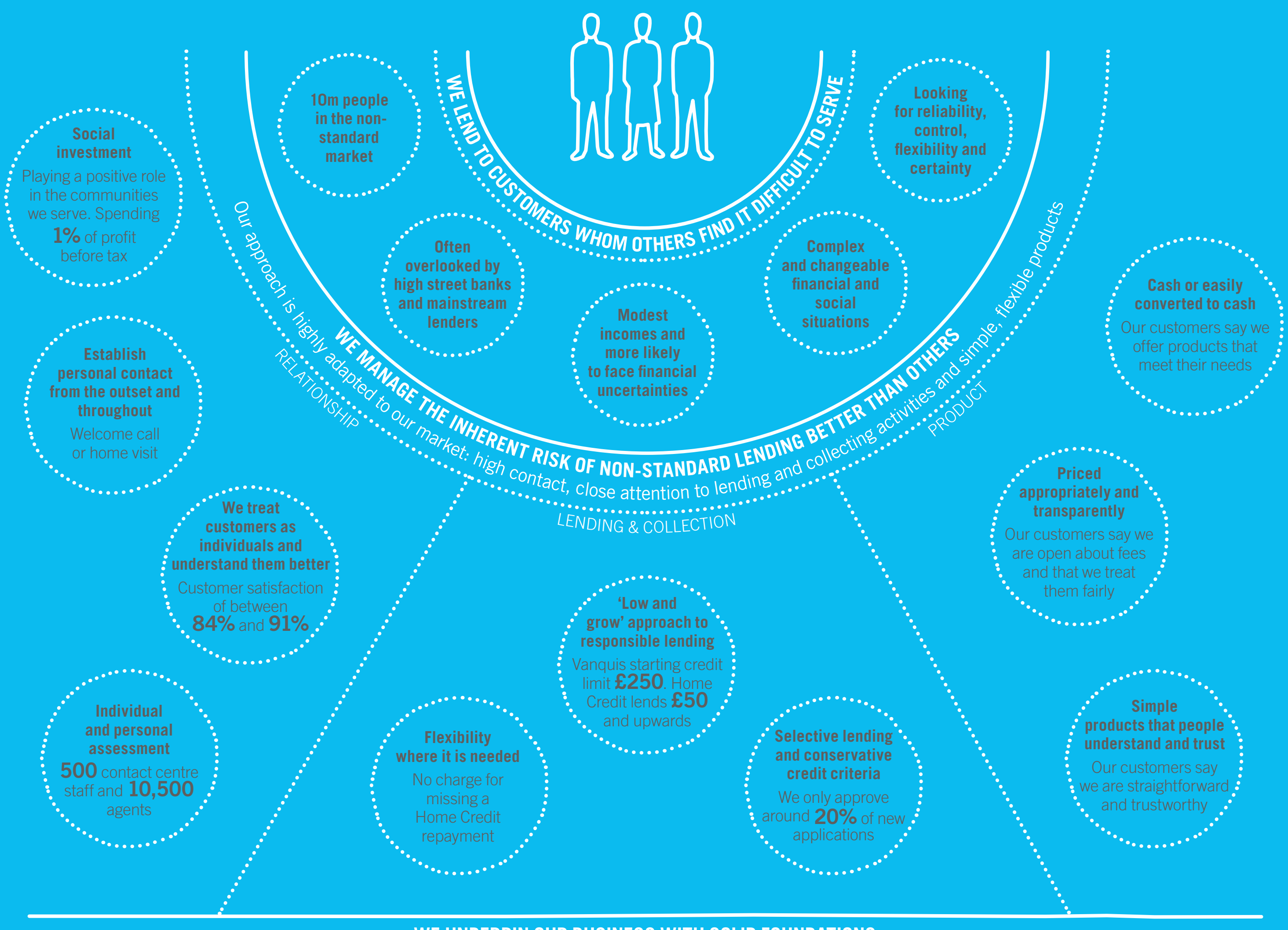
Our mission is to be the UK's leading non-standard lender, acting responsibly and playing a positive role in the communities we serve. Our mission and values shape what we do and how we do it, and provide a benchmark against which our business performance can be assessed.

We see things differently and follow a different approach. Our business model is specifically designed to handle the unique challenges of non-standard lending.

A DIFFERENT APPROACH

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.

MORE INFORMATION ON HOME CREDIT
Go to page 33
MORE INFORMATION ON VANQUIS BANK
Go to page 43



WE UNDERPIN OUR BUSINESS WITH SOLID FOUNDATIONS

The nature of our business requires resilient, conservative and flexible business fundamentals

Diverse funding sources
Borrowing long and lending short
Focus on high return on equity, cash and capital-generative businesses
Conservative accounting
Organic growth focus
130 years of experience

OUR MARKETPLACE

At the end of 2011, total outstanding UK personal debt balances stood at £1.45trn. As would be expected, most of this total, £1.24trn, was secured by mortgages on housing, with the balance of £0.21trn being unsecured consumer credit. During 2011, a total of £319bn was lent to UK borrowers, £141bn secured and £178bn unsecured. Provident focuses on the non-standard end of the UK credit market in which around £65bn was lent in total during the year.

The UK non-standard credit market has become the domain of specialists. Generalists with untailored mainstream lending models largely withdrew at the start of the credit crunch with significant losses and show no appetite to return.

In the UK there is a wide range of different lending models and products tailored to the non-standard consumer in different ways.

Home Credit stands out as a highly personal in-home offer with a long history of customer popularity.

Non-standard credit cards are a more recent development offering modern mainstream retail convenience and protection to non-standard consumers for about the last 20 years.

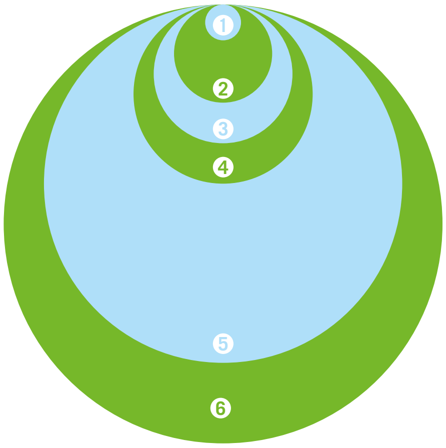
The number of people who make up the non-standard market **10m+**

Credit issued to those with limited access to credit **£65bn**

Annual group credit issued **£1.6bn**

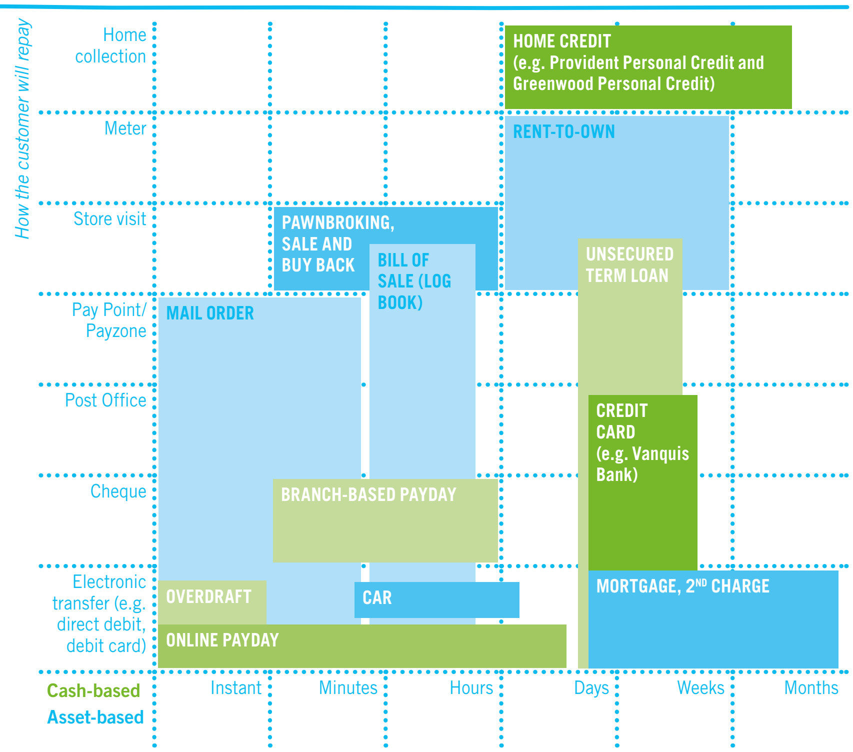
ESTIMATED RELATIVE ANNUAL UK NON-STANDARD LENDING BY PRODUCT

	TYPICAL CUSTOMER TRAITS	EXAMPLE COMPANIES
1 RENT TO OWN	Live within three miles of store, do not own cars, credit impaired, low income.	BrightHouse, PerfectHome
2 HOME CREDIT	Mostly employed, hourly paid, female, renting, low income	Provident Personal Credit, Greenwood Personal Credit, S&U, Shopacheck, Morses, Mutual, around 500 local operators
3 PAYDAY LENDING	Wide range, banked, debit card holders, employed, reasonable credit score	MoneyShop, Cheque Centre, Payday UK, QuickQuid, Wonga
4 MAIL ORDER	Wide range, mostly online shoppers, mostly female with brands targeted at C, D and E socio-demographic groups	ShopDirect, OTTO, N.Brown
5 OVERDRAFTS	Mostly home owners	Lloyds, HSBC, Barclays, RBS
6 CREDIT CARDS	Employed, salaried, banked with low credit score, renting	Capital One, Barclaycard, Vanquis Bank, SAV



CHARACTERISTICS OF NON-STANDARD CREDIT MARKET PRODUCTS

One way of looking at the wide range of credit products used by UK non-standard borrowers is by speed of access to funds, how they are repaid and the nature of the transaction. Provident focuses on products with quick but not immediate access to new credit, offering a range of repayment mechanisms for cash-based general use. This is in contrast to payday lending, for example, which is more immediate with limited repayment options and mail order, for example, which relates directly to a retail purchase.



TRENDS IN OUR SECTION OF THE MARKET

Our business model and experience ensure that we are well suited to succeed in this specialist market. The market is continually evolving in channels, pricing and product offers.

CONSUMER SITUATION

- Many consumers are wary about borrowing and spending, given uncertainty over their employment and pressure on disposable incomes from rising food, fuel and utility prices.
- Consumer confidence is persistently low with consumers concerned about their current situation and prospects for the near future.
- Where consumers are looking to borrow, they are often favouring shorter term products and smaller amounts to limit exposure, features which are core to the non-standard market.
- Consumers are also displaying a preference for speed and ease in setting up credit agreements, and therefore an increased willingness and desire to use the internet as a channel.

MARKET TRENDS

- Overall, access to credit in general and non-standard lending in particular is starting to increase again after dramatic falls in the lead-up to and after the credit crunch in mid 2007.
- The internet channel generally continues to grow strongly for borrowing, spending and searching for better deals and information – this can most clearly be seen in the growth in online mail order credit and online payday lending.
- There is also a new drive to expand and develop high street stores in a range of different forms: multi-product chains offering various credit and non-credit financial products (e.g. The Money Shop), second-hand goods and pawnbrokers (e.g. Albemarle & Bond and H&T Pawnbrokers), sale and buy back/lay aside stores (e.g. Cash Converters) and specialists like rent-to-own retailers (e.g. BrightHouse and PerfectHome).
- Consumer demand for shorter fixed terms and smaller amounts of credit has led to higher APRs unseen in the UK five years ago.
- Growth areas include payday lending, pawnbroking, rent-to-own, and car finance.
- Areas that are unchanged overall in scale include Home Credit, bill of sale/ logbook credit, overdrafts, credit cards, mail order credit, mortgages and credit unions/Community Development Finance Institutions (CDFIs).
- Areas reducing in scale include storecards, second charge secured lending and some coin meter-based rent-to-own.

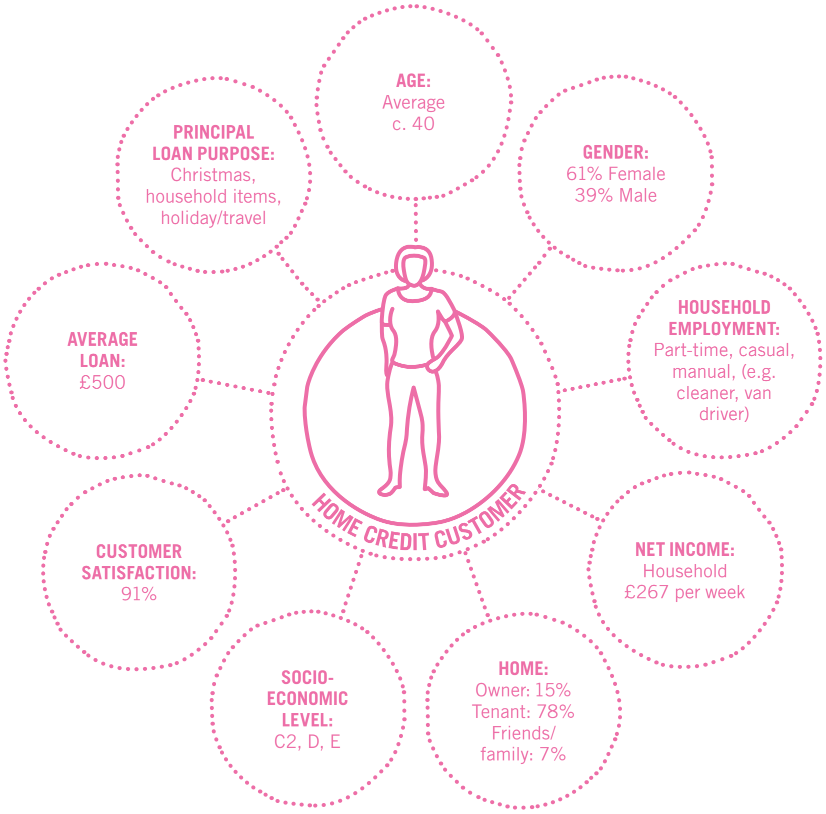
OUR MARKETPLACE

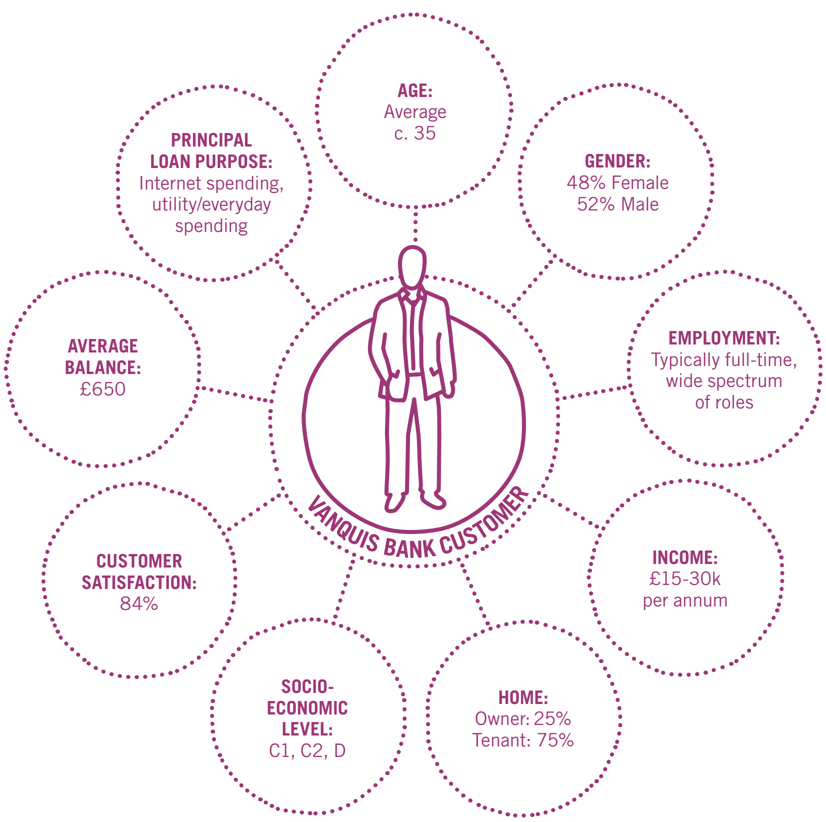
OUR CUSTOMERS

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

Home Credit customers are not always the main breadwinners, but they often control the household budget. The breadwinners in these households are more likely to be hourly-paid or have part-time or casual work than be in salaried employment and less than 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.

The household income of most Vanquis Bank customers is between £15,000 and £30,000 a year. They use the card in a similar way to users of mainstream cards at major supermarkets, 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 one they have.





POLICY AND REGULATION

CURRENT REGULATORY FRAMEWORK

The group is subject to various regulatory and supervisory regimes:

Office of Fair Trading and the Consumer Credit Act

The provision of consumer credit is regulated by the rules set out in the Consumer Credit Act 1974 (as amended) (the CCA) and the supporting regulations and guidance made under it. These cover all aspects of credit transactions from advertising to debt recovery. The Office of Fair Trading (OFT) is responsible for licensing businesses involved in consumer credit-related activities and for ensuring compliance with the CCA.

The group's Home Credit businesses within the Consumer Credit Division (CCD) and Vanquis Bank hold consumer credit licences issued by the OFT.

Financial Services Authority (FSA)

Vanquis Bank also holds a banking licence and is regulated by the FSA. The FSA's regulation of Vanquis Bank covers a number of areas, comprising: (i) code of conduct; (ii) treating customers fairly; (iii) regulatory capital requirements; (iv) liquidity requirements, including the requirement to hold a liquid assets buffer; and (v) monthly and quarterly reporting to the FSA.

Provident Financial plc, as the parent company of a regulated bank, is itself the subject of consolidated supervision by the FSA and is subject to regulatory capital requirements and quarterly reporting to the FSA.

The Department for Business, Innovation and Skills (BIS) and HM Treasury (HMT)

Although not regulatory in function, policy recommendations made by BIS and HMT frequently relate to and affect the financial services sector. The two departments often work together on financial services issues.

BIS and HMT jointly consulted recently on proposals to restructure the regulatory regime for financial services. They also conducted a joint review of consumer credit and personal insolvency during 2011.

Central Bank of Ireland

The Central Bank of Ireland (the Bank) is the licensing authority for consumer credit in the Republic of Ireland and Provident Personal Credit Limited, a subsidiary within CCD, holds a moneylender's licence issued by the Bank.

The legislation which is applicable in the Republic of Ireland includes the Consumer Credit Act 1995, the European Communities (Consumer Credit Agreements) Regulations 2010, the provisions of the Consumer Protection Code for Licensed Moneylenders and the Central Bank Reform Act 2010.

EU

The European Union institutions comprising the Commission, Council and Parliament initiate and enact legislation which applies to the EU Member States. The majority of UK legislation now involves implementation of EU legislative acts. A recent example was the implementation of the EU Consumer Credit Directive 2008 which took full effect in the UK in February 2011.

FUTURE REGULATORY LANDSCAPE

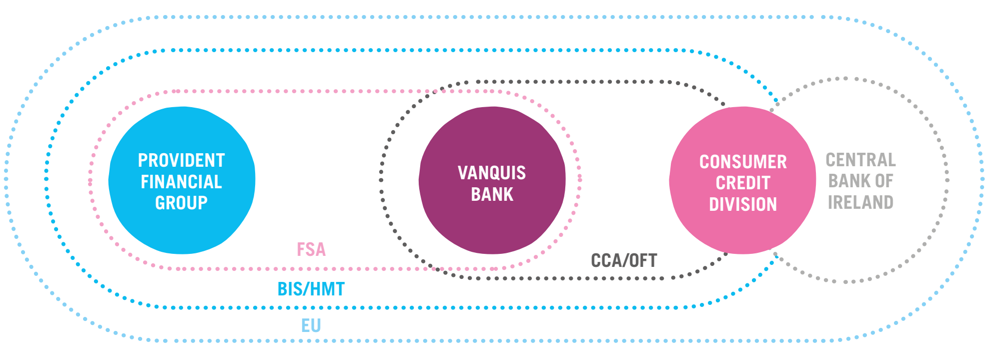
Financial Services regulation

The Government has been reviewing the way financial services are to be regulated. The outcome will be the creation of three key institutions: the Financial Policy Committee (FPC), as part of the Bank of England, with responsibility for 'macro-prudential' regulation, the Prudential Regulation Authority, with responsibility for 'micro-prudential' (or firm-specific) regulation and the Financial Conduct Authority (FCA), with responsibility for conduct of firms and markets regulation.

On 27 January 2012, the Government published a Financial Services Bill which includes provisions enabling the transfer of responsibility for consumer credit regulation from the OFT to the FCA, whilst retaining the existing consumer rights and protections contained in the CCA. The Government has stated that it will exercise these powers if, and when, it has identified a mode of FCA regulation that is proportionate for the different segments of the credit market.

CURRENT REGULATORY AND POLICY COVERAGE

The group and its businesses are subject to a range of regulators and policy-making bodies at the national and international level.



CHAIRMAN'S STATEMENT

Our mission is to be the leading non-standard lender in the UK and Ireland, acting responsibly in all our relationships and playing a positive role in the communities we serve. We aim to be successful, but also to be a good corporate citizen.

John van Kuffeler,
Chairman

THE GROUP'S FUNDING AND LIQUIDITY POSITION IS EXTREMELY ROBUST, WITH THE BALANCE SHEET REFLECTING STABLE GEARING OF 3.2 TIMES (2010: 3.3 TIMES) AND A SIGNIFICANT SURPLUS OF REGULATORY CAPITAL.

GROUP RESULTS

The group has reported a good set of results with pre-tax profit up 12.2% to £162.1m (2010: £144.5m[1]), reflecting a sound performance in the Consumer Credit Division (CCD) and continued strong growth in Vanquis Bank. Earnings per share of 89.6p (2010: 78.6p[1]) grew by 14.0%, a marginally faster rate than pre-tax earnings reflecting the fall in the UK corporation tax rate from 28% to 26% on 1 April 2011.

Home Credit delivered profits of £127.5m, which is stated after the one-off cost of £2m from implementing the requirements of the EU Consumer Credit Directive (2010: £129.1m, which included a £2m benefit from an extra trading week). Throughout 2011, management's focus has remained on serving good-quality existing customers as a response to the continuing pressure on household incomes from under-employment and the rising cost of food, fuel and utility bills. The proportion of credit issued to new customers was reduced through tighter underwriting introduced at the start of 2011. As a result, customer numbers declined by 1.9% in the year whilst strong credit quality supported average receivables growth of 4.0%. A strong collections performance assisted by enhancements made to the agents' commission scheme earlier in the year produced a reduction in the ratio of impairment to revenue from 32.9% at December 2010 to 32.1% at December 2011.

Vanquis Bank has delivered an excellent performance in 2011 with profits up 65.5% to £44.2m (2010: £26.7m). This was ahead of management's internal plans due to the strength of the delinquency performance. The step-up in the growth rate from the second half of 2010 has been maintained throughout 2011, supported by heavy investment in the customer acquisition programme. As a result, year-on-year customer growth of 27.0% and average receivables growth of 35.3% was achieved against unchanged underwriting standards. Delinquency levels have remained stable at record lows for the business due to the strong underlying quality of the receivables book. This has allowed Vanquis Bank to deliver a risk-adjusted margin of 35.0% in 2011 (2010: 33.9%), as well as a post-tax return on equity in excess of the threshold set for the business of 30%.

The group's funding and liquidity position is extremely robust, with the balance sheet reflecting stable gearing of 3.2 times (2010: 3.3 times) and a significant surplus of regulatory capital. The retail deposits programme at Vanquis Bank is now fully established and running ahead of plan. As at 31 December 2011, £140m of fixed-rate deposits had been taken at rates of between 3.15% and 4.65%. Vanquis Bank's retail deposits programme is well on track to achieve its target of funding up to 80% of its receivables book with deposits by the end of 2012. The group has recently entered into a new £382.5m syndicated bank facility maturing in May 2015 and has cancelled

[1] 2010 earnings stated before an exceptional cost of £2.5m.

all existing committed bank facilities. The new facility carries a very similar all-in cost of funds to the previous facility. Headroom on the group's committed debt facilities at 31 December 2011 amounted to £288m which, together with the recent renewal of bank facilities and the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2015.

The group generated capital of £110.1m in 2011, significantly exceeding dividends payable in respect of 2011 of £93.2m.

Vanquis Bank is now generating surplus capital over and above that required to fund its own growth and maintain its regulatory capital base. This surplus is available for distribution to Provident Financial plc and amounted to £14.8m in 2011. Accordingly, Vanquis Bank paid its first dividend of £5m to Provident Financial plc in July and is due to pay a further dividend in respect of 2011 of £5m in March 2012.

The proposed final dividend has been increased by 11.0% to 42.3p (2010: 38.1p) which, together with the 5.1% increase in the interim dividend, represents an 8.7% increase in the total dividend per share to 69.0p (2010: 63.5p). Dividend cover for 2011 increased to 1.30 times (2010: 1.24 times) which is consistent with the group's target of maintaining annual dividend cover of at least 1.25 times. The increase in the full-year dividend is supported by the growth in earnings and strong capital generation.

GOVERNANCE

In 2011, we fully embraced the principles of the UK Corporate Governance Code (the Code), taking the opportunity to implement certain of its provisions in advance of their effective date. In particular, all of our directors retired at the AGM in May and were duly re-elected and we used an external facilitator to carry out our annual board evaluation in 2010.

We announced in our Interim Management Statement in October that we supported the Davies Review 'Women on Boards' together with the Financial Reporting Council's Statement on proposed changes to the Code relating to gender diversity on boards. The board recognises the need to increase the population of female employees at the most senior levels in the company whilst always seeking to recruit individuals that create the right mix of knowledge, experience and skills and therefore it will aim to reach a target of 25% women on the board by 2015, (currently 14%) and a target of 25% of women within the wider senior management group by the same date.

REMUNERATION

Our Remuneration Committee established the remuneration policy for 2011 by adopting an approach which was fundamentally consistent with the 2010 remuneration policy, designed following consultation with key shareholders in 2010. In 2011, executive director salaries were increased by a similar percentage to that which was applied to our general workforce and we made no changes to the operation of our long-term incentive schemes, save for the introduction of a claw-back provision. Our Remuneration Committee, with the assistance of our Risk Advisory Committee, carried out a detailed review of the risks that affect or may affect our remuneration policy in light of the recommendations set out in the Financial Service Authority's (FSA) Remuneration Code and in the Walker Review. It established a remuneration framework risk assessment process and on the basis of this assessment, including in particular the internal controls operated by the company and the balanced approach taken to target setting under the company's long-term incentive schemes, was satisfied that no undue risk-taking was being encouraged.

Our Remuneration Committee has continued to work with our Risk Advisory Committee throughout 2011 to keep the remuneration policy under review.

FTSE4Good

CHAIRMAN'S STATEMENT

BOTH BUSINESSES ENTER 2012 WITH THE BENEFIT OF VERY SOUND CREDIT QUALITY RESULTING FROM THE APPLICATION OF TIGHT CREDIT STANDARDS AND A STRONG OPERATIONAL PERFORMANCE IN 2011.

CORPORATE RESPONSIBILITY

Our mission is to be the leading non-standard lender in the UK and Ireland, acting responsibly in all our relationships and playing a positive role in the communities we serve. We aim to be successful, but also to be a good corporate citizen.

Our commitment to corporate responsibility manifests itself in many ways. We seek to lend responsibly to our customers and do so by providing them with products that meet their needs for small sums and high levels of contact with our staff and agents. We want to be a force for good in our industry and so we generally participate whenever the Government or regulators request input on issues concerning our sector.

We provide financial help to the money advice sector to support it in its important work of helping people who are struggling with debt. We want to protect the environment and so we work hard to manage our use of energy, water and paper. And we want the communities we serve to be safe and vibrant places in which to live and work and so we invest in our Good Neighbour programme. This programme provides financial support, and help from our staff, to organisations based in the communities we serve which are addressing issues such as crime prevention, unemployment, low levels of educational attainment, and health and well-being. In all these ways, we try to live up to the responsibility agenda within our corporate mission.

The group is very proud to have received a maximum rating score of 100 and be ranked joint first globally amongst financial services companies in the FTSE4Good Index Series which measures the environmental, social and governance ratings of over 2,300 publicly-listed companies worldwide. This achievement reflects the continued investment that the group and its employees have made in embedding the corporate responsibility programme across all areas of the business.

Further details of how we approach the issue of Corporate Responsibility can be found on pages 26 to 32 of this report and in the Corporate Responsibility report which is published separately each year.

RISK MANAGEMENT

In 2011, we continued to embed our risk management framework into our business operations. The effective management of the key risks facing our business, which are summarised on pages 73 to 75 is integral to the achievement of our business plans and strategic objectives.

During 2011 we have:

- effectively managed our credit risk with both businesses performing well despite the challenging economic backdrop. Vanquis Bank maintained its tight underwriting approach and CCD tightened the underwriting criteria for new customers and re-serving existing customers as its focus has been on reinforcing the quality of the receivables book;
- further diversified our sources of funding, mitigating the capital and liquidity risks facing the group. We successfully launched our retail deposits programme within Vanquis Bank and after the year end we successfully renewed our syndicated bank facilities; and
- implemented the requirements of the EU's Consumer Credit Directive in our businesses and continued to respond to consultations on proposed regulatory changes that are affecting the broader financial services sector.

REGULATION

The group implemented relevant parts of the Irresponsible Lending Guidance for Creditors and the EU Directive on Consumer Credit by the February 2011 deadline and a number of other pieces of new Office of Fair Trading (OFT) guidance during 2011.

On 1 November 2011, the FSA and OFT issued a joint consultation document on proposed guidance to firms in relation to payment protection products. The document builds on existing high-level guidance from the FSA and reaffirms previous OFT guidance. The consultation is wide-ranging and covers both insurance products (regulated by the FSA) and non-insurance products (generally regulated by the OFT) such as the Repayment Option Plan made available to Vanquis Bank customers. Final guidance is expected to be published by summer 2012.

On 21 November 2011, the Government published its response to the HM Treasury/BIS review of consumer credit and personal insolvency. As part of its response, the Government announced that Bristol University's Personal Finance Research Centre (PFRC) had been appointed to carry out research into the impact of introducing a variable cap on the total cost of high cost credit. An update on progress is expected in spring 2012 and the findings are due to be announced by summer 2012.

On 27 January 2012, the Government published the draft Financial Services Bill. The Bill enables the creation of a new regulatory architecture for financial services and the transfer of responsibility for regulating consumer credit from the OFT to the Financial Conduct Authority. The Government has stated that the exercise of this power is subject to identifying the appropriate model for consumer credit regulation.

OUTLOOK

Both businesses enter 2012 with the benefit of very sound credit quality resulting from the application of tight credit standards and a strong operational performance in 2011. Credit standards will remain unchanged whilst pressure on customers' disposable incomes continues in an employment market that is displaying some weakness.

The group's funding position is extremely robust. New medium-term debt funding totalling £190m was arranged in 2011, Vanquis Bank established its retail deposits programme which raised £140m during 2011 and the group recently renewed early its core bank facility of £382.5m through to May 2015. The group has funding to meet all contractual debt maturities and execute in full on its growth plan into 2015. Importantly, the retail deposits programme has established stand-alone funding to allow Vanquis Bank to continue to invest in developing the growth opportunity available in the non-standard credit card market.

The focus in 2012 is to maintain tight credit standards whilst developing opportunities for growth and greater operational effectiveness in CCD and continuing to invest heavily in the customer acquisition programme at Vanquis Bank.

In the first two months of 2012, CCD has seen a robust collections performance and Vanquis Bank has continued to trade strongly. The group is in a position to make further good progress in 2012.

John van Kuffeler
Chairman
28 February 2012

CHIEF EXECUTIVE'S REVIEW

A YEAR OF DELIVERY

We have increased our profits by 12.2%*, despite the very tough economic conditions in both the UK and the rest of the world. We have grown the receivables book by 9.3% whilst maintaining tight underwriting standards which has allowed us to deliver a very good impairment performance. Very importantly, this has allowed us to increase the group's dividend by 8.7%, the first dividend increase since the demerger of the international business in 2007.

Peter Crook,
Chief Executive

Group profit before tax **£162.1m**

Growth in EPS **14.0%***

Dividend cover **1.30 times**

Gearing ratio **3.2 times**

We have not only delivered an excellent financial performance but we have also delivered some key operational milestones in 2011:

1. The Consumer Credit Division (CCD) successfully rolled-out the changes required to implement the EU Consumer Credit Directive in the early part of 2011. This required significant changes to IT systems, processes and documentation, all of which has been delivered with minimal disruption.
2. A number of changes to arrears management were made in CCD during April, including a number of enhancements to agents' commission to encourage greater focus on early stage arrears. These changes are proving very effective in improving the quality of the receivables book and have also led to a large proportion of agents generating more commission.
3. Despite tight underwriting standards, developing opportunities for growth and greater operational effectiveness in CCD are important management priorities. In 2011, the business opened six branches in secondary towns such as Stafford and Kidderminster in which Home Credit appeared significantly under-represented. They are also locations where Home Credit had closed the branch a number of years ago and moved management responsibility to an adjacent, more remote branch. These branches are proving successful and will break even after approximately 12 months. A number of further opportunities have been identified for 2012. The business is also pursuing a programme of consolidating smaller, less profitable agencies into larger agencies which will help attract more highly motivated agents who have more time to spend on their agencies and who tend to be breadwinners. To date, these initiatives have allowed a reduction in agency numbers of 8% to 10,500 whilst increasing capacity and improving collections performance.
4. Vanquis Bank successfully completed the migration of its customer processing to First Data's First Vision platform during the first half of the year with no interruption to customer service levels or business efficiency. This migration ensures that Vanquis Bank's systems remain at the forefront of technology.
5. A second Vanquis Bank contact centre was opened in CCD's head office in Bradford during October. The second contact centre provides the additional operational capacity required to accommodate the future growth of Vanquis Bank.
6. Vanquis Bank successfully launched its retail deposits programme in July. The platform and product distribution are both working very well. Retail deposit-taking provides a further, valuable diversification of the group's funding sources and provides stand-alone financing for the fastest-growing part of the group.

The delivery of these milestones during 2011 leaves the business well-placed to continue to deliver further profitable growth during 2012 and beyond.

* 2010 earnings stated before an exceptional cost of £2.5m.

MARKET CONDITIONS

The competitive landscape for the Home Credit business remains unchanged with around 500 active participants in the UK Home Credit market. Home Credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. Whilst household incomes of Home Credit customers have shown modest growth over the past year, disposable incomes remain under pressure from food, fuel and utility price increases. As a result, customer and agent behaviour is relatively cautious, which is moderating the demand for credit. Tight underwriting standards remain in place and the focus of the business has continued to be on lending to good-quality existing customers and moderating the amount of credit advanced to new customers.

	2011 £m	2010* £m	Change £m
Home Credit	127.5	129.1	(1.6)
Real Personal Finance	–	(1.8)	1.8
Total CCD	127.5	127.3	0.2
Vanquis Bank	44.2	26.7	17.5
Central:			
– costs	(10.2)	(8.1)	(2.1)
– interest receivable/(payable)	0.6	(1.4)	2.0
Total central	(9.6)	(9.5)	(0.1)
Group profit before tax	162.1	144.5	17.6

Vanquis Bank continues to be the most active participant in the under-served, non-standard credit card market and is experiencing strong response rates to its marketing programmes. Whilst customers are typically in more regular employment than Home Credit customers, the business is significantly less sensitive to changes in the employment market than mainstream card issuers. This is a result of only serving customers with limited indebtedness together with our 'low and grow' approach to extending credit which produces high levels of credit line utilisation and minimises the contingent risk associated with undrawn credit lines. The relative stability of the employment market since mid-2009, coupled with consistently tight underwriting, has contributed to the favourable delinquency trends in Vanquis Bank over the last two years. During the second half of 2011, delinquency rates stabilised at an all-time low for the business. To date, there has been no discernible pressure on delinquency rates from the rise in UK unemployment over recent months. Nonetheless, the business plan for 2012 assumes that unemployment will rise to around 3 million and that this will feed through into a modest rise in delinquency and some moderation in Vanquis Bank's risk-adjusted margin.

STRATEGY

To deliver our mission, we have four strategic aims:

1. **The organic growth of high return on equity businesses** – we specialise in investing in and developing businesses that provide high returns on a relatively small amount of equity capital deployed. We are focussed on maintaining steady growth in CCD whilst improving operational efficiency to continue to deliver significant returns. CCD is an excellent business which is capable of growing its receivables book during normal economic conditions at around 3% to 5% per annum and providing earnings growth at above these levels. At Vanquis Bank, we aim to maintain the post-tax return on equity of the business at over 30% whilst continuing to grow the receivables book at similar levels to recent years. We believe there is the potential for the business to grow to between 1.0m and 1.2m customers in the UK, albeit that the speed of progress will be dictated by economic conditions and the competitive landscape.
2. **Generating shareholder returns** – our strategy of developing businesses which generate strong returns on equity capital underpins our generous dividend policy which aims to distribute up to 80% of our profits to shareholders. During 2011, we delivered on our commitments set at the time of the demerger of the international business, by increasing the dividend for the first time whilst producing a dividend cover above our minimum target of 1.25 times. Our overall total shareholder return performance has been very good since the demerger. We aim to generate sustainable growth in profits and dividends to continue to deliver attractive shareholder returns.
3. **Maintaining a secure funding and capital structure** – we maintain a strong balance sheet and prudent funding. Our business model is based upon borrowing long and lending short and maintaining a diverse funding base, which has been further enhanced by the commencement of deposit-taking in Vanquis Bank in 2011. Our target gearing ratio is 3.5 times, comfortably inside our banking covenant of 5.0 times.
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 ensuring that we provide our customers with an excellent product proposition and service and I am proud that we continue to earn extremely high levels of customer satisfaction in both our businesses. We support this by investing approximately 1% of our pre-tax profits into our community programme which provides valuable benefits to the communities in which our customers and agents live and in which our staff work.

Our leading positions in both the Home Credit and non-standard credit card markets provide a very good base from which to deliver a strong performance as the economy recovers.

CHIEF EXECUTIVE'S REVIEW

I AM CONFIDENT THAT WE HAVE THE RIGHT STRATEGY, BUSINESS MODEL, PEOPLE AND RESOURCES TO CONTINUE TO DELIVER.

Pressure on customers' real incomes and a weak employment market dictate that tight underwriting standards will remain in place in both businesses for the foreseeable future.

MISSION AND VALUES

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

To assist in the delivery of our mission, we have a number of core values that are embedded in the business:

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 values help us to run our business in a sustainable, responsible way, to the benefit of all our stakeholders and to be a source of pride for our employees.

KEY PERFORMANCE INDICATORS (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 2011, measured using these KPIs, together with our plans for 2012, are set out on pages 22 to 25.

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

BUSINESS MODEL

The key to Provident Financial's success and the delivery of high returns for our shareholders is our different approach and our robust business model.

We lend to customers who others find it difficult to serve. The UK non-standard market of over 10 million people has become the domain of specialist lenders. Many lenders who have operated in this market have either failed, withdrawn or restructured whilst Provident Financial has continued to be successful. We have over 130 years of expertise serving the non-standard market and will continue to focus all of our expertise and resources in this sector.

Our business is simple – we provide small amounts of money to help ordinary people on below-average incomes get on with their lives and participate in society. The stability and soundness of our business is rooted in our intimate understanding of our customers. Unlike most mainstream credit organisations, we make a point of maintaining close contact with our customers throughout the whole cycle of a loan. We work hard to get to know our customers well and build productive relationships with them. Our products are designed to be simple and transparent and we adopt a 'low and grow' approach to responsible lending.

WE HAVE INCREASED OUR PROFITS DURING THE VERY TOUGH ECONOMIC CONDITIONS IN BOTH THE UK AND THE REST OF THE WORLD

We underpin our business with solid foundations. We borrow long and lend short, maintain diverse funding sources and ensure that we adopt prudent, appropriate accounting policies. We focus on investing in highly capital-generative businesses that allow us to maintain the investment in the group and provide our shareholders with good returns.

Further detail on our business model is set out on page 9.

LOOKING AHEAD

The UK non-standard credit market currently comprises over 10 million people and is expected to show steady growth in 2012 and beyond. It is our aim to remain the leading lender in this market and I am confident that we have the right strategy, business model, people and resources to continue to deliver.

After a year of significant operational changes in 2011, 2012 will see less change as we focus on managing the business tightly through the tough economic conditions which we expect to persist at least for the next 12 months. Our key aim in CCD will be to maintain the quality of the receivables book, seek out growth opportunities and continue to improve the operational efficiency of the business. In Vanquis Bank, we will look to maintain the strong momentum built up over the last two years and look into ways of increasing the revenue streams from our well-established platform.

Provident Financial's future prospects are attractive:

- we have a long track record of successfully operating in the non-standard market which has become the domain of specialists like us;
- we have an attractive business model with businesses that are well managed and inherently more resilient through difficult market conditions;
- we have a Home Credit business with opportunities for growth through growing agent capacity and expanding the geographic footprint;
- we continue to generate strong profitable and capital-generative growth in Vanquis Bank and we believe we have the potential to reach 1.0 to 1.2 million customers and £1bn of receivables;
- our businesses generate high shareholder returns and are very capital-generative, supporting a high and sustainable distribution policy; and
- we have a strong balance sheet and a prudent funding structure.

2011 has been a year of delivery. I am confident that we can continue to deliver in 2012.

Peter Crook
Chief Executive
28 February 2012

DELIVERING OUR STRATEGY AND KPIs

We have made excellent progress in 2011 in delivering against our strategy. This is evidenced by our performance against our KPIs.

STRATEGY

GROWTH OF HIGHER RETURN BUSINESSES IN THE UK AND IRELAND NON-STANDARD MARKET

- Grow and modernise our Home Credit business within the Consumer Credit Division (CCD).
- Bring Vanquis Bank up to full operational scale, generating significant returns.
- Extend our product offerings to cover more of our chosen market.

KPI DESCRIPTION

RETURN ON EQUITY

Profit after tax, excluding exceptional costs, 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.

PROFIT BEFORE TAX

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

AMOUNTS RECEIVABLE FROM CUSTOMERS

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

REVENUE YIELD (HOME CREDIT)

Revenue as a percentage of average receivables for the 12 months ended 31 December.

IMPAIRMENT % REVENUE (HOME CREDIT)

Impairment as a percentage of revenue for the 12 months ended 31 December.

RISK-ADJUSTED MARGIN (VANQUIS BANK)

Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.

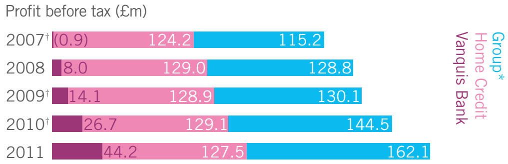
PERFORMANCE IN 2011

- Strong group return on equity of 48% (2010: 46%).
- Vanquis Bank delivered a return on equity above its threshold limit of 30%.

Return on equity (%)

- Group profit before tax of £162.1m, up by 12.2% (2010: £144.5m†).
  - CCD profit before tax of £127.5m (2010: £127.3m) reflecting reduced receivables growth from a tight underwriting stance and customer caution in the current economic environment.
  - Strong Vanquis Bank performance, delivering profit before tax of £44.2m (2010: £26.7m).

Profit before tax (£m)



*Stated after central costs, RPF losses and Yes Car Credit losses.
†Prior to exceptional costs.

- Group amounts receivable from customers up by 9.3% to £1,332.7m (2010: £1,219.3m).
  - Modest increase in Home Credit receivables of 1.1% to £876.7m (2010: £867.2m) following reduction in customer numbers due to lower new customer recruitment and continued focus on good-quality existing customers.
  - Vanquis Bank receivables showed strong growth of 31.4% to £453.4m (2010: £345.0m) due to new customer growth of 27.0% and the success of the credit line increase programme.

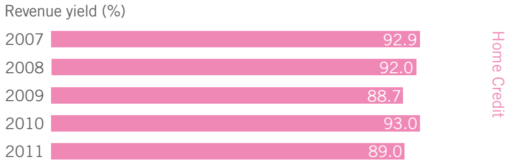
Receivables (£m) – *growth in italics*

	Vanquis Bank		Home Credit		Group*	
2007		143.1		747.3		925.4
2008	*43.5%*	205.4	*11.6%*	833.7	*14.9%*	1,063.3
2009	*24.4%*	255.5	*3.9%*	866.0	*7.1%*	1,139.3
2010	*35.0%*	345.0	*0.1%*	867.2	*7.0%*	1,219.3
2011	*31.4%*	453.4	*1.1%*	876.7	*9.3%*	1,332.7

*Includes RPF receivables of £1.7m in 2007, £18.4m in 2008, £17.8m in 2009, £7.1m in 2010 and £2.6m in 2011 and Yes Car Credit receivables of £33.3m in 2007 and £5.8m in 2008. Both businesses are now discontinued.

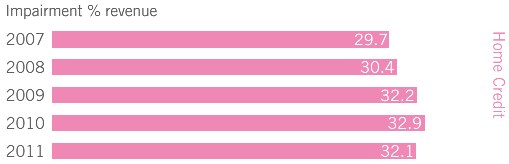
- Reduction in revenue yield in Home Credit to 89.0% (2010: 93.0%), reflecting focus on existing customers who are typically served with longer-term products earning a lower yield.

Revenue yield (%)



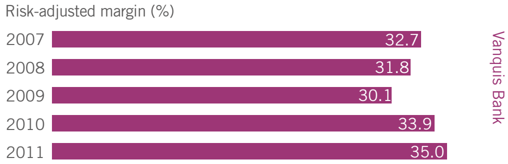
- Impairment as a percentage of revenue in Home Credit reduced to 32.1% (2010: 32.9%), reflecting improvements in arrears management and the focus on credit quality.

Impairment % revenue



- Vanquis Bank risk-adjusted margin of 35.0% (2010: 33.9%), well above the minimum target of 30%, reflecting favourable delinquency levels.

Risk-adjusted margin (%)



PLANS FOR 2012

CONSUMER CREDIT DIVISION

- Continued focus on improving the quality of the receivables book through maintaining a tight stance on new customer underwriting and the criteria for re-serving existing customers.
- Focus on business efficiency through enhancing the use of IT and improving the engagement of agents.
- Growing the customer base by opening branches in secondary locations which were previously managed remotely and unlocking capacity from the business efficiency programme.

VANQUIS BANK

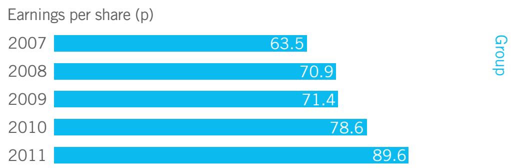
- Continue the growth in account bookings and receivables.
- Maintain tight stance on underwriting and credit line increases in light of economic uncertainty and instability of the labour market.
- Explore product diversification and options to facilitate continued growth.

DELIVERING OUR STRATEGY AND KPIs

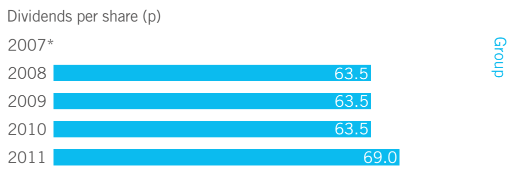
STRATEGY	KPI DESCRIPTION
GENERATING SHAREHOLDER RETURNS • Generate sustainable growth in profits and dividends to deliver increasing shareholder returns. • At least maintain a full-year dividend of 63.5p per share whilst moving to a target dividend cover of at least 1.25 times and maintaining a progressive profile thereafter.	**ADJUSTED EARNINGS PER SHARE (EPS)** Profit after tax, excluding exceptional costs, divided by the weighted average number of shares in issue, excluding own shares held by the group. **DIVIDEND PER SHARE (DPS)** The full-year dividend per share comprising the interim dividend per share paid and the proposed final dividend per share. **TOTAL SHAREHOLDER RETURN (TSR)** The increase in the value of the group's shares, together with any dividend returns made to shareholders.
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 gearing ratio of no more than 3.5 times, to ensure alignment with the minimum dividend cover target of 1.25 and the group's growth plans. • Continue to diversify the group's sources of funding.	**GEARING** Borrowings (based on contracted rates of exchange and excluding deferred arrangement fees) 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.
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 on responsible lending. • 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.	**CUSTOMER SATISFACTION** The percentage of customers surveyed who are satisfied with the service they have been provided. **INVESTMENT IN THE COMMUNITY** The amount of money invested in support of community programmes (based on the London Benchmarking Group's guidelines) and donated for charitable purposes.

PERFORMANCE IN 2011

- Adjusted earnings per share up 14.0% to 89.6p (2010: 78.6p).

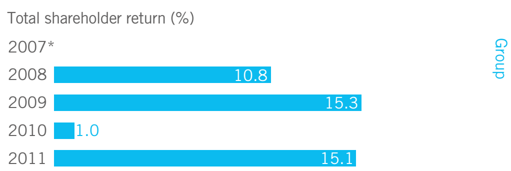


- Dividend per share increased by 8.7% to 69.0p (2010: 63.5p), producing a dividend cover of 1.30 times (2010: 1.24 times).



*Excluded as distorted by the demerger of the international business during the year.

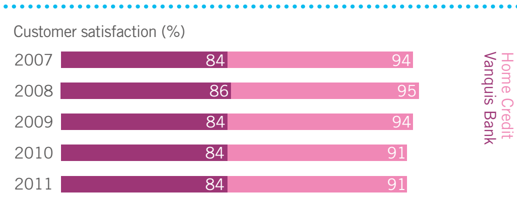
- Strong TSR of 15.1% in 2011 (2010: 1.0%).



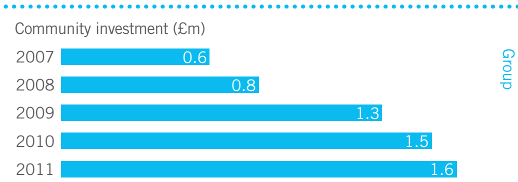
*Excluded as distorted by the demerger of the international business during the year.

- Gearing stable at 3.2 times (2010: 3.3 times), compared with a maximum target of 3.5 times and a banking covenant of 5.0 times.
- Vanquis Bank retail deposits programme launched in July with £140m of retail deposits taken by the end of 2011.
- Renewal of committed bank facilities of £382.5m in February 2012.
- Headroom on committed facilities of £288m, at 31 December 2011. The retail deposits programme at Vanquis Bank and the recent renewal of committed bank facilities ensures there is sufficient headroom to fund growth and contractual maturities until May 2015.
- Comfortable regulatory capital surplus against the capital requirements set by the FSA.

- Customer satisfaction of 91% for Home Credit (2010: 91%) and 84% for Vanquis Bank (2010: 84%).



- Invested £1.6m in various community programmes during 2011 (2010: £1.5m).



PLANS FOR 2012

- Maintain a minimum dividend cover of 1.25 times.

- Maintain capital and gearing at prudent levels.
- Increase deposits up to 80% of Vanquis Bank receivables by the end of 2012.
- Consider the issue of a third retail bond in 2012.
- Continue to consider opportunities which further diversify the group's available funding sources.

- Maintain or improve customer satisfaction levels.
- Maintain an investment of 1% of group profit before tax in the communities we serve through various ongoing community initiatives.

CORPORATE RESPONSIBILITY

At Provident, corporate responsibility (CR) means much more than ensuring that we lend to our customers in a responsible manner. It is also about ensuring that we take account of, and manage, our wider environmental, economic and social impacts.

OVERVIEW

OUR MISSION AND VALUES

Our mission to be 'the leading non-standard lender in the UK and Ireland, acting responsibly in all our relationships and playing a positive role in the communities we serve' underlines our commitment to CR. This mission is supported by our values which state that we will be fair, responsible, accessible, straightforward and progressive.

OUR CR STRATEGY

Our mission is supported by two headline CR key performance indicators:

- percentage of customers surveyed who are satisfied with the service they have been given.
- the amount of money invested in support of community programmes and donated for charitable purposes.

OUR SIX THEMES

GOVERNANCE AND MANAGEMENT
CUSTOMERS
EMPLOYEES
SUPPLIERS
COMMUNITIES
ENVIRONMENT

KEY AREAS OF FOCUS

OUR CUSTOMERS

Our customers are one of our most important stakeholders. By understanding them, we can continue to develop and deliver credit products that are responsible and tailored to meet their specific needs.

OUR COMMUNITIES

Having a presence in almost every town and city in the UK and Ireland brings with it responsibility. This is why we are committed to investing in the many communities we serve.

HIGHLIGHTS OF THE YEAR

- In April 2011, our Bradford-based head office attained accreditation to the International Standard EN ISO 14001: 2004.
- In the 2011 FTSE4Good Index Series, Provident achieved a maximum rating score of 100%.
- In June 2011, we retained our platinum performance rating in the Business in the Community (BITC) CR index.

FACTS

The score we retained through our involvement in BITC's CR index.	95.25%
The number of three-year projects we are supporting across the UK and Ireland through our Good Neighbour programme.	34
The amount of carbon dioxide in tonnes associated with our business travel activities we offset during 2011.	3,630

CR REPORTING

A comprehensive account of our CR programme and its performance is provided to stakeholders in our CR reports. Our 2011 CR report will be published during the summer of 2012. Further information on our CR reports can be found at www.providentfinancial.com.

› Full Corporate Responsibility Report 2011
www.providentfinancial.com/files/reports/2011cr

CR GOVERNANCE

Peter Crook, Chief Executive, has board responsibility for the group-wide CR programme. He chairs the group's management committee which provides oversight of the programme. Day-to-day management of Provident's CR activities is delegated to a number of working groups.

› www.providentfinancial.com

WHILE ENSURING THAT WE ARE A RESPONSIBLE LENDER IS PERHAPS OUR MOST IMPORTANT CORPORATE RESPONSIBILITY, WE RECOGNISE THAT WE HAVE A DUTY TO ADDRESS THE OTHER CR ISSUES THAT ARE RELEVANT TO OUR BUSINESS

Peter Crook,
Chief Executive

OUR CUSTOMERS

First and foremost, ensuring that we are a responsible corporate citizen plays a central role in the way we treat our customers.

This starts with understanding our customers so that we can develop and deliver products that are tailored to meet their needs. By doing this we are able to provide our 2.5 million customers with small-sum products that are: (i) straightforward and easy to understand; and (ii) affordable and offer high levels of personal contact.

Responsible lending is an important part of how we treat our customers. It is built into our products and the way we deliver them. Responsible lending decisions are made for our new and existing Home Credit customers through a combination of weekly or monthly agent visits to customers' homes and the use of decision support tools. Before Vanquis Bank accepts a customer, it runs a credit bureau check to determine whether to accept the application and to set the credit limit. It also speaks with customers before making a final decision.

KEY NUMBERS

- 20%, the percentage of new customer credit applications approved by our Home Credit business and Vanquis Bank.
- 91% and 84%, the percentage of customers who are satisfied with the service they have received from our Home Credit business and Vanquis Bank respectively.

CUSTOMER INSIGHTS

The average Home Credit loan	£500
The average Vanquis Bank credit limit	£940

I GET ON REALLY WELL WITH MY AGENT, JOYCE. WHENEVER I NEED TO DISCUSS MY LOAN I KNOW SHE'LL LISTEN AND UNDERSTAND

Joyce,
Home Credit agent

Fiona,
Home Credit customer

CORPORATE RESPONSIBILITY

OUR GOOD NEIGHBOUR THREE-YEAR PROJECTS

1. **Boomerang,** Dundee
2. **Scottish Youth Hostel Association,** Stirling
3. **The Venchie Children and Young People's Project,** Edinburgh
4. **The Royal Lyceum,** Edinburgh
5. **Made4U in ML2,** Wishaw
6. **Stockton Borough Council,** Stockton-upon-Tees
7. **Sycamore Project (Zac's Bar),** Bolton
8. **Be Involved,** Bradford
9. **Scholemoor Beacon,** Bradford
10. **Joshua Project,** Bradford
11. **Holmewood Executive,** Bradford
12. **Sedbergh Youth and Community Centre,** Bradford
13. **Bradford and District Senior Power,** Bradford
14. **Northfield Sports Association,** Bootle, Merseyside
15. **Sefton Enterprises Ltd,** Sefton, Merseyside
16. **Yorkshire Dance,** Rotherham
17. **Sycamore Adventure,** Dudley
18. **New Parks Club for Young People,** Leicester
19. **Mowmacre Young People's Play and Development Association,** Leicester
20. **Project for the Renewal of Druids Heath,** Birmingham
21. **Shard End Youth and Community Centre,** Birmingham
22. **The Door,** Stroud
23. **Riverfront Theatre,** Newport, Wales
24. **Battersea Arts Centre,** London
25. **Ahoy Centre,** Deptford, London
26. **CEN8,** New Cross, London
27. **Baggator,** Bristol
28. **St Petrocks,** Exeter
29. **REACH Across,** Londonderry
30. **Hostelling International Northern Ireland,** Belfast
31. **Solas After School Project,** Dublin
32. **Early Focus Project,** Dublin
33. **An Oige,** Dublin
34. **Laois Partnership,** Portlaoise, County Laois

OUR COMMUNITIES

The strategy behind our community involvement activities comprises two strands:

- helping to address the social inclusion needs of people who live in deprived communities; and
- supporting the money advice sector to address issues such as financial education and carrying out research into matters which relate to our customers.

ADOPTING A DIFFERENT APPROACH TO COMMUNITY INVOLVEMENT

Our community involvement activities are delivered through our Good Neighbour programme. The programme draws on the knowledge that comes from having a presence in almost every town in the UK. Projects address issues such as crime prevention, unemployment and low levels of educational attainment, and health and well-being.

The programme delivers activities in three ways:

- local community project support – identifying and supporting projects which address issues that are relevant to the needs of the community;
- employee volunteering – encouraging our employees to take part in volunteering initiatives; and
- employee matched-giving – matched funding of employee fundraising and volunteering activities.

KEY NUMBERS

- 42,550, the number of people who have benefited from the support provided by the projects we have funded through our Good Neighbour programme.
- 34,642, the number of people who have accessed new services or activities as a result of the support they have received through Good Neighbour-funded projects.
- 20,747, the number of people who developed new skills as a result of their involvement in the programmes supported by Good Neighbour.

ARE WE BEING A GOOD NEIGHBOUR?

A key part of our community involvement programme involves evaluating our work to understand and identify the community and business benefits of the initiatives we support and ensuring that there is continual improvement. Here are some examples of recent projects:

THE DOOR, STROUD

The Door is a youth project located in Stroud which offers mentoring and personal support to help young people build their confidence and address issues such as drug and alcohol abuse. A three-year project was initiated between Provident and The Door in April 2010 which funds a Family Support Team Leader and part-funds a Mentoring Team Leader.

Project highlights

- Delivery of a mentoring programme to help numerous families to identify and develop coping strategies to enable parents to provide support to young people on a range of issues.
- Empowering parents and young people to become healthier, more economically proficient and enabling them to improve their emotional resilience.

WE FEEL THAT WE ARE TRULY IN A PARTNERSHIP WITH PROVIDENT. THEY NOT ONLY PROVIDE FUNDING, THEY SUPPORT AND CARE IN SO MANY WAYS

Brendan Conboy,
Chief Executive
of The Door

CORPORATE RESPONSIBILITY

The number of three-year funding projects **34**

The number of employees that took part in volunteering activities in 2011 **689**

The number of employee volunteering hours during 2011 **4,324**

Photographs: Top: Made4U in ML2, Wishaw, Glasgow. Right: Boomerang in Stobswell, Dundee.

BOOMERANG, DUNDEE

Boomerang is a community project situated in the Stobswell area of Dundee which provides services to over 300 members of the local community. Through Good Neighbour, a three-year funding package has been provided to Boomerang to support an IT trainer post and establish a new youth café/drop-in centre, known as No. 1.

Project highlights

- Boomerang is now an accredited training centre which delivers IT training to the unemployed, elderly, low-paid and single parents.
- Boomerang has created a facility which aims to reduce anti-social behaviour by providing its young people with a secure, warm and friendly environment.

SOLAS AFTER SCHOOL PROJECT, DUBLIN

Solas After School Project is an after-school intervention project located in Basin Lane Flats, Dublin. Through Solas, children who face challenging situations in their lives are helped to improve their literacy and numeracy skills and are given time to relax away from the issues they face at home. Three years of Good Neighbour funding is being used by Solas to fund the day-to-day running of its activities and to expand the number of places it has available.

Project highlights

- Solas has doubled the number of places it has available to schoolchildren in the local community.
- Solas has provided local schoolchildren with trips to swimming pools and sports centres and has delivered teaching sessions on numeracy, literacy and cookery.

MADE4U IN ML2, WISHAW

Made4U in ML2 is a partnership project which supports adults, young people and families in the ML2 postcode area of Wishaw, Glasgow. The project's overall aim is to make the local community more resilient by promoting positive lifestyles through the provision of activities including dance, sports, walking, and health programmes. Three years of Good Neighbour funding has been provided to help Made4U in ML2 to expand the range of activities it provides to the local community and ensure the continued delivery of its existing services.

Project highlights

- Made4U in ML2 is providing a special needs dance group, a walking group, a football programme and a healthy eating programme.
- The establishment of a partnership between Made4U in ML2 and HM Shotts Prison to enable offenders on an early release scheme to develop skills.

HOLME VIEW TEAM CHALLENGE

In August 2011, 47 members of the Consumer Credit Division's finance team took part in a team challenge at the Holme View Residential and Day Care Centre on Bradford's Holmewood estate. As a result of the challenge, six brand-new allotment plots were built which will give users of the centre and members of the local community the opportunity to grow their own fresh produce.

KEY NUMBERS

- 98.6%, the percentage of volunteers who felt they made a definite positive contribution to the community.
- 98.6%, the percentage of volunteers who stated they would undertake a team challenge in the future.
- 92.5%, the percentage of volunteers who experienced an increased sense of satisfaction and well-being following their team challenge.

SUPPORTING THE MONEY ADVICE SECTOR

We continue to support money advice and financial education across the UK. We work with Advice UK, Citizens Advice, Consumer Credit Counselling Service, Institute of Money Advisers, Money Advice Liaison Group, Money Advice Scotland, Money Advice Trust, and National Debtline. We also work with more specialised providers such as Credit Action, DebtCred, and Christians Against Poverty.

THIS WAS A GREAT OPPORTUNITY TO BUILD ON PROVIDENT'S PREVIOUS WORK ON THE ESTATE. THE LOCAL COMMUNITY HAS BEEN SO ENTHUSIASTIC ABOUT THE ALLOTMENTS WE BUILT AND NOW HAVE EVEN MORE SPACE TO GROW THEIR OWN PRODUCE

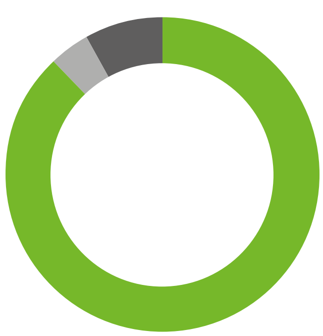
Olga Rayner,
Provident employee

COMMUNITY INVESTMENT 2011

Cash
£1,468,827 (2010: £1,237,180)

Value of employee time
£67,802 (2010: £73,772)

Management costs
£132,718 (2010: £157,035)



CORPORATE RESPONSIBILITY

EMBEDDING CR WITHIN OUR OPERATIONS

Our CR programme is not just about addressing the issues that are relevant to our customers and the communities we serve. It is also about managing the other social, environmental and economic issues that are relevant to our business activities.

OUR PEOPLE

We employ 3,680 people across the UK and Ireland, and by helping them to achieve their potential we also help our business to flourish. We want to attract, develop and retain the best people by providing a working environment that is safe, inclusive and meritocratic, and where behaviours aligned with our core values are recognised and rewarded. Our aim is to promote a culture where everyone is encouraged and supported to do their best to meet our business objectives and their own personal goals.

Our human resources functions are responsible for the development and delivery of a wide range of policies that are material to our employees. These include policies on diversity, training and development, and health and safety. They also ensure our people are engaged and informed so that they can do their jobs, take advantage of opportunities to develop and get involved in our CR programme.

OUR SUPPLIERS

In addition to ensuring that we treat our suppliers fairly and with respect, and pay them for the goods and services we use in a prompt manner, we also aim to purchase products and services that are ethically sound and have good sustainability credentials. When selecting suppliers, we consider their social, environmental and economic performance alongside cost and other factors.

THE ENVIRONMENT

The impact our business has on the environment is low compared with businesses in other sectors. Despite this, we are committed to managing our environmental performance to keep our impact to a minimum. We do this by managing our CO_2 emissions from our energy use and travel, and reducing our waste to landfill, paper consumption and water use.

To help us do this, we have an environmental management system in place across our businesses. This system is audited by a third party every year against environmental legislation and the international standard ISO 14001. In 2011, for the first time, our head office in Bradford received formal certification to EN ISO 14001: 2004.

The amount of head office waste that is sent to landfill **0%**

The number of training days delivered to employees **12,610**

The procurement spend of the Provident Financial group during 2011 **£100.3m**

NEXT STEPS

For more about our future plans, see our Corporate Responsibility Report. It can be viewed online or downloaded at

› www.providentfinancial.com/files/reports/2011cr

I HELPED TO TRAIN STAFF AT THE NEW CONTACT CENTRE IN BRADFORD. IT WAS A BRILLIANT OPPORTUNITY TO DEVELOP MY OWN MANAGEMENT AND COACHING SKILLS

Harry Edwards,
Vanquis Bank contact centre operative, Chatham

CONSUMER CREDIT DIVISION

IT'S ALL ABOUT FACE-TO-FACE PERSONAL SERVICE

For many people, face-to-face personal service still plays an important role in today's world of call centres and the internet. Our Home Credit customers value the weekly call to their home by their agent to collect their repayment and discuss any further credit needs they may have.

CONSUMER CREDIT DIVISION

Home Credit succeeds by offering simple, transparent financial products to customers on average or below-average incomes, some of whom may find it difficult to obtain or manage other forms of credit. The service is popular for very clear reasons: it's personal, friendly and flexible, and is well suited to the needs of our customers.

Chris Gillespie,
Managing Director, Consumer Credit Division

Number of Home Credit customers	1.8m
Number of Home Credit agents	10,500

INTRODUCTION

The Consumer Credit Division's (CCD) 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, 10,500 local agents visit 1.8 million customers, around one in 20 UK households, to issue loans and collect repayments. Even after 130 years, the business continues to flourish and fill an important space in the UK non-standard credit market.

Home Credit succeeds by offering simple, transparent financial products to customers on average or below-average incomes, some of whom may find it difficult to obtain or manage other forms of credit. The service is popular for very clear reasons: it's personal, friendly and flexible, and is well suited to the needs of our customers.

HOW HOME CREDIT WORKS

Provident is the UK and Ireland's leading Home Credit lender operating through the Provident Personal Credit (PPC) and Greenwood Personal Credit (GPC) brands which share a national network of over 400 branches. PPC and GPC provide small, unsecured credit, typically for sums of around £500. These are delivered to customers' homes by self-employed agents who then usually call every week, or in some cases every month, to collect repayments. Unlike other forms of lending, Home Credit includes all the costs upfront. There are no extra charges whatsoever, even if a customer misses a payment. 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. 80% of our customers consider our products to offer them good value for money and flexibility.

The part played by the agent supports responsible lending. Agents are paid commission almost entirely on what they collect, not what they lend, so they have every reason not to lend more than their customers can afford to repay. Furthermore, they typically see their customers each week and thereby develop an intimate knowledge of their circumstances, which informs their lending decisions. That's good for the customer and a valuable check on impairment for the business. 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. If customers get into difficulty, they know they'll get a sympathetic response from their agent. 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. 91% 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.

PROGRESS IN 2011

CCD can be proud of its achievements in 2011. The business has delivered profits of £127.5m (2010: £127.3m), marginally up on last year, despite the deteriorating economic environment in the UK. In addition, we have faced a number of challenges from implementing a number of significant changes to our processes and operations, both to ensure we continue to improve the performance of the business and to adapt to a changing regulatory environment.

Changes to underwriting and arrears management

2011 has seen a deterioration in economic conditions. There continues to be pressure on disposable incomes from increases in fuel and food prices and low wage inflation. Understandably, some of our customers have become more cautious in taking out credit and agents have been more cautious in extending credit, mindful of the increased risk of short-term shifts in customers' circumstances.

Our focus during these tough economic times has been to reinforce the quality of the receivables book by staying close to and working with our existing customers and placing less emphasis on growing the customer base. At the start of the year, we tightened our acceptance criteria for new customers, and now only around 1 in 5 of new applications are being accepted compared with around 1 in 3 in 2008 – this is consistent with our approach to responsible lending during this difficult time for consumers. We have also tightened our underwriting criteria for existing customers and are now more cautious on extending repeat or further credit to customers in some higher risk grades.

To reinforce our approach, we have adjusted the agents' commission scheme to ensure that agents focus on quality and early-stage arrears. This includes, amongst other things, a mechanism of commission reductions where an agent's customer slips into mid-arrears stages or moves to the highest arrears stage. Conversely, if an agent can get customers to improve from either of these trigger points, they will recover the previous commission reductions. The focus is on maintaining the quality of the book. The amended scheme has proved successful in improving CCD's impairment, with the ratio of impairment to revenue reducing from 32.9% at the end of 2010 to 32.1% at the end of 2011 despite the deteriorating economic environment. And, as a result, the vast majority of agents are now generating more than they did a year ago with average commission rising by 9% in the year.

THE NON-STANDARD CREDIT MARKET HAS BECOME THE DOMAIN OF SPECIALISTS.

STRATEGY

Our strategy in CCD is to be the leading community-based lender in the UK and Ireland and to deliver profitable growth by lending responsibly and meeting customer needs.

In order to deliver this strategy, we continue to focus on:

- growing customer numbers and receivables through the acquisition of new customers and re-serving good-quality existing customers;
- maintaining the quality of the receivables book through sound underwriting, collections and arrears management processes;
- continuing to improve the operational efficiency of the business to manage costs and unlock further capacity; and
- providing customers with the right products and services in order to maintain our high levels of customer satisfaction.

The non-standard credit market has become the domain of specialists. Many lenders who had over-extended in previous years have withdrawn from the sector and mainstream lenders are not lending to those at the margins of their lending models. This presents a good opportunity for the business to serve more customers who are better suited to our high-service, flexible, small-sum model.

HOME CREDIT EXPLAINED

WHAT MAKES HOME CREDIT DIFFERENT?

ENGAGING WITH OUR CUSTOMERS

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

Credit can be of enormous help, but it needs to be affordable, manageable and delivered in the right way.

Provident Financial is the UK's leading community-based provider of credit. We have been providing small-sum loans tailored to this specialist market since 1880.

Our Home Credit service is straightforward, personal and flexible. We tailor our products to suit our customers.

We lend responsibly. Detailed understanding of customers' circumstances gained from the face-to-face, personal service delivered through the agents we engage, protects our customers from taking on too much credit. It is in no one's interests for us to lend to people who cannot afford it.

Many of our customers have incomes which are less predictable than those of borrowers in the mainstream market. We allow for that in the way we structure our loans. There may be weeks when they cannot afford to keep up their payments, or need to make a reduced payment. We will respond flexibly to these situations and never charge extra fees or interest.

LOCAL AGENTS

A network of 10,500 self-employed agents advance credit and collect payments in the communities they serve. Crucially, agents generate commission almost entirely on amounts repaid, so it is in their interests to lend responsibly. Many are former customers themselves and generally live in the communities where they operate. As a result, they are able to build up strong, professional relationships with their customers.

1 FIRST CONTACT

Many customers hear about us through a recommendation. Much of our new business comes from word of mouth, direct mail or is sourced through our network of agents. We are also recruiting increasing numbers through online advertising.

THE BRANCH NETWORK

Over 400 branches, providing coverage of virtually every postcode in the country, make us one of the only Home Credit providers with nationwide coverage in the UK and Ireland. We operate through two main companies: Provident Personal Credit and Greenwood Personal Credit. Local branch managers support agents to manage payments and arrears.

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.

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 it to be suitable. They will then agree an appropriate collection routine to suit the customer and deliver the loan in person.

SIMPLE REPAYMENTS

An agent will call at the customer's home to collect the weekly, or in some cases monthly, repayment, and when the need arises, consider any further request for an additional loan.

CREDIT MANAGEMENT

Our field force is focused on monitoring cash collections which allows us to manage impairment effectively. Every week we update our risk assessment of every customer, using behavioural scoring which assesses customer payment patterns and utilises credit bureau data. We can identify trends early on, allowing the appropriate action to be taken on lending and collections.

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.

3

TRANSPARENT TERMS

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

DIVERSE, SECURE FUNDING

We have medium and long-term funding from banks, other lending institutions and the public debt market. At any given time we maintain substantial headroom and have additional committed facilities in place. We borrow for an average of three to four years and lend for an average of less than 12 months. This allows us to adapt our lending if external funding circumstances change.

I'VE BEEN AN AGENT FOR 20 YEARS AND MANY OF MY CUSTOMERS HAVE BEEN WITH ME FROM THE START, SO I UNDERSTAND EACH OF THEIR SITUATIONS

Sandra,
Home Credit agent

CONSUMER CREDIT DIVISION

SHOPPORTUNITY ILLUSTRATES OUR COMMITMENT TO PRODUCT INNOVATION AND FINDING WAYS TO ENHANCE OUR SERVICE TO CUSTOMERS.

Implementation of the EU Consumer Credit Directive and the OFT's Irresponsible Lending Guidance

The EU Consumer Credit Directive (the Directive) applies to agreements entered into on or after 1 February 2011 (and to certain aspects of agreements entered into before that date) and the OFT's Irresponsible Lending Guidance was introduced in March 2010 and updated in February 2011. They introduced and formalised a number of rights and obligations for lenders and customers, including in particular:

1. the need to provide customers with pre-contractual adequate explanations of the product;
2. a duty for lenders to assess customer affordability and creditworthiness before an agreement is entered into;
3. amendments to the form and content of pre-contract information and credit agreements; and
4. a right for the customer to withdraw from a credit agreement, a right to request a statement of account and rights to partial early settlement rebates.

The implementation of the Directive has been a major project for CCD in 2010 and 2011.

There has been a considerable re-engineering of processes and procedures to implement the new requirements. These include changes to the processes of granting credit, the upgrading of IT systems, amending legal agreements and changing back-office procedures. In a business that operates on a face-to-face basis with its customers, this represented a huge task and it is testament to the hard work and expertise of everyone involved in CCD that the implementation was delivered on time and with no significant disruption to the business.

The implementation of the new requirements has had some impact on sales execution and marginally reduced customer satisfaction levels as the new processes are both more lengthy and more complex than was previously the case. As part of the project to improve the operational efficiency of the CCD operations in 2012, we will be seeking to enhance our processes in order to improve the customer experience within the confines of the regulatory regime.

Shopportunity

Shopportunity illustrates our commitment to product innovation and finding ways to enhance our service to customers. In the last quarter of 2011, we relaunched our Shopportunity card which provides customers with a ready-loaded plastic card that can be used at a range of retailers as an alternative to cash. The spend on the card represents a Home Credit loan against which agents collect repayments from the customer's home in the usual way. We provided the benefits of the card to our best quality customers during the busy Christmas period.

WITH A PARTNER AND TWO YOUNG CHILDREN TO LOOK AFTER, SOME MONTHS MY BUDGET JUST DOESN'T STRETCH FAR ENOUGH. HOME CREDIT JUST HELPS TO SMOOTH EVERYTHING OUT

Jennifer and son Charlie, Home Credit customer

We made a number of major enhancements to our Shopportunity card in 2011:

- the card can be used in significantly more retailers – the total number of retailers who accept the card is now 39, including many of the major high street retailers;
- the card can now be used online; very important with more and more customers wishing to shop online; and
- customers obtain discounts or cashback from certain retailers, thereby increasing their spending power compared with a cash loan.

The enhanced Shopportunity card has been very well received by customers.

Modernising our approach

The self-employed agent force is an important part of the Home Credit business model. Ensuring that we engage and retain good-quality agents is very important in ensuring that we meet our customers' needs, lend responsibly and deliver strong financial performance. However, it is also very important that we encourage and support agents to build a viable book of customers to ensure that they can generate a level of commission which accords with their aspirations.

Throughout 2011, as part of the early stages of our business efficiency programme (see page 42 for more details), we have been carrying out a review to identify smaller agencies where the agent finds it more difficult to make sufficient commission to meet their expectations. Many of these smaller rounds have higher agent turnover which can adversely affect the quality of the agency as well as absorbing important management time.

Following our review, we have closed around 900 poorer performing agencies and amalgamated the better elements of these with other existing agencies. As a result, we have reduced agent numbers from around 11,400 at the end of 2010 to around 10,500 at the end of 2011. This produces slightly larger and potentially more profitable rounds enabling agents to increase their commission and enabling us to offer more attractive agencies to agents who have the drive, commitment and time to develop those agencies. This in turn will lead to further improvements in the financial performance of the company.

The ongoing modernisation of our approach with agents has not impacted our long-established, better-performing agencies. This is evidenced by our agent stability ratio – a very important metric which measures the proportion of agents who have been engaged by the business for 12 months or more – which was very stable at 77% at the end of 2011, compared with 78% at the end of 2010. As a result, we have seen an improvement in impairment performance and an increase in commissions generated by the vast majority of the agency force.

We have taken two other important measures to modernise our approach. Firstly, we now move non-paying customers to our Central Debt Recovery department (CDR) earlier than before. CDR is very successful at working with non-paying customers to re-establish payment. Secondly, despite the 1.9% reduction in customer numbers during 2011, we have maintained our investment in the field management force. The number of development managers, the front-line managers who directly interact with agents, has remained broadly unchanged at just under 1,300 – an average of eight agents per development manager in 2011 compared with nine in 2010. This is important in ensuring that we focus on maintaining and building the quality of our business in these difficult economic times.

THE NUMBER OF DEVELOPMENT MANAGERS, THE FRONT-LINE MANAGERS WHO DIRECTLY INTERACT WITH AGENTS, HAS REMAINED BROADLY UNCHANGED AT JUST UNDER 1,300 – AN AVERAGE OF EIGHT AGENTS PER DEVELOPMENT MANAGER IN 2011 COMPARED WITH NINE IN 2010.

CONSUMER CREDIT DIVISION

COLLECTIONS PERFORMANCE DURING 2011 WAS STRONG, REFLECTING AN IMPROVEMENT IN CREDIT QUALITY AND THE SUCCESS OF THE ENHANCEMENTS MADE IN APRIL TO THE AGENTS' COMMISSION SCHEME THAT PROVIDE GREATER FOCUS ON EARLY-STAGE ARREARS.

FINANCIAL PERFORMANCE

CCD generated a profit before tax of £127.5m in 2011 (2010: £127.3m) analysed as follows:

CCD RESULTS

	Year ended 31 December		
	2011 (52 weeks) £m	2010 (53 weeks) £m	Change %
Profit/(loss) before tax:			
Home Credit	127.5	129.1	(1.2)
Real Personal Finance	–	(1.8)	100.0
CCD	127.5	127.3	0.2

HOME CREDIT

	Year ended 31 December		
	2011 (52 weeks) £m	2010 (53 weeks) £m	Change %
Customer numbers ('000)	1,825	1,861	(1.9)
Year-end customer receivables	876.7	867.2	1.1
Average customer receivables	783.4	753.6	4.0
Revenue	697.1	701.1	(0.6)
Impairment	(223.8)	(230.6)	2.9
Revenue less impairment	473.3	470.5	0.6
*Revenue yield**	*89.0%*	*93.0%*	
*Impairment % revenue***	*32.1%*	*32.9%*	
Costs	(298.8)	(292.3)	(2.2)
Interest	(47.0)	(49.1)	4.3
Profit before tax	127.5	129.1	(1.2)

* Revenue as a percentage of average receivables for the 12 months ended 31 December.
** Impairment as a percentage of revenue for the 12 months ended 31 December.

Home Credit delivered profits of £127.5m in 2011 (2010: £129.1m). This profit is after absorbing £2m of one-off costs associated with implementing the EU Consumer Credit Directive in early 2011. The prior year profit of £129.1m included a benefit of approximately £2m from the inclusion of an additional trading week.

Customer numbers reduced by 1.9% during the year, reflecting the decision taken during the latter part of 2010 to place greater emphasis on serving good-quality existing customers than on recruiting new customers. New customer underwriting was tightened further during the early part of 2011. In addition, the criteria applied to re-serving existing customers have remained consistently tight, and agents have continued to exercise caution because of the pressure on customers' disposable incomes from food, fuel and utility price inflation. This focus has resulted in a sustained improvement in credit quality and supported growth in average receivables of 4.0% for the year. The rate of receivables growth moderated in the fourth quarter, reflecting the exceptionally strong growth seen towards the end of 2010 and, consequently, receivables ended the year marginally up on the prior year.

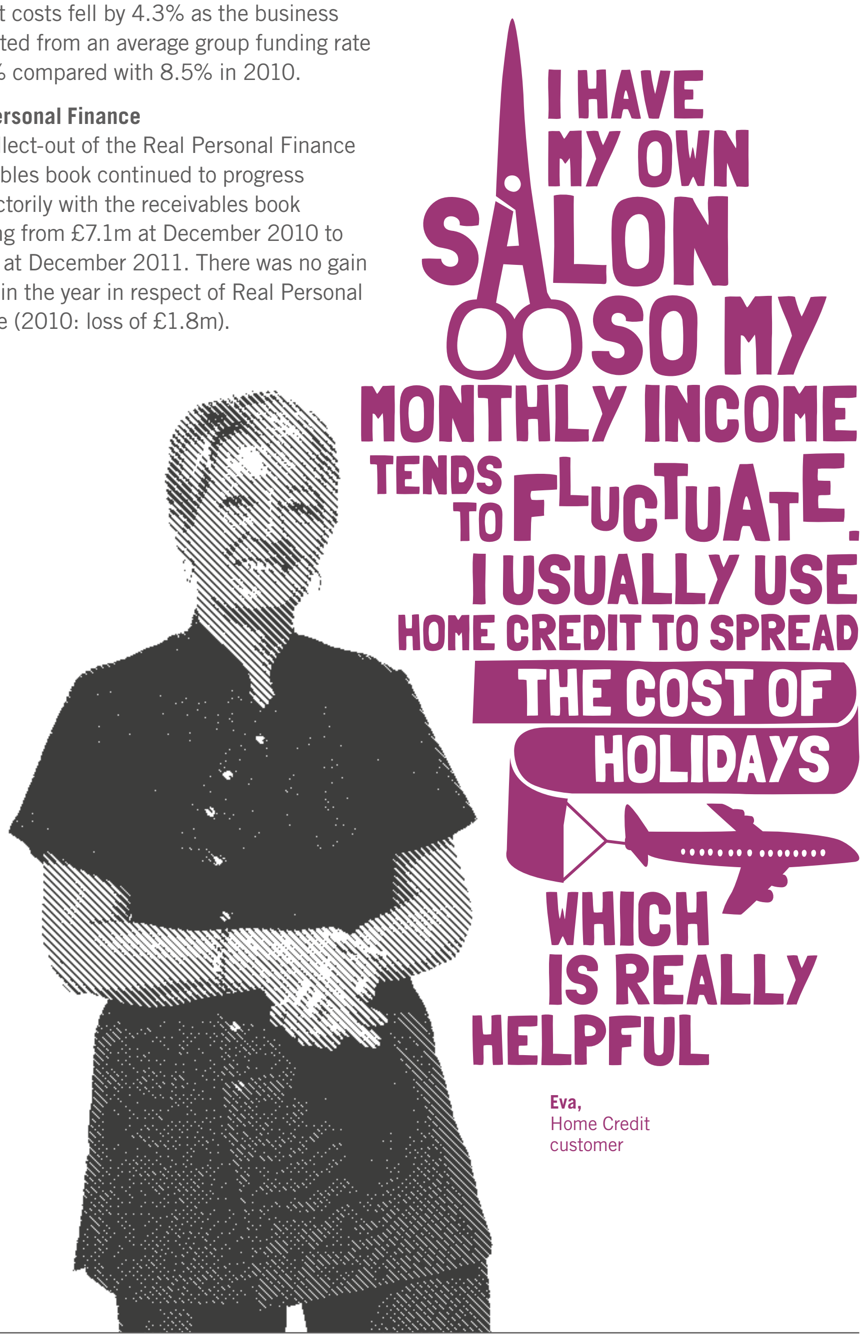
As previously indicated, the yield on the receivables book has moderated from 93.0% in 2010 to 89.0% in 2011 due to the growth in credit over the last 15 months being focussed on existing good-quality customers who, compared with new customers, tend to be served with slightly longer-term products which carry a lower yield. The yield on the book is not expected to change significantly during 2012.

Collections performance during 2011 was strong, reflecting an improvement in credit quality and the success of the enhancements made in April to the agents' commission scheme that provide greater focus on early-stage arrears. As a result, the ratio of impairment to revenue improved from 32.9% at December 2010 to 32.1% at December 2011. In the absence of any significant change in the external environment, collections performance and impairment rates are expected to remain stable.

Headline cost growth was 2.2% during 2011 and, after excluding the additional trading week in 2010, like-for-like cost growth was 4.2%. This increase includes the roll-out of the changes required to implement the EU Consumer Credit Directive across the branch network at a one-off cost of £2m, together with additional costs of approximately £3m in relation to the new head office facility in Bradford into which the business relocated during the fourth quarter of 2010. In 2012, cost growth is expected to be held within the average rate of inflation.

Interest costs fell by 4.3% as the business benefitted from an average group funding rate of 7.6% compared with 8.5% in 2010.

Real Personal Finance
The collect-out of the Real Personal Finance receivables book continued to progress satisfactorily with the receivables book reducing from £7.1m at December 2010 to £2.6m at December 2011. There was no gain or loss in the year in respect of Real Personal Finance (2010: loss of £1.8m).



Eva,
Home Credit customer

CONSUMER CREDIT DIVISION

LOOKING AHEAD

Our 130-year history, together with our achievements in 2011, mean that we have a strong platform to deliver our strategic aims and grow the profitability of the business in the forthcoming years.

What we do and how we do it fits our marketplace perfectly. However, it is important that we do not stand still and we seek continuous improvement in everything we do. A major goal during 2012 and beyond is to grow the business through a number of interlinked initiatives:

1. **Expanding the footprint of our business** – our Home Credit business is well spread throughout the whole of the UK and Ireland. However, there are pockets in which we are under-represented. We have had success in 2011 in opening branches, at negligible cost, in Stafford, Weymouth, Darlington, Kidderminster, Weston-super-Mare and the south-west of Manchester to improve penetration. These were all locations where the branch had been closed a number of years ago and consolidated into an adjacent location. We have seen a strong performance from these newly-opened branches being run by highly-motivated local management. There are opportunities for further openings in 2012.
2. **Continuing to improve our use of IT systems** – we have been successful in adapting our business processes to an ever changing economic and regulatory environment. However, to unlock more field capacity we need to get smarter in our use of IT systems. This is not about investing in more IT, but using what we have better to reduce paperwork, maintain our regulatory standards and improve sales execution. By better use of systems, we will aim to reduce the time taken by agents to process the granting of credit in 2012.

MY FAMILY IS EVER GROWING AND CHRISTMAS CAN BE A REAL SQUEEZE. A HOME CREDIT LOAN MAKES PAYING FOR CHRISTMAS PRESENTS MUCH MORE MANAGEABLE

Maria and granddaughter Leah,
Home Credit customer

3. **Modernising our approach with agents** – the 10,500 self-employed agents are very important to the success of the business. During 2011, we began the process of consolidating smaller, less profitable agencies into larger agencies. In addition, we started to engage more highly-motivated agents who have more time to spend on their agencies and who tend to be breadwinners. Our focus going forward will be on ensuring that we continue to attract and engage the right agents to exacting standards and to encourage and support them in operating their agency. Whilst the agency force will continue to be predominantly agents who spend a few days a week running their agency, there is room for more agents who are breadwinners, run their agency on a full-time basis and who regard it as their main source of income. Our data shows that these agencies often perform better. Importantly, we will ensure that all agents, irrespective of who they are, still adopt the same procedures and retain the important characteristics of living in the communities they serve and fully understanding their customers' circumstances and needs.
4. **Development of products and proposition** – we are continually looking for new ways of serving our customers, as demonstrated by the success of the enhanced Shopportunity card in 2011. We will continually review both our products and proposition to strive to meet our customers' needs. Greater use of the internet, debit card payments and re-loadable VISA cards are some of the areas we will explore in 2012.

The focus in 2011 has been on bolstering the quality of the receivables book – the right call in the current environment. This will continue to be our focus in 2012. At the same time, we will build on our strong platform, unlock operational efficiency and ensure we are well-positioned for growth as and when the economy shows sustained signs of improvement.

CCD remains a highly profitable, cash-generative business that provides the bedrock for the group's high-dividend payout ratio.

VANQUIS BANK

FOR MANY OF OUR CUSTOMERS IT'S A WHOLE NEW WORLD

In today's world, lack of access to plastic makes it hard to participate fully in modern life. Mainstream card issuers exclude borrowers with limited or uneven credit histories. The Vanquis Bank card brings the flexibility, consumer protection and convenience of a credit card to the non-standard market.

VANQUIS BANK

Vanquis Bank's 'low and grow' approach to customer lending and the high level of contact we have with our customers is proving successful in meeting the demand of non-standard credit card customers.

Michael Lenora,
Managing Director, Vanquis Bank

CUSTOMERS DECLINED BY PRIME ISSUERS APPRECIATE A 'SECOND CHANCE' TO GET A CREDIT CARD FROM VANQUIS BANK.

INTRODUCTION

Vanquis Bank continues to bring the benefits of a credit card to people who can find themselves rejected by more mainstream lenders. Since 2003, we have operated in the non-standard market, helping people on average or below-average incomes to make simple, everyday things even easier, such as supermarket shopping or online purchases.

We are confident in a market which inherently carries more risk because of our specific and extensive experience in lending to non-standard customers. Whilst we are willing to lend to this segment, we do so cautiously and responsibly and aim to support and educate our customers, whether they are new to credit or want to repair their financial history.

This cautious approach is called 'low and grow'. Customers start with credit limits typically as low as £250 and we then monitor performance over time to understand individual customer behaviour before granting responsible increases when it's right to do so.

Our interest rates reflect the higher risk of default within this market segment. The majority of our customers are taken on at our representative APR of 39.9% and our default charges are in line with those of the mainstream credit card providers.

Another important factor that makes Vanquis Bank different from other lenders is the high level of contact we enjoy with our customers. Customers declined by prime issuers appreciate a 'second chance' from Vanquis Bank and we provide a higher level of help and support than the mainstream lenders from our two contact centres in Chatham and Bradford.

STRATEGY

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

To deliver our strategy, we continue to focus on:

- clear credit management objectives to ensure that we continue to maintain stable levels of impairment;
- high levels of contact with our customers through the acquisitions process and welcome call;
- providing customers with a high-quality service, unique to our sector of the market;
- providing customers with the appropriate credit limit and maintaining high levels of utilisation thereafter to minimise the level of contingent risk;
- ensuring that we operate efficiently and effectively in all aspects of the customer lifecycle from new accounts to customer service, to collections, to fraud; and
- maintaining a minimum risk-adjusted margin of 30% (annualised revenue less impairment divided by average receivables).

OUR TAILORED APPROACH

At Vanquis Bank we have developed a tailored approach to delivering our strategy. This comprises four key strands:

1. Focus on our target market

Vanquis Bank operates in the non-standard sector of the UK credit card market and some of our customers have been refused credit by mainstream lenders and would like to repair their credit rating. We estimate that 7 million of the current 10 million people in this non-standard market are the target audience for our credit card product.

Our experience in this specialised form of credit has grown year-on-year and we have been able to tailor our products and services to suit the very particular needs of our customers. Not every lender is happy to work in the non-standard market but we enjoy taking care of our customers and providing them with high levels of service and products which genuinely meet their needs. Growth in our business is never at the expense of our customers and we continue to find new and innovative ways to deliver the credit they can afford.

2. High customer contact

The relationships with our customers are much closer than those in the mainstream lending market. We value our customers and continue to develop new propositions to enhance levels of contact.

All of our customers receive a welcome call as part of the acceptance process – this is unique in the credit card industry. The call provides the opportunity to gather additional information which is useful to help manage their account at a later date. It is also an important element of our underwriting that we will generally turn down an application, if we cannot speak to a potential customer.

Some of our customers are new to credit and in turn they choose to contact us more than would be expected in a standard lending relationship. In 2011, our contact centres received approximately 5.2 million calls, of which 2.7 million were answered by our contact centre staff and 2.5 million were handled by our Interactive Voice Response system. This high level of contact means that we understand their needs and can provide support to customers when they are struggling to make payments.

We also offer a Gold Service, carrying enhanced levels of customer service, to over 150,000 of our best customers.

High customer contact has helped us to maintain some of the best levels of customer satisfaction in the industry with 9 out of 10 customers saying they would recommend us. It is always our aim to treat customers fairly and resolve quickly any complaints that do arise. This is reflected in the fact that when complaints do get escalated to the Financial Ombudsman Service (FOS), they find in our favour over 90% of the time. Again, this is one of the best statistics in the industry.

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 typical first credit line is just £250 and this allows us to observe and understand our customers' behaviour 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. We continue to invest in people and systems that enhance underwriting capability in both acquiring our customers and subsequently allowing credit line increases. This 'low and grow' approach has allowed the average credit limit of the portfolio to continue to grow to £940 (2010: £900) whilst continuing to improve underlying credit quality.

4. Collections

Collections are an extremely important aspect of the business and we continue to develop new and innovative collections 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 70-75% which we believe is 'best in class'. Our employees are trained to manage the accounts of customers that are identified as vulnerable and support them accordingly. Vanquis Bank also continues to develop new channels for collections activity with the introduction in 2011 of services to allow customers to pay online and via SMS.

I HAD NEVER USED A CREDIT CARD BEFORE SO VANQUIS HAS BEEN GREAT FOR BUILDING MY CREDIT RATING UP

Karolina,
Vanquis Bank customer

VANQUIS BANK EXPLAINED

WHAT MAKES THE VANQUIS BANK CREDIT CARD DIFFERENT?

ENGAGING WITH OUR CUSTOMERS

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

Provident Financial has a long experience of the non-standard market. We are therefore comfortable extending credit to people on modest incomes.

Lending decisions for mainstream credit cards are based on credit scoring and credit bureau data. We take account of credit scores and credit bureau data, but we have also developed our own bespoke scoring and underwriting assessments. In contrast to other credit card companies, we aim to speak to every new customer before issuing a card.

The Vanquis Bank card is highly prized. It is widely used for shopping online and on the high street, providing access to the best deals and helps customers establish better credit ratings. It is proving popular. In 2011, 84% of customers rated their Vanquis Bank experience as good or excellent.

ACCOUNT MONITORING

We monitor accounts continuously. Our collections team analyses payment and spending patterns to understand the particular circumstances of each individual borrower. We periodically suggest changes in credit limits and interest rates in line with usage and risk levels. Customers who service their debt effectively can get reduced interest rates.

1 FIRST CONTACT

In 2011, 52% of new customers came from online channels, 37% from direct mail and 11% from partner recommendations.

UK CONTACT CENTRES

The 500 staff at our contact centres at Chatham in Kent and Bradford in West Yorkshire stay in close contact with our 691,000 customers. We aim to speak by phone to every new customer prior to activating an account. Our staff are in phone contact with each customer on a regular basis, approximately four times as often as most mainstream card issuers.

2 APPLYING FOR A CARD

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

4 PAYMENT CHANNELS

Payments can now be made online through internet account servicing (eVanquis) or directly at www.vanquis.co.uk for all customers. Debit card payments can be made by phone (through the Interactive Voice Response system or with a call centre operative) or a standing order or direct debit can be established to pay the account on a regular basis. Customers can also pay over the counter at The Post Office or a bank, or send a cheque by post.

OPERATIONAL EFFICIENCY

We completed a major systems conversion within our First Data account management environment. The upgrade was completed successfully with no adverse impact on either customers or the business. This conversion provides us with the key infrastructure necessary to manage much larger volumes of accounts.

5 BUILDING TRUST

With our 'low and grow' lending policy, new customers typically receive a £250 initial credit limit. We will then review the account after four months for potential credit line adjustments. We will only provide credit line increases to accounts being managed appropriately. In no circumstances will we increase credit lines of customers who have fallen behind in making payments. When appropriate, we increase credit lines in small manageable steps.

ANALYTICAL EXPERTISE

The senior management team has significant experience in the financial services sector, particularly the credit card industry. Our key personnel have strong analytical capabilities. The business has invested heavily in scorecard development and underwriting systems. It supplements standard industry techniques with a bespoke underwriting methodology.

3 TRANSPARENT TERMS

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

MY TEAM FOCUSES ON PROVIDING A HIGH LEVEL OF CUSTOMER SUPPORT, AND OUR CUSTOMERS KNOW THAT WHENEVER THEY NEED US, WE'RE ONLY A PHONE CALL AWAY

Josephine Kelly,
Vanquis Bank Customer Service Manager

VANQUIS BANK

Typical initial Vanquis Bank credit limit	£250
Average Vanquis Bank credit limit	£940

PROGRESS IN 2011

Vanquis Bank has made impressive progress in 2011. The business once again performed very strongly in 2011, exceeding our targets for growth and profitability. Profits increased by 65.5% to £44.2m and customer numbers grew by 27.0% to 691,000. Receivables increased by 31.4% to £453.4m and reached the medium-term target originally set for the business of £450m by the end of 2012, a year earlier than planned.

This impressive financial performance has been delivered against the backdrop of tough economic conditions and the implementation of some major operational changes during 2011:

Retail deposit taking

In July, Vanquis Bank successfully activated a retail deposits programme to establish standalone funding for the business and further diversify the group's funding base.

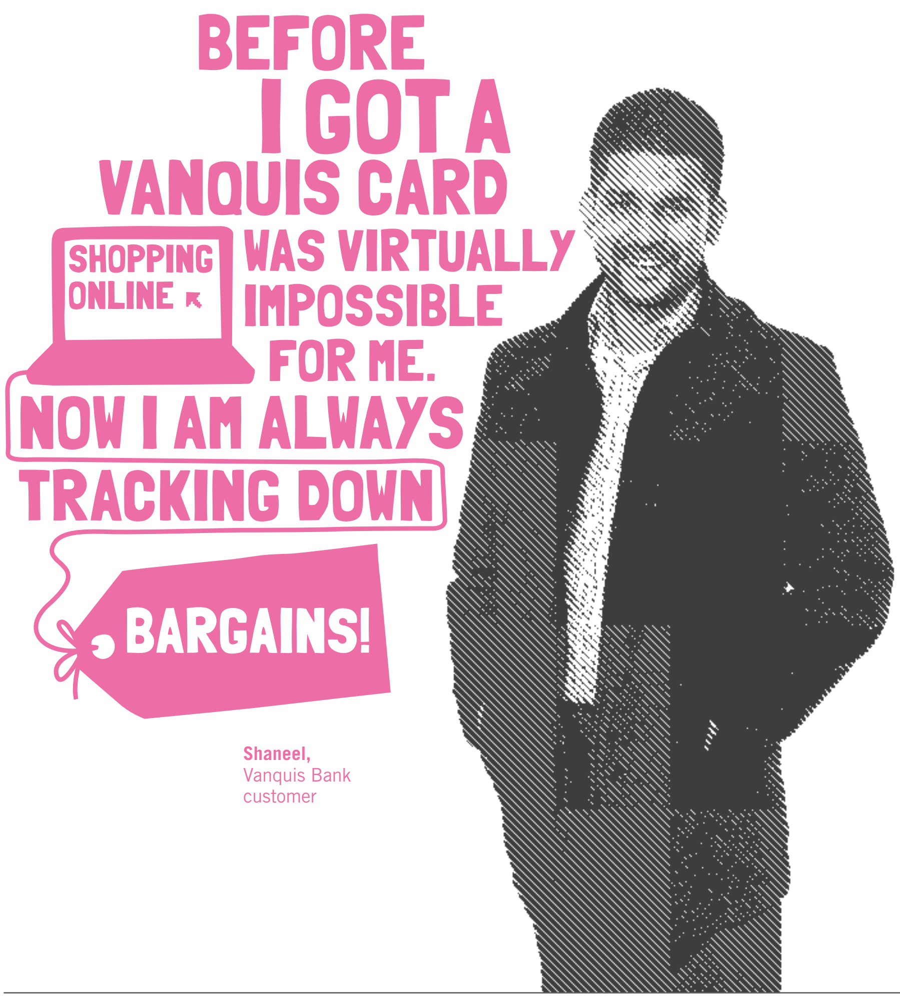
The retail deposits market in the UK is huge with around £60bn to £140bn of cash and renewals being available for investment each year. Vanquis Bank is targeting to fund up to 80% of its receivables with deposits by the end of 2012. As a guide, the receivables book of around £450m at the end of 2011 therefore supports deposits of approximately £360m, which represents a small fraction of a very large market.

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

- we issue fixed-rate deposits of fixed terms of either 1, 2, 3 or 5 years – we do not offer instant access products;
- depositors have no right to withdraw early other than in the event of death or bankruptcy which ensures that we have a 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 an FSA-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.

The launch of retail deposits has been extremely successful. The platform and product proposition are both working very well and by the end of 2011 we had taken just under £140m of deposits. This was slightly above our expectations of between £100m and £125m by the end of 2011, and we are well on track to fund up to 80% of receivables with deposits by the end of 2012.

We have taken deposits at rates of between 3.15% and 4.65% during 2011 which is consistent with an all-in average cost, after taking account of administration costs and the costs of maintaining a liquid assets buffer, of less than 6%. As we anticipated, the retail deposit market is primarily driven by the interest rate on offer. During a single week in



Shaneel,
Vanquis Bank customer

September, Vanquis Bank positioned its products at or towards the top of the best buy tables and took applications of some £30m. This clearly demonstrates that the business can raise funds quickly as and when required and gives us a great deal of strategic flexibility.

Additional contact centre capacity
In order to accommodate growth, Vanquis Bank increased its contact centre capacity by opening a second operation in Bradford, located within CCD's head office facility. The Bradford operation works as a satellite to our existing contact centre in Chatham and uses exactly the same IT infrastructure and procedures that has made the Chatham contact centre so effective. The Bradford site has the capacity to house 230 seats in addition to the 420 seats we have at Chatham. This will accommodate the growth at Vanquis Bank for at least the next two years.

The benefits of opening this new facility are very clear. It provides us with flexibility. There is a deep talent pool to select from in Bradford and it makes sound economic sense in terms of using an existing group building with little or no additional fit-out required. The opening of the Bradford contact centre took six months to plan and execute and involved many people from across the whole organisation working together effectively. It is very pleasing to report that the new site has fitted into the operational structure seamlessly.

Upgrade of IT systems
In May 2011, we undertook a major systems conversion which upgraded our back office platform provided through First Data International. The conversion was part of a contractual agreement with First Data, which allowed us to take advantage of lower per unit pricing. The new platform provides a fully scaleable solution for growth and the project involved a large proportion of our employees over a period of 12 months. The conversion was extremely successful and was executed without interruption to customer service levels or business efficiency.

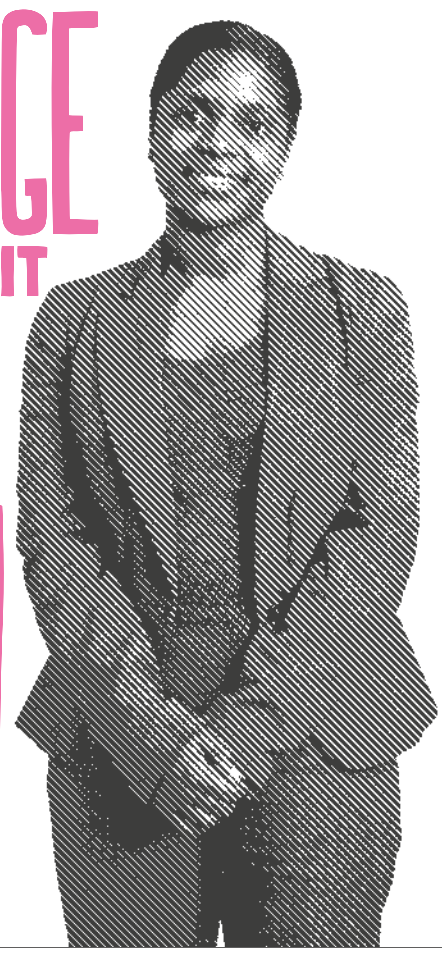
Governance framework
Vanquis Bank has a well-established and robust governance framework. The framework has been designed to allow Vanquis Bank to operate as a stand-alone regulated entity and to comply with the group's policies and procedures as a publicly listed company.

As a regulated entity, Vanquis Bank operates a number of the 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 an independent non-executive director to provide the appropriate level of challenge and oversight.

The Vanquis Bank board of directors has previously comprised three executive directors and three non-executive directors, one of whom, Ian Lindsey, is independent. In light of the commencement of deposit-taking activities, Vanquis Bank has further strengthened its board by the appointment of Iain Cornish as a second independent non-executive director. Iain has significant board and senior management experience, and was the Chief Executive of the Yorkshire Building Society until he stepped down from the role at the end of 2011. He had held a number of senior management positions since joining Yorkshire Building Society in 1992 and was appointed Chief Executive in July 2003. He is also an independent non-executive director of St James's Place plc and served as a member of the FSA Practitioner Panel from 2007 to 2011, becoming Chairman in 2009. Iain brings with him a wealth of experience in retail financial services.

MOST CREDIT CARD COMPANIES LIKE TO GIVE YOU A HUGE CREDIT LIMIT BUT I PREFER MY £500 LIMIT WITH VANQUIS – IT STOPS ME GOING MAD IN THE SALES!

Deana,
Vanquis Bank customer



VANQUIS BANK

VANQUIS BANK PERFORMED EXTREMELY WELL DURING 2011, REPORTING A RESULT AHEAD OF MANAGEMENT'S INTERNAL PLANS.

THE DEMAND FOR NON-STANDARD CREDIT CARDS REMAINS STRONG AND VANQUIS BANK RECEIVED APPROXIMATELY 1.5M APPLICATIONS DURING 2011.

FINANCIAL PERFORMANCE

Vanquis Bank generated a profit before tax of £44.2m in 2011 (2010: £26.7m).

	Year ended 31 December		
	2011 £m	2010 £m	Change %
Customer numbers ('000)	691	544	27.0
Year-end customer receivables	453.4	345.0	31.4
Average customer receivables	391.2	289.2	35.3
Revenue	213.7	162.0	31.9
Impairment	(76.9)	(63.9)	(20.3)
Revenue less impairment	136.8	98.1	39.4
*Risk-adjusted margin**	*35.0%*	*33.9%*	
*Impairment % revenue***	*36.0%*	*39.4%*	
Costs	(69.4)	(52.9)	(31.2)
Interest	(23.2)	(18.5)	(25.4)
Profit before tax	44.2	26.7	65.5

* Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.

** Impairment as a percentage of revenue for the 12 months ended 31 December.

Vanquis Bank performed extremely well during 2011, reporting a result ahead of management's internal plans. Strong growth in the receivables book, together with favourable delinquency levels, enabled the business to deliver profits of £44.2m (2010: £26.7m), up 65.5% on 2010. The business is generating more than sufficient capital to fund its own growth and maintain its regulatory capital base. Surplus distributable capital generated in 2011 amounted to £14.8m, of which Vanquis Bank remitted its first dividend of £5.0m to Provident Financial plc in July and is due to pay a further dividend of £5.0m in respect of 2011 in March 2012. The business continued to generate a post-tax return on equity above the threshold set for the business of 30%.

The demand for non-standard credit cards remains strong and Vanquis Bank received approximately 1.5 million applications during 2011. Year-on-year growth in the customer base was 27.0%, similar to the rate of growth in 2010, reflecting the step-up in the intensity of the customer acquisition programme since mid-2010. New customer bookings of 294,000 (2010: 241,000) were made against tight underwriting standards that remained consistent with those applied in 2010. The acceptance rate of 20% increased from 18% in 2010, wholly due to a shift in mix towards the direct mail channel which carries a higher booking rate than the internet channel.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 35.3% increase in average receivables and a 31.9% increase in revenue. Returns from the 'low and grow' approach to extending credit remain consistently good. Vanquis Bank remains extremely active in managing utilisation and yield to reflect underlying risk. Average utilisation was 76% during 2011 (2010: 75%), ensuring a strong stream of revenue is earned whilst maintaining a low level of contingent undrawn exposure.

Delinquency levels improved during the first half of the year and have remained stable at the record low for the business during the second half of the year against the backdrop of a relatively stable employment market. Accordingly, impairment showed a year-on-year increase of just 20.3% versus a 35.3% increase in average receivables. This strong performance reflects the continued improvement in the underlying quality of the book, resulting from the progressive tightening of underwriting between 2007 and 2009 and the success of the credit line increase programme. This is the clearest demonstration of the effectiveness of Vanquis Bank's credit decisioning.

The risk-adjusted margin for 2011 of 35.0% reflects the sound revenue yield from the receivables book, combined with the favourable delinquency performance.

It includes the benefit of the reduction in delinquency rates over the last year of some £7m which is unlikely to recur. To date there has been no discernible pressure on delinquency from the rise in UK unemployment in recent months. However, the business plan for 2012 has been drawn up on the basis of unemployment reaching 3 million in 2012, which would result in a modest deterioration in delinquency rates and some moderation in the risk-adjusted margin. The tight underwriting and credit line increase criteria applied over the last two years will remain in place for the foreseeable future.

Growth in the cost base of 31.2% includes a year-on-year uplift of £4m in the spend on direct mail and marketing activities to support the more intensive customer acquisition programme. Vanquis Bank has also incurred costs of approximately £1m in respect of upgrading its IT platform and establishing the retail deposits programme during the year.

Interest costs of £23.2m (2010: £18.5m) increased by 25.4% during 2011. This reflects the increase in average receivables partly offset by the benefit from a reduction in the group's average funding rate from 8.5% to 7.6%. Vanquis Bank's funding cost will reduce to an average of around 7% in 2012 as retail deposit funding becomes more significant.

LOOKING AHEAD

Vanquis Bank has had an excellent year in 2011, growing its customer numbers and receivables and continuing to deliver strong profits growth. The business is now capital-generative and contributing to the group's dividend.

We anticipate 2012 being a further year of strong growth. We expect to continue to invest in growing the customer base, which should support receivables growth of between £75m and £100m. However, the business remains focused on delivering a post-tax return on equity of at least 30% and we will not seek growth at the expense of returns. We are mindful that the economic environment is likely to remain difficult in the near term and that the employment market is forecast to remain weak in 2012. Accordingly, we will maintain the tight underwriting that has served us so well over recent years.

We will continue to take retail deposits and aim to fund up to 80% of the receivables book with deposits by the end of 2012. In addition, we will continue to explore ways in which we can use our platform to increase our revenue streams.

Looking beyond 2012, we expect the demand for non-standard credit cards to remain strong and believe that Vanquis Bank has the potential to grow to 1.0 to 1.2 million customers with an average balance of around £800-£1,000, generating £1bn of receivables. The rate of progress towards these targets will be dictated by economic conditions, the emergence of competition and 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 which will be a major contributor to the future growth in the group's dividends and the overall returns provided to shareholders.

FINANCIAL REVIEW

The group's 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 is fully calibrated 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 FSA. The strong capital generation of the businesses in which the group invests, supports the distribution of 80% of its post-tax earnings by way of dividend whilst retaining sufficient capital to support receivables growth consistent with management's medium-term growth plans for the group and a gearing ratio of 3.5 times. The execution of the financial model, is underpinned by the group's consistent application of prudent and appropriate accounting policies.

Andrew Fisher,
Finance Director

HIGH RETURN ON EQUITY BUSINESSES

DIVIDEND POLICY
Cover ≥ 1.25 times

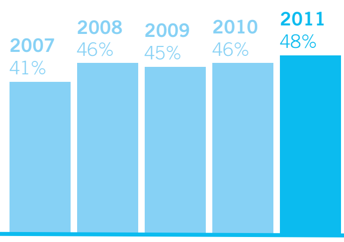
GEARING
3.5x versus covenant of 5.0x

GROWTH
Supports £100m+ receivables growth pa

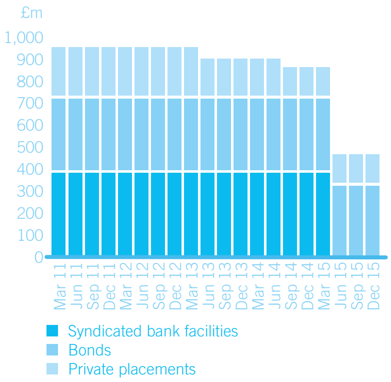
AN ILLUSTRATION OF HOW THIS WORKS IN PRACTICE

- Historic group dividend of 63.5p per share amounted to an £85m annual dividend cost
- 1.25 times dividend cover achieved at a profit after tax of £107m
- Represents a profit before tax of £145m using a tax rate of 26%
- Equity retained in the business to fund growth equals £22m (£107m – £85m)
- Target gearing ratio of 3.5 times allows debt funding of £78m to match equity backing of £22m (£22m x 3.5)
- Provides total funding and capital for receivables growth of £100m (£78m + £22m)
- Pre-tax profits in excess of £145m allows increased dividends and receivables growth in excess of £100m (as has been the case in 2011)

GROUP ROE



FUNDING MATURITY



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 costs) divided by average equity. Average equity is stated after deducting the group's pension asset, the fair value of derivative financial instruments, and the proposed final dividend. The group's ROE in 2011 and 2010 is set out in Table 1 below.

TABLE 1: ROE

	2011 £m	2010 £m
Profit before tax	162.1	144.5
Tax	(42.3)	(40.5)
Profit after tax	119.8	104.0
Shareholders' equity	326.2	309.4
Pension asset	(13.5)	(41.0)
Deferred tax on pension asset	3.4	11.1
Hedging reserve	6.4	7.2
Proposed final dividend	(57.4)	(51.7)
Adjusted equity	265.1	235.0
Average adjusted equity	250.1	225.3
ROE	48%	46%

The group generated a strong ROE of 48% in 2011 (2010: 46%), benefiting from the continued strong returns delivered by the Consumer Credit Division (CCD) and the excellent performance from Vanquis Bank which delivered an ROE above its minimum threshold of 30%.

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 around 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 revolving syndicated bank facilities;
- 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 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 80% of its receivables book through retail deposits.

Group borrowings at the end of 2011 were £1,049.6m compared with £964.9m at the end of 2010. Borrowings have increased during the year primarily due to the increase in Vanquis Bank's receivables.

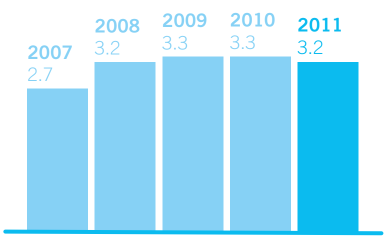
At the end of 2011, the group had committed borrowing facilities of £1,315.5m (2010: £1,133.1m). These facilities provided committed headroom of £288.1m as at 31 December 2011 (2010: £184.7m) with an average period to maturity of 3.5 years (2010: 3.5 years).

During 2011 and early 2012, the group has continued to successfully extend and further diversify its funding sources.

In January 2011, the group entered into a committed facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a £100m 10-year term loan which amortises between years five and ten. The facility ranks pari passu with the group's existing senior debt providers and the funding rate reflects a credit spread which was consistent with the group's 10-year senior public bond at issue. A further £40.4m has been subsequently raised through private placements to other UK and Europe institutions.

FINANCIAL REVIEW

GEARING (times)



INTEREST COVER (times)

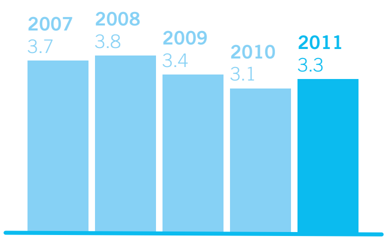


TABLE 2: COMMITTED BORROWING FACILITIES (PRE AND POST RENEWAL OF BANK FACILITIES ON 10 FEBRUARY 2012)

As at 31 December 2011	Originated	Maturity	Pre-renewal £m	Post-renewal £m
Bank facilities:				
Core bank group	2010/2012	2015	419.5	382.5
Non-extending overseas banks	2007	2012	197.8	–
			617.3	382.5
Bonds and private placements:				
Senior public bond	2009	2019	250.0	250.0
M&G term loan	2011	2016 – 2021	100.0	100.0
Other sterling/euro medium-term notes	2011	2015 – 2018	40.4	40.4
Retail bond 2010	2010	2020	25.2	25.2
Retail bond 2011	2011	2016	50.0	50.0
US private placements	Pre-2005	2013 and 2014	86.9	86.9
Residual subordinated loan notes	2005	2015	6.0	6.0
			558.5	558.5
Vanquis Bank retail deposits	2011	2012 – 2016	139.7	*362.7
Total committed facilities / funding capacity			1,315.5	1,303.7
Borrowings on committed facilities			1,027.4	**1,037.4
Headroom			288.1	**266.3

* Based on 80% of Vanquis Bank's receivables of £453.4m at 31 December 2011.
** After setting aside the liquid assets buffer - calculated as 15% of the additional deposits capacity multiplied by the FSA's transitional rate of 30%.

TABLE 3: BANK COVENANTS

Covenant	Limit	2011	2010
Gearing[1]	< 5.0 times	3.2	3.3
Net worth – Group[2]	> £220m	322.5	286.7
– Excluding Vanquis Bank	> £140m	221.0	216.2
Interest cover[3]	> 2.0 times	3.3	3.1
Cash cover[4]	> 1.1 times	1.34	1.35

[1] Borrowings divided by equity (excluding the group's pension asset and fair value of derivatives).
[2] Equity less the group's pension asset and fair value of derivatives.
[3] Profit before interest and tax divided by the interest charge.
[4] Cash collected divided by credit issued.

In March 2011, the group successfully issued a second retail bond raising £50m at a coupon of 7.5% and a duration of five and a half years. Consistent with the retail bond issued in 2010, the 2011 bond is quoted on the ORB platform established by the London Stock Exchange.

In July 2011, Vanquis Bank activated its retail deposits programme representing a significant milestone and further diversifying the group's funding as well as establishing stand-alone financing for this growing business. As a prerequisite, the supporting capital requirements were agreed with the FSA and have been readily accommodated within the existing capital structure of Vanquis Bank and the group.

The launch has proved very successful and the platform, website and product distribution are all working well. The deposits offered by Vanquis Bank are fixed-rate deposits of between 1, 2, 3 and 5 years which can only be redeemed early by the customer in the event of death or mandated legal reasons, thereby creating a fixed maturity profile. Customers are protected up to £85,000 under the Financial Services Compensation Scheme (FSCS).

In line with management's plans to fund up to 80% of Vanquis Bank's receivables by the end of 2012, deposits totalling £139.7m, representing 31% of receivables, had been taken by 31 December 2011 at interest rates of between 3.15% and 4.65%. These rates are consistent with an all-in cost, after taking account of associated administration costs and liquidity requirements, of less than 6%. Vanquis Bank's deposit portfolio had increased to over £200m during February 2012.

On 10 February 2012, the group entered into a new £382.5m bank revolving credit facility maturing in May 2015 and cancelled all existing committed bank facilities of £617.3m, including £197.5m of facilities from predominantly overseas banks which were due to expire in March 2012. The syndicate is comprised of the group's core relationship banks. The all-in cost of funds is very similar and the terms, conditions and covenant package are broadly consistent with the previous facility.

Table 2 illustrates the funding structure of the group's committed facilities as at 31 December 2011, both prior to and following the renewal of bank facilities. The funding structure post-renewal of bank facilities also takes into account the available capacity for Vanquis Bank to take retail deposits up to its target of 80% of receivables. The group's revised headroom on this basis amounts to £266.3m.

The group has no further committed bank, bond or private placement maturities in 2012. Maturities in 2013 and 2014 are restricted to the repayment of £86.9m of private placements. In addition, Vanquis Bank's capacity to take retail deposits will grow as its receivables book increases. Accordingly, as a result of the renewal of bank facilities and, after assuming that Vanquis Bank funds 80% of its receivables with deposits, the group's committed facilities are sufficient to fund both contractual maturities and growth until May 2015.

The group continues with its programme to consider opportunities to further diversify its funding base as well as extend the maturity profile of its debt.

The group has historically been required to comply with four banking covenants in respect of gearing, interest cover, net worth and cash cover. The group has comfortably complied with these covenants during 2011. Following the renewal of the group's syndicated bank facilities in February 2012, the group's bank covenants have remained substantially unchanged. The most notable changes are: (i) an increase in the minimum net worth covenant from £190m to £220m, reflecting an increase in the net asset value of the group since the previous limit of £190m was set; and, (ii) the introduction of a secondary net worth covenant, excluding Vanquis Bank, to reflect that Vanquis Bank now has stand-alone funding and does not provide an upstream guarantee on the facility. Performance against these bank covenants in 2011 is set out in Table 3.

The group's credit rating was reviewed by Fitch Ratings in August 2011 and was affirmed at BBB with a stable outlook.

CAPITAL GENERATION AND DIVIDENDS

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

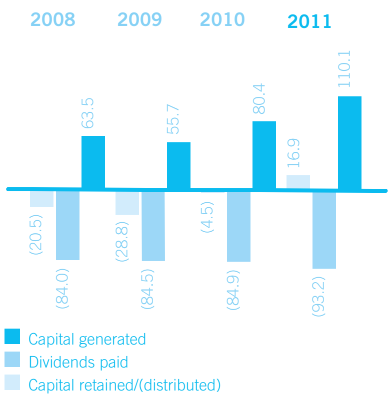
The group funds its receivables book through a combination of 20% equity and 80% borrowings. Accordingly, the capital generated by the group is calculated as cash generated from operating activities, after assuming that 80% of the growth in customers' receivables is funded with borrowings, less net capital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

Table 4 shows the capital generated by the group together with the capital distributed by way of dividends.

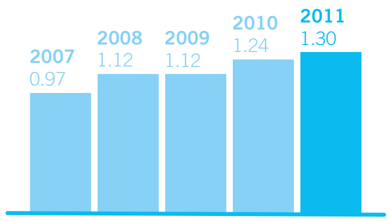
The group's dividend policy set at the time of the demerger of the international operations in 2007 was to maintain a full-year dividend payment of 63.5p per share whilst moving to a target dividend cover of at least 1.25 times. The group maintained sufficient surplus capital to maintain the dividend of 63.5p per share and fund growth of the business to the point at which the target dividend cover of 1.25 times was reached.

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 target of 1.25 times. In 2011, due to the growth in earnings, the group's dividend cover was 1.30 times and the group generated sufficient capital to retain 20% equity capital to fund receivables growth, and pay the group's dividend in respect of 2011

CAPITAL GENERATED/(ABSORBED) (£m)



DIVIDEND COVER (times)



FINANCIAL REVIEW

THE GROUP'S FINANCIAL MODEL IS UNDERPINNED BY THE APPLICATION OF PRUDENT, APPROPRIATE ACCOUNTING POLICIES.

whilst retaining net surplus capital of £16.9m in the balance sheet. Throughout this period the group's gearing ratio was maintained within the target of 3.5 times. This achievement marks the delivery of the commitment made by management at the time of the demerger.

On a divisional basis, CCD generated £107.3m of capital in 2011 (2010: £93.3m) and continues to be highly capital-generative. This business provides the bedrock for the group's high dividend payout ratio. Vanquis Bank, generated £14.8m of capital during the year (2010: £6.3m) and is now generating surplus capital over and above that required to fund its receivables growth and maintain sufficient regulatory capital. This is highlighted in Table 5. Accordingly, Vanquis Bank has commenced paying dividends. In July 2011, Vanquis Bank paid its maiden dividend of £5m to Provident Financial plc and it is due to pay a further dividend in respect of 2011 of £5m in March 2012.

REGULATORY CAPITAL

As a result of holding a banking licence, Vanquis Bank is regulated by the Financial Services Authority (FSA). The FSA therefore sets requirements for Vanquis Bank as a solo entity relating to capital adequacy, liquidity and large exposures.

CCD operates under a number of consumer credit licences granted by the Office of Fair Trading but is not regulated by the FSA. However, the group, incorporating both CCD and Vanquis Bank, is the subject of

TABLE 4: CAPITAL GENERATION

	2011 £m	2010 £m	2009 £m	2008 £m
Operating cashflow	138.7	150.5	86.8	40.9
Interest paid	(69.9)	(80.0)	(51.1)	(44.1)
Tax paid	(42.0)	(36.5)	(28.4)	(29.7)
Net capital expenditure	(7.4)	(17.6)	(12.5)	(13.9)
Add back 80% of receivables growth funded by borrowings	90.7	64.0	60.9	110.3
Capital generated	110.1	80.4	55.7	63.5
Analysed as:				
– CCD	107.3	93.3	67.6	66.9
– Vanquis Bank	14.8	6.3	5.1	(5.0)
– Central	(12.0)	(19.2)	(17.0)	1.6
Dividends payable	(93.2)	(84.9)	(84.5)	(84.0)
Capital retained/(absorbed)	16.9	(4.5)	(28.8)	(20.5)
Dividend cover	1.30	1.24	1.12	1.12

TABLE 5: CAPITAL GENERATION – VANQUIS BANK

	Capital generation £m	Equity £m	Receivables £m	Equity to receivables %
At 31 December 2010		70.5	345.0	20.4%
Profit before tax	44.2	44.2		
Tax	(11.7)	(11.7)		
Profit after tax	32.5	32.5		
To fund growth in receivables (20% x £108.4m)	(21.7)			
Other movements	4.0	3.5		
Surplus capital generated	14.8			
Dividends – July 2011	(5.0)	(5.0)		
Dividends – March 2012	(5.0)	(5.0)		
At 31 December 2011	4.8	96.5	453.4	21.3%

consolidated supervision by the FSA by virtue of Provident Financial plc being the parent company of Vanquis Bank. The FSA sets requirements for the consolidated group in respect of capital adequacy and large exposures but not in respect of liquidity.

The FSA requires financial institutions to maintain a sufficient level of regulatory capital to withstand a series of downside stress events. The FSA sets regulatory capital requirements specific to each institution, called Individual Capital Guidance (ICG), following consideration of the Internal Capital Adequacy Assessment Process (ICAAP) conducted by the firm. The group's ICAAP was recently reviewed by the FSA prior to the commencement of deposit taking activities at Vanquis Bank and revised ICG's were set for both the group and Vanquis Bank. The revised ICG's were not materially different from historic ICG's.

For the group and Vanquis Bank, the ICG is specified as a percentage of the minimum Pillar I requirement for credit risk, operational risk, counterparty risk and market risk calculated using predetermined formulas together with certain additional capital add-ons to cover other risks. The ICG remains confidential between the FSA and the relevant institution and cannot be publicly disclosed.

As at 31 December 2011, the group had total regulatory capital of £312.3m (2010: £273.1m), whilst Vanquis Bank had total regulatory capital resources of £100.6m (2010: £69.5m). Regulatory capital equates to equity share capital and reserves plus subordinated loan notes less: (i) the net book value of intangible assets; and (ii) the pension asset and fair value of derivatives, both net of deferred tax. The level of regulatory capital held by both the group and Vanquis Bank as at 31 December 2011 was comfortably in excess of the ICGs set by the FSA.

To ensure that sufficient liquid resources are available to financial institutions to fulfil their operational plans and meet financial obligations as they fall due, the FSA requires that all BIPRU regulated entities must maintain a liquid assets buffer held in the form of high quality, unencumbered assets. As a simplified firm, Vanquis Bank is permitted to hold the liquid assets buffer in a designated money market funds invested in a compliant sterling government fund. For Vanquis Bank, the level of the liquid assets buffer is calculated in accordance with the FSA's simplified liquid assets buffer calculation, and reflects 25% of undrawn credit commitments provided to cardholders and between 10% and 20% of retail deposits depending on maturity. The liquid assets buffer is subject to the FSA's transitional arrangements which currently require only 30% of the amount calculated under the simplified calculation to be held. Accordingly, as at 31 December 2011, the liquid assets buffer held by Vanquis Bank amounted to £17.5m (2010: £10.0m). The transitional arrangements increase to 50% in March 2012, 70% in July 2013 and to 100% of the simplified calculation by January 2016. The FSA's liquidity requirements relate to Vanquis Bank only and do not apply to the rest of the group.

As part of the regulation/supervision by the FSA, 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 2011 Annual Report and Financial Statements. However, the group's full Pillar III disclosures can be found on the group's website, www.providentfinancial.com.

TAX

The tax charge for 2011 represents an effective rate of 26.1% (2010: 28.0%) on profit before tax and is consistent with the UK corporation tax rate which reduced from 28% to 26% on 1 April 2011. The group is expected to benefit in future years from the progressive rate reductions in the 2011 Finance Act or announced in recent budgets.

ACCOUNTING POLICIES

The group's financial statements have been prepared in accordance with IFRS as adopted by the EU. The group's accounting policies are chosen by the directors to ensure that the financial statements present a true and fair view. All of the group's accounting policies are compliant with the requirements of IFRS, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and UK company law. The continued appropriateness of the accounting policies, and the methods of applying those policies in practice, is reviewed at least annually. The principal accounting policies, which are consistent with the prior year, are set out on pages 95 to 101.

The group's financial model is underpinned by the application of prudent, appropriate accounting policies. This is reflected in the impairment policies adopted across the group. In the weekly Home Credit business of CCD, a loan is impaired once more than one weekly payment has been missed in the previous 12 weeks and the provision is progressively increased to over 95% once no payment has been received in the last 12 weeks. This reflects timely, realistic provisioning which reinforces the right behaviour amongst agents and employees. In the monthly Vanquis Bank business, 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.

Following the removal in 2011 of a legacy requirement for bank covenants to be reported on a UK GAAP basis, all of the group's subsidiaries now prepare statutory financial statements under IFRS, consistent with the group and parent financial statements. This streamlines the group's financial reporting procedures and provides for better comparability between group and subsidiary financial statements.

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 for the first time this year. Commentary on significant movements in balances together with further explanations of the group's key accounting policies and commentary supporting the group's financial model are in highlighted boxes in the financial statements.

GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the activities of its principal subsidiaries, as set out in the Business review as well as the group's principal risks and uncertainties as set out in the Governance report. Based on the group's cash flow 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.

OUR DIRECTORS AND OFFICERS

PETER CROOK
CHIEF EXECUTIVE
AGE 48

APPOINTED TO THE BOARD:
2006

COMMITTEE MEMBERSHIP:
Chairman, Executive Committee; Member, Nomination Committee

KEY STRENGTHS:
Extensive financial services sector experience, particularly credit cards. Strong operational experience and provides the key interface with the group's main stakeholders on strategic, regulatory and corporate affairs matters.

PREVIOUS BOARD AND MANAGEMENT EXPERIENCE:
UK Managing Director, Barclaycard.

CURRENT EXTERNAL APPOINTMENTS:
None.

ANDREW FISHER
FINANCE DIRECTOR
AGE 54

APPOINTED TO THE BOARD:
2006

COMMITTEE MEMBERSHIP:
Member, Risk Advisory Committee and Executive Committee

KEY STRENGTHS:
Provides oversight of the group's financial arrangements including in particular the close management of the renewal of the group's syndicated facilities and establishment of the retail deposits programme at Vanquis Bank.

PREVIOUS BOARD AND MANAGEMENT EXPERIENCE:
Finance Director of Premier Farnell plc and partner at PricewaterhouseCoopers LLP.

CURRENT EXTERNAL APPOINTMENTS:
None.

CHRIS GILLESPIE
MANAGING DIRECTOR, CONSUMER CREDIT DIVISION
AGE 49

APPOINTED TO THE BOARD:
2007

COMMITTEE MEMBERSHIP:
Member, Executive Committee

KEY STRENGTHS:
Extensive knowledge of the financial services sector and provides strong operational direction to the Consumer Credit Division by driving performance through people. His skill set makes him well placed to deliver sustainable growth of the group's Home Credit operations.

PREVIOUS BOARD AND MANAGEMENT EXPERIENCE:
Director of Consumer Lending at Barclays, Director of HFC Bank and Group Lending Director at Bradford & Bingley.

CURRENT EXTERNAL APPOINTMENTS:
None.

JOHN VAN KUFFELER
NON-EXECUTIVE CHAIRMAN
AGE 63

APPOINTED TO THE BOARD:
1991

COMMITTEE MEMBERSHIP:
Chairman, Nomination Committee

KEY STRENGTHS:
A director of the group for over 20 years and previously held the position of Chief Executive. Extensive knowledge of the business and invaluable corporate governance oversight gained from his involvement with many listed and unlisted companies.

PREVIOUS BOARD AND MANAGEMENT EXPERIENCE:
Chief Executive of Provident Financial plc and Chairman of Huveaux plc.

CURRENT EXTERNAL APPOINTMENTS:
Chairman of Hyperion Insurance Group Limited and Chairman of Marlin Financial Group Limited.

MANJIT WOLSTENHOLME
NON-EXECUTIVE DIRECTOR
AGE 47

APPOINTED TO THE BOARD:
2007

COMMITTEE MEMBERSHIP:
Chairman, Audit Committee; Member, Remuneration Committee, Risk Advisory Committee and Nomination 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 and Partner at Gleacher Shacklock.

CURRENT EXTERNAL APPOINTMENTS:
Chair of Albany Investment Trust plc and a non-executive Director of Capital and Regional plc, Future plc and The Unite Group plc.

ROBERT HOUGH
NON-EXECUTIVE DIRECTOR
SENIOR INDEPENDENT DIRECTOR
AGE 66

APPOINTED TO THE BOARD:
2007

COMMITTEE MEMBERSHIP:
Chairman, Remuneration Committee; Member, Risk Advisory Committee, Audit Committee and Nomination Committee

KEY STRENGTHS:
Provides commerical expertise together with legal and regulatory oversight as a lawyer with significant knowledge gained both within the profession and from his executive and non-executive roles within a range of public and private companies and organisations.

PREVIOUS BOARD AND MANAGEMENT EXPERIENCE:
Executive Deputy Chairman of Peel Holdings plc and Chairman of Cheshire Building Society.

CURRENT EXTERNAL APPOINTMENTS:
Chairman of the Northwest Regional Development Agency, non-executive Director of Peel Holdings (Management) Limited and Styles & Wood Group plc.

ROB ANDERSON
NON-EXECUTIVE DIRECTOR
AGE 53

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 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 and Spencer.

CURRENT EXTERNAL APPOINTMENTS:
Chief Executive of Signet Jewelers Limited's UK Division.

KEN MULLEN
GENERAL COUNSEL AND COMPANY SECRETARY
AGE 53

APPOINTED TO THE BOARD:
2007

COMMITTEE MEMBERSHIP:
Secretary to Audit Committee, Remuneration Committee, Risk Advisory Committee and Nomination Committee

KEY STRENGTHS:
Provides legal, regulatory and corporate governance advice to the board gained from working at board level for various publicly-listed companies.

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.

GOVERNANCE

The UK Corporate Governance Code (the Code) sets out guidance on how to operate a good corporate governance structure.

Companies listed in the UK are required to disclose how they have applied the provisions of the Code during the year and explain any areas of non-compliance.

John van Kuffeler,
Chairman

CONTENTS

DEAR SHAREHOLDERS

Last year I reported that we intended to implement certain changes to the UK Corporate Governance Code (the Code) in advance of their effective date. Having implemented the changes the board continues to believe that the new Code, which was published in June 2010, represents the essence of good governance practice.

During the year the board has again reviewed its various processes, particularly in light of the new provisions of the Code, and has taken action where necessary to ensure that what it does fully reflects and complies with the principles and provisions of the Code.

As I have said previously, the Code principles establish good governance practice and are the most important part of the Code. In the next few pages, I seek to explain how they have been applied by the board. I will begin by highlighting a number of important areas that have been the subject of further development during the year.

BOARD MEMBERSHIP

The mix of individuals on the board largely determines the quality of the board as a whole so, consequently, through the nomination committee, we pay a good 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 which enhances the workings of the board. I believe the current composition of the board has the right mix of executive and non-executive directors which achieves the appropriate degree of challenge on both operational and strategic issues.

DIVERSITY

The board has noted and supports the Davies Review 'Women on Boards' together with the Financial Reporting Council's statement on proposed changes to the Code relating to gender diversity on boards. The board recognises the benefits to the company of diversity in its workforce and in the composition of the board itself. However, diversity is not simply about gender or race – the board aims to have a broad range of skills, backgrounds and experience and will 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 20% representation of women in management positions, the board recognises the benefits from increasing the representation of female employees at the most senior levels in the company. The board currently comprises 14% women and the aim is to ensure that a target of 25% is reached by 2015 as well as a target of 25% women within the wider senior management group.

BOARD EFFECTIVENESS

Following the external review in 2010 we carried out a comprehensive internal board evaluation in 2011 using an online questionnaire developed in conjunction with Independent Audit Limited. The directors were consulted on matters such as the role of the directors and the board, board composition, the contribution made by and the performance of non-executive and executive directors, quality of board meetings, leadership by the Chairman, quality of information provided, and various corporate governance issues. The actions identified from the evaluation will be implemented through 2012. Further details can be found on page 63.

As Chairman I also have a meeting with the independent non-executive directors to review the issues raised during the board evaluation process and I also meet with the senior independent director to review any issues raised concerning my performance.

The next external board evaluation will be carried out in 2013.

ANNUAL RE-ELECTION OF BOARD

At the Annual General Meeting in 2011, in accordance with the Code, all our directors offered themselves for reappointment and were re-elected by shareholders.

REMUNERATION

During 2011, our remuneration committee carried out a thorough review of our 2011 senior executive remuneration policy to ensure it was consistent with and promoted effective risk management using the remuneration risk framework established by the risk advisory committee. In 2012, the remuneration committee will consistently apply the 2011 senior executive remuneration policy, making changes only to the nature and extent of the targets under the company's long-term incentive schemes. This will ensure we are not rewarding poor performance or conduct which exposes the group to excessive risk and that the targets generate long-term behaviour and interests linked to the long-term interests of shareholders. Further details are set out in the remuneration report on pages 81 and 82.

RISK

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 are visited in greater detail on pages 70 to 72. 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.

COMPLIANCE

The company complied with the provisions of the Code throughout 2011.

John van Kuffeler
Chairman

SUMMARY OF KEY CODE PRINCIPLES

LEADERSHIP & STRATEGY

Board Composition
The board comprises the Non-Executive Chairman, three Executive Directors and three Independent Non-Executive Directors; one of whom is a woman. Experience, both current and past, ranges across various sectors of the financial services and retail markets in the UK. In addition to significant strengths in the development and implementation of strategy, the board collectively also has significant experience in finance management, risk control, corporate governance, regulatory and corporate affairs issues.

Biographical details of the members of the board are set out on pages 58 and 59.

Major issues discussed in 2011
A wide range of topics was reviewed by the board during the year including the group's medium and long-term strategy; performance against the 2011 budget; the budget for 2012 and profit plan for 2013-2016; operational reports on the group's divisions; renewal of the group's syndicated bank facilities and establishment of a retail deposits programme; risk management and internal and external audit reports; pension arrangements and the issues arising from the reduced annual allowance; group tax and treasury policies; health and safety, including an annual review by the group's lead insurer; the group's 2010 Annual Report and Financial Statements; interim results and interim management statements; dividend strategy; investor relations activity in both the UK and USA; board composition and performance; corporate social responsibility; developments in corporate governance and significant new legislation and regulation.

Further information about the board, its meetings, governance structure and committees is set out on pages 62 to 64. The activities of each of the board's committees are summarised on page 64 and on pages 71 to 72.

EFFECTIVENESS

How effective has the board been in 2011?
A performance review is carried out annually which covers the effectiveness of the board, its committees and its individual members. Having carried out a full external review in 2010 in line with the Code, we conducted an internal review in 2011 using an online questionnaire developed in conjunction with Independent Audit Limited. In outline, the conclusion of the review was that the board and the committees are operating effectively with its members possessing all the skills the company requires. There is a positive working environment with appropriate levels of openness, support and challenge. However, opportunities for further improvement were identified.

Further information about the evaluation process, its recommendations and results is set out on page 63.

Mitigation of risks and uncertainties
Our internal control systems cover all material controls including financial, operational and compliance as well as risk management systems, in accordance with the Turnbull Guidance and the Code.

Further information about the internal control, risk management and the related financial reporting process is set out on pages 70 to 72.

For our principal risks see pages 73 to 75.

Communication with investors
Communicating with shareholders is a key priority for the board. The Chairman and Senior Independent Director are responsible for ensuring that the board is accessible to major shareholders and that channels for communication are open. They are also responsible for ensuring that the board is aware of any concerns raised by major shareholders and that their views are considered. The Group Chief Executive, Finance Director and Head of Investor Relations met regularly with our investors in 2011 and carried out roadshows in the UK and USA. In addition, an investor day was arranged in 2011 at the Vanquis Bank contact centre in Chatham, giving investors access not only to the operations of Vanquis Bank but also to its senior management.

The presentation from the Investor Day in November 2011 is accessible at www.providentfinancial.com

GOVERNANCE

APPLYING THE MAIN PRINCIPLES OF THE CODE

LEADERSHIP

The board

The board of directors is responsible to shareholders for the long-term success of the company and ensuring that the company is appropriately managed. The board meets regularly to discuss the company's strategic direction, to review its financial performance, and to ensure that risk management and internal control systems are appropriately aligned with its strategic objectives.

The board has approved terms of reference which contain a schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets and financial results, new board appointments, proposals for dividend payments, the approval of all major transactions and authorisation of directors' interests that conflict, or may conflict, with the interests of the company. The board's five committees also have written terms of reference which can be found on the company's website. In addition, the group has detailed corporate policies which set out authority levels within the group and which were last reviewed and updated in June 2011. Divisional boards are required to report on compliance with the corporate policies on a biannual basis.

The executive committee, comprising the three executive directors, normally meets at least once a week, and more frequently as required. 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. There is a formal schedule of matters reserved to it for decision.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Advisory Committee
Total number of meetings in 2011	9	5	2	5	3
John van Kuffeler	9	–	1	-	–
Peter Crook	9	–	2	–	–
Andrew Fisher	9	–	–	–	3
Chris Gillespie	9	–	–	–	–
Rob Anderson	9	5	2	5	3
Robert Hough	8	4	2	5	3
Manjit Wolstenholme	9	5	2	5	3

Chairman

The Chairman is responsible for: (i) chairing the board meetings and monitoring their effectiveness; (ii) chairing the AGM; and (iii) chairing the nomination committee. He is also responsible for ensuring that an effective strategy is approved by the board and that an annual evaluation of the board is carried out. The Chairman also chairs the boards of Hyperion Insurance Group Limited and Marlin Financial Group Limited. These appointments involve no more than two and a half days' work per week. There have been no material changes in his other commitments since the year end.

Chief Executive

The Chief Executive is primarily responsible for implementing the company's strategy, as well as being a focal point for communication with shareholders. He also chairs the board of Vanquis Bank Limited.

Meetings

During 2011, the board had nine meetings. Additional meetings are called when required and there is frequent contact between meetings, where necessary, to progress the company's business. Each director receives all relevant reports and papers so that he/she has sufficient time to review them. Attendance at board and committee meetings during 2011 is set out in the table above.

In addition the board has an annual two-day strategy planning conference which is dedicated to reviewing and developing the group's strategy and progress is monitored half yearly by the board. The percentage of time spent and range of topics discussed at board meetings in 2011 is set out in the following table:

Treasury	5%
Corporate Affairs	6%
Investor Relations	12%
Corporate Governance	12%
Strategy	16%
Finance Management	25%
Funding	8%
Operational Matters	16%

Company Secretary

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.

Independent advice

There is a formal procedure by which any director may take independent professional advice relating to the performance of his/her duties at the company's expense.

Insurance

The company has arranged appropriate Directors' and Officers' liability insurance in respect of legal action against directors.

EFFECTIVENESS

The board currently comprises three executive directors, three non-executive directors and a non-executive Chairman and has a clearly defined division of responsibilities between the Chairman and the Chief Executive.

Non-executive directors

Each of the three 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 could materially interfere with their independent judgment.

Non-executive directors are currently appointed for fixed periods of three years, subject to appointment by shareholders. 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.

Robert Hough is the senior independent director 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 2011, 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. The senior independent director discussed comments arising 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 himself/herself for reappointment annually. In accordance with the recommendations of the Code, all directors offered themselves for reappointment at the 2011 AGM and biographical details of the directors were supplied in the shareholders' circular and notice of the 2011 AGM. All directors will offer themselves for reappointment at the 2012 AGM and at all future AGMs.

Policy on other board appointments

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

The letters of appointment of the non-executive directors state that any proposed appointment to the board of another company will require the prior approval of the board. The company's policy is that a non-executive director should have sufficient time to fulfil his/her duties to the company, including 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 he/she holds an executive role in a FTSE 350 company, he/she 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 (and to retain the fees from that appointment) provided that the board considers that this will not adversely affect his 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.

Performance evaluation

Following the external board performance evaluation in 2010, the board completed the ninth evaluation of its performance in November 2011 and that of its committees and individual directors. The process was carried out by means of an online questionnaire service developed by Independent Audit Limited. The process included confidential, unattributable, online questionnaires completed by each director, covering corporate governance; development of strategy and alignment with risk; board and committee effectiveness, composition, development and succession planning; board operation and dynamics; collective and individual capabilities and contribution; management information and operational oversight.

The results of the evaluation, which were discussed by the board as a whole at its meeting in December 2011, confirmed that the board of directors was balanced and no significant issues were identified. However, the following actions were identified and will be fully considered in 2012:

- In light of the growing significance of Vanquis Bank to the group's performance, a detailed review of the senior management succession options will be carried out and this will include an assessment of whether it is necessary to appoint an additional executive to the board in the future.
- Allocation of more time for the audit committee meetings around the interim and full year results, possibly involving additional meetings.
- Company Secretary to assist directors with time management on board and committee meeting dates.

A performance evaluation of the board, the board committees and individual directors will continue to be conducted annually, although the process for such evaluations will be reviewed by the board on an ongoing basis in order to optimise the process.

We will continue to carry out an external evaluation every three years, the next such evaluation to be carried out in 2013.

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. The Chairman discussed training and development plans with all directors in 2011.

GOVERNANCE

NOMINATION COMMITTEE
Members:
John van Kuffeler (Chairman)
Rob Anderson
Peter Crook
Robert Hough
Manjit Wolstenholme

The nomination committee ensures that the balance of directors remains appropriate as the group develops and that there is effective succession planning for senior positions within the group. It has a formal schedule of matters reserved to it for decision.

In 2010, the committee reviewed and approved a detailed succession plan for the executive directors, the Chairman and the persons discharging managerial responsibility. The plan specifically identified those candidates who are capable, or would be capable with training and development, of filling the roles identified. Bespoke training and development plans have been prepared and are being implemented as appropriate. At its meeting in January 2012, the committee:

- reviewed the actions identified in the succession plan agreed in 2010 and progress made in 2011;
- reviewed the composition of the board, and in particular the succession options for both the Chairman and Chief Executive;
- developed specific succession plans for the senior management teams in both divisions;
- formally considered its effectiveness in 2011 and on the basis of the board and committee evaluation undertaken, the overall view was that the committee was working effectively; and
- carried out a review of the performance of Rob Anderson and recommended to the board an extension of his term of office. At the board meeting in February 2012, his term of office was extended to 30 March 2015, subject to reappointment at the AGM in May 2012.

ACCOUNTABILITY

The board presents the company's position and prospects by means of an annual report, interim reports, interim management statements and in circulars and reports to shareholders. These documents are posted on the company's website. Announcements made by the company to the London Stock Exchange are also posted on the company's website.

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. Details of the group's risks, together with the controls and procedures in place to mitigate the risks, can be found in the risk management and internal control section of this report on pages 70 to 75.

Anti-bribery and corruption
Following the introduction of the Bribery Act in July 2011, the risk advisory committee reviewed the group's approach to bribery and corruption. The group's corporate policies were updated and a corporate hospitality register established using a risk-based approach. The initial risk assessment confirmed that as a Business to Consumer organisation the risks for the group arising from the Bribery Act were low. All business units are, however, required to undergo appropriate training and instruction to ensure that they have effective anti-bribery and corruption policies and procedures in place. Compliance will be regularly monitored by the risk advisory committee and will be subject to periodic review by the internal audit function.

Whistleblowing
The group has a system by which staff may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters. During 2011 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 on the integrity of these procedures, the state of ongoing investigations and conclusions reached. During 2011 group employees used this system to raise concerns about two separate issues, both of which were appropriately responded to through the group's human resources function.

REMUNERATION

REMUNERATION COMMITTEE
Full details of the composition and work of the remuneration committee are set out on page 78 of the directors' remuneration report.

The committee has a formal schedule of matters reserved to it for decision. It determines, within the framework agreed with the board, the specific remuneration packages and conditions of service of the Chairman, the executive directors and the Company Secretary, including their service agreements. It also monitors the level and structure of the remuneration of the most senior management below board level within the company. No director is involved in determining his/her own remuneration.

RELATIONS WITH SHAREHOLDERS

Ongoing 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 programme in both the UK and the USA, through which the Group Chief Executive and Finance Director engage regularly with the company's largest shareholders on a one-to-one basis. In addition, the board considers an investor relations report at each board meeting which covers the general nature of matters communicated and discussed. However, it is important that the board has a number of channels which provide access to shareholder views, and independent reviews of shareholder views are commissioned annually and reviewed by the board. Also in 2011, an investor day was held at the Vanquis Bank contact centre in Chatham, giving investors access to its operations and its senior management, as well as to the Group Chief Executive and the Finance Director.

The Chairman of the remuneration committee writes to major shareholders, when appropriate, to update them on the subject of remuneration policy and invites them to comment on any particular areas of concern.

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 we provide the following:

- Electronic and postal voting – shareholders can vote on all the resolutions either electronically via our website or by post.
- Questions & Answers – all shareholders have the opportunity to submit questions by email or post.
- Results – we publish the results of the voting on all resolutions on our website and through an RNS announcement.

The 2011 AGM was held for the first time in the company's new 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 2011 and will continue to do so in future years.

The 2012 AGM will be held on 2 May 2012 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.

OTHER STATUTORY AND REGULATORY INFORMATION

DIRECTORS

The directors of the company as at 31 December 2011, are listed on pages 58 and 59. They all served as directors throughout 2011 and up to the date of signing of the financial statements.

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' 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 he/she is convicted of any criminal proceedings or judgment is given against him/her 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 any liability incurred by the director to the company or to any associated company; or against any liability incurred by the director to pay a criminal or regulatory penalty; or against any liability incurred by the director in defending criminal proceedings in which he/she is convicted; or in defending any civil proceedings brought by the company (or an associated company) in which judgment is given against him/her; or 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 2011 or at any time up to 28 February 2012.

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 2011	31 December 2010
John van Kuffeler	18,000	14,000
Peter Crook[1]	706,404	621,365
Andrew Fisher[1]	489,197	452,207
Chris Gillespie[1]	457,825	435,555
Rob Anderson	3,500	3,500
Robert Hough	7,500	7,500
Manjit Wolstenholme	5,663	5,663

[1] These interests include conditional share awards granted under the LTIS, awards under the PSP and deferred shares under the Deferred Bonus Scheme as detailed on pages 82 to 86 of the directors' remuneration report.

No director had any non-beneficial holdings at 31 December 2011 or at any time up to 28 February 2012.

There were no changes in the beneficial or non-beneficial interests of the directors between 1 January 2012 and 28 February 2012.

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.

GOVERNANCE

SHARE CAPITAL

Increase in issued ordinary share capital
During the year, the ordinary share capital in issue increased by 1,554,530 shares to 137,226,391 shares. Details are set out on page 133 in note 23 of the notes 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: (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of 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 (ii) where their holder is precluded from exercising voting rights by the Financial Services Authority's (FSA) Listing Rules or the City Code on Takeovers and Mergers.

Employee savings-related share option schemes
The current scheme for employees resident in the UK is the Provident Financial plc Employee Savings-Related Share Option Scheme 2003 (the 2003 scheme).

The current scheme for employees resident in the Republic of Ireland is the Provident Financial plc International Employee Savings-Related Share Option Scheme.

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 the Provident Financial Performance Share Plan (the PSP).

As set out on page 81 of the directors' remuneration report, the remuneration committee did not grant any options during the year under the ESOS or the LTIS.

Provident Financial plc 2007 Employee Benefit Trust (the EBT)
The EBT, a discretionary trust for the benefit of group 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 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. 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 137 of the financial statements.

As the EBT operates in conjunction with the LTIS, the beneficial interest in shares is transferred from the EBT to directors and employees when conditional share awards are made. Full vesting of such shares is subject to the achievement of the performance targets set out on page 81 of the directors' remuneration report.

On 2 March 2011, the company provided a loan of £183,256 to the EBT for the purpose of acquiring ordinary shares of 20 8/11p in the company. The EBT subscribed for the issue of 884,129 new shares on 4 March 2011 in order to satisfy the awards made under the LTIS on 4 March 2011.

As at 31 December 2011 the EBT held the non-beneficial interest in 2,969,888 shares in the company (2010: 2,638,457). 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 group directors and employees, was established on 31 January 2003 and operates 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 2011, the PF Trust had no interest in any shares in the company (2010: nil).

The PF Trust subscribes for shares for the purpose of satisfying awards granted under the PSP. When the PF Trust subscribes for shares, it is funded by loans from the company which are 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 23 on page 133 of the financial statements. Awards were made under the PSP on 4 March 2011 and a loan of £65,242 was made to the PF Trust for the purposes of acquiring ordinary shares of 20 8/11p in the company to satisfy these awards.

The PF Trust operates in conjunction with the PSP and the beneficial interest in shares is transferred from the PF Trust to directors and employees when awards are made. Full vesting of such shares is subject to the achievement of the performance target set out on page 86 of the directors' remuneration report.

Authority to purchase shares
At the 2011 AGM, shareholders authorised the company to purchase up to 13,693,701 of its ordinary shares up until 3 November 2012 or, if earlier, the conclusion of the next annual general meeting. 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 2 May 2012.

Power to allot shares for cash
At the 2011 AGM, shareholders authorised the directors to allot equity securities (as defined by the Companies Act 2006) for cash up to an aggregate nominal amount of £1,419,165. A further authority for the directors to allot equity securities for cash will be sought from shareholders at the forthcoming AGM to be held on 2 May 2012.

SUBSTANTIAL SHAREHOLDINGS

On the basis of the information available to the company as at 28 February 2012, 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	27.01%
M&G Investment Management Limited	7.02%
Marathon Asset Management Limited	6.26%
Tweedy Browne Company LLC	5.89%
BlackRock Inc.	4.15%
Baillie Gifford & Co.	3.46%
Legal & General Investment Management Limited	3.46%

Interests as at 31 December 2011 were as follows:

Invesco Limited	26.28%
M&G Investment Management Limited	7.09%
Marathon Asset Management Limited	6.31%
Tweedy Browne Company LLC	5.89%
Legal & General Investment Management Limited	3.48%
BlackRock Inc.	3.40%
Baillie Gifford & Co.	3.54%

EMPLOYEE INVOLVEMENT

The group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, 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 operating company newsletters, weekly performance updates, regular management team briefings, staff meetings and conferences including trade union meetings in those companies which recognise unions. The company also carries out employee engagement surveys. Details of the surveys are included in the corporate responsibility report on pages 26 to 32.

Save as you Earn
The company operates two savings-related share option schemes (referred to on page 66), aimed at encouraging employees' involvement and interest in the financial performance and success of the group through share ownership. 1,008 employees are currently saving to buy shares in the company under these schemes (2010: 1,398).

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.

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 and each trustee is encouraged to undertake training. Regular training sessions on topical issues are carried out at meetings of the trustees by the trustees' advisors which is based on the Pension Regulator's Trustee Knowledge and Understanding requirements and tailored to 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 to agreeing its objectives and 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 stakeholder 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 Benefit Scheme (UURBS), known as the Provident Financial Top Up Scheme for the benefit of those employees who were affected by the restricted annual allowance of pension contributions to registered pension schemes which was introduced in October 2010. The UURBS offers an alternative to a cash payment in lieu of the benefit over the annual allowance.

GOVERNANCE

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

During the year, the company made donations for charitable purposes of £1,291,459 (2010: £1,190,619). The group invested a further £377,888 (2009: £277,368) in support of community programmes (based on the London Benchmarking Group's guidelines). No political donations were made during the year (2010: £nil).

Further information on the group's corporate responsibility activities is set out on pages 26 to 32 and on the company's website.

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, Peter Crook, has responsibility for this area.

The group's risk management processes, details of which are set out on pages 70 to 72, 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.

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 pages 79 to 80 of the directors' remuneration report. Details of training for directors are set out on page 63 of this report.

The company has been managing its corporate responsibility (CR) impacts for over ten years which helps ensure that the group is a responsible citizen and 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 social, environmental and economic issues that are material to its operations. Through the CR programme, which is overseen centrally with support provided by a range of working groups, the group is able to manage a range of customer, local community, employee-related, environmental and supply chain issues. The company publicly discloses its CR performance via 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.

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 the Consumer Credit Division (CCD), in particular those relating to agent safety, is carried out by the company's insurer, Chartis. The results of the 2011 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 2010 were implemented in 2011 and further recommendations to enhance the current processes following the 2011 audit will be implemented during the course of 2012. In addition, an audit of the Vanquis Bank contact centre in Chatham was carried out by Chartis in 2011 which confirmed that there was a high standard of health and safety across all functions in the contact centre. Recommendations made by Chartis will be implemented by Vanquis Bank during 2012.

EQUAL OPPORTUNITIES

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. 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.

SUPPLIER POLICY STATEMENT

The company agrees terms and conditions for its business transactions with suppliers and payment is made in accordance with these, subject to the terms and conditions being met by the supplier.

The company acts as a holding company and had no trade creditors at 31 December 2011 or at 31 December 2010. The average number of days' credit taken by the group during the year was 13 days (2010: 15 days).

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 102 to 104 of the financial statements.

APPOINTMENT AND REPLACEMENT OF DIRECTORS

Rules about the appointment and replacement of directors are set out in the articles and on page 63 of this report. The directors' powers are conferred on them by UK legislation and by the articles. Changes to the articles must be approved by shareholders passing a special resolution and must comply with the provisions of the Companies Act 2006 and the FSA'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 auditors' report on pages 141 and 142, is made to distinguish for shareholders the respective responsibilities of the directors and of the auditors 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 statement 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 are required to:

(i) select suitable accounting policies and then apply them consistently; (ii) make judgments and accounting estimates that are reasonable and prudent; (iii) state that the financial statements comply with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and (iv) prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are also required by the FSA'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 are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report & Financial Statements 2011 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.

DISCLOSURE AND TRANSPARENCY RULES (DTR) STATEMENT

Each of the directors, whose names and functions are set out on pages 58 and 59, confirms that, to the best of his/her 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 directors' report contained in this Annual Report and Financial Statements 2011 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.

The directors' report is the management report for the purposes of DTR 4.1.5R and DTR 4.1.8R.

DISCLOSURE OF INFORMATION TO AUDITORS

In accordance with section 18 of the Companies Act 2006, each person who is a director at the date of this report confirmed that:

(i) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(ii) he/she has taken all reasonable steps that ought to have been taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

PricewaterhouseCoopers LLP ('PwC'), the auditors for the Company, have indicated their willingness to continue in office and a resolution proposing their reappointment will be proposed at the forthcoming AGM.

ANNUAL GENERAL MEETING

The AGM will be held at 11.30am on 2 May 2012 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 23 March 2012.

GOVERNANCE

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. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and any system can provide only reasonable, and not absolute, assurance against material misstatement or loss. The framework incorporates a five-stage process as detailed in the diagram below.

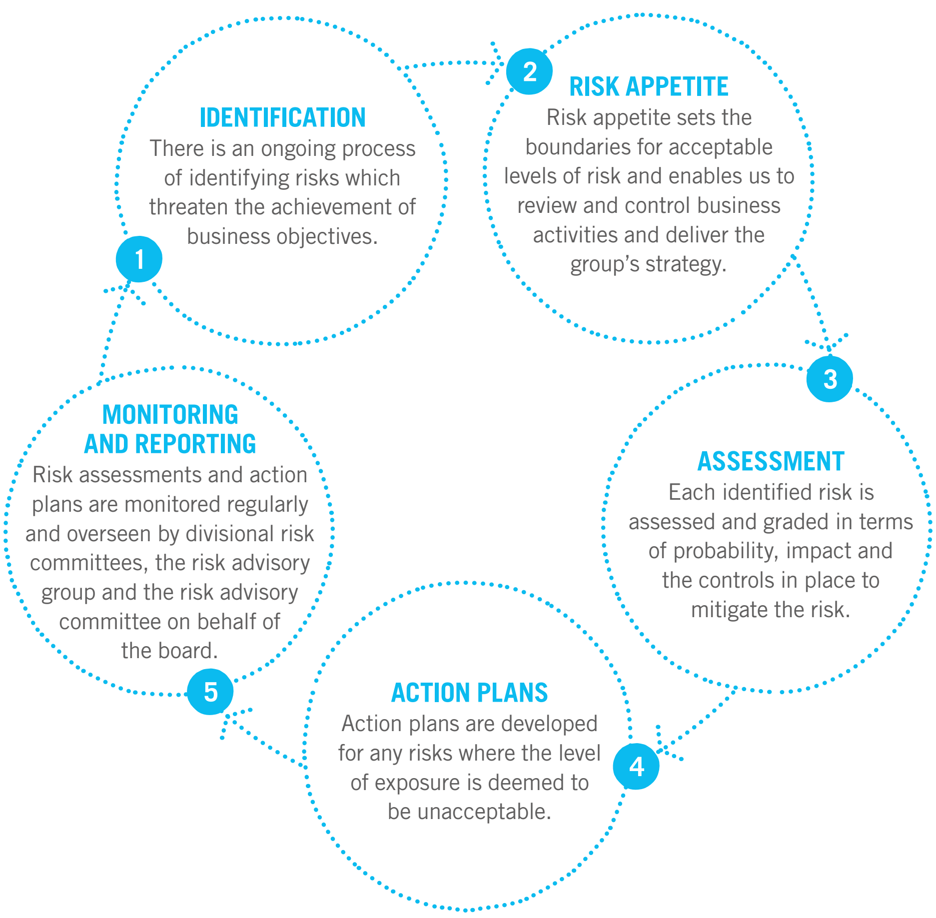
Details of the group's key risks, together with the controls and procedures in place to mitigate the risks, can be found on pages 73 to 75 of the Directors' report.

The key elements of the internal control system, including the financial reporting processes, have been established in accordance with the revised Guidance for Directors on the Combined Code and the FSA's Disclosure and Transparency Rules. The company reports to shareholders on a half-yearly basis.

In December each year, the board approves detailed budgets and cashflow 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. Actual performance against budget is monitored in detail within the group's management accounts and this is supplemented with a rolling forecast of the full-year outturn. The group's management accounts form part of the board papers for each meeting.

The audit committee, details of which can be found on pages 71 to 72 regularly reviews the adequacy of internal controls (including financial, operational and compliance controls) in conjunction with the internal audit function and reports to the board. An annual programme of work which targets and reports on higher risk areas is carried out by the internal audit function. The operation of internal financial controls is monitored by regular management reviews, including a procedure by which each division certifies compliance quarterly.

OUR RISK MANAGEMENT FRAMEWORK IN DETAIL



The risk advisory committee, details of which can be found on page 72, 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. In addition, the risk advisory group, details of which can be found on page 72, formally reviews the divisional risk registers four times a year and it reports to the risk advisory committee.

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

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, treasury and risk, reviews and provides oversight of the key financial matters of the group. The group finance function establishes the process and timetable for financial reporting and consolidation activities and identifies and approves changes to accounting and financial reporting standards.

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 2011. The above process for identifying, evaluating and managing the significant risks faced by the group was in place throughout 2011 and up to 28 February 2012 and no significant failings or weaknesses were identified during this period.

AUDIT COMMITTEE AND AUDITORS

AUDIT COMMITTEE

Members:
Manjit Wolstenholme (Chairman)
Rob Anderson
Robert Hough

Attendees by invitation:
Peter Crook
Andrew Fisher
Chris Gillespie
Alister Turnbull (Head of Audit & Risk)
Gary Thompson (Group Financial Controller)
PwC (external auditors)

The audit committee has a formal schedule of matters reserved to it for decision, including all matters relating to the appointment and reappointment of auditors, auditors' remuneration and the policy on the supply of non-audit services to the company by the auditors. In addition, it monitors the integrity of the financial statements of the group and the formal announcements relating to the group's financial performance and reviews significant financial reporting judgments contained in them. It also approves the internal audit plan annually and reviews the group's internal and external whistleblowing policies and the register of benefits offered to directors in accordance with the company's code of practice on benefits.

Manjit Wolstenholme has chaired the committee since joining the board in 2007. She is a chartered accountant and is considered to have the recent and relevant financial experience required by the provisions of the Code. The other members of the committee have a wide range of business and financial experience which is evidenced by their biographical summaries on pages 58 and 59.

There is an in-house internal audit function managed by the Head of Audit & Risk. The internal audit function reports to the audit committee which helps to ensure the function's independence from group management, and the audit committee reviews regular reports on the activity of this function.

At its February and July meetings, the committee had a separate session with the group's auditors, PwC, 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 or interim results of the group, directly with PwC. Manjit Wolstenholme, as Chairman of the committee, also meets separately with the Head of Audit & Risk on a quarterly basis.

PwC have been the company's auditors for many years. The external auditors are required to rotate the audit partners responsible for the group and subsidiary audits every five years and a new lead audit partner was appointed in 2010. There are no contractual obligations restricting the company's choice of external auditor. PwC provide the committee with a letter of independence, which is regularly updated and considered by the committee.

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

GOVERNANCE
RISK MANAGEMENT AND INTERNAL CONTROL

The committee has adopted a policy on the appointment of staff from the auditors 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.

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

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

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

The group maintains an active relationship with at least two other professional accounting advisers. The nature and cost of all non-audit work awarded to the group's external auditors for the period since the last meeting and for the year-to-date is reported to each meeting of the audit committee, together with an explanation as to why the auditors were the preferred supplier.

No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the auditors without the prior approval of the chairman of the audit committee and such approval is only given in exceptional circumstances. The chairman of the audit committee must approve in advance any single award of non-audit work with an aggregate cost of £250,000 or more. The auditors may not perform internal audit work.

In 2011, the committee regularly considered a schedule of audit and non-audit work carried out by PwC for the group. 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 for non-audit work during the year amounted to £60,000, comprising further assurance services, tax advisory services and other services. No tax compliance services or acquisition related services (either statutory or non-statutory) were provided by the auditors during 2011.

The committee formally considered its effectiveness in 2011. On the basis of the board and committee evaluations undertaken, the overall view was that the committee was working effectively. It was nevertheless agreed that it would be beneficial to allocate more time for the committee meetings around the interim and full year results and from 2012 it has been agreed to hold additional meetings in both February and July in addition to the usual meetings in those months.

RISK ADVISORY COMMITTEE
Members:
Rob Anderson (Chairman)
Andrew Fisher
Robert Hough
Manjit Wolstenholme

Attendees by invitation:
Peter Crook
Chris Gillespie
Alister Turnbull (Head of Audit & Risk)
Gary Thompson (Group Financial Controller)

The group's risk management framework is overseen by the risk advisory committee on behalf of the board. The committee's function is to keep under review the group's risk management framework, and to report to the board on its work. It reviews the group and divisional key risk registers, considers the most important risks facing the group and is responsible for reviewing the group's Internal Capital Adequacy Assessment Process (ICAAP) prior to submission to the board.

The risk advisory committee delegates a number of responsibilities to the risk advisory group which comprises the executive directors, the Company Secretary, the Group Financial Controller and the Head of Audit & Risk. 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 four times a year, challenging and making changes where appropriate. It submits a schedule of key risks, the group and divisional key risk registers and the ICAAP to the risk advisory committee for review and approval.

Throughout 2011, the risk advisory committee has overseen the continuing enhancement and embedding of the risk management framework across the group. Improved reporting to an agreed risk appetite framework, complemented by focus on the key risks facing the group and, as required, detailed reporting on specific risks allows effective risk monitoring and oversight by the committee and board.

The committee formally considered its effectiveness in 2011. On the basis of the board and committee evaluation undertaken, the overall view was that it was working effectively.

Approved by the board on 28 February 2012 and signed by order of the board.

Kenneth J Mullen
General Counsel and Company Secretary
28 February 2012

GOVERNANCE RISKS

Set out below is a summary of the group's key risks together with the controls and procedures in place to mitigate the risks. The summary is not intended to be an exhaustive or prioritised list of risks facing the group or a complete list of mitigating controls and procedures.

RISK	DESCRIPTION	MITIGATION	PROGRESS IN 2011
REGULATORY RISK	**The risk of loss arising from a breach of existing regulation or regulatory changes in the markets within which the group operates.** Increased focus on regulation particularly non-standard lenders. HMT/BIS have commissioned research into a cap on the total cost of credit, the results of which are expected in mid-2012.	• A central in-house legal team is in place which monitors legislative changes and supports divisional compliance functions. • Expert third party legal advice is taken where necessary. • Divisional compliance functions are in place which monitor compliance and report to divisional boards. • There is constructive dialogue with regulators. • Full and active participation in all relevant regulatory review and consultation processes in the UK and EU.	• The group has implemented the changes following the introduction of the EU's Consumer Credit Directive. • The activity of regulators both in the EU and UK continues to be monitored.
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 although demonstrate greater stability if properly managed. Pressure on customers' incomes and increased levels of unemployment and under-employment.	• The Consumer Credit Division (CCD) and Vanquis Bank credit committees set policy and 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. • CCD – Home Credit loans are underwritten face-to-face by agents in the customer's home; agents maintain weekly contact with the customer and stay up to date with their circumstances; agents' commission is almost entirely based on collections not credit issued; application and behavioural scoring is used to assist agents' underwriting; Home Credit issues short-term, small-sum loans, with average issue values of between £300 and £500 typically repayable over a year. • Vanquis Bank – uses highly bespoke underwriting including full external bureau data; a telephone interview 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.	• CCD tightened the underwriting criteria for both new and existing customers during 2011 and has enhanced its arrears management processes during the year. • Vanquis Bank continues to maintain tight underwriting controls for new accounts and credit line increases following progressive tightening between 2007 and mid-2009 in light of economic conditions. • Both CCD and Vanquis Bank have improved their impairment performance in 2011.
BUSINESS RISK	**The risk of loss arising from the failure of the group's strategy or management actions over the planning horizon.** Continued pressure on customers' incomes from rises in fuel, food and utility costs and a protracted period of weak or negative growth in the UK economy could impact the demand for credit, impairments and the group's growth plans.	• A clear group strategy is in place. • A board strategy and planning conference is held annually. • Central resource is in place to develop 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 many cycles including the deterioration seen in the UK economy and employment market during 2008 and 2009.	• There is minimal active competition in the non-standard market and Vanquis Bank continues to grow strongly despite the application of tight credit standards. • Measures taken to improve arrears management and bolster credit quality in CCD are proving to be the right approach in the current economic environment. • Initiatives are in place to improve operational efficiency in CCD in 2012. • Opportunities to utilise the Vanquis Bank platform to increase revenues will be explored.

GOVERNANCE RISKS

RISK	DESCRIPTION	MITIGATION	PROGRESS IN 2011
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 currently significant media interest in the non-standard sector primarily focussed on the activities of the fast growing payday lending industry.	• Credit and collection policies are designed to ensure that both businesses adhere to responsible lending principles. • A Compliance Committee oversees the application of the FSA's treating customers fairly regime in Vanquis Bank. • Regular customer satisfaction surveys are undertaken in both businesses. • The group invests in a centrally coordinated community programme. • Specialist in-house teams, external advisers 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. • 130 year old Home Credit business is well understood and has been subject to regular regulator review and scrutiny.	• Customer satisfaction remains high in both CCD (91%) and Vanquis Bank (84%) • Customer complaints remain low in both businesses. • Continued investment and focus on Corporate Responsibility and investment in the community programme. • Achieved maximum score rating and ranked joint first globally amongst financial services companies in the FTSE4Good Index Series which measures the environmental, social and governance ratings of listed companies worldwide.
OPERATIONAL RISK	**The risk of loss resulting from IT systems failure.** Vanquis Bank is reliant on third party IT application and systems providers: • FDI for its core customer credit card platform. • Newcastle Building Society (NBS) for its retail deposit platform. IT systems in Home Credit are hosted by an external third party provider (Node4). IT systems continue to be developed to meet business demands.	• IT is managed in CCD and Vanquis Bank 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. • 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'.	• The group's IT systems are hosted by proven external specialist suppliers and recovery arrangements have been tested during 2011. • Successful migration of the Vanquis Bank core card processing platform during 2011. • Deposit platform successfully developed and implemented with NBS.
	Threats to agent safety make it unsafe to operate home collection. Agents in Home Credit are required to carry cash to operate as agents supporting the issue of credit and collections activities.	• 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.	• 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.
	The risk of loss resulting from loss or abuse of confidential data or systems. Both CCD and Vanquis Bank 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).	• 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.	• Processes surrounding physical security in CCD have been further enhanced. Additional controls 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 is increased following the group's successful performance over recent years.	• Effective recruitment, retention and succession planning strategies are in place. • The group has competitive remuneration and incentive structures. • Effective training, development and communication are in place throughout the group.	• Senior management turnover remained very low in 2011.

RISK	DESCRIPTION	MITIGATION	PROGRESS IN 2011
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.** The wider on-going restriction of credit available from banks and institutional investors continues.	• 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 80% 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 FSA's liquidity guidelines. • There is daily monitoring of actual and expected cashflows.	• The group has continued to make excellent progress in diversifying its funding base. • Headroom on committed facilities of £288m as at 31 December 2011 which, together with the retail deposits programme at Vanquis Bank and the renewal of syndicated bank facilities of £382.5m, is sufficient to meet growth and contractual maturities until May 2015. • Vanquis Bank commenced taking retail deposits in July 2011 and had raised £140m of retail deposits by the end of 2011. The business is on target to achieve funding up to 80% of its receivables with deposits by the end of 2012. • £140m of private placements raised in early 2011, including £100m from M&G. • 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.** HMRC are placing greater emphasis on taxation controls in assessing tax risk and the associated level of scrutiny placed on companies.	• The Group's tax matters are dealt with by an experienced in-house team. Advice is also sought from external advisors for all material transactions. • There is a Board approved tax strategy, which has been shared with HMRC, which is aligned with the group's mission, values and business strategy. The strategy, which sets out the governance of tax, seeks to ensure that key tax risks are dealt with through a rigorous risk management framework, appropriate taxes are paid in each jurisdiction in which the group operates and that the group's reputation as a responsible taxpayer is safeguarded. • There are documented tax systems and controls to support the preparation and submission of the group's tax returns. • Taxation and human resource specialists support the business in ensuring developments are consistent with agent's self-employed status. • There is a self-employed status policy in place which ensures that the relationship between the group and the agents it engages is such that the self-employed status is maintained.	• Full implementation of tax controls and procedures across the group. • CCD has continued to develop the self-employed status of agents policy.
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.	• 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 are invited to join the group's stakeholder pension scheme which carries no investment or mortality risk for the group.	• The group's pension asset stands at £13.5m as at 31 December 2011. • There has been greater emphasis on investment in bonds throughout 2011 to reduce asset volatility.

DIRECTORS' REMUNERATION REPORT

Robert Hough,
Non-executive director

CONTENTS

DEAR SHAREHOLDER

As you will recall from my letter to you in the 2010 Annual Report & Financial Statements, the 2011 remuneration policy was relatively unchanged from 2010, and we therefore decided it was not necessary to consult with our key shareholders at that time.

This year's remuneration report includes a summary of the 2011 policy and details of the proposed 2012 remuneration policy, the main changes of which are as follows:

- we have increased the base salaries of the executive directors by approximately 3.3%, having considered the overall increases awarded across the group;
- for awards to be made in 2012 under the Performance Share Plan (PSP), the Earnings Per Share (EPS) target will be based on absolute growth in EPS rather than growth relative to RPI, which we used for the 2011 awards. The actual target range will remain challenging and stretching and broadly consistent with the range set in 2011 and will be determined by the remuneration committee at the time of grant, taking account of current market expectations, investors' best practice guidance and the ABI Principles of Remuneration;
- for awards to be made in 2012 under the Long Term Incentive Scheme (LTIS), the EPS element of the award (50%) will also be based on an absolute growth in the EPS target. In addition, awards for employees within the Consumer Credit Division (CCD) and Vanquis Bank will be subject to a challenging divisional target rather than group EPS and Total Shareholder Return (TSR) targets as in previous years;
- for awards to be made in 2012 under the LTIS, the performance target range for the TSR element of the award (50%) will change from 10%-15% to 8%-15%, and as a result, the proportion of this element of the award that will vest at the lower end of the threshold will be reduced to 20%; and
- awards to be made under the LTIS from 2012 onwards will be restricted to board members and senior management, with other employees receiving a deferred cash-based incentive subject to a performance target based on a group EPS or divisional financial target, as appropriate.

We decided that it was not necessary to consult with our key shareholders this year on the basis that the 2012 policy remains broadly consistent with our previous consultations, reflects the requirements of the UK Corporate Governance Code (the Code) and contains minimal changes from the 2011 policy which was accepted by shareholders at the AGM in 2011.

During the year, the remuneration committee considered the company's remuneration practices in light of the group's risk management framework to ensure that the proposed policy does not inadvertently promote irresponsible behaviour or encourage undue risk taking. The committee is satisfied that the remuneration policy is consistent with the group's overall approach to risk, but intends to keep the policy under review using the risk management structure and taking account of best practice recommendations.

Robert Hough
Chairman of the remuneration committee

REMUNERATION AT A GLANCE

REMUNERATION COMPONENTS 2011

Director's name	Salary[1] £000	Annual bonus[2] £000	Benefits in kind £000	Performance Share Plan dividends £000	Increase in transfer value of pension benefits accrued £000	Total £000
Peter Crook	622	756	30	122	100	1,630
Andrew Fisher	444	450	38	81	149	1,162
Chris Gillespie	430	235	38	72	95	870

[1] Reflects a salary sacrifice arrangement in respect of the director's contribution to the pension scheme since 1 April 2009, as referred to on page 87.
[2] The annual bonus represents the gross bonus payable to the directors in respect of 2011. Each director has agreed to waive 50% of this gross bonus in order to participate in the Provident Financial Performance Share Plan.

REMUNERATION COMPONENTS 2011 – SUMMARY

FIXED

	Base salary	Pension	Benefits
Objective	To reflect the value, role, experience and skill of the individual	To provide funding for retirement	To provide benefits commensurate with role
Value	To provide appropriate level of basic fixed income avoiding excessive risk arising from over reliance on variable income	Pension credit of 35% of salary per annum which increases at the lower of RPI+1.5% and 6.5%	Life cover six times salary, cost of permanent health insurance, private medical insurance, fully expensed car/cash alternative
Performance target	Not applicable	Not applicable	Not applicable

VARIABLE

	Annual bonus	Performance shares	Conditional share awards
Objective	To incentivise annual delivery of financial and operational goals	To link management interests to the long-term interests of shareholders	To align management's long-term strategic interests with shareholders' interests
Value	Maximum 120% (CEO) and 100% (other executive directors) of basic salary	Based on deferral of up to 50% of annual cash bonus plus matching awards of up to 2 times	Up to 200% of basic salary
Performance target	Based on Group EPS and a divisional financial target (where applicable) (80%), personal objectives (20%)	EPS relative to RPI over a three-year period	Absolute TSR and EPS relative to RPI over a three-year period

DIRECTORS' REMUNERATION REPORT

REMUNERATION EXPLAINED

INTRODUCTION

This directors' remuneration report complies with the Companies Act 2006 (the Companies Act), Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority (FSA). 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 2 May 2012 and sets out the policy for the financial year just ended, for the forthcoming year and, subject to ongoing review, for subsequent years.

THE REMUNERATION COMMITTEE

Members:
Robert Hough (Chairman)
Rob Anderson
Manjit Wolstenholme

Attendees by invitation:
John van Kuffeler
Peter Crook
New Bridge Street (remuneration consultant)

The committee consists of three non-executive directors, each of whom is, in the opinion of the board, independent when assessed against the criteria set out in the Code.

	Remuneration committee meetings
Total number of meetings in 2011	5
Robert Hough (Chairman)	5
Rob Anderson	5
Manjit Wolstenholme	5

Pursuant to its terms of reference, the committee considers and determines, within the framework agreed with the board, the specific remuneration packages and conditions of service of the Chairman, the executive directors and the Company Secretary, including their service agreements. It also monitors the level and structure of the remuneration of the most senior management below board level. No director is involved in determining his/her own remuneration.

Full details of the terms of reference of the committee are available on the company's website.

The committee keeps itself fully informed of developments and best practice in the field of remuneration and it seeks advice from external advisers when it considers it appropriate. The committee has appointed New Bridge Street (a trading name of Aon Corporation) as its remuneration consultant to advise on aspects of executive director and senior management pay, including advice in relation to the 2011 and 2012 remuneration policy. New Bridge Street is a member of the Remuneration Consultants Group and has signed up to its Code of Conduct. Aon Hewitt Limited provides investment advice in respect of the company's UK pension scheme and actuarial services in respect of its Irish pension schemes. The committee has, in addition, been advised by Towers Watson and Herbert Smith LLP in relation to the establishment of an Unfunded Unapproved Retirement Benefits Scheme. Towers Watson provide actuarial and consultancy services in respect of the company's main UK pension scheme. Herbert Smith provide advice to the company on a range of other legal matters affecting the group. The committee is comfortable that none of these relationships have impaired the independence of its advisors due to the internal controls in place and the committee's monitoring of existing cross relationships. The terms of engagement for each advisor are available from the Company Secretary on request. The General Counsel and 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 2011 and provided legal and technical support to the committee.

The Chairman and Chief Executive of the group normally attend meetings of the committee (other than when their own remuneration or any matter relating to them is being considered).

The committee has reviewed and considered the impact of the FSA Remuneration Code (the FSA Code). Whilst the FSA 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 employees who are the Remuneration Code Staff.

Details of the work undertaken by the committee during the year are shown below:

Q1

- 2010 remuneration report.
- 2011 remuneration policy.
- Review of company-wide remuneration and incentive policies and senior management remuneration.
- Review of prior year performance against financial and non-financial objectives in relation to the annual cash bonus scheme.
- Vesting of awards under the Performance Share Plan and Long Term Incentive Scheme.
- Review of the FSA Remuneration Code.
- Review of committee terms of reference.
- Grant of awards under the company's executive share incentive schemes.
- Review of directors' expenses.

Q2

No committee meeting held.

Q3

- Review of executive remuneration landscape.
- Vanquis Bank remuneration committee update.
- Review of impact of pension tax changes.

Q4

- Establishment of an Unfunded Unapproved Retirement Benefits Scheme.
- Remuneration framework risk assessment.
- Establishment of 2012 proposed remuneration policy.
- Review of executive directors' shareholdings.
- Review of performance and effectiveness of the committee.

The committee formally considered its effectiveness in 2011. On the basis of the board and committee evaluation undertaken by means of an online questionnaire in conjunction with Independent Audit Limited, the committee determined that it was operating effectively and that it continued to have the appropriate regard for the key issues within its remit.

REMUNERATION POLICY

The committee considers it very important that there should be an appropriate proportion of fixed and variable pay. The remuneration policy operated by the committee during the year and, subject to ongoing review by the committee, to be applied for the following financial year and for future financial years, is based on the need to attract, reward, motivate and retain executive directors in a manner consistent with the long-term accumulation of value for shareholders and achievement of the company's strategic objectives. The committee is cognisant of the need to maintain a clear link between the overall reward policy and specific company performance which is aligned to the business strategy both in the short and long term. Performance conditions and targets for variable incentives are chosen to incentivise and reward for performance, taking account of the strategy and KPIs outlined in the Business Review. The policy of the committee is to pay remuneration which is competitive, with a significant proportion dependent on risk assessed performance targets. The committee regularly reviews the remuneration framework in the context of the group's risk management structure to ensure it does not inadvertently promote irresponsible behaviour.

The committee has access to both the audit committee and the risk advisory committee to assist with the monitoring and assessment of risk management with regards 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 cash bonus 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 directors and senior management.

The committee takes due account of remuneration structures elsewhere in the company when setting pay for the executive directors, including consideration of the group-wide salary increases which have been budgeted and the incentive structures that operate across the company.

EXECUTIVE DIRECTORS

The executive directors' remuneration consists of a basic salary, an annual cash bonus (subject to performance conditions) and other benefits, including participation in the company's pension arrangements. Additionally, they may participate in the company's various share incentive schemes, including:

- a performance share plan (which necessitates the waiver of a minimum of 25% of the annual cash bonus award up to a maximum of 50%), which is subject to performance conditions;
- a long term incentive scheme, which is subject to performance conditions; and
- an employee savings-related share option scheme which is not subject to performance conditions (executive directors participate on the same terms as other eligible employees of the group).

The remuneration policy is designed to ensure that a significant proportion of the executive directors' remuneration is linked to performance, through the operation of the annual cash bonus scheme and the share incentive schemes. For 2011, variable remuneration accounted for approximately two-thirds of the fair value of executive remuneration (excluding pension), a policy which the committee considers appropriate.

The committee normally reviews the executive directors' salary levels annually. This review takes into account individual performance, experience and market competitiveness. In 2011, the executive directors received an increase which was broadly in line with the wider workforce.

NON-EXECUTIVE DIRECTORS

The fees for the non-executive directors, other than the Chairman, are fixed by the board and 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 in 2011 and details of their benefits with 2010 comparative figures, are set out in the table of directors' remuneration on page 84. The non-executive directors' remuneration does not include share options or other performance related elements. Reflecting the increased time commitment and the changing regulatory environment within which the group operates and on the basis of a benchmarking exercise, the non-executive directors' fees were increased by £10,000 in 2011.

CHAIRMAN

The fees for the Chairman are fixed by the committee. Full details of the Chairman's fees in 2011, with 2010 comparative figures, are set out in the table of directors' remuneration on page 84. Reflecting the wider economic environment and on the basis of a benchmarking exercise, the Chairman's fees were not increased in 2011.

SENIOR MANAGEMENT REMUNERATION

The committee also considers the remuneration structure and level of pay for the most senior level of management within the group, including an annual cash bonus and participation in the company's executive share incentive schemes.

SALARY

At its meeting in December 2011 the committee, having considered the company's strong financial performance and each individual's personal performance, agreed to increase the executive directors' salaries in 2012. These increases are consistent with the average percentage increases awarded across the group.

Proposed 2012 salaries are as follows:

Director's name	% increase	£
Peter Crook	3.3	650,000
Andrew Fisher	3.4	465,000
Chris Gillespie	3.6	450,000

CASH BONUSES

An annual cash bonus is payable, subject to the satisfaction of performance conditions. The bonus is calculated as a percentage of salary and does not form part of pensionable earnings. The purpose of the bonus scheme is to provide a meaningful cash incentive for executive directors which is clearly focused on improving the company's performance through the achievement of certain financial and operational goals and aligns, so far as is practicable, shareholder and executive director interests.

DIRECTORS' REMUNERATION REPORT

Executive directors are eligible for an annual cash bonus by reference to the group's audited EPS (as defined in the bonus scheme) and a divisional financial target (in the case of Chris Gillespie) (maximum 40%) which cannot exceed 80% of the maximum bonus opportunity, and achievement of specific personal objectives, which cannot exceed 20% of the maximum bonus opportunity. Typical personal objectives in 2011 included:

- strategic development
- funding
- external and investor relations
- regulatory compliance

Upon the occurrence of any event or events as a result of which the committee, in its absolute discretion, considers it fair and reasonable to do so (such as material changes in accounting standards or material changes in the group structure), the committee may change the EPS target, provided that any such change does not make the EPS target more or less onerous than it was before the event in question. The committee carries out a detailed review of the computations undertaken in determining the group's EPS and ensures that the rules are applied consistently. The company's auditors are asked to perform agreed-upon procedures on behalf of the committee on the EPS calculations.

The maximum bonus opportunity in respect of 2011 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%	40%
Divisional financial target	–	–	40%
Personal objectives	20%	20%	20%

EPS is the key internal measure of financial performance as it is the broadest measure of the group's financial performance and is aligned to the shareholder base which is weighted towards longer-term income investors.

The actual proportions of the 2011 group EPS that needed to be delivered, which the committee considered to be challenging, were as follows:

	Threshold	Target	Maximum
Group EPS	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.

For 2011, the personal objectives percentage of the annual cash bonus entitlement only became payable if 95% of the 2011 targeted group EPS was achieved. Personal objectives are set to reflect the roles and responsibility of each executive director.

At its meeting in February 2012, the committee assessed the group's performance against the targeted group EPS and determined that 100% of the EPS element of the 2011 annual cash bonus would be paid.

The committee also considered, on a similar basis, the divisional financial target set for Chris Gillespie, and determined that none of this element of his bonus was payable.

The balance of the annual cash bonus, as detailed in the table of directors' remuneration on page 84, was paid on the basis of the committee's assessment of the extent to which the personal objectives for each director had been achieved. The range of bonus payable as a percentage of salary in relation to 2011 was therefore 54% to 120%.

For 2012, the maximum bonus opportunity will continue to be restricted to 120% of salary for the Chief Executive and 100% of salary for the other executive directors, with the split between the two measures (three measures in relation to Chris Gillespie) remaining unchanged from 2011. The personal objectives element of the plan will continue to be underpinned by a threshold level of EPS performance.

SHARE INCENTIVE SCHEMES

The grant of awards under the executive share incentive schemes to executive directors and senior management is normally considered once in each year after the preliminary announcement of the group's results, in accordance with a formula determined by reference to salary. The company has three operational schemes: the Provident Financial Executive Share Option Scheme 2006 (the ESOS), the Provident Financial Long Term Incentive Scheme 2006 (the LTIS) and the Provident Financial Performance Share Plan (the PSP). The committee regularly reviews the long-term incentives for the executive directors and senior management, and has decided to continue to make conditional share awards to executive directors and senior management under the LTIS and awards under the PSP. This policy is in line with prevailing market practice and recognises that conditional share awards, and the deferral of annual bonus in the case of the PSP, provide greater alignment with shareholders' interests.

LTIS

Participation is currently limited to executive directors, certain members of senior management and other employees by invitation. The committee can grant conditional share awards pursuant to the LTIS up to a maximum of 200% of a participant's basic salary. Executive directors received maximum grants during 2011.

The performance targets for awards under the LTIS in 2011 were based on challenging EPS targets (50%) and on absolute Total Shareholder Return (TSR) targets (50%). In addition, no awards will vest unless the committee is satisfied that the TSR performance is a genuine reflection of the underlying business performance. There is no re-testing should performance targets not be met at the end of the three-year performance period.

The actual range of the EPS targets for awards in 2011 was as follows:

Annualised growth in EPS	Percentage vesting (of EPS part of award)
Below RPI + 3%	0%
RPI + 3%	25%
RPI + 8%	100%

The actual range of the TSR targets for awards in 2011 was as follows:

Annualised TSR	Percentage vesting (of TSR part of award)
Below 10%	0%
10%	25%
15%	100%

A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper EPS and TSR targets.

EPS and TSR are felt to provide an appropriate balance between internal and external performance measures. EPS is the key internal measure of financial performance as it is the broadest measure of the group's financial performance and is aligned to the shareholder base which is weighted towards longer-term income investors. With regards to TSR, delivering superior returns to shareholders remains the company's key, overarching, long-term objective.

The committee again reviewed the way in which TSR is measured. While some investors may have a preference for relative TSR, the committee continues to believe that absolute TSR is a more appropriate performance measure as there are doubts as to the suitability of the FTSE 250 as an appropriate benchmark for the company (this being the reason for the change to absolute TSR in 2009) and the general financial sector is a diverse group of companies, none of which is considered to be directly comparable to the company and many of which continue to experience above-average historic levels of volatility. However, the committee will continue to keep the appropriateness of this measure under review.

In terms of the degree of stretch in the target ranges for 2011, the committee believes that the EPS range is demanding and the TSR target range of 10% to 15% (which is designed to be equivalent to median to upper quartile relative TSR performance) is challenging given the economic uncertainty.

The targets are reviewed annually prior to a grant being made to ensure that they remain challenging in the prevailing economic environment.

For awards to be made in 2012, it is proposed to change the EPS element of the performance target under the LTIS to an absolute target, due to the recent volatility in the level of inflation potentially reducing the incentive impact of the LTIS. The proposed range for this absolute target will remain stretching and no less challenging relative to the targets set in 2011. However, the specific range of targets for 2012 will be determined by the committee at the time of grant of the awards, taking account of current market expectations, investors' best practice guidance and the ABI Principles of Remuneration. It is also proposed to change the range of targets and threshold entitlement for the TSR element of the LTIS awards in 2012. 20% of the TSR element of the award, as opposed to 25%, will vest if an annualised TSR of 8% is achieved and 100% of the TSR element of the award will continue to vest if annualised TSR of 15% is achieved, with vesting on a straight line vesting between these targets. The committee believes the revised range of targets set, allied to the lower proportion of the award vesting at the threshold performance level, to be no less challenging than the TSR performance condition operated in prior years. The performance condition is considered to provide a realistic but stretching target and will be the subject of review on an annual basis for future awards to ensure the range of targets set and the associated vesting percentages remain appropriate. The targets set will be disclosed in next year's directors' remuneration report and are not anticipated as being any less challenging, in the opinion of the committee, than those previously operated given the circumstances prevailing at the time of setting the targets.

It is also proposed that awards made under the LTIS from 2012 onwards will be restricted to board members and senior management, with other employees receiving a deferred cash-based incentive which will be subject to a performance target based on group EPS or a divisional financial target, as appropriate. Annual awards will continue to be capped at 200% of salary.

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.

Details of share subscriptions made by the EBT for the purposes of satisfying awards made under the LTIS during the course of the year are shown on page 85.

ESOS

The ESOS contains both an HMRC approved and unapproved section. Exercise of options is subject to a performance target and annual grants are ordinarily capped at 100% of salary, and at 200% in exceptional circumstances. No options are outstanding for the executive directors. The committee does not currently intend to make further grants to executive directors under the ESOS.

DIRECTORS' REMUNERATION REPORT

PSP

Participation in the PSP includes executive directors who may elect to waive up to 50% (with a minimum of 25%) of their annual cash bonus, and other eligible employees who may waive up to 50% or 30%, depending on their level of seniority, of their annual cash bonus for a period of three years. Participants then receive 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. Following shareholder approval at the AGM in 2009, awards to executive directors have been 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 made in 2011, the first matching share granted on the basis of one share for each share acquired pursuant to the basic award will only vest in full if the company's average annual percentage growth in earnings per share 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 share is subject to a more stretching performance target and will only vest in full if the company's average annual percentage growth in earnings per share 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) will apply between these lower and upper targets.

In summary, the actual range of targets is as follows:

Average annual percentage growth in EPS	Matching shares vesting
Below RPI + 3%	No vesting
RPI + 3%	One matching share
RPI + 8%	Two matching shares

For awards to be made in 2012, it is proposed to change the performance target under the PSP to an absolute EPS target, due to the recent volatility in the level of inflation potentially reducing the incentive impact of the PSP. The proposed range for this absolute target will remain stretching and no less challenging relative to the targets set in 2011. However, the specific range of targets in 2012 will be determined by the committee at the time of grant of the awards, taking account of current market expectations, investors' best practice guidance and the ABI Principles of Remuneration. The targets set will be disclosed in next year's directors' remuneration report and are not anticipated as being any less challenging, in the opinion of the committee, than those previously operated given the circumstances prevailing at the time of setting the targets.

DEFERRED BONUS

Separate to the annual cash bonus scheme referred to on pages 79 to 80, Peter Crook, Andrew Fisher and Chris Gillespie received an additional one-off bonus in respect of the company's performance during 2008 valued at £200,000, £150,000 and £140,000 respectively. These bonuses have taken the form of an award of ordinary shares in the company which have been acquired by the trustee of the EBT, who holds the legal title to the shares until they vest in March 2012. These shares are not subject to any performance conditions and will vest if the director is still employed by the group in March 2012. An amount equal to the dividends that would have been paid on these shares will also be payable in the form of additional ordinary shares in March 2012. The committee believed that a deferred bonus satisfied with shares in the company in the manner set out aligned the interests of the executive directors with those of shareholders, recognised the company's exceptional performance in 2008 and reflected the need for such performance to be sustained in the medium term.

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 remuneration 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 temporary removal of the 5% anti-dilution limit from the LTIS rules was passed at the company's 2008 annual general meeting (the 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 remuneration 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	2011 %	2010 %
All employee share schemes	1.60%	1.78%
Shares held in trust	2.83%	3.05%

ACHIEVEMENT OF PERFORMANCE TARGETS

Assessment of the achievement of the performance targets under the company's executive share incentive schemes is calculated by the company, and confirmed by PricewaterhouseCoopers LLP (for the PSP) or New Bridge Street (for the LTIS) and approved by the committee. Further details can be found on pages 85 and 86.

	Date of contract/ letter of appointment	Notice period	Unexpired term
Executive directors			
Peter Crook	27 April 2006	Terminable on 12 months' notice by either party	One year
Andrew Fisher	1 January 2008	Terminable on 12 months' notice by either party	One year
Chris Gillespie	31 May 2007	Terminable on 12 months' notice by either party	One year
Non-executive directors			
John van Kuffeler	29 January 2002	Terminable on 12 months' notice by the company and six months' notice by John van Kuffeler	One year
Rob Anderson	27 February 2009	Not applicable	to 30 March 2015
Robert Hough	18 October 2006	Not applicable	to 31 January 2013
Manjit Wolstenholme	1 June 2007	Not applicable	to 31 July 2013

SERVICE AGREEMENTS

The current policy is for executive directors' service agreements to provide for both the company and the director to give one year's notice of termination. No director has a service agreement containing a liquidated damages clause on termination. In the event of the termination of an agreement, 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. Any awards under the company's executive share incentive schemes would be treated in accordance with the rules of the relevant scheme.

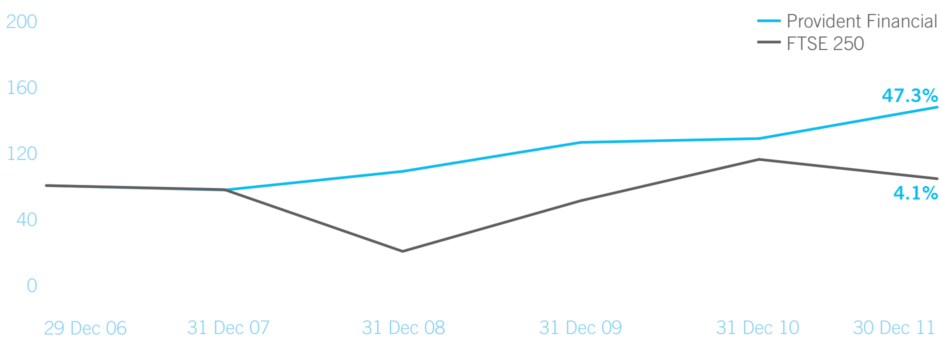
All directors will seek reappointment at the forthcoming AGM and details of their service agreement or letter of appointment are set out in the table above.

SAVINGS-RELATED SHARE OPTION SCHEME

The executive directors (together with other eligible group employees) may participate in the Provident Financial plc Employee Savings-Related Share Option Scheme (2003). Participants save a fixed sum each month for three or five years and may use these funds to purchase shares after three, five or seven 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. Up to £250 can be saved each month.

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 2011.

TOTAL SHAREHOLDER RETURN: PROVIDENT FINANCIAL vs. FTSE 250



Source: Thomson DataStream
Note: Final trading day for 2011 was 30 December 2011

The graph above 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.

OTHER BENEFITS

The executive directors are provided with company-owned cars and fuel (or a cash alternative), long-term disability cover under the company's permanent health insurance policy and medical cover for them and their immediate families. Benefits in kind are not pensionable.

SHARE OWNERSHIP POLICY

The company has a share ownership policy for executive directors which requires them to acquire and maintain shares in the company with a value of one times their annual 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 this policy 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 policy, shares held by a spouse, dependant, or in an ISA or pension scheme are included, whilst unvested LTIS awards and awards granted under the PSP are not.

All three executive directors complied with this policy as at 31 December 2011:

Director	Actual share ownership as a percentage of salary
Peter Crook	124%
Andrew Fisher	113%
Chris Gillespie	101%

FEES FROM DIRECTORSHIPS

The company will normally permit an executive director to hold one non-executive directorship and to retain the fee from that appointment, provided that the board considers that this will not adversely affect his executive responsibilities.

At present, the executive directors do not hold any external positions.

DIRECTORS' REMUNERATION REPORT

REMUNERATION IN DETAIL

DIRECTORS' REMUNERATION

There were no appointments to, or resignations from, the board during 2011. The aggregate directors' emoluments during the year amounted to £3,829,000 (2010: £3,472,000) analysed as follows:

Director's name	Salary[1] £000	Annual[2] cash bonus £000	Benefits in kind £000	Performance Share Plan dividends £000	2011 Total £000	2010 Total £000
Executive directors						
Peter Crook	622	756	30	122	1,530	1,304
Andrew Fisher	444	450	38	81	1,013	879
Chris Gillespie	430	235	38	72	775	786
Total	1,496	1,441	106	275	3,318	2,969

Director's name	Fees £000	Annual cash bonus £000	Benefits in kind £000	Performance Share Plan dividends £000	2011 Total £000	2010 Total £000
Chairman						
John van Kuffeler	265[3]	–	35	–	300	308
Non-executive directors						
Rob Anderson	68	–	3	–	71	63
Manjit Wolstenholme	68	–	1	–	69	65
Robert Hough	68	–	3	–	71	67
	469	–	42	–	511	503
Total	1,965	1,441	148	275	3,829	3,472

1 Reflects a salary sacrifice arrangement in respect of the director's contribution to the pension scheme since 1 April 2009 as follows: Peter Crook £8,000; Andrew Fisher £6,000; Chris Gillespie £5,000.

2 The annual bonus represents the gross bonus payable to the directors in respect of 2011. Each director has agreed to waive 50% of this gross bonus in order to participate in the Provident Financial Performance Share Plan.

3 £25,000 of this fee is paid to Mr van Kuffeler's service company, Parchester Limited.

LONG TERM INCENTIVE SCHEME

Directors' conditional share awards at 31 December 2011 were as follows:

Director's name	Date of award	Awards held at 01.01.2011	Awards granted during the year	Awards vested during the year[1]	Awards held at 31.12.2011	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	05.03.2008	95,149	–	62,788	–	804.0	975.91	07.03.2011
	08.05.2009	136,771	–	–	136,771	892.0		08.05.2012
	12.04.2010	140,552	–	–	140,552	868.0		12.04.2013
	04.03.2011	–	132,283	–	132,283	952.5		04.03.2014
Andrew Fisher	05.03.2008	69,962	–	46,167	–	804.0	975.91	07.03.2011
	08.05.2009	97,533	–	–	97,533	892.0		08.05.2012
	12.04.2010	100,230	–	–	100,230	868.0		12.04.2013
	04.03.2011	–	94,488	–	94,488	952.5		04.03.2014
Chris Gillespie	05.03.2008	67,164	–	44,321	–	804.0	975.91	07.03.2011
	08.05.2009	94,170	–	–	94,170	892.0		08.05.2012
	12.04.2010	96,774	–	–	96,774	868.0		12.04.2013
	04.03.2011	–	91,338	–	91,338	952.5		04.03.2014

1 Dividend shares on awards vesting in 2011 were also received as follows:
Peter Crook 12,255 shares; Andrew Fisher 9,011 shares; Chris Gillespie 8,650 shares.

The mid-market closing price of the company's shares on 30 December 2011 was 941p. The range during 2011 was 862.5p to 1124p. No consideration is payable on the award of conditional shares.

There were no changes in directors' conditional share awards between 1 January 2012 and 28 February 2012.

None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

Kleinwort Benson (Jersey) Trustees Limited, as trustee of the EBT, subscribed for 884,129 ordinary shares in March 2011 for the purpose of satisfying the 2011 awards made pursuant to the LTIS. The trustee transferred the beneficial ownership (subject to the performance conditions set out on this page) in 318,109 of the shares for no consideration to the executive directors on 1 April 2011. The trustee has entered into a dividend waiver in respect of all the shares it holds in the company at any time.

The executive directors have waived an entitlement to any dividend in respect of the conditional shares during the vesting period. To the extent an award vests at the end of the performance period, 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 when the award vests.

The 2008 conditional share awards required the annualised company TSR over a consecutive three-year performance period, to be at least equal to the annualised Index TSR (being the FTSE 250 Index) for 25% of the award to vest, rising on a straight-line basis, with full vesting if the annualised company TSR exceeded the annualised Index TSR, by 8.5% on a multiplicative basis. No award would have vested if the annualised company TSR was below the annualised Index TSR. The assessment of the extent to which this performance condition was met for the conditional share awards granted in 2008 was discussed by the committee at its meeting in March 2011, with assistance from New Bridge Street. The annualised company TSR of 12.9% did not exceed the annualised Index TSR by more than 8.5% and the committee therefore approved vesting to the extent of 65.99% of the 2008 awards, having satisfied itself that the TSR performance was a genuine reflection of the underlying business performance.

The 2009, 2010 and 2011 conditional share awards require the company's annualised growth in earnings per share to be equal to or greater than the annualised growth in RPI plus 8% over a period of three consecutive financial years, the first of which is the financial year starting immediately before the date of grant, for 50% of the award to vest (12.5% of the award will vest if the company's annualised growth in earnings per share over a period of three consecutive financial years is equal to the annualised growth in RPI plus 3%, with vesting on a straight-line basis in between these levels). No award will vest if the company's annualised growth in earnings per share is below RPI plus 3% over the performance period. The remaining 50% of the award vests if the company's annualised TSR is at least 15% measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the date of grant, (12.5% of the award will vest if the company's annualised TSR is at least 10% measured over a period of three consecutive financial years, with vesting on a straight-line basis in between these two levels). No award will vest if the company's annualised TSR is below 10% over the performance period.

The assessment of the extent to which the 2009 performance targets have been met will be considered by the committee at the date of vesting.

DIRECTORS' REMUNERATION REPORT

PERFORMANCE SHARE PLAN

Awards held under the Provident Financial Performance Share Plan are as follows:

Director's name	Date of grant	Basic awards (number of shares) held at 01.01.2011	Matching awards (number of shares) held at 01.01.2011	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 31.12.2011	Total matching awards (number of shares) held at 31.12.2011	Market price of each share when award was granted (p)	Market price of each share at date of vesting (p)	Vesting date
Peter Crook	05.03.2008	24,539	24,539	24,539	24,539	–	–	804	970.44	05.03.2011
	04.03.2009	31,755	31,755	–	–	31,755	31,755	803		04.03.2012
	08.05.2009[1]	–	31,755	–	–	–	31,755	803		08.05.2012
	04.03.2011	–	–	–	–	31,216	62,432	952.5		04.03.2014
Andrew Fisher	05.03.2008	21,579	21,579	21,579	21,579	–	–	804	970.44	05.03.2011
	04.03.2009	23,349	23,349	–	–	23,349	23,349	803		04.03.2012
	08.05.2009[1]	–	23,349	–	–	–	23,349	803		08.05.2012
	04.03.2011	–	–	–	–	18,094	36,188	952.5		04.03.2014
Chris Gillespie	05.03.2008	21,144	21,144	21,144	21,144	–	–	804	970.44	05.03.2011
	04.03.2009	22,415	22,415	–	–	22,415	22,415	803		04.03.2012
	08.05.2009[1]	–	22,415	–	–	–	22,415	803		08.05.2012
	04.03.2011	–	–	–	–	14,742	29,484	952.5		04.03.2014

[1] Additional matching award granted following the AGM in May 2009.

There are no performance conditions attaching to the basic award. For awards granted in 2008, the matching award vested if the company's average annual percentage growth in earnings per share was equal to, or greater than, the average annual increase in RPI plus 3% measured over a period of three consecutive financial years, the first of which was the financial year starting immediately before the grant date of the matching award. The assessment of the extent to which this performance condition was met for the matching awards granted in 2008 was discussed by the committee at its meeting in February 2011, with assistance from PricewaterhouseCoopers LLP. The average annual growth in EPS over the three-year period was 16%, and the average annual growth in RPI over the same period was 2.7%. The committee agreed that the performance target had therefore been met and that the matching awards should vest in full.

For awards granted in 2009 and 2011, the first matching share granted on the basis of one share for each share acquired pursuant to the basic award will only vest in full if the company's average annual percentage growth in earnings per share 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 will only vest in full if the company's average annual percentage growth in earnings per share 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) will apply between these lower and upper targets.

The dividends payable on the basic and matching award shares are paid to the directors. The dividends received in 2011 were: Peter Crook £122,416 (2010: £91,658), Andrew Fisher £80,565 (2010: £71,885), and Chris Gillespie £72,233 (2010: £69,553). These figures have been included in the table of directors' remuneration on page 84.

In respect of the awards granted in 2009, the average annual growth in EPS over the performance period was 8.8% and the average annual growth in RPI over the same period was 3.5%. This level of growth fell between the threshold target of RPI + 3% p.a. and the maximum target of RPI + 8% p.a., resulting in 78.8% of the matching awards vesting.

SHARE OPTION SCHEMES

Directors' share options at 31 December 2011, granted under the Provident Financial plc Employee Savings-Related Share Option Scheme (2003) were as follows:

Director's name	Options held at 01.01.2011	Granted in 2011	Exercised in 2011	Options held at 31.12.2011	Exercise price (p)	Market value at date of exercise (p)	Range of normal exercisable dates of options held at 31.12.2011
Peter Crook	3,335	–	3,335	–	491	994	–
	–	1,777	–	1,777	868		01.12.2016-31.05.2017
Andrew Fisher	1,340	–	1,340	–	716	1,008	–
	1,359	–	–	1,359	662		01.12.2013-31.05.2014
Chris Gillespie	–	–	–	–			
Total	6,034	1,777	4,675	3,136			

No consideration is payable on the grant of an option.

Peter Crook had the highest notional gain (representing the difference between the exercise price and the market price of the shares at the date of exercise) on the exercise of share options, which amounted to £16,775.06 (2010: £nil).

The aggregate notional gain (representing the difference between the exercise price and the market price of the shares at the date of exercise) made by all the directors on the exercise of share options during 2011 amounted to £20,687.85 (2010: £nil)

There were no changes in directors' share options between 1 January 2012 and 28 February 2012.

None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

CLAWBACK

In accordance with the recommendations within the Code and other best practice guidance, the committee carefully considered the merits of introducing a clawback provision into the annual cash bonus scheme, the LTIS and the PSP. Having consulted with New Bridge Street, the committee decided that clawback provisions would be introduced for all awards under the annual cash bonus scheme, LTIS and PSP from December 2010, and would be applicable in the following circumstances:

(i) if there is a material prior period error requiring restatement of the group accounts in accordance with IAS 8 and such error resulted either directly or indirectly in any bonus being paid or any award under the LTIS or PSP vesting to a greater degree than would have been the case had that error not been made; and/or

(ii) if the committee forms the view that an error was made in assessing the extent to which any performance target and/or any other condition imposed on any bonus or award under the LTIS or PSP was satisfied and that such error resulted either directly or indirectly in any bonus being paid or any award under the LTIS or PSP vesting to a greater degree than would have been the case had that error not been made.

PENSIONS AND LIFE ASSURANCE

There are three directors (2010: three) for whom retirement benefits are accruing under the cash balance section of the Provident Financial Staff Pension Scheme (the pension scheme). The pension scheme is a defined benefit scheme, with two sections: cash balance and final salary.

Peter Crook, Andrew Fisher and Chris Gillespie are members of the cash balance section of the pension scheme and for the period were provided with a pension credit of 35% of their basic salary up to 31 March and 30% thereafter, subject to the Reduced Annual Allowance referred to on page 88. Directors contributed at the rate of 5% of basic salary through a salary sacrifice arrangement from 1 April 2009 to 31 March 2011. Currently, the pension 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 88.

John van Kuffeler has a defined contribution personal pension arrangement. A life assurance benefit of four times his fees is also provided by the company through its Group Life Scheme in the event he dies in service. During 2011, the company contributed £29,900 (2010: £29,900) to his pension arrangements.

DIRECTORS' REMUNERATION REPORT

Details of the pension entitlements earned under the cash balance section of the pension scheme are set out below:

	Age as at 31 December 2011	Accrued retirement account at 31 December 2011 £000	Accrued retirement account at 31 December 2010 £000	Increase in retirement account[1] 2011 £000	Increase in retirement account[1] 2010 £000	Directors' contribution[2] 2011 £000	Directors' contribution[2] 2010 £000	Transfer value of pension benefits accrued at 31 December 2011 £000	Transfer value of pension benefits accrued at 31 December 2010 £000	Increase in transfer value less directors' contributions £000
Peter Crook	48	959	859	100	214	–	–	959	859	100
Andrew Fisher	53	800	651	149	153	–	–	800	651	149
Chris Gillespie	48	596	501	95	147	–	–	596	501	95

1 Whilst the member is in service, the accrued cash balance retirement account will increase by the lower of RPI plus 1.5% and 6.5% until retirement. At retirement, up to 25% of this balance can be taken as a lump sum, with the remaining amount used to purchase an annuity.

2 With effect from 1 April 2011 the directors ceased to pay contributions resulting in a reduction in the pension credit to 30%. This was further restricted to the level of the Reduced Annual Allowance.

UNFUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME

In December 2011, the company established an Unfunded Unapproved Retirement Benefits Scheme (UURBS) to provide cash balance benefits to those employees affected by the Reduced Annual Allowance introduced by the Finance Act 2011, 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. A further option is for directors to receive a cash supplement in lieu of the benefits payable in excess of the £50,000 limit. Benefits paid to the directors through the UURBS (for Peter Crook and Andrew Fisher) and through an alternative cash supplement (for Chris Gillespie) are shown in the table opposite.

Details of the UURBS benefits accrued are set out below:

	Accrued UURBS benefit 2011 £000	Cash supplement 2011 £000
Peter Crook	174	–
Andrew Fisher	52	–
Chris Gillespie	–	85

AUDIT

The elements of the directors' remuneration (including pension entitlements and share options set out on pages 84 to 88 of this report) which are required to be audited, have been audited in accordance with the Companies Act.

This report has been approved by the remuneration committee and the board and signed on its behalf.

Robert Hough
Chairman, remuneration committee
28 February 2012

FINANCIAL STATEMENTS

The group's accounting policies are chosen by the directors to ensure that the financial statements present a true and fair view. All of the group's accounting policies are consistent with the requirements of International Financial Reporting Standards, interpretations issued by the International Financial Reporting Interpretations Committee and UK company law.

Contents

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December	Note	Group 2011 £m	Group 2010 £m
Revenue	1,2	910.8	866.4
Finance costs	3	(69.6)	(69.7)
Operating costs		(450.1)	(440.6)
Administrative costs		(229.0)	(214.1)
Administrative costs before exceptional costs		(229.0)	(211.6)
Exceptional costs	1	–	(2.5)
Total costs		(748.7)	(724.4)
Profit before taxation	1,4	162.1	142.0
Profit before taxation and exceptional costs	1,4	162.1	144.5
Exceptional costs	1	–	(2.5)
Tax charge	5	(42.3)	(40.5)
Profit for the year attributable to equity shareholders		119.8	101.5

All of the above activities relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Group 2011 £m	Group 2010 £m
Profit for the year attributable to equity shareholders		119.8	101.5
Other comprehensive income:			
– cashflow hedges	16	1.4	7.6
– actuarial movements on retirement benefit asset	18	(37.1)	14.9
– tax on other comprehensive income	5	9.4	(6.3)
– impact of change in UK tax rate	5	(0.1)	0.2
Other comprehensive income for the year		(26.4)	16.4
Total comprehensive income for the year		93.4	117.9

EARNINGS PER SHARE AND DIVIDENDS

	Note	Group 2011 pence	Group 2010 pence
Earnings per share			
Basic	6	89.6	76.7
Diluted	6	89.4	76.6
Dividends per share			
Proposed final dividend	7	42.3	38.1
Total dividend for the year	7	69.0	63.5
Paid in the year*	7	64.8	63.5

*The total cost of dividends paid in the year was £86.8m (2010: £84.9m).

BALANCE SHEETS

as at 31 December	Note	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
ASSETS					
Non-current assets					
Goodwill	10	2.1	2.1	–	–
Other intangible assets	11	12.9	17.4	–	–
Property, plant and equipment	12	26.8	29.9	9.8	10.7
Investment in subsidiaries	13	–	–	375.3	374.8
Financial assets:					
– amounts receivable from customers	14	88.0	97.4	–	–
– derivative financial instruments	16	11.9	12.4	–	–
– trade and other receivables	17	–	–	649.0	438.0
Retirement benefit asset	18	13.5	41.0	4.2	12.6
Deferred tax assets	19	7.5	2.8	3.6	1.9
		162.7	203.0	1,041.9	838.0
Current assets					
Financial assets:					
– amounts receivable from customers	14	1,244.7	1,121.9	–	–
– derivative financial instruments	16	0.3	3.5	–	–
– cash and cash equivalents	20	49.6	29.0	2.1	1.5
– trade and other receivables	17	21.1	23.6	719.4	974.7
		1,315.7	1,178.0	721.5	976.2
Total assets	1	1,478.4	1,381.0	1,763.4	1,814.2
LIABILITIES					
Current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(50.5)	(147.7)	(16.3)	(125.8)
– derivative financial instruments	16	–	(13.4)	(9.5)	(13.3)
– trade and other payables	22	(53.0)	(46.0)	(121.1)	(134.3)
Current tax liabilities		(40.1)	(44.4)	(6.0)	(2.8)
		(143.6)	(251.5)	(152.9)	(276.2)
Non-current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(999.1)	(817.2)	(594.4)	(519.1)
– derivative financial instruments	16	(9.5)	(2.9)	–	(2.9)
– trade and other payables	22	–	–	(86.9)	(103.2)
		(1,008.6)	(820.1)	(681.3)	(625.2)
Total liabilities	1	(1,152.2)	(1,071.6)	(834.2)	(901.4)
NET ASSETS	1	326.2	309.4	929.2	912.8
SHAREHOLDERS' EQUITY					
Called-up share capital	23	28.5	28.1	28.5	28.1
Share premium account		146.0	144.0	146.0	144.0
Other reserves	25	9.4	0.9	619.4	610.7
Retained earnings		142.3	136.4	135.3	130.0
TOTAL EQUITY		326.2	309.4	929.2	912.8

The financial statements on pages 90 to 140 were approved by the board of directors on 28 February 2012 and signed on its behalf by:

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Note	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2010		27.9	142.4	(13.0)	111.1	268.4
Profit for the year		–	–	–	101.5	101.5
Other comprehensive income:						
– cashflow hedges	16	–	–	7.6	–	7.6
– actuarial movements on retirement benefit asset	18	–	–	–	14.9	14.9
– tax on other comprehensive income	5	–	–	(2.1)	(4.2)	(6.3)
– impact of change in UK tax rate	5	–	–	(0.1)	0.3	0.2
Other comprehensive income for the year		–	–	5.4	11.0	16.4
Total comprehensive income for the year		–	–	5.4	112.5	117.9
Transactions with owners:						
– issue of share capital	23	0.2	1.6	–	–	1.8
– purchase of own shares		–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards		–	–	6.5	(6.5)	–
– share-based payment charge	24	–	–	6.4	–	6.4
– transfer of share-based payment reserve		–	–	(4.2)	4.2	–
– dividends	7	–	–	–	(84.9)	(84.9)
At 31 December 2010		28.1	144.0	0.9	136.4	309.4
At 1 January 2011		28.1	144.0	0.9	136.4	309.4
Profit for the year		–	–	–	119.8	119.8
Other comprehensive income:						
– cashflow hedges	16	–	–	1.4	–	1.4
– actuarial movements on retirement benefit asset	18	–	–	–	(37.1)	(37.1)
– tax on other comprehensive income	5	–	–	(0.5)	9.9	9.4
– impact of change in UK tax rate	5	–	–	(0.1)	–	(0.1)
Other comprehensive income for the year		–	–	0.8	(27.2)	(26.4)
Total comprehensive income for the year		–	–	0.8	92.6	93.4
Transactions with owners:						
– issue of share capital	23	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	24	–	–	8.0	–	8.0
– transfer of share-based payment reserve		–	–	(6.3)	6.3	–
– dividends	7	–	–	–	(86.8)	(86.8)
At 31 December 2011		28.5	146.0	9.4	142.3	326.2

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings is shown after directly writing off cumulative goodwill of £1.6m (2010: £1.6m). In addition, cumulative goodwill of £2.3m (2010: £2.3m) has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 25.

Company	Note	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2010		27.9	142.4	596.7	131.4	898.4
Profit for the year		–	–	–	84.0	84.0
Other comprehensive income:						
– cashflow hedges	16	–	–	7.6	–	7.6
– actuarial movements on retirement benefit asset	18	–	–	–	6.2	6.2
– tax on other comprehensive income		–	–	(2.0)	(1.7)	(3.7)
– impact of change in UK tax rate		–	–	(0.1)	0.1	–
Other comprehensive income for the year		–	–	5.5	4.6	10.1
Total comprehensive income for the year		–	–	5.5	88.6	94.1
Transactions with owners:						
– issue of share capital	23	0.2	1.6	–	–	1.8
– purchase of own shares		–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards		–	–	6.5	(6.5)	–
– share-based payment charge	24	–	–	2.9	–	2.9
– share-based payment movement in investment in subsidiaries	13	–	–	0.7	–	0.7
– transfer of share-based payment reserve		–	–	(1.4)	1.4	–
– dividends	7	–	–	–	(84.9)	(84.9)
At 31 December 2010		28.1	144.0	610.7	130.0	912.8
At 1 January 2011		28.1	144.0	610.7	130.0	912.8
Profit for the year		–	–	–	102.1	102.1
Other comprehensive income:						
– cashflow hedges	16	–	–	1.6	–	1.6
– actuarial movements on retirement benefit asset	18	–	–	–	(8.8)	(8.8)
– tax on other comprehensive income		–	–	(0.4)	2.3	1.9
– impact of change in UK tax rate		–	–	(0.2)	(0.1)	(0.3)
Other comprehensive income for the year		–	–	1.0	(6.6)	(5.6)
Total comprehensive income for the year		–	–	1.0	95.5	96.5
Transactions with owners:						
– issue of share capital	23	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	24	–	–	4.0	–	4.0
– share-based payment movement in investment in subsidiaries	13	–	–	0.5	–	0.5
– transfer of share-based payment reserve		–	–	(2.8)	2.8	–
– dividends	7	–	–	–	(86.8)	(86.8)
At 31 December 2011		28.5	146.0	619.4	135.3	929.2

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 comprehensive income. The retained profit for the financial year reported in the financial statements of the company was £102.1m (2010: £84.0m).

Other reserves are further analysed in note 25.

STATEMENTS OF CASHFLOWS

for the year ended 31 December	Note	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Cashflows from operating activities					
Cash generated from/(used in) operations	29	138.7	150.5	24.4	(74.2)
Finance costs paid		(69.9)	(80.0)	(64.5)	(73.5)
Finance income received		–	–	95.2	84.1
Tax (paid)/received		(42.0)	(36.5)	(2.0)	2.0
Net cash generated from/(used in) operating activities		26.8	34.0	53.1	(61.6)
Cashflows from investing activities					
Purchase of intangible assets	11	(3.0)	(4.4)	–	–
Purchase of property, plant and equipment	12	(6.0)	(14.8)	(0.4)	(9.3)
Proceeds from disposal of property, plant and equipment	12	1.6	1.6	0.3	–
Dividends received		–	–	85.0	80.0
Net cash (used in)/generated from investing activities		(7.4)	(17.6)	84.9	70.7
Cashflows from financing activities					
Proceeds from bank and other borrowings		330.1	99.0	190.4	99.0
Repayment of bank and other borrowings		(251.1)	(28.2)	(234.9)	–
Dividends paid to company shareholders	7	(86.8)	(84.9)	(86.8)	(84.9)
Proceeds from issue of share capital	23	2.4	1.8	2.4	1.8
Purchase of own shares	25	(0.2)	(0.2)	(0.2)	(0.2)
Repayment of loan from subsidiary undertaking		–	–	(16.3)	(28.1)
Net cash used in financing activities		(5.6)	(12.5)	(145.4)	(12.4)
Net increase/(decrease) in cash, cash equivalents and overdrafts		13.8	3.9	(7.4)	(3.3)
Cash, cash equivalents and overdrafts at beginning of year		18.4	14.5	(6.8)	(3.5)
Cash, cash equivalents and overdrafts at end of year		32.2	18.4	(14.2)	(6.8)
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	20	49.6	29.0	2.1	1.5
Overdrafts (held in bank and other borrowings)	21	(17.4)	(10.6)	(16.3)	(8.3)
Total cash, cash equivalents and overdrafts		32.2	18.4	(14.2)	(6.8)

The statutory cashflow 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 operating activities, after assuming that 80% of the growth in receivables is funded with borrowings, less net capital expenditure. Capital generated in 2011 on this basis was £110.1m (2010: £80.4m) compared with a dividend payable in respect of 2011 of £93.2m (2010: £84.9m).

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 International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. 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.

In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year included 53 weeks. Home Credit's 2011 financial year includes 52 weeks. The results of all other operations are based on calendar years in both the 2011 and 2010 financial years.

The group and company's principal accounting policies under IFRS, which have been consistently applied to all the years presented unless otherwise stated, are set out below:

(a) New and amended standards adopted by the group and company:

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the group or company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted:

IAS 19, 'Employee benefits' was amended in June 2011. The impact on the group and company is likely to be the requirement to immediately recognise all past service costs and to replace the interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit asset. The standard is applicable from 1 January 2012 and the group is in the final stages of assessing its full impact.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and updated in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, that part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is in the process of assessing the updates to IFRS 9, both those which have been issued and those aspects relating to hedge accounting and impairment which will be issued in due course. The group will adopt IFRS 9 in its entirety no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU.

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 consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. All subsidiaries within the group are wholly-owned and therefore the adoption of IFRS 10 is not expected to have a material impact on the group.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. All subsidiaries within the group are wholly-owned therefore the adoption of IFRS 12 is not expected to have a material impact on the group or company.

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 IFRSs. 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 within IFRS. IFRS 13 will be adopted no later than the accounting period beginning on or after 1 January 2012, subject to endorsement by the EU, and is not expected to have a material impact on the group or company.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group and company.

Basis of consolidation

The consolidated income statement, consolidated statement of comprehensive income, balance sheet, statement of changes in shareholders' equity, statement of cashflows 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 assumed to exist where more than 50% of the voting share capital is owned or where the group controls another entity either through the power to:

- govern the operating and financial policies of that entity;
- appoint or remove the majority of the members of the board of that entity; or
- cast the majority of the votes at a board meeting of that entity.

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 income earned by the Consumer Credit Division (CCD) and interest and fee income earned by Vanquis Bank.

Revenue excludes value added tax and intra-group transactions.

Within CCD, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cashflows, 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.

In respect of 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.

Finance costs

Finance costs principally comprise the interest on bank and other borrowings (including retail deposits) and, for the company, on intra-group loan arrangements, and are recognised on an effective interest rate basis. Finance costs also include the fair value movement on those derivative financial instruments held for hedging purposes which do not qualify for hedge accounting under IAS 39.

Dividend income

Dividend income is recognised in the income statement when the company's right to receive payment is established.

Goodwill

All acquisitions are accounted for using the purchase method of accounting.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cashflows from the relevant cash generating unit. Expected cashflows 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. Impairment losses on goodwill are not reversed.

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 ten 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). All of the group's subsidiaries operate primarily in the UK and Republic of Ireland. 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 cashflow hedges.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Amounts receivable from customers

The group assesses whether there is objective evidence that customer receivables have been impaired at each balance sheet date. The principal criterion for determining whether there is objective evidence of impairment is delinquency in contractual payments.

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 in the short-term cash loans business. 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 cashflows 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 cashflows discounted at the original effective interest rate. Subsequent cashflows are regularly compared to estimated cashflows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

Within the monthly Vanquis Bank credit card business, customer balances are deemed to be impaired as soon as customers miss one monthly contractual payment. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cashflows discounted at the original effective interest rate. Estimated future cashflows are based on the historical performance of customer balances falling into different arrears stages and are regularly reassessed.

For CCD, impairment charges are deducted directly from the carrying value of receivables whilst in Vanquis Bank impairment is recorded through the use of an allowance account.

Impairment charges are 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 are the principal bases used:

	%	Method
Land	Nil	–
Freehold and long leasehold buildings	2½	Straight line
Short leasehold buildings	Over the lease period	Straight line
Equipment (including computer hardware)	10 to 33⅓	Straight line
Motor vehicles	25	Reducing balance

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use 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 amount 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.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and amounts invested in money market funds. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances. For the statement of cashflows, bank overdrafts are shown as part of cash and cash equivalents.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of 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, and cross-currency swaps, 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'. Derivatives 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) or hedges of highly probable forecast transactions (cashflow hedges).

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 derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cashflows of hedged items is documented, both at the hedge inception and on an ongoing basis.

Derivatives 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 at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the income statement. Where hedge accounting criteria have been met, the resultant gain or loss on the derivative instrument is recognised as follows:

Fair value hedges
Changes in the fair value of derivatives 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.

Cashflow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cashflow 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 accumulated 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 cashflow hedges is discontinued when:

- it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge; or
- the derivative expires, or is sold, terminated or exercised; or
- the underlying hedged item matures or is sold or repaid.

When a cashflow hedging instrument expires or is sold, or when a cashflow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is transferred to the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was previously reported in equity 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 hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Provisions

Provisions are recognised when the group or company has a present obligation as a result of a past event, it is reliably measurable and 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 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 charge on pension liabilities offset by the expected return 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 and 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 or award, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding credit to equity.

The cost of options and awards is based on 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 and actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

For the LTIS schemes prior to 2009, performance conditions were based on Total Shareholder Return (TSR). Accordingly, the fair value of awards was determined using a Monte Carlo option pricing model as this is the most appropriate model for valuing options with external related targets such as TSR. For the LTIS schemes from 2009 onwards, performance conditions are based on a combination of both EPS and 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 and 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.

In respect of the SAYE options, the proceeds received net of any directly attributable transaction costs for options vesting are credited to share capital and the share premium account when the options are exercised. A transfer is made from the share-based payment reserve to retained earnings on vesting or when options and awards lapse. In accordance with IFRS 2, the group and company have elected to apply IFRS 2 to grants, options and other equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

Called-up 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 (treasury shares), the consideration paid, including any directly attributable incremental costs, is included within a treasury shares reserve and deducted from equity until the shares are cancelled or reissued. Where such shares are reissued, any consideration received, net of any directly attributable incremental 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.

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 (£1,332.7m)
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 cashflows. 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 cashflows from loans deteriorate significantly.

Customer accounts in Vanquis Bank are deemed to be impaired when one contractual monthly payment has been missed. 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 cashflows 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 cashflows, 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 cashflows differs by +/- 1%, it is estimated that the amounts receivable from customers would be approximately £13m (2010: £12m) higher/lower.

Tax (current tax liabilities £40.1m, deferred tax assets £7.5m)
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 some 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 determined. 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 £1.3m (2010: £1.5m) higher/lower.

Retirement benefit asset (£13.5m)
The principal assumptions used in the valuation of the retirement benefit asset as at 31 December 2011 are set out in note 18.

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, investment returns, salary inflation, the rate of pension increase and the extent to which members take up the maximum tax-free commutation on retirement.

Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the group's own 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 benefit obligation. The returns on fixed asset investments are set to market yields at the valuation date to ensure consistency with the asset valuation. The returns on UK and overseas equities are set by considering the long-term expected returns on these asset classes using a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. The salary inflation and pension increase assumptions reflect the long-term expectations for both earnings and retail price inflation. The assumption as to how many members will take up the maximum tax-free commutation on retirement is based on the scheme's own experience of commutation levels.

A sensitivity analysis of certain of the key assumptions is provided 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 and further detail on the group's risk management framework is described on pages 70 to 72.

(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 2011 is the carrying value of amounts receivable from customers of £1,332.7m (2010: £1,219.3m).

CCD
Credit risk within CCD is managed by the CCD credit committee which meets at least every two months and is responsible for approving product criteria and pricing.

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 almost entirely paid commission for what they collect and not for what they lend, so their primary 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 Home Credit 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 resolution.

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 to 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 external credit bureau. 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. 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 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.

Financial risk management – continued

(ii) Bank counterparties
The group's maximum exposure to credit risk on bank counterparties as at 31 December 2011 was £21.5m (2010: £18.8m).

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 Financial Services Authority (FSA).

(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 cashflows 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 80% of its receivables book through retail deposits. As at 31 December 2011, the group's committed borrowing facilities had a weighted average maturity of 3.5 years (2010: 3.5 years) and the headroom on these committed facilities amounted to £288.1m (2010: £184.7m).

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the Home Credit business, the group's largest business, are of short-term duration (typically around one year) whereas the group's borrowings extend over a number of years.

A maturity analysis of the undiscounted contractual cashflows of the group's bank and other borrowings, including derivative financial instruments settled on a net and gross basis, is shown below.

The table 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 3 or 6 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 cashflows of such borrowings made under the group's syndicated revolving bank facilities 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.

Financial liabilities

2011 – 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	22.2	331.3	–	–	–	353.5
– senior public bonds	–	20.0	20.0	60.0	310.0	410.0
– private placement loan notes	–	8.5	56.3	78.5	123.2	266.5
– subordinated loan notes	–	0.3	0.3	6.7	–	7.3
– retail bond	–	5.6	5.6	63.2	31.8	106.2
– retail deposits	–	37.6	75.5	32.4	–	145.5
Total bank and other borrowings	22.2	403.3	157.7	240.8	465.0	1,289.0
Derivative financial instruments – settled net	–	2.7	2.6	5.0	–	10.3
Trade and other payables	–	53.0	–	–	–	53.0
Total	22.2	459.0	160.3	245.8	465.0	1,352.3

Financial assets

2011 – 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	–	1.6	2.0	8.8	–	12.4
Derivative financial instruments – settled net	–	0.3	–	–	–	0.3
Total derivative financial instruments	–	1.9	2.0	8.8	–	12.7
Trade and other receivables	–	21.1	–	–	–	21.1
Total	–	23.0	2.0	8.8	–	33.8

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Financial risk management – continued

Financial liabilities

2010 – 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	8.2	224.6	100.6	200.0	–	533.4
– senior public bonds	–	20.0	20.0	60.0	330.0	430.0
– private placement loan notes	–	66.1	1.8	112.4	–	180.3
– subordinated loan notes	–	0.4	0.4	7.0	–	7.8
– retail bond	–	1.9	1.9	5.7	33.8	43.3
Total bank and other borrowings	8.2	313.0	124.7	385.1	363.8	1,194.8
Derivative financial instruments – settled gross	–	1.6	0.2	–	–	1.8
Derivative financial instruments – settled net	–	21.0	0.6	–	–	21.6
Total derivative financial instruments	–	22.6	0.8	–	–	23.4
Trade and other payables	–	46.0	–	–	–	46.0
Total	8.2	381.6	125.5	385.1	363.8	1,264.2

Financial assets

2010 – 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	–	5.7	1.6	9.3	–	16.6
Total	–	5.7	1.6	9.3	–	16.6

(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 2011 and 2010 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, which are hedged by matching euro-denominated net assets with euro-denominated borrowings as closely as practicable.

As at 31 December 2011, a 2% movement in the sterling to US dollar exchange rate would have led to a £1.0m (2010: £2.6m) movement in external borrowings with an opposite movement of £1.0m (2010: £2.6m) in the hedging reserve within equity. Due to the hedging arrangements in place, there would have been no impact on reported profits.

As at 31 December 2011, a 2% movement in the sterling to euro exchange rate would have led to a £1.1m (2010: £1.2m) movement in customer receivables with an opposite movement of £1.1m (2010: £1.0m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been no impact on reported profits or equity (2010: £0.2m).

(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 FSA.

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 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 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.

Gearing is calculated as the ratio of the group's borrowings to adjusted equity after excluding the pension scheme asset and the fair value of derivative financial instruments, both stated net of deferred tax. Borrowings are stated using the hedged exchange rate used to translate the group's US private placement loan notes, rather than the year-end rate disclosed in the group financial statements and exclude any deferred arrangement fees.

As at 31 December 2011, the gearing ratio stood at 3.2 times (2010: 3.3 times), calculated as follows:

	Note	2011 £m	2010 £m
Borrowings	21	1,049.6	964.9
Exchange rate adjustment		(11.2)	(13.2)
Arrangement fees		6.4	7.3
Borrowings for gearing purposes		1,044.8	959.0
Shareholders' equity		326.2	309.4
Pension asset	18	(13.5)	(41.0)
Deferred tax on pension asset		3.4	11.1
Hedging reserve	25	6.4	7.2
Equity for gearing purposes		322.5	286.7
Gearing (times)		3.2	3.3

The gearing ratio is lower than the target of 3.5 times due to the strong capital generation of the group during 2011.

(b) Regulatory capital
The group is the subject of consolidated supervision by the FSA. As part of this supervision, the group is required to maintain a certain level of regulatory capital (Individual Capital Guidance (ICG)) in order to mitigate against unexpected losses. The ICG remains confidential between the FSA and the relevant institution and cannot be publicly disclosed.

Regulatory capital differs from the group's shareholders' equity base included in the balance sheet as it excludes intangible assets, the group's pension asset and the fair value of derivatives, but includes the group's subordinated loan notes.

A reconciliation of the group's equity to regulatory capital is set out below:

	2011 £m	2010 £m
Shareholders' equity	326.2	309.4
Intangible assets	(15.0)	(19.5)
Pension asset	(13.5)	(41.0)
Deferred tax on pension asset	3.4	11.1
Hedging reserve	6.4	7.2
Other	–	(0.1)
Tier 1 capital	307.5	267.1
Tier 2 capital – subordinated loan notes	4.8	6.0
Total regulatory capital held	312.3	273.1

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 below five years. Accordingly, the amount of the subordinated loan notes eligible for regulatory capital purposes as at 31 December 2011 amounts to 80% (2010: 100%) of the balance outstanding.

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 FSA on the level of regulatory capital it holds.

As at 31 December 2011, the group's total regulatory capital of £312.3m (2010: £273.1m) was comfortably in excess of the ICG set by the FSA.

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 Peter Crook (Chief Executive), Andrew Fisher (Finance Director) and Chris Gillespie (Managing Director, CCD) whose primary responsibility it is to manage the group's day-to-day operations and analyse trading performance. The group's segments comprise CCD, Vanquis Bank 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	2011 £m	2010 £m	2011 £m	2010 £m
CCD	697.1	704.4	127.5	127.3
Vanquis Bank	213.7	162.0	44.2	26.7
	910.8	866.4	171.7	154.0
Central:				
– costs	–	–	(10.2)	(8.1)
– interest receivable/(payable)	–	–	0.6	(1.4)
Total central	–	–	(9.6)	(9.5)
Total group before exceptional costs	910.8	866.4	162.1	144.5
Exceptional costs	–	–	–	(2.5)
Total group	910.8	866.4	162.1	142.0

CCD's profit of £127.5m (2010: £127.3m) comprises a profit of £127.5m in respect of the Home Credit business (2010: £129.1m) and a loss of £nil in respect of Real Personal Finance (2010: loss of £1.8m). In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year included 53 weeks whilst its 2011 financial year includes 52 weeks.

Revenue in CCD fell by 1.0% in 2011 due to 2010 including an extra trading week (approximately £13m impact) and as a result of the fall in Home Credit's revenue yield from 93.0% of average receivables in 2010 to 89.0% in 2011. This reflects the focus on serving good-quality existing customers who tend to be served with slightly longer-term products which carry a lower yield.

The 31.9% growth in revenue in Vanquis Bank in 2011 reflects the 27.0% increase in customer numbers in the year together with the continued success of the credit line increase programme to existing customers.

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 have increased in 2011 due to higher share-based incentives, following awards made under the Performance Share Plan (PSP) in 2011 whereas there were no awards made in 2010, higher levels of investment in the community programme and an increase in legal and regulatory costs.

All of the above activities relate to continuing operations. Revenue between business segments is not material.

The exceptional cost in 2010 of £2.5m represented the write down of residual property, plant and equipment following CCD's move into a new head office building in October 2010 (see note 12).

The group's operations operate solely in the UK and Republic of Ireland.

	Segment assets		Segment liabilities		Net assets/(liabilities)	
Group	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
CCD	962.0	963.9	(737.2)	(716.6)	224.8	247.3
Vanquis Bank	487.0	369.4	(385.5)	(298.9)	101.5	70.5
Central	52.4	54.9	(52.5)	(63.3)	(0.1)	(8.4)
Total before intra-group elimination	1,501.4	1,388.2	(1,175.2)	(1,078.8)	326.2	309.4
Intra-group elimination	(23.0)	(7.2)	23.0	7.2	–	–
Total group	1,478.4	1,381.0	(1,152.2)	(1,071.6)	326.2	309.4

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%. The impact of this is an increase in the notional allocation of group borrowings to CCD of £23.0m (2010: £7.2m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

The intra-group elimination rebases CCD's borrowings to 80% of receivables to bring their borrowings in line with the group's target gearing ratio of 3.5 times. This adjustment essentially eliminates goodwill and intercompany borrowings arising following the capital restructuring of the group in the late 1990's. Vanquis Bank's borrowings broadly equate to 80% of receivables in line with their regulatory capital requirement.

1 Segment reporting – continued

Group	Capital expenditure 2011 £m	Capital expenditure 2010 £m	Depreciation 2011 £m	Depreciation 2010 £m	Amortisation 2011 £m	Amortisation 2010 £m
CCD	5.5	9.1	5.3	6.6	6.8	6.1
Vanquis Bank	3.1	0.8	1.0	0.9	0.7	0.4
Central	0.4	9.3	1.0	2.0	–	–
Total group	9.0	19.2	7.3	9.5	7.5	6.5

Capital expenditure in 2011 comprises expenditure on intangible assets of £3.0m (2010: £4.4m) and property, plant and equipment of £6.0m (2010: £14.8m). The depreciation charge in 2010 included an exceptional impairment charge of £2.5m.

2 Revenue

Revenue is recognised by applying the effective interest rate (EIR) to the carrying value of a loan. The effective interest rate 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).

	Group 2011 £m	Group 2010 £m
Interest income	840.2	813.1
Fee income	70.6	53.3
Total revenue	910.8	866.4

All fee income earned relates to Vanquis Bank.

Interest income relates to the service charge on Home Credit loans and interest charges on Vanquis Bank credit cards. Fee income wholly relates to Vanquis Bank and predominantly reflects default and overlimit fees as well as other ancillary income streams such as the Repayment Option Plan (ROP), Identity Theft Alert and ValueSaver. Fee income in 2011 represented 33% (2010: 33%) of Vanquis Bank revenue.

3 Finance costs

	Group 2011 £m	Group 2010 £m
Interest payable on bank borrowings	32.9	40.6
Interest payable on senior public and retail bonds	25.0	21.4
Interest payable on private placement loan notes	12.2	9.5
Interest payable on subordinated loan notes	0.3	0.4
Interest payable on retail deposits	0.8	–
Net hedge ineffectiveness and other fair value movements	(1.6)	(2.2)
Total finance costs	69.6	69.7

The credit of £1.6m (2010: credit of £2.2m) in respect of net hedge ineffectiveness and other fair value movements relates to derivatives that became ineffective in 2009 (see note 16(b)).

The group's blended funding rate in 2011 was 7.6%, down from 8.5% in 2010. This primarily reflects the cost of a carrying an exceptionally high level of headroom in 2010. The group funding rate for 2012 is expected to be around 7.5%.

Interest cover continues to be one of the group's banking covenants. It is calculated as profit before tax and interest divided by interest costs, excluding net hedge ineffectiveness, and has a minimum requirement of 2.0 times. Interest cover in 2011 was 3.3 times in 2011 compared with 3.1 times in 2010.

4 Profit before taxation

	Group	
	2011 £m	2010 £m
Profit before taxation is stated after charging:		
Amortisation of other intangible assets:		
– computer software (note 11)	7.5	6.5
Depreciation of property, plant and equipment (note 12)	7.3	7.0
Exceptional impairment charge of property, plant and equipment (notes 1,12)	–	2.5
Loss on disposal of property, plant and equipment (note 12)	0.2	0.1
Operating lease rentals:		
– property	11.4	8.6
Employment costs (note 9(b))	135.7	130.1
Impairment of amounts receivable from customers (note 14)	300.7	296.6

Operating costs includes 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. Administration costs reflects all other costs incurred in running the business, the largest of which is employee costs (see note 9).

	Group	
	2011 £m	2010 £m
Auditors' 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	0.1
Total auditors' remuneration	0.4	0.4

5 Tax charge

	Group	
Tax (charge)/credit in the income statement	2011 £m	2010 £m
Current tax	(37.7)	(41.7)
Deferred tax (note 19)	(4.3)	1.4
Impact of change in UK tax rate (note 19)	(0.3)	(0.2)
Total tax charge	(42.3)	(40.5)

There was no tax charge in respect of exceptional costs in 2010.

The effective tax rate for 2011 is 26.1% (2010: 28.0%) broadly in line with the UK statutory corporation tax rate which reduced from 28.0% to 26.0% on 1 April 2011. The group is expected to benefit in future years from the progressive rate reductions in the 2011 Finance Act or announced in recent budgets.

As a result of the change in UK corporation tax rate which is effective from 1 April 2012, deferred tax balances have been re-measured. The temporary differences on which deferred tax balances have been calculated are expected to reverse after 1 April 2012 (2010: 1 April 2011). Accordingly, the balances have been calculated using a rate of 25% (2010: 27%). A tax charge of £0.3m in 2011 (2010: £0.2m) represents the income statement adjustment to deferred tax as a result of this change. An additional deferred tax charge of £0.1m in 2011 (2010: credit of £0.2m) 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.

5 Tax charge – continued

Tax credit/(charge) on items taken directly to other comprehensive income	Group 2011 £m	Group 2010 £m
Current tax charge on cashflow hedges	(0.5)	(2.1)
Deferred tax credit/(charge) on actuarial movements on retirement benefit asset	9.9	(4.2)
Tax credit/(charge) on other comprehensive income prior to change in UK tax rate	9.4	(6.3)
Impact of change in UK tax rate	(0.1)	0.2
Total tax credit/(charge) on items taken directly to other comprehensive income	9.3	(6.1)

The rate of tax charge on the profit before taxation for the year is lower than (2010: higher than) the average standard rate of corporation tax in the UK of 26.5% (2010: 28.0%). This can be reconciled as follows:

	Group 2011 £m	Group 2010 £m
Profit before taxation	162.1	142.0
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 26.5% (2010: 28.0%)	(43.0)	(39.8)
Effects of:		
– adjustment in respect of prior years	1.2	(1.0)
– expenses not deductible for tax purposes net of non-taxable income	(0.2)	0.5
– impact of change in UK tax rate	(0.3)	(0.2)
Total tax charge	(42.3)	(40.5)

6 Earnings per share

The group presents basic and diluted EPS data on its ordinary shares. Basic EPS is calculated by dividing the profit after tax 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 all of the group's share options outstanding crystallise. The group also presents an adjusted EPS, excluding the impact of any exceptional costs.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For share options and awards, 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 and awards. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and awards.

Reconciliations of basic and diluted earnings per share are set out below:

Group	2011 Earnings £m	2011 Weighted average number of shares m	2011 Per share amount pence	2010 Earnings £m	2010 Weighted average number of shares m	2010 Per share amount pence
Earnings per share						
Shares in issue during the year		136.8			135.1	
Own shares held		(3.1)			(2.8)	
Basic earnings per share	119.8	133.7	89.6	101.5	132.3	76.7
Dilutive effect of share options and awards	–	0.3	(0.2)	–	0.2	(0.1)
Diluted earnings per share	119.8	134.0	89.4	101.5	132.5	76.6

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6 Earnings per share – continued

The directors have elected to show an adjusted earnings per share prior to exceptional costs (see note 1). This is presented to show the earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted earnings per share to adjusted basic and diluted earnings per share is as follows:

Group	2011 Earnings £m	2011 Weighted average number of shares m	2011 Per share amount pence	2010 Earnings £m	2010 Weighted average number of shares m	2010 Per share amount pence
Basic earnings per share	119.8	133.7	89.6	101.5	132.3	76.7
Exceptional costs after tax	–	–	–	2.5	–	1.9
Adjusted basic earnings per share	119.8	133.7	89.6	104.0	132.3	78.6
Diluted earnings per share	119.8	134.0	89.4	101.5	132.5	76.6
Exceptional costs after tax	–	–	–	2.5	–	1.9
Adjusted diluted earnings per share	119.8	134.0	89.4	104.0	132.5	78.5

Adjusted basic EPS has grown by 14.0% in 2011 due to the 65.5% increase in profits in Vanquis Bank. This growth is marginally higher than the 12.2% growth in profit before tax and exceptional costs across the group reflecting the fall in the corporation tax rate from 28% to 26% on 1 April 2011.

7 Dividends

		Group and company 2011 £m	Group and company 2010 £m
2009 final	– 38.1p per share	–	51.0
2010 interim	– 25.4p per share	–	33.9
2010 final	– 38.1p per share	51.0	–
2011 interim	– 26.7p per share	35.8	–
Dividends paid		86.8	84.9

The directors are recommending a final dividend in respect of the financial year ended 31 December 2011 of 42.3p (2010: 38.1p) per share which will amount to a dividend payment of £57.4m (2010: £51.0m). If approved by the shareholders at the annual general meeting on 2 May 2012, this dividend will be paid on 21 June 2012 to shareholders who are on the register of members at 18 May 2012. This dividend is not reflected in the balance sheet as at 31 December 2011 as it is subject to shareholder approval.

At the time of the demerger of the international business in 2007, the board stated its intention to maintain the full-year dividend at 63.5p per share until a dividend cover of 1.25 times was reached and thereafter adopt a progressive dividend profile whilst maintaining a minimum dividend cover of at least 1.25 times. During 2011, the 12.2% growth in profit before tax has allowed the group to increase its interim dividend by 5.1% and the final proposed dividend by 11.0% (together an 8.7% increase in the full-year dividend). As a result, dividend cover in 2011 was 1.30 times up from 1.24 times in 2010.

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 76 to 88.

	Group and company 2011 £m	Group and company 2010 £m
Short-term employee benefits	3.2	3.5
Post-employment benefits	0.6	0.5
Share-based payment charge	3.2	2.3
Total	7.0	6.3

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 2011 Number	Group 2010 Number
CCD	3,070	3,154
Vanquis Bank	589	478
Central	54	51
Total group	3,713	3,683
Analysed as:		
Full time	3,117	3,109
Part time	596	574
Total group	3,713	3,683

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 10,500 self-employed agents within CCD. The 2.7% reduction in CCD employee numbers principally reflects the closure of Real Personal Finance during 2010 and a reduction in staff at Cheque Exchange Limited. Employee numbers within the core Home Credit business of CCD are broadly unchanged. Vanquis Bank employee numbers have increased by 23% during 2011 due to the growth of the business, including the opening of a new contact centre in CCD's head office in Bradford.

(b) Employment costs

	Group 2011 £m	Group 2010 £m
Aggregate gross wages and salaries paid to the group's employees	111.1	105.1
Employers' National Insurance contributions	12.4	11.5
Pension charge	4.2	7.1
Share-based payment charge (note 24)	8.0	6.4
Total	135.7	130.1

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan and contributions to personal pension arrangements. The reduction in the charge from £7.1m in 2010 to £4.2m in 2011 principally reflects a lower defined benefit charge due to a higher actuarially assessed return on assets assumption at the start of the year (see note 18). The increase in the share-based payment charge from £6.4m in 2010 to £8.0m in 2011, primarily reflects awards made under the Performance Share Plan. No such awards were made in 2010.

10 Goodwill

The increase in the share-based payment charge from £6.4m in 2010 to £8.0m in 2011, primarily reflects awards made under the performance share plan. No such awards were made in 2010.

	Group 2011 £m	Group 2010 £m
Cost		
At 1 January and 31 December	93.1	93.1
Accumulated amortisation		
At 1 January and 31 December	91.0	91.0
Net book value at 31 December	2.1	2.1
Net book value at 1 January	2.1	2.1

Goodwill is calculated as consideration paid for a business less the fair value of its net assets. The £93.1m cost relates to the acquisition of Yes Car Credit in 2002 (£91.0m) and Cheque Exchange Limited, a subsidiary within CCD, in 2009 (£2.1m). The goodwill in relation to Yes Car Credit was fully impaired in 2005 following the closure of that business.

11 Other intangible assets

Group	Computer software 2011 £m	Computer software 2010 £m
Cost		
At 1 January	33.2	29.0
Additions	3.0	4.4
Disposals	(0.9)	(0.2)
At 31 December	35.3	33.2
Accumulated amortisation		
At 1 January	15.8	9.5
Charged to the income statement	7.5	6.5
Disposals	(0.9)	(0.2)
At 31 December	22.4	15.8
Net book value at 31 December	12.9	17.4
Net book value at 1 January	17.4	19.5

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 2011	4.2	0.7	76.8	81.7
Additions	–	0.1	5.9	6.0
Disposals	(0.1)	–	(32.2)	(32.3)
At 31 December 2011	4.1	0.8	50.5	55.4
Accumulated depreciation				
At 1 January 2011	3.2	0.5	48.1	51.8
Charged to the income statement	–	0.1	7.2	7.3
Disposals	–	–	(30.5)	(30.5)
At 31 December 2011	3.2	0.6	24.8	28.6
Net book value at 31 December 2011	0.9	0.2	25.7	26.8
Net book value at 1 January 2011	1.0	0.2	28.7	29.9

The loss on disposal of property, plant and equipment in 2011 amounted to £0.2m (2010: £0.1m) and represented proceeds received of £1.6m (2010: £1.6m) less the net book value of disposals of £1.8m (2010: £1.7m).

Property, plant and equipment additions have reduced from £14.8m in 2010 to £6.0m in 2011. This reflects the one-off capital expenditure of £9.1m in 2010 in relation to CCD's move into a new purpose built head office facility in Bradford. Additions in 2011 principally comprise the routine replacement of IT equipment in both CCD and Vanquis Bank and motor vehicles for field staff within CCD.

During 2011, and following its move into a new head office in 2010, CCD conducted a thorough review of its property, plant and equipment register to identify old assets, primarily IT equipment and fixtures and fittings, which were not in use and had no net book value. Following this review, property, plant and equipment with a cost of £28.4m, accumulated depreciation of £28.4m and a net book value of £nil, were written off the register. The remaining property, plant and equipment disposals primarily reflect the disposal of motor vehicles in CCD.

12 Property, plant and equipment – continued

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2010	4.2	0.7	69.7	74.6
Additions	–	–	14.8	14.8
Disposals	–	–	(7.7)	(7.7)
At 31 December 2010	4.2	0.7	76.8	81.7
Accumulated depreciation				
At 1 January 2010	1.5	0.4	46.4	48.3
Charged to the income statement	0.1	0.1	6.8	7.0
Exceptional impairment charge (note 1)	1.6	–	0.9	2.5
Disposals	–	–	(6.0)	(6.0)
At 31 December 2010	3.2	0.5	48.1	51.8
Net book value at 31 December 2010	1.0	0.2	28.7	29.9
Net book value at 1 January 2010	2.7	0.3	23.3	26.3

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2011	4.2	0.2	10.7	15.1
Additions	–	–	0.4	0.4
Disposals	(0.1)	–	(0.4)	(0.5)
At 31 December 2011	4.1	0.2	10.7	15.0
Accumulated depreciation				
At 1 January 2011	3.2	0.1	1.1	4.4
Charged to the income statement	–	–	1.0	1.0
Disposals	–	–	(0.2)	(0.2)
At 31 December 2011	3.2	0.1	1.9	5.2
Net book value at 31 December 2011	0.9	0.1	8.8	9.8
Net book value at 1 January 2011	1.0	0.1	9.6	10.7

The loss on disposal of property, plant and equipment in 2011 amounted to £nil (2010: £0.2m) and represented proceeds received of £0.3m (2010: £nil) less the net book value of disposals of £0.3m (2010: £0.2m).

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 2010	4.2	0.2	2.0	6.4
Additions	–	–	9.3	9.3
Disposals	–	–	(0.6)	(0.6)
At 31 December 2010	4.2	0.2	10.7	15.1
Accumulated depreciation				
At 1 January 2010	1.5	0.1	1.2	2.8
Charged to the income statement	0.1	–	0.1	0.2
Exceptional impairment charge	1.6	–	0.2	1.8
Disposals	–	–	(0.4)	(0.4)
At 31 December 2010	3.2	0.1	1.1	4.4
Net book value at 31 December 2010	1.0	0.1	9.6	10.7
Net book value at 1 January 2010	2.7	0.1	0.8	3.6

The exceptional impairment charge of £1.8m in 2010 represents the company element of the £2.5m group exceptional write-down of residual property, plant and equipment following CCD's move into a new head office building in October 2010.

13 Investment in subsidiaries

	Company	
	2011 £m	2010 £m
Cost		
At 1 January	406.7	406.0
Additions	0.5	0.7
At 31 December	407.2	406.7
Accumulated impairment losses		
At 1 January	31.9	31.7
Charged to the income statement	–	0.2
At 31 December	31.9	31.9
Net book value at 31 December	375.3	374.8
Net book value at 1 January	374.8	374.3

The additions to investments in 2011 of £0.5m (2010: £0.7m) 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.

13 Investment in subsidiaries – continued

The directors consider the value of investments to be supported by their underlying assets.

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.

		Purpose	Country of incorporation	Class of capital	% holding
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*
Vanquis Bank	Vanquis Bank 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.

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 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.

	2011			2010		
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
CCD	791.3	88.0	879.3	776.9	97.4	874.3
Vanquis Bank	453.4	–	453.4	345.0	–	345.0
Total group	1,244.7	88.0	1,332.7	1,121.9	97.4	1,219.3

CCD receivables comprise £876.7m (2010: £867.2m) in respect of Home Credit and £2.6m (2010: £7.1m) in respect of the collect-out of the Real Personal Finance receivables book. Home Credit receivables showed a modest 1.1% increase in 2011 reflecting the tightening of credit standards due to pressure on customers' disposable incomes. Vanquis Bank's receivables grew by 31.4% in 2011 as a result of growth in customer numbers of 27.0% together with the success of the credit line increase programme to good-quality existing customers through the 'low and grow' approach to lending.

The average effective interest rate for the year ended 31 December 2011 was 102% for CCD (2010: 105%) and 34% for Vanquis Bank (2010: 35%).

The average period to maturity of the amounts receivable from customers within CCD is 5.8 months (2010: 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.

14 Amounts receivable from customers – continued

The fair value of amounts receivable from customers is approximately £1.8 billion (2010: £1.5 billion). Fair value has been derived by discounting expected future cashflows (net of collection costs) at the group's weighted average cost of capital at the balance sheet date.

The credit quality of amounts receivable from customers is as follows:

Credit quality of amounts receivable from customers	2011 £m	CCD %	£m	Vanquis Bank %	£m	Group %	2010 £m	CCD %	£m	Vanquis Bank %	£m	Group %
Neither past due nor impaired	309.0	*35.1*	403.4	*89.0*	712.4	*53.5*	313.0	*35.8*	298.4	*86.5*	611.4	*50.1*
Past due but not impaired	138.5	*15.8*	–	–	138.5	*10.4*	139.6	*16.0*	–	–	139.6	*11.5*
Impaired	431.8	*49.1*	50.0	*11.0*	481.8	*36.1*	421.7	*48.2*	46.6	*13.5*	468.3	*38.4*
Total	879.3	*100.0*	453.4	*100.0*	1,332.7	*100.0*	874.3	*100.0*	345.0	*100.0*	1,219.3	*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 cashflows from loans deteriorate materially.

The marginal shift in the arrears profile within CCD in 2011 reflects lower new customer recruitment during the seasonal peak in trading in the run-up to the year end compared with the same weeks in 2010. The majority of such recruits will remain in order through the end of the calendar year and those that do fall into arrears will do so during the first quarter of the following year. The favourable change in profile in Vanquis Bank reflects a strong impairment performance and record low delinquency.

The following table sets out the ageing analysis of past due but not impaired balances within the Home Credit business of CCD based on contractual arrears since the inception of the loan:

Ageing analysis of past due but not impaired balances	Group 2011 £m	Group 2010 £m
One week overdue	89.8	82.5
Two weeks overdue	22.5	27.8
Three weeks or more overdue	26.2	29.3
Past due but not impaired	138.5	139.6

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:

Vanquis Bank allowance account	Group 2011 £m	Group 2010 £m
At 1 January	45.9	40.0
Charge for the year	76.9	63.9
Amounts written off during the year	(71.0)	(64.1)
Amounts recovered during the year	10.6	6.1
At 31 December	62.4	45.9

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 field force 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 cashflows (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.

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:

	Group	
Impairment charge on amounts receivable from customers	2011 £m	2010 £m
CCD	223.8	232.7
Vanquis Bank	76.9	63.9
Total group	300.7	296.6

The reduction in impairment in CCD reflects an additional trading week in 2010 (approximately £4m impact) together with an improvement in the quality of the receivables book from the tighter underwriting stance and the enhancements made to the agents' commission scheme in April 2011 which provide greater focus on early stage arrears. Accordingly, impairment as a percentage of revenue fell from 32.9% in 2010 to 32.1% in 2011.

Impairment in Vanquis Bank increased by 20.3% in 2011 compared with a 35.3% increase in average receivables. This reflects the continued improvement in the underlying quality of the receivables book, resulting from the progressive tightening of underwriting between 2007 and 2009 and the success of the credit line increase programme.

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

	Group	
Interest income recognised on impaired amounts receivable from customers	2011 £m	2010 £m
CCD	346.7	358.4
Vanquis Bank	19.4	16.7
Total group	366.1	375.1

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 £515.8m (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 £453.4m, which is stated after the deduction of the impairment allowance account of £62.4m. The non-standard customers served by the group are generally more likely to miss payments compared with more mainstream customers. As the group recognises impairment events early – after missing 2 weeks payments in the last 12 weeks in Home Credit and after missing 1 month's 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:

	Group	
Currency profile of amounts receivable from customers	2011 £m	2010 £m
Sterling	1,274.7	1,165.0
Euro	58.0	54.3
Total group	1,332.7	1,219.3

Euro receivables represent loans issued by Home Credit in the Republic of Ireland, and amount to approximately 6.5% of CCD's receivables.

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:

					2011
Group	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
Assets					
Cash and cash equivalents	49.6	–	–	–	49.6
Amounts receivable from customers	1,332.7	–	–	–	1,332.7
Derivative financial instruments	–	–	12.2	–	12.2
Trade and other receivables	21.1	–	–	–	21.1
Retirement benefit asset	–	–	–	13.5	13.5
Property, plant and equipment	–	–	–	26.8	26.8
Intangible assets (including goodwill)	–	–	–	15.0	15.0
Deferred tax assets	–	–	–	7.5	7.5
Total assets	1,403.4	–	12.2	62.8	1,478.4
Liabilities					
Bank and other borrowings	–	(1,049.6)	–	–	(1,049.6)
Derivative financial instruments	–	–	(9.5)	–	(9.5)
Trade and other payables	–	(53.0)	–	–	(53.0)
Current tax liabilities	–	–	–	(40.1)	(40.1)
Total liabilities	–	(1,102.6)	(9.5)	(40.1)	(1,152.2)

					2010
Group	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
Assets					
Cash and cash equivalents	29.0	–	–	–	29.0
Amounts receivable from customers	1,219.3	–	–	–	1,219.3
Derivative financial instruments	–	–	15.9	–	15.9
Trade and other receivables	23.6	–	–	–	23.6
Retirement benefit asset	–	–	–	41.0	41.0
Property, plant and equipment	–	–	–	29.9	29.9
Intangible assets (including goodwill)	–	–	–	19.5	19.5
Deferred tax assets	–	–	–	2.8	2.8
Total assets	1,271.9	–	15.9	93.2	1,381.0
Liabilities					
Bank and other borrowings	–	(964.9)	–	–	(964.9)
Derivative financial instruments	–	–	(16.3)	–	(16.3)
Trade and other payables	–	(46.0)	–	–	(46.0)
Current tax liabilities	–	–	–	(44.4)	(44.4)
Total liabilities	–	(1,010.9)	(16.3)	(44.4)	(1,071.6)

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	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
					2011
Assets					
Cash and cash equivalents	2.1	–	–	–	2.1
Investment in subsidiaries	–	–	–	375.3	375.3
Trade and other receivables	1,368.4	–	–	–	1,368.4
Retirement benefit asset	–	–	–	4.2	4.2
Property, plant and equipment	–	–	–	9.8	9.8
Deferred tax assets	–	–	–	3.6	3.6
Total assets	1,370.5	–	–	392.9	1,763.4
Liabilities					
Bank and other borrowings	–	(610.7)	–	–	(610.7)
Derivative financial instruments	–	–	(9.5)	–	(9.5)
Trade and other payables	–	(208.0)	–	–	(208.0)
Current tax liabilities	–	–	–	(6.0)	(6.0)
Total liabilities	–	(818.7)	(9.5)	(6.0)	(834.2)

Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
					2010
Assets					
Cash and cash equivalents	1.5	–	–	–	1.5
Investment in subsidiaries	–	–	–	374.8	374.8
Trade and other receivables	1,412.7	–	–	–	1,412.7
Retirement benefit asset	–	–	–	12.6	12.6
Property, plant and equipment	–	–	–	10.7	10.7
Deferred tax assets	–	–	–	1.9	1.9
Total assets	1,414.2	–	–	400.0	1,814.2
Liabilities					
Bank and other borrowings	–	(644.9)	–	–	(644.9)
Derivative financial instruments	–	–	(16.2)	–	(16.2)
Trade and other payables	–	(237.5)	–	–	(237.5)
Current tax liabilities	–	–	–	(2.8)	(2.8)
Total liabilities	–	(882.4)	(16.2)	(2.8)	(901.4)

16 Derivative financial instruments

The majority of derivatives 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 group does not enter into speculative transactions or positions.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

Group	2011 Contractual/ notional amount £m	2011 Assets £m	2011 Liabilities £m	2010 Contractual/ notional amount £m	2010 Assets £m	2010 Liabilities £m
Interest rate swaps	590.0	–	(9.5)	685.0	–	(14.8)
Cross-currency swaps	84.9	11.9	–	117.9	15.9	(1.4)
Foreign exchange contracts	6.7	0.3	–	9.8	–	(0.1)
Total group	681.6	12.2	(9.5)	812.7	15.9	(16.3)
Analysed as – due within one year		0.3	–		3.5	(13.4)
– due in more than one year		11.9	(9.5)		12.4	(2.9)
		12.2	(9.5)		15.9	(16.3)

Company	2011 Contractual/ notional amount £m	2011 Assets £m	2011 Liabilities £m	2010 Contractual/ notional amount £m	2010 Assets £m	2010 Liabilities £m
Interest rate swaps	590.0	–	(9.5)	685.0	–	(14.8)
Cross-currency swaps	–	–	–	16.8	–	(1.4)
Total company	590.0	–	(9.5)	701.8	–	(16.2)
Analysed as – due within one year		–	–		–	(13.3)
– due in more than one year		–	(9.5)		–	(2.9)
		–	(9.5)		–	(16.2)

The fair value of derivative financial instruments has been calculated by discounting contractual future cashflows 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 derivatives is required to be reflected in the balance sheet. Generally, providing the derivatives meet certain accounting requirements, any movement in the fair value of the derivatives 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 current derivatives all 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 2011 is £11.2m (2010: £13.2m).

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 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Interest rate swaps	1.6	7.6	1.6	7.6
2003 cross-currency swaps	(0.3)	0.1	–	–
2004 cross-currency swaps	(0.3)	(0.1)	–	–
Foreign exchange contracts	0.4	–	–	–
Net credit to the hedging reserve	1.4	7.6	1.6	7.6

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 cashflows, using appropriate observable rates.

16 Derivative financial instruments – continued

(b) Income statement credit

The net 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 cashflow hedges, is £1.6m (2010: £2.2m).

(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 cashflow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

	Group and company	
	2011 £m	2010 £m
Liability at 1 January	(14.8)	(24.6)
Credited to the hedging reserve	1.6	7.6
Movement in fair value of ineffective interest rate swaps credited to the income statement	1.6	2.2
Cash settlement of interest rate swaps	2.1	–
Liability at 31 December	(9.5)	(14.8)

The weighted average interest rate and period to maturity of the interest rate swaps held by the group and company were as follows:

	2011			2010		
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	2.0	1.0 - 3.4	1.4	3.3	3.1–3.5	0.9
Euro	–	–	–	1.9	1.8–2.0	0.7

(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 2001, 2003 and 2004.

2001 and 2003 private placement loan notes

The group and company have put in place cross-currency swaps to swap the principal and fixed rate interest of the 2001 and 2003 US dollar private placement loan notes into fixed rate sterling liabilities. The maturity dates of the cross-currency swaps match the underlying loan notes. These swaps were designated as cashflow hedges and were effective under IAS 39 in the year ended 31 December 2011. The fair value movements in the swaps and the corresponding exchange movements on the underlying loan notes have been deferred in the hedging reserve within equity.

The cross-currency swaps used to hedge the 2001 US dollar private placement loan notes matured in 2011 in line with the underlying borrowings and, therefore, have a weighted average interest rate of nil at 31 December 2011 (2010: 7.6%), an interest rate of nil (2010: 7.6%) and a weighted average period to maturity of nil years (2010: 0.4 years). The movement in the fair value of the swaps can be analysed as follows:

	Group and company	
	2011 £m	2010 £m
Liability at 1 January	(1.4)	(1.9)
Exchange rate movement	1.4	0.5
Liability at 31 December	–	(1.4)

The difference between the translation of the 2001 US dollar private placement loan notes at the year- end exchange rate compared with the contracted exchange rate amounts to £nil (2010: credit of £1.4m). The exchange rate movement of £1.4m debit (2010: £0.5m debit) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

16 Derivative financial instruments – continued

The cross-currency swaps used to hedge the 2003 US dollar private placement loan notes have an interest rate of 6.8% (2010: 6.8%), and a weighted average period to maturity of 1.3 years (2010: 2.3 years). The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2011 £m	2010 £m
Asset/(liability) at 1 January	0.4	(2.5)
Exchange rate movement	0.2	2.8
(Charged)/credited to the hedging reserve	(0.3)	0.1
Asset at 31 December	0.3	0.4

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 £0.3m debit (2010: debit of £0.1m). The exchange rate movement of £0.2m debit (2010: £2.8m debit) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

The amount (charged)/credited to the hedging reserve reflects the difference between the movement in the fair value of the cross-currency swaps and the exchange rate movements described above.

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 cashflow hedges and fair value hedges. The cashflow hedge portion of the swaps were designated as cashflow hedges and continue to be effective under IAS 39 in the year ended 31 December 2011. 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 from LIBOR + 1.61% to LIBOR + 1.63% (2010: LIBOR + 1.58% to LIBOR + 1.63%) and a weighted average period to maturity of 2.6 years (2010: 2.7 years).

The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2011 £m	2010 £m
Asset at 1 January	15.5	12.5
Exchange rate movement	(3.6)	3.1
Charged to the hedging reserve	(0.3)	(0.1)
Asset at 31 December	11.6	15.5

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 £10.9m debit (2010: debit of £14.5m). The exchange rate movement of £3.6m credit (2010: £3.1m debit) 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 cashflow hedge portion of the cross-currency swaps and the cashflow 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. An asset of £0.3m is held in the group balance sheet as at 31 December 2011 in respect of foreign exchange contracts (2010: 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 £6.7m (2010: £9.8m). These contracts have a range of maturity dates from 14 February 2012 to 13 November 2012 (2010: 11 January 2011 to 11 August 2011). These contracts were designated as cashflow hedges and were effective under IAS 39. Accordingly, the movement in fair value of £0.4m has been credited to the hedging reserve within equity (2010: £nil).

17 Trade and other receivables

Non-current assets	Company 2011 £m	Company 2010 £m
Amounts owed by group undertakings	649.0	438.0

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 (2010: £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	2011 £m	2010 £m	2011 £m	2010 £m
Trade receivables	0.1	1.0	–	–
Other receivables	8.3	5.9	–	–
Amounts owed by group undertakings	–	–	716.4	970.9
Prepayments and accrued income	12.7	16.7	3.0	3.8
Total	21.1	23.6	719.4	974.7

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.

There are no amounts past due in respect of trade and other receivables due in less than one year (2010: £nil). Within the company, an impairment provision of £121.7m (2010: £123.0m) 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 £1.3m has been credited to the income statement of the company (2010: charge of £0.9m).

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 (2010: carrying value) set out above. There is no collateral held in respect of trade and other receivables (2010: £nil).

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 2011, 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 Provident Financial Staff Pension Scheme covers 61% of employees with company-provided pension arrangements and is of the funded, defined benefit type providing retirement benefits based on final salary. Following a full group review of pension scheme arrangements, from 1 April 2006 members were provided with a choice of paying higher member contributions to continue accruing benefits based on final salary or paying a lower member contribution and accruing benefits based on a percentage of salary which would be revalued each year.

The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation was carried out as at 1 June 2009 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on this valuation updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

18 Retirement benefit asset – continued

The net retirement benefit asset recognised in the balance sheet of the group is as follows:

	Group			
		2011		2010
	£m	%	£m	%
Equities	218.4	42	248.0	48
Corporate bonds	173.9	33	165.9	32
Fixed interest gilts	28.4	5	39.7	8
Index-linked gilts	103.2	20	60.2	12
Cash and money market funds	1.1	–	0.3	–
Total fair value of scheme assets	525.0	100	514.1	100
Present value of funded defined benefit obligation	(511.5)		(473.1)	
Net retirement benefit asset recognised in the balance sheet	13.5		41.0	

The valuation of the pension scheme has reduced from £41.0m at 31 December 2010 to £13.5m at 31 December 2011. A high level reconciliation of the movement is as follows:

	£m
Pension asset as at 31 December 2010	41
Cash contributions made by the group	10
Return on assets being held to meet pension obligations	14
Reduction in inflation assumption from 3.5% to 3.0%	35
Actuarially based cost of new benefits	(7)
Reduction in discount rate used to discount future liabilities from 5.4% to 4.9%	(54)
Unwinding of discount on liabilities	(25)
Pension asset as at 31 December 2011	14

The most significant movement in the pension asset is the movement in the discount rate applied to pension liabilities. The discount rate is calculated by reference to the yield on high quality corporate bonds which, based on an appropriate index, have fallen from an average of 5.4% at 31 December 2010 to 4.9% at 31 December 2011.

The net retirement benefit asset recognised in the balance sheet of the company is as follows:

	Company			
		2011		2010
	£m	%	£m	%
Equities	56.4	42	63.7	48
Corporate bonds	44.9	33	42.6	32
Fixed interest gilts	7.3	5	10.2	8
Index-linked gilts	26.6	20	15.5	12
Cash and money market funds	0.3	–	0.1	–
Total fair value of scheme assets	135.5	100	132.1	100
Present value of funded defined benefit obligation	(131.3)		(119.5)	
Net retirement benefit asset recognised in the balance sheet	4.2		12.6	

The assets and liabilities of the group's defined benefit pension scheme have been allocated to the company on a pro rata basis based upon the actual employer cash contributions made by the company.

18 Retirement benefit asset – continued

The amounts recognised in the income statement were as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Current service cost	(7.0)	(7.7)	(2.1)	(2.4)
Interest cost	(25.4)	(24.8)	(7.8)	(7.6)
Expected return on scheme assets	32.0	29.1	9.8	9.5
Net charge recognised in the income statement	(0.4)	(3.4)	(0.1)	(0.5)

The net charge 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	
	2011 £m	2010 £m	2011 £m	2010 £m
Fair value of scheme assets at 1 January	514.1	464.6	132.1	116.8
Expected return on scheme assets	32.0	29.1	9.8	9.5
Actuarial movement on scheme assets	(18.4)	22.9	(3.0)	8.7
Contributions by the group/company	10.0	9.6	0.5	0.8
Contributions paid by scheme participants	–	0.1	–	–
Net benefits paid out	(12.7)	(12.2)	(3.9)	(3.7)
Fair value of scheme assets at 31 December	525.0	514.1	135.5	132.1

The expected contributions to the defined benefit pension scheme in the year ending 31 December 2012 are approximately £10m.

Movements in the present value of the defined benefit obligation were as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Defined benefit obligation at 1 January	(473.1)	(444.7)	(119.5)	(110.7)
Current service cost	(7.0)	(7.7)	(2.1)	(2.4)
Interest cost	(25.4)	(24.8)	(7.8)	(7.6)
Contributions paid by scheme participants	–	(0.1)	–	–
Actuarial movement on scheme liabilities	(18.7)	(8.0)	(5.8)	(2.5)
Net benefits paid out	12.7	12.2	3.9	3.7
Present value of the defined benefit obligation at 31 December	(511.5)	(473.1)	(131.3)	(119.5)

18 Retirement benefit asset – continued

The principal actuarial assumptions used at the balance sheet date were as follows:

		Group and company	
		2011 %	2010 %
Price inflation		3.00	3.50
Rate of increase in pensionable salaries		4.00	4.50
Rate of increase to pensions in payment		3.00	3.50
Inflationary increases to pensions in deferment		2.00	2.80
Discount rate		4.90	5.40
Long-term rate of return	– equities	7.50	8.00
	– bonds	4.90	5.40
	– fixed interest gilts	2.50	4.00
	– index-linked gilts	2.50	4.00
	– cash and money market funds	2.50	4.00
	– overall (weighted average)	5.40	6.40

The expected return on plan assets is determined by considering the expected returns available on the assets under the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect anticipated long-term real rates of return.

IAS 19 requires that the discount rate should be determined by reference to market yields at the balance sheet date on high quality corporate bonds and that the term of the instruments chosen should be consistent with the estimated term of the defined benefit obligations. In the UK, this is usually interpreted to mean the yield on AA-rated corporate bonds of an appropriate term. A 0.1% movement in the discount rate would increase/decrease the retirement benefit asset by approximately £10m (2010: £9m).

The mortality assumptions used in the valuation of the defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy. The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- The projections are combined with the medium cohort improvement factors in order to predict future improvements in life expectancy, subject to an annual minimum rate of improvement of 1%.

In more simple terms, it is now assumed that members who retire in the future at age 65 will live on average for a further 23 years if they are male (2010: 23 years) and for a further 25 years if they are female (2010: 25 years). If assumed life expectancies had been one year greater for the scheme, the retirement benefit asset would have been reduced by approximately £20m (2010: £16m).

The actual return on scheme assets compared to the expected return is as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Expected return on scheme assets	32.0	29.1	9.8	9.5
Actuarial movement on scheme assets	(18.4)	22.9	(3.0)	8.7
Actual return on scheme assets	13.6	52.0	6.8	18.2

18 Retirement benefit asset – continued

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	
	2011 £m	2010 £m	2011 £m	2010 £m
Actuarial movement on scheme assets	(18.4)	22.9	(3.0)	8.7
Actuarial movement on scheme liabilities	(18.7)	(8.0)	(5.8)	(2.5)
Total (loss)/gain recognised in other comprehensive income in the year	(37.1)	14.9	(8.8)	6.2
Cumulative amount of losses recognised in other comprehensive income	(85.0)	(47.9)	(22.2)	(13.4)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the group is as follows:

	Group				
	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	525.0	514.1	464.6	410.7	465.7
Present value of funded defined benefit obligation	(511.5)	(473.1)	(444.7)	(359.8)	(404.2)
Retirement benefit asset recognised in the balance sheet	13.5	41.0	19.9	50.9	61.5
Experience (losses)/gains on scheme assets					
– amount (£m)	(17.7)	22.9	29.9	(78.9)	0.1
– percentage of scheme assets (%)	(3.4)	4.5	6.4	(19.2)	–
Experience (losses)/gains on scheme liabilities					
– amount (£m)	(6.1)	–	10.3	–	(0.5)
– percentage of scheme liabilities (%)	(1.2)	–	2.3	–	(0.1)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the company is as follows:

	Company				
	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	135.5	132.1	116.8	99.9	117.4
Present value of funded defined benefit obligation	(131.3)	(119.5)	(110.7)	(83.8)	(97.9)
Retirement benefit asset recognised in the balance sheet	4.2	12.6	6.1	16.1	19.5
Experience (losses)/gains on scheme assets					
– amount (£m)	(2.9)	8.7	10.4	(24.5)	(3.9)
– percentage of scheme assets (%)	(2.1)	6.6	8.9	(24.5)	(3.3)
Experience (losses)/gains on scheme liabilities					
– amount (£m)	(1.9)	–	3.3	–	(0.1)
– percentage of scheme liabilities (%)	(1.4)	–	3.0	–	(0.1)

(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 £3.8m for the year ended 31 December 2011 (2010: £3.6m). Contributions made by the company amounted to £0.4m (2010: £0.3m). No contributions were payable to the fund at the year end (2010: £nil).

The group contributed £0.1m to personal pension plans in the year (2010: £0.1m).

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 derivatives, the group's pension asset 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 change in UK corporation tax rate which is effective from 1 April 2012, deferred tax balances have been re-measured. The temporary differences, on which deferred tax balances have been calculated are expected to reverse after 1 April 2012 (2010: 1 April 2011). Accordingly, the balances have been calculated using a tax rate of 25% (2010: 27%). The movement in the deferred tax asset during the year can be analysed as follows:

	Group		Company	
Asset	2011 £m	2010 £m	2011 £m	2010 £m
At 1 January	2.8	7.7	1.9	5.2
(Charge)/credit to the income statement (note 5)	(4.3)	1.4	0.1	0.7
Credit/(charge) on other comprehensive income prior to change in UK tax rate (note 5)	9.4	(6.3)	1.9	(3.7)
Impact of change in UK tax rate:				
– charge to the income statement	(0.3)	(0.2)	–	(0.3)
– (charge)/credit to other comprehensive income	(0.1)	0.2	(0.3)	–
At 31 December	7.5	2.8	3.6	1.9

The change in the UK tax rate relates to the impact of the change in UK corporation tax rate from 26% (2010: 28%) to 25% (2010: 27%) which will be effective from 1 April 2012 (2010: 1 April 2011) (see note 5).

An analysis of the deferred tax asset for the group is set out below:

	2011				2010			
Group – asset	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 £m	Total £m
At 1 January	0.6	13.3	(11.1)	2.8	(0.5)	13.8	(5.6)	7.7
Credit/(charge) to the income statement	0.3	(2.5)	(2.1)	(4.3)	1.1	2.0	(1.7)	1.4
(Charge)/credit on other comprehensive income prior to change in UK tax rate	–	(0.5)	9.9	9.4	–	(2.1)	(4.2)	(6.3)
Impact of change in UK tax rate:								
– (charge)/credit to the income statement	–	(0.2)	(0.1)	(0.3)	–	(0.3)	0.1	(0.2)
– (charge)/credit to other comprehensive income	–	(0.1)	–	(0.1)	–	(0.1)	0.3	0.2
At 31 December	0.9	10.0	(3.4)	7.5	0.6	13.3	(11.1)	2.8

An analysis of the deferred tax asset for the company is set out below:

	2011				2010			
Company – asset	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 £m	Total £m
At 1 January	(0.1)	5.4	(3.4)	1.9	0.1	6.8	(1.7)	5.2
(Charge)/credit to the income statement	(0.4)	0.4	0.1	0.1	(0.2)	1.0	(0.1)	0.7
(Charge)/credit on other comprehensive income prior to change in UK tax rate	–	(0.4)	2.3	1.9	–	(2.0)	(1.7)	(3.7)
Impact of change in UK tax rate:								
– charge to the income statement	–	–	–	–	–	(0.3)	–	(0.3)
– (charge)/credit to other comprehensive income	–	(0.2)	(0.1)	(0.3)	–	(0.1)	0.1	–
At 31 December	(0.5)	5.2	(1.1)	3.6	(0.1)	5.4	(3.4)	1.9

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

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 held in accordance with the FSA's liquidity regime. The FSA requires certain regulated entities to maintain a liquid assets buffer to ensure that firms have a liquid source of funds to help protect against unforeseen circumstances. Vanquis Bank's liquid assets buffer amounts to £17.5m in 2011 (2010: £10.0m) and represents cash deposited in a designated money market fund which invests in UK Government bonds. Vanquis Bank is a simplified firm under the liquidity regime and therefore the liquid assets buffer is calculated as 10% to 20% of retail deposits taken, principally depending on maturity, plus 25% of the undrawn credit lines on credit cards. Currently, under the FSA's transitional arrangements, firms are only required to hold 30% of the amount calculated under the simplified regime. This increases to 50% in March 2012, 70% in July 2013 and to 100% in January 2016.

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Cash at bank and in hand	49.6	29.0	2.1	1.5

In addition to cash and cash equivalents, the group had £17.4m of bank overdrafts at 31 December 2011 (2010: £10.6m) and the company had £16.3m of bank overdrafts (2010: £8.3m) both of which were disclosed within bank and other borrowings.

The currency profile of cash and cash equivalents is as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Sterling	49.6	28.8	2.1	1.4
Euro	–	0.2	–	0.1
Total cash and cash equivalents	49.6	29.0	2.1	1.5

Cash and cash equivalents are non-interest bearing other than the amounts held by Vanquis Bank as a liquid assets buffer 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 2011, borrowings under these facilities amounted to £1,049.6m (2010: £964.9m).

(b) Maturity profile of bank and other borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

	2011		2010	
Group	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	25.2	17.4	25.3	10.6
In less than one year	33.1	33.1	147.7	137.1
Included in current liabilities	58.3	50.5	173.0	147.7
Between one and two years	740.1	459.2	237.8	194.6
Between two and five years	148.8	146.6	472.4	347.8
In more than five years	393.5	393.3	275.2	274.8
Included in non-current liabilities	1,282.4	999.1	985.4	817.2
Total group	1,340.7	1,049.6	1,158.4	964.9

Borrowings are stated after deducting £6.4m of unamortised arrangement fees (2010: £7.3m) and after an £11.2m credit in respect of the fair value adjustment of derivative financial instruments (2010: £13.2m) (see note 16(d)). In order to reconcile the borrowings shown in the table above and the headroom on committed facilties 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.

21 Bank and other borrowings – continued

Company	2011 Borrowing facilities available £m	2011 Borrowings £m	2010 Borrowing facilities available £m	2010 Borrowings £m
Repayable:				
On demand	25.2	16.3	25.3	8.3
In less than one year	–	–	131.5	117.5
Included in current liabilities	25.2	16.3	156.8	125.8
Between one and two years	417.3	125.2	149.4	106.1
Between two and five years	78.1	75.9	273.9	138.2
In more than five years	393.5	393.3	275.2	274.8
Included in non-current liabilities	888.9	594.4	698.5	519.1
Total company	914.1	610.7	855.3	644.9

As at 31 December 2011, the weighted average period to maturity of the group's committed facilities, including retail deposits, was 3.5 years (2010: 3.5 years) and for the company's committed facilities is 4.4 years (2010: 4.0 years). Excluding retail deposits, the weighted average period to maturity of the group's committed facilities was 3.3 years (2010: 3.5 years). On 10 February 2012, the group entered into a new £382.5m bank revolving credit facility maturing in May 2015 and cancelled all existing bank facilities. After adjusting for this renewal, the weighted average period to maturity of the group's committed facilities is 4.6 years (4.3 years, excluding retail deposits) and the weighted average period to maturity of the company's committed facilities is 5.3 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:

Group	2011 Fixed £m	2011 Floating £m	2011 Total £m	2010 Fixed £m	2010 Floating £m	2010 Total £m
Sterling	471.7	427.5	899.2	324.8	456.6	781.4
US dollar	96.1	–	96.1	131.1	–	131.1
Euro	–	54.3	54.3	–	52.4	52.4
Total group	567.8	481.8	1,049.6	455.9	509.0	964.9

Company	2011 Fixed £m	2011 Floating £m	2011 Total £m	2010 Fixed £m	2010 Floating £m	2010 Total £m
Sterling	330.0	226.4	556.4	322.8	254.4	577.2
US dollar	–	–	–	15.3	–	15.3
Euro	–	54.3	54.3	–	52.4	52.4
Total company	330.0	280.7	610.7	338.1	306.8	644.9

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 £897.8m (2010: £912.0m) and the company's fixed rate borrowings are £550.0m (2010: £596.2m). After taking account of cross-currency swaps, the group and company have no foreign exchange rate exposure to borrowings denominated in US dollars (2010: £nil).

(d) Senior public bonds
On 23 October 2009, the company issued £250m of senior public bonds. The bonds have an annual coupon of 8.0% and are repayable on 23 October 2019.

21 Bank and other borrowings – continued

(e) Private placement loan notes

On 10 May 2001, the company issued private placement loan notes as follows:

(i) £42m of 7.21% loan notes matured and repaid on 10 May 2011;
(ii) US$64m of 7.40% loan notes matured and repaid on 10 May 2008; and
(iii) US$24m of 7.60% loan notes matured and repaid on 10 May 2011.

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 repayable 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 £100m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years 5 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 7-year period at rates linked to EURIBOR;
- 4 March 2011 – £20m private placement loan notes over a 7-year period at rates linked to LIBOR; and
- 24 May 2011 – €14.5m private placement loan notes over a 4-year period at rates linked to EURIBOR. The company has the option to repay the notes after 3 years.

(f) Retail bonds

On 14 April 2010, the company issued £25.2m of retail bonds which have an all-in cost of 7.5%, comprising 7.0% payable to the bond holder and 0.5% payable to the distributor, and are repayable on 14 April 2020. On 31 March 2011, the company issued a further £50.0m of retail bonds which accrue interest at 7.5% and are repayable on 30 September 2016.

(g) Retail deposits

Vanquis Bank is an FSA regulated bank and commenced taking retail deposits in July 2011. As at 31 December 2011, £139.7m of fixed-rate, fixed-term retail deposits of 1, 2, 3 and 5 years had been taken. The deposits were issued at rates of between 3.15% and 4.65%.

(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 to repayment of 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 80% of its receivables book through retail deposits.

The undrawn committed borrowing facilities at 31 December were as follows:

	Group	
Group and company	2011 £m	2010 £m
Expiring within one year	197.9	12.7
Expiring within one to two years	90.2	36.3
Expiring in more than two years	–	135.7
Total group	288.1	184.7

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:

	2011		2010	
Group	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	6.67	5.73	7.80	7.65
US dollar	6.39	1.87	6.51	2.20

	2011		2010	
Company	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	7.84	7.31	7.80	7.67
US dollar	–	–	7.60	0.36

After taking account of interest rate swaps and cross-currency swaps, the sterling weighted average fixed interest rate for the group is 5.01% (2010: 5.17%) and for the company is 5.24% (2010: 5.78%). The sterling weighted average period to maturity on the same basis is 4.1 years (2010: 4.2 years) for the group and 4.5 years (2010: 4.9 years) for the company. There is £nil foreign exchange or interest rate risk denominated in US dollars after taking account of cross-currency swaps (2010: £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:

	2011		2010	
Group	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	351.4	351.4	521.8	521.8
Senior public bonds	250.0	240.9	250.0	244.5
Sterling private placement loan notes	122.0	108.2	44.0	48.0
US dollar private placement loan notes	84.9	83.7	117.9	133.4
Euro private placement loan notes	20.4	19.2	–	–
Retail bonds	75.2	78.4	25.2	26.4
Retail deposits	139.7	138.1	–	–
Subordinated loan notes	6.0	5.7	6.0	6.0
Total group	1,049.6	1,025.6	964.9	980.1

	2011		2010	
Company	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	137.1	137.1	304.9	304.9
Senior public bonds	250.0	240.9	250.0	244.5
Sterling private placement loan notes	122.0	108.2	42.0	45.9
US dollar private placement loan notes	–	–	16.8	17.3
Euro private placement loan notes	20.4	19.2	–	–
Retail bonds	75.2	78.4	25.2	26.4
Subordinated loan notes	6.0	5.7	6.0	6.0
Total company	610.7	589.5	644.9	645.0

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 cashflows 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 equates to their publicly quoted market price at the balance sheet date.

22 Trade and other payables

	Group		Company	
Current liabilities	2011 £m	2010 £m	2011 £m	2010 £m
Trade payables	3.7	5.6	–	–
Amounts owed to group undertakings	–	–	103.1	115.6
Other payables including taxation and social security	9.1	9.1	3.3	3.1
Accruals	40.2	31.3	14.7	15.6
Total	53.0	46.0	121.1	134.3

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.

	Company	
	2011 £m	2010 £m
Amounts owed to group undertakings	86.9	103.2

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 Called-up share capital

	2011		2010	
Group and company	Authorised	Issued and fully paid	Authorised	Issued and fully paid
Ordinary shares of 20⁸⁄₁₁p each – £m	40.0	28.5	40.0	28.1
– number (m)	193.0	137.2	193.0	135.7

The movement in the number of shares in issue during the year was as follows:

Group and company	2011 m	2010 m
At 1 January	135.7	134.4
Shares issued pursuant to the exercise of options/awards	1.5	1.3
At 31 December	137.2	135.7

The shares issued pursuant to the exercise of options/awards comprised 1,554,530 ordinary shares (2010: 1,272,980) with a nominal value of £322,212 (2010: £263,854) and an aggregate consideration of £2.4m (2010: £1.8m).

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 2011, the EBT held 2,969,888 (2010: 2,638,457) shares in the company with a cost of £4.0m (2010: £7.6m) and a market value of £21.2m (2010: £21.4m). 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 2011, awards under the PSP, held in the name of the individual subject to the award, were 754,132 (2010: 748,896) ordinary shares with a cost of £0.7m (2010: £3.1m) and a market value of £7.1m (2010: £6.5m).

Until 7 February 2011, Provident Financial plc also sponsored the Provident Financial Qualifying Employee Share Ownership Trust (the QUEST) which was a discretionary trust established for the benefit of the employees of the group. The company established Provident Financial Trustees Limited to act as trustee of the QUEST and the trustee had waived the right to receive dividends on the shares it held. As the trust no longer held any ordinary shares in the company, the trust was wound up on 7 February 2011.

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 Incentives 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. During 2011, awards/options have been granted under the LTIS, PSP and SAYE schemes (2010: awards/options have been granted under the LTIS and SAYE schemes.

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 increase in the share-based payment charge from £6.4m in 2010 to £8.0m in 2011, principally reflects the fact that an award has been made under the PSP in 2011. A similar award was not made in 2010.

The charge to the income statement in 2011 was £8.0m for the group (2010: £6.4m) and £4.0m for the company (2010: £2.9m).

The fair value per award/option granted and the assumptions used in the calculation of the share-based payment charge are as follows:

			2011		2010
Group	PSP	LTIS	SAYE	LTIS	SAYE
Grant date	4 Mar 2011	4 Mar 2011	31 Aug 2011	12 Apr 2010	31 Aug 2010
Share price at grant date (£)	9.53	9.53	11.04	8.68	8.39
Exercise price (£)	–	–	8.68	–	6.62
Shares awarded/under option (number)	314,382	884,129	282,052	861,112	428,443
Vesting period (years)	3	3	3,5 and 7	3	3, 5 and 7
Expected volatility	32.9%	32.9%	29.8%-32.6%	37.2%	30.2%–34.0%
Award/option life (years)	3	3	Up to 7	3	Up to 7
Expected life (years)	3	3	Up to 7	3	Up to 7
Risk-free rate	1.86%	1.86%	0.98%-2.19%	2.19%	1.15%–2.45%
Expected dividends expressed as a dividend yield	n/a	n/a	7.3%	n/a	7.2%
Fair value per award/option (£)	9.53	6.76	1.79-2.04	5.48	1.65–1.71

			2011		2010
Company	PSP	LTIS	SAYE	LTIS	SAYE
Grant date	4 Mar 2011	4 Mar 2011	31 Aug 2011	12 Apr 2010	31 Aug 2010
Share price at grant date (£)	9.53	9.53	11.04	8.68	8.39
Exercise price (£)	–	–	8.68	–	6.62
Shares awarded/under option (number)	215,594	427,348	6,914	443,263	7,176
Vesting period (years)	3	3	3 and 5	3	3 and 5
Expected volatility	32.9%	32.9%	29.8%-32.6%	37.2%	32.6%–34.0%
Award/option life (years)	3	3	Up to 5	3	Up to 5
Expected life (years)	3	3	Up to 5	3	Up to 5
Risk-free rate	1.86%	1.86%	0.98%-1.61%	2.19%	1.15%–1.85%
Expected dividends expressed as a dividend yield	n/a	n/a	7.3%	n/a	7.2%
Fair value per award/option (£)	9.53	6.76	1.96-2.04	5.48	1.70–1.71

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:

Group	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2011	2,445,472	–	58,728	6.31	1,467,970	6.48	600,255	–
Awarded/granted	884,129	–	–	–	282,052	8.68	314,382	–
Lapsed	(19,476)	–	–	–	(116,513)	6.71	–	–
Exercised	(464,761)	–	(43,838)	6.49	(311,920)	5.94	(244,782)	–
Outstanding at 31 December 2011	2,845,364	–	14,890	5.77	1,321,589	7.05	669,855	–
Exercisable at 31 December 2011	–	–	14,890	5.77	327,226	5.92	–	–

Share awards outstanding under the LTIS scheme at 31 December 2011 had an exercise price of £nil (2010: £nil) and a weighted average remaining contractual life of 1.27 years (2010: 1.3 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2011 had an exercise price of 577p (2010: range of 577p to 709p) and a weighted average remaining contractual life of nil years (2010: nil years). Share options outstanding under the SAYE schemes at 31 December 2011 had exercise prices ranging from 453p to 868p (2010: 453p to 716p) and a weighted average remaining contractual life of 3.1 years (2010: 2.5 years). Share awards outstanding under the PSP schemes at 31 December 2011 had an exercise price of £nil (2010: £nil) and a weighted average remaining contractual life of 1.2 years (2010: 0.8 years).

Group	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2010	2,316,169	–	109,084	6.06	1,418,929	6.39	635,033	–
Awarded/granted	861,112	–	–	–	428,443	6.62	–	–
Lapsed	(56,869)	–	(6,416)	5.77	(159,008)	6.54	(1,451)	–
Exercised	(674,940)	–	(43,940)	5.77	(220,394)	6.26	(33,327)	–
Outstanding at 31 December 2010	2,445,472	–	58,728	6.31	1,467,970	6.48	600,255	–
Exercisable at 31 December 2010	–	–	58,728	6.31	57,395	6.66	–	–

24 Share-based payments – continued

Company	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2011	1,184,110	–	28,666	6.54	50,870	6.28	416,605	–
Awarded/granted	427,348	–	–	–	6,914	8.68	215,594	–
Lapsed	(7,406)	–	–	–	(3,646)	6.95	–	–
Exercised	(214,109)	–	(24,596)	6.68	(16,253)	5.39	(162,296)	–
Outstanding at 31 December 2011	1,389,943	–	4,070	5.69	37,885	7.04	469,903	–
Exercisable at 31 December 2011	–	–	4,070	5.69	14,913	5.23	–	–

Share awards outstanding under the LTIS scheme at 31 December 2011 had an exercise price of £nil (2010: £nil) and a weighted average remaining contractual life of 1.27 years (2010: 1.3 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2011 had an exercise price of 577p (2010: range of 577p to 709p) and a weighted average remaining contractual life of nil years (2010: nil years). Share options outstanding under the SAYE schemes at 31 December 2011 had exercise prices ranging from 491p to 868p (2010: 491p to 716p) and a weighted average remaining contractual life of 2.8 years (2010: 1.9 years). Share awards outstanding under the PSP schemes at 31 December 2011 had an exercise price of £nil (2010: £nil) and a weighted average remaining contractual life of 1.3 years (2010: 0.8 years).

Company	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2010	1,105,404	–	49,766	6.22	48,904	6.62	425,814	–
Awarded/granted	443,263	–	–	–	7,176	6.62	–	–
Lapsed	(17,241)	–	–	–	(2,450)	6.93	(1,451)	–
Exercised	(347,316)	–	(21,100)	5.77	(2,760)	7.16	(7,758)	–
Outstanding at 31 December 2010	1,184,110	–	28,666	6.55	50,870	6.28	416,605	–
Exercisable at 31 December 2010	–	–	28,666	6.54	2,680	6.58	–	–

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 2010	0.8	3.6	(12.6)	(16.9)	12.1	(13.0)
Other comprehensive income:						
– cashflow hedges (note 16)	–	–	7.6	–	–	7.6
– tax on other comprehensive income	–	–	(2.1)	–	–	(2.1)
– impact of change in UK tax rate	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	5.4	–	–	5.4
Transactions with owners:						
– purchase of own shares	–	–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards	–	–	–	6.5	–	6.5
– share-based payment charge (note 24)	–	–	–	–	6.4	6.4
– transfer of share-based payment reserve	–	–	–	–	(4.2)	(4.2)
At 31 December 2010	0.8	3.6	(7.2)	(10.6)	14.3	0.9
At 1 January 2011	0.8	3.6	(7.2)	(10.6)	14.3	0.9
Other comprehensive income:						
– cashflow hedges (note 16)	–	–	1.4	–	–	1.4
– tax on other comprehensive income	–	–	(0.5)	–	–	(0.5)
– impact of change in UK tax rate	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	0.8	–	–	0.8
Transactions with owners:						
– 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 (note 24)	–	–	–	–	8.0	8.0
– transfer of share-based payment reserve	–	–	–	–	(6.3)	(6.3)
At 31 December 2011	0.8	3.6	(6.4)	(4.6)	16.0	9.4

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 reflects shares acquired by the company, through various trusts, both from off 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 on an annual basis 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.

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 2010	609.2	2.3	3.6	(13.6)	(16.9)	12.1	596.7
Other comprehensive income:							
– cashflow hedges (note 16)	–	–	–	7.6	–	–	7.6
– tax on other comprehensive income	–	–	–	(2.0)	–	–	(2.0)
– impact of change in UK tax rate	–	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	–	5.5	–	–	5.5
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards	–	–	–	–	6.5	–	6.5
– share-based payment charge (note 24)	–	–	–	–	–	2.9	2.9
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	0.7	0.7
– transfer of share-based payment reserve	–	–	–	–	–	(1.4)	(1.4)
At 31 December 2010	609.2	2.3	3.6	(8.1)	(10.6)	14.3	610.7
At 1 January 2011	609.2	2.3	3.6	(8.1)	(10.6)	14.3	610.7
Other comprehensive income:							
– cashflow hedges (note 16)	–	–	–	1.6	–	–	1.6
– tax on other comprehensive income	–	–	–	(0.4)	–	–	(0.4)
– impact of change in UK tax rate	–	–	–	(0.2)	–	–	(0.2)
Other comprehensive income for the year	–	–	–	1.0	–	–	1.0
Transactions with owners:							
– 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 (note 24)	–	–	–	–	–	4.0	4.0
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	0.5	0.5
– transfer of share-based payment reserve	–	–	–	–	–	(2.8)	(2.8)
At 31 December 2011	609.2	2.3	3.6	(7.1)	(4.6)	16.0	619.4

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	
	2011 £m	2010 £m	2011 £m	2010 £m
Due within one year	11.8	11.7	2.7	2.6
Due between one and five years	31.6	34.1	9.0	8.6
Due in more than five years	16.8	17.2	12.3	12.4
Total	60.2	63.0	24.0	23.6

Operating lease commitments relate to the future rental payments until the first break on: (i) the new CCD head office property in Bradford; (ii) the 400 CCD branches nationwide; and (iii) the Vanquis Bank head office in London and contact centre in Chatham.

Other group commitments are as follows:

	Group	
	2011 £m	2010 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	0.1	0.4

The company had £nil capital expenditure commitments contracted with third parties but not provided for at 31 December 2011 (2010: £nil).

	Group	
	2011 £m	2010 £m
Unused committed credit card facilities at 31 December	161.9	131.8

The company has £nil unused committed credit card facilities at 31 December 2011 (2010: £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 £0.3m (2010: £0.5m) and the amount due from the pension scheme at 31 December 2011 was £0.3m (2010: £0.2m).

Details of the transactions between the company and its subsidiary undertakings, which comprise management recharges and interest charges or credits on intra-group balances, along with any balances outstanding at 31 December are set out below:

	2011			2010		
Company	Management recharge £m	Interest charge/(credit) £m	Outstanding balance £m	Management recharge £m	Interest charge/(credit) £m	Outstanding balance £m
CCD	6.2	71.7	1,060.3	6.4	63.2	1,037.0
Vanquis Bank	1.8	24.1	223.8	1.7	20.9	279.5
Other central companies	–	(26.1)	13.0	–	(0.2)	(3.4)
Total	8.0	69.7	1,297.1	8.1	83.9	1,313.1

The outstanding balance represents the gross intercompany balance receivable by/(payable to) the company, against which a provision of £121.7m (2010: £123.0m) is held.

During 2011, the company received a dividend of £85.0m from Provident Financial Management Services Limited, a subsidiary within CCD (2010: £80.0m) and a £5.0m dividend from Vanquis Bank Limited (2010: £nil).

There are no transactions with directors other than those disclosed in the directors' remuneration report.

28 Contingent liabilities

The company has a contingent liability for guarantees given in respect of borrowing facilities of certain subsidiaries to a maximum of £547.3m (2010: £455.3m). At 31 December 2011, the fixed and floating rate borrowings in respect of these guarantees amounted to £299.2m (2010: £311.4m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2011 was £nil (2010: £nil).

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.

29 Reconciliation of profit after taxation to cash generated from/(used in) operations

		Group		Company	
	Note	2011 £m	2010 £m	2011 £m	2010 £m
Profit after taxation		119.8	101.5	102.1	84.0
Adjusted for:					
Tax charge	5	42.3	40.5	5.1	2.8
Finance costs	3	69.6	69.7	63.6	64.6
Finance income		–	–	(95.2)	(84.1)
Dividends received	27	–	–	(85.0)	(80.0)
Share-based payment charge	24	8.0	6.4	4.0	2.9
Retirement benefit charge	18	0.4	3.4	0.1	0.5
Amortisation of intangible assets	11	7.5	6.5	–	–
Depreciation of property, plant and equipment	12	7.3	7.0	1.0	0.2
Exceptional impairment of property, plant and equipment	12	–	2.5	–	1.8
Loss on disposal of property, plant and equipment	12	0.2	0.1	–	0.2
Impairment of investments in subsidiaries	13	–	–	–	0.2
Changes in operating assets and liabilities:					
Amounts receivable from customers		(113.4)	(80.0)	–	–
Trade and other receivables		0.9	3.1	42.7	(75.1)
Trade and other payables		8.2	0.3	(11.4)	8.6
Contributions into the retirement benefit scheme	18	(10.0)	(9.6)	(0.5)	(0.8)
Derivative financial instruments		(2.1)	(0.1)	(2.1)	–
Provisions		–	(0.8)	–	–
Cash generated from/(used in) operations		138.7	150.5	24.4	(74.2)

30 Post balance sheet event

Subsequent to the year end, the group has recently entered into a new £382.5m syndicated bank facility maturing in May 2015 and cancelled all existing bank facilities. The syndicate is comprised of the group's core relationship banks. The all-in cost of funds is very similar and the terms, conditions and covenant package are consistent with the previous facility. Headroom on the group's committed debt facilities at 31 December 2011 amounted to £288m which, together with the recent renewal of bank facilities and the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2015.

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the members of Provident Financial plc

We have audited the financial statements of Provident Financial plc for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, earnings per share and dividends, the group and company balance sheets, the group and company statements of changes in shareholders' equity, the group and company statements of cashflows, the statement of accounting policies, financial and capital risk management and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (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.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 69, 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2011 and of the group's profit and group's and company's cashflows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the 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.

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;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 60 to 69 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 57, in relation to going concern;
- the parts of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds,
28 February 2012

INFORMATION FOR SHAREHOLDERS

Financial calendar – final dividend

	2011 Final
Dividend announced	28 February 2012
Annual general meeting	2 May 2012
Ex-dividend date for ordinary shares	16 May 2012
Record date for the dividend	18 May 2012
Payment date for the dividend	21 June 2012

Share price

The Company's shares are listed on the London Stock Exchange under share code 'PFG'. 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 with Redmayne Bentley for the provision of an ISA. Shareholders who are eligible and who wish to take advantage of this should contact:

Phil Armitage
Redmayne-Bentley LLP
9 Bond Court
Leeds
LS1 2JZ

Telephone: 0113 200 6433

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 ⅑th 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.

From 6 April 2010, for taxpayers whose income exceeds £150,000 and are subject to tax at the additional rate, the tax liability on dividends 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.

Registrars

The Company's registrar is:

Capita Registrars
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 Registrars offer 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 Registrars offer 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 Registrars:

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)

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.

PROVIDENT FINANCIAL PLC

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Company number

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