PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

CONTENTS

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

DIRECTORS' REPORT

Provident Personal Credit 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 immediate parent to the company is Provident Financial Management Services Limited. Provident Financial plc is a public limited company, listed on the London Stock Exchange.

Principal activities

The principal activity of the company is to provide unsecured home credit loans to customers in the UK and Republic of Ireland. The company also provides unsecured online instalment loans to customers in the UK.

Results

The income statement for the year is set out on page 12. The loss for the year of £81.8m (2017: loss of £135.1m) has been deducted from reserves.

Dividends

The directors do not recommend a final dividend in 2018 (2017: £nil).

Provident Financial plc waived the right in 2018 and 2017 to receive the 5.165% dividend on the preference shares issued in 2002 and the 5.84% dividend on the preference shares issued in 2004.

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)
L D Enock		(Resigned 1 February 2018)
P A McLelland		(Resigned 9 February 2018)
S W Sinclair		(Resigned 21 September 2018)

Financial risk management

The financial and capital risk management policies of the company are set out on pages 22 to 25.

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 company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the company to ensure 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, and the initial report identified some key opportunities across the group.

DIRECTORS' REPORT (CONTINUED)

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

ECThornhill

E C Thornhill
Director
Bradford
28 March 2019

STRATEGIC REPORT

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

The result in the year reflects the strong progress in the turnaround of the home credit business following the significant disruption caused by the poorly executed migration to the new operating model in July 2017. The loss before taxation and exceptional items for the year of £89.6m compares with a loss before taxation and exceptional items of £139.6m in 2017.

Exceptional items in 2018 of £10.8m (2017: £28.8m) reflect additional interest charges of £9.2m on borrowing from the ultimate parent undertaking following the refinancing of its senior bonds, and restructuring costs of £1.6m associated with the implementation of the recovery plan to re-establish relationships with customers following the poor execution of the migration to the new home credit operating model in July 2017. Exceptional costs of £28.8m were incurred in 2017 in respect of redundancy, additional agent commission to encourage agent retention prior to the migration of the new home credit operating model, training costs associated with the migration to the new operating model, and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration.

Home credit recovery plan

The company has made excellent progress in implementing the home credit recovery plan which culminated in the company gaining full authorisation by the FCA in November 2018. The implementation of the recovery plan has required significant strengthening of the controls and processes throughout the company in 2018.

Firstly, the company now uses voice recording for all issuance of credit in the UK and the majority of collections visits, providing capability to evidence interactions with customers and oversee customer outcomes, both of which are very important in meeting regulatory requirements. It also allows the company to use the recordings for training purposes, ensuring that Customer Experience Managers (CEMs) continuously improve their service to customers.

Secondly, during the second quarter of the year, a new field structure was piloted in 20 locations which involved the introduction of a new management role, called a Business Manager, to directly manage and support CEMs in delivering the right quality of service to customers. The aim of the new structure is to better define roles and responsibilities, improve spans of control, provide greater support for CEMs in dealing with arrears and provide better structured training with a clear focus on enhancing the control environment. Following a successful pilot, including a number of branches being visited by the FCA in July, the new structure was rolled out across the field organisation in the second half of the year.

Both of these changes, together with numerous other actions undertaken by management, will allow the company to give customers the best possible service, whilst maintaining high levels of regulatory compliance.

During the implementation of the recovery plan, the performance management of field resource has been focused on managing activity and customer outcomes without the use of performance-related pay or financial objectives. However, in early March 2019, the FCA confirmed that the business can implement enhanced performance management of CEMs based on a balanced scorecard and agreed to the introduction of an element of variable performance-related pay. The scorecard will be tested for impact on customer outcomes and for calibration in an area, and then a larger region, before being deployed in full by the end of the second quarter of 2019. It is essential to improving the efficiency and effectiveness of the field organisation, both in terms of delivering consistently good customer outcomes and returning the business to run-rate profitability in due course through growing the customer base and improving collections performance.

Home credit recovery plan (continued)
Provident remains the clear market leader in the home credit market with a strong franchise and Satsuma is showing strong growth. Management believe that the operating models developed for the UK business meet the standards expected by the FCA. Importantly, the key requirements of the FCA's recent high-cost credit review can be best evidenced through the recording of customer interactions, particularly at the point of credit being issued. However, due to the events of 2017 and the subsequent need to implement the recovery plan, the customer base and receivables book has contracted significantly over the last 18 months and the business is now sub-scale. As a result, the business has two main objectives in 2019: (i) stabilising the customer base to set the business up for growth in the future; and (ii) reducing the cost base.

In respect of growth, the company saw good momentum on new customer recruitment in the last quarter of 2018 and encouragingly this has continued in early 2019. The business plans to expand the products on offer to customers in CCD in two ways during 2019. Following agreement with the FCA, the company will be trialling an enhancement of the home credit product offering during the second quarter of 2019, leveraging the capabilities in home credit and Satsuma. The product enhancement will continue to be relationship managed in the home by a CEM, but payments will be collected remotely via continuous payment authority (CPA). It is anticipated that this will allow the business to attract new and former customers who do not wish to have a weekly collections visit by a CEM and are of suitable credit quality. Secondly, as well as continuing to increase the distribution of the core Satsuma small-sum, short-term loan product, following agreement with the FCA, the business intends to undertake a trial of larger, longer duration personal loans at rates below 100% APR during the third quarter of 2019. It is believed that continued innovation in Satsuma is a crucial tool for the group to enhance its digital customer proposition, which is increasingly important in responding to ongoing changes in customer needs and preferences.

In terms of costs, the business will continue to align the cost base to the current size of the customer base. Recently, a voluntary redundancy programme was announced with a view to reducing headcount by approximately 200 in CCD's central support functions. This will mean that over the last 12 months headcount has reduced in CCD by approximately 1,000 (around 20%). Whilst redundancies are always regrettable, it is believed that the reduction in the cost base which, together with delivering growth, is necessary to achieve run-rate profitability in due course.

Financial performance
Key performance indicators for the company are detailed in the commentary below.

Customer numbers ended 2018 at 560,000, 28.2% lower than 2017 (2017: 780,000).

Home credit customer numbers in UK and ROI have reduced from 697,000 to 440,000 during 2018, reflecting two factors. Firstly, the business has not managed to reconnect with approximately 200,000 UK customers who ceased paying in the second half of 2017. This was a direct result of the damage caused to customer relationships following the poorly executed migration to the new home credit operating model in the UK in July 2017 whereby approximately 90% of customers were allocated a new CEM. Secondly, the focus of the business during implementation of the home credit recovery plan since the last quarter of 2017 has primarily been on collections performance, as opposed to customer recruitment. As a result, the number of new customers recruited in 2018 was approximately 50,000 lower than in 2017 which has resulted in the underlying home credit customer base contracting through the first three quarters of the year. The recruitment of new customers was marginally above plan in the fourth quarter and resulted in a stabilisation in the home credit customer base during the peak period.

Satsuma customer numbers have shown strong growth of 48% in 2018 to 117,000 (2017: 79,000). Satsuma has continued to experience a step-up in volumes through the ongoing improvements in the customer journey and product distribution. New business plus further lending to previous or existing customers was 50% higher than 2017 despite the progressive underwriting during 2018.

Customer numbers also include 3,000 in respect of the run-off of glo (2017: 4,000).

Financial performance (continued)

Total IFRS 9 receivables were £292.5m at December 2018 (2017: Unaudited pro forma IFRS 9 receivables of £347.4m, IAS 39 receivables of £390.6m), comprising £251.9m in respect of the home credit business (2017: Unaudited pro forma IFRS 9 receivables of £319.4m), £39.5m in respect of Satsuma (2017: Unaudited pro forma IFRS 9 receivables of £25.4m) and £1.1m in respect of the run-off of glo (2017: Unaudited pro forma IFRS 9 receivables of £2.6m).

Home credit IFRS 9 receivables have fallen by 21.1% in 2018 compared with the 36.9% reduction in customer numbers. This reflects the large impairment charge taken in 2017 on the receivables relating to the 200,000 non-paying customers that the business has not managed to reconnect with. Satsuma's receivables have shown 55.5% growth on December 2017, due to the 48% increase in customer numbers together with the continued development of further lending to good-quality customers.

IFRS 9 revenue has fallen by 29.0% in 2018, modestly higher than the 27.0% reduction in average receivables.

The annualised IFRS 9 revenue yield of 114.7% to December 2018 has reduced from 117.9% to December 2017. This reflects a reduction in home credit's revenue yield partly offset by the growth in Satsuma which has a higher revenue yield. The reduction in home credit's revenue yield reflects the treatment under IFRS 9. Revenue is now recognised by reference to the gross receivables balance for all customers other than those in default. For customers in default, revenue is recognised by reference to the net receivables balance after impairment provision. However, IFRS 9 stipulates that accounts are only reclassified for revenue recognition purposes every 6 months, in line with the company's reporting periods (30 June, 31 December). Consequently, revenue continued to be recognised through the second half of 2017 on the gross receivable attributable to the significant number of home credit customers that defaulted in the third quarter of 2017. In contrast, impairment of receivables is assessed on a weekly basis. The application of IFRS 9 through the second half of 2017 thereby produced a ratio of revenue to average receivables for home credit that was abnormally high. There has been no change to product pricing in either home credit or Satsuma over the last two years.

Finance costs before exceptional items in 2018 of £23.5m were 32.3% lower than last year (2017: £34.7m), broadly in line with the reduction in average receivables with the funding rate for the company remaining unchanged at 6.4% in 2018 (2017: 6.4%).

IFRS 9 impairment has reduced by 59.1%, over twice the rate of reduction in average receivables. This reflects: (i) the large impairment charge reflected in the second half of 2017 on the 200,000 customers who ceased paying following the poorly executed migration to the new operating model in July 2017; (ii) the improvement in collections performance following establishment of the recovery plan towards the end of 2017; and (iii) the reduction in the number of new home credit customers recruited throughout 2018. As a result, the annualised IFRS 9 impairment rate of 43.0% to December 2018 is significantly lower than 76.6% to December 2017.

The implementation of the home credit recovery plan has included a number of actions designed to improve collections performance. These include the implementation of a new arrears strategy to support field activity through centrally led letters and SMS reminders and the implementation of a new field structure. The new field structure was rolled-out in the second half of the year and includes better defined roles and responsibilities, improved spans of control, greater support for CEMs in dealing with arrears and better structured training.

The collections performance of credit originated since the fourth quarter of 2017 continues to remain broadly in line with the levels achieved prior to the change of operating model in July 2017, where the CEM has issued the credit and has ownership of the customer relationship. However, the collections performance on credit originated in quarters one to three of 2017, where the CEM typically did not originate the credit following the change in operating model, remains significantly lower than historic levels and has not shown any improvement since the first quarter of the year. Importantly, however, these balances now only represent approximately £20m of the carrying value of receivables.

Financial performance (continued)
The annualised IFRS 9 risk-adjusted margin has shown a significant improvement from 41.3% to December 2017 to 71.8% to December 2018, primarily reflecting the significant improvement in impairment.

Administrative and operating costs reduced by 2.7% to £293.3m in 2018 (2017: £301.5m). Administrative and operating costs before exceptional costs increased by 7.0% to £291.7m in 2018 (2017: £272.7m). The migration to the new operating model in the UK in July 2017 resulted in the replacement of variable agents' commission costs with fixed cost salaries. The Republic of Ireland operates a self-employed agent model. In 2018, the significant reduction in year-on-year agents' commission costs exceeded the year-on-year increase in employment costs. Whilst the business has continued to invest in field management to bolster spans of control and oversight, the number of CEMs has reduced from around 2,700 at the start of the year to around 2,100 at the end of 2018, reflecting the better alignment of customer facing resource with the active customer base; however, the capacity of the field organisation still remains capable of supporting a greater number of customers than is currently being served. The company also received significantly higher recharges from its immediate parent company, Provident Financial Management Services Limited ('PFMS'), due to the recharge of exceptional costs incurred in PFMS in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017.

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.

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.

FCA review of high-cost credit
On 18 December 2018, the FCA published CP18/43 in respect of its review of high-cost credit, including final rules and guidance in respect of home-collected credit. The rules introduce a package of reforms to raise standards in disclosure and sales practices to prevent home credit firms from offering new loans or refinancing existing loans during home visits without the customer specifically requesting it. The changes made by CCD to the home credit operating model over the last 18 months, in particular the recording of all sales interactions with customers, means that the business is able to evidence compliance with the revised requirements by the deadline of 19 March 2019.

Regulation (continued)

FCA review of creditworthiness in consumer credit

In July 2018, the FCA published its policy statement (CP18/19) entitled 'Assessing creditworthiness in consumer credit' in which the FCA set out the changes to its existing rules and guidance in this area. The FCA has amended its rules and guidance with regards to creditworthiness (which the FCA stated comprises both credit risk and affordability) and in particular, the rules introduce a new explicit definition of 'affordability risk', in which the FCA sets out the factors to be considered by firms when assessing if credit is likely to be affordable for the borrower. The rules require a more detailed creditworthiness assessment including affordability at the outset.

The final rules and guidance from PS18/19 came into effect on 1 November 2018. CCD has taken the necessary measures to meet the affordability principles arising from this review.

Irish Consumer Credit Bill on a cap on moneylenders' rates

In November 2018, a report entitled: 'Interest Rate Restrictions on Credit for Low-income Borrowers' was published by the Social Finance Foundation, an Irish government funded body set up in 2007 to provide funding for community organisations and social enterprises. The report was part-funded by the Central Bank of Ireland and called for a rate-cap to be introduced on interest and other charges and for the development of the credit union sector to provide alternative sources of credit for moneylending customers.

Following publication of the report, a private members' bill which seeks to cap moneylenders' rates at 36% APR was then debated in the Irish Parliament. The draft bill then passed its second reading and will now enter the Finance Committee stage. No date for the Finance Committee hearing has yet been published.

The company's operations in the Republic of Ireland has approximately 65,000 customers.

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

Having considered the cash flow and liquidity requirements of the company and the company's forecasts, the directors expect that the business will continue for a period of at least twelve months from the date of approval of the financial statements and the company will be able to meet its liabilities as they fall due. In addition, 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 is provided on page 15.

BY ORDER OF THE BOARD

ECThornhill

E C Thornhill
Director
Bradford
28 March 2019

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

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 PERSONAL CREDIT LIMITED
(Company Number 00146091)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PROVIDENT PERSONAL CREDIT LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Provident Personal Credit 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 income statement;
- 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 29.

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.

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.

Other information (continued)
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.

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.

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

INDEPENDENT AUDITOR’S REPORT TO THE MEMBER OF PROVIDENT PERSONAL CREDIT LIMITED (CONTINUED)

Use of our report

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Perkins (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
29 March 2019

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

INCOME STATEMENT

For the year ended 31 December	Note	IFRS 9 2018 £m	IAS 39 2017 £m
Revenue	1	339.9	448.5
Finance income	2	13.0	12.9
Total income		352.9	461.4
Finance costs	3	(32.7)	(34.7)
Impairment charges		(127.3)	(293.6)
Administrative and operating costs		(293.3)	(301.5)
Total costs		(453.3)	(629.8)
Loss before taxation	4	(100.4)	(168.4)
Loss before taxation and exceptional items	4	(89.6)	(139.6)
Exceptional items	4	(10.8)	(28.8)
Tax credit	5	18.6	33.3
Loss for the year attributable to the equity shareholder		(81.8)	(135.1)

All of the above operations relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	IFRS 9 2018 £m	IAS 39 2017 £m
Loss for the year attributable to the equity shareholder		(81.8)	(135.1)
Other comprehensive income:			
- fair value movement on cash flow hedges	12	-	0.2
- exchange differences on translation of foreign operations		-	(0.3)
Other comprehensive loss for the year		-	(0.1)
Total comprehensive loss for the year		(81.8)	(135.2)

PROVIDENT PERSONAL CREDIT LIMITED
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BALANCE SHEET

As at 31 December	Note	IFRS 9 2018 £m	IAS 39 2017 £m
ASSETS			
Non-current assets			
Property, plant and equipment	9	6.9	8.3
Financial assets:			
- amounts receivable from customers	10	29.3	51.3
Deferred tax assets	15	7.8	0.7
		44.0	60.3
Current assets			
Financial assets:			
- amounts receivable from customers	10	263.2	339.3
- trade and other receivables	13	230.6	203.1
- cash and cash equivalents	16	10.6	12.3
Current tax assets		19.2	35.2
		523.6	589.9
Total assets		567.6	650.2
LIABILITIES			
Current liabilities			
Financial liabilities:			
- trade and other payables	18	(473.7)	(438.9)
		(473.7)	(438.9)
Non-current liabilities			
Financial liabilities			
- preference shares	19	(0.3)	(0.3)
		(0.3)	(0.3)
Total liabilities		(474.0)	(439.2)
NET ASSETS		93.6	211.0
SHAREHOLDER'S EQUITY			
Share capital	20	71.5	71.5
Share premium		1.0	1.0
Other reserves	22	0.4	0.4
Retained earnings		20.7	138.1
TOTAL SHAREHOLDER'S EQUITY		93.6	211.0

The financial statements on pages 12 to 46 were approved by the board of directors on 28 March 2019 and signed on its behalf by:

ECThornhill

C D Gillespie
Director

E C Thornhill
Director

PROVIDENT PERSONAL CREDIT LIMITED
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STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2017		71.5	1.0	0.3	73.5	146.3
Loss for the year		-	-	-	(135.1)	(135.1)
Other comprehensive income:						
- fair value movement on cash flow hedges	12	-	-	0.2	-	0.2
- exchange differences on translation of foreign operations		-	-	-	(0.3)	(0.3)
Other comprehensive income/(expense) for the year		-	-	0.2	(0.3)	(0.1)
Total comprehensive income/(expense) for the year		-	-	0.2	(135.4)	(135.2)
Transactions with owners:						
- share-based payment credit	21	-	-	(0.1)	-	(0.1)
- release of intercompany loan by ultimate parent		-	-	-	200.0	200.0
At 31 December 2017		71.5	1.0	0.4	138.1	211.0
Impact of adoption of IFRS 9 'Financial instruments'	27	-	-	-	(35.6)	(35.6)
At 1 January 2018		71.5	1.0	0.4	102.5	175.4
Loss and total comprehensive expense for the year		-	-	-	(81.8)	(81.8)
At 31 December 2018		71.5	1.0	0.4	20.7	93.6

Other reserves are further analysed in note 22.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	26	17.8	25.3
Finance costs paid		(32.7)	(34.7)
Finance income received		13.0	12.9
Tax paid		1.4	(1.6)
Net cash (used in)/generated from operating activities		(0.5)	1.9
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(1.7)	(7.1)
Proceeds from disposal of property, plant and equipment	9	0.5	0.6
Net cash used in investing activities		(1.2)	(6.5)
Net decrease in cash, cash equivalents and overdrafts		(1.7)	(4.6)
Cash, cash equivalents and overdrafts at beginning of year		12.3	16.9
Cash, cash equivalents and overdrafts at end of year		10.6	12.3
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand	16	10.6	12.3
Total cash, cash equivalents and overdrafts		10.6	12.3

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, as modified by the revaluation of derivative financial instruments to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the company's accounting policies.

The company's principal accounting policies under 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', has been adopted by the company from the mandatory adoption date of 1 January 2018. Full details of the impact of adoption can be found in note 27.

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. Interest income in the company is accounted for in accordance with IFRS 9.

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 and is effective from 1 January 2019. 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 £0.3m and liabilities of £0.3m, which results in a reduction in net assets of £nil.

Revenue
Revenue comprises interest income earned and represents the charge payable by the customer on the amount of credit advanced by the company. Revenue excludes value added tax.

Revenue recognition
Under IFRS 9, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers who either repay early, to term or beyond term, but do not trigger the IFRS 9 default arrears stage during the full life of the loan. Directly attributable incremental issue costs are also taken into account in calculating the effective interest rate. Interest income is accrued on receivables using the original effective interest rate applied to either the loan's gross carrying amount or net carrying amount, dependent of the loan's credit risk status under IFRS 9 at the last reporting date, until revenue equal to the loan's original service charge has been fully recognised.

Revenue is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2 and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition at the company's interim or year end balance sheet date.

Finance income
Finance income comprises interest income earned from the parent undertaking on intercompany loans.

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

Foreign currency translation
Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The company operates primarily in the UK and Republic of Ireland. The company's financial statements are presented in sterling, which is the company's functional and presentational currency.

Transactions that are not denominated in the company's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the statement of comprehensive income.

If a foreign operation were to be disposed of, the cumulative amount of the exchange differences arising on translation recognised in other comprehensive income would be recognised in the income statement when the gain or loss on disposal is recognised.

Amounts receivable from customers
All customer receivables are initially recognised at the amount loaned to the customer plus directly attributable incremental issue costs. After initial recognition, customer receivables are subsequently measured at amortised cost. Amortised cost is the amount of the customer receivable at initial recognition less customer repayments, plus revenue earned calculated using the effective interest rate, less any deduction for impairment.

Impairment provisions are recognised on initial recognition of a loan, and are adjusted in line with changes in credit risk through the life of the loan based on the credit risk stages within IFRS 9: Financial Instruments. For certain loans the presumption of 30 days' contractual arrears in respect of the definition of significant increase in credit risk and 90 days' contractual arrears for the definition of default has been rebutted. This is supported by historical data which supports payment recency as a better indicator of the degree of impairment than overall past days due.

Home credit business

- Stage 1 – Accounts at initial recognition and customers who have either not missed a payment or missed the equivalent of only 1 payment in the last 12 weeks. The expected loss is based on the full lifetime credit loss adjusted for the 12 month probability of default, based on historic experience.

- Stage 2 – Accounts which have suffered a significant deterioration in credit risk, and have missed the equivalent of either 2, 3 or 4 payments in the last 12 weeks. The expected loss is based on the full lifetime credit loss, based on historic experience.

- Stage 3 – Accounts which have defaulted, i.e. have missed the equivalent of 5 or more payments in the last 12 weeks. The expected loss is based on the full lifetime credit loss, based on historic experience.

Within the home credit business, the impairment provision is calculated on a portfolio basis by reference to customer arrears stages and risk grade and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate applicable to the products and based on the actual duration profile. Subsequent cash flows are regularly compared to estimated cash flows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

Satsuma

- Stage 1 – Accounts at initial recognition and customers who are not in contractual arrears. The expected loss is based on the full lifetime credit loss adjusted for the 12 month probability of default, based on historic experience.

- Stage 2 – Accounts which have suffered a significant deterioration in credit risk, and have missed 1 monthly contractual payment. The expected loss is based on the full lifetime credit loss, based on historic experience.

- Stage 3 – Accounts which have defaulted, i.e. have missed 2 or more monthly contractual payments. The expected loss is based on the full lifetime credit loss, based on historic experience.

Within the Satsuma business, the impairment loss is calculated on an agreement level basis by reference to customer arrears stages and acquisition channel and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate. Subsequent cash flows are regularly compared to estimated cash flows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

Within both businesses, there is no separate macro-economic overlay applied as the customers are not reflective of the wider economy as they are less indebted and are therefore not materially impacted by macro-economic factors.

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

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 income statement.

Depreciation is charged to the income statement 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 income statement 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 income statement 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.

Derivative financial instruments

The company uses derivative financial instruments, principally forward contracts, to manage the foreign exchange rate risk arising from the company's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39, 'Financial instruments: Recognition and measurement'. The company has designated all its derivative financial instruments as hedges of highly probable forecast transactions (cash flow hedges), in line with IAS 39.

The relationship between hedging instruments and hedged items is documented at the inception of a transaction, as well as the risk management objectives and strategy for undertaking various hedging transactions. The assessment of whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items is documented, both at the hedge inception and on an ongoing basis.

Derivative financial instruments are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date to their fair value. Where derivative financial instruments do not qualify for hedge accounting, movements in the fair value are recognised immediately within the statement of comprehensive income.

Where hedge accounting criteria is met for the derivative financial instruments designated and qualifying as cash flow hedges, the effective portion of changes in the fair value of derivative financial instruments are recognised in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts deferred in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Hedge accounting is discontinued when:

- it is evident from testing that a derivative financial instrument is not, or has ceased to be, highly effective as a hedge; or
- the derivative financial instrument expires, or is sold, terminated or exercised; or
- the underlying hedged item matures or is sold or repaid.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss deferred in equity at that time is immediately transferred to the statement of comprehensive income.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 12. Movements on the hedging reserve in shareholder's equity are shown in note 22. The full fair value of a derivative financial instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months from the balance sheet date and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months from 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 income statement 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 income statement 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). The scheme is equity-settled.

The cost of providing options and awards to company employees is charged to the income statement of the company over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The cost of providing options and awards is based on their fair value. The fair value of options and awards is determined using a binomial option pricing model 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.

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 growth compared to a comparator group. The scheme is cash settled.

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

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Exceptional items
Exceptional costs are costs that are unusual because of their size, nature or incidence and which the directors consider should be disclosed separately to enable a full understanding of the company's results.

Taxation
The tax entries 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 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.

Critical accounting assumptions and key sources of estimation uncertainty
In applying the accounting policies set out above, the company makes judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions that affect the reported amounts of assets and liabilities. The estimates and assumptions are based on historical experience, actual results may differ from these estimates.

Amounts receivable from customers
Critical accounting assumptions:
The company reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The company makes assumptions to determine whether there is objective evidence that credit risk has increased significantly which indicates that there has been an adverse effect on expected future cash flows. In the home credit business, credit risk is assumed to increase significantly when the cumulative amount of two or more weekly payments have been missed in the previous 12 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly. In Satsuma, a significant increase in credit risk is deemed to be when one contractual monthly payment has been missed.

Key sources of estimation uncertainty:
The level of impairment is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage, and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, a material adjustment to the carrying value of amounts receivable from customers may be required.

To the extent that the net present value of estimated future cash flows differs by +/- 1%, it is estimated that the amounts receivable from customers would be approximately £2.9m (2017: £3.9m) higher/lower.

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

FINANCIAL AND CAPITAL RISK MANAGEMENT REPORT

Provident Personal Credit 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 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, foreign exchange risk, market risk and capital risk on a stand-alone company basis.

(a) Credit risk
Credit risk is the risk that the company will suffer loss in the event of a default by a customer or a bank counterparty. A default occurs when the customer or bank fails to honour repayments as they fall due.

(i) Amounts receivable from customers
The company's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2018 is the carrying value of amounts receivable from customers of £292.5m (2017: £390.6m).

Credit risk within the Consumer Credit Division ('CCD') is managed by the CCD Credit Committee which meets at least 8 times per year and is responsible for reviewing credit risk, performance of the portfolio and approving model/scorecard changes. The Credit Committee makes recommendations on credit strategy to the CCD Managing Director for approval.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, affordability assessment processes, and a home visit in the home credit business to make a decision on applications for credit.

The loans offered by the weekly home credit business are short term, typically a contractual period of around a year, with an average value of approximately £600. The loans are underwritten in the home by one of the team of Customer Experience Managers (CEMs) based on consideration of any previous lending experience with the customer, affordability and the CEM's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the CEM typically visits the customer weekly, to collect payment. The CEMs are well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the CEMs have with the customers allows them to manage customers' repayments effectively even when the household budget is tight. This forbearance can be in the form of taking part-payments, allowing missed payments or other payment arrangements in order to support customers with their repayments.

Affordability is reassessed by the CEM each time an existing customer is re-served.

Arrears management within the home credit business is a combination of central letters, text messages, emails, central telephony, and field activity undertaken by field management. This will often involve a home visit to discuss the customer's reasons for non-payment and to agree a suitable resolution, based on an affordability assessment where required.

The loans offered by the Satsuma business are short-term, with a contractual period of between 3 and 12 months, or weekly equivalent, and an average value of around £450. The loans are underwritten using credit decisioning, enhanced with the use of external credit bureau data, and regularly refined as the business grows. An affordability assessment is performed on all lending decisions.

(a) Credit risk (continued)
Satsuma collections processes are undertaken utilising the collections capabilities at Vanquis Bank. Contact Centre representatives are engaged at an early stage to optimise collections performance and work closely with customers, and for those customers whose circumstance have changed, representatives utilise their extensive range of forbearance measures, based on an affordability assessment where required.

(ii) Counterparty risk
The company's maximum exposure to credit risk on bank counterparties as at 31 December 2018 was £1.9m (2017: £1.8m).

Counterparty credit risk arises as a result of cash deposits placed with banks, central government and the use of derivative financial instruments with banks and other financial institutions which are used to hedge interest rate risk and foreign exchange rate risk. Counterparty credit risk is managed by the group's treasury committee and is governed by a board-approved counterparty policy which ensures that the group's cash deposits and derivative financial instruments are only made with high-quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, regardless of credit rating. This is linked to the group's regulatory capital base in line with the group's regulatory reporting requirements on large exposures to the Prudential Regulation Authority (PRA).

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

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.

(c) 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.

(d) Foreign exchange rate risk
Foreign exchange rate risk is the risk of a change in foreign currency exchange rates leading to a reduction in profits or equity.

The group's exposure to movements in foreign exchange rates during 2018 arose from the home credit operations in the Republic of Ireland which are hedged by matching euro-denominated net assets with euro-denominated borrowings or forward contracts as closely as practicable.

To manage the foreign exchange rate risk within the home credit operations in the Republic of Ireland branch, it is policy to maintain the euro-denominated net asset or net liability position of the branch is a maximum of €600,000 at each month end. This is achieved through periodic repatriation of euro-denominated profits to the company, which the company can sell in exchange for sterling. To provide greater certainty as to the value at which these euro-denominated cash flows are converted to sterling, forward exchange rate contracts are placed by the group treasury function.

As at 31 December 2018, a 2% movement in the sterling to euro exchange rate would have led to a £0.8m (2017: £0.9m) movement in customer receivables with an opposite movement of £0.8m (2017: £0.9m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been a minimal impact on reported profits and equity of the company (2017: £nil).

Further detail of the foreign exchange rate risk management are detailed within the annual report and financial statements of Provident Financial plc.

(e) 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.

(f) 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.

(g) 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.

NOTES TO THE FINANCIAL STATEMENTS

1 Revenue

	IFRS 9 2018 £m	IAS 39 2017 £m
Interest income	339.9	448.5

2 Finance income

	2018 £m	2017 £m
Interest receivable from parent undertaking	13.0	12.9

3 Finance costs

	2018 £m	2017 £m
Interest payable to ultimate parent undertaking	32.7	34.7

In 2018 and 2017 Provident Financial plc waived the right to receive the 5.165% dividend on the preference shares issued in 2002 and the 5.84% dividend on the preference shares issued in 2004. The amount paid in 2018 was therefore £nil (2017: £nil).

4 Loss before taxation

	IFRS 9 2018 £m	IAS 39 2017 £m
Loss before taxation is stated after charging:		
Depreciation of property, plant and equipment (note 9)	2.6	1.6
Loss on disposal of property, plant and equipment (note 9)	0.1	-
Operating lease rentals:		
- property	0.4	0.4
Employment costs (prior to exceptional redundancy costs (note 8(b))	107.7	81.6
Exceptional costs:		
- additional interest charge on borrowings from ultimate parent undertaking	9.2	-
- restructuring costs	1.6	12.5
- redundancy costs (note 8(b))	-	16.3
Impairment of amounts receivable from customers (note 10)	127.3	293.6

The exceptional interest costs comprise additional interest charges on borrowings of £9.2m from the company's ultimate parent, Provident Financial plc, which reflect the increased funding costs incurred by Provident Financial plc following the early redemption and new issue of senior bonds.

The exceptional restructuring costs in 2018 of £1.6m relate to restructuring costs associated with the implementation of the recovery plan to re-establish relationships with customers following the poor execution of the migration to the new home credit operating model in July 2017.

4 Loss before taxation (continued)

The exceptional redundancy costs in 2017 of £16.3m are associated with the migration to the new home credit operating model. The exceptional restructuring costs in 2017 of £12.5m include additional agent commission to encourage agent retention prior to the migration of the new home credit operating model, as well as training costs associated with the migration to the new operating model, and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation 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 was £116,000 (2017: £142,000). Auditor's remuneration to Deloitte LLP in respect of other services was £11,000 (2017: £11,000).

5 Tax credit

Tax credit in the income statement	IFRS 9 2018 £m	IAS 39 2017 £m
Current tax		
- UK	18.8	33.5
- Overseas	0.3	(0.2)
Deferred tax charge (note 15)	(0.5)	-
Total tax credit	18.6	33.3

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%) to the extent 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: £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 (2017: higher than) the average standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). This can be reconciled as follows:

	IFRS 9 2018 £m	IAS 39 2017 £m
Loss before taxation	(100.4)	(168.4)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	19.1	32.4
Effect of:		
- adjustment in respect of prior years	-	0.2
- tax rate differences on losses carried back	-	0.6
- impact of permanent differences	(0.1)	-
- benefit of lower rates overseas	(0.4)	0.1
Total tax credit	18.6	33.3

5 Tax credit (continued)

The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2017: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.00% (2017: 19.25%). In 2018, the home credit business in the Republic of Ireland made a loss (2017: profit) which can only be relieved against profits of the business in the Republic of Ireland at the 12.5% statutory tax rate rather than the 19.00% UK statutory tax rate. This gives rise to an adverse impact on the group tax charge of £0.4m (2017: beneficial impact of £0.1m).

The tax credit on items taken directly to other comprehensive income is as follows:

	IFRS 9	IAS 39
	2018	2017
Tax credit on items taken directly to other comprehensive income	£m	£m
Deferred tax credit on adjustment arising on transition to IFRS 9 (note 27)	(7.6)	-
Total tax credit on items taken directly to other comprehensive income	(7.6)	-

6 Dividends

During the year ended 31 December 2018, the directors did not pay an interim dividend on the ordinary shares of the company (2017: £nil).

7 Directors' remuneration

The emoluments of the directors are paid by the immediate parent company, Provident Financial Management Services Limited, and recharged to the company as part of a management charge. This management charge 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 relating to each director's emoluments. The emoluments of these directors are disclosed in the financial statements of Provident Financial Management Services Limited.

During the year no directors exercised share awards under share incentive schemes (2017: four).

8 Employee information

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

	2018 Number	2017 Number
Administrative	38	36
Operations	2,933	2,020
Total	2,971	2,056
Analysed as:		
Full time	2,740	1,945
Part time	231	111
Total	2,971	2,056

(b) Employment costs

	2018 £m	2017 £m
Aggregate gross wages and salaries paid to the company's employees	90.1	66.5
Employer's National Insurance contributions	9.4	7.0
Pension charge (note 14)	8.1	8.2
Share-based payment charge/(credit) (note 21)	0.1	(0.1)
Total employment costs prior to exceptional redundancy costs	107.7	81.6
Exceptional redundancy costs (note 4)	-	16.3
Total employment costs	107.7	97.9

All the above employee information excludes directors whose remuneration is paid by Provident Financial Management Services Limited. These costs are recharged to the company as a management recharge at the year end.

The pension charge comprises contributions to the defined benefit and stakeholder pension plan (see note 14).

The share-based payment charge of £0.1m (2017: credit of £0.1m) relates to equity-settled schemes charge of £nil (2017: credit of £0.1m) and cash-settled schemes charge of £0.1m (2017: charge of £nil).

9 Property, plant and equipment

	Equipment and vehicles	
	2018	2017
	£m	£m
Cost		
At 1 January	13.7	8.0
Additions	1.7	7.1
Disposals	(2.1)	(1.4)
Transfers from other group undertakings	0.3	-
At 31 December	13.6	13.7
Accumulated depreciation		
At 1 January	5.4	4.6
Charged to the income statement	2.6	1.6
Disposals	(1.5)	(0.8)
Transfers from other group undertakings	0.2	-
At 31 December	6.7	5.4
Net book value at 31 December	6.9	8.3
Net book value at 1 January	8.3	3.4

The loss on disposal of property, plant and equipment in 2018 amounted to £0.1m (2017: £nil) and represented proceeds received of £0.5m (2017: £0.6m) less the net book value of disposals of £0.6m (2017: £0.6m).

10 Amounts receivable from customers

IFRS 9: 'Financial Instruments' was adopted from 1 January 2018. Under IFRS 9, all customer receivables are initially recognised at the amount loaned to the customer plus directly attributable incremental issue costs. After initial recognition, customer receivables are subsequently measured at amortised cost. Amortised cost is the amount of the customer receivable at initial recognition less customer repayments, plus revenue earned calculated using the effective interest rate, less any deduction for impairment.

Interest income is accrued on receivables using the original effective interest rate applied to either the loan's gross carrying amount or net carrying amount, dependent of the loan's credit risk status under IFRS 9, until revenue equal to the loan's original service charge has been fully recognised. Revenue is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2 and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition at the company's interim or year end balance sheet date.

Impairment provisions are recognised on initial recognition of a loan, and are adjusted in line with changes in credit risk through the life of the loan based on the credit risk stages within IFRS 9: Financial Instruments as follows:

Home credit business

Stage 1 – Accounts at initial recognition and customers who have either not missed a payment or missed the equivalent of only 1 payment in the last 12 weeks. The expected loss is based on the full lifetime credit loss adjusted for the 12 month probability of default, based on historic experience.

Stage 2 – Accounts which have suffered a significant deterioration in credit risk, and have missed the equivalent of either 2, 3 or 4 payments in the last 12 weeks. The expected loss is based on the full lifetime credit loss, based on historic experience.

10 Amounts receivable from customers (continued)

Stage 3 – Accounts which have defaulted, i.e. have missed the equivalent of 5 or more payments in the last 12 weeks. The expected loss is based on the full lifetime credit loss, based on historic experience.

Satsuma

Stage 1 – Accounts at initial recognition and customers who are not in contractual arrears. The expected loss is based on the full lifetime credit loss adjusted for the 12 month probability of default, based on historic experience.

Stage 2 – Accounts which have suffered a significant deterioration in credit risk, and have missed 1 monthly contractual payment. The expected loss is based on the full lifetime credit loss, based on historic experience.

Stage 3 – Accounts which have defaulted, i.e. have missed 2 or more monthly contractual payments. The expected loss is based on the full lifetime credit loss, based on historic experience.

			IFRS 9 2018			IAS 39 2017
	Due within one year £m	Due in more than one year £m	Total £m	Due within one year £m	Due in more than one year £m	Total £m
Total reported amounts receivable from customers	263.2	29.3	292.5	339.3	51.3	390.6

Receivables comprise £251.9m in respect of the home credit business (2017: £352.2m), £39.5m in respect of Satsuma (2017: £35.8m) and £1.1m in respect of the collect-out of glo (2017: £2.6m).

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

	IFRS 9 2018 £m	IAS 39 2017 £m
Gross amount receivable from customers	725.6	-
Allowance account	(433.1)	-
Reported amounts receivable from customers	292.5	390.6

Under IAS 39, impairment was deducted directly from amounts receivable from customers without the use of an allowance account.

10 Amounts receivable from customers (continued)

Amounts received from customers can be reconciled as follows:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	IFRS 9 2018 Total £m
Gross carrying amount				
At 1 January	221.2	60.9	443.1	725.2
New financial assets originated	404.4	6.7	-	411.1
Net transfers and changes in credit risk	(145.1)	10.6	134.5	-
Write-offs	(2.2)	(3.0)	(66.5)	(71.7)
Recoveries	(506.5)	(78.4)	(99.7)	(684.6)
Revenue	211.6	51.6	76.7	339.9
Other movements	0.2	-	5.5	5.7
At 31 December	183.6	48.4	493.6	725.6
Allowance account				
At 1 January	(20.4)	(15.1)	(342.3)	(377.8)
Movements through income statement:				
New financial assets originated	(38.6)	(1.1)	-	(39.7)
Net transfers and changes in credit risk	44.8	0.3	(132.7)	(87.6)
Total movements through income statement	6.2	(0.8)	(132.7)	(127.3)
Other movements:				
Write-offs	2.2	3.0	66.5	71.7
Other movements	-	-	0.3	0.3
Allowance account at 31 December	(12.0)	(12.9)	(408.2)	(433.1)
Reported amounts receivable from customers at 31 December	171.6	35.5	85.4	292.5
Reported amounts receivable from customers at 1 January	200.8	45.8	100.8	347.4

An impairment charge of £127.3m (2017: £293.6m) in respect of amounts receivable from customers is reflected in impairment charges in the income statement.

The average effective interest rate for the year ended 31 December 2018 was 119% (2017: 118%).

The average period to maturity of the amounts receivable from customers is 5.9 months (2017: 6.3 months).

The currency profile of amounts receivable from customers is as follows:

Currency profile of amounts receivable from customers	IFRS 9 2018 £m	IAS 39 2017 £m
Sterling	253.6	344.2
Euro	38.9	46.4
Total	292.5	390.6

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:

	Amortised cost £m	Non-financial assets/ liabilities £m	IFRS 9 2018 Total £m
Assets			
Cash and cash equivalents	10.6	-	10.6
Amounts receivable from customers	292.5	-	292.5
Trade and other receivables	230.6	-	230.6
Deferred tax assets	-	7.8	7.8
Current tax assets	-	19.2	19.2
Property, plant and equipment	-	6.9	6.9
Total assets	533.7	33.9	567.6
Liabilities			
Trade and other payables	(473.7)	-	(473.7)
Preference shares	-	(0.3)	(0.3)
Total liabilities	(473.7)	(0.3)	(474.0)

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.

	Loans and receivables £m	Amortised cost £m	Non-financial assets/ liabilities £m	IAS 39 2017 Total £m
Assets				
Cash and cash equivalents	12.3	-	-	12.3
Amounts receivable from customers	390.6	-	-	390.6
Trade and other receivables	203.1	-	-	203.1
Deferred tax assets	-	-	0.7	0.7
Current tax asset	-	-	35.2	35.2
Property, plant and equipment	-	-	8.3	8.3
Total assets	606.0	-	44.2	650.2
Liabilities				
Trade and other payables	-	(438.9)	-	(438.9)
Preference shares	-	-	(0.3)	(0.3)
Total liabilities	-	(438.9)	(0.3)	(439.2)

12 Derivative financial instruments

The company uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from the company's operations in the Republic of Ireland. The company does not enter into speculative transactions or positions. A liability of £nil is held in the company balance sheet as at 31 December 2018 in respect of foreign exchange contracts (2017: £nil).

The company's foreign exchange contracts comprise forward foreign exchange contracts to buy sterling for a total notional amount of £nil (2017: £3.2m). In 2017, these contracts had a range of maturity dates from 16 January 2018 to 14 August 2018. These contracts were designated and were effective under IAS 39 as cash flow hedges in the year and, accordingly, the movement in fair value of £nil has been credited to the hedging reserve within equity (2017: £0.2m).

The fair value of derivative financial instruments has been calculated by discounting contractual future cash flows using relevant market interest rate yield curves and foreign exchange rates prevailing at the balance sheet date. Under IFRS 13, 'Fair Value Measurement', these are therefore classed as Level 2 financial instruments.

13 Trade and other receivables

Current assets	2018 £m	2017 £m
Other receivables	2.4	2.7
Amounts owed by parent undertaking	200.0	200.0
Amounts owed by fellow subsidiary undertakings	27.9	-
Prepayments and accrued income	0.3	0.4
Total	230.6	203.1

Amounts owed by parent undertaking are unsecured, repayable on demand or within one year 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.

14 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.

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 £6.2m (2017: £6.9m). The expected contributions to the defined benefit pension scheme in the year ending 31 December 2019 are approximately £1.1m.

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. The most recent actuarial valuation of the scheme was carried out as at 1 June 2015 by a qualified independent actuary. A valuation as at 1 June 2018 is currently in progress but is not yet finalised. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the preliminary 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 the 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 has increased 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.

14 Retirement benefits (continued)

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

				Group
	2018		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	2017
	£m	£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	2017
	£m	£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

14 Retirement benefits (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
	£m	£m
Discount rate decreased by 0.1%	12	14
Inflation increased by 0.1%	5	6
Life expectancy increased 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 income statement represents contributions payable by the company in respect of these plans and amounted to £1.9m for the year ended 31 December 2018 (2017: £1.3m). No contributions were payable to the fund at the year end (2017: £nil).

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

15 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 2018 has been measured at 17% (2017: 17%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). The exception to this is the deferred tax asset that has arisen on the opening balance sheet adjustment to restate the IAS 39 balance sheet on to an IFRS 9 basis. The adjustment is tax deductible over 10 years commencing in 2018 and deferred tax has been measured at the UK corporation tax rate at which the temporary differences on which deferred tax has been recognised will reverse. In 2018, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.0% (2017: 19.25%). A tax charge in 2018 of £nil (2017: £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:

	IFRS 9	IAS 39
	2018	2017
Asset	£m	£m
At 1 January	0.7	0.7
Charge to the income statement (note 5)	(0.5)	-
Credit on adjustment arising on transition to IFRS 9	7.6	-
At 31 December	7.8	0.7

15 Deferred tax (continued)

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

			IFRS 9 2018			IAS 39 2017
	Accelerated capital allowances £m	Other temporary differences £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 January	0.4	0.3	0.7	0.4	0.3	0.7
Charge to the income statement	-	(0.5)	(0.5)	-	-	-
Credit on adjustment arising on transition to IFRS 9	-	7.6	7.6	-	-	-
At 31 December	0.4	7.4	7.8	0.4	0.3	0.7

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, certain cost provisions for which tax deductions are only available when the costs are paid, and the opening balance sheet adjustments to restate the IAS 39 balance sheet onto an IFRS 9 basis for which tax deductions are available over 10 years.

The deferred tax credit of £7.6m (2017: £nil) represents deferred tax arising on the opening balance sheet adjustment to restate the IAS 39 balance sheet on to an IFRS 9 basis. The adjustment is tax deductible over 10 years commencing in 2018 and deferred tax has been measured at the UK corporation tax rate at which the temporary differences on which deferred tax has been recognised will reverse.

16 Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	10.6	12.3

The currency profile of cash and cash equivalents is as follows:

Currency	2018 £m	2017 £m
Sterling	10.6	11.1
Euro	-	1.2
Total	10.6	12.3

17 Bank and other borrowings

Borrowing facilities principally comprise overdrafts which are repayable on demand. As at 31 December 2018, borrowings amounted to £nil (2017: £nil).

The company, together with Provident Financial plc, are permitted borrowers under the bank syndicated facility. As at 31 December 2018, the company had no outstanding borrowings under this facility.

The syndicated bank facility of the group as at 31 December 2018 comprised £450m maturing in May 2020. Headroom on this committed facility was £327.4m as at 31 December 2018 (2017: £66.2m). The weighted average period to maturity of this committed facility was 1.4 years (2017: 2.4 years). Given that the group manages liquidity risk through the centralised treasury function, the borrowings, maturity profile and undrawn facilities of the group are disclosed in the annual report of Provident Financial plc.

18 Trade and other payables

Current liabilities	2018 £m	2017 £m
Trade payables	0.3	0.3
Amounts owed to ultimate parent undertaking	412.0	398.6
Amounts owed to parent undertaking	48.2	25.9
Amounts owed to fellow subsidiary undertaking	-	2.5
Other payables including taxation and social security	3.2	5.0
Accruals	10.0	6.6
Total	473.7	438.9

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, parent undertaking and fellow subsidiary undertakings are unsecured, due for repayment in less than one year and generally accrue interest at rates linked to LIBOR.

19 Preference shares

	2018	2017
Non-current liabilities	£m	£m
Preference shares	0.3	0.3

		2018		2017	
		Authorised	Issued and fully paid	Authorised	Issued and fully paid
Preference shares of 1p each	**- £m**	0.3	0.3	0.3	0.3
	- number (m)	30.2	30.2	30.2	30.2

The 17,676,000 preference shares issued in 2002 had a right to a special dividend of £0.9909 per share in 2002, an annual coupon of 5.165% and a return on capital on a winding up of £0.01 per share.

The 12,523,000 preference shares issued in 2004 had a right to a special dividend of £0.9910 per share in 2004, an annual coupon of 5.84% and a return on capital on a winding up of £0.01 per share.

In 2018 and 2017 Provident Financial plc waived the right to receive the 5.165% dividend on the preference shares issued in 2002 and the 5.84% dividend on the preference shares issued in 2004. The amount paid in 2018 was therefore £nil (2017: £nil).

20 Share capital

		2018		2017	
		Authorised	Issued and fully paid	Authorised	Issued and fully paid
Ordinary shares of 25p each	**- £m**	99.8	71.5	99.8	71.5
	- number (m)	399.3	286.2	399.3	286.2

There are no shares issued and not fully paid at the end of the year (2017: no shares).

21 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 2017 and 2018, options have been granted under the SAYE scheme only.

(a) Equity-settled schemes

The credit to the income statement during the year was £nil (2017: credit of £0.1m) for equity-settled schemes.

The assumptions to consider the appropriate fair values of options are outlined below:

	2018	2017
	SAYE	SAYE
Grant date	04-Oct-18	29-Sep-17
Share price at grant date (£)	5.90	8.31
Exercise price (£)	5.38	6.85
Shares awarded/under option (number)	552,460	181,384
Vesting period (years)	3 and 5	3 and 5
Expected volatility	65.8% to 83.3%	60.7% to 76.8%
Option life (years)	3 and 5	3 and 5
Expected life (years)	3 and 5	3 and 5
Risk-free rate	0.99% to 1.22%	0.92% to 1.09%
Expected dividends expressed as a dividend yield	3.00%	3.00%
Fair value per award/option (£)	2.61 to 3.36	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.

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

	SAYE	
2018	Number	Weighted average exercise price £
Outstanding at 1 January	222,067	7.45
Adjustment from Rights Issue	60,873	
Granted	552,460	5.40
Lapsed	(121,859)	9.80
Exercised	(1,533)	5.20
Outstanding at 31 December	712,008	5.52
Exercisable at 31 December	5,470	10.87

21 Share-based payments (continued)

2017	SAYE Number	SAYE Weighted average exercise price £
Outstanding at 1 January	184,256	18.70
Granted	181,384	7.33
Lapsed	(137,901)	19.54
Exercised	(19,506)	10.73
Transferred	13,834	-
Outstanding at 31 December	222,067	7.45
Exercisable at 31 December	13,695	13.53

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 3.0 years (2017: 3.2 years).

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

(b) Cash-settled schemes
Cash awards were granted under the PFEP to eligible employees that require the company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The charge to the income statement in 2018 was £101,000 (2017: credit of £24,000) and the company has a liability of £101,000 as at 31 December 2018 (2017: £nil).

22 Other reserves

	Share-based payment reserve £m	Hedging reserve £m	Total other reserves £m
At 1 January 2017	0.5	(0.2)	0.3
Other comprehensive income:			
- fair value movement on cash flow hedges	-	0.2	0.2
Other comprehensive income for the year	-	0.2	0.2
Transaction with owners:			
- share-based payment credit	(0.1)	-	(0.1)
At 31 December 2017	0.4	-	0.4
At 1 January 2018	0.4	-	0.4
Other comprehensive income for the year	-	-	-
At 31 December 2018	0.4	-	0.4

The share-based payment reserve reflects the corresponding credit entry to the cumulative share-based payment charges made through the income statement as there is no cash cost or reduction in assets from the charges. When options and awards vest, that element of the share-based payment reserve relating to those awards and options is transferred to retained earnings.

23 Commitments

Commitments for future minimum lease payments are as follows:

	2018 £m	2017 £m
Due within one year	0.4	0.4
Due between one and five years	0.3	0.3
Total	0.7	0.7

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

24 Related party transactions

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

	2018			2017		
	Management recharge £m	Interest charge £m	Outstanding balance £m	Management recharge £m	Interest charge £m	Outstanding balance £m
Ultimate parent undertaking	-	32.7	(412.0)	-	34.7	(398.6)
Immediate parent undertaking	139.7	(13.0)	151.8	115.9	(12.9)	174.1
Other subsidiary of the ultimate parent undertaking	5.9	-	27.9	4.9	-	(2.5)
Total	145.6	19.7	(232.3)	120.8	21.8	(227.0)

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

During the year, the company received collection and debt recovery services from Vanquis Bank Limited, a subsidiary of the ultimate parent undertaking. The company was charged £5.9m for these services in 2018 (2017: £4.9m).

25 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.

A floating charge is held over the company's amounts receivable from customers of up to £15m in respect of the unfunded pension benefit promises made to the executive directors of the company's ultimate parent undertaking and certain members of senior management in group companies affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise.

26 Reconciliation of loss after taxation to cash generated from operations

	Note	IFRS 9 2018 £m	IAS 39 2017 £m
Loss after taxation		(81.8)	(135.1)
Adjusted for:			
- tax credit	5	(18.6)	(33.3)
- finance income	2	(13.0)	(12.9)
- finance costs	3	32.7	34.7
- share-based payment charge/(credit)	21	0.1	(0.1)
- depreciation of property, plant and equipment	9	2.6	1.6
- loss on disposal of property plant and equipment	9	0.1	-
- impact of adoption to IFRS 9	27	(43.2)	-
Changes in operating assets and liabilities:			
- amounts receivable from customers		98.1	194.2
- trade and other receivables		(27.5)	1.0
- trade and other payables		68.3	(24.8)
Cash generated from operations		17.8	25.3

27 IFRS 9

IFRS 9 'Financial instruments' has been adopted by the company from the mandatory adoption date of 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'.

IFRS 9 prescribes:

i) classification and measurement of financial instruments - requires asset classification and measurement based upon business model;
ii) hedge accounting - wider eligibility criteria to hedging of financial instruments; and
iii) expected loss accounting for impairment – replaces an incurred loss model.

Classification and measurement

Under IFRS 9, the classification of financial assets is determined by a contractual cash flows test referred to as the "Solely payment of principal and interest" (SPPI) business model test.

Financial assets are required to be measured at amortised cost if they are held as part of a business model where the objective is to hold the financial asset in order to collect contractual cash flows. This is known as the 'hold to collect' business model.

Financial assets are required to be measured at fair value through other comprehensive income if they are held in a business model to both collect contractual cash flows and sell the financial assets. This is known as the 'hold to collect and sell' business model.

Financial assets that fail the SPPI test are required to be measured at fair value through the income statement.

There are no changes to the classification and measurement of the company's financial assets as a result of the IFRS 9 SPPI test.

27 IFRS 9 (continued)

Hedge accounting

The requirements on hedge accounting are revised under IFRS 9 but adoption is optional. IAS 39 continues to be available.

The company is continuing to apply the IAS 39 hedge accounting requirements but is implementing the amended IFRS 7 disclosure requirements.

Expected loss accounting

The area within IFRS 9 which materially affects the company is expected loss accounting for impairment. Under this approach, impairment provisions are recognised on initial recognition of a loan, and are adjusted in line with changes in credit risk through the life of the loan based on the credit risk stages within IFRS 9: Financial Instruments as follows:

Home credit business

Stage 1 – Accounts at initial recognition and customers who have either not missed a payment or missed the equivalent of only 1 payment in the last 12 weeks. The expected loss is based on the full lifetime credit loss adjusted for the 12 month probability of default, based on historic experience.

Stage 2 – Accounts which have suffered a significant deterioration in credit risk, and have missed the equivalent of either 2, 3 or 4 payments in the last 12 weeks. The expected loss is based on the full lifetime credit loss, based on historic experience.

Stage 3 – Accounts which have defaulted, i.e. have missed the equivalent of 5 or more payments in the last 12 weeks. The expected loss is based on the full lifetime credit loss, based on historic experience.

Satsuma

Stage 1 – Accounts at initial recognition and customers who are not in contractual arrears. The expected loss is based on the full lifetime credit loss adjusted for the 12 month probability of default, based on historic experience.

Stage 2 – Accounts which have suffered a significant deterioration in credit risk, and have missed 1 monthly contractual payment. The expected loss is based on the full lifetime credit loss, based on historic experience.

Stage 3 – Accounts which have defaulted, i.e. have missed 2 or more monthly contractual payments. The expected loss is based on the full lifetime credit loss, based on historic experience.

Interest income is accrued on receivables using the original effective interest rate applied to either the loan's gross carrying amount or net carrying amount, dependent of the loan's credit risk status under IFRS 9, until revenue equal to the loan's original service charge has been fully recognised. Revenue is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2 and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition at the company's interim or year end balance sheet date.

27 IFRS 9 (continued)

The impairment approach under IFRS 9 differs from the incurred loss model under IAS 39 where impairment provisions were only reflected when there was objective evidence of impairment, defined as 2 missed payments in the last 12 weeks for the weekly home credit business and defined as 1 contractual missed payment for the monthly Satsuma product. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This resulted in the following one-off adjustment to receivables, tax and reserves on adoption as follows:

	IAS 39 £m	IFRS 9 adjustment £m	IFRS 9 £m
Receivables	390.6	(43.2)	347.4
Deferred tax	0.7	7.6	8.3
Other	(180.3)	-	(180.3)
Net assets	211.0	(35.6)	175.4

The company is not restating its 2017 statutory prior year comparatives. This is due to the IFRS 9 requirement in respect of de-recognition of a financial asset which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year which will distort comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis.

28 Parent undertaking and controlling party

The immediate parent undertaking is Provident Financial Management Services Limited.

The 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.

29 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.