PFG | Provident Financial Group

Pillar 3 Disclosures

31 December 2016

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1. Introduction

1.1 Overview

This document presents the consolidated Provident Financial plc group (the group) Pillar 3 disclosures on capital and risk management at 31 December 2016 in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV). This document should be read in conjunction with the Provident Financial plc Annual Report and Financial Statements 2016.

The group comprises three principal trading divisions:

> Vanquis Bank, which provides credit cards to the non-standard UK consumer credit market and accepts retail deposits;

> Consumer Credit Division (CCD), which provides home credit and online lending to the non-standard UK consumer credit market; and

> Moneybarn, which is the UK's leading non-standard vehicle finance provider.

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

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

The FCA regulation of the consumer credit industry commenced on 1 April 2014. Moneybarn received FCA authorisation in June 2016. CCD continues to operate under an interim permission awaiting full authorisation, consistent with the other sizeable firms operating in the home credit market.

1.2 Pillar 3 disclosure policy

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

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

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

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

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

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

1.3 Basis of Pillar 3 disclosures

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

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

Vanquis Bank is a PRA regulated entity and accepts retail deposits. As such, the PRA stipulates various requirements that Vanquis Bank must comply with, including minimum levels of regulatory capital and liquid resources. These PRA stipulated requirements could restrict the ability and size of dividend payments by Vanquis Bank to Provident Financial plc and the ability to repay amounts drawn under the loan facility from Provident Financial plc to Vanquis Bank. Furthermore, Vanquis Bank is not permitted to, and therefore does not, lend any funds to Provident Financial plc or any other group company. There are no other current or foreseen material, practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between Provident Financial plc and its subsidiary undertakings.

The group has a contingent liability in respect of the Unfunded Unapproved Retirement Benefits Scheme (UURBS). A floating charge is held over CCD's receivables in respect of the unfunded pension benefit promises made to executive directors and certain members of senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise. Further details are noted on page 170 in the Annual Report and Financial Statements. The group has no other encumbered assets and no securitised assets and as such no further disclosure is included.

1.4 Development in disclosures

The group's Pillar 3 disclosures have been prepared in the light of new regulations and market practice.

This Pillar 3 report presents similar disclosures to those published in 2016, except that additional disclosure on leverage ratio mandated by the European Union (EU) is set out in appendix 2. The significant amounts included in this template were disclosed in the Pillar 3 disclosures at 31 December 2015.

1.5 Summary of key capital ratios

The key capital ratios under CRD IV for the group are presented below:

	2016	2015
Risk weighted exposures (£m)	2,091.8	1,796.0
Common Equity Tier 1 (CET1) ratio (verified basis)	21.7%	21.5%
Total capital ratio (verified basis)	21.7%	21.5%
Leverage ratio (verified basis)	16.7%	16.5%

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

On an accrued basis, profits or gains are included in own funds as they are recognised in the income statement, less the deduction of a foreseeable dividend on such profits. The capital ratios on an accrued basis are set out below and are consistent with the disclosures in the group's Annual Report and Financial Statements.

	2016	2015
Risk weighted exposures (£m)	2,091.8	1,796.0
Common Equity Tier 1 (CET1) ratio (accrued basis)	21.9%	22.0%
Total capital ratio (accrued basis)	21.9%	22.0%
Leverage ratio (accrued basis)	16.9%	16.9%

2. Regulatory capital framework

2.1 Regulatory capital framework

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

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

> **Pillar 1** is the calculation of minimum regulatory capital requirements that firms are required to hold against risk, the most significant elements for the group being credit risk and operational risk.

> **Pillar 2** aims to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. The group performs an Internal Capital Adequacy Assessment Process (ICAAP) on at least an annual basis to assess whether additional regulatory capital over and above Pillar 1 should be held based on the risks faced by the group and the risk management processes in place. The amount of any proposed additional capital requirement is also assessed by the PRA during its capital supervisory review and evaluation process (C-SREP), which also aims to ensure that institutions have adequate arrangements, strategies, processes and mechanisms and capital and liquidity to ensure sound management and coverage of their risks.

> **Pillar 3** complements Pillars 1 and 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk management processes, leverage and remuneration.

2.2 Capital requirements

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

	Calculation Method	Description	Requirement	Reference
Pillar 1				
Credit risk	Standardised approach	The group applies the standardised method to the entire loan book. The standardised approach applies a standardised set of risk weightings to credit risk exposures. A capital requirement of 8% of risk weighted exposures (RWEs) is applied.	Pillar 1 requirements (as per Article 92 of the CRR): > 4.5% of RWEs met by CET1 capital. > 6.0% of RWEs met by Tier 1 capital. > 8.0% of RWEs met by total capital.	5.1
Operational risk	Alternative Standardised approach (ASA)	As the group's activities are primarily classified as retail banking, the group applies the ASA for operational risk capital requirements. A 0.035 multiplier is applied to the historical average gross receivables of the last three year ends. A capital requirement of 12% is applied as per Article 317 of the CRR.		5.2
Market risk	Standardised approach	Subject to a deminimus level, the group's exposure is calculated in each currency. A capital requirement of 8% of the exposure is applied.		5.3
Counterparty credit risk	Standardised approach	The group measures exposure value on counterparty credit exposures under the counterparty credit risk (CCR) mark-to-market method as permitted under CRD IV. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contract's potential credit exposure, which is derived by applying a multiple based on the contract's residual maturity to the notional value of the contract.		N/A

	Calculation Method	Description	Requirement	Reference
Credit valuation adjustment (CVA)	Standardised approach	The CVA is an adjustment to the fair value of a derivative contract reflecting the counterparty credit risk inherent in the contract. Calculated in accordance with CRR Article 384.		N/A
Pillar 2				
Pillar 2a	Calculated by the PRA based on the ICAAP submission and expressed as a percentage of RWEs.	Set as a percentage of RWEs, which may also include a fixed add-on.	Set by the PRA and not disclosed.	N/A
Pillar 2b – the PRA buffer	Calculated by the PRA based on the ICAAP submission and expressed as a percentage of RWEs.	PRA buffer, in combination with the CRD IV combined buffer is held to ensure the group can withstand an adverse market stress. The PRA buffer needs to be fully met with CET1 capital by 2019.	PRA buffer is set by the PRA and is not disclosed.	N/A
Pillar 2b – the Capital conservation buffer (CCoB)	Expressed as a percentage of RWEs.	The conservation buffer is part of the CRD IV combined buffer. It is held in combination with the counter-cyclical buffer and the PRA buffer to ensure the group can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer (CPB) effective 1 January 2016.	Introduced 1 January 2016, initially set at 0.625% and 1.25% from 1 January 2017, rising to 2.5% in 2019.	N/A
Pillar 2b – the Countercyclical buffer (CCyB)	Expressed as a percentage of RWEs.	All to be met by CET1 capital.	Set by the Financial Policy Committee (FPC), currently set at 0%. The PRA have indicated that their expectation is that the level of the CCyB in a 'standard risk environment' would be 1.0%. This is reviewed on a quarterly basis.	N/A

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

2.3 Capital resources

Type of capital	Description	Further information
Common Equity Tier 1 (CET1)	Comprises ordinary share capital, share premium and allowable reserves including retained earnings, after required regulatory adjustments.	Details of the main features of the ordinary share capital of Provident Financial plc are provided in appendix 3. The template in appendix 1 sets out the composition of the group's regulatory capital resources as at 31 December 2016. Quantitative disclosures can be found in section 4.

The group's own funds comprise entirely of CET1 capital in 2016 and 2015.

3. Risk management

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

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

4. Capital management and resources

4.1 Capital management and controls

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

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

The key controls in achieving this objective are:

> Monitoring the level of regulatory capital against the ICG and capital buffers on a monthly basis as part of the group's management accounts;

> Producing a monthly rolling forecast, projecting regulatory capital and the ICG and capital buffers for the remainder of the current financial year;

> Forecasting regulatory capital for the following five years and comparing to the group's projected ICG and capital buffers over the same period as part of the budget and budget update processes in December and June each year;

> Assessing the impact that strategic projects could have upon regulatory capital;

> Submitting regulatory capital reports to the PRA periodically; and

> Assessing the appropriateness of the ICG and capital buffers as part of the group's ICAAP (see 4.1.2), including stress and scenario testing, and reporting to the PRA if it is no longer considered to be appropriate.

4.2 ICAAP

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

The key output of the ICAAP is a document which:

> Provides a background to the group including the group structure, strategy, key management and the internal control framework and risk management processes;

> Calculates the minimum capital required under Pillar 1 of the regulations for the group;

> Identifies the various additional risks facing the group not included in Pillar 1 and considers the required level of additional capital to be held against those risks (Pillar 2a);

> Considers the level of additional capital to be held in the PRA buffer (Pillar 2b);

> Calculates the overall regulatory capital requirement of the group as a result of Pillar 1 and Pillar 2a and 2b; and

> Performs stress testing on the group's budget projections to ensure that both the group's calculated regulatory capital requirement and the ICG is sufficient even under extreme scenarios.

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

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

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

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

4.3 Capital resources

The group's own funds are comprised entirely of CET1 capital (£454.6m). The template in appendix 1 sets out the composition of the group's regulatory capital resources as at 31 December 2016.

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

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

The group's retained earnings and other reserves included in the 2016 audited financial statements have been reconciled to the group's regulatory capital at 31 December 2016 below:

	Note	2016 £m	2015 £m
Shareholder equity per the financial statements			
Share capital		30.6	30.5
Share premium account		272.7	270.7
Retained earnings and other reserves		486.8	406.5
Shareholder equity per the financial statements		**790.1**	707.7
CET1 adjustments:			
Deduction of unaudited and unverified profits and gains	1	(73.0)	(81.2)
Deduction of foreseeable dividends on verified profits	2	(63.2)	(45.3)
Defined benefit pension assets (net of deferred tax)	3	(60.0)	(51.0)
Fair value of derivative financial instruments (net of deferred tax)	4	0.2	0.5
Goodwill	5	(71.2)	(71.2)
Intangible assets (net of deferred tax)	6	(68.3)	(73.5)
CET1 capital		**454.6**	386.0
Total regulatory capital (verified basis)		**454.6**	386.0

Notes:

1. Any profits or gains not audited or verified by the external auditors at the balance sheet date are deducted from own funds. These profits relate to the period from 1 October to 31 December.
2. Under CRD IV, the group is required to deduct accrued dividends from own funds when they are 'foreseeable' rather than when they are declared. Foreseeable is determined to be in line with the group's current dividend policy of dividend cover of approximately 1.3 times. The foreseeable dividend relates to the profits accrued and verified for the period between 1 July and 30 September.
3. The defined benefit pension asset, net of deferred tax, is required to be deducted from own funds in order to calculate CET1 capital.
4. The fair value of derivative financial instruments, net of deferred tax, shall not be included in any element of own funds and as such are deducted from CET1 capital.
5. Goodwill principally reflects the surplus of consideration over identifiable net assets acquired and identifiable intangible assets following the acquisition of Moneybarn on 20 August 2014. This is required to be deducted from CET1 capital.
6. Intangible assets comprise the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014, and capitalised software and software development costs. These are required to be deducted from CET1 capital.

In accordance with the regulations set out in Capital Requirements Regulation (CRR), the profits and movements in other comprehensive income (OCI) for the final quarter of the financial year of the group have not been included within the regulatory capital since they were not verified or audited by the external auditors as at 31 December 2016. On 28 February 2017, the audited results of the group for the year ended 31 December 2016 were announced. The profits and movements in OCI for the final quarter of £73.0m, less the deduction of the foreseeable dividend on such profits of £68.8m, were therefore eligible on 28 February 2017 to be included within the CET1 capital of the group. The CET1 capital incorporating these final quarter movements is £457.8m. The reconciliation of the CET1 capital to the group's retained earnings on such a basis is shown on page 149 of the Annual Report and Financial Statements 2016.

4.4 Main features of own funds instruments

The group's CET1 capital consists of the group's equity share capital and reserves after adjusting for the amounts set out in section 4.3 above. The equity share capital consists of ordinary shares and the main features of the ordinary shares are set out in appendix 2.

4.5 Capital ratios

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

	2016 £m	2015 £m
CET1 (verified basis)	454.6	386.0
Risk exposure amount	2,091.8	1,796.0
CET 1 ratio (verified basis)	**21.7%**	21.5%
Total capital ratio (verified basis)	**21.7%**	21.5%

The group has no additional tier 1 capital and as such there is no difference between the CET1 capital ratio and the tier 1 capital ratio.

As explained above, the tier 1 capital of £454.6m excludes profits and movements in other comprehensive income (OCI) during the final quarter of the group's financial year ended 31 December 2016 in accordance with the regulations set out in the CRR. Following the announcement of the audited results of the group on 28 February 2017, the tier 1 capital including the profits and movements in OCI in the final quarter, less the deduction of the foreseeable dividend on such profits, is £457.8m and the total capital ratio reported on this basis is 21.9% (2015: 22.0%) as reported in the group's Annual Report and Financial Statements 2016. An analysis of the Tier 1 capital is shown in section 4.3.

4.6 Leverage ratio

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

The Basel Committee will test the proposed 3% minimum requirement for the leverage ratio and have proposed that final calibrations and any further adjustments to the definition of the leverage ratio will be completed in 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018.

The leverage ratio for the group is as follows:

	2016 £m	2015 £m
Total assets per audited financial statements	**2,826.6**	2,468.2
Derivative exposure items	**0.2**	0.1
Off balance sheet items[1]	**77.2**	61.9
Other regulatory adjustments[2]	**11.3**	–
Items deducted from own funds	**(199.4)**	(195.2)
Leverage ratio exposure	**2,715.9**	2,335.0
Tier 1 capital	**454.6**	386.0
Leverage ratio (verified basis)	**16.7%**	16.5%

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

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

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

As explained in section 4.3, the CET1 capital of £454.6m excludes profits and movements in OCI during the final quarter of the group's financial year ended 31 December 2016 in accordance with the regulations set out in the CRR. Following the announcement of the audited results of the group on 28 February 2017, the CET1 capital including the profits and movements in OCI in the final quarter, less the deduction of the foreseeable dividend on such profits, is £457.8m and the leverage ratio reported on this basis is 16.9% (2015: 16.9%) as reported in the group's Annual Report and Financial Statements.

5 Capital requirement

5.1 Pillar 1 minimum requirement

The Pillar 1 requirements against which the group holds the capital set out above are detailed below:

	2016		2015	
	Risk weighted exposure £m	Pillar 1 minimum £m	Risk weighted exposure £m	Pillar 1 minimum £m
Credit Risk	1,933.7	154.7	1,661.7	132.9
Operational Risk	148.3	11.9	134.2	10.7
Market Risk	9.7	0.8	–	–
Other Risks	0.1	–	0.1	–
	2,091.8	167.4	1,796.0	143.6

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

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

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

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

The group is required to include information on their exposure to interest rate risk and as such this information is set out in section 5.5.

5.2 Credit risk

An analysis of the Pillar 1 minimum capital requirements and risk weighted exposures as at 31 December 2016 is as follows:

	2016		2015	
	Risk weighted exposure £m	Pillar 1 minimum £m	Risk weighted exposure £m	Pillar 1 minimum £m
Retail exposures – not past due	1,581.6	126.5	1,380.8	110.5
Retail exposures – past due	224.9	18.0	197.8	15.8
Institutions	24.4	2.0	3.6	0.3
Equities	8.0	0.6	17.5	1.4
Other exposures	94.8	7.6	62.0	4.9
	1,933.7	154.7	1,661.7	132.9

The retail exposures constitute the group customer receivables and further disclosure on the retail exposures is set out in 5.2.1 to 5.2.4 below.

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

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

5.2.1 Method for determining specific credit risk adjustments – accounting policy for customer receivables

Customer receivables are initially recorded at the amount advanced to the customer plus directly attributable issue costs. Subsequently, receivables are increased by revenue and reduced by cash collections and any deduction for impairment.

The group assesses whether there is objective evidence that customer receivables are impaired on an ongoing basis. The principal criteria for determining whether there is objective evidence of impairment is delinquency in contractual payments.

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

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

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

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

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

5.2.2 Analysis of credit risk exposures

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

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

Exposures analysed by business division are as follows:

	2016 £m	2015 £m
Vanquis Bank	**1,424.7**	1,252.0
CCD	**584.8**	545.1
Moneybarn	**297.3**	219.6
Total	**2,306.8**	2,016.7

The average exposure in the year ended 31 December 2016 was £2,082.3m (2015: £1,851.2m).

Exposures analysed by geographical area are as follows:

	2016 £m	2015 £m
United Kingdom	**2,248.0**	1,961.6
Republic of Ireland	**58.8**	55.1
Total	**2,306.8**	2,016.7

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

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

2016	**Due within one year £m**	**Due in more than one year £m**	**Total £m**
Vanquis Bank	**1,424.7**	**–**	**1,424.7**
CCD	**496.0**	**88.8**	**584.8**
Moneybarn	**78.5**	**218.8**	**297.3**
Total	**1,999.2**	**307.6**	**2,306.8**

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

5.2.3 Credit quality of customer receivables

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

In the home credit business, past due but not impaired balances relate to loans which are contractually overdue. However, contractually overdue loans are not deemed to be impaired unless the customer has missed two or more cumulative weekly payments in the previous 12-week period, since only at this point do the expected future cash flows from loans deteriorate significantly.

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

2016	**Vanquis Bank £m**	**CCD £m**	**Moneybarn £m**	**Total £m**
Neither past due nor impaired	**1,338.8**	**323.1**	**235.3**	**1,897.2**
Past due but not impaired	**–**	**63.9**	**–**	**63.9**
Impaired	**85.9**	**197.8**	**62.0**	**345.7**
Total	**1,424.7**	**584.8**	**297.3**	**2,306.8**

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

5.2.4 Movement in impairment provisions

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

	2016 £m	2015 £m
Vanquis Bank	**162.4**	160.5
CCD	**120.0**	106.6
Moneybarn	**16.4**	8.9
Total	**298.8**	276.0

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

	2016 £m	2015 £m
At 1 January	**225.0**	178.6
Charge for the year	**162.4**	160.5
Amounts written off during the year	**(153.9)**	(127.1)
Amounts recovered during the year	**27.9**	23.5
Sale of Polish receivables	**–**	(10.5)
At 31 December	**261.4**	225.0

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

	2016 £m	2015 £m
At 1 January	**18.4**	27.1
Charge for the year	**18.5**	8.9
Amounts written off during the year	**(1.5)**	(2.0)
Sale of delinquent receivables	**–**	(15.6)
At 31 December	**35.4**	18.4

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

5.3 Operational risk

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

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

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

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

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

5.4 Market risk

The risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities. The group has operations in the Republic of Ireland and therefore has an element of foreign currency market risk. The group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

The exposure noted in section 5.1 in relation to market risk principally relates to amounts receivable from VISA Inc., details of which are noted below, together with the net asset position of CCD's branch in the Republic of Ireland.

On 21 June 2016, Visa Inc. confirmed the acquisition of Visa Europe Limited to create a single global payments business under the Visa brand. Vanquis Bank, a wholly owned subsidiary of Provident Financial plc, was a member and shareholder of Visa Europe and in exchange for its one redeemable ordinary share (previously held at par of €10), Vanquis Bank received upfront consideration in the form of cash, deferred consideration in the form of cash and preferred stock on completion of the transaction. Vanquis Bank's interest in Visa Europe Limited has been valued at fair value which reflects the expected deferred cash proceeds and a number of factors and uncertainties relating to the preferred stock. The preferred stock will convert at a point in the future to ordinary shares in Visa Inc.

The group has applied the guidance set out in articles 351 and 352 of the CRR. The original exposure at 31 December 2016 of £9.7m exceeded the threshold set out in CRR and accordingly a Pillar 1 capital allocation of £0.8m is recognised.

5.5 Interest rate risk

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

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

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

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

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

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

	2016 £m	2015 £m
Sterling	**0.8**	1.2
Euro	**0.7**	0.4
Total	**1.5**	1.6

5.6 Non-trading book exposures in equities

At 31 December 2016, the group had equity investments in the non-trading book of £8.0m (2015: £17.5m), relating entirely to the item noted in section 5.4 relating to the acquisition of Visa Europe Ltd by Visa Inc.

As the proposed transaction was announced on 2 November 2015, the item was revalued at 31 December 2015. Subsequent to recognition, there has been no impairment of Available for Sale (AFS) equities.

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

6 Capital buffers

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

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

The buffers which apply to the group at 31 December 2016 are as follows:

Capital Conservation Buffer (CCoB), which at 31 December 2016 was set at 0.625% of RWE, rising to 1.25% at 1 January 2017, 1.875% at 1 January 2018 and 2.5% at 1 January 2019;

Countercyclical Capital Buffer (CCyB), controlled by the FPC, which is currently 0% of RWE and is expected to remain so in the short term. The PRA have indicated that their expectation is that the level of the CCyB in a 'standard risk environment' would be 1.0%.

The group's institutional specific CCyB is a weighted average of those CCyBs set by the regulators in the jurisdictions in which it operates, namely the United Kingdom and the Republic of Ireland. The rates set by the FPC and the Bank of Ireland are currently 0% and therefore the group's institution specific CCyB requirement at 31 December 2016 was £nil (2015: £nil).

The geographical exposures are set out in the table below.

	2016 £m	2015 £m
United Kingdom	**2,248.0**	1,961.6
Republic of Ireland	**58.8**	55.1
Total	**2,306.8**	2,016.7

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

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

7 Liquidity

7.1 Liquidity risk

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

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

The group's liquidity position is managed in accordance with the group and Vanquis Bank's treasury policies and Internal Liquidity Adequacy Assessment Process (ILAAP), which is undertaken by Vanquis Bank on an individual and consolidated basis.

The group maintains appropriate levels of liquidity which is predominantly held at the Bank of England Reserve Account or in UK Government Gilts.

The group's treasury function is responsible for the day-to-day management of the group's liquidity and wholesale funding.

In March 2016, the ILAAP submission was approved by the boards of the group and Vanquis Bank.

7.2 Liquidity ratios

The CRR provided for two new liquidity safeguards. The Liquidity Coverage Ratio (LCR) aims to improve the resilience of banks to liquidity risks over a 30-day period. The Net Stable Funding Ratio (NSFR) aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one year period of extended stress. The group, by virtue of Provident Financial plc being the parent company of Vanquis Bank, is subject to the new PRA liquidity provisions that came into force on 1 October 2015.

7.2.1 LCR

The group's LCR at 31 December 2016 was 207% (2015: 141%). This is in excess of the minimum standard at that date of 80% mandated by the PRA. The PRA's mandated minimum requirement increased to 90% on 1 January 2017 and will further increase to 100% on 1 January 2018.

7.2.2 NSFR

An observation period for the NSFR, prior to implementation, commenced on 1 January 2013. On 23 November 2016, the European Commission published proposals to amend CRR and CRD including a binding Pillar 1 NSFR requirement from 2019.

8 Remuneration policies and practices

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

PRA supervisory statement LSS 8/13 'Remuneration Standards: the application of proportionality' (updated June 2015) categorises the group and Vanquis Bank within proportionality level 3 as a firm with total assets less than £15bn, reducing the level of disclosures required. This supervisory statement also sets out the PRA view that the requirement for remuneration disclosures applies only to CRR firms directly.

Information on the remuneration of the directors of the group is contained in the Directors' remuneration report presented in the Annual Report and Financial Statements.

APPENDIX 1 – Own funds disclosures

Presented in accordance with Annex IV from the Commission Implementing Regulation (EU) No 1423/2013.

		2016 £m	2015 £m	(B) Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 Capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts	**303.3**	301.2	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Ordinary share capital	**303.3**	301.2	EBA list 26 (3)
	of which: Instrument type 2			EBA list 26 (3)
	of which: Instrument type 3			EBA list 26 (3)
2	Retained earnings	**253.1**	203.1	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	**33.6**	29.1	26 (1)
3a	Funds for general banking risk	**–**	–	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	**–**	–	486 (2)
	Public sector capital injections grandfathered until 1 January 2018	**–**	–	483 (2)
5	Minority interests (amount allowed in consolidated CET1)	**–**	–	84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**64.0**	47.8	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**654.0**	**581.2**	
Common Equity Tier 1 Capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	**–**	–	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	**(139.5)**	(144.7)	36 (1) (b), 37
9	Empty Set in the EU	**–**	–	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	**–**	–	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	**0.2**	0.5	33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts	**–**	–	36 (1) (d), 40, 159
13	Any increase in equity the results from securitised assets (negative amount)	**–**	–	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**–**	–	33 (b)
15	Defined-benefit pension fund assets (negative amount)	**(60.1)**	(51.0)	36 (1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	**–**	–	36 (1) (f), 42, 472 (8)
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**–**	–	36 (1) (g), 44, 472 (9)
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**–**	–	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**–**	–	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty Set in the EU	**–**	–	

		2016 £m	2015 £m	(B) Regulation (EU) No 575/2013 Article Reference
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–	–	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative sector)	–	–	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	–	–	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	–	–	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising form temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	–	–	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	–	–	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	–	–	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty Set in the EU	–	–	
25	of which: deferred tax assets arising from temporary differences	–	–	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	–	–	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	–	–	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	–	–	36(1) (j)
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**(199.4)**	**(195.2)**	
29	**Common Equity Tier 1 (CET1) capital**	**454.6**	**386.0**	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	–	–	51, 51
31	of which: classified as equity under applicable accounting standards	–	–	
32	of which: classified as liabilities under applicable accounting standards	–	–	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	–	–	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	–	–	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	–	–	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	–	–	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	–	–	
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	–	–	52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	–	56 (b), 58, 475 (3)
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount about the 10% threshold and net of eligible short positions) (negative amount)	–	–	56 (c), 59, 60, 79, 475 (4)
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative	–	–	56 (d), 59, 79, 475 (4)

		2016 £m	2015 £m	(B) Regulation (EU) No 575/2013 Article Reference
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	–	–	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	–	–	
44	**Additional Tier 1 (AT1) capital**	–	–	
45	**Tier 1 capital (T1 = CET1 + AT1)**	–	–	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	–	–	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	–	–	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	–	–	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out	–	–	486 (4)
50	Credit risk adjustments	–	–	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	–	–	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	–	63 (b) (1), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	–	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount about the 10% threshold and net of eligible short positions) (negative amount)	–	–	66 (c), 69, 70, 79, 477 (4)
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	–	66 (d), 69, 79, 477 (4)
57	**Total regulatory adjustments to Tier 2 (T2) capital**	–	–	
58	**Tier 2 (T2) capital**	–	–	
59	**Total capital (TC = T1 + T2)**	**454.6**	386.0	
60	Total risk weighted assets	**2,091.8**	1,796.0	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	**21.7%**	21.5%	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	**21.7%**	21.5%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	**21.7%**	21.5%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirements in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	–	–	CRD 128, 129, 130, 131, 133

		2016 £m	2015 £m	(B) Regulation (EU) No 575/2013 Article Reference
65	of which: capital conservation buffer requirement	**–**	–	
66	of which: countercyclical buffer requirement	**–**	–	
67	of which: systemic risk buffer requirement	**–**	–	
67a	of which: Global Systemically Important Institution (G-SII) or other Systemically Important Institution (O-SII) buffer	**–**	–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**21.7%**	21.5%	CRD 128
Capital ratios and buffers				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**–**	–	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**–**	–	36 (1) (ii), 45, 48, 470, 472 (11)
75	Deferred tax assets arising form temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	**–**	–	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**–**	–	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**–**	–	62
78	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**–**	–	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**–**	–	62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements	**–**	–	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	**–**	–	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	**–**	–	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**–**	–	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	**–**	–	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**–**	–	484 (5), 486 (4) & (5)

APPENDIX 2 – Leverage ratio disclosures

Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200.

Reference date	31 December 2016
Entity name	Provident Financial plc
Level of application	Consolidated

	Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	Applicable Amount 2016 £m	Applicable Amount 2015 £m
1	Total assets as per published financial statements	**2,826.6**	2,468.2
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**–**	–
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 CRR)	**–**	–
4	Adjustments for derivative financial instruments	**0.2**	0.1
5	Adjustments for securities financing transactions SFTs	**–**	–
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**77.2**	61.9
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)		
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	**77.2**	61.9
7	Other adjustments	**(188.1)**	(195.2)
8	**Total leverage ratio exposure**	**2,715.9**	2,335.0

	Table LRCom: Leverage ratio common disclosure	CRR leverage ratio exposures 2016 £m	CRR leverage ratio exposures 2015 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**2,837.9**	2,468.2
2	(Asset amounts deducted in determining Tier 1 capital)	**(199.4)**	(195.2)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**2,638.5**	2,273.0
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	**0.2**	0.1
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**–**	–
EU-5a	Exposure determined under Original Exposure Method	**–**	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**–**	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**–**	–
8	(Exempted CCP leg of client-cleared trade exposures)	**–**	–
9	Adjusted effective notional amount of written credit derivatives	**–**	–
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**–**	–
11	**Total derivative exposures (sum of lines 4 to 10)**	**0.2**	0.1
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**–**	–
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**–**	–
14	Counterparty credit risk exposure for SFT assets	**–**	–

	Table LRCom: Leverage ratio common disclosure	CRR leverage ratio exposures 2016 £m	2015 £m
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	–	–
15	Agent transaction exposures	–	–
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	–	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	–	–
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**771.8**	619.0
18	(Adjustments for conversion to credit equivalent amounts)	**(694.6)**	(557.1)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**77.2**	61.9
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on- and off-balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on- and off-balance sheet))	–	–
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on- and off-balance sheet))	–	–
	Capital and total exposures		
20	**Tier 1 capital**	**454.6**	386.0
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**2,715.9**	2,335.0
	Leverage ratio		
22	**Leverage ratio**	**16.7%**	16.5%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Fully phased in**	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	–	–

	Table LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	CRR leverage ratio exposures 2016 £m	2015 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**2,837.9**	2,468.2
EU-2	Trading book exposures	–	–
EU-3	Banking book exposures, of which:	**2,837.9**	2,468.2
EU-4	Covered bonds	–	–
EU-5	Exposures treated as sovereigns	**180.3**	134.2
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	–	–
EU-7	Institutions	**37.8**	19.2
EU-8	Secured by mortgages of immovable properties	–	–
EU-9	Retail exposures	**2,108.8**	1,841.1
EU-10	Corporate	–	–
EU-11	Exposures in default	**198.0**	175.6
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**313.0**	298.1

APPENDIX 3 – Main features of the ordinary shares of Provident Financial plc

1	Issuer	Provident Financial plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law(s) of the instrument	English Law
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£303.3m of ordinary share capital and share premium
9	Nominal amount of instrument (Currency in million)	£30.6m
9a	Issue price	n/a
9b	Redemption price	n/a
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	n/a
15	Optional call date, contingent call dates and redemption amount	n/a
16	Subsequent call dates, if applicable	n/a
17	Fixed or floating dividend/coupon	n/a
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	n/a
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Write-down features	No
31	If write-down, write-down trigger(s)	n/a
32	If write-down, full or partial	n/a
33	If write-down, permanent or temporary	n/a
34	If temporary write-down, description of write-up mechanism	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n/a
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	n/a