PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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.

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 6); 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 decision taken by the company in the financial year (pages 4 to 8).

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 2019, the company provided management services of £99.4m (2018: £143.2m).

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 15. The loss for the year of £191.7m (2018: £6.2m) has been deducted from reserves. The company's profit before taxation and exceptional items in 2019 was £1.2m compared to £21.1m in 2018.

Dividends

The directors are unable to recommend the payment of a final dividend in 2019 (2018: £nil).

Directors

The directors of the company during the year ended 31 December 2019, all of whom were directors for the whole year then ended, and to the date of this report, were:

M J Le May	Chairman
C D Gillespie	
E C Thornhill	
N Kapur	(Appointed 30 June 2020)
S G Thomas	(Resigned 31 March 2020)

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 consolidated financial statements which includes the company and its subsidiaries. The annual report and financial statements for Provident Financial plc are publicly available.

Financial risk management

The financial and capital risk management reports of the company are set out on pages 25 and 27.

Post balance sheet events

Post balance sheet events have been disclosed in note 23 of the accounts.

DIRECTORS' REPORT (CONTINUED)

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. In 2017, the group signed up to the National Equality Standard, for which the resulting initial report identified some key opportunities across the group.

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.

Auditor

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

BY ORDER OF THE BOARD

E C Thornhill
Director
Bradford
27 August 2020

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STRATEGIC REPORT

Review of the 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. As a result there are no key performance indicators for the company.

The company's profit before taxation and exceptional costs in 2019 was £1.2m (2018: £21.1m).

Exceptional costs in 2019 of £194.4m reflect: (i) an impairment charge of £185.0m against the investment held in the subsidiary undertaking, Provident Personal Credit Limited ('PPC'), following the losses incurred in PPC since 2017 following the poor execution of the migration to the employed home credit operating model in July 2017; (ii) redundancy costs of £7.0m following the voluntary redundancy programme in the company in January 2019 which reduced headcount by approximately 200; and (iii) £2.4m in respect of the ongoing turnaround of the home credit business including £2.0m of asset disposals.

Exceptional costs in 2018 of £28.9m reflect: (i) £24.0m in respect of intangible and tangible asset write offs and consultancy costs associated with the implementation of the recovery plan following the poor execution of the migration to the employed home credit operating model in the subsidiary undertaking, Provident Personal Credit Limited ('PPC'), in July 2017; and (ii) redundancy costs of £4.9m following the rationalisation of the home credit central support functions, with approximately 70 employees made redundant by the end of March 2018.

Revenue recognised through the provision of management services to other group undertakings of £99.4m is 30.6% lower than the prior year comparative (2018: £143.2m), broadly consistent with the costs detailed below, after removing the direct recharge of exceptional items to PPC (2019: £2.0m of direct recharge; 2018: £24.0m of direct recharge).

Administrative and operating costs prior to exceptional costs of £85.6m in 2019 are 21.8% lower than the prior year comparative of £109.4m, primarily due to lower employment costs due to 20% lower headcount, as well as reduced amortisation and depreciation charges following rationalisation of the company's asset base in the prior period.

Principal risks and uncertainties

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. Details of the group's response to the changing and challenging operational environment as a result of Covid-19 are set out within the financial and capital risk management report on page 27.

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 table 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. We describe how, and on which topics, we engage with our stakeholders below and also document the key outcomes of the engagement. 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 in the strategic report and in the review of business within the annual report and financial statements of Provident Financial plc.

<table>
<tr><th>Our Stakeholders and why we engage with them</th><th>• How? (How management and/or directors engaged with and considered our stakeholders)</th><th>• What? (What were the key topics of engagement and consideration)</th><th>• Key outcomes and actions (What was the impact of the engagement and/or consideration?)</th></tr>
<tr><td>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.</td><td>• Utilising a wide variety of customer engagement methods including engagement surveys, third party research and complaints monitoring
• Continually reviewing the customer proposition
• Monitoring performance against good customer outcomes
• Considering the customer experience, customer contact strategy and customer journeys
• Enhanced customer complaints processes
• Designing and implementing policies that protect customers and their information</td><td>• 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 levels and complaints
• Customer affordability and vulnerability
• 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 Customers and Financial Promotions</td><td>• Adapting the business model to reflect a better understanding of customer needs
• Developing and launching the pilot of hybrid product Provident Direct
• Introducing card readers to the Field
• Work to refine and digitise, where beneficial, customer journeys
• Management and Board oversight of customer complaints operations, outcomes and strategy
• Introducing recorded customer visits
• Paperless ID verification</td></tr>
</table>

STRATEGIC REPORT (CONTINUED)

Our Stakeholders 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 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.	• Adapting the business model to take into account the Group-wide purpose, the Blueprint • Group CEO and Group CFO are members of the company Board • Financial reporting, strategy and common accounting principles • Budget and financial plan developed as part of wider Group process • Group oversight of risk management • Group oversight of change programme	• Strategy and long-term value creation • Culture • Financial and operational performance • Risk management • Corporate governance arrangements and alignment • Corporate responsibility	• Business model aligned with regulatory expectations • Business model aligned with the Group's purpose • Company aligned with overarching Group-wide vision and purpose • Group approved budget and operational plan • Enterprise Risk Management Framework aligned to Group

STRATEGIC REPORT (CONTINUED)

Our Stakeholders 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 colleagues To ensure that they understand the Group's purpose and how they can support its delivery, which we believe helps our customers. 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 • Designated Group Non-Executive Director plays the lead role in Board engagement with employees, understanding and representing employee interests across the Group • The Group's Blueprint was launched via a dedicated roll-out programme during the year to focus on culture • Group recognition platform, 'Better Everyday', launched and designed to help create a culture where we say 'thank you' or 'well done' to colleagues who demonstrate our Blueprint behaviours • Independent whistleblowing line is available for colleagues to raise concerns • Board oversight of policies that protect employees, their rights and their personal data • Gender pay gap report produced	• 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	• Introduction of safety devices to the field • Introduction of card readers in the field • Introduction of paperless ID and income verification • Oversight of our health and safety approach, including the impact on colleagues • Review of the whistleblowing process and output • Launch of the new and enhanced mechanisms for colleague recognition 'Better Everyday'

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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STRATEGIC REPORT (CONTINUED)

Our Stakeholders 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 communities To invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, may affect someone's likelihood of being accepted for credit, improve social mobility and support community projects.	• Participation in the Group Social Impact Programme that delivers community investment	• Community contributions and charitable giving • Volunteering • Matched employee fundraising • Supporting initiatives to improve skills and employability	• 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 • Mentoring young adults via legal days
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 • 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 and potential products, customer outcomes and digitisation • Appropriate Risk Office structure and resource levels via the Risk Management Framework	• Customer vulnerability • Our products, our potential products and digitisation • Governance framework • Regulatory capital and wind down plan • Customer proposition improvements • Complaints • Senior Management & Certification Regime embedding and ongoing compliance • Culture and Blueprint	• The views of regulators and the regulatory environment informed the business model updates and amendments to our product offering • Enhanced oversight and monitoring of sales and collections including customer recorded visits • Engaged with FOS on areas of mutual interest

STRATEGIC REPORT (CONTINUED)

Our Stakeholders 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 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 mitigate risk in our supply chain.	• There is an established due diligence process to manage supply chain-based risks and comply with company policies • There are standardised contractual terms that we attempt to use with all of our suppliers, this reduces contractual risks when contracting under these terms • The company is a signatory to the Prompt Payment Code and we publish our Payment Practices Reporting at Companies House	• Prompt payment • Data protection • Information security • Corporate Criminal Offence and Tax Evasion • Environment • Supplier on-boarding process • Supplier performance • Delegated authorities • Anti-bribery and corruption • Modern Slavery • Conduct, behaviour and performance	• Signatories of the Prompt Payment Code • Compliance with FCA compliance handbook • Supplier relationship management framework which highlights supplier performance and enables joint roadmaps
Our environment To minimise our environmental impact, in particular to reduce the greenhouse gas emissions associated with our business activities, thereby lessening our contribution to issues such as climate change.	• A key tool in helping the Group to manage its environmental impact is the Group Environmental Management System (EMS)		• Participated in the Group wide reduced emissions targets • Participated in the annual Group submission to the Carbon Disclosure Project • Continued offset of the Group's operational carbon footprint

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

Our Budget 2020

The Board approved the Consumer Credit Division's budget in December 2019, having considered the strategy and having acknowledged the Group's common strategic purpose of 'helping put people on the path to a better everyday life'. In determining to approve the budget, which it believes will promote the long term success of the company for the benefit of its members, the Board considered a broad number of factors including:

Risk

- Principle risks and uncertainties
- Key performance risks

Financial

- Shareholder and market context
- Financial performance including revenue, profit and return on assets
- Cost efficiency
- Operational performance and growth opportunities
- Dividends and distributable reserves

Regulatory

- Regulatory capital and reporting
- Macroeconomic landscape
- Regulatory landscape, dialogue and upstream risk
    - Allegations of irresponsible lending and associated complaints (including those referred to the FOS)
    - Affordability
    - Customer fees and charges

Customer

- New product propositions including Provident Direct
- Enhancements to customer experience including through digitisation (card readers, recorded customer visits)

Colleagues

- People and talent
- New and existing skills and experience

With due regard of their statutory and fiduciary duties to the company the Board Directors of the company approved the budget. Delivery and budget performance will be monitored throughout the year.

Going concern

The company exists solely to provide management services to its subsidiaries within the Consumer Credit Division, the largest being Provident Personal Credit Limited ('PPC'). The going concern assumption for the company is therefore interlinked with that for PPC.

The company and PPC are fully funded through intercompany loan facilities made available by the ultimate parent company, Provident Financial plc. As a result, the ability of the company to continue as a going concern is dependent on the ability and intent of its ultimate parent to continue to make funds available to enable the company to meet its liabilities as they fall due.

In assessing whether the company is a going concern, the directors have therefore considered the ability of the group to continue as a going concern due to the intercompany funding provided by the ultimate parent company Provident Financial plc. The directors of the group have reviewed the latest budgets, as approved in July 2020, which includes capital and liquidity forecasts, on detailed projections for 2020 and 2021. This assessment has included consideration of the group's principal risks and uncertainties, including that of Covid-19, and the likelihood of these risks materialising into losses.

Given the uncertain outlook as a result of Covid-19, additional stress testing has been performed through modelling a range of macro-economic scenarios. This initially assumes a severe but plausible downturn, with 'severe' being defined consistently with the group's IFRS 9 'severe' macro-economic weighting. This assumes that unemployment in the UK reaches a peak unemployment rate of 14%. Further, more severe, scenarios have been modelled which would need to materialise to prevent the directors from adopting the going concern assumption. These scenarios are considered to be sufficiently remote to impact on the going concern assumption. The projections do not assume any further refinancing, or government support, and the group's revised Total Capital Requirement has been assumed in all scenarios modelled.

Based on this review, the directors are satisfied that the group has the required resources to continue in business for a period of at least twelve months following the approval of the company accounts. For this reason, the directors continue to adopt the going concern basis in preparing the company accounts. In addition, 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 a period of at least twelve months from the date of approval of the financial statements. 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 18.

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 C Thornhill
Director
Bradford
27 August 2020

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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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 of Provident Financial Management Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 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 23.

The financial reporting framework that has been applied in their preparation is applicable law and 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 Financial Reporting Council's (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.

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

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.

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

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.

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.

S. Cumberbatch.

Stewart Cumberbatch FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
27 August 2020

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	2019 £m	2018 £m
Revenue	1	99.4	143.2
Finance costs	2	(12.6)	(12.7)
Administrative and operating costs		(280.0)	(138.3)
Total costs		(292.6)	(151.0)
Loss before taxation	3	(193.2)	(7.8)
Profit before taxation and exceptional costs	3	1.2	21.1
Exceptional items	3	(194.4)	(28.9)
Tax credit	4	1.5	1.6
Loss and total comprehensive expense for the year attributable to the equity shareholder		(191.7)	(6.2)

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	2019 £m	2018 £m
ASSETS			
Non-current assets			
Intangible assets	7	3.7	9.3
Property, plant and equipment	8	1.4	3.9
Investments in subsidiaries	10	115.0	300.0
Right of use assets	9	2.9	-
Deferred tax assets	14	2.2	1.8
		125.2	315.0
Current assets			
Financial assets:			
- trade and other receivables	12	95.2	102.9
Current tax assets		1.5	-
		96.7	102.9
Total assets		221.9	417.9
LIABILITIES			
Current liabilities			
Financial liabilities:			
- trade and other payables	15	(217.6)	(224.4)
- lease liabilities	18	(2.0)	-
Current tax liabilities		-	(0.5)
		(219.6)	(224.9)
Non-current liabilities			
Financial liabilities			
- lease liabilities	18	(1.0)	-
		(1.0)	-
Total liabilities		(220.6)	(224.9)
NET ASSETS		1.3	193.0
SHAREHOLDER'S EQUITY			
Share capital	16	257.8	257.8
Share-based payment reserve		1.1	1.1
Retained losses		(257.6)	(65.9)
TOTAL SHAREHOLDER'S EQUITY		1.3	193.0

The financial statements on pages 15 to 45 were approved by the board of directors on 27 August 2020 and signed on its behalf by:

Chris Gillespie

EC Thornhill

C D Gillespie
Director

E C 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 losses £m	Total £m
At 1 January 2018		257.8	0.9	(60.0)	198.7
Loss and total comprehensive loss for the year		-	-	(6.2)	(6.2)
Transactions with owners:					
- share-based payment charge	17	-	0.5	-	0.5
- transfer of share-based payment reserve		-	(0.3)	0.3	-
At 31 December 2018		257.8	1.1	(65.9)	193.0
Impact of adoption of IFRS 16 'Leases'		-	-	(0.1)	(0.1)
At 1 January 2019		257.8	1.1	(66.0)	192.9
Loss and total comprehensive loss for the year		-	-	(191.7)	(191.7)
Transactions with owners:					
- share-based payment charge	17	-	0.1	-	0.1
- transfer of share-based payment reserve		-	(0.1)	0.1	-
At 31 December 2019		257.8	1.1	(257.6)	1.3

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operations	21	13.9	16.6
Finance costs paid		(12.6)	(12.7)
Net cash generated from operating activities		1.3	3.9
Cash flows from investing activities			
Purchase of intangible assets	7	(1.1)	(3.7)
Purchase of property, plant and equipment	8	(0.4)	(0.7)
Proceeds from disposal of property, plant and equipment	8	1.6	0.5
Net cash generated from/(used in) investing activities		0.1	(3.9)
Cash flows from financing activities			
Payment of lease liabilities		(1.4)	-
Net cash used in financing activities		(1.4)	-
Net increase in cash, cash equivalents and overdrafts		-	-
Cash, cash equivalents and overdrafts at beginning of year		-	-
Cash, cash equivalents and overdrafts at end of year		-	-
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		-	-
Total cash, cash equivalents and overdrafts		-	-

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF ACCOUNTING POLICIES

General information

The company is a private company limited by shares incorporated and domiciled in England. The address of its registered office is No. 1 Godwin Street, Bradford, West Yorkshire, BD1 2SU.

Going concern

The company exists solely to provide management services to its subsidiaries within the Consumer Credit Division, the largest being Provident Personal Credit Limited ('PPC'). The going concern assumption for the company is therefore interlinked with that for PPC.

The company and PPC are fully funded through intercompany loan facilities made available by the ultimate parent company, Provident Financial plc. As a result, the ability of the company to continue as a going concern is dependent on the ability and intent of its ultimate parent to continue to make funds available to enable the company to meet its liabilities as they fall due.

In assessing whether the company is a going concern, the directors have therefore considered the ability of the group to continue as a going concern due to the intercompany funding provided by the ultimate parent company Provident Financial plc. The directors of the group have reviewed the latest budgets, as approved in July 2020, which includes capital and liquidity forecasts, on detailed projections for 2020 and 2021. This assessment has included consideration of the group's principal risks and uncertainties, including that of Covid-19, and the likelihood of these risks materialising into losses.

Given the uncertain outlook as a result of Covid-19, additional stress testing has been performed through modelling a range of macro-economic scenarios. This initially assumes a severe but plausible downturn, with 'severe' being defined consistently with the group's IFRS 9 'severe' macro-economic weighting. This assumes that unemployment in the UK reaches a peak unemployment rate of 14%. Further, more severe, scenarios have been modelled which would need to materialise to prevent the directors from adopting the going concern assumption. These scenarios are considered to be sufficiently remote to impact on the going concern assumption. The projections do not assume any further refinancing, or government support, and the group's revised Total Capital Requirement has been assumed in all scenarios modelled.

Based on this review, the directors are satisfied that the group has the required resources to continue in business for a period of at least twelve months following the approval of the company accounts. For this reason, the directors continue to adopt the going concern basis in preparing the company accounts. In addition, 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 a period of at least twelve months from the date of approval of the financial statements. Accordingly the financial statements of the company have been prepared on a going concern basis of accounting.

Basis of preparation

The financial statements are prepared in accordance with IFRSs 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. 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 IFRSs, which have been consistently applied to all years presented unless otherwise stated, are set out below.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

(a) The impact of new standards adopted by the company from 1 January 2019

IFRS 16 'Leases' has been adopted by the company from the mandatory adoption date of 1 January 2019.

IFRS 16 replaces IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors 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 between operating leases and finance leases are removed for lessee accounting, and has been replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases where the company is the lessee, except for short-term assets and leases of low value assets.

The company has applied the following practical expedient available on transition:

- Not to reassess whether a contract is or contains a lease, the definition of a lease in accordance with IAS 17 will continue to be applied to those contracts entered or modified before 1 January 2019;
- Reliance on previous assessment on whether leases are onerous instead of performing an impairment review;
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of adoption;
- The use of hindsight in determining the lease term if the contract contains an option to extend or terminate the lease.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated amortisation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of future minimum lease payments discounted using the incremental borrowing rate at 1 January 2019.

The incremental borrowing rates applied to individual leases was 3.35%. 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 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 operating and financing cash flows respectively.

The adoption of IFRS 16 into the opening balance sheet on 1 January 2019 results in an increase in assets of £3.9m and liabilities of £4.0m, which results in a reduction in net assets of £0.1m.

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

The adoption of IFRS 16 has not had a material impact on profit in 2019.

A reconciliation from the closing operating lease commitments disclosed in 2018 and the opening liability is shown below:

	£m
Undiscounted future minimum lease payments under operating leases at 31 December 2018	6.1
Impact of discounting	(0.5)
Removal of VAT operating lease calculations	(0.9)
Other reconciling items	(0.7)
Lease liability recognised on adoption at 1 January 2019	4.0

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

(a) The impact of new standards adopted by the company from 1 January 2019 (continued)

There has been no other new or amended standards adopted in the financial year beginning 1 January 2019 which had a material impact on the company.

(b) The impact of new standards not yet effective and not adopted by the company from 1 January 2019

There are no new standards not yet effective and not adopted by the company from 1 January 2019 which are expected to have a material impact on the company.

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.

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 bespoke 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.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

Property, plant and equipment (continued)
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.

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.

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

- Fixed lease payments;
- Variable lease payments;
- 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 effective interest rate method, and reducing the carrying amount to reflect the lease payments made.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Leases (continued)
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;
- 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.

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 statement of comprehensive income and presented within finance costs and administrative and operating costs respectively.

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 shareholders.
Interim dividend: when approved by the company's shareholders.

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.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Retirement benefits (continued)
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.

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.

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 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.

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 previously granted 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 or TSR compared to a comparator group. 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.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 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 substantively 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 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.

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 terminal growth rate of 2% differs by 1% the valuation would differ by £13m. To the extent that the discount growth rate of 11% differs by 1% the valuation would differ by £21m. To the extent the cash flows used in the calculation differ by 5% the valuation would differ by £15m.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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. As at 31 December 2019, the group's committed borrowing facilities had a weighted average period to maturity of 2.2 years (2018: 2.3 years) and the headroom on these committed facilities amounted to £69.1m (2018: £327.4m).

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the group's borrowings extend over a number of years. The group's funding strategy is to maintain diversification in its funding and, as such, currently accesses three main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; and (iii) retail deposits which fully funds the ring-fenced Vanquis Bank. The group will continue to explore further funding options as appropriate, including but not limited to the refinancing of the syndicated revolving bank facility securitisation of receivable assets and further private placements and institutional bond issuance.

The group also successfully signed a bilateral securitisation facility with NatWest Markets to fund Moneybarn business flows on 14 January 2020. The new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months.

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 and financial statements 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.

(b) Interest rate risk (continued)
A 2% movement in the interest rate applied to borrowings during 2019 and 2018 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.

(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.

(e) Brexit
The economic outlook post Brexit remains uncertain and has led to a significant amount of instability in the UK economy and capital markets, albeit unemployment levels have remained stable and there has not been any significant impact on the group's businesses to date.

Despite any potential second order risks of Brexit, the group has proven resilient during previous economic downturns due to the specialist business models deployed by its divisions which are tailored to serving non-standard customers. In addition, all four of the group's businesses – Vanquis Bank, Moneybarn, Provident home credit and Satsuma - have tightened underwriting over the last three years in advance of a potential weakening in the UK economy.

The group's only direct exposure to the EU is the home credit operation in the Republic of Ireland. This represents c.15% of the home credit business and is, therefore, relatively immaterial to the group as a whole. The foreign exchange exposure to the Republic of Ireland operation is hedged through a net investment hedge.

The group has current committed facilities to fund growth and contractual maturities until mid-2022, when the current syndicated bank facility is due to mature, assuming ongoing access to retail deposits to fully fund Vanquis Bank. No effect is anticipated on Vanquis Bank's ability to access retail deposits, although it maintains a minimum operational buffer over its liquid requirements stipulated by the PRA to withstand any short-term disruption. In line with the group's treasury policy, the group will seek to refinance the current syndicated revolving bank facility no less than 12 months in advance of its maturity. The group's lending banks are predominantly UK based, have supported the group for many years and have broader relationships through ancillary business such as transactional banking. In the event of a prolonged period of market disruption and the closure of debt capital markets, then the group has the ability to manage receivables growth and/or dividend flows.

The group maintains regulatory capital headroom in excess of £50m, in line with the Board's risk appetite. Despite the need to absorb the continued transitional arrangements of IFRS 9, this headroom, together with the regulatory prescribed buffers, should be sufficient to withstand a potential downturn in economic conditions caused by Brexit.

(f) Covid-19

The group Board, directors and management have focused on the group's principal risks throughout the first half of 2020 in response to the changing and challenging operational environment as a result of Covid-19. This was essential to ensure the principal risks were appropriately managed and further mitigated where possible. The response through the first half, and planned approach for the remainder of the 2020 financial year, are:

Capital risk

The 2019 final dividend was not proposed for approval at the group's AGM in May to preserve both cash and capital. Future dividend decisions will be made as and when conditions normalise. A reduction in customer receivables, combined with tighter underwriting impairment provisioning has increased surplus capital held. When combined with the reduction in countercyclical buffer and increased dynamic provisions, through relief for Covid-19 related provisions, the group's surplus regulatory capital has increased from £117m at 31 December 2019 to £215.0m at 30 June 2020.

Liquidity and funding risk

The group was able to raise additional liquidity rapidly through April and May resulting in headroom on committed facilities and surplus cash and liquid resources increasing to approximately £1.2bn in May to mitigate risk of operational disruption and utilisation of undrawn credit facilities in fellow group subsidiary, Vanquis Bank. £1bn of surplus liquidity continues to be held to mitigate against any ongoing risk.

Operational, people, business resilience and information and data security risk

All divisions had to adapt rapidly and introduce new ways of working in response to Covid-19. The response was swift and effective, enabling us to continue supporting our customers whilst ensuring the safety and wellbeing of our colleagues. This support has enabled colleagues from across the group to have the necessary equipment to work remotely. The provisions to work remotely have proved to be effective and therefore the measures will remain in place for the short to medium-term. Colleagues will return to working from the Group's offices when this is deemed to be safe and operationally viable.

Regulatory and conduct risk

The group has worked closely with its regulators through the first half to ensure customers could continue to be served responsibly, recognising that many of these are vulnerable. This has included offering payment holidays and other forbearance where appropriate. There continues to be heightened Claims Management Company (CMC) activity in relation to non-standard lending, particularly in respect of irresponsible lending in high-cost credit and more recently in home credit. As a result, CCD has seen an increase in the number of such complaints during 2020. An increasing proportion of complaints are being managed internally, reducing referrals to the FOS. CCD continues to robustly defend inappropriate or unsubstantiated claims.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS

1 Revenue

	2019	2018
	£m	£m
Provision of management services	99.4	143.2

2 Finance costs

	2019	2018
	£m	£m
Interest payable to other group undertakings	12.1	12.7
Lease liabilities finance costs	0.5	-
Total	12.6	12.7

3 Loss before taxation

	2019	2018
	£m	£m
Loss before taxation is stated after charging:		
Amortisation of intangible assets:		
- computer software (note 7)	3.9	8.3
Loss on disposal of intangible assets (note 7)	0.9	-
Depreciation of tangible assets:		
- property, plant and equipment (note 8)	1.3	3.0
Operating lease rentals:		
- property	0.9	2.3
Depreciation of right of use assets (note 9)	1.3	-
Lease liability finance costs (note 2)	0.5	-
Employment costs (prior to exceptional redundancy costs) (note 6(b))	33.6	48.7
Exceptional item - impairment of investments in subsidiaries (note 10)	185.0	-
Exceptional item - restructuring costs	0.4	10.2
Exceptional loss on disposal of intangible assets (note 7)	1.9	12.8
Exceptional loss on disposal of tangible assets (note 8)	0.1	1.0
Exceptional redundancy costs (note 6(b))	7.0	4.9

Exceptional costs in 2019 of £194.4m reflect: (i) an impairment charge of £185.0m against the investment held in the subsidiary undertaking, Provident Personal Credit Limited (‘PPC’), following the significant losses incurred in PPC since 2017 following the poor execution of the migration to the employed home credit operating model in 2017; (ii) redundancy costs of £7.0m following the voluntary redundancy programme in the company in January 2019 which reduced headcount by approximately 200; and (iii) £2.4m in respect of the ongoing turnaround of the home credit business including £2.0m of asset write off.

Exceptional costs in 2018 of £28.9m reflect: (i) £24.0m in respect of intangible and tangible asset write offs and consultancy costs associated with the implementation of the recovery plan following the poor execution of the migration to the employed home credit operating model in 2017; and (ii) redundancy costs of £4.9m following the rationalisation of the home credit central support functions, with approximately 70 employees made redundant by the end of March 2018.

Auditor's remuneration payable to Deloitte LLP in respect of the audit of the company's financial statements totalled £137,000 (2018: £77,000). Auditor's remuneration to Deloitte LLP in respect of other services was £nil (2018: £nil).

4 Tax credit

Tax credit in the income statement	2019 £m	2018 £m
Current tax	1.1	1.6
Deferred tax (note 14)	0.4	-
Total tax credit	1.5	1.6

During 2015, changes in corporation tax rates were enacted, reducing the mainstream 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 mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2019 have been measured at 17% (2018: 17%) to the extent that the temporary differences on which the deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 1 April 2020). In 2019, movements in the deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19% (2018: 19%). A tax charge in 2019 of £nil (2018: £nil) represents the income statement adjustment to deferred tax as a result of these changes.

The rate of tax credit on the loss before taxation for the year is lower than (2018: higher than) the average standard rate of corporation tax in the UK of 19% (2018: 19%). This can be reconciled as follows:

	2019 £m	2018 £m
Loss before taxation	(193.2)	(7.8)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 19% (2018: 19%)	36.7	1.5
Effect of:		
- impact of non deductible write down of investment	(35.1)	-
- adjustment in respect of prior years	(0.1)	0.1
Total tax credit	1.5	1.6

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 £35.1m (2018: £nil).

5 Directors' remuneration

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

	2019	2018
	£m	£m
Short-term employee benefits	1.4	1.3
Termination benefits	-	0.2
Post-employment benefits	-	0.1
Share-based payment	0.2	-
Total	1.6	1.6

The directors' emoluments disclosed above exclude the emoluments of M J Le May and S G Thomas, 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 2019 amounted to £8.8m (2018: £8.5m), 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 M J Le May and S G Thomas' emoluments. The emoluments of these directors are disclosed in the annual report and financial statements of Provident Financial plc.

Retirement benefits accrue to no directors under a self-invested personal pension arrangement (2018: two) and one director under a money purchase scheme (2018: four). Four directors were entitled to shares under the Provident Financial plc share option/award arrangements (2018: three). During the year awards vested for no directors (2018: none).

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

	2019	2018
	£m	£m
Short-term employee benefits	1.2	0.6
Share-based payment	0.2	-
Total	1.4	0.6

The above director did not accrue any benefits under a defined benefit pension arrangement during the year (2018: £nil). The above director did not exercise share options/awards during the year but did receive awards under share incentive schemes.

6 Employee information

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

	2019 Number	2018 Number
Commercial	20	36
Directors and administrative support	15	30
Finance	79	95
Home credit support services	226	277
Human resources	83	95
Risk	199	233
Technology and change	161	215
Total	783	981
Analysed as:		
Full time	697	888
Part time	86	93
Total	783	981

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

	2019 £m	2018 £m
Aggregate gross wages and salaries paid to the company's employees	27.1	37.6
Employer's National Insurance contributions	3.4	4.6
Pension charge (note 13)	3.1	5.5
Share-based payment charge (note 17)	-	1.0
Total employment costs prior to exceptional redundancy costs	33.6	48.7
Exceptional redundancy costs (note 3)	7.0	4.9
Total employment costs	40.6	53.6

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

The share-based payment charge of £nil (2018: £1.0m) relates to equity-settled schemes charge of £0.1m (2018: £0.5m) and cash-settled schemes credit of £0.1m (2018: charge of £0.5m).

7 Intangible assets

	Computer software	
	2019	2018
	£m	£m
Cost		
At 1 January	74.1	93.8
Additions	1.1	3.7
Disposals	(12.6)	-
Exceptional disposals	(5.6)	(23.4)
At 31 December	57.0	74.1
Accumulated amortisation and impairment		
At 1 January	64.8	67.1
Charged to the statement of comprehensive income	3.9	8.3
Disposals	(11.7)	-
Exceptional disposals	(3.7)	(10.6)
At 31 December	53.3	64.8
Net book value at 31 December	3.7	9.3
Net book value at 1 January	9.3	26.7

Intangible assets within the company represent externally purchased bespoke 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.

The loss on disposal of intangible assets in 2019 amounted to £2.8m (2018: £12.8m) and represented proceeds received of £nil (2018: £nil) less the net book value of disposals of £2.8m (2018: £12.8m). This includes an exceptional disposal of £1.9m (2018: £12.8m) in respect of software development costs associated with the ongoing turnaround of the home credit business.

8 Property, plant and equipment

	Equipment and vehicles	
	2019	2018
	£m	£m
Cost		
At 1 January	32.2	35.6
Additions	0.4	0.7
Disposals	(11.5)	(1.9)
Exceptional disposals	(0.8)	(1.8)
Transfers to other group undertakings	0.1	(0.4)
At 31 December	20.4	32.2
Accumulated depreciation and impairment		
At 1 January	28.3	27.7
Charged to the statement of comprehensive income	1.3	3.0
Disposals	(9.9)	(1.4)
Exceptional disposals	(0.7)	(0.8)
Transfers to other group undertakings	-	(0.2)
At 31 December	19.0	28.3
Net book value at 31 December	1.4	3.9
Net book value at 1 January	3.9	7.9

The loss on disposal of property, plant and equipment in 2019 amounted to £0.1m (2018: £1.0m) and represented proceeds received of £1.6m (2018: £0.5m) less the net book value of disposals of £1.7m (2018: £1.5m). This includes an exceptional disposal of £0.1m (2018: £1.0m) in respect of hardware associated with the ongoing turnaround of the home credit business.

9 Right of use assets

	£m
Cost	
At 1 January 2019 - recognised on adoption of IFRS 16	3.9
Additions	0.5
Disposals	(0.3)
At 31 December 2019	4.1
Accumulated depreciation	
At 1 January 2019	-
Charged to the statement of comprehensive income	1.3
Disposals	(0.1)
At 31 December 2019	1.2
Net book value at 31 December 2019	2.9
Net book value at 1 January 2019	3.9

All right of use assets relate to property leases.

10 Investments in subsidiaries

	2019 £m	2018 £m
Cost		
At 1 January	800.3	800.3
At 31 December	800.3	800.3
Accumulated impairment losses		
At 1 January	500.3	500.3
Charge to the statement of comprehensive income	185.0	-
At 31 December	685.3	500.3
Net book value at 31 December	115.0	300.0
Net book value at 1 January	300.0	300.0

In 2019 a full review was undertaken of the company's £300.0m investment in Provident Personal Credit Limited (PPC), following the losses incurred within the subsidiary since 2017. As a result of this review, the investment in PPC of £300.0m was impaired and an exceptional charge of £185.0m was taken to the company's statement of comprehensive income in 2019. The remaining investment value of £115.0m 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 IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

			2019
	Amortised cost	Non-financial assets/ liabilities	Total
	£m	£m	£m
Assets			
Investments in subsidiaries	-	115.0	115.0
Trade and other receivables	95.2	-	95.2
Property, plant and equipment	-	1.4	1.4
Right of use assets	-	2.9	2.9
Intangible assets	-	3.7	3.7
Deferred tax assets	-	2.2	2.2
Current tax assets	-	1.5	1.5
Total assets	95.2	126.7	221.9
Liabilities			
Trade and other payables	(217.6)	-	(217.6)
Lease liabilities	(3.0)	-	(3.0)
Total liabilities	(220.6)	-	(220.6)

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

			2018
	Amortised cost	Non-financial assets/ liabilities	Total
	£m	£m	£m
Assets			
Investments in subsidiaries	-	300.0	300.0
Trade and other receivables	102.9	-	102.9
Property, plant and equipment	-	3.9	3.9
Intangible assets	-	9.3	9.3
Deferred tax assets	-	1.8	1.8
Total assets	102.9	315.0	417.9
Liabilities			
Trade and other payables	(224.4)	-	(224.4)
Current tax liabilities	-	(0.5)	(0.5)
Total liabilities	(224.4)	(0.5)	(224.9)

12 Trade and other receivables

Current assets	2019 £m	2018 £m
Other receivables	0.9	0.8
Amounts owed by ultimate parent undertaking	64.0	41.4
Amounts owed by subsidiary undertakings	27.5	48.2
Amounts owed by fellow subsidiary undertakings	0.3	8.2
Prepayments and accrued income	2.5	4.3
Total	95.2	102.9

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 (2018: £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.

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 also provides death benefits.

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 2019 these contributions amounted to £0.9m (2018: £3.0m). The expected contributions to the defined benefit pension scheme in the year ending 31 December 2020 are approximately £1.2m. 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 2019, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded in the group's financial statements. The most recent actuarial valuation of the scheme was carried out as at 1 June 2018 by a qualified independent actuary. The valuation used for the purposes of IAS 19 ‘Employee benefits’ has been based on the results of the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet.

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

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:

	Group			
	2019		2018	
	£m	%	£m	%
Equities	76.4	9	62.6	8
Other diversified return seeking investments	-	-	71.5	9
Corporate bonds	219.3	26	136.0	17
Fixed interest gilts	252.9	30	177.3	22
Index-linked gilts	284.8	34	334.4	43
Cash and money market funds	9.2	1	6.5	1
Total fair value of scheme assets	842.6	100	788.3	100
Present value of funded defined benefit obligations	(764.6)		(704.4)	
Net retirement benefit asset recognised in the balance sheet	78.0		83.9	

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

	Group	
	2019	2018
	£m	£m
Fair value of scheme assets at 1 January	788.3	835.5
Interest on scheme assets	21.9	19.9
Actuarial movement on scheme assets	67.4	(31.3)
Contributions by the group	2.6	9.8
Net benefits paid out	(37.6)	(45.6)
Fair value of scheme assets at 31 December	842.6	788.3

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

	Group	
	2019	2018
	£m	£m
Present value of the defined benefit obligation at 1 January	(704.4)	(733.2)
Current service cost	(1.7)	(2.7)
Interest on scheme liabilities	(19.5)	(17.4)
Exceptional plan amendment	-	(6.9)
Exceptional curtailment credit	0.5	0.6
Actuarial movement - experience	0.1	(9.1)
Actuarial movement - demographic assumptions	19.9	(31.4)
Actuarial movement - financial assumptions	(97.1)	50.1
Net benefits paid out	37.6	45.6
Present value of defined benefit obligation at 31 December	(764.6)	(704.4)

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

	Group	
	2019	2018
	%	%
Price inflation - RPI	2.95	3.30
Price inflation - CPI	2.05	2.20
Rate of increase to pensions in payment	2.70	3.00
Inflationary increase to pensions in deferment	2.10	2.20
Discount rate	2.00	2.80

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	
	2019	2018
	%	%
Discount rate decreased by 0.1%	14	12
Inflation increased by 0.1%	6	5
Life expectancy increase by 1 year	38	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 group also operates a separate pension scheme for auto-enrolment into which the company contributes a proportion of qualifying earnings of the member of 1%.

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 £2.2m for the year ended 31 December 2019 (2018: £2.5m). No contributions were payable to the fund at the year end (2018: £nil).

The company made no contributions into personal pension plans in the year (2018: £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 mainstream UK 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 mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax at 31 December 2019 has been measured at 17% (2018: 17%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 1 April 2020). In 2019, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19% (2018: 19%). A tax charge in 2019 of £nil (2018: £nil) represents the income statement 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:

	2019	2018
Asset	£m	£m
At 1 January	1.8	1.8
Credit to the income statement (note 4)	0.4	-
At 31 December	**2.2**	**1.8**

14 Deferred tax (continued)

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

	2019			2018		
	Accelerated capital allowances	Other temporary differences	Total	Accelerated capital allowances	Other temporary differences	Total
	£m	£m	£m	£m	£m	£m
At 1 January	1.5	0.3	1.8	1.8	-	1.8
Credit to the income statement	0.2	0.2	0.4	(0.3)	0.3	-
At 31 December	1.7	0.5	2.2	1.5	0.3	1.8

Deferred tax is a future tax liability or asset resulting from temporary differences or timing difference between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of deductions for employee share awards which are recognised differently for tax purposes, property, plant and equipment which is depreciated on a different basis for tax purposes and certain cost provisions for which tax deductions are only available when the costs are paid and the opening balance sheet adjustment in respect of the adoption of IFRS 16 which is deductible over the average period of the relevant leases.

Since the year end it has been announced that the mainstream rate of corporation tax in the UK will not reduce to 17% with effect from 1 April 2020 and will instead remain at 19%, refer to note 23.

15 Trade and other payables

Current liabilities	2019 £m	2018 £m
Trade payables	1.0	1.4
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	0.7	1.2
Accruals	7.4	13.3
Total	217.6	224.4

The fair value of trade and other payables equates to their book value (2018: 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 generally accrue interest at rates linked to LIBOR.

16 Share capital

		2019		2018	
		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 (2018: 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.

During 2019, awards/options have been granted under the SAYE and LTIS schemes (2018: SAYE and LTIS schemes).

(a) Equity-settled schemes

The charge to the statement of comprehensive income during the year was £0.1m (2018: charge of £0.5m) for equity settled schemes. The assumptions to consider the appropriate fair values of options are outlined below:

	2019		2018	
	LTIS	SAYE	LTIS	SAYE
Grant date	01-Apr-19	08-Oct-19	16-Apr-18	04-Oct-18
Share price at grant date (£)	5.17	3.87	6.85	5.90
Exercise price (£)	-	3.23	-	5.38
Shares awarded/under option (number)	291,507	607,364	219,388	137,728
Vesting period (years)	3	3 and 5	3	3 and 5
Expected volatility	74.1%	68.0% to 84.9%	82.6%	65.8% to 83.3%
Award/option life (years)	3	Up to 5	3	3 and 5
Expected life (years)	3	Up to 5	3	3 and 5
Risk-free rate	0.66%	0.2% to 0.3%	0.82%	0.99% to 1.22%
Expected dividends expressed as a dividend yield	n/a	3.00%	n/a	3.00%
Fair value per award/option (£)	4.69	0.38 to 0.76	-	2.61 to 3.36

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.

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

	PSP		LTIS		SAYE	
2019	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	10,146	-	277,884	-	851,212	5.22
Granted	-	-	291,507	-	607,364	3.23
Lapsed	(5,859)	-	(34,919)	-	(723,285)	5.20
Exercised	(2,803)	-	-	-	(4,782)	5.01
Outstanding at 31 December	1,484	-	534,472	-	730,509	3.64
Exercisable at 31 December	-	-	-	-	1,524	15.77

17 Share-based payments (continued)

(a) Equity-settled schemes (continued)

	PSP		LTIS		SAYE	
2018	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	23,625	-	113,413	-	736,457	7.26
Adjustment from Rights Issue	3,012	-	-	-	227,258	-
Granted	-	-	219,388	-	137,728	5.38
Lapsed	-	-	(14,934)	-	(237,260)	7.68
Exercised	(16,491)	-	(39,983)	-	(12,971)	5.15
Transferred	-	-	-	-	-	-
Outstanding at 31 December	10,146	-	277,884	-	851,212	5.22
Exercisable at 31 December	-	-	-	-	9,249	11.10

Share awards outstanding under the LTIS scheme at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 1.8 years (2018: 1.9 years). Share options outstanding under the SAYE schemes at 31 December 2019 had exercise prices ranging from 323p to 1,760p (2018: 501p to 1,760p) and a weighted average remaining contractual life of 3.0 years (2018: 2.6 years). Share awards outstanding under the PSP schemes at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 0.2 years (2018: 0.5 years).

(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 2019 was £0.1m (2018: charge of £0.5m) and the company has a liability of £0.5m as at 31 December 2019 (2018: £0.6m).

18 Lease liabilities

	2019 £m
Current	2.0
Non-current	1.0
Total	3.0

A maturity analysis of the lease liabilities is shown below:

	2019 £m
Due within one year	1.1
Due between one and five years	1.7
Due in more than five years	0.6
Total	3.4
Unearned finance cost	(0.4)
Total lease liabilities	3.0

The total cash outflow for leases in the year amounted to £2.1m for the company, including short-term lease cash outflows of £0.6m. At 31 December 2019, the company is also committed to £0.3m for short-term 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:

	2019			2018		
	Management recharge £m	Interest charge £m	Outstanding balance £m	Management recharge £m	Interest charge £m	Outstanding balance £m
Ultimate parent undertaking	8.5	(0.5)	64.0	10.0	(0.3)	41.4
Subsidiary undertakings	(95.7)	12.6	(172.5)	(139.7)	13.0	(151.8)
Other group undertakings	(0.5)	-	(8.2)	(0.4)	-	(0.3)
Total	(87.7)	12.1	(116.7)	(130.1)	12.7	(110.7)

The outstanding balance represents the gross intercompany balance receivable to/(payable by) the company.

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 £691.8m (2018: £961.5m). At 31 December 2019, the borrowings amounted to £618.3m (2018: £623.8m). No loss is expected to arise.

21 Reconciliation of loss after taxation to cash generated from operations

	Note	2019 £m	2018 £m
Loss after taxation		(191.7)	(6.2)
Adjusted for:			
- tax credit	4	(1.5)	(1.6)
- finance costs	2	12.6	12.7
- share-based payment charge	17	0.1	0.5
- amortisation of intangible assets	7	3.9	8.3
- loss on disposal of intangible assets	7	0.9	-
- exceptional loss on disposal of intangible assets	7	1.9	12.8
- depreciation of property, plant and equipment	8	1.3	3.0
- exceptional loss on disposal of property, plant and equipment	8	0.1	1.0
- depreciation of right of use assets	9	1.3	-
- exceptional impairment of investments in subsidiaries	10	185.0	-
Changes in operating assets and liabilities:			
- trade and other receivables		6.8	(19.6)
- trade and other payables		(6.8)	5.7
Cash generated from operations		13.9	16.6

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.

23 Post balance sheet event

Covid -19

For January, February and the first three weeks of March, the group made good progress against many of its key objectives and Key Performance Indicators (KPIs) were tracking in line, if not marginally ahead, of those seen in 2019. Then, from the 23 March 2020, the UK Government ordered that all non-essential travel and activities should cease immediately because of the threat posed by Covid-19. This meant that CCD had to adapt rapidly and introduce new ways of working. The response was swift and effective, enabling CCD to continue to support customers whilst ensuring the safety of colleagues.

The company forms part of CCD, trading as Provident home credit and Satsuma online loans; CCD was on track to break even during 2020 prior to Covid-19. It is still the group's intention to return this business to standalone profitability, albeit the timing of this has been delayed. The strategy for CCD will be to focus on leveraging efficiency in serving its customers, while continuing to be underpinned by a relationship model, and offering customer choice.

For the first six months, CCD reported an adjusted loss before tax of £37.6m, down from a loss for H1'19 of £15.1m but significantly better than internal plans. The loss for the period reflects lower net revenue being partially offset by a lower cost base.

23 Post balance sheet event (continued)

The home credit business responded to the challenges presented by Covid-19 by introducing several new ways of working, in order to adapt and continue supporting its customers. Home credit field-based colleagues are able to offer lending and collections services on a fully remote basis including: taking repayments online, over the phone or via an Allpay card, managing loan applications remotely to new, existing or returning customers, offering Provident Direct and utilising central collections activity to support with a particular focus on later-stage arrears. As lockdown restrictions have eased, some field-based colleagues have been able to make home visits again since mid-June onwards. However, they are only able to do so when agreed in advance with the customer.

The home credit team implemented a process to help identify customers indicating that they have been impacted by Covid-19 and whose circumstances have changed as a result. At the end of June, there were c.8.5k customers on a payment holiday as a result which equates to around 3% of customers and 1% of receivables. In Satsuma, payment holiday take-up at the end of June represented around 3% of customers and 4% of receivables.

The significant operational changes outlined above have enabled new ways of working and our CEMs have become more efficient as a result and are more effectively aligned to customer preferences. Alongside that, the reduction in customer numbers and receivables have led to more immediate cost base action being necessary. At the end of July, home credit launched a consultation period with a view to removing around 300 Customer Experience Managers (‘CEMs’) and CSMs. The proposal is to replace the CEMs/CSMs role with a new Customer Representative (‘CR’) role, reporting to Business Managers. The proposed CR role will also see the introduction of a higher level of variable remuneration.

Change in corporation tax rate
In 2016 a change in the UK mainstream rate of corporation tax was enacted reducing the rate to 17% with effect from 1 April 2020. Subsequently, at the March 2020 Budget it was announced that this reduction to 17% would no longer take place, and the mainstream rate of corporation tax would be maintained at 19%.

As the 17% rate of mainstream corporation tax was the enacted rate at the reporting date, the 17% rate has been applied in calculating the deferred taxation balances reflected in the accounts. The cancellation of the rate reduction resulted in the company’s deferred tax asset increasing by £0.2m in March 2020.