THE REAL WORLD OF RESPONSIBLE LENDING

STOCK CODE: PFG.L

KEY FINANCIAL HIGHLIGHTS

For the year ended 31 December 2012

PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS*

£181.1m (+11.7%)

ADJUSTED EARNINGS PER SHARE*

102.0p (+13.8%)

DIVIDEND PER SHARE

77.2p (+11.9%)

DIVIDEND COVER*

1.32 times

GEARING

3.2 times

COMMUNITY INVESTMENT

£1.9m

* Prior to an exceptional credit of £15.6m in 2012 comprising: (i) a £17.7m curtailment credit in respect of the defined benefit pension scheme; and (ii) a £2.1m charge relating to the impairment of goodwill in respect of Cheque Exchange Limited, a business orginally acquired in 2001 and now subsumed within CCD. Statutory profit before tax, including the exceptional credit, amounts to £196.7m.

DIRECTORS' REPORT: STRATEGIC REPORT

DIRECTORS' REPORT: ANNUAL STATEMENT

FINANCIAL STATEMENTS

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.

THE REAL WORLD OF RESPONSIBLE LENDING

Provident Financial's purpose is to ensure that people who live in the real world of low incomes, uncertain employment and rising food, fuel and living costs, have access to responsible, sustainable lending that meets their needs.

As a specialist non-standard lender, this means applying the experience we have gained over 130 years to make our products highly tailored to the specific needs of non-standard customers. So, although we continue to operate in a challenging economic and social environment, we continue to run a sustainable business that provides value and security for all of our stakeholders.

AT A GLANCE

Provident Financial provides tailored credit products to 2.7 million non-standard borrowers in the UK and Ireland. Our home credit business 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. It also provides competitive retail deposit accounts for savers.

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

STRATEGY

Growth of higher-return businesses in non-standard markets:

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

Generating high shareholder returns:

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

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 times and the group's growth plans whilst maintaining a comfortable surplus of regulatory capital over the capital requirements set by the FSA.
- continue to diversify the group's sources of funding.

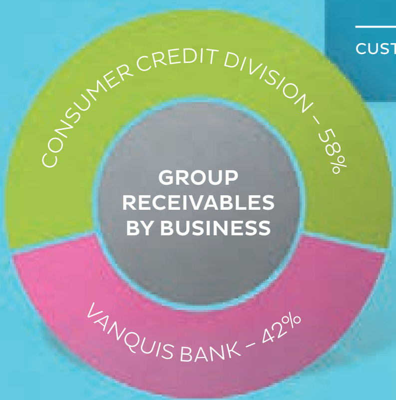
Acting responsibly in our relationships with customers and making a positive contribution to the communities served by the group's businesses:

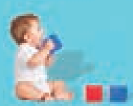
- earn high levels of customer satisfaction.
- meet or exceed regulatory requirements.
- follow our corporate values in the treatment of our stakeholders.
- invest in the communities in which our customers and agents live and in which our staff work.
- maintain a system to manage corporate responsibility.

Find out more about our strategy on pages 20 to 23

GROUP BY NUMBERS

YEAR-END RECEIVABLES	£1,513.8M
EMPLOYEES	3,780
CUSTOMERS	2.7M





SECURE FUNDING

The group borrows money to lend to customers. We believe it is prudent to borrow money from different sources to spread the risk as a particular source of credit at a particular time may become more restricted. The group has three main sources of funding:

- bank funding – committed revolving syndicated bank facility.
- bonds and private placements – senior public bonds, private placements with UK, US and European institutions, and UK retail bonds.
- retail deposits taken by Vanquis Bank.

Find out more about our funding on pages 55 to 57

2013 PRIORITIES

Consumer Credit Division

- Continue to focus on the quality of the receivables book through maintaining a tight stance on new customer underwriting and the criteria for re-serving existing customers.
- Execute on the agenda to bolster medium-term growth prospects and business effectiveness including:
  - further expansion of the geographic footprint of the business.
  - continued development of the product proposition and distribution channels to the target audience.
  - building the effectiveness of the field organisation and IT to free up agent capacity.

Vanquis Bank

- Continue to invest in the customer acquisition programme, maintaining the growth in customer numbers and receivables at similar levels.
- Maintain a tight stance on underwriting and credit line increases.
- Complete the pilot in Poland and assess the viability of whether the customer proposition and business model is capable of delivering the group's target returns.
- Consider further opportunities to leverage the platform, distribution channels and credit expertise within the UK business.

CONSUMER CREDIT DIVISION

The Consumer Credit Division offers home credit loans, typically of a few hundred pounds, through a network of local agents. It has offices throughout the UK and Ireland. 9,800 self-employed agents call on our 1.8 million customers, serving around one in 20 households in the UK.

CASH LOANS

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

LOVE2SHOP VOUCHERS

Shopping vouchers typically repayable over periods from 22 to 50 weeks.

GOLD CARD

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

ONE CARD

The One Card is a plastic card onto which £210 is loaded (the proceeds from a £200 loan plus a £10 bonus). The card can then be used in retail stores and on the internet just like other plastic cards.

YEAR-END RECEIVABLES	£870.5M
EMPLOYEES	3,000
CUSTOMERS	1.8M

VANQUIS BANK

Vanquis Bank, our credit card business, serves 899,000 UK credit card customers and our pilot credit card operation in Poland has 9,000 customers. The business also has 9,000 savers through its retail deposits offering.

CREDIT CARDS

Visa credit cards with a representative 39.9% APR.

SAVINGS PRODUCTS

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

YEAR-END RECEIVABLES	£643.3M
EMPLOYEES	725
CUSTOMERS	0.9M

BECKY'S WORLD

Meet Becky, she's married to Kevin, a self-employed plasterer. They live in Stockport with their two young children, where they rent a house from the local council.

Becky works part-time in a local supermarket which helps them to balance their finances because Kevin's income can fluctuate. But when the children need new school uniforms and to help spread the cost of Christmas, the credit we offer is a real help. We can help because we know Becky and her community well, and have the right sort of products to help her manage her family's finances.

An agent visits Becky at home, can assess her situation in a personal but professional way, and can make sure that the loan she takes is affordable. The fact that there are no hidden extras is also an important factor. It's a sustainable model we've used for more than 130 years.

SMALL-SUM CREDIT

Becky's credit needs are limited because her family income is limited. With home credit she can borrow the few hundred pounds she needs.

WEEKLY HOME VISIT

The weekly visit to Becky's home by one of our agents to collect the weekly repayment and meet any future credit needs is an invaluable part of the home credit service. The routine of the visits helps encourage Becky to put the money aside for the repayments.

AMOUNT TO REPAY IS FIXED

Being on a low income, it is particularly important to Becky that the total amount she agrees to repay never rises. Even if she misses some repayments, there are no extra charges whatsoever.

CREDIT HISTORY

Becky and Kevin have had problems with credit in the past when Kevin was out of work for a while and so they have an imperfect credit history. Provident is able to lend to them where others may not be able to.


S.C.F.C
BECKY
CORN FLAKES
ORANGE


LET BY
Tea
PASSPORT

STEVE'S WORLD

This is Steve, a postman who lives and works in Milton Keynes. Like most people, Steve likes to go out with his friends and have the occasional holiday and having recently rented a flat, he needs to be able to buy some home essentials, like a washing machine. Despite having had a few credit problems in the past, he's now over them, and would like to take advantage of offers in the shops and online, so he applied for a Vanquis Bank credit card.

He is in safe hands with Vanquis Bank because with our low initial credit limits, monthly text reminders and unique systems that track and help manage customer spending patterns, he'll be much less likely to get into financial difficulties.

By being more supportive than mainstream credit card issuers, we can work with our customers to develop responsible credit behaviour, so people like Steve can build up a good credit history, not a bad debt.

SENSIBLE CREDIT LIMITS

Steve appreciates the relatively low credit limit Vanquis Bank has allowed him because it helps him keep in control of his finances. A credit limit of under £1,000 means that he doesn't over-extend himself and monthly payments are manageable.

HIGH LEVEL OF CONTACT

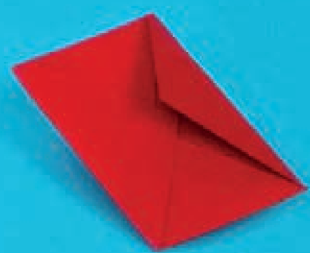
As a busy full-time postman, Steve likes the high level of telephone contact Vanquis Bank maintains with him and the texts they send him reminding him to make his repayments.

PART OF MODERN LIFE

Steve's Vanquis Bank card enables him to participate more fully in modern-day life by taking advantage of bargains on the internet and getting valuable consumer protection when he uses his card.

REBUILDING A CREDIT HISTORY

Like many other people, Steve has had credit problems in the past but he is now over them. Steve, therefore, appreciates the fact that Vanquis Bank are more interested in his circumstances now than they are in his past problems and are prepared to help him rebuild a good credit profile.



OUR WORLD

Provident's world is one in which there are around 10 million UK non-standard credit customers who demand credit products tailored to their very real needs. That means tailoring credit products that supply the smaller amounts of credit which customers find useful and lending to them in a way that makes it possible for them to pay back without too much difficulty. That often means maintaining very close contact with the customer over the period of the loan.

Provident's world is also about being a good corporate citizen, which is why we have a serious commitment to Corporate Social Responsibility. This manifests itself in good corporate governance, lending responsibly to our customers, being a good employer, treating our suppliers fairly, putting something extra into the communities that we serve and looking after the environment.

RESPONSIBLE LENDING

This starts with understanding our customers so we can develop and deliver products that are tailored to their needs. Keeping in close, regular contact with customers is an important aspect of responsible lending, either through an agent's weekly call at a home credit customer's home or through regular telephone contact with Vanquis Bank customers.

OUR SUPPLIERS

We seek to treat all of our suppliers fairly and in the same manner as we would wish to be treated. We recently signed up to the Prompt Payment Code to pay suppliers on time, to be clear and transparent and to encourage best practice.

OUR PEOPLE

We employ 3,780 people across the group, and by helping them to achieve their potential we also help our business to flourish.

COMMUNITY INVOLVEMENT

Our community involvement activities are delivered mainly 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, as well as health and well-being.

THE ENVIRONMENT

We are committed to managing our environmental performance to keep our environmental impacts to a minimum. We do this by managing our CO_2 emissions from our energy use and travel, and by reducing our waste to landfill, paper consumption and water use.


PFG | Provident
Our World

OUR MARKETPLACE

At the end of 2012, total outstanding UK personal debt balances stood at £1.422trn. Most of this total, £1.265trn, was secured by mortgages on housing, with the balance of £157bn being unsecured consumer credit. During 2012, a total of £328bn was lent to UK borrowers, £143bn secured and £185bn unsecured. Provident focuses on the non-standard end of the UK credit market in which over £66bn was lent in total during the year.

THE NUMBER OF PEOPLE WHO MAKE UP THE NON-STANDARD MARKET	10.0M
CREDIT ISSUED TO THOSE WITH LIMITED ACCESS TO CREDIT	£66.0BN
ANNUAL GROUP CREDIT ISSUED	£1.9BN

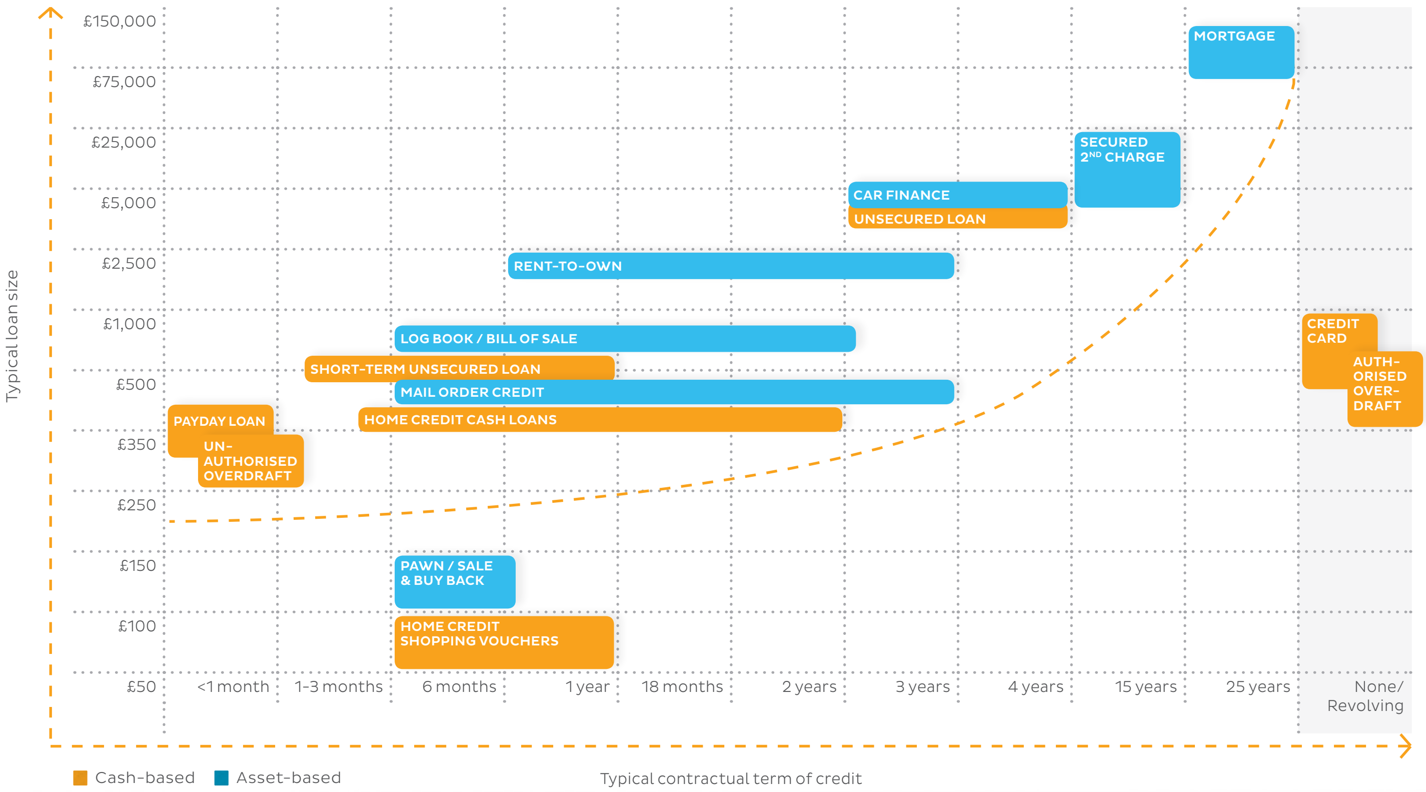
The UK non-standard credit market remains the domain of specialists. Generalists with more mainstream lending models, which are not really tailored to the needs of non-standard customers, largely withdrew at the start of the credit crisis, in many cases incurring significant costs. There are few signs of any appetite for a return to the market. Accordingly, new specialist lenders have entered the market, supplying a range of non-standard credit products.

Consumers undoubtedly continue to feel the pressure on incomes, employment and available working hours, whilst experiencing ongoing rising food, fuel and living costs. Most households already dealing with these pressures and striving to make ends meet are also now beginning to feel the impacts of the government's austerity measures. Therefore, regardless of the withdrawal of mainstream credit providers, the demand for affordable credit remains to help smooth over the peaks and troughs inevitable for those in the non-standard market managing tight budgets throughout the year.

Non-standard consumers concerned about getting into too much debt prefer to borrow just what they need for a particular situation and no more. Therefore, product offers have been designed to serve their needs from as little as £50 for a small purchase like a new pair of school shoes, up towards £100,000 where consumers are offered the right to buy their social housing.

Affordability is key for those on tight incomes and therefore the amount of time that customers have to repay their loans tends to increase with the size of the loan, from the immediacy of small unauthorised overdrafts to a period of up to 25 years to pay for a home. There is also the flexibility of revolving

TYPICAL LENGTH OF CREDIT TERM AND SIZE OF LOAN FOR NON-STANDARD CREDIT PRODUCTS



credit such as credit cards and authorised overdrafts which give customers the ability to repay them as fast as they can when they are able, which is often unpredictable given the nature of their lives, and their relatively tight budgets. The chart on page 10 shows the typical length of credit term and size of loan for non-standard credit products.

Whilst new and existing specialist lenders have expanded their target markets and offered new forms of credit products, the market remains underserved and offers good growth opportunities for specialist lenders with the skills, resources and business models well-suited to serving the non-standard credit market. In the UK, there is a wide range of different lending models and products tailored to the needs and realities of the non-standard consumer.

Home credit stands out as a highly personal in-home offer with a very 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.

Beyond the basics of price, affordability, availability and the quality of the customer experience, there is a range of key customer requirements that non-standard products have evolved to cover. Credit product offerings span the range of needs for specific items of clothing or household items to more flexible cash amounts for holidays and a range of other uses. Some models are tied to an asset (such as a pawned item or car) while others are tied to completing a retail purchase such as a new TV.

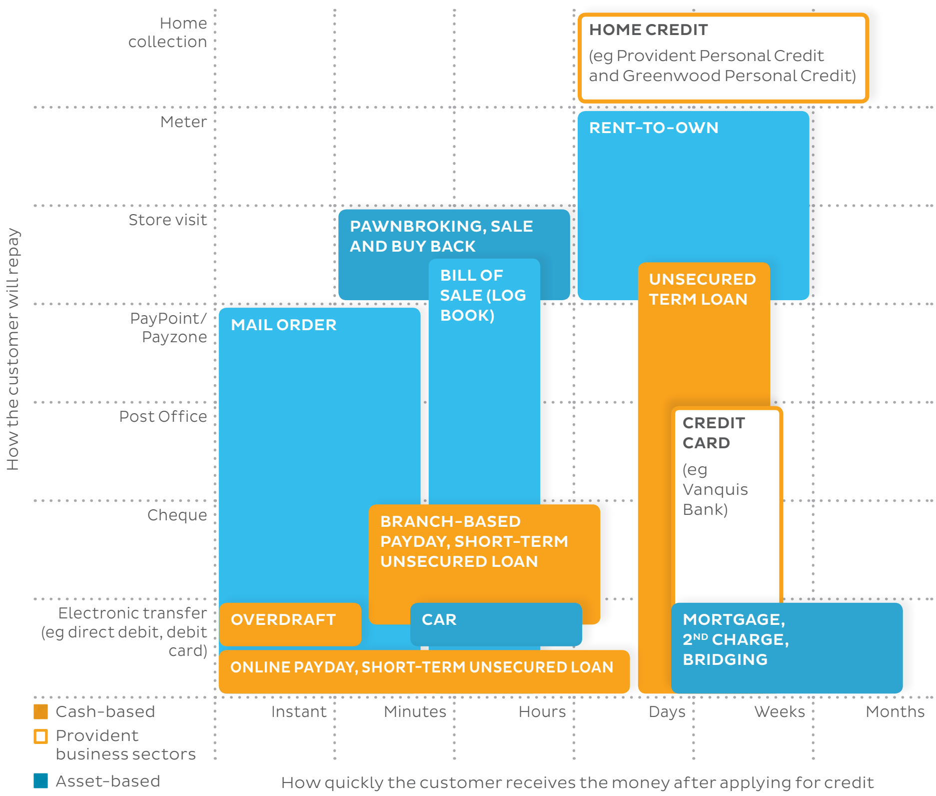
Like all consumers, those in the non-standard credit markets sometimes have urgent needs such as replacement or repair of a broken appliance or car and sometimes more predictable planned needs such as birthdays, Christmas and holidays. Specialist credit models have developed to serve this range of requirements from instant mail order credit for a purchase to products where access to the credit can take days or weeks after the initial application such as credit cards and home credit. Alongside different degrees of urgency and predictability, non-standard customers want and need very different methods by which they can make repayments, and having the choice of a range of options is important.

Therefore, unlike mainstream credit markets where most repayments are made electronically in an automated way on a monthly basis, non-standard credit customers can also repay in cash, at home, via a meter, through going to a specialist or corner store or into a Post Office or bank. The chart below shows the typical repayment options and time required to access credit for non-standard credit products.

It is the combination of all of these factors into specialist business models that results in products and offers that are tailored to the needs of non-standard customers and can generate high levels of customer satisfaction alongside strong shareholder returns.

Offering a loan of an appropriate size and term to ensure affordability, when the customer wants or needs it along with an appropriate repayment mechanism backed by a solid business model and operation, helps to win and retain customers profitably in non-standard markets.

TYPICAL REPAYMENT OPTIONS AND TIME REQUIRED TO ACCESS CREDIT FOR NON-STANDARD CREDIT PRODUCTS



OUR MARKETPLACE

There is a wide range of credit products and credit providers serving the needs of the UK non-standard consumer, most of which now tend to be specialised in nature.

By far the largest source of credit is the now well-established sub-prime credit card introduced to the UK in the 1990s from the USA by providers such as Capital One. Both approved and unapproved overdrafts also provide significant amounts of credit and are a longer standing product supplied in the main by the major UK banking groups to around half of their customers, with usage focused in the more non-standard end. Although long established, mail order credit has gone through large changes in the last few decades driven by consolidation of competitors and a dramatic shift in the business model from 'big book' printed catalogues and local credit agents to largely online, more direct repayment offers. Payday lending is the newest and fastest growing of the non-standard credit products, again introduced from the USA over the last 10 years but creating hundreds of local and regional European competitors.

Payday lending operates in two largely separate channels of similar sizes in the UK: online and in-store. Originally focused on small monthly advances, increasingly lenders are moving into longer-term unsecured personal loans for larger amounts and repayable over up to two years, filling some of the large supply gap left by the withdrawal of the more mainstream and branch-based unsecured lenders. Home credit has been provided in various forms since the nineteenth century and exists today through around 500 competitors with its unique home visit model. Rent-to-own has relatively recently begun to expand on the high street in its most modern form, and has attracted both investment and interest from the USA where a far larger rent-to-own sector runs a slightly different less weekly focused model under very different regulations.

Mortgage and secured second charge lending were, in particular, severely hit by the credit crisis with most larger and overseas lenders withdrawing from the market, while domestic lenders have faced

TYPICAL CUSTOMER TRAITS, EXAMPLE COMPETITORS AND ESTIMATED RELATIVE ANNUAL UK NON-STANDARD LENDING BY PRODUCT

	TYPICAL CUSTOMER TRAITS	EXAMPLE COMPANIES
A. CREDIT CARDS	Employed, salaried, banked with low credit score, renting	Capital One, Barclaycard, Vanquis Bank, SAV, Compucredit
B. OVERDRAFTS	Around half of all bank account holders across all income levels	Lloyds, HSBC, Barclays, RBS, Santander
C. MAIL ORDER	Wide range, mostly online shoppers, mostly female with brands targeted at C, D and E socio-demographic groups	ShopDirect, Otto, N Brown
D. PAYDAY LENDING	Wide range, banked, debit card holders, employed, reasonable credit score	The Money Shop, Cheque Centre, Payday UK, QuickQuid, Wonga
E. MORTGAGES	Home owners with lower credit scores	Blemain, a range of bridging providers
F. 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
G. PAWNBROKING	Mostly female, modest incomes, valuable items to pawn – usually jewellery	Albermarle & Bond, H&T, The Money Shop, Ramsdens
H. 2ND CHARGE	Home owners with lower credit scores	Blemain, a range of bridging providers
I. UNSECURED DIRECT REPAYMENT LOANS	Similar profile to payday loans	Pounds-to-Pocket, Cash Converters, Secure Trust Bank, Lending Stream
J. RENT-TO-OWN	Live within three miles of store, do not own cars, credit impaired, low income	BrightHouse, PerfectHome, Buy As You View

funding difficulties and intense regulator scrutiny, both of which have kept this sector of the market at a small fraction of the scale it achieved in 2007 despite a recent return to growth. Pawnbroking, focused on jewellery, has been an established source of credit for centuries. A few decades ago, the fragmented localised supply began to consolidate in two major competitors which are listed on the UK stock exchange, but more recently and more dramatically, overseas entrants have built far larger store chains with far wider product models moving into a range of credit and second-hand goods offers. These large national store chains have expanded further into payday lending and short-term unsecured personal loans. The soaring gold price has generated new income streams and bolstered traditional pawn lending encouraging rapid store growth. Recent stabilisation in the gold price has, however, begun to reverse this trend.

As the chart on page 12 shows, the UK non-standard credit market remains vibrant and competitive with many competing specialists seeking to take advantage of the growth opportunities left by the withdrawal of less tailored mainstream offers and businesses.

CURRENT REGULATORY FRAMEWORK

The group is subject to various regulatory and supervisory regimes:

Office of Fair Trading (OFT) and the Consumer Credit Act 1974 (CCA)
The provision of consumer credit is regulated by the rules set out in the CCA and the supporting regulations and guidance made under it. These cover all aspects of credit transactions from advertising to debt recovery. The 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.

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 half-yearly 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 Bank)
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 money-lender'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.

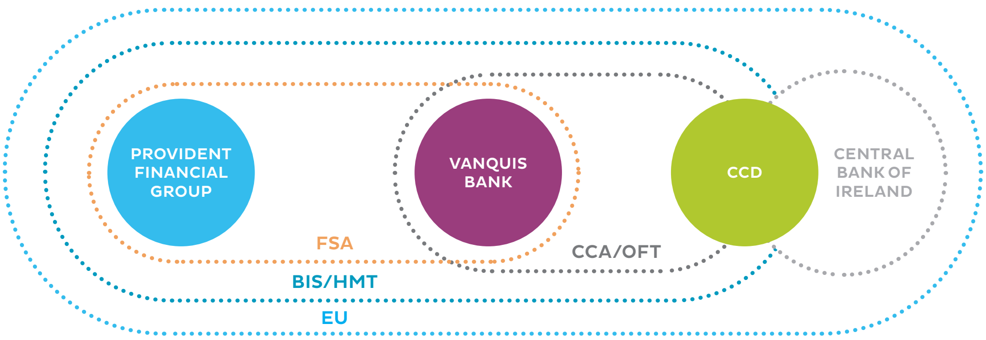
EU REGULATION
The European Union institutions comprising the Commission, Council and Parliament initiate and enact legislation which applies to the EU Member States. The majority of UK legislation now involves the implementation of EU legislative acts. A recent example was the implementation of the EU 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 (PRA), 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
Changes to the regulatory regime introduced by the Financial Services Act 2012 will take effect from 2013 onwards with consumer credit regulation expected to transfer from the OFT to FCA in 2014.



OUR BUSINESS MODEL

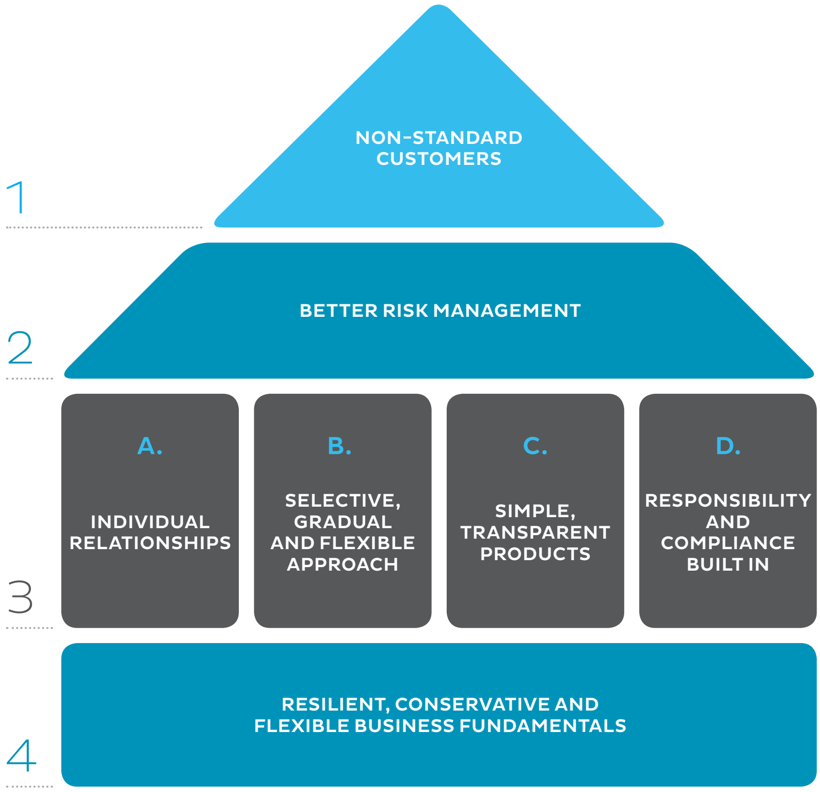
The group is successful in lending to customers whom others find it difficult to serve because of the way we manage the customer relationship and the solid foundations that we have built for our business.

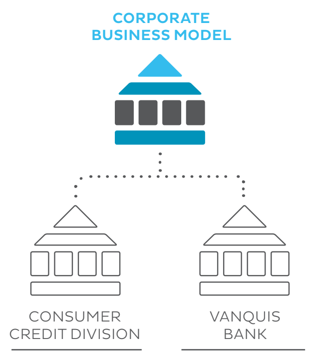
OUR CORPORATE BUSINESS MODEL

We specialise in non-standard credit.

Our business model benefits from 130 years of experience.

1. We lend to non-standard customers whom others find it hard to serve because…
2. We manage the inherent risk of non-standard lending better than others because…
3. Our approach is highly adapted to our market: high contact, close attention to lending and collecting activities and simple, flexible products with responsible lending as our starting point and…
4. We underpin our business with fundamental solid foundations:
   - Diverse funding sources.
   - Borrowing long and lending short.
   - Focus on high return on equity, cash- and capital-generative businesses.
   - Alignment of the group dividend policy, gearing and growth plans.
   - Prudent, appropriate accounting policies.
   - Organic growth focus.
   - Over 130 years of experience.





FIND OUT MORE ON PAGE 38

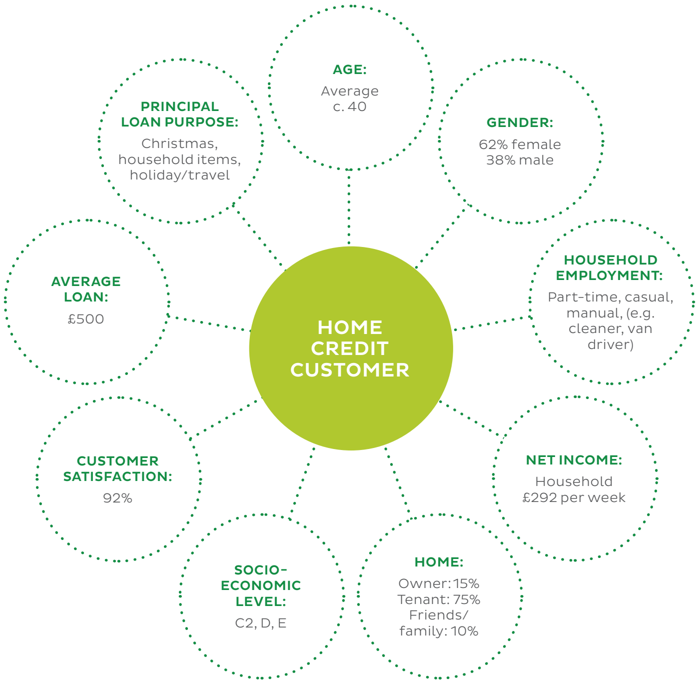
FIND OUT MORE ON PAGE 48

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 rather than be in salaried employment and just under half of our customers are in receipt of non-universal benefits. Home credit customers value the discipline of the weekly visit and appreciate having flexibility on repayments.

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



CHAIRMAN'S STATEMENT

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

John van Kuffeler
Chairman

GROUP PROFIT BEFORE TAX*	£181.1M
GROWTH IN ADJUSTED EPS*	13.8%
GROWTH IN DPS	11.9%

* Prior to an exceptional credit of £15.6m in 2012.

GROUP RESULTS

The group has reported a strong set of results with pre-tax profit, before an exceptional credit, up 11.7% to £181.1m (2011: £162.1m), reflecting continued strong growth and margins in Vanquis Bank and a stable performance from the Consumer Credit Division (CCD). Adjusted earnings per share of 102.0p (2011: 89.6p) grew by 13.8%, a faster rate than pre-tax earnings reflecting the reduction in the statutory rate of UK corporation tax from 26% to 24% on 1 April 2012. An exceptional credit of £15.6m arose in 2012 comprising a £17.7m credit due to severing the link between past accrued benefits and final salary at retirement within the group's defined benefit pension scheme and a £2.1m impairment charge in respect of the goodwill relating to Cheque Exchange Limited, a business originally acquired in 2001 and now subsumed within CCD.

CCD delivered profits of £125.1m in 2012 (2011: £127.5m) underpinned by a sound collections performance, tight credit standards and a strict control of costs. Having been down 2% through the first half of the year, customer numbers ended the year at parity with the prior year, benefitting from enhancements made to the pre-paid card product, TV advertising and a number of other growth initiatives running through the field organisation. Nonetheless, the pressure on disposable incomes from food, fuel and utility price inflation persisted in 2012 and translated into relatively cautious agent and customer behaviour. This meant that credit issued to existing customers was relatively subdued, and sales ended the year 2.5% lower than 2011. Collections performance was sound throughout the year and the annualised ratio of impairment to revenue of 33.0% at the year end was little changed from the ratio of 32.8% reported at June.

Vanquis Bank delivered an excellent performance in 2012 with UK profits up 61.3% to £71.3m (2011: £44.2m), before a £3.3m charge in respect of the pilot credit card operation in Poland. This profit performance was ahead of management's internal plans due to arrears levels remaining stable at record lows for the business. At the same time, increased investment in the customer acquisition programme has delivered year-on-year customer growth of 30.1% and average receivables growth of 37.4% in the UK, both ahead of plan against unchanged underwriting standards. The favourable arrears levels sustained throughout 2012 reflect the strong underlying quality of the receivables book derived from the application of consistently tight credit standards and sound credit line decisioning, against the backdrop of a stable employment market. This has allowed Vanquis Bank to deliver an annualised risk-adjusted margin in the UK of 34.8% in 2012 (2011: 35.0%), well ahead of its minimum target of 30%.

It is encouraging that the pilot credit card operation in Poland is progressing to plan. We expect the pilot to reach a conclusion by the half year.

The group's funding and liquidity positions remain strong with gearing of 3.2 times (2011: 3.2 times). As previously reported, the group renewed its core syndicated bank facility of £382.5m in February through to May 2015 and successfully issued its third retail bond in March raising £120m at a coupon of 7.0% and a duration of five and a half years. Retail deposits at Vanquis Bank increased from £140m at the start of the year to £327m at 31 December 2012, representing 51% of Vanquis Bank's receivables. Due to the increased level of committed debt funding following the retail bond issue, the retail deposits programme has been moderated to ensure that the group retains an appropriate, but not excessive, level of headroom on the group's committed debt facilities. As at 31 December 2012, headroom on the group's committed facilities amounted to £192m and, including the additional capacity available

"THE GROUP HAS REPORTED A STRONG SET OF RESULTS REFLECTING CONTINUED STRONG GROWTH IN VANQUIS BANK AND A STABLE PERFORMANCE FROM CCD."

John van Kuffeler
Chairman

for Vanquis Bank to take retail deposits, total funding capacity amounted to £394m. The group's committed debt facilities, together with the retail deposits programme at Vanquis Bank, are sufficient to fund contractual maturities and projected growth in the business until May 2015.

The group generated capital of £107.7m in 2012 (2011: £110.1m) exceeding dividends in respect of 2012 of £104.3m (2011: £93.0m).

The proposed final dividend has been increased by 14.4% to 48.4p (2011: 42.3p) which, together with the 7.9% increase in the interim dividend, represents an 11.9% increase in the total dividend per share to 77.2p (2011: 69.0p). Dividend cover for 2012, prior to the exceptional credit, increased to 1.32 times (2011: 1.30 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 2012 we continued to fully embrace the principles of the UK Corporate Governance Code and have complied with all its provisions during the year.

We refreshed our board with the recruitment of a new non-executive director, Stuart Sinclair, following an extensive recruitment process in conjunction with external search consultants. We have also taken the opportunity to review and restructure the chairmanship of the board committees in light of Stuart's appointment and the retirement of Robert Hough in January 2013. In addition, we have carried out further work on the group's succession plans for the board and senior management, whilst continually bearing in mind our diversity policy and the Davies Review requirements.

The board carried out its tenth annual evaluation of its performance and that of its committees using an updated and revised questionnaire which built on the experience acquired from the external evaluation carried out in 2012 and the engagement with Independent Audit Limited in 2011. The results of the evaluation confirmed that although the board of directors is operating effectively, there were some areas where improvements could be made and these will be fully considered during 2013.

In June 2012, the audit committee undertook a rigorous audit tender process following which a recommendation was made to the board to replace Pricewaterhouse Coopers LLP with Deloitte LLP as the group's auditors. Deloitte carried out the review of the group's 2012 interim results and have completed their first full audit of the 2012 financial statements.

REMUNERATION

Our remuneration committee has established a remuneration policy for 2013 following consultation with key shareholders and certain institutional shareholder bodies during January 2013. Manjit Wolstenholme assumed the chairmanship of the committee in October 2012 and led the consultation process.

The policy is fundamentally consistent with the 2012 policy, and is based on the need to 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. In 2012, and in 2013, executive directors' salaries were increased by a similar percentage to that which was applied to the wider workforce. As a result of the expiry of the Provident Financial Performance Share Plan, a new Performance Share Plan will be presented for approval by shareholders at the Annual General Meeting in May. If approved, the plan will require executive directors to defer a minimum of one third of their annual bonus into the Plan which will then be used as the basis on which matching awards will be granted under the Plan, up to two shares for each deferred bonus share. These shares will then be subject to the achievement of the relevant performance target. A proposal to establish an all-employee Share Incentive Plan will also be presented for approval at the AGM and is designed to sit alongside the existing Save As You Earn scheme and further encourage share ownership across the group.

During the year the committee reviewed the 2012 and proposed 2013 remuneration policies against the risk assessment framework established in 2011 in conjunction with the risk advisory committee. The committee was satisfied that the remuneration policies and in particular the targets under the company's long-term incentive schemes did not encourage undue risk-taking and that an appropriate balance of targets had been achieved.

CHAIRMAN'S STATEMENT

CORPORATE RESPONSIBILITY

Corporate responsibility is an important part of how the group operates. The group's commitment to being a responsible corporate citizen is embedded in our mission and values statement, as well as in one of our four strategic aims. This commitment makes clear that by addressing the social, environmental and economic issues that are relevant to our activities and key stakeholders, we can continue to be a successful, responsible and sustainable business.

As a leading non-standard lender in the UK and Ireland, our most important corporate responsibility is to lend responsibly to our 2.7 million customers. We do this by providing them with credit products that are simple and transparent, and making a point of maintaining close contact with them throughout their relationship with us. But our approach to corporate responsibility extends beyond treating our customers in a responsible manner. It also guides how we treat our employees and suppliers, as well as committing us to play a positive role in the communities we serve and take account of our impact on the environment.

The group is particularly proud of the work that has been carried out in the many communities we serve. The vast majority of our community involvement activities are delivered through our Good Neighbour programme. This successful programme has, to date, supported 112 community initiatives across the UK and Ireland which have delivered socio-economic benefits to over 81,100 people. We also continue to work with, and provide financial support to, money advice organisations in the UK to address issues such as financial education and carry out research into matters which are relevant to our sector.

During 2012, the group continued to achieve recognition for the corporate responsibility information that is disclosed to stakeholders. This included attaining a maximum rating score of 100 for the second consecutive year in the FTSE4Good Index and receiving the 'Tax Reporting in the FTSE 250' award at PricewaterhouseCoopers' Building Public Trust Awards, which recognised the transparency of our approach to disclosing information on our tax strategy, tax performance and the wider impact of tax.

These achievements recognise our commitment to reporting the way we manage a wide range of corporate responsibility issues in a transparent manner.

Further details on our corporate responsibility programme can be found on pages 28 to 34 of this report and in the corporate responsibility report which is published separately each year.

RISK MANAGEMENT

In 2012 we continued to refine and develop our risk management framework and focus on the key risks the group faces. The effective management of the key risks facing our business, which are summarised on pages 72 to 75, is integral to the achievement of our business plans and strategic objectives.

During 2012 we have:

- Appointed a second independent non-executive director to the Vanquis Bank board and audit and compliance committees to further strengthen their capabilities and experience;
- Maintained close engagement with the range of regulatory reviews underway to ensure that our views and perspectives are understood and that we are able to respond swiftly once outcomes are communicated;
- Continued to maintain tight underwriting policies against a backdrop of economic uncertainty;
- Developed both business processes and products in response to the difficult trading environment. This has included TV advertising in support of CCD's new retail-focused product – the One Card – ahead of the Christmas peak trading period; and
- Expanded our sources of funding through the launch of a further retail bond and agreeing with the Financial Services Authority (FSA) to increase the maximum permitted level of Vanquis Bank retail deposits funding from 80% to 90% of its receivables.

REGULATION

The transfer of responsibility for consumer credit regulation from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA) is expected to be confirmed in 2013 and to take place in 2014. There are still a number of important issues to be resolved, including how the current Consumer Credit Act regime will be transformed to a rules-based environment. In addition, the Government has amended the Financial Services Bill to make explicit the power of the FCA to limit loan charges. In practice, this does not augment the regulator's existing powers.

The Bristol University Personal Finance Research Centre study into a variable cap on the total cost of credit is continuing and the research team published a progress update on 24 May 2012. This dealt largely with the methodology and approach adopted. The delayed final report is due to be published shortly.

Final guidance on the joint consultation between the FSA and the OFT on proposed guidance to firms in relation to payment protection products was published in January 2013 and was broadly consistent with the draft guidance issued previously. It applies to insurance and non-insurance products right across the financial services industry, including non-insurance, debt freeze products such as the Repayment Option Plan (ROP) made available to Vanquis Bank customers. One of the main features of the guidance is to provide clarity around the disclosure of the cost of payment protection products. It is Vanquis Bank's practice to comply with all legislation and related guidance. This latest guidance on payment protection products may result in some modest reduction in the customer take-up of the ROP product.

OUTLOOK

The group's funding and liquidity position is strong, allowing it to meet contractual debt maturities and accommodate in full its growth plans into 2015.

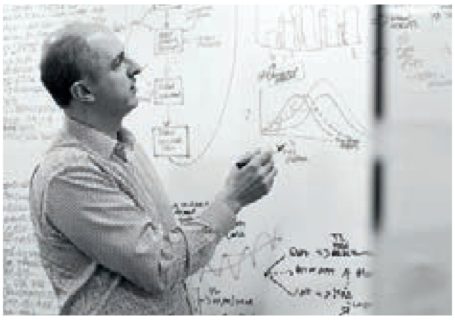
The focus in 2013 is to execute against the agenda to bolster medium-term growth prospects and business effectiveness in CCD, even if near-term market conditions remain unhelpful, and to continue to invest in the customer acquisition programme at Vanquis Bank whilst delivering strong margins. Strict credit standards will be maintained.

It is encouraging to report that the pilot credit card operation in Poland is progressing to plan. We expect the pilot to reach a conclusion by the half year.

In the early part of 2013, the collections performance in CCD has been sound and Vanquis Bank has made a strong start to the year. The group expects to make further good progress in 2013.

John van Kuffeler
Chairman

26 February 2013



CHIEF EXECUTIVE'S REVIEW

2012 has seen the group make further excellent progress. We have increased profits by 11.7%*, despite continued tough economic conditions in the UK.

Peter Crook
Chief Executive

GROUP ROE*	48%
DIVIDEND COVER*	1.32TIMES
GEARING	3.2TIMES

* Prior to an exceptional credit of £15.6m in 2012.

WE HAVE CONTINUED TO STRENGTHEN THE OPERATIONAL CAPABILITY OF THE BUSINESS IN A NUMBER OF WAYS."

Peter Crook
Chief Executive

Our strong performance in 2012 has been underpinned by an excellent result from Vanquis Bank which increased profits from £44.2m to £68.0m due to strong receivables growth and a favourable arrears performance.

The Consumer Credit Division (CCD) produced another solid performance reporting profits of £125.1m, marginally down from 2011, at a time when inflationary pressures have continued to place increased pressure on customers' disposable incomes.

The strong growth in profits has allowed us to increase the 2012 dividend by 11.9% whilst maintaining dividend cover of 1.32 times*.

The group's funding and liquidity positions are strong. Our year-end gearing of 3.2 times, is well below the group's target level of 3.5 times and we have sufficient committed facilities, including the retail deposits programme at Vanquis Bank, to fund growth and contractual maturities out to May 2015.

As well as delivering an excellent financial performance in 2012, we have continued to strengthen the operational capability of the business in a number of ways:

Delivering sustainable growth in CCD

The focus of CCD through the downturn has been on managing the business cautiously and positioning it to deliver sustainable growth. As well as maintaining tight underwriting standards, 2012 has seen further development across a number of linked initiatives which are designed to bolster medium-term growth prospects and business effectiveness:

- Expansion of the geographic footprint of the business in order to increase penetration in areas where the business has become under-represented. A further 13 new branches were added in the year, making a total of 19 over the last two years. The early progress being made by these new openings is encouraging.
- Development of the product proposition including the launch in August of a pre-paid card called the One Card which allows customers to spend and access special offers across some 60 online and high street retailers. In addition, the existing Gold Card offered to good-quality customers in the run-up to Christmas has been significantly enhanced. Spend against these cards totalled £43m in 2012, up from £28m in 2011.
- TV advertising, featuring the launch of the One Card across ITV2 and a number of freeview and satellite stations during the autumn, has proved to be an effective customer acquisition channel. Approaching 10,000 new customers can be directly attributed to the campaign and have been added at an average acquisition cost which is very competitive in comparison with other channels such as direct mail.
- Increasing the effectiveness of the field organisation has seen further consolidation of smaller, less profitable agencies into larger, better managed agencies and reduced agency numbers by 700 to 9,800 during 2012. In addition, further enhancements to the agents' commission scheme were announced in October. The changes involve rewarding agents whose agencies consistently deliver good-quality growth with a higher commission rate on collections. The scheme became effective in early February 2013 and has already started to benefit the sales and collection performance of many agencies.
- Investment in IT is central to many of the initiatives taking place across the business. It is also important in driving greater efficiency. An example is the pre-population of customer loan agreements based on stored data which has roughly halved the time taken to issue a new loan to an existing customer

which had increased significantly following the introduction of the EC Consumer Credit Directive in early 2011.

These initiatives ensure that CCD is well placed to deliver sustainable growth assisted by any recovery in real incomes and consumer confidence.

Pilot credit card operation in Poland
Following the success of Vanquis Bank in the UK, we have been exploring new medium-term growth opportunities for the business. This work has included a review of EU territories which have a critical mass of under-served non-standard consumers and into which the business can passport its banking licence. Against these criteria, Poland emerged as the most attractive opportunity and, during 2012, Vanquis Bank commenced a pilot of a credit card targeted at the non-standard segment of the Polish market with the objective of developing and testing a customer proposition capable of delivering the group's target returns.

The product proposition has been well received by customers. The first credit cards were issued in June, when distribution commenced through a single regional broker. The Polish website went live for applications in September and further distribution was added through a national broker in December. At the end of December, the Polish pilot operation had 9,000 customers and receivables of £1.8m.

The business platform is operating successfully and sufficient business is now being written to allow Vanquis Bank to develop bespoke credit tools which are a prerequisite for moving the business to scale.

Overall the pilot operation is progressing in line with management's plans and costs for the year amounted to £3.3m, consistent with previous guidance. Firm conclusions on the results of the pilot are expected to be reached at the half year. Vanquis Bank is expected to incur costs of approximately £3m in the first half of 2013 in respect of the pilot.

Expansion of Vanquis Bank's second contact centre in Bradford
Due to the strong growth in the business and due to capacity constraints at the existing 400-seat contact centre in Chatham, Vanquis Bank opened a second contact centre in late 2011 in CCD's Bradford head office. During 2012, the number of Bradford-based contact centre representatives increased from 40 to 160 supporting the strong growth in the business. The Bradford site is now being reconfigured in order to allow Vanquis Bank to grow its number of seats to a total of 340 over the next two years. The additional capacity will allow the business to continue its strong growth and also provides much needed employment opportunities in the Bradford area where the group has had its roots for over 130 years.

Further diversification of the funding base
The group issued its third retail bond of £120m in March 2012. The group was the first issuer on the London Stock Exchange's ORB platform with a £25.2m issue in 2010 which was followed by a £50m bond in 2011. The retail bond market has continued to develop and the success of the third retail bond demonstrates the value of this market to the group.

Vanquis Bank launched its retail deposits programme in mid-2011. During 2012, the business increased its retail deposits base from £140m to £327m which represents approximately 51% of Vanquis Bank's year-end receivables. This is lower than the FSA permitted level, which has been increased from 80% to 90%, and reflects the deliberate moderation of the programme in March following the successful launch of the group's third retail bond and the consequent increase in the group's committed debt facilities. The retail deposits programme will continue to build towards the maximum permitted target as the Vanquis Bank business grows and the group's overall funding requirements dictate.

The retail deposits platform and product distribution provided by Newcastle Building Society both continue to work very well. The retail deposits market in the UK is significant at over £70bn of renewals and new funds each year and is very sensitive to the product rate on offer. Vanquis Bank's experience in this market since launch has proved that retail deposit-taking provides funding flexibility and a valuable diversification of the group's funding sources.

MARKET CONDITIONS

The competitive landscape for CCD remains unchanged with around 500 active home credit participants in the UK. 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 some modest growth over the last 12 months, disposable incomes have not recovered and continue to be adversely affected by food, fuel and utility price inflation. Customer behaviour remains cautious, especially the demand for credit for more discretionary items of expenditure. As a result, against unchanged tight underwriting standards, sales to existing customers have been relatively subdued during 2012.

Vanquis Bank continues to experience strong demand in the under-served non-standard credit card market. Whilst the marketing activity of competitors has increased modestly, it has had no discernible impact on new account bookings. Increased investment in the customer acquisition programme, particularly in direct mail, has seen record new account bookings in 2012 of 375,000, up from 294,000 in 2011. Vanquis Bank customers are typically in more regular employment than home credit customers although the business has demonstrated that it is less sensitive to changes in the employment market than mainstream card issuers. UK unemployment has remained relatively stable throughout 2012 and, as a result, arrears levels have been running at record lows for the business. Tight underwriting standards remain in place as a cautious positioning of the business against the risk of any future deterioration in the UK employment market.

CHIEF EXECUTIVE'S REVIEW

STRATEGY

To deliver our mission, we have four strategic aims:

1. **The growth of high return on equity businesses in non-standard markets**
   We specialise in investing in and developing businesses that provide high returns on a relatively small amount of equity capital deployed. 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 delivering low single digit annual growth in its receivables book during normal economic conditions and generating 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 are exploring new medium-term growth opportunities for the business through both geographic and product expansion. The first stage of this work is the launch of the pilot Polish credit card operation during 2012, the results of which will be assessed by the 2013 half year. If successful, further expansion into other EU territories will be considered.
2. **Generating high 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. Our overall total shareholder return performance has been very good since the demerger of the international business in 2007. 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 structure. Our business model is based upon borrowing long and lending short and maintaining a diverse funding base, including bank funding, public and private bonds, private placements and retail deposit-taking in Vanquis Bank. Our 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 programmes 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 continue to deliver a strong performance, particularly as and when economic conditions improve.

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 2012, measured using these KPIs, together with our plans for 2013, are set out on pages 24 to 27.

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

OUR 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 around 10 million people has become the domain of specialist lenders. Many more mainstream 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 in 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 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 14.

LOOKING AHEAD

The UK non-standard credit market is expected to show steady growth in 2013 and beyond reflecting structural changes in the employment market which is increasing the number of part-time, casual and temporary workers. It is our firm aim to remain the leading lender in this market.

We expect economic conditions in the UK to remain difficult throughout 2013 with continued pressure on disposable incomes from rising food, fuel and utility bills and the employment market remaining fragile. As a result, we will continue to focus on the quality of the receivables book and managing the business tightly. Our main aim in CCD will be to maintain the quality of the receivables book, develop sustainable 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 recent years and continue to explore opportunities to increase the revenue streams from our well-established platform, particularly through progressing and then assessing the Polish pilot operation at the end of the first half.

The growth in Vanquis Bank in the UK over the last two years has exceeded internal plans and the demand for non-standard credit cards in the UK is expected to remain strong. The business is achieving greater penetration of its target market through enhanced marketing strategies. We are therefore revising upwards our assessment of the medium-term potential size of the UK business from addressing its current target market to between 1.3 and 1.5 million customers, from the previous assessment of between 1.0 and 1.2 million communicated in 2011. There is no change to the assessment that the average customer balance will be between £800 to £1,000 as the business approaches a more mature state. In practice, the medium-term rate of growth will be dictated by economic conditions, the emergence of competition and the strict financial objective of maintaining a minimum post-tax return on equity of 30%.

Provident Financial's future prospects are attractive:

- we have a long track record of operating successfully in the non-standard market which has become the domain of specialists like us;
- we have an attractive business model with businesses that are inherently more resilient through difficult market conditions;
- we have a home credit business with opportunities for sustainable growth through growing agent capacity, expanding the geographic footprint and product innovation;
- we continue to generate strong, profitable and capital-generative growth in Vanquis Bank;
- we have an excellent UK credit card platform, channels to market and credit expertise in Vanquis Bank that we believe have the potential to be exported into other territories and product offerings;
- we have highly skilled and experienced management teams in both our businesses and have strengthened the CCD board over the past year;
- 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.

2012 has been another very good year for Provident Financial. I am confident that in 2013 we can continue to develop our businesses and deliver another year of success for all of our stakeholders.

Peter Crook
Chief Executive

26 February 2013

MISSION AND VALUES

The group's mission is to be the leading non-standard lender in its chosen markets, 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.

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.

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.

DELIVERING OUR STRATEGY AND KPIs

We have made further excellent progress in 2012 in delivering against our strategy. This is evidenced by our performance against our KPIs.

STRATEGY

GROWTH OF HIGHER RETURN BUSINESSES IN NON-STANDARD MARKETS

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

KPI DESCRIPTION

RETURN ON EQUITY

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

PROFIT BEFORE TAX

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

AMOUNTS RECEIVABLE FROM CUSTOMERS

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

REVENUE YIELD (CCD)

Revenue as a percentage of average receivables for the year.

IMPAIRMENT % REVENUE (CCD)

Impairment as a percentage of revenue for the year.

RISK-ADJUSTED MARGIN (VANQUIS BANK)

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

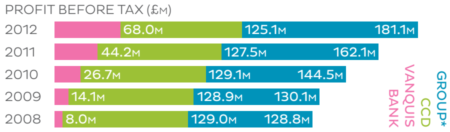
PERFORMANCE IN 2012

- High group return on equity which is stable at 48%* (2011: 48%).
- Vanquis Bank continued to deliver a return on equity well above its threshold limit of 30%.

RETURN ON EQUITY (%)

- Group profit before tax and exceptional credit of £181.1m,* up by 11.7% (2011: £162.1m).
  - CCD profit before tax of £125.1m (2011: £127.5m) reflecting flat receivables from a tight underwriting stance and customer caution in the current economic environment.
  - Strong Vanquis Bank performance, delivering profit before tax of £68.0m (2011: £44.2m).

PROFIT BEFORE TAX (£M)



*Stated after central costs, RPF losses and Yes Car Credit losses.

- Group receivables up by 13.6% to £1,513.8m (2011: £1,332.7m).
  - Modest reduction in CCD receivables of 0.8% to £869.6m (2011: £876.7m) due to a year-on-year reduction in credit issued of 2.5%.
  - Vanquis Bank receivables showed strong growth of 41.9% to £643.3m (2011: £453.4m) due to customer growth of 30.1% and the success of the credit line increase programme.

RECEIVABLES (£M) – *GROWTH IN ITALICS*

	Vanquis Bank		CCD		Group*	
2012	*41.9%*	643.3	*(0.8%)*	869.6	*13.6%*	1,513.8
2011	*31.4%*	453.4	*1.1%*	876.7	*9.3%*	1,332.7
2010	*35.0%*	345.0	*0.1%*	867.2	*7.0%*	1,219.3
2009	*24.4%*	255.5	*3.9%*	866.0	*7.1%*	1,139.3
2008		205.4		833.7		1,063.3

*Includes RPF receivables of £18.4m in 2008, £17.8m in 2009, £7.1m in 2010, £2.6m in 2011 and £0.9m in 2012 and Yes Car Credit receivables of £5.8m in 2008. Both businesses are now discontinued.

- Stable revenue yield in CCD of 89.0% (2011: 89.0%), reflecting consistent mix of business over the last two years.

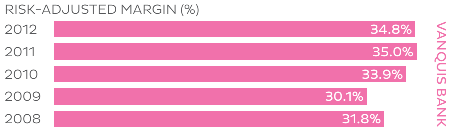
REVENUE YIELD (%)

- Impairment as a percentage of revenue in CCD was 33.0% (2011: 32.1%), and collections performance was sound. The increase from last year reflects benefit to impairment in the second quarter of 2011 from an improvement in the arrears profile following the changes to agents' commissions in April of that year.

IMPAIRMENT % REVENUE

- Vanquis Bank risk-adjusted margin of 34.8% (2011: 35.0%), well above the minimum target of 30%, reflecting strong margins and favourable arrears levels.

RISK-ADJUSTED MARGIN (%)



*Prior to an exceptional credit of £15.6m in 2012.

PLANS FOR 2013

CONSUMER CREDIT DIVISION

- Continue to focus on the quality of the receivables book through maintaining a tight stance on new customer underwriting and the criteria for re-serving existing customers.
- Execute on the agenda to bolster medium-term growth prospects and business effectiveness including:
  - further expansion of the geographic footprint of the business;
  - continued development of the product proposition and distribution channels to the target audience; and
  - building the effectiveness of the field organisation and IT to free up agent capacity.

VANQUIS BANK

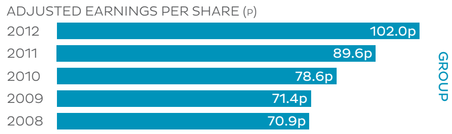
- Continue to invest in the customer acquisition programme, maintaining the growth in customer numbers and receivables at similar levels.
- Maintain a tight stance on underwriting and credit line increases.
- Complete the pilot in Poland and assess the viability of whether the customer proposition and business model is capable of delivering the group's target returns.
- Consider further opportunities to leverage from the platform, distribution channels and credit expertise within the UK business.

DELIVERING OUR STRATEGY AND KPIs

STRATEGY	KPI DESCRIPTION
GENERATING HIGH SHAREHOLDER RETURNS • Generate sustainable growth in profits and dividends to deliver increasing shareholder returns. • Maintain a dividend cover of at least 1.25 times.	**ADJUSTED EARNINGS PER SHARE (EPS)** Profit after tax, excluding exceptional items, divided by the weighted average number of shares in issue, excluding own shares held by the group. **DIVIDEND PER SHARE (DPS)** The total dividend per share comprising the interim dividend per share paid and the proposed final dividend per share. **TOTAL SHAREHOLDER RETURN (TSR)** The change 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, whilst maintaining a comfortable surplus of regulatory capital over the capital requirements set by the FSA. • Continue to diversify the group's sources of funding.	**GEARING** Borrowings (based on contracted rates of exchange and excluding deferred arrangement fees) less the liquid assets buffer, 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. • 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 with. **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.

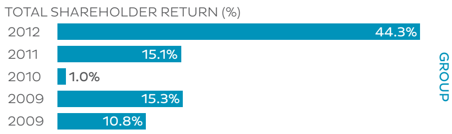
PERFORMANCE IN 2012

- Adjusted earnings per share up 13.8%* to 102.0p (2011: 89.6p).



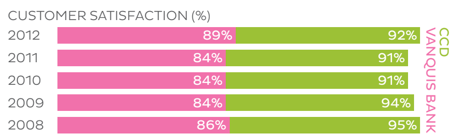
- Dividend per share increased by 11.9% to 77.2p (2011: 69.0p), producing a dividend cover of 1.32* times (2011: 1.30 times).

- Strong TSR of 44.3% in 2012 (2011: 15.1%).

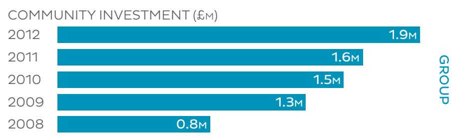


- Gearing stable at 3.2 times (2011: 3.2 times), compared with a maximum target of 3.5 times and a banking covenant of 5.0 times.
- Vanquis Bank retail deposits programme increased from £140m to £327m during 2012.
- Flow of retail deposits moderated following successful issue of the group's third retail bond of £120m in March 2012.
- Renewal of committed bank facilities of £382.5m in February 2012.
- Permission obtained from the FSA to increase the level of retail deposits funding from 80% to 90% of Vanquis Bank's receivables.
- Headroom on committed facilities of £192m, at 31 December 2012. Together with the retail deposits programme at Vanquis Bank, this 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 92% for CCD (2011: 91%) and 89% for Vanquis Bank (2011: 84%).



- Invested £1.9m in various community programmes during 2012 (2011: £1.6m).



*Prior to an exceptional credit of £15.6m in 2012.

PLANS FOR 2013

- Maintain a minimum dividend cover of 1.25 times.

- Maintain capital and gearing at prudent levels.
- Continue to manage the flow of retail deposits in Vanquis Bank to ensure the headroom on the group's committed facilities is maintained at an appropriate, but not excessive, level.
- Consider the issue of a fourth retail bond in 2013 as part of the group's retail bond programme.
- 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.
- Comply with existing and new regulation, including the recently published guidance issued by the FSA/OFT on Payment Protection Products.

CORPORATE RESPONSIBILITY

Being a successful and sustainable company requires more than just generating strong financial results. At Provident, we believe that our continued success cannot be separated from the responsibilities we have to our customers, employees and other stakeholders. We also want to take account of the issues that are relevant to the communities we serve and our wider environmental impacts.

Peter Crook
Chief Executive

OVERVIEW

OUR MISSION AND VALUES

To be the leading non-standard lender in our chosen markets, acting responsibly in all our relationships and playing a positive role in the communities we serve, and, in so doing, ensuring that we are fair, responsible, accessible, straightforward and progressive.

OUR STAKEHOLDERS

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

TAKING A STRATEGIC APPROACH TO CORPORATE RESPONSIBILITY

Our corporate responsibility (CR) strategy is simple, straightforward and practically focused, and is organised around the following themes:

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

By adopting a strategic approach to CR management we are able to address the CR issues that are material to our business activities.

Two headline key performance indicators are used to measure the delivery of our CR strategy:

- 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.

KEY AREAS OF FOCUS

As a financial services provider that has a long and proud history of serving customers in the non-standard credit market, the CR issues that are most material to our business activities relate to:

- Lending to our 2.7 million customers in a responsible manner – Ensuring that we provide our customers with simple and transparent credit products via a service which enables us to maintain high levels of personal contact with them is our most important corporate responsibility.
- Having a positive impact in the many communities we serve – By virtue of our businesses serving customers in so many communities across the UK and Ireland we have an obligation to work with a variety of partners to address a wide range of local community issues.
- Ensuring that we minimise our environmental and supply chain impacts, and are an employer of choice.

CR REPORTING

We have produced a stand-alone, annual CR report which details a full account of our social, environmental and economic performance since 2002. Our 2012 CR report will be published during the summer of 2013. Our 2011 CR report and further information on our CR reports can be found at *www.providentfinancial.com*.

Our CR reports and the programme that underpins them are independently verified by our CR auditors, Corporate Citizenship, against the AccountAbility 1000 Assurance Standard and the Global Reporting Initiative's G3 sustainability reporting guidelines.

In addition, our environmental management system is audited against the requirements of the international environmental standard ISO 14001 by the consultancy firm, SEQM.

CR ASSESSMENTS

- In April 2012, Provident achieved a maximum rating score of 100 in the FTSE4Good Index for the second consecutive year.
- We achieved a score of 95% in the Business in the Community CR Index and retained our platinum performance rating for the fourth year in a row.
- We were included in the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index during 2012.

FTSE4Good

CR INDEX 2012 PLATINUM BUSINESS IN THE COMMUNITY

Dow Jones Sustainability Indexes Member 2012/13

CR OVERSIGHT

Provident's commitment to take account of its CR impacts and ensure that their management is embedded within the fabric of our business activities comes from the very top of the company. Board responsibility for the group's CR programme rests with Peter Crook, Chief Executive. Provident's management committee, which is chaired by Peter Crook and comprises the executive directors and certain other senior management within the group is, in turn, authorised by the board to review CR activity. This committee is supported by a number of working groups which are responsible for ensuring that our businesses embed our CR strategy within their operations, products and services. Day-to-day management of the CR programme is undertaken by Provident's CR Manager, Community Affairs Manager and Community Affairs Executive. Further information on the governance structures that are in place regarding our CR programme is available at: *www.providentfinancial.com*.

LENDING RESPONSIBLY TO OUR CUSTOMERS

Having over 2.7 million people use our home credit and credit card products means that being a responsible lender is our most important corporate responsibility.

For over 130 years, our customers have been drawn from communities of people living on modest incomes. As such, our products are structured in such a way that takes account of their needs and are delivered in a fair and responsible manner.

WHAT DO WE MEAN BY RESPONSIBLE LENDING?

For Provident, responsible lending is about continuing to deliver products that meet the needs of our customers, whilst ensuring that we do not lend in a way that they cannot afford to repay. We do this by offering simple and transparent financial products delivered through a friendly, personal and flexible service.

Both our operating businesses have rigorous processes and systems in place that underpin the lending decisions that they make and ensure that we issue credit to new and existing customers at the right time and for the right amount. They also maintain high levels of contact with our customers through face-to-face meetings or telephone contact which enables us to discuss any difficulties or queries that they may have at an early stage and agree a course of action to resolve them.

- 92% and 89%, the percentage of customers who are satisfied with the service they have been given by our home credit business and Vanquis Bank respectively.
- 80% and 76%, the percentage of credit applications declined by our home credit business and Vanquis Bank respectively.

"BY ENSURING THAT WE CONTINUE TO OPERATE IN A WAY THAT DELIVERS AGAINST OUR CORPORATE RESPONSIBILITY STRATEGY AND OTHER STRATEGIC AIMS, WHICH IN TURN ENABLES US TO WORK TOWARDS ACHIEVING OUR MISSION AND LIVING OUR VALUES, PROVIDENT CAN CONTINUE TO BE A SUCCESSFUL, RESPONSIBLE AND SUSTAINABLE BUSINESS."

Peter Crook
Chief Executive

"I WAS A CUSTOMER MYSELF BEFORE BECOMING AN AGENT 17 YEARS AGO, SO I KNOW HOW TO HELP CUSTOMERS WHEN THEY'RE HAVING UPS AND DOWNS."

June
Home credit agent

CORPORATE RESPONSIBILITY

THE NUMBER OF THREE-YEAR FUNDED GOOD NEIGHBOUR PROJECTS **39**

THE TOTAL AMOUNT DONATED FOR CHARITABLE PURPOSES AND INVESTED IN COMMUNITY PROGRAMMES DURING 2012 **£1.9M**

THE NUMBER OF EMPLOYEE VOLUNTEERING HOURS SPENT ON LOCAL COMMUNITY PROJECTS **5,405**

"THE PARTNERSHIP WORK WITH PROVIDENT ON SCHOLEMOOR IS AN EXAMPLE OF HOW BUSINESS CAN REALLY HELP IMPROVE THE LIVES OF PEOPLE LIVING IN COMMUNITIES AND HAVE A LONG-TERM IMPACT."

Matthew Milnes
Community Sports and Activities Development Worker at Scholemoor Beacon

OUR COMMUNITIES

DELIVERING POSITIVE COMMUNITY BENEFITS

Our approach to community involvement reflects the fact that we have a presence in almost every town and city in the UK and Ireland. These towns and cities differ greatly so we work with a variety of community partners to address a wide range of issues depending on the local community's needs. It also underlines our commitment to use our community involvement programmes to train, develop and motivate our employees.

The strategy behind our community involvement activities has stood the test of time and 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.

BEING A GOOD NEIGHBOUR

The vast majority of our community involvement activities are delivered through our Good Neighbour programme. Established in 2009, Good Neighbour delivers support in three ways: through local community project support, employee volunteering and employee matched-giving.

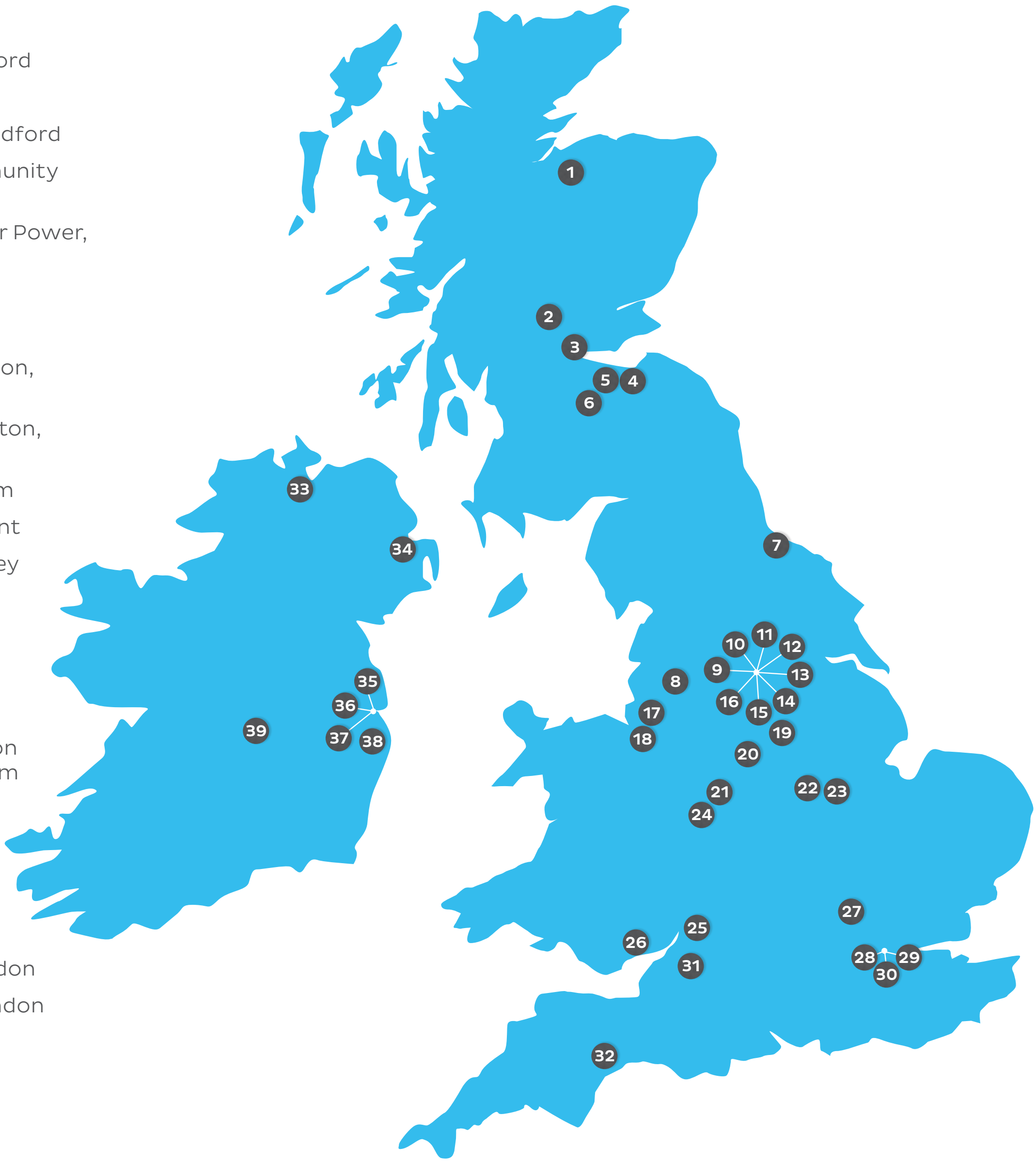
Vanquis Bank also runs a separate 'Active Community Programme' to encourage employee volunteering and provide support to local charities in London and Chatham, and through the international charity 'Hatua' in Nairobi, Kenya.

During 2012, we entered into three-year funding agreements with the following new community partners: Aberlour in Elgin, Harvey Girls in Burton on Trent, One in a Million and Participate in Bradford, Youth Network MK CIC in Milton Keynes and the Ballymun Music Programme in Dublin. We also renewed the funding agreements we have with a number of existing community partners including Boomerang in Dundee, Sedburgh Youth and Community Centre in Bradford and Baggator in Bristol. This means that the number of three-year community projects we are supporting stands at 39.

A key component of our approach to community involvement involves evaluating the community and business benefits of the initiatives we support and activities our employees engage in. This enables us to ensure that the support we provide through the Good Neighbour programme and other activities is invested in the right places and that we continually improve how we work with our many community partners.

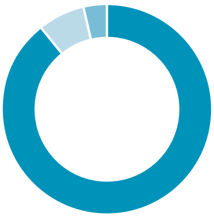
OUR GOOD NEIGHBOUR THREE-YEAR PROJECTS

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

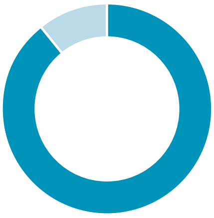


CORPORATE RESPONSIBILITY

2012 COMMUNITY INVOLVEMENT IN NUMBERS



2012 EMPLOYEE VOLUNTEERING IN NUMBERS



COMMUNITY INVOLVEMENT IN NUMBERS

- 36,409 – the number of people who, in 2012, have benefitted directly from the support provided by the projects we have funded through our Good Neighbour programme.
- 10,961 – the number of people who have accessed new services and activities delivered through our Good Neighbour-funded projects during 2012.
- 18,523 – the number of people who have developed new skills during 2012 as a result of their involvement in the programmes supported by Good Neighbour.

EMPLOYEE VOLUNTEERING

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

In September 2012, more than 80 members of the Consumer Credit Division's finance and IT departments took part in a team challenge at the Gateway Community and Children's Centre on the Ravenscliffe estate in Bradford. Over two days, the volunteers improved the centre's grounds by constructing an interactive play area, weeding the gardens and paths, and removing overgrown vegetation.

GETTING INVOLVED IN OUR COMMUNITIES

We continue to evaluate all aspects of our community involvement activities to understand and identify the community and business benefits of our work. Examples of our Good Neighbour projects include:

St Petrock's
This organisation supports and encourages people who are homeless or inadequately housed to improve their circumstances and take more control of their lives. Our funding has helped to set up Project Petrock, an independent Co-operative Community Interest Company. This project helps people who are or have recently been homeless get back into employment, education or training by offering volunteering opportunities, improving confidence and self-esteem, and giving additional support.

Project highlights:
- The project has employed an experienced builder who has trained a team of six volunteers who are homeless to deliver a range of housing and garden maintenance activities through the Project Petrock social enterprise.
- Project Petrock is currently providing its volunteers with 20-30 hours of volunteering opportunities per week.

Sycamore Project (Zac's Bar)
This project engages young people in long-term constructive activities that develop positive attitudes, self-esteem, aspiration and facilitate personal development. Our funding is supporting a gap year scheme for post-A-level or post-degree students that will provide them opportunities to work with young people. The funding is also allowing the project to maintain and further develop its work rather than reduce provisions in response to funding cuts.

Project highlights:
- Since 2011, the project has recruited eight gap year students to provide mentoring, arts and sports sessions and after-school support to young people.
- Through the project, the eight gap year students have engaged the young people that use Zac's Bar in activities that develop positive attitudes, self-esteem, aspiration and confidence.

Scholemoor Beacon
We have supported the Scholemoor Beacon, a sports and community centre on Bradford's Scholemoor estate, since 2004. We currently part-fund the Beacon's Community Sport Development Officer and Community Neighbourhood Worker who deliver a range of initiatives to promote education, health and social welfare amongst residents of the estate. Over the past nine years a considerable amount of work has been carried out which has seen the derelict land on which the community centre stands be transformed into an outdoor recreation and sports facility.

Project highlights:
- Scholemoor Beacon has delivered a range of services over the past 12 months including street hockey, healthy living classes and school holiday projects which have directly benefitted 494 local residents.
- The project runs a weekly job club which provides residents with help on job applications, interview skills and CV writing which has enabled three people to gain employment.

CREDIT ACTION

In 2012, Credit Action worked with us to deliver training to some of the community partners we support through the Good Neighbour programme. The focus of the training was to empower the community partners to be able to communicate effectively with young people in the 16-20 age range on money matters by enabling them to run short activity-based sessions on financial planning and budgeting.

SOCIAL MARKET FOUNDATION

We also continue to support publicly available, independent research to help understand the financial behaviour of those on modest incomes and increase the quality and availability of free, independent money advice in the UK.

EMPLOYEE VOLUNTEERING IN NUMBERS

- The percentage who felt that team challenges improved employee morale – 95%
- The percentage of team challenge volunteers who felt their work improved the reputation of the company – 99%
- The percentage of team challenge volunteers who would like to do another team challenge – 97%

SUPPORTING MONEY ADVICE AND FINANCIAL EDUCATION

Our approach to responsible lending also involves working with and supporting a wide range of free and voluntary money advice organisations to help consumers who may have problems repaying their debts to us and others. These include: Advice UK, Citizens Advice, Institute of Money Advisers, Money Advice Liaison Group, Money Advice Scotland, Money Advice Trust, National Debtline and StepChange. We also work in partnership with organisations such as Credit Action and DebtCred to deliver a range of financial education initiatives.

For example, we supported research undertaken by the Social Market Foundation which led to the publication of the report 'Sink or Swim? The impact of Universal Credit' in September 2012.

This research, which was carried out under the guidance of an expert group, interviewed low-income families to explore whether they were coping with the current financial squeeze and to understand to what extent potential recipients of Universal Credit would be able to adapt their current budgeting and money management techniques to align with the reforms to the benefits system. The research found that many current and potential benefit recipients devote considerable time and energy to budgeting and have quite sophisticated budgeting techniques. However, it also indicated that they will need help and support, particularly dealing with monthly payments and housing benefit paid direct to claimants in the social rented sector. The report made recommendations regarding what more government could do, as it rolls out Universal Credit, to help people prioritise, plan for the future and to budget, save and use credit effectively.

"I STARTED WORKING AT PROVIDENT AS A CALL CENTRE OPERATIVE 11 YEARS AGO AND I'M PROUD TO HAVE WORKED MY WAY UP WITHIN THE COMPANY. AS CUSTOMER CONTACT MANAGER, I ENJOY BEING ABLE TO WORK FOR A COMPANY THAT SUPPORTS NOT JUST ITS EMPLOYEES BUT THE LOCAL COMMUNITY TOO."

Ajaz Hamid
Customer Contact Manager

CORPORATE RESPONSIBILITY

THE PERCENTAGE OF HEAD OFFICE WASTE THAT IS SENT TO LANDFILL.	0%
THE PERCENTAGE WE REDUCED OUR AIR MILES BY DURING 2012.	12%
THE PROCUREMENT SPEND OF THE PROVIDENT FINANCIAL GROUP DURING 2012.	£118.0M

"I'VE BEEN A TEAM LEADER ON A NUMBER OF GOOD NEIGHBOUR CHALLENGES AND NOW I'M PASSIONATE ABOUT SUPPORTING THE COMMUNITIES THAT WE WORK IN. BEING ABLE TO SEE THE POSITIVE IMPACT WE HAVE ON LOCAL PEOPLE IS FANTASTIC AND GIVES ME A GREAT DEAL OF SATISFACTION ALONGSIDE MY DAY-TO-DAY JOB."

Jenna Powell
Business Assurance Officer

MANAGING OUR WIDER CR IMPACTS

Whilst it is important for our CR programme to continue to focus on the issues that are most material to our business activities, we also recognise that we have a duty to manage the wider CR issues that relate to what our business does.

OUR ROLE AS AN EMPLOYER OF CHOICE

In 2012, our workforce continued to grow and now includes over 3,750 people across the UK and Ireland. Our employees are a key stakeholder and play a fundamental role in developing and delivering products that meet the needs of our 2.7 million customers. To run our business successfully, we need to attract talented individuals and provide a working environment that nurtures and develops them. We do this by creating a workplace that is safe, inclusive and meritocratic, where we recognise and reward our employees' contributions, provide opportunity for development, and listen and respond to our employees' views. In this way we enable our people to meet their own personal goals as well as respond to the needs of our customers.

MINIMISING OUR IMPACT ON THE ENVIRONMENT

The impact our business activities have on the environment is small compared with that of businesses in many other sectors. Despite this, we endeavour to minimise our environmental impacts where possible. Our main environmental impacts are the energy we use to power our buildings; business travel; waste, in particular paper; and the CO_2 emissions associated with all of these. We manage these impacts through our environmental management programme and regular reviews ensure we are dealing with the most material issues. Our environmental management programme is supported by an annual audit process and is overseen by working groups.

BEING A RESPONSIBLE PURCHASER

Our suppliers are an important stakeholder group who have a great influence on our CR performance through the social and environmental impacts of the products and services they supply. The main areas of procurement spend include information technology, professional services, and vehicles and other equipment.

As a responsible purchaser, we aim to treat our suppliers fairly and with respect. We recently signed up to the Prompt Payment Code to pay suppliers on time, to be clear and transparent and to encouage best practice. 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. This is built into procurement policies and procedures at the group and subsidiary level.

CONSUMER CREDIT DIVISION

FACE-TO-FACE SERVICE

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

HOME CREDIT EXPLAINED

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.

WHAT MAKES HOME CREDIT DIFFERENT?

- Provident will lend the small sums of a few hundred pounds that home credit customers require. We will lend the £400 a customer wants rather than the £4,000 they don't want.
- Provident will call weekly at customers' homes to collect repayments and service future credit needs, providing a helpful routine and removing the need for expensive trips into town and postal charges. The fact that the call at the customer's home is weekly, helps the many customers who budget weekly rather than monthly.
- Provident will fix the amount to be repaid at the time the loan is taken out, allowing customers the certainty of knowing exactly how much has to be repaid. The cost of a home credit loan never rises. Even when repayments are missed, the amount to be repaid never rises. There are no extra charges whatsoever.
- Provident is interested in customers' creditworthiness now – not at some point in the past when they may have been having difficulties. We know that it is difficult to have a perfect credit record and are prepared to work with our customers as long as they can afford the repayments on the loan they are applying for.

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 of customers through online and television advertising.

2 THE AGENT'S VISIT

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

3 TRANSPARENT TERMS

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

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 service delivered through the agents we engage, protects our customers from taking on too much credit. It is in no one's interest 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 customers 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.

THE BRANCH NETWORK

Over 400 branches, providing coverage of virtually every postcode in the country, make us the only home credit provider 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.

LOCAL AGENTS

A network of 9,800 self-employed agents advance credit and collect payments in the communities they serve. Crucially, agents generate commission primarily 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.

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 on our committed facilities. 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.

CREDIT MANAGEMENT

We are 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.

SIMPLE REPAYMENTS

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

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 the customer's home.

5 BUILDING TRUST

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

CONSUMER CREDIT DIVISION

Chris Gillespie
Managing Director, Consumer Credit Division

Our home credit business 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 individual, friendly and flexible, and is well suited to the needs of our customers.

PROFIT BEFORE TAX	£125.1M
CUSTOMER NUMBERS	1.8M
YEAR-END RECEIVABLES	£870.5M

The home credit business of the Consumer Credit Division (CCD) is Provident Financial's longest running business, stretching back to the company's foundation in 1880. It is the largest home credit business in the UK and Ireland. Every week, 9,800 local agents visit the vast majority of our 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 need for consumers in the UK non-standard credit market.

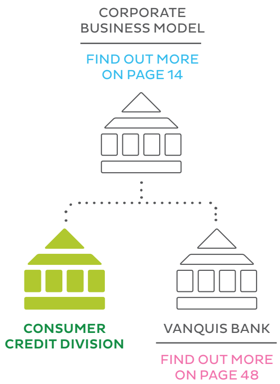
HOW HOME CREDIT WORKS

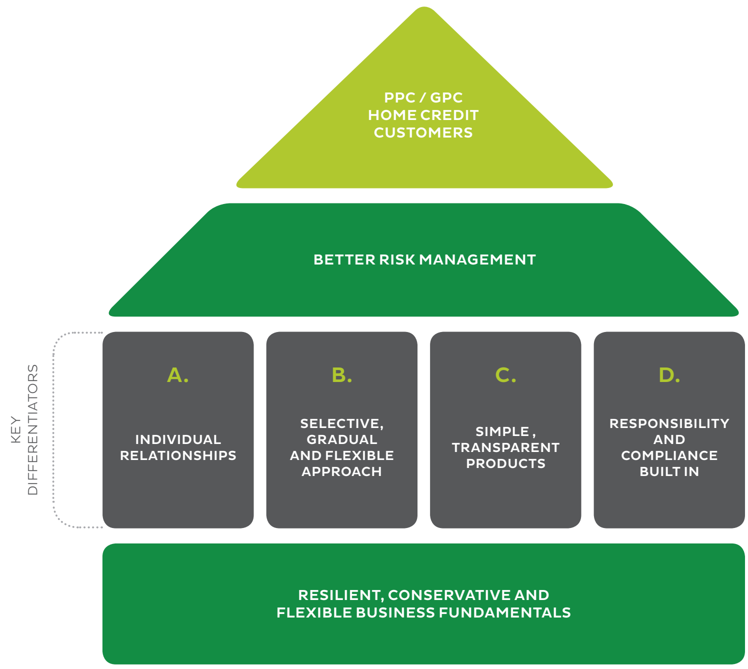
Provident is the UK and Ireland's leading home credit lender operating through the Provident Personal Credit (PPC) and Greenwood Personal Credit (GPC) brands which share a national network of over 400 branch offices. PPC and GPC provide small, unsecured credit, typically for sums of around £500. These 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 up front. 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.

CCD BUSINESS MODEL

In CCD, we apply our successful specialist non-standard business model to the home credit market.

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





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;
- ensuring that we comply with applicable laws and regulations; and
- providing customers with the right products and services in order to maintain our high levels of customer satisfaction and responding to competitive developments and changing customer needs.

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 us to serve more customers who are better suited to our high-service, flexible, small-sum model.

The part played by the agent supports responsible lending. Agents are paid commission primarily on what they collect, not what they lend, so they have every reason not to lend more than their customers can afford to repay. Furthermore, they typically visit their customers each week and thereby develop an intimate knowledge of their circumstances, which informs their lending decisions. This is good for the customer and also allows the business to closely manage impairment.

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. 92% 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.

KEY DIFFERENTIATORS

A. INDIVIDUAL RELATIONSHIPS

- Establish individual contact from the outset with the home visit.
- Treat customers as individuals.
- Customer satisfaction rating of 92%.
- 9,800 agents with excellent local knowledge.
- Social investment in the communities we serve.

B. SELECTIVE, GRADUAL AND FLEXIBLE APPROACH

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

C. SIMPLE, TRANSPARENT PRODUCTS

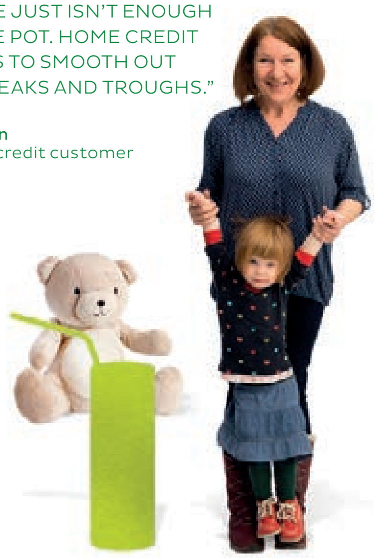
- Cash or shopping vouchers.
- Priced appropriately and transparently – customers tell us we are clear and offer good value for money.
- Fixed weekly repayments that never go up. Our customers say that we are straightforward and trustworthy.

D. RESPONSIBILITY AND COMPLIANCE BUILT IN

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

"CHILDREN DON'T COME CHEAP AND SOME MONTHS THERE JUST ISN'T ENOUGH IN THE POT. HOME CREDIT HELPS TO SMOOTH OUT THE PEAKS AND TROUGHS."

Kathryn
Home credit customer



CONSUMER CREDIT DIVISION

OUR 130-YEAR HISTORY DEMONSTRATES THAT OUR BUSINESS MODEL IS THE RIGHT ONE FOR SERVING OUR CUSTOMERS AND GENERATING PROFITABLE RETURNS FOR SHAREHOLDERS.

"I DON'T THINK I WOULD EVER HAVE BEEN ON HOLIDAY IF IT HADN'T BEEN FOR PROVIDENT! IT HAS ENABLED ME TO GIVE MY CHILDREN THE THINGS I NEVER HAD."

Sarah
Home credit customer

BUSINESS DEVELOPMENT

During 2012, CCD has continued to develop its processes, systems and operations to improve the efficiency and effectiveness of the business and to adapt to the increasingly demanding regulatory environment.

A number of initiatives are underway to ensure that the business is well-positioned for sustainable profits growth as and when there is an improvement in the economic environment.

Business effectiveness programme

Our 130-year history demonstrates that our business model is the right one for serving our customers and generating profitable returns for shareholders. However, as outlined in last year's annual report, it is important that we do not stand still and we seek continuous improvement in everything we do. A major focus during 2013 and beyond is to grow the business through a number of interlinked initiatives:

1. Expanding our geographic footprint

The home credit business is well spread throughout the whole of the UK and Ireland. However, there are pockets where our penetration of the addressable market is lower than it should be. These areas can benefit from a local management presence and improved focus. In 2011 we created six new branches and in 2012 we have created a further 13, all of which have been at a modest cost. These were mostly locations where a branch was closed a number of years ago and consolidated into an adjacent location. We are pleased with the early progress being made by these newly opened branches, which are being run by highly motivated local management.

2. Modernising our approach with agents

(i) Proactive management of the agency base

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 2012, we have continued to identify smaller agencies where the agent finds it more difficult to generate 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. As a result, we have closed around 900 smaller, poorer performing agencies and added the good-quality customers from these rounds to existing agencies. In contrast, where we identify growth potential which is not being realised we create new agencies, either by offering to split an existing agency where the agent is operating at capacity or by creating a new agency. We have created 200 such agencies in 2012. As a result, we have reduced agent numbers from around 10,500 at the end of 2011 to around 9,800 at the end of 2012. The business now comprises 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 should lead to further improvements in the financial performance of the business and an even better service to our customers. We believe that we have now largely completed this review and do not expect any further significant reduction in the number of agencies. Indeed, as we return the customer base to growth, we would expect to increase agency numbers.

(ii) Agent attraction

We have made a number of changes to our agent attraction processes in order to engage more highly motivated agents who have more time to spend on their agencies and who tend to be bread-winners. Our focus is 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 scope for more agents to run their agency on a full-time basis and regard it as their main source of income. Our data shows that these agencies perform better.

During 2012, the proportion of agents that fell into this 'full-time' category increased from 14% to 16%. Irrespective of their time commitments, we ensure that all agents 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.

(iii) Agent commission
During the last quarter of 2012, the business announced further enhancements to the agents' commission scheme. The enhanced scheme stratifies agencies into three categories based on their performance and rewards agents with better performing agencies with a higher commission rate on collections. Performance is assessed every three months and is based upon five measures, three of which are linked to the quality of the agency receivables book and collections performance. The remaining two measures are linked to the size of the customer base and ensuring high standards of compliance against regulatory requirements are always delivered. The scheme has been introduced during the first quarter of 2013 and is expected to benefit both sales and collections performance of agencies.

Importantly, the enhanced commission scheme continues to be based predominantly on what agents collect and not what they lend, so they have every reason to lend responsibly.

The numerous initiatives to develop the underlying strength of the agency force have 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 78% at the end of 2012, compared with 79% at the end of 2011. In addition, we have maintained the spans of control in the field management force which we believe is the right approach during these tough economic times. As a result, we have seen a sound collections performance and an increase in commissions generated by the vast majority of agents.

3. Product and proposition innovation
We are committed to product innovation and finding ways to enhance our service to customers. As part of this commitment, during the second half of 2012 we introduced the One Card. The One Card is a prepaid card which allows customers to spend and access offers across some 60 online and high street retailers. Each £200 borrowed on the One Card comes with an extra £10 to spend so the customer gets £210 for the cost of a £200 loan. The extra £10 is funded by the retailer at no extra cost to Provident. The launch of the One Card was supported by our first TV advertising campaign for a number of years, with adverts being aired on ITV2 and various freeview and satellite channels throughout the last quarter. We have recruited approaching 10,000 new customers since the launch of the One Card advertising at a cost per acquisition which compares favourably with other marketing channels.

We relaunched our Shopportunity card as the Gold Card during 2012. The Gold Card provides customers with a ready-loaded plastic card that can be used at a range of high street and online retailers as an alternative to cash in the run-up to Christmas. The spend on the card represents a home credit loan against which agents collect repayments from the customer's home in the usual way from the start of the new year. We provide the benefits of the card to our best-quality customers only. Following increased advertising and promotional activity, combined sales of the Gold Card and One Card increased to £43m in 2012, up from £28m in 2011.

We will continue to seek new ways of serving our customers with the products that they want. We plan to introduce re-loadable cards in the near future which will allow existing customers speedier access to cash when they need it. These may be offered through a 'closed loop' arrangement with certain retailers or may be 'open loop' through a VISA card. We are also looking into the distribution of our loans through the high street stores of other product providers.

WE WILL CONTINUE TO SEEK NEW WAYS OF SERVING OUR CUSTOMERS WITH THE PRODUCTS THEY WANT.

RUNNING MY OWN BUSINESS CAN MAKE MY INCOME A LITTLE UNRELIABLE. HAVING AN UNDERSTANDING AGENT AND NO EXTRA FEES FOR MISSING A PAYMENT HAS MADE ALL THE DIFFERENCE."

Mitika
Home credit customer

CONSUMER CREDIT DIVISION

IN ORDER TO CONTINUE TO SUCCESSFULLY DELIVER ON OUR BUSINESS EFFECTIVENESS PROGRAMME AND BRING GROWTH BACK TO THE BUSINESS, WE HAVE STRENGTHENED THE MANAGEMENT TEAM DURING 2012.

"WHEN IT COMES TO THINGS LIKE CHRISTMAS AND BIRTHDAYS, WE'D FIND IT QUITE A STRUGGLE WITHOUT PROVIDENT. THEY TAKE THE STRESS OUT OF A POTENTIALLY DIFFICULT SITUATION."

Nick
Home credit customer

4. Process improvement
In order to adapt to the changing regulatory environment and to improve efficiency, the business is continually seeking to improve its business processes and the way it uses IT.

Following the implementation of the EU Consumer Credit Directive in 2011, the process of issuing credit to customers had become more time-consuming. A large proportion of this time was taken up by the agent and customer filling out forms with information that we already hold in our systems. As a result, during the latter part of 2012, we modified our systems to prepare pre-populated customer agreements based on system stored data, which can be easily verified when the loan agreement is made with the customer. This improvement to our systems should improve agent capacity going forwards and enable greater focus on responsible lending.

During 2012, we have been developing extranet systems for both agents and customers. These are both called 'My Provi'. The agent system will allow agents to access essential information in their own homes or via a mobile device. A lot of this information is currently only available in the branch or in paper form. The customer system will allow customers to access their account, including payment details and their account balance, enabling them to manage their account better. It will also provide the business with another marketing channel. The customer extranet is expected to go live during 2013.

Strengthening the management team
In order to continue to successfully deliver on our business effectiveness programme and support growth in the business, we have strengthened the management team over recent months.

In September, Mark Stevens joined the business as Commercial Director having previously held senior roles at Leeds Building Society, Bradford & Bingley and Apax Partners. His role involves developing the product proposition and distribution, as well as broader business development.

In November, Sarah Dickins joined CCD as Human Resources Director following a successful career spanning over 10 years in director and senior management human resources roles with Asda Stores. Her primary role will be to drive up the benchstrength of the field organisation to support the growth and effectiveness agenda.

Very recently, we have announced the appointment of Andy Parkinson as Director of Field Operations with effect from April 2013. He joins from BrightHouse, having spent the last six years as Retail Director. He was heavily involved in the transformation of the performance of that business and the expansion of its store network.

Supporting Bradford

We are proud of our roots in Bradford, where we have been for over 130 years. Following our move into a new purpose-built head office facility in the centre of Bradford in October 2010, we have grown our Bradford workforce from just over 700 to nearly 900 employees (including 160 Vanquis Bank contact centre staff). To underline our continuing commitment to the Bradford area, we announced in late 2012 that we have entered into a sponsorship agreement with the rugby league club, Bradford Bulls. The sponsorship, worth over £1m over four years, means that from the start of the 2013 season, the club's stadium will be known as the 'Provident Stadium' and our Provident Personal Credit brand will be featured on the Bradford Bulls' shirts. We are proud to support the Bradford Bulls in achieving success both for the club and the wider community in Bradford. We are particularly happy to be helping to support the Bradford Bulls Academy programme which develops young talent and has resulted in six of the current first team squad coming from that programme.

WE ARE BUILDING A STRONG PLATFORM TO DELIVER OUR STRATEGIC AIMS AND GROW THE PROFITABILTY OF THE BUSINESS IN THE FORTHCOMING YEARS.

FINANCIAL PERFORMANCE

CCD delivered profits of £125.1m in 2012 (2011: £127.5m) as set out below:

	Year ended 31 December		
	2012 £m	2011 £m	Change %
Customer numbers ('000)	1,827	1,825	0.1
Year-end receivables	869.6	876.7	(0.8)
Average receivables	782.7	783.4	(0.1)
Revenue	696.9	697.1	-
Impairment	(230.2)	(223.8)	(2.9)
Revenue less impairment	466.7	473.3	(1.4)
*Revenue yield**	*89.0%*	*89.0%*	
*Impairment % revenue***	*33.0%*	*32.1%*	
Costs	(295.4)	(298.8)	1.1
Interest	(46.2)	(47.0)	1.7
Profit before tax	125.1	127.5	(1.9)

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

The first half of the year was characterised by a heavy focus on collections and an emphasis on sales to good-quality existing customers as households faced sharp increases in winter fuel bills. The sound performance of the business during this period enabled a step-up in sales and marketing activity during the second half of the year including greater emphasis on new customer recruitment which has proved effective. Customer numbers ended the year at 1,827,000, level with 2011, having been down 2% at the half year. A number of initiatives, including the launch of the pre-paid One Card and TV advertising, supported this programme. Nonetheless, the pressure on disposable incomes from food, fuel and utility price inflation has not abated and sales have been tempered by the cautious behaviour of agents and many customers. These market conditions also dictated the continued application of tight credit standards. As a result, credit issued for 2012 as a whole was 2.5% lower than 2011.

"MY CUSTOMERS VALUE THE FLEXIBILITY OF HOME CREDIT. IF THEY'RE HAVING A TOUGH TIME, THEY KNOW WE CAN SIT DOWN TOGETHER AND FIND A SOLUTION."

Jane
Home credit agent

CONSUMER CREDIT DIVISION

Average receivables of £782.7m (2011: £783.4m) were flat on 2011 and the annualised revenue yield on the receivables book remained unchanged at 89.0% (2011: 89.0%), reflecting the consistent mix of business over the last two years.

Collections performance remains sound. The ratio of annualised impairment to revenue was 33.0% at December 2012, little changed from the ratio of 32.8% reported in June. The increase from 32.1% reported at December 2011 primarily reflects the benefit to impairment in the second quarter of 2011 from an improvement in the arrears profile which resulted from the enhancements made to the agents' commission scheme in April of that year.

Headline costs fell by £3.4m or 1.1% during 2012. The cost base in 2011 included a one-off amount of £2m associated with the changes required to implement the EU Consumer Credit Directive across the branch network. Underlying costs therefore reduced by £1.4m or 0.5% reflecting a small reduction in agents' commission costs due to the year-on-year reduction in credit issued and related collections, together with efficiency gains which have eliminated the impact of inflation on the payroll and expense base of the business.

Interest costs fell by 1.7% as the business benefitted from an average funding rate of 7.4% compared with 7.5% in 2011.

REAL PERSONAL FINANCE

The collect-out of the Real Personal Finance receivables book continued to progress satisfactorily with the receivables book reducing from £2.6m at December 2011 to £0.9m at December 2012. There was no profit or loss in the year in respect of Real Personal Finance (2011: £nil).

LOOKING AHEAD

The focus in 2012 has been on maintaining the quality of the receivables book whilst developing the business effectiveness programme. This will continue to be our focus in 2013. We are building a strong platform to deliver our strategic aims and grow the profitability of the business in the forthcoming years.

The recent strengthening of the senior management team will enable us to unlock further potential in the business, as and when the economic environment improves.

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

"I ALWAYS USED TO DREAD SEPTEMBER – SENDING THE KIDS BACK TO SCHOOL WITH EVERYTHING THEY NEEDED WAS A NIGHTMARE. NOW I HAVE FOUND HOME CREDIT, I CAN BORROW JUST THE AMOUNT I NEED TO COVER EVERYTHING."

Hannah
Home credit customer

VANQUIS BANK

A WHOLE NEW WORLD

In today's world, lack of access to a credit card 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 EXPLAINED

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.

WHAT MAKES THE VANQUIS BANK CARD DIFFERENT?

- Vanquis Bank has much smaller credit limits than mainstream card issuers that match the needs of non-standard customers.
- Vanquis Bank will judge a customer's application on the basis of their circumstances now. We will not turn down a customer just because they may have had money troubles in the past which they are now over.
- Vanquis Bank will maintain a much higher level of contact through phone conversations and text messages than mainstream card issuers. In this way, any problems can be addressed quickly and longer-term problems can be averted.

1 FIRST CONTACT

In 2012, 46% of new customers came from online channels, 47% from direct mail and 7% from other channels.

2 APPLYING FOR A CARD

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

3 TRANSPARENT TERMS

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

UK CONTACT CENTRES
The 560 staff at our UK contact centres at Chatham and Bradford stay in close contact with our 0.9m 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.

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 keep their accounts in good order can get reduced interest rates.

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.

LEADING-EDGE TECHNOLOGY
We use state-of-the-art technology through all aspects of the customer experience and life cycle. This enables us to identify trends, adapt our business quickly and ensure that we can provide customers with the products and experience that they require.

4 PAYMENT CHANNELS
Payments can 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 representative) or a standing order or a direct debit can be established to make payments on a regular basis. Customers can also pay over the counter at The Post Office or a bank, or send a cheque by post.

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 are behind in making payments. When appropriate, we increase credit lines in small, manageable steps.

VANQUIS BANK

Michael Lenora
Managing Director,
Vanquis Bank

Vanquis Bank has established itself as the leading specialist provider of credit cards to customers in the non-standard segment of the UK market. Our 'low and grow' approach to extending credit and high levels of customer contact underpin a business model that is generating sound, sustainable returns. Based on our expertise and success in the UK, we are now testing the potential of expanding into overseas markets.

PROFIT BEFORE TAX	£68.0M
CUSTOMER NUMBERS	0.9M
YEAR-END RECEIVABLES	£643.3M

VANQUIS BANK WAS NAMED AS CREDIT TODAY 'CREDIT CARD PROVIDER OF THE YEAR' FOR THE FOURTH YEAR RUNNING IN 2012."

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

We are confident of continuing success in a market which inherently carries the potential for higher levels of default because of our extensive experience and expertise in lending to non-standard customers. Given the nature of the market, we lend cautiously and responsibly and aim to support and inform our customers, whether they are new to credit or wish to repair their financial history.

Our approach is characterised by our 'low and grow' strategy towards extending credit. Customers typically start with a credit limit as low as £250. We then monitor performance over time to understand individual customer behaviour before granting responsible increases when it's right to do so.

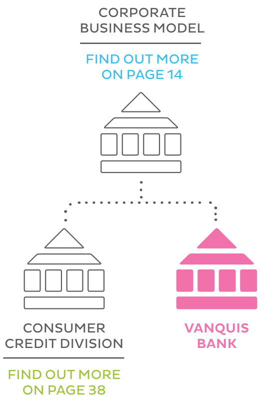
Our interest rates reflect the higher levels of default within this market segment. The majority of our customers are taken on at our representative APR of 39.9% and our default charges are in line with those of the mainstream credit card providers. In all other respects, Vanquis Bank customers experience all the features associated with other globally-accepted credit cards.

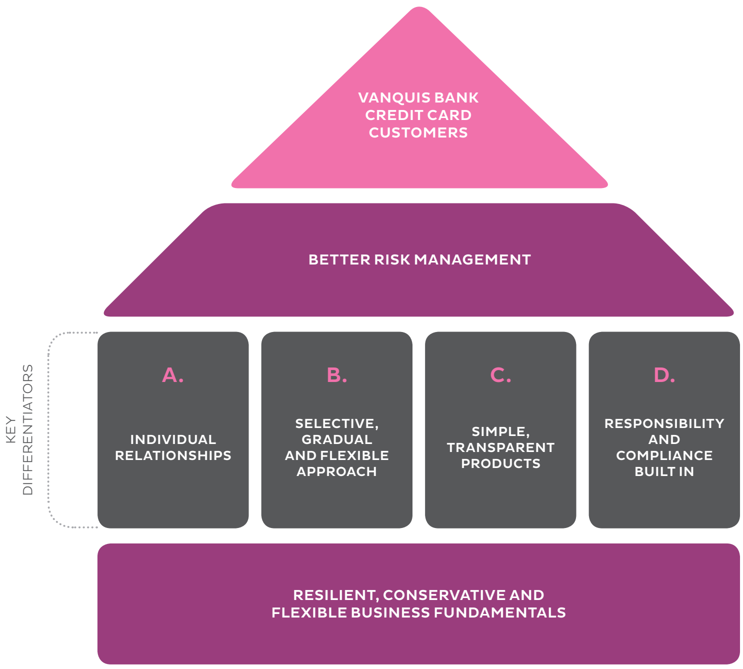
The high level of contact we enjoy with our customers also distinguishes Vanquis Bank from other lenders. Customers excluded by mainstream card issuers appreciate the option provided by Vanquis Bank and we provide a higher level of help and support than the

VANQUIS BANK BUSINESS MODEL

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

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





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 maintain stable levels of impairment;
- providing customers with a responsive, high-quality service throughout their time with Vanquis Bank, commencing with the unique welcome call to all new customers;
- providing customers with the appropriate credit limit and no more, thereby maintaining relatively high levels of credit line utilisation to minimise the level of contingent liability;
- ensuring that our operations are efficient and effective across all aspects of the customer experience from identifying and welcoming new customers, to ongoing customer service, collections processes and dealing fairly with customers who get into difficulties;
- developing our products, distribution channels and the markets in which we operate;
- treating our customers fairly and ensuring that we comply fully with all applicable regulation;
- developing our retail deposits programme to fund up to 90% (up from 80%) of our receivables book with retail deposits in due course;
- maintaining strong financial returns, including a minimum risk-adjusted margin of 30% (annualised revenue less impairment divided by average receivables).

We believe the UK business of Vanquis Bank has the capability to reach between 1.3 and 1.5 million customers with an average balance of around £800 to £1,000 based on current products and distribution channels. We also believe that we have the product, operations, channels to market and expertise to successfully take our business model overseas.

mainstream lenders from our two contact centres in Chatham and Bradford.

OUR BESPOKE APPROACH

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

1. Focus on our target market
Vanquis Bank operates exclusively in the non-standard sector of the credit card market with many of its customers having been refused credit by mainstream lenders, either due to a thin or impaired credit history. We provide customers with the opportunity to establish a sound track record of using credit to meet their desire to build or repair their credit history. 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.

As our experience and expertise in serving this target audience has developed we have been able to tailor our products and services to suit the very particular needs of our customers. Not every lender has the capability to serve customers 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.

Our success in the UK has convinced us that we have a business model which could be successful in overseas territories. Having explored a number of EU territories into which we can passport our UK banking licence, we commenced a pilot credit card operation in Poland during 2012. The pilot is still progressing but the results to date show that our product offering and business model are likely to bring benefits to non-standard customers in overseas markets just like in the UK.

2. High customer contact
The relationships with our customers are much, much closer than those in the mainstream lending market. We genuinely 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 UK credit card industry. The call provides the opportunity to gather additional information which is useful to help manage their account at a later date and establish a more personal relationship. It is also an important element of completing our underwriting and we will turn down an application if we cannot engage in a satisfactory dialogue with a potential customer.

Some of our customers are new to credit and so choose to contact us more than would be expected in a standard

KEY DIFFERENTIATORS

A. INDIVIDUAL RELATIONSHIPS

- Welcome call for all new customers to establish personal contact.
- Over 560 contact centre staff.
- Online account access and management.
- Early engagement with customers before/as they show signs of problems.
- Customer satisfaction rating of 89%.
- For around half our customers we are their first or only credit card.

B. SELECTIVE, GRADUAL AND FLEXIBLE APPROACH

- 'Low and grow' approach typically starting from a £250 credit limit.
- Selective lending criteria – only 24% of applications are approved.
- Selective credit line increase criteria with credit limits increased progressively over time.
- Repayment Option Plan allows customers to freeze their balance and suspend payments when they get into difficulty.

C. SIMPLE, TRANSPARENT PRODUCTS

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

D. RESPONSIBILITY AND COMPLIANCE BUILT IN

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

VANQUIS BANK

lending relationship. In 2012, our contact centres received approximately 7 million calls, of which around half were answered by our contact centre staff and the remainder by our Interactive Voice Response system. In addition, our agents called and spoke to customers nearly 12 million times. To aid with account management and to offer alternative payment channels, more than 1 million SMS texts were sent each month. This high level of contact means that we understand our customers and can also 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 240,000 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 95% of the time, which makes us one of the best performers in the industry.

SHOPPING ONLINE USED TO BE SOMETHING THAT OTHER PEOPLE DID. WITHOUT A CREDIT CARD, I COULD NEVER USE SITES LIKE AMAZON OR EBAY. NOW I CAN FIND ONLINE BARGAINS TOO!"

Kirstie
Vanquis Bank customer

3. Low and grow
Booking the majority of our accounts on a small initial credit line is at the core of our 'low and grow' strategy. The initial credit line is typically 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 balance of the portfolio to continue to grow to £790 (2011: £650) 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 consistently in excess of 70% 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.

BUSINESS DEVELOPMENT

Our excellent financial performance has again been delivered against the backdrop of tough economic conditions in the UK. At Vanquis Bank, we have an excellent management team supported by state-of-the-art systems and processes. However, to ensure that we can continue to capture the growth potential of our business, both in the UK and overseas, we have continued to develop our operations in 2012.

Poland
Vanquis Bank's development in the UK over the last 10 years has been a real success. However, it is appropriate that we continue to explore potential new medium-term growth opportunities to supplement the UK business. As a result, during 2011 and the early part of 2012, we undertook a review of potential overseas markets which have a critical mass of under-served non-standard consumers, into which we could transport our successful UK business model and develop a customer proposition capable of delivering the group's target returns. Our review focused on EU territories as: (i) there is synergy in consumer finance regulation across the EU; and (ii) we can passport our UK banking licence and raise local currency funding in other EU territories.

Following our review, Poland emerged as the most attractive opportunity for the following reasons:

- Poland has a population of just under 40 million, of which approximately 15 million are within our target market;
- The Polish economy has been robust through the global economic downturn, being one of the few economies not to have entered technical recession;
- The political and regulatory environment in Poland is stable; and
- Polish consumers have good attitudes to borrowing and repaying, similar to the UK, and the consumer workshops we conducted indicated a demand for our product.

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

For the purposes of the pilot, we are largely utilising our UK platform including our contact centre in Chatham. In addition, a small Polish management team is being heavily supported by our UK management and employee base. It is pleasing to report that the platform in the Polish pilot operation is operating successfully and the early indications are that the product proposition is being well received by customers. Initial accounts were written through a single regional broker but towards the end of the year this was supplemented by a Polish website, *www.vanquis.pl*, which went live for applications together with a nationwide broker. The addition of these two channels has seen volumes increase in line with our plans and at the end of 2012 we had 9,000 customers and a receivables book of £1.8m in Poland. Costs for the year amounted to £3.3m, consistent with previous guidance.

We expect to have completed the pilot by the 2013 half year and to make a decision on roll-out at that time.

Retail deposit taking
The retail deposits programme at Vanquis Bank is proving to be a valuable source of funding for the business and provides further diversification of the group's funding base. The non-branch, fixed-term retail deposits market in the UK is sizeable with around £70bn of cash and renewals being available for investment each year. Vanquis Bank's requirements represents a small proportion of this very large pool.

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

- we issue fixed-rate deposits for fixed terms of either 1, 2, 3 or 5 years – we do not offer instant access savings products;
- depositors have no right to withdraw early other than in the event of death or bankruptcy which ensures that we have a stable and fixed maturity profile;
- the offer is internet-based through our own website *www.highyield account.co.uk*;
- our products are also marketed through the best buy tables such as *money supermarket.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.

We have continued to develop the retail deposits programme at Vanquis Bank.

By the end of 2012, our retail deposit base had increased to £327m from £140m at the start of the year. This represents 51% of Vanquis Bank's receivables book. Our remaining funding source is an intercompany loan from Provident Financial plc, which amounted to £204m at December 2012 (2011: £211m).

Following agreement with the FSA, Vanquis Bank is now able to fund up to 90% of its receivables with deposits. This has increased from 80% previously and confirms the sustainability of Vanquis Bank's self-funded status, subject to any changes in the FSA's liquidity regime. In due course, once Vanquis Bank reaches full retail deposits funding it will no longer require any intercompany funding.

Additional contact centre capacity
In order to accommodate our continued growth, we have been further expanding our contact centre in Bradford during 2012. The contact centre was opened towards the end of 2011 and is located within CCD's head office facility and operates as a satellite to our original contact centre in Chatham, using exactly the same IT infrastructure and procedures. During the year, we have increased our headcount in Bradford from 40 to 160. At present, our contact centre staff in Bradford are engaged wholly in new account booking and undertaking the valuable welcome call to new customers.

As a result of our continued strong growth, we have agreed to take up further space in our Bradford office, increasing the capacity from 230 seats to 340 seats. This is in addition to the 400 seats we have at Chatham. This will accommodate the growth at Vanquis Bank for at least the next two years and reinforces the group's strong links with Bradford.

Developing our channels to market
We are continuing to seek new ways to attract new customers to Vanquis Bank, either through our existing channels of direct mail and internet or through partnerships with other organisations.

During 2012, in partnership with Argos, we launched an Argos credit card with an APR of 29.9% to Argos customers and 39.9% to the wider market. The card has a multichannel marketing strategy which includes Argos storecard declines, direct mailing to Argos storecard customers and declines, working with internet affiliates and search engines and marketing in the Argos catalogue and in-store leaflets. We have attracted around 20,000 new customers since the launch of the Argos credit card at a cost per account equivalent to other channels.

We will continue to investigate the potential for similar co-branded arrangements with other retailers during 2013.

Governance framework

Vanquis Bank has a well-established and robust governance framework. 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.

It is important that the business has a framework which allows it to operate as a stand-alone regulated entity and to comply with the group's policies and procedures as a publicly listed company. We are continually striving to enhance our framework to meet the expanding needs of our business.

On 1 March 2012, we appointed Jonathan Roe as an independent non-executive director following the retirement of Ian Lindsey, who had been with the business since its inception in 2002. We thank Ian for his valuable contribution to the development of our business and welcome Jonathan who brings with him a wealth of City experience with Dresdner Kleinwort. Together with the appointment of Iain Cornish as an independent non-executive director in 2011, Vanquis Bank has a strong board with significant financial services expertise to continue the next exciting stage of its development.

BEFORE I HAD A VANQUIS BANK CREDIT CARD I WAS REALLY NERVOUS ABOUT GOING OVER MY CREDIT LIMIT AND FORGETTING TO MAKE PAYMENTS ON TIME. VANQUIS BANK'S TEXT REMINDER SERVICE IS BRILLIANT FOR KEEPING ME ON TRACK!"

Luke
Vanquis Bank customer

VANQUIS BANK

FINANCIAL PERFORMANCE

Vanquis Bank generated a profit before tax of £68.0m in 2012 (2011: £44.2m) as set out below:

	Year ended 31 December		
	2012 £m	2011 £m	Change %
Profit/(loss) before tax:			
– UK	71.3	44.2	61.3
– Poland	(3.3)	–	n/a
Total Vanquis Bank	68.0	44.2	53.8

Vanquis Bank – UK

	Year ended 31 December		
	2012 £m	2011 £m	Change %
Customer numbers ('000)	899	691	30.1
Year-end receivables	641.5	453.4	41.5
Average receivables	537.4	391.2	37.4
Revenue	283.0	213.7	32.4
Impairment	(95.9)	(76.9)	(24.7)
Revenue less impairment	187.1	136.8	36.8
*Risk-adjusted margin**	*34.8%*	*35.0%*	
Costs	(87.4)	(69.4)	(25.9)
Interest	(28.4)	(23.2)	(22.4)
Profit before tax	71.3	44.2	61.3

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

I'D NEVER HAD A CREDIT CARD BEFORE AND I WANTED TO BUILD A CREDIT HISTORY. VANQUIS BANK HAS BEEN PERFECT FOR ME – THEY KEEP IN TOUCH AND HAVEN'T JUST GIVEN ME A MASSIVE CREDIT LIMIT. I FEEL LIKE I KNOW WHERE I AM WITH VANQUIS."

Vanessa
Vanquis Bank customer

Vanquis Bank performed very strongly in 2012, reporting a result ahead of management's internal plans. Strong growth in the receivables book, together with favourable arrears levels, enabled the UK business to deliver profits of £71.3m (2011: £44.2m), up 61.3% on 2011. The UK business continued to generate a post-tax return on equity above its target of 30% and is generating surplus capital over and above that required to fund its own growth and maintain its regulatory capital base. Surplus distributable capital generated in 2012 amounted to £26.1m, up from £14.8m in 2011.

The demand for non-standard credit cards remains strong and there has been no discernible impact from a modest increase in marketing activity from competitors. Vanquis Bank processed approximately 1.6 million applications during 2012, up from 1.5 million in 2011, as a result of the increased investment in the customer acquisition programme, particularly direct mail. New account bookings increased by 27.6% to 375,000 (2011: 294,000) after applying underwriting standards that remained consistent with 2011. This represented an acceptance rate of 24% compared with 20% in 2011. The increase reflects a shift in mix towards the direct mail channel which carries a higher booking rate than the internet channel together with more effective pre-screening of internet leads and enhanced targeting of direct mailings. Customer numbers ended the year at 899,000 (2011: 691,000), showing year-on-year growth of 30.1%.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 37.4% increase in average receivables and a 32.4% increase in revenue. Returns from the 'low and grow' approach to extending credit remain consistently good and Vanquis Bank remains extremely active in managing yield and utilisation in order to generate a strong revenue stream whilst maintaining a relatively low level of exposure to undrawn credit lines. Average utilisation in 2012 was 74%, down from 76% in 2011 due to the strong booking rate through the final quarter of the year.

Arrears levels have remained stable at record lows for the business during 2012 due to the application of consistent underwriting standards and the backdrop of a relatively stable employment market. The result was that impairment showed a year-on-year increase of just 24.7% versus a 37.4% increase in average receivables. This strong performance reflects the improving quality of the book which is underpinned by tight underwriting of new business and the effectiveness of credit decisioning embedded in the credit line increase programme.

The risk-adjusted margin of 34.8% in 2012 is little changed from 2011 and has continued to benefit from favourable arrears trends. The benefit in 2012 from the improvement in arrears levels during the first nine months of the year was approximately 1.5%. Arrears levels have now have been stable at a record low for the business for four months. Accordingly, in the absence of any change in the external environment or credit standards, the underlying risk-adjusted margin is expected to moderate towards 33% versus the minimum target for the business of 30%.

Growth in the cost base of 25.9% includes an uplift of £5.4m in the spend on direct mail and other sales and marketing activities to support the increase in new account bookings in the year.

Interest costs of £28.4m (2011: £23.2m) increased by 22.4% during 2012 compared with the growth in average receivables of 37.4%. This reflects the reduction in Vanquis Bank's blended funding rate from 7.9% in 2011 to 7.2% in 2012 due to the progressive benefit from taking retail deposits since July 2011. During the year, Vanquis Bank's retail deposit base increased to 51% of receivables from 31% of receivables at the start of the year, with the remaining funding being provided by Provident Financial plc in the form of an intercompany loan. Rates of between 2.21% and 4.65% have been paid on retail deposits during the year, which after taking account of the cost of holding a liquid assets buffer, has resulted in a blended retail deposits rate of 4.5% in 2012. Assuming market rates remain stable, Vanquis Bank's overall funding rate is expected to reduce by around 100bps in 2013 as the proportion of funding provided by retail deposits increases.

LOOKING AHEAD

Vanquis Bank has had another excellent year in 2012, with strong growth in customer numbers, receivables and profits. The business is capital generative and is contributing to the group's dividend, as evidenced by a £5.0m dividend payment in March 2012 and the payment of a £15.0m dividend in February 2013.

We expect 2013 to be a further year of strong growth. We will continue to invest in growing the customer base and receivables. However, we remain focused on delivering a post-tax return on equity of at least 30% and we will not seek growth at the expense of diluting returns. We are mindful that the economic environment is likely to remain difficult in the near term. Accordingly, we will maintain the tight underwriting that has served us so well over recent years.

We will develop our retail deposits programme further and will steadily build the proportion of receivables funded by retail deposits throughout 2013. The actual level of deposit funding we require will be dependent on the group's funding programme and level of headroom on its committed facilities. We do not expect it to be necessary to reach our retail deposits permitted funding level of 90% of receivables until at least 2015.

We will complete the pilot of the Polish credit card operation in the second quarter of 2013 and should have gathered sufficient data from the test to ascertain whether the operation is capable of delivering our target returns.

Looking beyond 2013, we expect the demand for non-standard credit cards in the UK to remain strong. Based on the demand for our product and the success of our customer acquisition programme over the last two years, we now believe that the UK business of Vanquis Bank has the medium-term potential to grow to between 1.3 and 1.5 million customers with an average balance of around £800 to £1,000. This is an increase in our previous assessment of the potential size of the UK business of between 1.0 and 1.2 million customers as the business is achieving greater penetration of its target market through enhanced marketing strategies. The rate of progress towards this potential 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 and we are making good progress in testing whether the platform and business model can be successfully transported into new markets. Vanquis Bank will continue to be a major contributor to the future growth in the group's dividends and the overall returns provided to shareholders.

"I'D GOT MYSELF INTO A BIT OF A MESS WITH CREDIT IN THE PAST. I'M NOW OVER MY PROBLEMS BUT IT WAS TOUGH TO GET A CREDIT CARD COMPANY TO ACCEPT THIS. VANQUIS BANK HAS BELIEVED IN ME AND ENABLED ME TO HAVE A CREDIT CARD AGAIN."

Pete
Vanquis Bank customer

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.

Andrew Fisher
Finance Director

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 up to 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 maximum gearing ratio of around 3.5 times. The execution of the financial model is underpinned by the group's consistent application of prudent and appropriate accounting policies.

RETURN ON EQUITY

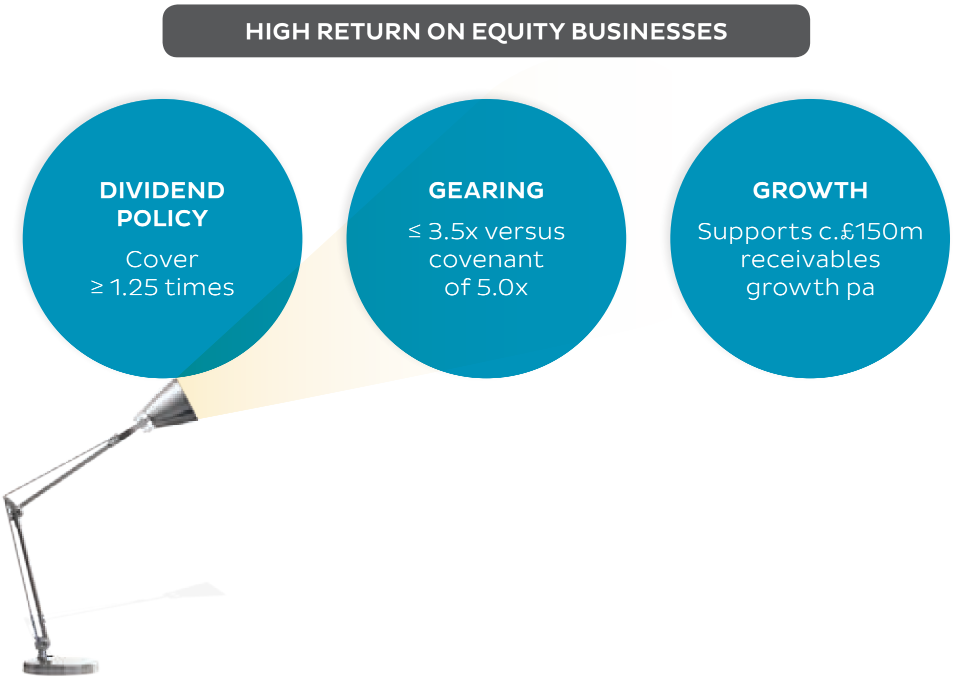
Maintaining a high return on equity (ROE) remains at the heart of the group's financial model and drives the group's strategy. The group calculates ROE as profit after tax (prior to the impact of exceptional items) divided by average equity. Average equity is stated after deducting the group's pension asset net of deferred tax, the fair value of derivative financial instruments, and the proposed final dividend. The calculation of the group's ROE in 2012 and 2011 is set out in Table 1.

The group generated a strong ROE of 48% in 2012 (2011: 48%), benefiting from the continued strong returns delivered by the Consumer Credit Division (CCD) and the continued excellent performance from Vanquis Bank which delivered an ROE of 40% (2011: 38%) which is in excess of its minimum threshold of 30%.

TABLE 1: ROE

	2012 £m	2011 £m
Profit before tax*	181.1	162.1
Tax	(44.4)	(42.3)
Profit after tax	136.7	119.8
Shareholders' equity	375.4	326.2
Pension asset	(23.0)	(13.5)
Deferred tax on pension asset	5.3	3.4
Hedging reserve	7.0	6.4
Proposed final dividend	(65.4)	(57.4)
Adjusted equity	299.3	265.1
Average adjusted equity	282.3	250.1
ROE	48%	48%

*2012 is stated before an exceptional credit of £15.6m.



AN ILLUSTRATION OF HOW THIS WORKS IN PRACTICE

- 2012 pre-tax profit of £181m (prior to the exceptional credit) equates to a profit after tax of £137m.
- 2012 dividend of 77.2p per share amounts to a £104m dividend cost.
- Dividend cover in 2012 is 1.32 times.
- Equity retained in the business to fund growth equals £33m (£137m less £104m).
- Target gearing ratio of 3.5 times allows debt funding of £116m to match equity backing of £33m (£33m times 3.5).
- Provides total funding and capital for receivables growth of £149m (£33m plus £116m).
- Pre-tax profits in excess of £181m allows dividends to be increased and receivables growth in excess of £150m.

FUNDING AND LIQUIDITY

The group's funding strategy is to maintain a secure, prudent and well-diversified funding structure at all times. Central to delivery of this strategy is maintaining the gearing ratio at a maximum of 3.5 times which provides a comfortable buffer compared with the relevant bank covenant of 5.0 times.

The group borrows to provide loans to customers. The seasonal pattern of lending results in peak funding requirements in December each year. The group is less exposed than mainstream lenders to liquidity risk as loans to customers are of a short-term duration whilst the group's borrowing facilities extend over a number of years. The profile of borrowing longer term and lending shorter term creates a positive maturity mismatch.

The group has three main sources of funding:

- Bank funding – committed revolving syndicated bank facility;
- Bonds and private placements – senior public bonds, private placements with UK, US and European institutions and UK retail bonds; and
- Retail deposits taken by Vanquis Bank.

The group's funding and liquidity policy is designed to ensure that it is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fund a maximum of 90% of its receivables book through retail deposits.

Group committed borrowings at the end of 2012 were £1,196.0m compared with £1,027.4m at the end of 2011. Borrowings have increased during the year primarily due to the strong growth in Vanquis Bank's receivables of approximately £190m during the year.

At the end of 2012, the group had committed borrowing facilities of £1,387.9m (2011: £1,315.5m). These facilities provided committed headroom of £191.9m as at 31 December 2012 (2011: £288.1m) with an average period to maturity of 3.7 years (2011: 3.5 years).

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

In February, 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 covenants are broadly consistent with the previous facility.

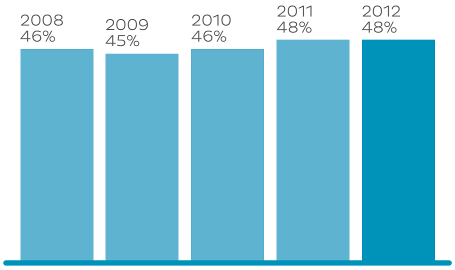
In March 2012, the group successfully issued a third retail bond raising £120m at a coupon of 7.0% and duration of five and a half years. Consistent with the retail bonds issued in 2010 and 2011, the 2012 bond is quoted on the ORB platform established by the London Stock Exchange. The retail bond market is proving to be an excellent source of funding for the group.

The retail deposits programme at Vanquis Bank has seen its deposit base increase from £139.7m at 31 December 2011 to £327.4m at 31 December 2012. This represents 51% of Vanquis Bank's receivables, compared with the maximum permitted FSA level which increased from 80% to 90% during the year.

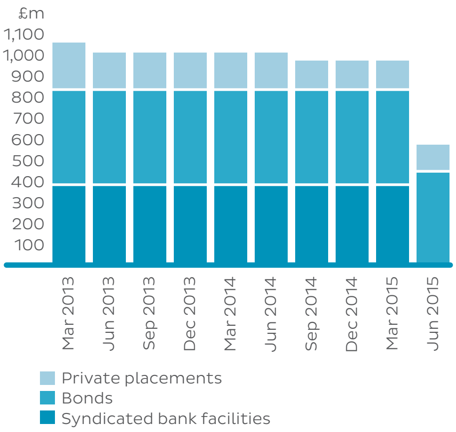
Due to the increased level of committed debt funding following the retail bond issue, the flow of new funds from the retail deposits programme was moderated from March onwards. This was achieved by ensuring that the deposit rates offered by Vanquis Bank were not priced at the top of the best buy tables in order to limit inflows. Accordingly, the net monthly inflow of deposits reduced from an average of around £34m a month in the first quarter of the year to around £12m a month over the remaining nine months.

The overall inflow of new funds through Vanquis Bank's 1, 2, 3 and 5-year fixed-rate deposits during 2012 amounted to £204.8m. There were £33.5m of maturities during the year of which £16.4m were retained. This represents a retention rate of approximately 50% despite interest rates offered not being aggressively priced for a large proportion of the year. Rates of between 2.21% and 4.65% have been paid on retail deposits during 2012 and the overall blended interest rate on the deposit portfolio in 2012 was 4.5% (2011: 5.3%).

GROUP ROE



MATURITY PROFILE OF DEBT (EXCLUDING RETAIL DEPOSITS)

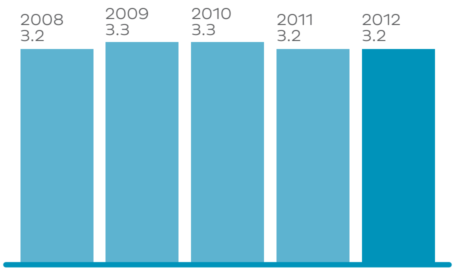


RECONCILIATION OF RETAIL DEPOSITS

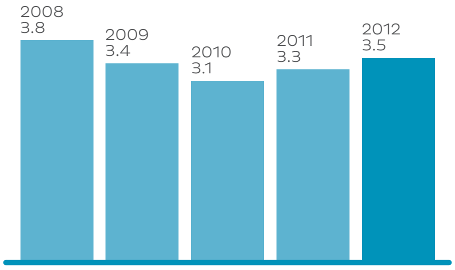
	2012 £m	2011 £m
At 1 January	139.7	–
New funds	204.8	139.7
Maturities	(33.5)	–
Retentions	16.4	–
At 31 December	327.4	139.7

FINANCIAL REVIEW

GEARING (times)



INTEREST COVER (times)



The non-branch, fixed-term retail deposits market in the UK is very large with around £70bn of cash and renewals being available for investment each year. The key determinant for depositors is the interest rate on offer. The market represents an excellent source of funding for the group's fastest growing business. Vanquis Bank will continue to build its deposit portfolio to the maximum threshold permitted by the FSA of 90% over the next three years. The rate of growth will be dependent on ensuring that the group maintains an appropriate, but not excessive, level of headroom on its committed debt facilities in line with the group's treasury policies.

Table 2 illustrates the funding structure of the group's committed facilities as at 31 December 2012. The funding structure takes into account the available capacity for Vanquis Bank to take retail deposits up to its permitted level of 90% of receivables or up to the full repayment of the intercompany loan from Provident Financial plc. The group's funding capacity on this basis amounts to £394.0m.

Excluding the retail deposits programme, maturities on the group's committed debt facilities 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, after assuming that Vanquis Bank funds 90% 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 is required to comply with its banking covenants in respect of gearing, interest cover, net worth, net worth excluding Vanquis Bank, and cash cover.

The group has comfortably complied with these covenants during 2012, as set out in Table 3.

The group's credit rating was reviewed by Fitch Ratings in June 2012 and was affirmed at BBB with a stable outlook.

TABLE 2: COMMITTED BORROWING FACILITIES

As at 31 December 2012	Originated	Maturity	£m
Bank facility	2012	2015	382.5
Bonds and private placements:			
Senior public bond	2009	2019	250.0
M&G term loan	2011	2016-2021	100.0
Other sterling/euro medium-term notes	2011	2016-2018	39.9
Retail bond 2010	2010	2020	25.2
Retail bond 2011	2011	2016	50.0
Retail bond 2012	2012	2017	120.0
US private placements	Pre-2005	2013 & 2014	86.9
Residual subordinated loan notes	2005	2015	6.0
Total bonds and private placements			678.0
Vanquis Bank retail deposits	2011-2012	2013-2017	327.4
Total committed facilities			1,387.9
Borrowings on committed facilities			1,196.0
Headroom on committed borrowing facilities			191.9
Retail deposits capacity*			202.1
Funding capacity			394.0

* Based on the lower of: (i) 90% of Vanquis Bank's receivables of £643.3m, less retail deposits as at 31 December 2012 of £327.4m after setting aside the necessary liquid assets buffer of £18.9m. This amounts to £232.7m; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £202.1m as at 31 December 2012.

TABLE 3: BANK COVENANTS

Covenant	Limit	2012	2011
Gearing[1]	< 5.0 times	3.2	3.2
Net worth – Group[2]	> £220m	364.7	322.5
– Excluding Vanquis Bank	> £140m	212.0	221.0
Interest cover[3]	> 2.0 times	3.5	3.3
Cash cover[4]	> 1.1 times	1.27	1.34

[1] Borrowings less the liquid assets buffer divided by equity (excluding the group's pension asset and fair value of derivatives, both net of deferred tax).
[2] Equity less the group's pension asset and fair value of derivatives, both net of deferred tax.
[3] Profit before interest, tax, amortisation and exceptional items divided by the interest charge.
[4] Cash collected divided by credit issued.

TABLE 4: CAPITAL GENERATION

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Operating cash flow	89.6	138.7	150.5	86.8	40.9
Interest paid	(73.1)	(69.9)	(80.0)	(51.1)	(44.1)
Tax paid	(46.3)	(42.0)	(36.5)	(28.4)	(29.7)
Net capital expenditure	(7.4)	(7.4)	(17.6)	(12.5)	(13.9)
Add back 80% of receivables growth funded by borrowings	144.9	90.7	64.0	60.9	110.3
Capital generated	107.7	110.1	80.4	55.7	63.5
Analysed as:					
– CCD	102.4	103.9	93.3	67.6	66.9
– Vanquis Bank	26.1	14.8	6.3	5.1	(5.0)
– Central	(20.8)	(8.6)	(19.2)	(17.0)	1.6
Dividends payable	(104.3)	(93.0)	(84.9)	(84.5)	(84.0)
Capital retained/(absorbed)	3.4	17.1	(4.5)	(28.8)	(20.5)
Dividend cover*	1.32	1.30	1.24	1.12	1.12

* 2012 stated before an exceptional credit of £15.6m.

CAPITAL GENERATION AND DIVIDENDS

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

Table 4 shows the capital generation of 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 business in 2007 was to maintain a full-year dividend payment of 63.5p per share whilst moving to a target dividend cover of at least 1.25 times.

In the period from 2007 to 2010, the group absorbed capital in maintaining the group's dividend at 63.5p, whilst building the group's dividend cover to the minimum target of 1.25 times. In 2011, due to the growth in the group's earnings, dividend cover passed 1.25 times and the group generated more than sufficient capital to fund receivables growth and increase the group's dividend, whilst retaining net surplus capital in the balance sheet. In 2012, further growth in group earnings together with continued strong capital generation has enabled the group to increase its dividend by 11.9%, deliver a dividend cover of 1.32 times and retain net surplus capital in respect of the year of £3.4m. Throughout this period the group's gearing ratio was maintained below the maximum target of 3.5 times.

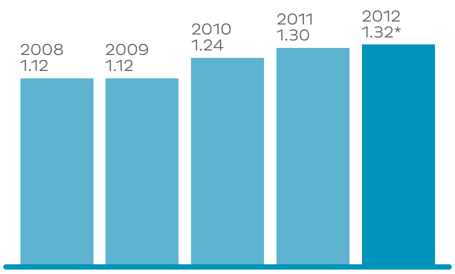
On a divisional basis, CCD generated £102.4m of capital in 2012 (2011: £103.9m) and continues to be highly capital generative. This business provides the bedrock for the group's high dividend payout ratio.

Vanquis Bank generated £26.1m of capital during the year (2011: £14.8m) and is generating surplus capital over and above that required to fund its receivables growth and maintain sufficient regulatory capital. Accordingly, Vanquis Bank paid a dividend of £5.0m to Provident Financial plc in March 2012 and paid a further dividend of £15.0m in February 2013.

FINANCIAL REVIEW

CAPITAL GENERATED/(ABSORBED) (£M)

DIVIDEND COVER (times)



* Prior to an exceptional credit of £15.6m.

REGULATORY CAPITAL AND LIQUIDITY

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 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.

Regulatory capital

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, known as its Individual Capital Guidance (ICG). This is determined following consideration of the Internal Capital Adequacy Assessment Process (ICAAP) conducted by the firm. The last ICAAP reviewed by the FSA was in 2011 prior to the commencement of deposit taking activities by Vanquis Bank. Revised ICGs were set for both the group and Vanquis Bank which were not materially different from historic ICGs.

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

Regulatory capital equates to equity share capital and reserves after adding back subordinated loan notes less: (i) the net book value of intangible assets; and (ii) the pension asset and fair value of derivatives, both net of deferred tax. As at 31 December 2012, the group held total regulatory capital of £358.8m (2011: £312.3m), whilst Vanquis Bank held total regulatory capital of £151.6m (2011: £100.6m).

The level of regulatory capital held by both the group and Vanquis Bank as at 31 December 2012 was comfortably in excess of the ICGs set by the FSA.

Liquidity

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 maintain a liquid assets buffer held in the form of high-quality, unencumbered assets. Vanquis Bank has historically been a simplified firm under the FSA's liquidity regime and has been permitted to hold the liquid assets buffer in a designated money market fund invested in a compliant sterling government fund. As a result of the moderation of the retail deposits programme, Vanquis Bank no longer meets the definition of a simplified firm due to the funding mix between its intercompany loan and retail deposits. Accordingly, from 1 February 2013, Vanquis Bank is now a standard firm for liquidity purposes and therefore the designated money market fund is no longer an eligible asset. Going forward, the liquid assets buffer will be held in government gilts or in the Bank of England Reserve Account.

For Vanquis Bank, the level of the liquid assets buffer has been 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 taken depending on a number of factors including the period to maturity. As at 31 December 2012, the liquid assets buffer calculated under the simplified methodology and held by Vanquis Bank amounted to £52.3m (2011: £17.5m). The increase during the year represents the growth in Vanquis Bank's receivables book and retail deposits portfolio together with an increase from 30% to 50% in the requirement under the FSA's transitional arrangements in March 2012. The requirement was due to increase to 70% in July 2013 and to 100% on 1 January 2016. However, during the second half of 2012 the FSA announced that the requirement would no longer increase as originally outlined and the buffer requirement will remain at 50% of the simplified buffer calculation for the foreseeable future.

Following Vanquis Bank's move to being a standard firm for liquidity purposes on 1 February 2013, the liquid assets buffer will, in due course, be calculated based on Individual Liquidity Guidance (ILG) set by the FSA. At present, the FSA has set a temporary ILG which requires a liquid assets buffer broadly in line with that historically calculated under the simplified basis.

The FSA will set a final ILG once it has considered Vanquis Bank's Individual Liquidity Adequacy Assessment (ILAA). This is not expected to result in any significant change in Vanquis Bank's liquidity requirements.

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

Pillar III disclosures

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 2012 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 2012 represents an effective rate of 24.5% (2011: 26.1%) on profit before tax prior to the exceptional credit and is consistent with the UK corporation tax rate which reduced from 26% to 24% on 1 April 2012. The group is expected to benefit in future years from the rate reductions announced by the Government in the last budget.

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 of the business. All of the group's accounting policies are compliant with the requirements of IFRS, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and UK company law. The continued appropriateness of the accounting policies, and the methods of applying those policies in practice, is reviewed at least annually. The principal accounting policies, which are consistent with the prior year, are set out on pages 107 to 114.

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

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

GOING CONCERN

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

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

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

GOVERNANCE

Our board is committed to good governance and instils best practice in each of the group's divisions. For us, good corporate governance is more than just box ticking.

John van Kuffeler
Chairman

CONTENTS

CHAIRMAN'S OVERVIEW

As you are aware from our previous reports, corporate governance at Provident Financial is about more than just following a set of rules and guidelines. We have established a set of good corporate governance principles which are fully embedded in our corporate policies manual and they reflect the best practice we expect from our employees. We are constantly seeking to develop our practices and framework to ensure that we remain at the forefront of best practice. The key corporate functions and the senior divisional management are required to confirm compliance with the corporate policies biannually. However, not only do they confirm compliance, we encourage them to suggest improvements so that we have a dynamic process of enhancement which ensures that our divisions and corporate office are always operating at the highest level. Our approach to governance is very much based on the concept that good corporate governance enhances longer-term shareholder value and this includes taking action where necessary to ensure that what we do fully reflects and complies with the principles and provisions of the UK Corporate Governance Code (the 'Code') published in June 2010.

I set the board agenda with the Company Secretary having received input from the Chief Executive to ensure that the board has visibility and input into key decisions at an early stage. A wide range of topics was reviewed by the board during the year and details are set out in the board calendar for 2012 on page 66. It is important that the non-executive directors are fully informed about decisions and I make sure that every opportunity is taken, particularly when meetings are held at operational sites, by the non-executive directors to meet with the senior management teams and spend some time understanding the workings of the operations. I continually review the content and form of the board papers and this year we agreed to implement a system of providing board papers electronically through use of an iPad and Boardpad2 produced by the Institute of Chartered Secretaries. This has significantly enhanced the workings of the board and has been welcomed by the board as improving the quality and efficiency of distribution of the papers, not to mention the environmental impact of not producing paper board packs.

I have continued to develop my relationship with the Chief Executive which I believe is central to the smooth running of the board and I act as his mentor and confidant in many matters and he has sought my views on a wide range of issues.

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.

RECENT DEVELOPMENTS

We sought to strengthen the board with the recruitment of a new non-executive director, Stuart Sinclair, who has both recent and relevant financial services experience with a mind towards succession planning and development in the ever-changing regulatory environment within which the group operates. The recruitment process is reported in more detail in the report of the nomination committee.

We also sought to strengthen the board of Vanquis Bank in light of its growing significance to the group's performance. We hired two new independent non-executive directors with banking and financial services sector experience, Iain Cornish, formerly Chief Executive of the Yorkshire Building Society and Jonathan Roe, formerly Managing Director ECM (Equity Capital Markets) at Dresdner Kleinwort.

In line with our policy on diversity which we set out in the 2011 Annual Report and Financial Statements and in particular, our desire to have 25% women within the wider senior management group, we recruited Sarah Dickins to the board of the Consumer Credit Division in November 2012 and now have 22% women within the wider senior management group.

Finally, in May 2012 the board authorised the audit committee to review the provision of audit services to the group. Following a rigorous tender process, the audit committee recommended to the board that Deloitte LLP be appointed in place of PricewaterhouseCoopers LLP.

OUR RESPONSIBILITIES

The role and responsibilities of the board which are set out later in this report, have not changed. The board has a clear view of the steps it needs to take to support the development of the business and is well placed to provide the leadership necessary to address the challenges ahead.

BOARD MEMBERSHIP

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

It is important that the right balance is achieved which enhances the workings of the board. As part of the recruitment process we initiated for Stuart Sinclair, we carried out an extensive review of the board composition and considered succession options for the role of Chief Executive with the assistance of an external advisor. I believe the new composition of the board has the right mix of executive and non-executive directors and achieves the appropriate degree of challenge on both operational and strategic issues.

BOARD COMPOSITION

The board comprises me as Chairman, together with three executive directors and three independent non-executive directors; one of whom is a female. 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 financial management, risk control, corporate governance, regulatory and corporate affairs issues.

Biographical details of the members of the board are set out on pages 62 and 63.

BOARD EFFECTIVENESS

Following the external review in 2010 and the work carried out in 2011 in conjunction with Independent Audit Limited, we carried out a comprehensive internal board evaluation in 2012 using an updated and revised questionnaire. The directors were consulted on a range of matters and the actions identified from the evaluation will be implemented through 2013. Further details can be found on page 67.

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.

DIVERSITY

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

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

Whilst there is more than 20% representation of women in management positions, the board nevertheless recognises the benefits from increasing the representation of female employees at the most senior level 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.

REMUNERATION

In December 2012, the remuneration committee chairman wrote to our top ten shareholders and the shareholder advisory bodies setting out our proposed 2013 remuneration policy. Details of the work of the remuneration committee, the consultation process and the 2013 policy are set out in the remuneration report, on pages 86 to 91.

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 69 to 75. 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 2012.

John van Kuffeler
Chairman

OUR DIRECTORS AND OFFICERS

1. PETER CROOK (49)
CHIEF EXECUTIVE

Appointed to the board: 2006
Committee membership:
Chairman, Executive Committee;
Member, Nomination Committee
Key achievements:
- Creation of a sustainable development and growth agenda for the group which included a strategic review of growth and development opportunities at the annual Corporate Planning Conference.
- Overseeing the delivery of the operational performance at CCD and Vanquis Bank.
- Overseeing the strengthening of the board of Vanquis Bank including the recruitment of two new independent non-executive directors.
- Working with the Nomination Committee on the composition of the board and the development of an effective succession plan.

Previous board & management experience:
UK Managing Director, Barclaycard.
Current external appointments:
None.

2. ANDREW FISHER (55)
FINANCE DIRECTOR

Appointed to the board: 2006
Committee membership:
Member, Risk Advisory Committee and Executive Committee
Key achievements:
- Renewing the group's £382.5m syndicated bank facility until May 2015.
- Successfully launching the group's third retail bond offering raising £120m.
- Raising over £300m through the Vanquis Bank retail deposit programme.
- Agreeing with the Financial Services Authority to an increase in the level of retail deposit taking by Vanquis Bank from 80% to 90% of its receivables.

Previous board & management experience:
Finance Director of Premier Farnell plc and partner at PricewaterhouseCoopers LLP.
Current external appointments:
None.

3. CHRIS GILLESPIE (49)
MANAGING DIRECTOR CONSUMER CREDIT DIVISION

Appointed to the board: 2007
Committee membership:
Member, Executive Committee
Key achievements:
- Developing and establishing the business effectiveness programme for the Consumer Credit Division.
- Recruiting a new cadre of senior management within the Consumer Credit Division including a new HR Director, Commercial Director and a Director of Field Operations.
- Creating a marketing and promotional programme for the Consumer Credit Division which included a sponsorship deal with Bradford Bulls.

Previous board & management experience:
Director of Consumer Lending at Barclays, Director of HFC Bank and Group Lending Director at Bradford & Bingley.
Current external appointments:
None.

4. JOHN VAN KUFFELER (64)
NON-EXECUTIVE CHAIRMAN

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 & management experience:
Chief Executive of Provident Financial plc, Chairman of Huveaux plc, Chief Executive of Brown Shipley Holdings plc, Chairman of Finsbury Smaller Quoted Companies Trust plc and Chairman of JP Morgan Fleming Technology Trust plc.
Current external appointments:
Chairman of Hyperion Insurance Group Limited and Chairman of Marlin Financial Group Limited.

5. MANJIT WOLSTENHOLME (48)
NON-EXECUTIVE DIRECTOR
SENIOR INDEPENDENT DIRECTOR

Appointed to the board: 2007

Committee membership:
Chairman, Remuneration Committee; Member, Audit 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 & management experience:
Co-head of investment banking at Dresdner Kleinwort Wasserstein and Partner at Gleacher Shacklock.

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

6. STUART SINCLAIR (59)
NON-EXECUTIVE DIRECTOR

Appointed to the board: 2012

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

Key strengths:
Extensive experience in financial services in the UK and overseas, enabling him effectively to challenge and significantly contribute to board discussions. Ten years in US based management consulting, 14 years as CEO or equivalent in retail banking organisations and 6 years on financial services boards.

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

Current external appointments:
Director of Pru Health and Chairman of Platinum Bank (Kiev). Council Member of the Royal Institute for International Affairs (Chatham House).

7. ROB ANDERSON (54)
NON-EXECUTIVE DIRECTOR

Appointed to the board: 2009

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

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

Previous board & management experience:
Director of childrenswear business unit of Marks & Spencer.

Current external appointments:
Chief Executive of Signet Jewelers Limited's UK Division.

8. KEN MULLEN (54)
GENERAL COUNSEL
AND COMPANY SECRETARY

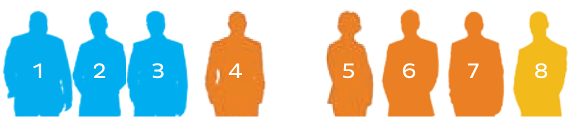
Appointed to the board: 2007

Committee membership:
Secretary to Audit Committee, Remuneration Committee, Risk Advisory Committee and Nomination Committee

Key achievements:
- Responsible for the restructure of the company's defined benefit pension scheme by removing the link between benefits accrued and final salary.
- Registration of the company with the Solicitors Regulation Authority enabling it to provide training contracts to trainee solicitors.

Previous board & 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.



KEY

LEADERSHIP

APPLYING THE MAIN PRINCIPLES OF THE CODE

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 a detailed corporate policies manual which sets out authority levels within the group and which was last reviewed and updated in July 2012. Divisional boards and the corporate office are required to report on compliance with the corporate policies manual on a biannual basis.

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.

CHAIRMAN

- Chairs the board, the nomination committee and the AGM.
- Led the recruitment process for the new director in 2012.
- Responsible with the Senior Independent Director for carrying out the annual evaluation of the board.
- Ensured all directors were able to maximise their contributions to the board.
- Made sure, with the Chief Executive and Company Secretary, that the board was kept properly informed and consulted on all issues reserved to it.
- With the Chief Executive made sure the views of shareholders were known to the board through the Investor Relations report tabled at each board meeting.
- Worked closely with the Chief Executive on key business decisions and challenged proposals where appropriate.

CHIEF EXECUTIVE

- Responsible for the operational performance of the business and leads the executive committee and the rest of the senior management team.
- Monitors the performance of the other executive directors.
- Responsible for the corporate social responsibilities of the group.
- With the Finance Director, monitors the risk appetite framework, the key group risks, the divisional risk registers and the various internal management systems in place.
- Develops the group's strategy with the Director of Corporate Strategy for review at the annual Corporate Planning Conference.
- With the Finance Director, maintains an effective dialogue with major shareholders.
- With the Director of Corporate Affairs, maintains key relationships with the Government, relevant regulators and opinion formers.
- Chairs the boards of Vanquis Bank Limited and the Consumer Credit Division.

LEADERSHIP

KNOWLEDGE

Delivering decisions for effective development of the group

EXPERIENCE

EFFECTIVE

NON-EXECUTIVE DIRECTORS

- Provide strong, independent and constructive challenge.
- Represent a collective, broad range of experience and independent judgement.
- Once a decision is made they support the approach taken by the board on any matter.
- Significant contribution to the direction and strategy of the group through participation in the annual Corporate Planning Conference.
- Offer multiple views on the risk, consequences and possible implications of any board decision.

COMPANY SECRETARY

- Secretary to the board and each of its committees, reporting directly to their chairmen.
- Facilitated the induction of the new non-executive director.
- Assists the Chairman and Senior Independent Director in the evaluation of the board.
- Keeps the board and its committees fully informed on governance policies and practices.
- Manages the provision of timely and accurate information to the board and its committees for their meetings.
- Implemented the electronic distribution of board and committee papers through the use of iPads following output from the 2011 board evaluation regarding time management on board meeting days.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Advisory Committee
Total number of meetings in 2012	10	7	4	6	3
John van Kuffeler	10	–	4	–	–
Peter Crook	10	–	4	–	–
Andrew Fisher	10	–	–	–	3
Chris Gillespie	10	–	–	–	–
Rob Anderson	10	7	4	6	3
Robert Hough[1]	10	7	4	6	3
Manjit Wolstenholme	10	7	4	6	3
Stuart Sinclair[2]	2	2	–	2	1

[1] Resigned on 31 January 2013
[2] Appointed on 1 October 2012

THE RIGHT TEAM

Chairman
In addition to the responsibilities set out in the diagram on page 64, 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 and there have been no material changes in his other commitments since the year end.

Senior Independent Director (SID)
Following the retirement of Robert Hough in January 2013, Manjit Wolstenholme assumed the role of SID in February 2013. She is available to shareholders, acts as a sounding board for the other directors and confidante for the Chairman.

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

There is 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.

Risk management
Identification and management of risk is central to the creation of long-term shareholder value and is overseen by the risk advisory committee on behalf of the board. The board receives regular updates on the key group risks and ensures that the risk management framework and the risk profile for the group support its strategic goals.

Strategy
The board is responsible for the establishment of, and changes to, the group strategy. In addition to the regular discussion and review at board meetings of progress against strategy, an annual two-day Corporate Planning Conference (CPC) is dedicated to reviewing and developing the group's strategy. The conference is attended by all board members, the Company Secretary and the Director of Corporate Strategy. In addition, in 2012 the Managing Director and Commercial Director of Vanquis Bank attended the CPC and the agenda included:

- a review of the progress made on the issues identified at the CPC in 2011;
- a discussion on the general macro-economic environment in which the group operates;
- a presentation by the Finance Director on the group's diversified funding strategy and how it supported the group's strategic objectives;
- a presentation by the Managing Director of CCD on the issues facing the division and the opportunities to improve business effectiveness in the new regulatory environment;
- a presentation by the Managing Director of Vanquis Bank and a detailed discussion on the key business opportunities both in the UK and overseas;
- consideration of the opportunities to grow the group both organically and by acquisition; and
- a restatement and refinement of the group's overall strategy which is designed to create value, deliver results and integrate the group's businesses for the benefit of all stakeholders.

KEY BOARD DISCUSSIONS AND ACTIONS

During 2012, the board discussed and implemented the following key actions:

- Renewal of the group's £382.5m syndicated bank facility.
- Update of the EMTN programme and approval of the issue of the group's third retail bond.
- Discussion and delegation of authority to negotiate with the FSA on increasing the level of retail deposit taking by Vanquis Bank from 80% to 90% of its receivables.
- Appointment of Deloitte LLP as the group's auditor.
- Approval of a policy to implement the requirements of auto-enrolment in accordance with the requirements of The Pensions Act 2008.
- Appointment of Stuart Sinclair as a non-executive director.
- Approval of the removal of the link between accrued benefits and final salary in the staff defined benefit pension scheme.

LEADERSHIP

BOARD CALENDAR IN 2012

At specific meetings

JANUARY

- Review of the international opportunities for Vanquis Bank

FEBRUARY

- Approval of the reappointment of auditor
- Review and approval of annual results, including:
  - Report of the audit committee
  - Preliminary announcement
  - Results presentation
  - Annual report and financial statements
  - Recommendation regarding final dividend
- Review of divisional health and safety annual reports
- Approval of the reappointment of Rob Anderson as a non-executive director
- Approval of proposals to be submitted to the AGM
- Review of divisional and corporate office compliance with the corporate policies manual
- Consideration of non-executive director fees
- Renewal of the group's syndicated bank facilities
- Approval of the update to group's EMTN Programme and issue of third retail bond under the programme
- Approval of external board appointment for a non-executive director

MAY

- Review of Corporate Governance Reports on AGM resolutions
- Review and approval of interim management statement
- Two-day corporate planning conference (CPC)

JUNE (2 meetings in month)

- Review of:
  - Potential new products being considered by Vanquis Bank
  - CCD business effectiveness programme
- Review of the CPC conclusions and actions
- Appointment of Deloitte LLP as auditor
- 2012 budget update

JULY

- Review and approval of the interim results including:
  - Report of the audit committee
  - Interim results announcement
  - Results presentation
  - Recommendation regarding interim dividend
- Review of divisional and corporate office compliance with the corporate policies manual
- Approval of updated counterparty limits
- Approval to implement use of iPads for electronic board paper distribution
- Review and approval of revisions to the corporate policies manual

AUGUST

- Approval of appointment of Stuart Sinclair as a non-executive director

SEPTEMBER

- Approval of removal of the salary link to accrued benefits within the defined benefit final salary pension scheme
- Approval of new counterparty bank limit
- Approval of a recovery and resolution plan for submission to the FSA
- Approval of external board appointment for a non-executive director

OCTOBER

- Review and approval of interim management statement
- Authorisation of director's potential conflict of interest

DECEMBER

- Review and approval of 2013 budget
- Review of results of board evaluation
- Agreement of actions from board evaluation
- Review of independence of non-executive directors
- Review of group tax strategy
- Approval of the policy to implement the requirements of auto-enrolment

At each main meeting

Review and discussion of reports on:

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

Review of:

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

EFFECTIVENESS

WHAT DOES EFFECTIVENESS MEAN TO THE COMPANY?

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

HOW DO WE ENSURE WE ARE EFFECTIVE?

Board evaluation

Following the internal board performance evaluation in 2011 which was carried out with the assistance of Independent Audit Limited, the board completed the tenth evaluation of its performance and that of its committees and individual directors in November 2012. The process was carried out by means of an updated and revised questionnaire, which built upon the experience acquired from the external evaluation in 2010 and the engagement with Independent Audit Limited in 2011.

The evaluation covered:

- individual director performance;
- effectiveness of board committees;
- development and succession planning;
- board processes;
- management information and operational oversight;
- board communication; and
- development of strategy and alignment with risk.

The results of the evaluation, which were discussed by the board as a whole at its meeting in December 2012, confirmed that the board of directors was balanced, was operating effectively, and no significant issues were identified.

Positive feedback received included:

- there is a clearly defined strategy and set of objectives;
- there has been greater contact with the senior management of CCD;
- strong support is provided to the board by the Company Secretary;
- the size and composition of the board is appropriate;
- valuable work was carried out by the nomination committee on succession planning and strengthening of the CCD board;
- executive directors work well as a team;
- board packs provide an adequate level of detail;
- senior management presentations are made to the board as appropriate;
- the CPC is invaluable and well structured;
- the board fully embraces the use of technology as demonstrated by the introduction of electronic board papers on iPad; and
- the board works effectively in developing strategy and monitoring performance.

However, the following areas for improvement were identified and will be fully considered in 2013:

- review the role of and composition of the board in light of Vanquis Bank's growing importance to the group performance;
- opportunities for the board to meet senior management should be increased on board meeting days;
- more information could be provided on key customer relationships; and
- although risk is part of the strategic decision-making it will need to be formalised and minuted in the new regulatory environment following establishment of the new Financial Conduct Authority.

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.

An external evaluation will continue to be carried out every three years. The next such evaluation will 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 2012.

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 judgement.

Non-executive directors are currently appointed for fixed periods of three years, subject to confirmation by shareholders at the AGM following appointment. The initial three-year period may be extended for one further three-year period (and, in exceptional cases, further extended), subject always to annual reappointment by shareholders. Their letters of appointment may be inspected at the company's registered office or can be obtained on request from the Company Secretary.

Manjit Wolstenholme is the SID 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 2012, 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. Robert Hough, the SID at that time, discussed comments arising with the Chairman.

INDUCTION OF NEW DIRECTOR

On appointment, each director undertakes a comprehensive induction programme which involves time with the Company Secretary, the executive directors, members of the divisional boards and visits to the key operations. During the year, Stuart Sinclair, our new non-executive director:

- had individual meetings with the Company Secretary and the executive directors;
- had a detailed handover with the audit committee chairman and key members of the group finance team prior to assuming the role of audit committee chairman in October 2012;
- met with the divisional boards and senior management of each division;
- visited the Vanquis Bank contact centre in Chatham and met with key staff;
- spent a day at one of the CCD branches;
- accompanied a CCD agent on their customer round; and
- met with the audit partner from Deloitte LLP.

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 2012 AGM and biographical details of the directors were supplied in the shareholders' circular and notice of the 2012 AGM. All directors will offer themselves for reappointment at the 2013 AGM and at all future AGMs.

POLICY ON BOARD APPOINTMENTS

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

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

ACCOUNTABILITY

RISK MANAGEMENT AND INTERNAL CONTROL

The board is responsible for the alignment of strategy and risk, and for maintaining a sound system of risk management and internal controls. We continue to drive improvements to our risk management process and systems, which are designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

The group has a robust governance framework which is set out in the chart below. Our risk management framework is firmly embedded within our corporate governance structure, and incorporates a five-stage process as detailed in the diagram on page 70.

The risk advisory committee, details of which can be found on pages 70 to 71, 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 70, formally reviews the divisional risk registers four times a year and it reports to the risk advisory committee.

Details of the group's key risks, together with the controls and procedures in place to mitigate the risks, can be found on pages 72 to 75.

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.

In December each year, the board approves detailed budgets and cash flow forecasts for the year ahead. It also approves outline projections for the subsequent four years. An update to the budget is approved in June each year. 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 78 to 79, 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 requirement for each division to certify compliance quarterly.

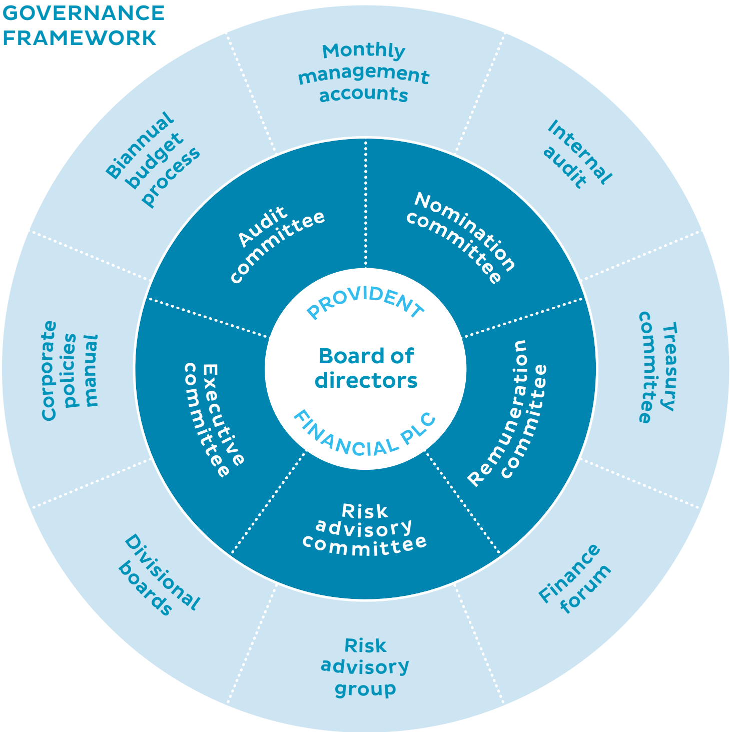
The board requires the divisions and the corporate office to operate in accordance with the corporate policies manual and the divisions and the corporate office are obliged to certify compliance on a biannual basis.

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 2012. The process for identifying, evaluating and managing the significant risks faced by the group was in place throughout 2012 and up to 26 February 2013 and no significant failings or weaknesses were identified during this period.

GOVERNANCE FRAMEWORK



RISK ADVISORY COMMITTEE

Members:
Rob Anderson (Chairman)
Andrew Fisher
Robert Hough[1]
Stuart Sinclair[2]
Manjit Wolstenholme

Attendees by invitation:
Peter Crook
Chris Gillespie
David Mortlock
(Head of Audit & Risk)
Phil Shepherd
(Group Treasurer)

[1] Resigned on 31 January 2013
[2] Appointed on 1 October 2012

ROLES AND RESPONSIBILITIES

- Design, implementation and monitoring of the risk management framework.
- Consideration of the nature and extent of the risks facing the group and appropriate mitigation.
- Review and approval of the group's DRA.
- Review and approval of the group's ICAAP for submission to the board.
- Review of the group's business continuity plans.

KEY HIGHLIGHTS

- End to end review of risk management framework.
- Updated and refreshed the risk appetite framework.
- Strengthened underlying divisional governance arrangement.

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.

Details of the work carried out by the risk advisory committee is set out in the table on page 71.

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

OUR RISK MANAGEMENT FRAMEWORK

RISK ADVISORY COMMITTEE CALENDAR IN 2012

At specific meetings

JANUARY	JULY	OCTOBER
• Reviewed divisional Business Continuity Plans • Risk management framework development proposals • Performance and effectiveness of the committee • Review of the committee's terms of reference	• Detailed review and approval of the Documented Risk Assessment	• Review of ICAAP for submission to board for approval

At each main meeting

- Review of minutes of previous meetings
- Review of implementation of actions agreed at previous meetings
- Divisional risk registers
- Key group risks
- Risk appetite reports

Throughout 2012, the risk advisory committee has overseen the continuing enhancement and embedding of the risk management framework across the group. Enhancements during the year included an updated risk appetite framework, further development of divisional risk governance processes and an improved reporting suite. These enhancements combined with the rest of the framework allow effective risk oversight and governance by the committee and the board.

The committee formally considered its effectiveness in 2012. On the basis of the board and committee evaluation undertaken, the overall view was that it was working effectively.

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 2012
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. Potential read-across from any legislation or regulatory measures introduced to address the practices of payday lenders. The Financial Conduct Authority will replace the Office of Fair Trading (OFT) as the regulatory body for credit businesses in 2014 and there remains uncertainty as to the exact form of regulation.	• A central in-house legal team is in place which monitors legislative changes and supports divisional compliance functions. • Expert third-party legal advice is taken where necessary. • Divisional compliance functions are in place which monitor compliance and report to divisional boards. • Long relationship and developed credibility with key regulators who recognise the different dynamics of the home credit and credit card sectors compared with the payday lending model. • There is constructive dialogue with regulators. • Full and active participation in all relevant regulatory review and consultation processes in the UK and EU.	• The Consumer Credit licence of Provident Personal Credit was renewed by the OFT in February 2012. • Proactive engagement with regulators both in the EU and UK. • Bristol University Personal Finance Research Centre study into a variable cap on total cost of credit. Final report is delayed but is due shortly. • Final guidance on payment protection products was published in January 2013. Vanquis Bank will comply with the guidance but there may be some modest reduction in the take up of the ROP product.
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. Continued pressure on customers' incomes from inflation together with a fragile employment market could increase the level of defaults.	• The Consumer Credit Division (CCD) and Vanquis Bank credit committees set policy and regularly review credit performance. • Credit risk is subject to ongoing review in the current economic climate and management continues to maintain its tight underwriting stance. • Comprehensive daily, weekly and monthly reporting on KPIs. • CCD – Home credit loans are underwritten face-to-face by agents in the customer's home; agents generally maintain weekly contact with the customer and stay up to date with their circumstances; agents' commission is predominantly based on collections not credit issued; application and behavioural scoring is used to assist agents' underwriting; loans are short term, small-sum, 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.	• Credit standards remained unchanged in both CCD and Vanquis Bank in 2012. • 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. • Further enhancements to the CCD agents' commission scheme which now includes a higher rate of commission on collections for agents who successfully deliver high-quality growth. This is expected to benefit future collections performance. • Record low delinquency levels at Vanquis Bank has enabled the business to generate a risk-adjusted margin of 34.8%, well ahead of the minimum target of 30%.

RISK	DESCRIPTION	MITIGATION	PROGRESS IN 2012
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. Potential increased competition from competing formats such as direct mail and rent to own may restrict the ability of CCD to grow its customer base. Increased marketing activity from existing competitors may impact Vanquis Bank's growth rates.	• A clear board strategy is in place. • A corporate planning conference (CPC) is held annually. • Central resource is in place to develop the corporate strategy. • New products and processes are thoroughly tested prior to roll-out. • There is comprehensive monitoring of competitor products, pricing and strategy. • Robust business change functions oversee change programmes. • The group has comprehensive monthly management accounts, a monthly rolling forecast and a biannual budgeting process. • Loans are short term in nature and, in CCD, 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.	• Vanquis Bank remains the most active participant in the non-standard credit card market and booked a record 375,000 accounts in 2012, up from 294,000 in 2011, following increased investment in the customer acquisition programme. • The pilot credit card operation in Poland is progressing in line with plan and a decision on whether to roll out the operation will be made by the 2013 half year. • A number of initiatives are in place to deliver sustainable growth in CCD including expanding the geographic footprint, modernising the approach with agents, improving the use of information technology and product development. • The management team in CCD has been recently strengthened with the appointment of a new Director of Field Operations, Commercial Director and HR Director.
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 focused on the activities of the fast-growing payday lending sector.	• 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 advisors and established procedures are in place for dealing with media issues. • A proactive communication programme is targeted at key opinion formers and is coordinated centrally. • The 130 year old home credit business is well understood and has been subject to regular regulatory review and scrutiny.	• Customer satisfaction remains high in both CCD (92%) and Vanquis Bank (89%). • 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 for the second year running amongst financial services companies in the FTSE4Good Index Series which measures the environmental, social and governance ratings of listed companies worldwide.
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; and • Newcastle Building Society (NBS) for its retail deposit platform. IT systems in CCD 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 extensively tested during 2012.

RISKS

RISK	DESCRIPTION	MITIGATION	PROGRESS IN 2012
	Threats to agent safety make it unsafe to operate home collection. Agents in CCD are required to carry cash to issue credit and they receive cash as a result of their 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. • An annual independent audit of health and safety policies and procedures is carried out by the group's insurers, AIG.	• The group continues to focus significant time and effort promoting and training staff on safety and providing assistance to agents to ensure they remain safety aware. • AIG continue to confirm that the group has a high standard of safety awareness across the group and its safety policies are properly implemented and followed.
	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. • Hierarchical field management structure and weekly agent performance reviews ensure a strong controls environment within CCD.	• Processes surrounding physical security in CCD have been further enhanced. Additional controls have been implemented to manage physical data distribution supported by a training and awareness programme.
	Loss of key management or reduction in staff morale impacts business performance. The risk of loss of key staff 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 and personal development plans are in place throughout the group.	• Senior management turnover remained very low in 2012.
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.** Wider restriction of credit available from banks and institutional investors.	• The model of 'borrowing long and lending short' results in a positive maturity mismatch, which means the duration of the receivables book is significantly less than the average duration of the group's funding. This profile significantly reduces the liquidity risk for the group. • A board approved policy is in place to maintain committed borrowing facilities which provide funding headroom for at least the following 12 months, after assuming that Vanquis Bank will fund 90% of its receivables book through retail deposits. • The group's strategy of maintaining committed facility headroom and diversifying funding sources has resulted in a strong balance sheet position. • Liquidity is managed by an experienced central treasury department. • Vanquis Bank maintains a liquid assets buffer in line with the 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 in 2012. • Renewal of core syndicated bank facility of £382.5m in February 2012 through to May 2015. • Successful issue of third retail bond of £120m in March 2012. • Permitted retail deposits funding limit increased by the FSA from 80% to 90% of Vanquis Bank's receivables. • Retail deposits base increased from £140m to £327m during 2012, representing 51% of Vanquis Bank's receivables against a permitted target ratio of 90%. • Headroom on committed facilities of £192m as at 31 December 2012 which, together with the retail deposits programme at Vanquis Bank, is sufficient to meet growth and contractual maturities until May 2015. • The group remains an investment grade credit, with a credit rating maintained at BBB with a stable outlook.

RISK	DESCRIPTION	MITIGATION	PROGRESS IN 2012
FINANCIAL RISK	**The risk that the group suffers a loss as a result of unexpected tax liabilities.** HMRC is placing greater emphasis on taxation controls in assessing tax risk and the associated level of scrutiny placed on companies.	• The group's approach to tax is embodied in a board-endorsed tax strategy which has also been shared with HMRC. This strategy seeks to ensure that the group complies with tax rules and regulations, pay the tax it is legally required to pay in the territories in which it operates and its reputation as a responsible taxpayer is safeguarded. The strategy also sets out the group's approach for managing tax risk and ensuring tax receives the appropriate consideration at board level. • An experienced in-house team is responsible for managing the group's tax affairs and advice is sought from external advisors on all material transactions. • The group is committed to building open and honest relationships in its day-to-day interaction with tax authorities. Management has regular and positive dialogue with HMRC across all UK taxes which includes advance discussion of transactions where the tax treatment is uncertain. • The group has documented systems, processes and controls to support the UK taxes it pays and the preparation and submission of related tax returns. • Policies and procedures are in place which support the management of key tax risk areas, including policies and procedures which seek to ensure that the relationship between CCD and the agents it engages is such that self-employed status is maintained.	• Working to further improve and embed the procedures in place which seek to ensure that the agents engaged by CCD remain self-employed. • Working alongside HMRC to agree a number of historic corporation tax matters, thereby building on the progress made in 2010.
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 for accounting purposes stands at £23.0m as at 31 December 2012 (2011: £13.5m). • The defined benefit pension scheme has recently been amended so that accrued pension benefits are now linked to increases in CPI rather than future salary increases. This reduces the future liabilities of the scheme. • Annual contributions to the defined benefit scheme will increase from £10m to £16m in 2013, following the triennial funding valuation performed as at 1 June 2012.

ENGAGEMENT

Understanding the views of our investors is a key part of managing our business and driving it forward. We actively engage with investors, shareholder advisory bodies and governance organisations in order to encourage shareholders to become more informed investors.

INVESTOR RELATIONS

The Chairman is responsible for ensuring that appropriate channels of communication are established between directors and shareholders and that all directors are aware of any issues and concerns that major shareholders may have.

The company has a comprehensive investor relations (IR) programme, through which the group Chief Executive, Finance Director and Head of IR engage regularly with the company's largest shareholders on a one-to-one basis to discuss strategic and other issues as well as to give presentations on the group's results.

IR PROGRAMME

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

- the annual report is a key communication vehicle for ensuring that investors are kept fully informed regarding developments in the business.
- the corporate website provides investors with timely information and details of the group's Corporate Social Responsibility (CSR) activities.
- a web app was introduced in 2012 to enable shareholders to view key website data on their tablet devices and mobile phones including videos, presentations, and results announcements.
- a commitment to running an investor day every 18 months, inviting institutional shareholders and sell-side analysts to an on-site facility or an external location to provide them with a more detailed insight into the business.
- a proactive approach to inviting investors and sell-side analysts to meet with divisional senior management and to visit operational facilities.
- a long-standing US roadshow programme, both on the East and West Coast, to build knowledge of the group's business outside of the UK. Over the last 18 months this has been supplemented by a European roadshow programme to allow European shareholders access to the Chief Executive, Finance Director and Head of IR.
- a stand-alone annual CSR report for stakeholders.
- a commitment to respond to shareholders, regardless of the size of their holding, within two working days.
- using a third party to obtain formal feedback from investors and sell- side analysts in the form of an annual perception audit. This enables management to actively respond to any concerns in the investment community.

INVESTOR RELATIONS PROGRAMME IN 2012

JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
• Trading statement	• Preliminary results announcement • Investor/sales teams roadshow (London/ Edinburgh)	• Additional Edinburgh investor roadshow	• US investor roadshow (New York, Boston, Toronto, Los Angeles, San Francisco, San Diego)	• AGM and IMS • Numis mid-cap investor conference	• Paris investor roadshow • Frankfurt investor roadshow

BOARD OVERSIGHT

There have been no significant issues raised by shareholders in relation to the company but if there were any they would be reported to the board, discussed in detail, and an appropriate corrective action plan developed to address any concerns raised.

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

AGM

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

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

The 2012 AGM was again held 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 2012 and will continue to do so in future years.

The 2013 AGM will be held on 9 May 2013 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.

JULY	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
• Interim results • Investor/sales teams roadshow (London/ Edinburgh)	• KBW Financial's investor conference • US investor roadshow (New York, Boston, Chicago, Montreal, Los Angeles, San Francisco)	• IMS and analysts' call	• Zurich investor roadshow	• Berenberg European investor conference

AUDIT COMMITTEE AND AUDITOR

AUDIT COMMITTEE

Members:
Stuart Sinclair (Chairman)[1]
Rob Anderson
Robert Hough[2]
Manjit Wolstenholme

Attendees by invitation:
Peter Crook
Andrew Fisher
Chris Gillespie
David Mortlock
(Head of Audit & Risk)
Gary Thompson
(Group Financial Controller)
Deloitte LLP
(External auditor)

[1] Appointed on 1 October 2012 and assumed Chairmanship from Manjit Wolstenholme on that date

[2] Resigned on 31 January 2013

ROLES AND RESPONSIBILITIES

- All matters relating to the appointment and reappointment of the auditor, auditor's remuneration and the policy on the supply of non-audit services to the company by the auditor.
- Monitoring the integrity of the financial statements of the group and the formal announcements relating to the group's financial performance.
- Review significant financial reporting judgements contained in the financial statements.
- Approve the internal audit plan annually.
- Review the group's internal and external whistleblowing policies.
- Review and approve the register of benefits offered to directors in accordance with the company's code of practice on benefits.

KEY HIGHLIGHTS

- Change of group auditor in June 2012 following a rigorous audit tender process.
- Change of committee chairman following the appointment of a new non-executive director.
- Introduction of additional committee meetings to discuss the final and interim results.

Details of the work carried out by the audit committee are set out in the table below:

AUDIT COMMITTEE CALENDAR IN 2012

At specific meetings

FEBRUARY (2 MEETINGS)

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

JUNE

- Consideration of the output from the audit tender process
- Recommendation to the board on appointment of Deloitte as the group's auditor.

JULY (2 MEETINGS)

- Review of interim results, including:
  - External auditor's report for the 6 months ended 30 June
  - Draft interim results announcement
- Discussion with auditor without any executive director or employee present
- Independence of auditor

OCTOBER

- Auditor's planning report for forthcoming year end

DECEMBER

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

At each main meeting

- Review of minutes of previous meetings
- Review of implementation of actions from previous meetings
- Review of subsidiary company audit committee minutes
- Internal audit activity report
- Schedule of fees paid to auditor, including for any non-audit work
- Fraud report

Manjit Wolstenholme chaired the committee from joining the board in 2007 until 1 October 2012. She is a chartered accountant and is considered to have the recent and relevant financial experience required by the provisions of the Code. Stuart Sinclair was appointed chairman of the committee on 1 October 2012 and is also 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 62 to 63.

The group operates an in-house internal audit function managed by the Head of Audit & Risk with specialist service provided by third-party consultants where necessary. 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 auditor without any executive director or employee of the company or group being present. This gives members of the committee the opportunity to raise any issues, including any issues on the final results of the group, directly with the auditor. The chairman of the committee also meets separately with the Head of Audit & Risk on a quarterly basis.

During the year, the audit committee was authorised by the board to review the provision of audit services to the group. Following a rigorous tender process, which included the establishment of a sub-committee comprising the non-executive directors, the Finance Director, the Group Financial Controller, the Head of Audit & Risk, the Company Secretary and the Finance Directors of the Consumer Credit Division and Vanquis Bank, an invitation to tender was issued to the encumbent auditor, Pricewaterhouse Coopers LLP (PwC), and two other accounting firms. The committee developed a scoring system based on pre-determined criteria to ensure that the group continued to be subject to a robust and independent external audit.

Following a series of meetings with senior management of the group and detailed presentations by all three firms, the committee recommended to the board that Deloitte LLP (Deloitte) replace PwC as the group's auditor. The board accepted the proposal of the committee and, as a result, PwC resigned as auditor and Deloitte was appointed with effect from 29 June 2012. Deloitte carried out the review of the group's interim results and provided the committee with a letter of independence, which will be 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 the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process during the next financial year.

The committee has adopted a policy on the appointment of staff from the 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 auditor is managed in order to ensure that the auditor is able to conduct an independent audit and is perceived to be independent by the group's shareholders and other stakeholders.

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

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

No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the auditor without the prior written 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 auditor may not perform internal audit work. Accordingly, following the appointment of Deloitte as the group's auditor, they ceased to provide a supporting external resource to the internal audit function, although they did complete a review which was in progress. External specialist resource for the internal audit function is now provided by KPMG LLP.

In 2012, the committee regularly considered a schedule of audit and non-audit work carried out by the group's auditor Deloitte and PwC. This fell broadly into four categories: fees payable for the audit of the parent company and consolidated financial statements; audit of the company's subsidiaries pursuant to legislation; other services pursuant to legislation; and tax services.

Fees paid to Deloitte for non-audit work during the year amounted to £107,000 (2011: £147,000), comprising further assurance services, tax advisory services and other services. Fees paid to PwC for non-audit work during the year amounted to £161,000 (2011: £60,000) relating primarily to tax advisory services and the issue of the third retail bond.

The committee formally considered its effectiveness in 2012. On the basis of the board and committee evaluation undertaken, the overall view was that the committee was working effectively. It was also agreed that the increased allocation of time to consider and review the interim and full-year results which was implemented in 2012 as a result of the 2011 board and committee evaluation process had been very effective and would continue in 2013.

NOMINATION COMMITTEE

NOMINATION COMMITTEE

Members:
John van Kuffeler (Chairman)
Peter Crook
Rob Anderson
Stuart Sinclair[1]
Robert Hough[2]
Manjit Wolstenholme

[1] Appointed on 1 October 2012
[2] Resigned on 31 January 2013

ROLES AND RESPONSIBILITIES

- Regular review of the structure, size and composition of the board, and make recommendations for change to the board to ensure it remains constantly refreshed.
- Consideration of the succession planning for directors and other senior management to ensure the succession of candidates is managed smoothly and effectively.
- Identification and nomination of candidates for approval by the board to fill board vacancies.

KEY HIGHLIGHTS

- Review of the performance of Rob Anderson and recommendation to the board to extend his term of office to 30 March 2015, which was approved by shareholders at the AGM in May 2012.
- Recommendation to the board regarding the appointment of Stuart Sinclair.
- Further development and refinement of the group's succession plans for senior management, which included significant appointments to the Vanquis Bank board and the strengthening of the senior management team within CCD.
- Worked in partnership with the Chief Executive in developing an outline succession plan with the assistance of external consultants.

The nomination committee ensures that the balance of directors remains appropriate as the group develops and it has sufficient oversight of the succession planning process below board level. Succession planning allows the board to analyse the balance of skills, experience and knowledge in the boardroom and identify and address any gaps as part of the natural refreshment of the board. It has a formal schedule of matters reserved to it for decision.

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

Details of the committee's work during the year are set out in the table below.

At its meeting in February 2013, the committee formally considered its effectiveness in 2012, and on the basis of the board and committee evaluation undertaken, the overall view was that is was working effectively. The quality of the work and thinking behind the succession plans for the Chief Executive and the CCD senior management team were specifically acknowledged during the 2012 board and committee evaluation process.

DIVERSITY POLICY

Details of our diversity policy are set out in the Chairman's letter on page 60. As part of the process for recruiting our new non-executive director, the committee appointed Egon Zehnder, a recruitment consultancy firm who have signed up to the voluntary code of conduct on gender diversity best practice to assist the board in identifying and prioritising the skills and competencies required.

Twenty two candidates were initially identified, of which two were women. Following discussions, an initial shortlist of seven, of which two were women, was presented to the committee. On the committee's authority, having reviewed the list, Egon Zehnder approached all seven candidates. A final shortlist of three was presented by the committee to the board and, as a result, Stuart Sinclair was appointed following a recommendation to the board.

NOMINATION COMMITTEE CALENDAR IN 2012

At specific meetings

JANUARY	MAY	JUNE	AUGUST
• Succession planning for the board and senior management • Review of the succession planning process • Performance and effectiveness of the committee • Recommendation to the board to extend Rob Anderson's term of office	• Consideration of shortlist of potential candidates for new non-executive director position prepared by external consultants • Consideration of the options to enhance the CCD senior management team	• Update on recruitment of non-executive director • Review of progress on scoping of the Chief Executive role and development of a succession plan • Update on CCD succession plans	• Recommendation to the board to appoint Stuart Sinclair as a non-executive director

At each main meeting

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

OTHER STATUTORY AND REGULATORY INFORMATION

DIRECTORS

The directors of the company as at 31 December 2012 were as follows:

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

All directors served throughout 2012 and up to the date of signing of the financial statements, with the exception of Stuart Sinclair, who was appointed on 1 October 2012. Robert Hough resigned as a director on 31 January 2013 following the completion of his six-year term of appointment.

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 2012 or at any time up to 26 February 2013.

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 2012	31 December 2011
John van Kuffeler	18,000	18,000
Peter Crook[1]	658,928	706,404
Andrew Fisher[1]	441,061	489,197
Chris Gillespie[1]	386,749	457,197
Rob Anderson	3,701	3,500
Manjit Wolstenholme	5,666	5,663
Robert Hough	7,500	7,500
Stuart Sinclair	–	–

[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 95 to 98 of the directors' remuneration report.

No director had any non-beneficial holdings at 31 December 2012 or at any time up to 26 February 2013.

There were no changes in the beneficial or non-beneficial interests of the directors between 1 January 2013 and 26 February 2013.

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. In October 2012, the board considered and approved the Chairman's conflict of interest in relation to the appointment of Howden Insurance Brokers (a subsidiary of Hyperion Insurance Group Limited) as brokers to the company in relation to the company's financial lines insurance cover.

SHARE CAPITAL

Increase in issued ordinary share capital

During the year, the ordinary share capital in issue increased by 1,191,195 shares to 138,417,586 shares. Details are set out in note 23 to the financial statements.

Rights of ordinary shares

All of the company's issued ordinary shares are fully paid up and rank equally in all respects and there are no special rights with regard to control of the company. The rights attached to them, in addition to those conferred on their holders by law, are set out in the company's articles of association. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except: (1) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (2) where their holder is precluded from exercising voting rights by the 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.

As this scheme will expire in 2013, a new scheme will be presented for approval by shareholders at the 2013 AGM. Details of the proposed new scheme will be included in the circular to shareholders dated 2 April 2013.

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 the current PSP expired in July 2012, a replacement PSP is being presented to shareholders for approval at the 2013 AGM.

As set out on page 95 of the directors' remuneration report, the remuneration committee did not grant any options during the year under the ESOS or the LTIS.

OTHER STATUTORY AND REGULATORY INFORMATION

Provident Financial plc 2007 Employee Benefit Trust (the EBT)
The EBT, a discretionary trust for the benefit of executive directors and employees, was established on 11 September 2007. The trustee, Kleinwort Benson (Jersey) Trustees Limited, is not a subsidiary of the company. The EBT operates in conjunction with the LTIS and 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 23 on page 149 of the financial statements.

As the EBT operates in conjunction with the LTIS, the beneficial interest in shares is transferred from the EBT to the executive 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 pages 95 to 97 of the directors' remuneration report.

In March 2012, the company provided a loan of £155,205 to the EBT for the purpose of acquiring ordinary shares of 20 8/11p in the company. The EBT subscribed for the issue of 555,812 new shares in order to satisfy the awards made under the LTIS on 26 March 2012. In September 2012 the EBT transferred the beneficial ownership in 5,163 shares in order to satisfy a further award made under the LTIS on 3 September 2012.

As at 31 December 2012, the EBT held the non-beneficial interest in 3,005,588 shares in the company (2011: 2,969,888). The EBT may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the employee beneficiaries.

Provident Financial Employee Benefit Trust (the PF Trust)
The PF Trust, a discretionary trust for the benefit of executive directors and employees, was established 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 2012, the PF Trust had no interest in any shares in the company (2011: 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 to the financial statements. Awards were made under the PSP on 26 March 2012 and a loan of £64,493 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 executive 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 97 of the directors' remuneration report.

Authority to purchase shares
At the 2012 AGM, shareholders authorised the company to purchase up to 13,727,086 of its ordinary shares up until 1 November 2013 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 9 May 2013.

Power to allot shares for cash
At the 2012 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 £9,389,327. A further authority for the directors to allot shares for cash will be sought from shareholders at the forthcoming AGM to be held on 9 May 2013.

SUBSTANTIAL SHAREHOLDINGS

On the basis of the information available to the company as at 26 February 2013, 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	25.2%
M&G Investment Management Limited	7.05%
Marathon Asset Management Limited	5.67%
Tweedy Browne Company LLC	4.64%
BlackRock Inc.	4.09%
Cantillon Capital Management LLP	3.58%
Jupiter Asset Management Limited	3.51%
Legal & General Investment Management Limited	3.45%

Interests as at 31 December 2012 were as follows:

Invesco Limited	25.79%
M&G Investment Management Limited	7.07%
Marathon Asset Management Limited	5.61%
Tweedy Browne Company LLC	4.74%
Blackrock Inc.	3.62%
Legal & General Investment Management Limited	3.26%
Cantillon Capital Management LLP	3.26%
Alken Asset Management LLP	3.08%

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.

Save As You Earn

The company operates two savings-related share option schemes (referred to on page 81), aimed at encouraging employees' involvement and interest in the financial performance and success of the group through share ownership. 1,469 employees are currently saving to buy shares in the company under these schemes (2011: 1,008).

In addition to these schemes a proposal for approval of an all-employee, HMRC-approved share incentive plan will be presented to shareholders at the AGM in May 2013.

Training

The company is fully committed to encouraging employees at all levels to study for relevant educational qualifications and to training employees at all levels in the group. In particular we have a series of talent and development initiatives that are implemented as a means of ensuring the company invests in the correct progression of its employees.

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

Pensions

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

In 2012 the company implemented a pension consultation process to consider proposals for the closure of the final salary element of the defined benefit scheme and the provision of benefits in future for all members of that scheme through the existing cash balance section.

As a result of the consultation the company determined that this proposal would proceed with an effective date of 31 December 2012. The benefit amendments were effected through changes to contracts of employment by employee consent, and all current members gave specific individual consent on this basis.

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), for the benefit of those employees who were affected by the reduced 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 a pension benefit over the annual allowance of £50,000.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

During the year, the company made donations for charitable purposes of £1,385,928 (2011: £1,291,459). The group invested a further £538,570 (2011: £377,888) in support of community programmes (based on the London Benchmarking Group's guidelines). No political donations were made during the year (2011: £nil).

Further information on the group's corporate responsibility activities is set out on pages 28 to 34 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 has responsibility for this area.

The group's risk management processes, details of which are set out on page 70, 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 page 93 of the directors' remuneration report. Details of training for directors are set out on page 67 of this report.

The group manages its corporate responsibility (CR) impacts as a means of ensuring that it is a responsible citizen and is treating 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 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

OTHER STATUTORY AND REGULATORY INFORMATION

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 CCD, in particular those relating to agent safety, is carried out by the company's insurer, AIG. The results of the 2012 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 2011 were implemented in 2012 and further recommendations to enhance the current processes following the 2012 audit will be implemented during the course of 2013. In addition, an audit of the head office building in Bradford was carried out by AIG in 2012 which confirmed that there was a high standard of health and safety within head office. Recommendations made by AIG will be implemented during 2013.

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 2012 or at 31 December 2011. The average number of days' credit taken by the group during the year was 11 days (2011: 13 days). The group agreed to comply with the Prompt Payment Code during 2012.

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 115 to 117 of the financial statements.

APPOINTMENT AND REPLACEMENT OF DIRECTORS

Rules about the appointment and replacement of directors are set out in the articles of association and on page 68 of this report. The directors' powers are conferred on them by UK legislation and by the company's articles of association. Changes to the articles of association must be approved by shareholders passing a special resolution and must comply with the provisions of the Companies Act 2006 and the 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 auditor report on pages 156 and 157, is made to distinguish for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

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

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

In preparing these financial statements, the directors are required to:

(1) select suitable accounting policies and then apply them consistently; (2) make judgements and accounting estimates that are reasonable and prudent; (3) 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 (4) 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 and Financial Statements 2012 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 page 81, 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 2012 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.

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 corporate policies manual was updated and a corporate hospitality register established using a risk-based approach. The initial risk assessment confirmed that as a Business to Consumer (B2C) 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 2012 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 2012, group employees used this system to raise concerns about seven issues, all of which were appropriately responded to through the group's human resources function.

DISCLOSURE OF INFORMATION TO AUDITOR

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

(1) So far as he/she is aware, there is no relevant audit information of which the company's auditor is unaware; and

(2) He/she has taken all 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 auditor is aware of that information.

AUDITOR

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

ANNUAL GENERAL MEETING

The AGM will be held at 11.30am on 9 May 2013 at the offices of Provident Financial plc, No. 1 Godwin Street, Bradford, West Yorkshire BD1 2SU. The Notice of Meeting, together with an explanation of the items of business, will be contained in a circular to shareholders to be dated 2 April 2013.

Approved by the board on 26 February 2013 and signed by order of the board.

Kenneth J Mullen
General Counsel and
Company Secretary

DIRECTORS' REMUNERATION REPORT

We are mindful of the new regulations on remuneration reporting and have taken the opportunity to represent this remuneration report in the new format, albeit continuing to comply with the current regulations during their final year of application.

Manjit Wolstenholme
remuneration committee Chairman

DEAR SHAREHOLDER

As you will recall from the letter to you in the 2011 Annual Report & Financial Statements, we made some minor changes to our remuneration policy and therefore decided it was not necessary to consult with our key shareholders in relation to the 2012 policy.

This year's remuneration report includes a summary of the 2012 policy and details of the proposed 2013 remuneration policy on which we consulted with our major shareholders and shareholder advisory bodies during January 2013. The 2013 policy sets salaries with due regard to median benchmarks, but with the opportunity to earn an upper quartile level of total pay if stretching long-term performance targets are achieved and executive directors make a substantial investment in the company's shares.

The main elements of the 2013 policy are as follows:

1. an increase in the base salaries of the executive directors by approximately 2.2%, having considered the overall increases awarded across the group;
2. a continuation with the existing annual bonus structure, with EPS, personal targets and divisional profit remaining our key annual performance metrics;
3. for awards to be made under the Provident Financial Long Term Incentive Scheme (LTIS), the EPS element of the award (50%) will continue to be based on absolute growth in EPS of between 5% and 11% with the remaining 50% subject to an absolute TSR target of between 8% and 15%. The proportion of the total award that may vest for achieving both threshold performance targets remains unchanged at 20% of the total award;
4. an increase in the shareholding requirements for the executive directors from 100% of salary to 125%; and
5. in relation to the Provident Financial Performance Share Plan (PSP), we are proposing to renew the current scheme (which expired in July 2012) on the basis that the previous plan has served the company well and that the committee believes a PSP should form a central part of the remuneration policy going forward.

   The proposal will be presented to shareholders for approval at our AGM in May and the key features of the new PSP are as follows:

   a. executive directors will be required to defer a minimum of one third of annual bonus into the company's shares which will not vest for three years, and may elect to voluntarily defer up to a further one third of bonus into company shares;
   b. bonus deferred into shares will be used as the basis on which matching awards will be granted under the PSP; and
   c. awards will continue to vest subject to challenging EPS targets, which will be no less challenging than those set in 2012, with half a matching share vesting at a minimum threshold target of 5% (reduced from one matching share in 2012) and up to two matching shares vesting at the top end of the target range of 11% and a sliding scale between these targets.

The committee is strongly in favour of encouraging executive directors to build up a meaningful level of share ownership in the company and therefore continuing with an updated share-matching plan with a compulsory deferral of part of the annual bonus into the company's shares is considered important in this regard, along with the company's share ownership guidelines which have been increased for the executive directors.

As part of the renewal of the PSP, and for 2013 LTIS awards, we are also introducing a general financial underpin to the EPS performance targets which is comparable to the TSR underpin in the LTIS.

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 in light of best practice recommendations as appropriate.

Manjit Wolstenholme
Chairman of the remuneration committee

2013 REMUNERATION POLICY

INTRODUCTION

This part of the report sets out the policy for the forthcoming financial year and will be subject to an advisory vote at the AGM to be held on 9 May 2013. Future remuneration policy reports will be subject to a binding vote in accordance with the BIS regulations which are expected to be finalised in July 2013.

POLICY OVERVIEW

In setting the remuneration policy for the executive directors and senior management, the remuneration committee (the committee) takes into account the following:

1. the need to attract, retain and motivate executive directors and senior management in determining benefit packages, including an appropriate proportion of fixed and variable pay;
2. pay and benefits practice and employment conditions both within the group as a whole and within the sector in which it operates;
3. periodic external comparisons to examine current market trends and practices and equivalent roles in similar companies, taking into account their size, business complexity, geographical scope and relative performance;
4. the need to maintain a clear link between the overall reward policy and specific company performance and alignment to the business strategy both in the short and long term; and
5. the requirement for remuneration to be competitive, with a significant proportion dependent on risk-assessed performance targets.

2013 EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE

This remuneration policy is anticipated to apply to current executive directors from 1 January 2013.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM	PERFORMANCE TARGETS	CHANGES FROM 2012 TO 2013
Salary	Reflects the value of the individual and their role. Reflects skills and experience over time. Provides an appropriate level of basic fixed income and avoids excessive risk arising from over reliance on variable income.	Reviewed annually, effective 1 January. Agreed following review of the budget for forthcoming year. Takes periodic account of companies with similar characteristics and sector comparators. Targeted at or around median.	Annual increases typically linked to those of the wider workforce.	N/A	Increases were awarded to a maximum of 2.3%. Chief Executive: increase from £650,000 to £665,000. Finance Director: increase from £465,000 to £475,000. Managing Director of CCD: increase from £450,000 to £460,000.
Annual bonus	Incentivise annual delivery of financial and operational goals. Relatively high potential rewards for achieving demanding targets.	Not pensionable. May defer up to half of bonus into PSP. Clawback provisions apply.	Chief Executive : maximum 120% of salary. Finance Director: maximum 100% of salary. Managing Director of CCD: maximum 100% of salary. For 2012 paid 50% as cash and 50% deferred into PSP.	Growth in group EPS. Personal objectives. Divisional financial measure (Managing Director of CCD only).	Introduced compulsory deferral of 33% of annual bonus and voluntary deferral of a further 33% of annual bonus into the company's shares under the PSP which vest after 3 years subject to continued service and performance targets.
Performance Share Plan	Alignment of management's long-term strategic interests with long-term interests of shareholders.	Opportunity to voluntarily defer up to 50% of annual bonus and obtain a matching share award. Clawback provisions apply.	Executive directors eligible for a matching award of up to two times based on a deferral of up to 50% of annual bonus.	Performance measured over three years. Performance targets based on absolute EPS growth of between 5% and 11%.	New plan to be submitted for approval at 2013 AGM. Up to 66% of bonus may be deferred into the company's shares. Reduction in the number of matching shares vesting at the threshold performance level from one share to a half of one share. Two shares continue to vest at the maximum performance level. General financial underpin to the EPS target.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM	PERFORMANCE TARGETS	CHANGES FROM 2012 TO 2013
Long Term Incentive Scheme	Alignment of management's long-term strategic interests with long-term interests of shareholders.	Annual grant of conditional share awards. Clawback provisions apply.	Executive directors eligible for awards up to 200% of salary.	Performance measured over three years. Performance targets based on absolute EPS growth of between 5% and 11% and absolute TSR of between 8% and 15%.	A general financial underpin will now also apply to the EPS target as well as the TSR target.
Retirement benefits	Provide a range of schemes to enable directors to fund their retirement in a tax-efficient manner.	Defined benefits including Cash Balance and UURBS. Non-defined benefits including cash supplement and a contribution to SIPPs.	Pension credit of 30% of salary per annum.	N/A	N/A
Other benefits	Provide insured benefits to support the executive directors and their families during periods of ill health or death. Company cars or cash equivalent.	Benefits provided through third-party providers.	Life cover of six times salary, subject to the provision of satisfactory medical evidence.	N/A	N/A
Share ownership guidelines	To provide alignment between executive directors' and shareholders' interests.	Executive directors are required to retain half of the shares vesting (net of tax) under the LTIS until the guideline is met. Unvested shares held under the PSP do not count towards the guidelines. Reviewed annually.	100% of salary for executive directors.	N/A	Guidelines increased from 100% to 125% of salary.

It is anticipated that the above policy will also form the basis on which a new executive director or member of the senior management team is appointed. However, flexibility will be retained to offer remuneration on appointment outside the above policy. Ongoing policy for the individual would then be subject to the above policy with any changes subject to shareholder approval.

CHOICE OF PERFORMANCE METRICS

EPS continues to be considered by the committee to be the broadest measure of the company's long-term financial performance, is well understood and therefore it remains appropriate to continue to use it as a key metric in our long-term incentive plans.

Furthermore, EPS is fully aligned with our objective of continuing to deliver a high dividend yield and thus is aligned with our shareholder base which is weighted towards longer-term income investors.

The link to RPI was removed from the targets set for awards made under the LTIS and the PSP in 2012 given that (a) the negative impact of higher rates of inflation on customers' circumstances had the potential to encourage excessive risk taking; (b) the funding costs of the group are linked not only to UK financial markets but global financial markets (including private placements and/or bonds in the US and Europe) and (c) RPI is considered to have the potential to devalue awards from a participant's perspective given that it is outside of the executive directors' direct control.

In light of these factors, delinking the company's performance targets from RPI was considered appropriate by the committee in 2012 and it is proposed that this approach be retained in relation to the PSP and the LTIS in 2013 when it is anticipated that similarly challenging performance targets will apply. Performance targets will be assessed annually when setting targets for future incentives to take account of prevailing rates of inflation.

In addition, TSR is used to provide an appropriate external balance to the internal EPS measure under the LTIS and is consistent with delivering superior returns to shareholders which remains the company's key, over-arching, long-term objective.

Absolute TSR is used as it is a more appropriate performance measure because the FTSE 250 is considered too diverse a group against which to compare relative TSR performance. This was the reason for the change to absolute TSR being made in 2009. Also, 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.

HOW EMPLOYEES' PAY IS TAKEN INTO ACCOUNT

Pay and conditions elsewhere in the group were considered when finalising the current policy for executive directors and senior management. The base salary increases awarded to the executive directors were consistent with the average percentage increases awarded elsewhere in the company and reflect the strong financial performance of the company and each individual director's personal performance.

HOW THE EXECUTIVE DIRECTORS' REMUNERATION POLICY RELATES TO THE WIDER GROUP

The remuneration policy described in this report provides an overview of the structure that operates for the most senior executives in the group.

Lower aggregate incentive quantum operates at below executive director level with levels driven by market comparatives.

Long-term incentives are not provided outside of the most senior executives and are reserved for those identified as having the greatest potential to influence group level performance.

HOW SHAREHOLDERS' VIEWS ARE TAKEN INTO ACCOUNT

As described earlier, a number of changes to policy are being made for 2013 in light of feedback received during the company's shareholder consultation process including: (a) a reduction in the level of share matching to half a share at threshold performance level under the new PSP; (b) the introduction of a financial underpin to the EPS performance target under both the new PSP and the LTIS; (c) the accrual of dividends to the point of vesting only where awards are structured as nil-cost options or market value options under the new PSP; and (d) an increase in the level of the share ownership guidelines from 100% to 125% of basic salary. Shareholders' views were key inputs when shaping the 2013 remuneration policy.

REMUNERATION COMPONENTS

1. SALARY

Salaries for executive directors and senior managers are reviewed annually by the committee, although not necessarily increased. At its meeting in December 2012 the committee considered the company's strong financial performance and each individual's responsibilities, abilities, experience and personal performance. The committee also considered both the group's own salary structures, pay and conditions and, although used with caution, market data on salary rates for similar positions in comparative companies where appropriate. Accordingly, it agreed to increase the executive directors' salaries in 2013 as follows:

Director's name	% increase	£
Peter Crook	2.3	665,000
Andrew Fisher	2.2	475,000
Chris Gillespie	2.2	460,000

These increases are consistent with the cost of living increases for the last two years, with no increase having been awarded in 2010.

CHAIRMAN'S FEES

The fees for the Chairman are fixed by the committee. At its meeting in February 2013, the committee reviewed the Chairman's fees in the context of the wider economic environment and a benchmarking exercise undertaken by New Bridge Street. On the basis of these considerations, the Chairman's fees were increased by £15,000.

NON-EXECUTIVE DIRECTORS' FEES

At its meeting in February 2013, the board reviewed the non-executive directors' fees in the context of a benchmarking exercise undertaken by New Bridge Street. On the basis of this, the fees were increased by £2,500 and the senior independent director's fee was increased by £5,000.

2. ANNUAL BONUS

The group operates an annual bonus scheme which provides the framework for an annual incentive for executive directors and senior management with the aim of improving the company's performance through the achievement of certain financial and operational goals. For 2013, 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. The performance conditions for the 2013 annual bonus will be based on the group's EPS, personal objectives and (where appropriate) a divisional financial target, as follows:

	Peter Crook	Andrew Fisher	Chris Gillespie
Measure	Maximum bonus opportunity		
Group EPS	80%	80%	20%
Divisional financial target	–	–	60%
Personal objectives	20%	20%	20%

The personal objectives element of the scheme will continue to be underpinned by a threshold level of group EPS performance. Clawback provisions also apply to annual bonus awards which will enable the committee to clawback value overpaid in the event of a restatement of the company's Annual Report & Financial Statements or an error in the calculation of the extent to which the performance target has been met. Any bonuses paid are non-pensionable and are not taken into account when determining base salary for performance-related remuneration.

The only change in respect of 2013 is a modest rebalancing of bonus opportunity towards the divisional financial target (60% from 40%) for the managing director, CCD. This is appropriate given the group's focus on the continued improvements in the performance of CCD.

3. LONG-TERM INCENTIVE SCHEMES

The company's long-term incentive arrangements for executive directors are the Provident Financial Executive Share Option Scheme 2006 (the ESOS), the LTIS and the PSP.

LTIS

The committee is responsible for selecting eligible employees, including executive directors, to participate in and for granting conditional share awards under the LTIS. No payment is required on grant or vesting of an award. Until an award vests, a participant has no voting, dividend or other rights in respect of the shares. Participants are eligible to be considered for awards annually. The aggregate market value of awards made under the LTIS in any one financial year may not exceed 200% of basic salary which is the normal grant policy under the LTIS and the committee intends to grant awards at this level in respect of the current financial year.

For awards to be made in 2013, it is proposed that the performance targets for the LTIS continue to be based on absolute EPS and absolute TSR, with the range of targets remaining unchanged from 2012. Therefore 20% of the TSR element of the award will vest if an annualised TSR of 8% is achieved and 100% of the TSR element of the award will vest if an annualised TSR of 15% is achieved, with a sliding scale of vesting on a straight line basis between these lower and upper targets. 20% of the EPS element of the award will vest if an annualised growth in EPS of 5% is achieved, with 100% of the EPS element of the award vesting if an annualised growth in EPS of 11% is achieved, with a sliding scale of vesting on a straight line basis between these lower and upper targets.

The actual range of the EPS targets for awards in 2013 will be as follows:

Annualised growth in EPS	Percentage vesting (of EPS part of award)
Below 5%	0%
5%	20%
11%	100%

The actual range of the TSR targets for awards in 2013 will be as follows:

Annualised TSR	Percentage vesting (of TSR part of award)
Below 8%	0%
8%	20%
15%	100%

From 2013, notwithstanding achievement against the challenging EPS targets, vesting will only take place to the extent that the committee considers the vesting to be consistent with the broader financial performance of the company and may scale back vesting if this is not considered to be the case. Introducing this feature to the EPS targets is considered, with the already demanding EPS targets, to ensure the executive directors do not place too great an emphasis on EPS alone. This underpin is similar to the general underpin which applies to the TSR target as set out on page 95.

PSP

The current PSP expired in 2012. The committee reviewed the operation of the PSP to date and concluded that, subject to a number of modest modifications, it had served the company well and should continue to form a central part of the 2013 remuneration policy. Accordingly shareholder approval is being sought at the Annual General Meeting (AGM) on 9 May 2013 to renew the PSP, with the modifications set out below:

1. Executive directors will be required to defer a minimum of one third of annual bonus payable into the PSP. They may also elect to defer up to a further third of bonus. They will receive deferred share awards under the PSP.
2. There will be reduced vesting at the lower end of the performance target range, from one matching share to a half share, and up to a maximum of two matching shares at the upper end of the performance target range for each basic share awarded following bonus waiver into the company's shares.
3. When awards are structured as nil-cost options or market value options (which will not be the case for the most senior executives, including the executive directors), dividends will accrue only to the point of vesting on those shares that actually vest.
4. To ensure consistency with the approach taken in previous years, it is intended that any awards made in 2013 under the new plan (based on bonus earned in respect of 2012 performance), will be granted based on the share price prevailing in March 2013. This ensures that the market value used to determine the number of shares comprising the deferred share award is set at a similar time to the payment of the cash element of bonuses which are to be paid in March 2013.
5. The performance target will continue to be based on absolute EPS. The actual range of the EPS targets will be no less challenging than:

Annualised growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	Half of one share
11%	Two matching shares

The same general underpin to the EPS targets in the LTIS will apply to any awards under the new PSP in 2013.

ESOS

The committee does not intend to make further grants to executive directors under the ESOS in 2013.

4. ALL EMPLOYEE SHARE SCHEMES

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 or five years. The exercise price is fixed at up to 20% below the market value of the shares at the date directors and employees are invited to participate in the scheme. Up to £250 can be saved each month. The current scheme will expire in 2013 and a proposal for a replacement scheme which mirrors the current scheme updated to reflect legislative changes since 2003 will be presented to shareholders for approval at the 2013 AGM.

SHARE INCENTIVE PLAN

In addition to the Savings-Related Share Option Scheme referred to above, a proposal to introduce an all-employee, HMRC-approved share incentive plan (SIP) will be presented to shareholders for approval at the 2013 AGM. The introduction of a SIP is a further mechanism through which the company will encourage employees to acquire shares in a tax-approved manner and will run alongside the new Savings-Related Share Option Scheme to be proposed at the 2013 AGM. Executive directors and senior management will be invited to participate in the SIP on the same terms as all other employees. If approved, the SIP will provide an opportunity to invest in the company's shares and benefit from the company's offer to match that investment on the basis of one share for every four purchased.

5. SERVICE CONTRACTS AND EXIT POLICY

The committee reviews the contractual terms for new executive directors to ensure that these reflect best practice.

Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. All service contracts contain provisions for early termination. The contracts of the executive directors are dated 27 April 2006 for the Chief Executive, 1 January 2008 for the Finance Director and 31 May 2007 for the Managing Director of CCD. All contracts operate on a rolling basis with a 12-month notice period.

A director's contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. No director has a service agreement providing liquidated damages 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. Payments in lieu of notice are not pensionable. In the event of a change of control of the company there is no enhancement to contractual terms. In summary, the contractual provisions are as follows:

PROVISION	DETAILED TERMS
Notice period	12 months or less
Termination payment	Base salary for unexpired period of notice plus value of other contractual benefits, subject to mitigation
Bonus/share based entitlements	There is no entitlement to bonus and there may be a pro-rata vesting of outstanding share awards (in certain circumstances – see below). In all cases performance targets would apply.
Change of control	Normal contractual terms, as on termination

Any share-based entitlements granted to an executive director under the company's share incentive schemes or bonus entitlement under the Annual Bonus scheme will be determined based on the relevant scheme rules and are summarised below:

	REASON FOR LEAVING		
Payment	'Bad' leaver (e.g. resignation)	Departure on agreed terms (e.g. asked to leave due to revised skill sets required for role)	'Good' leaver (e.g. ill health)
Salary in lieu of notice period	Salary for proportion of notice period served	An appropriate severance package would be agreed based on individual circumstances	Up to a maximum of 100% of full notice period
Retirement and other benefits	Provided for notice period served	An appropriate severance package would be agreed based on individual circumstances	Retirement and other benefits up to full notice period. Payment of insured benefits may be triggered by the leaver event (this would be governed by the terms on which the benefits are provided)
Bonus	None	None as have to be in employment to trigger payment	None, as have to be in employment to trigger payment
Long-term incentive entitlements	Lapse	Determined at the time of departure under the terms of the relevant scheme	Committee has discretion up to full vesting, based on performance. Normal practice is for pro rata vesting, including on a change of control

Non-executive directors are not employed under service contracts and do not receive compensation for loss of office. They are appointed for fixed terms of three years, renewable for a further three-year term and, in exceptional circumstances, further extended if both parties agree and subject to annual reappointment by shareholders.

The following table shows details of the terms of appointment for the non-executive directors. All current directors will seek appointment/reappointment at the forthcoming AGM.

NAME	APPOINTMENT DATE	DATE OF MOST RECENT TERM	EXPECTED/ACTUAL DATE OF EXPIRY
John van Kuffeler	29 January 2002	29 January 2002	29 January 2014
Manjit Wolstenholme	16 July 2007	31 July 2010	31 July 2013
Rob Anderson	2 March 2009	30 March 2012	30 March 2015
Robert Hough	1 January 2007	31 January 2010	31 January 2013
Stuart Sinclair	1 October 2012	1 October 2012	31 October 2015

IMPLEMENTATION REPORT

INTRODUCTION

This directors' remuneration report (in conjunction with the 2013 policy described earlier) complies with the Companies Act 2006 (the Companies Act), Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) 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) published in June 2010.

This report (in conjunction with the 2013 policy described earlier) will be subject to an advisory vote at the AGM of the company to be held on 9 May 2013 and sets out the policy for the financial year just ended.

COMMITTEE ROLE AND MEMBERSHIP

The remuneration committee (the committee) is responsible for the remuneration of the Chairman, the executive directors and the company secretary. The remuneration and terms of appointment of the non-executive directors are determined by the board as a whole.

The Chief Executive is consulted on proposals relating to the remuneration of the other executive directors and designated senior management and the Chairman is consulted on proposals relating to the Chief Executive's remuneration. When appropriate, both are invited by the committee to attend meetings but are not present when their own remuneration is considered.

The role of the committee is set out in its terms of reference which are reviewed annually and can be found on the group's website *www.providentfinancial.com*. The committee meets at least three times a year and thereafter as circumstances dictate.

During the year the members of the committee and their attendance at meetings were as shown below:

NAME	NOTES	FROM	TO	ATTENDANCE
Manjit Wolstenholme	Chairman from 1 October 2012	16 July 2007	To date	6 out of 6
Robert Hough	Chairman to 1 October 2012	1 February 2007	31 January 2013	6 out of 6
Rob Anderson		2 March 2009	To date	6 out of 6
Stuart Sinclair	Appointed 1 October 2012	1 October 2012	To date	2 out of 6

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 Remuneration Code Staff and ensures that Vanquis Bank complies with the FSA Code on an ongoing basis. The committee reviews the work undertaken by the Vanquis Bank remuneration committee through regular reports submitted to it.

The committee regularly reviews the remuneration policy in the context of the group's risk management framework to ensure it does not inadvertently promote irresponsible behaviour. It has coordinated its work with both the audit committee and the risk advisory committee who assist with the monitoring and assessment of risk management specifically in relation to the remuneration incentives in place.

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

REMUNERATION COMMITTEE CALENDAR IN 2012

At specific meetings

FEBRUARY

- Finalisation of the 2012 remuneration policy
- Agreement on the format of the 2011 remuneration report
- Review of Chairman's fees
- Review of prior year performance against financial and non-financial objectives in relation to the annual bonus scheme
- Determination of vesting of awards under the Deferred Bonus Scheme
- Determination of vesting of awards under the Performance Share Plan
- Review of directors' expenses

MARCH

- Grant of awards under the company's executive share incentive schemes

MAY

- Determination of vesting of awards under the LTIS
- Approval of the operation of the Savings-Related Share Option scheme

At each main meeting

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

The committee considers corporate performance on environmental, social and governance (ESG) issues when setting the performance conditions for the annual bonus scheme and share incentive plans and will use its discretion to ensure that, where appropriate, the management of ESG risks are reflected in the rewards granted to executive directors and senior management.

The committee formally considered its effectiveness in 2012. On the basis of the board and committee evaluation undertaken by means of a paper questionnaire, the committee determined that it was operating effectively and that it continued to have the appropriate regard for the key issues within its remit.

EXTERNAL ADVISORS

During the year, New Bridge Street (NBS), a trading name of Aon plc (NBS's parent company), was engaged by the committee to provide it with remuneration consultancy services. Aon plc also provides pension consultancy, accounting and actuarial advice to the company. The committee is satisfied that these additional services in no way compromised the independence of advice from NBS. NBS is a signatory to the Remuneration Consultant's Code of Conduct.

The terms of engagement for NBS are available from the Company Secretary on request. The Company Secretary is secretary to the committee and instructed the advisors on behalf of the committee. The secretary attended all the meetings of the committee in 2012 and provides legal and technical support.

STATEMENT OF SHAREHOLDER VOTING AT AGM

At last year's AGM the Directors' Remuneration Report received the following votes from shareholders:

	TOTAL NUMBER OF VOTES	% OF VOTES CAST
For	102,461,101	95.7
Against	4,602,990	4.3
Total votes cast (for and against)	107,064,091	100.0

SEPTEMBER

- Review of executive remuneration landscape
- Consideration of share scheme alternatives to the expiring PSP
- Vanquis Bank remuneration committee update
- Shareholder consultation process and timetable established

OCTOBER

- Consideration of an outline 2013 remuneration policy
- Developed thinking on share scheme proposals
- Determination of vesting of awards under the LTIS
- Vanquis Bank remuneration committee update

DECEMBER

- Review of remuneration policy against risk management framework
- Establishment of 2013 remuneration policy
- Review of executive directors' shareholdings
- Review of performance and effectiveness of the committee

DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION

Stuart Sinclair was appointed to the board on 1 October 2012. There were no other appointments to or resignations from the board during 2012. The aggregate directors' emoluments during the year amounted to £3,999,000 (2011: £3,829,000) analysed as follows:

Director's name	Salary £000	Annual cash bonus[1] £000	Benefits in kind £000	Performance Share Plan dividends £000	2012 Total £000	2011 Total £000
Executive directors						
Peter Crook	650	764	37	136	1,587	1,530
Andrew Fisher	465	465	45	80	1,055	1,013
Chris Gillespie	450	248	42	53	793	775
Total	1,565	1,477	124	269	3,435	3,318

Director's name	Fees £000	Annual cash bonus £000	Benefits in kind £000	Performance Share Plan dividends £000	2012 Total £000	2011 Total £000
Chairman						
John van Kuffeler	265	–	40	–	305[2]	300
Non-executive directors						
Rob Anderson	75	–	4	–	79	71
Manjit Wolstenholme	75	–	1	–	76	69
Robert Hough[3]	80	–	5	–	85	71
Stuart Sinclair[4]	19	–	–	–	19	–
	514	–	50	–	564	511
Total	2,079	1,477	174	269	3,999	3,829

1 The annual bonus represents the gross bonus payable to the directors in respect of 2012. Each director has agreed to waive two thirds of this gross bonus in order to participate in the new Provident Financial Performance Share Plan to be approved by shareholders at the 2013 AGM.

2 £25,000 of this fee is paid to Mr van Kuffeler's service company, Parchester Limited.

3 Resigned from the board on 31 January 2013.

4 Appointed to the board on 1 October 2012.

DIRECTORS' FEES

Non-executive Directors

Non-executive directors' fees are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the company. Full details of the non-executive directors' fees are set out in the table of directors' remuneration above. The non-executive directors' remuneration does not include share options or other performance- related elements.

The non-executive directors' fees were increased by £5,000 in 2012, reflecting the market value for chairmanship of a committee and the senior independent director's fees were increased by a further £5,000 reflecting the additional responsibilities of the role.

Chairman

The fees for the Chairman are fixed by the committee. Full details of the Chairman's fees are set out in the table of directors' remuneration above.

Reflecting the wider economic environment and on the basis of a benchmarking exercise, the Chairman's fees were not increased in 2012.

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 the board considers that this will not adversely affect his executive responsibilities.

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

ANNUAL BONUS SCHEME

The annual bonus scheme was approved by the committee and established with effect from 1 January 2012. It provides a framework for an annual incentive for executive directors and senior management with the aim of improving the company's performance through the achievement of certain financial and operational goals. The 2012 scheme was based on a group-audited EPS target (as defined in the bonus scheme), personal objectives and a divisional financial target (in the case of the managing director, CCD).

The maximum bonus opportunity in respect of 2012 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 2012 group EPS target that needed to be delivered, which the committee considered to be challenging, were as follows:

	Thresh-hold	Target	Maxi-mum
% of the targeted group EPS achieved	95%	100%	105%
% of EPS element of annual bonus paid	0%	60%	100%

Straight-line vesting operated between 95% of targeted group EPS and the maximum of 105% of targeted group EPS. A similar principle applied to the divisional financial target set for Chris Gillespie.

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 auditor is asked to perform agreed-upon procedures on behalf of the committee on the EPS calculations.

At its meeting in February 2013, the committee assessed the group's performance against the targeted group EPS and determined that 100% of the EPS element of the 2012 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 no element of this part of the bonus was payable.

The balance of the annual cash bonus, as detailed in the table of directors' remuneration on page 94, 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 2012 was therefore 55% to 117.5%.

DEFERRED BONUS SCHEME

In addition to the annual bonus scheme referred to above, 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. The committee believed that a deferred bonus satisfied with shares in the company 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.

These bonuses took the form of an award of ordinary shares in the company which were acquired by the trustee of the Employee Benefit Trust, who held the legal title to the shares until the date of vesting. These shares were not subject to any performance conditions and vested in March 2012. On vesting an amount equal to the dividends that would have been paid on these shares was also paid in the form of additional ordinary shares as follows:

Director's name	Number of shares subject to the award	Dividend shares
Peter Crook	24,906	4,638
Andrew Fisher	18,679	3,478
Chris Gillespie	17,434	3,246

SHARE INCENTIVE SCHEMES

In 2012, the committee continued with the policy of making 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

The committee's policy is to grant conditional share awards pursuant to the LTIS up to a maximum of 200% of a participant's basic salary and executive directors received maximum grants during 2012.

The performance targets for awards to be made under the LTIS in 2012 were reviewed by the committee at its meeting in February 2012, and it was agreed to change the EPS element of the performance target to an absolute target, due to:

1. the negative impact of higher rates of inflation on customers' circumstances having the potential to encourage excessive risk taking;
2. the fact that the funding costs of the group are linked not only to UK finance markets but to global financial markets (including private placements and/or bonds in the US and Europe);
3. the volatility in the level of inflation at that time potentially reducing the incentive impact of the LTIS; and
4. RPI having the potential to devalue awards from a participant's perspective given that it is outside of the executive directors' direct control.

It was also agreed that the range of targets and threshold entitlement for the EPS and TSR elements of the award be amended, with 20%, as opposed to 25%, of these elements of the award vesting at threshold performance level.

The actual range of the EPS targets for awards in 2012 was as follows:

Annualised growth in EPS	Percentage vesting (of EPS part of award)
Below 5%	0%
5%	20%
11%	100%

The actual range of the TSR targets for awards in 2012 was as follows:

Annualised TSR	Percentage vesting (of TSR part of award)
Below 8%	0%
8%	20%
15%	100%

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

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 committee believes the revised range of targets, allied to the lower proportion of the award vesting at the threshold performance level, to be no less challenging than the TSR and EPS performance targets operated in prior years. The performance targets are considered to provide a realistic but stretching target and will be subject to review on an annual basis.

DIRECTORS' REMUNERATION REPORT

Offshore Employee Benefit Trust
The rules of the LTIS allow it to be operated in conjunction with any employee trust established by the company. Accordingly, the company established the Provident Financial plc 2007 Employee Benefit Trust (EBT) in Jersey on 11 September 2007 with Kleinwort Benson (Jersey) Trustees Limited acting as the trustee of the trust.

The EBT, together with any other trust established by the company for the benefit of employees cannot, at any time, hold more than 5% of the issued share capital of the company.

Kleinwort Benson (Jersey) Trustees Limited, as trustee of the EBT, subscribed for 555,812 ordinary shares in March 2012 for the purpose of satisfying the 2012 awards made pursuant to the LTIS. The trustee transferred the beneficial ownership (subject to the performance conditions set out on page 95 in 269,362 of the shares for no consideration to the executive directors on 27 April 2012. The trustee has entered into a dividend waiver in respect of all the shares it holds in the company at any time.

LONG TERM INCENTIVE SCHEME

Directors' conditional share awards at 31 December 2012 were as follows:

Director's name	Date of award	Awards held at 01.01.2012	Awards granted during the year	Awards vested during the year[1]	Awards held at 31.12.2012	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	08.05.2009	136,771	–	66,498	–	892.0	1,153	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
	26.03.2012	–	111,876	–	111,876	1,162.0		26.03.2015
Andrew Fisher	08.05.2009	97,533	–	47,420	–	892.0	1,153	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
	26.03.2012	–	80,034	–	80,034	1,162.0		26.03.2015
Chris Gillespie	08.05.2009	94,170	–	45,785	–	892.0	1,153	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
	26.03.2012	–	77,452	–	77,452	1,162.0		26.03.2015

1 Dividend shares on awards vesting in 2012 were also received as follows:
Peter Crook 10,668 shares; Andrew Fisher 7,608 shares; Chris Gillespie 7,346 shares.

The mid-market closing price of the company's shares on 31 December 2012 was 1,358p. The range during 2012 was 915p to 1,434p. No consideration is payable on the award of conditional shares.

There were no changes in directors' conditional share awards between 1 January 2013 and 26 February 2013.

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

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 2009, 2010 and 2011 conditional share awards require the company's annualised growth in EPS 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 EPS 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 EPS 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 this performance condition was met for the conditional share awards granted in 2009 was discussed by the committee at its meeting in May 2012, with assistance from NBS. The company's annualised growth in EPS over the performance period had been 8.1%, and the annualised growth in RPI over the same period was 4.0%. As the level of growth fell between the threshold target of annualised growth of RPI +3% and the maximum target of annualised growth of RPI+ 8%, this resulted in 20.96% of the EPS element of the award vesting.

NBS also confirmed that the company's annualised TSR over the three-year performance period had been 12%, which fell between the threshold target of annualised TSR of 10% and the maximum target of annualised TSR of 15%, resulting in 27.66% of the TSR element of the award vesting. The committee therefore approved vesting to the extent of 48.62% of the 2009 awards, having satisfied itself that the TSR performance was a genuine reflection of the underlying business performance.

For conditional share awards made in 2012, the committee changed the EPS target to an absolute EPS target, which requires the company's annualised growth in EPS to be equal to or greater than 11% 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 (10% of the award will vest if the company's annualised growth in EPS over a period of three consecutive financial years is equal to or greater than 5%, with vesting on a straight-line basis in between these levels). None of the EPS element of the award will vest if the company's annualised growth in EPS is below 5% 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, (10% of the award will vest if the company's annualised TSR is at least 8% measured over a period of three consecutive financial years, with vesting on a straight-line basis in between these two levels). None of the TSR element of the award will vest if the company's annualised TSR is below 8% over the performance period.

Awards made in 2012 to employees within the Consumer Credit Division (CCD) and Vanquis Bank are subject to a challenging divisional target rather than group EPS and TSR targets as in previous years. With regard to the managing director of CCD the committee initially resolved to grant his 2012 LTIS award subject in part to long-term divisional targets. These targets were established using the same plan that was used to derive the group targets. Following its annual review of the 2012 remuneration policy the committee decided that the annual bonus was a more appropriate mechanism through which to incentivise and reward group performance. Accordingly his 2012 LTIS award was realigned and is now subject to wholly group-based targets. Since the divisional targets were derived on the same basis as the group LTIS targets, the amendment resulted in the targets being equally challenging. The same targets will apply to the LTIS awards to be made to each of the executive directors in 2013.

PSP

In 2012, participation in the PSP included the executive directors, who were able to elect to waive up to 50% (with a minimum of 25%) of their annual cash bonus for a period of three years, and other eligible employees who were able to waive up to 50% or 30%, (depending on their level of seniority), of their annual cash bonus for a period of three years. Participants then received a basic award of shares equal to the value of their waived bonus, together with an equivalent matching award (on the basis of one share for each share acquired by a participant pursuant to their basic award) which is subject to a performance condition. Awards to executive directors in 2012 were made on the basis of up to two shares for each share acquired pursuant to their basic award, the second share being subject to a more stretching performance target.

There are no performance conditions attaching to the basic award.

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 EPS is equal to, or greater than, the average annual percentage growth in RPI plus 3% measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the matching award. The second matching award is subject to a more stretching performance target and will only vest in full if the company's average annual percentage growth in EPS is equal to, or greater than, the average annual percentage growth in RPI plus 7% (for 2009 awards) or 8% (2011 awards) 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 assessment of the extent to which this performance condition was met for the matching awards granted in 2009 was discussed by the committee at its meeting in February 2012, with assistance from PricewaterhouseCoopers LLP, the company's auditor at that date.

The average annual percentage growth in EPS over the three-year performance period was 8.8%, and the average annual percentage 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 + 7% p.a., resulting in 78.8% of the total matching awards vesting.

For awards made in 2012, the committee changed the EPS target to an absolute EPS target, to mirror the move to absolute EPS under the LTIS, as set out on page 95.

Performance is measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the matching award.

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

The actual range of the EPS targets for awards in 2012 was as follows:

Annualised growth in EPS	Matching shares vesting
Below 5%	No vesting
5%	One matching share
11%	Two matching shares

The dividends payable on the basic and matching shares are paid to the directors. The dividends received in 2012 were: Peter Crook £135,970 (2011: £122,416), Andrew Fisher £79,896 (2011: £80,565), and Chris Gillespie £53,003 (2011: £72,233). These figures have been included in the table of directors' remuneration on page 94.

DIRECTORS' REMUNERATION REPORT

PERFORMANCE SHARE PLAN

Awards held under the Provident Financial Performance Share Plan at 31 December 2012 were as follows:

Director's name	Date of grant	Basic awards (number of shares) held at 01.01.2012	Matching awards (number of shares) held at 01.01.2012	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 31.12.2012	Total matching awards (number of shares) held at 31.12.2012	Market price of each share when award was granted (p)	Market price of each share at date of vesting (p)	Vesting date
Peter Crook	04.03.2009	31,755	31,755	31,755	31,755	–	–	803.0	1,119	04.03.2012
	08.05.2009[1]	–	31,755	–	18,290	–	–	803.0	1,160	08.05.2012
	04.03.2011	31,216	62,432	–	–	31,216	62,432	952.5		04.03.2014
	26.03.2012	–	–	–	–	32,530	65,060	1,162.0		26.03.2015
Andrew Fisher	04.03.2009	23,349	23,349	23,349	23,349	–	–	803.0	1,119	04.03.2012
	08.05.2009[1]	–	23,349	–	13,449	–	–	803.0	1,160	08.05.2012
	04.03.2011	18,094	36,188	–	–	18,094	36,188	952.5		04.03.2014
	26.03.2012	–	–	–	–	19,363	38,726	1,162.0		26.03.2015
Chris Gillespie	04.03.2009	22,415	22,415	22,415	22,415	–	–	803.0	1,119	04.03.2012
	08.05.2009[1]	–	22,415	–	12,911	–	–	803.0	1,160	08.05.2012
	04.03.2011	14,742	29,484	–	–	14,742	29,484	952.5		04.03.2014
	26.03.2012	–	–	–	–	10,107	20,214	1,162.0		26.03.2015

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

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 September 2012. No consideration is payable on the grant of an option.

No directors exercised share options during the year and there was no 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, (2011: Peter Crook, £16,775).

There was no 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 2012 (2011: £20,688).

There were no changes in directors' share options between 1 January 2013 and 26 February 2013.

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

SHARE OPTION SCHEMES

Directors' share options at 31 December 2012, granted under the Provident Financial plc Employee Savings-Related Share Option Scheme (2003) were as follows:

Director's name	Options held at 01.01.2012	Granted in 2012	Exercised in 2012	Options held at 31.12.2012	Exercise price (p)	Market value at date of exercise (p)	Range of normal exercisable dates of options held at 31.12.2012
Peter Crook	1,777	–	–	1,777	868		01.12.2016–31.05.2017
Andrew Fisher	1,359	–	–	1,359	662		01.12.2013–31.05.2014
Chris Gillespie	–	–	–	–			
Total	3,136	–	–	3,136			

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 bonus scheme, the LTIS and the PSP. Having consulted with NBS, the committee introduced clawback provisions into all awards under the annual bonus scheme, LTIS and PSP from December 2010, and these provisions would be applicable in the following circumstances:

a. 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

b. 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.

DILUTION AND USE OF EQUITY

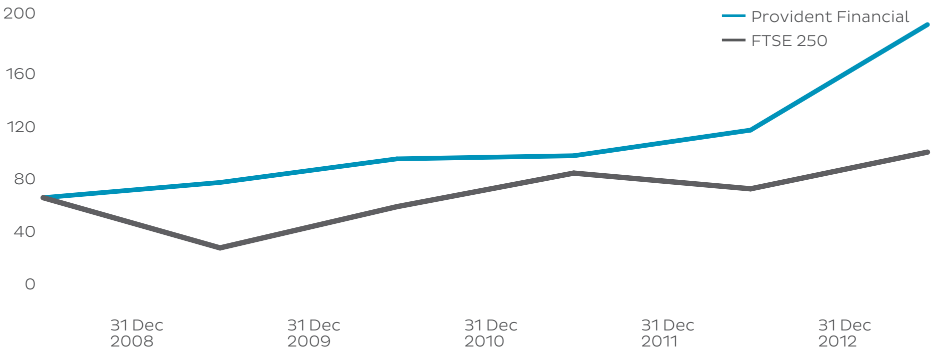
Following the demerger of the international business in 2007 and the subsequent share consolidation, the number of shares in issue was halved. As a consequence of this, the 5% anti-dilution limit contained within the company's executive share incentive schemes was completely utilised so that it was no longer possible for the company to satisfy any new awards granted under the executive share incentive schemes using newly issued shares (as opposed to satisfying awards by making market purchases of shares). Had the demerger not occurred, the company would have had sufficient headroom under the then-existing 5% limit to continue to satisfy awards under the executive share incentive schemes using newly issued shares.

The committee considers the LTIS an important means of incentivising and retaining key executives and senior management and consequently a resolution seeking shareholder approval for the 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 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	2012 %	2011 %
All employee share schemes	1.93%	1.60%
Shares held in trust	2.83%	2.83%

TOTAL SHAREHOLDER RETURN: PROVIDENT FINANCIAL VS FTSE 250



Source: Thomson DataStream

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.

SHARE OWNERSHIP GUIDELINES

The company has share ownership guidelines for executive directors which in 2012 required 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 these guidelines once a year, based on the market value of the company's shares at the date of assessment. When performing the calculation to assess progress against the guidelines, shares held by a spouse, dependant, or in an ISA or pension scheme are included, whilst unvested LTIS awards and awards granted under the PSP are not.

All three executive directors complied with these guidelines as at 31 December 2012:

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

DIRECTORS' REMUNERATION REPORT

PENSIONS AND LIFE ASSURANCE

In December 2011, the Finance Act introduced the Reduced Annual Allowance, which limited the benefits that can be provided by the group's registered pension schemes on a tax-efficient basis to a value of £50,000 in any year. As a result, the company has provided a range of options through which the directors can choose to receive retirement benefits with a value equivalent to 30% of salary.

Provident Financial Staff Pension Scheme

There are three directors (2011: three) for whom retirement benefits accrued in the year under the cash balance section of the Provident Financial Staff Pension Scheme (the pension scheme). The pension scheme is a defined benefit scheme with two sections: cash balance and final salary (now closed).

Peter Crook and Andrew Fisher were members of the cash balance section of the pension scheme throughout 2012 and Chris Gillespie was a member until 2 April 2012. The Reduced Annual Allowance significantly impacts the benefits that can be received through the pension scheme on a tax-efficient basis. The accumulated cash balance credit increases each year by the lower of the increase in RPI plus 1.5% and 6.5%. At retirement, up to 25% of the total value of the director's retirement account can be taken as a lump sum, with the balance used to purchase an annuity. If the director dies in service, a death benefit of six times salary plus the value of the retirement account is payable.

Details of the pension entitlements earned under the cash balance section of the pension scheme are set out in the table below.

PENSION ENTITLEMENTS

Details of the pension entitlements earned under the company's pension arrangements are set out below:

DEFINED BENEFITS	Age as at 31 December 2012	Accrued retirement account as at 31 December[1] 2012	2011	Increase in retirement account[2] 2012	2011
Cash balance					
Peter Crook	49	1,040	959	81	100
Andrew Fisher	54	802	760	42	149
Chris Gillespie	49	615	596	19	95
UURBS					
Peter Crook	49	356	183	173	183
Andrew Fisher	54	139	15	123	95
NON-DEFINED BENEFITS					
Cash Supplement					
Chris Gillespie	49	–	–	135	85
Self Invested Personal Pension					
Andrew Fisher	54	–	–	18	38
John van Kuffeler	64	–	–	30	30

1 The transfer value of the Accrued Retirement Account is the same as the Accrued Retirement Account.

2 The increase in the transfer value of the Accrued Retirement Account is the same as the increase in the Retirement Account.

Note: With effect from 1 April 2011 the directors ceased to pay contributions resulting in a reduction in the pension credit to 30% (previously 35%).

Personal Pension arrangements

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 of death in service. During 2012 the company contributed £29,900 (2011: £29,900) to his pension arrangement.

Andrew Fisher also has a personal pension arrangement to which the company contributed £38,391 in 2012 (2011: £nil).

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. Details of the pension credits earned under the UURBS are set out in the table on this page.

Cash supplement

A further option is for directors to receive a cash supplement in lieu of the benefits payable in excess of the Reduced Annual Allowance.

Benefits paid under the Cash Supplement are set out in the table on this page.

Both the UURBS and the Cash Supplement can also be used where employees are affected by the HMRC Lifetime Allowance of £1.5m.

AUDIT

The elements of the directors' remuneration (including pension entitlements and share options set out on pages 94 to 100 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.

Manjit Wolstenholme
Chairman, remuneration committee
26 February 2013

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 2012 £m	Group 2011 £m
Revenue	1,2	980.0	910.8
Finance costs	3	(74.7)	(69.6)
Operating costs		(478.8)	(450.1)
Administrative costs		(229.8)	(229.0)
Administrative costs before exceptional items		(245.4)	(229.0)
Exceptional items	1	15.6	–
Total costs		(783.3)	(748.7)
Profit before taxation	1,4	196.7	162.1
Profit before taxation and exceptional items	1,4	181.1	162.1
Exceptional items	1	15.6	–
Tax charge	5	(48.7)	(42.3)
Profit for the year attributable to equity shareholders		148.0	119.8

All of the above activities relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Group 2012 £m	Group 2011 £m
Profit for the year attributable to equity shareholders		148.0	119.8
Other comprehensive income:			
– cash flow hedges	16	(0.6)	1.4
– actuarial movements on retirement benefit asset	18	(14.1)	(37.1)
– tax on other comprehensive income	5	3.5	9.4
– impact of change in UK tax rate	5	(0.1)	(0.1)
Other comprehensive income for the year		(11.3)	(26.4)
Total comprehensive income for the year		136.7	93.4

EARNINGS PER SHARE

For the year ended 31 December	Note	Group 2012 pence	Group 2011 pence
Basic	6	110.4	89.6
Diluted	6	108.3	89.4

DIVIDENDS PER SHARE

For the year ended 31 December	Note	Group 2012 pence	Group 2011 pence
Proposed final dividend	7	48.4	42.3
Total dividend for the year	7	77.2	69.0
Paid in the year*	7	71.1	64.8

*The total cost of dividends paid in the year was £96.1m (2011: £86.8m).

BALANCE SHEETS

As at 31 December	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
ASSETS					
Non-current assets					
Goodwill	10	–	2.1	–	–
Other intangible assets	11	9.5	12.9	–	–
Property, plant and equipment	12	23.9	26.8	8.9	9.8
Investment in subsidiaries	13	–	–	376.0	375.3
Financial assets:					
– amounts receivable from customers	14	97.5	88.0	–	–
– derivative financial instruments	16	8.1	11.9	–	–
– trade and other receivables	17	–	–	842.2	649.0
Retirement benefit asset	18	23.0	13.5	1.9	4.2
Deferred tax assets	19	6.1	7.5	4.0	3.6
		168.1	162.7	1,233.0	1,041.9
Current assets					
Financial assets:					
– amounts receivable from customers	14	1,416.3	1,244.7	–	–
– derivative financial instruments	16	–	0.3	–	–
– cash and cash equivalents	20	79.1	49.6	2.6	2.1
– trade and other receivables	17	23.0	21.1	674.7	719.4
		1,518.4	1,315.7	677.3	721.5
Total assets	1	1,686.5	1,478.4	1,910.3	1,763.4
LIABILITIES					
Current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(169.8)	(50.5)	(7.4)	(16.3)
– derivative financial instruments	16	(2.0)	–	–	–
– trade and other payables	22	(60.6)	(53.0)	(174.2)	(121.1)
Current tax liabilities		(37.7)	(40.1)	(3.5)	(6.0)
		(270.1)	(143.6)	(185.1)	(143.4)
Non-current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(1,031.6)	(999.1)	(771.9)	(594.4)
– derivative financial instruments	16	(9.4)	(9.5)	(9.4)	(9.5)
– trade and other payables	22	–	–	(48.6)	(86.9)
		(1,041.0)	(1,008.6)	(829.9)	(690.8)
Total liabilities	1	(1,311.1)	(1,152.2)	(1,015.0)	(834.2)
NET ASSETS	1	375.4	326.2	895.3	929.2
SHAREHOLDERS' EQUITY					
Share capital	23	28.7	28.5	28.7	28.5
Share premium		148.1	146.0	148.1	146.0
Other reserves	25	13.2	9.4	623.7	619.4
Retained earnings		185.4	142.3	94.8	135.3
TOTAL EQUITY		375.4	326.2	895.3	929.2

The financial statements on pages 102 to 155 were approved by the board of directors on 26 February 2013 and signed on its behalf by:

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

Company number – 668987

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
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:						
– cash flow 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
At 1 January 2012		28.5	146.0	9.4	142.3	326.2
Profit for the year		–	–	–	148.0	148.0
Other comprehensive income:						
– cash flow hedges	16	–	–	(0.6)	–	(0.6)
– actuarial movements on retirement benefit asset	18	–	–	–	(14.1)	(14.1)
– tax on other comprehensive income	5	–	–	0.1	3.4	3.5
– impact of change in UK tax rate	5	–	–	(0.1)	–	(0.1)
Other comprehensive income for the year		–	–	(0.6)	(10.7)	(11.3)
Total comprehensive income for the year		–	–	(0.6)	137.3	136.7
Transactions with owners:						
– issue of share capital	23	0.2	2.1	–	–	2.3
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	3.7	(3.7)	–
– share-based payment charge	24	–	–	6.4	–	6.4
– transfer of share-based payment reserve		–	–	(5.6)	5.6	–
– dividends	7	–	–	–	(96.1)	(96.1)
At 31 December 2012		28.7	148.1	13.2	185.4	375.4

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 (2011: £1.6m). In addition, cumulative goodwill of £2.3m (2011: £2.3m) has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 25.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY – CONTINUED

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
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:						
– cash flow 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
At 1 January 2012		28.5	146.0	619.4	135.3	929.2
Profit for the year		–	–	–	59.4	59.4
Other comprehensive income:						
– cash flow hedges	16	–	–	0.1	–	0.1
– actuarial movements on retirement benefit asset	18	–	–	–	(4.3)	(4.3)
– tax on other comprehensive income		–	–	(0.1)	1.1	1.0
– impact of change in UK tax rate		–	–	(0.1)	–	(0.1)
Other comprehensive income for the year		–	–	(0.1)	(3.2)	(3.3)
Total comprehensive income for the year		–	–	(0.1)	56.2	56.1
Transactions with owners:						
– issue of share capital	23	0.2	2.1	–	–	2.3
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	3.7	(3.7)	–
– share-based payment charge	24	–	–	3.3	–	3.3
– share-based payment movement in investment in subsidiaries	13	–	–	0.6	–	0.6
– transfer of share-based payment reserve		–	–	(3.1)	3.1	–
– dividends	7	–	–	–	(96.1)	(96.1)
At 31 December 2012		28.7	148.1	623.7	94.8	895.3

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the company has not presented its own income statement or statement of other comprehensive income. The retained profit for the financial year reported in the financial statements of the company was £59.4m (2011: £102.1m).

Other reserves are further analysed in note 25.

STATEMENTS OF CASH FLOWS

For the year ended 31 December	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash flows from operating activities					
Cash generated from operations	29	89.6	138.7	48.8	24.4
Finance costs paid		(73.1)	(69.9)	(66.7)	(64.5)
Finance income received		–	–	87.3	95.2
Tax paid		(46.3)	(42.0)	(8.5)	(2.0)
Net cash (used in)/generated from operating activities		(29.8)	26.8	60.9	53.1
Cash flows from investing activities					
Purchase of intangible assets	11	(1.6)	(3.0)	–	–
Purchase of property, plant and equipment	12	(7.1)	(6.0)	(0.9)	(0.4)
Proceeds from disposal of property, plant and equipment	12	1.3	1.6	0.6	0.3
Long-term loans provided to subsidiaries		–	–	(200.0)	–
Repayment of long-term loans by subsidiaries		–	–	6.8	–
Dividends received from subsidiaries		–	–	55.0	85.0
Net cash (used in)/generated from investing activities		(7.4)	(7.4)	(138.5)	84.9
Cash flows from financing activities					
Proceeds from bank and other borrowings		531.8	330.1	310.6	190.4
Repayment of bank and other borrowings		(363.2)	(251.1)	(129.7)	(234.9)
Dividends paid to company shareholders	7	(96.1)	(86.8)	(96.1)	(86.8)
Proceeds from issue of share capital	23	2.3	2.4	2.3	2.4
Purchase of own shares	25	(0.1)	(0.2)	(0.1)	(0.2)
Repayment of loans from subsidiaries		–	–	–	(16.3)
Net cash generated from/(used in) financing activities		74.7	(5.6)	87.0	(145.4)
Net increase/(decrease) in cash, cash equivalents and overdrafts		37.5	13.8	9.4	(7.4)
Cash, cash equivalents and overdrafts at beginning of year		32.2	18.4	(14.2)	(6.8)
Cash, cash equivalents and overdrafts at end of year		69.7	32.2	(4.8)	(14.2)
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	20	79.1	49.6	2.6	2.1
Overdrafts (held in bank and other borrowings)	21	(9.4)	(17.4)	(7.4)	(16.3)
Total cash, cash equivalents and overdrafts		69.7	32.2	(4.8)	(14.2)

Cash at bank and in hand includes £52.3m (2011: £17.5m) in respect of the liquid assets buffer held by Vanquis Bank in accordance with the FSA's liquidity regime. This buffer is not available to finance the group's day-to-day operations.

The statutory cash flow statement reflects the cash inflow/(outflow) after funding the growth in the receivables book. The group's financial model is to fund the receivables book through a combination of 20% equity and 80% debt. Accordingly, to assess the group's capital generation to pay dividends to the company's shareholders, capital generation is calculated as net cash (used in)/generated from operating activities, after assuming that 80% of the growth in receivables is funded with borrowings, less net capital expenditure. Capital generated in 2012 on this basis was £107.7m (2011: £110.1m) compared with a dividend payable in respect of 2012 of £104.3m (2011: £93.0m).

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. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the group and company's accounting policies.

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

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

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that have had 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 2012 and not early adopted:

IAS 19, 'Employee benefits' was amended in June 2011 and is applicable from 1 January 2013 with retrospective application required. The changes to the standard require the group to calculate its annual pension charge as the current service cost plus or minus the discount rate applied to the net pension asset. This replaces the current calculation which is the current service cost plus the expected return on plan assets less the unwinding of the discount rate on liabilities. In effect, this requires the group to replace its long-term rate of return on assets assumption (currently 5.3%) with its discount rate (currently 4.5%) thereby reducing the assumed return on assets and increasing the pension charge. The estimated impact on the income statement in 2013 is to increase the pension charge by approximately £2m.

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 classification is determined 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, changes in fair value due to an entity's own credit risk are recorded in other comprehensive income rather than in 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 will not have a material impact on the group.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. All subsidiaries within the group are wholly owned therefore the adoption of IFRS 12 will not 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 during the accounting period beginning on 1 January 2013 and will not 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 cash flows and notes to the financial statements include the financial statements of the company and all of its subsidiary undertakings drawn up from the date control passes to the group until the date control ceases.

Control is 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 cash flows, being contractual payments adjusted for the impact of customers repaying early but excluding the anticipated impact of customers paying late or not paying at all. Directly attributable incremental issue costs are also taken into account in calculating the effective interest rate. Interest income continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value.

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 cash flows from the relevant cash-generating unit. Expected future cash flows are derived from the group's latest budget projections and the discount rate is based on the group's weighted average cost of capital at the balance sheet date.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

OTHER INTANGIBLE ASSETS

Other intangible assets, which comprise stand-alone computer software and computer software development costs, represent the costs incurred to acquire or develop the specific software and bring it into use. These are valued at cost less subsequent amortisation.

Directly attributable costs associated with the development of software that will generate future economic benefits are capitalised as an intangible asset. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software is amortised on a straight-line basis over its estimated useful economic life which is generally estimated to be between five and 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). The group's subsidiaries primarily operate in the UK and Republic of Ireland, with a pilot credit card operation in Poland. The consolidated and company financial statements are presented in sterling, which is the company's functional and presentational currency.

Transactions that are not denominated in the group's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as effective cash flow hedges.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Impairment is calculated by comparing the carrying value of the investment to the higher of the net asset value of the relevant subsidiary and its discounted expected future cash flows.

AMOUNTS RECEIVABLE FROM CUSTOMERS

Customer receivables are initially recorded at the amount advanced to the customer plus directly attributable issue costs. Subsequently, receivables are increased by revenue and reduced by cash collections and any deduction for impairment.

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at cost less accumulated depreciation and impairment, except for land, which is shown at cost less impairment.

Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable values over their useful economic lives. The following principal bases are used:

	%	Method
Land	Nil	–
Freehold and long leasehold buildings	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 value of the asset and are recognised within administrative costs in the income statement.

Depreciation is charged to the income statement as part of administrative costs.

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 held as part of a liquid assets buffer in accordance with the FSA's liquidity regime. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

BORROWINGS

Borrowings are recognised initially at fair value, being issue proceeds less any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds less transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate.

Where borrowings are the subject of a fair value hedge, changes in the fair value of the borrowing that are attributable to the hedged risk are recognised in the income statement and a corresponding adjustment made to the carrying value of borrowings.

Borrowings are classified as current liabilities unless the group or company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

DERIVATIVE FINANCIAL INSTRUMENTS

The group and company use derivative financial instruments, principally interest rate swaps, cross-currency swaps and forward contracts, to manage the interest rate and foreign exchange rate risk arising from the group's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39, 'Financial instruments: Recognition and measurement'. 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); hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

The relationship between hedging instruments and hedged items is documented at the inception of a transaction, as well as the risk management objectives and strategy for undertaking various hedging transactions. The assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items is documented, both at the hedge inception and on an ongoing basis.

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

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts deferred in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Hedge accounting for both fair value and cash flow hedges is discontinued when:

- it is evident from testing that a derivative 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 cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss deferred in equity at that time is immediately transferred to the income statement.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve in shareholders' equity are shown in note 25. The full fair value of a derivative financial instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Net investment hedges
The group uses a combination of borrowings denominated in overseas currencies and foreign currency forward contracts as a hedge against the translation exposure on the parent's net investment in overseas branches. Where the hedge is fully effective at hedging the variability in the net assets of those operations and/or the parent's investment caused by changes in exchange rates, the changes in value of the borrowings and forward contracts are recognised in the statement of comprehensive income and accumulated in the hedging reserve. When a hedge is no longer deemed to be highly effective, the ineffective part of any change in value caused by changes in exchange rates is recognised in the income statement with previous gains or losses deferred within equity being recycled to the income statement.

PROVISIONS

Provisions are recognised when the group or company has a present obligation as a result of a past event, which is reliably measurable and when it is probable that the group or company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

DIVIDENDS PAID

Dividend distributions to the company's shareholders are recognised in the group and company's financial statements as follows:

- Final dividend: when approved by the company's shareholders at the annual general meeting.
- Interim dividend: when paid by the company.

RETIREMENT BENEFITS

Defined benefit pension schemes
The charge in the income statement in respect of defined benefit pension schemes comprises the actuarially assessed current service cost of working employees, together with the interest 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 or if it will be recovered in future years as a result of reduced contributions to the pension scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement, unless changes to the pension schemes are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

Defined contribution pension schemes
Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

SHARE-BASED PAYMENTS

The company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS). All of the schemes are equity-settled.

The cost of providing options and awards to group and company employees is charged to the income statement of the group and company over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The grant by the company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the company's financial statements. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding credit to the share-based payment reserve within equity.

The cost of options and awards is based on their fair value. For PSP schemes, the performance conditions are based on earnings per share (EPS). Accordingly, the fair value of options and awards is determined using a binomial option pricing model which is a suitable model for valuing options with internal related targets such as EPS. A binomial model is also used for calculating the fair value of SAYE options which have no performance conditions attached. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

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 or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest or lapse. In respect of the SAYE options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised or lapse.

SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is included within a treasury shares reserve and deducted from equity until the shares are no longer held by a group company or cancelled. Where such shares are reissued outside of the group, any consideration received, net of any directly attributable transaction costs, is included within the treasury shares reserve.

TAXATION

The tax charge represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

EXCEPTIONAL ITEMS

Exceptional items are items that are unusual because of their size, nature or incidence and which the directors consider should be disclosed separately to enable a full understanding of the group's results.

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 (£1,513.8m)
The group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable indication of future payment performance. The group makes judgements to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows. In the weekly home credit business, receivables are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly.

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 cash flows from each arrears stage, and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment, product mix and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, a material adjustment to the carrying value of amounts receivable from customers may be required.

To the extent that the net present value of estimated future cash flows differs by +/– 1%, it is estimated that the amounts receivable from customers would be approximately £15m (2011: £13m) higher/lower.

Tax (current tax liabilities £37.7m, deferred tax assets £6.1m)
The tax treatment of certain items cannot be determined precisely until tax audits or enquiries have been completed by the tax authorities. In some instances, this can be years after the item has first been reflected in the financial statements. The group recognises liabilities for anticipated tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due. If the outcome of such audits is that the final liability is different from the amount originally estimated, such differences will be recognised in the period in which the tax audit or enquiry is concluded. Any differences may necessitate a material adjustment to the level of tax balances held in the balance sheet.

If the probability assessment of uncertain tax liabilities was adjusted by +/– 5%, it is estimated that the group's tax liabilities would be £0.9m (2011: £1.3m) higher/lower.

Retirement benefit asset (£23.0m)
The principal assumptions used in the valuation of the retirement benefit asset as at 31 December 2012 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 retirement 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. Inflation assumptions reflect the long-term expectations for the 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 0.1% movement in the discount rate would increase/decrease the retirement benefit asset by approximately £11m (2011: £10m).

If assumed life expectancies had been one year greater for the scheme, the retirement benefit asset would reduce by approximately £20m (2011: £20m).

FINANCIAL AND CAPITAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks, which can be categorised as credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The objective of the group's risk management framework is to identify and assess the risks facing the group and to minimise the potential adverse effects of these risks on the group's financial performance. These risks are monitored and managed through a centralised treasury function on a group basis. Accordingly, it would not be relevant to disclose the impact of these risks on an individual statutory entity basis.

Financial risk management is overseen by the risk advisory committee. Further details of the group's risk management framework are described on pages 69 to 75.

(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 2012 is the carrying value of amounts receivable from customers of £1,513.8m (2011: £1,332.7m).

CCD

Credit risk within CCD is managed by the CCD credit committee which meets at least every two months and is responsible for approving credit control policy and decisioning strategy.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, and a home visit to make a decision on applications for credit.

The loans offered by the weekly home credit business are short-term, typically a contractual period of around a year, with an average value of approximately £500. The loans are underwritten in the home by an agent with emphasis placed on any previous lending experience with the customer and the agent's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the agent visits the customer weekly, or in some cases monthly, to collect payment. The agent is well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the agent has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This can be in the form of taking part-payments, allowing missed payments or occasionally restructuring the debt in order to maximise cash collections.

Agents are primarily paid commission for what they collect and not for what they lend, so their main focus is on ensuring loans are affordable at the point of issue and then on collecting cash. Affordability is reassessed by the agent each time an existing customer is re-served, or not as the case may be. This normally takes place within 12 months of the previous loan because of the short-term nature of the product.

Arrears management within 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 suitable 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 with policy.

A customer's risk profile and credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historic payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income and employment and data from an external credit bureau. Each potential new customer receives a welcome call from contact centre staff to verify details and complete the underwriting process. Initial credit limits are low, typically £250. For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders' data. Credit lines can go up as well as down according to this point-in-time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing or appropriate forbearance arrangements are put in place.

FINANCIAL RISK MANAGEMENT – CONTINUED

(ii) Bank counterparties

The group's maximum exposure to credit risk on bank counterparties as at 31 December 2012 was £15.4m (2011: £21.5m).

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 cash flows in accordance with a board-approved group funding and liquidity policy. This process is monitored regularly by the treasury committee.

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fund 90% of its receivables book through retail deposits. As at 31 December 2012, the group's committed borrowing facilities had a weighted average maturity of 3.7 years (2011: 3.5 years) and the headroom on these committed facilities amounted to £191.9m (2011: £288.1m).

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.

As an FSA-regulated institution, Vanquis Bank is required to maintain a liquid assets buffer in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. As at 31 December 2012, the liquid assets buffer held by Vanquis Bank amounted to £52.3m (2011: £17.5m) in line with the liquidity guidance and transitional arrangements set by the FSA.

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

The table below shows the future cash payable under current drawings. This reflects both the interest payable and the repayment of the borrowing on maturity. Due to the seasonal nature of the home credit business, drawings under the group's revolving bank facilities are typically drawn for only 3 months at any time despite having the ability to draw the borrowings for much longer under the committed borrowing facility. In the table below, the cash flows of borrowings made under the group's syndicated revolving bank 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 in May 2015.

Financial liabilities

2012 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– bank facilities	5.4	192.0	–	–	–	197.4
– senior public bonds	–	20.0	20.0	60.0	290.0	390.0
– private placement loan notes	–	55.8	41.6	48.2	117.3	262.9
– subordinated loan notes	–	0.3	0.3	6.4	–	7.0
– retail bonds	–	14.0	14.0	208.4	29.9	266.3
– retail deposits	–	120.4	56.5	190.5	–	367.4
Total bank and other borrowings	5.4	402.5	132.4	513.5	437.2	1,491.0
Derivative financial instruments – settled net	–	3.2	3.1	3.6	–	9.9
Trade and other payables	–	60.6	–	–	–	60.6
Total	5.4	466.3	135.5	517.1	437.2	1,561.5

Financial assets

2012 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled gross	–	(0.1)	7.0	–	–	6.9
Trade and other receivables	–	23.0	–	–	–	23.0
Total	–	22.9	7.0	–	–	29.9

FINANCIAL RISK MANAGEMENT – CONTINUED

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 bonds	–	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

(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 2012 and 2011 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged.

(d) Foreign exchange rate risk

Foreign exchange rate risk is the risk of a change in foreign currency exchange rates leading to a reduction in profits or equity.

The group's exposure to movements in foreign exchange rates is monitored monthly by the treasury committee and is governed by a board-approved foreign exchange rate risk management policy which forms part of the group's treasury policies.

The group's exposures to foreign exchange rate risk arise solely from: (i) the issuance of US dollar private placement loan notes, which are fully hedged into sterling through the use of cross-currency swaps; and (ii) the home credit operations in the Republic of Ireland and the Polish branch of Vanquis Bank, which are hedged by matching euro/zloty-denominated net assets with euro/zloty-denominated borrowings or forward contracts as closely as practicable.

As at 31 December 2012, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.9m (2011: £1.0m) movement in external borrowings with an opposite movement of £0.9m (2011: £1.0m) in the hedging reserve within equity. Due to the hedging arrangements in place, there would have been no impact on reported profits (2011: £nil).

As at 31 December 2012, a 2% movement in the sterling to euro exchange rate would have led to a £1.1m (2011: £1.1m) movement in customer receivables with an opposite movement of £1.1m (2011: £1.1m) 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 (2011: £nil).

As at 31 December 2012, a 2% movement in the sterling to zloty exchange rate would have led to a £nil (2011: £nil) movement in customer receivables with an opposite movement of £nil (2011: £nil) in the valuation of forward contracts. Due to the net investment hedge in place, there would have been no impact on reported profits or equity (2011: £nil).

(e) Market risk

Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

CAPITAL RISK MANAGEMENT

The group's objective in respect of capital risk management is to maintain an efficient capital structure whilst satisfying the requirements of the group's banking covenants and the regulatory capital requirements set by the 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 maximum target gearing ratio of 3.5 times. This provides a comfortable level of headroom against the group's banking covenant of 5.0 times and regulatory capital requirements. The maximum target gearing ratio of 3.5 times is fully aligned with the group's target of distributing 80% of post-tax earnings by way of dividends whilst retaining sufficient capital to support receivables growth consistent with management's medium-term growth plans for the group.

As at 31 December 2012, the gearing ratio stood at 3.2 times (2011: 3.2 times), calculated as follows:

	Note	2012 £m	2011 £m
Borrowings	21	1,201.4	1,049.6
Exchange rate adjustment	21	(5.8)	(11.2)
Arrangement fees	21	9.8	6.4
Liquid assets buffer*	20	(52.3)	–
Borrowings for gearing purposes		1,153.1	1,044.8
Shareholders' equity		375.4	326.2
Pension asset	18	(23.0)	(13.5)
Deferred tax on pension asset	19	5.3	3.4
Hedging reserve	25	7.0	6.4
Equity for gearing purposes		364.7	322.5
Gearing (times)		3.2	3.2

*Following the renewal of syndicated bank facilities in February 2012, borrowings for the purposes of the gearing calculation were amended to deduct the liquid assets buffer held in Vanquis Bank. The prior year comparative has not been restated but shows gearing as reported against the covenant in that year.

The gearing ratio is lower than the maximum target of 3.5 times due to the strong capital generation of the group during 2011 and 2012.

(b) Regulatory capital

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

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

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

	Note	2012 £m	2011 £m
Shareholders' equity		375.4	326.2
Intangible assets:			
– goodwill	10	–	(2.1)
– other intangible assets	11	(9.5)	(12.9)
Pension asset	18	(23.0)	(13.5)
Deferred tax on pension asset	19	5.3	3.4
Hedging reserve	25	7.0	6.4
Tier 1 capital		355.2	307.5
Tier 2 capital – subordinated loan notes		3.6	4.8
Total regulatory capital held		358.8	312.3

When tier 2 subordinated loan notes have less than five years until maturity, the amount eligible for inclusion within regulatory capital reduces by 20% per annum for each year. Accordingly, the amount of the subordinated loan notes eligible for regulatory capital purposes as at 31 December 2012 amounts to 60% of the balance outstanding (2011: 80%).

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 2012, the group's total regulatory capital of £358.8m (2011: £312.3m) 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.

Group	Revenue 2012 £m	Revenue 2011 £m	Profit/(loss) before taxation 2012 £m	Profit/(loss) before taxation 2011 £m
CCD	696.9	697.1	125.1	127.5
Vanquis Bank	283.1	213.7	68.0	44.2
	980.0	910.8	193.1	171.7
Central:				
– costs	–	–	(12.0)	(10.2)
– interest receivable	–	–	–	0.6
Total central	–	–	(12.0)	(9.6)
Total group before exceptional items	980.0	910.8	181.1	162.1
Exceptional items	–	–	15.6	–
Total group	980.0	910.8	196.7	162.1

Revenue in CCD was in line with 2011 as the revenue yield in the year remained at 89.0%. This reflects the consistent mix of business over the last two years. The 32.4% growth in revenue in Vanquis Bank in 2012 reflects the 30.1% increase in UK 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 2012 primarily due to higher pension charges and higher compliance and regulatory costs.

Exceptional items in 2012 comprise: (i) a £17.7m curtailment credit due to severing the link between past accrued benefits and final salary at retirement within the group's defined benefit pension scheme (see note 18); and (ii) a £2.1m charge relating to the impairment of goodwill in respect of Cheque Exchange Limited, a business originally acquired in 2001 and now subsumed within CCD (see note 10).

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

Group	Segment assets 2012 £m	Segment assets 2011 £m	Segment liabilities 2012 £m	Segment liabilities 2011 £m	Net assets/(liabilities) 2012 £m	Net assets/(liabilities) 2011 £m
CCD	947.8	962.0	(724.5)	(737.2)	223.3	224.8
Vanquis Bank	716.1	487.0	(564.1)	(385.5)	152.0	101.5
Central	53.9	52.4	(53.8)	(52.5)	0.1	(0.1)
Total before intra-group elimination	1,717.8	1,501.4	(1,342.4)	(1,175.2)	375.4	326.2
Intra-group elimination	(31.3)	(23.0)	31.3	23.0	–	–
Total group	1,686.5	1,478.4	(1,311.1)	(1,152.2)	375.4	326.2

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 £31.3m (2011: £23.0m) 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 group's operations operate principally in the UK and Republic of Ireland. During the first half of 2012, Vanquis Bank established a branch in Poland as part of a pilot credit card operation in that territory. The revenue in respect of the branch in 2012 amounted to £0.1m (2011: £nil) and the loss amounted to £3.3m (2011: £nil). The net liabilities of the branch amounted to £1.2m at 31 December 2012 (2011: £nil), comprising assets of £2.8m (2011: £nil) and liabilities of £4.0m (2011: £nil). These figures are included within the Vanquis Bank figures in the table above.

The intra-group elimination rebases CCD's borrowings to 80% of receivables to bring their borrowings in line with the group's maximum 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 1990s. Vanquis Bank's borrowings broadly equate to 80% of receivables in line with their regulatory capital requirement.

1 SEGMENT REPORTING – CONTINUED

Group	Capital expenditure 2012 £m	Capital expenditure 2011 £m	Depreciation 2012 £m	Depreciation 2011 £m	Amortisation 2012 £m	Amortisation 2011 £m
CCD	6.5	5.5	6.5	5.3	4.2	6.8
Vanquis Bank	1.3	3.1	0.9	1.0	0.8	0.7
Central	0.9	0.4	1.2	1.0	–	–
Total group	8.7	9.0	8.6	7.3	5.0	7.5

Capital expenditure in 2012 comprises expenditure on intangible assets of £1.6m (2011: £3.0m) and property, plant and equipment of £7.1m (2011: £6.0m). The amortisation charge in 2012 excludes £2.1m of impairment of goodwill (see note 10).

2 REVENUE

Revenue is recognised by applying the effective interest rate (EIR) to the carrying value of a loan. The 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). In addition, in CCD the EIR takes account of customers repaying early.

	Group 2012 £m	Group 2011 £m
Interest income	888.2	840.2
Fee income	91.8	70.6
Total revenue	980.0	910.8

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 interchange income and Repayment Option Plan (ROP), Identity Theft Alert and ValueSaver fees. Fee income in 2012 represented 32% (2011: 33%) of Vanquis Bank revenue.

3 FINANCE COSTS

	Group 2012 £m	Group 2011 £m
Interest payable on bank borrowings	19.9	32.9
Interest payable on senior public and retail bonds	32.7	25.0
Interest payable on private placement loan notes	11.1	12.2
Interest payable on subordinated loan notes	0.3	0.3
Interest payable on retail deposits	10.7	0.8
Net hedge ineffectiveness and other fair value movements	–	(1.6)
Total finance costs	74.7	69.6

The credit of £1.6m in 2011 in respect of net hedge ineffectiveness and other fair value movements relates to derivatives which became ineffective in 2009 (see note 16(b)).

The group's blended funding rate in 2012 was 7.2%, down from 7.6% in 2011. This primarily reflects the development of the retail deposits programme in Vanquis Bank during 2012. Retail deposits represent approximately 27% of the group's funding at the end of 2012 compared with approximately 13% in 2011. The all-in blended cost of taking retail deposits in 2012, after the cost of holding a liquid assets buffer was 4.5% (2011: 5.3%). The group funding rate for 2013 is expected to be around 7%.

Interest cover continues to be one of the group's banking covenants. It is calculated as profit before tax, interest and amortisation divided by finance costs, excluding net hedge ineffectiveness, and has a minimum requirement of 2.0 times. Interest cover, prior to exceptional items, in 2012 was 3.5 times compared with 3.3 times in 2011.

4 PROFIT BEFORE TAXATION

	Group 2012 £m	Group 2011 £m
Profit before taxation is stated after charging/(crediting):		
Amortisation of other intangible assets:		
– computer software (note 11)	5.0	7.5
Exceptional impairment of goodwill (note 10)	2.1	–
Depreciation of property, plant and equipment (note 12)	8.6	7.3
Loss on disposal of property, plant and equipment (note 12)	0.1	0.2
Operating lease rentals:		
– property	9.5	11.4
Employment costs, prior to exceptional pension credit (note 9(b))	141.4	135.7
Exceptional pension credit (note 18)	(17.7)	–
Impairment of amounts receivable from customers (note 14)	326.1	300.7

Operating costs include impairment of amounts receivable from customers; commission paid to self-employed agents (which broadly represents 40% of home credit's costs) and marketing and customer acquisition costs. Administrative costs reflect all other costs incurred in running the business, the largest of which is employment costs (see note 9).

During 2012, following a rigorous audit tender process, Deloitte LLP was appointed as auditor from 29 June 2012 and PricewaterhouseCoopers LLP, who had been the group's auditor for a number of years, resigned. The tables below set out the audit and non-audit fees of Deloitte LLP since 29 June 2012 and of PricewaterhouseCoopers LLP in 2012 and 2011.

Deloitte LLP	Group 2012 £m	Group 2011 £m
Auditor's remuneration		
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	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	–
– other services pursuant to legislation	0.2	–
Total auditor's remuneration payable to Deloitte LLP	0.5	–

PricewaterhouseCoopers LLP	Group 2012 £m	Group 2011 £m
Auditor's remuneration		
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	–	0.1
Fees payable to the company's auditor and its associates for other services:		
– audit of company's subsidiaries pursuant to legislation	0.1	0.2
– other services pursuant to legislation	0.1	0.1
Total auditor's remuneration paid to PricewaterhouseCoopers LLP	0.2	0.4

5 TAX CHARGE

Tax charge in the income statement	Group 2012 £m	Group 2011 £m
Current tax		
– UK	(43.0)	(37.7)
– overseas	(0.9)	–
Total current tax	(43.9)	(37.7)
Deferred tax (note 19)	(4.4)	(4.3)
Impact of change in UK tax rate (note 19)	(0.4)	(0.3)
Total tax charge	(48.7)	(42.3)

The tax charge in respect of exceptional items in 2012 amounted to £4.3m.

The effective tax rate for 2012 prior to exceptional items is 24.5% (2011: 26.1%), in line with the UK statutory corporation tax rate which reduced from 26.0% to 24.0% on 1 April 2012. The group is expected to benefit in future years from the progressive rate reductions announced in recent budgets.

As a result of the change in UK corporation tax rate which is effective from 1 April 2013, 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 2013 (2011: 1 April 2012). Accordingly, the balances have been calculated using a rate of 23% (2011: 25%). A tax charge of £0.4m in 2012 (2011: £0.3m) represents the income statement adjustment to deferred tax as a result of this change. An additional deferred tax charge of £0.1m in 2012 (2011: £0.1m) has been taken directly to other comprehensive income, reflecting the impact of the change in UK corporation tax rates on items previously reflected directly in other comprehensive income.

Tax credit on items taken directly to other comprehensive income	Group 2012 £m	Group 2011 £m
Current tax credit/(charge) on cash flow hedges	0.1	(0.5)
Deferred tax credit on actuarial movements on retirement benefit asset	3.4	9.9
Tax credit on other comprehensive income prior to change in UK tax rate	3.5	9.4
Impact of change in UK tax rate	(0.1)	(0.1)
Total tax credit on items taken directly to other comprehensive income	3.4	9.3

The rate of tax charge on the profit before taxation for the year is higher than (2011: lower than) the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). This can be reconciled as follows:

	Group 2012 £m	Group 2011 £m
Profit before taxation	196.7	162.1
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(48.2)	(43.0)
Effects of:		
– benefit of lower tax rates overseas	1.0	–
– impairment of goodwill not deductible for tax purposes	(0.5)	–
– adjustment in respect of prior years	(0.5)	1.2
– expenses not deductible for tax purposes, net of non-taxable income	(0.1)	(0.2)
– impact of change in UK tax rate	(0.4)	(0.3)
Total tax charge	(48.7)	(42.3)

6 EARNINGS PER SHARE

The group presents basic and diluted EPS data on its ordinary shares. Basic EPS is calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares (own shares held). Diluted EPS calculates the effect on EPS assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

(i) For share awards outstanding under performance-related share incentive schemes such as the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS), the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met at that date.

(ii) For share options outstanding under non-performance-related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares.

The group also presents an adjusted EPS, excluding the impact of any exceptional items.

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

Group	2012 Earnings £m	2012 Weighted average number of shares m	2012 Per share amount pence	2011 Earnings £m	2011 Weighted average number of shares m	2011 Per share amount pence
Earnings per share						
Shares in issue during the year		138.0			136.8	
Own shares held		(3.9)			(3.1)	
Basic earnings per share	148.0	134.1	110.4	119.8	133.7	89.6
Dilutive effect of share options and awards	–	2.5	(2.1)	–	0.3	(0.2)
Diluted earnings per share	148.0	136.6	108.3	119.8	134.0	89.4

The directors have elected to show an adjusted earnings per share prior to exceptional items in 2012 (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	2012 Earnings £m	2012 Weighted average number of shares m	2012 Per share amount pence	2011 Earnings £m	2011 Weighted average number of shares m	2011 Per share amount pence
Basic earnings per share	148.0	134.1	110.4	119.8	133.7	89.6
Exceptional items, net of tax	(11.3)	–	(8.4)	–	–	–
Adjusted basic earnings per share	136.7	134.1	102.0	119.8	133.7	89.6
Diluted earnings per share	148.0	136.6	108.3	119.8	134.0	89.4
Exceptional items, net of tax	(11.3)	–	(8.2)	–	–	–
Adjusted diluted earnings per share	136.7	136.6	100.1	119.8	134.0	89.4

Adjusted basic EPS has grown by 13.8% in 2012 due to the strong performance of Vanquis Bank in the year. This growth is higher than the 11.7% growth in profit before tax and exceptional items due to the fall in corporation tax rate from 26% to 24% on 1 April 2012.

7 DIVIDENDS

		Group and company 2012 £m	2011 £m
2010 final	– 38.1p per share	–	51.0
2011 interim	– 26.7p per share	–	35.8
2011 final	– 42.3p per share	57.2	–
2012 interim	– 28.8p per share	38.9	–
Dividends paid		96.1	86.8

The directors are recommending a final dividend in respect of the financial year ended 31 December 2012 of 48.4p (2011: 42.3p) per share which will amount to a dividend payment of £65.4m (2011: £57.2m). If approved by the shareholders at the annual general meeting on 9 May 2013, this dividend will be paid on 21 June 2013 to shareholders who are on the register of members at 24 May 2013. This dividend is not reflected in the balance sheet as at 31 December 2012 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 a full-year dividend of 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 growth in profit before tax allowed the group to increase its full-year dividend for the first time by 8.7% which resulted in dividend cover of 1.30 times. As a result of adjusted EPS growth of 13.8% in 2012, the directors have proposed an increase in the final dividend of 14.4% which, together with the 7.9% increase in the interim dividend, makes a total full-year dividend increase of 11.9%. Accordingly, dividend cover, prior to exceptional items, in 2012 was 1.32 times.

8 DIRECTORS' REMUNERATION

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24, 'Related party disclosures'. Further information in respect of directors' remuneration, share options and awards, pension contributions and pension entitlements is set out in the directors' remuneration report on pages 86 to 100.

	Group and company 2012 £m	2011 £m
Short-term employee benefits	4.0	3.8
Post-employment benefits	0.6	0.3
Share-based payment charge	2.7	3.2
Total	7.3	7.3

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year. Post-employment benefits represent the sum of: (i) the increase in the transfer value of the accrued pension benefits (less directors' contributions) for those directors who are members of the group's defined benefit pension scheme; (ii) company contributions into personal pension arrangements for all other directors; and (iii) amounts accrued under the Unfunded, Unapproved Retirement Benefit Scheme (UURBS). The share-based payment charge is the proportion of the group's share-based payment charge that relates to those options and awards granted to the directors.

9 EMPLOYEE INFORMATION

(a) The average monthly number of persons employed by the group was as follows:

	Group 2012 Number	Group 2011 Number
CCD	3,003	3,070
Vanquis Bank	728	589
Central	55	54
Total group	3,786	3,713
Analysed as:		
Full time	3,189	3,117
Part time	597	596
Total group	3,786	3,713

Employees comprise all head office and branch employees within CCD, head office and contact centre employees within Vanquis Bank and Corporate Office employees and executive directors. It does not include the 9,800 self-employed agents within CCD. The 2% reduction in CCD employee numbers principally reflects improved efficiency and tight cost control throughout the business. Vanquis Bank employee numbers have increased by 24% during 2012 due to the growth of the business, including the expansion of the second contact centre in CCD's head office in Bradford.

(b) Employment costs

	Group 2012 £m	Group 2011 £m
Aggregate gross wages and salaries paid to the group's employees	114.3	111.1
Employers' National Insurance contributions	12.7	12.4
Pension charge, prior to exceptional pension credit	8.0	4.2
Share-based payment charge (note 24)	6.4	8.0
Total employment cost prior to exceptional pension credit	141.4	135.7
Exceptional pension credit (note 18)	(17.7)	–
Total employment costs	123.7	135.7

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan, contributions to personal pension arrangements and amounts accrued under the UURBS. The increase in the charge from £4.2m in 2011 to £8.0m in 2012 principally reflects a higher defined benefit charge as a result of a lower actuarially assessed return on assets assumption in respect of 2012, compared with the equivalent rate in respect of 2011 across both equities and bonds. The decrease in the share-based payment charge from £8.0m in 2011 to £6.4m in 2012, primarily reflects a release of prior year provisions due to lower than expected vesting levels from the 2009 Long Term Incentive Scheme.

10 GOODWILL

	Group 2012 £m	Group 2011 £m
Cost		
At 1 January	93.1	93.1
Amounts written off	(91.0)	–
At 31 December	2.1	93.1
Accumulated amortisation		
At 1 January	91.0	91.0
Amounts written off	(91.0)	–
Exceptional impairment charge	2.1	–
At 31 December	2.1	91.0
Net book value at 31 December	–	2.1
Net book value at 1 January	2.1	2.1

During the year, the cost and accumulated amortisation of goodwill in relation to Yes Car Credit was fully written off as there are no future economic benefits expected from the business. The goodwill had previously been fully impaired in 2005 following the closure of that business. Based on expected future cash flows, the carrying value of goodwill in respect of Cheque Exchange Limited, a small subsidiary originally acquired in 2001 and now subsumed within CCD, was fully impaired in 2012.

11 OTHER INTANGIBLE ASSETS

Group	Computer software 2012 £m	Computer software 2011 £m
Cost		
At 1 January	35.3	33.2
Additions	1.6	3.0
Disposals	(0.1)	(0.9)
At 31 December	36.8	35.3
Accumulated amortisation		
At 1 January	22.4	15.8
Charged to the income statement	5.0	7.5
Disposals	(0.1)	(0.9)
At 31 December	27.3	22.4
Net book value at 31 December	9.5	12.9
Net book value at 1 January	12.9	17.4

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 2012	4.1	0.8	50.5	55.4
Additions	0.5	–	6.6	7.1
Disposals	(0.5)	–	(4.5)	(5.0)
At 31 December 2012	4.1	0.8	52.6	57.5
Accumulated depreciation				
At 1 January 2012	3.2	0.6	24.8	28.6
Charged to the income statement	–	–	8.6	8.6
Disposals	–	–	(3.6)	(3.6)
At 31 December 2012	3.2	0.6	29.8	33.6
Net book value at 31 December 2012	0.9	0.2	22.8	23.9
Net book value at 1 January 2012	0.9	0.2	25.7	26.8

The loss on disposal of property, plant and equipment in 2012 amounted to £0.1m (2011: £0.2m) and represented proceeds received of £1.3m (2011: £1.6m) less the net book value of disposals of £1.4m (2011: £1.8m).

Additions in 2012 principally comprise the routine replacement of IT equipment in both CCD and Vanquis Bank and motor vehicles for field staff within CCD.

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

Following the move into a new head office in 2010, CCD conducted a thorough review of its property, plant and equipment in 2011 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, was written off.

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 2012	4.1	0.2	10.7	15.0
Additions	0.5	–	0.4	0.9
Disposals	(0.5)	–	(0.2)	(0.7)
At 31 December 2012	4.1	0.2	10.9	15.2
Accumulated depreciation				
At 1 January 2012	3.2	0.1	1.9	5.2
Charged to the income statement	–	–	1.2	1.2
Disposals	–	–	(0.1)	(0.1)
At 31 December 2012	3.2	0.1	3.0	6.3
Net book value at 31 December 2012	0.9	0.1	7.9	8.9
Net book value at 1 January 2012	0.9	0.1	8.8	9.8

The loss on disposal of property, plant and equipment in 2012 amounted to £nil (2011: £nil) and represented proceeds received of £0.6m (2011: £0.3m) less the net book value of disposals of £0.6m (2011: £0.3m).

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

13 INVESTMENT IN SUBSIDIARIES

	Company 2012 £m	Company 2011 £m
Cost		
At 1 January	407.2	406.7
Additions	0.6	0.5
At 31 December	407.8	407.2
Accumulated impairment losses		
At 1 January	31.9	31.9
Credited to the income statement	(0.1)	–
At 31 December	31.8	31.9
Net book value at 31 December	376.0	375.3
Net book value at 1 January	375.3	374.8

The additions to investments in 2012 of £0.6m (2011: £0.5m) represent the issue of share options/awards by the company to its subsidiaries' employees. Under IFRIC 11, the fair value of these options/awards is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/awards that have vested.

The 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.

		Activity	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 the revenue recognised and reduced by cash collections and any deduction for impairment. Revenue is recognised on the net value of the receivable after deduction for impairment and not on the gross receivable prior to impairment.

Revenue, impairment and receivables example for home credit

The simple examples below illustrate the calculation of the receivables balance within the home credit business of CCD and its interaction with revenue and impairment. Within the home credit business, loans are deemed impaired when two payments are missed within a 12-week cycle.

The following examples are based on a £100 loan with a total amount payable of £182 over 52 weeks which equates to a weekly payment of £3.50. The effective interest rate applied to the loan is 2.5597% per week. In the first example, the customer pays in full in line with the loan agreement and in the second example the customer does not repay the full amount due.

	1. Customer pays to contract				2. Customer pays to contract for 4 weeks, misses 2 payments and then pays £2.00 per week for 50 weeks and nothing thereafter				
Week	Receivable B/F £	Revenue £	Collections £	Receivable C/F £	Receivable B/F £	Revenue £	Collections £	Impairment £	Receivable C/F £
Issue	–	–	–	100.00	–	–	–	–	100.00
1	100.00	2.56	(3.50)	99.06	100.00	2.56	(3.50)	–	99.06
2	99.06	2.54	(3.50)	98.10	99.06	2.54	(3.50)	–	98.10
3	98.10	2.51	(3.50)	97.11	98.10	2.51	(3.50)	–	97.11
4	97.11	2.48	(3.50)	96.09	97.11	2.48	(3.50)	–	96.09
5	96.09	2.46	(3.50)	95.05	96.09	2.46	–	–	98.55
6	95.05	2.43	(3.50)	93.98	98.55	2.52	–	(45.02)*	56.05
7	93.98	2.41	(3.50)	92.89	56.05	1.43	(2.00)	–	55.48
8	92.89	2.38	(3.50)	91.77	55.48	1.42	(2.00)	–	54.90
51	6.74	0.17	(3.50)	3.41	11.00	0.28	(2.00)	–	9.28
52	3.41	0.09	(3.50)	–	9.28	0.24	(2.00)	–	7.52
55					3.85	0.10	(2.00)	–	1.95
56					1.95	0.05	(2.00)	–	–
Total		82.00	(182.00)			59.02	(114.00)	(45.02)	
	Revenue less impairment = £82.00				Revenue less impairment = £14.00				

* Calculated as the difference between the receivable balance of £101.07 (£98.55 + £2.52) and expected cash flows of £2.00 per week over 50 weeks discounted at the weekly effective interest rate of 2.5597% which amounts to £56.05.

Where the customer pays to contract, the revenue of £82.00 equals the service charge on the loan. In the second example, the customer pays to contract for 4 weeks, misses 2 payments and then pays £2.00 per week for 50 weeks but then nothing thereafter. Cash collected amounts to £114.00 compared with the contractual amount due of £182.00. Revenue in this example is £59.02 and impairment is £45.02 which results in revenue less impairment of £14.00.

The above examples are simple examples produced to show the mechanics of how revenue and impairment within home credit works and are for illustrative purposes only. They ignore the impact of early settlement rebates on the calculation of the EIR and are not based on actual impairment rates used by the home credit business.

	2012			2011		
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	773.0	97.5	870.5	791.3	88.0	879.3
Vanquis Bank	643.3	–	643.3	453.4	–	453.4
Total group	1,416.3	97.5	1,513.8	1,244.7	88.0	1,332.7

CCD receivables comprise £869.6m (2011: £876.7m) in respect of the home credit business and £0.9m (2011: £2.6m) in respect of the collect-out of the Real Personal Finance receivables book. Home credit receivables showed a modest 0.8% fall in 2012 reflecting relatively subdued demand for credit due to pressure on customers' disposable incomes from continued increases in food, fuel and utility prices. Vanquis Bank's UK receivables grew by 41.5% in 2012 as a result of growth in UK customer numbers of 30.1% together with the success of the credit line increase programme to good-quality existing customers through the 'low and grow' approach to lending. £1.8m of Vanquis Bank's receivables at the end of 2012 relate to the pilot credit card operation in Poland (2011: £nil).

The average effective interest rate for the year ended 31 December 2012 was 105% for CCD (2011: 102%) and 33% for Vanquis Bank (2011: 34%). The average period to maturity of the amounts receivable from customers within CCD is 6.0 months (2011: 5.8 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 £2.1 billion (2011: £1.8 billion). Fair value has been derived by discounting expected future cash flows (net of collection costs) at the group's weighted average cost of capital at the balance sheet date. The credit quality of amounts receivable from customers is as follows:

Credit quality of amounts receivable from customers	2012 CCD £m	2012 CCD %	2012 Vanquis Bank £m	2012 Vanquis Bank %	2012 Group £m	2012 Group %	2011 CCD £m	2011 CCD %	2011 Vanquis Bank £m	2011 Vanquis Bank %	2011 Group £m	2011 Group %
Neither past due nor impaired	296.4	*34.0*	580.9	*90.3*	877.3	*58.0*	309.0	*35.1*	403.4	*89.0*	712.4	*53.5*
Past due but not impaired	138.0	*15.9*	–	–	138.0	*9.1*	138.5	*15.8*	–	–	138.5	*10.4*
Impaired	436.1	*50.1*	62.4	*9.7*	498.5	*32.9*	431.8	*49.1*	50.0	*11.0*	481.8	*36.1*
Total	870.5	*100.0*	643.3	*100.0*	1,513.8	*100.0*	879.3	*100.0*	453.4	*100.0*	1,332.7	*100.0*

Past due but not impaired balances all relate to home credit loans within CCD. There are no accounts/loans within Vanquis Bank which are past due but not impaired. In home credit, past due but not impaired balances relate to loans which are contractually overdue. However, contractually overdue loans are not deemed to be impaired unless the customer has missed two or more cumulative weekly payments in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate materially.

The arrears profile in CCD has been stable over a number of years. The marginal deterioration in 2012 reflects the relatively subdued demand for credit from the existing customer base which means certain customers who choose not to take further credit do not bring their account up to date. The favourable change in profile in Vanquis Bank reflects a strong impairment performance and record low delinquency due to the improving quality of the receivables book and the stable UK employment market.

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 2012 £m	Group 2011 £m
One week overdue	90.7	89.8
Two weeks overdue	20.6	22.5
Three weeks or more overdue	26.7	26.2
Past due but not impaired	138.0	138.5

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 2012 £m	Group 2011 £m
At 1 January	62.4	45.9
Charge for the year	95.9	76.9
Amounts written off during the year	(71.2)	(71.0)
Amounts recovered during the year	4.3	10.6
At 31 December	91.4	62.4

The core customer IT platform within the home credit business of CCD is cash based. This reflects the fact that the business provides a product whereby all charges are fixed at the outset through the service charge and the focus of the business is on collecting cash. As a result, the system records the total contractual outstanding amount due from a customer (comprising the amount lent to the customer plus the service charge on the loan) less cash repayments to date. The system does not accrue interest revenue as is the case with Vanquis Bank and more mainstream lenders. In order to translate the cash transactions from the core home credit customer IT platform into an IFRS receivables balance, a separate database is used. IFRS permits revenue and impairment to be performed on a portfolio basis. Accordingly, home credit's loans are allocated into portfolios based on their product length. Initial recognition within each portfolio is the cash amount advanced to customers. Revenue is applied to each portfolio as a whole based on the effective interest rate of that product. Weekly cash repayments are deducted from each portfolio as cash is collected to arrive at a carrying value. On a weekly basis, an impairment review is conducted. Accounts within individual portfolios are placed into arrears stages based on the number of weekly payments missed in the last 12 weeks. The current carrying value of each arrears stage is then compared with the expected cash flows (based on historic performance) of each arrears stage discounted at the original effective interest rate (the net carrying value). The net carrying value is the carrying value to which revenue, cash repayments and impairment are applied in the future and the difference between the carrying value prior to impairment and the net carrying value is recorded as an impairment charge in the income statement. As revenue and impairment is calculated on the net receivable, a separate gross receivable and allowance (or provision) account similar to Vanquis Bank and more mainstream banks is not maintained. Vanquis Bank's systems are interest bearing and allow revenue and impairment to be calculated on an account-by-account basis and, therefore, it discloses a gross receivable and an allowance account. Whilst home credit and Vanquis Bank adopt different accounting approaches to recording receivables, the carrying value of receivables in the balance sheet and the income statement impact of revenue and impairment is not affected.

14 AMOUNTS RECEIVABLE FROM CUSTOMERS – CONTINUED

The impairment charge in respect of amounts receivable from customers reflected within operating costs can be analysed as follows:

Impairment charge on amounts receivable from customers	Group 2012 £m	Group 2011 £m
CCD	230.2	223.8
Vanquis Bank	95.9	76.9
Total group	326.1	300.7

Impairment in CCD increased by 2.9% during 2012 and the ratio of annualised impairment to revenue increased from 32.1% in 2011 to 33.0%. The increase primarily reflects the benefit to impairment in the second quarter of 2011 from an improvement in the arrears profile which resulted from the enhancements made to the agents' commission scheme in April of that year.

The impairment charge and impairment to revenue metric in CCD do not represent what is usually considered as 'bad debt'. 'Bad debt' is often deemed to be the amount of principal that is not recovered on loans made. Within the home credit business, the service charge on a loan is fixed regardless of the time taken by a customer to repay a loan. There is no penalty interest or penalty charges. Due to their personal circumstances and the variability of their income streams, home credit customers often take longer than the contracted period to repay their loans. IFRS requires revenue to be recognised on the outstanding receivables at the original effective interest rate (EIR) set at the outset. The EIR assumes that a customer pays in line with the contractual term of the loan. Therefore, when a customer misses a payment, revenue continues to be recognised at the EIR as though penalty interest was being charged to the customer even though contractually it is not. Because this revenue is never going to be charged to the customer, a corresponding impairment charge is made.

This 'gross up' of revenue and impairment is illustrated in the following example.

The example is based on a £100 loan with a total amount payable of £182 over 52 weeks which equates to a weekly payment of £3.50. The effective interest rate applied to the loan is 2.5597% per week. In this example, the customer pays to contract for 4 weeks, misses 2 payments and then pays £3.00 per week for the following 56 weeks. The total amount payable of £182 is received in full but over a total period of 62 weeks instead of 52 weeks.

Week	Receivable B/F £	Revenue £	Collections £	Impairment £	Receivable C/F £
Issue	–	–	–	–	100.00
1	100.00	2.56	(3.50)	–	99.06
2	99.06	2.54	(3.50)	–	98.10
3	98.10	2.51	(3.50)	–	97.11
4	97.11	2.48	(3.50)	–	96.09
5	96.09	2.46	–	–	98.55
6	98.55	2.52	–	(12.33)*	88.74
7	88.74	2.27	(3.00)	–	88.01
8	88.01	2.25	(3.00)	–	87.26
61	5.78	0.15	(3.00)	–	2.93
62	2.93	0.07	(3.00)	–	–
Total		94.33	(182.00)	(12.33)	

Revenue less impairment = £82.00

* Calculated as the difference between the receivable balance of £101.07 (£98.55+£2.52) and expected cash flows of £3.00 per week over 56 weeks discounted at the weekly effective interest rate of 2.5597% which amount to £88.74.

Revenue less impairment in this example is £82.00, consistent with a customer paying to contract. However, because the customer took 10 more weeks to pay their loan, revenue increases to £94.33 and is offset by impairment of £12.33. The 'gross up' of revenue and impairment is therefore £12.33.

The above is a simple example produced to show the mechanics of how the 'gross up' within the home credit business works and is for illustrative purposes only. It ignores the impact of early settlement rebates on the calculation of the EIR and is not based on actual impairment rates used by the home credit business.

The income statement for the home credit business therefore includes a 'gross up' of revenue and impairment representing the additional revenue and impairment on loans which take longer than contract to repay. In practice, based on the total amount of cash collected against the amount lent to a customer plus the service charge on loans, 'bad debt' in the home credit business is less than half of the 33% impairment to revenue metric.

Impairment in Vanquis Bank increased by 24.7% in 2012 compared with a 37.4% increase in UK average receivables. This reflects record low delinquency resulting from the stable employment market together with continued improvement in the underlying quality of the receivables book, resulting from the progressive tightening of underwriting between 2007 and 2009.

14 AMOUNTS RECEIVABLE FROM CUSTOMERS – CONTINUED

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

Interest income recognised on impaired amounts receivable from customers	Group 2012 £m	Group 2011 £m
CCD	344.8	346.7
Vanquis Bank	22.9	19.4
Total group	367.7	366.1

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 £734.7m (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 £643.3m, which is stated after the deduction of the impairment allowance account of £91.4m. 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 weekly payments in the last 12 weeks in home credit and after missing 1 monthly payment in Vanquis Bank – the group's level of revenue on impaired loans is comparatively high.

The currency profile of amounts receivable from customers is as follows:

Currency profile of amounts receivable from customers	Group 2012 £m	Group 2011 £m
Sterling	1,451.0	1,274.7
Euro	61.0	58.0
Zloty	1.8	–
Total group	1,513.8	1,332.7

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 7% of CCD's receivables (2011: 7%). Zloty receivables relate to the Vanquis Bank pilot credit card operation in Poland.

15 FINANCIAL INSTRUMENTS

The following table sets out the carrying value of the group's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Group	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	2012 Total £m
Assets					
Cash and cash equivalents	79.1	–	–	–	79.1
Amounts receivable from customers	1,513.8	–	–	–	1,513.8
Derivative financial instruments	–	–	8.1	–	8.1
Trade and other receivables	23.0	–	–	–	23.0
Retirement benefit asset	–	–	–	23.0	23.0
Property, plant and equipment	–	–	–	23.9	23.9
Intangible assets (including goodwill)	–	–	–	9.5	9.5
Deferred tax assets	–	–	–	6.1	6.1
Total assets	1,615.9	–	8.1	62.5	1,686.5
Liabilities					
Bank and other borrowings	–	(1,201.4)	–	–	(1,201.4)
Derivative financial instruments	–	–	(11.4)	–	(11.4)
Trade and other payables	–	(60.6)	–	–	(60.6)
Current tax liabilities	–	–	–	(37.7)	(37.7)
Total liabilities	–	(1,262.0)	(11.4)	(37.7)	(1,311.1)

Group	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	2011 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)

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
					2012
Assets					
Cash and cash equivalents	2.6	–	–	–	2.6
Investment in subsidiaries	–	–	–	376.0	376.0
Trade and other receivables	1,516.9	–	–	–	1,516.9
Retirement benefit asset	–	–	–	1.9	1.9
Property, plant and equipment	–	–	–	8.9	8.9
Deferred tax assets	–	–	–	4.0	4.0
Total assets	1,519.5	–	–	390.8	1,910.3
Liabilities					
Bank and other borrowings	–	(779.3)	–	–	(779.3)
Derivative financial instruments	–	–	(9.4)	–	(9.4)
Trade and other payables	–	(222.8)	–	–	(222.8)
Current tax liabilities	–	–	–	(3.5)	(3.5)
Total liabilities	–	(1,002.1)	(9.4)	(3.5)	(1,015.0)

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)

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	2012 Contractual/ notional amount £m	2012 Assets £m	2012 Liabilities £m	2011 Contractual/ notional amount £m	2011 Assets £m	2011 Liabilities £m
Interest rate swaps	120.0	–	(9.4)	590.0	–	(9.5)
Cross-currency swaps	84.9	8.1	(1.9)	84.9	11.9	–
Foreign exchange contracts	7.5	–	(0.1)	6.7	0.3	–
Total group	212.4	8.1	(11.4)	681.6	12.2	(9.5)
Analysed as – due within one year		–	(2.0)		0.3	–
– due in more than one year		8.1	(9.4)		11.9	(9.5)
		8.1	(11.4)		12.2	(9.5)

Company	2012 Contractual/ notional amount £m	2012 Assets £m	2012 Liabilities £m	2011 Contractual/ notional amount £m	2011 Assets £m	2011 Liabilities £m
Interest rate swaps	120.0	–	(9.4)	590.0	–	(9.5)
Foreign exchange contracts	1.4	–	–	–	–	–
Total company	121.4	–	(9.4)	590.0	–	(9.5)
Analysed as – due within one year		–	–		–	–
– due in more than one year		–	(9.4)		–	(9.5)
		–	(9.4)		–	(9.5)

The fair value of derivative financial instruments has been calculated by discounting contractual future cash flows using relevant market interest rate yield curves and foreign exchange rates prevailing at the balance sheet date.

(a) Hedging reserve movements

The fair value of 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 2012 is £5.8m (2011: £11.2m).

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 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Interest rate swaps	0.1	1.6	0.1	1.6
2003 cross-currency swaps	–	(0.3)	–	–
2004 cross-currency swaps	(0.3)	(0.3)	–	–
Foreign exchange contracts	(0.4)	0.4	–	–
Net (charge)/credit to the hedging reserve	(0.6)	1.4	0.1	1.6

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 cash flows, using appropriate observable rates.

16 DERIVATIVE FINANCIAL INSTRUMENTS – CONTINUED

(b) Income statement charge/credit
The net credit/charge to the income statement of the group and the company in the year in respect of the movement in the fair value of ineffective interest rate swaps, previously designated as cash flow hedges, is £nil (2011: credit of £1.6m).

(c) Interest rate swaps
The group and company use interest rate swaps in order to manage the interest rate risk on the group's borrowings. The group has entered into various interest rate swaps which were designated and effective under IAS 39 as cash flow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

	Group and company	
	2012 £m	2011 £m
Liability at 1 January	(9.5)	(14.8)
Credited to the hedging reserve	0.1	1.6
Movement in fair value of ineffective interest rate swaps credited to the income statement	–	1.6
Cash settlement of interest rate swaps	–	2.1
Liability at 31 December	(9.4)	(9.5)

The weighted average interest rate and period to maturity of the interest rate swaps held by the group and company were as follows:

	2012			2011		
Group and company	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years
Sterling	3.2	3.1 – 3.3	3.1	2.0	1.0 – 3.4	1.4

(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 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 matched the underlying loan notes. These swaps were designated as cash flow hedges and were effective under IAS 39. The fair value movements in the swaps and the corresponding exchange rate movements on the underlying loan notes were deferred in the hedging reserve within equity.

The cross-currency swaps used to hedge the 2001 US dollar private placement loan notes matured in 2011 in line with the underlying borrowings. The movement in the fair value of the swaps can be analysed as follows:

	Group and company	
	2012 £m	2011 £m
Liability at 1 January	–	(1.4)
Exchange rate movement	–	1.4
Liability at 31 December	–	–

The exchange rate movement of £1.4m debit in 2011 reflected 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% (2011: 6.8%), and a weighted average period to maturity of 0.3 years (2011: 1.3 years). The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2012 £m	2011 £m
Asset at 1 January	0.3	0.4
Exchange rate movement	(2.2)	0.2
Charged to the hedging reserve	–	(0.3)
(Liability)/asset at 31 December	(1.9)	0.3

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 a credit of £1.9m (2011: debit of £0.3m). The exchange rate movement of £2.2m credit (2011: debit of £0.2m) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

The amount charged to the hedging reserve reflects the difference between the movement in the fair value of the 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 cash flow hedges and fair value hedges. The cash flow hedge portion of the swaps were designated as cash flow hedges and continue to be effective under IAS 39 in the year ended 31 December 2012. The fair value movements in the swaps and the exchange movements in the underlying loan notes have been deferred in the hedging reserve within equity.

The fair value hedge portion of the swaps were designated and were effective under IAS 39 as fair value hedges during the year. As a result, fair value movements in the swaps were charged to the income statement with a corresponding entry made to the underlying loan notes within borrowings for the effective portion of the swaps, leaving a net charge within the income statement reflecting the net fair value loss on the fair value hedge in the year.

The swaps have a range of interest rates of LIBOR + 1.61% to LIBOR + 1.63% (2011: LIBOR + 1.61% to LIBOR + 1.63%) and a weighted average period to maturity of 1.6 years (2011: 2.6 years).

The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2012 £m	2011 £m
Asset at 1 January	11.6	15.5
Exchange rate movement	(3.2)	(3.6)
Charged to the hedging reserve	(0.3)	(0.3)
Asset at 31 December	8.1	11.6

The difference between the translation of the 2004 US dollar private placement loan notes at the year-end exchange rate compared with the contracted exchange rate amounts to a debit of £7.7m (2011: debit of £10.9m). The exchange rate movement of £3.2m credit (2011: credit of £3.6m) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

The amount charged to the hedging reserve reflects the difference between the movement in the fair value of the cash flow hedge portion of the cross-currency swaps and the cash flow hedge portion of the exchange rate movements described above.

(e) Foreign exchange contracts
The group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from CCD's euro operations in the Republic of Ireland and Vanquis Bank's branch in Poland. A liability of £0.1m is held in the group balance sheet as at 31 December 2012 in respect of foreign exchange contracts (2011: asset of £0.3m).

The group's foreign exchange contracts comprise forward foreign exchange contracts to buy sterling and sell euros for a total notional amount of £6.1m (2011: £6.7m) and zloty for £1.4m (2011: £nil). These contracts have a range of maturity dates from 31 January 2013 to 15 October 2013 (2011: 14 February 2012 to 13 November 2012). These contracts were designated as cash flow hedges and were effective under IAS 39. Accordingly, the movement in fair value of £0.4m has been charged to the hedging reserve within equity (2011: credit of £0.4m).

17 TRADE AND OTHER RECEIVABLES

	Company	
Non-current assets	2012 £m	2011 £m
Amounts owed by group undertakings	842.2	649.0

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 (2011: £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	2012 £m	2011 £m	2012 £m	2011 £m
Trade receivables	0.1	0.1	–	–
Other receivables	12.1	8.3	–	–
Amounts owed by group undertakings	–	–	672.0	716.4
Prepayments and accrued income	10.8	12.7	2.7	3.0
Total	23.0	21.1	674.7	719.4

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 (2011: £nil). Within the company, an impairment provision of £123.3m (2011: £121.7m) 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 £1.6m has been charged to the income statement of the company (2011: credit of £1.3m).

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 (2011: carrying value) set out above. There is no collateral held in respect of trade and other receivables (2011: £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 2012, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded. The group's defined benefit pension scheme has been substantially closed to new members since 1 January 2003.

The group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme has been substantially closed to new members since 1 January 2003. The scheme covers 57% of employees with company-provided pension arrangements and is of the funded, defined benefit type. 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. For members that switched to paying lower member contributions, the benefits accrued before they switched would retain a link to their final salary at retirement.

During 2012, the group further reviewed its pension arrangements and from 31 December 2012 the link to final salary at retirement will no longer apply. Furthermore, no future final salary benefits will accrue, with all members now accruing benefits based on a percentage of salary that is revalued each year. As a result of this change, the past accrued final salary benefits will increase in the future in line with statutory revaluations (now linked to CPI inflation), rather than in line with future salary increases.

The most recent actuarial valuation of the scheme was carried out as at 1 June 2009 by a qualified independent actuary. A valuation as at 1 June 2012 is currently in progress but is not yet finalised. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the preliminary results of the 2012 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
		2012		2011
	£m	%	£m	%
Equities	249.2	44	218.4	42
Corporate bonds	187.4	33	173.9	33
Fixed interest gilts	–	–	28.4	5
Index-linked gilts	103.9	18	103.2	20
Cash and money market funds	30.2	5	1.1	–
Total fair value of scheme assets	570.7	100	525.0	100
Present value of funded defined benefit obligation	(547.7)		(511.5)	
Net retirement benefit asset recognised in the balance sheet	23.0		13.5	

The valuation of the pension scheme has increased from £13.5m at 31 December 2011 to £23.0m at 31 December 2012. A high level reconciliation of the movement is as follows:

	£m
Pension asset as at 31 December 2011	14
Cash contributions made by the group	10
Return on assets being held to meet pension obligations	51
Removing the link to final salary for active members	18
Actuarially based cost of new benefits	(7)
Reduction in discount rate used to discount future liabilities	(38)
Unwinding of discount on liabilities	(25)
Pension asset as at 31 December 2012	23

The discount rate applied to pension liabilities is calculated by reference to the yield on high-quality corporate bonds which, based on an appropriate index, have fallen from an average of 4.9% at 31 December 2011 to 4.5% at 31 December 2012.

The net retirement benefit asset recognised in the balance sheet of the company is as follows:

				Company
		2012		2011
	£m	%	£m	%
Equities	65.0	44	56.4	42
Corporate bonds	48.7	33	44.9	33
Fixed interest gilts	–	–	7.3	5
Index-linked gilts	26.6	18	26.6	20
Cash and money market funds	7.4	5	0.3	–
Total fair value of scheme assets	147.7	100	135.5	100
Present value of funded defined benefit obligation	(145.8)		(131.3)	
Net retirement benefit asset recognised in the balance sheet	1.9		4.2	

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.

The amounts recognised in the income statement were as follows:

		Group		Company
	2012 £m	2011 £m	2012 £m	2011 £m
Current service cost	(6.8)	(7.0)	(2.1)	(2.1)
Interest cost	(24.9)	(25.4)	(7.7)	(7.8)
Expected return on scheme assets	27.5	32.0	9.3	9.8
Net charge recognised in the income statement before exceptional curtailment credit	(4.2)	(0.4)	(0.5)	(0.1)
Exceptional curtailment credit	17.7	–	2.1	–
Net credit/(charge) recognised in the income statement	13.5	(0.4)	1.6	(0.1)

The exceptional curtailment credit in 2012 of £17.7m for the group and £2.1m for the company relates to the change during the year to applying statutory revaluations to accrued final salary benefits, rather than in line with future salary increases.

The net credit/(charge) recognised in the income statement of the group has been included within administrative costs.

18 RETIREMENT BENEFIT ASSET – CONTINUED

Movements in the fair value of scheme assets were as follows:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Fair value of scheme assets at 1 January	525.0	514.1	135.5	132.1
Expected return on scheme assets	27.5	32.0	9.3	9.8
Actuarial movement on scheme assets	23.4	(18.4)	7.2	(3.0)
Contributions by the group/company	10.1	10.0	0.4	0.5
Net benefits paid out	(15.3)	(12.7)	(4.7)	(3.9)
Fair value of scheme assets at 31 December	570.7	525.0	147.7	135.5

The contributions to the defined benefit pension scheme in the year ending 31 December 2013 are expected to be approximately £16m.

Movements in the present value of the defined benefit obligation were as follows:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Present value of the defined benefit obligation at 1 January	(511.5)	(473.1)	(131.3)	(119.5)
Current service cost	(6.8)	(7.0)	(2.1)	(2.1)
Interest cost	(24.9)	(25.4)	(7.7)	(7.8)
Exceptional curtailment credit	17.7	–	2.1	–
Actuarial movement on scheme liabilities	(37.5)	(18.7)	(11.5)	(5.8)
Net benefits paid out	15.3	12.7	4.7	3.9
Present value of the defined benefit obligation at 31 December	(547.7)	(511.5)	(145.8)	(131.3)

The principal actuarial assumptions used at the balance sheet date were as follows:

		Group and company	
		2012 %	2011 %
Price inflation		3.00	3.00
Rate of increase in pensionable salaries		–	4.00
Rate of increase to pensions in payment		2.80	3.00
Inflationary increases to pensions in deferment		2.25	2.00
Discount rate		4.50	4.90
Long-term rate of return	– equities	7.20	7.50
	– bonds	4.50	4.90
	– fixed interest gilts	–	2.50
	– index-linked gilts	3.00	2.50
	– cash and money market funds	2.50	2.50
	– overall (weighted average)	5.30	5.40

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 £11m (2011: £10m).

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 has updated the mortality assumption to be in line with the assumptions proposed for the 1 June 2012 actuarial valuation. The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- Future mortality improvements are in line with CMI 2011 projections with long-term trend improvements of 1.25% per annum.

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 24 years if they are male (2011: 23 years) and for a further 26 years if they are female (2011: 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 (2011: £20m).

18 RETIREMENT BENEFIT ASSET – CONTINUED

The actual return on scheme assets compared to the expected return is as follows:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Expected return on scheme assets	27.5	32.0	9.3	9.8
Actuarial movement on scheme assets	23.4	(18.4)	7.2	(3.0)
Actual return on scheme assets	50.9	13.6	16.5	6.8

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	
	2012 £m	2011 £m	2012 £m	2011 £m
Actuarial movement on scheme assets	23.4	(18.4)	7.2	(3.0)
Actuarial movement on scheme liabilities	(37.5)	(18.7)	(11.5)	(5.8)
Total loss recognised in other comprehensive income in the year	(14.1)	(37.1)	(4.3)	(8.8)
Cumulative amount of losses recognised in other comprehensive income	(99.1)	(85.0)	(26.5)	(22.2)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the group is as follows:

	Group				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	570.7	525.0	514.1	464.6	410.7
Present value of funded defined benefit obligation	(547.7)	(511.5)	(473.1)	(444.7)	(359.8)
Retirement benefit asset recognised in the balance sheet	23.0	13.5	41.0	19.9	50.9
Experience gains/(losses) on scheme assets					
– amount (£m)	23.4	(17.7)	22.9	29.9	(78.9)
– percentage of scheme assets (%)	4.1	(3.4)	4.5	6.4	(19.2)
Experience gains/(losses) on scheme liabilities					
– amount (£m)	16.3	(6.1)	–	10.3	–
– percentage of scheme liabilities (%)	3.0	(1.2)	–	2.3	–

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the company is as follows:

	Company				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	147.7	135.5	132.1	116.8	99.9
Present value of funded defined benefit obligation	(145.8)	(131.3)	(119.5)	(110.7)	(83.8)
Retirement benefit asset recognised in the balance sheet	1.9	4.2	12.6	6.1	16.1
Experience gains/(losses) on scheme assets					
– amount (£m)	7.2	(2.9)	8.7	10.4	(24.5)
– percentage of scheme assets (%)	4.9	(2.1)	6.6	8.9	(24.5)
Experience gains/(losses) on scheme liabilities					
– amount (£m)	5.0	(1.9)	–	3.3	–
– percentage of scheme liabilities (%)	3.4	(1.4)	–	3.0	–

18 RETIREMENT BENEFIT ASSET – CONTINUED

(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 2012 (2011: £3.8m). Contributions made by the company amounted to £0.4m (2011: £0.4m). No contributions were payable to the fund at the year end (2011: £nil).

The group contributed £0.1m to personal pension plans in the year (2011: £0.1m).

In December 2011, the Finance Act introduced the Reduced Annual Allowance, which limited the benefits that can be provided by the group's registered pension schemes on a tax-efficient basis to £50,000 in any year. This limit is in addition to HMRC's Lifetime Allowance of £1.5m. As a result of these limits, those affected have been provided with a number of alternative options by the group, principally: (i) participation in an Unfunded, Unapproved Retirement Benefit Scheme (UURBS); (ii) a cash supplement payable in lieu of pension contributions payable; and (iii) contributions payable into a self-invested personal pension plan (SIPP). In 2012 both the group and company have contributed £0.3m (2011: £0.3m) into the UURBS, £0.1m (2011: £0.1m) into cash supplements and £0.1m (2011: £0.1m) into SIPPs.

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 2013, 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 2013 (2011: 1 April 2012). Accordingly, the balances have been calculated using a tax rate of 23% (2011: 25%). The movement in the deferred tax asset during the year can be analysed as follows:

	Group		Company	
Asset	2012 £m	2011 £m	2012 £m	2011 £m
At 1 January	7.5	2.8	3.6	1.9
(Charge)/credit to the income statement (note 5)	(4.4)	(4.3)	(0.4)	0.1
Credit on other comprehensive income prior to change in UK tax rate (note 5)	3.5	9.4	1.0	1.9
Impact of change in UK tax rate:				
– charge to the income statement	(0.4)	(0.3)	(0.1)	–
– charge to other comprehensive income	(0.1)	(0.1)	(0.1)	(0.3)
At 31 December	6.1	7.5	4.0	3.6

The change in the UK tax rate relates to the impact of the change in UK corporation tax rate from 24% (2011: 26%) to 23% (2011: 25%) which will be effective from 1 April 2013 (2011: 1 April 2012) (see note 5).

An analysis of the deferred tax asset for the group is set out below:

	2012				2011			
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	0.9	10.0	(3.4)	7.5	0.6	13.3	(11.1)	2.8
Credit/(charge) to the income statement	0.9	0.4	(5.7)	(4.4)	0.3	(2.5)	(2.1)	(4.3)
Credit/(charge) on other comprehensive income prior to change in UK tax rate	–	0.1	3.4	3.5	–	(0.5)	9.9	9.4
Impact of change in UK tax rate:								
– (charge)/credit to the income statement	(0.1)	(0.7)	0.4	(0.4)	–	(0.2)	(0.1)	(0.3)
– charge to other comprehensive income	–	(0.1)	–	(0.1)	–	(0.1)	–	(0.1)
At 31 December	1.7	9.7	(5.3)	6.1	0.9	10.0	(3.4)	7.5

19 DEFERRED TAX – CONTINUED

An analysis of the deferred tax asset for the company is set out below:

				2012				2011
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	(0.5)	5.2	(1.1)	3.6	(0.1)	5.4	(3.4)	1.9
(Charge)/credit to the income statement	(0.1)	0.1	(0.4)	(0.4)	(0.4)	0.4	0.1	0.1
(Charge)/credit on other comprehensive income prior to change in UK tax rate	–	(0.1)	1.1	1.0	–	(0.4)	2.3	1.9
Impact of change in UK tax rate:								
– charge to the income statement	–	(0.1)	–	(0.1)	–	–	–	–
– charge to other comprehensive income	–	(0.1)	–	(0.1)	–	(0.2)	(0.1)	(0.3)
At 31 December	(0.6)	5.0	(0.4)	4.0	(0.5)	5.2	(1.1)	3.6

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences because it is probable that these assets will be recovered.

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 regulated entities to maintain a liquid assets buffer to ensure they have a liquid source of funds to help protect against unforeseen circumstances. Vanquis Bank's liquid assets buffer amounts to £52.3m in 2012 (2011: £17.5m) and represents cash deposited in a designated money market fund which invests in UK Government bonds. Vanquis Bank has been operating under the FSA's transitional arrangements, whereby firms were only required to hold 30% of the amount calculated under the simplified regime until March 2012, increasing to 50% to July 2013, 70% to January 2016 and to 100% thereafter. Following the increase to 50% in March 2012, the FSA has subsequently confirmed there will be no further increases under the transitional arrangements for the foreseeable future. Vanquis Bank has been operating as a simplified firm under the liquidity regime and therefore the liquid assets buffer has been calculated as 10% to 20% of retail deposits taken, principally depending on maturity, plus 25% of the undrawn credit lines on credit cards.

Vanquis Bank no longer meets the definition of a simplified firm due to the mix of funding between retail deposits and intercompany funding. As a result, from 1 February 2013, Vanquis Bank is now a standard firm for liquidity purposes. This has two impacts: (1) the FSA will set revised liquidity requirements (called Individual Liquidity Guidance (ILG)) following completion by management of an Individual Liquidity Adequacy Assessment (ILAA). The ILAA is the liquidity equivalent of the ICAAP produced for regulatory capital purposes. Pending the completion of the ILAA, Vanquis Bank has agreed with the FSA that it will continue to operate to its historical liquidity requirements; and (2) the liquid assets buffer is required to be held in the form of Government gilts or in a Bank of England Reserve Account and can no longer be held in a designated money market fund.

		Group		Company
	2012 £m	2011 £m	2012 £m	2011 £m
Cash at bank and in hand	79.1	49.6	2.6	2.1

In addition to cash and cash equivalents, the group had £9.4m of bank overdrafts at 31 December 2012 (2011: £17.4m) and the company had £7.4m of bank overdrafts (2011: £16.3m) both of which were disclosed within bank and other borrowings (see note 21).

The currency profile of cash and cash equivalents is as follows:

		Group		Company
	2012 £m	2011 £m	2012 £m	2011 £m
Sterling	78.1	49.6	2.6	2.1
Zloty	1.0	–	–	–
Total cash and cash equivalents	79.1	49.6	2.6	2.1

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 2012, borrowings under these facilities amounted to £1,201.4m (2011: £1,049.6m).

(b) Maturity profile of bank and other borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

Group	2012 Borrowing facilities available £m	2012 Borrowings £m	2011 Borrowing facilities available £m	2011 Borrowings £m
Repayable:				
On demand	24.1	9.4	25.2	17.4
In less than one year	162.2	160.4	33.1	33.1
Included in current liabilities	186.3	169.8	58.3	50.5
Between one and two years	89.3	96.9	740.1	459.2
Between two and five years	753.1	552.7	148.8	146.6
In more than five years	383.3	382.0	393.5	393.3
Included in non-current liabilities	1,225.7	1,031.6	1,282.4	999.1
Total group	1,412.0	1,201.4	1,340.7	1,049.6

Borrowings are stated after deducting £9.8m of unamortised arrangement fees (2011: £6.4m) and after a £5.8m credit in respect of the fair value adjustment of derivative financial instruments (2011: £11.2m) (see note 16(d)).

In order to reconcile the borrowings shown in the table above and the headroom on committed facilities shown in 21(i), the facilities and borrowings in respect of amounts repayable on demand should be deducted and unamortised arrangement fees should be added back to borrowings and the fair value adjustments in respect of derivative financial instruments should be deducted from borrowings as follows:

Group	2012 Facilities £m	2012 Borrowings £m	2011 Facilities £m	2011 Borrowings £m
Total group facilities and borrowings	1,412.0	1,201.4	1,340.7	1,049.6
Repayable on demand	(24.1)	(9.4)	(25.2)	(17.4)
Unamortised arrangement fees	–	9.8	–	6.4
Fair value adjustment in respect of derivatives	–	(5.8)	–	(11.2)
Total group committed facilities and borrowings	1,387.9	1,196.0	1,315.5	1,027.4
Headroom on committed facilities		191.9		288.1

Company	2012 Borrowing facilities available £m	2012 Borrowings £m	2011 Borrowing facilities available £m	2011 Borrowings £m
Repayable:				
On demand	24.1	7.4	25.2	16.3
In less than one year	–	–	–	–
Included in current liabilities	24.1	7.4	25.2	16.3
Between one and two years	–	–	417.3	125.2
Between two and five years	590.3	389.9	78.1	75.9
In more than five years	383.3	382.0	393.5	393.3
Included in non-current liabilities	973.6	771.9	888.9	594.4
Total company	997.7	779.3	914.1	610.7

As at 31 December 2012, the weighted average period to maturity of the group's committed facilities, including retail deposits, was 3.7 years (2011: 3.5 years) and for the company's committed facilities was 4.5 years (2011: 4.4 years). Excluding retail deposits, the weighted average period to maturity of the group's committed facilities was 4.2 years (2011: 3.3 years).

21 BANK AND OTHER BORROWINGS – CONTINUED

(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	Fixed 2012 £m	Floating 2012 £m	Total 2012 £m	Fixed 2011 £m	Floating 2011 £m	Total 2011 £m
Sterling	777.7	271.2	1,048.9	471.7	427.5	899.2
US dollar	90.7	–	90.7	96.1	–	96.1
Euro	–	61.8	61.8	–	54.3	54.3
Total group	868.4	333.0	1,201.4	567.8	481.8	1,049.6

Company	Fixed 2012 £m	Floating 2012 £m	Total 2012 £m	Fixed 2011 £m	Floating 2011 £m	Total 2011 £m
Sterling	448.3	269.2	717.5	330.0	226.4	556.4
Euro	–	61.8	61.8	–	54.3	54.3
Total company	448.3	331.0	779.3	330.0	280.7	610.7

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 £988.4m (2011: £897.8m) and the company's fixed rate borrowings are £568.3m (2011: £550.0m). After taking account of cross-currency swaps, the group and company have no foreign exchange rate exposure to borrowings denominated in US dollars (2011: £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.

(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.

21 BANK AND OTHER BORROWINGS – CONTINUED

(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 a 7.0% interest rate payable to the bond holder and 0.5% payable to the distributor, and are repayable on 14 April 2020. On 25 March 2011, the company issued £50.0m of retail bonds which accrue interest at 7.5% and are repayable on 30 September 2016. On 4 April 2012, the company issued a further £120.0m of retail bonds which accrue interest at 7.0% and are repayable on 4 October 2017.

(g) Retail deposits
Vanquis Bank is an FSA regulated bank and commenced taking retail deposits in July 2011. As at 31 December 2012, £327.4m (2011: £139.7m) of fixed-rate, fixed-term retail deposits of 1, 2, 3 and 5 years had been taken. The deposits have been issued at rates of between 2.21% and 4.65%.

A reconciliation of the movement in retail deposits is set out below:

	Group	
	2012 £m	2011 £m
At 1 January	139.7	–
New funds received	204.8	139.7
Maturities	(33.5)	–
Maturities retained	16.4	–
At 31 December	327.4	139.7

The retention rate on retail deposits maturing was 49%.

(h) Subordinated loan notes
On 15 June 2005, the company issued £100.0m of subordinated loan notes repayable on 15 June 2015. £94.0m of the liability was settled in 2009. The rights of repayment to holders of the loan notes are subordinated to all other borrowings and liabilities of the company upon a winding up of the company and, in certain circumstances, upon its administration.

(i) Undrawn committed borrowing facilities

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fund 90% of its receivables book through retail deposits.

The undrawn committed borrowing facilities at 31 December were as follows:

	Group and company	
	2012 £m	2011 £m
Expiring within one year	–	197.9
Expiring within one to two years	–	90.2
Expiring in more than two years	191.9	–
Total group and company	191.9	288.1

The table above excludes the additional capacity for Vanquis Bank to take retail deposits up to the permitted level of 90% of its receivables set by the FSA. As an FSA-regulated business, Vanquis Bank cannot lend funds to its parent as this would breach its large exposures rules. As a result, the additional retail deposits capacity at 31 December 2012 is the lower of: (i) 90% of Vanquis Bank's receivables of £643.3m less retail deposits of £327.4m after setting aside the necessary liquid assets buffer of £18.9m. This amounts to £232.7m; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £202.1m. Accordingly, Vanquis Bank's retail deposits capacity at 31 December 2012 amounts to £202.1m. The group's total funding capacity at the end of 2012 therefore amounts to £394.0m, being the group's headroom on undrawn committed borrowing facilities of £191.9m plus Vanquis Bank's additional retail deposits capacity based on year-end receivables of £643.3m.

(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:

	2012		2011	
Group	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	6.06	4.36	6.67	5.73
US dollar	6.39	0.87	6.39	1.87

21 BANK AND OTHER BORROWINGS – CONTINUED

Company	2012 Weighted average interest rate %	2012 Weighted average period to maturity years	2011 Weighted average interest rate %	2011 Weighted average period to maturity years
Sterling	7.62	5.9	7.84	7.31

After taking account of interest rate swaps and cross-currency swaps, the sterling-weighted average fixed interest rate for the group was 5.69% (2011: 5.01%) and for the company was 6.69% (2011: 5.24%). The sterling-weighted average period to maturity on the same basis is 4.6 years (2011: 4.1 years) for the group and 5.9 years (2011: 4.5 years) for the company. There is £nil foreign exchange or interest rate risk denominated in US dollars after taking account of cross-currency swaps (2011: £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:

	2012		2011 (Restated)	
Group	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	196.0	196.0	351.4	351.4
Senior public bonds	250.0	268.1	250.0	240.9
Sterling private placement loan notes	122.0	144.4	122.0	135.9
US dollar private placement loan notes	84.9	85.4	84.9	89.0
Euro private placement loan notes	19.9	22.1	20.4	24.2
Retail bonds	195.2	209.6	75.2	78.4
Retail deposits	327.4	364.8	139.7	143.8
Subordinated loan notes	6.0	6.9	6.0	7.1
Total group	1,201.4	1,297.3	1,049.6	1,070.7

	2012		2011 (Restated)	
Company	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	186.2	186.2	137.1	137.1
Senior public bonds	250.0	268.1	250.0	240.9
Sterling private placement loan notes	122.0	144.4	122.0	135.9
Euro private placement loan notes	19.9	22.1	20.4	24.2
Retail bonds	195.2	209.6	75.2	78.4
Subordinated loan notes	6.0	6.9	6.0	7.1
Total company	779.3	837.3	610.7	623.6

The fair value of the sterling, US dollar and euro private placement loan notes, the retail deposits and the subordinated loan notes have been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date. The fair value of the senior public bonds and retail bonds equates to their publicly quoted market price at the balance sheet date.

The fair value of borrowings has been restated in 2011 to take account of future interest accruing on fixed rate, fixed term borrowings.

22 TRADE AND OTHER PAYABLES

Current liabilities	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Trade payables	3.9	3.7	–	–
Amounts owed to group undertakings	–	–	151.1	103.1
Other payables including taxation and social security	9.1	9.1	3.6	3.3
Accruals	47.6	40.2	19.5	14.7
Total	60.6	53.0	174.2	121.1

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. Accruals have increased by £7.4m in 2012 reflecting an increase in the accrual for interest on retail deposits following the increase in retail deposits in the year, together with a general increase in business volumes.

	Company 2012 £m	Company 2011 £m
Amounts owed to group undertakings	48.6	86.9

The amounts owed to group undertakings are unsecured, due for repayment in more than one year and accrue interest at rates linked to LIBOR.

23 SHARE CAPITAL

Group and company	2012 Authorised	2012 Issued and fully paid	2011 Authorised	2011 Issued and fully paid
Ordinary shares of 20⁸⁄₁₁p each – £m	40.0	28.7	40.0	28.5
– number (m)	193.0	138.4	193.0	137.2

The movement in the number of shares in issue during the year was as follows:

Group and company	2012 m	2011 m
At 1 January	137.2	135.7
Shares issued pursuant to the exercise/vesting of options and awards	1.2	1.5
At 31 December	138.4	137.2

The shares issued pursuant to the exercise/vesting of options and awards comprised 1,191,195 ordinary shares (2011: 1,554,530) with a nominal value of £246,902 (2011: £322,212) and an aggregate consideration of £2.3m (2011: £2.4m).

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 2012, the EBT held 3,173,526 (2011: 2,969,888) shares in the company with a cost of £0.9m (2011: £3.9m) and a market value of £43.1m (2011: £21.2m). 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 2012, awards under the PSP, held in the name of the individual subject to the award, were 695,009 (2011: 754,132) ordinary shares with a cost of £0.1m (2011: £0.7m) and a market value of £9.4m (2011: £7.1m).

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 Incentive Scheme (LTIS), employees savings-related share option schemes typically referred to as Save As You Earn schemes (SAYE), and the Performance Share Plan (PSP). The group also previously operated senior executive share option schemes (ESOS/SESO), although no options have been granted under these schemes since 2006.

When a share option or award is granted, a fair value is calculated based on the current share price, probability of the option/award vesting, the group's recent share price volatility, and the risk associated with the option/award. The fair value of all options is charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

The charge to the income statement in 2012 was £6.4m for the group (2011: £8.0m) and £3.3m for the company (2011: £4.0m).

During 2012, awards/options have been granted under the LTIS, PSP and SAYE schemes (2011: awards/options granted under the LTIS, PSP and SAYE schemes). The reduction in the share-based payment charge from £8.0m in 2011 to £6.4m in 2012, principally reflects a release of prior year provisions due to lower than expected vesting levels from the 2009 LTIS.

The fair value per award/option granted and the assumptions used in the calculation of the share-based payment charge are as follows:

			2012			2011
Group	PSP	LTIS	SAYE	PSP	LTIS	SAYE
Grant date	26 Mar 2012	26 Mar 2012	28 Sep 2012	4 Mar 2011	4 Mar 2011	31 Aug 2011
Share price at grant date (£)	11.62	11.62	13.75	9.53	9.53	11.04
Exercise price (£)	–	–	10.56	–	–	8.68
Shares awarded/under option (number)	311,150	572,857	275,940	314,382	884,129	282,052
Vesting period (years)	3	3	3 and 5	3	3	3,5 and 7
Expected volatility	23.8%	23.8%	24.3%-30.9%	32.9%	32.9%	29.8%-32.6%
Award/option life (years)	3	3	Up to 5	3	3	Up to 7
Expected life (years)	3	3	Up to 5	3	3	Up to 7
Risk-free rate	0.65%	0.65%	0.30%-0.69%	1.86%	1.86%	0.98%-2.19%
Expected dividends expressed as a dividend yield	n/a	n/a	5.8%	n/a	n/a	7.3%
Fair value per award/option (£)	11.62	7.47	2.18-2.51	9.53	6.76	1.79-2.04

			2012			2011
Company	PSP	LTIS	SAYE	PSP	LTIS	SAYE
Grant date	26 Mar 2012	26 Mar 2012	28 Sep 2012	4 Mar 2011	4 Mar 2011	31 Aug 2011
Share price at grant date (£)	11.62	11.62	13.75	9.53	9.53	11.04
Exercise price (£)	–	–	10.56	–	–	8.68
Shares awarded/under option (number)	205,800	346,610	8,403	215,594	427,348	6,914
Vesting period (years)	3	3	3 and 5	3	3	3 and 5
Expected volatility	23.8%	23.8%	24.3%-30.9%	32.9%	32.9%	29.8%-32.6%
Award/option life (years)	3	3	Up to 5	3	3	Up to 5
Expected life (years)	3	3	Up to 5	3	3	Up to 5
Risk-free rate	0.65%	0.65%	0.30%-0.69%	1.86%	1.86%	0.98%-1.61%
Expected dividends expressed as a dividend yield	n/a	n/a	5.8%	n/a	n/a	7.3%
Fair value per award/option (£)	11.62	7.47	2.18-2.51	9.53	6.76	1.96-2.04

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	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £
Outstanding at 1 January 2012	669,855	–	2,580,917	–	1,321,589	7.05	14,890	5.77
Awarded/granted	311,150	–	572,857	–	275,940	10.56	–	–
Lapsed	(33,692)	–	(497,662)	–	(92,278)	7.41	–	–
Exercised	(323,427)	–	(384,370)	–	(319,906)	6.60	–	–
Outstanding at 31 December 2012	623,886	–	2,271,742	–	1,185,345	7.97	14,890	5.77
Exercisable at 31 December 2012	–	–	–	–	50,757	6.62	14,890	5.77

Share awards outstanding under the LTIS scheme at 31 December 2012 had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.1 years (2011: 1.2 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2012 had an exercise price of 577p (2011: 577p) and a weighted average remaining contractual life of nil years (2011: nil years). Share options outstanding under the SAYE schemes at 31 December 2012 had exercise prices ranging from 491p to 1,056p (2011: 453p to 868p) and a weighted average remaining contractual life of 2.1 years (2011: 2.3 years). Share awards outstanding under the PSP schemes at 31 December 2012 had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.7 years (2011: 1.1 years).

Group	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £
Outstanding at 1 January 2011	600,255	–	2,445,472	–	1,467,970	6.48	58,728	6.31
Awarded/granted	314,382	–	884,129	–	282,052	8.68	–	–
Lapsed	–	–	(283,923)	–	(116,513)	6.71	–	–
Exercised	(244,782)	–	(464,761)	–	(311,920)	5.94	(43,838)	6.49
Outstanding at 31 December 2011	669,855	–	2,580,917	–	1,321,589	7.05	14,890	5.77
Exercisable at 31 December 2011	–	–	–	–	53,420	6.25	14,890	5.77

Company	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £
Outstanding at 1 January 2012	469,903	–	1,283,496	–	37,885	7.07	4,070	5.77
Awarded/granted	205,800	–	346,610	–	8,403	10.56	–	–
Lapsed	(33,692)	–	(229,968)	–	(2,739)	6.56	–	–
Exercised	(222,263)	–	(202,182)	–	(7,517)	6.75	–	–
Outstanding at 31 December 2012	419,748	–	1,197,956	–	36,032	7.97	4,070	5.77
Exercisable at 31 December 2012	–	–	–	–	3,429	6.56	4,070	5.77

Share awards outstanding under the LTIS scheme at 31 December 2012 had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.2 years (2011: 1.2 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2012 had an exercise price of 577p (2011: 577p) and a weighted average remaining contractual life of nil years (2011: nil years). Share options outstanding under the SAYE schemes at 31 December 2012 had exercise prices ranging from 491p to 1,056p (2011: 491p to 868p) and a weighted average remaining contractual life of 1.7 years (2011: 1.9 years). Share awards outstanding under the PSP schemes at 31 December 2012 had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.7 years (2011: 1.1 years).

24 SHARE-BASED PAYMENTS – CONTINUED

Company	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £
Outstanding at 1 January 2011	416,605	–	1,184,110	–	50,870	6.28	28,666	6.54
Awarded/granted	215,594	–	427,348	–	6,914	8.68	–	–
Lapsed	–	–	(113,853)	–	(3,646)	6.95	–	–
Exercised	(162,296)	–	(214,109)	–	(16,253)	5.39	(24,596)	6.68
Outstanding at 31 December 2011	469,903	–	1,283,496	–	37,885	7.07	4,070	5.77
Exercisable at 31 December 2011	–	–	–	–	–	–	4,070	5.77

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 2011	0.8	3.6	(7.2)	(10.6)	14.3	0.9
Other comprehensive income:						
– cash flow 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
At 1 January 2012	0.8	3.6	(6.4)	(4.6)	16.0	9.4
Other comprehensive income:						
– cash flow hedges (note 16)	–	–	(0.6)	–	–	(0.6)
– tax on other comprehensive income	–	–	0.1	–	–	0.1
– impact of change in UK tax rate	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	(0.6)	–	–	(0.6)
Transactions with owners:						
– purchase of own shares	–	–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards	–	–	–	3.7	–	3.7
– share-based payment charge (note 24)	–	–	–	–	6.4	6.4
– transfer of share-based payment reserve	–	–	–	–	(5.6)	(5.6)
At 31 December 2012	0.8	3.6	(7.0)	(1.0)	16.8	13.2

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The hedging reserve reflects the corresponding entry to the fair value of hedging derivatives held on the balance sheet as either assets or liabilities (see note 16).

The treasury shares reserve represents shares acquired by the company, through various trusts, both from the market and through a fresh issue to satisfy awards under the group's various share schemes (see note 23). The cost of the shares is treated as a deduction from equity. When the relevant awards vest, the cost of the shares provided to employees is transferred to retained earnings.

The share-based payments reserve reflects the corresponding credit entry to the cumulative share-based payment charges made through the income statement as there is no cash cost or reduction in assets from the charges. When options and awards vest, that element of the share-based payment reserve relating to those awards and options is transferred to retained earnings.

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 2011	609.2	2.3	3.6	(8.1)	(10.6)	14.3	610.7
Other comprehensive income:							
– cash flow 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
At 1 January 2012	609.2	2.3	3.6	(7.1)	(4.6)	16.0	619.4
Other comprehensive income:							
– cash flow hedges (note 16)	–	–	–	0.1	–	–	0.1
– tax on other comprehensive income	–	–	–	(0.1)	–	–	(0.1)
– impact of change in UK tax rate	–	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	–	(0.1)	–	–	(0.1)
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards	–	–	–	–	3.7	–	3.7
– share-based payment charge (note 24)	–	–	–	–	–	3.3	3.3
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	0.6	0.6
– transfer of share-based payment reserve	–	–	–	–	–	(3.1)	(3.1)
At 31 December 2012	609.2	2.3	3.6	(7.2)	(1.0)	16.8	623.7

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	
	2012 £m	2011 £m	2012 £m	2011 £m
Due within one year	11.4	11.8	1.9	2.7
Due between one and five years	29.7	31.6	8.5	9.0
Due in more than five years	17.0	16.8	14.2	12.3
Total	58.1	60.2	24.6	24.0

Operating lease commitments relate to the future rental payments until the first break on: (i) the 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 and company	
	2012 £m	2011 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	–	0.1

The company had £nil capital expenditure commitments contracted with third parties but not provided for at 31 December 2012 (2011: £nil).

	Group	
	2012 £m	2011 £m
Unused committed credit card facilities at 31 December	251.4	161.9

The company has £nil unused committed credit card facilities at 31 December 2012 (2011: £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 (2011: £0.3m) and the amount due from the pension scheme at 31 December 2012 was £0.2m (2011: £0.3m).

Details of the transactions between the company and its subsidiary undertakings, which comprise management recharges and interest charges on intra-group balances, along with any balances outstanding at 31 December are set out below:

	2012			2011		
Company	Management recharge £m	Interest charge/ (credit) £m	Outstanding balance £m	Management recharge £m	Interest charge/ (credit) £m	Outstanding balance £m
CCD	6.8	72.5	1,220.0	6.2	71.7	1,060.3
Vanquis Bank	2.3	26.8	203.2	1.8	24.1	223.8
Other central companies	–	(24.6)	14.6	–	(26.1)	13.0
Total	9.1	74.7	1,437.8	8.0	69.7	1,297.1

The outstanding balance represents the gross intercompany balance receivable by the company, against which a provision of £123.3m (2011: £121.7m) is held.

During 2012, the company received a dividend of £50.0m from Provident Financial Management Services Limited, a subsidiary within CCD (2011: £80.0m) and a £5.0m dividend from Vanquis Bank Limited (2011: £5.0m). Subsequent to the year end, Vanquis Bank Limited paid a further dividend to the company of £15.0m in respect of 2012. This dividend was not reflected in the company's 2012 income statement as it had not been paid as at 31 December 2012.

There are no transactions with directors other than those disclosed in the directors' remuneration report.

28 CONTINGENT LIABILITIES

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty exists regarding the outcome of future events. The only contingent liabilities within the group relate to bank guarantees provided from one subsidiary to another and a charge in respect of the Unfunded Unapproved Retirement Benefits Scheme (UURBS).

The company has a contingent liability for guarantees given in respect of borrowing facilities of certain subsidiaries to a maximum of £286.6m (2011: £547.3m). At 31 December 2012, the fixed and floating rate borrowings in respect of these guarantees amounted to £94.7m (2011: £299.2m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2012 was £nil (2011: £nil).

A floating charge is held over CCD's receivables of up to £15m in respect of the funded pension benefit promises made to executive directors and certain members of the senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise.

29 RECONCILIATION OF PROFIT AFTER TAXATION TO CASH GENERATED FROM OPERATIONS

		Group		Company	
	Note	2012 £m	2011 £m	2012 £m	2011 £m
Profit after taxation		148.0	119.8	59.4	102.1
Adjusted for:					
Tax charge	5	48.7	42.3	6.5	5.1
Finance costs	3	74.7	69.6	65.6	63.6
Finance income		–	–	(87.3)	(95.2)
Dividends received	27	–	–	(55.0)	(85.0)
Share-based payment charge	24	6.4	8.0	3.3	4.0
Retirement benefit charge prior to exceptional pension credit	18	4.2	0.4	0.5	0.1
Exceptional pension credit	18	(17.7)	–	(2.1)	–
Amortisation of intangible assets	11	5.0	7.5	–	–
Exceptional impairment of goodwill	10	2.1	–	–	–
Depreciation of property, plant and equipment	12	8.6	7.3	1.2	1.0
Loss on disposal of property, plant and equipment	12	0.1	0.2	–	–
Release of impairment provision in investments in subsidiaries	13	–	–	(0.1)	–
Changes in operating assets and liabilities:					
Amounts receivable from customers		(181.1)	(113.4)	–	–
Trade and other receivables		(2.3)	0.9	44.3	42.7
Trade and other payables		3.0	8.2	12.9	(11.4)
Contributions into the retirement benefit scheme	18	(10.1)	(10.0)	(0.4)	(0.5)
Derivative financial instruments		–	(2.1)	–	(2.1)
Cash generated from operations		89.6	138.7	48.8	24.4

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROVIDENT FINANCIAL PLC

We have audited the financial statements of Provident Financial plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the group and company balance sheets, the group and company statements of changes in shareholders' equity, the group and company statements of cash flows, the statement of accounting policies and the related notes 1 to 29 of the financial statements. 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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the statement of directors' responsibilities in relation to the financial statements, 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.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. 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 company's affairs as at 31 December 2012 and of the group's profit 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; and
- the information given in the directors' report for the financial year for which the financial statements are prepared 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 84, in relation to going concern;
- the part 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.

Peter Birch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
26 February 2013

INFORMATION FOR SHAREHOLDERS

FINANCIAL CALENDAR – FINAL DIVIDEND

	2012 Final
Dividend announced	26 February 2013
Annual general meeting	9 May 2013
Ex-dividend date for ordinary shares	22 May 2013
Record date for the dividend	24 May 2013
Payment date for the dividend	21 June 2013

SHARE PRICE

The Company's shares are listed on the London Stock Exchange under share code 'PFG.L'. The share price is quoted daily in a number of national newspapers and is available on our website at *www.providentfinancial.com*.

INDIVIDUAL SAVINGS ACCOUNT (ISA)

Shareholders may take out an ISA which includes shares in the company with a provider of their choice. However, the company has made arrangements for its shareholders and employees to use Redmayne-Bentley's ISA and general share dealing services. Shareholders who are eligible and who wish to discuss associated fees and charges should contact:

Phil Armitage
Redmayne-Bentley LLP
9 Bond Court
Leeds
LS1 2JZ

Telephone: 0113 200 6433

Redmayne-Bentley LLP is a limited liability partnership. Registered in England and Wales. Registered No: OC344361 Registered office: 9 Bond Court, Leeds LS1 2JZ. Members of the London Stock Exchange Authorised and Regulated by the Financial Services Authority. VAT number: GB 613 1397 63

TAX ON DIVIDENDS

A UK tax resident individual shareholder who receives a dividend is entitled to a tax credit in respect of the dividend.

The tax credit is 1/9th of the dividend (corresponding to 10% of the dividend and the associated tax credit).

A UK tax resident individual shareholder is therefore treated as having paid tax at 10% on the aggregate of the dividend and the associated tax credit; as starting and basic rate taxpayers are liable to tax on the dividend and the associated tax credit at 10%, they will have no further liability to tax in respect of the dividend. UK tax resident individuals cannot claim a refund of the 10% tax credit.

The tax liability on dividends for UK tax resident higher-rate taxpayers is an amount equal to 32.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 25% of the dividend.

For taxpayers whose income exceeds £150,000 and are subject to tax at the additional rate, the tax liability on dividends (the "dividend additional rate") is an amount equal to 42.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 36.11% of the dividend. The Government has announced that from 6 April 2013, the dividend additional rate will reduce to 37.5% which equates to a liability for additional tax equal to 30.55% of the dividend.

REGISTRARS

The Company's registrar is:

Capita 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 offers a share portal service which enables registered shareholders to manage their Provident Financial shareholdings quickly and easily online. Once registered for this service, you will have access to your personal shareholding and a range of services including: setting up or amending dividend bank mandates; proxy voting and amending personal details. For further information visit www.capitashareportal.com.

CAPITA DIVIDEND REINVESTMENT PLAN

Capita Registrars offers a Dividend Reinvestment Plan whereby shareholders can acquire further shares in the company by using their cash dividends to buy additional shares. For further information contact Capita 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

COMPANY DETAILS

Registered office and contact details:

Provident Financial plc
No. 1 Godwin Street
Bradford
West Yorkshire
BD1 2SU

Telephone:	+44 (0)1274 351351
Fax:	+44 (0)1274 730606
Email:	enquiries@providentfinancial.com
Website:	www.providentfinancial.com

COMPANY NUMBER

668987

ADVISORS

INDEPENDENT AUDITOR

Deloitte LLP
2 Hardman Street
Manchester
M60 2AT

FINANCIAL ADVISORS AND STOCKBROKERS

J.P. Morgan Cazenove
25 Bank Street
London
E14 5JP

SOLICITORS

Addleshaw Goddard LLP
Sovereign House
Sovereign Street
Leeds
LS1 1HQ

Allen & Overy LLP
One Bishops Square
London
E1 6AD

Eversheds LLP
Bridgewater Place
Water Lane
Leeds
LS11 5DR

NOTES

Paper and print specifications
This report has been printed on UPM Fine – an FSC®-certified paper containing 100% ECF pulp and manufactured at a mill accredited with the ISO 14001 and EMAS environmental standards.

This report is printed by an FSC and ISO 14001- certified printer using vegetable oil-based inks and an alcohol-free (0% IPA) process. The carbon footprint of this publication was calculated and carbon credits bought to offset and make this publication completely CarbonNeutral®. These carbon credits are invested in projects around the world that save equivalent amounts of CO_2.

Photography by **Igor Emmerich**

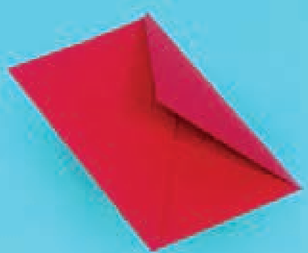
Illustrations by **Ciara Phelan**

Printed by **Park**

MIX
Paper from responsible sources
FSC® C001785
FSC
www.fsc.org

Designed and produced by **Salterbaxter**

Provident Financial plc
No.1 Godwin Street
Bradford
BD1 2SU
United Kingdom



T +44 (0)1274 351351
F +44 (0)1274 730606
E enquiries@providentfinancial.com
W www.providentfinancial.com

Company number
668987