PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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

- how the directors have engaged with colleagues, how they have had regard to colleague interests and the effect of that regard, including on the principal decisions taken by the company in the financial year (page 9); and,
- how the directors have had regard to the need to foster the company's business relationship with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company in the financial year (pages 7 to 11).

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 statement of comprehensive income for the year is set out on page 21. The loss for the year of £44.2m (2018: loss of £81.8m) has been deducted from reserves.

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

Provident Financial plc waived the right in 2019 and 2018 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 2019, all of whom were directors for the whole year then ended, and to the date of this report, were:

M J Le May	Chairman
C D Gillespie	
E C Thornhill	
N Kapur	(Appointed 30 June 2020)

Financial risk management
The financial and capital risk management policies of the company are set out on pages 33 to 37.

Post balance sheet events
Post balance sheet events have been disclosed in note 27 of the accounts.

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.

DIRECTORS' REPORT (CONTINUED)

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.

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

i) so far as he/she is aware, there is no relevant audit information of which the company's auditor is unaware; and
ii) he/she has taken all reasonable steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

BY ORDER OF THE BOARD

E C Thornhill
Director
Bradford
27 August 2020

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

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.

CCD is the market leader in the UK and Republic of Ireland home credit markets and is now also a leading player in digital loans within the high-cost, short-term credit market through Satsuma. The ongoing turnaround of the home credit business has continued to progress well in 2019 and the business is now on a stable footing following the migration to the employed operating model in July 2017. With an operating model which has fully embraced the direction of regulatory travel, the development of new product propositions and continuing market dislocation due to tougher regulation, CCD is now well placed to return the business to profitability and customer and receivables growth in the medium-term. Satsuma took the decision to temporarily reduce volumes towards the end of the year as it continues to adapt its business model in line with the evolving dialogue with the Financial Conduct Authority ('FCA'). A number of competitors have exited the market and the business expects home credit and Satsuma to work more closely together going forward, especially with the roll-out of Provident Direct in 2020.

The loss before taxation and exceptional items for the year reduced by 46.2% to £48.2m (2018: loss of £89.6m). Exceptional items in 2019 of £5.1m (2018: £10.8m) relate to costs associated with the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017. Exceptional costs of £10.8m were incurred in 2018 in respect of 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 following the migration to the employed operating model in July 2017.

CCD – Growth initiatives
CCD's medium-term target is to grow the business to £300m receivables (currently £249m) whilst delivering an ROA of approximately 10%. Now that the business has been stabilised, CCD's focus is on developing the customer proposition and growing the business. Accordingly, management has developed a number of strategic initiatives to support its growth plans:

Provident Direct
Following discussions with the FCA in the second quarter of 2019, CCD commenced testing of Provident Direct, in the Birmingham South area in the third quarter of the year. Provident Direct is relationship managed in the home by a CEM with payments collected remotely via CPA. The test has indicated that there is strong demand for the product from both customers and the field organisation and that collections performance is comparable to home collection. In addition, the test has allowed the business to refine the customer journey and supporting processes whilst avoiding disrupting the field organisation during the seasonal peak in trading in the run-up to Christmas. Following the successful test, Provident Direct is now being rolled out progressively, firstly in Wales/West (c.15% of the business) in the first quarter of 2020, with a view to having national coverage across the UK by the end of the year. The product retains the essence of home credit but should enable CCD to attract new and former customers of suitable credit quality who value the relationship-based home credit proposition but do not wish to have a weekly collections visit by a CEM or for whom the home visit is inconvenient, such as shift workers. The CEM will maintain regular contact with the customer and will make home visits if the customer's circumstances change or if they are experiencing payment difficulties. Longer term, the business envisages 30% or more of business being transacted through Provident Direct.

CCD – Growth initiatives (continued)

Enhanced performance management

The FCA confirmed in early March 2019 that the business could implement enhanced performance management of CEMs based on a balanced scorecard supported by an element of variable performance-related pay. The implementation of this full suite of performance measures is essential in continuing to improve the efficiency and effectiveness of the field organisation whilst delivering consistently good customer outcomes. The balanced scorecard was tested for impact on customer outcomes in the Warrington area during May and was expanded to the North West region in June, including testing an element of variable pay. Following successful testing, the business completed full roll-out of the framework in the UK during the third quarter of the year as well as implementing new ways of working for field management to support and oversee CEMs. These measures have contributed to the ongoing improvement in CCD's performance in 2019. Management will continue to calibrate the balanced scorecard and the variable pay element to both enhance customer outcomes and improve performance.

Satsuma personal loans

Satsuma forms an important part of future strategy, particularly as Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020. Satsuma plans to test a product extension of a loan product priced between 79.9% and 99.9% APR under the Satsuma brand in the second half of 2020. This will further expand CCD's product range, addressable market and provide customers with a pathway to cheaper credit.

Financial performance

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

CCD customer numbers ended the year at 522,000, 6.8% lower than 560,000 last year, which represents a significantly reduced rate of decline compared with 28.2% in 2018. The focus for 2019 has been on: (i) stabilising the rate of decline in the home credit customer base against the backdrop of increased regulation, ongoing enhancement of business processes and increased efficiency to reduce the cost base; and (ii) continuing to grow Satsuma customer numbers in a responsible and sustainable manner.

The improved momentum in new customer recruitment experienced in the fourth quarter of 2018 was maintained in home credit during 2019, despite the significant reduction in field resources. New and returning customer volumes were broadly in line with last year despite a 20% reduction in average CEM resources through the year. Home credit customer numbers ended the year at 386,000 (2018: 443,000), in line with the end of the third quarter. New and returning customers volumes were marginally ahead of plan in the fourth quarter and are expected to continue to improve during 2020, benefiting from the ongoing embedding of performance management and new ways of working, including the use of a balanced scorecard with an element of variable pay, and the roll-out of an enhancement to the home credit product, Provident Direct.

Satsuma continued to experience a good flow of lending volumes during 2019 and new business and further lending volumes increased by approximately 10% and customer numbers ended the year at 136,000, up 16.2% on last year (2018: 117,000). However, following a number of high-cost lenders exiting the market and discussions with the FCA, Satsuma took the opportunity to further refine underwriting and onboarding processes in late November. Accordingly, new business and further lending volumes in December were approximately 50% lower than last year. Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020 and a lower proportion of Satsuma loan applications are processed wholly digitally. This reflects the decision to increase the level of interaction with customers during the application process, including, in some circumstances, the involvement of a field-based CEM. This puts CCD in a unique position to build a sustainable business based on a 'hybrid' operating model utilising the best of both digital and home credit capabilities.

Financial performance (continued)
Total CCD receivables were £249.0m at the end of 2019 (2018: £292.5m), 14.9% lower than the end of 2018, and comprised £205.8m in respect of the home credit business (2018: £253.0m) and £43.2m in respect of Satsuma (2018: £39.5m).

Home credit receivables have fallen by 18.7% in 2019 compared with the 12.9% reduction in customer numbers. This primarily reflects average issue values being approximately 9% lower in 2019 following the introduction of the new high-cost credit guidance issued by the FCA as part of its review of the high-cost credit sector which came into force between December 2018 and March 2019. The new guidance includes the requirement for CEMs to present customers with the cost of either taking out a concurrent loan or refinancing their existing loan when they require further credit. Experience to date shows that there has been a modest increase in the proportion of customers opting for concurrent loans, which are typically lower value and shorter in duration than refinanced loans.

Satsuma's receivables have shown 9.4% growth in 2019 compared with the 16.2% increase in customer numbers due to the significant reduction in lending volumes in December.

Revenue has fallen by 13.7% in 2019, a modestly lower rate than the 16.5% reduction in average receivables. The revenue yield of 118.6% in 2019 has increased from 114.7% in 2018, reflecting a modest shift in mix to shorter-term, higher-yielding products, as the Satsuma receivable is a larger proportion of the overall CCD receivable in 2019.

Impairment has reduced by 21.8%, better than the rate of reduction in average receivables. This reflects the improvement in collections performance due to the benefit from the ongoing improvement in business processes and the introduction of the enhanced performance management framework. As a result, the impairment rate of 40.3% in 2019 has reduced from 43.0% in 2018. The business has recently completed the roll-out of electronic card readers for CEMs to allow customers to make their repayments with debit cards as well as cash. This has been well received by both field employees and customers and is expected to support further improvement in collections performance during 2020.

The annualised risk-adjusted margin has shown a significant improvement from 71.8% to December 2018 to 78.4% to December 2019, due to the combined improvement in revenue yield and impairment rate during the year.

Administrative and operating costs reduced by 19.1% to £237.3m in 2019 (2018: £293.3m). Administrative and operating costs before exceptional costs reduced by 20.4% to £232.2m in 2019 (2018: £291.7m). Despite cost headwinds from increased regulatory requirements, upgrading certain elements of old IT infrastructure and higher complaints costs, the company has taken the necessary actions to reduce headcount and tightly manage costs in response to the reduction in customer numbers; approximately 600 CEMs and field managers left the home credit business during 2019 either through natural attrition and non-replacement of roles or through redundancy. The company also received significantly lower recharges from its immediate parent company, Provident Financial Management Services Limited ('PFMS'), due to the recharge of exceptional costs in 2018 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.

Despite some upgrades in the year, CCD's legacy IT systems are old, inflexible and expensive to maintain. Accordingly, the business is planning a programme of investment over the next two years to modernise and refresh the IT infrastructure and support both better customer service and the growth of the business going forward.

Regulation

Enhanced supervision by the FCA

As a consequence of: (i) the disruption to the home credit business following the migration to the employed operating model in July 2017 and the subsequent implementation of the recovery plan in response to the disruption; (ii) the FCA's investigation into Vanquis Bank's ROP product; and (iii) the FCA's investigation into Moneybarn, the group continues to be subject to enhanced supervision as notified by the FCA in their Watchlist Letter. Firms placed under enhanced supervision may be required to provide formal commitments, where appropriate, to tackle the underlying concerns raised by the FCA and the FCA may also exercise other wide-ranging powers. The group has a detailed plan of activities agreed with the FCA with plans to formally attest that it has addressed the outstanding regulatory concerns by the end of 2020.

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 introduced 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 collection visits without the customer specifically requesting it. CCD made the necessary changes to its processes to ensure compliance with the new rules in advance of them coming into force on 19 March 2019. This included the requirement for CEMs to explain the cost of all available options to a customer who wishes to borrow, including refinancing their existing loan or taking out a concurrent loan. The changes made to the home credit operating model over the last two years, including the voice recording of all sales interactions with customers, means that the business can effectively evidence compliance with the revised requirements.

Irresponsible lending complaints and the Financial Ombudsman Service (FOS)

There continues to be heightened claims management company activity around non-standard lending sectors, particularly in respect of irresponsible lending in high-cost credit and more recently in home credit. As a result, CCD has seen an increase in the number of such complaints and referrals to the FOS, particularly in the first half of 2019, although complaint levels have now stabilised. CCD continues to robustly defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard.

In addition, the business will also continue to assist HM Revenue & Customs (HMRC) which has commenced an industry wide review of the self-employed status of agents prior to the change in the home credit operating model in 2017.

Principal risks and uncertainties

The company participates in the group-wide risk management framework of Provident Financial plc. Details of the group's risk management framework together with the group's principal risks and uncertainties are set out in the annual report and financial statements of Provident Financial plc. Details of the group's response to the changing and challenging operational environment as a result of Covid-19 are set out within the financial and capital risk management report on pages 36 to 37.

Statement regarding section 172 Companies Act 2006

Our purpose, as part of the Provident Financial group, is predicated on our customers and is underpinned by a number of strategic drivers and behaviours. These aim to deliver an appropriate balance between the needs of our customers, our regulators, investors and our employees, in order to ensure that we are successful and sustainable for all of our stakeholders. Our stakeholders are individuals or groups who have an interest in, or are affected by, the activities of our business; our key stakeholders are set out in the table below. We seek to engage with them regularly to ensure that we are aware of their views and concerns with regard to a wide range of issues. We describe how, and on which topics, we engage with our stakeholders below and also document the key outcomes of the engagement. By balancing the interests of our stakeholders, lending responsibly, contributing to wider society and ensuring the appropriate corporate governance arrangements are in place, we can maintain a reputation for high standards of business conduct. You can read about how we have generated and preserved value over the long term in the strategic report and in the review of business within the annual report and financial statements of Provident Financial plc.

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our Customers We engage with our customers to determine whether we are delivering our business activities in accordance with our purpose and ensuring that we deliver good outcomes for them throughout their journey with us.	• Utilising a wide variety of customer engagement methods including engagement surveys, third party research and complaints monitoring • Continually reviewing the customer proposition • Monitoring performance against good customer outcomes • Considering the customer experience, customer contact strategy and customer journeys • Enhanced customer complaints processes • Designing and implementing policies that protect customers and their information	• Financial inclusion and well-being • Responsible lending • Understanding our customers • Our current products, possible future products and digital integration of the customer journey • Customer outcomes, satisfaction, care, service levels and complaints • Customer affordability and vulnerability • Safeguarding our customers' personal data • Clear and transparent customer communications • Policy suite includes, but is not limited to Anti Money Laundering ('AML'), Data Protection and Record Retention, Vulnerable Customers and Financial Promotions	• Adapting the business model to reflect a better understanding of customer needs • Developing and launching the pilot of hybrid product Provident Direct • Introducing card readers to the Field • Work to refine and digitise, where beneficial, customer journeys • Management and Board oversight of customer complaints operations, outcomes and strategy • Introducing recorded customer visits • Paperless ID verification

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our shareholder The company is a wholly owned subsidiary of Provident Financial plc, and as such it is of paramount importance that the group is kept updated on the company's progress in delivering the group's shared purpose, its budget, its strategy, governance and culture. Direct and regular engagement with our shareholder ensures that the company has a clear understanding of its role as part of the group.	• Adapting the business model to take into account the group-wide purpose, the Blueprint • Group CEO and CFO are members of the company Board • Financial reporting, strategy and common accounting principles • Budget and financial plan developed as part of wider group process • Group oversight of risk management • Group oversight of change programme	• Strategy and long-term value creation • Culture • Financial and operational performance • Risk management • Corporate governance arrangements and alignment • Corporate responsibility	• Business model aligned with regulatory expectations • Business model aligned with the group's purpose • Company aligned with overarching group-wide vision and purpose • Group approved budget and operational plan • Enterprise Risk Management Framework aligned to group

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our colleagues To ensure that they understand the group's purpose and how they can support its delivery, which we believe helps our customers. To maintain high levels of colleague engagement in order to enable us to attract, retain and develop the talent we need	• Group-wide colleague survey was carried out during the year • Designated group Non-Executive Director plays the lead role in Board engagement with employees, understanding and representing employee interests across the group • The group's Blueprint was launched via a dedicated roll-out programme during the year to focus on culture • Group recognition platform, 'Better Everyday', launched and designed to help create a culture where we say 'thank you' or 'well done' to colleagues who demonstrate our Blueprint behaviours • Independent whistleblowing line is available for colleagues to raise concerns • Board oversight of policies that protect employees, their rights and their personal data • Gender pay gap report produced	• Culture, purpose and behaviours • Financial and operational performance • Reward and recognition • Employee engagement • Leadership performance and succession • Development, training and career opportunities • Diversity and inclusion • Health and safety • Colleague wellbeing at work	• Introduction of safety devices to the field • Introduction of card readers in the field • Introduction of paperless ID and income verification • Oversight of our health and safety approach, including the impact on colleagues • Review of the whistleblowing process and output • Launch of the new and enhanced mechanisms for colleague recognition 'Better Everyday'

STRATEGIC REPORT (CONTINUED)

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our communities To invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, may affect someone's likelihood of being accepted for credit, improve social mobility and support community projects.	• Participation in the group Social Impact Programme that delivers community investment	• Community contributions and charitable giving • Volunteering • Matched employee fundraising • Supporting initiatives to improve skills and employability	• Group volunteering policy • Group Board oversight of community matters and the approach to external engagement regarding the company's purpose and role in society • Matched employee charitable fundraising • Mentoring young adults via legal days
Our regulators To plan for regulatory change with greater certainty and confidence, to maintain our reputation as a responsible lender and to maintain our sustainable business model.	• Adapting the business model to account for changes in regulation • Board members and executive management engage proactively with regulators via regular face to face and telephone meetings • Regulatory risk reporting, including horizon scanning, is carried out and reported to the risk committee and Board • Regulatory engagement and correspondence is reported to and discussed by the Board • Regulatory dialogue and engagement regarding current and potential products, customer outcomes and digitisation • Appropriate Risk Office structure and resource levels via the Risk Management Framework	• Customer vulnerability • Our products, our potential products and digitisation • Governance framework • Regulatory capital and wind down plan • Customer proposition improvements • Complaints • Senior Management & Certification Regime embedding and ongoing compliance • Culture and Blueprint	• The views of regulators and the regulatory environment informed the business model updates and amendments to our product offering • Enhanced oversight and monitoring of sales and collections including customer recorded visits • Engaged with FOS on areas of mutual interest

STRATEGIC REPORT (CONTINUED)

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our suppliers To treat our suppliers fairly and develop strong relationships with them which ensure that we only buy products and services from those who operate responsibly and mitigate risk in our supply chain.	• There is an established due diligence process to manage supply chain-based risks and comply with company policies • There are standardised contractual terms that we attempt to use with all of our suppliers, this reduces contractual risks when contracting under these terms • The company is a signatory to the Prompt Payment Code and we publish our Payment Practices Reporting at Companies House	• Prompt payment • Data protection • Information security • Corporate Criminal Offence and Tax Evasion • Environment • Supplier on-boarding process • Supplier performance • Delegated authorities • Anti-bribery and corruption • Modern Slavery • Conduct, behaviour and performance	• Signatories of the Prompt Payment Code • Compliance with FCA compliance handbook • Supplier relationship management framework which highlights supplier performance and enables joint roadmaps
Our environment To minimise our environmental impact, in particular to reduce the greenhouse gas emissions associated with our business activities, thereby lessening our contribution to issues such as climate change.	• A key tool in helping the group to manage its environmental impact is the group Environmental Management System (EMS)		• Participated in the Group wide reduced emissions targets • Participated in the annual group submission to the Carbon Disclosure Project • Continued offset of the group's operational carbon footprint

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

Our Budget 2020

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

Risk

- Principle risks and uncertainties
- Key performance risks

Financial

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

Regulatory

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

Customer

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

Colleagues

- People and talent
- New and existing skills and experience

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

Purpose and leadership

PPC's purpose is aligned with that of its parent company, Provident Financial plc (the 'group), which is predicated on its customers and is underpinned by a number of strategic drivers and behaviours. The group follows the Corporate Governance Code and details of its compliance are reported within its 2019 Annual Report and Accounts (the "PF Annual Report"). The Board is focused upon delivering an appropriate balance between the needs of the company's stakeholders, in order to ensure that PPC is successful and sustainable for all. By balancing the interests of our stakeholders, lending responsibly, contributing to wider society and ensuring the appropriate corporate governance arrangements are in place, PPC can maintain a reputation for high standards of business conduct.

PPC operates under the group's cultural Blueprint, the aim of which is to unify colleagues around the group's purpose of putting people on a path to a better everyday life and provide financial inclusion for the 1 in 5 UK adults who are not well served by mainstream lenders. For more information on the Blueprint initiative, please see pages 12 to 23 of the PF Annual Report.

PPC is a wholly-owned subsidiary of Provident Financial plc, with visibility and transparency between the two entities ensured by the group CEO and CFO being members of the Board, the CEO also being the Chair. A Group Delegated Authorities Manual ("GDAM") assists in setting decision making expectations of the PPC Board and management.

PPC's relationship with its employees is of vital importance to the company, and workforce advisory panels are in place throughout the group, including the Consumer Credit Division, of which PPC forms a part. A group-wide survey was conducted in 2019; the results have been discussed by the CCD Executive Committee and an action plan formulated and overseen by key PPC directors and senior management. Changes delivered in the year have included improvements to employee health and safety; remote card readers for CEMs and instant access to emergency services when in danger. Enhanced mechanisms for colleague recognition have been launched. Furthermore, roadshows, weekly departmental meetings, use of a company-wide intranet and more all help demonstrate to employees that they are respected and appreciated by the company. With regards to making sure feedback is not simply a 'once a year' event, the group has in place a group Employee Champion NED who visits PPC sites and delivers feedback to the group Customer, Culture and Ethics ("CCE") Committee Report consistently, which is further explained in the PF Annual Report at page 106.

The group-wide rollout of the Blueprint initiative in 2019 embedded the purpose and values via several company events, the updating of policies and the inclusion of relevant criteria into colleague performance development reviews. PPC utilises a balanced scorecard of key performance indicators to measure its embedding of the Blueprint, and these are reported into and monitored by the group through its CCE Committee. Further information on the Blueprint can be found in the PF Annual Report on pages 12 to 23.

PPC has in place a Whistleblowing Policy, Whistleblowing Forum and an external independent route in place for employees to raise any matters of concern. Whistleblowing reports are collated and reported to the group Board, with actions cascaded to the PPC as appropriate. This process is sponsored by the group General Counsel and Company Secretary who is responsible for facilitating robust controls and comprehensive independent investigation of any reports made. The Company Secretary similarly maintains a group Conflicts of Interest Policy.

PPC's strategy is set at the company level, and is aligned overall with the group. PPC has a market leading position in the provision of unsecured personal loans to the underserved through Provident home credit and Satsuma online loans. The company's aim is to support customers to navigate their everyday life and provide opportunities for them to improve their credit rating. Home credit and Satsuma products are an important part of financial inclusion within their respective markets. More information on PPC's purpose and strategy can be found within the PF Annual Report on pages 12 to 29.

Purpose and leadership (continued)
The nature of PPC's customer base and the market it specialises in makes the building and maintaining of open and trusting dialogue with policy makers and key regulators, the Financial Conduct Authority (FCA) and Central Bank of Ireland (CBI), critical to developing a sustainable business model for the long term success of the company. During 2019 the PPC Board engaged in extensive dialogue with the FCA in relation to the launch of a hybrid product, Provident Direct, and liaised with the CBI in relation to the rollout of a new operating model within its field force. For further information on how the PPC Board engages with its regulators, please see the Section 172 statement on pages 7 to 12.

Board composition
The PPC Board's roles of Chair and Chief Executive are separate, with the group CEO being the Chair of PPC. The Board also comprises the PPC Managing Director, Finance Director and the group CFO, ensuring that there is the appropriate level of oversight for the size and complexity of the business, and reflecting the requirements of a company which is FCA and CBI regulated and a wholly-owned subsidiary of a group. Other attendees are invited as appropriate (including the CRO) and every director has significant sector specific knowledge. The Chair (group CEO) and group CFO's biographies are located on pages 92 and 93 of the PF Annual Report. As all Directors are Executive Directors each demonstrates a strong knowledge of the business. The PPC Board undertakes an annual review of its Board, Committee and individual director effectiveness and the results inform succession planning.

There is a joint Audit and Risk Committee, the membership of which includes the MD, CRO and FD. The group CFO is the Chair of the Audit and Risk Committee. The duties and responsibilities of this Committee are documented within its terms of reference and include monitoring the integrity of financial reporting, internal controls and risk management of PPC and advising the Board on whether internal controls and risks are sufficiently robust and appropriately managed.

The Board and Chair are supported by the group Company Secretariat who ensure that an appropriate agenda is set in consultation with the Chair, that directors have access to appropriate information and that there is sufficient time within meetings to enable meaningful discussion. In 2019 PPC held four Board meetings and successfully completed its annual cycle of work.

The Board currently has 25% female representation and PPC adheres to the group-wide policy on Equality, Diversity and Inclusion ('EDI'), which references both the Hampton-Alexander Review and the Parker Review targets. The group EDI policy recognises that Board diversity plays a key role in contributing to the group's success. Whilst there was no recruitment to the Board during 2019, the Board is committed to promoting diversity and has in place succession and talent development plans.

Within PPC an annual functional talent review takes place during August/September for all employees. This includes assessing colleagues' skills and identifying any key skill gaps, an assessment of successors and a key action log exploring team wide interventions and longer term goals. An overview of the PPC workforce profile is then collated and submitted to the PPC Executive Committee for review and discussion. PPC continues to take advantage of technical development opportunities presented by the Apprenticeship Levy, explore opportunities to align Field and Head Office talent and has re-launched its internal mentoring programme. PPC participates in the group Women in Leadership Programme, which seeks to aid female colleague progression throughout the group and their influence throughout their respective entity.

Director responsibility
To ensure that all the Board and individual directors continue to have a clear understanding of their accountability and responsibilities, refresher Section 172 training took place for the group Non Executive Directors during 2019, and refresher training for PPC's Executive Directors is planned during 2020.

The GDAM was finalised in late-2019 which details approval limits and documents the appropriate hierarchy of decision making at the company and group level. PPC is currently reviewing and enhancing its delegated authorities manual to articulate the delegated authorities between the group and PPC. Further to this, there is a company specific Governance Framework and Governance Manual that are subject to internal audit review to assess their effectiveness.

Director responsibility (continued)
The Board has in place a schedule of matters reserved for its decision and Board and Committee terms of references. Senior Management Function Statements of Responsibilities and a Management Responsibilities Map were put in place to support the rollout of the Senior Managers and Certification Regime ("SMCR") in December 2019.

PPC is provided with a risk framework within which to operate by Provident Financial plc, and this is embedded through the adherence to Corporate Policies, against which it is required to provide a bi-annual attestation of compliance. The last attestation was provided for the 2019 full year in January 2020. In addition PPC has a suite of risk policies, compliance with which is monitored by its risk and internal audit functions and overseen by the Audit and Risk Committee. PPC also has an Enterprise Risk Management Framework alongside its own risk appetite which is fully aligned with that of the group.

With regards to Conflict of Interests, PPC's Conflict of Interests register is maintained by the group Company Secretariat and care is taken to accurately reflect those conflicts which arise due to Directors being on the board of more than one group company.

Group Company Secretariat support the Board and Chair on all governance matters, including providing timely Board and Committee agendas. Board papers are preceded by an executive summary and enhancements to the standards of reports to the Board were made during 2019 with the rollout of standardised reporting templates across the group.

Opportunity and risk
Sustainability and the ability to create an environment for the business where growth and success are prevalent is important to the Board of PPC. The company prepares a budget, approved by the Board, and embedded within which are the assumptions made within the Board approved strategy and plan. The budget satisfies the requirements of the company and aligns with that of the group. This consideration has led to the creation of a hybrid product in the form of Provident Direct. For more information on the product please refer to page 8 of the Strategic Report in the PF Annual Report.

The Audit and Risk Committee considers a Risk Management Report and the Key Risk Indicators by which the company's adherence to its Risk Appetite is measured. Risk ownership is defined by role and risk owners report into the Chief Risk Officer who, in turn, reports into the Board. The Risk Management report involves the use of a Risk Map whereby all latest changes are highlighted accordingly to predetermined risk grading and RAG status. Internal audit reports are considered and findings and action closure rates discussed. Risk reporting is reviewed within Board meetings and aggregated and aligned with that of the group for onward reporting to the Board of Provident Financial plc. Furthermore there is a group Risk Committee and, outside of the formal governance structure a meeting between the Chief Risk Officers of each subsidiary and the group Risk Committee Chair. For further information on Provident Financial plc's three lines of defence model, please see the Risk Committee Report in the PF Annual Report at pages 135 to 137.

Remuneration
PPC is a wholly owned subsidiary of Provident Financial plc and as such remuneration levels for colleagues are set within the group framework. The group Remuneration Committee sets the bonus policy, overall annual salary budgets (within which PPC can set annual salaries) and share scheme awards. The Remuneration Policy, applicable to group NED's and Executive Directors, is determined by its parent company and details of the policy can be found within the Directors Remuneration Report within the PF Annual Report. The group Remuneration Committee also oversee the remuneration of the CCD MD, PPC's Chair (group CEO) and group CFO as they are group Senior Management.

The remuneration of the wider workforce is discussed as part of the budgeting process within the CCD Executive Committee, group Executive Committee and is aligned to performance, both in terms of what colleagues achieve and how they achieve it, and to desired culture and business performance. Remuneration as a whole is benchmarked against the wider market so as to appropriately remunerate PPC's employees in order to retain talent and the progression of the business.

STRATEGIC REPORT (CONTINUED)

Stakeholder Relationships

The Board of PPC is dedicated to maintaining meaningful and productive engagement with its key stakeholders. PPC uses a wide variety of methods to engage with its stakeholders and reporting is considered at the most appropriate forum, whether this be at the company or group level. For further information regarding PPC's stakeholder engagement, please refer to page 68 – 70 of the Strategic Report in the Annual Report.

Going concern

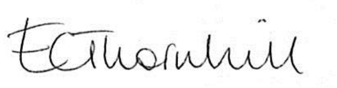
The company is fully funded through intercompany loan facilities made available by the ultimate parent company, Provident Financial plc. As a result, the ability of the entity to continue as a going concern is dependent on the ability and intent of its ultimate parent to continue to make funds available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

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

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

Based on this review, the directors are satisfied that the group has the required resources to continue in business for a period of at least twelve months following the approval of the company accounts. For this reason, the directors continue to adopt the going concern basis in preparing the company accounts. In addition, 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 24.

BY ORDER OF THE BOARD



E C Thornhill
Director
Bradford
27 August 2020

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 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in shareholder's equity;
- the statement of cash flows;
- the statement of accounting policies;
- the financial and capital risk management report; and
- the related notes 1 to 27.

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.

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

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

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	2019 £m	2018 £m
Revenue	1	293.5	339.9
Finance income	2	12.6	13.0
Total income		306.1	352.9
Finance costs	3	(22.5)	(32.7)
Impairment charges		(99.6)	(127.3)
Administrative and operating costs		(237.3)	(293.3)
Total costs		(359.4)	(453.3)
Loss before taxation	4	(53.3)	(100.4)
Loss before taxation and exceptional items	4	(48.2)	(89.6)
Exceptional items	4	(5.1)	(10.8)
Tax credit	5	9.1	18.6
Loss and total comprehensive expense for the year attributable to the equity shareholder		(44.2)	(81.8)

All of the above operations relate to continuing operations.

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

BALANCE SHEET

As at 31 December	Note	2019 £m	2018 £m
ASSETS			
Non-current assets			
Property, plant and equipment	9	3.0	6.9
Right of use assets	10	0.2	-
Financial assets:			
- amounts receivable from customers	11	23.5	29.3
Deferred tax assets	15	6.8	7.8
		33.5	44.0
Current assets			
Financial assets:			
- amounts receivable from customers	11	225.5	263.2
- trade and other receivables	13	217.2	230.6
- cash and cash equivalents	16	8.3	10.6
Current tax assets		9.9	19.2
		460.9	523.6
Total assets		494.4	567.6
LIABILITIES			
Current liabilities			
Financial liabilities:			
- trade and other payables	18	(444.4)	(473.7)
- lease liabilities	22	(0.1)	-
		(444.5)	(473.7)
Non-current liabilities			
Financial liabilities			
- preference shares	19	(0.3)	(0.3)
- lease liabilities	22	(0.1)	-
		(0.4)	(0.3)
Total liabilities		(444.9)	(474.0)
NET ASSETS		49.5	93.6
SHAREHOLDER'S EQUITY			
Share capital	20	71.5	71.5
Share premium		1.0	1.0
Share-based payment reserve		0.5	0.4
Retained (losses)/earnings		(23.5)	20.7
TOTAL SHAREHOLDER'S EQUITY		49.5	93.6

The financial statements on pages 21 to 58 were approved by the board of directors on 27 August 2020 and signed on its behalf by:

Chris Gillespie

E C Thornhill

C D Gillespie
Director

E C Thornhill
Director

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share premium £m	Share-based payment reserve £m	Retained earnings/ (losses) £m	Total £m
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
At 1 January 2019		71.5	1.0	0.4	20.7	93.6
Loss and total comprehensive expense for the year		-	-	-	(44.2)	(44.2)
Transactions with owners:						
- share-based payment charge	21	-	-	0.1	-	0.1
At 31 December 2019		71.5	1.0	0.5	(23.5)	49.5

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operations	25	5.6	17.8
Finance costs paid		(22.5)	(32.7)
Finance income received		12.6	13.0
Tax received		0.2	1.4
Net cash used in operating activities		(4.1)	(0.5)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(0.9)	(1.7)
Proceeds from disposal of property, plant and equipment	9	2.7	0.5
Net cash generated from/(used in) investing activities		1.8	(1.2)
Net decrease in cash, cash equivalents and overdrafts		(2.3)	(1.7)
Cash, cash equivalents and overdrafts at beginning of year		10.6	12.3
Cash, cash equivalents and overdrafts at end of year		8.3	10.6
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand	16	8.3	10.6
Total cash, cash equivalents and overdrafts		8.3	10.6

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

STATEMENT OF ACCOUNTING POLICIES

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

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

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

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

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

Basis of preparation
The financial statements are prepared in accordance with IFRSs adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, 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) The impact of new standards adopted by the company from 1 January 2019

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

IFRS 16 replaces IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors.

Basis of preparation (continued)

(a) The impact of new standards adopted by the company from 1 January 2019 (continued)
The standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions between operating leases and finance leases are removed for lessee accounting, and has been replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases where the company is the lessee, except for short-term assets and leases of low value assets.

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

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

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

The incremental borrowing rates applied to individual leases was 3.35%. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The classification of cash flows will be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as operating and financing cash flows respectively.

The adoption of IFRS 16 into the opening balance sheet on 1 January 2019 results in an increase in assets of £0.3m and liabilities of £0.3m, which results in a reduction in net assets of £nil.

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

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

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

	2019 £m
Undiscounted future minimum lease payments under operating leases at 31 December 2018	0.7
Impact of discounting	(0.1)
Removal of VAT operating lease calculations	(0.1)
Other reconciling items	(0.2)
Lease liability recognised on adoption at 1 January 2019	0.3

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

Basis of preparation (continued)

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

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

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 statement of comprehensive income 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.

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

Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

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

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

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

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

Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying amount of the asset and are recognised within administrative and operating costs in the statement of comprehensive income.

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

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

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

The lease payments included in the measurement of the lease liability comprise:
- Fixed lease payments;
- Variable lease payments;
- Payment of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

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

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

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

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

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

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

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

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.

Derivative financial instruments (continued)
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 statement of comprehensive income as part of finance costs. Amounts deferred in equity are recognised in the statement of comprehensive income when the income or expense on the hedged item is recognised in the statement of comprehensive income.

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

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

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income of the company over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The cost of 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 previously granted awards under the Provident Financial Equity Plan (PFEP) to eligible employees based on a percentage of their salary. The cost of the awards is based on the performance conditions of divisional profit before tax and share price growth or TSR growth compared to a comparator group. The scheme is cash settled.

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

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

Exceptional 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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

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

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

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)
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.

Sensitivity analysis of the company's main assumptions are set out in note 11.

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 2019 is the carrying value of amounts receivable from customers of £249.0m (2018: £292.5m).

Credit risk within CCD is managed by the Credit Forum, which meets at least eight times per year, and which is responsible for reviewing credit risk and performance of the portfolio and for making recommendations on credit model, lending and collections strategy changes, based on a majority vote, to the CCD Managing Director for approval.

Credit risk is managed using a combination of lending policy rules, credit scoring (including behavioural scoring), 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 a Customer Experience Manager (CEM) 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, in conjunction with central decisioning enhanced through the use of credit bureau data. Once a loan has been made, the CEM typically visits the customer weekly, to collect payment. The CEM is 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 CEM has with the customer 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. 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 2019 was £0.7m (2018: £1.9m).

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

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the group's borrowings extend over a number of years. The group's funding strategy is to maintain diversification in its funding and, as such, currently accesses three main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; and (iii) retail deposits which fully funds the ring-fenced Vanquis Bank. The group will continue to explore further funding options as appropriate, including but not limited to the refinancing of the syndicated revolving bank facility, securitisation of receivable assets and further private placements and institutional bond issuance. The group also successfully signed a bilateral securitisation facility with NatWest Markets to fund Moneybarn business flows on 14 January 2020. The new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months.

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

(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 2019 and 2018 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged. Further details of the interest rate risk management are detailed within the annual report and financial statements of Provident Financial plc.

(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 2019 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 to 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 2019, a 2% movement in the sterling to euro exchange rate would have led to a £0.7m (2018: £0.8m) movement in customer receivables with an opposite movement of £0.7m (2018: £0.8m) 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 (2018: £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 economic outlook post Brexit remains uncertain and has led to a significant amount of instability in the UK economy and capital markets, albeit unemployment levels have remained stable and there has not been any significant impact on the group's businesses to date.

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

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

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

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

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

Credit risk
All of the group's divisions have tightened lending policies and underwriting criteria through the first half, thereby limiting new business and improving the quality of newly acquired customers. The relaxation of tightening will be gradual, on a test and learn basis and an assessment of repayment performance will be made before further changes are made.

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

(h) Covid-19 (continued)

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

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

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

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

NOTES TO THE FINANCIAL STATEMENTS

1 Revenue

	2019	2018
	£m	£m
Interest income	293.5	339.9

2 Finance income

	2019	2018
	£m	£m
Interest receivable from parent undertaking	12.6	13.0

3 Finance costs

	2019	2018
	£m	£m
Interest payable to ultimate parent undertaking	22.5	23.5
Exceptional additional interest charge on borrowings from ultimate parent undertaking (note 4)	-	9.2
Total finance costs	22.5	32.7

In 2019 and 2018 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 2019 was therefore £nil (2018: £nil).

4 Loss before taxation

	2019	2018
	£m	£m
Loss before taxation is stated after charging/(crediting):		
Depreciation of property, plant and equipment (note 9)	2.1	2.6
(Profit)/loss on disposal of property, plant and equipment (note 9)	(0.2)	0.1
Operating lease rentals:		
- property	0.3	0.4
Depreciation of right of use assets (note 10)	0.1	-
Employment costs (prior to exceptional redundancy costs (note 8(b))	87.6	107.7
Exceptional costs:		
- additional interest charge on borrowings from ultimate parent undertaking (note 3)	-	9.2
- restructuring costs	0.5	1.6
- redundancy costs (note 8(b))	4.6	-
Impairment of amounts receivable from customers (note 11)	99.6	127.3

The exceptional restructuring costs and redundancy costs of £5.1m relate to costs associated with the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017 (2018: £1.6m).

The exceptional interest costs in 2018 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.

Auditor's remuneration payable to Deloitte LLP in respect of the audit of the company's financial statements was £200,000 (2018: £116,000). Auditor's remuneration to Deloitte LLP in respect of other services was £22,000 (2018: £11,000).

5 Tax credit

Tax credit in the statement of comprehensive income	2019 £m	2018 £m
Current tax		
- UK	10.1	18.8
- Overseas	-	0.3
Deferred tax charge (note 15)	(1.0)	(0.5)
Total tax credit	9.1	18.6

During 2015, changes in corporation tax rates were enacted, reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. During 2016, a further change was enacted which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2019 have been measured at 17% (2018: 17%) to the extent that the temporary differences on which the deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 1 April 2020). In 2019, movements in the deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19% (2018: 19%). A tax charge in 2019 of £nil (2018: £nil) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes.

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

	2019 £m	2018 £m
Loss before taxation	(53.3)	(100.4)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 19% (2018: 19%)	10.1	19.1
Effect of:		
- impact of permanent differences	0.1	(0.1)
- benefit of lower rates overseas	(1.1)	(0.4)
Total tax credit	9.1	18.6

The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2018: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19% (2018: 19%). In 2019, the home credit business in the Republic of Ireland made a loss (2018: loss) 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% UK statutory tax rate. No deferred tax has been recognized in respect of this loss giving rise to a total adverse impact on the tax charge of £1.1m (2018: adverse impact of £0.4m).

6 Dividends

During the year ended 31 December 2019, the directors are unable to pay an interim dividend on the ordinary shares of the company (2018: £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 (2018: none).

8 Employee information

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

	2019 Number	2018 Number
Administrative	36	38
Operations	2,430	2,933
Total	2,466	2,971
Analysed as:		
Full time	2,210	2,740
Part time	256	231
Total	2,466	2,971

(b) Employment costs

	2019 £m	2018 £m
Aggregate gross wages and salaries paid to the company's employees	75.9	90.1
Employer's National Insurance contributions	7.7	9.4
Pension charge (note 14)	3.9	8.1
Share-based payment charge (note 21)	0.1	0.1
Total employment costs prior to exceptional redundancy costs	87.6	107.7
Exceptional redundancy costs (note 4)	4.6	-
Total employment costs	92.2	107.7

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 (2018: £0.1m) relates to equity-settled schemes charge of £0.1m (2018: £nil) and cash-settled schemes charge of £nil (2018: £0.1m).

9 Property, plant and equipment

	Equipment and vehicles	
	2019	2018
	£m	£m
Cost		
At 1 January	13.6	13.7
Additions	0.9	1.7
Disposals	(6.5)	(2.1)
Transfers (to)/from other group undertakings	(0.2)	0.3
At 31 December	7.8	13.6
Accumulated depreciation		
At 1 January	6.7	5.4
Charged to the statement of comprehensive income	2.1	2.6
Disposals	(4.0)	(1.5)
Transfers from other group undertakings	-	0.2
At 31 December	4.8	6.7
Net book value at 31 December	3.0	6.9
Net book value at 1 January	6.9	8.3

The profit on disposal of property, plant and equipment in 2019 amounted to £0.2m (2018: loss of £0.1m) and represented proceeds received of £2.7m (2018: £0.5m) less the net book value of disposals of £2.5m (2018: £0.6m).

10 Right of use assets

	£m
Cost	
At 1 January 2019 - recognised on adoption of IFRS 16	0.3
At 31 December 2019	0.3
Accumulated depreciation	
At 1 January 2019	-
Charged to the statement of comprehensive income	0.1
At 31 December 2019	0.1
Net book value at 31 December 2019	0.2
Net book value at 1 January 2019	0.3

All right of use assets relate to property leases.

11 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.

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.

11 Amounts receivable from customers (continued)

	2019			2018		
	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	225.5	23.5	249.0	263.2	29.3	292.5

Receivables comprise £205.8m in respect of the home credit business (2018: £253.0m) and £43.2m in respect of Satsuma (2018: £39.5m).

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

	2019 £m	2018 £m
Gross amount receivable from customers	593.9	725.6
Allowance account	(344.9)	(433.1)
Reported amounts receivable from customers	249.0	292.5

Amounts received from customers can be reconciled as follows:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2019 Total £m
Gross carrying amount				
At 1 January	183.6	48.4	493.6	725.6
New financial assets originated	353.4	5.5	-	358.9
Net transfers and changes in credit risk	(118.7)	3.7	115.0	-
Write-offs	(1.1)	(1.4)	(184.9)	(187.4)
Recoveries	(454.1)	(61.2)	(87.8)	(603.1)
Revenue	192.8	40.9	59.6	293.3
Other movements	-	0.1	6.5	6.6
At 31 December	155.9	36.0	402.0	593.9
Allowance account				
At 1 January	(12.0)	(12.9)	(408.2)	(433.1)
Movements through statement of comprehensive income:				
New financial assets originated	(31.5)	(0.7)	-	(32.2)
Net transfers and changes in credit risk	32.0	2.1	(101.5)	(67.4)
Total movements through statement of comprehensive income	0.5	1.4	(101.5)	(99.6)
Other movements:				
Write-offs	1.1	1.4	184.9	187.4
Other movements	-	-	0.4	0.4
Allowance account at 31 December	(10.4)	(10.1)	(324.4)	(344.9)
Reported amounts receivable from customers at 31 December	145.5	25.9	77.6	249.0
Reported amounts receivable from customers at 1 January	171.6	35.5	85.4	292.5

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £0.3m based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

11 Amounts receivable from customers (continued)

Write offs increased significantly in 2019 due to the removal of the ring fenced book which are now included as part of the post charge off asset. There is no additional macroeconomic provision included in the allowance account for the company, consistent with the prior year, as the payment performance of home credit customers is not typically correlated to the wider economy as may be the case for prime customers.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	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 statement of comprehensive income:				
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 statement of comprehensive income	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

A breakdown of the gross receivable by internal credit risk rating is shown below:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2019 Total £m
Very good	62.2	8.9	6.3	77.4
Good	23.2	6.7	10.4	40.3
Satisfactory	28.8	8.4	35.2	72.4
Lower quality	10.4	3.0	72.6	86.0
Below standard	31.3	9.0	277.5	317.8
Total	155.9	36.0	402.0	593.9

Internal credit risk rating reflects the internal credit risk grade at the year end.

11 Amounts receivable from customers (continued)

An impairment charge of £99.6m (2018: £127.3m) in respect of amounts receivable from customers is reflected in impairment charges in the statement of comprehensive income.

The average effective interest rate for the year ended 31 December 2019 was 125% (2018: 119%).

The average period to maturity of the amounts receivable from customers is 5.7 months (2018: 5.9 months).

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

Currency profile of amounts receivable from customers	2019 £m	2018 £m
Sterling	215.5	253.6
Euro	33.5	38.9
Total	249.0	292.5

12 Financial instruments

The following table sets out the carrying value of the company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

	2019		
	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets			
Cash and cash equivalents	8.3	-	8.3
Amounts receivable from customers	249.0	-	249.0
Trade and other receivables	217.2	-	217.2
Deferred tax assets	-	6.8	6.8
Current tax assets	-	9.9	9.9
Property, plant and equipment	-	3.0	3.0
Right of use assets	-	0.2	0.2
Total assets	474.5	19.9	494.4
Liabilities			
Trade and other payables	(444.4)	-	(444.4)
Lease liabilities	(0.2)	-	(0.2)
Preference shares	-	(0.3)	(0.3)
Total liabilities	(444.6)	(0.3)	(444.9)

12 Financial instruments (continued)

	Amortised cost £m	Non-financial assets/ liabilities £m	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 asset	-	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)

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

13 Trade and other receivables

Current assets	2019 £m	2018 £m
Other receivables	1.4	2.4
Amounts owed by parent undertaking	200.0	200.0
Amounts owed by fellow subsidiary undertakings	15.6	27.9
Prepayments and accrued income	0.2	0.3
Total	217.2	230.6

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 (2018: £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 which were accrued in the past on a final salary basis, but which are no longer linked to final salary. The scheme also provides death benefits.

The scheme is a multi-employer scheme, sponsored by Provident Financial plc and, although the company participates in the scheme, there is no contractual agreement for charging the company a portion of the defined benefit costs of the plan as a whole. In accordance with IAS 19, 'Employee benefits', the company recognises the contributions payable in respect of its current employees in its individual financial statements, similar to the treatment of a defined contribution scheme. In 2019 these contributions amounted to £1.5m (2018: £6.2m). The expected contributions to the defined benefit pension scheme in the year ending 31 December 2020 are approximately £2.6m.

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

The retirement benefit asset reflects the difference between the present value of the group's obligation to current and past employees to provide a defined benefit pension and the fair value of assets held to meet that obligation. As at 31 December 2019, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded in the group's financial statements. The most recent actuarial valuation of the scheme was carried out as at 1 June 2018 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet.

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

- Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match the liabilities.
- Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.
- Inflation risk – part of the liabilities are linked to inflation. If inflation increases then 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			
	2019		2018	
	£m	%	£m	%
Equities	76.4	9	62.6	8
Other diversified return seeking investments	-	-	71.5	9
Corporate bonds	219.3	26	136.0	17
Fixed interest gilts	252.9	30	177.3	22
Index-linked gilts	284.8	34	334.4	43
Cash and money market funds	9.2	1	6.5	1
Total fair value of scheme assets	842.6	100	788.3	100
Present value of funded defined benefit obligations	(764.6)		(704.4)	
Net retirement benefit asset recognised in the balance sheet	78.0		83.9	

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

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

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

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

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

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

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	
	2019	2018
	£m	£m
Discount rate decreased by 0.1%	14	12
Inflation increased by 0.1%	6	5
Life expectancy increased by 1 year	38	30

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

The group also operates a separate pension scheme for auto-enrolment into which the company contributes a proportion of qualifying earnings of the member of 1%.

The pension charge in the company's statement of comprehensive income represents contributions payable by the company in respect of these plans and amounted to £2.4m for the year ended 31 December 2019 (2018: £1.9m). No contributions were payable to the fund at the year end (2018: £nil).

The company made no contributions to personal pension plans in the year (2018: £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 2019 has been measured at 17% (2018: 17%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 1 April 2020). 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 2019, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19% (2018: 19%). A tax charge in 2019 of £nil (2018: £nil) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes. The movement in the deferred tax asset during the year can be analysed as follows:

	2019	2018
Asset	£m	£m
At 1 January	7.8	0.7
Charge to the statement of comprehensive income (note 5)	(1.0)	(0.5)
Credit on adjustment arising on transition to IFRS 9	-	7.6
At 31 December	6.8	7.8

15 Deferred tax (continued)

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

	2019			2018		
	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	7.4	7.8	0.4	0.3	0.7
Charge to the statement of comprehensive income	0.1	(1.1)	(1.0)	-	(0.5)	(0.5)
Credit on adjustment arising on transition to IFRS 9	-	-	-	-	7.6	7.6
At 31 December	0.5	6.3	6.8	0.4	7.4	7.8

Deferred tax is a future tax liability or asset resulting from temporary differences or timing difference between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of deductions for employee share awards which are recognised differently for tax purposes, property, plant and equipment which is depreciated on a different basis for tax purposes, certain cost provisions for which tax deductions are only available when the costs are paid, the opening balance sheet adjustment to restate the IAS 39 balance sheet onto an IFRS 9 basis for which tax deductions are available over 10 years and the opening balance sheet adjustment in respect of the adoption of IFRS 16 which is deductible over the average period of the lease.

The deferred tax credit of £7.6m in 2018 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.

Since the year end it has been announced that the mainstream rate of corporation tax in the UK will not reduce to 17% with effect from 1 April 2020 and will instead remain at 19%, refer to note 27.

16 Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	8.3	10.6

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

Currency	2019 £m	2018 £m
Sterling	8.0	10.6
Euro	0.3	-
Total	8.3	10.6

17 Bank and other borrowings

Borrowing facilities principally comprise overdrafts which are repayable on demand. As at 31 December 2019, borrowings amounted to £nil (2018: £nil).

The company, together with Provident Financial plc, are permitted borrowers under the bank syndicated facility. As at 31 December 2019, the company had no outstanding borrowings under this facility.

The syndicated bank facility of the group as at 31 December 2019 comprised £235m maturing in July 2022. Headroom on this committed facility was £69.1m as at 31 December 2019 (2018: £327.4m). The weighted average period to maturity of this committed facility was 2.6 years (2018: 1.4 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	2019 £m	2018 £m
Trade payables	-	0.3
Amounts owed to ultimate parent undertaking	393.2	412.0
Amounts owed to parent undertaking	27.5	48.2
Other payables including taxation and social security	2.7	3.2
Accruals	21.0	10.0
Total	444.4	473.7

The fair value of trade and other payables equates to their book value (2018: fair value equated to book value). The amounts owed to the ultimate parent undertaking, 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

Non-current liabilities	2019 £m	2018 £m
Preference shares	0.3	0.3

		2019		2018	
		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 2019 and 2018 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 2019 was therefore £nil (2018: £nil).

20 Share capital

		2019		2018	
		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 (2018: 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 2018 and 2019, options have been granted under the SAYE scheme only.

(a) Equity-settled schemes
The charge to the statement of comprehensive income during the year was £0.1m (2018: £nil) for equity-settled schemes.

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

	2019	2018
	SAYE	SAYE
Grant date	08-Oct-19	04-Oct-18
Share price at grant date (£)	3.87	5.90
Exercise price (£)	3.23	5.38
Shares awarded/under option (number)	493,135	552,460
Vesting period (years)	3 and 5	3 and 5
Expected volatility	68.0% to 84.9%	65.8% to 83.3%
Option life (years)	Up to 5	3 and 5
Expected life (years)	Up to 5	3 and 5
Risk-free rate	0.2% to 0.3%	0.99% to 1.22%
Expected dividends expressed as a dividend yield	3.00%	3.00%
Fair value per award/option (£)	0.38 to 0.76	2.61 to 3.36

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

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

	SAYE	
2019	Number	Weighted average exercise price £
Outstanding at 1 January	712,008	5.52
Granted	493,135	3.23
Lapsed	(412,763)	5.42
Exercised	(509)	6.35
Outstanding at 31 December	791,871	4.11
Exercisable at 31 December	1,882	14.18

21 Share-based payments (continued)

	SAYE	
		Weighted average exercise price
2018	Number	£
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

Share options outstanding under the SAYE schemes at 31 December 2019 had exercise prices ranging from 323p to 1,760p (2018: 501p to 1,760p) and a weighted average remaining contractual life of 2.8 years (2018: 3.0 years).

(b) Cash-settled schemes
Cash awards were previously granted under the PFEP to eligible employees that require the company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The charge to the statement of comprehensive income in 2019 was £12,000 (2018: charge of £101,000) and the company has a liability of £89,000 as at 31 December 2019 (2018: £101,000).

22 Lease liabilities

	2019
	£m
Current	0.1
Non-current	0.1
Total	0.2

A maturity analysis of the lease liabilities is shown below:

	2019
	£m
Due within one year	0.1
Due between one and five years	0.1
Due in more than five years	-
Total	0.2
Unearned finance cost	-
Total lease liabilities	0.2

The total cash outflow for leases in the year amounted to £0.4m for the company, including short-term lease cash outflows of £0.2m. At 31 December 2019, the company is also committed to £nil for short-term leases.

23 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:

	2019			2018		
	Management recharge £m	Interest charge £m	Outstanding balance £m	Management recharge £m	Interest charge £m	Outstanding balance £m
Ultimate parent undertaking	-	22.5	(393.2)	-	32.7	(412.0)
Immediate parent undertaking	95.7	(12.6)	172.5	139.7	(13.0)	151.8
Other subsidiary of the ultimate parent undertaking	6.1	-	15.6	5.9	-	27.9
Total	101.8	9.9	(205.1)	145.6	19.7	(232.3)

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 £6.1m for these services in 2019 (2018: £5.9m).

During the year, the company sold one tranche of charged off debt to a subsidiary of the ultimate parent undertaking, Vanquis Bank Limited, for £1.2m (2018: £nil).

24 Contingent liabilities

(a) Challenge to self-employed status of UK home credit agents

It is understood from discussions with HMRC that they have commenced an industry-wide review of the self-employed status of agents.

In July 2017, the company changed its UK home credit operating model in the UK from a self-employed agent model to an employed workforce to take direct control of all aspects of the customer relationship. Policies and procedures were in place up to the transition to the new operating model to ensure that the relationship between the business and the agents it engaged were such that self-employed status was maintained. Compliance with policies was routinely evidenced and tested. To date, the company has successfully defended claims and challenges against the historic employment status of its UK home credit agents although there can be no guarantee that this will also be the case with future claims and challenges.

The company's discussions with HMRC, which are focusing on the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014 to the change of operating model in July 2017, remain in the initial fact-finding stages. The group is working positively and collaboratively with HMRC who have indicated that the review could continue for another year.

Were the group to be unsuccessful in defending the historic self-employed position of agents, it may be required to pay additional taxes, in particular national insurance contributions, on the commission of approximately £80m per annum it paid to agents in the UK for the years concerned. As discussions with HMRC remain in the preliminary stages, and the company does not know the amounts of tax and national insurance contributions paid by agents through self-assessment which are available for offset, it is difficult to calculate an accurate liability should the company be unsuccessful in defending the position.

The group has worked with HMRC over many years to manage employment status risk and it remains confident that agents were self-employed as a matter of law throughout their engagement by the home credit business.

(b) Irresponsible lending complaints and the Financial Ombudsman Service (FOS)

There continues to be heightened claims management company activity around non-standard lending sectors, particularly in respect of irresponsible lending in high-cost credit and more recently in home credit. As a result, CCD has seen an increase in the number and cost of such complaints and an increase in referrals to the FOS. CCD continues to robustly defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard. Complaints of irresponsible lending and referrals to the FOS stabilised during the second half of 2019.

CCD incurs the cost of settling complaints as part of its normal business as usual activity. However, were the group to be unsuccessful in defending certain irresponsible lending complaints referred to above, it may lead to a material increase in the cost of settling such complaints. It is not possible to calculate the aggregated increased cost of such a scenario.

(c) The company is a guarantor in respect of: (i) borrowings made by the company's ultimate parent undertaking; and (ii) guarantees given by the company's ultimate parent undertaking in respect of borrowings of certain of its subsidiaries to a maximum of £691.8m (2018: £961.5m). At 31 December 2019, the borrowings amounted to £618.3m (2018: £623.8m). No loss is expected to arise.

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.

25 Reconciliation of loss after taxation to cash generated from operations

	Note	2019 £m	2018 £m
Loss after taxation		(44.2)	(81.8)
Adjusted for:			
- tax credit	5	(9.1)	(18.6)
- finance income	2	(12.6)	(13.0)
- finance costs	3	22.5	32.7
- share-based payment charge	21	0.1	0.1
- depreciation of property, plant and equipment	9	2.1	2.6
- (profit)/loss on disposal of property plant and equipment	9	(0.2)	0.1
- depreciation of right of use assets	10	0.1	-
- impact of adoption to IFRS 9		-	(43.2)
Changes in operating assets and liabilities:			
- amounts receivable from customers		43.5	98.1
- trade and other receivables		13.4	(27.5)
- trade and other payables		(10.0)	68.3
Cash generated from operations		5.6	17.8

26 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.

27 Post balance sheet event

Covid -19

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

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

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

27 Post balance sheet event (continued)

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

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

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

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

As the 17% rate of mainstream corporation tax was the enacted rate at the reporting date, the 17% rate has been applied in calculating the deferred taxation balances reflected in the accounts. The cancellation of the rate reduction resulted in the company’s deferred tax asset increasing by £0.8m in March 2020.