VANQUIS BANK LIMITED
(Company Number 2558509)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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CONTENTS

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DIRECTORS' REPORT

Vanquis Bank Limited ('the Company') is a wholly-owned subsidiary of Provident Financial Holdings Limited, which is wholly-owned by Provident Financial plc ('PF plc'), the ultimate parent. PF plc, together with its subsidiaries, forms the Provident Financial group ('the Group'). PF plc is a public limited company, listed on the London Stock Exchange.

The following provisions, which the Directors are required to report in the Directors' Report, have been included in the Strategic Report:

- How the Directors have engaged with colleagues, how they have had regard to colleague interests and the effect of that regard, including on the principal decisions taken by the Company in the financial year (page 17); and
- How the Directors have had regard to the need to foster the Company's business relationship with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company in the financial year (pages 15 to 19).

Principal activities

The principal activity of the Company is to provide credit cards and personal unsecured loans to underserved consumers, funded by a combination of retail deposits, share capital, retained reserves and, since August 2021, drawdowns via the Bank of England's Term Funding Scheme with additional incentives for Small and Medium Enterprises (TFSME).

Profit

The income statement for the year is set out on page 56. The profit after tax for the year of £146.0m (2020: £42.6m) has been added to retained earnings. The results have been discussed on page 8.

Dividends

In 2021, an interim dividend of £45.0m was paid (2020: £30.0m). No final dividend for the year ended 31 December 2021 is proposed (2020: £40m).

Directors

A common Board structure for PF plc and the Company was implemented as part of the Group's new target operating model. The Directors of the Company during the year ended 31 December 2021, all of whom were directors for the whole year then ended and to the date of this report, except where stated, were:

M J Le May	Managing Director (appointed 13 January 2022, previously Non-executive Director)
N Kapur	Finance Director (appointed 13 January 2022, previously Non-executive Director)
P Snowball	Chairman and Independent Non executive Director (appointed 13 January 2022)
A Blance	Independent Non-executive Director and Senior Independent Director (appointed 13 January 2022)
G Lindsay	Independent Non-executive Director (appointed 13 January 2022)
A Knight	Independent Non-executive Director (appointed 13 January 2022)
M James	Independent Non-executive Director (appointed 13 January 2022)
P Hewitt	Independent Non-executive Director (appointed 13 January 2022)
R East	Chairman and Independent Non-executive Director (resigned 13 January 2022)
N C Chandler	Managing Director (resigned 13 January 2022)
G Thompson	Finance Director (resigned 13 January 2022)
A F Reczek	Independent Non-executive Director (resigned 21 January 2021)
J Baum	Independent Non-executive Director (appointed 13 January 2021, resigned 13 January 2022)
J Connor	Independent Non-executive Director and Senior Independent Director (resigned 13 January 2022)
A Morris	Independent Non-executive Director (resigned 13 January 2022)

Principal risks and uncertainties and financial risk management

As announced in January 2022, the Group has restructured the Board of the Company, to substantially align its membership with that of PF plc's Board. During the year the Board considered this as the next phase of the Group's specialist bank strategy and determined that the necessary work and stakeholder engagement should be undertaken to create a simpler, more efficient Group governance structure. In January 2022 the Board approved the proposed Board changes and believes that the changes will help streamline and enhance both the PC plc's and the Company's handling of corporate governance.

A 'three lines of defence' model is adopted in the Company to help identify, assess, manage and report risks. The 'first line' are departments such as Commercial, Operations and IT; the 'second line' are the Risk and Compliance functions and the 'third line' is the Internal Audit function. The overall internal control and risk management framework is the responsibility of the Board of Directors ('the Board'), which meets at least eight times a year, with certain responsibilities being delegated to the Board Committees: Audit Committee, Nomination Committee, Remuneration Committee and Risk Committee. There are further forums including (but not limited to) the Executive Committee, the Business Review Forum, the Assets and Liabilities Committee (ALCO), the Financial Control Forum, the Product and Pricing Forum, and the Credit Risk Forum. The Customer, Culture and Ethics (CCE) Committee, which was previously a PF board committee, is to also become a committee of the Company's Board during 2022. The CCE Committee monitors the Group's culture and behaviours to enable the Board to identify and address any misalignments with the desired culture. Information on the key risks of the Company are included within the risk disclosures of the Group Annual Report and Financial Statements.

In line with its delegated authority framework, the Board reserves certain matters for itself (including risk and remuneration policies) and delegates authority for other matters to the Managing Director and to its statutory committees who report regularly to the Board.

Towards the end of the year, the Board approves a detailed budget for the year ahead and outlines projections for the current and subsequent four years. An update to the budget is approved mid-year. Actual performance against these budgets is monitored with the assistance of detailed management accounts and which is supplemented with a rolling forecast for the full year. The financial performance of the Company is reviewed as part of the Executive Committee, the Business Review Forum and at a weekly trading meeting comprising key members of the Executive Committee. The Finance Director also presents a report covering financial performance, a rolling forecast, key prudential measures and other management information to the Board at each Board meeting.

In line with the formal delegation of authorities and regulatory accountabilities, the Chief Risk Officer is ultimately responsible for management and oversight of the Company's enterprise risk management and the Finance Director is ultimately responsible for the financial management and controls of the Company. The Finance Director discharges and informs his decision-making through certain forums such as the ALCO, the Financial Control Forum, the Prudential Risk Forum and the Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP).

The Audit Committee is responsible for overseeing the monitoring of the Company's systems and controls, including overseeing the operation of the Company's internal and external audit functions and monitoring its independence, effectiveness and objectivity. This Committee meets at least quarterly and reports directly to the Board and is chaired by a Non-executive Director.

Risk management is overseen by the Company's Risk Committee which meets at least every quarter (additional meetings are held for example to approve regulatory documents) and is also chaired by a Non-executive Director. It is responsible for ensuring that identified risks are managed to acceptable levels and within the Company's risk appetite. The Risk Committee reports to the Board and provides information to the Audit Committee and the Risk Committee works with the Group Risk Committee to manage risks on a Group-wide level. The Company participates in the Group-wide risk management framework of PF plc which is the responsibility of the Group Board. Details of the Group's risk management framework, together with the Group's principal risks and uncertainties, are set out in the annual report of PF plc. This includes the regular production and review of a comprehensive risk register and the management of the Company's risk appetite framework. The Risk Committee is responsible for the monitoring and control of compliance with legal and regulatory requirements. These requirements include those of the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) (including requirements relating to anti money laundering controls, financial conduct, conduct risk and treating

Principal risks and uncertainties and financial risk management (continued)

customers fairly), and the Office of the Information Commissioner (Data Protection Act 2018 requirements).

During 2021, the Company has placed significant emphasis on advancing the maturity of its Risk Management Frameworks, through a focused Risk Enhancement Programme sponsored by the Managing Director. A core part of this work has been an assessment and strengthening of the Company's first line control environment, involving the development of a Risk Control Self-Assessment methodology and regular testing of controls. This work has been undertaken in close collaboration with the Group Risk function, driving towards a harmonised approach to risk management across the Group. This focus will continue through 2022.

The Board delegates responsibility for overseeing remuneration to the Remuneration Committee which meets at least three times a year and is chaired by a Non-executive Director. The Remuneration Committee is responsible for determining rewards for directors and employees and ensuring that the Company is compliant with the requirements of the PRA/FCA Remuneration Code. Until 31 December 2019, the Company was required as part of the code to publish an annual disclosure statement on an individual basis, versions of which up to and including the 31 December 2019 disclosures can be found on the Company's website (www.vanquis.co.uk). Following the application of the CRD V Remuneration Code on the Group on a consolidated basis, the contents of the remuneration disclosure are required to reflect the policy and aggregated remuneration on a consolidated Group basis. As a result, with effect from 31 December 2020 the Company's individual disclosures have been aggregated into the consolidated Group Pillar 3 disclosures, which can be found on the Group's corporate website (www.providentfinancial.com).

The Nomination Committee reports directly to the Board and is responsible for the processes associated with board structure and executive and board appointments. The Chairman is the Chair of the Board and of the Nomination Committee and a Non-Executive Director. The Committee meets at least twice a year and more frequently if necessary.

Information on the management of specific financial risks including credit, liquidity, interest rate, market, capital, currency and recovery and resolution risks is provided on pages 69 to 72.

Employee involvement

The Company systematically provides employees with information on matters of concern to them, consulting with them or their representatives regularly, so that their views may be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged as a common awareness amongst all employees of the financial and economic factors affecting the Company and Group plays a major role in maintaining its competitive position. The Company encourages the involvement of employees by means of newsletters, performance updates, regular management team briefings, staff meetings and town hall meetings. The Company also carries out regular employee engagement surveys. Save As You Earn (SAYE) and Buy As You Earn (BAYE) share schemes are operated by the Group to reinforce staff involvement in the Group and to encourage an interest in its progress. These schemes are open to all permanent employees of the Company with more than six months' service.

Equal opportunities

Everyone at the Company is committed to removing all discrimination and encouraging diversity amongst the workforce. The Company's simple and clear aim is to ensure that its workforce will be truly representative of all sections of society where each and every employee feels respected and valued, and to create a company that is committed to promoting equal opportunities in employment.

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, pregnancy, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The Company 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 Company including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the Company to ensure

Equal opportunities (continued)

their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Social and community matters

The Company's approach to community investment is aligned with the Group's purpose of helping to put people on a path to better everyday life. Community investment activities are delivered through a Group-wide Social Impact Programme. The strategy of this programme is to invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, can reduce social and/or financial inclusion. This programme delivers community investment activities under the following three workstreams:

- **Customer and vulnerability** – working with charities and specialist partners to provide support which addresses issues such as customer vulnerability, product accessibility and financial difficulties;
- **Education** – supporting children, young people and adults to boost their education, skills and aspirations in order to participate in society and secure a brighter financial future; and
- **Community** – supporting Community Foundations and other partners to address the wide range of social inclusion and social mobility issues that are relevant to our customers and the communities where the Group operates. Colleagues are encouraged to engage with the volunteering programme which encourages participation in company-led volunteering, as well as offering one day per year to volunteer for a voluntary organisation of their choice. Matched funding of up to £500 per annum towards colleagues' own fundraising activities is also available.

Health and safety

Health and safety standards and benchmarks have been established and compliance is monitored by the Board. An annual health & safety report is reviewed and approved by the Board each year. During 2021 management reported to the Board on how the Company had responded to the Covid-19 related UK government guidelines and the key measures that had been implemented to ensure the health and safety of employees.

Climate change

Disclosures are made in the Group's Annual Report and Financial Statements 2021 in respect of the Group's:

- Scope 1 and 2 greenhouse gas emissions in tonnes of carbon dioxide equivalent;
- Scope 3 carbon emissions in supply chain;
- Compliance with Taskforce on Climate related financial disclosures ("TCFD") recommendations
- A relevant intensity ratio (i.e. kilograms of carbon dioxide equivalent per customer); and
- Information on underlying energy use for 2021.

The disclosures are produced in accordance with the UK Government's Streamlined Energy and Carbon Reporting (SECR) policy that has been implemented through the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018. This disclosure covers the greenhouse gas emissions and energy use for the Group and its operating divisions incorporating the Company.

Anti-bribery and corruption

The Group's Corporate Policies, which include a Corporate Hospitality Policy, reflect the requirements of the Bribery Act 2010 and a corporate hospitality register is maintained using a risk-based approach. Although the risks for the Company arising from the Bribery Act 2010 continue to be assessed as low, all employees are, nevertheless, required to undergo appropriate training and instruction to ensure that there is effective awareness of anti-bribery and corruption policies and procedures. Compliance is regularly monitored by the Risk Committee and is subject to periodic review by the Company's internal audit function.

Supply chain responsibility

In accordance with the requirements of the Modern Slavery Act 2015, the Group's most recent statement on modern slavery and human trafficking, dated March 2022, sets out the actions that the Group is taking to ensure instances of modern slavery or human trafficking are not occurring directly in its businesses as well as indirectly in the supply chains the Group uses to procure goods and services. The statement also communicates the measures the Group has taken to improve internal understanding and awareness around modern slavery and human trafficking. The statement can be found on the Group company's website (www.providentfinancial.com).

Key performance indicators

Further disclosure of non-financial Key Performance Indicators (KPI's) can be found in the Strategic Report on pages 8 to 11 and the Group's Annual Report and Financial Statements 2021.

Indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Future developments

Details of future developments can be found in the Strategic Report on pages 11 to 13.

Events after the balance sheet date

Details of significant events since the balance sheet date are contained in note 31 to the financial statements.

On 13 January 2022 PF plc announced a restructure of the Board of the Company to substantially align its membership with the Board of PF plc. The decision to streamline the Boards of the two legal entities formed part of the Group's new target operating model which has delivered immediate benefits of efficiency and reduced duplication in the Group's governance structure. The changes were an important step in transforming the operating model and executing the Group's strategy.

Auditor information

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP as auditors will be proposed at the forthcoming PF plc Annual General Meeting.

Approved by the Board and signed on its behalf by:

M J Le May
Managing Director
6 April 2022

STRATEGIC REPORT

Review of business

The Company is a leading specialist in the large and established credit cards market and is developing its loans proposition. During the fourth quarter of 2021 the Company's open market loans pilot started encouragingly and the Company launched the pilot of a new personal loans offering, Sunflower loans. The distinct loan products are designed to serve different customers with different risk profiles in the mid-cost segment. It has a strong capital base and has access to liquid funds through the resilient retail deposits markets. The Company has diversified its funding sources from solely retail deposits to that of accessing the Bank of England's TFSME from August 2021. The Company's principal risks and uncertainties are detailed in the Directors' report on page 4.

Covid-19

The on-going impact of Covid-19 persisted through 2021, albeit to a lesser extent as the UK entered 2021 with a lockdown in January 2021, easing through the summer period, then under tighter restrictions in December 2021 due to the Omicron variant. Discretionary spending remained subdued compared with historical levels although it was materially improved compared with 2020. Customers' card utilisation remained below pre-Covid-19 levels. Spending, income and non-interest income continued to be lower than total outflows (payments and charge offs) which resulted in a further reduction in gross receivables during the year, albeit at a lower level than 2020.

Financial performance

An analysis of the Company's income statement and KPIs for 2021 and 2020 is set out below:

For the year ended 31 December	**2021 £m**	2020 £m	Variance %
Income	**405.4**	489.2	(17.1)
Funding costs	**(25.9)**	(35.5)	27.0
Net interest margin	**379.5**	453.7	(16.4)
Impairment	**(5.9)**	(239.9)	97.5
Risk-adjusted net interest margin	**373.6**	213.8	74.7
Costs (before exceptional items)	**(194.5)**	(171.4)	(13.5)
Profit before tax and exceptional items	**179.1**	42.4	322.4
Exceptional items	**(1.1)**	8.3	(113.3)
Profit before tax	**178.0**	50.7	251.1
Tax charge	**(32.0)**	(8.1)	(295.1)
Profit after tax	**146.0**	42.6	242.7

KPIs			
New customer bookings ('000)	**212**	248	(14.5)
Customer numbers ('000)	**1,541**	1,667	(7.6)
Receivables (£m)	**1,091.5**	1,094.3	(0.3)
Average receivables (£m)	**1,021.3**	1,233.9	(17.2)
Income yield[1] (%)	**39.7**	39.6	0.1
Impairment rate[2] (%)	**0.6**	19.4	18.8
Net operating margin[3] (%)	**36.6**	17.3	19.3
Cost income ratio[4] (%)	**48.0**	35.0	(13.0)
Return on equity[5] (%)	**41.3**	11.1	30.2

1 *Income divided by average receivables for the year ended 31 December.*
2 *Impairment divided by average receivables for the year ended 31 December.*
3 *Risk-adjusted net interest margin divided by average receivables for the year ended 31 December.*
4 *Costs (before exceptional items) divided by income for the year ended 31 December.*
5 *Profit before exceptional items after tax divided by average equity for the year ended 31 December.*

Review of business (continued)

Certain alternative performance measures (APMs) have been used in this report. See page 100 for an explanation of relevance as well as their definition.

The Company's profit before tax and exceptional items increased by 322.4% to £179.1m in 2021 (2020: £42.4m). The increase in profits reflected the benefit from impairment provision releases and the lower level of charge offs due to Covid-19 and furlough, partly offset by lower income due to the reduction in receivables and lower fee income.

New customer bookings of 212,000 were 14.5% lower than 2020 (2020: 248,000) reflecting tightened underwriting standards in response to Covid-19. Full-year credit card bookings of 199,000 (with the remainder being loans) were 41,000 adverse to 2020 largely due to the tightening of lending from Q2-20 at the start of the pandemic. Accordingly, customer numbers ended the year at 1,541,000 and 126,000 lower than last year. The main year on year movement reflects the c.114,000 dormant account closures in early H1-21 with lower new business volumes being broadly offset by lower charge offs due to the benefits of furlough, payment freezes and the rent moratorium.

Amounts receivable from customers ended 2021 at £1,091.5m, 0.3% lower than 2020 (2020: £1,094.3m). Receivables continued to decrease year on year but at a significantly lower rate than experienced in 2020. Customer spending was impacted by Omicron at the end of the year which offset traditionally strong spending in December. Spend per customer able to spend (i.e. not in delinquency) in Dec-21 of £145 was £13 higher than Dec-20 but £21 lower than Dec-19, reflecting the impact of the partial lockdown due to Omicron and changing customer spending habits. On a full year basis, spend in absolute terms increased to £2.05bn in 2021 (versus £1.96bn in 2020) notwithstanding a reduction in cash withdrawal usage as well as travel spend not increasing to pre-Covid levels. Full year credit line increases (CLIs) of c.£169m were c.£31m higher than 2020, largely driven by the pausing of CLIs throughout summer of 2020 due to credit tightening and the launch of the expansion to lower utilised customers. These were partially offset by the loans prioritisation test (offering a customer a loan first rather than a CLI) which ran for 3 months from Sep-21 to Nov-21. CLDs of £10.9m were implemented initially, with an expected on-going run rate of c.£1m per month.

Income has shown a 17.1% reduction to £405.4m in 2021 (2020: £489.2m) compared with the 17.2% reduction in average receivables. This reflects: (i) lower ROP income of £9.4m (£20.8m in 2021 versus £30.2m in 2020) due to ongoing attrition; (ii) lower late and overlimit fees of £7.5m (£26.0m in 2021 versus £33.5m in 2020) due to fee changes implemented throughout 2020 and 2021; and (iii) lower cash advance fees of £1.8m due to the full-year impact of the ban on credit card gambling introduced in Apr-21 (£5.7m in 2021 versus £7.5m in 2020). Income in 2021 includes £4.3m (2020: £1.7m) of interest from an intercompany loan of £70m provided to PF plc in August 2020 and the loan accrues interest at 6.25%.

Funding costs of £25.9m have decreased during 2021 (2020: £35.5m). This was lower than 2020 due to: (i) lower average funding requirements with excess 1-year funds raised due to Covid-19 continuing to mature during the year; (ii) lower funding rates with the addition of TFSME from August-21 at 31bps.

Impairment charges reduced significantly by 97.5% to £5.9m in 2021 (2020: £239.9m). The full-year impairment charge is just £5.9m reflecting the benefit of impairment provision releases and the lower level of charge offs due to Covid-19 and furlough. The overall impairment rate has decreased from 19.4% in 2020 to 0.6% in 2021.

Review of business (continued)

The macro-economic assumptions used in the preparation of the 2021 year end compared with 2020 are set out below:

	2021		2020	
	Unemployment peak	Weighting	Unemployment peak	Weighting
Base	4.8%	50%	7.9%	50%
Upside	4.7%	10%	6.2%	10%
Downside	6.5%	35%	10.1%	35%
Severe	8.6%	5%	12.7%	5%

The overall impairment provision coverage ratio (impairment provision divided by gross receivables) has decreased from 30.2% in 2020 to 24.8% in 2021 as a result of a more benign macro-economic environment and a reduction in Covid-19 post-model adjustments.

The higher income yield and a lower impairment rate combined to equate to an increase in the net operating margin from 17.3% in 2020 to 36.6% in 2021.

Costs (excluding exceptional items) have increased by 13.5% to £194.5m in 2021 (2020: £171.4m) reflecting higher regulatory and change spend, increase in acquisition costs and asset disposal / depreciation costs, which were partly offset by the on-going cost efficiency programme. The cost income ratio has increased from 35.0% in 2020 to 48.0% in 2020 due to the reduction in income as well as an overall increase in cost.

Exceptional items

In 2021, an exceptional cost was recognised in respect of a £1.1m accrual for redundancy/terminations.

Tax

The effective tax rate for the financial year on the profit before tax and exceptional items was 18.0% (2020: 13.9%). The effective tax rate reflects the impact of the bank corporation tax surcharge of 8% which applies to taxable profits in excess of £25m and where taxable profits ignores group relief from non-banking group companies. The effective tax rate also reflects the beneficial impact of (i) re-measuring deferred tax assets at 33% to the extent they are expected to reverse after 1 April 2023 following the increase in the mainstream corporation tax rate from 19% to 25% from 1 April 2023; and (ii) losses surrendered by discontinued operations elsewhere in the Group in the current and prior year which the Company has paid for at a discounted rate;

The tax credit in respect of exceptional items in 2021 amounts to £0.3m (2020: tax charge of £2.2m) and represents tax relief at the combined mainstream corporation tax rate and the bank corporation tax surcharge rate of 27% on the exceptional costs.

Return on Equity (ROE)

The ROE has increased from 11.1% in 2020 to 41.3% in 2021 reflecting the significant increase in profit, on a reduced average equity following the payment of £85m of dividends to PF plc in 2021.

Balance sheet

The Company has a robust balance sheet and a strong funding and liquidity position. At the end of 2021, the Company had regulatory capital, on a verified basis, of £381m (2020: £407m), equating to a total CET1 ratio of 32.1% (2020: 33.4%) and a surplus above the minimum regulatory requirement[1] of approximately £121m (2020: £140m).

[1] Excluding any confidential PRA buffers, if applicable.

Review of business (continued)

The Company's liquid assets buffer amounted to £414.8m at the end of 2021, down significantly from £833.3m at the end of 2020 due to 1 year fixed term retail deposits raised during 2020, in response to the pandemic, maturing in April 2021 and May 2021. This provided liquidity headroom of approximately £268.2m (2020: £691.9m) over the Company's Individual Liquidity Requirement (ILR). Retail deposits amounted to £1,018.6m (2020: £1,683.2m) at the end of 2021.

In January 2021, the Company entered into a securitisation structure over £453m of receivables. The Company retains bonds issued as part of the securitisation, and in August 2021 utilised the notes as collateral with the Bank of England (BoE) to support borrowings of £174m under the TFSME. This structure offers three primary liquidity and funding benefits to the Company: (i) diversification of funding; (ii) access to BoE facilities; and (iii) creation of contingent liquidity.

Outlook

The Company remained profitable in 2021 and has strong capital and liquidity positions. It remains focused on enhancing its customer and digital propositions as well as broadening its range of products.

Future developments

Purpose and strategic statements

The Company has a clear purpose that is aligned with the purpose of the Group and all of its divisions. The Company and Group purpose is '*to help put people on a path to a better everyday life*'.

In support of this purpose, the Company has also set out its ambition and its vision. The Company's ambition is '*to be THE customer champion in the sector by 2023*'. The Company's vision is '*Better banking for everyday people. A digital first bank providing a range of tailored financial products for consumers whose needs are not well met by the high street banks*.'

The purpose, ambition and vision set the context for the Company's strategy.

Market opportunity

Today, the Company has a leading position in the credit cards market for customers who are not well served by mainstream banks. The Company also offers unsecured personal loans to its existing customers and launched its offering into the open market in October 2021. These product categories are large and established and enable the Company to meet distinct customer borrowing needs.

(1) Credit card market

Market characteristics

- The credit card market is large and stable, although the market (as most credit markets were) was impacted by Covid-19 in 2020 and 2021.
- Competition in the market remains stable with key competitors including Capital One, NewDay own-brand cards and the Barclaycard Forward card.
- There have been a few new entrants in recent years (Level, 118118 Money and Zopa), although these providers are yet to reach significant scale.
- The Company is the only non-prime specialist, covering a broad range of risk categories in the market.
- The buy now pay later (BNPL) market has grown rapidly over the period, boosted by the growth in online retail. BNPL offers consumers a potential alternative to credit card lending and a number of cards issuers have developed BNPL like propositions in response to the opportunity.

Future developments (continued)

Market appeal

- Credit cards have high cultural adoption and acceptance in the UK, meaning a substantial and established domestic market.

- Credit cards have significant everyday utility as a means of payment that offers a range of protections, as well as a flexible form of credit.
- The everyday utility of the card product means customers are generally highly engaged with the product.

Covid-19 impact

- During 2020 and 2021, credit card users have typically reduced their balances. This has been driven by lower levels of spending during Covid-19 restrictions.
- New business volumes recovered across 2021, evidence of the appeal of the credit card as a means of payment and credit.

(2) Personal loans market

Market characteristics

- The market is of a substantial size (>£1bn) and was growing before the impact of Covid-19.
- Providers operate at a range of price points (c.15–100% APR) enabling consumers with a broad range of risk profiles to access unsecured loans.
- There have been a number of new nearer prime entrants (e.g. Lendable and Chetwood Financial) in recent years.

Market appeal

- High cultural adoption and acceptance in the UK.
- Offering personal loans provides the opportunity to leverage core skills in loans and allows the Company to meet more of its existing customer needs with a large opportunity in the open market.
- In addition, the Group has strong access to funding, low cost of funds and considerable capital strength versus competitors in this market providing an opportunity for the Company to meet a greater level of the demand in the market.

Covid-19 impact

- In 2020, supply in the market reduced significantly as lenders quickly adjusted to changing macro conditions and reduced new lending.
- The impact of Covid-19 continued in 2021, though the market started to recover as restrictions eased and the economy normalised.

Strategy

The Company's strategy has been set to enable the business to deliver on its purpose and achieve its ambition and vision and comprises four core strategic pillars; *Grow, Digitise, Cost* and *Culture*:

Grow

The grow pillar focuses on developing the Company's core cards capability and evolving the Company's product proposition to meet a broader set of customers' needs. The Company will continue to optimise its channel performance and to develop its existing customer management capability in support of its core-cards proposition. In 2021, the Company grew its white label partnership with thimbl. The Company's white label capabilities will continue to evolve, potentially leading to further partnership opportunities in the future.

The Company currently offers unsecured personal loans to selected credit card customers and in October 2021

Future developments (continued)

the Company broadened its proposition, offering personal loans in the open market to the near prime segment. The Company also launched a new brand ‘Sunflower Loans’ into the open market in November 2021, with a proposition specifically tailored for customers in the adjacent risk segment to the Vanquis Loans proposition. The Company will continue to develop its open market loans propositions across 2022 and beyond.

Digitise

The continuing development of digital capability is an essential driver in delivering good customer outcomes and maintaining the returns of the Company in the context of a moderating income yield. Through the digitise pillar, the Company will evolve its customer offering providing customers more choice, including launching virtual wallet capabilities (through Apple Pay and Google Pay) and rebuilding and relaunching an enhanced mobile app (with greater in-app functionality, providing customers more options for interacting with the Company and more options for customers to self-serve).

Cost

The Company continually challenges its cost base, efficiency and effectiveness to ensure it remains competitive in the market. In addition, the Company is focussed on optimising its funding structure to minimise the cost of funding. Both activities are expected to continue into 2022 and beyond to continue realising benefits and efficiencies.

Culture

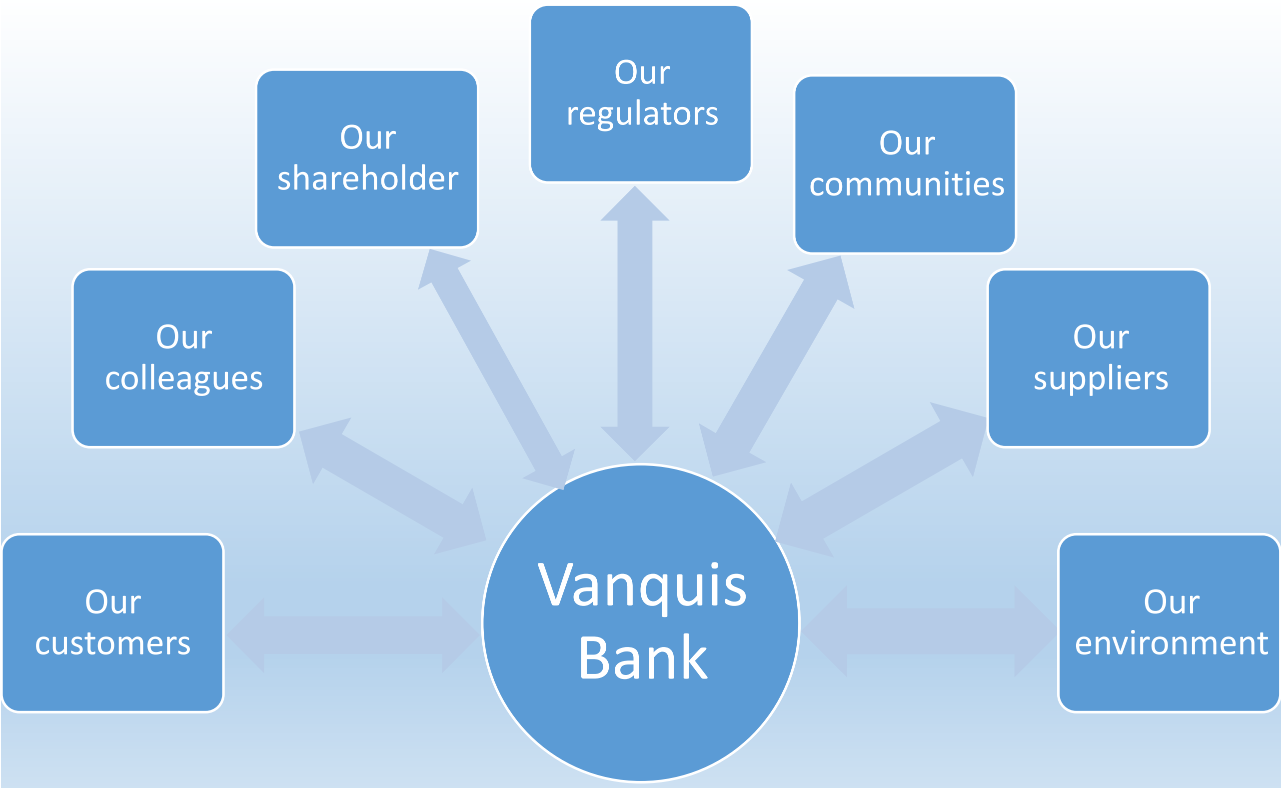
Within the culture pillar, the Company is prioritising the continued safe return to the office of colleagues across 2022. Recognising the value and benefits of remote working, the aim is to provide a blend of office and home working for colleagues where possible. Additional initiatives within this pillar include working in a more integrated way with other parts of the Group and ensuring positive customer outcomes through an effective control environment and through the development of additional data sources such as open banking.

<u>Financial targets and goals</u>

The Company’s medium-term target is to deliver an ROE in excess of 15% per annum. This is supplemented by a number of financial metrics, including receivables growth of 10% on a compound annual basis, as well as a target cost income ratio of 35%. Additional goals targeted as part of the Company’s strategy include - good customer outcomes (net promoter score of top quartile for financial services providers and >70% of customers making their recommended payment), meeting more of its customers borrowing needs (>10% customers with two or more products), digital adoption (mobile app engagement >85%) and colleague engagement (>70% of colleagues are proud to work for the Company).

Statement regarding section 172 Companies Act 2006

Our purpose, as part of the Provident Financial Group, is predicated on our customers and is underpinned by a number of strategic drivers and behaviours. These aim to deliver an appropriate balance between the needs of our customers, our regulators, investors and our employees, in order to ensure that we are successful and sustainable for all of our stakeholders. Our stakeholders are individuals or groups who have an interest in, or are affected by, the activities of our business; our key stakeholders are set out in the diagram below. We seek to engage with them regularly to ensure that we are aware of their views and concerns with regard to a wide range of issues and we do this in a number of ways, as detailed on this page and pages 15-19. By balancing the interests of our stakeholders, lending responsibly, contributing to wider society and ensuring the appropriate corporate governance arrangements are in place, we can maintain a reputation for high standards of business conduct. You can read about how we have generated and preserved value over the long term on page 3 and on page 8. You can read more about how we maintain a reputation for high standards of business conduct, equal opportunities, environmental management, social and community matters, health and safety, anti bribery, corruption and supply chain responsibility in the directors report on pages 3-7. You can also read about our governance arrangements and how we apply and comply with the 2018 UK Corporate Governance Code on pages 23-42.



Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our customers We engage with our customers to determine whether we are delivering our business activities in accordance with our purpose and ensuring that we deliver good outcomes for them throughout their journey with us.	• Utilising a wide variety of customer engagement methods including engagement surveys, third party research, and complaints monitoring and forums. • Developing a customer centric approach and monitoring performance against delivery of the customer centric commitments • Performing continual review of the customer proposition • Launching new products, such as the open market loan and Sunflower loan product pilots • Deep dive Board session on Open Banking • Monitoring performance against good customer outcomes • Considering the customer experience, customer contact strategy and customer journeys • Establishing a Complaints Forum and reviewing the output from the forum, complaints analysis and defining complaints strategies that deliver fair customer outcomes • Designing and implementing policies that protect customers and their information • Responding to changing customer needs as a result of the Covid-19 pandemic • Reassessing forbearance products in light of the evolution of Government and Regulatory position on forbearance • Focus on digital onboarding • Assessing cyber security and operational resilience • Responsible and effective marketing strategy	• Financial inclusion and well-being • Responsible lending • Understanding our customers • Our current products, possible future products and digital integration of the customer journey • Customer outcomes, satisfaction, care, service and complaints • Customer affordability, vulnerability and persistent debt • Safeguarding our Customers personal data • Clear and transparent customer communications • Policy suite includes, but is not limited to Anti Money Laundering ('AML'), Data Protection and Record Retention, Vulnerable Customer and Financial Promotions	• Adapting the business model to reflect evolving customer needs • Customer outcome goals defined and metrics monitored in line with the Customer Outcomes Framework • ROP product withdrawn and ceased development of a replacement ROP style product • Breathing Space introduced • Open market loans product and Sunflower Loans product launched • Customer centric approach to forbearance options and individual discussions with customers • Enhancement of standard forbearance options • Supporting customers identified as being in persistent debt • Developed effective customer contact strategies that support customers including transforming customer collections strategies • Customer centric outcomes included in the Budget and financial plan • Customer centricity incorporated into organisation design principles • Continued improvement approach to refine and digitise, where beneficial, customer journeys • Management and Board oversight of customer complaints operations, outcomes and strategy

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
			• 'Walk Tall' marketing campaign
Our shareholder The Company is a wholly owned subsidiary of Provident Financial plc, and as such it is of paramount importance that the group is kept updated on the Company's progress in delivering the Group's shared purpose, its budget, its strategy, governance and culture. Direct and regular engagement with our shareholder ensures that the Company has a clear understanding of its role as part of the group.	• The business model and Company frameworks take into account the group-wide purpose, the Blueprint • Corporate Governance and the implications of CRD V • Group CEO and product MD's objectives are aligned • Financial reporting, strategy and common accounting principles • Budget and financial plan developed as part of wider group process • Capital structure, funding arrangements and funding strategy • Dividend payments • Continued oversight of risk harmonisation programme and associated action plan • Aligned corporate governance structures including Delegated Authorities Manual, Board governance manual and terms of reference	• Strategy and long-term value creation • Culture • Financial and operational performance • Risk Management • Corporate Governance arrangements and alignment • Corporate Responsibility • Capital Management and Funding	• Business model aligned with regulatory expectations • Business model aligned with the Group's purpose • Group CEO and company MD objectives aligned • Executive Scorecard aligned with Group objectives • Company aligned with overarching group-wide vision and purpose • Dividend approval • Group approved budget and operational plan • Company Chairman is Chairman of the Group Board • CEO of the Group has taken on the role as CEO of the Company • CFO of the Group has taken on the role as CFO of the Company • Membership of the Board of the Company has been mostly aligned to the membership of the Board of the Shareholder (Provident Financial plc) ('Group') You can read more about this in our principal decision below. • UK Group Waiver Application • Access to the Bank of England's TFSME • Renewed intra-group lending agreements • Approved ICAAP

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
Our colleagues To ensure that they understand the Group's purpose and how they can support its delivery, which we believe helps our customer base. To maintain high levels of colleague engagement in order to enable us to attract, retain and develop the talent we need	• Group-wide colleague survey was carried out during the year, together with Covid-19 specific surveys and the Banking Standards Board survey • Work force panel consultation to advise and develop future of work and hybrid working arrangements • Designated group Non-Executive Director plays the lead role in Board engagement with employees, understanding and representing employee interests across the group • Deep dive Board training on Diversity, Inclusion and Unconscious Bias and direct engagement with inclusivity champions and initiatives • Colleague communication strategy delivering frequent, multi-channel communication • Group Reward Framework designed to align colleagues role levels and discretionary benefits across the Group • Group recognition platform, 'Better Everyday' continues to foster a culture where we say 'thank you' or 'well done' to colleagues who demonstrate our Blueprint behaviours • Leadership and management development training programme delivered • Independent whistleblowing line is available for colleagues to raise concerns • Board oversight of policies that protect employees, their rights and their personal data • Moved toward an integrated operating model including revised executive and management governance structure	• Culture, purpose and behaviours • Financial and operational performance • Reward and recognition • Employee engagement • Leadership performance and succession • Development, training and career opportunities • Diversity and Inclusion • Health and safety • Colleague wellbeing at work	• Review of colleague survey results and action plans including BSB survey and action plan • Oversight of our health and safety approach, including the impact on colleagues • Review of the whistleblowing process and output • Oversight of diversity data and progress of diversity initiatives • Integration of shared support functions including Finance, Risk and HR • Implementation of revised Executive and management governance structure • BAU hybrid working arrangements established and colleague feedback monitored • Implementation of the Group Reward Framework has delivered overall consistency and alignment for colleagues role levels and discretionary benefits • Moved away from short term incentives based variable pay in operations.

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
Our communities To invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, may reduce someone's likelihood to be accepted for credit.	• Participation in the group Social Impact Programme that delivers community investment in a number of areas • The Company attend and participate in the Group Customer, Culture and Ethics Committee at which Group-wide community matters are discussed and overseen by the Group Board Committee including the community impact and sustainability strategy • Board deep-dive ESG training session delivered • Participation in the achievement of the Group's commitments with regards to sustainable development goals	• Community contributions and charitable giving • Volunteering • Matched employee fundraising • Customer vulnerability • Sustainability Strategy Group culture and Purpose	• Group volunteering policy. • Group Board oversight of community matters and the approach to external engagement regarding the Company's purpose and role in society • Matched employee charitable fundraising. • Community Foundation partnerships including funding the Havelock Family Centre in London to deliver money management workshops to vulnerable clients and Refocus in Chatham to provide educational sessions on the dangers around drugs, gangs, violence and grooming. • Referral of customers, where they meet the criteria, to financial education and debt support charities, such as IncomeMax.
Our regulators To plan for regulatory change with greater certainty and confidence, to maintain our reputation as a responsible lender and to maintain our sustainable business model.	• Adapting the business model to account for changes in regulation • Adapting the corporate governance structure to account for CRD V • Board members and executive management engage proactively with regulators via regular face to face and telephone meetings • Regulatory risk reporting, including horizon scanning, is carried out and reported to the risk committee and Board • Regulatory engagement and correspondence is reported to and discussed by the Board • Regulatory dialogue and engagement regarding current products, potential products, forbearance, customer outcomes and digitisation • Risk identification programme and associated action plans • Appropriate Risk Office structure and resource levels reviewed	• Customer vulnerability and persistent debt • Our products, our potential products and digitisation • Governance framework • ROP • Regulatory capital and wind down plan • Customer proposition improvements • Complaints • Senior Management & Certification Regime embedding and ongoing compliance • Culture	• Corporate governance arrangements including the predominantly aligned membership of the Company and Group Board • UK Core Group Waiver application • Renewed Intra-Group funding arrangements • The views of regulators and the regulatory environment informed the business model updates and amendments to our product offering • Open Market and Sunflower Loans product pilot launches • Oversight and monitoring of regulatory matters, including approval of regulatory submissions

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
	• Remuneration Committee review of objectives for Significant Management Function holder's ('SMF's) and Material Risk Taker's ('MRT's') • PRA PSM Letter and action plan discussed by the Board • ICAAP approved by the Board	• Intra-Group funding • Woolard Review • Financial Crime	• Executive Team, SMF and MRT appointments • Compliance with the Remuneration Code
Our suppliers To treat our suppliers fairly and develop strong relationships with them which ensure that we only buy products and services from those who operate responsibly and mitigates risk in our supply chain.	• There is an established due diligence process to manage supply chain-based risks and comply with company policy • The Company is a signatory to the Prompt Payment Code and we publish our Payment Practices Reporting at Companies House • The Board reviewed the effectiveness of the Company's anti-bribery and corruption processes and controls • Centralised procurement function under the leadership of the CFO • Group wide Supplier relationship management (SRM) framework and outsourcing framework • Key supplier review • Consistent contract negotiation principles and approach	• Prompt payment • Data protection • Supplier on-boarding process • Supplier performance • Delegated authorities • Anti-bribery and corruption • Modern Slavery • Conduct, behaviour and performance • EBA Outsourcing Guidelines – SRM Framework	• Signatories of the Prompt Payment Code. • Compliance with EBA Outsourcing Guidelines. • Robust Supplier Management Framework and on-boarding processes • Key contract renegotiated during the period • Integrated approach to services and suppliers for the Group and Company • supplier relationship action plan executed with Newcastle Strategic Solutions (NSSL).
Our environment To minimising our environmental impact, in particular to reducing the greenhouse gas emissions associated with our business activities, thereby lessening our contribution to issues such as climate change.	• The Company utilise and contribute to the Group's Environmental Management System (EMS) • The Company attend and participate in the Group Customer, Culture and Ethics Committee at which Group-wide environmental matters are discussed and overseen by the Group Board Committee • Participation in the Group submission to the Carbon Disclosure Project • Execution of activities to support achievement of ISO 14001 • Climate change action and PRA questionnaire completed • Company Board ESG deep dive training delivered	• Climate change • Greenhouse gas emissions • Achievement of TCFD objectives • Corporate citizenship • Sustainability	• Group wide reduced emissions targets achieved • Group participation in the Carbon Disclosure Project. • Achievement of ISO 14001 • Continued offset of the Group's operational carbon footprint • Group commitment to the long-term ESG objectives. • Signed up to the UN's Business ambition for 1.5oC pledge • Implementation of the Task Force on Climate Related Financial Disclosures recommendations.

Statement regarding section 172 Companies Act 2006 (continued)

In making the following principal decisions, the Board took into account its duties under s.172 of the Companies Act 2006:

Sunflower loans

The Board approved the pilot launch of Sunflower Loans, an open market personal loans offering, in line with the Group's product strategy and vision to become a leading specialist bank with a focus on the financially underserved. Performance will be monitored by management and reported to the Board in order for the product to be reassessed at the expiry of the pilot during H1 2022.

Various workstreams were established (namely, Risk & Control, Governance & SMCR, and Finance) as part of the governance surrounding the Sunflower loans project to provide assurance to the Board that the key risks and financial implications had been considered. In addition, the relevant SMFs were required to sign-off their areas of responsibility prior to the decision to 'go live'. The Company's governance framework, in particular the Company's Delegated Authorities Manual and Product Management Framework, ensured that appropriate stakeholder engagement took place and the product received sufficient scrutiny and challenge from various stakeholders (including the Company's Senior Management Functions ("SMF"), Executive Committee, Group Internal Audit, Chief Risk Officer, Risk Committee and the FCA) prior to approval by the Board.

The governance process included a full risk assessment with input from the second and third lines of defence, including the Group Enterprise Risk Management function, Group Internal Audit, Group Chief Risk Officer and Company Chief Risk Officer. A Group Internal Audit Review of the SMF structure and control around the product provided the Board with assurance that the product's operating model was aligned and embedded within the Company's overall governance.

The Board received regular updates on the progress of the Sunflower Loans launch through the Chief Executive Officer's Report and other management reports from the Chief Risk Officer, Finance Director and Loans Director. The key risks, mitigations and timeline to launch the product were challenged and supported by the Board. In particular, the affordability approach to the loan product was thoroughly considered by management and challenged by the Board and its Risk Committee. Appropriate engagement with the FCA also took place with regards to management's proposed approach to affordability assessments which provided the Board with comfort that the approach was robust and in line with the regulator's expectations.

The Board also reviewed and approved management's proposed brokers for the product launch. The broker selection followed the Group's procurement process and the proposed contracts were reviewed by Group Legal, Tax and Procurement with a focus upon ensuring fair value was achieved within the supply chain and that the same could therefore be passed on to customers.

The Board considered in detail the pricing of the product and its relation to credit risk and expected customer portfolio performance, seeking to ensure an appropriate balance that was commensurate with the Company's purpose. Further to this, the Board sought to minimise the Bank's credit risk by setting the financial and operational exposure limits for the purposes of the product pilot, enabling management to gather valuable performance data which could be tracked and analysed against modelled scenarios in advance of a full rollout.

Statement regarding section 172 Companies Act 2006 (continued)

<u>Governance restructure</u>

The Board approved the implementation of a common board structure for the Company and Provident Financial plc ("PF") as part of the Group's new target operating model ("TOM") whereby the Company's Board membership would be substantially aligned to the membership of the PF board (the "Common Board"). The Board believes that the new TOM and Common Board will create a simpler, more efficient Group governance structure, whilst streamlining and enhancing both the Company and PF's handling of corporate governance. Details of the changes are reported in PF's stock exchange announcement of 13 January 2022 and set out in PF's Annual Report & Accounts at www.providentfinancial.com.

The Group assessed its corporate governance arrangements in the context of its wider strategy to reinforce its position as a leading specialist bank with a focus on the financially underserved and determined that an important step in the execution of its strategy was to substantially align the boards of PF and the Company. It was noted that other banking groups were run on such an integrated basis. Furthermore, there had been simplification elsewhere in the Group following the wind-down of the Consumer Credit Division which prompted a reassessment of the effectiveness of the dual board structure. Under the dual board structure, the Company Board and PF board sat separately and had different members which led to duplication of reporting and other inefficiencies. It was agreed that streamlining the boards of the two legal entities in this way would create a simpler, more efficient Group governance structure.

Direct engagement with the FCA, PRA and other stakeholders took place, and independent professional advice was sought, prior to the Board's approval of the requisite Board changes. An assessment was undertaken, with support from an external advisor, of the skills and experience of the PF directors to determine whether their appointment to the Company's Board would ensure the Board continued to be comprised of individuals with the appropriate balance of experience, skills and knowledge for a bank. The Board changes were made with effect from 13 January 2022, with some roles subject to receipt of regulatory approvals where applicable. To support the ongoing development of the Company's directors, a Board training plan has been prepared for 2022 which reflects training areas identified through the regulatory application process in relation to the changes to the Company's Board described above and areas arising from the PF board evaluation process.

The Board also approved a Conflicts of Interest Policy to mitigate against any potential conflicts of interest arising between Provident Financial plc and the Company.

<u>Future of work</u>

The 'stay at home' requirement arising from the Covid-19 pandemic required many companies to revise their operations. The Company was no exception and the Board oversaw the transition to home working for the majority of colleagues in March 2020 which remained in place throughout the year and for a proportion of 2021. As reported in last year's Annual Report, the return to work strategy was recognised as a key emerging risk by the Board in 2020 and management evolved the focus on working from home to begin to develop a Future of Work proposition that capitalised on the lessons learned from the pandemic. The Board engaged indirectly with colleagues through updates to the CCE Committee and subsequent reports to the Board from the CCE Committee Chairman. In January the CCE Committee had assessed the feedback from colleagues and management which had been gathered via colleague surveys. The majority of colleagues supported the introduction of a hybrid working model and a strong majority of senior leaders confirmed that productivity had remained stable or improved since colleagues had been working remotely. Senior leaders also fed back to the CCE Committee their support for a blended way of working. Through the CCE Committee, and after consideration of the risks and benefits, support was provided for management's proposal to agree hybrid working and a Future of Work programme was established, sponsored and led by the Group HR Director.

In April 2021 a Future of Work steering committee (Steerco) was set up to deliver a three-phase plan to introduce a hybrid working model and arrange a safe return to working in offices for colleagues. In June the Future of Work programme was considered by both the CCE Committee and Board which received a report from the Group HR Director as to management's progress. The Board engaged indirectly with colleagues receiving the detailed results from the colleague and leadership surveys. The Board encouraged management's continued consideration of all stakeholders in programme design, emphasising the importance of retaining productivity and high service quality

Statement regarding section 172 Companies Act 2006 (continued)

for customers, further highlighting culture, health and safety and colleague wellbeing as important areas of focus.

Following feedback from the Board and CCE Committee the principles of hybrid working were established which considered the needs of key stakeholders and included, amongst others things, that there would be no detriment to customer experience or service and sufficient supervisions were in place to assist colleagues when dealing with vulnerable customers or difficult conversations.

From June 2021 and throughout the second half of the year, regular direct communications were issued to colleagues via email and the intranet about the Future of Work milestones, to confirm the working arrangements that were in place at each stage and how they might apply to a colleague’s personal circumstances and set out how long they were expected to last. A dedicated Future of Work Hub was launched on the intranet and housed a new Flexible Working Policy, a Group Vaccine Policy, management and colleague guides for hybrid working and guides for working safely both remotely and in the office.

Colleagues returned to working in the office in phases and from 19 July to the end of August 2021 those colleagues deemed a priority (due to a personal or business need) returned to the office on a hybrid basis; all remaining colleagues returning to the office on a hybrid basis from October until government guidance changed in December 2021 and colleagues were asked to return to home working. The CCE Committee emphasised the health and safety of colleagues as a priority for the Board and colleagues were asked to complete training before returning to the office. Ongoing feedback was provided regarding hybrid working arrangements including desk space allocation, parking allocation, catering, facilities and safety procedures whilst in the office. On 28 September 2021 the Group Board visited the Chatham office, to meet with colleagues and witness the arrangements that had been put in place. The Group Board had an open Q&A session with colleagues and a dedicated session on the Future of Work including the challenges and opportunities it presented. HR and management undertook to execute any actions arising.

Statement of corporate governance arrangements

The Company believes that the highest standards of corporate governance are vital to the Company's performance and business integrity. As a wholly owned subsidiary of Provident Financial plc ("PF") which is listed on the London Stock Exchange, the Company has practices and processes in place which support sound governance throughout its operations. PF is required under the Financial Conduct Authority's Listing Rules to state in its own Annual Report and Accounts how it has applied the Principles of the Financial Reporting Council's 2018 UK Corporate Governance Code (the "Code") and to confirm, on a 'comply or explain' basis, the extent to which it has complied with the Provisions of the Code throughout the financial year ended 31 December 2021. Details of PF's application and compliance with the Code are available in its Annual Report & Accounts at www.providentfinancial.com. As a substantial bank within the PF Group, the Company itself also chose specifically to apply the Code in respect of the financial year ended 31 December 2021 as far as it is appropriate to the Company. This reflects the Company's desire to implement best practice governance in a way that aligns the Company's activities as closely as possible with that of its parent company and is appropriate and proportionate to the Company's status as a private wholly owned subsidiary. The Code is available at www.frc.org.uk.

Governance changes

As reported in PF's stock exchange announcement of 13 January 2022, a common board structure for PF and the Company was implemented as part of the Group's new target operating model whereby the Company's Board membership was substantially aligned to the membership of the PF board (the "Common Board"). The Board believes that the new target operating model and Common Board will create a simpler, more efficient Group governance structure, whilst streamlining and enhancing both the Company and PF's handling of corporate governance. Details of the changes are detailed below and set out in PF's Annual Report & Accounts at www.providentfinancial.com.

Complying with the 2018 UK Corporate Governance Code

The table below sets out how the Company has applied the Principles of the Code. The Company complied with all the Provisions of the Code throughout 2021, except for those set out in the further table on page 38.

Board leadership and company purpose

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.

The Board is comprised of skilled individuals from a wide range of backgrounds. The appropriate balance of skills, experience and independent and objective judgement enables the Board to operate effectively and to maintain sound governance arrangements to support the delivery of the Company's strategy. The Board's leadership role is delivered through the inclusion on the Board of an appropriate mix of Non-Executive Directors, the PF Chief Executive Director and PF Chief Finance Officer. The Non-Executive Directors bring expertise, skills and experience in the Company's sector and provide knowledge, challenge and insight drawn from across the PF Group, including a Company shareholder perspective.

The PF Group's Diversity & Inclusion policy, which has been adopted by the Board both for itself and the wider Company, further supports Board effectiveness in delivering long-term sustainable success. For all Board appointments, a documented Company Board appointment process is in place, which emphasises the importance of diversity and culture in the Board appointment process. All Board appointments are made on merit, following consideration and recommendation by the Company's Nomination Committee. On an annual basis, the Nomination Committee reviews and considers the Board composition together with Board and senior management succession planning. On appointment, each individual director receives a tailored induction, with subsequent ongoing training as part of an agreed annual Board training plan. The Board further receives 'deep dive' sessions on key forthcoming regulatory and legislative developments as they arise.

In light of the significant changes to the composition of the Board, as announced on 13 January 2022, it was determined that an annual Board evaluation for 2021 not be undertaken. The PF board carried out an annual evaluation of the effectiveness of its board, committees and individual directors, and the Company's Board is now

Statement of corporate governance arrangements (continued)

entirely comprised of directors which were subject to this evaluation. The outgoing Company Chairman's views on PF board effectiveness were sought as part of the PF board evaluation as a result of his Group Non-Executive Director role. Alongside the PF board evaluation process, the Group Board Skills Matrix was reviewed and enhanced to incorporate further experience and skills relevant to being a director of a bank, and a skills gap analysis was completed to assess overall board competence in light of the Common Board. The resulting output and action plan from the PF board evaluation process were then discussed and agreed by the Common Board, including incorporation into the board and individual director training plans. This included training specific to the responsibilities of being directors of a bank. For more information on PF's annual board evaluation, please see the PF Nomination Committee Report in the 2021 PF Annual Report & Accounts which are available at www.providentfinancial.com.

The Company has an appropriate governance framework in place, including a Schedule of Matters Reserved for the Board, the documentation of each of the roles of the Chairman, Chief Executive Officer and SID, together with written Terms of Reference for each of the Board Committees. The Company's governance framework, approved by the Board, also entails a written Board Governance Manual, a Company-specific Delegated Authorities Manual and a Senior Management Function ("SMF") responsibilities map, all of which ensure clarity of roles, responsibilities and accountabilities. The Board and its committees each have an annual forward agenda plan that is based upon the duties and responsibilities documented in its terms of reference which is reviewed and approved for the following year. Group Company Secretariat performed a thorough review of the Board Matters Reserved and Board Committee terms of reference ahead of the implementation of the Common Board, and monitors adherence with the terms of reference on an annual basis, thereby ensuring that the Board and its committees successfully deliver on their responsibilities.

The Board discharges its duties and responsibilities through a mix of scheduled and ad-hoc meetings during the year. These include the approval of the Company's budget process, regular reviews of the Company's financial performance and critical business matters, and the setting and reviewing of the Company's strategy at a dedicated planning conference.

The Board sets the Company's strategy, in coordination with and within the parameters of the PF Group Strategy. In doing so, it also considers the Company's cultural 'Blueprint' and its key stakeholders, such as its shareholder, customers, colleagues and regulators.

The Board has adopted the PF Group's purpose and culture ("Blueprint") for the Company. The Blueprint is customer centric and also articulates the PF Group and Company's wider societal role. For further details about this process, please see Principle B immediately below this section. The embedding of the PF Group's strategic Blueprint behaviours into the Company's day to day operations forms a key part of the Company's ongoing performance development and review process for both directors and colleagues throughout the year. The Company's Remuneration Committee has ensured that all Company remuneration arrangements are fully aligned to the requirement for colleagues to exhibit those strategic Blueprint behaviours. Additionally, development plans of Board-approved SMF responsibilities throughout the Bank are administered by the Company's Compliance team and overseen by the Board.

With a view to ensuring the long-term sustainable success of the business, the Board, in conjunction with the Risk Committee, sets the Company's risk appetite to determine the level of risk that it is prepared to take to achieve the Company's strategy, and establishes and oversees the Company's risk management framework. The Risk Committee, on behalf of the Board, also identifies and seeks to manage the principal and emerging risks faced by the Company. A risk overlay is also applied to the Company's remuneration arrangements to ensure that they are aligned with the long-term success of the business. Furthermore, a Risk Adjustment Framework for remuneration has been established and is now embedded and operational within the business, overseen by the Remuneration Committee.

Whilst seeking to generate value for the Company's shareholder, the Board remains extremely mindful of the impact and contribution of the Company's operations on the wider society in which it operates. The requirements of section 172 of the Companies Act 2006 ("s.172"), that the directors have regard to wider factors in relation to the Company's operations, is built into the Company's Board paper templates and used to inform the Board's decision making. As stated previously, please refer to the Company's specific s.172 Statement on page 14 for

Statement of corporate governance arrangements (continued)

further details concerning the key matters considered by the Board during 2021.

In November the Group Customer, Culture and Ethics ("CCE") Committee approved a new approach to the Group's community investment, in which the Company sponsors various projects for the benefit of the communities it serves. The new strategy aligned the Group and Company's community investment activities under a single 'PFG Foundation' and developed a vision, mission and three signature programmes all designed to support young people (0-25) from low income backgrounds. More information about the PFG Foundation can be found in PF's Corporate Responsibility Report found at www.providentfinancial.com. Company employees also undertake volunteering activities under the PF Group Volunteering Policy and programme. The Board has also put in place internal policies and practices to ensure that the business acts at all times with the utmost integrity towards its colleagues, customers and the wider community. In this regard, the outputs of all Group colleague surveys, as well as those undertaken by the Banking Standards Board ("BSB"), are reviewed and acted upon by the Board. Similarly, a Good Customer Outcomes Framework is in place for the Company's dealings with its customers and the feedback results received through that channel are again reviewed regularly by the Board. The Group has a dedicated Non-Executive Director Colleague Champion whose role it is to lead Board engagement with the workforce. His Colleague Champion role extends to the Company and, in this capacity, he attends the workforce panels (also known as Colleague Forums) and provides valuable employee feedback to the Board.

B. *The board should establish the Company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.*

The Board agrees and sets the Company's purpose, culture and values which are shared with the wider PF Group. An annual strategy conference takes place, which considers our strategy and progress made against this, together with updates regarding the micro and macro environments in which the Company operates. Any proposed changes in strategy are shared with the executive and progress against the strategy tracked within Board meetings. The Company operates as part of the wider PF Group and therefore the Board's role includes driving alignment between the Company strategy and the Group's. The Board believes that the Company's and the PF Group's overall strategic Blueprint purpose, to support the Company's customers on their paths to financial stability and a better everyday life, positions the business well for sustainable and long-term success. The Blueprint, including its strategic priorities, was put in place in 2019 and has continued to shape and inform the Company's strategy and how we operate. The values captured by the Blueprint and the inherent and aligned behaviours, seek to promote a culture in which colleagues are empowered and motivated to make a real difference to customers, the Company and the wider community in which the Company operates. Those same values and behaviours seek to also make for a stimulating and supportive working environment for colleagues.

The Board oversees the alignment of the Company's purpose, values and strategy in a number of ways. To provide insight into the operational culture of the business, customer metrics are regularly reviewed by the Board and, also on an ongoing basis, the Vanquis Colleague Forum considers and provides feedback to the Board regarding the embedding of the Blueprint values and behaviours within the day-to-day operations of the Company. The CCE Committee, which was previously a PF board committee, is to also become a committee of the Company's Board during 2022. The CCE Committee monitors the Group's culture and behaviours to enable the Board to identify and address any misalignments with the desired culture. The Committee also garners customer insights (for example through call listening and customer survey results) which are fed into the Board's decision making and strategic conversations. As part of its duties, the Committee adopts a KPI and evidence based approach to its work and reviews 'Customer' and 'Blueprint" dashboards at each meeting to support it in overseeing our customer-focused culture.

As part of facilitating healthy colleague engagement and the embedding of culture, the Board, led by the CCE Committee, reviews and considers the results of PF Group Colleague survey, together with any other colleague surveys that take place during the year, and the actions plans that are designed to address issues raised. The Company seeks to keep colleagues fully updated of strategic and cultural issues through regular internal communications by the Company's senior management, such as periodic 'town hall' gatherings. In compliance with the Code, there are established workforce panels across the PF Group, including for the Company, and a designated Non-Executive Director Colleague Champion to ensure Board level engagement with the workforce.

Statement of corporate governance arrangements (continued)

Feedback from the Company's Colleague Forum is considered by the designated Non-Executive Director Colleague Champion, CCE Committee and Board, provide an essential feedback loop. The Board also receives reports on colleague whistleblowing matters from the Company's General Counsel & Company Secretary and there is regular Health and Safety Reporting at Board meetings. Inclusion and diversity is a key part of the Company's culture and the Board receives updates on the progress on PF Group diversity & inclusion initiatives which the Company participates in.

The Company's Money Laundering Regulations Officer also reports regularly at the Risk Committee on anti-money laundering, anti-fraud and anti-bribery and corruption matters, with any significant findings being reported up to the Board by the Committee Chairman. The Company's Board and Committees' structures and composition ensure that there is sufficient and robust ongoing challenge of the Company's management and that management is held to account on its executive responsibilities. The Risk Committee also measures conduct outputs against appetite and a Risk Adjustment Framework for remuneration has been established and is now embedded and operational within the business, overseen by the Remuneration Committee.

To further strengthen oversight of business integrity, the Company's Audit Committee receives regular reports from the Internal Audit function on the outcomes of internal audits, including issues to be addressed and progress in addressing such issues. There are also appropriate processes in place at the Audit Committee year-end and half-year to discuss management judgements in relation to the Company's year-end and half-year financial reporting.

The Company's Remuneration Committee also ensures that the Company's remuneration policy and framework are independently audited and remain compliant with all regulatory requirements. The annual performance and development review objectives of the Company's Executive Directors are fully aligned with the Company's Blueprint strategy and values, to ensure that management act with integrity, lead the business by example and promote the requisite culture. See reporting on Principles P, Q and R for more information on remuneration.

In light of the significant changes to the composition of the Board, as announced on 13 January 2022, it was determined that an annual Board evaluation for 2021 not be undertaken. The PF board carried out an annual evaluation of the effectiveness of its board, committees and individual directors, and the Company's Board is now entirely comprised of directors which were subject to this evaluation. The outgoing Company Chairman's views on PF board effectiveness were sought as part of the PF board evaluation as a result of his Group Non-Executive Director role. Alongside the PF board evaluation process, the Group Board Skills Matrix was reviewed and enhanced to incorporate further experience and skills relevant to being a director of a bank, and a skills gap analysis was completed to assess overall board competence in light of the Common Board. The resulting output and action plan from the PF board evaluation process were then discussed and agreed by the Common Board, including incorporation into the board and individual director training plans. This included training specific to the responsibilities of being directors of a bank. For more information on PF's annual board evaluation, please see the PF Nomination Committee Report in the 2021 PF Annual Report & Accounts which are available at www.providentfinancial.com.

Board sessions comprising only Non-Executive Directors also took place during the year, to ensure optimum objectivity of the Company's performance and of the holding to account of the executive management.

C. *The board should ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.*

The Board ensures that necessary resources are in place to enable the Company to meet objectives and measure performance. The Board annually approves the Budget for the Company over a rolling 5-year period, which sets out the resources required by the Company, including capital and funding resources.

The Board also approves and regularly reviews the Company's Internal Liquidity ("ILAAP") and Capital Adequacy Assessment ("ICAAP") processes and monitors Company performance against those processes, thereby ensuring the Company retains sufficient capital and liquidity to achieve its strategic objectives and mitigate key risks. During

Statement of corporate governance arrangements (continued)

2021 the Board continued to be vigilant in monitoring performance against both adequacy processes; the Board also oversaw an overhaul of the ICAAP process, with the new built-out process going through both the Risk Committee and Boards' approvals. The Board also approves and annually reviews the Company's recovery and resolution plans.

Terms of Reference for Board Committees are in place and these are regularly assessed against external best practice. They were reviewed and updated during the year to reflect the implementation of the Common Board and included changes to enhance clarity and align with external practice. The Board also has a formal Conflicts of Interest Policy in place and a process for Directors to declare any conflict or potential conflict of interest. To enable the Company's formally established Risk and Audit Committees to fully discharge their risk control responsibilities, the Board ensures that they comprise the appropriate membership, including with sector experience and competence.

The Company's Chief Executive Officer, Chief Finance Officer and Chief Risk Officer provide reports on their respective areas of responsibility to each scheduled Board meeting, ensuring that the Board retains effective oversight over the performance of the Company against the Budget, its liquidity, capital strength and funding needs. In the case of the former two, their reports include progress updates of the Company's business and financial performance against the agreed strategy.

An annual Compliance Monitoring Plan is approved by the Company's Risk Committee. During the year, the Company's Compliance Department provides assurance to the Risk Committee on all regulatory and other compliance matters, including an analysis of any compliance breaches and associated remedial actions, together with more detailed updates on more significant breaches. The Risk and Audit Committees, and in turn the Board, closely monitor progression of any regulatory investigations right through to the point of closure of such investigations. With the assistance of the Company's Compliance Department, the Board also monitors ongoing compliance with the requirements of the Senior Managers & Certification Regime ("SMCR") of the Financial Conduct Authority ("FCA") and the Management Responsibilities Map for the business. The Board receives regulatory updates within the risk-related Board papers it receives ahead of each scheduled Board meeting. The Money Laundering Regulation Officer reports regularly to the Company's Risk Committee and the Company has in place a formal programme to counter Financial Crime.

Complimenting the work of the Compliance Department, as noted above in Principle B, the PF Group Internal Audit Department reports regularly to the Company's Audit Committee on its progress against the annual internal audit plan as previously approved by the Audit Committee. It provides the Committee with updates on any findings and the status of update remedial actions. The Board ensures that there is an Internal Audit assurance overlay for key programmes undertaken by the Company. The Audit Committee also reviews and approves the External Audit plan and monitors the progress and outcomes of that plan, ensuring remedial actions identified are implemented as appropriate.

On behalf of the Board, the Company's Audit Committee undertakes an annual assessment of the effectiveness of Internal and External Audit and, similarly, the Company's Risk Committee carries out an annual assessment of the robustness of the Chief Risk Officer's report on the adequacy of the Company's risk resource. Whilst the Risk Committee and Board monitor closely those risks and opportunities to the achievement of the Company's strategy, the Company relies upon the Group for the completion of the annual robust assessment of the Company's principal and emerging risks, and further details of these are reported within the Group consolidated accounts. A Model Governance framework and assessment for the Company is reported to both the Company's Audit and Risk Committees by the Group Risk function. The Company's Risk Committee, on behalf of the Board, sets the risk framework and risk appetite for the Company, which is closely aligned with that of the Group, and regularly measures and monitors Company performance against them. The Company's Chief Risk Officer is a member of the Group Enterprise Risk Committee and attends the Group Risk Committee to ensure the appropriate discussion and escalation of risks within the Group. To this end, during 2021 the Company's Risk Committee Chair and that of the Group Risk Committee met to discuss key risk themes and mitigations. Following the implementation of the Common Board, the PF Risk Committee Chair is now the Chair of the Company's risk Committee and the Group Chief Risk Officer is also the Chief Risk Officer of the Company. The Company continued its work on first line

Statement of corporate governance arrangements (continued)

controls during 2021, closing the majority of the outstanding actions for non-IT areas. For IT, controls remediation is expected to run to the end of 2022. Further work to embed the risk and control framework into the first line functions will continue throughout 2022. A remuneration-related Risk Adjustment Framework is in place and regular update reports in relation to the framework are provided to the Remuneration Committee.

The Board monitors the progress of actions agreed at the annual strategy conference.

D. *In order for the Company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.*

During 2021, the Board worked to ensure a good dialogue with the Company's shareholder and parent company throughout the year, so that any issues and concerns about the Company that either party may wish to air with the other were clearly understood and considered in a timely manner. The PF Group Chief Executive Officer and Chief Financial Officer were directors of the Company during the year and provided the Board with PF Group updates and perspectives. The Company's Chairman also sat on the PF Group Board and the Chairs of the Company's Committee met with their PF Group Committee counterparts. Following the implementation of the Common Board, the membership of the Company's Board and that of its parent company are substantially aligned. The Board believes that the implementation of the Combined Board will streamline the Company and PF's governance arrangements and enhance stakeholder relationships and engagement.

The Company resources aspects of its activities through utilising PF Group functions, such as Legal and Internal Audit, which ensures coordination and engagement with its shareholder and across the PF Group. There are also multiple cross-Group forums, with membership from the Company, to enable effective engagement and resource management, including: Group Finance Forum; Group Treasury Committee; and Group Complaints Forum.

The above channels provided natural conduits to both receive and pass salient matters or concerns between the Company and PF. This is particularly relevant and effective given that the Company is a private company and a wholly owned subsidiary of PF. As referred to previously in this Statement, the Company's Board paper reporting templates used for all Board matters require both the Board paper preparer and the Board to have regard to and report on the relevant directors' wider s.172 responsibilities in connection with matters concerning the Company's operations.

As referred to under Principle B, there is a dedicated Non-Executive Director Colleague Champion on the PF board to encourage and facilitate strong Board engagement with the workforce of the Company and throughout the PF Group. That dedicated Non-Executive Director Colleague Champion also chairs the CCE Committee and reports to the Board on the outcome of his engagement activities. The Board therefore chose to also implement the workforce engagement mechanism of a dedicated PF Non-Executive Director to lead engagement with colleagues, combined with a workforce panel, as the Company's workforce engagement under the Code. Full details of how the PF Non-Executive Director Colleague Champion engages with the workforce across the PF Group may be found within the PF Annual Report & Accounts which are available at www.providentfinancial.com. As also reported in Principle B, Colleague surveys are undertaken at certain times during the year and the resulting feedback from them, are reported to and reviewed by the Board.

The Board considered the output of the colleague survey undertaken during 2021, which included feedback on how the Company had continued to respond to the Covid-19 pandemic and how it was supporting colleagues with the introduction of hybrid working. The Board also ensures that colleagues are kept informed on matters affecting the business through video blogs ("VLOGs") and email communication updates from the members of the Company's senior leadership team. The Board actively promotes participation from the Company's wider workforce in the PF Save-As-You-Earn and Share Incentive, to further align the interests of colleagues with those of PF's shareholder base. During 2021 the "Be Yourself" affinity groups were launched to support the 'diversity and inclusion pillars' representing Gender Balance, Ethnicity, LQBTQ+ and Disability. A series of presentations were held at various times throughout the year to actively interact and promote colleague awareness of the Company's initiatives on such matters.

Statement of corporate governance arrangements (continued)

The Board monitored the Good Customer Outcomes Framework and also received 'deep dive' training sessions during the year on various customer facing parts of the Company, including participation in certain customer call listening sessions. In addition, the Board received the results of Customer Pulse Surveys conducted across business units, pertinent results of which were incorporated into the Company's strategic review of its product offering and reported to the Board as appropriate.

The Company undertakes supplier surveys to canvas the views of those stakeholders in relation to their dealings with the Company, with the survey then reviewed and considered by the Board. The Board also received periodical updates during 2021 regarding the Company's key suppliers and approved the Modern Slavery Act statement.

Members of the Board meet with the Company's regulatory authorities and provide regulatory attestations to them as may be required from time to time. The Company has continued to engage and consult with the Colleague Forums on the Group's response to Covid-19 including the risk assessment, policy changes and health & safety measures to ensure the workplace is Covid-19 secure. The Company's Colleague Forum also played a role in our Future of Work programme and the subsequent return to office plans.

The approach to and assessment of stakeholder engagement forms part of the annual PF board evaluation process, from which an action plan is then developed, with the execution of any such outcomes then being tracked by the board.

Please see our s.172 statement on page 14 for more details on stakeholder engagement and consideration during the year. You can read more about the PF Group's stakeholder engagement and consideration during the year in the PF Annual Report & Accounts and the PF Group's Corporate Social Responsibility Report, both at www.providentfinancial.com.

E. The board should ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern

The Board has ultimate responsibility for ensuring that the Company's workforce policies and practices are in line with the Company's purpose and values, and that they support the Company's desired culture.

The Company's workforce policies and practices flow from and are aligned with the Company's Blueprint strategic values, which are designed to support the long-term sustainable success of the Company. All such policies are reviewed within the Company and then submitted to the Board for its consideration and formal approval, as required. Our workforce policies were reviewed against the Blueprint following its rollout in 2019. In addition, the Company's Human Resources Department maintains a 'People' dashboard which was presented to the Board within the monthly Board Management Information ("MI") deck. As previously noted in this statement, the Board also reviews the results of colleague surveys, which provide an insight into colleague views regarding workforce policies and practices. In order to drive greater clarity and consistency of workforce policies across the PF Group, a Group-wide project is underway to review and consolidate workforce policies, which the Company is actively participating in. The CCE Committee received an update on the progress of this programme.

A consistent Group-wide role levelling framework and Group Reward Framework have been rolled out across the Group and Company, driving consistency and equality, enabling more flexible movement of colleagues in roles across the Group and supporting our Group-wide culture.

The Company's colleague performance management framework and assessment process is aligned to the Blueprint and links to the Company's remuneration arrangements. The Blueprint dashboard is a tool used to track and display various colleague-related key performance indicators such as colleague turnover and absenteeism. The dashboard consists of four Blueprint outcomes, each measured by a variety of metrics, with targets set where appropriate, to ensure that the Group is able to demonstrate that it's delivering business activities in accordance with the Blueprint. The dashboard is monitored by the CCE Committee.

The PF Group Whistleblowing Policy, which the Board has formally adopted for the Company, enables all staff to raise any matters of concern that they may have about practices within the business. The Policy also facilitates a Whistleblowing Forum and the outputs from both channels are reviewed by the Board.

Statement of corporate governance arrangements (continued)

<u>Division of responsibilities</u>

F. *The chair leads the board and is responsible for its overall effectiveness in directing the Company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.*

The Non-Executive Chairman is responsible for leadership of the Board and promoting a culture of openness and constructive debate. He was considered to be independent upon his appointment as Chairman. The role of Chairman is documented and the clear separation of duties between the role of Chair and the Company's Chief Executive Officer are set out in the Company's formal Board Governance Manual.

Following the decision to vacate the Board evaluation in light of the implementation of the Common Board, the former Company Chairman's views were still sought as part of the PF Group Board Evaluation as per his Group Non-Executive Director role.

The PF Group Secretariat support the Chairman and maintains and operates a formal Board and Committee annual agenda planner process for the Company's meetings. The Chairman works with management to ensure appropriate matters are covered by the Board agendas and sufficient time is dedicated to them. The Board and Committee Terms of Reference are formally reviewed annually to ensure that they remain current and fit for purpose. Minutes are produced in respect each Board and Committee meeting, which are reviewed for approval and signature at the relevant subsequent meeting of the respective Board or Committee concerned, to ensure that they form a true and accurate record of the proceedings of the meeting. Standard Board paper reporting templates are used across the Company's Board and its Committees. Papers are circulated to the respective Board or Committee members five working days prior to the relevant Board or Committee meeting. Verbal updates are provided at each scheduled Board meeting from the Company's Committees and the PF Group. Looking forward, the implementation of the Combined Board will enhance the flow of information between the Company and Group.

Non-Executive Directors hold private sessions of the Board, without Executive Directors present, to discuss any salient Company matters as may appear to them to be relevant in enabling them to properly discharge their Non-Executive Director duties. Board dinners are held at certain times during the year to enable Board members to interact with one another outside of a formal Board or Committee meeting setting.

The independence of the Non-Executive Directors is considered on appointment and annually. The Chairman ensures that a formal Board Training Plan is in place for the Company, the requirements of which are also informed by the annual Board effectiveness evaluation process. A Company Board Skills Matrix is maintained and reviewed by the Company's Nomination Committee. The Group Board Skills Matrix has been reviewed and enhanced to include experience and skill areas relevant to being a director of a bank, and a skills gap analysis was completed to assess overall board competence in light of the Common Board.

G. *The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the Company's business.*

The Board composition met the requirement of the Principle during 2021, comprising three Independent Non-Executive Directors, two PF Group Non-Executive Directors and two Executive Directors - the Company's Managing Director and Finance Director. Regular review of the Company's Board and Committee composition are undertaken by the Company's Nomination Committee. The roles of the Board, Board Committees, Chairman, Chief Executive Officer and SID are documented, as are the Board's reserved powers and Company's delegated authorities. The SMF responsibilities of the Chairman, Chief Executive Officer and SID are similarly documented and the overall documentation of their roles sets out the clear division of responsibilities between each of them. PF Group and Divisional Governance Manuals are in place, documenting the Company's governance arrangements. A Remuneration Committee is in place and comprised of independent Non-Executive Directors so as to ensure that executives do not determine their own remuneration.

Statement of corporate governance arrangements (continued)

In 2021 the Nomination Committee considered the independence of each Independent Non-Executive Director and their external commitments for the purposes of the Code and confirmed that each Independent Non-Executive Director continued to be independent. Looking forward, the Nomination Committee's papers and minutes will be combined with Group's.

H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

The role of the Non-Executive Directors is to provide constructive challenge, hold the Company's executive management to account and offer specialist advice and strategic guidance.

The Company's Nomination Committee reviews the time commitment of prospective Non-Executive Directors as part of the appointment process and also reviews time commitment annually. Specific prior approval is also required from the Board prior to a Non-Executive Director taking on an additional directorship appointment elsewhere. If a Non-Executive Director is unavoidably absent from a particular Board or Committee meeting, they are still provided with the papers for the meeting so that they can review and provide input ahead of the meeting, in order that their views are made known and considered at the meeting.

The Board considered Malcolm Le May's change from a Senior Independent Director of IG Group Holdings Limited to a Non-Executive Director, as well as both Alison Morris' role as a Director at Paragon Bank PLC and Jonathan Baum's roles as Director of TransUnion International UK Limited and having his own business (Baum Advisory Limited). The Board declared their comfort with each of the individuals' capacity in relation to their duties and commitment to the Company.

The Company's standard Board paper reporting templates contain built in prompts to ensure that all directors fully consider their s.172 duties regarding the Company's operations. The Company's Board and Committee minutes record and evidence the constructive challenge by the Non-Executive Directors.

The Independent Non-Executive Directors, through their Board and respective Committee memberships, review and challenge the robustness of management's proposals, such as concerning the Company's ICAAP and ILAAP processes and capital buffer. Appropriate information is made available to the Board in order that they can challenge management on operation and financial performance and also culture, with culture-related key performance indicators also monitored by the Non-Executive Directors. The Company has well established and effective Audit, Remuneration and Risk Committees comprised of Non-Executive Directors. Appropriate discretion, malus and clawback arrangements and risk assessment in relation to remuneration, enable Non-Executive Directors to hold management to account and to ensure that performance and reward are aligned. See Principles P, Q and R for further information.

During the year, Non-Executive Directors hold private sessions of the Board, Remuneration Committee and Audit Committee, without Executive Directors present, to discuss any current Company matters as may appear to them to be relevant in enabling them to properly discharge their duties as Non-Executive Directors.

I. The board, supported by the Company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently

The General Counsel & Company Secretary, reporting to the Chairman on Company Board matters, supports the Board and is responsible for ensuring that all meetings of the Board and its Committees are properly convened and held, that the Board and Committee members receive appropriate information in a timely manner to enable them to discharge their responsibilities effectively, and that all governance requirements are duly and efficiently met.

The Company's policies, which sit within the framework of the PF Group Corporate Policies, are reviewed, updated and approved (as necessary). Compliance with the PF Group Corporate Policies is attested to annually by the corporate department responsible for the relevant policy.

Board and Committee agendas for each meeting are prepared by the PF Group Secretariat and reviewed in

Statement of corporate governance arrangements (continued)

advance by the key internal stakeholders and the relevant Chair. The Chair is responsible for ensuring that the Board has sufficient time to address its business, including strategy, and additional Board meetings are scheduled when required to deal with key and urgent matters. The PF Group Secretariat ensures that Board & Committee forward agenda planners are also in place for all Board-level forums. Standard Board paper reporting templates are used across the Company's Board and its Committees to drive effectiveness, clarity and consistency in Board and Committee reporting. Papers are circulated to the respective Board or Committee members five working days prior to the relevant Board or Committee meeting. After each Board or Committee meeting, actions arising are formally tracked and followed up through to completion or closure. Minutes of each meeting are reviewed and approved for signature at the relevant subsequent meeting of the respective Board or Committee concerned.

An annual Board and Committee effectiveness review is usually undertaken and includes assessment of the information and support received by the Board, with resultant recommendations and actions arising being closely tracked through to implementation or completion. The Company's Chairman and individual Non-Executive Directors are similarly also subject to personal performance effectiveness evaluations. The Board and its Committees are able to seek their own external advice if required. This review did not occur in 2021 as a result of the implementation of the Common Board (see Principle A above for more information).

The PF Group Secretariat ensured that PF Group and Company Board Governance Manuals were formally documented and operated in conjunction with corresponding PF Group and Company Delegated Authority Manuals. This provided clarity regarding authorities and responsibilities throughout the Company. All such Manuals are periodically refreshed as a result of changes in legislation and developments in governance best practice, and as the PF Group and Company structure evolves. Risk management frameworks are also in place for the Company and indeed throughout the PF Group, upon which the PF Group reports annually. In the event that the Company's Internal Audit function identifies matters requiring further investigation or controls weaknesses to be addresses, such matters and actions are escalated promptly to the Audit Committee and Board as appropriate. The Board also annually reviews and confirms the effectiveness of Internal Audit function and External Audit.

<u>Composition, succession and evaluation</u>

J. *Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.*

The Company has a Nomination Committee comprised of a majority of independent Non-executive Directors to oversee a formal, transparent and rigorous Board appointment process and to make recommendations to the Board on appointments for approval.

A formal documented Board appointment process was in place, which is used to guide the process for Board appointments to ensure it is objective and based on merit. Appointments to the Board follow a robust process of candidate shortlisting based on suitability against a role profile, interviews by key internal stakeholders and candidate competency and suitability assessments. As required by our regulatory framework, candidates are assessed as to whether they are 'fit and proper' and appointments are made subject to regulatory approval, ensuring that directors that are appointed to the Board are deemed suitable by our regulators. Regulatory references are also taken regarding new Board appointments. As part of Board appointment processes, areas for personal development are identified for the successful appointee and they are supported in a plan to address these areas.

The Board Skills Matrix supports the identification of skill gaps, including technical and cognitive skills, which inform Board appointments. The Nomination Committee reviews both Executive and Non-Executive succession plans to ensure that appropriate plans are in place. In its review of Executive succession planning, the Nomination Committee reviews progress made in relation to diversity, including the efforts that had been made to ensure that the Company drive broad candidate searches to tap into as diverse as possible talent pools.

Statement of corporate governance arrangements (continued)

The Board has a Board Diversity policy in place and the Company has a Diversity & Inclusion policy in place for all colleagues in order to drive equality, inclusion and diversity, both of which recognise diversity in its broadest sense. The Nomination Committee monitors what progress has been made in relation to the Company's inclusion and diversity culture and how the Company is strengthening inclusion and diversity.

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

During the year, the Board was composed of a mixture of executive, independent Non-Executive and PF Group Non-Executive directors, bringing a combination of views, skills, knowledge and experience to the Board. Our Board Skills Matrix enables the Nomination Committee to monitor and assess the combination of technical and cognitive skills across the Board and identify any gaps to be addressed through future Board appointments of training. Development plans for Directors were implemented to assist ongoing personal developments. A Board training plan is also created each year to address key areas for the Board as a whole to receive training on.

The Board's composition, tenure and succession plans are reviewed by the Committee to ensure composition remains appropriate, and Board membership has been refreshed notably in the last two years.

The Company's Board effectiveness evaluation typically includes an assessment of Board composition, the results of which are considered by the Board. The Nomination Committee also considers Board composition annually.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

In light of the significant changes to the composition of the Board, as announced on 13 January 2022, it was determined that an annual Board evaluation for 2021 not be undertaken. The PF board carried out an annual evaluation of the effectiveness of its board, committees and individual directors, and the Company's Board is now entirely comprised of directors which were subject to this evaluation. The outgoing Company Chairman's views on PF board effectiveness were sought as part of the PF board evaluation as a result of his Group Non-Executive Director role. Alongside the PF board evaluation process, the Group Board Skills Matrix was reviewed and enhanced to incorporate further experience and skills relevant to being a director of a bank, and a skills gap analysis was completed to assess overall board competence in light of the Common Board. The resulting output and action plan from the PF board evaluation process were then discussed and agreed by the Common Board, including incorporation into the board and individual director training plans. This included training specific to the responsibilities of being directors of a bank. For more information on PF's annual board evaluation, please see the PF Nomination Committee Report in the 2021 PF Annual Report & Accounts which are available at www.providentfinancial.com.

Audit, risk and internal control

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The Company has in place a dedicated Audit Committee with appropriate sector competence which assists the Board in fulfilling its oversight responsibilities by monitoring the integrity of the Company's financial statements and other financial information prior to its publication, and reviewing significant judgements contained within them. In addition, the Committee also reviews the system of internal financial and operational controls on a continuing basis and the accounting and financial reporting processes, along with the roles and effectiveness of both the Company's Internal Audit function and external auditor.

The Company operates an in-house Internal Audit function which is managed by the Group Chief Internal Auditor

Statement of corporate governance arrangements (continued)

with specialist services provided by third-party consultants where necessary. The Internal Audit function reports, via the Group Chief Internal Auditor, to the Audit Committee at each meeting, ensuring the function's independence from management. Separate private sessions with Internal and external audit are held at each Audit Committee on a rotating basis and the Chair of the Audit Committee also meets separately with the Group Chief Internal Auditor and the Chair of the Group Audit Committee on at least a quarterly basis.

The Audit Committee approves the Internal Audit charter on an annual basis and reviews, approves and monitors progress against the internal audit plan. As part of this approval process the Audit Committee requires the confirmation from the Group Chief Internal Auditor that the internal audit function has the requisite expertise and resources to successfully fulfil its role. In the second-half of 2021 the Audit Committee commissioned an External Quality Assessment by Ernst & Young ("EY"). The assessment found general conformance with the International Profession Practices Framework, with a requirement for moderate enhancements over the CIIA Financial Services Code, a benchmark against good practice for Internal Audit functions operating within the financial services sector in the UK. EY confirmed that Internal Audit's maturity is in line with peer organisations. There was recognition by EY that Internal Audit had responded to the COVID-19 pandemic with 'flexibility, adaptability and pragmatism'.

The Audit Committee considers the reappointment of the external auditor, including the rotation of the audit partner, annually. This includes an assessment of the independence of the external auditor and an assessment of its performance in the previous year. This is achieved primarily through a questionnaire and scorecard which is completed at the Group level by key stakeholders involved in the annual audit process and the scores and results of the questionnaire are collated and shared with the external auditor and an action plan to address any areas of concern identified is agreed.

To further ensure external audit independence and objectivity, the Company has in place a policy on the appointment of staff from the external auditor. Neither a partner of the audit firm who has acted as engagement partner, nor the quality review partner, nor other key audit partners, nor partners in the chain of command, nor a senior member of the audit engagement team, may be employed as Group Chief Finance Officer, Group Financial Contoller or any Divisional Finance Director.

The Chair of the Audit Committee was a member of the Group External Audit Tender Selection Panel, who conducted a tender in 2021, and following an in-depth discussion of the selection criteria and each tendering firm's strengths and weaknesses, it was determined that Deloitte LLP would be proposed to the Board for reappointment. The Board subsequently approved the reappointment of Deloitte LLP as the Company's external auditors.

The Audit Committee considered the critical accounting assumptions and key sources of estimation uncertainty in relation to the Financial Statements and also considered the going concern statement. The Audit Committee discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus within the Independent Auditor's Report. The Audit Committee received the output from Moody's model validation review and implemented an agreed plan to re-build its models. Moody's identified that there were improved financial controls and there was further work planned to address segregation of duties. As a result of the review, Finance committed to a IFRS9 model redevelopment project in 2021. There has been good progress in delivering against the independent model validation plan and management have provided assurance reports and updates to the Audit Committee during the year. The second line have also provided assurance over the work and will provide a final report due out in early 2022.

N. The board should present a fair, balanced and understandable assessment of the Company's position and prospects.

The Audit Committee considers whether, in its opinion, the Company's Financial Statements, taken as a whole, are fair, balanced, and understandable and provide the necessary information for the reader to assess the Company's position and performance, business model and key audit matters. To this end the Audit Committee adopts the following process:

- the early involvement of the Audit Committee in the preparation of the Financial Statements which enables it to provide input into the overall messages and tone;

Statement of corporate governance arrangements (continued)

- the input provided by Company and Group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;
- the regular review of the Internal Audit activity reports which are presented at Audit Committee meetings and the opportunity for the Non-Executive Directors to meet the external auditor without any executives present via the private sessions of the Audit Committee;
- the Audit Committee review and consideration of the draft Financial Statements in advance of final sign-off;
- the reviews conducted by external advisors appointed to advise on best practice; and
- the final sign-off process by the Board.

In addition to this approach, the Audit Committee considered in detail management's critical accounting assumptions detailing the approach taken and key sources of estimation uncertainty documented in the financial statements. These and the going concern assumption were carefully reviewed and challenged by the Audit Committee following the review performed by the external auditor, which also fully analysed and concurred with the assumptions made as part of the year-end process. A review of the consistency between the risks identified and the issues which were of concern to the Audit Committee was also performed. The Financial Statements are approved by the Board upon the recommendation of the Audit Committee.

O. *The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.*

The Bank is dual regulated by both the FCA and Prudential Regulation Authority ("PRA") and as such, the Company has in place a dedicated Risk Committee, the role of which is to ensure there is an effective risk management framework in operation which enables the effective oversight of the Company's risk position. The Risk Committee's principal area of responsibility is to understand the Board's strategy, desired culture and direction and identify the key strategic and emerging risks which may prevent delivery. The Risk Committee achieves this by the endorsing of a Company risk appetite, aligned with that of the Group, and recommending it to the Company Board at least annually. In addition, the Risk Committee reviews the Company's management of current and forward-looking risk exposures, including notifying the Board of any changes in the status and control of material risks.

The Risk Committee works with the Group Risk Committee to review and recommends to the Company and Group Boards for approval the ICAAP and ILAAP, including the stress testing and capital allocation approach. The Risk Committee further considers and recommends to the Board for approval the Company's Recovery and Resolution Plan. The Company's Budgeting process considers underpinning assumptions and associated risks, and these are reviewed and challenged by the Audit Committee in advance of being recommended to the Company Board for approval.

The Company operates a three lines of defence model in line with that of the Group and facilitated close alignment during the year with the Group via the Company Chief Risk Officer being a member of the Cross-Divisional Risk Forum, Group Executive Risk Committee and attendee at the Group Risk Committee. The Company is in the process of enhancing its framework via the development of a risk and control self-assessment approach, through which key controls will be identified, evaluated and monitored by line management as part of day-to-day activities. Board reporting templates encourage the consideration of risk implications of strategic initiatives, providing requisite information to enable effective decision making. The Company and Group have made significant enhancements to its risk management framework through the Group Risk Harmonisation Programme which is detailed further within the Group consolidated Annual Report & Accounts, available at www.providentfinancial.com.

The Company relies upon the Group Enterprise Risk Function for the completion of an annual robust assessment of the principal and emerging risks faced by the Company and Group, including associated mitigating actions undertaken by management, and these are reported within the Group consolidated Annual Report & Accounts, available at www.providentfinancial.com.

The Board delegates to the Audit Committee the monitoring and the assessment, on the its behalf, of the

Statement of corporate governance arrangements (continued)

effectiveness of the Company's risk management and internal control systems. The Company's dedicated Audit Committee therefore assesses the effectiveness of the risk management and internal control systems within the Company. To assess the effectiveness of the risk management and internal control systems within the Company, Group Internal Audit conducted an analysis of the aggregate outcomes from audits carried out in 2021 from both a control environment and a risk and control culture perspective, assessed the progress made in terms of the enhancement of the second line of defence, and assessed the number of open and overdue audit issues. In addition, Group Internal Audit also worked closely with the second line of defence to monitor levels of risk awareness across the Company. Group Internal Audit confirmed to the Company and Group's Audit Committee that both the control environment and the level of risk and control awareness had improved within the Company during 2021, evidenced particularly through the progress made by the Company's 'First Line Control Review' programme. Management has robust plans for the continued remediation of the Company's IT control environment, and are committed to the continued improvement of the control environment and the embedding of a risk-aware culture. This is demonstrated though the ongoing Risk Enhancement Programme. The Group Risk Harmonisation Programme (details of which can be found in the PF Group's Annual Report & Accounts at www.providentfinancial.com) will deliver improvements in developing a risk aware culture.

The assurance plans for the coming year, developed by Internal Audit and Compliance, are prioritised according to risk, and aligned to deliver maximum coverage and minimum duplication. The Internal Audit is approved by the Audit Committee. Findings arising from second line and third line reviews are shared with the Audit Committee and between second and third lines to allow for cross examination and to develop further assurance activity, where deemed necessary. The Audit Committee hold a private session with the Compliance Director on an annual basis.

<u>Remuneration</u>

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the Company's long-term strategy.

The Company's remuneration policies and practices are designed to support the Bank's current 5-year plan to become Customer Champion in our sector. The wider Group's Blueprint purpose defines the behaviours and strategic drivers around which the Company's 5-year strategic plan is built. Central to this plan is the delivery of ongoing positive customer outcomes which create the foundation for sustainable long term returns for shareholders. The tools used to determine Executive Director variable pay are derived directly from the Company's 5-year plan and Blueprint purpose, with the value of bonus awards and long-term parent share-based awards being primarily informed by performance against a balanced, business scorecard of financial and non-financial objectives and measures. This business scorecard adopts the current year priorities and deliverables from the 5-year strategic plan with the measures and objectives being structured into categories based around the Company's adoption of the Blueprint purpose: Grow, Cost, Digitise and Culture. The business scorecard integrates current year financial budget targets ensuring there is a financial underpin for variable pay and alignment of interests around financial returns to shareholders. Non-financial objectives integrate quantifiable customer outcomes, regulatory risk and risk control measures requiring all employees and executives to deliver and demonstrate the embedding of culture, customer, regulatory and conduct programmes via objective output-based measures. In this way the Company's risk management performance and ongoing development of the Company's risk culture remain central to executive pay outcomes.

The Company's Remuneration Committee, comprised of independent Non-Executive directors, are responsible for the assessment of the Company scorecard and this Committee retains full discretion over the value of any bonus and long-term awards being made. This approach ensures that all circumstances, including long-term outcomes, may be considered before variable awards are made and therefore ensures long-term customer, risk based and shareholder-centric values are embedded and practised, in line with the Group's Blueprint purpose.

Further to the assessment of the scorecard, and in recognition of the importance of effective risk management to sustainable growth and shareholder value, the Company also operates independent variable pay risk adjustment

Statement of corporate governance arrangements (continued)

assessments both during the review of bonus funding and at the point of vesting of any deferred awards. These assessments form part of the Group's Variable Pay Risk Adjustment Framework which maintains the integrity between effective risk management outcomes and executive pay awards.

These assessments consider whether variable pay funding should be reduced, or granted awards reduced or recouped, based on the profile of risk control and risk events experienced over the performance period the variable pay relates to. The Group's Malus and Clawback policy, which is applicable to the Company, operates in conjunction with these assessments and ensures that the Company has a legal capability to enforce the reduction or repayment of historical awards where harm has resulted from conduct risks. This sanction capability incentivises executives to remain focussed on the delivery of long-term sustainable value in accordance with the business plan.

Additionally, the Company also operates a variable remuneration cap covering short and long-term incentives, which restricts value of variable remuneration that may be paid relative to an executive's base salary at 200% of base salary. Shareholder support was received to increase this ratio from 100% of base salary, demonstrating shareholder support for the current quantum of executive pay opportunity relative to shareholder value generation.

The vesting timeframe of the Group's share-based, long term incentive (Restricted Stock Plan – (RSP)) which forms part of the Company's executive pay opportunity, has been purposely set at three years to create a long-term alignment of interests between shareholder returns and executive variable pay outcomes. Prior to the vesting of RSP awards, the Remuneration Committee is required to perform a performance underpin evaluation.. This assessment also provides an opportunity to adjust any share price-related windfall gains to executives relative to the shareholder return experience. The Remuneration Committee's discretionary authority to determine the value of long-term awards at vesting enables the full spectrum of performance and conduct risk factors to be reviewed and in doing so encourages executives to demonstrate long-term behaviours.

Q. *A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.*

The Company's approach to remuneration is developed and overseen by the Company's Remuneration Committee in coordination with the policies and practices developed and implemented by the Group Remuneration Committee. Both Company and Group Remuneration Committees are comprised entirely of Independent Non-Executive Directors (INEDs). INEDs are remunerated solely on a fixed-fee basis and are not eligible for any variable remuneration plan. As non-participants in variable pay programmes, there is no conflict of interest in either their oversight of the design and implementation of the Company's and Group's variable remuneration policies, or the assessment of the performance outcomes and levels of award delivered. Company INED fees are reviewed by the Chairman of the Company in conjunction with a wider review of non-executive fees throughout the Company.

The Company's Remuneration Committee terms of reference clearly detail the authorities of the Committee and provide a transparent mandate for performance and remuneration governance and decisioning for executives. The Committee's role in executive remuneration governance includes the approval of business scorecard objectives and measures, the review of executive personal objectives, and the assessment of performance delivered against those objectives. In making the performance assessment determination, the Company's Remuneration Committee is supported by financial reports from Group and Company finance and by risk reports produced by the Company Chief Risk Officer. The Committee terms of reference provide that no executive may be present when their own remuneration is under review.

R. *Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.*

As noted above, the Remuneration Committee consists entirely of independent Non-Executive Directors, who are not eligible for participation in any of the remuneration programmes under review.

Statement of corporate governance arrangements (continued)

As also noted above:

- for Executive Directors' annual bonuses, the Remuneration Committee approves the balanced scorecard of objectives, wherein objectives reflect both Company and more individual deliverables, and are therefore designed to reflect of holistic performance;
- variable pay is designed to provide the Remuneration Committee with discretion to override scorecard outcomes and ensure reward is aligned to performance and delivery of value for the shareholders and stakeholders. Discretion is and has been used when the Remuneration Committee deems it appropriate;
- there is a robust risk assessment and adjustment process in place for variable pay to drive reward outcomes that reflect the delivery of long-term sustainable value, effective risk management and meeting of regulatory obligations, aligned with our customer-centric culture; and
- appropriate Malus and Clawback policies are in place to create a strong dis-incentive and sanction potential for inappropriate, short-term strategy taking, including by specific individuals.

PricewaterhouseCoopers LLP ("PwC") were appointed by the Remuneration Committee and PF Remuneration Committee as independent adviser in 2020. PwC is a founding member of the Remuneration Consultants Group. Other than in relation to advice on remuneration, PwC provides support to management across the PF Group in relation to tax compliance, IT and internal audit and ad-hoc tax and accounting advice.

The additional table below details those Provisions of the Code that the Company did not comply with for the entire reporting period during the 2021 financial year and the explanation for non-compliance. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF. PF complies with all the Provisions of the Code and you can read how it has complied in the PF Annual Report & Accounts at www.providentfinancial.com.

Provision not complied with	**Reason for non-compliance**
Code provision 1	The Company complied with the element of the Provision that states that the Board should assess the basis on which the Company generates and preserves value over the long-term. However, the Company did not comply with the additional reporting requirement of the Provision that: a) it should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed; b) the sustainability of the Company's business model and c) how its governance contributes to the delivery of its strategy. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF.
Code provision 2	The Company complied with the element of the Provision that states that the Board should assess and monitor culture and, where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the Company's purpose, values and strategy, it should seek assurance that management has taken corrective action. However, the Company did not comply with the additional reporting requirements of the Provision that: a) the annual report should explain the Board's activities and any action taken in regard to the above mentioned first element of the Provision; and b) in addition, it should include an explanation of the Company's approach to investing in and rewarding its workforce. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF, whose sole shareholder is PF.

Statement of corporate governance arrangements (continued)

Provision not complied with	**Reason for non-compliance**
Code provision 11	The Company did not comply with this Provision which requires that at least half the Company's Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. The composition of the Company's Board is reviewed regularly, is considered wholly appropriate given the Company's status as a private wholly owned subsidiary, with the appropriate balance of skills and independence, and has been approved by the PRA. Following the Board changes implemented on 13 January 2022, the Company now complies with this Provision as at the date of this report.
Code provision 14	The Company did not comply with element of the Provision regarding the public availability of the Board-agreed, clear and written responsibilities of the Chair, Chief Executive, SID, Board and its Committees. The roles are documented and are also set out in the Company's Board Governance Manual and have been approved by the Board. Following the Board changes implemented on 13 January 2022, the Company now complies with this Provision as at the date of this report. Additionally, the Company did not comply with the additional reporting requirements of the Provision that the annual report should set out the number of meetings of the Board and its Committees, and the individual attendance by directors. However, the PF Group Secretariat does formally track directors' attendance at the Company's Board and Committee Meetings. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF.
Code provision 18	The Company did not comply with the Provision which requires that: a) all directors should be subject to annual re-election; and b) the Board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the Company's long-term sustainable success. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF. Given the Company's ownership structure, there is no requirement under the Company's constitution for the Company to convene an Annual General Meeting and, in practice, the Company's directors receive PF Group approval for their appointment to the Board. The Company's Chairman, who was also a director of PF, is subject to annual re-election as a PF Group Board director. Following the Board changes implemented on 13 January 2022, the directors of the Company are all subject to annual re-election in relation to their roles on the board of PF.
Code provision 20	Open advertising and/or external search consultancies are used for the appointment of the Chair and Independent Non-Executive Directors. The Company did not comply with the part of this Provision which requires the identification of external search consultancies in the annual report alongside a statement about any other connection it has with the Company or individual directors. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF.
Code provision 21	The Company did not comply with the Provision that requires an annual evaluation of the performance of the board, its committees and individual directors. In light of the changes to the Company's Board to substantially align its membership with the board of PF, as announced on 13 January 2022, it was determined that the annual Board evaluation not be undertaken. The PF board carried out an annual evaluation of the effectiveness of its board, committees and individual directors, and the Company Chairman's views were still sought as part of the PF board Evaluation as per his Group Non-Executive Director role. For more information on PF's annual board evaluation, please see the PF Nomination Committee Report in the 2021 PF Annual Report & Accounts which are available at www.providentfinancial.com.

Statement of corporate governance arrangements (continued)

Provision not complied with	Reason for non-compliance
Code provision 23	The Company did not comply with the Provision which requires that the annual report should describe the work of the Nomination Committee. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF.
Code provision 26	The Company did not comply with the Provision which requires that the annual report should describe the work of the Audit Committee. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF.
Code provision 28	The Company did not comply with the Provision which requires that the Board should: a) carry out a robust assessment of the Company's emerging and principal risks; and b) confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated. The Risk Committee, on behalf of the Board, identifies and seeks to manage the principal and emerging risks faced by the Company. The Company is captured by and relies upon the PF Group process regarding the annual robust assessment of the principal and emerging risks as consolidated within the Group accounts. The Board considers that such non-compliance is appropriate and proportionate since the Company forms a significant proportion of the PF Group, has an escalated reporting process between the Company's Risk Committee and the Board up into the PF Group Risk Committee and PF Board. The Company also utilises the PF Group-wide Enterprise Risk function and is subject to and operates within the overall PF Group risk management framework, policy taxonomy and risk appetite.
Code provision 29	The Provision requires that the Board should: a) monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report; and b) that the monitoring and review should cover all material controls, including financial, operational and compliance controls. The Company complied with the Provision, save that the Audit Committee undertook the relevant monitoring and review on behalf of the Board, and the results of the effectiveness review were not formally reported up to the Board for its own consideration and approval. However, all but one of the Company's Independent Non-Executive Directors were also members of the Company's Audit Committee during the year. PF undertakes an annual robust assessment of the Group's risks and material controls, including those of the Company and the Company relies upon the Group consolidated accounts for this disclosure. The Board therefore considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly-owned-subsidiary of PF.

Statement of corporate governance arrangements (continued)

Provision not complied with	**Reason for non-compliance**
Code provision 31	The Annual Report does not include an explanation by the Board, having taken account of the Company's current position and principal risks, of: • how the Board has assessed the prospects of the Company; • the period over which the board made its assessment; and • why the board considers that period to be appropriate. The Company does regularly assess its principal risks and their potential impact on the Company. PF complies with this Provision and, as the Company forms a significant part of this process, it is considered appropriate to rely upon this assessment. Furthermore, the Company regularly undertakes an ICAAP which is an internal regulatory-required process to assess the Company's capital adequacy over a determined multi-year period and requires us to have appropriate risk management techniques in place. The Company also regularly undertakes an ILAAP which also plays a key role in the risk management of credit institutions and comprises a clear assessment of the risks to the Company's liquidity. The Board therefore considers that such non-compliance with this Provision is appropriate and proportionate to the Company's status as a private wholly-owned-subsidiary of PF.
Code provision 36	During the year the Company did not comply with the stipulated vesting and holding periods or the development of a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares required by this Provision. Share awards granted to the Company's executive directors during the year have a three-year vesting period, although the Company's Remuneration Committee and PF Remuneration Committee determined that currently no additional two-year post-vesting holding period should be applied to such awards, in view of the fact that the Company is a private wholly owned subsidiary. The Company's Managing Director and Finance Director were participants in the Company's Restricted Share Plan and historical Long-Term Incentive Scheme, both schemes being fully aligned with the Company's long-term performance and success, as described above. The Company's Remuneration Committee and PF Remuneration Committee have similarly determined that the PF Group's post-employment shareholding policy was not required to be applied for share awards granted to the Company's executive directors given the Company's private company status. However, a robust Malus and Clawback Policy is in place and applies to all such share awards under the Company's remuneration schemes. The Company complied with the remainder of the Provision. Following the appointment of the PF Chief Executive Officer and Chief Finance Officer as the executive directors of the Company on 13 January 2022, the Company's Executive Directors are now subject to the holding periods and a post-employment shareholding policy required under this Provision by virtue of their equivalent roles on the board of PF.
Code provision 41	The Company did not comply with the Provision which requires that there should be a description of the work of the Remuneration Committee in the annual report. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly-owned-subsidiary of PF.

Statement of corporate governance arrangements (continued)

Going concern

In preparing the Financial Statements, the Directors are required to determine that the Company has adequate resources to continue to operate for the foreseeable future. The review has been made on the basis that the Company continues to operate as a going concern for the twelve months from the date the financial statements are approved, but when considering the analysis, the Directors' consideration extended beyond this time period. The Directors considered the appropriateness of the going concern basis, the period of assessment, any reporting requirements, and solvency and liquidity risks and included a variety of factors – forecasts and budgets, timing of cash flows and funding, the Company's primary market and any contingent liabilities. When considering the appropriateness of going concern the Directors have also considered the broader view of continuing to operate – in the context of the Company this means being able to meet its regulatory requirements (both capital and liquidity) at all times and not just a positive net asset measure.

The assessment of going concern for the Company for the purposes of the Annual Report and Financial Statements considered the following factors:

- Stress testing regulatory capital and liquidity projections for a severe but plausible downside scenario.
- Considering the point of no viability of the Company in terms of levels of unemployment.
- Assessing the operational resilience of the Company through the Covid-19 pandemic.
- Considering the regulatory risks that may impact the Company going forward.
- Considering the work undertaken by the Internal Audit Function and the Risk Office to support going concern.

Having considered the Company's forecasts, the regulatory capital and liquidity of the Company, the resilience of the Company through Covid-19, and the regulatory outlook, the Directors have a reasonable expectation that the Company will continue for the foreseeable future and will be able to meet its liabilities as they fall due. Accordingly, the Financial Statements of the Company have been prepared on the going concern basis.

A further review of the business, results and future prospects of the Company is set out in the Group Annual Report and Financial Statements which are available at www.providentfinancial.com.

Approved by the Board and signed on its behalf by:

M J Le May
Managing Director
6 April 2022

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with relevant IFRS, IFRS Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. Under company law 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that the Directors:

- Properly select and apply suitable accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf by:

M J Le May
Managing Director
6 April 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Vanquis Bank Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in shareholder's equity;
- the statement of cash flows;
- the statement of accounting policies;
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: Valuation of Expected Credit Losses ("ECL") on credit card receivables Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £6.00m (2020: £3.24m) which represents 3.37% of profit before tax (2020: 0.99 % of net assets). The rationale for the change in benchmark for materiality is explained in the significant changes in our approach section below
Scoping	Our audit was scoped by obtaining an understanding of the Company and its environment including internal control and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatements was performed directly by the audit engagement team, with the support of appropriate specialists.
Significant changes in our approach	The significant changes in our approach included: • **Change in basis of materiality from net assets to profit before tax** In the prior year, we changed the basis for determining materiality from profit before tax to net assets. This was due to the volatility of the Company's results during the Covid-19 pandemic. However, in the current year, we have determined it to be appropriate to revert back to profit before tax, given the continued importance of the profitability of the Company to its stakeholders. • **Revenue Recognition** In the prior year we identified revenue recognition as a key audit matter, specifically the appropriateness of the behavioural life assumption used to amortise directly attributable acquisition costs ('DAC'). We have revised our risk assessment as the expected behavioural life assumption is no longer considered as sensitive in the context of our materiality.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's stress testing and reverse stress testing analysis in order to understand, challenge and assess the key judgements made by management using our knowledge of the company, the industry and the regulatory environment;
- assessing management's capital and liquidity stress testing and calculation of Total Capital Ratio (TCR);
- obtaining an understanding of relevant controls around management's going concern assessment including Board approval;
- with the support of our prudential regulation specialists:
    - reading the most recent Internal Capital Adequacy Assessment and Internal Liquidity Adequacy Assessment, assessing management's capital and liquidity projections, assessing the results of management's capital and liquidity stress testing and evaluating key assumptions and methods used in the capital and liquidity stress testing models; and
    - testing the mechanical accuracy of the forecasts, including reconciling opening capital and liquidity ratios to the year-end Common Reporting Framework regulatory submissions and assessing whether the year-end balance sheet within the model was consistent with the audited position;
- inspecting correspondence with regulators to understand the capital and liquidity requirements imposed on the Group by the Prudential Regulation Authority (PRA), and evaluating any changes to those requirements; and
- assessing the appropriateness of the disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

5.1 Valuation of Expected Credit Losses ("ECL") on credit card receivables

Key audit matter description	The company holds portfolios of receivables from credit cards and personal loans, totalling £1,091.5m (2020: £1,094.3m), net of provisions. Provisions for expected credit losses as at 31 December 2021 amounted to £343.8m (2020: £466.4m). The IFRS 9 expected credit losses on amounts receivable from customers are calculated by modelling expected credit performance of the receivables' portfolios. During 2021 management has adopted a new IFRS 9 model in Vanquis Bank. The underlying modelling techniques are complex and require management to make significant judgements regarding the quantum and timing of expected future cash flows to calculate expected credit losses. Provisions for expected credit losses are an area of management judgement where there is a risk of fraud due to the potential ability of management to introduce inappropriate bias to judgements made in the estimation process. IFRS 9 requires that an impairment assessment should be the best estimate of expected credit losses and that reasonable forward -looking information should be incorporated into the calculation as at the balance sheet date. The ongoing impacts of the Covid-19 pandemic, alongside uncertainties in the macroeconomic environment and inflationary pressures, mean there exists a wide range of scenarios with different loss outcomes. The key economic variables relevant for the company's portfolio were determined to be the hazard rate, which is the likelihood of moving from employment to unemployment in a given time period, and debt-to-income ('DTI') ratios. The hazard rate is not a widely used variable for which forecasts are published; however, there is a strong correlation between hazard rates and unemployment such that hazard rates can be predicted based on unemployment forecasts. There is significant judgement in determining the probability weighting of the scenarios adopted by management and the associated assumptions. The expected credit loss provision estimate is driven by account-specific estimation of probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') which represent the key areas of judgement. We focused our work on the significant increases in credit risk ('SICR') criteria and the valuation of Covid-19 in-model adjustments ('IMA's). The key area of challenge in relation to SICR is around the determination of the point at which a relative change in PD constitutes a SICR. Whilst historical data can be used to inform these thresholds it also requires significant management judgement to determine the criteria that best evidences this SICR. The Covid-19 IMA reduced from £59.6m to £27.9m as at 31 December 2021. The IMA is designed to continue to adjust PDs to reflect that actual default experience observed in 2021 is not increasing as anticipated. Furthermore, lower levels of utilisation of credit cards typically indicating a reduction in credit risk are distorted by spending patterns in the pandemic and are unlikely to represent a genuine improvement in credit quality. Further detail in respect of these judgements and estimates is set out in the accounting policies on pages 65 to 66, in note 10 of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

How the scope of our audit responded to the key audit matter	Control procedures Within Vanquis Bank we obtained an understanding of relevant controls relating to the identification, valuation and recording of expected credit losses. Substantive procedures We obtained an understanding of the new IFRS 9 methodology and its implementation in the new model. We engaged our credit risk modelling specialists to assist in our assessment and challenge of management's methodology and evaluated whether the methodology is compliant with the requirements of IFRS 9. In performing these procedures, we further considered whether there were any indicators of bias in the methodology applied by management or in the estimation of the amount and timing of expected future cash flows, through a stand back assessment performed on the ECL coverage ratios derived from the new models. In respect of the macroeconomic scenarios applied we engaged with our internal economics specialist to review the appropriateness of the shape of the hazard rate and DTI curves and the respective weightings attached to the curves, whilst also testing the underlying data used in this assessment for completeness and accuracy. We benchmarked the underlying unemployment economic variables against various external sources including Her Majesty's Treasury forecasts, Office for Budget Responsibility forecasts, Bank of England Monetary Policy Report, Office for National Statistics and other available data. We challenged the significant changes in credit risk ('SICR') criteria, with the assistance of our credit risk modelling specialists, and assessed the staging criteria against the requirements of IFRS 9. In addition, we tested that the SICR thresholds had been appropriately implemented in the models through review of the underlying scripts, tested the completeness and accuracy of the historical data used to form the SICR thresholds and challenged management's conclusions regarding the appropriateness of the SICR threshold changes in the current macroeconomic environment. We tested the valuation of Covid-19 IMAs by evaluating and challenging the validity of the adjustments incorporated by management and testing their accuracy by challenging the model logic and accuracy of the underlying data. This included, where appropriate, a review and challenge of the methodology and scripts to value IMAs with support from our credit risk modelling specialists. We also considered, through a completeness assessment, whether inclusion or exclusion of IMAs by management was indicative of bias or fraud. We also challenged, using the assistance of our credit risk modelling specialists, whether the potential impact of economic uncertainty, including inflation, had been appropriately incorporated into expected credit loss calculations through inclusion of reasonable forward -looking information. This resulted in an additional post model adjustment of £7.8m being recognised in relation to inflation and cost of living expectations as at the balance sheet date
Key observations	Based on our substantive testing we found that the provision for expected credit losses is appropriate. We considered the macroeconomic assumptions and weightings, SICR thresholds and IMAs to be appropriate and the data used in the models to be accurate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

6. Our application of materiality

6.1. Materiality

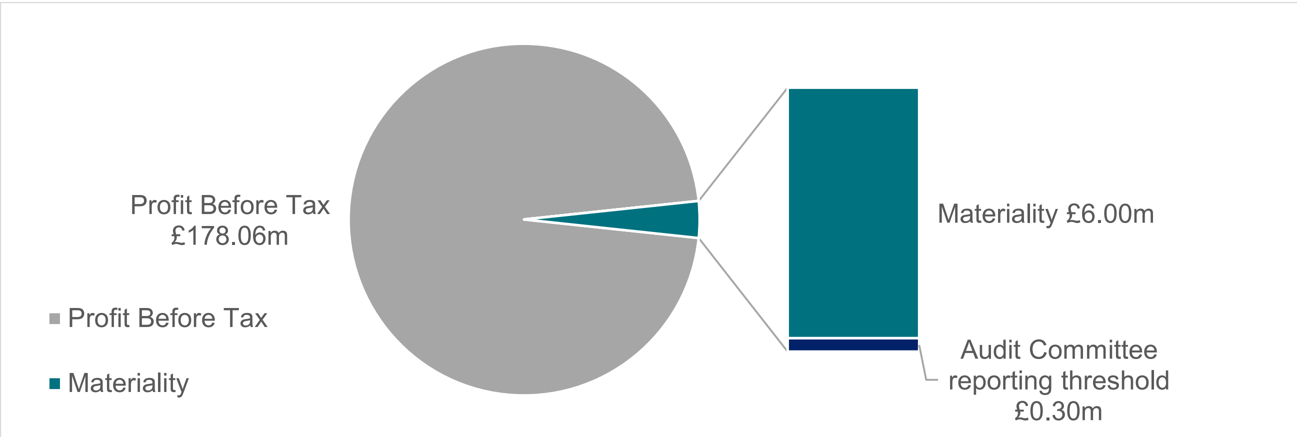
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£6.00m (2020: £3.24m)
Basis for determining materiality	3.37% of profit before tax (2020: 0.99% of net assets)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

Rationale for the benchmark applied	The materiality figure has been capped at the lower of 5.00% of profit before tax and the materiality assigned to the Company for the purpose of its parent company audit. This equates to 3.37% of profit before tax. In the prior year, we changed the basis for determining materiality from profit before tax to net assets. This was due to the volatility of the Company's results during the Covid-19 pandemic. However, in the current year, we have determined it to be appropriate to revert back to profit before tax, given the continued importance of the profitability of the Bank to its stakeholders.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- our understanding of the business;
- the quality of the control environment and whether we were able to rely on controls; and
- the nature, volume and size of misstatements (corrected and/or uncorrected) in the previous audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300,000 (2020: £129,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, with the support of appropriate specialists.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

7.2. Our consideration of the control environment

We identified the financial reporting, lending and deposit business cycles to be the most relevant to the audit, including the identification, valuation and recording of expected credit losses. We were able to take a controls reliance approach over the credit card lending and deposit business cycles and with the assistance of our IT specialists we tested and relied upon IT controls across the credit card lending and deposit systems identified. Since the Company outsources the processing of customer deposits and card transaction processing to a third party,we engaged our IT specialists to review the service auditor's report and we have shared observations from our procedures with management and the Audit Committee.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its financial statements.

The company contributes as a subsidiary of a wider group as the group continues to develop its assessment of the potential impacts of climate change which is currently being considered using two scenarios: a low-carbon scenario and a high-carbon scenario. Management has performed forward-looking qualitative scenario analysis to explore the potential range of climate change implications on the company. Over the next year, the scenario analysis will include quantitative information to enhance their assessment.

As part of our audit, we have obtained management's climate-related risk assessment and held discussions with relevant operational staffs and finance to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the company financial statements. Management has identified there to be no material impact arising from climate change on the judgements and estimates made in the financial statements.

We performed our own qualitative and quantitative risk assessment of the potential impact of climate change material misstatement. Our procedures included reading disclosures included in the Strategic Report and audit team consideration as to whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and

- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, share based payments, data analytics, information technology, prudential regulatory, fraud, macroeconomic and credit risk modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: the valuation of Expected Credit Losses ("ECL") on credit card receivables. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, tax legislation and distributable profits legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the regulation set by the Financial Conduct Authority and by the Prudential Regulation Authority relating to the regulatory capital and liquidity requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified the estimation of expected credit losses as a key audit matter related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matter section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory bodies such as the Prudential Regulation Authority, the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

As a substantial bank within the Provident Financial group, the Company itself also chose specifically to apply the Code in respect of the financial year ended 31 December 2021 as far as it is appropriate to the Company.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 34;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 35;
- the directors' statement on fair, balanced and understandable set out on page 34;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 35;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 35 to 36; and
- the section describing the work of the Audit Committee set out on pages 26 to 27.

14. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 27 to the financial statements for the financial year ended 31 December 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006, we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Directors' of the Company on 29 June 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 31 December 2012 to 31 December 2021.

16.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

17. Use of our report

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.

Matthew Perkins

Matthew Perkins (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
6 April 2022

VANQUIS BANK LIMITED
(Company Number 2558509)

INCOME STATEMENT

For the year ended 31 December	Note	**2021 £m**	2020 £m
Income	1	**405.4**	489.2
Funding costs	2	**(25.9)**	(35.5)
Net interest margin		**379.5**	453.7
Impairment charges	10	**(5.9)**	(239.9)
Risk-adjusted net interest margin		**373.6**	213.8
Administrative and operational costs		**(195.6)**	(163.1)
Profit before tax	3	**178.0**	50.7
Profit before tax and exceptional items		**179.1**	42.4
Exceptional items	4	**(1.1)**	8.3
Tax charge	5	**(32.0)**	(8.1)
Profit for the year attributable to equity shareholders		**146.0**	42.6

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	**2021 £m**	2020 £m
Profit for the year attributable to equity shareholders	**146.0**	42.6
Items that will not be reclassified subsequently to the income statement:		
- fair value movements transferred to income statement	**(5.3)**	3.8
- tax on items taken directly to the other comprehensive income	**1.4**	(1.0)
- impact of change in UK tax rate	**-**	(0.2)
- deferred tax credit on disposal of investment	**-**	2.0
- current tax charge on disposal of investment	**-**	(2.0)
Other comprehensive (expense)/income for the year	**(3.9)**	2.6
Total comprehensive income for the year	**142.1**	45.2

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF FINANCIAL POSITION

	Note	**31 December 2021 £m**	31 December 2020 £m
ASSETS			
Cash and cash equivalents	9	**413.4**	833.6
Amounts receivable from customers	10	**1,091.5**	1,094.3
Trade and other receivables	12	**30.5**	19.7
Loan to ultimate parent undertaking	11	**69.3**	69.3
Investments	13	**9.1**	9.2
Property, plant and equipment	14	**5.0**	6.4
Right-of-use assets	16	**30.6**	35.7
Intangible assets	15	**24.5**	14.4
Current tax assets		**1.4**	-
Deferred tax assets	17	**25.0**	23.8
Total assets		**1,700.3**	2,106.4
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	21	**81.3**	49.8
Current tax liabilities		**-**	1.0
Provisions	22	**5.3**	2.6
Lease liabilities	20	**37.6**	42.7
Retail deposits	19	**1,018.6**	1,683.2
Collateralised loan	19	**172.2**	-
Total liabilities		**1,315.0**	1,779.3
Equity attributable to owners of the parent			
Share capital	23	**124.2**	124.2
Share based payment reserve	24	**1.9**	2.0
Fair value reserve		**-**	3.9
Retained earnings		**259.2**	197.0
Total equity		**385.3**	327.1
Total liabilities and equity		**1,700.3**	2,106.4

The financial statements on pages 56 to 102 were approved by the board of directors on 6th April 2022 and signed on its behalf by:

Malcolm Le May
Managing Director

Neeraj Kapur
Finance Director

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share - based payment reserve £m	Fair value reserve £m	Retained earnings £m	Total £m
At 31 December 2019		124.2	1.8	6.7	258.4	391.1
At 1 January 2020		124.2	1.8	6.7	258.4	391.1
Profit for the year		-	-	-	42.6	42.6
Other comprehensive income:						
- fair value movements on investments		-	-	3.8	-	3.8
- tax on items taken directly to other comprehensive income		-	-	(1.2)	-	(1.2)
Other comprehensive income for the year		-	-	2.6	-	2.6
Total comprehensive income for the year		-	-	2.6	42.6	45.2
Share-based payment charge	24	-	0.8	-	-	0.8
Transfer of cumulative gain on disposal of investment		-	-	(7.4)	7.4	-
Transfer of tax on disposal of investment		-	-	2.0	(2.0)	-
Transfer of share-based payment reserve	24	-	(0.6)	-	0.6	-
Dividends	6	-	-	-	(110.0)	(110.0)
At 31 December 2020		124.2	2.0	3.9	197.0	327.1
At 1 January 2021		124.2	2.0	3.9	197.0	327.1
Profit for the year		-	-	-	146.0	146.0
Other comprehensive income:						
- fair value movements transferred to income statement		-	-	(5.3)	-	(5.3)
- tax on items taken directly to other comprehensive income		-	-	1.4	-	1.4
Other comprehensive (expense)/income for the year		-	-	(3.9)	-	(3.9)
Total comprehensive (expense)/income for the year		-	-	(3.9)	146.0	142.1
Share-based payment charge	24	-	1.1	-	-	1.1
Transfer of share-based payment reserve	24	-	(1.2)	-	1.2	-
Dividends	6	-	-	-	(85.0)	(85.0)
At 31 December 2021		**124.2**	**1.9**	**-**	**259.2**	**385.3**

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	**2021 £m**	2020 £m
Cash flows from operating activities			
Cash generated from operations	26	**212.9**	354.9
Funding costs paid		**(25.9)**	(35.5)
Tax paid		**(6.1)**	(25.5)
Net cash generated from operating activities		**180.9**	293.9
Cash flows from investing activities			
Purchase of property and equipment	14	**(0.7)**	(5.0)
Purchase of intangible assets	15	**(16.9)**	(14.1)
Proceeds from sale of investments	13	**-**	7.4
Net cash used in investing activities		**(17.6)**	(11.7)
Cash flows from financing activities			
Capital elements of lease payments		**(6.1)**	(6.0)
Proceeds from borrowings		**295.8**	680.8
Repayment of borrowings		**(788.2)**	(338.6)
Dividends paid to company shareholder	6	**(85.0)**	(110.0)
Net cash (used in)/generated from financing activities		**(583.5)**	226.2
Net (decrease)/increase in cash and cash equivalents		**(420.2)**	508.4
Cash and cash equivalents at beginning of year		**833.6**	325.2
Cash and cash equivalents at end of year		**413.4**	833.6
Cash and cash equivalents at end of year comprise:			
Cash and cash equivalents	9	**413.4**	833.6
Total cash and cash equivalents		**413.4**	833.6

Cash at bank and in hand includes £414.8m (2020: £833.3m) in respect of the liquid assets buffer, including other liquidity resources, held by the Company in accordance with the PRA's liquidity regime. As at 31 December 2021, £268.2m (2020: £691.9m) of the buffer was available to finance the Company’s day-to-day operations.

STATEMENT OF ACCOUNTING POLICIES

General information
The Company is a private company limited by shares and is incorporated and domiciled in England, United Kingdom. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU. The Company is authorised and regulated by the PRA and regulated by the FCA.

Basis of preparation
The financial statements of the Company are prepared in accordance with IFRS as adopted by the UK, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. The change in basis of preparation from IFRS as adopted by the EU to IFRS as adopted by the UK is required as a result of the UK's exit from the EU on 31 January 2020. This change does not constitute a change in accounting policy and there is no impact on recognition, measurement or disclosure between the two frameworks in the period reported. 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 and investments held at fair value through profit or loss.

In preparing the Financial Statements, the Directors are required to determine that the Company has adequate resources to continue to operate for the foreseeable future. The review has been made on the basis that the Company continues to operate as a going concern for the twelve months from the date the financial statements are approved, but when considering the analysis, the Directors' consideration extended beyond this time period. Accordingly, the Directors have reviewed the Company's latest budgets, which includes capital and liquidity forecasts, on detailed projections for 2022 to 2026. The assessment has included consideration of:

- Stress testing regulatory capital and liquidity projections for a severe but plausible downside scenario.
- Considering the point of no viability of the Company in terms of levels of unemployment.
- Consideration of the Company's principal risks and uncertainties, including that of Covid-19, and the likelihood of these risks materialising into losses.
- Considering the work undertaken by the Internal Audit Function and the Risk Office to support going concern.

Within the severe but plausible downside scenario, 'severe' has been defined consistently with the Company's IFRS 9 'severe' macroeconomic weighting. This assumes that unemployment in the UK reaches a peak unemployment rate of 8.6%. Further, more severe scenarios have been modelled which would need to materialise to prevent the Directors from adopting the going concern assumption. The projections do not assume any government support, and the Company's Total Capital Requirement (TCR) has been assumed in all scenarios modelled.

Having considered the Company's forecasts, the regulatory capital and liquidity of the Company, the principal risks and uncertainties of the Company, and the regulatory outlook, the Directors have a reasonable expectation that the Company will continue for the foreseeable future and will be able to meet its liabilities as they fall due. Accordingly, the Financial Statements of the Company have been prepared on the going concern basis.

The impact of new standards not yet effective and not adopted by the Company from 1 January 2021
<u>Software-as-a Service (SaaS)</u>

The IFRS Interpretations Committee (IFRIC) has published an agenda decisions 'Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)' clarifying how cloud technology, Software-as-a Service (SaaS), should be accounted for.

It concluded that many arrangements should be accounted for as service arrangements rather than an acquisition of software assets that are recorded as intangible assets. This was because generally, in a cloud based environment, the SaaS contract gives the customer only the right to access to the cloud provider's application software and the provider retains control of the asset software. It also considered how an entity should account for configuration and customisation costs incurred in implementing SaaS arrangements and concluded that these costs would typically be recognised as an expense unless criteria for recognising a separate asset were met. If these costs are incurred with the supplier of the SaaS arrangement, they can be recognised as an expense over the period of the arrangement, previously they would have been expensed as incurred.

As this is an agenda decision it has no application date however is expected to be implemented within a reasonable time period of being announced. Where a change in accounting policy is required ,to apply the conclusions reached by the IFRS Interpretations Committee, this must be accounted for in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and if material prior period comparatives restated. The agenda decisions has not had a material impact on the Company and has therefore not restated any comparative numbers.

<u>VISA Inc. shares</u>

Following review of the treatment of the Visa Inc shares held in the Company being recognised as fair value through OCI (FVTOCI) it was determined that on adoption of IFRS 9, the election to treat these shares as FVTOCI was not appropriate as they did not meet the definition of an equity instrument. The shares should have been treated as a financial asset recognised at fair value through profit or loss.

The Company has concluded that this is an immaterial change relative to the Company results and the cumulative impact has therefore been adjusted in the 2021 financial period rather than as a prior year adjustment.

The assets have been reclassified in 2021 resulting in the 2020 closing fair value reserve of £3.9m being recognised in the income statement. This has resulted in an increase in profit before tax of £5.3m and an increase in the tax charge of £1.4m. The cumulative fair value movements of £5.2m and all future fair value movements will be presented within operating costs in the income statement.

<u>Interest Rate Benchmark Reform Phase 2</u>

In 2021, the Group adopted the Interest Rate Benchmark Reform Phase 2 amendments issued by the IASB. These amendments require that changes to expected future cash flows that both arise as a direct result of IBOR Reform and are economically equivalent to the previous cash flows are accounted for as a change to the effective interest rate with no adjustment to the asset or liability carrying value and no immediate gain or loss is recognised.

The new requirements also provide relief from the requirements to discontinue hedge accounting as a result of amending hedge documentation if the changes are required solely as a result of IBOR Reform. As at the end of 2021, the Group has refinanced all LIBOR linked derivatives to SONIA resulting in no impact from the implementation of these changes.

As the Company does not hold derivatives, these amendments did not impact the Company.

Income

Interest is calculated on credit card and unsecured loan advances to customers using the effective interest rate (EIR) on the daily balance outstanding. Directly attributable marketing costs are included in the EIR calculation. Fee income, which comprises default fees and other ancillary income streams are the charges made to customers that are recognised when performance obligations are met.

Income is recognised on the gross receivable when accounts are in IFRS 9 Stages 1 and 2 and on the net receivable for accounts in Stage 3.

Directly attributable acquisition costs are capitalised as part of receivables and amortised over the expected life of customer accounts as a deduction to income.

Interest income from the loan to the ultimate parent undertaking is recognised on an EIR basis.

Funding costs

Funding costs principally comprise the interest on retail deposits and are recognised on an EIR 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 Company's underlying results.

Intangible assets

Intangible assets, which comprise computer software and computer software development costs, represent the

Intangible assets (continued)
costs incurred to acquire or develop the specific software and bring it into use.

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 employees involved in software development.

Computer software (both internally generated and purchased) is amortised on a straight-line basis over its estimated useful economic life which is generally estimated to be between three to five 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. A provision is made for any impairment.

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 income and reduced by cash collections and deduction for impairment.

The impairment provisions are recognised for 12 months for Stage 1 accounts, for lifetime for Stage 2 accounts where the credit risk has significantly increased since origination, and for lifetime for Stage 3 accounts where accounts are defaulted. The impairment provisions are calculated using probability of default (PD), exposure at default (EAD) and loss given default (LGD) models.

Stage 1 provisions are held where an account is not defaulted and is not deemed to have suffered a significant increase in credit risk. Accounts are included in stage 2 when there has been a significant increase in credit risk either through a deterioration in lifetime PD compared with origination PD or when they are more than 30 days past due but are not defaulted. Stage 2 exposures are predominantly identified using a quantitative test where the lifetime PD has deteriorated by more than a predetermined threshold relative to origination PD's. The deterioration thresholds are defined as multiples of origination PD and are set by origination risk grades. As origination PD increases, the threshold value reduces. A backstop criteria is also applied to staging of accounts where accounts that are more than 30 days past due but are not defaulted are provided for lifetime losses in Stage 2. An account is considered to be in default and is provided for in Stage 3 when they are more than 90 days past due or are on a payment arrangement.

The Company has developed PD and LGD models which focuses on forecasting customer behaviour to calculate an expected loss impairment provision in accordance with IFRS 9. Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is initially determined with reference to the customer's application score used in underwriting and thereafter using both internal and external data for both credit card and loans customers. The EAD for the Company's card customers represents the current balance on the card plus future expected spend and interest. It does not include any credit line increases which a customer may become eligible for after the balance sheet date. For loans, the EAD follows the amortisation schedules of the loan and adjusted for expected missed payments at point of default. Lifetime losses are recognised when a significant increase in credit risk is evident, either from a missed monthly payment or an increase in PD. Income continues to be recognised on the gross receivable until the customer defaults. A customer is deemed to have defaulted when they become three minimum monthly payments in arrears or they enter a payment arrangement. A customer is charged off in the following cycle after being six minimum monthly payments in arrears.

Macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their agreements and the losses which are expected to be incurred given default. Following refinements to the models in 2021, these provisions are now included as part of the core model provision. The provisions now consider the relationship between hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), debt to income ratio and default rates.

Property, plant and equipment
Property, plant and equipment is shown at cost less subsequent depreciation and 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.

Property, plant and equipment (continued)

Depreciation is calculated to write down assets to their estimated realisable value over their useful economic lives. The following are the principal bases used:

	%	Method
Leasehold land and buildings	Over the lease period	Straight-line
Equipment (including computer hardware)	10 to 33.3	Straight-line

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 are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying amount of the asset and are recognised within administrative costs in the income statement. Depreciation is charged to the income statement as part of administrative costs.

Leases

The Company assesses whether a contract contains a lease at inception of a contract. A right of use asset and a corresponding liability is recognised with respect to all lease arrangements where it is a lessee, except for short term leases (leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the lease payments are recognised within administrative and operating expenses on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the incremental borrowing rate is used. This is defined as the rate of interest that the lessee would have to pay to borrow, over a similar term, and with similar security the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. For the Company, this would represent an average retail deposit rate.

The lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments;
- Variable lease payments; and
- Payment of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease, using the EIR method, and reducing to reflect the lease payments made.

The lease liability is re-measured whenever:

- The lease term has changed, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate; or
- The lease contract is modified and the modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the year.

Leases (continued)

The right of use asset comprises the initial measurement of the corresponding lease liability and is subsequently measured at cost less accumulated depreciation and impairment losses. Right of use assets are depreciated over

the shorter period of lease term and useful life of the underlying asset.

The lease liability and right of use asset are presented as separate line items on the balance sheet. The interest on the lease and depreciation are charged to the income statement and presented within funding costs and administrative and operating costs respectively.

Investments
During 2021 the Visa Inc shares previously classified as fair value through OCI were reclassified to fair value through profit or loss, refer to page 60 and page 82 for details. Visa Inc. shares are measured at fair value in the balance sheet as a reliable estimate of the fair value can be determined. Valuation adjustments arising as a result of routine mark-to-market revaluation are recognised in the income statement against operating costs.

Fair value changes including any impairment losses and foreign exchange gains or losses are recognised within operating costs in the income statement. The fair value of monetary assets denominated in foreign currency are determined through translation at the spot rate at the balance sheet date.

Dividends on equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand including amounts held within a Bank of England reserve account. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Borrowings
Retail deposits, are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate. Retail deposits are classified as current or non-current liabilities depending on the individual maturity date.

Dividends
Dividend distributions to the Company's shareholder are recognised in the financial statements when paid.

Retirement benefits
Cash contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Share-based payments
Equity-settled schemes:

The ultimate parent 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 Deferred Bonus Plan (DBP), the Restricted Share Pan (RSP) and the Company Share Option Plan (CSOP).

The cost of providing options and awards to employees is charged to the income statement of the 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 cost of options and awards is based on their fair value. A binomial model is used for calculating the fair value of SAYE options which have no performance conditions attached and the RSP for which vesting is based on the discretion of the Remuneration Committee. No charge has been recognised for the CSOP as it is linked to the

Share-based payments (continued)

RSP awards granted at the same time. Any gains made by an employee in relation to the CSOP reduces the number of shares exercisable under the RSP award. 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 LTIS schemes, performance conditions are based on EPS, Total Shareholder Return (TSR) versus a peer group, risk metrics and profit before tax. 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 and expected or actual levels of vesting. Where the Monte Carlo option pricing model is used to determine fair value of the TSR component, 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.

Cancellations by employees of contributions to the Group's SAYE plans are treated as non-vesting conditions and the Company recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. Modifications are assessed at the date of modification and any incremental charges are recognised in the income statement.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest, lapse or are cancelled. 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.

Cash-settled schemes:

The cost of the award is charged to the income statement over the vesting period and a corresponding credit is made within liabilities. The value of the charge is adjusted at each balance sheet date to reflect expected levels of vesting.

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.

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 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.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Intercompany loan to ultimate parent undertaking
The intercompany loan to ultimate parent undertaking is recognised on an amortised cost basis. The amortised cost is the amount at which the loan is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance.

Key sources of estimation uncertainty
In applying the accounting policies set out above, the Company makes significant estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as follows:

<u>Amounts receivable from customers – £1,091.5m (2020: £1,094.3m)</u>

Judgements

The Company reviews its amounts receivable from customers for impairment at each balance sheet date. For the purposes of assessing the impairment, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. A new suite of impairment models was implemented for credit cards for year end. The new model approach remains broadly similar except for some enhancements below:

(i) The new models use PKU data (from Experian) to calculate PDs
(ii) The definition of default has been updated to include cross sells (e.g. customers who have loans as well), breathing space accounts and to persistent debt accounts on short and medium plans.
(iii) The lifetime and staging/transfer criteria within the PD have been updated to better estimate the lifetime extrapolation from the 12-month PD.
(iv) The macroeconomic model uses hazard rate (the number of people who were employed last month but who are unemployed the following month) and debt to income ratio (the old model used unemployment rate only).
(v) Static LGD values are now used, and any adjustments will be picked up through model monitoring.
(vi) The EAD methodology has been enhanced to include time to default.

The impact of adopting the model is an increase in credit cards provisions, prior to applying any Post Model Adjustments ("PMAs") and in-model adjustments, of c.£9.4m driven by the changes in methodology.

The Company makes assumptions to determine whether there is objective evidence that credit risk has increased significantly which indicates there has been an adverse effect on PD. The definition of a significant increase in credit risk for customers is presented on page 61. For the purpose of IFRS 9, the Company deems an account defaulted, when it becomes three minimum monthly payments in arrears or when they enter into a payment arrangement. An account is written off in the following cycle after being six monthly payments in arrears.

Macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their agreements and the losses which are expected to be incurred given default. Following refinements to the models in 2021, these provisions are now included as part of the core model provision. The provisions now consider the relationship between hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), debt to income ratio and default rates.

Estimates

The level of impairment is calculated using models which estimate: (i) PD using customer behaviour, (ii) EAD on balances and headroom; and (iii) LGD using historical payment performance to generate the estimated amount and timing of future cash flows and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. Sensitivity analysis has been performed in note 10 which shows the impact of a 1% movement of gross exposure into stage 2 from stage 1 on the allowance accounts.

Key sources of estimation uncertainty (continued)

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 performance of customers could be different from the assumptions used, a material adjustment to the carrying value of amounts receivable from customers may be required.

The Company has reviewed customer behaviour in light of Covid-19 to adjust the calculations of PD and LGD.

This reflects assumptions in respect of:

- Higher PD's derived from analysis of customer behaviour in terms of utilisation history;
- Higher LGD's where recoveries from the customer may be impacted, as well as lower recoveries from third-party debt collection agencies and external debt sales; and
- The potential impact to PD or LGD as a result of changing forecasts of macroeconomic environment.

The assumptions relating to payment holidays is no longer applicable as payment holidays have ended.

The unemployment data has been compiled from a consensus of sources including the Bank of England, HM Treasury, the Office for Budget Responsibility (OBR), Bloomberg and a number of prime banks. The table below shows the annual peak and average unemployment assumptions used at year end reporting. The scenario weightings remain the same for 31 December 2021 as 31 December 2020.

Unemployment rate %	Base	Upside	Downside	Severe
Weighting	50%	10%	35%	5%
Scenario for the year ended 2021				
2022	4.6%	4.2%	5.4%	6.3%
2023	4.3%	3.9%	6.4%	8.5%
2024	4.3%	4.1%	5.9%	7.5%
2025	4.3%	4.1%	5.3%	6.2%
2026	4.3%	4.1%	4.9%	5.4%
5 year peak	4.8%	4.7%	6.5%	8.6%
Scenario for the year ended 2022				
2021	7.1%	5.7%	9.0%	11.2%
2022	6.1%	4.8%	7.7%	9.0%
2023	5.1%	4.8%	5.8%	6.9%
2024	5.0%	4.8%	5.5%	6.1%
2025	5.0%	4.8%	5.5%	6.0%
5 year peak	7.9%	6.2%	10.1%	12.7%

Whilst the forward-looking nature of IFRS 9 requires provisions to be established for all losses arising out of the Covid-19 crisis, the level of uncertainty may mean that additional impairment provision, or releases, may be required in future periods.

Increasing the downside weighting by 5%, from 35% to 40%, and a corresponding reduction in the base case would increase the allowance account by £2.5m for credit cards.

Increasing the upside weighting by 5%, from 10% to 15%, and a corresponding reduction in the base case would decrease the allowance account by £0.4m for credit cards.

Changing the weightings for personal loans would not have a material impact on the allowance account.

FINANCIAL AND CAPITAL RISK MANAGEMENT

In line with the Board's formal delegation of authorities and regulatory accountabilities, the Chief Risk Officer is ultimately responsible for management and oversight of the Company's Enterprise Risk Management and the Finance Director is ultimately responsible for the financial management and controls of the Company.

The Company also operates within a Group treasury framework and is subject to Group Treasury Policies including counterparty, liquidity, interest rate, market and capital risk.

(a) Credit risk

Credit risk is the risk that the Company will suffer loss in the event of a default by a customer, the ultimate parent undertaking, a bank counterparty or the UK Government. A default occurs when the customer, ultimate parent undertaking, bank or the UK Government fails to honour repayments as they fall due.

(i) Amounts receivable from customers

The Company's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2021 is the carrying value of amounts receivable from customers of £1,091.5m (2020: £1,094.3m).

The Risk Committee is responsible for setting credit policy. The Chief Risk Officer 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. The Chief Risk Officer discharges and informs this decision making through the Credit Risk Forum. The Credit Risk Forum meets at least ten times a year.

A customer's risk profile and credit line are evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on both internally held data and data from external credit bureau 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/expenditure and employment, and data from external credit bureaux. An affordability assessment is also carried out at application. For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders. Credit lines can go up as well as down according to this point-in-time risk assessment.

Arrears management is based on a combination of central letters, inbound and outbound telephony, SMS, e-mail and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and customer specific strategies are employed to support the customer in returning to a good standing.

(ii) Loan to ultimate parent undertaking

The Company's maximum exposure to the loan to the ultimate parent undertaking as at 31 December 2021 is the carrying value of the loan of £69.3m (2020: £69.3m). An assessment of the appropriate amount of the loan and recoverability was made on granting of the loan in August 2020 based on the credit status of the ultimate parent undertaking which was BB+ with a negative outlook. The assessment was challenged by the Risk Office and approved by the Board. The Company monitors regulatory announcements made by the ultimate parent undertaking in assessing the recoverability of the loan which matures in August 2022. The ultimate parent undertaking has since been downgraded to BB with a stable outlook, however the Company does not believe this has had a material impact on the recoverability of the loan, as within the calculation for the Expected Credit Loss ("ECL") prior to the downgrade, a judgement was taken from a ratings perspective that BB- to BB+ would be treated as BB to calculate the PD.

(iii) Counterparty risk

The counterparty risk policy is approved by the Board as part of the Company's Treasury and Liquidity Policy with management delegated to the Finance Director. The main exposure is the liquid resources (together with an operational buffer) which the Company holds to comply with its regulatory liquidity obligations which are currently held in a Bank of England central reserve account. The Company does on occasion invest in UK Government Gilts but had £nil at the end of the reporting period (2020: £nil). The Company's maximum exposure to credit risk on bank and government counterparties as at 31 December 2021 was £414.8m (2020: £833.3m).

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk
Liquidity risk is the risk that the Company will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due.

The Company's funding is provided primarily by retail deposits, supplemented by borrowings under the TFSME, supported by internal cash generation. The deposits are a mix of 6-month deposits and one, two, three, four and five year deposits with early withdrawal only allowed in the event of death, mandated legal reasons or hardship, thus ensuring a stable and predictable funding profile.

The Company's Liquidity Policy is approved by the Board with day-to-day management delegated to the Finance Director who discharges and informs the decision-making through the Group and Bank ALCO. This Forum meets monthly and reports to the Board. The Managing Director is a member of the ALCO and the Treasurer is the vice chair.

The Company's liquidity policy is designed to ensure that it can meet its obligations in the event of stress events. The Company undertakes stress testing to determine the level of liquid resources it should hold to comply with its regulatory obligations. The assumptions in the stress testing are updated at least annually in the Company's ILAAP to ensure continued compliance of the policy to regulatory obligations. The Risk Committee is engaged to provide review and challenge of the ILAAP. The Risk Committee will then recommend the ILAAP to the Board for approval. Key elements of this policy are to maintain overall liquid resources to meet obligations should stress events occur to funding inflows (for example the suspension of deposit taking activities) and outflows (for example increased level of customer transactions). The ILAAP also incorporates the Company's Contingency Funding Plan which documents mitigating actions and procedures to be followed in the event of liquidity stress events.

Since October 2015 the Company has complied and reported to the PRA the Liquidity Coverage Ratio (LCR) which requires institutions to match prescribed net liquidity outflows during a 30-day period with a buffer of 'high quality' liquid assets. The Company has managed down its liquid resources to a normalised level.

The Company's liquid assets buffer amounted to £414.8m at the end of 2021, down significantly from £833.3m at the end of 2020, due to 1 year fixed term retail deposits raised during 2020, in response to the pandemic, maturing in April 2021 and May 2021.

A maturity analysis of the undiscounted contractual cash flows of the Company's financial liabilities is shown below. This shows the future cash payable under current drawings and reflects both the interest payable and the repayment of the borrowing on maturity.

					2021
	<1 year	**1-2 years**	**2-5 years**	**>5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowings:					
- retail deposits[2]	**409.1**	**361.4**	**272.7**	**-**	**1,043.2**
Trade and other payables	**81.3**	**-**	**-**	**-**	**81.3**
Lease liabilities	**6.4**	**6.5**	**16.9**	**11.8**	**41.6**
Collateralised loan	**0.8**	**0.8**	**175.5**	**-**	**177.1**
Total	**497.6**	**368.7**	**465.1**	**11.8**	**1,343.2**

[2] Following the onset of the pandemic the Company took on significant additional retail deposits to ensure it had adequate liquidity. This has reduced over the course of 2021 resulting in a more normal maturity profile.

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

					2020
	<1 year	1-2 years	2-5 years	>5 years	Total
	£m	£m	£m	£m	£m
Borrowings:					
- retail deposits	919.9	332.3	472.6	-	1,724.8
Trade and other payables	49.8	-	-	-	49.8
Lease liabilities	6.3	6.4	19.6	14.0	46.3
Total	976.0	338.7	492.2	14.0	1,820.9

(c) Market risk
Market risk is the risk of financial loss due to adverse market movements leading to a reduction in the Company's earnings or overall value. The Company's primary market risk exposure is to changes in interest rates *(see Interest Rate Risk below).* The Company is also exposed to a small amount of Foreign Exchange risk through its investments in non-GBP VISA shares.

The Company's Corporate Policies do not permit any subsidiary to take trading positions and no speculative activities are undertaken.

(d) Interest Rate Risk in the Banking Book
Interest rate risk in the banking book (IRRBB) is the current or prospective risk to the Company's economic value and/or earnings arising from adverse movements in interest rates that affect the value of the Company's interest sensitive assets and liabilities.

The Company does not seek to generate income through maturity transformation and where feasible adopts an approach of funding its assets with liabilities of a similar tenor to reduce volatility in earnings and economic value over time. The Company's interest rate hedging policy is set out in its Treasury and Liquidity Policy which is approved by the Board.

The Group measures its risk according to both Net Interest Income and Economic Value metrics. In line with previous years, the Company's behavioural interest rate risk profile remains lower than the supervisory outlier tests for a 2% parallel movement in interest rates.

(e) Capital risk management
The Company's objective in respect of capital risk management is to maintain an efficient and secure capital structure and maintain an adequate buffer over the regulatory capital requirements set by the PRA.

The Company is subject to prudential regulation and supervision by the PRA. As part of this supervision, it is required to maintain a certain level of regulatory capital (known as its Overall Capital Requirement or OCR) in order to mitigate against unexpected losses. The Finance Director is responsible for ongoing monitoring of the level of regulatory capital and the level of surplus regulatory capital against the OCR is reported to the Board on a monthly basis in the Finance Director's report. The Company regularly forecasts regulatory capital requirements as part of its budgeting and strategic planning process and the Company and the Group are required to report quarterly to the PRA on their level of regulatory capital.

As required by the PRA, under the Basel III regulatory framework, the Company also undertakes an ICAAP at least annually. This documents the control framework and the risks faced by the Company including those on its risk register. Capital allocations are made against these risks where appropriate and stress tests run to satisfy management that the level of the Company's capital is adequate even under stressed conditions. The ICAAP is approved by the Risk Committee and the Board.

As part of the regulation/supervision by the PRA, the Group, consistent with other regulated financial institutions, is required to make annual Pillar 3 disclosures which set out information on the Group's regulatory capital, risk exposures and risk management processes. Where necessary the disclosures separate out the exposures and processes for the Company. The Group's full Pillar 3 disclosures can be found on the Group's website,

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(e) Capital risk management (continued)

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In accordance with PRA 2013/36, the Company's positive return on assets is 8.59% (2020: 2.02%) calculated using profit after tax divided by total assets.

(f) Currency risk management

The Company has currency exposures in US Dollars as a result of its investment in VISA Inc. As at 31 December 2021, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.2m (2020: £0.2m) movement in the investment held at fair value through profit or loss and a £0.2m impact on administrative and operational costs.

(g) Exposures to structured entities

As at the end of 2021, the Company has securitised £453.1m of receivables. £174m of funding has been obtained by using retained notes as collateral in the Bank of England's TFSME.

The Company holds an exposure to the performance of these vehicles in the form of retained notes and has a contractual right to the variable returns of the vehicles. This risk is limited to the performance of the underlying assets, which have not been derecognised in the financial statements. The Company has no exposure to other contractual risks associated with the vehicles; no additional credit enhancements have been provided beyond the exposure created by the retained notes.

NOTES TO THE FINANCIAL STATEMENTS

1 Income

	2021 £m	2020 £m
Interest income	**340.8**	404.0
Interest income from loan to ultimate parent undertaking	**4.3**	1.7
Fee income	**60.3**	83.5
Total	**405.4**	489.2

Management regards the business as one operating segment.

2 Funding costs

	2021 £m	2020 £m
Interest payable on customer retail deposits	**24.5**	34.4
Interest payable on lease liabilities	**1.0**	1.1
Interest payable on collateralised loan	**0.4**	-
Total	**25.9**	35.5

3 Profit before taxation

	2021 £m	2020 £m
Profit before taxation is stated after charging/(crediting):		
Amortisation of other intangible assets:		
- Computer software (note 15)	**5.0**	4.6
Depreciation of property, plant and equipment (note 14)	**2.2**	2.7
Depreciation of right of use asset (note 16)	**5.1**	5.0
Lease liability finance cost (note 2)	**1.0**	1.1
Loss on disposal of intangible assets (note 15)	**1.7**	0.6
Employment costs (note 8)	**78.9**	64.2
Management recharges	**(3.6)**	(5.3)
IT annual licensing fee and service charges	**22.0**	18.7
Amortised directly attributable acquisition costs	**13.5**	10.8
Impairment of amounts receivable from customers (note 10)	**5.9**	239.9
Exceptional item (note 4)	**1.1**	(8.3)

	2021 £m	2020 £m
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the financial statements	**0.9**	0.7
Total	**0.9**	0.7

An additional £75,000 was due to the Company's auditor in respect of non audit-related assurance services (2020: £78,000).

The ultimate parent undertaking recharges certain administrative costs to the Company in respect of services provided totalling £8.4m (2020: £5.2m).

4 Exceptional items

In 2021, an exceptional cost was recognised in respect of a £1.1m accrual for redundancy/terminations.

On 27 February 2018, a resolution was reached with the FCA in respect of their investigation into ROP. The investigation concluded that the Company did not adequately disclose in its sales calls that the charges for ROP would be treated as a purchase transaction and therefore potentially incur interest. A settlement was reached with the FCA to refund those customers with the interest element of ROP charges in the period between inception of the product in 2003 and the communication to ROP customers which was conducted in December 2016. A provision was made in the 2017 financial statements of £172.1m.

The refund programme commenced in March 2018 and was completed during 2019 with nearly 1.3 million customers being refunded in total. As a result of the completion of the refund programme and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally, £8.3m of the provisions originally established in 2017 were released during 2020 and recorded as an exceptional item. There was no release of ROP provisions in 2021 and the outstanding provision in respect of forward flow of claims that may arise in respect of ROP more generally at 31 December 2021 is £2.1m (see note 22).

Charge/(Credit)	**2021 £m**	2020 £m
Exceptional items:		
– release of ROP provisions (see note 22)	**-**	(8.3)
– internal reorganisation costs	**1.1**	-
Total net exceptional cost/(credit)	**1.1**	(8.3)

5 Tax charge

Tax charge in the income statement	**2021 £m**	2020 £m
Current tax	**31.8**	5.3
Deferred tax (note 17)	**3.9**	5.0
Impact of change in UK tax rate	**(3.7)**	(2.2)
Total tax charge	**32.0**	8.1

The tax credit in respect of exceptional items in 2021 amounts to £0.3m (2020: charge of £2.2m) and represents tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £1.1m of redundancy costs. In 2020, the charge represented tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £8.3m exceptional release of provisions for forward flow of claims that may arise in respect of ROP more generally, following completion of the refund programme and a re-evaluation of claims.

5 Tax charge (continued)

The rate of tax charge on the profit before taxation for the year is lower than (2020: lower than) the average rate of mainstream corporation tax and bank corporation tax surcharge rate in the UK of 27.0%. This can be reconciled as follows:

	2021	2020
	£m	£m
Profit before taxation	**178.0**	50.7
Profit before taxation multiplied by the average rate of mainstream corporation tax and bank surcharge in the UK of 27% (2020: 27%)	**(48.1)**	(13.7)
Effect of:		
- adjustment in respect of prior years	**(0.2)**	-
- adjustment in respect of prior years related to group losses (Note d)	**3.8**	-
- impact of change of UK tax rate (Note a)	**3.7**	2.2
- impact of permanent differences	**0.1**	(0.2)
- profits not taxed for bank surcharge purposes (Note b)	**2.0**	2.0
- group capital losses transferred free of charge (Note f)	**-**	0.9
- movement in unrecognised deferred tax assets (Note f)	**-**	1.1
- deferred tax assets written off (Note e)	**0.2**	(0.4)
- discount on payment for group tax losses (Note c)	**6.5**	-
Total tax charge	**(32.0)**	(8.1)

a) Impact of change of UK tax rates

In 2016, changes in corporation tax rates were enacted which reduced the mainstream corporation tax rate to 17% with effect from 1 April 2020. Prior to 1 April 2020 the mainstream corporation tax rate was 19%. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate remained at 19% for 2020. During 2021, a further change was enacted to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023.

Deferred tax balances at 31 December 2019 were measured at the combined mainstream corporation tax rate (17%) and the bank corporation tax surcharge rate (8%) of 25% to the extent that the temporary differences on which the deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances were re-measured at the combined mainstream corporation tax (19%) and bank corporation tax surcharge rates (8%) of 27%, as were movements in the deferred tax balances during the year.

At 31 December 2021, the deferred tax balances have been re-measured at the combined mainstream corporation tax (25%) and bank corporation tax surcharge rates (8%) of 33% (2020: 27%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2023.

A tax credit of £3.7m (2020: credit of £2.2m) represents the income statement adjustment to deferred tax as a result of these changes and no additional deferred tax charge (2020: charge of £0.2m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income.

b) Profits not taxed for bank surcharge purposes

The first £25m (2020: £25m) of the Company's taxable profits are not subject to the bank corporation tax surcharge,
giving rise to a beneficial impact on the tax charge of £2.0m (2020: £2.0m).

c) Discount on payment for group tax losses

These comprise a credit of £6.5m (2020: £nil) relating to tax losses of Group companies which are now discontinued, and which have been surrendered as group relief to the Company and for which the Company has paid for at a discounted price.

5 Tax charge (continued)

d) Adjustment in respect of prior years related to group losses

The tax credit of £3.8m (2020: nil) in respect of prior years relates to Group companies which are now discontinued, having surrendered group relief to the Company which the Company has paid for at a discounted price.

e) Deferred tax assets written off

Deferred tax assets written off comprise a tax credit of £0.2m (2020: tax charge of £0.4m) and relate to deferred tax assets in respect of share scheme awards where future tax deductions are expected to be higher (2020: lower) than previously anticipated.

f) Benefit of capital losses

The conversion and subsequent sale of the preference shares in Visa Inc during 2020 gave rise to a capital gain which was offset partly by: (a) Group capital losses transferred free of charge which give rise to a beneficial impact on the tax charge of £0.9m; and (b) brought forward capital losses previously transferred from elsewhere in the Group, in respect of which a deferred tax asset was not previously recognised, which gave rise to a beneficial impact on the tax charge of £1.1m.

6 Dividends

		2021 £m	2020 £m
2019 final	- 64.4 pence per share	**-**	80.0
2020 interim	- 24.2 pence per share	**-**	30.0
2020 final	- 32.2 pence per share	**40.0**	-
2021 interim	- 36.2 pence per share	**45.0**	-
Dividends paid		**85.0**	110.0

No final dividend for the year ended 31 December 2021 is proposed (2020: £40m).

7 Directors' remuneration

The remuneration of the Directors, who are deemed to be the key management of the Company, is set out below:

	2021 £m	2020 £m
Short-term employee benefits	**1.4**	1.8
Share-based payment charge	**-**	(0.1)
Total	**1.4**	1.7

The Directors' emoluments disclosed above exclude the emoluments of Malcolm Le May and Neeraj Kapur (2020: Malcolm Le May and Neeraj Kapur), which are paid by the ultimate parent company, PF plc, and recharged to the Company, as part of a management charge.

The emoluments of these Directors are disclosed in the Annual Report of PF plc. The management charge, which in 2021 amounted to £8.4m (2020: £5.2m), includes a recharge of administration costs borne by the ultimate parent company on behalf of the Company but it is not possible to identify separately the recharge amount of the emoluments of Malcolm Le May and Neeraj Kapur (2020: Malcolm Le May and Neeraj Kapur).

Retirement benefits accrue to one Director under a money purchase scheme (2020: two) to which the Company contributed £4,000 (2020: £7,200). Two Directors are entitled to shares under the PF plc share option/award arrangements (2020: three).

Fees and other emoluments of the highest paid Director are as follows:

	2021 £m	2020 £m
Short-term employee benefits	**0.6**	0.8
Share-based payment charge	**-**	-
Total	**0.6**	0.8

The above Director accrued £nil of benefits under a defined benefit pension arrangement during the year (2020: £nil).

8 Employee information

(a) The average monthly number of persons employed by the Company (including directors) was as follows:

	2021 Number	2020 Number
Analysed as:		
Full time	**1,201**	1,301
Part time	**177**	178
Total	**1,378**	1,479

8 Employee information (continued)

(b) Employment costs – all employees (including directors) were as follows:

	2021	2020
	£m	£m
Aggregate gross wages and salaries paid to the Company's employees	**65.9**	52.8
Employers' National Insurance contributions	**6.8**	5.6
Pension charge	**5.1**	5.0
Share-based payment charge	**1.1**	0.8
Total	**78.9**	64.2

The pension charge comprises contributions to the stakeholder pension scheme.

9 Cash and cash equivalents

	2021	2020
	£m	£m
Cash and cash equivalents	413.4	833.6

Cash and cash equivalents include £414.8m in Bank of England Central reserve account (2020: £833.3m) held in accordance with the PRA's liquidity regime together with an operational buffer. The cash and cash equivalents amount also includes a current bank account balance of £2.0m (2020: £2.6m), and unpresented cheques of £3.4m (2020: £2.3m) reducing the reported balance.

To ensure that sufficient liquid resources are available to fulfil operational plans and meet financial obligations as they fall due in a stress event, the PRA requires that all regulated entities maintain a liquid assets buffer held in the form of high-quality, unencumbered assets. The total liquid resources required to be held is calculated in line with the Overall Liquidity Adequacy Rule (OLAR) and is set out in the ILAAP undertaken by the Company. Liquid resources must be maintained based upon daily stress tests linked to the key drivers of liquidity risk. This results in a dynamic liquid resources requirement.

10 Amounts receivable from customers

The Company's receivables comprise £1,063.4m (2020: £1,075.1m) in respect of credit cards and £28.1m (2020: £19.2m) in respect of loans.

All of the Company's card receivables are due within one year. There is no fixed term for repayment of credit card balances 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 3% of the amount owed, plus any fees and interest charges in the month, or £10.

The Company's unsecured loan receivables are reported as current for amounts due within 12 months and non-current for amounts due in greater than 12 months. The loans are on a fixed repayment term with fixed payments over the period of the loan.

The gross receivable and allowance account which form the net amounts receivable from customers is as follows:

	2021	2020
	£m	£m
Gross amounts receivable from customers	**1,451.0**	1,568.5
Allowance account	**(359.5)**	(474.2)
Reported amounts receivable from customers	**1,091.5**	1,094.3

10 Amounts receivable from customers (continued)

Amounts receivable from customers can be reconciled as follows:

				2021
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount				
At 1 January	1,044.5	188.4	335.6	1,568.5
New financial assets originated and new drawdowns	2,003.1	81.3	34.6	2,119.0
Net transfers and changes in credit risk:	(278.5)	193.3	85.2	-
- From stage 1 to 2	(835.2)	835.2	-	-
- From stage 1 to 3	(51.8)	-	51.8	-
- From stage 2 to 1	545.0	(545.0)	-	-
- From stage 2 to 3	-	(121.8)	121.8	-
- From stage 3 to 1	63.5	-	(63.5)	-
- From stage 3 to 2	-	24.9	(24.9)	-
Write-offs	(11.2)	(11.1)	(159.7)	(182.0)
Recoveries	(2,171.3)	(176.1)	(127.9)	(2,475.3)
Income	321.5	60.4	14.8	396.7
Other movements	5.6	6.6	11.9	24.1
At 31 December	913.7	342.8	194.5	1,451.0
Allowance account				
At 1 January	(170.0)	(90.2)	(214.0)	(474.2)
Movements through income statement:				
Drawdowns and net transfers and changes in credit risk	57.0	(22.4)	(40.5)	(5.9)
- From stage 1 to 2	157.5	(331.1)	-	(173.6)
- From stage 1 to 3	9.9	-	(24.3)	(14.4)
- From stage 2 to 1	(122.2)	248.3	-	126.1
- From stage 2 to 3	-	80.3	(93.0)	(12.7)
- From stage 3 to 1	(6.3)	-	9.4	3.1
- From stage 3 to 2	-	(6.5)	3.8	(2.7)
- Other movements	18.1	(13.4)	63.6	68.3
Total movements through income statement	57.0	(22.4)	(40.5)	(5.9)
Other movements:				
Write-offs	11.2	11.1	159.7	182.0
Amounts recovered	(1.5)	(1.4)	(58.5)	(61.4)
Allowance account at 31 December	(103.3)	(102.9)	(153.3)	(359.5)
Reported amounts receivable from customers at 31 December	810.4	239.9	41.2	1,091.5
Reported amounts receivable from customers at 1 January	874.5	98.2	121.6	1,094.3

10 Amounts receivable from customers (continued)

				2020
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount				
At 1 January	1,367.9	171.6	363.6	1,903.1
New financial assets originated and new drawdowns	1,931.7	47.5	31.6	2,010.8
Net transfers and changes in credit risk:	(333.3)	50.7	282.6	-
- From stage 1 to 2	(664.7)	664.7	-	-
- From stage 1 to 3	(127.5)	-	127.5	-
- From stage 2 to 1	412.9	(412.9)	-	-
- From stage 2 to 3	-	(224.9)	224.9	-
- From stage 3 to 1	46.0	-	(46.0)	-
- From stage 3 to 2	-	23.8	(23.8)	-
Write-offs	(12.2)	(13.4)	(253.0)	(278.6)
Recoveries	(2,334.5)	(127.0)	(115.3)	(2,576.8)
Income	418.3	56.4	6.7	481.4
Other movements	6.6	2.6	19.4	28.6
At 31 December	1,044.5	188.4	335.6	1,568.5
Allowance account				
At 1 January	(146.6)	(85.2)	(209.8)	(441.6)
Movements through income statement:				
Drawdowns and net transfers and changes in credit risk	(34.6)	(17.3)	(188.0)	(239.9)
- From stage 1 to 2	137.3	(334.6)	-	(197.3)
- From stage 1 to 3	20.7	-	(62.8)	(42.1)
- From stage 2 to 1	(95.5)	212.5	-	117.0
- From stage 2 to 3	-	153.2	(167.5)	(14.3)
- From stage 3 to 1	(3.4)	-	7.1	3.7
- From stage 3 to 2	-	(2.3)	1.6	(0.7)
- Other movements	(93.7)	(46.1)	33.6	(106.2)
Total movements through income statement	(34.6)	(17.3)	(188.0)	(239.9)
Other movements:				
Write-offs	12.2	13.4	253.0	278.6
Amounts recovered	(1.0)	(1.1)	(69.2)	(71.3)
Allowance account at 31 December	(170.0)	(90.2)	(214.0)	(474.2)
Reported amounts receivable from customers at 31 December	874.5	98.2	121.6	1,094.3
Reported amounts receivable from customers at 1 January	1,221.3	86.4	153.7	1,461.5

Other movements comprise ECL provision movements that are not staging movements, including movements from: risk level changes that do not result in staging movements, charged off accounts, exited accounts and debt sales.

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £1.7m (2020: £3.3m) based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Amounts receivable from customers (continued)

The Company's impairment models are subject to periodic monitoring, validation and back testing performed on model components, including probability of default, exposure at default and loss given default. Limitations in the Group's impairment models, or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Company's allowance for impairment losses to ensure that the overall provision adequately reflects all material credit risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays. Those changes applied to model inputs and parameters are deemed to be in model overlays; more qualitative changes that have a higher degree of management judgement are deemed to be post model overlays.

All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated. Following Covid-19 and the various support measures that have been put in place have resulted in an economic environment which differs significantly from the historical economic conditions upon which the impairment models have been built. As a result, there is a greater need for management judgements to be applied alongside the use of models.

A breakdown of the in model and post model adjustments for the Company, covering both credit cards and loans, are shown below:

	2021 **£m**	2020 £m
Core model	**303.8**	403.4
In model adjustments	**27.9**	59.6
Post model adjustments	**27.8**	11.2
Total	**359.5**	474.2

Within in model overlays:

	2021 **£m**	2020 £m
Covid-19 overlay for cards	**27.9**	59.6
Total in model overlays	**27.9**	59.6

Within post model overlays:

	2021 **£m**	2020 £m
Affordability	**5.0**	-
Persistent debt	**5.8**	9.1
Recoveries	**7.4**	-
Customer solutions	**(0.4)**	(1.2)
Cost of living	**7.8**	-
Covid-19 PMA for loans	**1.7**	3.3
Other	**0.5**	-
Total	**27.8**	11.2

10 Amounts receivable from customers (continued)

(a) Covid-19 overlay for cards

The impact of Covid-19 has significantly influenced credit card ECL. The core IFRS 9 models utilise a scorecard approach to calculating a 12-month PD and the relationships between the established drivers of default risk found in the PD scorecards and the 12-month PD may be distorted during Covid-19. This potential distortion could be caused by external government support initiatives or the natural lag that is apparent when risk profiles change.

Accordingly, a utilisation adjustment is made to the probability of default models, whereby an in-model adjustment is made to account for the impact of lower utilisation of credit cards due to Covid-19. The introduction of numerous lockdowns during 2020 and 2021 alongside travel bans has meant that customer spending since March 20 has put additional pressure on declining utilisation trends. The model is built using pre Covid-19 data and utilisation is a key driver of the 12-month PD. Accordingly, reduced utilisation throughout Covid-19 has meant that the 12-month PD estimates produced by the existing models has reduced. However, the underlying risk profile of these customers has not fundamentally changed.

A macroeconomic adjustment was in place in December 2020 to account for the breakdown in macroeconomic relationship between unemployment rates and defaults. While unemployment rates rose at the onset of the Covid-19 pandemic, defaults were not materialising in the portfolio. Subsequently, a macroeconomic adjustment was made to account for the defaults not yet materialised. However, in December 2021, there was an improvement in macroeconomic conditions and hence this adjustment was not maintained.

(b) Affordability

An additional IFRS 9 impairment provision has been created to cover the principal balance of those customers impacted by risk events which may need to be written off. These risk events arose from minor temporary data misalignment instances impacting a small number of accounts which have now been remediated.

(c) Covid-19 overlay for personal loans

In Dec-20, a post model adjustment for the payment holiday population and any future take-up of payment holidays expected in the loans portfolio was held, as these customers will exhibit greater losses than indicated based on the historical experience within the core model. However, this is no longer applicable for Dec-21 as payment holidays have ceased. An increased PD for up-to-date accounts was applied as a result of more accounts being expected to fall into default after the removal of government support scheme has been maintained for Dec-21.

(d) Persistent debt

A post model adjustment was calculated to refine ECL for those customers who have entered persistent debt for over 36 months. These customers have been split into two categories: those who have responded to communication and agreed to pay down their outstanding balance; and those who are making minimum payments but have not responded to communications. The core model does not consider this refinement and therefore a post model overlay is required.

(e) Recoveries

A post model adjustment was created in 2021 to account for an estimated reduction in recoveries for debt sold to debt collection agencies.

(f) Cost of living

In light of rising inflation and higher energy costs, an additional provision is required for the expected rise in cost of living which may impact customers ability to make repayments.

As at 31 December unutilised credit card commitments were £1,216.5m (2020: £1,180.6m).

10 Amounts receivable from customers (continued)

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £1.7m (2020: £3.3m) based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

In assessing the credit quality of receivables, the Company uses its internal credit scoring behavioural scores. A breakdown of the gross receivable by credit risk rating is shown below.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Good	789.5	270.6	-	1,060.1
Satisfactory	124.2	72.2	-	196.4
Lower quality	-	-	194.5	194.5
Total	913.7	342.8	194.5	1,451.0

Low quality receivables relate to defaulted accounts (and are therefore assigned as stage 3). Satisfactory receivables consist of accounts that are above a prescribed PD cut off, dependent on the customer's credit score. High quality receivables consist of accounts that are below a prescribed PD cut off, dependent on the customer's credit score.

The fair value of amounts receivable from customers is approximately £1.1bn (2020: £1.2bn). Fair value has been derived by discounting expected future cash flows at the credit risk adjusted discount rate at the balance date. Fair value measurement of the amounts receivable from customers is categorised in level 3 of the fair value hierarchy.

Included in amounts receivable from customers are unamortised directly attributable acquisition costs (DAC) of £29.6m (2020: £32.9m) relating to acquisition costs in respect of affiliates. Directly attributable acquisition costs are capitalised and amortised over the expected life of customer accounts (average of 5 years) as a deduction to income. In 2021 amortisation was £13.5m (2020: £10.8m).

Write offs have reduced in 2021 due to (i) tightened underwriting of new customer bookings as a result of Covid-19, (ii) lower new customer bookings; and (iii) higher number of customers remaining up-to-date due to payment holidays and government support.

11 Loan to ultimate parent undertaking

In August 2020, the Company issued a 2 year £70m loan with a fixed interest rate of 6.25% p.a. to PF plc, the Company's ultimate parent. The loan matures in August 2022. The carrying amount of £69.3m at 31 December 2021 (2020: £69.3m) is net of the ECL impairment provision of £0.7m. The Company recognised income on the loan of £4.3m in 2021. Contractually, accrued interest is repaid to the Company on the last business day of the month and is not compounded. The fair value of the loan is approximately equal to the book value.

12 Trade and other receivables

Current assets	2021 £m	2020 £m
Other debtors	**0.4**	11.4
Prepayments and accrued income	**12.1**	8.3
Intercompany account	**18.0**	-
Total	**30.5**	19.7

The maximum exposure to credit risk of trade and other receivables is the carrying value of each class of receivable set out above. There is no collateral held in respect of trade and other receivables (2020: £nil). The fair value of trade and other receivables equates to their book value.

Prepayments and accrued income include £0.5m (2020: £0.6m) of inventory in the form of plastic card stock and stationery.

13 Investments

Investments comprise preferred shares in Visa, Inc. held by the Company which had a fair value of £9.1m as at 31 December 2021 (2020: £9.2m).

The Visa Inc. shares represent preferred stock in Visa Inc. held by the Company following completion of Visa Inc.'s acquisition of Visa Europe Limited on 21 June 2016. In consideration for the Company's interest in Visa Europe Limited, the Company received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m due on the third anniversary of the completion date. The deferred consideration was received in June 2019.

There were no disposals of Visa Inc. shares during 2021. During 2020 there was a partial conversion event and 50% of the preferred stock was converted into class A shares which were then sold in December, as the shares are non-core to the business, and it was deemed economically efficient by management to liquidate. On disposal of the shares, the cumulative gain recognised in the fair value reserve was transferred to retained earnings (£7.4m) net of the tax arising on the disposal (£2.0m). The movement in the fair value during 2020 of the A shares, until they were sold, and the preferred stock, of £3.8m had been recognised in the statement of comprehensive income.

The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity, as the preferred stock is not tradeable on an open market and can only be transferred to other Visa members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion.

14 Property, plant and equipment

	Leasehold land and buildings £m	Equipment £m	Total £m
Cost			
At 1 January 2021	4.7	11.6	16.3
Additions	-	0.8	0.8
Disposals	-	(5.7)	(5.7)
At 31 December 2021	**4.7**	**6.7**	**11.4**
Accumulated depreciation			
At 1 January 2021	2.1	7.8	9.9
Charged to the income statement	0.4	1.8	2.2
Disposal	-	(5.7)	(5.7)
At 31 December 2021	**2.5**	**3.9**	**6.4**
Net book value at 31 December 2021	**2.2**	**2.8**	**5.0**
Net book value at 1 January 2021	**2.6**	**3.8**	**6.4**

	Leasehold land and buildings £m	Equipment £m	Total £m
Cost			
At 1 January 2020	4.7	13.6	18.3
Additions	-	5.0	5.0
Disposals	-	(7.0)	(7.0)
At 31 December 2020	4.7	11.6	16.3
Accumulated depreciation			
At 1 January 2020	1.7	10.3	12.0
Charged to the income statement	0.4	2.3	2.7
Disposal	-	(4.8)	(4.8)
At 31 December 2020	2.1	7.8	9.9
Net book value at 31 December 2020	2.6	3.8	6.4
Net book value at 1 January 2020	3.0	3.3	6.3

15 Intangible assets

	Computer software £m	Computer software under development £m	Total £m
Cost			
At 1 January 2021	22.7	6.1	28.8
Additions	10.5	18.6	29.1
Disposals and transfers	(13.3)	(12.2)	(25.5)
At 31 December 2021	**19.9**	**12.5**	**32.4**
Accumulated amortisation			
At 1 January 2021	14.4	-	14.4
Charged to the income statement	5.0	-	5.0
Disposals and transfers	(11.5)	-	(11.5)
At 31 December 2021	**7.9**	**-**	**7.9**
Net book value at 31 December 2021	**12.0**	**12.5**	**24.5**
Net book value at 1 January 2021	8.3	6.1	14.4

	Computer software £m	Computer software under development £m	Total £m
Cost			
At 1 January 2020	20.4	-	20.4
Additions	8.0	6.1	14.1
Disposals and transfers	(5.7)	-	(5.7)
At 31 December 2020	22.7	6.1	28.8
Accumulated amortisation			
At 1 January 2020	14.9	-	14.9
Charged to the income statement	4.6	-	4.6
Disposals and transfers	(5.1)	-	(5.1)
At 31 December 2020	14.4	-	14.4
Net book value at 31 December 2020	8.3	6.1	14.4
Net book value at 1 January 2020	5.5	-	5.5

The loss on disposal of computer software in 2021 amounted to £1.8m (2020: £0.6m) and represented proceeds received of £nil (2020: £nil) less the net book value of disposals of £1.8m (2020: £0.6m).

The Computer software are internally generated assets. The additions of £29.1m (2020: £14.1m) include £29.1m (2020: £13.1m) of internally generated assets.

16 Right of use assets

	2021 **£m**	2020 £m
Cost		
At 1 January	**45.7**	45.7
Additions	**-**	-
At 31 December	**45.7**	45.7
Accumulated depreciation and impairment		
At 1 January	**10.0**	5.0
Charged to the income statement	**5.1**	5.0
At 31 December	**15.1**	10.0
Net book value at 31 December	**30.6**	35.7
Net book value at 1 January	**35.7**	40.7

All right of use assets relates to property leases.

17 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences between the accounting value of assets and liabilities and their value for tax purposes.

Deferred tax arises primarily in respect of: (a) property, plant and equipment which is depreciated on a different basis for tax purposes; (b) the opening balance sheet adjustments to restate the IAS 39 balance sheet onto an IFRS 9 basis for which tax deductions are available over 10 years; (c) the investment in the preference shares in VISA Inc which are recognised at fair value for accounting purposes but which are taxed only on disposal; and (d) other temporary differences, which include: (i) the opening balance sheet adjustment in respect of the change of accounting treatment of directly attributable acquisition costs which is taxable over 10 years; (ii) the opening balance sheet adjustment in respect of the adoption of IFRS 16 (Leases) which is deductible over the average period of the relevant leases; (iii) deductions for employee share awards which are recognised differently for tax purposes; and (iv) certain cost provisions for which tax deductions are only available when the costs are paid.

In 2016, changes in corporation tax rates were enacted which reduced the mainstream corporation tax rate to 17% with effect from 1 April 2020. Prior to 1 April 2020 the mainstream corporation tax rate was 19%. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate remained at 19% for 2020. During 2021, a further change was enacted to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023.

Deferred tax balances at 31 December 2019 were measured at the combined mainstream corporation tax rate (17%) and the bank corporation tax surcharge rate (8%) of 25% to the extent that the temporary differences on which the deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances were re-measured at the combined mainstream corporation tax (19%) and bank corporation tax surcharge rates (8%) of 27%, as were movements in the deferred tax balances during the year.

At 31 December 2021, the deferred tax balances have been re-measured at the combined mainstream corporation tax (25%) and bank corporation tax surcharge rates (8%) of 33% (2020: 27%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2023.

A tax credit of £3.7m (2020: credit of £2.2m) represents the income statement adjustment to deferred tax as a result of these changes and no additional deferred tax charge (2020: charge of £0.2m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income.

17 Deferred tax (continued)

During 2021, the UK Government announced that the rate of bank corporation tax surcharge will decrease from 8% to 3% with effect from 1 April 2023. At the same time the bank corporation tax surcharge allowance, being the threshold below which banking profits are not subject to the bank corporation tax surcharge, will increase from £25m to £100m . These changes were not substantively enacted by the reporting date of 31 December 2021 and so are not reflected in the measurement of the carrying value of deferred tax balances at 31 December 2021. In line with the requirements of IAS 10, the expected impact of these changes is a reduction of deferred tax balances of £4.1m.

Asset	**2021 £m**	2020 £m
At 1 January	**23.8**	25.8
Charge to the income statement	**(3.9)**	(5.0)
Credit on other comprehensive income	**1.4**	1.0
Impact of change in the UK tax rate:		
- Credit to the income statement	**3.7**	2.2
- Charge to the other comprehensive income	**-**	(0.2)
At 31 December	**25.0**	23.8

An analysis of the deferred tax asset for the Company is set out below:

2021	**Accelerated capital allowances £m**	**IFRS 9 £m**	**VISA Inc £m**	**Other temporary differences £m**	**Total £m**
At 1 January	0.6	28.3	(2.5)	(2.6)	23.8
Credit/(charge) to the income statement	0.5	(4.0)	(1.7)	1.3	(3.9)
Credit on other comprehensive income:					
- on fair value movements in investments	-	-	1.4	-	1.4
Impact of change in the UK tax rate:					
- credit/(charge) to the income statement	0.2	4.2	(0.2)	(0.5)	3.7
At 31 December	1.3	28.5	(3.0)	(1.8)	25.0

2020	Accelerated capital allowances £m	IFRS 9 £m	VISA Inc £m	Other temporary differences £m	Total £m
At 1 January	0.4	30.0	(4.1)	(0.5)	25.8
Credit/(charge) to the income statement	0.2	(4.0)	1.0	(2.2)	(5.0)
(Charge)/credit on other comprehensive income:					
- on fair value movements in investments	-	-	(1.0)	-	(1.0)
- on disposal of investments	-	-	2.0	-	2.0
Impact of change in the UK tax rate:					
- credit/(charge) to the income statement	-	2.3	(0.2)	0.1	2.2
- charge to the other comprehensive income	-	-	(0.2)	-	(0.2)
At 31 December	0.6	28.3	(2.5)	(2.6)	23.8

17 Deferred tax (continued)

During 2020, the Company converted and subsequently sold its holding in the "A" preference shares in Visa Inc which gave rise to a capital gain. In 2020, the £1.0m deferred tax charge recognised in other comprehensive income represents deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rate of 27.0% on the movement in the valuation of the "B" preference shares in Visa Inc which were retained, as well as the movement in the valuation of the "A" preference shares in Visa Inc up to the point of conversion and sale. The conversion and sale of the "A" preference shares in Visa Inc in 2020 resulted in a deferred tax credit of £2.0m in other comprehensive income which represents the reversal of the £2.0m deferred tax charge in respect of the valuation of the Company's shareholding in the "A" preference shares in Visa Inc that had been recognised in other comprehensive income.

In 2021, the £1.4m deferred tax reclassification between other comprehensive income and the income statement in respect of VISA Inc represents the reclassification of the deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates on the cumulative movement in the valuation of the "B" preference shares in Visa Inc which has previously been recognised in other comprehensive income and is now being recognised in the income statement (see Note 13).

No deferred tax asset is provided in respect of capital losses carried forward of £13.1m (2020: £13.1m) as it is not probable that future chargeable gains will be realised against which these losses can be utilised against.

18 Financial instruments

(a) Classification and measurement

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 IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

				2021
	Investments held at fair value £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets				
Cash and cash equivalents	-	**413.4**	-	**413.4**
Amounts receivable from customers	-	**1,091.5**	-	**1,091.5**
Loan to ultimate parent undertaking	-	**69.3**	-	**69.3**
Trade and other receivables	-	**18.3**	**12.2**	**30.5**
Investments	**9.1**	-	-	**9.1**
Property, plant and equipment	-	-	**5.0**	**5.0**
Intangible assets	-	-	**24.5**	**24.5**
Current tax assets	-	-	**1.4**	**1.4**
Right of use asset	-	-	**30.6**	**30.6**
Deferred tax assets	-	-	**25.0**	**25.0**
Total assets	**9.1**	**1,592.5**	**98.7**	**1,700.3**
Liabilities				
Retail deposits	-	**(1,018.6)**	-	**(1,018.6)**
Collateralised loan	-	**(172.2)**	-	**(172.2)**
Lease liabilities	-	**(37.6)**	-	**(37.6)**
Trade and other payables	-	**(81.3)**	-	**(81.3)**
Provisions	-	-	**(5.3)**	**(5.3)**
Total liabilities	**-**	**(1,309.7)**	**(5.3)**	**(1,315.0)**

18 Financial instruments (continued)

The carrying value for all financial assets represents the maximum exposure to credit risk.

2020	Investments held at fair value £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets				
Cash and cash equivalents	-	833.6	-	833.6
Amounts receivable from customers	-	1,094.3	-	1,094.3
Loan to ultimate parent undertaking	-	69.3	-	69.3
Trade and other receivables	-	11.3	8.4	19.7
Investments	9.2	-	-	9.2
Property, plant and equipment	-	-	6.4	6.4
Intangible assets	-	-	14.4	14.4
Right of use asset	-	-	35.7	35.7
Deferred tax assets	-	-	23.8	23.8
Total assets	9.2	2,008.5	88.7	2,106.4
Liabilities				
Borrowings and retail deposits	-	(1,683.2)	-	(1,683.2)
Lease liabilities	-	(42.7)	-	(42.7)
Trade and other payables	-	(49.8)	-	(49.8)
Current tax liabilities	-	-	(1.0)	(1.0)
Provisions	-	-	(2.6)	(2.6)
Total liabilities	-	(1,775.7)	(3.6)	(1,779.3)

(b) Fair values of financial assets and liabilities held at fair value

The Company holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy on the degree to which the fair value is observable. The following financial assets and liabilities are held at fair value:

2021	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**
Assets			
Investments			
Visa Inc. shares	**-**	**-**	**9.1**
Total assets	**-**	**-**	**9.1**

2020	Level 1 £m	Level 2 £m	Level 3 £m
Assets			
Investments			
Visa Inc. shares	-	-	9.2
Total assets	-	-	9.2

18 Financial instruments (continued)

Level 1 fair value measurements are those derived from quoted market prices in active markets for identical assets and liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted market prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company holds Visa shares in Level 3. The valuation has been determined using a combination of observable and non-observable inputs. As the common stock share price of Visa Inc. is readily available, this input is deemed to be observable. However, certain assumptions have been made in respect of the illiquidity adjustment to the share price and the likelihood of future litigation costs. These inputs are therefore deemed to be a significant unobservable input.

The following table sets out their movement during the year:

	2021 £m	2020 £m
At 1 January	**9.2**	16.6
Gains or losses	**(0.1)**	3.8
Disposals	**-**	(11.2)
Total assets	**9.1**	9.2

The illiquidity adjustment has been estimated at around 6% and the expected future litigation costs have been estimated around 15% of the Visa Inc. share price.

The higher the illiquidity and future litigation costs the lower the fair value. The sensitivity to the unobservable inputs, in isolation, is set out in the table below:

	2021 £m	2020 £m
Illiquidity +/- 1%	**0.1**	0.1
Future litigation costs +/- 1%	**0.1**	0.1

19 Bank and other borrowings

(a) Borrowing facilities

A breakdown of borrowings is shown below:

	2021 £m	2020 £m
Retail deposits:	**1,010.5**	1,668.8
- accrued interest	**8.1**	14.4
Total retail deposits	**1,018.6**	1,683.2
Bank and other borrowings:		
- TFSME	**174.0**	-
- accrued interest	**0.2**	-
- arrangement fees	**(2.0)**	-
Total bank and other borrowings	**172.2**	1,683.2
Total borrowings	**1,190.8**	1,683.2

£453.1m of the Company's credit card receivables are pledged as collateral for the £174m borrowed under the TFSME.

19 Bank and other borrowings (continued)

(b) Retail deposits

As at 31 December 2021, £1,018.6 (2020: £1,683.2m) of fixed-rate, fixed-term retail deposits of 6-month, one, two, three, four and five years had been taken, representing 70.2% (2020: 107.3%) of gross amounts receivable from customers. The deposits were issued at rates of between 0.05% and 2.7% (2020: 0.15% and 1.85%)

(c) Maturity profile of borrowings and facilities

The maturity profile of borrowings is as follows:

	2021 £m	2020 £m
Repayable:		
In less than one year	**403.3**	908.0
Between one and two years	**351.7**	320.6
Between two and five years	**435.8**	454.6
Total	**1,190.8**	1,683.2

As at 31 December 2021, the weighted average period to maturity of committed facilities was 2.2 years (2020: 1.2 years).

(d) Fair values of liabilities

The fair value of the Company's borrowings is compared to their book values as follows:

		2021		2020
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Retail deposits	**1,018.6**	**1,026.5**	1,683.2	1,689.2
Collateralised loan	**172.2**	**172.2**	-	-
Total	**1,190.8**	**1,198.7**	1,683.2	1,689.2

Fair value has been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date and are categorised within level 3 of the fair value hierarchy.

The fair value of the collateralised loan is approximately equal to the book value.

20 Lease liabilities

A maturity analysis of the lease liabilities is shown below:

	2021 £m	2020 £m
Due within one year	**6.4**	6.3
Due between one and five years	**23.4**	26.0
Due in more than five years	**11.8**	14.0
Total	**41.6**	46.3
Unearned finance cost	**(4.0)**	(3.6)
Total lease liabilities	**37.6**	42.7

The total cash outflow for leases in the year amounted to £6.1m (2020: £6.0m). The Company has options to terminate the Compass South lease in September 2026 and the Pembroke Court lease in January 2026. As of

20 Lease liabilities (continued)

year-end, the lease liability for Compass South was £9.7m (2020: £10.9m) and the lease liability for Pembroke Court was £7.6m (2020: £8.8m).

21 Trade and other payables

Current liabilities	**2021 £m**	2020 £m
Trade payables	**9.6**	4.5
Other payables including taxation and social security	**1.7**	2.0
Accruals and deferred income	**32.2**	20.4
Intercompany trading account	**37.8**	22.9
Total	**81.3**	49.8

The fair value of trade, other payables and intercompany trading account equates to their book value (2020: fair value equated to book value).

22 Provisions

Provision	**2021 £m**	2020 £m
At 1 January	**2.6**	11.6
Created	**3.2**	-
Utilised	**(0.5)**	(0.7)
Released	**-**	(8.3)
At 31 December	**5.3**	2.6
Analysed as: - due within one year	**5.3**	2.6
- due in more than one year	**-**	-
Total	**5.3**	2.6

Provisions of £5.3m at 31 December 2021 comprise (i) £2.1m relating to the ROP refund programme (2020: £2.6m); and (ii) £3.2m relating to potential customer compliance matters (2020: £nil).

(a) ROP refund programme

On 27 February 2018, the Company agreed a settlement with the FCA into their investigation into ROP. The investigation concluded that the Company did not adequately disclose in its sales calls that the charges for ROP would be treated as a purchase transaction and therefore potentially incur interest. The total estimated cost of settlement amounted to £172.1m and was reflected in the 2017 financial statements, of which £75.4m was reflected as a balance adjustment to receivables with the remaining £96.7m reflected as a provision.

The ROP refund programme was completed in 2019 with over 1.3 million current and former ROP customers refunded. As a result, the provision had reduced from £45.7m at 31 December 2018 to £11.6m at 31 December 2019. The provision reduced further from £11.6m at 31 December 2019 to £2.6m at 31 December 2020 reflecting: (i) cash settlements and administration costs of £0.7m; and (ii) the release of £8.3m of the provisions originally established in 2017 as an exceptional credit following completion of the refund programme and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally. The provision has reduced further from £2.6m at 31 December 2020 to £2.1m at 31 December 2021.

The remaining provision principally reflects the estimated cost of the forward flow of ROP complaints more generally in respect of which compensation may need to be paid. The provision is calculated using a number of key assumptions:

22 Provisions (continued)

- Customer complaints volumes – an estimate of future claims which may be initiated by customers where the volume is anticipated to cease after 31 December 2023;
- Average claim redress – the expected average payment to customers for upheld claims should they arise; and
- Customer and FOS complaints upheld rates – the number of claims redressed as a percentage of total claims received.

(b) Customer compliance

The customer compliance provision relates to general customer compliance matters.

Assumptions and estimates involve management judgement and are subjective, particularly in respect of the uncertainty associated with future compliance matters. It is therefore possible that the eventual outcome may differ from the current estimate.

23 Share capital

		2021	2020
		Issued and fully paid	Issued and fully paid
Ordinary shares of £1 each	**- £m**	**124.2**	124.2
	- number (m)	**124.2**	124.2

There are no shares issued and not fully paid at the end of the year (2020: no shares)

24 Share-based payments

PF plc operates the following equity-settled share schemes: the Restricted Share Plan (RSP) and associated Company Share Option Plan (CSOP), the Long Term Incentive Scheme (LTIS), employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)), and the Deferred Bonus Plan (DBP) (formerly known as the Performance Share Plan or "PSP"), where shares in the ultimate parent company are available to the employees of the Company. In 2015, the Company introduced a cash settled scheme, the Vanquis Equity Plan (VEP) for eligible employees based on a percentage of salary. This scheme was discontinued in 2018.

During 2021, awards/options have been granted under the RSP/CSOP and SAYE schemes (2020: DBP, RSP, LTIS and SAYE).

(a) Equity-settled schemes

The charge to the income statement during the year was £1.1m (2020: £nil) for equity-settled schemes. The fair value per award/option granted and the assumptions used in the calculation of the equity settled share-based payment charges are as follows:

	2021		2020			
	RSP/CSOP	**SAYE**	RSP/CSOP	PSP/DBP	LTIS	SAYE
Grant date	**18-Aug-21**	**05-Oct-21**	09-Nov-20	30-Mar-20	30-Mar-20	07-Oct-20
Share price at grant date (£)	**3.43**	**3.32**	2.73	2.02	2.02	2.19
Exercise price (£)	**-**	**2.84**	-	-	-	1.82
Shares awarded / under option	**449,923**	**232,610**	562,668	64,330	1,091,377	1,014,769
Vesting period (years)	**3**	**3 and 5**	3	3	3	3 and 5
Expected volatility	**68.2%**	**61.5%-78.5%**	68.2%	85.0%	85.0%	68.5%-76.0%
Option life (years)	**3**	**Up to 5**	3	3	3	Up to 5
Expected life (years)	**3**	**Up to 5**	3	3	3	Up to 5
Risk-free rate	**-**	**0.5%-0.7%**	-	-	0.13%	(0.1%)-(0.6%)
Expected dividends expressed as a dividend yield	**n/a**	**5.1%-6.0%**	n/a	n/a	n/a	6.80%
Fair value per award/option (£)	**3.34**	**1.06-1.33**	2.41	2.20	1.31	£0.71–£0.80

A reconciliation of share option movements during the year is shown below:

	RSP/CSOP		**LTIS**		**SAYE**		**PSP**	
2021	**Number**	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**
Outstanding at 1 January	**562,668**	**-**	**714,145**	**-**	**1,362,097**	**2.42**	**80,821**	**-**
Granted	**449,923**	**-**	**-**	**-**	**232,610**	**2.84**	**-**	**-**
Cancelled	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Lapsed	**(67,038)**	**-**	**(561,308)**	**-**	**(427,319)**	**3.11**	**-**	**-**
Exercised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transferred	**(1,367)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Outstanding at 31 December	**944,186**	**-**	**152,837**	**-**	**1,167,388**	**2.25**	**80,821**	**-**
Exercisable at 31 December	**-**	**-**	**-**	**-**	**27,063**	**5.38**	**-**	**-**

24 Share-based payments (continued)

	RSP/CSOP		LTIS		SAYE		PSP	
2020	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	-	-	1,048,661	-	882,157	3.92	40,971	-
Granted	562,668	-	1,091,337	-	1,014,769	1.82	64,330	-
Cancelled	-	-	(952,324)		-		-	
Lapsed	-	-	(473,529)	-	(534,829)	3.75	(17,923)	-
Exercised	-	-	-	-	-	-	(6,557)	-
Outstanding at 31 December	562,668	-	714,145	-	1,362,097	2.42	80,821	-
Exercisable at 31 December	-	-		-		-		-

Share awards outstanding under the LTIS scheme at 31 December 2021 had an exercise price of £nil (2020: £nil) and a weighted average remaining contractual life of 0.3 years (2020: 0.7 years).

Share options outstanding under the SAYE schemes at 31 December 2021 had exercise prices ranging from 182p to 538p (2020: 182p to 375p) and a weighted average remaining contractual life of 2.2 years (2020: 2.6 years).

Share awards outstanding under the PSP schemes at 31 December 2021 had an exercise price of £nil (2020: £nil) and a weighted average remaining contractual life of 1.0 years (2020: 2.0 years).

Share awards outstanding under the RSP schemes at 31 December 2021 had an exercise price of £nil and a weighted average remaining contractual life of 2.2 years (2020: 2.9 years).

Share awards outstanding under the CSOP schemes at 31 December 2021 had an exercise price of £3.34 (2020: £2.41) and a weighted average remaining contractual life of 2.2 years (2020: 2.9 years).

(b) Cash settled schemes

Cash awards were previously granted under the VEP to eligible employees that required the Company to pay amounts linked to a combination of salary, financial performance and share price performance of PF plc. The VEP was discontinued in 2018 and no grants were made in 2021.The credit to the income statement in 2021 was £0.5m (2020: credit £0.5m) and the Company has a liability of £nil as at 31 December 2021 (2020: £0.5m).

25 Related party transactions

(a) Receipt of services from related parties

During the year, the Company paid £8.4m (2020: £5.2 m) to its ultimate parent, PF plc, in relation to the provision of various head office and corporate services.

(b) Provision of debt collection services to related party, debt sale facilitation and referral fees

The Company provides collection and debt recovery services to fellow group companies, Provident Personal Credit Limited and Moneybarn Limited. The Company charged Provident Personal Credit Limited £1.8m for these services in 2021 (2020: £5.0m) and charged Moneybarn Limited £1.6m in 2021 (2020: £1.0m).

(c) Loan to ultimate parent undertaking

In August 2020 the Company issued a 2 year £70m loan with a fixed interest rate of 6.25% p.a. to PF plc, the Company's ultimate parent. The loan matures in August 2022. Interest income on this loan was £4.3m during 2021 (2020: £1.7m).

(d) Securitisation

In January 2021 the Company entered into a securitisation structure over £453m of receivables. Special purpose vehicles (SPVs) were established, including Oban Cards 2021-1 plc and Oban Cards Receivables Trustee Limited. Both SPVs are controlled by the Company.

Oban Cards Receivables Trustee Limited acquired a beneficial interest in the transferred receivables in the structure. Oban Cards 2021-1 plc, which holds an interest in Oban Cards Receivables Trustee Limited, issued notes which serve as the collateral for the £174m collateralised loan borrowed from the Bank of England under the TFSME during 2021.

(e) Related party balances outstanding

Details of the Company's related party balances outstanding at 31 December are set out below:

	2021 £m	2020 £m
PF plc	**34.9**	58.0
Provident Personal Credit Ltd	**0.5**	(7.7)
Provident Financial Management Services	**-**	(1.8)
PFG Corporate Services Limited	**(2.6)**	-
Provident Financial Holdings Limited	**(2.4)**	-
Moneybarn Limited	**-**	(2.1)
Moneybarn No. 1 Limited	**1.1**	-
Oban Cards 2021-1 plc	**0.1**	-
Oban Cards Receivables Trustee Limited	**17.8**	-
Related party balances outstanding	**49.4**	46.4

26 Reconciliation of profit after taxation to cash generated from operations

	2021 **£m**	2020 £m
Profit after taxation	**146.0**	42.6
Adjusted for:		
- tax charge	**32.0**	8.1
- funding costs	**25.9**	31.4
- exceptional provision release	**-**	(8.3)
- share-based payment charge	**1.1**	0.8
- amortisation of intangible assets	**5.0**	4.6
- depreciation of property, plant and equipment	**2.2**	2.7
- depreciation of right of use asset	**5.0**	5.0
- loss on disposal of intangible assets	**1.7**	0.6
- loss on disposal of property, plant and equipment	**-**	2.2
- impairment charge	**5.9**	239.9
- interest on lease liability	**1.0**	1.1
Changes in operating assets and liabilities:		
- amounts receivable from customers	**(3.1)**	127.3
- loan to ultimate parent undertaking	**-**	(70.0)
- trade and other receivables	**(10.7)**	(11.3)
- trade and other payables	**(1.9)**	(21.1)
- provision	**2.7**	(0.7)
- revaluation of investment	**0.1**	-
Cash generated from operations	**212.9**	354.9

The movements in amounts receivable from customers of £3.1m (2020: (£127.3m)) includes the non-cash movement in the impairment provision of £5.9m (2020: £239.9m).

	2021 **£m**	2020 £m
Cash movement in amounts receivable from customers	**2.8**	367.2
Non-cash provision movement – allowance account	**(5.9)**	(239.9)
Net movement in amounts receivable from customers	**(3.1)**	127.3

The table below details changes in the Company’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the cash flow statement as cash flows from financing activities.

26 Reconciliation of profit after taxation to cash generated from operations (continued)

						2021
		Cash changes		**Non-cash changes**		
	1 January 2021	**Financing cash flows**	**Lease payments**	**Interest**	**Amortised fees**	**31 December 2021**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Collateralised loan	**-**	**(174.0)**		**(0.2)**	**2.0**	**(172.2)**
Retail deposits	**(1,683.2)**	**658.2**	**-**	**6.4**	**-**	**(1,018.6)**
Lease liabilities	**(42.7)**	**-**	**6.1**	**(1.0)**	**-**	**(37.6)**
Total	**(1,725.9)**	**496.0**	**6.1**	**(6.6)**	**2.0**	**(1,228.4)**

						2020
		Cash changes		Non-cash changes		
	1 January 2020	Financing cash flows	Lease payments	Interest	Amortised fees	31 December 2020
	£m	£m	£m	£m	£m	£m
Retail deposits	(1,345.2)	(342.1)	-	4.1	-	(1,683.2)
Lease liabilities	(47.6)	-	6.0	(1.1)	-	(42.7)
Total	(1,392.8)	(342.1)	6.0	3.0	-	(1,725.9)

27 Country-by-country reporting

The Company provides credit cards to underserved non-standard consumers and operates solely in the United Kingdom. During 2021:

	UK
Average number of employees (number)	1,378
Turnover (£m)	405.4
Pre-tax profit or (loss) (£m)	178.0
Corporation tax paid (£m)	6.1
Public subsidies received (£m)	-

28 Ultimate parent undertaking and controlling party

In December 2020, a new Group holding company, Provident Financial Holdings Limited ("PFH") (previously called Provident Financial Holdings No.2), was incorporated. The Company was transferred from PF plc to PFH in exchange for shares in PFH at a premium. Following the transfer, the immediate parent undertaking of the Company was PFH.

The ultimate parent undertaking and controlling party is PF plc, a company incorporated in the United Kingdom, which is the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of PF plc may be obtained from the Company Secretary, PF plc, No.1 Godwin Street, Bradford BD1 2SU.

29 Subsidiary undertakings and exemption from presenting consolidated financial statements

In January 2021, the Company entered into a securitisation structure over £453m of receivables. Three special purpose vehicles, which the Company controls and therefore recognises as its subsidiaries, were established under this securitisation structure.

The Company's subsidiaries are:

- Oban Cards 2021-1 Holdings Limited;
- Oban Cards 2021-1 PLC; and
- Oban Cards Receivables Trustee Limited

All three subsidiaries are registered at 10th Floor 5 Churchill Place, London, England, E14 5HU.

The Company has not prepared consolidated financial statements and has elected to take the exemption from presenting consolidated financial statements for a parent that is itself a subsidiary, as it meets all of the following conditions:

- The Company is itself a wholly-owned subsidiary and its ultimate parent, PF plc, does not object to the Company not presenting consolidated financial statements;
- The Company's debt or equity instruments are not traded in a public market;
- The Company does not file its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- The ultimate parent, PF plc, produces financial statements available for public use that comply with IFRS standards, in which subsidiaries are consolidated in accordance with IFRS 10

30 Contingent liabilities

Legal actions and regulatory matters

During the ordinary course of business, the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. In addition, there continues to be heightened claims management company activity, particularly in the non-standard lending sector in respect of irresponsible lending. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases, it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However, the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

31 Events after the reporting date

On 13 January 2022 PF plc announced a restructure of the Board of the Company to substantially align its membership with the Board of PF plc. The decision to streamline the Boards of the two legal entities formed part

of the Group's new target operating model which has delivered immediate benefits of efficiency and reduced duplication in the Group's governance structure. The changes were an important step in transforming the operating model and executing the Group's strategy.

ALTERNATIVE PERFORMANCE MEASURES

In addition to statutory results and key performance indicators (KPIs) reported under International Financial Reporting Standards (IFRS), the Company provides certain alternative performance measures (APMs). These APMs are used internally by management and are also deemed helpful in understanding the Company's underlying performance. These non-statutory measures should not be considered as replacements for IFRS measures. The definition of these non-statutory measures may not be comparable to similarly titled measures reported by other companies.

APM	Method of calculation	Relevance
Average receivables	Average of month-end receivables for the 12 months ended 31 December.	This is used to smooth the seasonality of receivables in calculating performance KPIs.
Income yield (%)	Income divided by average receivables for the year ended 31 December.	This ratio is a measure of the Company's income expressed as a percentage of average receivables in the year.
Impairment rate (%)	Impairment divided by average receivables for the year ended 31 December.	This ratio is a measure of the Company's impairment levels expressed as a percentage of average receivables in the year.
Net operating margin (%)	Risk-adjusted net interest margin divided by average receivables for the year ended 31 December.	This ratio is a measure of the Company's risk-adjusted net interest margin expressed as a percentage of average receivables in the year.
Cost income ratio (%)	Costs (before exceptional items) divided by income for the year ended 31 December.	This ratio is a measure of the efficiency of the Company's cost base.
Return on equity (%)	Profit before exceptional items after tax divided by average equity for the year ended 31 December.	ROE shows the return being generated from the shareholders' equity retained in the business.
Impairment provision coverage ratio (%)	Impairment provision divided by gross receivables as at 31 December.	This ratio is a measure of the Company's potential credit impairment losses as a percentage of the Company's gross receivables.
Return on assets (%)	Profit after tax divided by total assets as at 31 December.	This measures the return a company generates from its assets.