PFG | Provident Financial Group

Pillar 3 Disclosures

Provident Financial plc
31 December 2019

Contents

1. INTRODUCTION

1.1 Overview

This document presents the consolidated Provident Financial plc Pillar 3 disclosures on capital and risk management at 31 December 2019 in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD) IV. This document should be read in conjunction with the Provident Financial plc Annual Report and Financial Statements (Annual Report) for the year ended 31 December 2019.

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

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

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

The Group, incorporating Vanquis Bank, CCD and Moneybarn, is the subject of consolidated supervision by the PRA by virtue of Provident Financial plc being the parent company of Vanquis Bank. The PRA sets requirements for the consolidated Group in respect of capital and liquidity adequacy and large exposures.

The FCA regulation of the consumer credit industry commenced on 1 April 2014. Moneybarn received FCA authorisation in June 2016 and CCD received FCA authorisation in November 2018.

1.2 Pillar 3 disclosure policy

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

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

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

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

The data contained in the Group's Pillar 3 disclosures is calculated in accordance with CRD IV regulatory capital requirements. These disclosures have been subject to internal verification and have been reviewed by the Board of Provident Financial plc.

These disclosures have not been externally audited and do not constitute any part of the Group's financial statements; however, some of the information within the disclosures also appears in the Annual Report.

1.3 Basis of Pillar 3 disclosure

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

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

Vanquis Bank's ability to pay any dividends, and the amount of any such dividends, to Provident Financial plc at any time is subject to its compliance with applicable regulatory capital requirements. Such regulatory capital requirements are subject to change. Furthermore, Vanquis Bank has agreed with the PRA pursuant to a voluntary requirement that it will not, among other things, pay dividends to Provident Financial plc without the PRA's consent. There are no other current or foreseen material, practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between Provident Financial plc and its subsidiary undertakings.

1.4 Prior year restatement of the Group's financial statements

As part of a refresh of contractual terms with affiliates in 2019, and to align with market practice, directly attributable acquisition costs within Vanquis Bank are now capitalised as part of credit card receivables and amortised over the expected life of customer accounts rather than being charged to the income statement as incurred. Directly attributable acquisition costs represented approximately 70% of total acquisition costs in 2019 compared with approximately 30% in 2017. This reflects the progressive shift in mix of new customer booking volumes towards internet affiliates as opposed to other channels such as direct marketing or direct mail where costs are not directly attributable to individual customer bookings. The new treatment results in a reduction in the interest income recognised on credit card receivables and a reduction in administrative and operating costs. Prior year comparatives have been restated resulting in an increase in receivables of £21.3m at 31 December 2018 and an increase in profit before tax in 2018 of £6.6m, comprising a reduction in costs of £12.0m and a reduction in revenue of £5.4m. The change in treatment benefited 2019 profit before tax by £10.5m and is expected to result in a reduction in 2020 profit before tax of approximately £6m compared with previous plans.

1.4 Prior year restatement of the Group's financial statements continued

Moneybarn has made two changes in accounting treatment in 2019:

(i) Revenue recognition on credit impaired receivables

Historically, Moneybarn has recognised revenue on credit impaired receivables 'gross' of the impairment provision and subsequently impaired this additional revenue through the impairment charge resulting in a gross-up in the income statement. In 2019, the Group has determined that revenue on Moneybarn's credit impaired receivables should be recognised 'net' of the impairment provision to align the previous accounting treatment under IFRS 16 with the requirements of IFRS 9 and also with the treatment adopted for similar assets in both Vanquis Bank and CCD.

(ii) Disclosure of directly attributable acquisition costs

Historically, directly attributable deferred acquisition costs in respect of broker commissions were deferred within trade and other receivables and amortised through administrative and operating costs over the expected life of the associated customer contract. Following the change in treatment of directly attributable acquisition costs in Vanquis Bank, and to align the treatment across the Group, the Group has concluded that directly attributable acquisition costs in Moneybarn should be deferred as part of amounts receivable from customers with amortisation therefore being treated as a deduction from revenue.

The restatements result in a reduction in Moneybarn's 2018 revenue of £27.6m, a reduction in impairment of £13.6m and a reduction in administrative and operating costs of £14.0m. There has been no impact on earnings. The carrying value of receivables at 31 December 2018 has increased by £19.8m with a corresponding reduction in trade and other receivables.

For the avoidance of doubt, no restatement of prior year comparatives has been included in the disclosures in this document, which are in line with those set out in the 31 December 2018 Pillar 3 disclosures and form the basis on which the regulatory capital disclosures were calculated at that point in time.

1.5 Adoption of IFRS 16 'Leases'

IFRS 16 'Leases' has been adopted by the Group from the mandatory adoption date of 1 January 2019. IFRS 16 replaces IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors.

The standard distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions between operating leases and finance leases are removed for lessee accounting and have been replaced by a model where a right of use asset and a corresponding liability are recognised for all leases where the Group is the lessee, except for short-term assets and leases of low-value assets. Further detail is set out in the Annual Report.

The adoption of IFRS 16 into the Group's opening balance sheet on 1 January 2019 resulted in an increase in assets of £81.9m and liabilities of £89.0m. Net of deferred tax of £1.5m, this has resulted in a reduction in net assets of £5.6m which has been reflected through opening reserves at 1 January 2019. Furthermore, the adoption of IFRS 16 resulted in a reduction in regulatory capital headroom of £26.0m at 1 January 2019.

The Group has taken the modified retrospective approach, as permitted by IFRS 16. Accordingly, comparative information has therefore not been restated.

1.6 Securitisation of Moneybarn assets

On 14 January 2020, the Group entered into an agreement with NatWest Markets (NWM) to provide a bilateral securitisation facility to fund Moneybarn business flows. The new facility provides up to £100m of initial funding and is anticipated to grow to £275m over a commitment period of 18 months followed by a 12-month amortisation period. The completion of this facility builds the Group's capability in securitisation, allowing similar funding to potentially be deployed elsewhere in the Group. Under the terms of the facility loans originated by Moneybarn are transferred to a special purpose vehicle (SPV) that is bankruptcy remote from the Group, which in turn is funded by the issuance of senior notes in variable funding form to NWM and junior notes to an entity within the Group.

The transfers of the loans to the SPV are not treated as sales by the Group and therefore no gains or losses will be recognised, as this structure is not intended to achieve significant transfer of credit risk away from the Group. The Group will continue to recognise the loans on its own balance sheet after the transfer because the risks relating to the underlying loan pool company, and rewards through the receipt of substantially all of the profits or losses on the securitised loans, will remain with the Group. There are no specific capital requirements for the securitisation vehicle as there has not been a transfer of significant credit risk, the Group will not calculate risk weighted asset amounts for any positions it holds in the securitisations and these will continue to be calculated in line with capital requirements applied to the underlying assets.

As the bilateral securitisation facility was not in place at 31 December 2019 no further disclosure in respect of the facility has been made in this document. Relevant disclosures will be set out in due course in the Pillar 3 disclosures as at 31 December 2020.

1.7 Development in disclosures

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

This Pillar 3 report presents similar disclosures to those published for the financial year ended 31 December 2018.

In December 2018, the EBA published guidelines on uniform disclosures with respect to non-performing and forborne exposures. The guidelines are effective from 31 December 2019 and are therefore reflected in this document.

1.8 IFRS 9 transitional arrangements

IFRS 9 'Financial Instruments' was mandatory from 1 January 2018 and replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 significantly changes the recognition of impairment on amounts receivable from customers by introducing an expected loss model. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss arising on default. This differs from the previous incurred loss model under IAS 39 where impairment provisions were only reflected when there was objective evidence of a credit-affecting event, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This resulted in a one-off adjustment to receivables and reserves on adoption and results in the delayed recognition of profits.

The Group has adopted the regulatory transitional arrangements, including paragraph four within Article 473a of the CRR, published by the EU on 27 December 2017 for IFRS 9 'Financial Instruments'. Under the arrangements the regulatory capital impact of IFRS 9 is phased in on a transitional basis over five years as follows: 5% from the start of 2018, 15% in 2019, 30% in 2020, 50% in 2021, 75% in 2022 and 100% from the start of 2023.

The impact of IFRS 9 on impairment provisions is defined as:

- the increase in impairment provisions on day one of IFRS 9 adoption (a 'static' adjustment); and
- any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book thereafter (a 'dynamic' adjustment).

Unless explicitly stated, the disclosures in this document fully incorporate both the static and dynamic adjustments as required in the Group's regulatory reporting under the CRR regime. However, as the dynamic adjustment is transitory and can by its nature be variable within the transitional period set out in the CRR, the Annual Report applies a less dynamic approach in the statement of regulatory capital position, requirement and headroom, by only including the static adjustment.

For the avoidance of doubt, in the period from day one of IFRS 9 adoption (1 January 2018) to 31 December 2018 there was no increase in ECL in the non-credit impaired book on a consolidated basis for the Group and therefore no dynamic adjustment was required.

1.9 Summary of key capital ratios

The key capital ratios for the Group are presented below:

31 December 2019	Annual Report (excluding IFRS 9 dynamic adjustment) Accrued basis	Pillar 3 (including IFRS 9 dynamic adjustment) Verified basis
Risk weighted exposures (£m)	2,224.0	2,244.3
Total regulatory capital (£m)	682.5	697.2
CET1 ratio	30.7%	31.1%
Total capital ratio	30.7%	31.1%
Leverage ratio	22.5%	22.8%

The key capital ratios excluding the IFRS 9 dynamic adjustment on a verified basis and the key capital ratios including the IFRS 9 dynamic adjustment on an accrued basis are set out in appendix 1.

On a verified basis, any profits or gains not audited or verified by the external auditor at the balance sheet date are deducted from own funds. This is consistent with the disclosures included in the regulatory reporting submissions.

On an accrued basis, profits or gains are included in own funds as they are recognised in the income statement, less the deduction of a foreseeable dividend on such profits. The accrued position includes £12.5m of profits net of foreseeable dividends which will be reflected in the verified position from 27 February 2020 once approved by the external auditor.

As noted in section 1.8, the Group's Annual Report applies a less dynamic approach in the statement of regulatory capital position, requirement and headroom, by only including the static adjustment in respect of the IFRS 9 transitional arrangements. The impact to regulatory capital and risk weighted exposures of including the IFRS 9 dynamic adjustment is set out in sections 4.3 and 5.1 respectively.

The following table sets out the key regulatory capital metrics on an IFRS 9 transitional basis (including dynamic IFRS 9 transitional arrangements), and on a fully loaded basis (as if IFRS 9 transitional arrangements had not been applied), as at 31 December. For the avoidance of doubt, in the period from day one of IFRS 9 adoption (1 January 2018) to 31 December 2018 there was no increase in ECL in the non-credit impaired book on a consolidated basis for the Group and therefore no dynamic adjustment was required.

1.9 Summary of key capital ratios continued

31 December	2019 £m	2018 £m
Available capital		
Common Equity Tier 1 (CET1) capital	**697.2**	621.9
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	**513.6**	447.1
Tier 1 capital	**697.2**	621.9
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**513.6**	447.1
Total capital	**697.2**	621.9
Total capital as if IFRS 9 transitional arrangements had not been applied	**513.6**	447.1
Risk weighted exposures		
Total risk weighted exposures	**2,244.3**	2,209.2
Total risk weighted exposures as if IFRS 9 transitional arrangements had not been applied	**2,182.6**	2,160.3
Capital ratios		
Common Equity Tier 1 (CET1) ratio	**31.1%**	28.2%
Common Equity Tier 1 (CET1) ratio as if IFRS 9 transitional arrangements had not been applied	**23.5%**	20.7%
Tier 1 ratio	**31.1%**	28.2%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**23.5%**	20.7%
Total capital ratio	**31.1%**	28.2%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied	**23.5%**	20.7%
Leverage ratio		
Leverage ratio total exposure measure (£m)	**3,063.3**	3,063.0
Leverage ratio	**22.8%**	20.3%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	**17.8%**	15.5%

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

2.1 Regulatory capital framework

The BASEL regulatory framework has been implemented in the European Union via the CRD. The latest iteration of CRD, CRD IV, was implemented and adopted by the Group from 1 January 2014.

CRD IV came into force in the European Union on 1 January 2014 and defines a framework of regulatory capital resources and requirements. The rules include disclosure requirements known as 'Pillar 3' which apply to Provident Financial plc, as parent company of Vanquis Bank, consolidated with its subsidiaries (the Group). The framework consists of three 'pillars', as summarised below:

- **Pillar 1** is the calculation of minimum regulatory capital requirements that firms are required to hold against risk, the most significant elements for the Group being credit risk and operational risk.
- **Pillar 2** aims to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. The Group performs an Internal Capital Adequacy Assessment Process (ICAAP) on at least an annual basis to assess whether additional regulatory capital over and above Pillar 1 should be held based on the risks faced by the Group and the risk management processes in place. The amount of any proposed additional capital requirement is also assessed by the PRA during its capital supervisory review and evaluation process (C-SREP), which also aims to ensure that institutions have adequate arrangements, strategies, processes and mechanisms and capital and liquidity to ensure sound management and coverage of their risks.
- **Pillar 3** complements Pillars 1 and 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk management processes, leverage and remuneration.

2.2 Capital requirements

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

<table>
<tr><th colspan="5">Pillar 1</th></tr>
<tr><th>Requirement</th><th>Calculation method</th><th>Description</th><th>Requirement</th><th>Reference</th></tr>
<tr><td>Credit risk</td><td>Standardised approach.</td><td>The Group applies the standardised method to the entire loan book. The standardised approach applies a standardised set of risk weightings to credit risk exposures. A capital requirement of 8% of risk weighted exposures (RWE) is applied.</td><td rowspan="5">Pillar 1 requirements (as per Article 92 of the CRR):
• 4.5% of RWE met by CET1 capital.
• 6.0% of RWE met by Tier 1 capital.
• 8.0% of RWE met by total capital.</td><td>5.3</td></tr>
<tr><td>Operational risk</td><td>Alternative standardised approach (ASA).</td><td>As the Group's activities are primarily classified as retail banking, the Group applies the ASA for operational risk capital requirements. A 0.035 multiplier is applied to the historical average gross receivables of the last three-year ends. A capital requirement of 12% is applied as per Article 317 of the CRR.</td><td>5.4</td></tr>
<tr><td>Market risk</td><td>Standardised approach.</td><td>Subject to a de minims level, the Group's exposure is calculated in each currency. A capital requirement of 8% of the exposure is applied.</td><td>5.5</td></tr>
<tr><td>Counterparty credit risk</td><td>Standardised approach.</td><td>The Group measures exposure value on counterparty credit risk exposures under the counterparty credit risk (CCR) mark-to-market method as permitted under CRD IV. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contract's potential credit exposure, which is derived by applying a multiple based on the contract's residual maturity to the notional value of the contract.</td><td>n/a</td></tr>
<tr><td>Credit valuation adjustment (CVA)</td><td>Standardised approach.</td><td>A CVA is an adjustment to the fair value of a derivative contract reflecting the counterparty credit risk inherent in the contract. Calculated in accordance with the CRR Article 384.</td><td>n/a</td></tr>
</table>

2.2 Capital requirements continued

Pillar 2				
Requirement	**Calculation method**	**Description**	**Requirement**	**Reference**
Pillar 2a	Calculated by the PRA based on the ICAAP submission and expressed as a percentage of RWE.	Set as a percentage of RWE, which may also include a fixed add-on.	The PRA prescribed Total Capital Requirement (TCR) (Pillar 1 + Pillar 2a) multiple at 31 December 2019 is 20.65% of RWE plus a fixed £28m monetary add-on in respect of pension risk (Pillar 1 + Pillar 2a).	n/a
Pillar 2b – the PRA buffer	Calculated by the PRA based on the ICAAP submission and expressed as a percentage of RWE.	The PRA buffer, in combination with the CRD IV combined buffer is held to ensure the Group can withstand an adverse stress. The PRA buffer had to be fully met with CET1 capital by 2019.	The PRA buffer is set by the PRA and is currently set at 0% for the Group.	n/a
Pillar 2b – the capital conservation buffer (CCoB)	Expressed as a percentage of RWE.	The capital conservation buffer and countercyclical buffer are part of the CRD IV combined buffer. They are held in combination with the PRA buffer to ensure the Group can withstand an adverse stress. The CRD IV combined buffer, together with the PRA buffer, replaced the capital planning buffer (CPB) effective from 1 January 2016. The CRD IV combined buffer is to be fully met by CET1 capital.	2.5% of RWE.	n/a
Pillar 2b – the countercyclical buffer (CCyB)	Expressed as a percentage of RWE.		Set by the Financial Policy Committee (FPC), currently set at 0% for UK and US and 1% for ROI exposures.	n/a

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

2.3 Capital resources

Type of capital	Description	Further information
Common Equity Tier 1 (CET1)	Comprises ordinary share capital, share premium and allowable reserves including retained earnings, after required regulatory adjustments.	Details of the main features of the ordinary share capital of Provident Financial plc are provided in appendix 4. The template in appendix 2 sets out the composition of the Group's regulatory capital resources as at 31 December 2019. Quantitative disclosures can be found in section 4.

The Group's own funds were comprised entirely of CET1 capital in 2019 and 2018.

3. RISK MANAGEMENT

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

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

4.1 Capital management and controls

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

The Group prudently manages regulatory capital to ensure that it is always maintained at a sufficient level in excess of the PRA prescribed TCR and capital buffers.

The key controls in achieving this objective are:

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

4.2 ICAAP

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

The key output of the ICAAP is a document which:

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

The ICAAP is embedded into the Group's risk management framework. Within the monthly management accounts, the Group's and Vanquis Bank's regulatory capital resources are compared to the existing TCR. Management accounts are distributed to the executive directors and senior members of the management team on a monthly basis and are distributed to the Board for each Board meeting.

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

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

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

4.3 Capital resources

The Group's own funds are comprised entirely of CET1 capital. The template in appendix 1 sets out the composition of the Group's reported regulatory capital resources as at 31 December 2019.

At 31 December 2019, the regulatory capital position incorporates the IFRS 9 transitional arrangements which transition the impact of IFRS 9 into regulatory capital over a five-year period. The impact of the transitional arrangements on own funds, capital ratios and the leverage ratio are set out in section 1.5. At 31 December 2018, there was a 5% transitional provision which had increased to 15% at 31 December 2019 which impacted the calculation of own funds.

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

4.3 Capital resources continued

The Group's retained earnings and other reserves included in the 2019 audited financial statements have been reconciled to the Group's regulatory capital at 31 December 2019 below. The transitional arrangements for IFRS 9 allow for any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book after day one of IFRS 9 adoption to also be phased into regulatory capital (a 'dynamic' adjustment). In the period from day one of IFRS 9 adoption (1 January 2018) to 31 December 2018 there was no net increase in ECL in the non-credit impaired book on a consolidated basis for the Group and therefore no dynamic adjustment was required.

		2019			2018
31 December (£m)	Note	Annual Report (excluding IFRS 9 dynamic adjustment)	Relief from IFRS 9 dynamic adjustment	Pillar 3 (including IFRS 9 dynamic adjustment)	Annual Report and Pillar 3 (no IFRS 9 dynamic adjustment required)
Shareholders' equity per the financial statements:					
Share capital		**52.5**	—	**52.5**	52.5
Share premium		**273.2**	—	**273.2**	273.2
Retained earnings and other reserves		**414.8**	—	**414.8**	370.4
Shareholders' equity per the financial statements		**740.5**	—	**740.5**	696.1
CET1 adjustments:					
Deduction of unaudited and unverified profits and gains	1	**(31.4)**	—	**(31.4)**	(60.4)
Deduction of foreseeable dividends on verified profits	2	**(21.5)**	—	**(21.5)**	—
Defined benefit pension assets (net of deferred tax)	3	**(64.7)**	—	**(64.7)**	(69.6)
Goodwill	4	**(71.2)**	—	**(71.2)**	(71.2)
Intangible assets (net of deferred tax)	5	**(38.1)**	—	**(38.1)**	(47.8)
IFRS 9 transitional adjustment	6	**156.4**	**27.2**	**183.6**	174.8
Total CET1 adjustments		**(70.5)**	**27.2**	**(43.3)**	(74.2)
CET1 capital (verified basis)		**670.0**	**27.2**	**697.2**	621.9
Total regulatory capital (verified basis)		**670.0**	**27.2**	**697.2**	621.9
Inclusion of unaudited and unverified profits and gains	1	**31.4**	—	**31.4**	60.4
Foreseeable dividends on unaudited and unverified profits and gains	2	**(18.9)**	—	**(18.9)**	(25.1)
Total regulatory capital (accrued basis)	7	**682.5***	**27.2**	**709.7**	657.2

* Regulatory capital is disclosed in the Annual Report on the accrued basis excluding the IFRS 9 dynamic adjustment.

Notes:

1. For the year ended 31 December 2019, in accordance with the regulations set out in the CRR, the profits and movements in other comprehensive income (OCI) of the Group for the period 1 October to 31 December 2019 have not been included within regulatory capital since they were not verified or audited by the external auditor as at 31 December 2019.
2. Under CRD IV, the Group is required to deduct accrued dividends from own funds when they are 'foreseeable' rather than when they are declared. For the year ended 31 December 2019, the foreseeable dividend is £21.5m based on the profits in respect of the period 1 July to 30 September 2019. On approval of the Group's Annual Report for the full year ended 31 December 2019 by the external auditor, a further £18.9m of foreseeable dividend is required to be deducted from regulatory capital in respect of the profits and gains originating in the period 1 October to 31 December 2019. For the year ended 31 December 2018, the foreseeable dividend was £nil as there were no profits audited or verified by the auditor at the balance sheet date. On approval of the Group's Annual Report for the full year ended 31 December 2018 a foreseeable dividend of £25.1m was deducted from regulatory capital.
3. The defined benefit pension asset, net of deferred tax, is required to be deducted from own funds in order to calculate CET1 capital.
4. Goodwill principally reflects the surplus of consideration over identifiable net assets acquired and identifiable intangible assets following the acquisition of Moneybarn on 20 August 2014 and is required to be deducted from CET1 capital.
5. Intangible assets comprise the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014, and capitalised software and software development costs. These are required to be deducted from CET1 capital.
6. The regulatory capital impact of IFRS 9 is to be phased in on a transitional basis over five years. In 2019, 15% of the impact is reflected in own funds (2018: 5%).

4.4 Main features of own funds instruments

The Group's CET1 capital consists of the Group's equity share capital and reserves after adjusting for the amounts set out in section 4.3 above. The equity share capital consists of ordinary shares and the main features of the ordinary shares are set out in appendix 4.

4.5 Capital ratios

The CET1 and total capital ratios for the Group are as follows:

31 December	2019 £m	2018 £m
CET1 *(verified basis)*	697.2	621.9
Risk weighted exposures	2,244.3	2,209.2
CET 1 ratio *(verified basis)*	31.1%	28.2%
Total capital ratio *(verified basis)*	31.1%	28.2%

The Group has no additional tier 1 or tier 2 capital and as such there is no difference between the CET1 capital ratio and the total capital ratio.

The capital ratios set out above are calculated on a verified basis with any profits or gains not audited or verified by the external auditor at the balance sheet date deducted from own funds. This is consistent with the disclosures included in the regulatory reporting submissions. An analysis of the CET1 capital is shown in section 4.3.

4.6 Leverage ratio

The leverage ratio is a monitoring tool which aims to facilitate an assessment of the risk of excessive leverage in an institution. The ratio is calculated as CET1 capital divided by on and off-balance sheet exposures in accordance with the provisions set out in the CRR Article 429.

PRA policy statement PS21/17 issued in October 2017 raised the minimum leverage ratio requirement from 3% to 3.25% with immediate effect.

The leverage ratio for the Group is as follows:

31 December	2019 £m	2018 £m
Total assets per audited financial statements	2,924.5	2,921.1
IFRS 9 transitional adjustment	183.6	174.8
Off-balance sheet items[1]	110.1	114.9
Other regulatory adjustments[2]	19.2	40.8
Items deducted from own funds	(174.1)	(188.6)
Leverage ratio exposure	3,063.3	3,063.0
Tier 1 capital	697.2	621.9
Leverage ratio *(verified basis)*	22.8%	20.3%

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

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

As explained in section 4.3, the capital ratios set out above are calculated on a verified basis with any profits or gains not audited or verified by the external auditor at the balance sheet date deducted from own funds. This is consistent with the disclosures included in the regulatory reporting submissions.

5.1 Total capital requirement (TCR)

Following publication of PRA policy statement CP12/17 in December 2017, the Group is required to disclose the PRA prescribed TCR at the highest level of consolidation in the UK.

The minimum amount of regulatory capital held by the Group represents the higher of the PRA imposed requirement of 24.15% of total RWE plus a fixed £28m monetary add-on in respect of pension risk at 31 December 2019 (2018: 23.5% of total RWE plus a fixed £28m monetary add-on in respect of pension risk), being the TCR requirements together with the CRD IV stipulated buffers, and the respective internal assessments of minimum regulatory capital requirements based upon an assessment of risks facing the Group.

A breakdown of the PRA imposed minimum requirement, including CRD IV buffers, is as follows:

31 December	% of RWE	Fixed monetary add-on for pension risk
Pillar 1	8.00	—
Pillar 2a	12.65	£28.0m
Pillar 2b:		
– Countercyclical buffer*	1.00	—
– Capital conservation buffer	2.50	—
Total expected PRA minimum requirement	24.15	£28.0m

* Calculated as a weighted average relative to the Group's geographic exposures. As at 31 December the CCyB was set at 1% for UK and ROI exposures and 0% for US exposures. The UK rate is to increase to 2% from December 2020; no further increases have been announced for the ROI and US rates.

On 11 March 2020, the Bank of England announced a package of measures to respond to the economic shock from Covid-19 (coronavirus). As part of that package the FPC reduced the UK CCyB to 0% of RWE with immediate effect. Had the UK CCyB been 0% of RWE at 31 December 2019 the total expected PRA minimum requirement set out above would have reduced to 23.16% of RWE plus a fixed monetary add-on for pension risk of £28m.

The Group continually monitors and assesses the internal assessment of minimum regulatory capital requirements.

5.2 IFRS 9 transitional arrangements

As set out in section 1.8, the Group has adopted the regulatory transitional arrangements, including paragraph four within Article 473a of the CRR, published by the EU on 27 December 2017 for IFRS 9 'Financial Instruments'.

Unless explicitly stated, the disclosures in this document fully incorporate both the static and dynamic adjustments as required in the Group's regulatory reporting under the CRR regime. However, as the dynamic adjustment is transitory and can by its nature be variable within the transitional period set out in the CRR, the 2019 Annual Report applies a less dynamic approach in the statement of regulatory capital position, requirement and headroom, by only including the static adjustment.

The impact of the IFRS 9 dynamic adjustment to RWE compared to the approach employed in the Annual Report is summarised in the table below.

	2019			2018
£m	Annual Report (excluding dynamic adjustment)	Impact of IFRS 9 dynamic adjustment	Pillar 3 (including dynamic adjustment)	Annual Report and Pillar 3 (no dynamic adjustment required)
Credit risk	**2,037.3**	**20.3**	**2,057.6**	2,023.9
Operational risk	**170.1**	—	**170.1**	171.3
Market risk	**16.6**	—	**16.6**	14.0
	2,224.0	**20.3**	**2,244.3**	2,209.2

For the avoidance of doubt, in the period from day one of IFRS 9 adoption (1 January 2018) to 31 December 2018 there was no increase in ECL in the non-credit impaired book on a consolidated basis for the Group and therefore no dynamic adjustment was required.

5.3 Pillar 1 minimum requirement

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

	2019		2018	
31 December	Risk weighted exposure £m	Pillar 1 minimum £m	Risk weighted exposure £m	Pillar 1 minimum £m
Credit risk	**2,057.6**	**164.6**	2,023.9	161.9
Operational risk	**170.1**	**13.6**	171.3	13.7
Market risk	**16.6**	**1.3**	14.0	1.1
	2,244.3	**179.5**	2,209.2	176.7

5.3 Pillar 1 minimum requirement continued

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

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

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

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

The Group is required to include information on its exposure to market risk and interest rate risk and as such this information is set out in sections 5.5 and 5.6.

5.4 Credit risk

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

	2019			2018		
31 December	Total reported assets £m	Risk weighted exposure £m	Pillar 1 minimum £m	Total reported assets £m	Risk weighted exposure £m	Pillar 1 minimum £m
Amounts receivable from customers						
Vanquis Bank	1,461.5	1,249.2	99.9	1,473.8	1,241.9	99.4
Moneybarn	502.1	407.0	32.6	396.6	393.1	31.4
CCD	249.0	234.4	18.8	292.5	266.7	21.3
Total amounts receivable from customers	2,212.6	1,890.6	151.3	2,162.9	1,901.7	152.1
Other assets	708.2	167.0	13.3	758.3	122.2	9.8
Total	2,920.8	2,057.6	164.6	2,921.2	2,023.9	161.9

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

	2019		2018	
31 December	Risk weighted exposure £m	Pillar 1 minimum £m	Risk weighted exposure £m	Pillar 1 minimum £m
Retail exposures – not past due	1,593.8	127.5	1,573.5	125.8
Retail exposures – past due	296.8	23.8	328.2	26.3
Institutions	5.2	0.4	1.9	0.1
Equities	16.6	1.3	12.1	1.0
Other exposures	145.2	11.6	108.2	8.7
	2,057.6	164.6	2,023.9	161.9

The retail exposures constitute the Group's amounts receivable from customers and further disclosure on the retail exposures is set out in sections 5.3.1 to 5.3.4.

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

Further disclosure on the equity exposure has been set out in section 5.7.

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

5.4.1 Amounts receivable from customers

Customer receivables are initially recorded at fair value representing the amount advanced to the customer plus directly attributable issue costs. Subsequently, receivables are increased by revenue and reduced by cash collections and deduction for impairment. Impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the loss arising on default (LGD).

On initial recognition, all accounts are recognised in IFRS 9 stage 1. When an account is deemed to have suffered a significant increase in credit risk, such as missing a payment, but it has not defaulted, it moves to stage 2. When accounts default, after missing further payments or moving to a payment arrangement, they move into stage 3.

5.4 Credit risk continued

5.4.1 Amounts receivable from customers continued

Vanquis Bank

Vanquis Bank has developed PD/LGD models which focus on forecasting customer behaviour to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to the customer's application score used in underwriting the credit card. The LGD for Vanquis Bank card customers represents the current balance on the card plus future expected spend and interest. It does not include any credit line increases which a customer may become eligible for after the balance sheet date.

Lifetime losses are recognised when a significant increase in credit risk is evident, either from a missed monthly payment or an increase in credit score.

A customer is deemed to have defaulted when they become three minimum monthly payments in arrears, they enter a temporary payment arrangement or there is evidence of a further significant increase in credit score. A customer is written off in the following cycle after being six minimum monthly payments in arrears.

Moneybarn

Moneybarn has created a PD/LGD model to calculate an expected loss impairment provision in accordance with IFRS 9.

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

Lifetime losses are then recognised when a significant increase in credit risk is evident from a missed monthly payment.

A customer is deemed to have defaulted when they are no longer able to sustain payments under their agreement and the agreement is subsequently terminated.

CCD

CCD has created a PD/LGD model for customers who are up to date or have missed one payment in the last 12 weeks to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months utilising historical repayment data excluding data since 2017 which is not deemed to be indicative of future performance given the operational disruption at that time within the home credit business.

Lifetime losses are then recognised using a discounted cash flow model when a significant increase in credit risk is evident from 2 missed weekly payments in the last 12 weeks.

A customer is deemed to have defaulted when the customer would typically no longer be eligible to be re-served with a subsequent loan which is considered to be 5 missed weekly payments in the last 12 weeks. Home credit customers are fully written off from the field following 12 consecutive missed payments and transferred to a central recoveries team.

For certain loans, the presumption of 30 days in respect of the definition of significant increase in credit risk and 90 days for the definition of default has been rebutted. This is supported by historical data which supports payment recency as a better indicator of the degree of impairment than overall days past due.

Customers under forbearance

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

Customers under temporary payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows under that payment arrangement, discounted at the original effective interest rate.

Macroeconomic scenarios

In addition to the core impairment provisions already recognised separate macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their accounts and the subsequent losses incurred given default.

For Vanquis Bank, the provision reflects the potential for future changes in unemployment under a range of unemployment forecasts provided by the Bank of England.

For Moneybarn, both changes in unemployment and the used car sales market are used to calculate a separate macroeconomic provision.

CCD customers are not considered to be reflective of the wider economy as they are less indebted and are therefore not impacted by the same macroeconomic factors or to the same degree. Consequently there is no evidence of any meaningful correlation between the impairment charge and any macro employment statistics; a separate macroeconomic provision is therefore not held. The assumptions are reviewed at each reporting date and trigger points linked to inflation are assessed at least annually for the business.

5.4 Credit risk continued

5.4.2 Analysis of credit risk exposures on amounts receivable from customers

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

All amounts receivable from customers are classed as retail exposures. Vanquis Bank exposures are revolving retail exposures.

Exposures analysed by business division are as follows:

31 December	2019 £m	2018 £m
Vanquis Bank	**1,461.5**	1,473.8
Moneybarn	**502.1**	396.6
CCD	**249.0**	292.5
Total	**2,212.6**	2,162.9

The average exposure in the year ended 31 December 2019 was £2,188.7m (2018: £2,094.4m).

Exposures analysed by geographical area are as follows:

31 December	2019 £m	2018 £m
United Kingdom	**2,179.1**	2,124.0
Republic of Ireland	**33.5**	38.9
Total	**2,212.6**	2,162.9

Republic of Ireland exposures relate to loans issued by the Home Credit business.

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

2019	Due within one year £m	Due in more than one year £m	Total £m
Vanquis Bank	**1,451.5**	**10.0**	**1,461.5**
Moneybarn	**117.3**	**384.8**	**502.1**
CCD	**225.5**	**23.5**	**249.0**
Total	**1,794.3**	**418.3**	**2,212.6**

2018	Due within one year £m	Due in more than one year £m	Total £m
Vanquis Bank	1,459.7	14.1	1,473.8
Moneybarn	91.2	305.4	396.6
CCD	263.1	29.4	292.5
Total	1,814.0	348.9	2,162.9

5.4.3 Credit quality of amounts receivable from customers

Under IFRS 9 all credit issued is recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk either through a missed payment or an adverse change in behavioural score. Revenue recognition will be recognised on the gross receivable in stages 1 and 2 and on the net receivable in stage 3. A customer can only move to stage 3 for revenue recognition purposes at the Group's interim or year-end.

Impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the typical loss arising on default (LGD):

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

5.4 Credit risk continued

5.4.3 Credit quality of amounts receivable from customers continued

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

Impairment charge on amounts receivable from customers	2019 £m	2018 £m
Vanquis Bank	198.9	241.6
Moneybarn	41.8	48.0
CCD	96.2	120.8
Total Group	336.9	410.4

Amounts receivable from customers for Vanquis Bank can be reconciled as follows:

	2019				2018			
Vanquis Bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount								
At 1 January (restated)	1,303.3	174.7	519.8	1,997.8	1,388.8	94.5	360.3	1,843.6
New financial assets originated and new drawdowns	2,252.1	135.6	35.2	2,422.9	2,279.6	82.0	4.8	2,366.4
Net transfers and changes in credit risk	(269.9)	20.1	249.8	—	(395.1)	11.4	383.7	—
Write-offs	(12.1)	(18.0)	(348.0)	(378.1)	—	—	(193.3)	(193.3)
Recoveries	(2,417.9)	(229.7)	(111.9)	(2,759.5)	(2,533.3)	(62.2)	(95.0)	(2,690.5)
Revenue	496.8	87.1	(3.0)	580.9	548.4	47.1	54.8	650.3
Other movements	15.6	1.8	21.7	39.1	—	—	—	—
At 31 December	1,367.9	171.6	363.6	1,903.1	1,288.4	172.8	515.3	1,976.5
Allowance account								
At 1 January	187.0	58.7	257.0	502.7	136.2	50.4	251.8	438.4
Movements through income statement								
Drawdowns and net transfers and changes in credit risk	(61.8)	68.7	189.5	196.4	43.9	5.6	192.1	241.6
Other movements	27.3	(24.8)	—	2.5	—	—	—	—
Total movements through income statement	(34.5)	43.9	189.5	198.9	43.9	5.6	192.1	241.6
Other movements								
Write-offs	(12.1)	(18.0)	(348.0)	(378.1)	—	—	(193.3)	(193.3)
Amounts recovered	6.2	0.6	111.3	118.1	6.9	2.7	6.4	16.0
Allowance account at 31 December	146.6	85.2	209.8	441.6	187.0	58.7	257.0	502.7
Net receivable at 31 December	1,221.3	86.4	153.8	1,461.5	1,104.4	114.1	258.3	1,473.8
Net receivable at 1 January (restated)	1,166.3	116.0	262.8	1,495.1	1,252.6	44.1	108.5	1,405.2

5.4 Credit risk continued

5.4.3 Credit quality of amounts receivable from customers continued

Amounts receivable from customers for Moneybarn can be reconciled as follows:

	2019				2018			
Moneybarn	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount								
At 1 January (restated)	292.8	130.7	117.3	540.8	241.8	98.0	71.9	411.7
New financial assets originated	282.8	—	—	282.8	234.6	—	—	234.6
Net transfers and changes in credit risk	(179.5)	59.8	119.7	—	(155.7)	40.8	114.9	—
Write-offs	—	—	(99.2)	(99.2)	(0.4)	(0.2)	(2.8)	(3.4)
Recoveries	(153.3)	(49.4)	(79.9)	(282.6)	(101.3)	(42.0)	(94.7)	(238.0)
Revenue	78.8	38.4	26.1	143.3	61.8	32.6	37.5	131.9
Other changes	13.8	8.9	(21.0)	1.7	(1.6)	(0.4)	(0.6)	(2.6)
At 31 December	335.4	188.4	63.0	586.8	279.2	128.8	126.2	534.2
Allowance account								
At 1 January	9.2	28.4	86.8	124.4	10.1	28.1	54.8	93.0
Movements through income statement								
New financial assets originated and new drawdowns	9.6	—	—	9.6	8.3	—	—	8.3
Net transfers and changes in credit risk	(9.3)	7.4	55.4	53.5	(7.0)	7.3	41.7	42.0
Total movements through income statement	0.3	7.4	55.4	63.1	(0.5)	2.5	46.0	48.0
Amounts netted off against revenue for stage 3 assets	—	—	(21.3)	(21.3)				
Other movements								
Write-offs	—	—	(81.5)	(81.5)	(0.4)	(0.2)	(2.8)	(3.4)
Allowance account at 31 December	9.5	35.8	39.4	84.7	9.2	30.4	98.0	137.6
Net receivable at 31 December	325.9	152.6	23.6	502.1	231.7	69.9	17.1	318.7
Net receivable at 1 January (restated)	283.6	102.3	30.5	416.4	270.0	98.4	28.2	396.6

5.4 Credit risk continued

5.4.3 Credit quality of amounts receivable from customers continued

Amounts receivable from customers from CCD can be reconciled as follows:

CCD	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m	2018 Stage 1 £m	2018 Stage 2 £m	2018 Stage 3 £m	2018 Total £m
Gross carrying amount								
At 1 January	183.6	48.4	493.6	725.6	221.2	60.9	443.1	725.2
New financial assets originated and new drawdowns	353.4	5.5	—	358.9	404.4	6.7	—	411.1
Net transfers and changes in credit risk	(118.7)	3.7	115.0	—	(145.1)	10.6	134.5	—
Write-offs	(1.1)	(1.4)	(181.4)	(183.9)	(2.2)	(3.0)	(60.0)	(65.2)
Recoveries	(454.1)	(61.2)	(87.8)	(603.1)	(506.5)	(78.4)	(99.7)	(684.6)
Revenue	192.8	40.9	59.7	293.4	211.6	51.6	76.8	340.0
Other movements	—	0.1	2.9	3.0	0.2	—	(1.1)	(0.9)
At 31 December	155.9	36.0	402.0	593.9	183.6	48.4	493.6	725.6
Allowance account								
At 1 January	12.0	12.9	408.2	433.1	20.4	15.1	342.3	377.8
Movements through income statement								
New financial assets originated	31.5	0.7	—	32.2	38.6	1.1	—	39.7
Net transfers and changes in credit risk	(32.0)	(2.1)	98.1	64.0	(44.8)	(0.3)	126.2	81.1
Total movements through income statement	(0.5)	(1.4)	98.1	96.2	(6.2)	0.8	126.2	120.8
Other movements								
Write-offs	(1.1)	(1.4)	(181.4)	(183.9)	(2.2)	(3.0)	(60.0)	(65.2)
Other movements	—	—	(0.5)	(0.5)	—	—	(0.3)	(0.3)
Allowance account at 31 December	10.4	10.1	324.4	344.9	12.0	12.9	408.2	433.1
Net receivable at 31 December	145.5	25.9	77.6	249.0	171.6	33.5	85.4	292.5
Net receivable at 1 January	171.6	35.5	85.4	292.5	200.8	45.8	100.8	347.4

5.5 Operational risk

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

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

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

The exposure at 31 December 2019, noted in section 5.2, in relation to market risk principally relates to amounts receivable from Visa Inc., details of which are noted below, together with the net asset position of CCD's branch in the Republic of Ireland.

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

The Group has applied the guidance set out in Articles 351 and 352 of the CRR. The total reported original exposure of foreign currency market risk at 31 December 2019 of £16.6m (2018: £14.0m) exceeded the threshold set out in the CRR and accordingly £1.3m of Pillar 1 capital allocation was recognised (2018: £1.1m).

5.7 Interest rate risk

Interest rate risk is the risk of a change in external interest rates which leads to an increase in the Group's cost of borrowing.

The Group's exposure to movements in interest rates is continually monitored and is formally reported to the Group Treasury Committee under a Board-approved interest rate hedging policy on a quarterly basis or more frequently as deemed appropriate.

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

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

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

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

31 December	2019 £m	2018 £m
Sterling	1.3	1.0
Euro	0.3	0.2
Total	1.6	1.2

5.8 Non-trading book exposures in equities

At 31 December 2019, the Group had equity investments in the non-trading book of £16.6m (2018: £12.1m), relating to the acquisition of Visa Europe Ltd by Visa Inc, as noted in section 5.5.

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

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

6. CAPITAL BUFFERS

There are a number of capital buffers to be met with CET1 capital, in addition to the Group's own funds requirement set through Pillar 1 and Pillar 2a.

From 1 January 2016, new buffers were introduced under CRD IV and changes were made to the Group's TCR to allow for this. These changes converted the existing TCR, expressed as a percentage of the Pillar 1 requirement, to a percentage of RWE but may also include a fixed add-on. At the same time, the existing capital buffer (which was expressed as an absolute amount) was retired and a PRA buffer was set as a percentage of RWE.

The buffers which apply to the Group at 31 December 2019 are as follows:

Capital conservation buffer (CCoB). The Group's institution specific CCyB requirement at 31 December 2019 is set at 2.5% of RWE.

Countercyclical buffer (CCyB). The Group's institutional specific CCyB is a weighted average of those CCyB set by the regulators in the jurisdictions in which the Group has a credit exposure, namely the United Kingdom, the Republic of Ireland and the USA. The regulators in the relevant jurisdictions can set the rate between 0% and 2.5%.

The UK CCyB is controlled by the FPC and is reviewed on a quarterly basis. On 11 March 2020, the Bank of England announced a package of measures to respond to the economic shock from Covid-19 (coronavirus). As part of that package the FPC reduced the UK CCyB to 0% of RWE with immediate effect. At 31 December 2019 the rate was set at 1% of RWE and had been due to reach 2% by December 2020. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

The Republic of Ireland CCyB is currently set at 1% of RWE which came into effect from 5 July 2019. The US CCyB rate is currently 0%.

PRA buffer, set for firms on an individual basis. The PRA and FPC have indicated their expectation that the PRA buffer will decrease in line with increases in the CCoB and CCyB. The PRA buffer is currently set at 0% for the Group.

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

7.1 Liquidity risk

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

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

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

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

The Group's treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding. Further qualitative information on the Group's management of liquidity risk is contained in the Annual Report and Financial Statements 2019.

7.2 Liquidity ratios

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

7.2.1 Liquidity coverage ratio (LCR)

The Group's LCR at 31 December 2019 was 224% (2018: 688%). The PRA's mandated minimum requirement increased to 100% on 1 January 2018.

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

2019	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Liquidity buffer (£m)	**487**	**470**	**434**	**396**
Net cash outflows (£m)	**86**	**91**	**103**	**96**
LCR (%)	**579**	**560**	**486**	**578**

2018	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Liquidity buffer (£m)	256	339	400	454
Net cash outflows (£m)	114	120	113	107
LCR (%)	248	320	409	490

7.2.2 Net stable funding ratio (NSFR)

An observation period for the NSFR, prior to implementation, commenced on 1 January 2013. On 23 November 2016, the European Commission published proposals to amend the CRR and CRD including a binding Pillar 1 NSFR. The proposals are yet to be finalised and the binding minimum will apply two years from the date of entry into force of the proposed regulations.

Under Article 443 of the CRR, additional disclosure on unencumbered and encumbered assets is required. As such, the relevant disclosure for the Group is set out below, based on the median of the four quarters of each year:

2019	Non-encumbered assets Carrying amount £m	Non-encumbered assets Fair value £m
Equity instruments	**16.6**	**n/a**
Debt securities	—	—
– Of which issued by general governments	—	—
Other assets	**2,904.2**	**n/a**
Total assets	**2,920.8**	**n/a**

2018	Non-encumbered assets Carrying amount £m	Non-encumbered assets Fair value £m
Equity instruments	11.9	n/a
Debt securities	36.0	36.0
– Of which issued by general governments	36.0	36.0
Other assets	2,909.4	n/a
Total assets	2,957.3	n/a

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty exists regarding the outcome of future events. Details on the Group's contingent liabilities are set out in the Annual Report. No assets of the Group are encumbered as a result of any contingent liabilities described in the Annual Report.

9. REMUNERATION POLICIES AND PRACTICES

The Group is required to prepare Remuneration Code Pillar 3 disclosures in addition to the regulatory capital disclosures. These disclosures are the subject of a separate, standalone document and are published on the Vanquis Bank website, www.vanquisbank.co.uk, on an annual basis.

PRA supervisory statement SS 8/13 'Remuneration Standards: the application of proportionality' (updated June 2015) categorises the Group and Vanquis Bank within proportionality level 3 as a firm with total assets of less than £5bn, reducing the level of disclosures required by Part 8. This supervisory statement also sets out the PRA view that the requirement for remuneration disclosures applies only to CRR firms directly.

Information on the remuneration of the directors of the Group is contained in the Directors' Remuneration Report presented in the Annual Report.

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

The key capital ratios for the Group are presented below:

	Annual Report (excluding IFRS 9 dynamic adjustment)		Pillar 3 (including IFRS 9 dynamic adjustment)	
31 December 2019	Verified basis	Accrued basis	Verified basis	Accrued basis
Risk weighted exposures (£m)	2,224.0	2,224.0	2,244.3	2,244.3
Total regulatory capital (£m)	670.0	682.5	697.2	709.7
CET1 ratio	30.1%	30.7%	31.1%	31.6%
Total capital ratio	30.1%	30.7%	31.1%	31.6%
Leverage ratio	22.1%	22.5%	22.8%	23.2%

On a verified basis, any profits or gains not audited or verified by the external auditor at the balance sheet date are deducted from own funds. This is consistent with the disclosures included in the regulatory reporting submissions.

On an accrued basis, profits or gains are included in own funds as they are recognised in the income statement, less the deduction of a foreseeable dividend on such profits. The accrued position includes £12.5m of profits net of foreseeable dividends which will be reflected in the verified position from 27 February 2020 once approved by the external auditor.

Presented in accordance with Annex IV from the Commission Implementing Regulation (EU) No 1423/2013 and based on reported own funds at 31 December 2019.

Common Equity Tier 1 Capital: Instruments and reserves		2019 £m	2018 £m	(B) Regulation (EU) No 575/2013 Article Reference
1	Capital instruments and the related share premium accounts	325.7	325.7	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: ordinary share capital	325.7	325.7	EBA list 26 (3)
	of which: Instrument type 2	—	—	EBA list 26 (3)
	of which: Instrument type 3	—	—	EBA list 26 (3)
2	Retained earnings	249.6	192.7	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	295.9	292.1	26 (1)
3a	Funds for general banking risk	—	—	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	—	—	486 (2)
	Public sector capital injections grandfathered until 1 January 2018	—	—	483 (2)
5	Minority interests (amount allowed in consolidated CET1)	—	—	84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	—	—	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**871.2**	810.5	
7	Additional value adjustments (negative amount)	—	—	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(109.3)	(119.0)	36 (1) (b), 37
9	Empty set in the EU	—	—	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	—	—	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	—	—	33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts	—	—	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	—	—	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	—	—	33 (b)
15	Defined benefit pension fund assets (negative amount)	(64.7)	(69.6)	36 (1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	—	—	36 (1) (f), 42, 472 (8)
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	—	—	36 (1) (g), 44, 472 (9)
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	—	—	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	—	—	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	—	—	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	—	—	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative sector)	—	—	36 (1) (k) (i), 89 to 91

Common Equity Tier 1 Capital: Instruments and reserves		2019 £m	2018 £m	(B) Regulation (EU) No 575/2013 Article Reference
20c	of which: securitisation positions (negative amount)	—	—	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	—	—	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	—	—	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	—	—	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	—	—	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty set in the EU	—	—	
25	of which: deferred tax assets arising from temporary differences	—	—	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	—	—	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	—	—	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	—	—	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(174.0)**	(188.6)	
29	**Common Equity Tier 1 (CET1) capital**	**697.2**	621.9	
30	Capital instruments and the related share premium accounts	—	—	51, 51
31	of which: classified as equity under applicable accounting standards	—	—	
32	of which: classified as liabilities under applicable accounting standards	—	—	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	—	—	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	—	—	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	—	—	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	—	—	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	—	—	
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	—	—	52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	—	—	56 (b), 58, 475 (3)
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	—	—	56 (c), 59, 60, 79, 475 (4)
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	—	—	56 (d), 59, 79, 475 (4)
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	—	—	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	—	—	
44	**Additional Tier 1 (AT1) capital**		—	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**697.2**	—	

Common Equity Tier 1 Capital: Instruments and reserves		2019 £m	2018 £m	(B) Regulation (EU) No 575/2013 Article Reference
46	Capital instruments and the related share premium accounts	–	–	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	–	–	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	–	–	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out	–	–	486 (4)
50	Credit risk adjustments	–	–	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments		–	
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	–	63 (b) (1), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	–	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount about the 10% threshold and net of eligible short positions) (negative amount)	–	–	66 (c), 69, 70, 79, 477 (4)
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	–	66 (d), 69, 79, 477 (4)
57	Total regulatory adjustments to Tier 2 (T2) capital	–	–	
58	Tier 2 (T2) capital		–	
59	Total capital (TC = T1 + T2)	697.2	621.9	
60	Total risk weighted assets	2,244.3	2,209.2	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	31.1%	28.2%	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	31.1%	28.2%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	31.1%	28.2%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirements in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	–	–	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	–	–	
66	of which: countercyclical buffer requirement	–	–	
67	of which: systemic risk buffer requirement	–	–	
67a	of which: Global Systemically Important Institution (G-SII) or other Systemically Important Institution (O-SII) buffer	–	–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	31.1%	28.2%	CRD 128
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)

	Common Equity Tier 1 Capital: Instruments and reserves	2019 £m	2018 £m	(B) Regulation (EU) No 575/2013 Article Reference
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	—	—	36 (1) (ii), 45, 48, 470, 472 (11)
75	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	—	—	36 (1) (c), 38, 48, 470, 472 (5)
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	—	—	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	—	—	62
78	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	—	—	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	—	—	62
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	—	—	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	—	—	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase-out arrangements	—	—	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	—	—	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase-out arrangements	—	—	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	—	—	484 (5), 486 (4) & (5)

Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200 and based on the reported leverage ratio position at 31 December 2019.

Reference date	31 December 2019
Entity name	Provident Financial plc
Level of application	Consolidated

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

		Applicable Amount 2019 £m	Applicable Amount 2018 £m
1	Total assets as per published financial statements	2,924.5	2,921.1
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	—	—
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	—	—
4	Adjustments for derivative financial instruments	—	—
5	Adjustments for securities financing transactions ("SFTs")	—	—
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	110.1	114.9
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	—	—
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	110.1	114.9
7	Other adjustments	28.7	27.0
8	Total leverage ratio exposure	3,063.3	3,063.0

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures 2019 £m	CRR leverage ratio exposures 2018 £m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,127.3	3,163.7
2	(Asset amounts deducted in determining Tier 1 capital)	(174.1)	(188.6)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,953.2	2,948.1
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	—	—
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	—	—
EU-5a	Exposure determined under Original Exposure Method	—	—
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting frame-work	—	—
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	—	—
8	(Exempted CCP leg of client-cleared trade exposures)	—	—
9	Adjusted effective notional amount of written credit derivatives	—	—
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	—	—
11	Total derivative exposures (sum of lines 4 to 10)	—	—
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	—	—
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—
14	Counterparty credit risk exposure for SFT assets	—	—
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	—	—
15	Agent transaction exposures	—	—

Table LRCom: Leverage ratio common disclosure		CRR leverage ratio exposures 2019 £m	2018 £m
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	—	—
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	—	—
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	1,101.1	1,148.9
18	(Adjustments for conversion to credit equivalent amounts)	(991.0)	(1,034.0)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	110.1	114.9
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off-balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	—	—
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	—	—
Capital and total exposures			
20	Tier 1 capital	697.2	621.9
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	3,063.3	3,063.0
Leverage ratio			
22	Leverage ratio	22.8%	20.3%
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	—	—

Table LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures 2019 £m	2018 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3,127.3	3,136.7
EU-2	Trading book exposures	—	—
EU-3	Banking book exposures, of which:	3,127.3	3,136.7
EU-4	Covered bonds	—	—
EU-5	Exposures treated as sovereigns	366.0	434.4
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	—	—
EU-7	Institutions	25.9	9.4
EU-8	Secured by mortgages of immovable properties	—	—
EU-9	Retail exposures	2,079.1	2,098.0
EU-10	Corporate	—	—
EU-11	Exposures in default	292.5	291.0
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	363.8	303.9

Based on reported ordinary shares at 31 December 2019

1	Issuer	Provident Financial plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00B1Z4ST84
3	Governing law(s) of the instrument	English Law
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£325.7m of ordinary share capital and share premium
9	Nominal amount of instrument (Currency in million)	£52.5m
9a	Issue price	n/a
9b	Redemption price	n/a
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	n/a
15	Optional call date, contingent call dates and redemption amount	n/a
16	Subsequent call dates, if applicable	n/a
17	Fixed or floating dividend/coupon	n/a
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	n/a
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Write-down features	No
31	If write-down, write-down trigger(s)	n/a
32	If write-down, full or partial	n/a
33	If write-down, permanent or temporary	n/a
34	If temporary write-down, description of write-up mechanism	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n/a
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	n/a

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