

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

CONTENTS

	Page
Directors' report	1
Strategic report	3
Directors' responsibilities statement	5
Independent auditor's report	6
Statement of comprehensive income	9
Balance sheet	10
Statement of changes in shareholder's equity	11
Statement of cash flows	11
Statement of accounting policies	12
Financial and capital risk management report	17
Notes to the financial statements	19

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.

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 2018, the company provided management services of £143.2m (2017: £118.2m).

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 9. The loss for the year of £6.2m (2017: £517.2m) has been deducted from reserves. The company's profit before taxation and exceptional items in 2018 was £21.1m compared to a loss before taxation and exceptional items of £15.2m in 2017.

Dividends

The directors are unable to recommend the payment of a final dividend in 2018 (2017: £nil).

Directors

The directors of the company during the year ended 31 December 2018, all of whom were directors for the whole year then ended, and to the date of this report, except where stated, were:

M J Le May	Chairman	
C D Gillespie		
E C Thornhill		(Appointed 14 February 2018)
S G Thomas		(Appointed 3 December 2018)
L D Enock		(Resigned 1 February 2018)
P A McLelland		(Resigned 9 February 2018)
S W Sinclair		(Resigned 21 September 2018)
A C Fisher		(Resigned 3 December 2018)

Consolidation exemption

The company is not required to produce consolidated financial statements for its subsidiaries as the ultimate parent of the company, Provident Financial plc, produces 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 17 and 18.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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

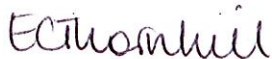
In accordance with section 418 of the Companies Act 2006, each person who is a director at the date of this report confirmed that:

- 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
28 March 2019

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 2018 was £21.1m. In 2017, the company's loss before taxation and exceptional costs was £15.2m.

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 new 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.

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

Revenue recognised through the provision of management services to other group undertakings of £143.2m is 21.2% higher than the prior year comparative (2017: £118.2m), broadly consistent with the costs detailed below.

Administrative and operating costs of £138.3m in 2018 are 19.1% higher than the prior year costs of £116.1m having removed the exceptional impairment charge of £500.3m in 2017.

The rationalisation of the home credit central support functions within the company announced in January 2018 was completed by the end of the first quarter; approximately 70 employees in the Bradford head office were made redundant. Together with natural attrition and vacancies not filled, this resulted in the overall headcount in the Bradford head office being some 200 lower than was originally planned when the home credit business changed operating model in July 2017.

In January 2019, the company announced a voluntary redundancy programme in central support functions with the aim of reducing central headcount by approximately a further 200. An exceptional cost of approximately £10m is expected in 2019 in relation to redundancy costs.

Regulation

Transfer of regulation to the FCA

The company received full authorisation from the FCA on 9 November 2018 following implementation of the home credit recovery plan over the previous 12 months

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STRATEGIC REPORT (CONTINUED)

Regulation (continued)

Transfer of regulation to the FCA (continued)

As a consequence of: (i) the disruption to the home credit business following the migration to the new operating model in July 2017 and the subsequent implementation of the recovery plan in response to the disruption; (ii) the FCA's investigation into fellow subsidiary undertaking Vanquis Bank's ROP; and (iii) the FCA's ongoing investigation into fellow subsidiary undertaking Moneybarn, the group is subject to enhanced supervision by the FCA as notified by the FCA Watchlist Letter. The FCA Watchlist Letter requires that the group: (i) provides the FCA with a draft of an executable wind-down plan for the group and each of the entities within the group; (ii) successfully executes the recovery plan in home credit; and (iii) completes a successful turnaround of CCD so that it is financially stable and the group can meet its funding requirements to 2020. Firms placed under enhanced supervision may be required to provide formal commitments, where appropriate, to the FCA to tackle the underlying concerns raised by the FCA and the FCA may also exercise other wide-ranging powers.

Principal risks and uncertainties

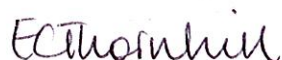
The company participates in the group-wide risk management framework of Provident Financial plc. Details of the group's risk management framework together with the group's principal risks and uncertainties are set out in the annual report and financial statements of Provident Financial plc.

Going concern

Due to the company's net current liability position at the year end, the immediate and ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for 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 12.

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
28 March 2019

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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 2018 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 22.

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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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
29 March 2019

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	2018 £m	2017 £m
Revenue	1	143.2	118.2
Finance costs	2	(12.7)	(23.5)
Administrative and operating costs		(138.3)	(616.4)
Total costs		(151.0)	(639.9)
Loss before taxation	3	(7.8)	(521.7)
Profit/(loss) before taxation and exceptional costs	3	21.1	(15.2)
Exceptional items	3	(28.9)	(506.5)
Tax credit	4	1.6	4.5
Loss and total comprehensive expense for the year attributable to the equity shareholder		(6.2)	(517.2)

All of the above operations relate to continuing operations.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

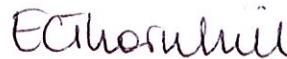
BALANCE SHEET

As at 31 December	Note	2018 £m	2017 £m
ASSETS			
Non-current assets			
Intangible assets	7	9.3	26.7
Property, plant and equipment	8	3.9	7.9
Investments in subsidiaries	9	300.0	300.0
Deferred tax assets	13	1.8	1.8
		315.0	336.4
Current assets			
Financial assets:			
- trade and other receivables	11	102.9	76.6
Current tax assets		-	4.5
		102.9	81.1
Total assets		417.9	417.5
LIABILITIES			
Current liabilities			
Financial liabilities:			
- trade and other payables	14	(224.4)	(218.8)
Current tax liabilities		(0.5)	-
Total liabilities		(224.9)	(218.8)
NET ASSETS		193.0	198.7
SHAREHOLDER'S EQUITY			
Share capital	15	257.8	257.8
Share-based payment reserve		1.1	0.9
Retained losses		(65.9)	(60.0)
TOTAL SHAREHOLDER'S EQUITY		193.0	198.7

The financial statements on pages 9 to 34 were approved by the board of directors on 28 March 2019 and signed on its behalf by:



C D Gillespie
Director



E C Thornhill
Director

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share-based payment reserve £m	Retained earnings £m	Total £m
At 1 January 2017		257.8	3.3	17.4	278.5
Loss and total comprehensive loss for the year		-	-	(517.2)	(517.2)
Transactions with owners:					
- share-based payment credit	16	-	(0.6)	-	(0.6)
- transfer of share-based payment reserve		-	(1.8)	1.8	-
- release of intercompany loan by ultimate parent		-	-	438.0	438.0
At 31 December 2017		257.8	0.9	(60.0)	198.7
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	16	-	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

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	20	16.6	40.8
Finance costs paid		(12.7)	(23.5)
Net cash generated from operating activities		3.9	17.3
Cash flows from investing activities			
Purchase of intangible assets	7	(3.7)	(14.6)
Purchase of property, plant and equipment	8	(0.7)	(3.1)
Proceeds from disposal of property, plant and equipment	8	0.5	0.4
Net cash used in investing activities		(3.9)	(17.3)
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.

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.

(a) New and amended standards adopted by the company

IFRS 9 'Financial instruments', was effective from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. The standard has been applied and had no material impact on the company.

IFRS 15 'Revenue from Contracts with Customers', has been adopted from 1 January 2018. The standard establishes the principles to determine the nature, amount and timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Recharge revenue generated by PFMS is now accounted for in accordance with IFRS 15. However, there has been no change in the recognition of revenue to the approach under IAS 18.

There has been no other new or amended standards adopted in the financial year beginning 1 January 2018 which had a material impact on the company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted:

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors. The standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees, except for short term assets and leases of low value assets.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

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

The adoption of IFRS 16 into the opening balance sheet on 1 January 2019 results in an estimated increase in assets of £3.8m and liabilities of £4.0m, which net of deferred tax of £nil results in a reduction in net assets of £0.2m.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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.

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

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

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

Cash and cash equivalents

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

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the expected life of the borrowings using the effective interest rate.

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

Dividends

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

Final dividend: when approved by the company's 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.

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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Retirement benefits (continued)

Defined contribution pension schemes (continued):

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

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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Taxation

The tax entries represent the sum of current and deferred tax.

Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the future.

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

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

Key assumptions and estimates

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

Investments in subsidiaries

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

Key sources of estimation uncertainty:

Forecast future cash flows of the subsidiary companies are in line with the group approved divisional budget. To the extent that the forecast future cash flows differ by +/- 5%, it is estimated that the investment valuation in subsidiary companies would be approximately 10% higher/lower. A terminal growth rate has been applied to the forecast future cash flows for years beyond the budget outlook. To the extent that the terminal growth rate differs by +/- 0.5%, it is estimated that the investment valuation in subsidiary companies would be approximately 6% higher/lower. Future cash flows are discounted at the risk-adjusted cost of capital at the balance sheet date. To the extent that the risk-adjusted cost of capital differs by +/- 0.5%, it is estimated that the investment valuation in subsidiary companies would be approximately 10% lower/higher.

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 2018, the group's committed borrowing facilities had a weighted average period to maturity of 2.3 years (2017: 2.2 years) and the headroom on these committed facilities amounted to £327.4m (2017: £66.2m).

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 and further private placements and institutional bond issuance.

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.

A 2% movement in the interest rate applied to borrowings during 2018 and 2017 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged. Further details of the interest rate risk management are detailed within the annual report and financial statements of Provident Financial plc.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

FINANCIAL AND CAPITAL RISK MANAGEMENT REPORT (CONTINUED)

(c) Market risk

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

(d) Capital risk

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

(e) Brexit

The UK's EU referendum on 23 June 2016 resulted in a decision to leave the EU (Brexit). The Government has so far been unable to negotiate a withdrawal deal with the EU to the satisfaction of the UK Parliament and therefore the UK may leave the EU without a withdrawal agreement.

Brexit has led to a significant amount of instability in the UK economy and capital markets over the last 30 months, 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 two 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 May 2020, 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 is in discussions with its lending banks with a view to refinancing the current syndicated revolving bank facility 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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS

1 Revenue

	2018	2017
	£m	£m
Provision of management services	143.2	118.2

2 Finance costs

	2018	2017
	£m	£m
Interest payable to other group undertakings	12.7	23.5

3 Loss before taxation

	2018	2017
	£m	£m
Loss before taxation is stated after charging:		
Exceptional item - impairment of investments in subsidiaries (note 9)	-	500.3
Exceptional item - restructuring costs	10.2	5.4
Amortisation of intangible assets:		
- computer software (note 7)	8.3	8.3
- exceptional impairment charge (note 7)	12.8	-
Depreciation of tangible assets		
- property, plant and equipment (note 8)	3.0	3.7
- exceptional impairment charge (note 8)	1.0	-
Operating lease rentals:		
- property	2.3	3.5
Employment costs (prior to exceptional redundancy costs) (note 6(b))	48.7	46.4
Exceptional redundancy costs (note 6(b))	4.9	0.8

Exceptional costs in 2018 of £28.9m reflect: (i) £24.0m in respect of intangible (£12.8m) and tangible asset write offs (£1.0m) and consultancy costs (£10.2m) associated with the implementation of the recovery plan following the poor execution of the migration to the new 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.

Exceptional costs in 2017 of £506.5m reflect: (i) an impairment charge of £500.3m against the investment held in the subsidiary undertaking, PPC, following the significant losses incurred in PPC in 2017; and (ii) exceptional costs of £6.2m in respect of redundancy (£0.8m) and consultancy costs (£5.4m) associated with the migration to the new home credit operating model in PPC and subsequent implementation of the recovery plan of the home credit division following the poor execution of the migration.

Auditor's remuneration payable to Deloitte LLP in respect of the audit of the company's financial statements totalled £77,000 (2017: £94,000). Auditor's remuneration to Deloitte LLP in respect of other services was £nil (2017: £nil).

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Tax credit

	2018	2017
	£m	£m
Tax credit in the statement of comprehensive income		
Current tax	1.6	5.1
Deferred tax (note 13)	-	(0.7)
Impact of change in UK tax rate (note 13)	-	0.1
Total tax credit	1.6	4.5

During 2015, changes 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 2018 have been measured at 17% (2017: 17%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). In 2018, movements in the deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.00% (2017: 19.25%). A tax credit in 2018 of £nil (2017: credit of £0.1m) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes.

A tax credit (2017: credit) arises on the loss (2017: loss) before taxation for the year which is higher than (2017: lower than) the average standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). This can be reconciled as follows:

	2018	2017
	£m	£m
Loss before taxation	(7.8)	(521.7)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	1.5	100.4
Effect of:		
- impact of non deductible write down of investment	-	(96.3)
- impact of permanent differences	-	(0.1)
- impact of rate change	-	0.1
- adjustment in respect of prior years	0.1	0.4
Total tax credit	1.6	4.5

In 2017, the tax impact of the write down of the cost of investment in Provident Personal Credit Limited which is not tax deductible gave rise to an adverse impact on the tax charge of £96.3m.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Directors' remuneration

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

	2018	2017
	£m	£m
Short-term employee benefits	1.3	6.4
Termination benefits	0.2	0.6
Post-employment benefits	0.1	0.2
Share-based payment (credit)	-	(0.6)
Total	1.6	6.6

The directors' emoluments disclosed above exclude the emoluments of M J Le May, S Thomas, A C Fisher and P S Crook, 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 2018 amounted to £8.5m (2017: £5.5m), 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, S Thomas, A C Fisher and P S Crook's emoluments. The emoluments of these directors are disclosed in the annual report and financial statements of Provident Financial plc.

Retirement benefits accrue to two directors under a self-invested personal pension arrangement (2017: one), no directors under a defined benefit scheme (2017: none) and four directors under a money purchase scheme (2017: four). Three directors were entitled to shares under the Provident Financial plc share option/award arrangements (2017: nine). During the year awards vested for no directors (2017: six).

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

	2018	2017
	£m	£m
Short-term employee benefits	0.6	2.2
Termination benefits	-	0.3
Share-based payment (credit)	-	(0.3)
Total	0.6	2.2

The above director did not accrue any benefits under a defined benefit pension arrangement during the year (2017: £nil). The above director did not exercise share options/awards during the year but did receive awards under share incentive schemes.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 Employee information

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

	2018 Number	2017 Number
Commercial	76	96
Directors and administrative support	55	65
Finance	53	63
Home credit support services	380	365
Human resources	68	73
Risk	125	132
Technology and change	224	252
Total	981	1,046
Analysed as:		
Full time	888	947
Part time	93	99
Total	981	1,046

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

	2018 £m	2017 £m
Aggregate gross wages and salaries paid to the company's employees	37.6	38.1
Employer's National Insurance contributions	4.6	4.2
Pension charge (note 12)	5.5	5.7
Share-based payment charge/(credit) (note 16)	1.0	(1.6)
Total employment costs prior to exceptional redundancy costs	48.7	46.4
Exceptional redundancy costs (note 3)	4.9	0.8
Total employment costs	53.6	47.2

The pension charge comprises contributions to the defined benefit and stakeholder pension plan (see note 12).

The share-based payment charge of £1.0m (2017: credit of £1.6m) relates to equity-settled schemes charge of £0.5m (2017: credit of £0.6m) and cash-settled schemes charge of £0.5m (2017: credit of £1.0m).

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Intangible assets

	Computer software	
	2018 £m	2017 £m
Cost		
At 1 January	93.8	79.2
Additions	3.7	14.6
At 31 December	97.5	93.8
Accumulated amortisation and impairment		
At 1 January	67.1	58.8
Charged to the statement of comprehensive income	8.3	8.3
Exceptional impairment charge (note 3)	12.8	-
At 31 December	88.2	67.1
Net book value at 31 December	9.3	26.7
Net book value at 1 January	26.7	20.4

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.

Amortisation of intangible assets includes an exceptional charge of £12.8m in 2018 relating to an impairment charge in respect of software development costs associated with the implementation of the recovery plan following the poor execution of the migration to the new home credit operating model in the subsidiary undertaking, Provident Personal Credit Limited, in July 2017 (2017: £nil).

8 Property, plant and equipment

	Equipment and vehicles	
	2018 £m	2017 £m
Cost		
At 1 January	35.6	34.5
Additions	0.7	3.1
Disposals	(1.9)	(2.0)
Transfers to other group undertakings	(0.4)	-
At 31 December	34.0	35.6
Accumulated depreciation and impairment		
At 1 January	27.7	25.6
Charged to the statement of comprehensive income	3.0	3.7
Disposals	(1.4)	(1.6)
Exceptional impairment charge (note 3)	1.0	-
Transfers to other group undertakings	(0.2)	-
At 31 December	30.1	27.7
Net book value at 31 December	3.9	7.9
Net book value at 1 January	7.9	8.9

The loss on disposal of property, plant and equipment in 2018 amounted to £nil (2017: £nil) and represented proceeds received of £0.5m (2017: £0.4m) less the net book value of disposals of £0.5m (2017: £0.4m).

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Property plant and equipment (continued)

Accumulated depreciation includes an exceptional charge of £1.0m in 2018 relating to an impairment charge in respect of software costs associated with the implementation of the recovery plan following the poor execution of the migration to the new home credit operating model in the subsidiary undertaking, Provident Personal Credit Limited, in July 2017 (2017: £nil).

9 Investments in subsidiaries

	2018 £m	2017 £m
Cost		
At 1 January	800.3	800.3
At 31 December	800.3	800.3
Accumulated impairment losses		
At 1 January	500.3	-
Charge to the income statement	-	500.3
At 31 December	500.3	500.3
Net book value at 31 December	300.0	300.0
Net book value at 1 January	300.0	800.3

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

The following are the subsidiary undertakings of the company.

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

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

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 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:

			IFRS 9 2018
	Amortised cost £m	Non-financial assets/ liabilities £m	Total £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)

Financial assets that were previously classified as loans and receivables under IAS 39 have been included within amortised cost under IFRS 9. However these assets were previously measured at amortised cost therefore there has been no change in the measurement basis following adoption of IFRS 9.

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

In 2017, assets and liabilities were classified under IAS 39. These classifications have not been restated.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Financial instruments (continued)

	Loans and receivables £m	Amortised cost £m	Non-financial assets £m	IAS 39 2017 Total £m
Assets				
Investments in subsidiaries	-	-	300.0	300.0
Trade and other receivables	76.6	-	-	76.6
Property, plant and equipment	-	-	7.9	7.9
Intangible assets	-	-	26.7	26.7
Deferred tax assets	-	-	1.8	1.8
Current tax assets	-	-	4.5	4.5
Total assets	76.6	-	340.9	417.5
Liabilities				
Trade and other payables	-	(218.8)	-	(218.8)
Total liabilities	-	(218.8)	-	(218.8)

11 Trade and other receivables

	2018 £m	2017 £m
Current assets		
Other receivables	0.8	1.0
Amounts owed by ultimate parent undertaking	41.4	46.5
Amounts owed by subsidiary undertakings	48.2	25.9
Amounts owed by fellow subsidiary undertakings	8.2	0.6
Prepayments and accrued income	4.3	2.6
Total	102.9	76.6

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 (2017: £nil).

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

12 Retirement benefits

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

(a) Pension schemes - defined benefit

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

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

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Retirement benefits (continued)

(a) Pension schemes - defined benefit (continued)

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

The scheme is a multi-employer scheme, sponsored by Provident Financial plc and, although the company participates in the scheme, there is no contractual agreement for charging the company a portion of the defined benefit costs of the plan as a whole. In accordance with IAS 19, 'Employee benefits', the company recognises the contributions payable in respect of its current employees in its individual financial statements, similar to the treatment of a defined contribution scheme. In 2018 these contributions amounted to £3.0m (2017: £3.2m). The expected contributions to the defined benefit pension scheme in the year ending 31 December 2019 are approximately £0.9m. 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 2018, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded in the group's financial statements.

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

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

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

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 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:

	2018		Group 2017	
	£m	%	£m	%
Equities	62.6	8	68.7	8
Other diversified return seeking investments	71.5	9	75.8	9
Corporate bonds	136.0	17	141.6	17
Fixed interest gilts	177.3	22	202.9	24
Index-linked gilts	334.4	43	341.6	41
Cash and money market funds	6.5	1	4.9	1
Total fair value of scheme assets	788.3	100	835.5	100
Present value of funded defined benefit obligations	(704.4)		(733.2)	
Net retirement benefit asset recognised in the balance sheet	83.9		102.3	

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

	Group	
	2018 £m	2017 £m
Fair value of scheme assets at 1 January	835.5	830.1
Interest on scheme assets	19.9	21.1
Actuarial movement on scheme assets	(31.3)	18.2
Contributions by the group	9.8	10.7
Net benefits paid out	(45.6)	(44.6)
Fair value of scheme assets at 31 December	788.3	835.5

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

	Group	
	2018 £m	2017 £m
Present value of the defined benefit obligation at 1 January	(733.2)	(757.7)
Current service cost	(2.7)	(4.2)
Interest on scheme liabilities	(17.4)	(19.1)
Exceptional plan amendment	(6.9)	-
Exceptional curtailment credit	0.6	3.9
Actuarial movement - experience	(9.1)	(3.7)
Actuarial movement - demographic assumptions	(31.4)	21.3
Actuarial movement - financial assumptions	50.1	(18.3)
Net benefits paid out	45.6	44.6
Present value of defined benefit obligation at 31 December	(704.4)	(733.2)

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

	Group	
	2018 %	2017 %
Price inflation - RPI	3.30	3.20
Price inflation - CPI	2.20	2.10
Rate of increase to pensions in payment	3.00	2.95
Inflationary increase to pensions in deferment	2.20	2.10
Discount rate	2.80	2.40

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 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	
	2018	2017
	%	%
Discount rate decreased by 0.1%	12	14
Inflation increased by 0.1%	5	6
Life expectancy increase by 1 year	30	30

(b) Pension schemes - defined contribution

The group operates a stakeholder pension plan into which the company contributes a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice arrangement (typically ranging between 3.0% and 8.0%).

The 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 £2.5m for the year ended 31 December 2018 (2017: £2.5m). No contributions were payable to the fund at the year end (2017: £nil).

The company made no contributions into personal pension plans in the year (2017: £nil).

13 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 corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2018 have been measured at 17% (2017: 17%) on the basis that the temporary differences on which the deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). In 2018, movements in the deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.00% (2017: 19.25%). A tax charge in 2018 of £nil (2017: credit of £0.1m) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes. The movement in the deferred tax asset during the year can be analysed as follows:

	2018	2017
Asset	£m	£m
At 1 January	1.8	2.4
Charge to the statement of comprehensive income (note 4)	-	(0.7)
Impact of change in UK tax rate:		
- credit to the statement of comprehensive income (note 4)	-	0.1
At 31 December	1.8	1.8

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Deferred tax (continued)

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

	2018			2017		
	Accelerated capital allowances £m	Other temporary differences £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 January	1.8	-	1.8	1.8	0.6	2.4
Credit/(charge) to the statement of comprehensive income	(0.3)	0.3	-	-	(0.7)	(0.7)
Impact of change in UK tax rate:						
- credit to the statement of comprehensive income	-	-	-	-	0.1	0.1
At 31 December	1.5	0.3	1.8	1.8	-	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.

14 Trade and other payables

	2018 £m	2017 £m
Current liabilities		
Trade payables	1.4	1.5
Amounts owed to ultimate parent undertaking	-	0.2
Amounts owed to subsidiary undertaking	200.0	200.0
Amounts owed to fellow subsidiary undertakings	8.5	8.5
Other payables including taxation and social security	1.2	1.2
Accruals	13.3	7.4
Total	224.4	218.8

The fair value of trade and other payables equates to their book value (2017: 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.

15 Share capital

		2018		2017	
		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 (2017: no shares).

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 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 2018, awards/options have been granted under the SAYE and LTIS schemes (2017: SAYE, LTIS and PSP schemes).

(a) Equity-settled schemes

The charge to the statement of comprehensive income during the year was £0.5m (2017: credit of £0.6m) for equity settled schemes. The assumptions to consider the appropriate fair values of options are outlined below:

	2018			2017		
	PSP	LTIS	SAYE	PSP	LTIS	SAYE
Grant date	-	16-Apr-18	04-Oct-18	24-Mar-17	24-Mar-17	29-Sep-17
Share price at grant date (£)	-	6.85	5.90	29.28	29.28	8.31
Exercise price (£)	-	-	5.38	-	-	6.85
Shares awarded/under option (number)	-	219,388	137,728	2,968	71,798	704,885
Vesting period (years)	-	3	3 and 5	3	3	3 and 5
Expected volatility	-	82.6%	65.8% to 83.3%	27.7%	27.7%	60.7% to 76.8%
Award/option life (years)	-	3	3 and 5	3	3	3 and 5
Expected life (years)	-	3	3 and 5	3	3	3 and 5
Risk-free rate	-	0.82%	0.99% to 1.22%	0.75%	0.75%	0.92% to 1.09%
Expected dividends expressed as a dividend yield	-	n/a	3.00%	n/a	n/a	3.00%
Fair value per award/option (£)	-	-	2.61 to 3.36	29.28	29.28	2.01 to 2.76

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.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Share-based payments (continued)

(a) Equity-settled schemes (continued)

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

	PSP		LTIS		SAYE	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
2018						
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

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

Share awards outstanding under the LTIS scheme at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 1.9 years (2017: 1.2 years). Share options outstanding under the SAYE schemes at 31 December 2018 had exercise prices ranging from 501p to 1,760p (2017: 662p to 2,406p) and a weighted average remaining contractual life of 2.6 years (2017: 3.3 years). Share awards outstanding under the PSP schemes at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 0.5 years (2017: 0.7 years).

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Share-based payments (continued)

(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 charge to the statement of comprehensive income in 2018 was £0.5m (2017: credit of £1.0m) and the company has a liability of £0.6m as at 31 December 2018 (2017: £0.1m).

17 Commitments

Commitments for future minimum lease payments are as follows:

	2018	2017
	£m	£m
Due within one year	2.5	2.6
Due between one and five years	2.7	3.2
Due in more than five years	0.9	0.9
Total	6.1	6.7

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

18 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:

	2018			2017		
	Management recharge	Interest charge	Outstanding balance	Management recharge	Interest charge	Outstanding balance
	£m	£m	£m	£m	£m	£m
Ultimate parent undertaking	10.0	(0.3)	41.4	7.6	10.7	46.3
Subsidiary undertakings	(139.7)	13.0	(151.8)	(115.9)	12.8	(174.1)
Other group undertakings	(0.4)	-	(0.3)	(0.2)	-	(7.9)
Total	(130.1)	12.7	(110.7)	(108.5)	23.5	(135.7)

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

19 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 £961.5m (2017: £972.6m). At 31 December 2018, the borrowings amounted to £623.8m (2017: £882.3m). No loss is expected to arise.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Reconciliation of loss after taxation to cash generated from operations

	Note	2018 £m	2017 £m
Loss after taxation		(6.2)	(517.2)
Adjusted for:			
- tax credit	4	(1.6)	(4.5)
- finance costs	2	12.7	23.5
- share-based payment charge/(credit)	16	0.5	(0.6)
- amortisation of intangible assets	7	8.3	8.3
- exceptional impairment charge of intangible assets	7	12.8	-
- exceptional impairment of investments in subsidiaries	9	-	500.3
- depreciation of property, plant and equipment	8	3.0	3.7
- exceptional impairment charge of property, plant and equipment	8	1.0	-
Changes in operating assets and liabilities:			
- trade and other receivables		(19.6)	32.6
- trade and other payables		5.7	(5.3)
Cash generated from operations		16.6	40.8

21 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.

22 Post balance sheet events

On Friday 22 February 2019, Non-Standard Finance plc announced terms of a firm all share offer to acquire the entire issued share capital of Provident Financial plc. Shareholders have given irrevocable undertakings, and letter of intent, to accept the offer, which at 28 March 2019, amount to just below 50% of the share capital. However, the transaction remains subject to a number of conditions set out in the offer.