

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 328933)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 328933)

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PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED

(Company Number 328933)

DIRECTORS' REPORT

Provident Financial Management Services Limited (the 'company') is a wholly-owned subsidiary of Provident Financial plc which, together with its subsidiaries, forms the Provident Financial group (the 'group'). Provident Financial plc is a public limited company, listed on the London Stock Exchange.

Principal activity and review of business

The principal activity of the company is to provide management services to its subsidiaries within the Consumer Credit Division ('CCD') of Provident Financial plc. During 2017, the company recharged management services of £118.2m (2016: £118.5m). During 2017, the company received dividends from subsidiary undertakings of £nil from Provident Personal Credit Limited (2016: £55.0m) and £nil from Greenwood Personal Credit Limited (2016: £4.0m).

Due to the company's net current liability position at the year-end, the immediate and ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company. Accordingly the financial statements of the company have been prepared on a going concern basis.

Results

The statement of comprehensive income for the year is set out on page 10. The loss for the year of £517.2m (2016: profit of £44.0m) has been deducted from/added to reserves. The company's loss before taxation and exceptional items in 2017 was £15.2m compared to the company's profit before taxation of £42.1m in 2016. The reduction in 2017 is due to dividend income from subsidiary undertaking, Provident Personal Credit Limited ('PPC'), of £nil in 2017 (2016: £55.0m), following the significant losses incurred within PPC in 2017 due to disruption caused by the poorly executed migration to a new operating model within the home credit business.

Dividends

During the year ended 31 December 2017, the directors paid an interim dividend on the ordinary shares of the company of £nil (2016: £45.0m), which has been deducted from reserves. The directors are unable to recommend the payment of a final dividend in 2017 (2016: £nil).

Directors

The directors of the company during the year ended 31 December 2017, 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	Chairman	(Appointed 8 December 2017)
A C Fisher		
S W Sinclair		
C D Gillespie		(Appointed 25 August 2017)
M Wolstenholme		(Appointed 5 September 2017, died 23 November 2017)
E Thornhill		(Appointed 14 February 2018)
M Stevens		(Resigned 30 June 2017)
S A F Lawrence		(Resigned 17 July 2017)
P S Crook		(Resigned 21 August 2017)
A J Parkinson		(Resigned 24 August 2017)
T R Anson		(Resigned 22 October 2017)
J H Vardon		(Resigned 22 October 2017)
L D Enock		(Resigned 1 February 2018)
P A McLelland		(Resigned 9 February 2018)

Consolidation exemption

The company is not required to produce consolidated financial statements for its subsidiaries as the ultimate parent of the company, Provident Financial plc, produces a consolidation which includes the company and its subsidiaries. The annual report and financial statements for Provident Financial plc are publicly available.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED

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DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties and financial risk management

The company participates in the group-wide risk management framework of Provident Financial plc. Details of the group's risk management framework together with the group's principal risks and uncertainties are set out in the annual report and financial statements of Provident Financial plc.

The financial and capital risk management reports of the company are set out on pages 18 and 19.

Employee involvement

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company and group is encouraged as achieving 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 conferences. 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

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 group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the group to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Last year, the group signed up to the National Equality Standard, for which the resulting initial report identified some key opportunities across the group. The business is therefore undertaking a full review of the group approach to equality, diversity and inclusion (EDI) over the coming year in order to support the diversity agenda.

Auditor information

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

- i) so far as he/she is aware, there is no relevant audit information of which the company's auditor is unaware; and
- ii) he/she has taken all reasonable 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 auditor is aware of that information.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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DIRECTORS' REPORT (CONTINUED)

Auditor

Deloitte LLP will continue as auditor to the company for the next financial year.

BY ORDER OF THE BOARD



E Thornhill
Director
Bradford
23 March 2018

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED

(Company Number 328933)

STRATEGIC REPORT

Review of the business

The company's loss before taxation and exceptional costs in 2017 was £15.2m. In 2016, the company's profit before taxation and exceptional costs was £42.1m.

Exceptional costs in 2017 of £506.5m reflect: (i) an impairment charge of £500.3m against the investment held in the subsidiary undertaking, Provident Personal Credit Limited ('PPC'), following the significant losses incurred in PPC in 2017; and (ii) exceptional costs of £6.2m in respect of redundancy and consultancy costs associated with the migration to the new home credit operating model in PPC and subsequent implementation of the recovery plan of the home credit division following the poor execution of the migration.

The exceptional cost in 2016 of £2.9m related to an impairment charge in respect of software development costs for the glo brand held as an intangible asset within the company following the decision to develop guarantor loans on a separate platform within the group.

Following the significant losses incurred in 2017 in the subsidiary undertaking, PPC, the ultimate parent company, Provident Financial plc, has released the company from all of its obligations under an intercompany loan of £438.0m; this credit has been recognised through retained earnings.

Revenue recognised through the provision of management services to other group undertakings is marginally lower than the prior year at £118.2m (2016: £118.5m), consistent with the costs detailed below.

Dividend income in 2017 was £nil following significant losses incurred in PPC. Dividend income in 2016 of £59.0m was generated through dividends from subsidiary undertakings of £55.0m from PPC and £4.0m from Greenwood Personal Credit Limited.

Administrative and operating costs before exceptional items of £109.9m are in line with the prior year (2016: £109.8m).

As part of an ongoing process of reviewing its cost base, the business announced a proposed rationalisation of its central support functions on 16 January 2018 which is subject to workforce consultation and is expected to result in approximately 70 redundancies.

Regulatory change

From 1 April 2014, the Financial Conduct Authority (FCA) replaced the Office of Fair Trading (OFT) as the regulator of consumer credit in the UK. All consumer credit firms were required to submit applications for full authorisation to the FCA prior to set deadlines. The company has obtained interim permissions and submitted its application for full authorisation in May 2015. The company continues to operate under an interim permission whilst the home credit business within Provident Personal Credit Limited implements its recovery plan. Whilst the outcome of the regulator's process of reviewing applications carries some inherent uncertainty, the business continues to have a constructive dialogue with the FCA, responding to questions and information requests relevant to obtaining the necessary authorisation.

Going concern


Due to the company's net current liability position at the year end, the immediate and ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for at least the next 12 months. As announced on 27 February 2018, the ultimate parent company, Provident Financial plc, announced its intention to raise £331m of capital by way of a rights issue. Following the General Meeting held on 21 March 2018, the shareholders of the ultimate holding company approved the proposed rights issue. This will protect the Group's capital position and will allow the ultimate parent company the ability to continue its financial support for the company. Accordingly the financial statements of the company have been prepared on a going concern basis of accounting. Further details on the basis of preparation are provided on page 13.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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STRATEGIC REPORT (CONTINUED)

The company forms part of the Consumer Credit Division. A full review of the business, results and future prospects of the Consumer Credit Division is set out in the annual report and financial statements of Provident Financial plc.

BY ORDER OF THE BOARD



E Thornhill
Director
Bradford
23 March 2018

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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DIRECTORS' RESPONSIBILITIES STATEMENT

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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 directors:

- properly select suitable accounting policies and apply them consistently;
- 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.

BY ORDER OF THE BOARD



E Thornhill
Director
Bradford
23 March 2018

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF
PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Provident Financial Management Services Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in shareholder's equity;
- the statement of cash flows;
- the statement of accounting policies;
- the financial and capital risk management report; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF
PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED (CONTINUED)

Other information

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

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

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.

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF
PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED (CONTINUED)

Report on other legal and regulatory requirements

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.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

S. Cumberbatch

Stewart Cumberbatch FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
23 March 2018

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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STATEMENT OF COMPREHENSIVE INCOME

	Note	2017 £m	2016 £m
For the year ended 31 December			
Revenue	1	118.2	118.5
Dividend income		-	59.0
Total income		118.2	177.5
Finance costs	2	(23.5)	(25.6)
Administrative and operating costs		(616.4)	(112.7)
Total costs		(639.9)	(138.3)
(Loss)/profit before taxation	3	(521.7)	39.2
(Loss)/profit before taxation and exceptional costs	3	(15.2)	42.1
Exceptional items	3	(506.5)	(2.9)
Tax credit	4	4.5	4.8
(Loss)/profit and total comprehensive income for the year attributable to the equity shareholder		(517.2)	44.0

All of the above operations relate to continuing operations.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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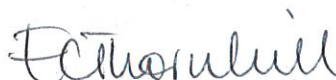
BALANCE SHEET

As at 31 December	Note	2017 £m	2016 £m
ASSETS			
Non-current assets			
Intangible assets	8	26.7	20.4
Property, plant and equipment	9	7.9	8.9
Investments in subsidiaries	10	300.0	800.3
Deferred tax assets	14	1.8	2.4
		336.4	832.0
Current assets			
Financial assets:			
- trade and other receivables	12	76.6	106.1
Current tax assets		4.5	2.5
		81.1	108.6
Total assets		417.5	940.6
LIABILITIES			
Current liabilities			
Financial liabilities:			
- trade and other payables	15	(218.8)	(223.9)
		(218.8)	(223.9)
Non-current liabilities			
Financial liabilities			
- trade and other payables	15	-	(438.2)
		-	(438.2)
Total liabilities		(218.8)	(662.1)
NET ASSETS		198.7	278.5
SHAREHOLDER'S EQUITY			
Share capital	16	257.8	257.8
Share-based payment reserve		0.9	3.3
Retained earnings		(60.0)	17.4
TOTAL SHAREHOLDER'S EQUITY		198.7	278.5

The financial statements on pages 10 to 34 were approved by the board of directors on 23 March 2018 and signed on its behalf by:



C D Gillespie
Director



E Thornhill
Director

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share-based payment reserve £m	Retained earnings £m	Total £m
At 1 January 2016		257.8	2.0	18.0	277.8
Profit and total comprehensive income for the year		-	-	44.0	44.0
Transactions with owners:					
- share-based payment charge	17	-	1.7	-	1.7
- transfer of share-based payment reserve		-	(0.4)	0.4	-
- dividends	5	-	-	(45.0)	(45.0)
At 31 December 2016		257.8	3.3	17.4	278.5
At 1 January 2017		257.8	3.3	17.4	278.5
Loss and total comprehensive loss for the year		-	-	(517.2)	(517.2)
Transactions with owners:					
- share-based payment credit	17	-	(0.6)	-	(0.6)
- transfer of share-based payment reserve		-	(1.8)	1.8	-
- release of intercompany loan by ultimate parent		-	-	438.0	438.0
At 31 December 2017		257.8	0.9	(60.0)	198.7

STATEMENT OF CASH FLOWS

	Note	2017 £m	2016 £m
For the year ended 31 December			
Cash flows from operating activities			
Cash generated from operations	21	40.8	26.5
Finance costs paid		(23.5)	(25.6)
Net cash generated from operating activities		17.3	0.9
Cash flows from investing activities			
Purchase of intangible assets	8	(14.6)	(11.0)
Purchase of property, plant and equipment	9	(3.1)	(4.4)
Proceeds from disposal of property, plant and equipment	9	0.4	0.6
Dividends received from subsidiaries		-	59.0
Net cash (used in)/generated from investing activities		(17.3)	44.2
Cash flows from financing activities			
Dividends paid to company shareholder	5	-	(45.0)
Net cash used in financing activities		-	(45.0)
Net increase in cash, cash equivalents and overdrafts		-	0.1
Cash, cash equivalents and overdrafts at beginning of year		-	(0.1)
Cash, cash equivalents and overdrafts at end of year		-	-
Cash, cash equivalents and overdrafts at end of year comprise:			
Overdrafts (held in bank and other borrowings)		-	-
Total cash, cash equivalents and overdrafts		-	-

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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STATEMENT OF ACCOUNTING POLICIES

General information

The company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, West Yorkshire, BD1 2SU.

Basis of preparation

The financial statements are prepared in accordance with IFRS adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the company's accounting policies.

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

(a) There have been no new or amended standards adopted by the company in the financial year beginning 1 January 2017 which had a material impact on the company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not early adopted:

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors. The standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees, except for short term assets and leases of low value assets. The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The classification of cash flows will be also affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

The group and company are in the process of assessing the impact of the standard and will adopt from the effective date of 1 January 2019.

Consolidation exemption

The company is not required to produce consolidated financial statements for its subsidiaries as the ultimate parent of the company, Provident Financial plc, produces a consolidation which includes the company and its subsidiaries. The annual report and financial statements for Provident Financial plc are publicly available.

Revenue

Revenue comprises income from the provision of management services and related activities to other group companies which is recognised on an accruals basis.

Dividend income

Dividend income from investments is recognised when the shareholder's rights to receive payment has been established, provided that it is probable that the economic benefits will flow and the amount of revenue can be measured reliably.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 328933)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Finance costs

Finance costs principally comprise the interest on intra-group loan arrangements, and are recognised on an effective interest rate basis.

Intangible assets

Intangible assets, which comprise computer software and computer software development costs, represent the costs incurred to acquire or develop the specific software and bring it into use. These are valued at cost less subsequent amortisation.

Directly attributable costs associated with the development of software that will generate future economic benefits are capitalised as an intangible asset. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software is amortised on a straight-line basis over its estimated useful economic life which is generally estimated to be between three and ten years.

The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date to identify any requirement for impairment.

Amortisation is charged to the statement of comprehensive income as part of administrative and operating costs.

Investments in subsidiaries

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

Impairment is calculated by comparing the carrying value of the investment to the higher of the net asset value of the relevant subsidiary or its discounted expected future cash flows.

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.

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
Equipment (including computer hardware)	10 to 33.3	Straight line
Motor vehicles	25	Reducing balance

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date.

All items of property, plant and equipment 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 and operating costs in the statement of comprehensive income.

Depreciation is charged to the statement of comprehensive income as part of administrative and operating costs.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 328933)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All current leases held are operating leases. Costs in respect of operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Borrowings

Borrowings are recognised initially at fair value, being 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 statement of comprehensive income over the expected life of the borrowings using the effective interest rate.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Dividends

Dividend distributions to the company's shareholder are recognised in the financial statements as follows:

Final dividend: when approved by the company's board of directors.

Interim dividend: when approved by the company's board of directors.

Retirement benefits

Defined benefit pension schemes:

The company participates in the Provident Financial Staff Pension Scheme, a multi-employer scheme, sponsored by Provident Financial plc. As there is no contractual agreement for charging the company a portion of the defined benefit costs of the plan as a whole, the company recognises their cash contributions on an accruals basis.

Defined contribution pension schemes:

For defined contribution schemes the amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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

Share-based payments

Equity-settled schemes:

The company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS). All of these schemes are equity-settled.

The cost of providing options and awards to company employees is charged to the statement of comprehensive income 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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 328933)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Equity-settled schemes (continued):

The cost of options and awards is based on their fair value. For PSP schemes, the performance conditions are based on group earnings per share (EPS). Accordingly, the fair value of options and awards is determined using a binomial option pricing model which is a suitable model for valuing options with internal related targets such as EPS. A binomial model is also used for calculating the fair value of SAYE options which have no performance conditions attached. The value of 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 divisional profit before taxation targets.

Accordingly, the fair value of awards is determined using a binomial option pricing model. The value of the charge is adjusted at each balance sheet date to reflect lapses.

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

Cash-settled schemes:

The company also grants awards under the Provident Financial Equity Plan (PFEP) to eligible employees based on a percentage of their salary. The cost of the awards is based on the performance conditions of divisional profit before tax and share price growth. The scheme is cash settled.

The cost of the award is charged to the statement of comprehensive income 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.

Exceptional costs

Exceptional costs are costs 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 results.

Taxation

The tax entries 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 substantively enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the statement of comprehensive income 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the future.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Key assumptions and estimates

In applying the accounting policies set out above, the company makes significant estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

Investments in subsidiaries

The company reviews its investment in subsidiary companies for impairment at each balance sheet date. Impairment is calculated by comparing the carrying value of the investment to the higher of the net asset value of the relevant subsidiary or its discounted expected future cash flows.

Key sources of estimation uncertainty:

Forecast future cash flows of the subsidiary companies are in line with the group approved divisional budget. To the extent that the forecast future cash flows differ by +/- 5%, it is estimated that the investment valuation in subsidiary companies would be approximately 6% higher/lower. A terminal growth rate has been applied to the forecast future cash flows for years beyond the budget outlook. To the extent that the terminal growth rate differs by +/- 0.5%, it is estimated that the investment valuation in subsidiary companies would be approximately 6% higher/lower. Future cash flows are discounted at the risk-adjusted cost of capital at the balance sheet date. To the extent that the risk-adjusted cost of capital differs by +/- 0.5%, it is estimated that the investment valuation in subsidiary companies would be approximately 8% lower/higher.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED

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FINANCIAL AND CAPITAL RISK MANAGEMENT REPORT

Provident Financial Management Services Limited (the 'company') is a wholly-owned subsidiary of Provident Financial plc which, together with its subsidiaries, forms the Provident Financial group (the 'group').

The overall group internal control and risk management framework is the responsibility of the group board with certain responsibilities in respect of internal control and risk management being delegated to various sub-committees who report directly to the board. An overview of the group's risk management framework can be found in the annual report and financial statements of Provident Financial plc.

The group operates with a centralised treasury function and therefore the funding requirements of the company are met wholly or partially via funding from Provident Financial plc or one of its subsidiaries. In addition, the allocation of capital is managed on a group basis by the centralised treasury function. Accordingly, it is inappropriate to consider the management of liquidity risk, interest rate risk, market risk and capital risk on a stand-alone company basis.

(a) Liquidity risk

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

Liquidity risk is managed by the group's centralised treasury department through daily monitoring of expected cash flows in accordance with a board-approved group funding and liquidity policy. This process is monitored regularly by the group treasury committee.

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fully fund itself through retail deposits and repay its intercompany loan from Provident Financial plc. As at 31 December 2017, the group's committed borrowing facilities had a weighted average period to maturity of 2.2 years (2016: 2.5 years) and the headroom on these committed facilities amounted to £66.2m (2016: £110.2m). In addition the group has additional funding capacity for Vanquis Bank to take retail deposits of £76.9m and cash resources held of £34.3m.

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

A maturity analysis of the undiscounted contractual cash flows of the group's bank and other borrowings, including derivative financial instruments settled on a net and gross basis, is set out in the annual report of Provident Financial plc.

(b) Interest rate risk

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

The group's exposure to movements in interest rates is managed by the group treasury committee and is governed by a board-approved interest rate hedging policy which forms part of the group's treasury policies.

The group seeks to limit the net exposure to changes in interest rates. This is achieved through a combination of issuing fixed-rate debt and by the use of derivative financial instruments such as interest rate swaps.

A 2% movement in the interest rate applied to borrowings during 2017 and 2016 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged. Further details of the interest rate risk management are detailed within the annual report and financial statements of Provident Financial plc.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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FINANCIAL AND CAPITAL RISK MANAGEMENT REPORT (CONTINUED)

(c) Market risk

Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities. The company's and group's corporate policies do not permit it or the group to undertake position taking or trading books of this type and therefore neither it nor the group does so.

(d) Capital risk

Capital risk is managed by the group's centralised treasury department. The group manages capital risk by focussing on capital efficiency and effective risk management. This takes into account the requirements of a variety of different stakeholders including shareholders, policyholders, regulators and rating agencies. A more detailed explanation of the management of capital risk can be found in the annual report and financial statements of Provident Financial plc.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

1 Revenue	2017	2016
	£m	£m
Provision of management services	118.2	118.5
2 Finance costs	2017	2016
	£m	£m
Interest payable to other group undertakings	23.5	25.6
3 (Loss)/profit before taxation	2017	2016
	£m	£m
<hr/>		
(Loss)/profit before taxation is stated after charging:		
Exceptional item - impairment of investments in subsidiaries (note 10)	500.3	-
Exceptional item - restructuring costs	5.4	-
Amortisation of intangible assets:		
- computer software (note 8)	8.3	7.9
- exceptional impairment charge (note 8)	-	2.9
Depreciation of property, plant and equipment (note 9)	3.7	4.0
Operating lease rentals:		
- property	3.5	4.2
Employment costs (prior to exceptional redundancy costs) (note 7(b))	46.4	53.0
Exceptional redundancy costs (note 7(b))	0.8	-

The exceptional impairment of investments in subsidiaries of £500.3m is as a result of the impairment of the investment in the subsidiary undertaking, Provident Personal Credit Limited (see note 10).

The exceptional redundancy costs in 2017 of £0.8m are associated with changes in senior management following the poor execution of the migration to the new home credit operating model in Provident Personal Credit Limited. The exceptional restructuring costs in 2017 of £5.4m include the subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following this poor execution of the migration.

The exceptional cost in 2016 of £2.9m related to an impairment charge in respect of software development costs for the glo brand held as an intangible asset within the company following the decision to develop guarantor loans as part of the wider Vanquis Bank loans proposition on a separate IT platform.

Auditor's remuneration payable to Deloitte LLP in respect of the audit of the company's financial statements totalled £94,000 (2016: £64,000). Auditor's remuneration to Deloitte LLP in respect of other services was £nil (2016: £nil).

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Tax credit

	2017	2016
	£m	£m
Tax credit in the statement of comprehensive income	5.1	4.3
Current tax	(0.7)	0.7
Deferred tax (note 14)	0.1	(0.2)
Impact of change in UK tax rate (note 14)	4.5	4.8
Total tax credit	4.5	4.8

During 2015, changes in corporation tax rates were enacted, reducing the corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. During 2016, a further change was enacted which further reduced the corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax at 31 December 2017 has been measured at 17% (2016: 17%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2016: 1 April 2020). In 2017, movements in the deferred tax balances have been measured at the average rate of corporation tax rate for the year of 19.25% (2016: 20.00%). A tax credit in 2017 of £0.1m (2016: charge of £0.2m) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes.

A tax credit (2016: credit) arises on the loss (2016: profit) before taxation for the year. This can be reconciled as follows:

	2017	2016
	£m	£m
(Loss)/profit before taxation	(521.7)	39.2
(Loss)/profit before taxation multiplied by the average standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	100.4	(7.8)
Effect of:		
- impact of non taxable dividends	-	11.8
- impact of non deductible write down of investment	(96.3)	-
- impact of permanent differences	(0.1)	(0.1)
- impact of rate change	0.1	(0.2)
- adjustment in respect of prior years	0.4	1.1
Total tax credit	4.5	4.8

The impact of the write down of the cost of investment in Provident Personal Credit Limited which is not tax-deductible gives rise to an adverse impact on the tax charge of £96.3m (2016: £nil).

The £0.4m tax credit (2016: £1.1m) in respect of prior years primarily represents the benefit of securing tax deductions for employee share awards which were higher than originally anticipated.

5 Dividends

	2017	2016
	£m	£m
2016 interim - 17.5p per share	-	45.0
Dividends paid	-	45.0

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 Directors' remuneration

The remuneration of the directors, who are the key management personnel of the company, is set out below:

	2017	2016
	£m	£m
Short-term employee benefits	6.4	3.1
Termination benefits	0.6	-
Post-employment benefits	0.2	0.3
Share-based payment (credit)/charge	(0.6)	1.4
Total	6.6	4.8

The directors' emoluments disclosed above exclude the emoluments of P S Crook, A C Fisher, M Wolstenholme and M J Le May, which are paid and disclosed by the ultimate parent company, Provident Financial plc, and recharged to Provident Financial Management Services Limited, as part of a management charge. This management charge, which in 2017 amounted to £5.5m (2016: £7.0m), also includes a recharge of administrative costs borne by the parent company on behalf of the company and it is not possible to identify separately the amount of P S Crook, A C Fisher, M Wolstenholme and M J Le May's emoluments. The emoluments of these directors are disclosed in the annual report and financial statements of Provident Financial plc.

Retirement benefits accrue to one director under a self-invested personal pension arrangement (2016: three), no directors under a defined benefit scheme (2016: none) and four directors under a money purchase scheme (2016: six). Nine directors were entitled to shares under the Provident Financial plc share option/award arrangements (2016: nine). During the year awards vested for six directors (2016: two).

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

	2017	2016
	£m	£m
Short-term employee benefits	2.2	0.8
Termination benefits	0.3	-
Post-employment benefits	-	0.1
Share-based payment (credit)/charge	(0.3)	0.6
Total	2.2	1.5

The above director did not accrue any benefits under a defined benefit pension arrangement during the year (2016: £nil). The above director did not exercise share options/awards during the year but did receive awards under share incentive schemes.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Employee information

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

	2017 Number	2016 Number
Commercial	254	222
Directors and administrative support	14	14
Finance	70	71
Home credit support services	105	96
Human resources	103	91
Online	118	123
Risk	130	113
Technology and change	252	222
Total	1,046	952
Analysed as:		
Full time	947	857
Part time	99	95
Total	1,046	952

(b) Employment costs – all employees (including directors):

	2017 £m	2016 £m
Aggregate gross wages and salaries paid to the company's employees	38.1	40.4
Employer's National Insurance contributions	4.2	4.7
Pension charge (note 13)	5.7	5.3
Share-based payment (credit)/charge (note 17)	(1.6)	2.6
Total employment costs prior to exceptional redundancy costs	46.4	53.0
Exceptional redundancy costs (note 3)	0.8	-
Total employment costs	47.2	53.0

The pension charge comprises contributions to the defined benefit and stakeholder pension plan (see note 13).

The share-based payment credit of £1.6m (2016: charge of £2.6m) relates to equity-settled schemes credit of £0.6m (2016: charge of £1.7m) and cash-settled schemes credit of £1.0m (2016: charge of £0.9m).

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Intangible assets

	2017	2016
	£m	£m
Cost		
At 1 January	79.2	68.2
Additions	14.6	11.0
At 31 December	93.8	79.2
Accumulated amortisation		
At 1 January	58.8	48.0
Charged to the statement of comprehensive income (note 3)	8.3	7.9
Exceptional impairment charge (note 3)	-	2.9
At 31 December	67.1	58.8
Net book value at 31 December	26.7	20.4
Net book value at 1 January	20.4	20.2

Intangible assets within the company represent externally purchased and internally developed software for the Consumer Credit Division supporting the ongoing deployment of technology in the Provident home credit business and the systems to support the development of Satsuma.

Amortisation of intangible assets includes an exceptional cost of £2.9m in 2016 relating to an impairment charge in respect of software development costs for the glo brand following the decision to develop guarantor loans as part of the wider Vanquis Bank loans proposition on a separate IT platform.

9 Property, plant and equipment

	Equipment and vehicles	
	2017	2016
	£m	£m
Cost		
At 1 January	34.5	32.1
Additions	3.1	4.4
Disposals	(2.0)	(2.0)
At 31 December	35.6	34.5
Accumulated depreciation		
At 1 January	25.6	23.0
Charged to the statement of comprehensive income (note 3)	3.7	4.0
Disposals	(1.6)	(1.4)
At 31 December	27.7	25.6
Net book value at 31 December	7.9	8.9
Net book value at 1 January	8.9	9.1

The loss on disposal of property, plant and equipment in 2017 amounted to £nil (2016: £nil) and represented proceeds received of £0.4m (2016: £0.6m) less the net book value of disposals of £0.4m (2016: £0.6m).

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Investments in subsidiaries

	2017 £m	2016 £m
Cost		
At 1 January	800.3	800.3
At 31 December	800.3	800.3
Accumulated impairment losses		
At 1 January	-	-
Charge to the income statement	500.3	-
At 31 December	500.3	-
Net book value at 31 December	300.0	800.3
Net book value at 1 January	800.3	800.3

A full review has been undertaken of the company's £800.3m investment in Provident Personal Credit Limited (PPC), following the significant losses incurred within the subsidiary during 2017. As a result of this review, the investment in PPC of £800.3m has been impaired and an exceptional charge of £500.3m has been taken to the company's statement of comprehensive income in 2017. The remaining investment value of £300.0m represents the recoverable amount based on value in use.

The following are the subsidiary undertakings of the company.

Company	Activity	Country of incorporation or registration	Class of capital	% holding
Provident Personal Credit Limited	Financial Services	England	Ordinary	100
Greenwood Personal Credit Limited	Non-trading	England	Ordinary	100

The above companies are registered at No.1 Godwin Street, Bradford, West Yorkshire, BD1 2SU. The above companies operate principally in their country of incorporation or registration.

11 Financial instruments

The following table sets out the carrying value of the company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

	2017			
	Loans and receivables £m	Amortised cost £m	Non-financial assets £m	Total £m
Assets				
Investments in subsidiaries	-	-	300.0	300.0
Trade and other receivables	76.6	-	-	76.6
Property, plant and equipment	-	-	7.9	7.9
Intangible assets	-	-	26.7	26.7
Deferred tax assets	-	-	1.8	1.8
Current tax assets	-	-	4.5	4.5
Total assets	76.6	-	340.9	417.5
Liabilities				
Trade and other payables	-	(218.8)	-	(218.8)
Total liabilities	-	(218.8)	-	(218.8)

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Financial instruments (continued)

				2016
	Loans and receivables	Amortised cost	Non-financial assets	Total
	£m	£m	£m	£m
Assets				
Investments in subsidiaries	-	-	800.3	800.3
Trade and other receivables	106.1	-	-	106.1
Property, plant and equipment	-	-	8.9	8.9
Intangible assets	-	-	20.4	20.4
Deferred tax assets	-	-	2.4	2.4
Current tax assets	-	-	2.5	2.5
Total assets	106.1	-	834.5	940.6
Liabilities				
Trade and other payables	-	(662.1)	-	(662.1)
Total liabilities	-	(662.1)	-	(662.1)

12 Trade and other receivables

	2017	2016
	£m	£m
Current assets		
Other receivables	1.0	1.1
Amounts owed by ultimate parent undertaking	46.5	68.6
Amounts owed by subsidiary undertakings	25.9	32.7
Amounts owed by fellow subsidiary undertakings	0.6	0.6
Prepayments and accrued income	2.6	3.1
Total	76.6	106.1

Amounts owed by the ultimate parent, subsidiary and fellow subsidiary undertakings are unsecured, repayable on demand and generally accrue interest at rates linked to LIBOR.

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 (2016: £nil).

The fair value of trade and other receivables equates to their book value.

13 Retirement benefits

The company's employees participate in both defined benefit and defined contribution pension schemes.

(a) Pension schemes - defined benefit

In order to provide its employees with a defined benefit pension, the company participates in the Provident Financial Staff Pension Scheme. The scheme has been substantially closed to new members since 1 January 2003.

All future benefits in the scheme are now provided on a 'cash balance' basis, with a defined amount being made available at retirement, based on a percentage of salary that is revalued up to retirement with reference to increases in price inflation. This retirement account is then used to purchase an annuity on the open market.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Retirement benefits (continued)

(a) Pension schemes - defined benefit (continued)

The scheme also provides pension benefits that were accrued in the past on a final salary basis, but which are no longer linked to final salary.

The scheme is a multi-employer scheme, sponsored by Provident Financial plc and, although the company participates in the scheme, there is no contractual agreement for charging the company a portion of the defined benefit costs of the plan as a whole. In accordance with IAS 19, 'Employee benefits', the company recognises the contributions payable in respect of its current employees in its individual financial statements, similar to the treatment of a defined contribution scheme. In 2017 these contributions amounted to £3.2m (2016: £3.2m). The expected contributions to the defined benefit pension scheme in the year ending 31 December 2018 are approximately £2.0m. If the plan was wound up any surplus or deficit would be allocated based on the scheme rules.

In accordance with IAS 19, the sponsoring company, Provident Financial plc, and the consolidated group, recognises the defined benefit cost and the retirement benefit asset in respect of the Provident Financial Staff Pension Scheme.

The retirement benefit asset reflects the difference between the present value of the group's obligation to current and past employees to provide a defined benefit pension and the fair value of assets held to meet that obligation. As at 31 December 2017, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded in the group's financial statements.

In participating in a defined benefit scheme, the company is exposed to a number of risks, the most significant of which are as follows:

- Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match the liabilities.
- Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.
- Inflation risk – part of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of the long-term de-risking strategy, the scheme will further increase its portfolio in inflation matched assets.
- Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

The most recent actuarial valuation of the scheme was carried out as at 1 June 2015 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of the 2015 valuation, updated to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

The retirement benefit asset disclosures relating to the group as a whole, as disclosed in the financial statements of Provident Financial plc, are shown below.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Retirement benefits (continued)

(a) Pension schemes - defined benefit (continued)

The net retirement benefit asset recognised in the balance sheet of the group is as follows:

	2017		Group 2016	
	£m	%	£m	%
Equities	68.7	8	83.1	10
Other diversified return seeking investments	75.8	9	73.9	9
Corporate bonds	141.6	17	141.2	17
Fixed interest gilts	202.9	24	193.0	23
Index-linked gilts	341.6	41	337.4	41
Cash and money market funds	4.9	1	1.5	-
Total fair value of scheme assets	835.5	100	830.1	100
Present value of funded defined benefit obligations	(733.2)		(757.7)	
Net retirement benefit asset recognised in the balance sheet	102.3		72.4	

Movements in the fair value of scheme assets were as follows:

	Group 2017		Group 2016	
	£m	£m	£m	£m
Fair value of scheme assets at 1 January	830.1	666.4		
Interest on scheme assets	21.1	24.8		
Actuarial movement on scheme assets	18.2	153.7		
Contributions by the group	10.7	11.7		
Net benefits paid out	(44.6)	(26.5)		
Fair value of scheme assets at 31 December	835.5	830.1		

Movements in the present value of the defined benefit obligation were as follows:

	Group 2017		Group 2016	
	£m	£m	£m	£m
Present value of the defined benefit obligation at 1 January	(757.7)	(604.1)		
Current service cost	(4.2)	(4.0)		
Interest on scheme liabilities	(19.1)	(22.3)		
Exceptional curtailment credit	3.9	-		
Actuarial movement on scheme liabilities	(0.7)	(153.8)		
Net benefits paid out	44.6	26.5		
Present value of defined benefit obligation at 31 December	(733.2)	(757.7)		

The principal actuarial assumptions used at the balance sheet date were as follows:

	Group 2017		Group 2016	
	%	%	%	%
Price inflation - RPI	3.20	3.25		
Price inflation - CPI	2.10	2.15		
Rate of increase to pensions in payment	2.95	3.00		
Inflationary increase to pensions in deferment	2.10	2.15		
Discount rate	2.40	2.55		

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Retirement benefits (continued)

(a) Pension schemes - defined benefit (continued)

The table below shows the sensitivity on the defined benefit obligation (not including any impact on assets) of changes in the key assumptions. Depending on the scenario, there would also be compensating asset movements.

	Group	
	2017	2016
	%	%
Discount rate decreased by 0.1%	14	15
Inflation increased by 0.1%	6	7
Life expectancy increase by 1 year	30	30

(b) Pension schemes - defined contribution

The group operates a stakeholder pension plan into which the company contributes a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice arrangement (typically ranging between 3.0% and 8.0%). The pension charge in the company's statement of comprehensive income represents contributions payable by the company in respect of the plan and amounted to £2.5m for the year ended 31 December 2017 (2016: £2.1m). No contributions were payable to the fund at the year end (2016: £nil).

The company made no of contributions into personal pension plans in the year (2016: £nil).

14 Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. During 2015, reductions in corporation tax rates were enacted, reducing the corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. During 2016, a further change was enacted which further reduced the corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2017 have been measured at 17% (2016: 17%) on the basis that the temporary differences on which the deferred tax has been calculated are expected to reverse after 1 April 2020 (2016: 1 April 2020). In 2017, movements in the deferred tax balances have been measured at the statutory corporation tax rate for the year of 19.25% (2016: 20.00%). A tax credit in 2017 of £0.1m (2016: charge of £0.2m) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes. The movement in the deferred tax asset during the year can be analysed as follows:

	2017	2016
Asset	£m	£m
At 1 January	2.4	1.9
(Charge)/credit to the statement of comprehensive income (note 4)	(0.7)	0.7
Impact of change in UK tax rate:		
- credit/(charge) to the statement of comprehensive income (note 4)	0.1	(0.2)
At 31 December	1.8	2.4

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14 Deferred tax (continued)

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

	2017			2016		
	Accelerated capital allowances £m	Other temporary differences £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 January	1.8	0.6	2.4	1.9	-	1.9
(Charge)/credit to the statement of comprehensive income	-	(0.7)	(0.7)	-	0.7	0.7
Impact of change in UK tax rate: - credit/(charge) to the statement of comprehensive income	-	0.1	0.1	(0.1)	(0.1)	(0.2)
At 31 December	1.8	0.0	1.8	1.8	0.6	2.4

Deferred tax is a future tax liability or asset resulting from temporary differences or timing differences between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of property, plant and equipment which is depreciated on a different basis for tax purposes, deductions for employee share awards which are recognised on a different basis for tax purposes and certain cost provisions for which tax deductions are only available when the costs are paid. Deferred tax assets are recognised because it is considered probable that future taxable profits will be available against which the temporary differences can be utilised.

15 Trade and other payables

	2017 £m	2016 £m
Current liabilities		
Trade payables	1.5	2.4
Amounts owed to ultimate parent undertaking	0.2	-
Amounts owed to subsidiary undertaking	200.0	200.0
Amounts owed to fellow subsidiary undertakings	8.5	8.5
Other payables including taxation and social security	1.2	1.1
Accruals	7.4	11.9
Total	218.8	223.9

The fair value of trade and other payables equates to their book value (2016: fair value equated to book value). The amounts owed to the ultimate parent undertaking, subsidiary and fellow subsidiary undertakings are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR.

	2017 £m	2016 £m
Non-current liabilities		
Amounts owed to ultimate parent undertaking	-	438.2

Amounts owed to the ultimate parent undertaking have reduced from £438.2m in 2016 to £nil in 2017 as Provident Financial plc has released the company from all of its obligations under an intercompany loan of £438.0m; this credit has been recognised through retained earnings.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Share capital

		2017		2016	
		Authorised	Issued and fully paid	Authorised	Issued and fully paid
Ordinary shares of 100p each	- £m	272.0	257.8	272.0	257.8
	- number (m)	272.0	257.8	272.0	257.8

There are no shares issued and not fully paid at the end of the year (2016: no shares).

17 Share-based payments

Provident Financial plc operates three equity-settled share schemes: the Long Term Incentive Scheme (LTIS), employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)), and the Performance Share Plan (PSP) where shares in the parent company are available to the employees of the company. Provident Financial plc also operates a cash-settled share incentive scheme, the Provident Financial Equity Plan (PFEP) for eligible employees based on a percentage of salary. The group previously operated senior executive share option schemes (ESOS/SESO), although no options have been granted under these scheme since 2006.

During 2017, awards/options have been granted under the PSP, LTIS, SAYE and PFEP schemes (2016: awards/options granted under the PSP, LTIS, SAYE and PFEP schemes).

(a) Equity-settled schemes

The credit to the statement of comprehensive income during the year was £0.6m (2016: charge of £1.7m) for equity settled schemes. The assumptions to consider the appropriate fair values of options are outlined below:

	2017			2016		
	PSP	LTIS	SAYE	PSP	LTIS	SAYE
Grant date	24-Mar-17	24-Mar-17	29-Sep-17	01-Mar-16	01-Mar-16	28-Sep-16
Share price at grant date (£)	29.28	29.28	8.31	32.49	32.49	24.06
Exercise price (£)	-	-	6.85	-	-	-
Shares awarded/under option (number)	2,968	71,798	704,885	5,606	62,868	59,316
Vesting period (years)	3	3	3 and 5	3	3	3 and 5
Expected volatility	27.7%	27.7%	60.7% to 76.8%	23.1%	23.1%	25.4% to 27.2%
Award/option life (years)	3	3	Up to 5	3	3	Up to 5
Expected life (years)	3	3	Up to 5	3	3	Up to 5
Risk-free rate	0.75%	0.75%	0.92% to 1.09%	0.76%	0.76%	0.42% to 0.47%
Expected dividends expressed as a dividend yield	n/a	n/a	3.00%	n/a	n/a	3.00%
Fair value per award/option (£)	29.28	29.28	2.01 to 2.76	32.49	32.49	6.21 to 6.28

The expected volatility is based on historical volatility over the last three or five years as applicable. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a similar duration to the life of the share option.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Share-based payments (continued)

(a) Equity-settled schemes (continued)

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

2017	PSP		LTIS		SAYE		ESOS/SESO	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	49,534	-	230,437	-	217,429	19.13	-	-
Granted	2,968	-	71,798	-	704,885	6.85	-	-
Lapsed	(14,398)	-	(107,270)	-	(168,031)	19.41	-	-
Exercised	(14,479)	-	(81,552)	-	(3,992)	18.95	-	-
Transferred	-	-	-	-	(13,834)	-	-	-
Outstanding at 31 December	23,625	-	113,413	-	736,457	7.26	-	-
Exercisable at 31 December	-	-	-	-	22,906	13.53	-	-

2016	PSP		LTIS		SAYE		ESOS/SESO	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	53,274	-	278,212	-	243,214	15.90	10,820	5.77
Granted	5,606	-	62,868	-	59,316	24.06	-	-
Lapsed	(1,993)	-	(110,643)	-	(20,346)	18.73	-	-
Exercised	(7,353)	-	-	-	(63,258)	11.44	(10,820)	5.77
Transferred	-	-	-	-	(1,497)	-	-	-
Outstanding at 31 December	49,534	-	230,437	-	217,429	19.13	-	-
Exercisable at 31 December	-	-	-	-	2,521	12.80	-	-

Share awards outstanding under the LTIS scheme at 31 December 2017 had an exercise price of £nil (2016: £nil) and a weighted average remaining contractual life of 1.2 years (2016: 1.1 years). Share options outstanding under the SAYE schemes at 31 December 2017 had exercise prices ranging from 662p to 2,406p (2016: 662p to 2,406p) and a weighted average remaining contractual life of 3.3 years (2016: 1.1 years). Share awards outstanding under the PSP schemes at 31 December 2017 had an exercise price of £nil (2016: £nil) and a weighted average remaining contractual life of 0.7 years (2016: 1.0 year).

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17 Share-based payments (continued)

(a) Equity-settled schemes (continued)

The transfer of options in 2017 and 2016 occurred due to an intercompany transfer between Provident Personal Credit Limited and Provident Financial Management Services Limited. In line with IFRS 2: 'Share-based payment', the charge has remained in the company which benefitted from the employee's service.

(b) Cash-settled schemes

Cash awards were granted under the PFEP to eligible employees that require the company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The credit to the statement of comprehensive income in 2017 was £1.0m (2016: charge of £0.9m) and the company has a liability of £0.1m as at 31 December 2017 (2016: £1.1m).

18 Commitments

Commitments for future minimum lease payments are as follows:

	2017	2016
	£m	£m
Due within one year	2.6	4.2
Due between one and five years	3.2	3.6
Due in more than five years	0.9	0.5
Total	6.7	8.3

The operating lease commitments are non-cancellable and relate to property leases.

19 Related party transactions

Details of the transactions between the company and other group undertakings, which comprise management recharges and interest charges on intra-group balances, along with any balances outstanding at 31 December are set out below:

	2017			2016		
	Management recharge £m	Interest charge £m	Outstanding balance £m	Management recharge £m	Interest charge £m	Outstanding balance £m
Ultimate parent undertaking	7.6	10.7	46.3	9.3	11.7	(369.6)
Subsidiary undertakings	(115.9)	12.8	(174.1)	(116.1)	13.9	(167.3)
Other group undertakings	(0.2)	-	(7.9)	(0.2)	-	(7.9)
Total	(108.5)	23.5	(135.7)	(107.0)	25.6	(544.8)

The outstanding balance represents the gross intercompany balance receivable to/(payable by) the company. Outstanding balances owed to the ultimate parent undertaking have reduced from £369.6m in 2016 to an outstanding balance owed by the ultimate parent company of £46.3m in 2017 primarily as Provident Financial plc has released the company from all of its obligations under an intercompany loan of £438.0m; this credit has been recognised through retained earnings.

During the year the company paid dividends to the parent company Provident Financial plc of £nil (2016: £45.0m).

During 2017, the company received dividends from subsidiary undertakings of £nil from Provident Personal Credit Limited (2016: £55.0m) and £nil from Greenwood Personal Credit Limited (2016: £4.0m).

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20 Contingent liabilities

The company is a guarantor in respect of: (i) borrowings made by the company's ultimate parent undertaking; and (ii) guarantees given by the company's ultimate parent undertaking in respect of borrowings of certain of its subsidiaries to a maximum of £972.6m (2016: £1,046.0m). At 31 December 2017, the borrowings amounted to £882.3m (2016: £914.0m). No loss is expected to arise.

21 Reconciliation of profit after taxation to cash generated from operations

	Note	2017 £m	2016 £m
(Loss)/profit after taxation		(517.2)	44.0
Adjusted for:			
- tax credit	4	(4.5)	(4.8)
- finance costs	2	23.5	25.6
- dividend received	19	-	(59.0)
- share-based payment (credit)/charge	17	(0.6)	1.7
- amortisation of intangible assets	8	8.3	7.9
- exceptional impairment charge of intangible assets	8	-	2.9
- exceptional impairment of investments in subsidiaries	10	500.3	-
- depreciation of property, plant and equipment	9	3.7	4.0
Changes in operating assets and liabilities:			
- trade and other receivables		32.6	2.7
- trade and other payables		(5.3)	1.5
Cash generated from operations		40.8	26.5

22 Parent undertaking and controlling party

The immediate and ultimate parent undertaking and controlling party is Provident Financial 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 Provident Financial plc may be obtained from the Company Secretary, Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.