A leading specialist bank focused on underserved markets

Provident Financial plc
Annual Report and Financial Statements 2021

Our strategic roadmap

Purpose

We help to put people on the path to a better everyday life

Read more on pages 14 to 19

Blueprint strategic drivers

- Customer progression
- Human experiences
- Head AND heart decisions
- Fighting fit

Our behaviours

- Be hungry for better
- Put the customer on the team
- Act like it's yours

Our strategy

- Grow customer-centric businesses
- Act responsibly and with integrity
- Maintain a secure funding and capital structure

Read more on pages 26 to 30

Our ESG strategy

- To operate our business of lending to our customers in a responsible manner
- To act responsibly and sustainably in all our stakeholder relationships

Read more on pages 48 to 74

Visit: providentfinancial.com

View: Corporate Responsibility Report at www.providentfinancial.com/sustainability/corporate-responsibility-report-2021

At a glance

1.6m
0.2m
Customer numbers[1]
(2020: 1.8m)

£1.7bn
Amounts receivable from customers[1]
(2020: £1.7bn)

£706.5m
£31.7m
Regulatory capital
(2020: £674.8m)

£0.7bn
£0.3bn
Liquidity
(2020: £1.0bn)

£167.8m
£140.0m
Adjusted profit before tax – continuing operations
(2020: £27.8m)

£142.2m
£179.2m
Statutory profit before tax – continuing operations
(2020: LBT (£37.0m))

100%[2]
Operational carbon footprint offset
(2020: 100%)

Certain alternative performance measures (APMs) have been used in this report (see pages 271 to 274)

1 Continuing operations.
2 Not including Scope 3 emissions associated with purchased goods and services.

We are committed to serving customers in underserved markets

"2021 was the year in which we repointed and restructured PFG. In 2022 we will progress with our plan to make PFG a leading specialist bank focused on underserved markets in the UK.

Patrick Snowball
Chairman

Introduction

2021 was a strategically important year for PFG as we successfully transitioned the Group to becoming a leading specialist bank focused on underserved markets. The Board and Executive Management team delivered a number of significant strategic initiatives during 2021, including closing our Consumer Credit Division, establishing a personal loans business and, shortly after the period end, making some important changes to the Group's governance structure.

The Board and I look forward to 2022 with confidence. We will continue to establish PFG as a leading specialist bank built on a platform of credit cards, vehicle finance and personal loans, all of which is underpinned by a strong and diversified balance sheet, aligned governance and harmonised risk management. I am delighted to report that we have been able to reinstate the dividend to our shareholders for FY'21.

Governance

Our primary responsibility as the Board is the effective oversight of the Group and to determine its strategic direction and objectives. We are committed to the highest possible standards of corporate governance and delivering long-term, sustainable shareholder value. Shortly after the period end, we announced the next phase of our strategy. We have restructured the Board of Vanquis Bank to substantially align its membership with the Board of PFG. This is an important step in the execution of the Group's specialist bank strategy, which includes the wider use of retail deposit funding across the Group from H2'22. I believe that streamlining the Boards of the two legal entities in this way will create a simpler, more efficient Group governance structure, whilst streamlining and enhancing both PFG and Vanquis Bank's handling of corporate governance. Further details of these changes can be found on page 134.

Our Consumer Credit Division

The Board took the regrettable and difficult decision to close our Consumer Credit Division (CCD) during 2021 in response to changing industry dynamics. We committed to close the business by the end of the year. We achieved this, within the closure cost guidance of up to £100m. The closure of CCD involved launching a Scheme of Arrangement for its customers. This was a step that we did not have to take, but we felt that it was necessary to protect customer outcomes. The result is that PFG has reduced its operational risk profile and no longer operates in any 'high-cost' credit market segment.

I would like to take this opportunity to extend my sincere gratitude to all our former colleagues from across CCD for their hard work and dedication, and for doing such an outstanding job in difficult circumstances.

Shareholders

2021 was another busy year of shareholder engagement, and I personally met with several of PFG's investors. The focus of our discussions was the Scheme of Arrangement, and the closure of CCD, ESG and the strategic vision for refocusing PFG. Please see our Corporate Responsibility section for more details on the work we are doing around ESG, including how we lend responsibly to our customers and how we approach financial inclusion, on pages 48 to 74.

Unfortunately, Covid-19 meant that we were still unable to meet with our shareholders in person. In 2022 we plan to have more face-to-face engagement with our shareholders and prospective investors.

Our People

On behalf of the Board of Directors, I would like to extend my sincere thanks to Malcolm Le May, the wider management team and everyone at PFG for their hard work and dedication to our customers during 2021. Once again I would like to recognise the outstanding commitment of our colleagues in CCD during the most very difficult time. We have achieved a significant amount whilst still supporting our customers, colleagues and communities, which is no mean feat.

We have made some changes to our governance structure which included Malcolm Le May, Neeraj Kapur (Group CEO and CFO, respectively) and me as Chairman assuming the same responsibilities for Vanquis Bank. As a result of these changes, Robert East, Neil Chandler and Gary Thompson (Chairman, MD and FD of Vanquis Bank respectively) have decided to leave the business at the end of March 2022. I would like to personally thank them for their efforts in managing our credit card business so well during such difficult times.

Outlook

The Board and I look forward to 2022 with confidence. We have achieved a lot in 2021, but there is still a great deal to look forward to as we establish PFG as a leading specialist bank focused on underserved markets. The provision of credit to these customers will remain our primary focus, enabling us to deliver our social purpose, whilst also ensuring that we can generate attractive and sustainable returns to our shareholders.

Patrick Snowball
Chairman
6 April 2022

Read more in our Corporate Responsibility Report at
www.providentfinancial.com/sustainability/corporate-responsibility-report-2021

Supporting our communities

Through the Board's engagement with the Group via our Customer, Culture and Ethics (CCE) Committee on the work that is being delivered on the ESG agenda, I have been particularly proud of the activities and initiatives that have been supported during 2021 via the PFG Social Impact Programme. The strategy of this programme, which is aligned with the Group's Purpose, is to invest in community-based activities and initiatives which seek to address some of the key factors which, on their own or acting together, can reduce social and financial inclusion. The work that has been delivered to support financial wellbeing, the education and skills agenda, and community investment during 2021 has been inspirational.

Financial wellbeing

The work we supported The Money Charity to deliver during 2021 focused on providing information, advice and guidance to people of all ages, so that they can manage their money well and increase their financial wellbeing by delivering:

- 332 hours' worth of financial education workshops to 7,640 young people;
- 79 hours' worth of financial wellbeing, Covid-19 response and bespoke workshops to 675 adults; and
- 10 hours' worth of workshops to 67 young people impacted by the criminal justice system.

Education and skills

Through our longstanding partnership with National Numeracy, approximately 11,000 children, parents and teachers from 19 schools in areas of need across England were supported to develop the numeracy skills they will need, both at school and throughout their lives.

Community investment

During 2021, PFG distributed £307,000 to 51 grass roots voluntary organisations via community foundation partners in Bradford, London, Kent, Hampshire and parts of Scotland and Wales to address a range of financial and social inclusion issues.

PFG is a leading specialist bank focused on underserved markets

"PFG remains committed to delivering long-term, sustainable and attractive returns to its shareholders as we target the growing mid-cost segment of the market.

Malcolm Le May
Chief Executive Officer

Introduction

2021 was an important year for PFG as we successfully focused the Group on becoming a leading specialist bank focused on underserved markets. From the outset, the Board and the Executive Management team remained focused on key strategic initiatives, whilst not losing sight of the critical role we play in our customers' lives. Our credit card and vehicle finance businesses commenced their rebound from the early impact of Covid-19, delivering excellent profitability growth and receivables growth from H1'21.

During 2021, we established a personal loans business, building on the work already done within Vanquis Bank, and invested in a new IT platform known as 'Gateway'. We also launched our second successful partial tender of our 2023 Senior bonds whilst issuing an oversubscribed Tier 2 subordinated debt instrument with gross proceeds of £200m. This issuance increased the Total Capital Ratio (TCR) to over 40%.

Group financials

Turning to the financial results for 2021, the Group reported an adjusted profit before tax from continuing operations of £167.8m (FY'20: £27.8m), which reflects lower impairment year-on-year driven by provision releases. Including amortisation of intangibles, CCD discontinued operations and exceptional items, the Group PBT was £4.1m (FY'20 loss before tax: £113.5m).

At the start of the Covid-19 pandemic, the Group took the prudent decision to tighten underwriting standards. These standards were not relaxed during 2021 and, as a result, new customer bookings across cards, loans and vehicle finance of 249k were lower year-on-year (FY'20: 286k). At the end of December the Group had 1,635k customers (FY'20: 1,759k, excluding CCD). As lockdown restrictions eased and demand for credit from customers returned, the Group saw positive momentum in its receivables book during the second half of the year until restrictions were reintroduced in November 2021. As a result, total receivables stood at £1,678m (FY'20: £1,661m, excluding CCD) at the end of December.

As we positioned PFG for the attractive market opportunity, we have made changes in the Group including restructuring the Board of Vanquis Bank and investing in a number of areas including a new IT platform to initially support the mid-cost personal loans business, the Group's Treasury capability and other growth initiatives including a new cards mobile app and the launch of the Open Market loans pilots.

The Group's capital and liquidity positions have remained robust throughout the period. At the end of December, the Group held total regulatory capital of £707m, equating to a Total Capital Ratio of 40.6% and a surplus above the minimum regulatory requirement of £344m. During the year, we issued a Tier 2 subordinated bond with gross proceeds of £200m, launched a successful partial tender for our 2023 Senior bonds, refinanced and extended Moneybarn's securitisation funding and Vanquis Bank accessed the Bank of England Term Funding Scheme for SMEs (TFSME) for the first time.

Certain alternative performance measures (APMs) have been used in this report. See pages 271 to 274 for an explanation of relevance as well as their definition.

Closure of CCD

During 2021, the Board took the regrettable and difficult decision to close the Consumer Credit Division (CCD) in response to changing industry dynamics. It was closed on schedule by the end of the year and was delivered within the closure cost guidance of up to £100m. The closure of CCD involved launching a Scheme of Arrangement in order to provide £50m of compensation for its customers. The Board and I felt that this was necessary in order to provide customers with the best possible outcome. The result of the closure is that PFG has reduced its operational risk profile and no longer operates in any 'high-cost' credit market segment. The Board and I would like to extend our sincere thanks to all colleagues from CCD for their excellent work during very difficult circumstances.

Governance changes

Shortly after the period end, PFG announced the next phase of its strategy to reinforce its position as a leading specialist bank with a focus on underserved markets. PFG has restructured the Board of Vanquis Bank to substantially align its membership with the Board of PFG. This is an important step in the execution of the Group's specialist bank strategy, which includes the wider use of retail deposit funding across the Group from H2'22, subject to PRA approval. PFG believes that streamlining the Boards of the two legal entities in this way will create a simpler, more efficient Group governance structure, whilst streamlining and enhancing both PFG and Vanquis Bank's handling of corporate governance.

PFG recently announced the hiring of Fiona Anderson for the newly created role of Managing Director of Cards. Fiona has a wealth of significant experience across credit cards and personal banking.

Environmental, Social and Governance (ESG)

As the Group works towards its vision of becoming a leading specialist bank focused on underserved markets, its Purpose of helping to put people on a path to a better everyday life continues to underpin our commitment to integrating and reporting on issues of Environmental, Social and Governance (ESG). For further details of our approach to ESG topics, please see our 2021 Corporate Responsibility Report.

Throughout 2021, PFG continued to implement measures aimed at reducing the impact that the Group's operations have on the environment, particularly in relation to climate change.

PFG remains committed to meeting the recommendations of the Task Force on Climate-related Financial Disclosures and, to support this objective, the Group became a signatory to the UN Global Compact's Business Ambition for 1.5°C pledge. This agreement sets carbon reduction targets which align with current climate science and are approved by the Science Based Targets initiative.

PFG has continued to work with charities and other organisations to address issues such as inequality and disadvantage in the community. In 2021, we invested approximately £1.4m in activities and initiatives which sought to support children and young people whose education has been negatively impacted by Covid-19. By supporting organisations like National Numeracy, the National Literacy Trust and School-Home Support, PFG has been able to boost education, skills and opportunities in the community.

Further underpinning our commitment, I joined the National Numeracy Leadership Council in September 2021. The Council, which includes representatives from Amazon, Bloomberg and Experian, will grow the network of organisations and individuals actively addressing the issue of poor numeracy in the UK. It will also support people to improve their numeracy by creating positive attitudes to numbers and maths, supporting financial wellbeing.

Outlook

PFG remains well placed in growing addressable markets of over £17bn, and is underpinned by a strong, well capitalised balance sheet with a customer-centric model and a new IT platform. Reflecting the Board's confidence in the Group's ability to deliver attractive and sustainable growth and returns for shareholders, the Board, subject to market conditions, expects to move to a dividend pay-out ratio of circa 40% of adjusted earnings from FY'22 onwards.

The current macroeconomic environment in the UK, and the inflationary pressures our customers will be experiencing, have been factored in to our underwriting processes, affordability checks and capital adequacy planning. During the first two months of 2022, overall trends in our credit card and vehicle finance businesses have continued to see encouraging momentum. The personal loans pilot phases continue to track broadly in-line with internal plans.

For the remainder of FY'22, we anticipate credit card spend in areas such as travel to increase, and non-discretionary elements, such as food and other essentials, to continue and for receivables growth to benefit as a result. We also expect impairment trends to benefit from the ongoing release of provisions and overlays, of which c.£60m remain, and PFG's continued evolution towards higher quality customers and lower risk credit, resulting in lower coverage ratios. Indeed, PFG will target a mid-teens coverage ratio over the medium term. The Group's cost to income ratio is expected to reduce marginally in FY'22 versus FY'21, including the remaining transformation investment in the Group's businesses, and we expect it to reduce to c.40% from the end of 2024 onwards as the Group benefits from operational efficiencies as a result of its transformation programme. Assuming the Group's large limit waiver application to the Prudential Risk Authority (PRA) is successful, we expect to benefit from reducing funding costs, notwithstanding the rising interest rate environment.

Malcolm Le May
Chief Executive Officer
6 April 2022

We help customers through our market-leading businesses

PFG meets the needs of its customers through three distinct products: credit cards, vehicle finance and unsecured personal loans. The credit card business offers credit cards, over a wide range of price points, and retail deposits. The vehicle finance business offers secured finance on a range of vehicle types, including cars, motorbikes and light commercial vehicles. The personal loans business offers unsecured loans of between £1k and £5k over one to four years.

Credit cards

VANQUIS

1.5m	£150–£4,000
Customers*	Credit card limits

Read more on pages 40 to 42

Vehicle finance

moneybarn Vehicle Finance

93,900	£4,000–£25,000	3–5 years
Customers*	Loan range	Loan terms

Read more on pages 43 to 45

Personal loans

VANQUIS
Sunflower

19,900	£1,000–£5,000	1–4 years
Customers*	Loan range	Loan terms

Read more on pages 46 and 47

* Customer numbers as at 2021 year end.

Our awards

Credit cards

Submitted for Best Marketing Campaign and Changing Lives in the Community at The Card and Payments Awards 2022.

Shortlisted in the Social, Sustainable and Responsible Banking category at The Banker: Innovation in Digital Banking Awards for the LOQBOX partnership.

Nominated for the Best Fintech Partnership with the LOQBOX partnership at the Banking Tech Awards 2021.

Shortlisted for the Credit Builder Card Provider of the Year award at the Moneyfacts Consumer Awards 2021.

Success in Customer Service at The Card and Payments Awards 2021 for our persistent debt personalised video.

Moneyfacts Consumer Awards 2020 – Credit Builder Card Provider of the Year – highly commended.

Read our investment case on pages 22 and 23

Vehicle finance

Sub-Prime Lender of the Year at the Motor Finance Awards 2021.

Specialist Lender of the Year and Vehicle Finance Provider of the Year at the National Credit Awards 2021.

Non-prime Lender of the Year at the Motor Finance Europe Awards 2020.

Best Brand at the Lending Awards 2020.

A Lotus Award for Culture for the third year running in 2020.

Named one of the UK's Best Workplaces™ in 2020 by Great Place to Work (in the Large Organisations category).

We understand our customers

The Group is a leading specialist bank focused on underserved markets in the UK. Consumers may not be well served by mainstream lenders for a multitude of reasons:

- Managing on below-average incomes with limited savings, meaning unforeseen expenses can be challenging
- New to credit or new to the UK and therefore have little or no credit history
- Have variable incomes (e.g. self-employed, on a zero-hours contract, have multiple part-time jobs)
- Looking to build or rebuild their credit rating
- Experienced a significant life event (e.g. job loss, ill health, divorce)
- Value a more tailored product and service

A wider range of suitable and sustainable credit products is required than is typically provided by mainstream lenders. In addition, our customers sit across a broad range of risk profiles. It is therefore important that a range of price points can be offered, increasing financial inclusion. Finally, our customers' needs and circumstances are often more fluid than those of consumers served by mainstream providers, requiring us to provide a more flexible approach.

Our customers' typical characteristics

	Vehicle finance	Credit cards	Personal loans
Income source	Full-time salaried (77%) or self-employed (15%)	Full or part-time salaried (66%) or self-employed (16%)	Full or part-time salaried (77%) or self-employed (6%)
Income level	Earning around the national average (£30k) with core spread between £20k and £50k		
Housing	10% hold a mortgage[1]	20% hold a mortgage[1]	16% hold a mortgage[1]
Typical age	36–55 years old	46–65 years old	26–45 years old
Credit score	Mid-cost/near prime	Mid-cost/near prime	Mid-cost/near prime
	Typical customer credit scores sit between 500 and 600[2]		
Savings	Limited savings	Circa half have material savings (enough to cover emergencies or anything unexpected)	

Source: BoxClever survey of 3,510 non-prime consumers and 2,929 PFG customers, December 2019.
1 The mortgage holders' data was sourced from internal customer data.
2 Customer credit scores based on TransUnion Gauge 2 score.

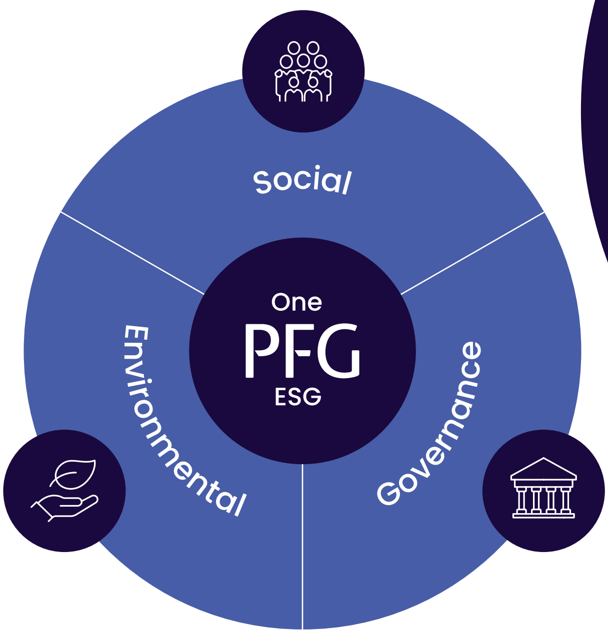
Read our market overview on pages 34 to 39

Delivering on ESG matters to support our Purpose

At PFG, our Purpose of helping to put people on a path to a better everyday life fundamentally informs the decisions and choices that we make as a business.

This is not just about the decisions and choices we make in the day-to-day running of our business, but also about the ones that are longer term and ensure that PFG is a force for good and plays its part in addressing globally important issues such as climate change. Our Purpose is therefore just as much about continuing to provide our customers with the responsible credit products and services that meet their particular needs, as it is about ensuring that we address the social, environmental and ethical challenges facing our business and society at large.

Ensuring that we take positive action on ESG-related matters is therefore an important way that we can demonstrate that our Purpose is aligned with our strategy of lending responsibly to our customers, and ensuring that we act in a responsible and sustainable manner in all our other stakeholder relationships. This enables us to create a fair, inclusive and diverse workplace, support our local communities, take positive action on climate change, treat suppliers fairly, and engage with our investors on the wider ESG agenda.



"At PFG, our commitment to managing and reporting ESG-related matters is most clearly expressed through our Purpose of helping to put people on a path to a better everyday life. So, as interest in the ESG agenda has gained momentum amongst all our stakeholders, not just campaigners and certain parts of the City, it is reassuring that it is part and parcel of who PFG is. By continuing to commit to the ESG agenda, I know we can continue to deliver outstanding products and services to customers who are underserved by mainstream banks, as well as do our bit to build a better world. This will not only enable us to ensure that PFG's growth is sustainable, but also that our competitiveness, profitability and share price improve.

Malcolm Le May
Chief Executive Officer

ESG governance and key performance indicators

Over the past year, our approach to managing our ESG performance has sought to prioritise the following four areas, because the effects of Covid-19 continued to be felt by some of our key stakeholders during 2021, and also because the need to take positive action on climate change is an important issue for PFG:

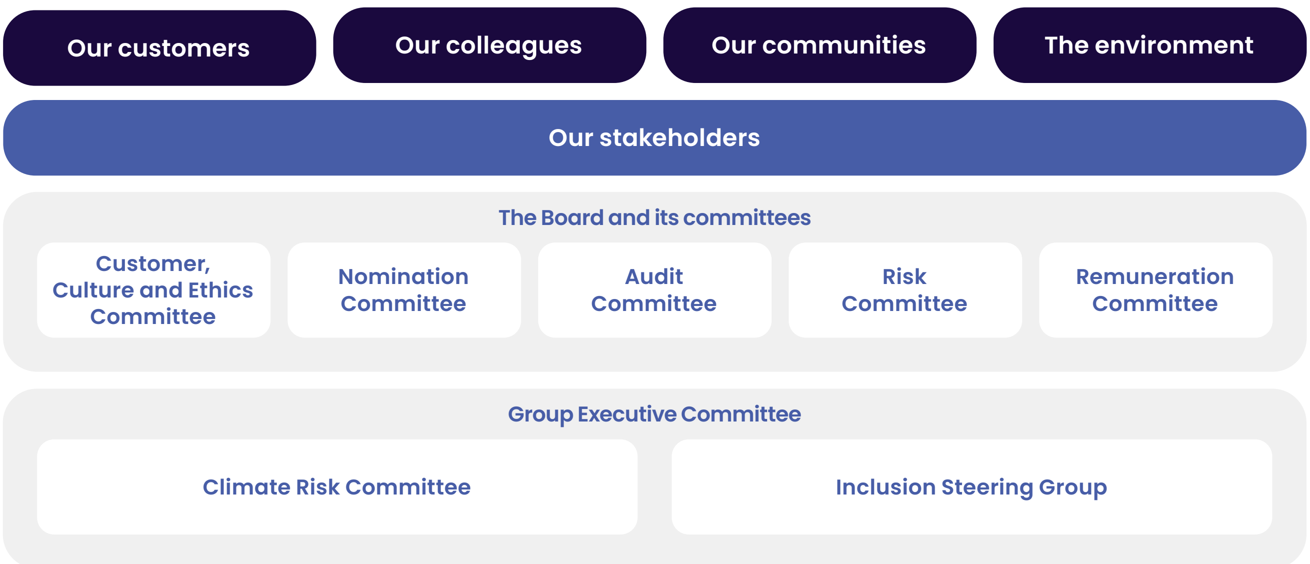
Customers
Continuing to support our customers as the economy returns to pre-pandemic levels and by establishing PFG as the specialist diversified bank and focusing on the mid-cost segment of our market.

Colleagues
Building and sustaining an inclusive culture and diverse workforce which ensure the wellbeing of all our colleagues, and enable us to respond to the needs of our diverse customer base, while at the same time enabling them to realise their own career aspirations.

Communities
Providing ongoing support to our communities, particularly to children and young people, so that they can achieve their full potential and participate in, and contribute to, a brighter and more sustainable future for all.

The environment
Taking positive action to reduce our impact on the environment, particularly in relation to climate change, and to help build a more sustainable financial services industry.

The Provident Financial plc Board takes overall accountability for the delivery of PFG's strategy and reviews the Group's ESG performance. The Board's Customer, Culture and Ethics Committee supports the Board in providing oversight of the Group's approach to managing and reporting ESG-related matters. The Group Executive Committee, with support from the Climate Risk Committee and Inclusion Steering Group, provides management oversight of the progress being made by PFG in managing its strategic ESG objectives.



Assessing performance against our ongoing ESG commitments

To enable us to assess our performance against our ongoing ESG commitments, we have developed a range of non-financial measures.

These measures are included in a 'Blueprint' Dashboard, which is shared with the Board's Customer, Culture and Ethics Committee and the PFG Executive Committee so that Board members and directors can monitor and challenge the embedding of the Group's culture and the management of a range of ESG-related matters, and ensure that the Group's businesses are delivering positive outcomes to our customers.

For further details on ESG initiatives and activities and progress against 2022 targets, see pages 48 to 74

	Objective	Measure	Performance in 2021
Customers	Customer outcomes are positive and consistent with PFG's Purpose and culture.	Levels of customer satisfaction.	Credit card: 4.7/5 (2020: 4.6/5.5). Vehicle finance: 4.4/5 (2020: 4.5/5).
		Number/percentage of customer complaints.	Total: 66,516 (2020: 90,264). Number of complaints referred to the FOS: 13,313 (2020: 13,736).
Colleagues	PFG's Blueprint is embedded and colleagues are engaged with and supportive of the Group's Purpose and culture.	Colleague engagement score as measured by annual colleague engagement survey.	Overall colleague engagement score 68% (2020: 72%).
		Better Everyday Index score which relates to PFG's culture and the way we treat customers and colleagues.	Better Everyday Index score 63% (2020: 60%).
Communities	Positively impact the lives of the people in the communities we serve, particularly children and young people, by providing them with access to education, social and financial inclusion, money advice and economic development opportunities.	The amount invested per year to support community programmes, money advice programmes and social research, including the number of grants distributed to grass roots community organisations.	£1.4m invested to support community programmes, money advice programmes and social research (2020: £1.2m). 425 hours volunteered by colleagues during work hours (2020: 509).
The environment	Continue action to reduce our impacts on the environment, particularly in relation to climate change.	Absolute scope 1 and 2 greenhouse gas emissions.	Scope 1 and 2 emissions: 1,239 tonnes of CO_2e (2020: 1,521 tonnes of CO_2e), a reduction of 19%. Total scope 1 and 2 (and associated scope 3) emissions: 1,648 tonnes of CO_2e (2020: 1,848 tonnes of CO_2e), a reduction of 11%.
		The progress of our work in meeting the recommendations of TCFD.	Refer to pages 68 to 72.

2021: Continuing to support our stakeholders during Covid-19

While the impacts of Covid-19 were less severe in 2021 than in 2020, the effects of the virus have nevertheless continued to be felt throughout the year by many of our stakeholders. We have responded effectively to the challenges of Covid-19 by ensuring the safety and wellbeing of our customers and colleagues, and contributing support to the communities we serve.

Customers

During 2021, we continued to support our customers throughout a difficult period whilst delivering on several important strategic initiatives. For example, the closure of the Consumer Credit Division at the end of December and the launch of a new personal loans offering, Sunflower Loans, supported by a newly developed IT platform, which has the ability to share customers across our product groups. Due to the changeable macroeconomic conditions that were experienced during the year, we took the prudent decision to maintain the underwriting standards that were tightened at the start of the Covid-19 pandemic in 2020. Our colleagues, however, despite themselves experiencing significant disruption which saw many of them continue to work remotely, have been able to maintain high levels of customer service. Throughout this period, we continued to support customers in financial difficulty by ensuring that we adopt a sympathetic approach to understand their circumstances and offer forbearance where appropriate.

Colleagues

Ensuring the health, safety and wellbeing of all our colleagues throughout 2021 remained one of our highest priorities. During this time we have continued to run our offices in accordance with government guidance and have made sure that where colleagues cannot work remotely they can do so in a way that is socially distanced, and safe and secure. We have also dedicated a lot of effort to support the positive mental wellbeing of our colleagues. This has involved hosting regular online check-ins and, as social distancing restrictions have started to be lifted, running sessions for colleagues on returning to work and mental health (read more on page 59). We are also using our positive experiences of remote working over the past two years to develop plans to shift our workplaces to flexible arrangements which will, where appropriate for the business and our colleagues, see remote working and virtual meetings continue, albeit less intensely than at the pandemic's peak.

Communities

We know, through the work we deliver in the many communities we serve, that Covid-19 has continued to provide many challenges to organisations in the charity and voluntary sectors, precisely at the time when the services they deliver have been in high demand. This is why we have continued to honour the funding commitments we made to our existing community partners and work with them flexibly to respond to the 'lockdown' situation. This has enabled our partners, many of which are directly providing frontline community support or disbursing grants to organisations involved in the response to Covid-19, to continue to support the communities we serve, some of which will be facing a tougher recovery from the challenges.

2021: Contributing to the Sustainable Development Goals (SDGs)

PFG's commitment to growing our business in a truly responsible way is longstanding. This is not only about continuing to provide our customers with the responsible credit products and services that meet their particular needs, it is also about ensuring that we address the social, environmental and ethical challenges facing our business and society at large.

In working towards achieving this, we recognise the importance of ensuring that our sustainability strategy, and the ESG activities we deliver to support it, align with existing, globally accepted frameworks. To this end, we have ensured that the work we do is aligned to the United Nations Sustainable Development Goals (SDGs), supports the Paris Agreement and the UK's transition to a net-zero economy and takes urgent action to tackle climate change and its impacts.

Our Purpose

Helping to put people on a path to a better everyday life

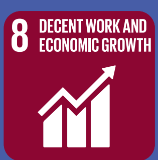
Our sustainability strategy

Lending responsibly

Our customers
– Provide our customers with the credit products that meet their particular needs and deliver fair customer outcomes throughout their journey with us

+ Read more on pages 52 and 53

Acting sustainably



Our investors
– Engage with the investment community on sustainability matters

+ Read more on page 54

Our regulators and government
– Remain a responsible taxpayer

+ Read more on page 55

Our colleagues
– Create an inclusive and engaging workplace

+ Read more on pages 56 to 59

Our suppliers
– Ensure that we treat our suppliers fairly

+ Read more on pages 60 and 61

Our communities
– Support our Purpose through our Social Impact Programme

+ Read more on pages 62 to 67

Our environment
– Taking action on climate change

+ Read more on pages 68 to 73

No poverty

Aim
To end poverty in all its forms everywhere.

PFG objective
By 2030, we will contribute to ending poverty in all its forms everywhere, by ensuring our customers have access to cost-effective and appropriate products for their needs and supporting them through financial difficulty.

FY 2021 highlights and achievements
Our Purpose to help put people on a path to a better everyday life is about lending responsibly and aiding financial inclusion by supporting the one in five people in the UK who cannot get access to credit products through mainstream banks and building societies. We currently do this by providing our 1.6 million customers in the UK with credit cards and loans through our Vanquis business and vehicle finance through Moneybarn. Through our Social Impact Programme, we also provide grants to charities and specialist partners to address issues such as customer vulnerability, product accessibility and financial difficulties. To contribute to this Goal in 2021, the funding we provided to The Money Charity enabled it to provide information, advice and guidance to people of all ages, so that they can manage their money well and increase their financial wellbeing by delivering: 332 hours' worth of financial education workshops to 7,640 young people; 79 hours' worth of financial wellbeing, Covid-19 response and bespoke workshops to 675 adults; and 10 hours' worth of workshops to 67 young people impacted by the criminal justice system.

Quality education

Aim
To ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

PFG objective
By 2030, we will contribute to ensuring inclusive and equitable quality education and promote lifelong learning opportunities for all by partnering with organisations that will help to equip children and adults with essential skills and knowledge that will allow them to excel in many different directions.

FY 2021 highlights and achievements
We contribute to this SDG through the education workstream of our PFG Social Impact Programme which supports children, young people and adults to boost their education, skills and aspirations, in order to participate in society and secure a brighter financial future. Through our longstanding partnerships with National Numeracy, the National Literacy Trust and Leading Children we have supported a number of programmes which aim to boost the literacy and numeracy skills of children, young people and adults. For example, our funding in 2021 enabled National Numeracy to deliver its 'Becoming a Numeracy Champion' programme which supported approximately 11,000 children, parents and teachers from 19 schools in areas of need across England to develop the numeracy skills they will need, both at school and throughout their lives. We have also continued to provide funding for School-Home Support practitioners in four schools across Bradford and Medway who work with families. During the year, these practitioners supported 284 individuals which contributed to achieving an average school attendance increase of 10.9%.

Gender equality

Aim
To achieve gender equality and empower all women and girls.

PFG objective
By 2024, we will have 40% female representation in the Group's senior management population.

FY 2021 highlights and achievements
PFG's senior management population currently has 27% female representation. The key actions we undertook throughout 2020 to support this SDG included: ensuring that there is a 50/50 gender balanced short-list when we recruit for senior leadership roles across PFG; continuing to deliver leadership development programmes to high potential women from across PFG to help strengthen the female talent pipeline at the senior/middle management level; and running colleague-led Peer Circles to encourage peer support for women in relation to a range of issues, including on interview techniques, performance reviews and menopause support. Through our Social Impact Programme, we also support projects which aim to empower women and girls. For example, this has included in 2021 providing a grant to the Kurdish and Middle Eastern Women's Organisation in North London to deliver its 'Breaking Digital and Personal Barriers to Employment' project, which works with women to break down the barriers they face in achieving their personal goals including low digital skills, childcare, caring responsibilities, language, self-esteem, self-worth, low confidence, and lack of support.

Decent work and economic growth

Aim
To promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

PFG objective
By 2030, we will contribute to promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all by creating opportunities for all generations and protecting and promoting labour rights in both our business and supply chains.

FY 2021 highlights and achievements
Many of the activities and initiatives we support through the PFG Social Impact Programme continue to contribute to supporting this SDG and creating opportunities for inclusive and sustainable economic growth, full and productive employment and decent work for the communities we serve. In 2021, this has involved providing grants to Ripe Enterprises to deliver weekly one-to-one and group digital skills training with employability support to people experiencing disadvantage in Southwark and Lambeth, and Autus to deliver twice weekly online workshops delivering digital skills training and employability support to young autistic people. We also continue to support and participate in the Social Mobility Business Partnership, which brings together large corporate organisations and professional sports clubs to remove barriers, develop skills and provide experiences to sixth form and college students from disadvantaged backgrounds. The programme helps build aspirations and inspire the students to pursue a career in a profession that they may not have previously considered. During 2021, PFG colleagues played virtual hosts to 33 Year 11 students and delivered presentations and workshops on a range of legal and professional topics to inspire the young people who attended.

Reduced inequalities

Aim
To reduce inequality within and among countries.

PFG objective
By 2030, we will contribute to reducing inequality by building our capabilities to better identify, support and empower our stakeholders who may face inequality and exclusion whether it is because of their age/sex/gender identity/race/ethnicity/origin/disability/ability/where they live/what their economic status is.

FY 2021 highlights and achievements
To support this SDG, and contribute to reducing inequality, we have provided funding to a range of projects through our PFG Social Impact Programme in 2021. For example, we provided core costs to Leeds GATE – a Gypsy and Traveller-led youth project – that aims to build the skills and confidence of this extremely marginalised community of young people through a programme of activities and one-to-one work and by connecting them to opportunities. We also supported the Dadihiye Somali Development Organisation to deliver one day per week of linguistic and culturally appropriate debt advice supporting ethnic minority people (predominantly Somali women) over a year in Kensington and Chelsea. In terms of providing an inclusive and secure workplace at PFG, we have our well-established, Group-wide Inclusion Community, which comprises five aligned Affinity Groups focused on Disability, LGBTQ+, Gender Balance, Ethnicity and Social Mobility. These groups currently have 125 active and representative members, as well as an extensive network of Affinity Group allies, and help to coordinate work across the Group to celebrate, learn and increase awareness around an extensive range of inclusion and diversity-related events, including Pride, Inclusion Week, Living with Autism and Black History Month.

TCFD – Task Force on Climate-related Financial Disclosures

Aim of the TCFD recommendations
To support the UK's transition to a net-zero economy and take urgent action to tackle climate change and its impacts.

PFG target
To achieve net-zero carbon dioxide emissions by 2040 (which relates to the scope 1, 2 and 3 emissions that arise from PFG's operations).

FY 2021 highlights and achievements
TCFD is built around four overarching pillars: governance, risk management, strategy, and metrics and targets, which in turn include 11 recommendations to support the development of meaningful climate-related financial disclosures. Taken together, these provide a consistent framework for companies to report on their exposure to material climate-related risks and opportunities, and a means to communicate decision-useful information to investors, regulators and other stakeholders. Set out on pages 68 to 72 is an update on the progress made by PFG during 2021 in meeting the recommendations of the TCFD.

Helping our customers

Our Purpose is to help put people on a path to a better everyday life.

We do this by providing customers with opportunities to borrow in a transparent, responsible and sustainable way, so they can live their lives with access to finance.

The Group has been providing financial inclusion for consumers whose needs are not well met by mainstream lenders for nearly 140 years. We are a responsible lender providing tailored products and service propositions to 1.6 million customers throughout the UK.

Serving our customers in a responsible manner

As a specialist bank, helping customers in underserved markets, we provide customers with credit cards, vehicle finance and personal loans. We help our customers by offering appropriate and affordable amounts of credit, maintaining close contact with them throughout the term of their borrowing, and working with them sympathetically if they experience difficulties.

Improving customer satisfaction

Customer satisfaction is a key metric for PFG. It helps us determine whether our products and services are working for our customers, and also how we can improve them. In 2021 for our credit card product, which has almost 1.5 million customers, our customer satisfaction rating was 4.7/5, up on 2020.

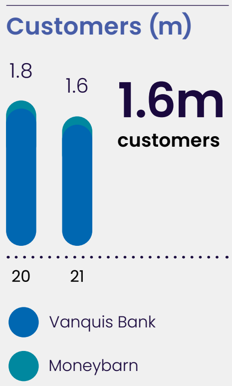
Further details on our customers can be found on pages 52 and 53

Handling customer complaints responsibly

Keeping customer complaints to an absolute minimum is a good indicator that we're treating customers fairly. In 2021 our total number of complaints referred to the Financial Ombudsman Service was down on 2020. When we do get a complaint, we aim to ensure our Customer Complaints teams are the best they can be, and in 2021 we had over 39,000 hours of customer-focused training for our colleagues.

Supporting customers in vulnerable situations

We know that customers can find themselves in challenging financial situations, driven often by unforeseen circumstances such as ill health, loss of income or family bereavement. We therefore ensure our customer-facing colleagues are trained to recognise vulnerability, provide forbearance for our customers who require it, and work with money advice organisations like the Money Advice Trust and IncomeMax which can provide tailored support to our customers.



Customer case study – Eric's story

My name is Eric, I live in South London with my family and I'm a Resettlement Case Worker and Musician. Music has always been in my life. It's been my career for the most part, working with bands such as The Orb, but more recently I've spent more time doing charity work.

As a Resettlement Case Worker, I work with people who are homeless, people in recovery and ex-offenders. When people are recovering from addiction or if they're an ex-offender, they need a base. They need a home, so we help in whichever way we can. I work with clients to help them find somewhere to live, and then I continue to work with them for a further 12 months. In that time, I'm working to empower them so they can be independent and start their life, anew.

I first got a Vanquis card around four years ago because I needed a credit history. I saw it as Vanquis taking a chance on me, because I haven't got much experience using credit. I was really careful, particularly in the beginning. And, basically, having the card has got me in the habit of making a small purchase and paying back on a set date. I try to pay off the whole balance, but if I don't, I make a note so that everything is paid off in due time.

I mainly spend on my card because it is just so convenient. I've got peace of mind and security on my purchases and it's so easy to use. I can use it contactless, and manage my account from my phone or online – it's wonderful. This week I bought a laptop with my Vanquis card so that I can do some work, do some music production and get online on the go. I'm currently doing some vocals and music production on a dance project, so hopefully you'll hear that in the near future!

Watch Eric's full interview at **www.providentfinancial.com/who-we-are/our-customers/meet-eric**

> I mainly spend on my card because it is just so convenient. I've got peace of mind and security on my purchases and it's so easy to use.
>
> **Eric**
> Resettlement Case Worker

Supporting our colleagues

We provide an encouraging, supportive and inclusive workplace culture. Our colleagues are key to our long-term success, and their dedication and hard work are what give PFG its unique character and culture, which enable us to deliver the best service to our customers.

We have around 2,500 colleagues* based in Bradford, Chatham, London and Petersfield. During the pandemic they mainly worked from home, with some colleagues in the office. As we return to the office, PFG will be implementing a hybrid model, which will deliver positive outcomes for customers and colleagues.

Listening to our colleagues' thoughts and opinions

With lockdown in place for the start of the year, it was important PFG engaged and supported colleagues through potentially challenging times. Engagement, though, is a two-way street, and PFG carried out its colleague engagement survey to find out what colleagues thought and felt about working here.

Scores for engagement were strong, though slightly down on 2020, which could be due to pandemic tiredness and a desire to return to normal life. Key colleague engagement scores for 2021 are:

85%
of colleagues care about the future of PFG

83%
of colleagues understand PFG's Purpose and what we are trying to achieve

89%
of colleagues feel their manager treats them fairly and with respect

84%
of colleagues feel people help and support each other at PFG

88%
of colleagues feel well equipped to work regardless of whether at home or in the office

Further details on our colleagues can be found on pages 56 to 59

* We consider 'colleagues' to be full and part-time colleagues excluding contractors.

Spotlight on inclusion and diversity

PFG's ambition is to create a truly inclusive workplace. To achieve this, we need to build a diverse workforce that reflects the customers we serve, and the communities we work in. In the future we will be setting diversity goals, but that has not stopped us making progress now. We have successfully launched our Group-wide Inclusion Community, delivered targeted training on inclusion, and set-up Peer circles across the Group through our inclusion Affinity Groups. PFG also joined the Government's Social Mobility Taskforce in 2021, which aims to improve the socio-economic diversity of senior leaders in financial services.

19.6%
of colleagues informed us they had a disability or long-term health condition.

19.2%
of colleagues informed us they came from a Black, Asian or Minority Ethnic background.

6.5%
of colleagues informed us they were part of the LGBTQ+ community.

17.2%
of colleagues informed us they had free school meals and 33.7% of colleagues came from a working class background.

Focus on gender diversity

A key area of activity for PFG has been gender diversity. The Group is striving to achieve a better balance going forward in gender for our senior leadership population. In 2019 the Group signed the HM Treasury Women in Finance Charter, with a target of achieving 40% female representation in the Group's senior management population by 2024. We are on track to achieve this aim and have completed various initiatives in 2021 to help us achieve it. For example, we delivered the Next Generation Women's Leadership Programme, and gender balanced short-lists for all senior leadership vacancies.

27%
of senior management representation is female.

37%
of employees who received a promotion identified as female.

Our commitment to colleague health, safety and wellbeing

At PFG we recognise the importance of supporting colleague mental health and wellbeing, both in terms of our individual colleague's welfare and the impact it can have on our customers. We have promoted and arranged targeted activities on mental health and wellbeing, whilst fostering an internal culture of resilience and openness. We provide a dedicated Employee Assistance Programme, work with the Bank Workers Charity on wellbeing, and have delivered live colleague sessions with it on 'Positive mental health in the workplace' and reduce/raise awareness of loneliness and isolation.

"I chose to lead the Ethnicity Affinity Group because I wanted to make a difference for our colleagues as well as customers. I have the ability to shape PFG's culture, ensuring our diverse workforce feels included in every way, and to help create an environment that colleagues and customers can be proud of.

Rita Patel
Solutions Architect

Read more about how we support our colleagues at www.providentfinancial.com/sustainability/supporting-our-colleagues

Investing in our communities

We support our Purpose through our Social Impact Programme. Its aim is to address the key barriers to financial and social exclusion, and help people overcome them.

Our Corporate Responsibility Programme is based on the core themes of 'customers, education and community partners', and supports the UN Sustainable Development Goals programme. We invest in activities that could affect someone's ability to get credit. We support children, young people and adults to boost their education and skills, so they can participate better in society, and we support community projects in areas where people are more likely to face social and financial exclusion.

In 2021 we invested £1.4m in our Corporate Responsibility Programme, of which £307,000 was invested in 51 grass roots voluntary organisations via community foundations. Colleagues also volunteered 425 hours for community projects.

Unlocking talent in our communities

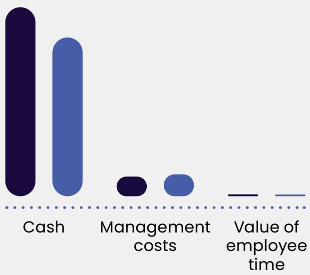
Through our education programme we have partnered with literacy and numeracy organisations to help young people in disadvantaged areas. In 2021 we supported National Numeracy's National Numeracy Day, aimed at getting everyone to improve their numeracy. With the National Literacy Trust, we worked with schools in London and Birmingham, and help to deliver its 'Early Words Together' programme. With Leading Children, through a partnership with an Education Consultant, we worked with teachers in Bradford which helped Nursery and Reception teachers improve their teaching of literacy. Also, with School-Home Support, we worked with practitioners in Bradford and Medway, to help break down any barriers that could prevent children from attending school.

2021 community investment figures

Total

£1,369,442

2020: £1,190,332



Cash
- 2021: £1,230,677
- 2020: £1,035,984

Management costs
- 2021: £126,649
- 2020: £143,129

Value of employee time
- 2021: £12,116
- 2020: £11,219

Further details on our communities can be found on pages 62 to 67

"I just want to say a huge thank you to PFG for the amazing contribution it makes to School-Home Support. 2021 was a challenging year for so many of the families we work with, but PFG's continued commitment has helped us to give every child the chance to thrive and achieve despite immense challenges caused by the pandemic.

Jaine Stannard
School-Home Support CEO

How our community foundation partnerships work

We work community foundation partners in our key colleague locations: Bradford, Chatham, London and Petersfield. The funding we provide supports financial inclusion and social mobility and involves our colleagues in their respective locations by making grants to local charities that support our aims. In 2021 we allocated over £300,000 to 51 of these projects.

In London, we funded the Havelock Family Centre to deliver money management workshops to vulnerable clients experiencing financial difficulties.

In Bradford we funded Bradford Community Broadcasting, which helps children and young people to increase their oracy, digital skills, confidence and self-esteem.

In Petersfield, we funded Wet Wheels, which provides sailing trips to people with disabilities aimed at increasing mental health and mental wellbeing.

In Chatham, we funded Refocus, which provides educational sessions on the dangers around gangs, violence, drugs and grooming.

Read more about how we invest in our communities at
www.providentfinancial.com/sustainability/investing-our-communities

Becoming a leading specialist bank focused on underserved markets

We want to be the best and most trusted provider of credit to customers not well served by mainstream finance. We will support our customers on the path to a better everyday life through a broad range of products and distribution channels.

The starting point on this journey is Vanquis, which, through its banking licence, will provide the anchor from which we can explore funding opportunities and efficiencies to benefit the whole Group.

Our vision is to be a bank focused on underserved markets in the UK

VANQUIS
Sunflower
+
moneybarn Vehicle Finance

Funded through:

- Retail deposits (fixed term and instant access)
- Securitisation

Product offering:

- Revolving credit (Vanquis Bank)
- Secured finance (Moneybarn)
- Loans (Vanquis Bank and Sunflower)
- Helping customers save

How we will become a bank focused on underserved markets

1 Well positioned in growing addressable markets across…

- Credit cards
- Vehicle finance
- Personal loans

2 …underpinned by a customer-centric vision and strong balance sheet

- Well capitalised for growth
- Access to retail deposit funding
- Capital management framework

3 …targeting sustainable returns

- Strong receivables growth over the medium term
- Attractive returns on a sustainable basis
- The Board anticipates moving towards a pay-out ratio of circa 40% from FY'22 onwards*, subject to market conditions and on a sustainable basis

A long-term, sustainable business model targeting sustainable and attractive returns to shareholders

* Dividends to be paid out of adjusted earnings, which is defined as profit after tax before amortisation of acquisition intangibles and any exceptional items including one-off provision releases.

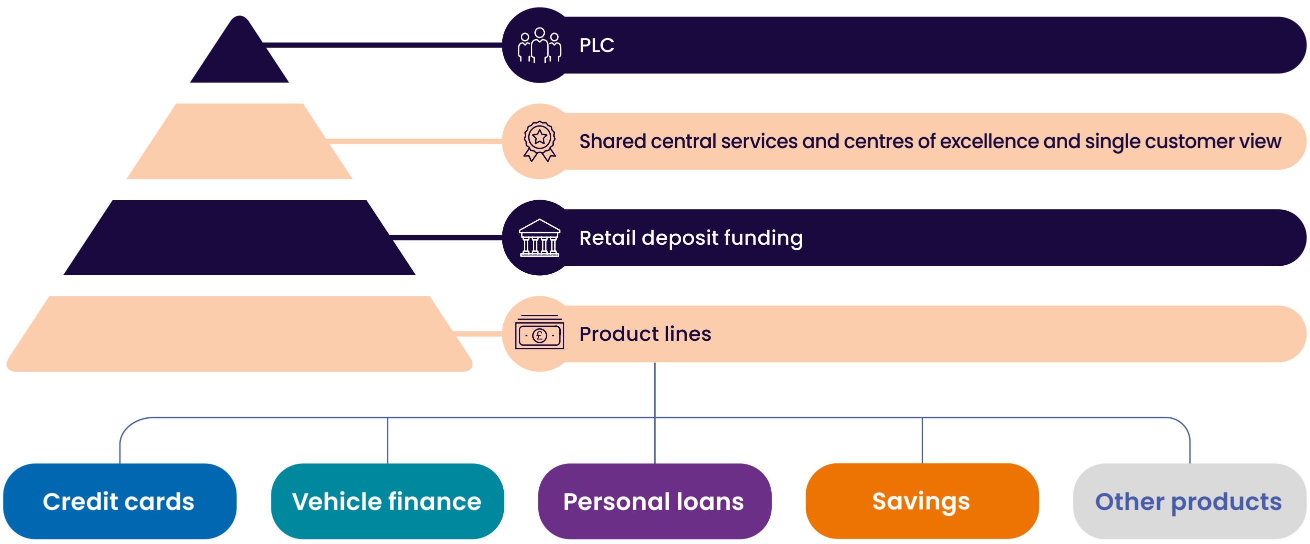
How we will become a bank focused on underserved markets

Our focus will be on providing customers with credit products appropriate for their circumstances, delivering good customer outcomes and, through this, generating sustainable shareholder returns. To do this we will:

- Deliver a broader product range
- Enhance our distribution capabilities
- Establish a single view of our customer
- Grow responsibly, delivering sustainable shareholder returns

– During 2021, PFG has moved away from serving the high-cost segment of the credit market following its withdrawal from the home credit and high-cost short-term credit markets. We see this transition as being a core part of our drive towards making PFG a more sustainable lender, focused on providing much needed credit to our customers, whilst enabling good customer outcomes and providing sustainable returns for our shareholders over the medium term.

– Looking forward, we're moving towards a Group-level structure which operates the product lines and is supported by shared central services and centres of excellence:



– Restructuring the Board of Vanquis Bank to substantially align its membership with the Board of PFG (announced 13 January) was the next phase in the journey and will drive increased efficiency and improved corporate governance and oversight.

– Shared services and centres of excellence will facilitate sharing of best practice across the Group.

– The streamlining of the Vanquis Bank and PFG Boards is an important part of the Group's plans to enable it to utilise its retail deposit funding more widely across the Group from H2'22, reducing cost of funds and increasing funding optionality.

– PFG will remain structured around its core product lines (credit cards, vehicle finance, personal loans and savings) whilst exploring opportunities for expansion into adjacent markets.

We operate in growing addressable markets

PFG is a leading specialist bank and a constituent of the FTSE 250 Index. We aim to deliver attractive and sustainable returns for our shareholders through our strong market positions, robust balance sheet and competitive advantages. Our investment case is based on five key areas:

1

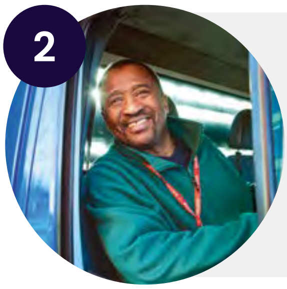
We are well positioned in the large and growing market segments across credit cards, vehicle finance and unsecured personal loans

In the UK, there are between 10 and 14 million working adults who are underserved by mainstream lenders. With our broad range of products and services, we are well positioned to be the credit provider of choice for these customers. In aggregate our addressable market is >£17bn.

>£17bn

Read more on pages 34 to 39

2



We have a Purpose-driven strategic Blueprint, which sets us up for sustainable growth

Our Blueprint brings together why PFG exists as an organisation, framed in the context of the role our business plays in the lives of our customers. It also sets out the strategic focus and key priorities that will drive both competitive advantage and commercial success for the whole Group. From our recent colleague survey 85% of colleagues care about the future of PFG.

85%

Read more on pages 26 to 30

3

We have a customer-centric, responsible culture

While our customers share many similarities with mainstream credit customers, there are important differences arising from their individual circumstances. Our customers need a tailored approach and a wider range of suitable and sustainable credit solutions to best serve their needs. We aim to put the customer on the team. We have invested in a brand new IT platform that in the future will support all of our products.

New IT platform

Read more on pages 14 and 15

4

Financial resilience and strong capital position

Over the medium term, our plan is to become a broader banking group operating in underserved markets. To achieve this, we are working collaboratively across the Group and focusing on our customers. We have significant opportunities to take our Group forward as we look towards new markets, new products and new digital advancements and we have the financial strength to achieve this. Our Total Capital Ratio is >40%.

>40%

Read more on pages 102 to 107

5

Sustainable growth over the medium term

To support the delivery of our Purpose, we have a financial model founded on investing in customer-centric businesses with attractive returns, which aligns an appropriate capital structure with the Group's dividend policy and future growth plans. We will operate with a progressive dividend policy and we anticipate moving towards a payout ratio of approximately 40% of adjusted earnings from 2022.

>30%

Read more on pages 48 to 74

Customer case study – Graeme's story

My name's Graeme and I live in London with my partner in a Mews just off the back of Regent's park. We live in a three-storey town house and, given where it is, it's quite small, but it's very quiet round here and we like it. I run my own companies in the insurance industry and I've done that most of my adult life, since I left the army.

I had a financial catastrophe about five years ago when my businesses all went into liquidation and as a result I was made bankrupt because of personal guarantees I'd given to banks. I came out of bankruptcy three years ago, and when I did, my credit rating was about as poor as it was going to get, so I had to restructure my life.

I was able to start my own businesses again, which I did, but with the credit rating I had, getting any sort of credit card just felt impossible. A few months later, I was checking my credit score regularly, and Vanquis came up as an option that might offer me a credit card. I applied to them and to my surprise, I was granted one. And I've used it ever since. The card is contactless as well which is helpful and I got it at a time when no one else would help me.

In the three years I've had the card, my rating has improved massively; they've increased my credit limit as I've used it too.

I like the Vanquis app because it's simple; it's dead easy to use and I'm not a massive technological wizard. It's always got your balance right in front of you, what your next bill is and what you've spent, so I'm ever so happy with it. For me, it's just so easy.

I would absolutely recommend Vanquis to anyone. They helped me out when no one else would, and I'm more confident financially because of this.

Watch Graeme's full interview at **www.providentfinancial.com/who-we-are/our-customers/meet-graeme**

> In the three years I've had the card, my rating has improved massively; they've increased my credit limit as I've used it too.
>
> **Graeme**
> Business Consultant

We are driven by our Purpose to create value for our stakeholders

Customers

Our 1.6 million customers are at the heart of what we do; they are the 20% of UK adults who at any one time are looking for something that mainstream lenders do not offer.

- We have developed tailored products to meet their needs through a detailed understanding of their needs and challenges.
- We carefully assess affordability and creditworthiness and are specialists in managing arrears and supporting customers in financial difficulty.
- Our Customer, Culture and Ethics Committee is focused on ensuring the best outcomes for customers across all our customer interactions.

Colleagues

Our 3,000 colleagues are critical to delivering our business model. The success of the Group is dependent upon having motivated colleagues with the right expertise and skills to help deliver our strategy.

- We conduct an annual colleague survey to register sentiment and continually focus on making improvements for the betterment of our colleagues.
- We have diversity and inclusion working groups (focusing on gender, race, disability and LGBTQ+) that meet regularly and focus on ensuring the work environment is inclusive.
- We offer support to colleagues through our Employee Assistance Programme (EAP) and through the provision of the Thrive app to all colleagues.

Regulators and government

We believe maintaining an open, constructive and trusting dialogue with policymakers and regulators (the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)) is critical. We work closely with our regulators to ensure we meet all regulatory standards and contribute to a safe and robust banking system.

- We have submitted our application to the PRA to allow us to use retail deposits to fund different parts of the Group.
- Our CEO was a member of the Woolard Review advisory panel.
- During the Scheme of Arrangement, we worked collaboratively and openly with the FCA to deliver the best outcome for customers.

Equity and debt investors

We secure long-term, lower-rate funding through strong relationships with our lending banks, depositors and investors. We engage in discussions with our equity and debt investors to understand their needs and expectations leading to better outcomes over the long term and improving our sustainability.

- We interact with debt investors and shareholders through half-yearly results presentations, regular trading updates and management meetings.
- Our Board and ExCo receive periodic updates from Investor Relations on market activity and investor sentiment.
- Our Tier 2 debt issuance in October 2021 was oversubscribed.

Suppliers

Our suppliers are essential to provide our divisions with the goods and services required to enable us to continue to meet our customers' needs. They play a vital role in our operations so it is important that we develop strong relationships with them.

- We have launched a new Supplier Management Framework to engage with suppliers effectively including having executive sponsorship for our key relationships.
- We have signed up to the Prompt Payment Code and are committed to paying the majority of our suppliers within 30 days.

Communities

Our community investment strategy is aligned to our social purpose and seeks to invest in activities and initiatives which address the key factors that tend to reduce access to credit.

- In 2021, we invested £1.4m in the PFG Social Impact Programme, which supports our partners in addressing issues such as customer vulnerability and financial difficulties, helping children, young people and adults to boost their education and enabling community foundations and other partners to address a wide range of social inclusion and social mobility issues.
- Our CEO became a member of the National Numeracy Leadership Council in September 2021, which aims to grow the network of organisations and individuals actively addressing the issue of poor numeracy and elevate the understanding and importance of the issue at a national level.

At our core, we focus on acting responsibly and sustainably in all our stakeholder relationships:

We respond to the needs of our stakeholders by creating a fair, inclusive and diverse workplace, supporting our local communities, responding to climate change, treating suppliers fairly, and engaging with them on environmental, social and governance (ESG) matters.

+ Read more on pages 50 and 51

How we help to put people on a better path

We support financial inclusion and social mobility by lending responsibly to the financially underserved

Read more on pages 48 to 53

Customers are at the heart of what we do

1 We develop tailored products to meet customers' needs.

We focus on the UK credit market, developing simple, transparent products with flexibility to help customers manage life despite not being well served by mainstream lenders.

2 We attract customers who we can serve.

We use many ways to reach consumers including increasingly digital methods, as well as through partners such as agents and brokers.

3 We carefully assess customer affordability and creditworthiness.

We use internal and external data, taking into account both the current situation and the likely future.

4 We lend responsibly.

We tend to lend smaller amounts over shorter periods and only lend when customers demonstrate suitability.

5 We collect payments due.

We offer many ways for customers to pay or get in touch to discuss their payments. We maintain frequent customer contact and stay close to customers through our call centres and digital communications (including texts, emails and mobile app notifications).

6 We manage arrears and customer difficulties.

We establish early contact and ensure an ongoing dialogue with customers who have difficulties. This provides a sympathetic approach to understand customer circumstances and offer forbearance.

Building a sustainable Group

The Group's strategy provides the direction needed to ensure that we can help to put people on a path to a better everyday life.

The strategy has remained consistent over time but has, more recently, been supported by the strategic Blueprint. This defines not only what we do, but how we do it. The three key pillars of our strategy are aligned to the Blueprint which ensures all of our decisions are aligned to stakeholder expectations.

When stakeholder expectations are aligned, we can build a sustainable Group which will continue to provide for both our current and future customers.

Key

Our Blueprint strategic drivers

- Customer progression
- Human experiences
- Head AND heart decisions
- Fighting fit

Certain alternative performance measures (APMs) have been used in this report. See pages 245 and 246 for an explanation of relevance as well as their definition.

1

Grow customer-centric businesses

which continue to diversify to meet customer expectations by delivering positive outcomes and providing positive returns for shareholders.

Objective

- Grow businesses to provide customers with products which help put them on a path to a better everyday life.
- Tailor products to meet the needs of our customers.
- Ensure products are distributed and collected in a way which meets both customer and regulator expectations.
- Generate a sustainable return from each division which meets the Group's target returns.

Performance

£167.8m	1.6m	£1.7bn
Adjusted profit – continuing operations	Customers	Amounts receivable from customers

Read more on page 25

Progress in 2021

- Launch of personal loans pilots in the open market through both the Vanquis and Sunflower brands.
- Broadening of Vanquis Bank card offering including trials of a number of new APRs and balance transfer offers.
- Closure of the Consumer Credit Division including write off of balances outstanding at year end.
- Launch of near-prime offering in Moneybarn.
- Successful launch of Scheme of Arrangement.

Challenges in 2021

- Continued lower credit card spend as a result of Covid-19 restrictions, particularly in the travel sector.
- Rising inflation and cost of living squeeze risks impacting customers' disposable incomes.

Risks

- Credit risk.
- Operational risk.
- Information and data security risk.
- Regulatory risk.
- Conduct risk.
- Business resilience risk.
- People risk.
- Model risk.

Read more on pages 48 to 61

Focus for 2022

- Leverage existing expertise to expand the Group's personal loans pilots.
- Broadening of Vanquis Bank proposition including launch of digital wallets.
- Continued growth of the Moneybarn near-prime product offering.
- Consideration of launch of new asset classes in Moneybarn.
- Complete customer remediation through the Scheme of Arrangement.

Our Blueprint strategic drivers

2

Act responsibly and with integrity
in all we do. Create sustainable businesses which our stakeholders are proud to be a part of.

Objective
- Lend to customers in a sustainable manner, offering support when needed throughout the customer journey.
- Develop a positive and proactive relationship with the regulators.
- Ensure colleagues are proud of what they do and how it will benefit customers' lives.
- Generate sustainable profitability to provide a positive return to shareholders.
- Continue to support the communities where we lend.
- Treat all suppliers fairly.

Performance
71% Colleague engagement

£1.4m Community investment

12p Dividend per share

Read more on page 26

Progress in 2021
- LOQBOX partnership launched with Vanquis Bank to build customer credit scores.
- Group inclusion and diversity programme established.
- During the Scheme of Arrangement, we worked collaboratively and openly with the FCA to deliver the best outcome for customers.
- Launch of new Supplier Management Framework.
- Our CEO joined the National Numeracy Leadership Council.
- Continued investment in the community.

Challenges in 2021
- Overall colleague engagement score fell to 68% (from 72%).
- Establishment and roll-out of hybrid working for colleagues.

Risks
- Information and data security risk.
- Conduct risk.
- People risk.

Read more on pages 48 to 61

Focus for 2022
- Continued investment in the communities we serve through community foundation partnerships.
- Maintain existing high levels of customer satisfaction.
- Development of the IR programme and a 2022 Capital Markets Day to communicate the Group's ongoing strategy following a period of significant change.

Our Blueprint strategic drivers

3

Maintain a secure funding and capital structure
to enable us to continue to provide for all of our stakeholders.

Objective
- Maintain a secure funding structure which meets contractual maturities and fund growth over the subsequent 12 months.
- Diversify the Group's funding sources.
- Maintain regulatory headroom above internally set risk appetite limits, which are in excess of our regulatory prescribed requirements.
- Adopt a progressive dividend policy.

Performance
29.1% CET1 ratio

£0.4bn Liquidity

£290m Funding headroom

Read more on page 27

Progress in 2021
- Successful issuance of £200m Tier 2 debt capital providing capacity for future growth.
- Successful tender and buyback of £71m of £175m 2023 Senior Bonds.
- Completion of access to Bank of England Liquidity and Funding Schemes (TFSME).
- Submission of application to the PRA to allow us to use retail deposits to fund different parts of the Group.
- Reduction in liquidity to more normalised levels (following steps taken in 2020 to increase liquidity at the onset of the Covid-19 pandemic).
- Resumption of dividends.

Challenges in 2021
- Integration of PFG and Vanquis Bank Treasury teams.

Risks
- Capital risk.
- Liquidity and funding risk.
- Model risk.

Read more on pages 48 to 61

Focus for 2022
- Delivery of application to the PRA to allow us to use retail deposits to fund different parts of the Group, resulting in lower cost of funds for the non-bank group.
- Ongoing diversification of the non-bank group funding.

Our Blueprint strategic drivers

Our strategy in action

1

Grow customer-centric businesses

Launch of personal loans

Our Purpose is to help put people on a path to a better everyday life by supplying personal credit products to the non-prime population. The broader the range of credit profile we can support, the better we fulfil this Purpose. In support of this we launched two loan propositions in 2021:

- The Vanquis Loans proposition is an expansion of our existing customer offering which launched in 2016. It utilises the significant learnings made (across credit risk, customer servicing, IT systems and others) through our existing customer lending and provides unsecured personal loans to customers, predominantly via brokers.
- The Sunflower Loans proposition has been designed to address a customer demographic that sits at a slightly higher risk profile than those being served through Vanquis. With this customer profile, particular care has been taken to build a robust approach to creditworthiness and the customer journey includes speaking with customers to validate their application.

We recognise the need to continually evolve in an increasingly digital and competitive landscape. Our Sunflower Loans product has been delivered on a new IT platform (named Gateway) using best in class third-party providers. The Gateway platform has been designed to be agile, ensuring it is adaptable, can be changed rapidly and will provide a source of competitive advantage into the future. In addition, the Gateway platform has the potential to provide the IT infrastructure for every product across the Group in time.

Moneybarn expansion into near prime

In recent years, Moneybarn has expanded from not only providing cars to our customers but also offering finance on motorbikes and vans. This followed increased demand and therefore our offering has been adapted to meet customers' needs.

Across 2020 and 2021, the credit quality of our customers has improved and we have significantly reduced the level of lending in the highest risk bands. In addition, in January 2021, we launched our near-prime vehicle finance product. This has increased the size of our addressable market and provides a large area for future growth.

"We moved out of London because I was offered a media teaching job with better prospects at a college in Basingstoke. But I could only take it if I had a car. When I got my car through Moneybarn and started my job, I was just teaching media studies, but now I'm leading my course and teaching a new subject and have taken on more responsibility in the college, which is really quite nice because I'm evolving within my career.

Natasha
Media and E-Sports Teacher

“

I’m really grateful to Vanquis because they gave me a card when no one else would help me out. Since then I’ve been able to build up my credit rating by buying my everyday shopping on my card and paying it off the next month. The app is good as well because it sends me little reminders, so I don’t get behind or anything.

Stephen
Warehouse Manager

2

Act responsibly and with integrity

Supporting our customers

PFG is in the business of providing tailored and responsible products, services and partnerships. We serve a wide range of customers. Some may bring in a regular salary while others have less consistent incomes or receive benefits. Many bring home average salaries, but we also work with customers with lower incomes and those who have had to deal with significant life events, such as divorce, job losses or long-term illness, which can cause them financial difficulty.

Short or longer-term financial difficulties can damage customers’ credit files, which can lead to them being underserved or totally excluded by prime lenders. The products, services and partnerships we offer are made to meet the specific needs of these customers in the non-prime market. Our services can help people enter or re-enter the credit market, stay in control of their finances and build up their credit scores for the future.

Supporting our communities

In 2021, we invested £1.4m in the PFG Social Impact Programme which supports our Purpose by addressing the key barriers to social and financial inclusion by helping people to overcome them. Through our Social Impact Programme, we support charities and specialist partners to address issues such as:

- customer vulnerability and financial difficulties;
- supporting children, young people and adults to boost their education and skills; and
- aiding community foundations and other partners in addressing the wide range of social inclusion and social mobility issues.

During 2021, we offered a number of Company-led volunteering opportunities to colleagues through our Social Impact Programme where 25 colleagues took part in 6 grant panels giving 175 volunteering hours.

In support of our Social Impact Programme, our CEO became a member of the National Numeracy Leadership Council in September 2021. The National Numeracy Leadership Council aims to grow the network of organisations and individuals actively addressing the issue of poor numeracy and elevate the understanding and importance of the issue at a national level.

25
colleagues took part

6
grant panels giving

175
volunteering hours during work time

Our strategy **in action** continued

3

Maintain a secure funding and capital structure

Capital

At December 2021, PFG had capital resources significantly in excess of the overall capital requirement. This follows a successful Tier 2 capital issue of £200m in Q4'21.

PFG retains a credit rating, has extensive wholesale markets franchise and has observed strong performance in debt capital markets, providing numerous opportunities for additional capital to be raised should it be required.

Funding

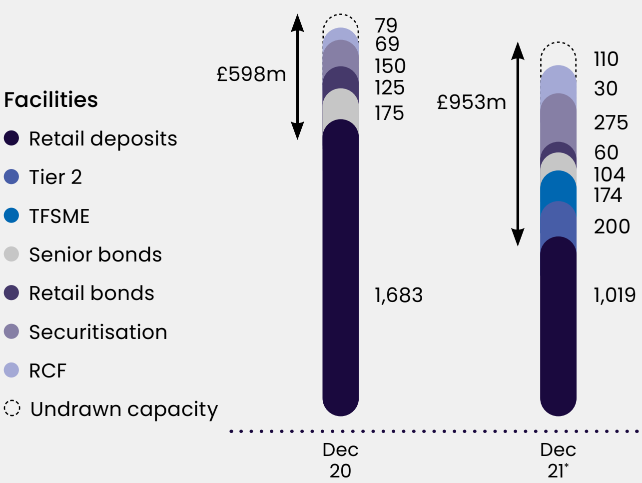
At December 2021 and early into 2022 the Group had a highly liquid position, with in excess of £300m held by both Vanquis Bank and the Group above liquidity coverage ratio requirements.

During 2021 and into early 2022, we have optimised our funding maturity profile meaning the Group now has no wholesale funding maturities until 2023. This activity included:

- refinancing and upsizing Moneybarn's bilateral securitisation to at least 2023;
- issuing £200m of Tier 2 subordinated debt capital;
- Vanquis Bank AAA-rated notes were accepted as eligible collateral for the Bank of England Liquidity and Funding Schemes;
- continued access to £2bn EMTN Programme, updated in September 2021;
- repayment of £65m retail bond in September 2021;
- tender and buyback of £71m 2023 Senior Bonds (previously £175m outstanding); and
- early repayment of the RCF borrowing.

In addition, post year end, we have submitted our application to the PRA to allow us to use retail deposits to fund different parts of the Group.

PFG funding (£m)



* The undrawn capacity reduced to £50m on early repayment of the RCF in March 2022.

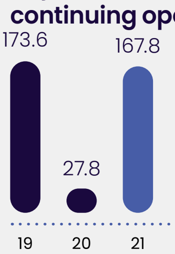
Read more on page 106

The key performance indicators (KPIs) represent the principal metrics reported to Group management on a monthly basis to support the strategic decision making across the Group.

1

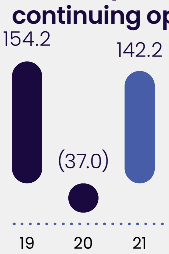
Grow customer-centric businesses

Adjusted PBT – continuing operations (£m)



£167.8m
Performance

Statutory PBT – continuing operations (£m)



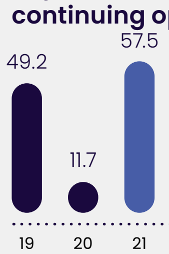
£142.2m
Performance

Definition
Adjusted profit/(loss) before tax is stated before amortisation of acquisition intangibles, discontinued operations and exceptional items. Statutory profit/(loss) before tax is stated before discontinued operations.

Strategic focus
Profits/(losses) which will impact organic investment within the Group or dividend payments to the Group's shareholders.

Comment
Adjusted profit has increased by £140.0m and statutory profit by £179.2m. As the credit outlook has improved, impairment provisions raised following the onset of Covid-19 have been released. This has been partially offset by increased investment in the Group transformation programme.

Adjusted basic EPS – continuing operations (p)



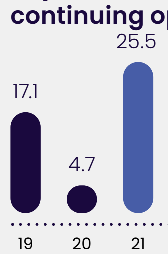
57.5p
Performance

Definition
Adjusted PBT for continuing operations divided by the weighted average number of shares in issue.

Strategic focus
Demonstrates value generated/(sustained) per shareholder.

Comment
Profit has increased in the year following improvements in the macroeconomic outlook driving lower impairments. Share capital has remained unchanged.

Adjusted ROE – continuing operations (%)



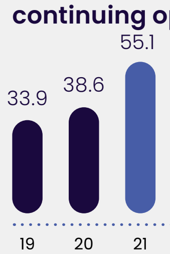
25.5%
Performance

Definition
Adjusted profit after tax for continuing operations as a percentage of average equity. Equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments.

Strategic focus
Returns generated on equity held show how efficiently the Group is delivering for its shareholders.

Comment
Profitability has improved following the release of impairment provisions as macroeconomic expectations have improved.

Cost:income ratio – continuing operations (%)



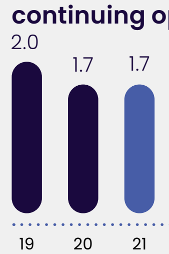
55.1%
Performance

Definition
Adjusted annualised operating costs as a percentage of annualised net interest margin for continuing operations.

Strategic focus
Efficiency of the cost base in delivering returns. Cost to income ratio is expected to reduce marginally in FY'22 versus FY'21, including the remaining transformation investment in the Group's businesses. We expect it to reduce to circa 40% from the end of 2024 onwards as the Group benefits from operational efficiencies as a result of its transformation programme.

Comment
Deteriorated cost:income ratio in 2021 largely due to increased spend on the Group's transformation programme.

Customer receivables – continuing operations (£bn)



£1.7bn
Performance

Definition
Amounts receivable from customers as reported on the balance sheet for the Group's continuing operations representing gross receivables less impairment provision calculated in accordance with IFRS 9.

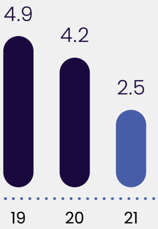
Strategic focus
Amounts receivable from customers in helping to put them on a path to a better everyday life.

Comment
Customer receivables have remained stable with a reduction in credit card receivables as a result of lower customer spending offset by growth in vehicle finance.

2

Act responsibly and with integrity

Employee numbers (k)



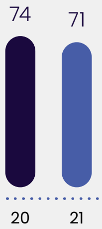
2.5k

Definition
Number of people working for the Group at year end under contracts of employment.

Strategic focus
Number of employees delivering for all stakeholders.

Comment
Employee numbers continued to decrease following the decision to close CCD.

Employee engagement (%)



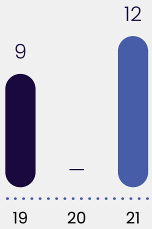
71%

Definition
The number of employees who responded to the Colleague Pulse Survey, divided by the number of employees who were asked to respond to the survey.

Strategic focus
Employees feeling engaged at work and wanting to provide their views to improve the Group.

Comment
Survey response rate decreased, but still provides a strong representative sample for decision making.

Dividend per share (p)



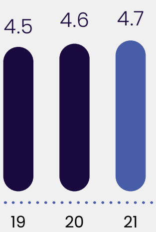
12p
Performance

Definition
Dividends declared in the period.

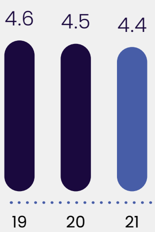
Strategic focus
Dividend returns provided to our shareholders from the value generated by the Group. Subject to market conditions the Group expects to move to a dividend pay-out ratio of circa 40% of adjusted earnings from FY'22 onwards.

Comment
2021 dividend represents a pay-out ratio of adjusted continuing earnings of approximately 30%. Adjusted earnings of £98m in 2021 is defined as profit after tax from continuing operations before amortisation of acquisition intangibles and any exceptional items including one-off provision releases.

Customer satisfaction



Credit cards
4.7
CSat score (out of 5)



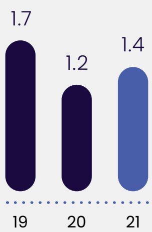
Vehicle finance
4.4
Feefo rating (out of 5)

Definition
The rate at which surveyed customers were satisfied (or more than satisfied) with the service they have been provided.

Strategic focus
Demonstrates how happy our customers are with the service they are receiving.

Comment
Customers participating in the customer surveys have continued to demonstrate they are satisfied with the service being provided.

Community investment (£m)



£1.4m

Definition
The cash cost of contributions provided to community projects or charities.

Strategic focus
Investments in the communities we serve to improve our customers' lives.

Comment
The Group has committed to invest 1% of returns in the communities it serves. This has resumed growth as the Group has returned to profitability.

3

Maintain a secure funding and capital structure

CET1 ratio (%)

R

29.1%
Performance

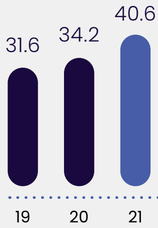
Definition
The ratio of the Group's Common Equity Tier 1 (CET1) to the Group's risk-weighted assets measured in accordance with the Capital Requirements Ratio (CRR).

Strategic focus
Demonstrates the Group's ability to withstand financial distress.

Comment
CET1 ratio has decreased in the year reflecting the losses sustained from discontinued operations and the scheduled unwind of the IFRS transitional relief, partly offset by a 12% reduction in risk-weighted exposures.

Total capital ratio (%)

R



40.6%
Performance

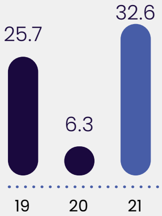
Definition
The ratio of the Group's total regulatory capital (own funds) to the Group's risk-weighted assets measured in accordance with the CRR.

Strategic focus
Demonstrates the Group's ability to withstand financial distress and the ability to facilitate future growth in risk-weighted assets.

Comment
Total capital ratio has increased in the year reflecting the £200m issuance of Tier 2 debt capital, notwithstanding the decrease in CET1.

Adjusted RORE – continuing operations (%)

R



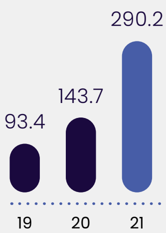
32.6%
Performance

Definition
Adjusted profit/(loss) after tax for continuing operations divided by the Group's monthly average PRA regulatory capital requirement including PRA buffers for the period.

Strategic focus
Demonstrates how well the Group's returns are reinvested and is an indicator of its growth potential.

Comment
Profitability has increased in the year partially offset by a reduction in regulatory capital.

Funding headroom (£m)



£290.2m
Performance

Definition
Available cash reserves and funding on committed facilities to fund the non-bank group businesses.

Strategic focus
Demonstrates liquidity immediately available to fund the non-bank group.

Comment
Funding headroom has increased as a result of refinancing actions taken to move contractual maturities on the Group's borrowings to 2023 and beyond, together with the issuance of £200m of Tier 2 debt capital that pre-funds future balance sheet growth.

Key

Certain alternative performance measures (APMs) have been used in this report

See pages 271 to 274 for an explanation of relevance as well as their definition

R Links to remuneration

Read more on pages 169 to 191

We understand our markets

Market overview

We specialise in supporting the one in five adults (10 to 12 million people) in the UK who are not well served by mainstream lenders. These consumers' needs and circumstances typically change over time, resulting in the market being relatively fluid; circa 1 to 2 million consumers move in and out of the market each year.

Market developments

We believe our market could increase in the short to medium term as more consumers find their access to mainstream lending restricted, due to the end of government and regulatory support provided during the pandemic and a return to normal levels of consumer spending and borrowing, coupled with a continued reduced risk appetite from mainstream lenders.

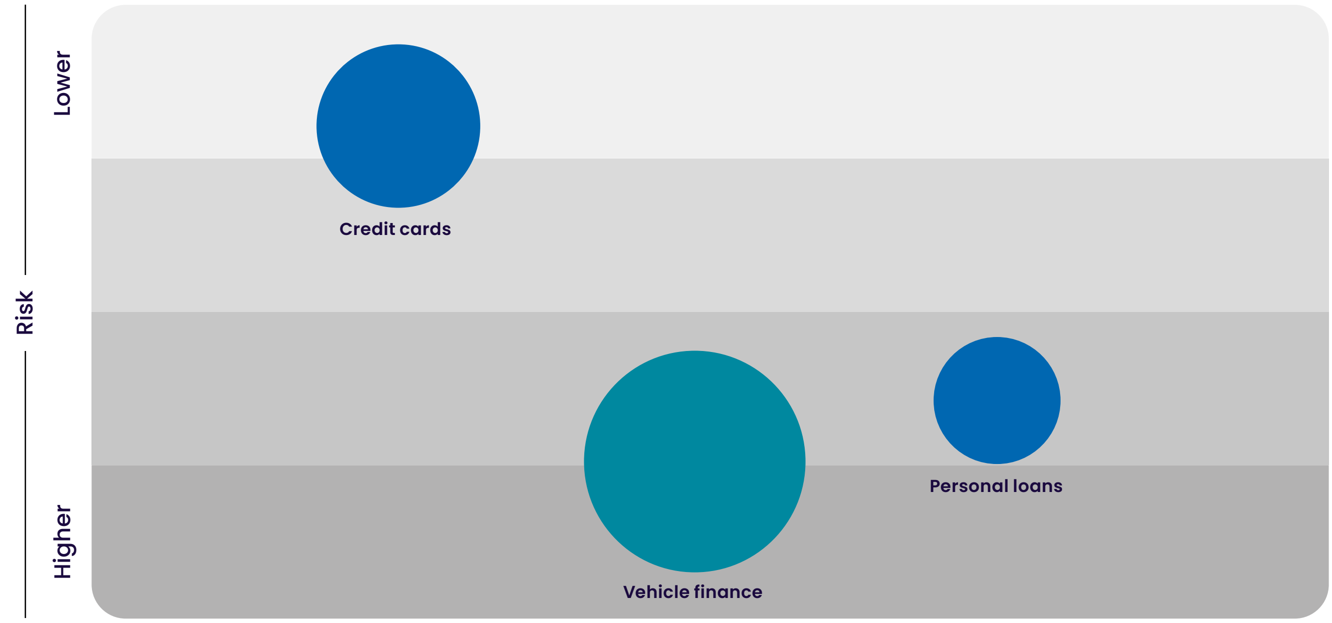
Our market is highly and robustly regulated, primarily by the FCA and PRA, with regulation subject to ongoing evolution and change.

Market composition

There are three main categories of products in our market:

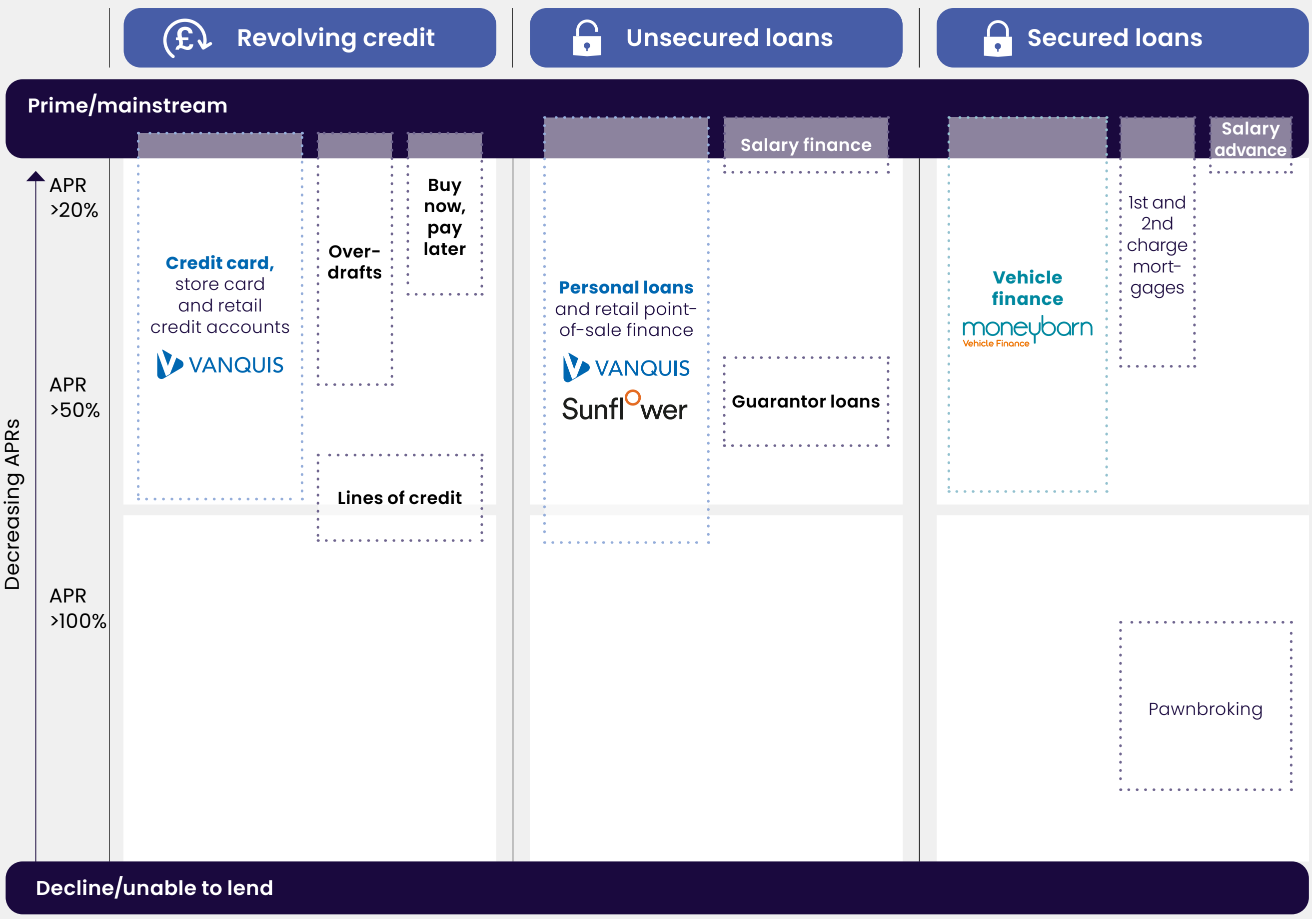
- revolving credit accounts, including credit cards;
- secured loans, where an asset is used as security for the loan; and
- unsecured loans, including personal loans, home credit and online high-cost short-term lending.

Average customer credit risk score



Note: Bubble size is proportionate to debt outstanding in the market at December 2021.

The products we offer



We will continue to evolve our product offering through 2022, enabling us to support more consumers on their credit journey. In particular:

– We will continue to develop our unsecured loans product offering via both the Vanquis and Sunflower brands for existing customers and customers in the open market, including broadening the range of APRs offered and broadening our loan sizes and terms.

– Within vehicle finance, we continue to review our product proposition, including loan sizes, terms, APRs and asset classes. For example, today we cover cars, motorbikes and LCVs, but we aspire to broaden this to enable us to support more customers' needs.

Macro trends affecting our industry

We remain vigilant in analysing the trends in our industry to ensure we employ the correct strategy, either by maintaining course or through adaptation.

The end of furlough, whilst important symbolically, has had a muted impact on our industry. Many changes brought about by Covid-19 continue to have an impact on the way people live their lives (for example through continued home working for many), meaning that we have had to adapt to this 'new normal'. Finally, the rising cost of living (driven by high inflation) is expected to have an impact on households across the country and is something we maintain a watching brief on to ensure we continue to lend to customers in a way that is suitable, affordable and sustainable as prices rise.

Links to strategy

1 Grow customer-centric businesses

2 Act responsibly and with integrity

3 Maintain a secure funding and capital structure

+ Read more on our strategy on pages 148 to 171

Links to risks

P Find our full list of key risks on page 92

The end of furlough

Short-term trend

2 P4 P9

- The furlough scheme, which supported employers to keep people in work during the worst of the pandemic, ended in September 2021. The scheme disproportionately covered people on lower or less stable incomes, particularly in the hospitality industry.

11.7m
Number of people that have been on furlough

1.1m
Number of people on furlough by the end of the scheme

Impact on our industry

- There were companies that could unfortunately no longer support employees that had been on furlough when the scheme ended, resulting in job losses and a significant change in the lives of those consumers.
- However, the overall impact of ending furlough on the market has been muted.

How we are responding

- Throughout the pandemic we used indicators to identify customers who may be experiencing repayment difficulties due to furlough or job loss.
- We offer tailored support to any customer experiencing repayment difficulties, regardless of reason.

Covid-19 and GDP

Medium-term trend

1 2 P5

- Covid-19 continues to affect the economy and change consumer behaviours. For example, people continue to do a large proportion of their shopping online post-Covid-19 and the travel industry is yet to recover to the levels seen prior to the pandemic. GDP has recently returned to pre-Covid-19 levels; however, future GDP growth is expected to be muted (circa 1%) due to slower growth in demand for goods and rising energy prices.

1.8%
Year to Q1'23 forecast GDP growth

1.1%
Year to Q1'24 forecast GDP growth

Impact on our industry

- Consumers have changed the way they prefer to borrow and to spend through the pandemic with an increasing preference for online. This has led to changes in product constructs to meet rising consumer digital expectations.
- Consumers have ever increasing digital expectations as their lives moved online during the pandemic.

How we are responding

- We continuously assess and refine our product offerings, both in terms of propositional features and products offered.
- We are investing heavily in the development of our digital channels, with a particular focus on the redevelopment of the Vanquis app.

Inflationary pressures

Medium-term trend

1 2 P4 P5 P9

- The UK is currently experiencing a higher than targeted rise (the Bank of England targets inflation of up to 2% per annum) in the cost of goods. In particular, the price cap on utility bills has risen by around 50% and may increase further, fuelled by the current geopolitical situation. This is squeezing household incomes as wages don't keep pace.

7.3%
Peak 2022 CPI forecast

5.4%
Year to Q1'23 CPI forecast

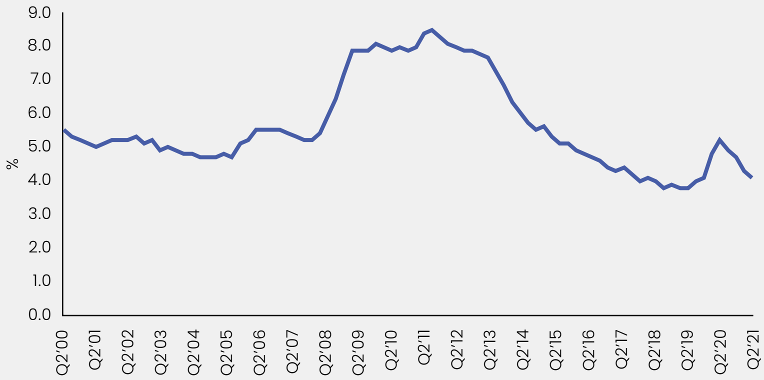
Impact on our industry

- The affordability challenges potentially facing consumers through 2022 as inflation peaks has led some mainstream lenders to tighten their assessments, increasing the non-prime lending market.
- Customers may begin to experience difficulties in repayment as a result of the rising cost of living.

How we are responding

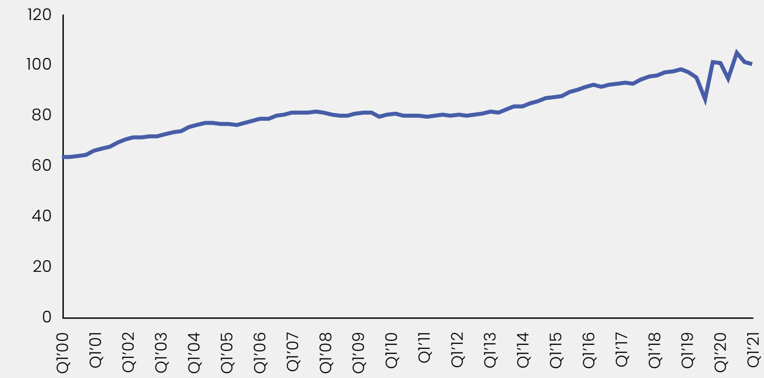
- We are actively reviewing and tightening our affordability approach where required to ensure all our lending remains suitable, affordable and sustainable.
- We monitor our customers performance and use early warning indicators to highlight potential changing circumstances where tailored support may be required.
- We continuously review our product offering to ensure we're meeting our customers' needs.

Unemployment



UK unemployment increased following the onset of Covid-19, albeit it remained at historically low levels and has subsequently dropped again. It reached 4.1% in the three months to December 2021, its lowest level since the start of the pandemic. It is forecast to improve further as the labour market continues to tighten, with job vacancies at a record high (1.2 million in the three months to December 2021). A strong labour market is positive for our customer base.

Retail sales volumes (indexed to 2019)



Retail sales volumes have recovered well from the beginning of Covid-19 and numerous UK lockdowns. Volumes fell slightly (by 0.9%) in December 2021 but remain 2.6% higher than pre-Covid-19 levels. We view strong retail sales as a positive indicator of the return of consumer confidence and a return to more normalised levels of consumer spending and borrowing.

Trends in our market

We take a holistic approach to analysing the trends in our market and use these insights to determine our strategic priorities.

The digital revolution is changing how customers expect to be served. We are able to adapt quickly to changes in the macro-environment and the competitive landscape as both evolve and the impact of Covid-19 unwinds.

Sustainability is of increasing importance to our stakeholders and aligns to our Group Purpose and we continually review our business model to ensure our lending remains suitable, sustainable and affordable for customers, in line with our regulatory and social responsibilities.

Links to strategy

1 Grow customer-centric businesses

2 Act responsibly and with integrity

3 Maintain a secure funding and capital structure

+ Read more on our strategy on pages 148 to 171

Links to risks

P Find our full list of key risks on page 92

Key trend	Narrative
Digital revolution 1 3 P9	– Consumer expectations continue to rise in the digital space, driven by the broad array of mobile banking applications and digital-first lending businesses which are continually raising the bar for speed and convenience of customer journeys. As a result, consumers now expect a frictionless experience in all channels, including mobile. – This trend accelerated through Covid-19 as later adopters became more accustomed to interacting digitally.
Macroeconomic factors 2 3 P4	– The cost of goods is currently increasing at rates considerably above the Bank of England's 2% target. This is squeezing household incomes as wages do not keep pace. – The Bank of England is now forecasting peak CPI inflation of 7.25% in 2022.
Competitive landscape 1 2 P2	– A number of competitors in our sector have been constrained by funding or have entered administration due to an inability to adapt to evolving regulation. – This trend accelerated through Covid-19 and could worsen through 2022 as the cost of living crisis impacts consumers.
Sustainability 2 3 P6 P9	– There is increasing consumer, investor and political expectation that firms will conduct their operations in a sustainable manner.
Regulatory environment 1 2 P5 P9	– Firms need to continue to adapt as the regulatory environment continues to evolve. – The regulators' focus is on ensuring all lending is sustainable, suitable and affordable.

How we are responding	Annual Report reference
– Within Vanquis, we are investing in our mobile app and self-service capabilities, enabling customers to interact digitally where this is their preference. – Within Moneybarn, considerable improvements have been made to our customer onboarding journey, removing friction and making the process clearer and simpler from the outset. – Within the personal loans business, the proposition has been developed with significant consideration provided to ensuring consumers can interact with us digitally.	– Page 28: Our strategy in action – grow customer-centric businesses
– We are well placed to serve customers who may be excluded from mainstream lending due to a deterioration in the economy as we have significant experience in lending to underserved markets and specialist affordability and credit risk assessments. – We also have a broad risk appetite, offering products across a range of price points and increasing financial inclusion across the market. – In addition, we are monitoring customer performance and have the necessary controls in place to ensure we can quickly respond to changing customer circumstances and offer tailored support.	– Pages 200 and 201: Impairment accounting policies – Pages 36 and 37: Trends in our industry
– We have a strong balance sheet and access to low-cost retail deposit funding through Vanquis Bank. We have submitted an application to the PRA to enable us to utilise this deposit funding more broadly across the Group. – In addition, we are constantly exploring opportunities to diversify our retail offering as well as considering commercial funding options. – A reduction in supply presents an opportunity for us to meet consumers' unmet credit needs where it is sustainable, suitable and affordable for the consumer, with our broad range of products.	– Page 40: Credit card market – Page 43: Vehicle finance market – Page 46: Personal loans market
– We welcome the increased focus on sustainability and have a Corporate Responsibility Programme focused on making a positive contribution towards addressing key issues that fit with our Purpose. – We have set long-term objectives which relate to five of the UN's Sustainable Development Goals and the Task Force on Climate-related Financial Disclosures. – We work with charities and partners in the communities we serve to address issues such as debt advice, financial education and other consumer vulnerability matters.	– Pages 12 and 13: PFG's contribution to the UN's Sustainable Development Goals – Pages 48 to 74: ESG – 2021 Corporate Responsibility Report
– We support regulation that protects consumers and maintains a fair and effective market. We continually review our business model to ensure our products remain sustainable, suitable and affordable for customers. – We have an ongoing transparent dialogue with our regulators and have built a good relationship with them.	

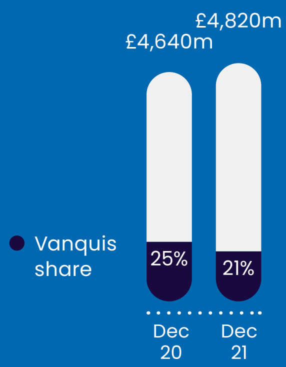
Credit cards

Vanquis Bank has been operating in the UK credit card market since 2003 and has been the largest part of the Group, on a receivables basis, since 2013. It is a key player in the credit card market for consumers not well served by mainstream lenders, offering a range of card products across a broad range of price points to reflect consumers' varied risk profiles.

Malcolm Le May
Vanquis Bank Managing Director

Non-prime credit card market (stock)*

21%
Vanquis share



* Internal analysis of TransUnion debt outstanding data as at December 2020 and 2021.

Market characteristics

- The credit card market is large and stable. It reduced slightly in 2020, driven by lower consumer spending, but has rebounded strongly through 2021.
- Competition in the market remains stable with key competitors including Capital One, NewDay own-brand cards and the Barclaycard Forward card.
- There have been a few new entrants in recent years (Zopa and Level), although these providers are yet to reach significant scale.
- Vanquis is the only specialist, covering the broadest range of risk categories in the market.

Market appeal

- Credit cards have high cultural adoption and acceptance in the UK, meaning a substantial and established domestic market.
- There is an ongoing customer relationship as credit cards have everyday utility as a means of transacting.
- Credit cards are growing in importance as a means of transacting given the additional protections credit cards provide to consumers (through section 75 of the Consumer Credit Act).

Model

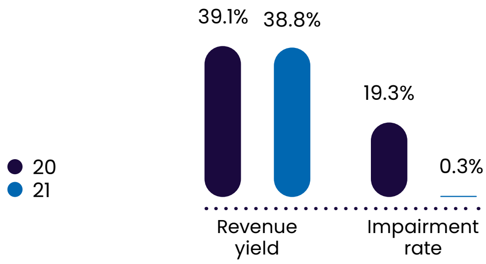
- Credit card providers typically offer low initial limits and responsibly grow these through credit line increases.
- Consumers are predominantly acquired online, with affiliates (e.g. ClearScore, Totally Money, etc.) becoming increasingly used by consumers who want guaranteed acceptance before applying. Mobile apps have become the principal way to manage an account.
- New advancements in credit cards include the increasing use of open banking to assess affordability and digital/virtual cards.

Credit cards – financial performance

Credit card adjusted PBT improved significantly year-on-year; customer spend trends improved during Q1'22

- The Group's credit card business reported adjusted PBT for the year of £173.9m (FY'20: £39.5m) which was ahead of internal plans and significantly better than last year driven by lower impairment year-on-year.
- New customer bookings for the period were 199k (FY'20: 241k) reflecting the ongoing implementation of tighter underwriting criteria in response to Covid-19. The total number of customers at the end of December stood at 1.54m (FY'20: 1.67m), which was driven by the closure of approximately 114k dormant customer accounts broadly offsetting lower charge offs during the period owing to the benefits of furlough and payment holidays.
- Customer credit card expenditure trends continue to track closely with industry trends. At the end of December, spend on a per customer basis was approximately 12% higher year on year. This notwithstanding, when combined with lower customer bookings year on year and payments per active customer remaining stable, receivables at the end of December stood at £1,063m (FY'20: £1,075m).
- Total Group liquidity at the end of December was £1.0bn, including c.£0.8bn held by Vanquis Bank in retail deposits.
- The annualised impairment rate at the end of December was 0.3% (FY'20: 19.3%) reflects the benefit of impairment provision releases during the period and the lower level of charge offs as a result of Covid-19 customer support and furlough. As a result, the risk-adjusted net interest margin improved to 36.0% (FY'20: 17.0%).
- For the first quarter of 2022, credit card expenditure improved gradually from February onwards, as travel restrictions eased, and core delinquency trends remained favourable. Receivables balances at the end of the quarter stood at c.£1.1bn.

Credit card KPIs



The Group's credit card business is a leading specialist lender in the large and established credit card market with strong capital and liquidity positions

Credit cards – financial performance continued

Credit cards

The Group's credit card business is a leading specialist in the large and established credit card market with strong capital and liquidity positions. For 2021, the business reported adjusted profit before tax of £173.9m (FY'20: £39.5m) and receivables at the end of the period of £1,063m were broadly flat versus the prior year (FY'20: £1,075m).

New customer bookings for the year were 199k, down from 241k in 2020, as a result of tighter underwriting standards originally put in place during Q2'20 not being relaxed during 2021 and reflecting the cautious approach to rebuilding the receivables book. The credit card business launched a brand advertising campaign during 2021 (the 'Walk Tall with Vanquis' campaign) which contributed approximately 20k customers through direct channels. Approximately 100k inactive customers had their account closed during Q1'21, following communications to them in November 2020 that their account would be closed if there was no activity within 60 days. As a result, credit card customer numbers reduced to 1,541k as at December 2021 (FY'20: 1,667k).

During 2021, Credit Line Increases amounting to approximately £170m were issued to customers, which was approximately £30m higher than the previous year. At the end of December, the average utilisation rate was approximately 52%, which remains below levels seen pre-Covid. This reduction has been driven by customer deleveraging throughout the pandemic.

Receivables ended the period at £1,063m (FY'20: £1,075m), broadly flat year-on-year. However, receivables increased versus the level seen at the end of June 2021 (H1'21: £977m) as customer spend increased in-line with the wider market. During 2021, customer spend was tracking ahead of levels seen in 2020 and, for certain periods, ahead of levels seen in 2019. Towards the end of the year, customer spend was curtailed by the spread of the Omicron Covid variant which impacted customers' ability to visit retail and leisure facilities.

The credit card business generated revenue of £389.5 during the year, versus £472.4m in 2020, as a result of lower average receivables. There was a slight moderation in the revenue yield to 38.8% (FY'20: 39.1%), which reflects the ongoing annual reduction in ROP income, a focus on higher quality customers on average and changes to late & over limit fees charged to customers.

Funding costs decreased to £24.9m during the year, versus £33.7m in 2020, reflecting lower average funding requirements during the year, lower funding rates related to funds accessed through the Bank of England's TFSME and interest income generated from the intercompany loan to Group of £70m in August 2020.

The impairment charge for 2021 was £3.7m (FY'20: £233.3m), a significant reduction year-on-year, which equated to an annualised impairment rate of 0.3% (FY'20: 19.3%) at the end of December. The decrease in impairment reflects benefit of impairment provision releases, as a result of more benign macroeconomic conditions, and lower levels of charge off activity driven by Covid-19 and furlough schemes. The lower impairment charge was sufficient to more than offset the marginally lower revenue yield to produce a risk-adjusted net interest margin improvement to 36.0% (FY'20: 17.0%).

Costs increased to £187.0m during the year versus £165.9m in 2020 and £174.0m in 2019 reflecting investments made to improve the operational capability of the business during the period, such as the Vanquis customer app, the advertising brand campaign and discretionary accruals which did not occur in 2020.

The profitability of the card business recovered significantly during 2021 and it has maintained its strong capital and liquidity positions. It remains focused on enhancing its customer and digital propositions, including a new Vanquis mobile app, and improving its range of price points for customers.

	12 months ended 31 December		
	2021 £m	2020 £m	Change
Customer numbers ('000)	1,541	1,667	(7.6%)
Period-end receivables	1,063	1,075	(1.1%)
Average receivables[1]	1,003	1,207	(16.9%)
Revenue	389.5	472.4	(17.5%)
Interest	(24.9)	(33.7)	26.1%
Net interest margin	364.6	438.7	(16.9%)
Impairment	(3.7)	(233.3)	98.4%
Risk-adjusted net interest margin	360.9	205.4	75.7%
Costs	(187.0)	(165.9)	(12.7%)
Adjusted profit before tax[2]	173.9	39.5	340.3%
Annualised revenue yield[3]	38.8%	39.1%	(0.3%)
Annualised impairment rate[4]	(0.3%)	(19.3%)	19.0%
Annualised return on required equity[5]	41.9%	9.1%	32.8%

1 Calculated as the average of month end receivables for the 12 months ended 31 December.
2 Vanquis Bank profits reflect an adjustment for £1.0m of redundancy costs in 2021 and the release of a ROP provision (£8.3m) in 2020.
3 Revenue as a percentage of average receivables for the 12 months ended 31 December.
4 Impairment as a percentage of average receivables for the 12 months ended 31 December.
5 Adjusted profit after tax as a percentage of average equity for the 12 months ended 31 December.

Certain alternative performance measures (APMs) have been used in this report. See pages 271 to 274 for an explanation of relevance as well as their definition.

Vehicle finance

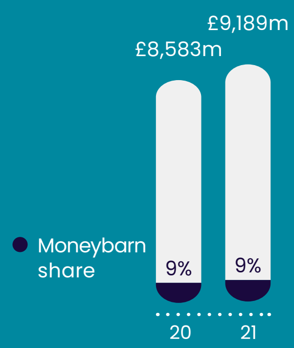
Moneybarn was acquired by the Group in 2014, enabling us to broaden our offering into secured motor finance. Moneybarn has since become a leading player in the market. In addition, Moneybarn's expansion into the near-prime motor finance market in 2021 provides further opportunities for Moneybarn to support more consumers excluded from mainstream lending.

moneybarn
Vehicle Finance

David Shrimpton
Moneybarn Managing Director

Non-prime vehicle finance market (stock)*

9%
Moneybarn share



* Internal analysis of TransUnion debt outstanding data as at December 2020 and 2021.

Market characteristics

- Motor finance is a secured product. Secured finance is a well-established and culturally accepted way to purchase big ticket items, such as a car, with opportunity for further growth in used car acquisition.
- Customers have an incentive to maintain their repayments due to the utility of the vehicle (e.g. a car is needed to get to work).

Market appeal

- The non-standard motor finance market is large and growing.
- Only 30% of used car sales are on finance, offering attractive growth prospects for lenders as finance penetration develops.
- There are numerous providers that span over a range of risk appetites (e.g. Advantage, MoneyWay and Close Brothers).
- Moneybarn has the broadest coverage of APRs in the non-prime market and its expansion into near-prime lending enables utilisation of existing capabilities to support more consumers requiring access to finance in order to purchase a vehicle.
- Moneybarn's access to lower cost funding provides a significant competitive advantage over a number of competitors.

Model

- Motor finance is typically on three to five-year secured hire purchase contracts.
- Consumers in this market are not accessing finance with the manufacturer or with their bank and are typically acquired through intermediaries.
- There are typically small levels of repeat loans with the same lender.
- The technology in this market is evolving from a manual process to increased digitisation and smoother customer onboarding (e.g. auto-affordability and ID verification).

Vehicle finance – financial performance

Vehicle finance adjusted PBT improved year-on-year whilst average credit and customer quality remains high

– The Group's vehicle finance business delivered adjusted PBT for the period of £28.9m (FY'20: £10.9m) which represents significant growth year-on-year. The increase was driven by a reduction in impairment owing to Covid-19 support schemes and furlough.

– At the end of December, there were 94k vehicle finance customers (FY'20: 91k) and receivables of £586m (FY'20: £567m). Growth in customers and receivables year-on-year was moderated by higher than anticipated early customer settlements driven by a buoyant second hand car market.

– Credit issued during 2021 was £287m, flat year-on-year, despite new business volumes decreasing marginally to 37k (FY'20: 38k).

– The annualised impairment rate decreased to 7.6% (FY'20: 13.6%) driven by lower arrears rates and provision releases as a result of a more benign macroeconomic backdrop during the period. As a result, the risk-adjusted net interest margin improved to 11.1% (FY'20: 6.9%).

Vehicle finance

The Group's vehicle finance business is one of the leading suppliers of vehicle finance to non-prime customers in the UK. For the twelve months to the end of 31 December 2021, Moneybarn generated adjusted profit before tax of £28.9m (FY'20: £10.9m) and receivables at the period end were £586m (FY'20: £567m).

New business volumes during 2021 were broadly flat versus 2020 at 37k (FY'20: 38k) despite tighter underwriting standards which were implemented during Q2'20 and which have since remained in place. Consequently, the vehicle finance business ended the year with 93.9k customers versus 91.4k in 2020. As a result of its focus on higher quality customers on average, and the strong pricing environment seen in the used-car market throughout 2021, the average loan size increased to approximately £9k whilst maintaining average Loan To Values consistent with 2020, which drove total credit issued to over £287m after unwinds (FY'20: £287m). For the year as a whole, approximately 33% (FY'20: 38%) of Moneybarn's new lending was to people classified as key workers.

At the end of December, receivables stood at £586.2m (FY'20: £566.6m), driven by new business volumes and the average loan size increasing. During the second half of the year, the business started to experience higher levels of early settlement from customers which impacted the year end receivables outcome.

Revenue during 2021 increased to £137.9m (FY'20: £134.0m) as the business focused on higher quality customers, including the launch of a 14.9% APR product. The annualised revenue yield has decreased to 23.2% from 25.1% in 2020. This partly reflects the Group's focus on higher quality customers and partly because of furlough support schemes and provision releases.

Interest costs increased during the year to £27.1m from £24.6m in 2020 reflecting a higher receivables balance throughout the period. As a result, the net interest margin at the end of December stood at 18.7% versus 20.5% a year earlier.

	12 months ended 31 December		
	2021 £m	2020 £m	Change
Customer numbers ('000)	93.9	91.4	2.7%
Period-end receivables	586.2	566.6	3.5%
Average receivables[1]	593.8	533.1	11.4%
Revenue	137.9	134.0	2.9%
Interest	(27.1)	(24.6)	(10.2%)
Net interest margin	110.8	109.4	1.3%
Impairment	(44.6)	(72.7)	38.7%
Risk-adjusted net interest margin	66.2	36.7	80.4%
Costs	(37.3)	(25.8)	(44.6%)
Adjusted profit before tax[2]	28.9	10.9	165.1%
Annualised revenue yield[3]	23.2%	25.1%	(1.9%)
Annualised impairment rate[4]	(7.6%)	(13.6%)	6.0%
Annualised return on assets[5]	7.6%	5.4%	2.2%

1 Calculated as the average of month end receivables for the 12 months ended 31 December.
2 Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (FY'20: £7.5m) for 2021.
3 Revenue as a percentage of average receivables for the 12 months ended 31 December.
4 Impairment as a percentage of average receivables for the 12 months ended 31 December.
5 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.

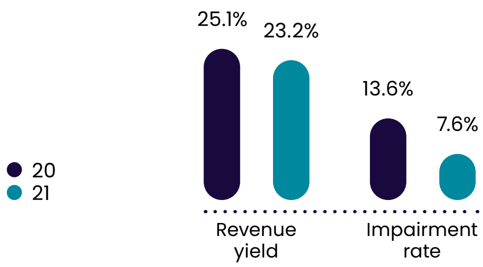
Impairment decreased significantly during the year to £44.6m (FY'20: £72.7m) as a result of impairment provision releases, driven by a more benign macroeconomic backdrop, and furlough support schemes. As a consequence, the annualised impairment rate decreased to 7.6% from 13.6% in 2020. This resulted in the risk-adjusted net interest margin improving to 11.1% (FY'20: 6.9%).

Costs increased during the course of the year to £37.3m (FY'20: £25.8m), reflecting the continued cost of supporting colleagues to work remotely, together with significant spend on change and transformation to enable the business to continue on its growth trajectory.

For 2022, the vehicle finance business will continue to evaluate the expansion of its offerings to customers with products and services that will strengthen its relationships and provide for evolving customer preferences.

Certain alternative performance measures (APMs) have been used in this report. See pages 271 to 274 for an explanation of relevance as well as their definition.

Vehicle finance KPIs



Customer case study – Leah's story

My name's Leah, I'm from Stoke on Trent and I live by myself. I work as a UK Support Manager for a company called Food Hub, looking after our UK clients. I make sure that they're happy and I run a team in our Stoke-on-Trent office.

For fun I like to go on road trips, always jumping in the car, going down the coast and looking for a beach. I like weekends away, shopping and spending time with family and friends – anything I can do to get out and about.

The day I passed my test I wanted to get a new car, so I drove to a showroom, I had a nice deposit with me and I told them I wanted a black or red car with bluetooth and a cupholder, and that's what they had there. The process was so simple; I went for a test drive down the road, decided that was the car I wanted, we did the paperwork when I got back and I drove away in my new car that day!

Being with Moneybarn has really helped me change my life. You don't realise till you get a bit older that what you did in your younger years with credit can have an effect on you later on. So it's been really good for me having the opportunity with Moneybarn, for someone to see that yes I've got a good job, yes I can afford to do this and not just be turned down straight away because you have a bad history.

The people at the end of the phone at Moneybarn are lovely. It's just like talking to a friend. I'd recommend Moneybarn to everyone, and not just people with a poor credit history. I think the level of service that you get and the ease of using the service is second to none.

Watch Leah's full interview at **www.providentfinancial.com/who-we-are/our-customers/meet-leah**

> Being with Moneybarn has really helped me change my life. I'd recommend Moneybarn to everyone, and not just people with a poor credit history.
>
> **Leah**
> UK Support Manager

Personal loans

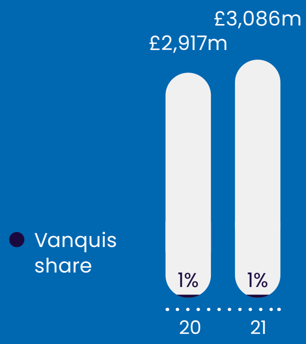
We launched two personal loans pilots in 2021, one via the Sunflower brand and one via the Vanquis brand. These are in addition to our existing credit card customer personal loans offering which has been in place since 2016. Initial results from the loans pilots are very positive and lending volumes continue to rise.

VANQUIS Sunflower

Hamish Paton
Personal Loans Managing Director

Non-prime personal loans market (stock)*

1%
Vanquis share



* Internal analysis of TransUnion debt outstanding data as at December 2020 and 2021.

Market characteristics

- The market is of a substantial size and growing.
- The launch into the open market via two brands across a broad range of APRs has significantly increased PFG's addressable market.
- Providers operate at a range of price points (circa 15–100% APR) enabling consumers with a broad range of risk profiles to access unsecured loans.
- There have been a number of new near-prime entrants (e.g. Lendable and Chetwood Financial) in recent years.

Market appeal

- The non-prime personal loans market is substantial in size and growing.
- Personal loans have high cultural adoption and acceptance in the UK.
- Offering personal loans provides the opportunity to leverage core skills in loans and allows Vanquis Bank to meet more of its existing customer needs.
- In addition, PFG has strong access to funding, low cost of funds and considerable capital strength versus competitors in this market, providing an opportunity for PFG to meet a greater level of the demand in the market.

Model

- We offer personal loans over one to five years across a broad range of APRs.
- Personal loans are typically taken to meet a specific one-off need.
- Customers are acquired increasingly through internet affiliates, with customers then typically managing their account through an online login or mobile app.

Personal loans – financial performance

Personal loans business established; pilot phases have started encouragingly

- Over recent years, PFG has established a personal loans business, which will be led by Hamish Paton (Managing Director). The business will incorporate loans branded as Vanquis Bank Loans and Sunflower Loans, both of which are currently in pilot phases that have started encouragingly.
- The two products will target distinct customer segments, based on different affordability criteria and average credit scores, and initially the loans will range from £1-5k over a period of 12 to 48 months.
- PFG invested in a new IT infrastructure platform, known as 'Gateway' in order to support the new personal loan product. It is a brand new IT platform which is capable of housing multiple products over time. Ultimately, it will provide customers with a single, holistic view of PFG product offerings. The personal loans business is an important part of PFG's strategy to diversify its product offering and to cater to customer demand.

Personal loans

Over recent years, PFG has established an personal loans business to diversify its product offering to new and existing customers. Its products, which will be branded as either Vanquis Loans or Sunflower Loans, will be positioned within the mid-cost credit segment of the market, and initially will offer loans of between £1 - £5k over one to four years. The typical personal loan customer will be similar in nature, and average credit score, to existing credit card and vehicle finance customers. The addressable market for the loan business is estimated to be approximately £2.9bn as at December 2020 representing a significant opportunity for customer and receivables growth.

New business volumes during 2021 were 12.8k, versus 7.8k in 2020, as the business moved from offering loans to existing credit card customers only. The business started offering loans via an open market pilot scheme from October onwards which has started encouragingly. The pilot scheme will be assessed at the end of Q1'22. As a result of these new customer bookings, the personal loans businesses ended the year with 19.9k customers versus 18.5k at the end of 2020. At the end of December, receivables stood at £28.1m versus £19.1m at the end of 2020, driven by new business volumes increasing year-on-year.

The personal loans business generated revenue of £7.2m during 2021 (FY'20: £9.0) as a result of lower average receivables year-on-year driven by lower new business volumes in 2020 because tightened underwriting criteria. The revenue yield for the year was 38.1% versus 33.8% in 2020 as the business broadened the product offering with a wider range of pricing during H2'21, supported by a new scorecard used for existing customer decisioning.

The impairment charge for 2021 decreased to £2.1m, from £6.6m in 2020, as the business developed its score cards, established its underwriting approach to new customers and because of impairment provision releases as a result of a benign macroeconomic backdrop. This equated to an impairment rate for the year of 11.1% (FY'20: 24.8%). This resulted in the risk-adjusted net interest margin improving to 22.8% versus 6.4% for the prior year.

	12 months ended 31 December		
	2021 £m	2020 £m	Change
Customer numbers ('000)	19.9	18.5	7.6%
Period-end receivables	28.1	19.1	47.1%
Average receivables[1]	18.9	26.6	(28.9%)
Revenue	7.2	9.0	(20.0%)
Interest	(0.8)	(0.7)	(14.3%)
Net interest margin	6.4	8.3	(22.9%)
Impairment	(2.1)	(6.6)	68.2%
Risk-adjusted net interest margin	4.3	1.7	152.9%
Costs	(13.0)	(3.2)	(306.3%)
Adjusted loss before tax	(8.7)	(1.5)	(480.8%)
Annualised revenue yield[2]	38.1%	33.8%	4.3%
Annualised impairment rate[3]	(11.1%)	(24.8%)	13.7%

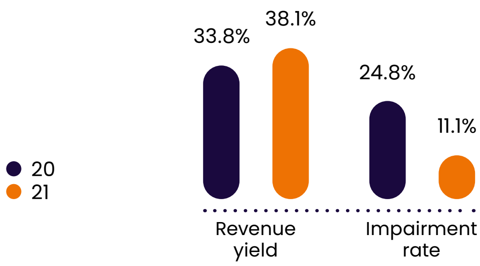
1 Calculated as the average of month end receivables for the 12 months ended 31 December.
2 Revenue as a percentage of average receivables for the 12 months ended 31 December.
3 Impairment as a percentage of average receivables for the 12 months ended 31 December.
4 Adjusted profit after tax as a percentage of average equity for the 12 months ended 31 December.

Interest costs for the year were broadly flat at £0.8m, versus £0.7m in 2020, equating to an interest margin of 4.2% versus 2.6% in 2020. Costs increased during the course of the year to £13.0m (FY'20: £3.2m) reflecting the investment in the new IT infrastructure platform known as Gateway.

For 2022, the personal loans business will continue to expand its open market distribution efforts, continue to focus on growing lending to existing credit card customers and pursue opportunities to broaden its product offering.

Certain alternative performance measures (APMs) have been used in this report. See pages 271 to 274 for an explanation of relevance as well as their definition.

Personal loans KPIs



Creating better everyday lives

"At PFG, we are committed to delivering products and services that help put our customers on a path to a better everyday life. In order to do this, we need to be financially sustainable. We also need to take account of the wider role that PFG plays in society and the ESG issues that matter to our key stakeholders. This is why we have a sustainability strategy which not only focuses on responsibly serving our customers, but also underlines our commitment to taking action on issues such as climate change, inequality and poverty, and creating a truly sustainable business. This strategy is integral to our long-term success and the value we create for all our stakeholders, and frames the way we manage and report our ESG responsibilities.

Malcolm Le May
Chief Executive Officer

Our commitment to ESG-related matters

Our sustainability strategy is aligned with our Purpose and enables us to manage and report material ESG-related matters. This strategy centres on the following two areas:

- Operating our business of lending to our customers in a responsible manner – we provide our customers with credit products that meet their particular needs, deliver fair outcomes throughout their journeys with us, and put them on a path to a better everyday life.
- Acting responsibly and sustainably in all our stakeholder relationships – we respond to the needs of our stakeholders by creating a fair, inclusive and diverse workplace, supporting our local communities, taking action on climate change, treating suppliers fairly, and engaging with investors on ESG-related matters.

Governance and management of the ESG agenda

Overall responsibility for the delivery of PFG's Purpose, and the sustainability strategy that it is closely aligned with, rests with the Provident Financial plc Board generally and Malcolm Le May, the Chief Executive Officer (CEO), specifically. The PFG Executive Committee also plays an important supporting role as it reviews and approves aspects of the responsible business programme and its budget.

The Board's CCE Committee also continues to play a key role in providing oversight of matters that relate to the sustainability agenda. The Committee is now chaired by non-executive director Graham Lindsay and its members in 2021 include other non-executive directors Elizabeth Chambers, Margot James and Robert East (resigned 13 January 2022).

We also have a Climate Risk Committee to provide oversight and drive implementation of the TCFD recommendations and help to deliver the Group's wider climate risk strategy, and an Inclusion Steering Group, which supports the delivery of the Group's inclusion and wellbeing strategy.

The day-to-day delivery of the PFG Corporate Responsibility (CR) Programme is carried out by the Group's CR team, which is supported by colleagues from across the business. This includes the colleagues who sit on the various working groups we have in place and oversee the management of environmental and community investment matters.

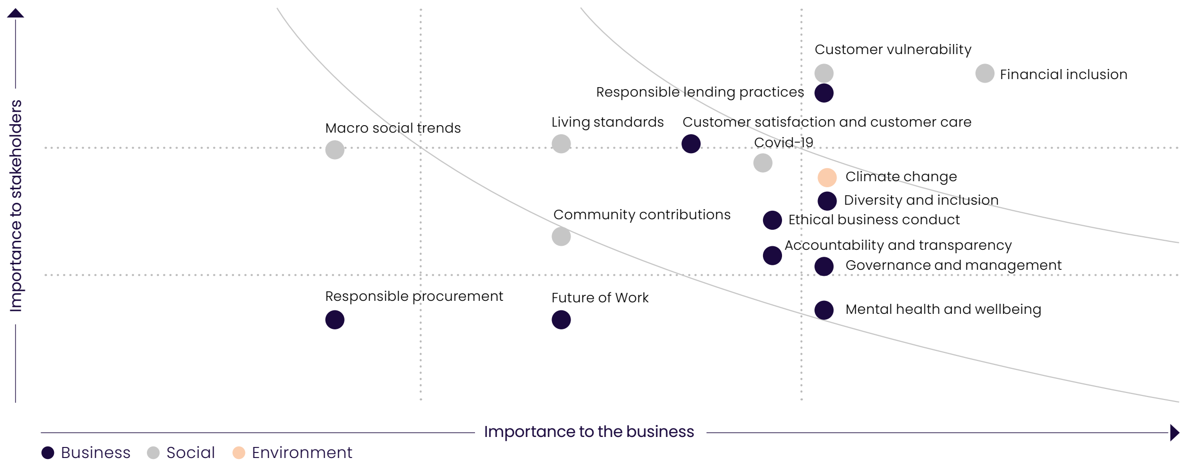
To help us to identify and prioritise the ESG risks/issues that are most material to our business and our key stakeholders, we undertake a materiality assessment every two years.

These assessments are carried out in accordance with ESG reporting best practice, and involve conducting interviews with internal and external stakeholders and taking account of the outcomes of any existing stakeholder engagement activities (for example, our investor perception audit reports, colleague engagement surveys and supplier due diligence assessments). Having carried out our last materiality assessment during April and May 2021, the following material ESG risks/issues were identified:

- **Environmental issues:** climate change.
- **Social issues:** customer vulnerability, financial inclusion, Covid-19, community contributions, living standards and macro social trends.
- **Governance/management issues:** accountability and transparency, customer satisfaction and care, diversity and inclusion, ethical business conduct, Future of Work, governance and management, mental health and wellbeing, responsible lending practices and responsible procurement.

These ESG risks/issues have been plotted on the matrix below according to their relative importance to both our business and key stakeholders.

Materiality matrix



Our Purpose

Helping to put people on a path to a better everyday life

Our sustainability strategy

Lending responsibly

1 NO POVERTY

Our customers

- Provide our customers with the credit products that meet their particular needs and deliver fair customer outcomes throughout their journey with us

Read more on pages 52 and 53

Acting sustainably

4 QUALITY EDUCATION
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

Our investors

- Engage with the investment community on sustainability matters

Read more on page 54

Our regulators and government

- Remain a responsible taxpayer

Read more on page 55

Our colleagues

- Create an inclusive and engaging workplace

Read more on pages 56 to 59

Our suppliers

- Ensure that we treat our suppliers fairly

Read more on pages 60 and 61

Our communities

- Support our Purpose through our Social Impact Programme

Read more on pages 62 to 67

Our environment

- Taking action on climate change

Read more on pages 68 to 73

Our stakeholder engagement strategy

Interest from many of our stakeholders in our ESG credentials and performance, along with our responses to this interest, continues to rise. To be able to respond to this interest we need to have effective stakeholder relationships and engage in meaningful dialogue. This enables us to understand and prioritise the ESG-related views and concerns that our key stakeholders have with regard to their relationships with PFG; it also helps us to respond appropriately to stakeholders' interest and supports our ongoing compliance with the requirements of s.172 of the Companies Act 2006 (see pages 75 to 86 for more information).

We have identified our key stakeholders as being our customers, colleagues, communities, suppliers, investors (both debt and equity), regulators and government, as well as the environment. We engage with these stakeholders on an ongoing basis to ensure that we understand any views and concerns they may have, making sure to factor them into decision making processes as and when it is appropriate to do so. There are also a number of other stakeholders with which we engage on a more periodic basis. These include, the media, the money advice sector, claims management companies, trade associations, debt collection agencies, consumer forums and competitors.

To guide our approach to stakeholder engagement, we have established a range of strategic objectives within our approach to how we engage with each group so that we can systematically seek stakeholders' perspectives and expertise, and understand, address and manage their expectations with regard to a range of ESG matters. By doing this, we can identify opportunities, manage and enhance our corporate reputation, reduce risk and comply with regulatory and voluntary standards. These objectives are set out below:

Stakeholder	Strategic stakeholder engagement objectives
Customers	Our businesses employ a wide range of techniques (e.g. customer satisfaction surveys) to engage with customers throughout their time with us. In addition to continuing to use these methods, we will: – convene more customer panels/groups; – involve customers in the inclusive design of products and services so that they can be designed to be accessible to, and usable by, as many of them as possible from the outset; and – ensure that existing collaborative initiatives (e.g. Vanquis' partnership with IncomeMax) are accessible to other PFG businesses where appropriate.
Colleagues	We will continue to engage with colleagues in order to maintain and encourage a supportive and inclusive workplace culture by: – using a range of communications channels (e.g. our PFG-wide intranet, face-to-face meetings and remote platforms) to provide colleagues with business-related updates and to encourage them to provide feedback or, for example, participate in community investment activities; – encouraging colleagues to get involved in the PFG Inclusion Community (which comprises five Affinity Groups based around Disability, Ethnicity, Gender Balance, LGBTQ+ and Social Mobility) to help the Group shape related policies and ways of working, and push to educate colleagues across our businesses; and – utilising Colleague Forums, which have a designated non-executive director, to engage collaboratively with colleagues across PFG on key issues affecting the Group.
Regulators	We will continue to focus on maintaining open and trusting dialogue with our regulators and policymakers by: – ensuring that our regulatory responses (e.g. our contributions to consultation exercises and correspondence on specific issues) continue to be channelled through a single team so that they are coordinated; – engaging with our regulators through our trade association memberships; – where possible, contributing to, or participating in, multi-stakeholder forums involving our regulators and other businesses within the financial services sector; – identifying opportunities to inform and educate our regulators about aspects of our business models, including collections, complaints, income and expenditure, etc; and – participating in discussions and events on a broader range of issues that are material to PFG.

Stakeholder	Strategic stakeholder engagement objectives
Government	We will continue to engage with the Government at the CEO level, and through our think tank partners and participation in multi-stakeholder forums and government-sponsored initiatives and schemes. In addition, we will engage with the Government by: – participating in discussions and events on a broader range of issues that are material to PFG (e.g. with the Bank of England with National Numeracy).
Investors (debt and equity)	Given that we are required to comply with disclosure obligations which relate to the transparency of information we will continue to engage with investors using the methods already employed. Strategic priorities in terms of engaging with our investors include: – attending broker conferences and other events with a view to meeting prospective shareholders; – using existing channels (e.g. presentations and meetings) to engage with our investors on our ESG strategy; – publishing thought leadership articles on topics that would be of interest to investors on social media and other channels; and – engaging more with our debt investors (with the help of the PFG Treasury team) to promote our ESG credentials with that audience.
Suppliers	We will continue to develop and embed our Supplier Relationship Management Framework, ensuring that tools, processes and procedures are aligned across PFG. We will also engage with our suppliers on other issues (e.g. the climate-related risk and opportunity agenda).
The environment	Climate change represents a priority ESG issue for our business, particularly in the context of managing material climate-related risks and meeting the recommendations of the TCFD. Given the work we have delivered during 2021 which has enabled us to meet these recommendations (i.e. established a new Climate Risk Committee), our stakeholder engagement activities will focus on: – continuing to include TCFD updates in our Annual Report and Accounts and CR Reports; – including TCFD content in investor relations materials (e.g. presentations) and regulatory-related documentation (e.g. VBL's ICAAP); – informing and involving colleagues by engaging them on climate-related matters (e.g. through e-learning, intranet-based campaigns and involvement in working groups); – profiling relevant activities (e.g. our support of the Grange Festival/WWF project and the UN's Business Ambition for 1.5°C pledge) via the intranet and social media channels; and – ensuring that regular updates on our climate change-related work are provided to the CCE Committee, Risk Committee, Group ExCo and business unit boards/committees.

Read more on pages 75 to 86

Our customers

Delivering customer satisfaction

We continue to monitor customer satisfaction rates across our businesses to ensure that we are providing our customers with products, services and partnerships that meet their particular needs, and which help put them on a path to a better everyday life. Information on customer satisfaction is collected through a variety of methods such as online forums, and phone and face-to-face surveys, as well as focus groups. Our businesses have supported our customers throughout the pandemic by continuing to lend to existing customers where appropriate and activating forbearance measures where needed. This has enabled us to maintain high customer satisfaction ratings across credit card and vehicle finance products. The overall customer satisfaction rates in 2021 for each of our products are set out below.

Credit cards
4.7/5
(2020: 4.6/5)
(CSat score)

Vehicle finance
4.4/5
(2020: 4.5/5)
(Feefo rating)

Serving our customers responsibly

Our Purpose is to help put people on a path to a better everyday life. To do this, we provide customers with opportunities to borrow a sensible amount in a transparent, responsible and sustainable way. PFG's core business is to provide tailored and responsible products, services and partnerships that help put our customers on a path to a better everyday life. The 1.6 million customers we are proud to serve come from all across the UK. We offer credit cards through our Vanquis brand and vehicle finance products via Moneybarn and have a growing personal loans business with both our Vanquis and Sunflower Loans products.

Handling customer complaints responsibly

We are committed to ensuring that we keep customer complaints to an absolute minimum as we believe that doing so is a good indicator that we are treating our customers fairly and that our products, services and partnerships meet their specific needs. Understanding the reasons behind complaints also helps us to improve the services we offer. We have well-established complaint handling processes, procedures and timescales to guide our Customer Relations teams in resolving issues in a professional and timely way. Vital to resolving customer complaints satisfactorily is ensuring colleagues are trained well enough to deliver excellent customer service whether face to face, on the telephone or via email. The total amount of hours colleagues spent on customer-focused training in 2021 was 39,509 (2020: 55,229).

We provide the contact details of the Financial Ombudsman Service (FOS) to all our customers, so they have another option if they feel we have been unable to resolve their complaint to their satisfaction.

During 2021, the total number of customer complaints that were received by PFG was 66,516 (2020: 90,264). This figure includes 38,282 complaints (2020: 66,694) that relate to our Consumer Credit Division which was closed in December 2021. The total number of customer complaints received in 2021 for each of our products are set out below. Also, during the year, 13,313 complaints (2020: 13,736) were referred to the FOS, with 8,581 referred complaints (2020: 8,933) being upheld in favour of the customer.

Credit cards
19,517
(2020: 17,177)

Vehicle finance
8,717
(2020: 6,393)

Supporting customer vulnerability issues

A key pillar of our Group-wide Social Impact Programme focuses on providing grants to charities and specialist partners to address issues such as customer vulnerability, product accessibility and financial difficulties. The organisations we support also guide and advise our colleagues to support our customers when addressing these kinds of issues.

We understand that our customers can find themselves, at times, in financially challenging situations due to unforeseen circumstances such as ill health, loss of income, family bereavement or other significant life events. Therefore, we ensure that our call centre colleagues are trained in recognising signs that might indicate a customer could be classified as 'vulnerable', or may be facing financial difficulty, whether in the short or long term. In 2021, this involved continuing to deliver our programme of work with the charity Surviving Economic Abuse which involves delivering training to frontline colleagues to build their capacity to recognise the signs of economic abuse.

In addition to ensuring that our customer-facing colleagues are equipped with the skills they need to support our customers throughout their journeys with us, we are able to draw on the relationships we have developed over the years with organisations in the money advice and financial education sectors. By supporting these organisations, our customers can also access free independent and personal financial advice and support if they are facing financial strain. The organisations we support include the Money Advice Trust, Money Advice Scotland, The Money Charity, Advice UK, Christians Against Poverty, StepChange, IncomeMax, the Institute of Money Advisers, and the Money Advice Liaison Group (see pages 31 and 32 of our 2021 CR Report for more information).

IncomeMax case study

Our credit card business continues to work with IncomeMax, through an innovative partnership that began in 2015, to support customers who are experiencing financial difficulties.

IncomeMax is a community interest company that helps people to maximise their household income by providing them with independent advice and support to navigate the complex welfare system, allowing individuals to take control of their finances. The advice provided by IncomeMax helps individuals and households to increase their income, reduce household bills, apply for white goods, switch utility tariffs and access specialist support services such as debt advice should this be required. IncomeMax can find tens of thousands of pounds of back dated income that clients are entitled to and eligible for in some cases.

During 2021, the credit card business has invested further in IncomeMax, working closely with it to support its digital proposition development. Recognising that customers' digital capacity is evolving and that a growing number may now prefer to engage digitally, this will provide even better access to specialist advice.

By providing funding for core costs, the new platform will benefit Vanquis and non-Vanquis customers, improving access for a wider community of individuals who may be facing financial difficulties. The digital platform is planned for launch in 2022.

Currently we are also working on making additional resources available to customers through access to the IncomeMax telephone referral service as well as online tools which we will be launching in partnership in early 2022.

Our investors

Engaging with investors and the major rating agencies

PFG is committed to continuing to build not only a financially stronger and sustainable business but also a better company that balances profit with our Purpose. In order to deliver on this commitment it is important that we are transparent in our engagement with investors regarding a range of key ESG issues including our exposure to material climate-related risks and advancing inclusion and diversity, as well as that we are a responsible taxpayer.

The main means by which we inform our investors of our ESG-related performance is through the publication of our annual CR Report. We also inform and listen to investors through the submissions we make to the main sustainability investment indices and rating agencies.

In 2021, we were recognised for our ESG efforts, with highlights including:

- **Dow Jones Sustainability Indices (DJSI):** Inclusion in the DJSI Europe means that PFG is in the top 20% of the largest 600 European companies in the S&P Global BMI based on long-term economic, environmental and social criteria.

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

- **FTSE4Good:** PFG remains a constituent of the FTSE4Good, an extra-financial market index, which measures the performances of over 800 companies against a range of ESG criteria.

FTSE4Good

- **CDP:** Following the submission made in the summer to CDP, the largest climate change-focused data collection and assessment programme which, each year, requests information from companies on greenhouse gas emissions, energy use and the risks and opportunities from climate change, PFG was notified in December 2021 that it had been given a B- score (up from a D score in 2020). This reflects progress made by PFG in meeting the recommendations of the TCFD (go to pages 68 to 72 for more information).

CDP

Plans for 2022

During 2022, we will continue to make annual submissions to the indices and rating agencies mentioned here and respond to ESG-related enquiries from our equity investors. In doing so, our focus will include explaining how the ESG agenda affects our key stakeholders, in particular our customers. We will also seek to engage with our debt investors to promote our ESG credentials with that particular audience.

> We're proud that we were awarded a CDP rating of B- for our climate risk efforts over the past 18 months. It reflects the great work we've delivered in meeting the recommendations of the TCFD, which underlines our commitment to being transparent in our approach to managing climate-related risks and opportunities across our business.
>
> **Muhrah Alsultan**
> Corporate Responsibility Manager

Our regulators and government

Engagement with our regulators

The nature of our market and customer base means building and maintaining an open dialogue with our policymakers and regulators is a critical part of our business model. These include the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). For information on the key regulatory developments that relate to our business activities, go to page 100.

We engage with both the FCA and PRA via regular planned meetings and calls, and by responding to consultation exercises regarding, for example, proposed changes to the regulatory rules that relate to our sector. We also engage with our regulators through our trade association memberships and by participating in multi-stakeholder events (e.g. at conferences). We have also started to publish thought leadership articles on topics that might be of interest to our regulators and policymakers on our social media and other communication channels. An example of this in 2021, is the article published by PFG's CEO, Malcolm Le May, on the need for Buy Now Pay Later products to be regulated.

Engaging with policymakers

To help ensure we stay up to date with regulatory matters, PFG's businesses are members of the Finance and Leasing Association and UK Finance. We also retain a specialist consultancy firm to provide the Group with policy advice. However, this firm does not arrange meetings with ministers or regulators and does not attend meetings with ministers or regulators. PFG also does not make any monetary contributions or allocate any spending to political campaigns, political organisations, lobbyists or lobbying organisations and/or other tax exempt groups.

Being a responsible taxpayer

We are committed to being a fair and responsible taxpayer. We operate in an open, honest and straightforward manner in all tax matters and we are fair and reasonable in all our dealings with tax authorities. As such, we seek to make sure that we comply with all tax rules and regulations in the places where we operate. This helps to safeguard our reputation as a responsible taxpayer, while recognising that we also have a responsibility to protect shareholder value by managing and controlling our tax liabilities.

Our tax strategy, which was last updated and approved by our Board in December 2021 and can be accessed at www.providentfinancial.com, follows our Purpose and is aligned with HMRC's Code of Practice on Taxation for Banks (the Code), which sets out the principles and behaviours expected of banking groups with regard to tax, and we have unconditionally adopted the Code. To read more about what makes us a responsible taxpayer and to see comprehensive details on the total direct and indirect tax contributions we pay on an annual basis, go to pages 79 to 83 of the PFG 2021 CR Report which can be found at www.providentfinancial.com.

Our colleagues

> We know that by bringing colleagues from across PFG together and celebrating our differences in an inclusive working environment where our Blueprint behaviours are understood and lived, we can achieve better business results and a better everyday life for our people.
>
> **Cheryl Ball**
> Chief Human Resources Officer

The colleagues who work for PFG are critical to the long-term success of our business, from those who develop our products and serve our customers, to those who keep our operations running and make sure that the technology we use works. This is why we are committed to building and sustaining a culture for our colleagues that is inclusive, open and caring. And it is why we provide our colleagues with access to training and development opportunities so that they can develop the skills they need and promote a healthy and safe working environment where they can be themselves and feel engaged.

Colleague engagement

An important element of the workplace culture we aspire to build and sustain relates to engaging in effective communication with colleagues and providing them with opportunities to provide feedback and raise concerns and feel that they have been listened to and had their views taken into account.

Covid-19 continued to have an impact on colleagues throughout 2021 which meant that we had to adapt how we engaged with our teams so that we could communicate with both those who were working in our offices and remotely from home. During 2021, we continued to use video conferencing platforms, our 'Blueprint: Stay Connected' magazine and video blogs from our CEO and other members of the senior management team to ensure that all colleagues were kept up to date on PFG's strategy and operational developments. Alongside this, colleagues were encouraged to develop a sense of community using a variety of tools, including the PFG 'Stay Connected' intranet. This has enabled them to host a range of events, from 'pub' quizzes to book clubs, and baking sessions to wellbeing talks.

We also conducted our third Group-wide annual colleague engagement survey in November which covered a range of topics relating to our Purpose, leadership, management, roles and responsibilities of colleagues, working together and development and reward. This year, 71% of colleagues from across the Group took their time to respond to the survey, down marginally by 3% on the previous year. Our overall results show that we have maintained good levels of engagement throughout what has been a difficult and challenging year with the backdrop of the pandemic and significant change across PFG including launching the Scheme of Arrangement and closure of CCD. Our overall colleague engagement score (which comprises five questions relating to loyalty and advocacy) dipped slightly to 68% (2020: 72%). The headline results from the 2021 survey are set out opposite.

As we have done in previous years, the results from our 2021 survey will be shared and discussed by our Colleague Forums and the individual teams within our divisions throughout the first half of 2022 to inform and develop collective action plans and to address any specific issues.

Colleague responses to key areas across the Group

Our colleagues continued

Be Yourself – inclusion and diversity at PFG

PFG's ambition is to create a truly inclusive workplace. To achieve this, we need to build a diverse and balanced workforce that reflects the customers we serve. We believe an inclusive culture celebrates difference, allowing our colleagues to bring their true selves to work and always feel they belong. We also believe a culture of this nature to be intrinsically linked to our Group Purpose, informing what we do and how we do it, as we help put people on a path to a better everyday life.

What we have delivered in 2021

- Successfully launched our Group-wide Inclusion Community through five aligned Affinity Groups: Disability, LGBTQ+, Gender Balance, Ethnicity and Social Mobility. Our Affinity Groups currently have 125 active and representative members, as well as an extensive network of Affinity Group allies.
- Monthly inclusion and diversity (I&D) steering meetings which are led by our Inclusion Chairs and deliver quarterly progress updates to the PFG Executive Committee.
- Agreed and incorporated a new 'Be Yourself' I&D index into our annual colleague engagement survey. This represents a new set of questions designed to support and measure the efficacy of our I&D programme. We are pleased to report a positive response from 71% of colleagues on questions relating to I&D (+3% on the overall engagement score).
- Implemented a self-disclosure data capture process in Moneybarn and Vanquis; this will be expanded to include the wider Group in 2022.
- Targeted training for our Inclusion Community members through our partnership with Inclusive Employers. We also rolled out localised 'unconscious bias' training sessions to the Inclusion Community through our Learning and Development teams.
- A Be Yourself inclusion calendar and intranet homepage. These allow colleagues across the Group to celebrate, learn about and increase their awareness around an extensive range of I&D-related events, including Pride, Inclusion Week, Living with Autism and Black History Month.
- Peer Circles across the business via our Affinity Groups, and a consistent I&D statement for use on recruitment advertising and offer letters. The Affinity Groups have also worked with our HR teams to draft a new PFG I&D policy, Disability guide, Menopause guide and Transgender guide, all of which we plan to launch in 2022.

Inclusion and diversity data as at 31 December 2021*

19%
(2020: 11%)

Ethnic background
Percentage of colleagues from an ethnically diverse background

19%
(2020: 5%)

Disability
Percentage of colleagues who disclose they have an impairment, health condition or learning difference

6%
(2020: 7%)

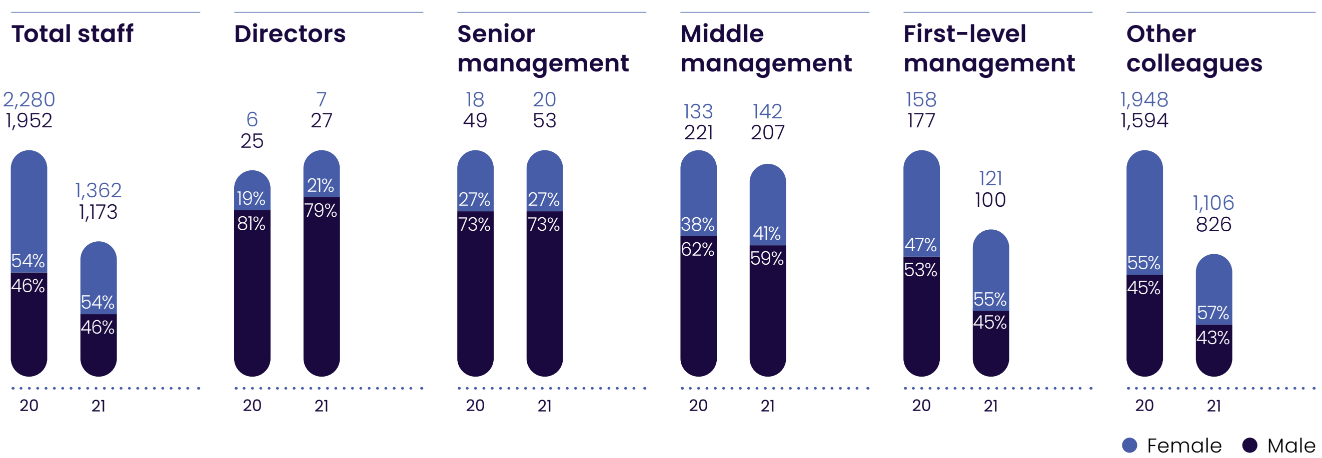
Sexual orientation
Percentage of colleagues who disclose they are LGBTQ+

43%
(2020: 39%)

Caring responsibilities
Percentage of colleagues who disclose they have caring responsibilities

* This data is based on colleagues' voluntary self-declaration via our November 2021 colleague engagement survey. It accounts for 71% of the PFG workforce.

Gender diversity across colleague levels as at 31 December 2021



Women in Finance Charter: 2021 update

As of 31 December 2021, we had 27% (2020: 27%) female representation in our senior management population. We continue to focus our attention on working towards having 40% female representation in the Group's senior management population by December 2024. Key actions we have delivered over the past 12 months to help us to achieve our target have related to:

- updating and aligning all equal opportunities wording provided on job application processes, so that it encourages more females to apply for roles at all levels and in all disciplines across the Group;
- introducing Peer Circles (run exclusively by colleagues) to encourage peer support for a range of issues. Some examples of the issues that have been covered in the sessions that have been delivered to date, which specifically support females, include; pregnancy, interview techniques, performance reviews and menopause support; and
- placing a focus on gender data by introducing the voluntary capture of inclusion and diversity data to support better knowledge of women in roles from Black, Ethnic and LBGTQ+ backgrounds. We intend to be able to focus more on females in senior positions/promotion opportunities once we understand our data more effectively across PFG.

Along with other companies, PFG is required to publish any difference in the average pay of male and female colleagues. Further details for PFG are available in our Gender Pay Reports (see pages 42 and 43 of our 2021 CR Report for more information).

Focus on gender diversity

The PFG I&D strategy that we have in place centres on creating and maintaining a fair, diverse and inclusive culture for our colleagues and other stakeholders. A key focus of this strategy is about achieving a better gender balance in our senior management population. Improving female representation at senior management and director level is extremely important for the long-term sustainability of PFG.

Set out below are some of the actions PFG has put in place over the past 12 months to support achieving a better gender balance in our senior management:

Commitment: PFG signed up to the HM Treasury Women in Finance Charter, a government initiative to improve gender diversity in senior positions within the financial services sector, in March 2019.

Targets: On becoming a Charter signatory, we set ourselves a target to have 33% or more female representation in the Group's senior management population by December 2020, a target that was not met because of the disruption we encountered in 2019, and 40% female representation in the Group's senior management population by December 2024.

Raising awareness: Through the 'Be Yourself' programme we have facilitated panel discussions and delivered regular vlogs and events to profile events such as International Women's Day and National Inclusion Week.

Balanced short-lists: Ensuring we have 50/50 gender balance short-lists when we recruit for senior leadership roles across PFG. We work in partnership with the recruitment agencies we use to ensure they are clear on our expectations regarding our I&D commitments.

Strengthening our talent pipeline: Delivering our Next Generation Women's Leadership Programme to high-potential women from across PFG to help strengthen the female talent pipeline at the senior/middle management level. This supported the appointment of Jo Simms as CRO, in our vehicle finance business. In 2022, we will build on this Programme and start to deliver an inclusive leadership programme to PFG's wider management population to cement equality, diversity, and inclusion as a central pillar of their professional lives and PFG's long-term success.

Colleague health and wellbeing

At PFG, we believe that supporting the mental wellbeing of our colleagues is just as important as looking after their physical health and safety. We recognise the importance of doing this, both in terms of individual welfare and the impact it can have on our business. Now more than ever, mental wellbeing is a key contributor to our colleagues' health and safety, their social wellbeing and their ability to fulfil their potential at work.

Throughout 2021, our network of Mental Health First Aiders ran mental wellbeing awareness campaigns that lined up with external activity, giving us an opportunity to highlight specific mental health issues and signpost the relevant support available to all colleagues. In partnership with the Bank Workers Charity, we delivered a series of webinars exploring key topics around improving and maintaining mental wellbeing.

All PFG colleagues and their families have access to free confidential mental health and wellbeing support, available 24/7 through our Employee Assistance Programme (EAP).

EAP features include:

- a dedicated helpline with calls answered by experienced in-house counsellors and legal and financial specialists; and
- a smartphone app and personalised online wellbeing content, including videos, webinars, mini health checks and health coaching.

Our suppliers

Supply chain responsibility

In 2021, PFG's annual procurement spend was £200m. Most of the Group's tier one suppliers are based within the UK. These suppliers range in size and scale from small and medium-sized enterprises, to large multinational corporations. The highest area of spend for the Group is on professional services (consultants, contractors, etc.), postage, credit card processing, customer referrals, data centre hosting, credit score checking services and consultancy and legal fees. Other areas of high spend include software licences and support, contractor sourcing and recruitment, and property and facilities management.

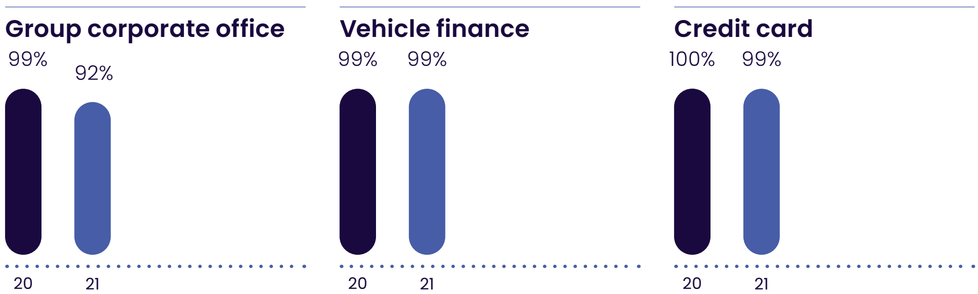
We are committed to engaging with all our suppliers in a responsible manner and are opposed to slavery and human trafficking in both our direct operations and in the indirect operations of the supply chains we have. As such, the Group will not knowingly support or do business with any organisation involved in slavery or human trafficking. This commitment is underpinned by the Group's Corporate Policy on Human Rights and Modern Slavery which endorses the United Nation's Universal Declaration of Human Rights and the International Labour Organisation's (ILO's) Declaration on Fundamental Principles and Rights at Work. The Group also acknowledges the United Nation's Guiding Principles on Business and Human Rights as the recognised framework for the Group and its divisions to respect human rights in their own operations and through their relationships with other key stakeholders (e.g. suppliers) and is a signatory to the United Nations Global Compact.

In accordance with the requirements of the Modern Slavery Act 2015, our most recent statement on modern slavery and human trafficking, dated March 2022, sets out the actions that the Group is taking to ensure instances of modern slavery or human trafficking are not occurring directly in our businesses as well as indirectly in the supply chains that we use to procure goods and services. The statement also communicates the measures we have taken to improve internal understanding and awareness around modern slavery and human trafficking and can be found at www.providentfinancial.com.

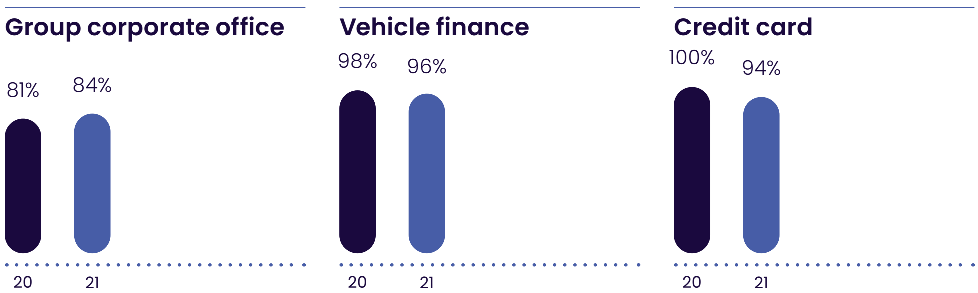
Prompt payment of suppliers

We are committed to the prompt payment of our suppliers, and endeavour to pay all invoices within agreed terms and in accordance with requirements of the UK Government's Prompt Payment Code. PFG has been a signatory to this Code for almost a decade and is committed to paying all suppliers within 60 days of receiving an invoice, and paying 95% of invoices from small suppliers within 30 days.

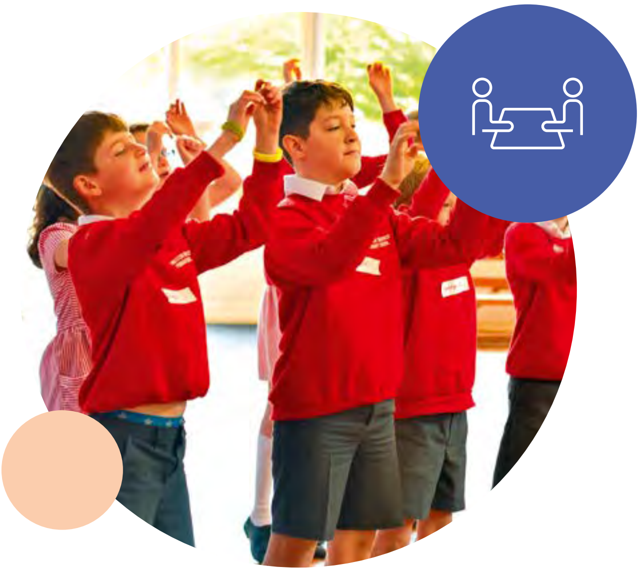
Percentage of suppliers paid in 60 days in 2021



Percentage of suppliers paid in 30 days in 2021



Our communities



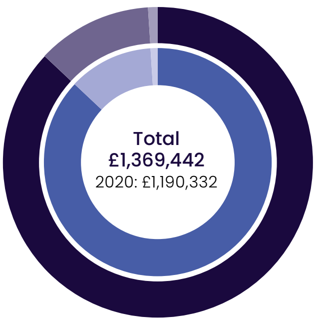
Delivering a positive social impact

Our Purpose of helping to put people on a path to a better everyday life underpins our reason for being and the role we play in the lives of our customers, it also informs the choices we make in our community investment activities. This is why we launched the PFG Social Impact Programme in 2019.

Through the knowledge and understanding of our customers, and the market we have served since 1880, we have been able to develop our approach to community investment which focuses on investing in activities and initiatives which seek to address some of the key factors which, on their own or acting together, can reduce social and/or financial inclusion. These factors include lack of literacy or numeracy skills; disabilities and/or mental health issues; unemployment or under-employment; low levels of educational attainment; and low, uncertain or fluctuating incomes. The three core themes of our Social Impact Programme strategy are set out on page 63.

In 2021, we committed a total of £1.4m (2020: £1.2m) to fund a range of activities through our Social Impact Programme.

Our 2021 community investment figures



Cash
- 2021: £1,230,677
- 2020: £1,035,984

Management costs
- 2021: £126,649
- 2020: £143,129

Value of employee time
- 2021: £12,116
- 2020: £11,219

Supporting customer and colleague wellbeing

We continue to support the customer and colleague wellbeing agenda through a dedicated workstream of the Group's Social Impact Programme. The focus of this workstream is twofold: supporting charities and specialist partners to address issues such as money/debt advice, customer vulnerability and financial difficulties (details of some of the money/debt advice organisations are set out on page 53) and ensuring that all our colleagues can access support and tools to help them maintain positive mental health and wellbeing (see page 59 for more information).

Core themes	What we do	We do this by	Why we do this
Customers and colleagues	Invest in activities and initiatives that seek to address key factors which may affect customer and colleague wellbeing.	– Ensuring colleagues have the skills to deal with customers' additional needs. – Funding independent research into financial decision making and supporting the delivery of financial education, including for hard to reach groups. – Funding a range of debt advice organisations. – Helping customers and colleagues to maintain positive mental health and wellbeing.	– To ensure our customers and colleagues have access to appropriate financial services and wellbeing support. Where they do not, to help them recognise and overcome the barriers to financial inclusion and support their health and wellbeing. – To ensure help is available to those with additional needs, for example, those in financial difficulty.
Education	Support children, young people and adults to boost their education, skills and aspirations, in order to participate in society and secure a brighter financial future.	– Providing support for programmes to boost the literacy and numeracy of children, young people and adults. – Offering young people and adults insights into the world of work and the skills that will help them secure opportunities, including employment.	– The right skill set is essential for social inclusion. Those who live in disadvantaged communities can lack confidence, as well as awareness of where and how they might acquire skills or boost those they have. – Developing skills promotes personal confidence, aspirations and the potential to participate in society.
Community	Support community projects in areas where people are more likely to face social and financial exclusion.	– Providing grants to grass roots organisations and charities through community foundations which will support local people in improving aspects of their life.	– To help people overcome personal difficulties that might be preventing them from feeling socially or financially included in the communities in which they live and work.

Through this pillar of our programme, we worked with The Money Charity during 2021 to produce a number of videos to help engage people of all ages across the UK with financial wellbeing and financial education. These videos were produced in response to Covid-19 and were designed to help people of all ages to develop the skills, knowledge, attitudes and behaviours they need to manage their money better every day and achieve their financial goals. The videos explored the themes of **'Financial Education for Young People'**, which followed the charity's Young People's team as it delivered money management workshops in schools, colleges and community organisations throughout the UK. In addition, the **'Financial Wellbeing in the Workplace'** and **'Financial Wellbeing in the Community'** videos show how its work with adults brings financial wellbeing workshops and webinars to a wide range of commercial and charitable settings.

Supporting our colleagues to get involved in our communities

Despite the challenges of the Covid-19-related restrictions we have had to deal with throughout 2021, we have continued to use our Social Impact Programme to provide our colleagues with volunteering and fundraising opportunities. Through our Volunteering and Matched Funding Policy, colleagues are able to take a full day's paid leave to volunteer for a community organisation or charity of their choosing. We also offer a range of Company-led opportunities to colleagues. This is an important aspect of the PFG Social Impact Programme because it enables colleagues to use their career journeys, backgrounds and experiences to inspire children and young people and help them on their own journeys, develop their own skills, and give something back to the many communities we serve across the UK.

Our communities continued

Community team challenge in Bradford

In November 2021, a number of colleagues in the PFG corporate office braved the elements to deliver a team challenge with The Venturists, a project at The Academy at St James primary school in Allerton, Bradford. The Venturists is a unique project designed for primary schools, in particular for 9 to 11 year olds, which gives them the opportunity to understand and explore issues in their community and what they might do to help to resolve them. Many of the pupils at the school face challenges at home, often related to different forms of disadvantage, and may therefore be more likely to disengage from their education. The Venturists is an innovative project which gets them interested and involved in their own communities, whilst also helping their personal development, confidence and resilience. As part of the challenge, the PFG team helped to build an upcycled play area and new wildlife garden.

VENTURISTS

Building children's aspirations

During the year, colleagues from across PFG have supported children and young people to develop their literacy skills and prepare them for the world of work through a programme we have established with the Ahead Partnership.

This has seen them volunteer to take part in:

- Careers panels: Colleague volunteers shared their career journeys, the roles they do and what it is like to work for an organisation like ours.
- Mock interview sessions: Colleague volunteers helped students practice speaking about themselves and their strengths before they leave school to move to a real-life work situation.
- Work insight days: Colleague volunteers hosted virtual work insight days where students learned about delivering excellent customer service, and renting and buying commercial property and even pitched ideas to our Digital Dragons' Den.
- Reading partnerships: Colleague volunteers helped younger children to practise reading to improve their literacy skills, develop a love of stories and feel confident about their own ability.

Ahead Partnership™
Unlocking social and economic potential

"Hearing from the Headmaster about how much the project means to the children gave context to what we were doing and why, and made us want to do a really great job to finish off the play areas that they had so brilliantly started. I feel very proud of what we achieved together as a team.

Amber Bibi
PFG Company Secretarial Assistant

"The Purpose of our business is to help put people on the path to a better everyday life. One of the ways we do this is through our education programme. We support children, young people, and adults from disadvantaged areas in their learning as well as providing them with insights into the world of work. It's all about raising aspirations and giving them a future in which they're included in society. It's also a great way for colleagues to develop their own skills.

Cathy Prior
PFG Social Impact Manager (Education)

Delivering positive social impacts in our communities

PFG has well-established Social Impact Funds with Community Foundation Wales and Foundation Scotland, as well as with the Community Foundations for Hampshire and Isle of Wight, Kent, Leeds and London. These community foundation partnerships have been established in areas of the country where our main business premises, and therefore colleagues, are based in Bradford, Chatham, London and Petersfield, and in parts of the UK where we have traditionally had high numbers of customers. The funds we have with our community foundation partners are referred to as 'immediate grant-making' funds where the full value we donate to them on an annual basis is immediately made available for grant making. The criteria for the funds we have established focus on:

- improving people's personal finance capabilities (debt and financial advice/education);
- improving physical and/or mental health;
- providing support which enhances, creates and sustains positive family relationships;
- addressing issues of low educational attainment and improving learning outcomes; and
- providing people with opportunities to reduce inequality, exclusion and disadvantage, including projects which increase access to employment.

Grant panels which are made up of colleagues from across PFG and facilitated by representatives from the community foundations with which we have funds play a key role in reviewing the grant applications. They meet throughout the course of the year to agree which of them will be awarded a grant. In 2021, these funds disbursed grants totalling almost £307,000 to 51 small community organisations. Details of the organisations our grants supported during 2021 are set out on page 66.

“

These kinds of panels are really unique because PFG colleagues are involved in the decision-making process too. It's wonderful that colleagues can bring their own diverse personal experiences and input to the panel, which encourages healthy discussions.

Bruce Topham
Grants Manager, Kent Community Foundation

“

I feel honoured to have taken part in the grant panel. We assessed many applications, and it was inspiring to see the amazing work so many charities do, and the outreach they have in our community. Knowing I work for a company that helps our communities is one of the many reasons I'm proud to work for PFG.

Lara Hoban
Compliance Officer, Moneybarn

Boosting the education, skills and aspirations of children and young people

We believe that by supporting the education agenda we can help to put the people who live and work in the many communities we serve across the UK on a path to a better everyday life. Through the PFG Social Impact Programme, we have developed an education programme to help children, young people and adults to acquire or boost their skills and aspirations in order to participate in society and progress in education, the workplace or the communities they live in.

By supporting bespoke and targeted initiatives delivered by expert partners, our education programme takes a wide-ranging approach to education and skills acquisition. We support both literacy and numeracy interventions, as well as opportunities to gain insights into the world of work and acquire crucial life skills that contribute to social mobility. We also recognise that it is important for support to be delivered in different ways and in different locations, such as schools, workplaces and community settings, in order to better match the needs of those who would benefit most from participation.

The solutions we support under this workstream are delivered by eight key partners: National Numeracy, The Money Charity, the National Literacy Trust, Social Mobility Business Partnership and Outward Bound Trust operating on a nationwide basis and Leading Children, the Ahead Partnership and School-Home Support operating locally in Bradford and Chatham, where we have some of our main offices.

Becoming a Numeracy Champion programme: Maths mindset and money

National Numeracy
Getting on with numbers

In addition to again being lead supporter of National Numeracy Day on 19 May 2021, one of the areas where we have provided support to National Numeracy has been in relation to the development and roll-out of new Family Maths resources. This enhanced National Numeracy's Supporting Children's Numeracy work, which has been more important than ever due to the impact of school closures on children's education. The new resources are curriculum-linked maths activities for children to complete with their families or other adults who support them. They explore financial capability and growth mindset in open-ended activities for ages 4 to 16, with information sheets provided for adults about developing their own and children's confidence with numbers.

Organisations given the resources to use within their community settings include past and current PFG partners Sedbergh Community Centre, Scholemoor Beacon, School-Home Support, One in a Million, and Christians Against Poverty. The resources are also now part of the popular Family Maths Toolkit, an integral part of National Numeracy's Parental Engagement Programme, which equips the adults involved in children's care to support the building of positive attitudes and skills. In 2021, around 11,000 children, families and teachers from 19 schools in areas of need in the West Midlands, London and Ayrshire have been supported through this programme and offered those resources.

Our communities continued

Projects supported through our PFG Social Impact Programme funds

Foundation Scotland

- I Am Me Scotland
- Rise Against Abuse
- Home-Start Renfrewshire & Inverclyde
- Greenock Glenpark Harriers
- Magic Torch Comics
- Man On! Inverclyde

London Community Foundation

- Autus
- Dadihiye Somali Development Organisation
- Havelock Family Centre
- Kurdish and Middle Eastern Women's Organisation
- Lewisham Multilingual Advice Service
- Ripe Enterprises
- The Women's Centre Sutton
- Youth Legal Resource Centre

Leeds Community Foundation

- Bradford Community Broadcasting
- Flourished Minds
- Impact Hub Bradford
- Keighley Association for Women & Children's Centre
- Leeds Gypsy and Traveller Exchange
- Meridian Centre
- Participate Projects
- Café West Healthy Living Centre
- Hollings Youth Association CIC
- Mary Magdalene CIC
- The Valley Project

Hampshire and IOW Community Foundation

- Frontline Petersfield
- Home-Start Butser
- Wet Wheels
- Gosport & Fareham MS Society
- Making Space
- Interim
- Moving On
- Y Services
- Marvels & Meltdowns
- Love Outdoors
- Disabled Sailors Association

Kent Community Foundation

- Cornerstone City Church
- Gillingham Baptist Church
- Great Leaps Adventure CIC
- Kent Savers Credit Union
- Maidstone Mediation
- Medway Education Business Partnership
- Medway Puzzles
- Medway Watersports Trust
- Refocus
- Walderslade Together CIC

Community Foundation Wales

- Bethel Trust Port Talbot
- Horn Development Association - 'Go Girls'
- Llanelli LGBTQ+
- St Paul's Family Centre
- Swansea Music Art Digital

To read more detail on the projects that we support, view our Corporate Responsibility Report at: www.providentfinancial.com/sustainability/corporate-responsibility-report-2021

Delivering a positive social impact in the future

Given the changes that have taken place at PFG during 2021, we took the view that it was appropriate for us to review and update our approach to community investment. This was done to help us to ensure that it is better aligned with our Purpose but also that it supports our focus on becoming a broader banking group which provides credit to underserved customers in the mid-cost markets.

We also believe that we have a duty to add a 'legacy' component to our approach so that PFG can continue to provide some of the local communities we have served for over 140 years with meaningful, ongoing financial support to help put them on a path to a better everyday life and tackle the social exclusion issues that disproportionately impact some of the people that live, work and study in these communities.

In 2022, we will therefore replace the PFG Social Impact Programme with a new PFG Foundation. By structuring our approach under a Foundation model, we will be able to coordinate our community investment activities under one banner, establish signature programmes which are targeted specifically at supporting children and young people, and allocate sufficient time, capability and investment.

Under this new model, we will develop signature programmes which focus on:

1. Supporting educational partners and grass roots charities and community organisations in the communities where our main offices are based, and where our customers live and work, to help address a range of social and financial exclusion issues facing children and young people. This will involve us continuing to support our UK-wide partnerships with National Numeracy, the National Literacy Trust, the Outward Bound Trust and Social Mobility Business Partnership which deliver benefits to stakeholders and have become more aligned with our business objectives. It also includes maintaining the funds we have with our community foundation partners in the areas of the country where our main business premises, and therefore colleagues, are based.
2. Establishing a new flagship initiative which will deliver a programme to further inspire and support children and young people to access education, and boost their skills and aspirations.
3. Providing repayable finance to voluntary, charity and social enterprise sector organisations which deliver products and services to address a range of issues which benefit children and young people.

Kurdish and Middle Eastern Women's Organisation (KMEWO)

KMEWO has been providing specialist support services for Kurdish, Middle Eastern and North African women for over 21 years. It provides specialist violence against women and girls (VAWG) services and crisis intervention to some of the most vulnerable minoritised women who are survivors of domestic violence and harmful practices, forced marriage and 'honour' based abuse. Its approach is a combination of individual and group holistic activities designed to help survivors of VAWG through recovery.

Our funding is enabling KMEWO to provide digital skills training, English for Speakers of Other Languages (ESOL) support and employment coaching to 15 marginalised ethnic minority women over six months in North London, through its 'Breaking Digital and Personal Barriers to Employment' project. The project works with women to break down the barriers they face in achieving their personal goals including poor digital skills, childcare, caring responsibilities, language, self-esteem, self-worth, low confidence and lack of support.

Workshops and training include one-to-one advice and guidance sessions to identify barriers; digital skills learning (how to keep safe online, emails, setting up, accessing and installing apps, virtual meetings, using social media and skills to create documents); ESOL for employability; coaching and career-building workshops to prepare women for volunteering or employment opportunities; and personalised one-to-one employment support including online job searching and CV creation.

PFG's funding will cover the core costs of an Employability Support Worker for six months to coordinate the project and work individually with each woman to support goal setting and access to support, advice and counselling. It will also be used for tutor costs for digital skills, ESOL and employability workshops.

Our environment

Protecting the environment and taking action on climate change

We recognise that the long-term success of our business depends on the resilience of our operations, supply chains, and the communities where our customers and colleagues live and work. This means that it is essential that we minimise our environmental impacts and work with others to take action on the globally important issue of climate change which means embracing the Paris Agreement and keeping global warming to 1.5°C above the temperature set before the beginning of the Industrial Revolution. The future of PFG depends on this.

Managing our impact on the environment

We continue to actively work to reduce our environmental impacts through the environmental management system (EMS) we have in place at our Bradford head office, Vanquis Bank's business premises in London and Chatham, and Moneybarn's offices in Petersfield. Our EMS helps us to identify, assess and reduce key environmental risks and impacts; set and deliver against environmental targets; and ensure our legal compliance. Our EMS is independently audited each year against the requirements of the international management standard ISO 14001:2015. Following the audit that was carried out in 2021, all our business premises continue to be certified to ISO 14001:2015, which means that all PFG's main premises are accredited to an internationally recognised environmental management standard.

Managing climate change-related risk

Our TCFD update: PFG's climate-related risk disclosure

To deliver on our stated net-zero carbon emissions ambition by 2040 (which relates to the scope 1, 2 and 3 emissions that arise from PFG's operations) and achieve the goal of the 2015 Paris Agreement to hold the increase in the global average temperature to well below 2°C above pre-industrial levels, and ideally to 1.5°C, we recognise the importance of understanding and reporting the actual and potential impacts of climate change-related risks and opportunities on PFG. This requires PFG to report in line with the recommendations of the TCFD. PFG has reported against the TCFD recommendations. As such, PFG complies with the FCA's Listing Rule 9.8.6R(8) and has published a disclosure that is consistent with the 2017 TCFD recommendations and recommended disclosures. We will ensure that the future disclosures we publish in line with the TCFD recommendations annually consider relevant TCFD guidance and materials and evolving best practice.

Set out below is an update on the work undertaken by PFG during 2021 in meeting the recommendations of the TCFD. TCFD is built around four overarching pillars: governance, risk management, strategy, and metrics and targets, which in turn include 11 recommendations to support the development of meaningful climate-related financial disclosures. Taken together, these provide a consistent framework for companies to report on their exposure to material climate-related risks and opportunities, and a means to communicate decision-useful information to investors, regulators and other stakeholders.

Context

PFG is a FTSE 250 company listed on the London Stock Exchange. With approximately 2,500 UK-based colleagues, the business serves 1.6 million people through the provision of credit cards, vehicle finance and personal loans. The approach taken by PFG to determine its exposure to material climate-related risks and opportunities is from the perspective of a listed company whose business model is affected by climate-related risks and opportunities and whose operational activities can have both direct and indirect impacts on climate change.

Recommendation 1

Governance: Disclose the organisation's governance around climate-related risks and opportunities

1.a The Board's oversight of climate-related risks and opportunities:

The Provident Financial plc Board takes overall accountability for the delivery of PFG's strategy and reviews the Group's sustainability performance, including matters which relate to the climate change agenda. The Board's CCE Committee supports the Board in providing oversight of the Group's approach to managing and reporting its impact on the environment, which includes impacts related to climate change. The CCE Committee provides an update to the Board on climate-related matters annually. The Board's Audit Committee also reviews PFG's TCFD disclosures.

PFG's CEO, with support from the Executive Committee, provides management oversight of the progress being made by the Group in managing its strategic ESG objectives, including those that relate to climate change. This includes reviewing and updating associated risk management policies, and setting and monitoring climate-related performance objectives.

1.b. Management's role in assessing and managing climate-related risks and opportunities:

Ongoing management of the climate risk agenda, is provided by PFG's Climate Risk Committee (CRC) which was established in April 2021. This senior management committee, which is chaired by PFG's Chief Risk Officer, consists of representatives from a range of business lines and function teams across the Group including Risk, Finance, Operations, Compliance and Sustainability to provide oversight and drive implementation of the TCFD recommendations and the Group's wider climate risk strategy. The Committee reports to senior management on PFG's response to the issue of climate change biannually. These reports cover PFG's approach to climate-related risks and opportunities within the business, and ensure the Group's public commitments on the TCFD recommendations are upheld.

The CRC is supported by a newly established Climate Risk Working Group (CRWG). The CRWG assists the CRC in the process of analysing the risks and opportunities that climate change presents to PFG's operations and stakeholders. The analytical work that the CRWG undertakes assists the CRC to provide guidance and direction for the assessment and management of climate change-related risks and opportunities, and supports the Group's ongoing compliance in meeting the recommendations of the TCFD.

The remuneration of the executive directors is partly linked to our progress in building a more sustainable future and is aligned with a number of environmental, social and governance (ESG) objectives. More information on these objectives is set out in the Directors' Remuneration Report on pages 177 to 191.

Key climate-related risks

Risk	Description	Potential financial impact	Time horizon
Transition	The imposition of new climate-related regulations, policies and taxes could add to PFG's operational and compliance costs. They could also discourage PFG's customers from accessing its products and services through their impact on levels of disposable income. Finally, failure by PFG to respond to changing consumer preferences could reduce demand for products and services.	Increased expenses or reduced revenues	Short and long term
Physical	Adverse climate-related events (e.g. floods, droughts, storms, etc.) could impact PFG's operations as well as key stakeholders such as customers, colleagues and suppliers.	Increased expenses	Long term
Reputational	Failure to respond to legislative requirements and the needs of stakeholders could lead to regulatory or financial censure and/or reduced customer loyalty and shareholder divestment.	Reduced revenues	Short and long term

Key climate-related opportunities

Opportunity	Description	Potential financial impact	Time horizon
Resource efficiency	Through its sustainability strategy, PFG seeks to operate its business in way that has minimal impacts on the environment and improves operational efficiencies. This provides PFG with opportunities to implement initiatives and programmes that support the Group's journey to net zero (e.g. by using 100% renewable energy and reducing waste and greenhouse gas emissions).	Reduced expenses	Short and long term
New products and services	There will be increased demand amongst consumers for financial products and services that align with their climate-related needs (e.g. that support energy efficiency). This could present PFG with revenue-generating opportunities.	Increased revenues	Short and long term

Our environment continued

Protecting the environment and taking action on climate change continued

Managing climate change-related risk continued

Recommendation 2

Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning, where such information is material

Our strategy to understand the potential for future climate change to impact PFG, involves undertaking a scenario analysis which is a forward-looking projection of risk outcomes that focuses on: identifying physical and transition risk scenarios; linking the impacts of the scenarios to financial risks; assessing any sensitivities to those risks; and extrapolating the impacts of those sensitivities to calculate an aggregate measure of exposure and potential losses. In the first instance, our approach to doing this has involved undertaking a forward-looking, qualitative scenario analysis which will allow us to explore relationships and trends in the absence of reliable numerical data. It is recognised that, by using this approach, qualitative scenario narratives have been used to help PFG to explore the potential range of climate change implications for the Group. Over the course of 2022, our scenario analysis methodology will evolve to use quantitative information to enhance our assessment of the potential financial impacts of climate change on PFG, and to improve future TCFD reports.

Following consultation with the PFG CRC, three climate-related risks and two opportunities for the short term (1-5 years) and the long term (5-10 years) have been identified as being most material to the Group (these are set out on page 69).

2.a. The climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

2.b. The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

2.c. The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario:

The TCFD recommends that organisations use different climate-related scenarios, including a 2°C or lower scenario. As we acknowledge the overwhelming scientific evidence of the UN Intergovernmental Panel on Climate Change (IPCC) experts and agree with the need to keep the temperature increase below 2°C, we have therefore adopted the following two scenarios in line with this recommendation. The sources for these scenarios are the Fifth Assessment Report of the IPCC and International Energy Agency (IEA):

Scenario 1 – Alignment (transition risks, major; physical risks, minor): There is strong international alignment to limit the global temperature increase to below 1.5°C in an orderly manner. This sees strict product and regulatory standards, high carbon pricing and strategic investment in low-carbon technologies, and consumers who are, by and large, on board.

Scenario 2 – Fragmentation (transition risks, minor; physical risks, major): Progress towards a low-carbon economy is fragmented and inconsistent, leading to a global temperature increase of between 2°C and 4°C. It is assumed that physical risks will increase, with an intensification of natural disasters associated with, for example, rising sea levels and more frequent abnormal weather events.

During 2021, our qualitative scenario analysis work has focused on the potential for climate-related transition risks to impact our operations and customers, specifically how increases in the price of wholesale gas, an accepted transition fuel which is already subject to the Climate Change Levy in the case of business energy use and other environmental and social taxes in the case of domestic energy use, could impact PFG's operating costs and the income and expenditure of our customers. The analysis also acknowledges that the introduction in the UK of a ban on the sale of new petrol and diesel cars and vans by 2030, with all new vehicles required to be 100% zero emissions from 2035, as a material consideration for the Group. However, it is recognised that the list price of the majority of used electric vehicles is currently a barrier to ownership for many middle and lower income consumers. We will therefore continue to develop further insight into the used electric vehicle market. Finally, our analysis has also focused on determining whether PFG's operations are exposed to any material climate-related physical risks. Our qualitative scenario analysis work has fed into Vanquis Bank's Internal Capital Adequacy Assessment Process (ICAAP).

Scenario analysis summary results

Scenario 1

PFG's exposure to climate-related transition risks under this scenario is considered to be primarily indirect, with such risk principally having the potential to affect future revenues and expenses (as opposed to assets and liabilities). For example, forecasted energy price rises are recognised as being a material issue for customers in this context. As such, our businesses will continue to review, and where appropriate adjust, their affordability assessments to ensure that these increases are taken into account.

In terms of PFG's exposure to physical risks, although it is accepted that extreme weather events will increase in number and severity compared to the present, they are unlikely to be as severe as those expected under Scenario 2. Also, the direct financial impacts associated with these events are considered to be minimal for PFG because its four main offices are leased, and insurance is in place to help mitigate the impacts of such physical risks. Furthermore, PFG maintains and tests business continuity plans to ensure the continuity of its operations in a range of situations, including those where an extreme weather event occurs, and having successfully operated throughout the Covid-19 pandemic, the business has shown that it can work productively and effectively remotely.

In the long term, we would expect that a transition scenario, where there is strong international alignment to limit the global temperature to below a 1.5°C increase in an orderly manner, will result in better outcomes for PFG and its customers than in scenarios which involve physical risks. This is because the severity of the physical climate-related risks will be reduced, resulting in more stable economic conditions in the long term. In the meantime, PFG will continue to manage the transition risks that are short and medium term by continuing to deliver its business strategy in line with its stated ambition and other environmental commitments.

Scenario 2

It is assumed that government policy and regulations will not be tightened as much as under Scenario 1, and therefore the impacts of responding to transition risks will be comparatively lower.

It is also expected that physical risks will increase, and the damage caused by extreme weather events and other natural disasters will be more severe than under Scenario 1. However, as described above, it is considered that, for PFG, the direct financial impacts associated with such events would be minimal. This is because PFG's four main offices are leased, insurance is in place to help mitigate the impacts of such physical risks and business continuity plans are maintained and tested to ensure the continuity of PFG's operations in a range of situations, including those where an extreme weather events occurs. If climate change progresses and extreme weather events and natural disasters occur on an increasing scale this could have a negative influence on the UK economy which, in turn, has potential to impact consumers. These impacts will continue to be monitored to determine the potential for them to cause PFG customers to, for example, lose income.

In preparing the Group's financial statements (see pages 192 to 275), we have considered the impact of the results of our qualitative scenario analysis and climate-related risks on our financial performance, and while the effects of climate change represent a source of uncertainty, there has not been a material impact on our financial judgements and estimates due to the physical and transition climate-related risks in the short to medium term. We are committed to understanding and assessing the risks associated with climate change and the impact on PFG's financial results and will continue to update our approach to scenario analysis as more business-related, economic and climate data becomes available.

Recommendation 3

Risk management: Disclose how the organisation identifies, assesses, and manages climate-related risks

3.a. The organisation's processes for identifying and assessing climate-related risks:

Climate change has been designated as a principal risk within the Group's Risk Management Framework. This is because PFG is committed to minimising its environmental impacts, along with determining the short, medium and long-term risks that climate change poses to the business, its customers and stakeholders as part of the Group's wider ESG strategy. The Group has also adopted a 'risk cautious' appetite for exposure to climate risk and is committed to setting and working towards science-based targets in line with our other obligations to combat climate change which will be submitted to the Science Based Targets initiative for approval. In 2021, we introduced a Group Climate Principal Risk Policy which sets out clear expectations regarding how we will understand, review, and address our exposure to climate risks, meet our commitments on climate targets and report in line with relevant government legislation and recommendations, and seek new opportunities arising from climate change.

3.b. The organisation's processes for managing climate-related risks:

As with all principal risks, the PFG Risk Management Framework sets out the high-level control principles that are in place and those responsible for managing both the overall risk and the relevant mitigating controls (go to pages 87 and 99 for more information). All risks are monitored and reviewed throughout the course of the year to identify changes that could impact the risk profile. Day-to-day management responsibility of climate-related risks is dispersed across PFG depending on the nature and likely impact of the risk. For example, the memberships of both the CRC and CRWG described above include representatives from a range of functions (for example, from PFG's Finance, Risk, Procurement and Building Management teams) which enables any material climate-related risks to be identified, assessed and managed.

3.c. Processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management:

PFG will stress test the risks and their impact across the Group once metrics are identified and approved by the CRC.

Our environment continued

Protecting the environment and taking action on climate change continued

Managing climate change-related risk continued

Recommendation 4

Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

4.a. The metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process:

PFG has set an overarching target to achieve net-zero carbon dioxide emissions by 2040 (which relates to the scope 1, 2 and 3 emissions that arise from PFG's operations). To support this long-term target, we will set a science-based target and other related interim targets by September 2023 that will enable us to transition to net zero. This target will be submitted to the Science Based Targets initiative for approval. To support our commitment to do this, we have signed up to the UN's Business Ambition for 1.5°C pledge.

4.b. Scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas (GHG) emissions and the related risks:

PFG has measured and reported its GHG emissions since 2007 and currently reports this information in accordance with the UK Government's Streamlined Energy and Carbon Reporting (SECR) policy that has been implemented through the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018. Details of our scope 1 and 2 GHG emissions in tonnes of carbon dioxide equivalent (CO_2e), along with a relevant intensity ratio (i.e. kilograms of CO_2e per customer) and information on underlying energy use for 2021, are set out opposite. Our 2021 disclosure covers the GHG emissions and energy use for the Group and its operating divisions – Vanquis Bank, Moneybarn and the Consumer Credit Division (see page 73 for more information). In addition, we report scope 3 emissions which relate to business travel by colleagues, operational waste and water use and the production, transportation and distribution of fuels used by the transport and utilities providers that the Group uses. In 2021, we reviewed how we can capture the other scope 3 emissions that occur in our value chain and have, for the first time, calculated and reported the scope 3 category associated with purchased goods and services. The capture and reporting of additional scope 3 categories will be explored where data and methodologies permit. PFG's GHG emissions data has been subject to a limited assurance by Corporate Citizenship in accordance with the ISAE 3000 Assurance Standard. Corporate Citizenship's full assurance statement is available on PFG's corporate website at www.providentfinancial.com.

We continue to offset some of the direct and indirect GHG emissions that make up PFG's operational carbon footprint. We do this by financing sustainable development projects which help to mitigate the effects our operations have on the climate. This year we offset 10,000 tonnes of carbon through the purchase of carbon offset certificates in two wind power projects; one in Thailand and one in Vietnam (see page 73 for more information). Both carbon offset projects are accredited to the 'Gold Standard to Global Goals' scheme.

4.c. The targets used by the organisation to manage climate-related risks and opportunities and performance against targets:

CDP, the largest climate change focused data collection and assessment programme which, each year, requests information from companies on GHG emissions, energy use and the risks and opportunities from climate change, notified PFG in December 2021 that it had been given a B- score (up from a D score in 2020). This reflects the work carried out by PFG during 2021 to meet the recommendations of the TCFD.

Relevant metrics include consumption of water and energy, and waste management. GHG emissions are calculated in line with the GHG Protocol.

Our environmental performance

Further details on our approach to managing our environmental performance are set out on pages 18 and 19 of our 2021 Corporate Responsibility Report at www.providentfinancial.com.

Our carbon footprint (tonnes of CO_2e)

Our business activities have an impact on the environment, whether this occurs directly as a result of the energy that is used by our offices and by our people when they travel, or indirectly through the activities in our supply chains. We are committed to minimising our environmental impacts, in particular to reducing the GHG emissions associated with our business activities, thereby lessening our contribution to climate change.

This year, we are reporting an increase in our carbon footprint compared to last year as we have increased the breadth of our scope 3 GHG emissions reporting. This has seen us include new elements to measure our carbon footprint as we commit to reporting in line with the Science-Based Targets initiative by 2023. With regards to our scope 3 emissions, we have included the emissions from Category 1 'Purchased Goods and Services', which also covers the emissions from Category 2 'Capital Goods' and Category 4 'Upstream Transportation and Distribution'. We have also included emissions from hotel stays and paper usage under the emissions resulting from Category 6 'Business Travel' and Category 1 'Purchased Goods and Services'.

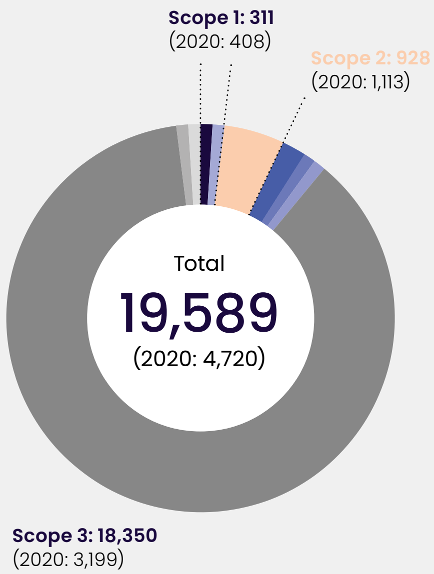
Offsetting our GHG emissions

We continue to offset our direct operational carbon footprint. We do this by financing renewable energy projects around the world which help to mitigate the effects our operations have on climate change. During 2022, we offset 10,000 tonnes of CO_2e, which accounted for over half of the Group's 2021 carbon footprint. These emissions were offset through the purchase of carbon offset certificates in two projects. We reduced 9,800 tonnes of CO_2e through producing electricity from wind power in Northeast Thailand, and 200 tonnes of CO_2e in a wind power generation project in Bac Lieu Province, Vietnam.

In addition to producing electricity from renewable sources, these two projects also deliver a range of additional positive environmental and social impacts, including:

- These two projects will generate a combined of 820,000 MWh of renewable electricity every year and feed it into Thailand and Vietnam's national grids, helping to bridge the gap between supply and demand that currently exists.
- By replacing electricity generated from fossil fuel fired power plants with renewable electricity generated using wind power, these wind farms will prevent around 250,000 tonnes of CO_2 and 143,000 tonnes of CO_2 from being emitted into the atmosphere every year in Thailand and Vietnam, respectively.
- These projects provide around 180 jobs to local people who operate the wind power plants, as well as providing local support, development and activities annually, including community festivals, educational projects, and sports days.

	2021	2020
Scope 1 (tonnes CO_2e)		
Gas use†	200	230
Diesel and petrol†	111	178
Scope 2 (tonnes CO_2e)*		
Electricity use (market-based emissions)	125	Not measured
Electricity use (location-based emissions)	928	1,113
Scope 3 (tonnes CO_2e)		
Scope 1 and 2 associated 'well-to-tank' emissions†‡	409	327
Scope 3 associated 'well-to-tank' emissions‡	74	475
Business travel	269	2,271
Purchased goods and services**	17,579	–
Waste collection and management	15	102
Water	4	24
Downstream leased assets***	0	Not measured
Total energy consumed (kilowatt hours)****	5,460,285	10,768,000
Scope 1 and 2 (and associated scope 3) emissions intensity ratio (kg of CO_2e/per customer)	1.02	0.88



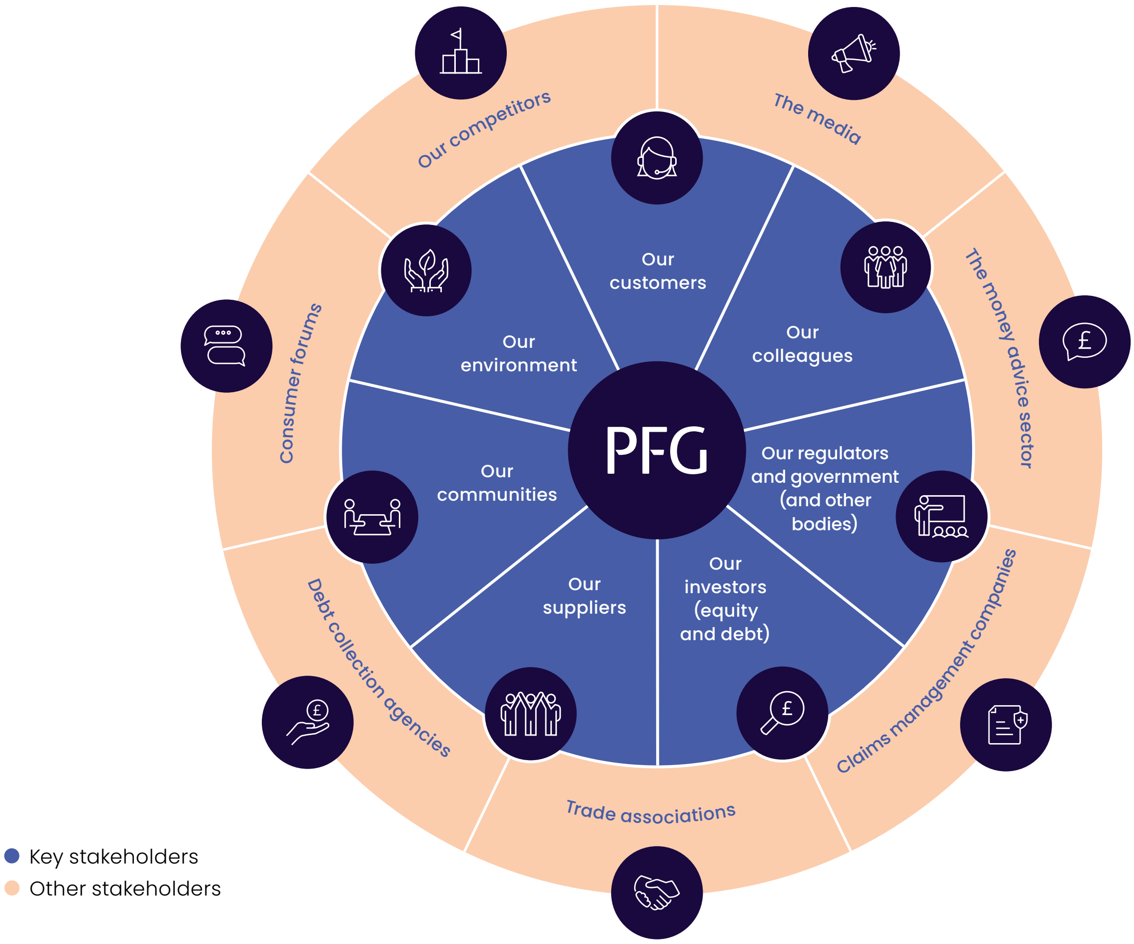
† Mandatorily reported emissions to meet the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.
†‡ Our emissions are reported in accordance with WRI/WBCSD Greenhouse Gas (GHG) Protocol. We use a financial control approach to account for our GHG emissions and use emission conversion factors from Defra/DECC's GHG Conversion Factors for Company Reporting 2021. Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use, business travel bookings and waste management data. Where challenges have occurred in obtaining data, estimates have been used and assured by our assurance provider. All GHG relates to UK only emissions.
‡ GHG emissions associated with the production, transportation and distribution of fuels used by transport and utilities providers.
* When calculating electricity emissions, we have applied both market and location-based methods. Where electricity suppliers can provide us with the relevant conversion factor, we implemented the market-based method; otherwise, we used the location-based method. We also calculated the average electricity and gas consumption in December 2021 for one of the Vanquis Bank offices as the invoices for that period are still outstanding at the time of reporting.
** When calculating the suppliers' carbon emissions using the spend-based method, we used the US EEIO factors. Although these factors are calculated based on the US economy, they are more recent (from 2018) and detailed than the UK ones which we find more accurate and transparent to our reporting. The exchange rate at the time of calculation is £1 = $1.36 (18 January 2022); these calculations are conducted based on the assumption that suppliers have no climate-related strategy. In 2022, we aim to improve our methodology and plan to communicate directly with suppliers to implement the suppliers-specific method.
*** We used the market-based method to calculate the electricity emissions related to an operating lease that PFG runs.
****All energy consumed relates to the UK only.

Find out more in our 2021 Corporate Responsibility Report

For further details on our approach to corporate responsibility, visit **www.providentfinancial.com**

Our 2021 CR Report is designed to provide a balanced account of how PFG's Purpose and strategic drivers are aligned to the Group's responsible business strategy, as well as further details of the progress that has been made during 2021 in delivering against this strategy. The report relates to the non-financial aspects of Provident Financial plc and our key stakeholders: customers, colleagues, shareholders and debt investors, regulators, communities, suppliers and the environment. It provides information and updates on our CR activities, performance and achievements from 1 January to 31 December 2021 unless otherwise stated and has been independently assured by Corporate Citizenship in accordance with the ISAE 3000 Assurance Standard.

We engage with our stakeholders



Who does the Board deem to be the Group's key stakeholders?

We define our stakeholders as individuals or groups who have an interest in, or are affected by, the activities of our business. We recognise fourteen stakeholders, seven of which we identify as key stakeholders and, following the outcome of our materiality assessment, we have grouped them into the two categories illustrated above. You can read about why and how we engage with them in our ESG overview on pages 8 to 13.

You can also read about how we create value for our stakeholders in our business model on pages 24 and 25; how we build a sustainable Group on pages 26 and 27; our strategy in action for our stakeholders on pages 28 to 31; and how we understand our market and the products we offer on page 35.

The needs of our stakeholders can change over time and we explain more about how we respond to the trends in our industry and market on pages 36 to 39 and the environmental risks to our climate on page 69.

To understand more about how our Board operates, and the way in which it reaches decisions, including the matters it considered during the year, please see pages 120 to 122. We explain how we track and monitor stakeholder metrics in our Customer, Culture and Ethics (CCE) Committee Report on pages 150 to 152. Implicit in its decision making the Board pays consistent regard to the Group's reputation for high standards of business conduct. The desire to do the right and best thing for the Group's stakeholders in a balanced and pragmatic way is demonstrated throughout, and particularly within the principal decisions.

Building upon the Group's stakeholder mapping exercise conducted in 2020, a stakeholder materiality assessment was completed in the year, designed to assist the Group in understanding the ESG-related matters most important to its stakeholders and to prioritise them accordingly. You can see the results on pages 51 which were reported to the CCE Committee. Our Stakeholder Engagement Strategy and associated strategic stakeholder engagement objectives were developed and approved by the CCE Committee and are set out on pages 49 to 51. The Board oversaw that the strategy and objectives: a) were aligned to the Group's priorities; b) accounted for stakeholder interests; and c) promoted the long-term success of the Group. More about the Board's role in stakeholder engagement can be found on pages 127 to 133. This work has supported the Board to ensure that the Group has continued to meet the requirements of s.172 of the Companies Act 2006 (CA 2006). More detail about the stakeholder engagement objectives, and our progress against these objectives, is within our 2021 Corporate Responsibility Report, available at www.providentfinancial.com.

Principal decision – the CCD Scheme of Arrangement

Strategic options
The Group announced on 15 March 2021 its intention to pursue a Scheme of Arrangement (the Scheme), under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from customer creditworthiness complaints based on historical lending in CCD prior to 17 December 2020. During the second half of 2020, industry dynamics had changed the operating environment materially for CCD, making it untenable to treat customer complaints as part of ongoing operating costs. The number of complaints referred to the Financial Ombudsman Service (FOS) across the home credit market in this period had increased by circa 200% compared to the first half of the same year, primarily driven by claims management companies.

External advice
The Board considered viable alternatives to the Scheme and was focused in its deliberations on fairly considering the requirements of all stakeholders, which it recognised as differing, and potentially at odds. The Board commissioned legal advice of the factors it should consider when determining whether to support the Scheme, including a summary of the key considerations in relation to its duties under English company law. Interrogation of this analysis supported the Board to ensure robust and thorough consideration of all relevant factors. The Group had supported CCD financially for some time in efforts to return CCD to profitability and appointed Ernst & Young to undertake an independent valuation assessment of the division. Furthermore, the Board commissioned independent advice regarding the future prospects of the high-cost credit and home credit markets. The outcome of these reviews concluded that for the Group the only credible alternative to the Scheme was to commence insolvency proceedings for CCD, an option which attracted less cost for the Group in the short term. However, in those circumstances CCD's customers would have received no compensation. With administration confirmed as the only viable alternative and giving consideration to the Group's Purpose, reputation and long-term position within the market, the Scheme was decided upon by the Board because it provided certainty to stakeholders and ensured customers with legitimate claims would receive fair access to redress payments.

Regulatory engagement
In considering the Scheme, and if there were any other viable alternatives, the Board engaged directly and constructively with the FCA and FOS to determine, as far as possible, their views about repeat lending and their non-objection or otherwise to such a Scheme. Throughout this period, the Group CEO, Malcolm Le May, undertook several meetings and engaged in regular correspondence with the FCA, maintaining an emphasis on openness and transparency in line with the Group's cultural Blueprint. Feedback from the FCA was reported to the Board regularly during the period and the Board listened to and sought input from the FCA in its efforts to resolve its concerns. The Board considered the potential impact of the Scheme and insolvency on its other subsidiaries and engaged with the PRA directly to provide reassurance with regard to Vanquis Bank and its credit card and retail deposit customers. Other regulatory stakeholders with whom the Board engaged directly included the HM Treasury and the FOS.

Financial implications
After close scrutiny of the relevant financial modelling data the Board agreed to fund legitimate Scheme claims with £50m and allocated a further £15m to Scheme costs, a total commitment that was met out of the Group's existing resources. The Board engaged directly with the FCA on the financial support available for the Scheme, recognising that, although customers would stand to receive less than the value of their claims, the figures were based on sound financial analyses and the decision offered the fairest compromise for all stakeholders. The Board gave careful consideration of its equity and debt investors, with whom it engaged directly and provided confirmation of the Group's continued ability to meet regulatory capital requirements over the longer term. On 21 June 2021 the Board announced that it would meet any increase in Scheme administration costs which had in part been incurred to achieve a higher voter turnout ahead of the Scheme meeting which the Board agreed was important for the Scheme.

Communication
A comprehensive Scheme meeting communication timeline was developed and supported the Board to ensure that the appropriate stakeholder engagement plans had been put in place.

For investors a series of more than 25 meetings were arranged directly after the announcement with Malcolm Le May and the Group CFO, Neeraj Kapur, to help explain the Scheme. A number of calls were also arranged with CMCs to explain the impact of the Scheme. To provide enhanced support for creditors in June 2021 the Group appointed an independent and experienced customer advocate who assessed and provided comment and recommendations for improvement on the proposed communications around the Scheme with customers, media groups and consumer bodies. As a direct result of this engagement, and in advance of the Scheme's creditors meeting held on 19 July 2021, the Group broadened its communication methods beyond newspapers to include social media platforms to ensure that messaging was inclusive and representative of the customer base. In addition the Group sought to simplify, where possible, the language in the Scheme's supplementary explanatory statement and other communications sent to Scheme creditors. The Board was pleased to note that following the engagement with creditors 420,000 voted in favour of the Scheme, representing 98% of the total votes received.

The Scheme was sanctioned by the High Court after the court hearing held on 30 July 2021 and became binding on 5 August 2021. The deadline for submission of claims was 28 February 2022 and we are on track to settle all valid claims and close the Scheme by the end of this year (2022).

Scheme meeting communication timeline

APR

19–22 April 2021
Staff comms briefings

22 April 2021
Convening hearing

23 April 2021
Notice of Order published on website

MAY

6 May 2021
Printing starts for mail activity

13 May 2021
Adverts placed

4–14 May 2021
Customer-facing colleague training, social media videos and additional FAQs prepared

17–19 May 2021
Email and postal notices sent to customers, voting portal opens and website updated with FAQs and videos

JUN

3-8 June 2021
Emails to customers who had not yet voted

8 June 2021
'Voting is open' follow-up campaign

24 June 2021
Adverts placed in newspapers

JUL

14 July 2021
Online voting deadline

19 July 2021
Scheme meeting

30 July 2021
Sanction hearing

AUG

5 August 2021
Scheme effective and Scheme help video added to website

27 August 2021
Scheme implementation date

27 August 2021
Claims portal opens

SEP

Our customers

See page 31 for key KPIs

How	The Board has established a customer-centric culture through setting the Group's Purpose and Blueprint and recognises that this continues to emerge as the Blueprint embeds throughout the organisation. Responding to recommendations from the Board effectiveness survey, the Board invited the managing directors of each division to CCE Committee meetings to provide in-depth reports on their customers and customer strategy. The outcome of this engagement is an enhanced depth of knowledge for the Board of the intricacies of each customer base, enabling the Board to oversee and shape the implementation of customer experience strategies within the divisions. In deciding upon the Scheme and the regrettable wind-down of CCD, the Board considered the impact on its customers, appointing a customer advocate for the Scheme. You can read more about this and the Board's consideration of customers in the wind-down of CCD in our principal decision on page 78. The Board has continued to monitor key customer data on these programmes, including the collections performance and the number and root causes of customer complaints. The Scheme is on track to settle all valid claims by the end of 2022. All outstanding CCD home credit and Satsuma loans were settled on 15 December 2021. The CCE Committee commissioned a deep dive report on the customer impact of the Covid-19 pandemic 12 months after it had commenced. At its meeting in March 2021 the CCE Committee received detailed customer feedback from the customer surveys taking place in each division. The CCE had overseen the introduction of a Customer Pulse Survey at Vanquis Bank and the customer panel in Moneybarn and both these customer forums had shown the importance of government and industry support that was made available for customers during the pandemic. The surveys provided the Group's businesses with valuable insights into how many of its customers were or had been on furlough, and for how long, allowing management to plan and tailor customer support services appropriately. The Board continues to engage indirectly with customers through verbal reports from Graham Lindsay, Chairman of the CCE Committee, on matters considered at the Committee meetings. The CCE Committee receives Customer and Blueprint Dashboards that facilitate oversight of key customer metrics including customer service levels, availability, complaints, customer satisfaction and net promoter scores. For those metrics that require it, independent assurance is gathered, such as GHG emissions from Corporate Citizenship (see page 72). The CCE Committee continues its regular customer call listening exercise across the brands, becoming closer to the voice of the customer and experiencing examples of customer service first hand. The learnings from this engagement support the Board to comment on and oversee the formulation of new, or development of existing, customer propositions. In approving the launch of the Sunflower Loans pilot the Board considered the customer segment analysis and customer need, ensuring that the product was designed to reflect customers' need for access to flexible, accessible credit options and was differentiated from the Group's existing products through loan APR and value.
Topics	The impact of the pandemic on our customers, new and existing products, customer experience and service performance, customer communication preferences, forbearance options, government support during the pandemic and access to credit for our chosen customer segments.
Significant feedback and value added	Customers had confirmed the importance of the support provided by the Government and industry. That CCD customers continued to receive high quality of service throughout the wind-down period. That the market opportunity for an unsecured personal loans product was estimated to be £1bn and that significant regulatory and governmental intervention had been the most influential factor in the market demand for credit. The independent assessment of the comments received from Scheme creditors by the Scheme customer advocate. Recommendation that the relatives of deceased creditors be included in the Scheme.
Key outcomes	– The regrettable decision to exit the home credit market, responding to the changing industry and regulatory dynamics in the sector, as well as shifting customer preferences. See our principal decision on page 78. – The effective communication and management of CCD customers' collections through the wind-down of CCD and support for customers in their transition to debt collection agencies. – Successful delivery of the Scheme. – The necessary dispensations were applied for regarding the Scheme to ensure that all customers with claims received equal and fair treatment. – The Board's expansion of the unsecured personal loans proposition at Vanquis Bank. – The development and pilot launch of a new, digitally driven, mid-cost loan offering for which customer feedback will be sought.

Principal decision – exiting the home credit market and the managed run-off of CCD

Macroeconomic environment

On 10 May 2021 the Group announced the result of the operational review of CCD and it was with regret that the Group confirmed its decision to withdraw from the home credit market and place the business into managed run-off or consider a disposal. In commissioning the operational review and assessing the results the Board acknowledged the terminal decline of the home credit market and the decreasing relevance of a home credit proposition as customers had transitioned towards digital transactions (a preference accelerated by the Covid-19 pandemic) as well as an unsustainable trajectory of complaints driven by Claims Management Companies. During a joint meeting between the FOS, the FCA and consumer credit lenders in November 2020, the expectation of repeat lending was clarified such that the traditional home credit business model was no longer sustainable for the Group.

Reviewing our options

The operational review of CCD was commissioned by the Board in November 2020 and was conducted by Hamish Paton, Managing Director of CCD. It considered a number of options including whether an economic return could be made in home credit following the changes in the macroeconomic environment and regulatory approach and provided the Board with a comprehensive comparison of implications for stakeholders on a full wind-down basis and also on the basis of a continuance of a minimum viable business-as-usual operating model. Alternative scenario forecasts interrogated by the Board did not indicate a return to profitability and recognised the historical, complex and increasingly costly operating model. The Board also commissioned an independent legal and regulatory opinion on high-cost credit (HCC) which summarised the regulatory scrutiny of the high-cost short-term credit (HCSTC) market, and the increasing focus on HCC, including home credit. The FCA's recent activities had included the introduction of a daily cost cap, a default charge cap and total cost cap for consumers; and a focus on enforcement action against HCSTC firms for any practices deemed as unfair. The Group had proactively engaged directly with the FCA on these and other similar topics. Taken together the Board recognised the pace of change, the expected further regulation, the decreasing popularity and relevance of a home credit product and that there was extensive evidence to suggest that it would become more difficult to operate a sustainable profitable business in the market.

Planning for change

Ahead of making its decision the Board acknowledged the impact of the potential closure of CCD on its stakeholders, including approximately 2,000 colleagues and 300,000 customers. There were societal implications of the exit in the communities in which the Group operated and potential uncertainty for suppliers both of which could pose reputational risks for the Group. Prior to the announcement on 10 May 2021, the Board considered management's detailed communication plans with customers, colleagues, suppliers, investors and regulators. The Board approved a four-pillar plan which had been designed by management to be cost effective and mitigate risk. Detailed stakeholder communication plans were presented to the Board setting out potential stakeholder concerns and the possible implications of the wind-down upon existing relationships and proposing suitable management actions to address the same, including a supplier engagement plan. The Board recognised the ways in which management proposed to address stakeholder concerns in its communication plan and set the tone for external communications, emphasising its regret and recognising the important role that CCD had performed for customers in the underserved segment throughout its long history.

Communicating with empathy

The Board ensured that customers were supported, fully understood their options and were reassured about how the change would impact them, including how their existing loans would be collected and managed. Careful consideration was given to the use of debt collection agencies and the Board challenged management to ensure that good service quality was maintained for customers, whilst they paid down their balances, through effective supplier management. The Board oversaw engagement with debt advisory bodies recognising these as important sources of information and support for CCD customers. The low number of customer queries received about the wind-down to date indicates that customer communications have been well positioned and understood.

Colleagues' concerns were a priority for the Board and the Colleague Forums were utilised to assist in the gathering and disseminating of colleague feedback. Communication principles, such as tone, timing and methods of engagement, were agreed and a colleague content hub published on the intranet provided a consistent colleague experience and fully accessible self-service support. The Board's Designated Non-Executive Colleague Champion, Graham Lindsay, attended several Colleague Forum meetings to share messages from the Board and listen to colleagues' concerns, and reported back to the Board on his engagement. The CCE Committee commissioned and received a detailed report setting out the colleague impact of the wind-down of CCD. The CCE Committee recognised issues raised by colleagues and oversaw the adaptations in approach in response to colleague feedback, where possible, such as management directly addressing one of colleagues' main concerns that redundancy terms would be honoured in the event of the division falling into administration (should the Scheme not be approved). Every effort was made to minimise redundancies and job opportunities elsewhere in the Group were shared with CCD colleagues, including those across multiple locations, made possible due to new hybrid working arrangements. 10% of colleagues at risk were redeployed elsewhere in the Group. Impacted colleagues were provided with outplacement support that included support plans, one-to-one career coaching, and access to materials and resources to assist them in finding new employment as well as to support their emotional and financial wellbeing.

Valuing our relationships

A review of all suppliers had been completed by management with the results and subsequent supplier engagement plan reported to the Board. The Board recognised the varying impact on suppliers of the wind-down of CCD, many of whom provided important services to other divisions. The Board ensured that suppliers were contacted directly by management following the announcement of the wind-down of CCD and was pleased to note the continued confidence of suppliers in the Group, demonstrating positive relationships and the successful execution of the supplier engagement plan. PFG's Purpose of helping to put people on a path to a better everyday life drives the Board to ensure that the products and services the Group provides are sustainable, responsible and commensurate with the Group's strategic ambition to be the specialist leading bank to the underserved mid-cost market. The Board's decision to exit the home credit market and wind down the CCD business, whilst difficult and regrettable, was necessary to adapt to the macroeconomic environment with a view to securing the long-term future of the Group. You can read more about how we are becoming a bank for the underserved on pages 20 and 21. The Board continued to oversee and monitor the execution of the wind-down plan and, with customer collection rates having consistently exceeded expectation, CCD took the decision to write off all outstanding home credit and Satsuma loans on 31 December 2021.

Our colleagues

See page 32 for key KPIs

How	Colleague engagement was extensive in 2021, particularly as stricter Covid-19 pandemic restrictions were reintroduced in the early part of the year and as the Board shaped the Future of Work programme. The Future of Work comprised assessments of the success and value of the adaptations adopted during the pandemic and gave consideration as to how they might be incorporated into existing workforce policy and practices. You can read more about the Future of Work programme in our principal decision on page 80. Communications were primarily via email and the intranet with links to frequent vlogs by the CEO, Malcolm Le May. Colleagues received quarterly video updates on the Group's results from the CFO, Neeraj Kapur, and other important news via the colleague newsletter, 'Stay Connected'. Following the regrettable announcement of the wind-down of CCD on 10 May 2021 a comprehensive colleague communication and support plan was executed. Colleagues were briefed in advance of any direct customer communications to allow time for them to absorb the news on a personal level and prepare more effective conversations with customers, and the well-established Colleague Forums, attended by Graham Lindsay, were used to support the colleague consultation process for impacted CCD colleagues. You can find more detail about this in our principal decision on page 78. The Group is continuing to develop its approach to colleague engagement regarding executive director (ED) pay and, to this end, two engagement sessions were held with HR colleagues representing a mix of divisions, levels and areas within HR. The sessions took place in November and December 2021 and were run by Graham Lindsay together with Andrea Blance, our Senior Independent Director. Colleagues provided direct feedback on topics including ED remuneration, the ED scorecard and objectives, performance management, communication, the link to colleagues' own personal objectives and overall Group strategy. The output identified opportunities to improve colleague communication, and in particular to enhance visibility of the ED scorecard, amongst other actions which will be taken forward by HR. You can read more about this in our Remuneration Report starting on page 169. It was agreed that the feedback sessions had been successful in sharing colleague views with the non-executive directors and the exercise, when completed again, would be extended to a broader range of colleagues. In September 2021 the Board visited the Chatham office to meet directly with colleagues and experience first hand the Vanquis Operations teams. The Board noted how internal talent had been identified and nurtured to deliver enhanced capability in operations and how colleague engagement had increased by 3% overall in the team since 2020. Topics discussed by the Board and colleagues included technology, the Future of Work and an open Q&A session. At its November 2021 meeting the CCE Committee received a follow-up paper on the Future of Work and considered the Group's updated workforce policies. In addition the CCE Committee considered the results of a comprehensive review of the effectiveness of the Colleague Forums which confirmed that they had benefited hugely from the attendance of Graham. The allocation of time for Graham to update colleagues on Board decisions and issues was well received by the Forums. A number of recommendations arose from the review which were supported by the CCE Committee and will be progressed by management. Updates on the CCE Committee's consideration of these matters were provided to the Board by the Chairman of the CCE Committee. The Board engaged directly with colleagues through its participation in Affinity Group activities. Over 125 colleagues are members of the Group's inclusion network and our Board members have participated in a number of the activities it has arranged to promote exclusivity and celebrate diversity, such as a virtual cookalong in celebration of world foods. The CCE Committee has overseen the implementation of a Management and Leadership Development programme. The Nomination Committee considered the succession framework for senior executives and considered in detail the implementation of the common Board structure, further details of which are contained in our principal decision on page 86.
Topics	The wind-down of CCD and support for colleagues at risk of redundancy. Executive director remuneration, the Future of Work, health and safety and workforce engagement mechanisms. The gender pay gap, diversity and inclusion and leadership management and development. The management governance structure. The Restricted Share Plan and its value to participants.
Significant feedback and value added	The Board recognised that a majority of colleagues supported a hybrid working model which delivered increased flexibility and improved work-life balance. Senior leadership confirmed that productivity had remained stable and business needs continued to be met when colleagues were working remotely. Overall colleague engagement through the Pulse survey remained stable at 71%. To enhance visibility of the ED scorecard for colleagues and consider development of mandatory objectives such as for inclusion or wellbeing.
Key outcomes	– Engagement with colleagues helped define the Future of Work as outlined in our principal decision on the next page. – A Board-led consistent tone and messaging for colleagues regarding the wind-down of CCD and a comprehensive package of colleague support including outplacement support – see our principal decision on the previous page. – Revisiting the Colleague Forum structure to ensure that the geography and demography of the workforce were represented fairly and continuous improvement of the Colleague Forums as a two-way form of engagement between the Board and colleagues. – In response to colleague feedback catering facilities were reinstated at the Bradford office. – To provide certainty, assist colleagues in financial planning and support colleague retention earlier than usual announcements were made by the Group CEO regarding the Board's confidence that a year-end bonus would be paid for qualifying colleagues. – A Group Vaccine Policy and free flu jabs for colleagues.

Principal decision – Future of Work

The 'stay at home' requirement arising from the Covid-19 pandemic required many companies to revise their operations. We were no exception and the Board oversaw the transition to home working for the majority of colleagues in March 2020 which remained in place throughout the year and for a proportion of 2021. As reported in last year's Annual Report, the return to office strategy was recognised as a key emerging risk by the Board in 2020 and management evolved the focus on working from home to begin to develop a Future of Work proposition that capitalised on the lessons learned from the pandemic. The Board engaged indirectly with colleagues through updates to the CCE Committee and subsequent reports to the Board from the CCE Committee Chairman. In January the CCE Committee had assessed the feedback from colleagues and management which had been gathered via colleague surveys. The majority of colleagues supported the introduction of a hybrid working model and a strong majority of senior leaders confirmed that productivity had remained stable or improved since colleagues had been working remotely. Senior leaders also fed back to the CCE Committee their support for a blended way of working. Through the CCE Committee, and after consideration of the risks and benefits, support was provided for management's proposal to agree hybrid working and a Future of Work programme was established, sponsored and led by the Group HR Director.

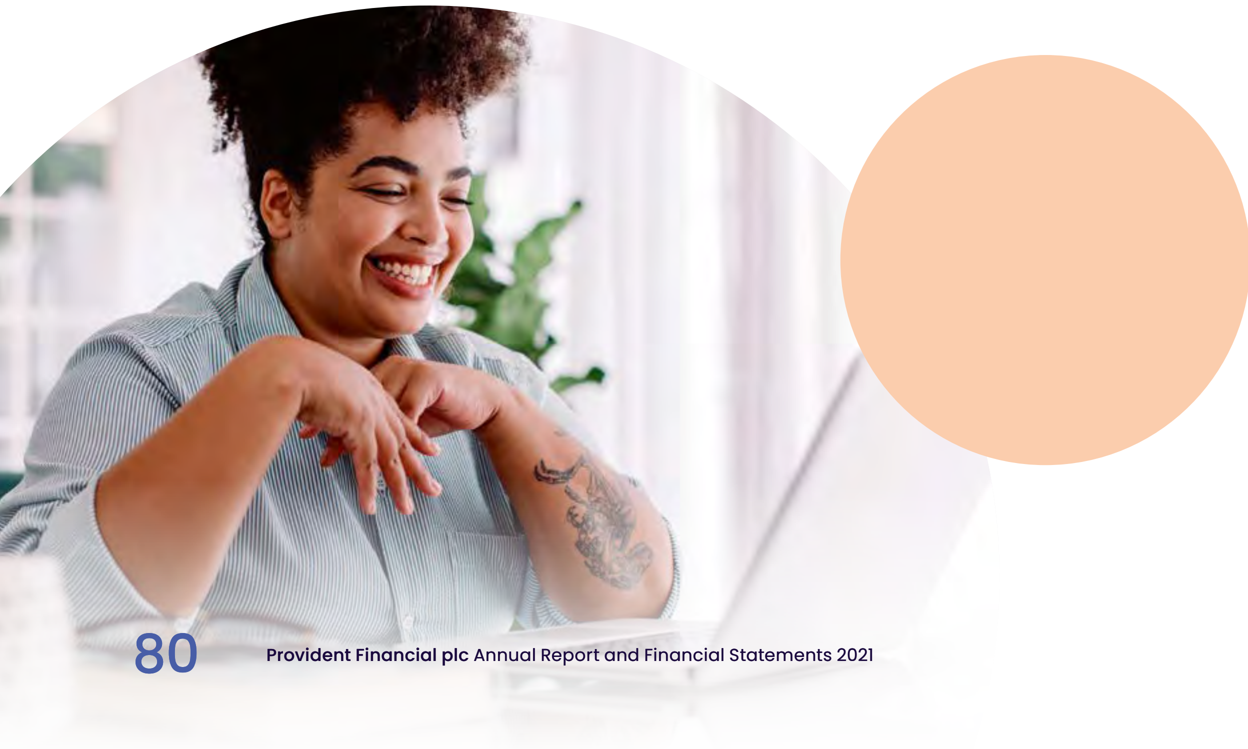
In April 2021 a Future of Work steering committee (Steerco) was set up to deliver a three-phase plan to introduce a hybrid working model and arrange a safe return to working in offices for colleagues. In June the Future of Work programme was considered by both the CCE Committee and Board which received a report from the Group HR Director as to management's progress. The Board engaged indirectly with colleagues receiving the detailed results from the colleague and leadership surveys. The Board encouraged management's continued consideration of all stakeholders in programme design, emphasising the importance of retaining productivity and high service quality for customers, further highlighting culture, health and safety and colleague wellbeing as important areas of focus.

Following feedback from the Board and CCE Committee the principles of hybrid working were established which considered the needs of key stakeholders and included, amongst others things, that there would be no detriment to customer experience or service and sufficient supervisions were in place to assist colleagues when dealing with vulnerable customers or difficult conversations.

From June 2021 and throughout the second half of the year, regular direct communications were issued to colleagues via email and the intranet about the Future of Work milestones, to confirm the working arrangements that were in place at each stage and how they might apply to a colleague's personal circumstances and set out how long they were expected to last. A dedicated Future of Work Hub was launched on the intranet and housed a new Flexible Working Policy, a Group Vaccine Policy, management and colleague guides for hybrid working and guides for working safely both remotely and in the office.

Colleagues returned to working in the office in phases and from 19 July to the end of August 2021 those colleagues deemed a priority (due to a personal or business need) returned to the office on a hybrid basis; all remaining colleagues returned to the office on a hybrid basis from October until government guidance changed in December 2021 and colleagues were asked to return to home working. The CCE Committee emphasised the health and safety of colleagues as a priority for the Board and colleagues were asked to complete training before returning to the office. Ongoing feedback was provided regarding hybrid working arrangements including desk space allocation, parking allocation, catering, facilities and safety procedures whilst in the office. On 28 September 2021 the Board visited the Chatham office, home to our Vanquis Bank Operations teams, to meet with Vanquis Bank colleagues and witness the arrangements that had been put in place. The Board had an open Q&A session with colleagues and a dedicated session on the Future of Work including the challenges and opportunities it presented. HR and management undertook to execute any actions arising. Separately our non-executive directors have visited the Moneybarn offices in Petersfield.

You can read more about how we supported our colleagues during Covid-19 on page 11



Our investors (equity and debt)

See pages 31 to 33 for key KPIs

How	For more detail about how we engage with our investors through our investor relations programme including our investor days, market announcements, the AGM and the Annual Report, please refer to pages 132 and 133. The AGM held in June was pleasingly open for shareholders to attend in person and engage directly with the Board or to follow remotely and shareholder questions were welcomed in advance. Appropriate social distancing restrictions were in place commensurate with the Government's Covid-19 guidance in place at the time. In the reporting period, and following the relaxation of Covid-19 rules, the Chairman, Patrick Snowball, has engaged directly with the Group's top ten shareholders to listen, develop and enrich stakeholder relationships. Key topics for the conversations included the Group's strategic direction, corporate governance matters and the macroeconomic environment. This direct engagement has resulted in investor feedback being front of mind for the Chairman and woven into the fabric of Board discussions on those topics. The Chairman and Head of Investor Relations provided the wider Board with feedback from the meetings through an informal update and the Investor Relations Board report. In May following the announcement of the Scheme and the results of the operational review in CCD, management, including the executive Board members, ran a series of more than 25 investor meetings. You can find out more on our principal decision on page 76. The market presentation accompanying the announcement of the Scheme and release of the Group's results included an open question and answer session for the market. A recording of this presentation is available in the shareholder hub on our external website along with all our other announcements: www.providentfinancial.com/shareholder-hub. Verbatim feedback from investors received by the Board at its Group Strategy Conference in June indicated that investors had appreciated the engagement and understood the Scheme. The Board receives regular investor relations update reports through which the progress and execution of the investor relations programme is overseen and investor feedback is indirectly provided. A comprehensive report on how the market viewed the future of the Group was provided to the Board at its Group Strategy Conference in June 2021 and this report included verbatim feedback from institutional investors. The feedback informed management's business plan through recognition of the importance to the Group of Vanquis Bank and the future opportunities for growth it presented. Malcolm Le May, our CEO, talks about this in his review on pages 4 and 5. In November 2021 the Board commissioned a further independent Investor Perception Study to offer insights into how the Group is perceived, clarify areas of focus for investors and identify opportunities to improve investor communications. There was strong participation in the study, representing 57% of the issued share capital and a mix of shareholders. The output report provided valuable feedback that was discussed by the Board in December 2021. In particular the Board noted shareholder expectations about Group performance in the context of the budget. The Board acknowledged the feedback on key topics and communication and oversaw their integration into the investor communication plan. The Board reviews and approves all trading and results statements issued to the market and receives periodic updates on external communications. The Board has overseen the successful execution of a number of initiatives to implement the Group's Capital Funding Plan, approving the Group's first subordinated Tier 2 debt capital to the external markets since 2005 (the Euro Medium-Term Note Programme or EMTN). Proactive engagement with debt investors, through roadshows hosted by the CFO, Neeraj Kapur, ensured that the issuance was successful with the Group's bond being rated as B+ by Fitch. Concurrently the Board oversaw the repurchase of some of the Group's 2023 Senior Bonds, the reduction of the Group's revolving credit facility and the refinance of its Moneybarn securitisation programme with £325m committed funding. The Group now has no contractual wholesale maturities until the second half of 2023, thereby delivering a very secure, diverse and stable funding profile commensurate with investor expectations.
Topics	The Scheme and closure of CCD, particularly what the Scheme involved, the legal process and expected timelines for completion. The Group's strategic direction, subsidiaries, valuation, capital return, results, strategy and progress towards achieving its ambition to become a specialist bank for the underserved. In addition the funding activities including the Euro Medium-Term Note Programme (EMTN) prospectus, offering circular, investment quality rating and the price of the Group's Senior Bonds. Early in 2022 the Board considered the timeline for publication of this, and future, Annual Report and Accounts which had been impacted by the Covid-19 pandemic.
Significant feedback and value added	The Board received specific shareholder feedback, following the announcement of the Scheme in March 2021, that shareholders continued to support the product model outlined by the Group at its 2019 Capital Markets Day. The Board also received confirmation from investors that Vanquis Bank remains a key asset and central to the Group's long-term success. The Board has received indirect feedback via its corporate brokers at the Group Strategy Conference in June about investor perception of the Group's overall position in the market, capital position, opportunities for growth and regulatory matters. The Board received an independent Investor Perception Study in November which reported shareholder expectations around performance and the importance of shareholder distributions. For more information about our investor relations programme please see the Investor Relations Report on pages 132 and 133. For more information on the Scheme see our principal decision on page 76.
Key outcomes	– Approval of all resolutions at the AGM. – Investor support of the strategy and continued momentum towards the Group's strategic imperative to establish PFG as the specialist bank for the underserved operating in the mid-cost market segment. – Enhanced investor knowledge of the Scheme. – Support for initiatives forming part of the Capital Funding Plan delivering secure, diverse and stable funding profile. – Reduction of the revolving credit facility to £90m (previously £148m, and subsequently early repaid in March 2022). – 6.4% improvement in the Group's total capital ratio (TCR). – Key topics incorporated into the investor communication plan. – A desire to return the publication date of the Annual Report and Accounts to align more with historical norms from 2024.

Principal decision – Group funding initiatives including the EMTN and Tier 2 pricing and the Senior Bond tender

In last year's Annual Report Neeraj Kapur, the Group's CFO, explained that a key focus area for 2021 was to retain a strong capital, liquidity and funding structure to ensure the financial security of the Group, utilising Vanquis Bank deposits where possible. The Board considered the Group's Capital Funding Plan at the Group Strategy Conference held in June 2021 and received insight from our corporate advisors with regard to the market perception of the Group. The indirect feedback confirmed that strong liquidity and the ability to raise deposits through Vanquis Bank was considered by investors to be a key positive differentiator for the Group. The Board approved the Capital Funding Plan and the funding initiatives have been successfully executed in the second half of 2021 to diversify funding, reduce associated costs and facilitate efficient intra-group lending.

On 23 September 2021 the Group published an updated offering circular in connection with the Group's £2bn EMTN Programme. The Board approved the publication of the offering circular and the execution of the amended and restated documentation supporting the EMTN Programme. The FCA was engaged directly to review and approve the offering circular and the significant updates that had been made to it since the previous version which had been published in late 2020, to reflect the wind-down of CCD and the Scheme.

The Group also announced an issuance of Tier 2 securities. The proposed transaction was presented to investors by the CFO, Group Treasurer and Head of Investor Relations through 25 virtual roadshows in September 2021. The offer was well received and, following strong demand and demonstrating investor support of the Group's strategic objectives, was successful at raising £200m of Tier 2 subordinated debt capital, with a 10.25-year maturity, callable at 5.25 years, and a coupon of 8.875%. Concurrently, a partial tender of the Group's 2023 Senior Bonds was offered and was also well received by investors. The Group successfully repurchased £71.5m of the £175m outstanding bonds. The Board endorsed the activity which was aligned with investors' expectations as presented in the broker report at the Group Strategy Conference. The outcome was the improved efficiency of the capital structure and lower overall cost of capital. Incorporating the £200m Tier 2 debt capital in own funds, at the time of issuance the Group's total capital ratio improved by 11% from 32% to 43%. You can read more about the execution of our Capital Funding Plan on pages 106 to 107.

In July 2021 the Group executed a new warehouse securitisation programme for Moneybarn which refinanced the initial programme entered into in 2020 and injected additional drawn funding into the Group, whilst at the same time reducing its exposure to but extending the tenure of its revolving credit facility (RCF). In approving these activities the Board engaged with funding partners to execute the activities to deliver improved liquidity in the non-bank part of the Group and eliminated any contractual funding maturities until 2023, significantly reducing the Group's funding risks. The RCF has already been repaid early ahead of its contractual maturity in July 2023 and at the same time has been cancelled at the discretion of the Group and as allowed for in the terms of the facility.

A further funding initiative was approved by the Board in January 2021 which saw Vanquis Bank securitise a portion of its credit card portfolio in order to gain access to the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME).

Taken together the funding activities approved by the Board have delivered a more robust, diverse and stable funding profile for the Group as a whole and represent a more cost effective way of funding. You can read more about how we maintain a secure funding and capital structure on page 33.

Our communities

See page 32 for key KPIs

How	The community impact of the wind-down of CCD was recognised by the Board, in particular for those locations which had a high density of customers or colleagues. A significant proportion of the circa 2,000 colleague redundancies were based at the Group's Head Office in Bradford and the Board oversaw the engagement with Bradford Council. The outcome of this engagement was that a number of local employers advertised opportunities to affected colleagues, with them also being alerted to job opportunities through social media and being advised of local community support. The Board has received regular updates about the Group's community investment and the execution of the Group's Social Impact Programme indirectly through its CCE Committee. The Social Impact Programme, which has been running for a number of years, is aligned to the Group's strategy and Purpose and has delivered community investment focused in three distinct areas: community, customers and education (see pages 64 and 67). It had served the Group well to deliver an effective programme of support, financial and otherwise, to its chosen community partners. However, the CCE Committee reconsidered the Group's Social Impact Programme in June 2021, in light of the evolution of the Group, and commissioned a review of the aspects of community work undertaken by CCD and how they might be carried forward following the wind-down. In November 2021 management presented an alternative to the Social Impact Programme. The new strategy aligned PFG's community investment activities under a single 'PFG Foundation' and developed a vision, a mission and three signature programmes all designed to support young people (0-25) from low-income backgrounds. More about the new PFG Foundation is set out on page 67 and in our CR Report. The views of the Group's affinity champions have been built in at the design phase to facilitate good integration of equality, diversity and inclusion into the Group's community funding approach. The new community investment strategy was approved by the CCE and recognised as delivering other benefits to stakeholder engagement including broadening the Group's opportunities for external stakeholder communication regarding social matters. The CCE Committee regularly monitors and reports to the Board the Group's progress against the long-term targets linked to the five UN Sustainable Development Goals.
Topics	Key topics have included customer vulnerability, the community foundation strategy and structure, community contributions and charitable giving. Volunteering activities in the context of the Covid-19 pandemic, and the strategic review as a result of the evolution of the Group. Redundancy, equality, diversity and inclusion and community partnerships have also been discussed.
Significant feedback and value added	Community engagement with the wind-down of CCD. The alignment of the Group's approach to community funding with the broader change in customer base as a result of the closure of CCD, including the restructure of the Social Impact Programme to become a foundation, was supported by the CCE Committee. Support for the Group to continue to appropriately fund and promote its social activities, including supporting colleagues in the same.
Key outcomes	– Tailored ESG training delivered for divisional boards. – A change of community investment structure from Social Impact Programme to a foundation model and a change of name from Social Impact Programme to the 'PFG Foundation'. – Evolved strategy to adopt a targeted approach to community investment activities to support children and young people (0-25) from low-income backgrounds. – Funding approved for the School Home Support Charity including matched colleague fundraising. – The IncomeMax partnership with Vanquis Bank which provides customers with independent personal welfare advice. – Closer integration of the community funding approach with equality, diversity and inclusion through involvement of the Affinity Groups in the design phase. – The CCE Committee endorsed the Group's approach to supporting its community partners through the Covid-19 pandemic. – The CCE Committee approved the Group's commitment to the five long-term ESG objectives that were aligned with both the Sustainable Development Goals and TCFD. – The Group being the lead supporter for the National Numeracy Day, held in May 2021, and the appointment of the Group's CEO, Malcolm Le May, to the National Numeracy Leadership Council.

Statement regarding section 172 of the Companies Act 2006 continued

Our environment

See pages 68 to 73 for key KPIs

How	Throughout the year the Board, via the CCE Committee, has received regular updates about the Group's implementation of the Task Force on Climate-related disclosures Financial Disclosures (TCFD). In November the Head of Sustainability confirmed the integration of climate-related risks into the Group's Risk Management Framework with a risk appetite headline and statement having been articulated. The Board approved the 'risk cautious' appetite for exposure to climate risk as recommended by the Risk Committee. Following on from the engagement the Group has established a Climate Risk Committee and Climate Risk Working Group each with specific responsibilities to support the reporting requirements for TCFD and the Board will oversee progress in this regard through reporting into its Risk Committee. Initial work has been undertaken by the Climate Risk Committee to define the climate-related risks that are most material to the Group which are regulatory, physical and reputational risks. In addition the Climate Risk Committee has determined the methodology that will be used by the Climate Risk Working Group to undertake scenario analysis which will enable us to better understand the actual and potential impacts of climate-related risks and opportunities on our business activities and stakeholders. In addition the CCE Committee has overseen the Group's progress toward the commitments made in 2020 to achieve net zero carbon dioxide emissions by 2040 and against the UN Sustainable Development Goals (SDGs). The Group continues to manage environmental impacts via the established Environmental Management System (EMS). This EMS was certified to the international management standard ISO 14001 in July 2021. You can read about our efforts and achievements to reduce our carbon footprint year on year on pages 68 to 73. In December 2021 the Group achieved a B- rating from the Carbon Disclosure Project, a significant improvement from the previous D rating and recognition of the Group's commitment to sustainability and environmental management. The CDP report was discussed by the CCE Committee which recognised the Group's above average scores in governance and opportunities for improvement in value chain engagement and emissions reduction initiatives.
Topics	Climate change, climate risk and climate risk appetite, strategies to mitigate climate-related risks, details of greenhouse gas emissions and the achievement of TCFD objectives.
Significant feedback and value added	Climate risk was approved by the Risk Committee as a principal risk. Physical, regulatory and reputational risks were defined as the three most material climate-related risks. The Board approved the Group's risk appetite for exposure to climate risk.
Key outcomes	– Climate risk was approved as a principal risk by the Risk Committee. – A Climate Risk Committee was established with terms of reference approved by the CCE Committee, chaired by the Group's Chief Risk Officer. – A Climate Risk Working Group has been established with specific responsibilities to support the reporting requirements for TCFD and undertake scenario analysis for climate-related risks. – The Board approved the Group's target to reach net zero by 2040. – The CCE Committee approved the Group's commitment to the Business Ambition for 1.5°C pledge. – Our operational carbon footprint is 19,589 tonnes CO_2e in 2021 (5,493 tonnes CO_2e in 2020). These emissions have been partially offset through the purchase of carbon offset certificates in two wind power projects in Thailand. For further information on the Group's operational carbon footprint see page 73.

Our suppliers

See pages 60 and 61 for key KPIs

How	The Board has overseen the establishment of a Group Procurement function operating as a central shared service under the leadership of the Group CFO. The Group Procurement function has implemented a new process for reviewing major contracts which has enhanced the efficacy of the buying process and delivers a consistent experience for all suppliers. The process requires Board engagement for those contracts that are of an appropriate size or value or of strategic importance to the Group as defined in our Group Delegated Authorities Manual. During the period supplier due diligence processes were reviewed and updated to ensure the Group continues to purchase products and services from those which operate responsibly. Supplier engagement activities are conducted through a Supplier Relationship Management Framework. The CCE Committee discussed and was supportive of a tiered approach to engagement based upon supplier classification, the outcome of which means that the Group's most critical suppliers participate in an enhanced engagement schedule that includes regular touchpoints for executive, relationship and performance review. Through the CEO and CFO the Board engages directly with some of the Group's most significant suppliers through meetings at onboarding and at regular intervals throughout the relationship. Topics discussed include business success, continual improvement, supplier concerns and contract negotiation. The meetings are attended by the Group Head of Procurement or their delegate, who plans and executes any actions arising. In May 2021 the Board approved significant investment in new IT architecture. The Board oversaw the rationale for vendor selection to ensure the investment delivered modern customer-centric architecture that would allow for broader application across the Group in support of the Group's strategy. The Board received independent assurance over the approach to vendor selection, the vendor selection process itself and the reputation and robustness of the participating vendors. As part of this process interviews and surveys were undertaken with the potential supplier stakeholders and the results reported back to the Board. The Board's approval was provided based on the robust rationale, the detailed tender and selection process, and the outcome of the assurance reports. The Board oversaw the effective management of the supplier workstream which formed part of the CCD wind-down programme. You can read more about this in our principal decision on page 78. The Group continues its commitment to fair, consistent treatment and prompt payment for suppliers and the CCE Committee reviews the Group's prompt payment performance on behalf of the Board through its monitoring of the Blueprint Dashboard. The Board approved the Modern Slavery Act Declaration in March 2020.
Topics	The Scheme and managed run-off of CCD. Prompt payment practices, data protection, GDPR and modern slavery. Vendor selection processes were conducted throughout the year for the provision of share plan administration and purchase of new IT infrastructure. The efficacy of the vendor selection process and the Supplier Relationship Management Framework.
Significant feedback and value added	Recommendations to the Board following robust vendor selection processes for the provision of new IT architecture and independent assurance over the same. Supplier sentiment, including continued supplier confidence in the Group following announcement of the wind-down of CCD.
Key outcomes	– A well-executed supplier engagement plan resulting in continued supplier confidence through the Scheme and CCD wind-down and maintenance of services for other divisions. – Continued prompt payment of suppliers, thereby remaining a signatory of the Prompt Payment Code and maintaining the Group's reputation for high standards of business conduct. – Approval of the Group's Modern Slavery Statement. – Commencement of the formal reappointment of Deloitte as the Group's external auditor, the vendor selection process for which concluded early in 2021. – Approval of significant investment in new IT architecture for Sunflower Loans. – The appointment of a new administrator for the Group's share plans.

Principal decision – streamlining our corporate governance and transforming our operating model

On 13 January 2022 the Company announced a restructure of the Board of Vanquis Bank to substantially align its membership with the Board of the Company. The decision to streamline the Boards of the two legal entities has delivered immediate benefits of efficiency and reduced duplication in the Group's governance structure. However, the changes were also an important step in transforming the operating model and executing the Group's strategy. You can read more about the Group's strategy in our Strategic Report on pages 28 to 32.

The Board began its deliberations in May 2021 and, after giving careful thought to the implications of the CRD V regulation which introduced the requirement for financial holding companies to be subject to supervisory approval and consolidated supervision of the Group's structure, commissioned a review of the risks and opportunities to evolving the Group's corporate governance arrangements and operating model.

Integrated operating model

Historically the Group has been organised in a federated model, by division with the entities operating on a largely separate basis. Alongside CRD V, direct Board engagement through conversations with the regulator had reflected that the FCA regarded the Group and its entities as one and expected the Group as a whole to apply consistency to areas of key importance such as credit risk.

To address these points the Board contemplated an integrated operating model which would: a) create an aligned Board structure to simplify governance; b) develop a shared service model to improve control and reduce cost; c) use a Treasury function to optimise funding; and d) create a Group IT capability to enable a single customer view across multiple products and streamline future technology investment. The Board discussed stakeholder benefits of an integrated operating model, which included more varied career progression for colleagues and enhanced potential to delivery long-term value for shareholders. The Board approved management's proposal to further pursue the benefits of an integrated operating model and you can read more about the governance changes in our CEO's Review on page 5. Activity undertaken to optimise funding includes the EMTN Programme described in our principal decision on page 82, and progress on our IT capability in our personal loans update on page 47.

Alignment

The Group assessed its corporate governance arrangements relative to its peers and noted that other banking groups were run on an integrated basis. Furthermore, there had been simplification elsewhere in the Group following the wind-down of CCD which prompted the Board to reassess the effectiveness of the dual Board structure. Under the dual Board structure Provident Financial plc and Vanquis Bank Boards sat separately and had different members. With Vanquis Bank being the Group's largest subsidiary, the structure necessitated duplication of reporting efforts, management time in meetings and costs. The structure also overcomplicated the management of risk and distribution of tasks under CRD V.

The Board engaged directly with the FCA and PRA on the proposal to streamline its governance arrangements and sought independent professional advice that considered the legal and regulatory expectations on the companies and implications of any change. The advice confirmed to the Board that legal and regulatory considerations favoured the proposed alignment, after which the Board approved the work to progress.

An independent and thorough process was undertaken to assess the skills and experience of all the directors after which the necessary regulatory applications were submitted. You can find out more about our directors in their biographies on pages 112 to 114, and their roles in our division of responsibilities on pages 134 to 136 and in our Nomination Committee Report starting on page 143.

PFG's contribution to risk management and principal risks

"In order to successfully implement the Group's risk strategy, we have defined a purpose and adopted a set of principles within the Group Risk function. These principles and purpose enable us to demonstrate a proactive approach to the Group's strategic drivers and expected behaviours. Group Risk's purpose is to support and challenge PFG to help put our customers on a path to a better everyday life by helping the business understand its risks and by building a strong control environment through insight, influence and assurance. This will strengthen the Group's ability to become the bank for the underserved.

Gareth Cronin
Group Chief Risk Officer

Q1.

How are we strengthening our risk management capabilities to support the delivery of the Group's strategy?

The Group Risk Harmonisation Programme (RHP) was established in 2020 with the aim of providing a more consistent and integrated approach to risk management across the Group. During 2021 there has been significant continued progress in the alignment of risk management processes for the identification, assessment and management of the Group's principal risks, and in strengthening second line oversight. This has been underpinned by a structured programme approach delivering significant improvements in the risk strategy, governance, operating model, process, controls and technology. When the programme is fully embedded in 2022, the Group will have an enhanced single Enterprise Risk Management Framework (ERMF) and associated policies, tools, systems and processes which will further enhance the Group's capability to consistently and effectively manage its risks. We have also strengthened the Group Risk senior leadership team to ensure we have expert oversight and coverage for all our Group principal risks and to make key contributions to regulatory developments.

Q2.

How are we proactively responding to the significant changes in our regulatory environment?

As part of the Group RHP we have re-evaluated our Group principal risks, which are those risks most critical to the alignment of the Group strategy. We have added an additional three Group principal risks to our Group Risk Management Framework (GRMF) – climate risk, market risk and financial risk – to ensure we drive consistency in the management of these areas across the Group.

In recognition of increased regulatory scrutiny around customer outcomes, in particular the Consumer Duty Consultation and key themes surrounding affordability and creditworthiness, vulnerability and financial difficulty and forbearance, we have replaced legacy and divisional risk management for these matters with the Group Conduct Forum (GCF). The GCF has representation from across the Group and prioritises the development of a Group-wide Conduct Risk Framework, and the enhancement of the Group's responsible lending and Group vulnerability policies and procedures.

Q3.

What is our main risk focus for the next 12 months?

A key part of our focus for 2022 is to further embed the RHP and continue to develop our risk management approach, capabilities and culture to make sure we manage the risks to which we are exposed to as a Group. We will continue to influence, support and challenge the business in managing its strategic risk pillars by:

- maintaining a secure and efficient capital and funding structure;
- delivering sustainable growth and returns to our shareholders;
- optimising our reputation and becoming the trusted bank for the underserved;
- establishing a strong risk and customer-led culture;
- maintaining operational resilience and business capabilities; and
- managing execution risk associated with strategic and operational change activity.

Introduction and recent developments

Introduction/overview

During 2021 the Group significantly strengthened its risk management capabilities and embedded these into business-as-usual practices. This has been delivered primarily through the RHP via further embedding of an enhanced single Enterprise Risk Management Framework (ERMF) and associated policies, tools, systems and processes.

The Group's approach to risk management

Risk management is recognised as an integral component of good management and governance. In the context of PFG it is critical to enable us to optimise our shareholder return, and maximise our business opportunities while maintaining positive outcomes for all our key stakeholders that include shareholders, customers, colleagues and regulators. The GRMF plays an important role in supporting the Group Board and Executive in the implementation of an integrated business strategy. The GRMF is based around an 'enterprise' approach that enable a single view of all risks, and managing those risks in a consistent way up, down and across the enterprise.

We proactively identify and manage our emerging risks, defined as risks that can arise from external future events such as political, economic, social or environmental issues. Emerging risks are typically those of which the timing and impact are uncertain and which are generally beyond our control. They are subject to the same enterprise risk management activity as our Group principal risks, which includes risk identification, monitoring and reporting within the Risk function and the Group's governance structure.

Risk culture

Our Purpose, strategic drivers and behaviours combine to drive us to always do the best we can for our customers and colleagues. We promote a risk culture that supports appropriate risk awareness, behaviours and judgements in the level of risk we are willing to take. We have a number of strategic risk drivers with the overall aim of delivering sustainable profits as a Group whilst meeting the needs and requirements of all our key stakeholders including customers, regulators, investors, colleagues, communities and suppliers. Our culture is underpinned by an appropriate balance between risk and reward, with accountabilities reinforced through the Senior Managers and Certification Regime. Risk objectives are also included as part of non-financial measures in Group and divisional executive scorecards and we have embedded a Risk Adjustment Framework to formally record the linkage between risk management and reward.

Risk appetite

The Group defines its risk appetite as the amount and type of risk the organisation is prepared to seek, accept or tolerate at any point in time, measured over a rolling 12-month period. Our risk appetite is holistic and covers the 13 principal risks detailed later in this report. The Board is responsible for approving the Group's risk appetite statements at least annually with the supporting Board-level metrics cascaded into more detailed business appetite metrics, limits and thresholds at a divisional level.

Recent developments

The Group has continued to make significant progress on key initiatives to strengthen and embed its overall risk governance, frameworks and capabilities:

- We have continued to make significant progress embedding our RHP with the goal of consolidating the various divisional frameworks into an integrated single group ERMF. This incorporates a number of key activities including the development of a consistent suite of Group-wide Risk Policies and a risk and control self-assessment (RCSA) methodology. The majority of this is expected to be embedded during 2022, led by our newly appointed Group Head of Enterprise Risk.
- An agreement was signed with an external vendor for a Group-wide integrated Group risk system. Implementation of the Group risk system is a significant enabler for risk harmonisation and will demonstrate delivery against regulatory commitments to enhance Group-wide risk capability, improve risk and control effectiveness, and realise resource efficiencies with the automation of processes and reporting.

> We continue to enhance our risk management capabilities while harmonising our supporting risk infrastructure and frameworks through significant investment in our Risk function.

Gareth Cronin
Group Chief Risk Officer

Modern working model

As the Covid-19 pandemic continues to impact the economy and society, we have continued to respond in a fluid and agile manner. Our ongoing priorities have been to:

- ensure we continue to deliver fair customer outcomes;
- maintain an optimal capital and liquidity position;
- manage the health and wellbeing of our colleagues through revised working arrangements, home working and technology support; and
- maintain strong and proactive relationships with our regulators, especially where we were needed to implement significant change, e.g. the closure of CCD and Scheme of Arrangement.

Many of the changes we made due to the initial impact of the pandemic have now become business-as-usual enhancements to our risk management processes and we will continue to be agile in 2022 and beyond.

Risk governance structure

The Group's risk governance structure is outlined below. In combination, the various Board, executive and risk committees strengthen our ability to identify, assess, manage and, as appropriate, escalate risks, while also supporting the Group in responding to the changing external and regulatory environment.

Group Board
Reviews the Group RMF annually to ensure that it remains fit for purpose and complies with relevant laws and regulations including the 2018 UK Corporate Governance Code (the Code).

Board committees

Risk Committee (RC)
Board committee responsible for ensuring that there is an appropriate risk management framework embedded across the Group, monitoring key risk positions and trends, and providing oversight and advice to the Board in relation to the current and potential future risk strategy and exposures.

Customer, Culture and Ethics Committee
Board committee responsible for reviewing the Group's culture and business processes to ensure they are focused on delivering fair customer outcomes, overseeing the Group's delivery and embedding of its Blueprint and ensuring the Board meets its corporate governance requirements under the Code.

Management committees

Group Executive Committee (Group ExCo)
Executive committee chaired by the Group CEO responsible for developing, proposing and implementing Board-approved strategy. In doing so, it is responsible for managing the Group strategic risks and overseeing divisional risks. Detailed assessment and oversight of these risks are delegated to the Group Executive Risk Committee.

Group Executive Risk Committee (GERC)
Executive committee chaired by the Group CRO responsible for managing the Group's strategic and emerging risks and overseeing divisional risks. The GERC receives reports from the divisional CROs which cover key risks within their respective divisions. The Group CRO also provides a regular report from a second line perspective on the enterprise-wide risks facing the Group, how they are trending, and whether there is an agreed 'path to green' to ensure these are managed within risk appetite.

Cross-Divisional Risk Forum (CDRF)
Risk Forum chaired by the Group CRO, bringing each of the divisional CROs and Head of Enterprise Risk together. It primarily acts as a platform for sharing views, coordinating forward-looking risk assessment, identifying new and emerging risks and providing an independent forum for the divisional CROs to escalate material risks. The CDRF enables the Group CRO to give an independent viewpoint on both the risks of the divisions and the Group and assists the Chair of the GRC to better understand and prioritise the key risks of the Group.

Three lines of defence (3LOD) model

The Group operates a 3LOD model to articulate key accountabilities and responsibilities for managing risk and to support effective embedding of risk management across the organisation.

The first line of defence – line management
Owns the risk and is responsible for identifying, assessing, monitoring and reporting risk within its respective areas whilst ensuring that appropriate internal controls, processes and systems are in place to deliver against business strategy and objectives.

The second line of defence – Group and divisional risk functions
Sets minimum policy and control standards and establishes effective risk management frameworks, providing independent challenge and oversight, including agreeing risk appetite, and protecting the Group against non-compliance with laws or regulation.

The third line of defence – Group Internal Audit
Provides independent and objective assurance on the design adequacy and operational effectiveness of internal controls, and overall effectiveness of the Group's risk governance and risk management practices, and provides assurance on whether the first and second lines of defence fulfil their respective responsibilities.

Risk appetite framework

The Group risk appetite framework creates a clear link between PFG's business strategy and its strategic risk objectives. It defines the overarching approach through which the Group's risk appetite is established and communicated.

Group strategy and Purpose

We help put people on a path to a better everyday life

- Fighting fit
- Head and heart decisions
- Human experiences
- Customer progression

Risk appetite framework

Strategic risk objectives

- Maintaining a secure and efficient capital and funding structure
- Delivering sustainable growth and returns to our shareholders
- Optimising our reputation and becoming the trusted bank for the underserved
- Establishing a strong risk and customer-led culture
- Maintaining operational resilience and business capabilities
- Managing execution risk associated with strategic and operational change activity

Our principal risks

- Capital
- Funding and liquidity
- Market
- Credit
- Strategy
- Climate
- Legal and governance
- Financial crime
- Conduct and regulatory
- People
- Technology and information security
- Operational
- Model

Risk appetite headlines

Capital	We will maintain sufficient capital, both in quantity and quality, to meet regulatory requirements and will hold a management buffer as agreed with the Board.
Conduct and regulatory	We will deliver fair outcomes for our customers at all stages of the customer lifecycle. We will aim to avoid any material regulatory breaches and, in the event that they do occur, we will correct them promptly and learn from our mistakes.
Funding and liquidity	Our funding risk appetite is to maintain a stable and prudent funding profile without any significant reliance on any single source of funds, retaining a sufficient level of unencumbered assets and unutilised funding sources as contingency. Our liquidity risk appetite is to maintain sufficient liquidity resources to be able to meet our liabilities as they fall due, whether in normal conditions or stress, while also meeting our regulatory requirements.
People	We will maintain a properly engaged and skilled workforce which is aligned to our Purpose and Group culture.
Credit	The Group will manage our credit risk exposures through effective underwriting processes, systems and controls to support appropriate lending decisions.
Technology and information security	We will maintain robust, resilient technology platforms/systems and services with strong information security and data controls to prevent significant customer detriment, regulatory breaches or reputational damage.
Strategic	We will seek new business opportunities, both organic and inorganic, which remain aligned to our customer, regulatory and commercial objectives.
Operational	We will limit operational losses as a result of control failures attributed to people, processes and systems including those over external suppliers.
Legal and governance	We will aim to avoid any material legal breaches. In the event that they do occur, we will, where possible, correct them promptly and in all cases carry out necessary management to mitigate risks and learn from our mistakes. We will maintain oversight of our business through robust and clearly documented governance and delegation arrangements.
Model	Through strong governance all material models will perform in line with expectations.
Market	We will ensure that under a severe and adverse change in interest rates, any risk to our capital (economic value) or earnings remains within levels agreed with the Board and for which Pillar 2A capital is held.
Climate	We will understand, review and address our exposure to climate risks, meet our commitments on climate targets and reporting in line with relevant government legislation and recommendations, and seek new opportunities arising from climate change. We will ensure that our climate targets are set in line with our commitment to support the UN's Business Ambition campaign to hold the increase in global temperatures to 1.5°C above pre-industrial levels.
Financial crime	We will operate a strong and risk-proportionate set of systems and controls to detect and prevent financial crime breaches. In the event that they do occur, we will investigate them promptly and learn from control failings, gaps or issues. We will maintain oversight of our business through robust and clearly documented governance and delegation arrangements.

Key risks

Principal risks

Links to strategy

1 Grow customer-centric businesses
2 Act responsibly and with integrity
3 Maintain a secure funding and capital structure

Risk rating after mitigation

Minor Moderate Major Critical

Change during the year

Increased Stable Decreased

Principal risks

Principal risks are risks which are inherent to the Group's strategy and business model, and have formally been articulated as part of the Group's risk appetite framework. Principal risk categories and associated risk appetite statements are reviewed and approved by the Board on an annual basis, effectively defining the Group's overall risk appetite.

P1 Capital risk

3

Risk description

The risk that the Group is unable to maintain appropriate, minimum regulatory capital or an internal management buffer to cover risk exposures and withstand a severe stress as defined in its risk appetite and in the ICAAP.

Mitigating activities and other considerations

- The Group and bank operate within a defined capital risk appetite, with thresholds reported to and monitored by Group and bank Boards. The boards regularly review both the existing and forecast capital position to ensure that planned capital resources are sufficient for planned changes in the balance sheet.
- In line with the PRA's requirements, the Group's Internal Capital Adequacy Assessment Process (ICAAP) is updated at least annually and identifies the levels of capital required under the regulatory total capital requirement (consisting of Pillar 1 and Pillar 2A risks) and any PRA and confidential buffers (to the extent that any are required). The 2021 ICAAP evidenced that the Group and bank will continue to be able to meet their capital requirements including in stress scenarios over a five-year time horizon.
- In line with industry practice, to ensure preservation of capital and support business stability, the 2019 dividend was cancelled and no dividends were paid by the Group to its shareholders in respect of 2020. As the macroeconomic outlook has now improved and in line with the Group's results, the Group is proposing a dividend in respect of 2021, to be paid in 2022.
- In October 2021, the Group's first Tier 2 subordinated bond since 2005 was issued for an amount of £200m. It has a 10.25-year maturity that is callable at the Group's discretion between 5 and 5.25 years, and pays a coupon of 8.875%. The issuance was written from the Group's £2bn EMTN Programme and was oversubscribed by around 2 times in the market. The issuance represents an important milestone as the Group diversifies and optimises its sources of capital in support of future lending growth. The Group's risk monitoring measures have been updated to take account of the Tier 2 issuance.
- At 31 December 2021, the Group's CET1 ratio was 29.1% (2020: 34.2%) and the total capital ratio was 40.6% (2020: 34.2%). CET1 decreased over 2021 from £675m to £507m, reflecting the costs of closing CCD and the scheduled unwind of the IFRS 9 transitional relief in regulatory capital. Total capital increased over 2021 from £675m to £707m due to the issuance of Tier 2 debt capital and includes £121m of Tier 2 capital to pre-fund future balance sheet growth.
- On 13 December 2021, the Financial Policy Committee (FPC) announced an increase to the UK countercyclical capital buffer rate to 1%, to be implemented by 13 December 2022. Provided the UK economy continues to recover, the FPC expects to increase the rate further to 2% in quarter 2 of 2022, to take effect in quarter 2 of 2023. These increases are absorbed within the capital plans of the Group and bank.
- As previously reported, the Group and bank have elected to phase in the impact of adopting IFRS 9 over a five-year period. In response to Covid-19, the PRA ratified additional capital mitigation in 2020 which the Group also fully adopted.
- The Group and bank plans for the unwind of the IFRS 9 transitional adjustment as part of both regular capital planning and under stress scenarios.
- The Group's Pillar 3 disclosures contain a comprehensive assessment of its capital requirement and resources. Pillar 3 disclosures for the year ended 31 December 2021 are published separately on the Group's website, www.providentfinancial.com.

Principal risks continued

P2 Funding and liquidity risk

3 Moderate —

Risk description

The risk that the Group has insufficient liquidity to meet its obligations as they fall due, and/or is unable to maintain sufficient funding for its future needs.

Mitigating activities and other considerations

- Liquidity and funding risk appetite is established at Group and bank level, with thresholds reported to and monitored by the Group and bank Boards.
- The Group's current funding strategy is to maintain sufficient available funds and committed facilities to pre-fund the Group's liquidity and funding requirements for at least the next 12 months, maintaining access to diversified sources of funding comprising: (i) external market funding, including retail bonds, institutional bonds and private placements; (ii) securitisation; (iii) retail deposits; and (iv) access to the Bank of England Liquidity and Funding Schemes at Vanquis Bank.
- The Group continued to utilise its auto loan securitisation warehouse facility, drawing a further £50m in February 2021, taking its total drawings to £200m. The warehouse was refinanced and restructured in July 2021 to improve the efficiency of the usage of collateral such that drawn funding increased to £275m with no significant increase in asset encumbrance. The facility also provides for a committed but currently undrawn amount of £50m which provides contingent liquidity.
- As at 31 December 2020, the Group had a multi-currency RCF with a total facility size of approximately £148m. In line with the Group's strategy of reducing reliance on the RCF, some of the new securitisation funds were used to reduce the Group's RCF commitments, initially to £90m alongside an extension of the facility to July 2023. In line with the strategy to reduce its reliance on the RCF as a source of funding, the Group took the decision to early repay and cancel the facility in March 2022.
- In September 2021, the Group repaid its £65m, 6.0% retail bond in line with its contractual maturity.
- In October 2021, the Group successfully completed a liability management exercise involving the partial tender and repurchase of £71.5m of the then outstanding £175m 8.25% senior bonds maturing in June 2023, and the issue of £200m Tier 2 bonds (described in capital risk above).
- The above actions taken by the Group during 2021 extended the weighted average maturity of its non-bank funding.
- The bank accepts retail deposits and, in line with its regulatory requirements, maintains high-quality liquid assets to meet the liquidity coverage ratio (LCR) and its internal stress tests as stipulated within its Internal Liquidity Adequacy Assessment Process (ILAAP). The Group and bank monitor and report the LCR to the PRA on a consolidated and solo basis as applicable.
- The bank maintained a significant surplus of liquidity against its regulatory and internal requirements throughout 2021, and is managing this down in a prudent manner as the uncertainty arising from the pandemic is reduced.
- In January 2021, the bank completed its inaugural issue from its newly established credit card receivable master trust. The transaction has been rated (AAAsf/Aaa(sf)/AAAsf) by Fitch Ratings, Kroll Bond Rating Agency and Standard & Poor's. The bonds are listed on the London Stock Exchange. These notes have enabled access to the Bank of England's Liquidity and Funding Schemes. The majority of the senior rated notes have now been pledged to the Bank of England to support borrowing of £174m from the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME).

Links to strategy

1 Grow customer-centric businesses
2 Act responsibly and with integrity
3 Maintain a secure funding and capital structure

Risk rating after mitigation

Minor Moderate Major Critical

Change during the year

↑ Increased — Stable ↓ Decreased

P3 Market risk

3

Risk description

The risk to the Group's current and prospective capital and income position arising from adverse movements in interest rates.

Mitigating activities and other considerations

- The Group and bank have established interest rate risk appetites, with thresholds reported to and monitored by Group and bank Boards.
- The Group and bank do not actively seek to take significant unmatched positions and do not operate a trading book.
- Analysis of an interest rate sensitivity gap is principally used to assess the Group's exposure to interest rate risk by identifying unmatched duration positions.
- The Group and bank report their exposure to interest rate risk considering earnings at risk (EaR) and market value sensitivity (MVS). Risk appetite is assessed against a 100bps and 200bps parallel shock to interest curves respectively. Risk appetite has also been established for economic value of equity (EVE) which is monitored against a 200bps parallel shift in rates, as well as the six standardised shocks prescribed by the Basel Committee on Banking Supervision (effective from the 31 December 2021).
- The Group and bank also monitor their exposure to basis risk, with the Bank of England base rate and SONIA the only external reference rates for on-balance sheet positions. The Group no longer has any exposure to LIBOR having refinanced the RCF and Moneybarn's securitisation facility in 2021, which included revision to the external reference rate to SONIA.

P4 Credit risk

1 2

Risk description

The risk of unexpected credit losses arising through either adverse macroeconomic factors or parties with whom the Group has contracted failing to meet their financial obligations.

Mitigating activities and other considerations

- The Group has continued with a cautious approach to credit risk through the pandemic. Arrears have remained low as consumers continued to receive support via government initiatives, including the furlough scheme.
- Vanquis Bank has implemented a number of pre-emptive measures to manage exposures as government support is withdrawn. These include a limit decrease strategy for the up-to-date, active book and restriction of credit lines where external indicators of increasing financial stress are present.
- The Group has maintained prudent post-model adjustments in its provision calculations to compensate for the muting of credit risk indicators, driven by government support measures through the pandemic.
- Concentration risks arising from the pandemic have been considered by the Group's divisions. Populations likely to be impacted by the pandemic have been identified and are subject to ongoing monitoring. The Group has continued to acquire additional data sources to support the identification of customers experiencing income shocks or other adverse financial impacts. This data has been integrated into lending decisions for our new and existing customers.
- Performance of risk models is being closely monitored, with adjustments implemented where any deviation from expected performance is evidenced.
- The Group continues to pursue opportunities to supplement existing data sources to enhance both credit and affordability risk, i.e. open banking.

Principal risks continued

P5 Strategic risk

1 2 3 Major, Increased

Risk description

The risk of making poor strategic decisions related to acquisitions, products, distribution, etc. as a result of ineffective governance arrangements, processes and controls.

Mitigating activities and other considerations

- The Board and its sub-committees make risk-based decisions in the formulation of business strategy, in line with the delegated authority framework and subject to independent oversight from the Risk function.
- Strategic redirection from high-cost to medium-cost lending following the closure of CCD and SOA to cap potential liabilities that would adversely affect the Group.
- Board governance manual and Delegated Authorities Manual (DAM) in place to provide framework for key decision making at all levels across the Group and divisions.
- Executive director scorecards in place with reward incentives based on a combination of financial and non-financial measures.
- Group risk appetite framework in place with agreed measures and thresholds approved by the Group Board.
- Strategic and emerging risks reported to the GERC and GRC on any areas of concern.
- Risk overlay completed annually by the Group CRO on behalf of the RemCo to provide recommendations on adjustments to variable reward where governance has failed.

P6 Climate risk

2 Minor, Increased

Risk description

The physical risk of the impacts of climate change and the business risk posed to the Group and its counterparties related to non-compliance costs and financial loss associated with the process of adjusting to a low-carbon economy.

Mitigating activities and other considerations

- Climate risk adopted as a Group principal risk, with supporting risk appetite established to provide greater focus on compliance with the Task Force for Climate-related Financial Disclosures (TCFD) recommendations, forming the basis for the development of science-based targets from 2022 onwards.
- Group-wide climate strategy and policy in place to ensure appropriate governance, controls and processes are in place to support compliance with TCFD recommendations and broader ESG strategy (including net-zero targets).
- Climate Risk Committee operational, supported by Climate Risk and Environmental Working Groups, facilitating integration of climate considerations into the Group's broader Risk Management Framework through its reporting lines into the Customer, Culture and Ethics Committee and Group Executive Committee.
- New scenario analysis and stress testing framework in development to drive enhanced monitoring of PFG's exposure to material short and long-term impacts of transition and physical climate-related risks, and to inform forward-looking strategy. ICAAP activity continues to take account of material climate-related financial impacts, meeting PRA requirements.
- Monitoring of material supplier emissions and colleague and customer impacts, such as altered commuting activity and changes to living costs, including energy price increases.
- Continued offsetting of direct operational (scope 1 and 2) greenhouse gas emissions via investment in sustainable development projects and all the Group's main premises certified to the environmental management standard ISO 14001:2015.

Links to strategy

1 Grow customer-centric businesses
2 Act responsibly and with integrity
3 Maintain a secure funding and capital structure

Risk rating after mitigation

Minor · Moderate · Major · Critical

Change during the year

Increased · Stable · Decreased

P7 Legal and governance risk

2

Risk description
The risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with legal and governance requirements as a result of ineffective arrangements, processes and controls.

Mitigating activities and other considerations
- Board governance manual and Delegated Authorities Manual (DAM) in place to provide framework for key decision making at all levels across the Group and divisions.
- Board effectiveness is assessed on annual basis with action plans in place to promote a culture of continuous improvement.
- Explicit approval from the Group Board is required before decisions and actions that could result in risks outside of appetite are made.
- Conflicts of Interest Policy and processes in place to ensure all employees meet their fiduciary responsibilities.
- All regulatory interactions are recorded and tracked, with regular reporting through our executive and Board committees to ensure consistency and read across through a Group lens.
- The Group proactively engages with regulatory authorities and industry bodies on forthcoming regulatory changes.

P8 Financial crime risk

2

Risk description
The risk that the Group's products and services are used to facilitate financial crime against the Group, customers or third parties.

Mitigating activities and other considerations
- The Group is committed to operating a strong and risk-proportionate set of systems and controls to manage the risk within appetite.
- Financial crime improvement programme in Vanquis, primarily focused on implementing enhanced surveillance technology, has largely been completed.
- Financial crime risk appetite statement and metrics refreshed providing improved insight of the key risks to senior management.
- Regulatory actions and notifications are managed/monitored in line with relevant timescales and regular horizon scanning is in place to identify relevant and significant regulatory change.
- New financial crime risk assessment methodology implemented which will enhance identification of financial crime risks and threats and how these are mitigated through the organisation. This has begun with Vanquis and will be rolled out across the Group.
- System investment for PSD II and better decision making science within the ruleset resulting in less losses and victims of fraud within Vanquis.

P9 Conduct and regulatory risk

1 2

Risk description
Conduct risk: The risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could lead to unfair customer outcomes or regulatory censure.

Regulatory risk: The risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with laws or regulations (including handbooks, codes of conduct, and statutory and regulatory guidance).

Mitigating activities and other considerations
- Conduct risk appetite refreshed providing greater focus on outcome measures.
- New Conduct Risk Framework is being developed to provide improved monitoring of customer outcomes across all high-risk interactions including lending, forbearance, vulnerability and complaints.
- Conduct policies and procedures in place at a divisional level to ensure appropriate controls and processes that deliver fair customer outcomes.
- New Group Responsible Lending Policy has been developed providing overarching principles for all the divisions in response to the changing regulatory environment and requirements around sustainable lending.
- During the pandemic we have ensured that our customers continue to receive the service they need during these difficult times, in particular the provision of payment deferrals in line with FCA guidance.
- A number of regulatory programmes remain under close management, most notably Persistent Debt and PSD II (SCA). Projects are in place to oversee delivery and updates provided to the regulators as required.
- Establishment of Group Complaints Forum and reporting to ensure we are learning from complaints trends across the divisions, including any FOS referrals or upholds and actions of claims management companies. This has resulted in a number of strategic changes outlined in our emerging risks 'Threats to our business model' and 'Responsible lending'.

Principal risks continued

P10 People risk

2 Moderate ↑

Risk description

The risk that the Group fails to provide an appropriate colleague and customer-centric culture, supported by robust reward and wellbeing policies and processes, effective leadership to manage colleague resources, effective talent and succession management, and robust controls to ensure all colleague-related requirements are met.

Mitigating activities and other considerations

- Harmonisation of People and Human Resource functions into central shared service.
- Move to Group-consistent framework for performance management including the roll-out of 'Be Better' objective setting.
- Succession plans completed and in place for all executive and senior management.
- Balanced scorecards introduced and aligned across the Group and divisions with clear frameworks and evaluation criteria established through RemCo for variable pay.
- A number of ongoing communications have been and continue to be shared with colleagues at a Group and divisional level to keep them informed of business changes to support wellbeing.
- Full health and safety risk assessment completed of all our key work locations with mitigating actions completed.

P11 Technology and information security risk

2 Major —

Risk description

The risk arising from compromised or inadequate technology, security and data that could affect the confidentiality, integrity or availability of the Group's data or systems.

Mitigating activities and other considerations

- An IT First Line Controls Review (FLCR) is in progress which will baseline and standardise risk management and control across the Group's IT functions.
- Group-wide security improvement programme has been initiated to deliver an ISO 27001 aligned framework.
- The investment and development of a new Group IT platform capable of housing multiple products, the new Sunflower Loans business being the first, and addressing technical debt/legacy issues being faced/experienced across the Group.
- Data Protection Officer (DPO) reporting transferred to the Group Risk function to reinforce independence of office covering oversight arrangements.
- Group governance and centres of excellence/communities of interest have been established for security, architecture, resilience and risk (GRC).

Links to strategy

1 Grow customer-centric businesses
2 Act responsibly and with integrity
3 Maintain a secure funding and capital structure

Risk rating after mitigation

Minor Moderate Major Critical

Change during the year

↑ Increased — Stable ↓ Decreased

P12 Operational risk

2

Risk description

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Mitigating activities and other considerations

- The 3LOD model throughout the Group ensures there are clear lines of accountability between management which owns the risks, oversight by the Risk function and independent assurance provided by Internal Audit.
- Operating arrangements put in place in response to the Covid-19 pandemic have become business-as-usual practice as we continue to operate in an agile manner.
- Risk Harmonisation Programme launched to build out single ERMF including control self-assessment, consolidated risk policy taxonomy, and risk reporting.
- The operational risk and control self-assessment methodology has been enhanced and expanded to cover the full suite of risks facing the Group with more timely reporting, monitoring and escalation.
- Vanquis Risk Enhancement Programme to enhance first line risk and control activity established and significantly progressed against its objectives.
- Group Transformation function has been established to provide central change and programme management capabilities.

P13 Model risk

2

Risk description

The risk of loss as a consequence of decisions that are based on incorrect or misused model outputs and poor governance or errors in the development, implementation, or use of models.

Mitigating activities and other considerations

- Further embedding of the new Group Model Risk Management Framework and Model Risk Policy as well as the development and implementation of necessary supporting modelling standards.
- Material models across the Group are independently validated as required in the policy and as per the independent model validation plan.
- Group model inventory, containing key models across the Group, is reviewed and updated on a regular basis and has all the necessary information to enable effective model risk reporting and planning.
- High-risk issues and findings on material models are addressed urgently and outstanding model risk issues and findings are monitored and reported to relevant governance forums across the Group.
- Group Model Governance Forum meets regularly and effectively provides model risk oversight and drives standardised approach to model development and governance across the Group.
- Model risk target operating model delivered including the recruitment of additional resources to enhance the current model validation and governance capability.

Strong relationships with our regulators

We have continued to focus on maintaining strong and proactive relationships with our regulators.

We believe maintaining an open, constructive and trusting dialogue with policy makers and regulators (the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)) is critical. We work closely with our regulators to ensure we meet all regulatory standards and contribute to a safe and robust banking system. As the bank of the underserved we do have unique insights into those sections of the market and frequently share these views with our regulators with a view to make the underserved credit market work effectively for all.

Key regulatory interactions

- Strong proactive relationships with regular lines of communication are in place with both the FCA and the PRA.
- We are not aware of any part of the Group and divisions currently being placed on any regulatory watchlist.
- In March 2021, CCD was notified by the FCA enforcement team that it will be starting an investigation into the affordability and sustainability of lending to customers, as well as the application of an FOS decision into the complaint handling process in the period between 26 February 2020 and 11 February 2021. We have supplied all the information that has been requested.

Group viability statement

In accordance with the 2018 FRC Corporate Governance Code, the directors confirm that they have a reasonable expectation that the Group will be able to continue to operate and meet its liabilities as they fall due over the next three years to 31 December 2024 (the Viability Period). The Viability Period represents the period over which the Board has a reasonable degree of confidence over anticipated events whilst also providing an appropriate longer-term outlook.

In making the Group viability statement, the directors have made an assessment of the Group's current financial position and prospects, as outlined within the Strategic Report, together with the principal risks and other factors likely to affect the Group's future performance and development. This assessment is made following consideration of a wide range of information, including:

- the Group's five-year corporate plan, which sets out financial, capital, liquidity and funding projections, together with an overview of relevant risks for the period from 2021 to 2026;
- the principal and emerging risks which could impact the performance of the Group;
- a severe but plausible stress testing scenario, which is designed to assess the potential impact of certain underlying risks on the Group's capital and funding resources, together with the availability and effectiveness of mitigating actions; and
- reverse stress testing analysis, which is designed to assess the point at which Group is no longer a viable concern.

The Group's five-year corporate plan was approved by the Board in December 2021. The Group's annual planning process takes into account the Group's strategic objectives and business model. The business model focuses on relatively short-term lending to consumers and operates conservative underwriting. The plan makes certain assumptions about the regulatory environment, future economic conditions and anticipated changes within the markets in which the Group operates and also makes an assessment of the Group's ability to fund new business growth.

The Board obtains independent assurance from Group Risk over the alignment of the corporate plan with the Group's strategy and the Board's risk appetite. Specific focus is placed on capital risk as well as liquidity and funding risk. The assessment also considers the key risks which may impact delivery of the Group's operating plan. The Group's principal risks are included on pages 92 to 99.

The current corporate plan is based on a macroeconomic scenario which was in line with market consensus estimates and which envisages a continuation in the recovery of the UK economy following the Covid-19 crisis. In particular, the plan assumes that the UK unemployment rate peaks in December 2021 at approximately 4.9% before a gradual decline thereafter. The corporate plan makes an assumption that the Group's future funding requirements are pre-funded 12 months in advance. The Group does not have any external capital or funding requirements within the 12 months following this statement.

Board approval of the five-year corporate plan follows a number of specific reviews of the plan provided by Group and divisional management, together with other regular briefings on and discussion of new strategies, business developments and current financial performance. These reviews consider a range of market opportunities and developments, together with associated risks from within the Board's risk appetite framework.

The five-year corporate plan has been stress tested using a severe macroeconomic scenario which is broadly consistent with the PRA's 2021 Solvency Stress Test. The stress test scenario envisages a severe shock to the UK economy in 2022 which results in an increase in the UK unemployment rate, peaking at approximately 12%. The stress test scenario takes into account the availability and effectiveness of mitigating actions which could be taken by management to avoid or reduce the impact of the macroeconomic stress. The corporate plan has also been reverse stress tested to the point of non-viability after reflecting available mitigating actions. The viability assessment concluded that the Group's viability only comes into question under an unprecedented macroeconomic scenario in which the UK unemployment rate reaches a peak of 20%.

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as set out on page 168 and page 198.

Building a more sustainable business

> The Group made great strides during 2021 and I am pleased to report that the Group delivered against many of its strategic ambitions, including its plan to create a more sustainable organisation. The closure of the Consumer Credit Division (CCD), including a Scheme of Arrangement for CCD customers, and the significant enhancements to our capital and funding positions serve to strengthen the Group's already strong operating platform. The Group is well positioned to face any future challenges including any related economic uncertainty. However, we are well placed to deliver attractive and sustainable returns for our shareholders over the medium term.

Neeraj Kapur
Chief Finance Officer

Income statement

	2021 £m	2020 £m
Income	534.6	615.4
Funding costs	(49.1)	(61.2)
Net interest margin	485.5	554.2
Impairment	(50.4)	(312.6)
Risk-adjusted net interest margin	435.1	241.6
Costs	(267.3)	(213.8)
Adjusted profit before tax – continuing operations	167.8	27.8
Amortisation of acquisition intangibles	(7.5)	(7.5)
Exceptional items – continuing operations	(18.1)	(57.3)
Statutory profit/(loss) before tax – continuing operations	142.2	(37.0)
Loss for discontinued operations	(138.1)	(76.5)
Group profit/(loss) before tax	4.1	(113.5)
Tax – continuing operations	(7.6)	–
Tax – discontinued operations	(28.6)	30.1
Loss after tax	(32.1)	(83.4)

Certain alternative performance measures (APMs) have been used in this report. See pages 271 to 274 for an explanation of relevance as well as their definition.

Trading performance
Detailed analysis of the trading results of the Group's three operating divisions can be found on pages 40 to 42 for credit cards, 43 and 44 for vehicle finance and 46 and 47 for personal loans.

Profit before tax
As a result of a release of impairment provisions no longer required, partially offset by lower revenue and higher costs arising from investment in the transformation programme, the Group reported adjusted profit before tax from continuing operations of £167.8m (2020: £27.8m). The Group's statutory profit before tax from continuing operations was £142.2m (2020: loss of £37.0m). Including amortisation of acquisition intangibles, CCD discontinued operations and exceptional items, the Group profit before tax was £4.1m (2020: loss before tax of £113.5m).

An exceptional cost of £18.1m was recognised in 2021. This includes:

– corporate costs including CCD closure (£11.5m);
– additional Scheme costs (£5m);
– senior bond buy-back costs (£3.9m); and
– pension credit (£2.3m).

This compares to an exceptional cost in 2020 of £57.3m as a result of: (i) the complaints provision and associated costs in relation to the CCD Scheme (£65m); (ii) a release of provisions following completion of the ROP refund programme at Vanquis Bank (£8.3m); and (iii) a gain in respect of the redemption of the £75m senior bonds (£1.3m); offset by (iv) costs of reshaping the Group and creating the intermediate holding company PF Holdings Ltd (£1.2m); and (v) pension charges in respect of GMP equalisation (£0.7m).

Discontinued operations
Discontinued operations represent the home credit and Satsuma loans businesses within the CCD division, which meet the criteria for classifying as discontinued operations for 2021 following the decision to withdraw from the home credit and high-cost short-term credit markets entirely and close those businesses. Any remaining balances in relation to customer receivables were written off at the end of 2021 as no further collection activity was being performed. Discontinued operations reported a loss after tax of £166.7m (2020: loss after tax of £46.4m) driven by lower revenue and lower costs as the business lines were wound up during 2021. Impairment in 2021 of £59.6m was higher than prior year (2020: £47.5m) with any loans remaining being fully written off at the end of the year.

Discontinued operations exceptional items include redundancy costs of £24.8m, other costs associated with the wind-up of the business of £12.8m, and costs in relation to the CCD enforcement provision of £5m.

Earnings per share (EPS)
The £171.6m increase in profit after tax from continuing operations of £134.6m (2020: loss of £37.0m) has resulted from the £262.2m reduction in impairment provisions no longer required, partially offset by higher costs of £53.5m from investment in the Group's transformation programme and exceptional costs reducing by £39.2m in 2021, largely due to the £65.0m exceptional complaints provision recognised in 2020.

As a result, basic earnings per share from continuing operations increased from a loss per share of 14.6p in 2020 to earnings per share of 53.7p in 2021. The adjusted basic earnings per share from continuing operations increased from 11.7p per share in 2020 to 57.5p in 2021.

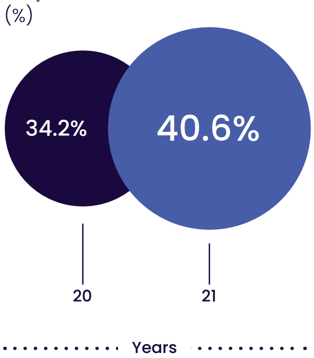
Gross revenue margin
Revenue represents interest and fee income and is made up of interest income charged on credit cards, vehicle finance and loans across the Group, and fee income, charged primarily on credit cards.

Revenue was £534.6m in 2021, a reduction of 13.1% from 2020 (2020: £615.4m), which exceeds the 8.6% reduction in average receivables from £1,767.1m in 2020 to £1,616.0m in 2021. The revenue yield reduced from 34.8% in 2020 to 33.1% in 2021, which reflects the reduction in the higher risk credit card revenue yields from 39.1% to 38.8% as lower fees have been recognised following a reduction in ROP, default and over-limit fee income. In vehicle finance, the revenue yield has reduced from 25.1% in 2020 to 23.2% in 2021 due to the shift in the make-up of the lending book away from higher risk, higher APR loans towards near-prime and lower APR loans.

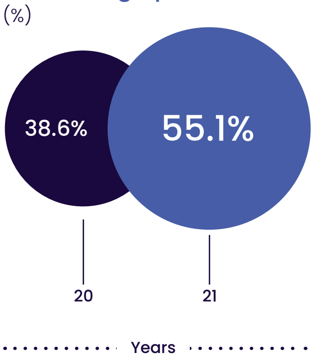
Funding costs
Funding costs are made up of retail deposits and funding from the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) in Vanquis Bank, combined with non-bank group funding through bonds and bank borrowings. The funding cost reduced from £61.2m in 2020 to £49.1m in 2021, a decrease of 19.8% as a result of successful progress against a number of the Group's funding objectives during 2021.

Net interest margin (NIM)
The Group's NIM reduced by 1.4% from 31.4% in 2020 to 30.0% in 2021 reflecting the reduction in new business volumes in vehicle finance and lower revenue yield from the change in mix of the lending book, partially offset by an increase in average receivables. NIM in credit cards remained static year on year at 36.3%.

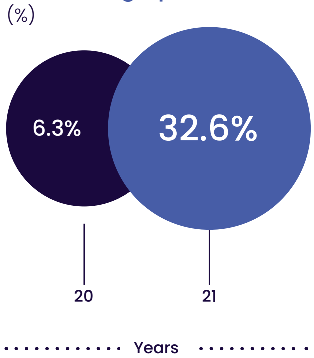
Group total capital ratio
(%)



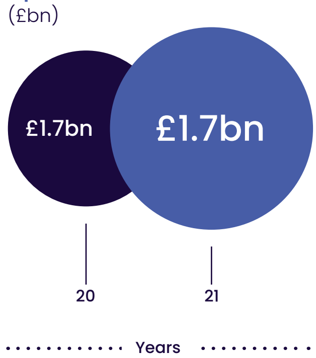
Cost:income ratio – continuing operations
(%)



Adjusted RORE – continuing operations
(%)



Receivables – continuing operations
(£bn)



Impairment rate

During the second half of 2021 the Group implemented new IFRS 9 models to further refine provision requirements based on market driven metrics. The Group's impairment rate has decreased from 17.7% to 3.1% in the year primarily due to a release of impairment provisions no longer required in credit cards, which were built up during 2020 following the onset of Covid-19.

The macroeconomic environment, particularly lower than expected unemployment, and a less than expected impact of Covid-19, together with strengthening credit metrics of the credit card receivables, has resulted in a circa £100m release of core model calculated provision for credit cards, plus a further release of in-model and post-model adjustments amounting to circa £15m. Accordingly, the provision coverage ratio for credit cards has reduced from 30.2% at December 2020 to 24.8% at December 2021.

The Moneybarn impairment coverage ratio has increased from 27.6% at June 2021 to 30.4% at December 2021 due to refinements reflected in the new IFRS 9 model and, to a lessor extent, some roll-over of accounts into Stage 3.

Risk-adjusted NIM

The risk-adjusted NIM has increased from 13.7% in 2020 to 26.9% in 2021 as a result of the release of impairment provision in credit cards, together with lower impairments in vehicle finance.

Cost:income ratio

The cost:income ratio has increased 16.5% in the year from 38.6% to 55.1% as a result of the £68.7m (12.4%) reduction in net interest margin reflecting the 8.6% reduction in average receivables, and the 25.0% increase in costs to £267.3m. The cost base has been inflated by the additional investment across the Group to commence a significant transformation programme including building a new loans platform.

Returns

Investing in capital-generative businesses remains central to the Group's business model. The Group now calculates returns based on return on required equity and return on tangible equity:

- Adjusted return on required equity (RORE) – profit after tax for continuing operations, prior to the amortisation of acquisition intangibles and exceptional items, divided by average required equity. Average required equity is stated on a risk-weighted basis in line with PRA reporting requirements. The Group's target is to deliver an RORE of between 20% and 25%.

The Group's adjusted RORE for continuing operations has increased from 6.3% in 2020 to 32.6% in 2021. The average required equity has reduced by £29.3m year on year. The increase in RORE reflects the release of impairment provisions no longer required.

- Return on tangible equity (ROTE) – Profit after tax for continuing operations, prior to the amortisation of acquisition intangibles and exceptional items, divided by average tangible equity. Average tangible equity reflects average equity over the period less intangible assets and goodwill.

Consistent with the increase in RORE, the Group's ROTE has increased from 5.2% in 2020 to 27.7% in 2021. The average tangible equity has reduced by 9.3% year on year.

Dividend policy

The Board is proposing an interim dividend in respect of 2021 of approximately 30% of adjusted continuing earnings, which equates to a dividend per share of 12p. Adjusted continuing earnings of £98m in 2021 is defined as profit after tax from continuing operations before amortisation of acquisition intangibles and any exceptional items including one-off provision releases. Going forwards, the Board anticipates moving towards a pay-out ratio of circa 40% of adjusted earnings from FY'22 onwards.

Tax

The tax charge for 2021 represents an effective tax rate of 5.3% (2020: nil) on statutory profit before tax which results in a tax charge of £7.6m being recognised in the year for continuing operations (2020: £nil) which principally reflects:

- the mainstream corporation tax rate of 19.0% on the Group's profit before tax from continuing operations generating a tax charge of £23.7m (2020: tax credit of £1.8m);
- the mainstream corporation tax rate of 19.0% on Group exceptional items generating a tax credit of £15.3m (2020: tax charge of £2.5m); and
- the mainstream corporation tax rate of 19.0% on the amortisation of acquisition intangibles generating a tax credit of £0.8m (2020: £0.7m).

The low effective tax rate is principally the result of:

- the revaluation of deferred tax assets and liabilities for the change in the mainstream corporation tax rate from 19.0% to 25.0% from 1 April 2023 which results in a tax credit of £5.0m and, in the case of 2020, the change in the mainstream corporation tax rate to 19.0% from 1 April 2020 following the cancellation of the previous reduction in rate to 17.0% which results in a tax credit of £2.5m;
- the impact of transfer pricing adjustments between the profits of continuing and discontinued operations which results in a tax credit of £0.6m (2020: tax charge of £4.4m);

- the beneficial impact of tax losses of discontinued operations being surrendered as Group relief to continuing operations at a discounted price which gives rise to a tax credit of £6.5m (2020: £nil);
- the beneficial impact of prior year adjustments which gives rise to a tax credit of £7.8m (2020: tax credit of £7.7m) and relates principally to transfer pricing adjustments between continuing and discontinued operations in the prior year and the impact of the discontinued operations surrendering prior year losses to the continuing operations at a discounted price (in 2020, the tax credit of £7.7m in respect of the prior year represents the benefit of claiming deductions for the costs incurred in 2019 in connection with the defence of the unsolicited offer from NSF, for which no tax deduction was assumed in the previous year, along with a release of part of the provision for uncertain tax liabilities);
- the impact of the release of the exceptional complaints provision in CCD following the implementation of the Scheme of Arrangement (2020: increase in the exceptional complaints provision in CCD) which is taxable (2020: tax deductible) in discontinued operations but which on consolidation is recognised in continuing operations (£12.4m);
- the adverse impact of the bank corporation tax surcharge of £12.2m (2020: £2.1m); and
- in 2020 the benefit of using in-year and brought forward capital losses to offset the capital gain arising in Vanquis Bank on its conversion and disposal of the 'B' preference shares in VISA Inc.

Summarised balance sheet

	2021 £m	2020 £m
Assets		
Cash and balances at central banks	717.7	917.0
Amounts receivable from customers	1,677.7	1,660.8
Pension asset	112.2	79.7
Goodwill and other intangibles	123.5	115.3
Other assets	93.9	117.5
Discontinued operations	0.3	187.8
	2,725.3	3,078.1
Liabilities		
Retail deposits	1,018.5	1,683.2
Bank and other borrowings	845.2	520.0
Trade and other payables	77.1	22.6
Other liabilities	121.5	78.6
Discontinued operations	31.8	126.0
	2,094.1	2,430.4

Assets have decreased by 11.5% to £2,725.3m. This was driven by the 21.7% reduction in cash and balances held at central banks, which reflects a return to more normalised levels of liquidity for Vanquis Bank following steps taken to increase liquidity resources in response to Covid-19 in 2020.

Liabilities have decreased by 13.8% to £2,094.1m. Retail deposits decreased by 39.5%, offset by non-bank group funding increasing by 62.5%, the latter due to proceeds from the issuance of Tier 2 bonds in October 2021 and the funding through the Bank of England TFSME scheme.

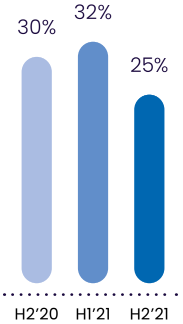
Amounts receivable from customers

- Group amounts receivable from customers increased by £16.9m (1.0%) in the year from £1,660.8m in 2020 to £1,677.7m in 2021.
- Credit card receivables reduced by 1.1% to £1,063.4m (2020: £1,075.1m) as a result of lower customer spending, a reduced credit line increase programme and a focus on promoting uptake of our loan product.
- Vehicle finance receivables continued to show growth and increased by 3.5% to £586.2m (2020: £566.6m) largely as a result of continued portfolio growth driven by new business volumes.
- Unsecured loans receivables increased by 47.1% to £28.1m (2020: £19.1m).

The Group's coverage ratio has reduced from 28.8% at December 2020 to 26.8% at December 2021 reflecting the improvement in the macroeconomic environment and the associated release of provisions.

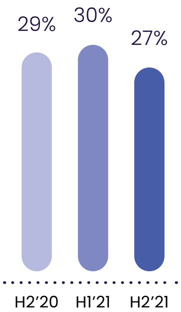
Coverage ratios

Credit cards



Vehicle finance

Continuing Group



Funding

The Group's current funding strategy is to maintain sufficient available funds and committed facilities to pre-fund the Group's liquidity and funding requirements for at least the next 12 months, maintaining access to diversified sources of funding comprising: (i) external market funding, including retail bonds, institutional bonds and private placements; (ii) securitisation; (iii) retail deposits; and (iv) liquidity and funding facilities at the Bank of England.

Retail deposits and access to the Bank of England facilities are used to fund Vanquis Bank, and the other sources of liquidity generally fund Moneybarn and central operations (the non-bank group).

Group borrowings at the end of 2021 were £1,863.7m (2020: £2,203.2m), including £10.8m (2020: £15.7m) of interest accrued on borrowings and short-term overdrafts (net of amortising fees). Vanquis Bank accepts retail deposits and, at 31 December 2021, had retail deposit funding of £1,018.5m (2020: £1,683.2m). Retail deposit funding in Vanquis Bank has fallen during the year, reflecting a more normalised funding level relative to lending and access to alternative funding through the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME).

In 2021, the Group delivered on a number of its funding objectives:

– In January 2021, Vanquis Bank completed its inaugural issue from its newly established credit card receivable master trust. The senior notes in the transaction have been rated (AAAsf/Aaa(sf)/AAAsf) by Fitch Ratings, Kroll Bond Rating Agency and Standard & Poor's respectively and the bonds are listed on the London Stock Exchange. The rated notes were accepted as eligible for use in the Bank of England's Liquidity and Funding Schemes, providing access to a low cost of funds and a source for contingent liquidity where unutilised. The majority of the senior rated notes have been placed with the Bank of England to support borrowing of £174m from the TFSME.

– The Group continued to utilise its auto loan securitisation warehouse facility, drawing a further £50m in February 2021 taking its total drawings to £200m. The warehouse facility was refinanced and restructured in July 2021 to improve the efficiency of the usage of collateral such that drawn funding increased to £275m. The facility also provides for a committed but currently undrawn amount of £50m which provides contingent liquidity.

– The Group had a multi-currency RCF with a total facility size of approximately £148m as at 31 December 2020. In line with the Group's existing strategy of reducing reliance on the RCF, some of the new securitisation funds were used to reduce the Group's RCF commitments, initially to £90m alongside an extension of the facility to July 2023. As at 31 December 2021, the Group has drawn £30m, with a further £60m undrawn.

– In September 2021, the Group repaid the 6.0% retail bond in line with its contractual maturity.

– In October 2021, the Group successfully completed a liability management exercise involving: the partial tender and repurchase of £71.5m of the then outstanding £175m 8.25% senior bonds maturing in June 2023, and the issue of £200m Tier 2 bonds.

– The above actions taken by the Group during 2021 extended the weighted average maturity of its non-bank funding and increased non-bank liquidity from £144m to £290m. There are no contractual maturities of the Group's wholesale funding until June 2023.

In line with the Group's funding strategy to place less reliance on this source of funding the Group exercised its contractual option to early repay the RCF on 30 March 2022, ahead of its contractual maturity in July 2023. The Group does not require the funding and did not plan to renew the facility. The headroom on committed facilities of £110m at 31 December 2021 would have reduced to £50m after repayment of the facility.

The Group continues to adopt a prudent approach to managing its funding and liquidity resources within risk appetite, and will optimise these resources when new opportunities become available to the Group.

Liquidity

The Group uses a number of measures to manage liquidity. These include:

– the Overall Liquidity Adequacy Rule (OLAR), which is Vanquis Bank's view of the liquidity needs as set out in the Internal Liquidity Adequacy Assessment Process (ILAAP) at the Vanquis Bank solo level. Liquid resources must be maintained above the OLAR. The Group is in the process of enhancing the ILAAP to include a consolidated Group OLAR; and

– the liquidity coverage ratio (LCR), which is a regulatory measure that assesses net 30-day cash outflows as a proportion of high-quality liquid assets (HQLA).

As at 31 December 2021, the HQLA amounted to £414.8m (2020: £833.3m). The decrease during the year reflects a more normalised level of liquidity for Vanquis Bank following steps taken to increase liquidity resources in response to Covid-19 in 2020. HQLA have been in significant surplus to the minimum requirements throughout 2021. Vanquis Bank currently holds its liquid assets buffer, including other liquid resources, solely in a Bank of England reserve account.

As at 31 December 2021, the Group, on a consolidated basis, and Vanquis Bank, on an individual basis, had an LCR of 2,073% (2020: 2,830%) and 587% (2020: 1,498%) respectively.

Capital

The Group, incorporating Vanquis Bank, Moneybarn and central operations, is the subject of consolidated supervision by the PRA by virtue of Provident Financial plc being the parent company of Vanquis Bank, which is regulated by the PRA. The PRA sets requirements for Vanquis Bank as an individual entity and the consolidated Group in respect of capital adequacy, liquidity and large exposures.

The Group's regulatory capital currently consists of CET1 and Tier 2 debt capital. CET1 comprises shareholders' funds, after adding back the IFRS 9 transition adjustment, and deducting the defined benefit pension asset and intangible assets (including goodwill), all of which are net of deferred tax.

In October 2021, the Group's first Tier 2 subordinated bond since 2005 was issued for an amount of £200m, with a 10.25-year maturity that is callable at the Group's discretion between 5 and 5.25 years, and that pays a coupon of 8.875%. The issuance was written from the Group's £2bn EMTN Programme and was well subscribed by around 2 times in the market. It represents an important milestone as the Group diversifies and optimises its sources of capital in support of future lending growth.

At 31 December 2021, the Group's CET1 ratio was 29.1% (2020: 34.2%) and the total capital ratio was 40.6% (2020: 34.2%). CET1 decreased over 2021 from £675m to £507m, reflecting the costs of closing CCD and the scheduled unwind of the IFRS 9 transition relief in regulatory capital. Total capital increased over 2021 from £675m to £707m due to the issuance of Tier 2 debt capital.

The Group's risk-weighted assets have reduced by £230m, largely reflecting the £175m reduction in risk-weighted exposures in respect of customer receivables.

The leverage ratio is defined by the Capital Requirements Regulation as Tier 1 capital divided by on and off-balance sheet asset exposure values, expressed as a percentage. The UK leverage ratio framework sets a minimum ratio of 3.25%. The Group's leverage ratio at 31 December 2021 of 18.1% (2020: 20.8%) remains comfortably above the minimum requirement.

Capital resources

The Group has elected to phase in the impact of adopting IFRS 9 over a five-year period ending 31 December 2022, as permitted by regulation. This is achieved by applying add back factors of 95%, 85%, 70%, 50% and 25% for years one to five respectively to the initial IFRS 9 transition adjustment (net of attributable deferred tax) plus any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period. The PRA ratified additional capital mitigation proposed by the Basel Committee, in response to Covid-19, with these measures coming into force from 27 June 2020. The new measures allow for the increase in ECL in the non-credit-impaired book arising after 31 December 2019 to be fully added back in 2020 and 2021 (the 'quick-fix' measures). This relief is then phased out over the following three years on a straight-line basis, ending 31 December 2024 (2022: 75%, 2023: 50%, 2024: 25%).

The Group's capital headroom, at 31 December 2021, does not include any benefit as a result of the quick fix measures as consolidated provisions were below 31 December 2019 levels. Further information on the impact of the IFRS 9 transitional arrangements is provided in the Group's Pillar 3 disclosures available on the Group's website, www.providentfinancial.com.

Capital and capital resources	31 December 2021	31 December 2020
CET1 ratio	29.1%	34.2%
Total capital ratio	40.6%	34.2%
Leverage ratio	18.1%	20.8%
CET1	£506.5m	£674.8m
Tier 2 capital	£200.0m	–
Total regulatory capital	£706.5m	£674.8m
Risk-weighted exposures	£1,740.6m	£1,973.5m

Capital requirements

The Group operates the standardised approach to credit risk, whereby risk weightings are applied to the Group's on and off-balance sheet exposures. The weightings applied are those stipulated in the Capital Requirements Regulation (CRR). The Group's Individual Capital Adequacy Assessment Process (ICAAP) includes a summary of the capital required to mitigate the identified risks across the Group and the amount of capital that the Group has available. The Group has complied during the year with all of the externally imposed capital requirements. The overall capital requirement, set by the PRA, includes both the calculated requirement derived using the standardised approach and the additional capital derived in conjunction with the ICAAP. In addition, capital is held to cover buffers set at a macroeconomic level by the PRA. The capital conservation buffer has been held at 2.5% of total risk exposure since 1 January 2019. The UK countercyclical capital buffer (CCyB) was reduced by the PRA to 0% during 2020 as part of its response to Covid-19. On 13 December 2021, the Financial Policy Committee (FPC) announced an increase to the UK CCyB rate to 1%, to be implemented by 13 December 2022. Provided the UK economy continues to recover, the FPC expects to increase the rate further to 2% in quarter 2 of 2022, to take effect in quarter 2 of 2023. These increases are absorbed within the capital plans of the Group and Vanquis Bank.

The Group operates within a defined capital risk appetite, with thresholds reported to and monitored by Group Board. The Board regularly reviews both the existing and forecast capital position to ensure that planned capital resources are sufficient for planned changes in the balance sheet.

Pillar 3 disclosures

As part of the regulatory supervision by the PRA, the Group, consistent with other regulated financial institutions, is required to make annual Pillar 3 disclosures which set out information on the Group's regulatory capital, risk exposures and risk management processes. A considerable amount of the information required by the Pillar 3 disclosures is included within the 2021 Annual Report and Financial Statements. The Group's full Pillar 3 disclosures can be found on the Group's website, www.providentfinancial.com.

Neeraj Kapur
Chief Finance Officer
6 April 2022

Chairman's introduction

"I am continually impressed by the adaptability and dedication of our colleagues, who have worked tirelessly to deliver significant progress towards the Group's strategic objectives.

Patrick Snowball
Chairman

Compliance with the UK Corporate Governance Code

For the year ended 31 December 2021 the Board considers that the appropriate corporate governance standards were in place. For the period under review, the Company complied in full with the provisions of the UK Corporate Governance Code (the Code).

This report explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles and complied with the provisions in the Code. The Corporate Governance Statement also explains compliance with the FCA's Disclosure Guidance and Transparency Sourcebook. The UK Corporate Governance Code is published by the Financial Reporting Council (FRC) and is available on its website, www.frc.org.uk.

Further information on the Company's corporate governance arrangements and compliance with the Code can be found as follows:

Dear fellow shareholder,

I am pleased to introduce the Corporate Governance Report for 2021.

As we announce our 2021 results we are facing into yet more uncertainty around the cost of living pressures in the UK and the eco political uncertainties in Europe. Whilst the Board is extremely pleased with the progress made in 2021 we need to be aware of these uncertainties as we consider our growth plans for 2022/2023.

As another challenging year comes to a close, I am mindful to reflect on the incredible resilience of our colleagues and wider stakeholders in this increasingly uncertain and ever changing business environment. The significant progress we have made towards our vision, Purpose and strategy would not have been possible without their continued support.

I particularly want to recognise the commitment and integrity of our CCD colleagues following the Group's withdrawal from the home credit market and consequent wind-down of the division. The Board did not take this difficult decision lightly, but considered it necessary to protect the long-term interests of the Group and deliver sustainable value. In reaching this conclusion, the Board was cognisant of all our colleagues and sought to minimise the impact upon them as far as possible by offering employment and other support. You can read more about this on page 78.

We were pleased to receive approval from the High Court Scheme of Arrangement (the Scheme) in August 2021 which provided certainty to stakeholders and ensured customers with legitimate claims would receive fair access to redress payments. Please see page 76 for more details. Approval of the Scheme has allowed the Board to focus its attention on winding down CCD in a controlled manner, driving the Group towards the next step in its 1PFG journey and the pursuance of opportunities to deliver long-term sustainable growth to our stakeholders as outlined to the market at our Capital Markets Day in 2019.

The Covid-19 pandemic continues to impact our customers in their daily lives. The Group has robust contingency plans in place, supported by strong capital and liquidity positions. I am therefore confident that we can deliver our strategic objectives and capitalise upon opportunities for sustainable growth.

Purpose and culture

At the heart of everything we do is our Purpose of 'helping to put customers on the path to a better everyday life'. This is why the Board is progressing with the Group's transition towards becoming the leading specialist bank focused on underserved markets. We have made some progress in this regard and you can read more about this from page 20. You can also read more about our Purpose and how this drives our strategy on pages 14 and 116.

Our Blueprint underpins everything we do at PFG. It is our reason for being, supported by our strategic drivers, our behaviours and our desired culture. The Colleague Survey results (reported on pages 16 and 57) revealed that our colleagues see evidence of the Blueprint behaviours driving positive change in our culture. Furthermore, colleague performance and reward frameworks have been closer aligned with our Blueprint in 2021 to reinforce our culture. Please see page 123 to read how the Board has continued to support the embedding of the Group's culture and Blueprint.

We are also continuing to foster a culture of accountability and openness through our Speak Up culture initiatives and the development of a Speak Up Dashboard of metrics to monitor our culture and ensure we are positioned to correct any misalignments; please see page 125 for more information. Our Customer, Culture and Ethics Committee (CCE) continues to monitor metrics relating to our culture and further details of its work are located on pages 150 to 152.

Sustainable growth through the execution of strategy

At the Capital Markets Day in 2019 we outlined our 'vision for the future' and growth ambitions. The Group has made good progress this year towards these objectives, as summarised below and detailed on pages 118 and 119.

We have implemented various initiatives during the year to focus on responsible growth, supported by cost efficiency, and on delivering products from the most efficient capital structure. You can read about these initiatives in the Financial Review section from page 102. The Board's oversight over change spend has been enhanced as a result of revised governance processes and reporting processes implemented by our Group Transformation function. The second and third lines of defence provide assurance over change projects, including audit memos issued by Group Internal Audit that are reported to management and the Audit Committee and include culture indicators.

The Board's approval of the Sunflower Open Market Loans and Vanquis Open Market Loans pilots represents the next phase of our vision to becoming a specialist bank for the underserved mid-cost market. These products aim to facilitate the provision of credit to a broader range of underserved customers. You can read more about these products on pages 46 and 47.

We have moved closer to our objective of establishing a single view of our customer through simplifying our governance structure with the design of a new target operating model. This will create a better customer experience, drive cost efficiencies across the Group and lead to a more sustainable, capital generative and better governed business. Please see the following page for more information.

Target operating model and changes to the Board's responsibilities

As reported in our announcement of 13 January 2022, a common Board structure for Provident Financial plc and Vanquis Bank was implemented as part of our new target operating model (see page 86). With external support from PwC, the Nomination Committee considered and approved the new combined Board composition and governance structure prior to it being implemented. Further details can be found in the Nomination Committee Report on page 143.

Following a comprehensive review of the Board governance arrangements, a number of documents were revised and approved by the Board to support the successful implementation of a combined Board, such as the Matters Reserved for the Board, Board and committee terms of reference, Delegated Authorities Manual and division of responsibilities between the Chairman and CEO. Our Conflicts of Interest Policy was also enhanced to support Board member independence and the successful execution of their statutory duties as directors.

A new Board meeting schedule with annual cyclical business items has been designed with the support of specialist board management consultancy firm Board Intelligence. A Board training plan has also been created for the new combined Board which includes training and deep dives to address development areas identified in the 2021 Board evaluation and specific areas relevant to the directors of a regulated bank. Further, the Board member induction plan is under review and will be updated in 2022.

I am confident that the streamlined governance arrangements will ensure that the Board and its committees are best placed to operate effectively under the new target operating model.

Stakeholder developments

I am proud of how management has adapted our working practices and policies this year to deliver certainty for stakeholders and safeguarded their interests, as we learn to live and work in a Covid-19 environment. We utilised the Colleague Forums to garner colleagues' views on the Group's response to Covid-19 and our Future of Work programme prior to adopting a hybrid working model and undertaking a Group-wide Workforce Policy review. Please see our stakeholder engagement section from page 127 for further information on our colleague engagement mechanisms during the year.

I have personally enjoyed returning to the office and engaging face to face with Board members and colleagues alike as we adopted our hybrid working model. This was a great achievement made possible by the effective risk management and governance processes that were put in place to support the programme. You can read more about how the Board maintained appropriate oversight of the Future of Work programme in the CCE Committee Report on page 150.

I am pleased to report that the CCE Committee approved a Stakeholder Engagement Strategy following a stakeholder mapping exercise and external materiality assessments. The CCE Committee Report can be found on page 150 which also details how we have kept close to and protected the interests of our suppliers during the year; further details can also be read on pages 60, 61 and 85.

The 2021 United Nations Climate Change Conference reaffirmed the importance of firms operating responsibly and sustainably. We have committed to five of the UN Sustainable Development Goals and established arrangements that have enabled the Group to meet the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). You can read more about how we will achieve these in our Sustainability Report starting from page 68 and in our standalone Corporate Responsibility Report available on our website.

Although we had to make adjustments to the way our AGM was held due to UK Government restrictions, I was glad that we could invite shareholders to attend in person, and provide the opportunity to follow the meeting remotely via a live webcast and submit questions to the Board in advance of the meeting. I look forward to meeting shareholders in person at our next AGM, provided we are able to do so safely and responsibly.

Board composition, succession and effectiveness

I continue to believe that the Board's composition is appropriate to fulfil its role effectively. Furthermore, the Board has functioned well as a team to deliver key strategic initiatives and make effective decisions in challenging and uncertain circumstances. As such, I am pleased to report that there are no proposed changes to the composition of the Board this year. As part of the Board structure changes under our new target operating model (see page 86 for more details), Robert East stepped down from the Board with effect from 13 January 2022. I would like to thank Robert for his support and contributions as a member of the Group Board and for his chairmanship of Vanquis Bank.

The Nomination Committee continues to support the Board in ensuring it is composed of the appropriate mix of individuals and you can read more about the Committee's work on page 143.

Our Nomination Committee has continued to focus on diversity and inclusion as part of the Group HR's talent and succession planning. The Committee has reviewed our talent and succession plans, inclusion and diversity initiatives and the diversity of our talent pipeline. Further information can be found on page 147.

This year's Board evaluation was internally facilitated by Group Company Secretariat and 360-degree feedback was sought from the executive team and those in regular contact with the Board in order to strengthen relationships and accountability. The process and the findings of this year's evaluation can be found on pages 141 and 142, together with progress achieved against our 2020 evaluation actions.

Effective risk management and governance

The assessment and management of risk is integrated into the Board's decision making processes via the inclusion of a risk assessment within the Board's reporting templates. Additionally, full risk assessments were conducted on strategic initiatives by the Risk Committee and we have put in place second and third line assurance of key projects.

As a result of the 2020 Board evaluation results, enhancements have been made to the Board's oversight and monitoring of risk including the regular reporting of risk to the Board by the Group Chief Risk Officer (CRO). Further details on these enhancements can be found in the Board evaluation section on page 141.

Significant progress has been made this year on delivering our Risk Harmonisation Programme which the Board has continued to monitor and oversee through its Risk Committee. The programme will provide a more consistent and integrated approach to risk management across the Group, delivering efficiencies and maximising capabilities across the divisions. The programme is being led by our Group CRO, Gareth Cronin, who transitioned to the role in May 2021 from being the Group Chief Internal Auditor.

This year the Board has determined climate change to be a principal risk and consequently we have enhanced the management and oversight of climate change risk with the establishment of a Climate Change Forum, chaired by the Group CRO, and development of a Climate Risk Appetite Statement. Please see the Risk Management and Principal Risks section starting on page 87 and Risk Committee Report on page 158.

Dividend

I am delighted to report that the Board has proposed a dividend of 12p per share to shareholders in respect of 2021 after taking into account regulatory capital requirements, levels of sustainable receivables growth and the resultant IFRS 9 impairment provisions. Our Board is focused on delivering stable and sustainable dividends in future periods.

Patrick Snowball
Chairman
6 April 2022

> "Our Risk Harmonisation Programme is a key illustration of how the Group's strategy is supported, underpinned and driven by effective risk management and governance processes.
>
> **Patrick Snowball**
> Chairman

Our Board

Patrick Snowball
Chairman

N

Appointed: 21 September 2018

Tenure: 3 years

Career and experience:
Patrick was CEO of Suncorp Group Limited, an ASX 20 Australian financial services group, between 2009 and 2015 where he successfully led the turnaround of the group following the global financial crisis. Before joining the Board, Patrick was Chairman of IntegraFin Holdings plc between 2017 and 2018 and was Chairman of Sabre Insurance Group plc until September 2020. Prior to this Patrick was a Non-Executive Director at Jardine Lloyd Thompson Group plc from 2008 to 2009, Deputy Chairman at Towergate Partnership between 2007 and 2009 and a member of the FSA Practitioner Panel from 2006 to 2008.

Patrick's contribution to the Board, key strengths, skills and reasons for re-election:
Patrick's unique career and experiences bring a wealth of skills to the Board. In particular, as Chairman, his previous leadership and demonstrable success in driving change, strengthening governance, creating strong and effective boards, and instilling stability through a positive culture are key strengths he brings to the Board.

- Experienced chairman, non-executive director and chief executive officer.
- Extensive experience of the financial services industry and the regulatory environment.
- Wealth of knowledge of the challenges faced by the financial services sector, acquired over a 30-year career.
- Long track record in leading companies to develop and deliver growth plans.
- Change project management, typically involving digital transformation and brand building.
- Building strong customer relationships, leveraging data and insights, as well as leading and developing wider stakeholder engagement.

Current external appointments:
- Director at The Old Dove Dairy Limited.
- Chairman designate at AMP Capital's private markets business.

Malcolm Le May
Chief Executive Officer

D

Appointed as CEO: 1 February 2018

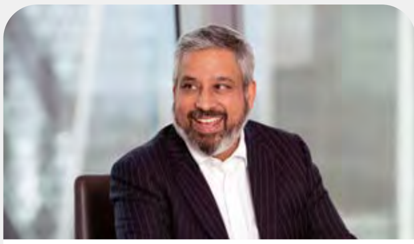
Tenure: 8 years

Career and experience:
Malcolm joined the Group as an Independent Non-Executive Director in 2014, becoming Interim Executive Chairman in November 2017. Malcolm provided effective leadership to the Board, working with it to redefine roles and responsibilities, and initiated a process to ensure the Board had the right mix of skills, experience and diversity. Prior to joining the Group, he held several senior positions within banking, including as Co-Head of Banking for Barclays in New York, Head of European Investment Banking at UBS and Deputy CEO at Morley Fund Management (now Aviva Investors).

Malcolm's contribution to the Board, key strengths, skills and reasons for re-election:
Malcolm's extensive career, his deep knowledge of various businesses and sectors, his understanding of the regulatory environment and turnaround situations and his proven leadership skills are considered by the Board to be invaluable qualities that make him best placed to lead the business, as well as effectively contributing to the Board.

- A deep knowledge and experience of the financial services industry and regulatory environment.
- Relationships with key stakeholders, such as investors and the Group's banks, enabling the Group access to funding.
- The strengthening of the Group's governance framework and the realignment of the Group's culture more closely to the developing needs of the customer.

Current external appointments:
- Director at IG Group Holdings plc.
- Trustee at the Grange Festival.
- Trustee at Peace at the Crease.
- Director at IG Markets Limited.
- Chairman at IGNA.



Neeraj Kapur
Chief Finance Officer

D

Appointed: 1 April 2020

Tenure: 2 years

Career and experience:
Neeraj was Group Chief Financial Officer of Secure Trust Bank plc, a UK retail and SME bank. He is an experienced chief financial officer with a strong retail banking background, including consumer finance and savings products expertise. He brings versatility and intellectual agility to the Board and Group Executive Committee.

Neeraj's contribution to the Board, key strengths, skills and reasons for re-election:
As a qualified accountant, Neeraj is technically strong and has a diverse background that has included time as a pilot in the RAF and an entrepreneur running his own business and working in a large-scale regulated bank. Neeraj has a strong retail banking background, including consumer finance and savings products expertise, and has experience in accounting, finance, professional services, governance, operations, marketing and risk.

- Experienced chief financial officer.
- Significant experience in leading end-to-end finance functions, including for a bank and other corporates, as well as managing accounts for individuals and small business owners.
- Proven ability to build effective working relationships with key stakeholders, including regulators, investors and analysts.
- Deep understanding of, and strong experience in, the Group's sector.

Current external appointments:
- Trustee at Edgeborough Educational Trust.
- Trustee at The Worshipful Company of Chartered Accountants.

Committee key:

N	Nomination Committee	A	Audit Committee	Ri	Risk Committee
Re	Remuneration Committee	C	Customer, Culture and Ethics Committee	D	Disclosure Committee
	Committee Chairman				

During the year the Company directors except Elizabeth Chambers were appointed as directors of the Vanquis Bank Board, with effect from 13 January 2022.

Andrea Blance

Senior Independent Director (SID)

N A Re

Appointed: 1 March 2017

Tenure: 5 years

Career and experience:
Andrea has extensive board and financial services experience. She spent her executive career at Legal & General Group plc, where she was a member of the group executive committee and held a range of senior leadership roles, including Divisional Chief Financial Officer, Group Financial Controller, Group Chief Risk Officer and Strategy & Marketing Director. Andrea's past non-executive roles include Senior Independent Director and Audit Committee Chair at Reassure Group plc, Risk Committee Chair at Scottish Widows plc and Lloyds Banking Group Insurance, Non-Executive Director at The Mentoring Foundation and a member of William & Glyn's pre-IPO board.

Andrea's contribution to the Board, key strengths, skills and reasons for re-election:
Andrea brings a wealth of relevant experience, including her understanding of governance, the regulatory environment and conduct risk. She has extensive experience of strategy and customer marketing, complex change, finance and reporting, investor relations and stakeholder management.

- Experienced senior independent director, non-executive director, board committee chair and senior leader.
- Deep understanding of the financial services industry.
- Track record of working with businesses at different stages of development and supporting both growth and recovery strategies.

Current external appointments:
- Non-Executive Director at Hargreaves Lansdown plc.
- Non-Executive Director at Aviva plc.

Elizabeth Chambers

Independent Non-Executive Director

N Ri C

Appointed: 31 July 2018

Tenure: 3 years

Career and experience:
Elizabeth is an experienced board director, senior financial services executive, strategist and marketing leader in the UK and globally. Her previous board experience includes being a Non-Executive Director at Hastings Group plc, Dollar Financial Group, Hibu plc (formerly Yell Group) and The Home and Savings Bank. Elizabeth served on the board of Western Union International Bank and boards relating to consumer finance joint ventures between Barclaycard and other brands, such as Argos and Thomas Cook. She has extensive executive experience through roles including Chief Marketing Officer at Barclays and Barclaycard.

Elizabeth's contribution to the Board, key strengths, skills and reasons for re-election:
Elizabeth brings more than 25 years of experience in strategy, marketing and product development across a range of financial services. As an executive, she has a long track record of driving revenue growth and solving complex business challenges at major global financial institutions. In various roles she has led businesses through brand and reputation transformations, strengthened customer acquisition and engagement, built innovative digital businesses, and led major business turnarounds.

- C-suite marketing and communications executive, board director and strategist.
- Proven people leader.
- Broad and deep knowledge of financial services, including credit cards and payments products, a wide range of customer loan segments and marketing in a regulated environment.
- Substantial expertise in turnarounds, as well as M&A and cultural change.
- Wide exposure to international operations and the unique challenges of leading them.

Current external appointments:
- Non-Executive Director at TSB Bank Plc.
- Non-Executive Director at Tilney Smith & Williamson Ltd and subsidiaries.
- Non-Executive Director at University of Colorado Anschutz Medical Campus (non-profit).
- Operating Partner to Searchlight Capital Partners and its portfolio companies.

Paul Hewitt

Independent Non-Executive Director

N A Ri

Appointed: 31 July 2018

Tenure: 3 years

Career and experience:
Paul is an experienced chief financial officer, chairman, non-executive director and audit committee chair who operates in a number of different sectors. Paul's past non-executive director roles include chairing the audit committees of Tokio Marine, Kiln, NEST Corporation, Tesco Bank, Collins Stewart Hawkpoint, Charles Taylor Plc and GMT Global Aviation. He began his executive career in finance, working for over 20 years as a finance director of various companies, culminating in becoming Deputy Group Chief Executive and CFO of the Co-operative Group between 2003 and 2007.

Paul's contribution to the Board, key strengths, skills and reasons for re-election:
Paul's varied and wide-ranging career is built on a successful career in finance. He has a track record of creating and realising value for shareholders and has worked across a number of sectors including financial services, technology, healthcare, retail and business services, including good understanding of corporate governance. Through his non-executive roles, he has helped several management teams adapt their business models to respond to, and anticipate, changes in their competitive and regulatory environments. In both his executive and non-executive career, he has had extensive experience of transactions and ensuring that businesses have an appropriate financial structure.

- Experienced non-executive director, chairman and chief financial officer.
- Broad experience of the financial services industry and the regulatory environment.
- Strong track record in delivering good returns for shareholders.
- Extensive experience of transactions.
- Broad experience as both an executive and a non-executive of developing and challenging business strategies.
- Has helped several management teams adapt business models in anticipation of changes in their environments and markets.

Current external appointments:
- Non-Executive Director at ICNH Limited (trading as Dr Doctor).
- Non-Executive Director at Feebris Limited.
- Non-Executive Director at The Ombudsman Service Limited.
- Non-Executive Director of E-Negotiation Ltd (trading as Amicable).

Angela Knight
Independent Non-Executive Director

N A Ri

Appointed: 31 July 2018

Tenure: 3 years

Career and experience:
Angela has extensive experience in both the public and private sectors. Prior to joining the Board, Angela was CEO at Energy UK, British Bankers Association (BBA, now UK Finance) and APCIMS (now Personal Investment Management and Financial Advice Association). She was previously a Member of Parliament and Treasury Minister between 1992 and 1997 and was the Chairman of the Office of Tax Simplification from December 2015 to March 2019. Previously Angela was also a Non-Executive Director at Taylor Wimpey plc and Senior Independent Director at TP ICAP plc.

Angela's contribution to the Board, key strengths, skills and reasons for re-election:
Her experience in the public sector means Angela has a strong understanding of the expectations of regulators and other public stakeholders. This combination means she is a skilled director who knows how to manage organisations and how to challenge management to deliver. Angela's thought leadership, technical and policy skills, as well as a deep understanding of the financial sector, are demonstrated through her leadership of the repositioning of Energy UK in the energy sector and of the BBA through the banking crisis.

- Experienced Government Minister, CEO, chair and non-executive director.
- Wealth of knowledge of the financial services sector.
- Deep knowledge of regulated industries.
- Adept at solving difficult problems with effective solutions.
- Understanding of public presentation, in particular as a proficient public speaker.

Current external appointments:
- Non-Executive Director at Arbuthnot Latham & Co.
- Non-Executive Director at Encore Capital Group, Inc.
- Director at Froggatt Trustee Limited.
- Chair at Pool Reinsurance Company Limited.

Graham Lindsay
Independent Non-Executive Director

N Re C

Appointed: 1 April 2019

Tenure: 3 years

Career and experience:
Graham has held a number of senior executive roles, including responsibility for the Lloyds branch network and as Corporate Responsibility Director. Graham joined the Wonga UK board in 2016 as part of the new leadership team engaged to improve the business and deliver change. Graham sat on the Board of the Institute of Banking & Financial Services and on the Professional Standards Board. He is Senior Independent Director at One Family, a mutual life assurance business.

Graham's contribution to the Board, key strengths, skills and reasons for re-election:
Graham brings to the Board extensive experience in commercial and retail banking following a 40-year career at Lloyds Banking Group and a deep understanding across various distribution channels. Graham has had demonstrable success in focusing organisations on their customers, ensuring they are at the heart of decision making and product design. Graham also has a strong appreciation of the Group's regulatory environment.

- Extensive customer knowledge, strong customer focus and a track record of enabling and overseeing businesses to ensure that they put the customer at the heart of what they do.
- Significant stakeholder engagement experience.

Current external appointments:
- Senior Independent Director at OneFamily.
- Vice Chair and Trustee at the Brain Tumour Charity.
- Director at Family Assurance Staff Pension Scheme Trustees Limited.

Margot James
Independent Non-Executive Director

N Re C

Appointed: 27 July 2020

Tenure: 1 year

Career and experience:
Margot served as a Member of Parliament between 2010 and 2019 and has held a number of ministerial offices, latterly as Minister of State for the Department of Digital, Culture, Media & Sport, where she championed the interests of both industry and consumers in the digital world. In her role as Parliamentary Under Secretary of State at the Department for Business, Energy & Industrial Strategy, Margot had responsibility for small businesses, consumers and corporate governance, including labour markets and the retail sector.

Margot's contribution to the Board, key strengths, skills and reasons for election:
Margot has a wide-ranging successful career in both the public and private sectors. Her public-sector experience provides Margot with a strong understanding of the expectations of regulators and other public stakeholders, as well as strong knowledge of corporate governance, labour markets and the UK's technology and retail sectors. She has a track record of driving value for shareholders and has a demonstrable record as a successful entrepreneur and CEO.

- Experienced Government Minister and Member of Parliament.
- Results-focused entrepreneurial business owner.
- Strong track record as a CEO and business leader.
- Non-executive director and chair experience.
- Deep governance knowledge.
- Strong relationships with wider stakeholders in a variety of sectors.

Current external appointments:
- Executive Chair at the Warwick Manufacturing Group.
- Governor Emeritus of the London School of Economics.
- Chair at Internet Matters Ltd.
- Chair at Taso Advisory.

Committee key:

- N Nomination Committee
- Re Remuneration Committee
- Committee Chairman
- A Audit Committee
- C Customer, Culture and Ethics Committee
- Ri Risk Committee
- D Disclosure Committee

The Company directors, except Elizabeth Chambers, were appointed as directors of the Vanquis Bank Board, with effect from 13 January 2022.

Charlotte Davies

Group General Counsel
and Company Secretary

Appointed: 1 April 2019

Career and experience:
Charlotte brings a wealth of experience in the financial services sector and is an experienced general counsel and company secretary. Charlotte previously worked at Cabot Credit Management where she was General Counsel and Company Secretary for many years and reviewed the governance structure and redesigned the regulatory structure in consultation with the FCA.

Prior to this Charlotte was General Counsel of Lockton.

Charlotte's contribution to the Board, key strengths and skills:
Charlotte's legal experience has been gained predominantly within insurance before moving into the debt purchasing space. Charlotte brings extensive experience in and knowledge of the financial services sector, and has legal experience in corporate, commercial, risk management, regulatory and governance advice.

Setting our strategy

The Board's role in setting strategy, monitoring its progress and promoting long-term sustainable growth

A number of key strategic decisions were made by the Board this year, the most difficult of which was the decision to exit the home credit market. This was made with the deepest regret in light of the changing industry and regulatory dynamics in the home credit sector, as well as shifting customer preferences. Further details on the matters considered in our decision making process, as well as the other principal decisions we made during the year, can be found in our s.172 statement on page 78. Despite the challenging environment, the Board has continued to be led by its Purpose and ensured that CCD colleagues impacted by the wind-down of the business were provided with specialist outplacement support and were kept informed of internal vacancies within other areas of the Group as well as external opportunities.

Strategy underpinned by Purpose

In recognition of the evolving sub-prime market post Covid-19, the Board continued to review, oversee and monitor the Group's strategy and Purpose during the year. The Group exists to help put people on a path to a better everyday life; our Group Purpose is well established and was reaffirmed at the Group Strategy Conference in June 2021. This Group Purpose underpins our strategy of being a specialist bank for the underserved operating in the mid-cost segment of the market. The Covid-19 pandemic has changed our operational environment as well as the lives of our customers, but our Board is confident that our Purpose remains relevant and guides us to deliver the right outcomes for our key stakeholders.

Effective governance supporting delivery

In accordance with our Purpose and strategy, the Board approved the implementation of a new target operating model in July in order to deliver efficiencies, reduce duplication and execute the Group's strategy. Under the new operating model, the Board of Vanquis Bank was restructured to substantially align its membership with the Group Board; further details on the new operating model can be found on page 86. This represents the next phase of the Board's strategy to reinforce its position as a leading specialist bank with a focus on the financially underserved and the Board believes that the new operating model will create a simpler, more efficient Group governance structure. The Nomination Committee and Risk Committee supported the Board in making this key strategic decision (please see pages 143 and 158, respectively, for further information).

Our robust governance framework enables the effective running of the Group and supports the Board to make high-quality decisions that balance the interests of our stakeholders, as is evident from the diagram on the next page. Following a comprehensive review of the Group's governance framework to support the Vanquis Bank Board changes described above, the Board approved refreshed governance documentation to create an enhanced and streamlined approach to corporate governance. Please see our website for further details.

As formally documented in the Matters Reserved for the Board, the Board has sole responsibility for setting the Group's strategy, reviewing the implementation of strategy and overseeing the Group's operations through effective monitoring of internal controls and risk management. The Board has delegated authority to the Group CEO and its committees, as defined and formally documented in the Group Delegated Authorities Manual, which supports effective decision making and ensures that key strategic decisions are made by the appropriate forum. Furthermore, the Group CEO is responsible for the execution of our strategy and the Chairman is responsible for running the Board and maximising its effectiveness. There is a clear separation of these two key roles which is formally documented in our division of responsibilities between the Chairman and CEO (see page 134).

Appropriate monitoring of progress

Our governance structure supports the Board in the monitoring of performance against strategy and assessing the strategy against the needs of our customers. The Board has established committees with defined terms of reference (which can be accessed through our website: www.providentfinancial.com/who-we-are/corporate-governance/board-committees/) to support in its oversight, monitoring and challenging of the progress made by management against delivering our strategy.

Committees supporting strategy

Group Board

Risk Committee
Assists the Board by taking an active role in defining risk appetite; advising on the current principal and emerging risk exposures of the Group and future risk strategy; and monitoring the risk management systems across the Group. The Risk Committee is supported by the Group CRO and the Group Risk senior management team. In collaboration with the CCE Committee, the Risk Committee also supports the embedding of a risk culture aligned to the strategic Blueprint. Please see the Risk Committee Report on page 158.

Audit Committee
Keeps under review the effectiveness of the Group's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control systems. The Audit Committee also monitors the capital management plan and allocation which is central to our strategy, and tracks the progress of strategic initiatives via third line assurance, inviting management to update on progress as appropriate. Please see the Audit Committee Report on page 153 for the work completed by the Committee during the year.

Nomination Committee
Delivery of our strategy requires the right leadership team comprised of individuals with sufficient diversity to enhance the quality of strategic discussions and decision making. We have a Group-wide Diversity and Inclusion Policy and the Nomination Committee monitors metrics on diversity and inclusion. The Committee regularly reviews the composition of the Board against its long-term strategy to identify any gaps in knowledge, experience or diversity, and oversees succession planning for the Board and senior management teams. Please see the Nomination Committee Report on page 143.

Remuneration Committee
Ensures that remuneration policies and practices are designed to support our strategy and promote long-term sustainable success, encouraging behaviours consistent with the Group's Purpose, values, strategy and business model. Please see the Remuneration Report on page 169 for further details.

CCE Committee
Employee behaviour and culture are key enablers in delivering our strategy and Purpose. Our CCE Committee monitors the Group's culture and behaviours to enable the Board to identify and address any misalignments with the desired culture. The Committee also garners customer insights (for example through call listening and customer survey results) which are fed into the Board's decision making and strategic conversations. Please see the CCE Committee Report on page 150 for the work completed by the Committee during the year.

Executive Committee
A management committee, chaired by the CEO, responsible for developing, proposing and implementing Board approved strategy in line with the culture, Purpose and ethics of the Group. In doing so, it is responsible for managing the Group strategic risks and divisional risks alongside the Group Risk Committee where these risks are overseen in greater detail.

The Committee Chairs report to the Board at each meeting on the work of their committee and escalate any concerns or risks for the Board's attention. Key performance indicators are regularly reported to the Board through management reports to monitor the implementation of our strategy. The Group CEO and CFO produce separate reports to the Board, which include key performance indicators relating to operational performance, financial performance and performance against budget, to allow the Board to assess the progress made by the divisions against the Group's strategy and budget. The Board approved management's proposed approach for the 2022 budget process during the first half of the year, and approved the 2022 budget in December, following endorsement by the Executive Committee and subject matter experts. The 2022 budget included the assumption of a dividend payment for 2021 based on the Group's performance.

2021 strategic progress

Jan

1

Moneybarn successfully expanded its vehicle finance product offering to the near-prime sector, and the Board was kept apprised of Moneybarn's performance through the CEO report which is reported at each Board meeting

Feb

1 2 3

A new reporting framework was developed to increase the Board's oversight over change investments and projects, as well as to help to strengthen cost culture across the Group and optimise investments. Change spend forecasts were also incorporated into the 2022 budget process

May continued

C

Risk Committee approved the Group Risk Management Framework in May and continued to monitor the ongoing progress of the Group Risk Harmonisation Programme to create an aligned risk management approach across the Group in support of 1PFG

D

Decision made to exit the home credit market to protect the long-term interests of the Group

Jun

2 3

Board approved the Moneybarn warehouse securitisation

2

Board oversaw the Future of Work programme

Jul

1 2 3

Board approved and monitored the implementation of a new target operating model, with support from the Nomination Committee and Risk Committee, which was the next step in the execution of our 1PFG strategy

2

Board agreed the actions arising from the Group Strategy Conference

Jul continued

C D

A new target IT architecture, approved by the Board in July, was developed by the Group CIO to support the achievement of 1PFG based upon a single customer view and to increase cost efficiencies. The Board received regular updates on the programme via CRO Reports and held an IT strategy 'deep dive' session with the Group CIO. A Group Head of IT and Change Risk was also appointed to provide second line assurance

Nov

1

Board approved the pilot launch of Sunflower Loans

Following the establishment of a dedicated Climate Risk Committee and the development of a climate risk appetite statement, the Risk Committee approved a Climate Principal Risk Policy to set the overall principles for the Group to follow in effectively managing its climate risks

Dec

2

The Board decided to withdraw the Vanquis Bank Repayment Option Plan from the market in response to the evolving regulatory landscape and several forbearance enhancements. The CCE Committee reviewed the implementation and customer communication approach for the product discontinuation

2

The 2022 budget was approved by the Board following discussion and challenge of the divisional budgets by the Group Executive Committee, as well as assurances from the Chief Risk Officer, Transformation Director and Chief Information Officer on the risk, prioritisation and deliverability of the change spend forecasts in the budget

Mar

2 3

Decision made to pursue a Scheme of Arrangement to provide redress to CCD customers and protect the long-term viability of the Group

May

2

Board approved the agenda for the Group Strategy Conference which was held in June 2021

Sep

1

Board approved funding to rebuild the Vanquis Bank mobile app. Management's progress was monitored through reports from the Group CEO and Group Transformation function in accordance with enhanced governance and reporting over change spend

1 3

Board approved the Core UK Group Waiver application to deliver the IPFG strategy

3

Board approved the issuance of Tier 2 debt capital to the market to improve capital efficiency and lower capital costs

Oct

1

Vanquis Bank launched a new personal loans range to the open market. Throughout the year the Board maintained oversight and scrutiny over the proposed launch in the context of the Group's overall loan strategy

Long-term sustainable growth

Long-term sustainable growth

In 2019, the Board set out its vision and growth ambitions to be the best and most trusted provider of credit to the underserved, delivered across a broader range of products and distribution channels, in order to help our customers on the path to a better everyday life. During 2021 the Board has driven many strategic developments with a focus on creating long-term growth for its stakeholders and delivering on its strategic objectives. The timeline (opposite) highlights the progress made against each of these strategic objectives and how our Board has enabled such progress with the support of a robust governance structure. For information on the matters considered by the Board in making its principal decisions please refer to our s.172 statement on page 73 and for further information on the delivery of our strategy please refer to page 28.

For the 2021 Group Strategy Conference, the Board and Group Executive Committee agreed that particular focus this year should be given to the evolving regulatory landscape, creating good customer outcomes in line with the FCA's Consumer Duty, improving the maturity level of information security across the Group and delivering our ESG strategy. These were considered to be areas of strategic importance. With the Board's direction, the Group Executive Committee met for a full day strategy session, discussing these areas and analysing the Group's financial performance and marketplace. Actions arising from the Strategy Conference were assigned to Group Executive Committee members, agreed by the Board and monitored by the Group Executive Committee.

A key output of the 2020 Strategy Conference was the recognition that a key strategic imperative was ensuring the Group had in place the appropriate capabilities, resources, framework and tools to oversee and deliver key strategic initiatives and change projects. The Group has delivered on this output by establishing a new Group Transformation function dedicated to improving the way that change is managed across the Group. Significant enhancements have been made in the management of change (such as the creation and implementation of a new Change Delivery Framework) which have given the Board greater oversight over change spend and projects as well as more transparency regarding the benefits of change activity.

Links to strategy

1 Grow customer-centric businesses

2 Act responsibly and with integrity

3 Maintain a secure funding and capital structure

Promoting long-term sustainable success: Board activities

Board meetings follow a carefully designed agenda that is agreed by the Chairman, in conjunction with the CEO and General Counsel and Company Secretary. A typical Board meeting would comprise reports on operational and financial performance, legal and governance updates and chosen deep dives into areas of strategic importance. The following pages provide examples of key Board activities during the year. Whilst the table is non-exhaustive, it provides an insight into the Board's discussions and how the directors promote the success of the Company. You can also read about principal decisions made during the year in our s.172 statement on pages 75 to 86.

Links to strategy 1 Grow customer-centric businesses 2 Act responsibly and with integrity 3 Maintain a secure funding and capital structure

Links to risks P Find our full list of key risks on page 92

Strategy

Group Strategy Conference

The Group's strategy remained a key area of focus for the Board. In addition to discussions regarding strategy held at Board meetings during the year, the Board held a Group Strategy Conference in June 2021. Topics discussed included: a recap of the actions taken in the previous 12 months to deliver our strategy; the Group's Purpose and customer vision; the wider market and competitive environment; the regulatory landscape; customer outcomes; our product offering; and funding strategy.

Pricing

During the year the Board reviewed Vanquis Bank's pricing and returns model, which is used for product decisioning, including enhancements made and future developments.

Mid-cost personal loans offering and new digital platform

The Board has overseen changes to enhance our personal loans offering to customers, including the launch of Vanquis Bank's unsecured personal loans product to the open market. As part of the Group's strategy to offer relevant products to its addressable market and to diversify its product offering, the Group is establishing a digitally distributed unsecured personal loans business. To support this, the Board reviewed and approved the launch of a pilot of the Group's new personal loans offering, Sunflower Loans. The Group has invested in a highly scalable, digital platform known as 'Gateway' to initially support the new Sunflower Loans product. The Board oversaw the delivery plan for this new digital infrastructure, including the risks and mitigations, and approved the necessary investment to implement it. Gateway will also have the ability in the future to enable customers to access all of their products from a single mobile app. It will also enable PFG to configure and bring prospective products to market rapidly. You can read more about this on pages 28 and 47.

Key stakeholders

- Investors
- Customers
- Regulators

Links to strategy

1 2

Links to risks

P4 P5 P9 P10 P11 P13

Budget, financing and performance

Budget and five-year plan (the Budget)

The Board has reviewed and approved the Group's annual Budget, ensuring adequate resources were in place for the Company to meet its objectives. In approving the Budget, the Board considered a range of issues, including its basis of preparation, forecasted performance and the risks and opportunities in relation to the Budget.

Operational and financial performance

The Board reviews operational and financial performance at each meeting, including progress against the agreed Budget. The CEO and CFO present their own reports to the Board, including the performance of each division.

Dividends

The Board considered whether a final dividend and an interim dividend should be paid during 2021. The Board determined that a dividend should not be proposed to shareholders or paid during 2021 in line with its decision to preserve capital and support business stability during the period of closure of the CCD business. As announced in October 2021, it was determined that should the improvement in macroeconomic conditions experienced continue on a similar trajectory for the remainder of the financial year, the Board would consider declaring an ordinary dividend pay-out of 30% of adjusted ongoing earnings in respect of the 2021 financial year. As a result of the Group's improved profitability, and given the ongoing strength of the Group's balance sheet, the Board has proposed a dividend of 12p per share in respect of 2021.

Funding

The Board has overseen several key funding activities during the year. The Board approved the Group's first subordinated Tier 2 debt capital to the external markets since 2005. The Board also approved a concurrent partial tender of the Group's 2023 Senior Bonds. During the year, the Board also considered and approved the refinancing of its Moneybarn securitisation programme with £325m of committed funding, whilst reducing its revolving credit facility to £90m. The Group now has no contractual wholesale maturities until the second half of 2023, representing a very robust, diverse and stable funding profile. During 2021, Vanquis Bank also gained access to the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises and, ahead of the closure of the scheme, had drawn approximately £174m of funding using its AAA rated notes as collateral. Furthermore, the Board has overseen the Group's application submitted to the PRA to allow the use of retail deposits held at Vanquis Bank to fund other parts of the Group.

Key stakeholders

- Investors
- Debt providers
- Colleagues

Links to strategy

1 2 3

Links to risks

P1 P2 P3 P4 P9 P10 P12

IT and cyber risk

IT architecture
Following the appointment of a new Group Chief Information Officer (CIO), the Board reviewed and approved changes to the Group's IT investment categorisation and prioritisation process. The Board also reviewed the Group's existing IT architecture and considered and approved proposals regarding enhancing the Group's IT architecture in order to support the delivery of the Group's strategy and ambition of Group-wide digital-first customer centricity. The Board also reviewed the newly developed digital platform for personal loans products during the year, as described on the previous page.

Cyber risk
The Board has also held a cyber risk session to consider: the cyber risks posed to the Group and wider financial services sector; the potential impact of those risks; how cyber security can manage those risks and enable business opportunities; best practice in cyber security; and a cyber attack case study. You can read more about technology and information security risk on page 98.

Key stakeholders
- Customers
- Colleagues
- Regulators

Links to strategy

2

Links to risks

P7 P9 P11 P12

Governance and risk

Business continuity management (BCM)
The Board reviewed the Group's BCM arrangements, including the Group's response to the Covid-19 pandemic. The Board noted the BCM activities taking place across the Group, including how hybrid working arrangements could impact the Group's BCM approach and the activities in Vanquis Bank in response to the PRA's publishing of the final rules and guidance on operational resilience.

Board governance
As announced in January 2022, the Group has restructured the Board of Vanquis Bank, our wholly owned subsidiary, to substantially align its membership with that of the Company's Board. During the year the Board considered this as the next phase of the Group's specialist bank strategy and determined that the necessary work and stakeholder engagement should be undertaken to create a simpler, more efficient Group governance structure. In January 2022 the Board approved the proposed Board changes and believes that the changes will help streamline and enhance both the Company's and Vanquis Bank's handling of corporate governance. You can read more about the decision on page 86.

Principal and emerging risks and effectiveness of risk management
In addition to regular updates from the Group Chief Risk Officer, the Board reviewed an assessment of the Group's principal and emerging risks following review and approval by the Risk Committee. The Board also considered an assessment of the effectiveness of the Group's Risk Management Framework following review by the Risk Committee. The Board noted the overall effectiveness of the framework, the enhancements made to risk management during the year and areas identified for further enhancement.

Key stakeholders
- Investors
- Regulators
- Colleagues
- Debt providers

Links to strategy

2

Links to risks

P5 P7 P9 P10 P12

People and culture

Future of work
The Board received an update on the Group's phased planning and actions for the safe return of colleagues to offices under a hybrid working model. The Board considered the potential impact of the proposed approach to working arrangements on customers, colleagues and culture and it was agreed that, as part of any changes to working arrangements, it was important to ensure all stakeholders were considered and the Group's culture continued to be embedded.

Colleague Surveys and Colleague Forums
The Board received an update regarding the results of the 2020 Colleague Survey, which had been discussed in detail by the Customer, Culture and Ethics Committee. The Designated Non-Executive Colleague Champion also updated the Board on engagement with colleagues and the Colleague Forums, including insights from engagement with colleagues on the alignment of executive director and wider colleague reward and also regarding the impact on colleagues of the wind-down of the CCD business. Feedback from the CCD Colleague Forum was taken on board and CCD's approach adapted where possible and appropriate. Enhancements to the Group's colleague engagement model were identified for implementation during 2022 and reported to the Board.

Modern slavery
The Board reviewed and approved the Group's revised Modern Slavery Act Statement which had been updated to reflect development during 2020 and which supported the Group's compliance with the Modern Slavery Act 2015.

Whistleblowing
During the year, the Board received an update on the Group's arrangements for colleagues to be able to raise concerns in confidence and, if they wish, anonymously. As part of this, the Board noted the reduction in the number of reports received from colleagues, learnings identified from reports and enhancements identified to the Group's whistleblowing processes and procedures.

Key stakeholders
- Colleagues
- Suppliers
- Communities
- Government

Links to strategy

2

Links to risks

P7 P9 P10

Promoting long-term sustainable success: Board activities continued

Links to strategy: 1 Grow customer-centric businesses; 2 Act responsibly and with integrity; 3 Maintain a secure funding and capital structure

Links to risks: P Find our full list of key risks on page 92

Customer and regulatory

Woolard Review on unsecured consumer lending

The Board considered the findings from the Woolard Review on unsecured consumer lending and the implications for the sectors in which the Group operates and its stakeholders.

Consumer Duty of Care

The Board received updates regarding the FCA's Consumer Duty Consultation Paper in which the FCA outlined its intention to implement a new Consumer Duty principle, with supporting rules and guidance focused on consumer outcomes. The Board considered the potential implications of the new Consumer Duty principle and what action could be required by the Group in response to the same and the Group provided a response to the consultation in July 2021.

CCD investigation

The Board received updates on the progress of the previously announced FCA investigation covering CCD's lending to customers, as well as the application of an FOS decision into the complaint handling process, in the period between February 2020 and February 2021. See page 5 for more information.

Pillar 3 disclosure

The Board reviewed and approved the Group's Pillar 3 disclosure, having considered the approach taken to the disclosure and the changes made from the previous year's disclosure.

Key stakeholders
- Customers
- Regulators
- Investors

Links to strategy
1 2

Links to risks
P1 P2 P3 P4 P5 P7 P9

CCD Scheme of Arrangement and exiting the home credit market and the managed run-off of CCD

During 2021 the Board made two key decisions in relation to its CCD division, following due and careful consideration.

In March 2021 the Group announced its decision to pursue a Scheme of Arrangement (the Scheme) under Part 26 of the Companies Act 2006 in relation to potential redress claims arising from customer creditworthiness complaints based on historical lending in CCD prior to 17 December 2020. Following approval by the Scheme creditors at a meeting on 19 July 2021, the Scheme was sanctioned by the High Court on 30 July 2021.

Furthermore, following the outcome of an operational review, on 10 May 2021 the Group announced that it would regretfully withdraw from the home credit market and place CCD into managed run-off or consider a disposal. CCD was closed on schedule by the end of 2021 and was delivered within the closure cost guidance of up to £100m. As described above, the closure of CCD involved launching the Scheme in order to provide £50m of compensation for its customers. The result of the closure is that the Group has reduced its operational risk profile and no longer operates in any 'high-cost' credit market segment. You can read about these two principal decisions and the related stakeholder considerations and engagement in our s.172 statement on pages 75 and 86.

Key stakeholders
- Customers
- Regulators
- Colleagues
- Investors
- Debt investors
- Communities
- Suppliers

Links to strategy
1 2 3

Links to risks
P5 P7 P9 P10

Looking forward to 2022, focus areas are expected to include:

- the Sunflower Loans pilot and Group's product strategy;
- business performance and delivery of the Group's strategic initiatives;
- implementing our strategy to establish PFG as a leading specialist bank focused on underserved markets;
- implementing our new IT platform digital infrastructure, Gateway; and
- overseeing the Group's culture and customer centricity.

The Board: our culture – promoting colleague voice

The Board continues to support the embedding of the Group's culture, driving direct and indirect communication to harness our colleague voice.

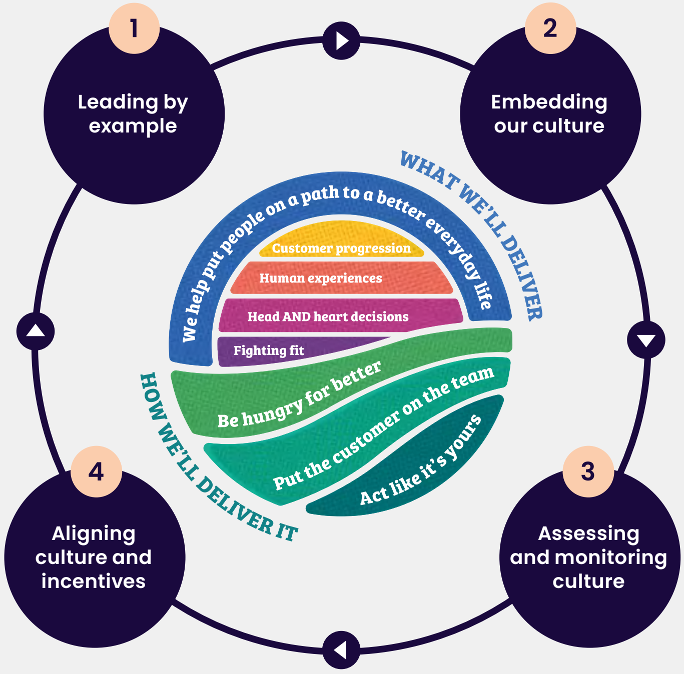
The ongoing pandemic has accelerated trends such as digital collaboration and transformation, much of which has been adopted by the Group, such as the enhancements to the mobile applications which have informed processes within the Group. It has been essential during this period of change to ensure our colleagues feel involved and come on this journey with us.

Progress has been made against all four Blueprint quadrants during the year and in leading, embedding, assessing and aligning our culture. During the pandemic the innovative use of remote communication tools has been vital to maintaining engagement with our colleagues. The CEO has embraced these methods and has regularly updated colleagues on business performance, the Future of Work programme and wellbeing matters through his monthly vlogs.

Our Board understands that a strong culture, underpinned by good governance, enables long-term growth and generates sustainable value for our stakeholders. You can read on pages 75 to 86 how the Board has had regard to the interests of our stakeholders and their s.172 responsibilities to deliver long-term growth. Our Board and committees continue to align and monitor culture through regular reporting at the meetings.

The Board is responsible for ensuring the governance framework supports the embedding of the desired culture. This underpins the appropriate information flow, enabling the Board to oversee management and challenge performance, culture and strategy. During the year the Board has overseen enhancements to its culture metrics and related reporting, with the CCE Committee approving three colleague-related metrics within the Blueprint Dashboard. These metrics provide further insight into levels of colleague engagement and morale across the Group.

Following extensive work by management on the Future of Work programme, the Board understands that flexibility in our working environment will be a key principle that shapes the future of the business, meeting both the physical and wellbeing needs of our colleagues. To this end significant work has been undertaken to ensure that our Flexible Working Policy is reflective of our colleagues' needs, fosters engagement with them and enables them to perform to the best of their ability.



> The Board is responsible for setting and overseeing the embedding of Group culture, to ensure that we do what we say we will in a manner reflective of our values.

Graham Lindsay
Designated Employee NED & Colleague Champion

1 Leading by example

In order to maintain a positive culture within the business, the Board sets the tone and expectations to ensure that the Group's decision making and behaviours are guided by a set of values which enable the achievement of the right outcomes for our stakeholders.

As mentioned on the previous page, during the year the Group CEO updated colleagues through monthly vlogs, outlining business performance, the impact upon operations of the ongoing Covid-19 pandemic, the Future of Work programme, mental health wellbeing and other important matters.

Board meetings were held regularly throughout the year to provide oversight and direction on key strategic business activities, the work of its committees and legal and governance matters. This allowed the Board to hold management to account and reinforce the tone from the top. Due to the lifting of Covid-19-related restrictions, the Board sought to return to face-to-face meetings and the office as soon as safely possible to ensure it led by example and was visible to colleagues.

Culture and governance are intrinsically linked: a healthy culture is underpinned by good governance. We have therefore made changes to the Group's operating model and restructured the Board of Vanquis Bank to substantially align its membership with the Board of the Company, producing a single Board structure for the Company and Vanquis Bank. The move to a single Board will help to further the 1PFG agenda by centralising key operational functions and management has reviewed and updated the Group's Delegated Authorities Manual accordingly. During 2022, the Group's corporate support functions (Finance, Legal, Enterprise Risk, Audit, Information Technology and Data Protection) will be further centralised under the 1PFG model.

To lead by example, the Board must be willing to listen to feedback and understand when action is required to maintain the Group's culture. To this end the Board has encouraged a Speak Up culture through various channels such as the Colleague and Pulse Surveys, the Speak Up Dashboard, Colleague Forums, policies and whistleblowing tools.

Our inclusion and diversity ambition remains to build and sustain an inclusive culture and diverse workforce which will help us to respond to the needs of our customers and be a welcoming and inclusive place to work. Our Affinity Groups continue to develop plans that will support their community and the wider inclusion agenda. The Board continues to support the 'Be Yourself' inclusion community. Each Affinity Group has two senior sponsors and it is their job to role model inclusive attitudes and behaviours across the business. Our Nomination Committee oversees our performance in relation to diversity and inclusion, and further details can be found on pages 147 to 148.

A healthy culture requires a growth mindset and the Board fosters this via its own continuous training and development; each member of the Board has their own tailored training and personal development plan. In addition they also receive deep dive training sessions.

The Board's governance framework includes an annual evaluation of its performance, its committees and individual directors. This year's evaluation included 360-degree feedback from management in order to strengthen relationships and accountability including additional questions pertaining to diversity and emotional intelligence. The evaluation recognised that the CCE Committee undertakes the key role of overseeing the culture within the Group, and identifies areas of improvement such as the direct oversight and monitoring by the Board. The 360-degree feedback also identified that management felt the Board generally role-modelled the desired culture and promoted a Speak Up culture.

Cultivating the desired culture and delivering our long-term strategy also require an appropriate risk management and internal control framework. The Board maintains responsibility for reviewing the effectiveness of the Group's internal control and risk management systems. Following feedback from Board members, the Chief Risk Officer has been invited to Board meetings, strengthening the reporting and discussion of risk at the Board. You can read more about this in the Risk Committee Report on page 158.

2 Embedding our culture

During the year the Colleague Forums benefited hugely from the support and visibility of our Designated Non-Executive Colleague Champion who attended several virtual meetings. Whilst restrictions were in place during the year, the Board took the opportunity to visit the Chatham office when they were lifted, to engage with the Vanquis Bank Operations teams and update colleagues on the plans for the future of work. Colleagues were also given the opportunity to ask questions directly of the Board.

The Board supported management in the continued operation of existing initiatives and delivery of new initiatives to unite and support colleagues throughout the year as follows:

- regular Colleague Forum meetings across each division, with the Designated Non-Executive Colleague Champion in attendance to engage with colleagues and feed back to the Board;
- our Blueprint, 'Stay Connected' magazine and monthly vlogs from the CEO;
- dedicated professional mental wellbeing support through our Thrive mobile application, our Employee Assistance Programme and the Be Well Webinars with external experts;
- our colleagues were kept regularly updated on the Government's guidance on Covid-19 and our response to the pandemic and were provided with access to support resources, and the Board considered proposals regarding the Future of Work model for the Group, including the benefits and risks associated with increased flexibility and remote working;
- mandatory e-learning modules on a wide variety of key processes, such as returning safely to the workplace, and expected behaviours, including diversity, equality and mental health awareness;
- our diversity and inclusion communities formed four Affinity Groups based around gender, LGBTQ+, ethnicity and disability; a fifth Affinity Group will be launching in early 2022, focusing on social mobility;
- the Designated Non-Executive Colleague Champion held forum meetings with groups of employees who were representing different areas of the business, which provided an opportunity to freely express their views and

- share ideas. Feedback was sought on a number of key matters, including the Future of Work programme and the Company's response to the Covid-19 pandemic, and views on what the Company could improve in its response to help its employees;
- a Future of Work Steerco was established during the year to help plan the safe and successful return of colleagues to our offices;
- a 'Better Everyday' award scheme to recognise colleagues who demonstrate our Blueprint behaviours;
- introduction of a new set of Group HR Policies designed to support the Group's culture, drive fairness and consistency across the Group and consolidate a number of existing policies, including a Flexible Working Policy and a new Remote Working Guide;
- following the wind-down of CCD, colleagues from that division were offered other opportunities within the Group where possible; and
- our inclusion and diversity (I&D) ambition remains to build and sustain an inclusive culture and diverse workforce which will help us to respond to the needs of our diverse customer base and support our Purpose of putting our customers on a path to a better everyday life. Last year, four Affinity Groups were set up and each are at different stages of evolution. Each group has identified its own working group leads and has a rhythm of regular meetings, with structured agendas focusing on Group-wide I&D to discuss progress on key initiatives that it has started to focus on.

3 Assessing and monitoring culture

The Group Designated Non-Executive Colleague Champion provides a valuable link between the Board and the Company's workforce through the Colleague Forum meetings and he chairs the CCE Committee. When attending Colleague Forum meetings, Graham has updated them on key Board decisions and has encouraged the honest sharing of views, which has been welcomed by colleagues. Graham reports to the Board on the issues discussed and ensures that colleague views are shared and understood.

The CCE Committee continues to monitor the enhanced Blueprint and Customer Dashboards. During the year additional metrics were added to the Blueprint Dashboard which would bring further insight into levels of colleague engagement and morale across the Group. The key performance indicators within the Blueprint Dashboard monitor the turnover and absenteeism rates. The Dashboard also tracks the promptness of payments to suppliers in line with the Prompt Payment Code. Customer updates from each division were presented by the divisional managing directors at the CCE Committee and members listened to a variety of customer calls to identify and provide management with insights and feedback. Further information on the work of the CCE Committee is detailed on pages 150 and 152.

A Speak Up culture is where people feel safe to speak out and raise issues when they experience them and concerns when they feel something is not right. Having a Speak Up culture is conducive to a healthy, supportive environment, where everyone feels free to share their ideas, opinions and concerns, without fear of retaliation or penalty. To embed this within the Group, a Speak Up Dashboard was developed in 2021, incorporating a more rounded and robust set of measures including the total number and type of whistleblowing cases and colleague grievances. One of the ways the Board measures the Speak Up culture is through its annual Colleague Survey. Over the past year the Speak Up scores have seen positive improvements in questions such as "the leadership team here make the effort to listen to colleagues" and "people can and do speak openly regardless of position or level".

The CCE Committee received an update on the introduction of a new set of Group-wide HR Policies designed to support the Group's culture by driving fairness and consistency. A number of core polices are also in place that support the Speak Up culture such as the Whistleblowing and the Grievance, Harassment and Bullying Policies. The Board ensures that all colleagues are able to raise concerns confidentially through appropriate whistleblowing procedures. During the year, the Board reviewed the annual Whistleblowing Report and approved an enhanced Whistleblowing Policy to increase oversight of whistleblowing incidents and promote ethical conduct. The work of the Whistleblowing Forum continues, chaired by the Group General Counsel and Company Secretary.

Our Group-wide Colleague Surveys are also a vital feedback tool, as they allow colleagues to anonymously have their say about the leadership, culture and working life in the Group. This year we conducted the 'Pulse' Survey in February 2021 and a Group-wide Colleague Survey in October 2021 as a temperature check on the wellbeing of colleagues and to seek their views on how the Group had responded to the ongoing pandemic and working from home strategy. You can read more about our colleague engagement initiatives on pages 129 to 131 and find the results of our surveys on page 16. The Board tracks the lowest scored questions and actions are identified and tracked in order to improve engagement and make the Group a better place to work.

The Colleague Forums have been helpful in ensuring the business strikes the right balance between ongoing customer service and health and safety for our employees, especially ongoing mental health considerations for colleagues in different circumstances and working environments, including the risk assessment, policy changes and health and safety measures to ensure each workplace is Covid-19 secure. The Forums have also been invaluable in understanding and taking the 'on the ground' temperature regarding how colleagues were feeling about returning to the office.

The Board carried out a robust assessment of the principal and emerging risks facing the Group in the year, as well as assessing the businesses performance against the approved Board risk appetite. Following feedback from members, the Chief Risk Officer regularly reports to the Board and the Chair of the Risk Committee updates the Board on risk matters. The Board also received updates on the Future of Work strategy, internal audit reviews (including management awareness ratings) and whistleblowing statistics, which help to identify any areas falling below expected standards and enable the appropriate corrective actions to be taken. Information on the Group Risk Adjustment Framework can be found in the Remuneration Report on page 181.

4 Aligning culture and incentives

The Group job levelling framework is designed to drive better alignment of job roles and more comparable pay for colleagues with the same levels of responsibility. Colleagues have a maximum target bonus each year which is dependent upon both the Company's and their own performance. When reviewing colleague performance, significant weight is placed on how they have achieved in line with the Blueprint metrics, fostering emphasis on the correct behaviours to enable a healthy culture. You can read more about this and on the work of our Remuneration Committee on the remuneration principles and policy on page 178. Additionally, the non-financial performance objectives of our executive directors are aligned to our Blueprint.

During 2021, we launched the Group Reward Framework across the business which will be fully embedded by the end of 2022. The Group Reward Framework is underpinned by a job-level methodology which drives consistency where roles with similar expertise and responsibilities align across the Group. It supports career development and progression and makes it easier to move between divisions with aligned pay and benefits.

Colleague wellbeing in action

The Employee Assistance Programme (EAP) was launched in 2020. All colleagues have access to the EAP, which is provided by Health Assured. The EAP is a confidential 24/7 support service designed to help colleagues deal with personal and professional problems, such as stress and anxiety, lifestyle addictions, and personal and family matters, that might be affecting colleagues' home or work life, health or general wellbeing.

Health Assured offers expert advice and compassionate guidance on a wide range of issues. There is reactive support available when colleagues need it, as well as proactive and preventative support to help colleagues manage everyday issues so they do not get out of hand. For further details on the employee engagement see page 32.

There are Mental Health First Aiders working right across the Group, trained and ready to listen and support. We're one big team at PFG, so colleagues can freely contact any one of the Mental Health First Aiders.

Colleagues now have free access to Thrive, the UK's only NHS-approved wellbeing app. The award-winning app uses games to help colleagues track their mood and teach them methods to take control of stress and anxiety. Colleagues can learn relaxation techniques, like meditation and deep-breathing, to help them cope better with stressful situations and manage negative thoughts.

The Bank Workers Charity hosted three Be Well Webinars; each session focused on different topics, such as exploring the different ways we can be affected by stress, particularly in the workplace, and exploring how a better understanding of our resilience can help us withstand the pressures we face across the different areas of our lives. Other sessions included steps on how to manage loneliness and an overview of mental health problems and how work can reduce or exacerbate their impact.

The Group is committed to promoting a supportive workplace in which our colleagues can thrive. Covid-19 has taken a toll on everyone's emotional, psychological and social wellbeing. By providing tailored assistance and developing colleague resilience we can positively influence how colleagues handle stress, relate to others and make choices in their daily lives.

Setting the tone remotely

During the pandemic, our CEO, Malcolm established a regular vlog which is housed on our upgraded intranet, and shared via email to all colleagues in the business. Malcolm's updates have been designed to deliver business and performance updates, share messages on wellbeing matters and has helped to raise the profile of teams and activities across the whole organisation.

Stakeholder engagement

How does the Board ensure that stakeholder engagement is meaningful and effective?

The Board recognises that the long-term success of the Group is dependent upon listening, engaging and communicating with stakeholders in a meaningful and effective way. Our s.172 statement on page 75 outlines how we have engaged throughout the year and the impact of that engagement upon the Board's decision making. This section explains how our approach to stakeholder engagement has evolved during the year and how the Board has adapted the mechanisms, including the generation of a Stakeholder Engagement Strategy, to ensure that they remain effective.

Strategic and meaningful stakeholder engagement

The Group's activities affect a wide variety of stakeholders which represent different viewpoints and sometimes competing interests. Our Board has, through the work of the CCE Committee, continued to enhance the effectiveness and strategic focus of its stakeholder engagement activities. Last year the Committee carried out a stakeholder mapping exercise and approved a Stakeholder Map under the direction of the Board in order to understand the influence and interest that our stakeholders have in our business. During the year, the Committee commissioned an external stakeholder materiality assessment, undertaken by the Group's sustainability partner, Corporate Citizenship, to understand and prioritise the views and concerns of our stakeholders. This involved a series of interviews with internal and external stakeholders as well as the outcomes of recent stakeholder engagement activity such as our investor perception audit, Colleague Surveys and supplier due diligence assessments. The results of the materiality assessment have been used to create a new Stakeholder Engagement Strategy which identified four levels of engagement and has guided how the Group 'Informed', 'Listened', 'Involved' and 'Collaborated' with its stakeholders throughout the year. The Committee will review the various methods of engagement annually and devise annual strategic engagement objectives for the following year, which will be assessed at the year end and fed into the following year's objectives. You can read more about the new Stakeholder Engagement Strategy on page 49. For information on how the outputs of our strategic engagement objectives are measured please see the CCE Committee Report on page 150.

Stakeholder Engagement Strategy

Stakeholder	Strategic engagement objectives for 2021–22
Our customers	Our businesses employ a wide range of techniques to engage with customers throughout their time with us. These methods of engagement are outlined in our s.172 statement on page 77. In addition to continuing to use these methods, we will: – convene more customer panels/groups; – involve customers in the inclusive design of products and services so that they can be designed to be accessible to, and usable by, as many of them as possible from the outset; and – ensure that collaborative initiatives and partnerships with external organisations are accessible to and benefit customers across the different divisions.
Our colleagues	We will continue to engage with colleagues using the wide range of channels, some of which have only recently been introduced (for example the Group-wide intranet, inclusion community and Colleague Forums). These methods of engagement are outlined on page 79.

> Fantastic progress was made during the year to strengthen our stakeholder relationships through our 2021 materiality assessment and consequent Stakeholder Engagement Strategy and increased collaboration with our Colleague Forums. I have personally enjoyed interacting more frequently and directly with colleagues this year at Colleague Forum events and seeing the value added by them, particularly in how they helped to shape our Future of Work programme.

Graham Lindsay
Designated Non-Executive Colleague Champion

Strategic and meaningful stakeholder engagement continued

Stakeholder	Strategic engagement objectives for 2021–22
Our regulators and government	Given the evolving regulatory landscape, our engagement activities will focus on: – continuing to engage with our regulators, ensuring that engagement is coordinated, and any resultant outcomes are reported back to the relevant committees of the Board and Group Executive Committee; – ensuring that certain responses to our regulators continue to be channelled through a single team to ensure coordination; – engaging with our regulators through our trade association memberships; and – where possible, contributing to or participating in multi-stakeholder forums involving our regulators and other businesses within the financial services sector. We will continue to engage with the Government at the CEO level, and through our think tank partners and participation in multi-stakeholder forums and government-sponsored initiatives and schemes. In addition, we will engage with the Government by participating in discussions and events on a broader range of issues that are material to the Group (such as with the Bank of England on National Numeracy).
Our investors	We will continue to engage with investors using the methods already employed, as described on page 81. Strategic priorities in terms of engaging with our investors include: – attending broker conferences and other similar events; – using existing channels, such as presentations and meetings, to engage with our investors on our ESG strategy; – publishing thought leadership articles on topics that would be of interest to investors on social media and other channels; and – engaging more with our debt investors to develop our ESG credentials with that audience.
Our suppliers	We will continue to develop and embed the Supplier Relationship Management Framework, ensuring that tools, processes and procedures are aligned across the Group. We will also engage with our suppliers on other issues, such as the climate risk agenda and the recommendations of the TCFD.
Our communities	Maintain levels of engagement with all community partners with emphasis on the following: – raising awareness of the work we deliver in partnership with our community partners with other key stakeholders, in particular regulators, government, investors and colleagues; and – ensuring that regular updates on our community investment work are provided to the CCE Committee and Group Executive Committee. We will also seek to align community investment activities, where possible, with the Group's inclusion community. You can read more about our community engagement on page 62 and in our CR Report.
Our environment	Climate change represents a priority ESG issue for our business, particularly in the context of managing material climate-related risks and the recommendations of the TCFD. Following the establishment of a dedicated Climate Risk Committee, our stakeholder engagement activities will focus on: – continuing to include TCFD updates in our Annual Report and Accounts and CR Reports for transparency and accountability to our stakeholders; – including TCFD content in investor relations materials and regulatory-related documentation; – informing and involving colleagues by engaging them on climate-related matters (such as through e-learning, intranet-based campaigns and involvement in working groups); and – ensuring that regular updates on our climate change-related work are provided to the CCE Committee, Risk Committee, Group Executive Committee and business unit boards/committees.

Colleague engagement mechanisms

We have adapted how we listen to, inform, involve and collaborate with our colleagues throughout the year in response to the challenges posed by the Covid-19 pandemic and our shift to hybrid working. The below table highlights the key engagement activity that has taken place during the year, including the increased virtual engagement that has been utilised. One such example is the launch of the new Group-wide intranet, which has provided an interactive two-way dialogue with colleagues for socialising, discussing key topics and keeping up to date on developments across the Group. You can read about our colleague engagement activities in more detail on page 79.

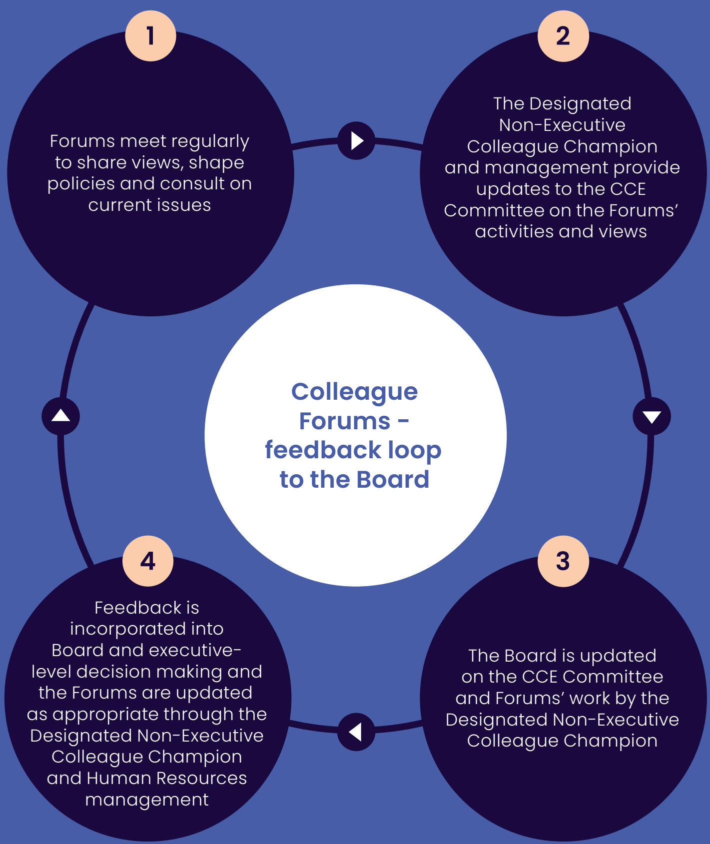
Furthermore, the Board has procedures in place to make sure that colleagues' views are reported up to the Board and considered in discussions and decision making. The CCE Committee has delegated responsibility from the Board to oversee colleague engagement and the Committee's work is reported to the Board by our Designated Non-Executive Colleague Champion and Chair of the Committee via regular updates at Board meetings. The views obtained from our Colleague Forums are also fed back to the Board through our Designated Non-Executive Colleague Champion. Furthermore, the results of and outcomes arising from the Colleague Surveys are discussed at the CCE Committee and reported up to the Board within the Group CEO's report. The survey results are cascaded to colleagues, with management holding sessions with their teams to discuss the results and seek their feedback on how to improve the lowest scoring areas. Following these sessions, action plans are developed and tracked by HR and the Group Executive Committee.

Level of engagement	Methods of engagement in 2021
Inform	– Launch of new Group-wide intranet which provides colleagues with information on a range of issues (including a dedicated 'return to office' page). – Regular internal e-comms from Group HR, the CEO and other Group Executive Committee members on Covid-19 updates, business updates and our Future of Work programme. – 'Be Better' performance management framework which enables us to define to colleagues and measure the behaviours that will ultimately change and improve our culture and performance. – Dedicated professional mental health and wellbeing support through our Thrive mobile application and Employee Assistance Programme, and dissemination of related guides. – Mandatory e-learning on Covid-19 health and safety measures in place upon colleagues' return to the office.
Listen	– 2021 'Be Open' Colleague Survey followed by a Pulse Survey to garner colleagues' views half-way through the year, and an additional Future of Work survey to provide colleagues with the opportunity to shape the Group's future working practices. – Our non-executive directors visited colleagues at our Chatham office to gain insights into the culture and concerns of colleagues at different levels of the business. – Leadership conversations held within the business units (such as 'Natter with Neil' in Vanquis Bank and 'Ask the ExCo' sessions in Moneybarn) and virtual 'town hall' meetings where colleagues are invited to attend open sessions with executives to share feedback on a range of issues. – Whistleblowing Forum which oversees whistleblowing investigations, reviews management information and monitors trend data closely.
Involve	– Colleague Forums have been used to involve colleagues across the divisions in key issues affecting the Group, including the Future of Work programme and executive director remuneration. You can read more about the work of our Colleague Forums in the section below. – The new Group-wide intranet is interactive and allows for two-way communication with colleagues via Q&A sessions, polls and social spaces. There is a dedicated 'Be Social' page which features virtual social activities and informal opportunities for networking between colleagues. – The Group inclusion community (comprised of four Affinity Groups based around disability, ethnicity, gender and LGBTQ+) which helps the Group improve its related policies and shape our ways of working and seeks to educate colleagues across our businesses.
Collaborate	– The Colleague Forums have been utilised to collaborate with colleagues on the Future of Work programme and Covid-19 measures to keep colleagues safe as they return to working in the office. – The PFG inclusion community is a collaborative Group-wide initiative, with an executive sponsor from each division, whereby leadership works in partnership with colleagues around the topics of inclusion and diversity, and colleagues' views are reported to the Group Executive Committee.

Engagement in action
Colleague Forums and Designated Non-Executive Colleague Champion

Colleague Forums
Key discussions this year have focused on the Group's response to Covid-19 and the Future of Work programme; the Forums provided invaluable feedback which was used to inform management's strategy around our new hybrid working model. Since May 2021, the CCD Forums have been utilised for collective consultation to ensure that colleagues are adequately supported through CCD's wind-down and the feedback loop has operated as follows:

1. The primary focus of the CCD Forums has been collective consultation to consult with colleagues on redundancy proposals and the provision of post-redundancy support.
2. The Designated Non-Executive Colleague Champion and CCD management updated the CCE Committee on the negotiations, outcomes and key issues of colleagues expressed at the collective consultations.
3. The Designated Non-Executive Colleague Champion fed this information up to the Board and apprised the Board of the CCE Committee's involvement.
4. In response to concern expressed from colleagues at the CCD Forums, the CEO and executive management guaranteed the payment of redundancy monies in the event of CCD's administration should the Scheme of Arrangement not be approved by the High Court.



The Group continues to utilise its Colleague Forums and a Designated Non-Executive Colleague Champion to engage with its colleagues. These methods remain effective for the Group because the Forums provide a representative voice for each division and meet on a regular basis to consult on current issues. The Designated Non-Executive Colleague Champion is also Chair of the CCE Committee, and he oversees colleague engagement and attends the Colleague Forum meetings to provide a two-way communication channel between the Board and the Forums. Over the past year, the Forums have progressed to become a well-established consultation channel, with clearer alignment to issues that are of strategic importance to the Group. Next year the Chairs of the Forums will be invited to attend a CCE Committee meeting to strengthen engagement between the Board and the wider workforce.

Non-Executive Directors' engagement with colleagues on aligning executive remuneration with the wider workforce
Led by the Designated Non-Executive Colleague Champion, engagement sessions were held with colleagues during the year to discuss the setting of executive remuneration in the context of wider workforce pay. Colleagues were encouraged by the fact that executives' performance was measured against a scorecard of metrics and aligned to the Group's long-term value and vision, which determined their overall remuneration. However, colleagues expressed a desire for the scorecard to be made more visible and cascaded appropriately at the start of the year, which the NEDs and Group HR function agreed to do as a way to improve the transparency of executive pay.

NEDs' visit to Vanquis Bank contact centre
Following the relaxation of Covid-19 restrictions, the NEDs were pleased to reinstate their annual visit to Vanquis Bank colleagues based in the Chatham office. The visit was facilitated by Vanquis Bank's Head of Operations and was attended by a wide variety of colleagues from multiple functions and levels. The NEDs learned first hand how customers had been supported during the Covid-19 pandemic and how Vanquis Bank's operations had evolved over the year. There was also an opportunity for colleagues and the Board to ask each other questions and engage more informally during a 'speed dating' session.

Workforce policies and practices

Having workforce policies and practices that are aligned with the Company's Purpose and values is a key focus of the Board to support the desired culture. Therefore, given the transformational changes that have taken place within the Group during the year, the workforce policies are being reviewed to create a simplified approach to ensure more consistency and to accommodate our new hybrid working model, as well as to ensure the policies are aligned with our values and desired culture.

Investing and rewarding our workforce

The year the 'Blueprint behaviours' performance management framework was used fully for the first time to assess colleagues' performance and determine bonus allocations in line with the Group's values. This provides for an assessment of the 'what' and 'how' delivered by our colleagues during the year and brings consistency and transparency across the Group. Work has continued on harmonising pay and benefits opportunities for equivalent roles across the divisions through the new Group Reward Framework with a major roll-out in Q1'22. Group-wide job levels have also been rolled out to help drive consistency throughout our divisions and create a more unified colleague experience. This has enabled the movement of colleagues across divisions to support retention and create development opportunities. For example, following the decision to exit the home credit market, certain CCD colleagues have been redeployed to other divisions in the Group. The new job levels clearly articulate the competencies and behaviours required at each level; associated training programmes have also been developed to help colleagues progress to the next stage of their development. You can read more about the ways in which we invest in our workforce on page 59 and about our approach to rewarding our workforce on page 126.

Working with our suppliers

We have continued to strengthen our strategic relationships with key suppliers. A Group-wide Head of Procurement was appointed during the year, and a new Group Procurement Policy finalised, to ensure the Group operates within a strategic supplier management framework which produces commercial outcomes and exemplifies high ethical standards. In order to ensure that the suppliers we contract with uphold our high ethical standards, we conduct due diligence checks prior to engagement to ensure the suitability of the supplier, which will include some or all of the following areas depending on the services received: financial stability, Corporate Criminal Offence compliance, data protection, information security, business continuity, regulatory compliance, corporate responsibility, and PEPs and sanctions/director checks.

The CCE Committee monitors our procurement and supplier payment practices to ensure that they comply with the Group's policies to minimise supply chain risk and prevent human rights issues. The CCE Committee conducted its annual review of the Group's Modern Slavery Statement and concluded that the statement and the approach taken reflected best practice and were representative of the Group's activities to promote ethical business practices and policies. This provided the Board with assurance when it reviewed and approved the statement for 2021. A copy of our statement can be found on the Company's website, www.providentfinancial.com/modern-slavery-statement/.

The Group's commitment to protecting the human rights of its stakeholders is supported by the Group Procurement Policy and the Group's corporate Equality, Diversity and Inclusion Policy which endorses the United Nations Universal Declaration of Human Rights and the International Labour Organisation's Fundamental Conventions. Other corporate policies which support this commitment include the Health and Safety Policy, Whistleblowing Policy, Bribery Policy and Human Resources Policy. Our s.172 statement on page 75 provides information on how the Group has engaged with its suppliers and how the Board has considered their interests when making decisions. For example, the Board received regular reports from management as regards supplier performance.

Part of treating suppliers fairly is paying them promptly, which is why the Group is a signatory of the Prompt Payment Code which requires us to pay suppliers within 60 days of receiving an invoice. The Board monitors our compliance with this commitment through the Blueprint Dashboard which includes a metric on the % of suppliers paid within 60 days. For further information on our Blueprint Dashboard please see page 151.

You can read more about how we are committed to acting responsibly and with integrity towards all our stakeholders in our ESG Report on pages 48 to 74.

2021 highlights

3%

90%

of colleagues participated in our Future of Work survey in May

4%

71%

of colleagues participated in our bi-annual Colleague Surveys

8

38

internal e-comms on Covid-19 updates and the Future of Work programme

Effective engagement with shareholders and stakeholders: investor relations

Key investor engagement themes in 2021

Engagement overview

The Group is committed to engaging in open and honest dialogue with its investors and maintains the following mechanisms to ensure effective engagement with its investors:

- meetings with shareholders;
- a Capital Markets Day every two years (last held in 2019);
- the Annual Report and Financial Statements;
- the Annual General Meeting (AGM);
- stock exchange announcements (RNS) and press releases;
- a dedicated Investor Relations team;
- investor roadshows;
- investor perception audits;
- the Corporate Responsibility Report; and
- the Investors section of the Group website.

Regular engagement provides shareholders with an opportunity to discuss particular areas of interest and raise any concerns which can be communicated to the Board. The Group aims to communicate its plans effectively and understand investor views on its overall strategy and performance. In turn, this enables our shareholders and investment analysts to formulate a strong understanding of our Purpose, strategy, performance and culture.

How the Board engages

One aspect of our Chairman's role is to ensure effective engagement with investors and to understand their views. This is enabled by the various communication channels listed above. The Chairman also ensures that the Board as a whole receives feedback and has a clear understanding of the views of investors.

The Group has a dedicated Investor Relations (IR) team which is in regular dialogue with our shareholders and sell-side analysts. The IR team reports regularly to the Board, outlining the general nature of matters communicated and discussed with investors, including feedback and engagement plans. Furthermore, feedback from our joint corporate brokers, Barclays and Numis, is distributed to the Board and senior management team after each market update. An independent perception study of investor views is commissioned once a year and reviewed by the Board. Our quarterly management statements and half and full-year results statements are reviewed and approved by the Board prior to their release. Further information regarding how the Board engages with our shareholders and debt investors is contained within our s.172 statement on page 81.

Annual General Meeting (AGM)

The AGM presents investors with an opportunity to ask Board members questions and to cast their votes for proposed courses of action, including the appointment of Board members and the approval of the DRR.

Government restrictions in response to the global Covid-19 pandemic resulted in the 2021 AGM being held behind closed doors. Investors were asked to provide any questions for the Board in writing in advance of the meeting and to vote by proxy.

2021 IR Programme

Jan – Bondholder Notice – Accession of Guarantor, 7 January 2021

Feb

Mar – Q4 Trading Update, 16 March 2021

Apr

May – Preliminary Results Announcement, Annual Report and CR Report, 10 May 2021; Scheme of Arrangement Announcement, 3 May 2021

Jun – AGM, 30 June 2021

IR Programme

Our dedicated IR team maintains a planned IR Programme throughout the year that ensures ongoing dialogue with our shareholders and debt investors. Other investor engagement activities during the year included the following:

1 The Annual Report

This is the most significant engagement tool and is intended to show shareholders how the Board has set the Company's Purpose and strategy, and how the Board is actively focused on meeting its objectives and achieving outcomes through the decisions it has taken. Most importantly, it enables investors to evaluate our approach to governance arrangements.

2 The Group website

The Group website provides investors with timely information about each of our three divisions, our management team and Board members and the Group's strategy and performance. It also provides investors with details regarding up-to-date financial information, regulatory news and all released RNS, together with detail regarding how the Group meets its Code obligations.

3 Investor days

The Group holds a Capital Markets Day every two years (last held in 2019). These events are a key engagement tool which allow our stakeholders to hear the latest views from senior management and for us to communicate the strategic ambitions for the Group. A Capital Markets Day is planned for Q1'21.

4 Investor/analyst meetings

The Group takes a proactive approach by inviting investors and analysts to meet with senior management on a regular basis.

5 US and European roadshow programmes

The Group is dedicated to facilitating necessary access for overseas investors to management, enabling them to receive the same access to information as investors in the UK. Roadshows are usually attended by the CEO, the CFO and the Head of IR. The Group did not undertake overseas roadshow activity in 2021 due to Covid-19 travel restrictions. However, we continued to interact with our international shareholders via video conference. The Group plans to resume overseas roadshows when permitted.

6 Attending broker conferences

Senior management regularly presents at industry conferences hosted by sell-side analysts and brokers to ensure accessibility for a wide variety of stakeholders. Attendance at broker conferences was limited to video conference during 2021, and senior management spoke at the Barclays Global Financial Services Conference in September and the Goodbody Conference in November. Such events continue to form a core part of our shareholder engagement programme for 2022.

7 The Corporate Responsibility Report (the CR Report)

The CR Report offers investors a clear and comprehensive insight into the Group's Blueprint and its social purpose of providing financial inclusion for those who are underserved. It also highlights the Group's contribution towards reducing carbon emissions.

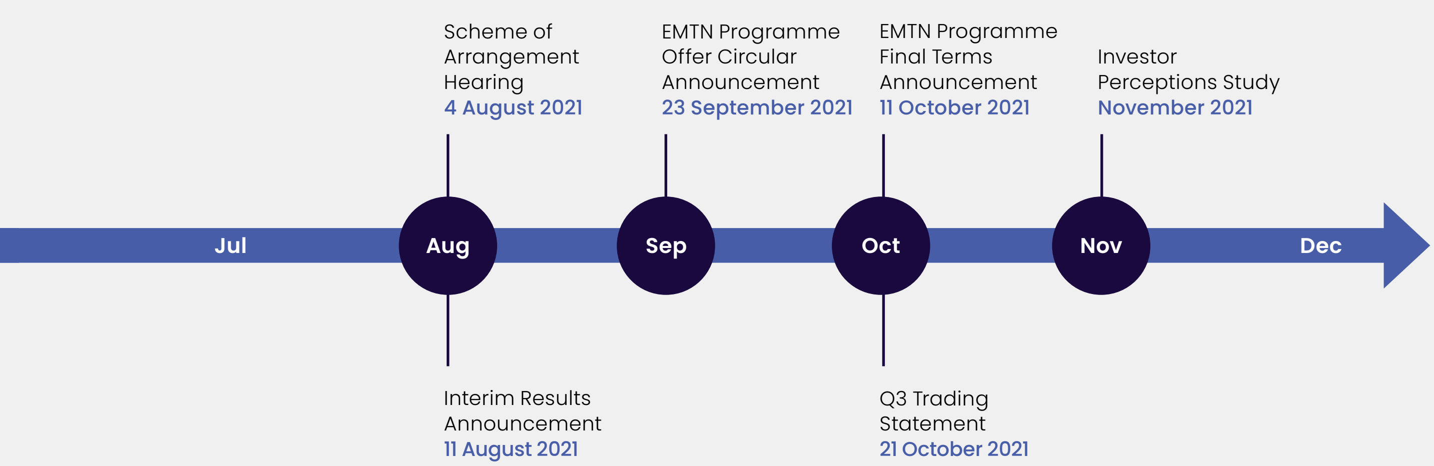
8 Shareholder correspondence

The Group is committed to engaging and responding to all investor queries on a timely basis and this role is performed by our dedicated IR team.

9 Investor perception study

The Group commissioned an investor perception study, undertaken by Tulchan Communications LLP, during the fourth quarter of 2021. This was designed to collate the views of our shareholders and other market participants. Its findings, which were presented to the Board in December, were:

- Vanquis and Moneybarn are strong businesses operating in attractive markets;
- the Board took the right decision and management has executed well on the exit from CCD;
- less regulatory risk and higher growth prospects for PFG following the decision to wind down CCD;
- holding a banking licence is a strength and a competitive advantage;
- a strong balance sheet that provides the financial resources for growth, both capital and funding;
- clear expectation that PFG is now on a path of recovery towards its RoE target; and
- shareholder distributions are an important part of the equity story.



How we structure our governance

Streamlining our structure

On 13 January 2022 we announced the substantial alignment of the membership of the Board of Vanquis Bank to that of the Company. The purpose of the change was to create a simpler, more efficient Group governance structure in support of our strategy to be the leading specialist bank with a focus on the financially underserved. As part of these governance changes a review of the terms of reference was completed and they were updated to reflect the alignment of the Company and Vanquis Bank Boards. The terms of reference are available on our website at www.providentfinancial.com/who-we-are/corporate-governance.

The benefits of efficiency and simplicity are in part delivered through the Board and committee meetings of both the Company and Vanquis Bank taking place at the same time. The interests of the Company and Vanquis Bank are aligned in most instances and the aligned structure assists this, reduces unnecessary duplication and makes the most of the Board's and management's time and effort. The Group has a Conflicts of Interest Policy and a clear process to identify and manage any conflicts of interest is in place.

The underlying Purpose and roles of the Company Board and its committees remain unaffected by the combined structure.

Our Board

Our Board is responsible to its shareholders and other stakeholders for the management, performance and long-term success of the Group. It sets and oversees the Group's Purpose and strategy and ensures that the Group is managed effectively. Our Board provides challenge and advice to management, and has established a number of committees with specific remits to assist it in operating effectively. There are certain matters that are reserved for the Board's approval and cannot be delegated. These include, but are not limited to, the following:

- approval of and monitoring implementation of the corporate strategy;
- oversight of the Group's operational and subsidiary performance;
- approval of the annual budgets for the Group and its subsidiaries;
- approval of the Annual Report and Financial Statements;
- oversight of the Group's system of internal controls, risk management processes and the adequacy of both;
- the setting, instilling and monitoring of the Group's Purpose, culture and values; and
- approval of any major changes to the Group's capital or corporate structures.

Board committees

Nomination Committee

The Nomination Committee determines the right structure, size and composition of the Board. It also considers Board diversity, succession and the leadership needs of the Group and recommends any Board appointments.

+ Read more on **page 143**

Audit Committee

The Audit Committee examines the integrity of the Group's financial statements and oversees the system of internal controls. It monitors the independence and effectiveness of both Internal and External Audit.

+ Read more on **page 153**

Risk Committee (RC)

The RC considers the Group's risk appetite, recommends its adoption to the Board and monitors the status of the Group's risks against it. It examines the Group's principal and emerging risks and oversees the effective implementation of the Risk Management Framework, including associated assessment processes. The RC is also responsible for reviewing the Internal Capital Adequacy Assessment Process (ICAAP).

+ Read more on **page 158**

Remuneration Committee

The Remuneration Committee determines the DRP and ensures that it aligns with the Group Purpose and strategy. It sets the level of remuneration for senior management, executive directors and the Chairman and examines workforce remuneration-related policies. The Committee provides oversight of key remuneration-related matters for those divisions that do not have a remuneration committee.

+ Read more on **page 169**

Customer, Culture and Ethics (CCE) Committee

The CCE Committee oversees stakeholder engagement and the alignment of Group policies, procedures, systems and behaviours with the Group's desired customer outcomes. Furthermore, the Committee examines the embedding of the Group's Purpose, culture, ethics and Blueprint behaviours. The Committee oversees the Group's environmental impact and activities and corporate responsibility strategies.

+ Read more on **page 150**

Disclosure Committee

The Disclosure Committee ensures compliance with the Market Abuse Regulation and the Disclosure Guidance and Transparency Rules. It oversees that there are appropriate policies and processes in place to govern the identification, treatment and disclosure of inside information.

Our Board is responsible for the management, performance and long-term success of the Group. It sets the Group's Purpose and strategy and oversees their execution by management.

Group Executive Committee

Where a matter is not reserved to the Board or one of its committees, it is delegated to the CEO, who has established the Group Executive Committee, which he chairs, to assist him in his decision making and in making recommendations to the Board. The Committee membership includes the managing directors (MDs) of each division and those senior Group executives with functional reporting lines including HR, Finance, Internal Audit, Risk, Legal and IT. The Committee oversees delivery of the strategy and day-to-day management of the Group, promoting the Group's culture, values and Purpose. It receives reports from each of the divisional MDs and works to achieve consistency and alignment across the Group. The Committee meets regularly and considers most material matters ahead of the Board.

Matters that the Committee has considered this year include: the wind-down of CCD and execution of the associated action plans; colleague working arrangements in response to Covid-19 and the Future of Work; the Group's Operational Resilience programme; financial forecasts, including year-end forecasting, reforecasting in response to the Covid-19 pandemic, budgets and financial scenario modelling; credit policy and affordability; customer outcome testing and vulnerability; and updates from the Group's inclusion networks.

Following the substantive alignment of the Boards of PF plc and Vanquis Bank on 13 January 2022, the responsibility for risk has transferred from the Group Executive Risk Committee (GERC) to the Group Executive Committee. The Committee now monitors the strategic approach to risk management across the Group, including the overall coordination, review and, as appropriate, delivery of risk management activity. The Group Executive Committee supports the Group and its divisions to operate within the risk appetite parameters approved by the Board. Matters that the GERC considered during 2021 include: the ICAAP, risk harmonisation and risk and control self-assessment; risk event tracking and closure; regulatory contact and horizon scanning; divisional risk management; new or material amendments to products; and the Group's risk appetite.

Governance framework

Our governance framework has been designed to establish good governance practices and accountability to the Company's stakeholders including shareholders. The governance framework enables the Board to discharge its governance responsibilities under the Code effectively. To reflect the alignment of the Group and Vanquis Bank Boards the key component documents of the governance framework have been updated to cover both the Group and Vanquis Bank.

Documents that are key components of the governance framework, in addition to the terms of reference, are:

The Board Governance Manual

The Board Governance Manual sets out how we govern the Group, including the key roles and responsibilities, details of our committee structure and their purpose.

The Group Delegated Authorities Manual

The Group Delegated Authorities Manual (GDAM) formalises what matters can be approved, and by whom, including thresholds for escalation, below Board level. The alignment of Board and committee membership for the Group and Vanquis Bank has facilitated streamlined decision making, particularly for Vanquis Bank which will no longer be required to refer decisions on matters reserved to the Group Board. The refreshed GDAM has been updated and communicated to colleagues.

Terms of reference

We have established clear terms of reference for all forums within our governance framework. The terms of reference define the duties, responsibilities, authorities and membership of each committee and are consistent in format. Group Company Secretariat reviews the suite of terms of reference regularly and this year a detailed review was undertaken in order to combine the Group and Vanquis Bank Board and committee terms of reference. In our work to update the documents we considered the Chartered Governance Institute best practice recommendations, combined board terms of reference for other banks, and sought independent assurance.

Policies

The Group has established a suite of corporate policies that set out at a high level the codes of conduct, controls, processes and requirements of all employees, divisions and the corporate office. The divisions are responsible for embedding the corporate policies at a local level via the implementation of divisional policies and procedures, with the Board having oversight on the effectiveness of that implementation. The corporate policies are reviewed on a regular basis.

How we divide our key responsibilities

We define the roles of our Chairman, CEO and Senior Independent Director (SID) clearly and in writing and they are available on our website, www.providentfinancial.com/who-we-are/leadership. Patrick, our Chairman, leads the Board in setting our strategy and generating long-term sustainable value and also in ensuring its effectiveness. Malcolm, our CEO, is responsible for implementing the strategy, running the Company's business and leading the Group Executive Committee. In her role as SID, Andrea acts as sounding board for the Chairman and serves as an intermediary for the CEO, the other directors and shareholders.

Chairman

- Leads the Board
- Ensures alignment of strategic objectives
- Safeguards corporate governance
- Leads with integrity
- Promotes critical discussion and encourages challenge
- Promotes diversity and inclusion
- Ensures shareholder value is generated and stakeholders are engaged
- Ensures Board decisions are taken on a sound, well informed basis

Chief Executive Officer (CEO)

- Provides leadership for the Group and executive team
- Is responsible for day-to-day management
- Is responsible for developing the strategy
- Recommends long-term objectives to the Board
- Is responsible for ensuring risk management and internal controls are in place

Senior Independent Director (SID)

- Is available to shareholders to address any concerns
- Is a sounding board for the Chairman
- Acts as a conduit for other directors
- Leads reviews of the effectiveness of the Chairman

Chief Finance Officer

- Leads the Group Finance function
- Supports the CEO to develop and implement the Group's strategy
- Is responsible for effective financial reporting, processes and controls
- Deputises for the CEO as required

Non-executive directors

- Provide independent, constructive challenge and strategic guidance
- Monitor and review the performance of the executive directors
- Apply their knowledge and experience from other sectors to the Group
- Chair committees in their area of expertise as appropriate
- One non-executive director undertakes the role of Designated Non-Executive Colleague Champion (see page 130 for further details)

General Counsel and Company Secretary

- Provides comprehensive legal support to the Board and individual directors
- Is the subject matter expert on corporate governance matters
- Ensures that Board-level information is fit for purpose
- Facilitates effective discussion between management and the Board
- Is responsible for communicating with shareholders on governance-related matters

Information and reporting

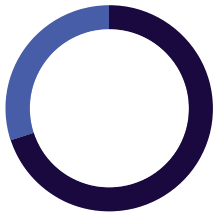
The Chairman is responsible for ensuring that the Board receives the information it needs, when it needs it, in order to effectively carry out its role. The General Counsel and Company Secretary, together with her team, facilitates the effective flow of information to and from the Board, committees and management by working with the Chairman, the CEO and the management team. Our reporting is standardised and our templates have been redesigned following the combining of the Board and committee meetings of the Company and Vanquis Bank. The templates ensure that consideration is given to s.172 matters, risk and conflicts of interest when reporting. Particularly important to facilitate the combined meetings, our templates have been enhanced to clearly signpost which material is relevant to which entity. The templates ensure the quality and consistency of our reporting and assist our directors in navigating the information, enabling them to use their time effectively. As part of the roll-out of new templates Group Company Secretariat has delivered report writing training sessions to colleagues. We ask our Board members to comment on the length, structure and timeliness of materials during the year and take action on the feedback received. As a direct result of Board feedback this year, we have repositioned the section that sets out the input being sought from the Board to the top of the report to sit adjacent to the executive summary.

Each committee has an annual forward agenda plan that is based upon the duties and responsibilities documented in its terms of reference and is presented to the final meeting of each year for the year ahead. Group Company Secretariat performed a thorough review of the terms of reference ahead of the combining of the Board and committee meetings and monitors adherence with the terms of reference on an annual basis, thereby ensuring that the Board and its committees successfully deliver on their responsibilities.

Independence of non-executive directors

Independent non-executive directors provide independent oversight and constructive challenge to executive directors. They also bring valuable skills, experience, and their own personal qualities to the boardroom.

Board balance



- Independent non-executive directors 7
- Executive directors and Chairman 3

The Nomination Committee and Board review the independence of its directors on appointment and thereafter annually, taking into consideration the factors set out in the Code and any other circumstances which may impair independence. Following consideration and recommendation from the Nomination Committee, the Board has determined that each non-executive director remains independent except the Chairman, who was independent on appointment.

All directors are required to disclose to the Board any outside interests which may pose a conflict with their duty to act in the best interests of the Company. The Board reviewed and approved a Conflicts of Interest Policy during the year which applies to all Group directors and sets out the arrangements for when a director of any company within the Group has an actual or potential conflict of interest. Further details on conflicts of interest can be found in the Directors' Report on page 163.

Board appointments and time commitment

To support the robustness and transparency of our Board appointments, we have a formally documented Board Appointment Process which sets out what the Nomination Committee needs to consider when recommending Board appointments, including the Board's diversity, directors' skills, other commitments, independence and culture. The process also stipulates that open advertising be used for the recruitment of the position of Chair, CEO or non-executive director.

Directors are required to ensure that they will have sufficient time to meet what is expected of them effectively. The Board reviews the time commitment of each director on appointment and on an ongoing basis in response to changes in their external time commitments. In deciding to combine the Board and committee meetings of the Company and Vanquis Bank, directors' time commitment was thoroughly reviewed to reduce duplication and support effective and efficient meetings, resulting in only a modest increase in time commitment for directors. For the period under review the Board determined that all directors had sufficient time to effectively discharge their responsibilities.

The Board will consider appointments that the directors may wish to take on in order that they do not compromise their effectiveness and the Code also requires that additional external appointments should not be undertaken without prior approval of the Board. The Board's External Appointment Policy is designed to ensure that all directors remain able to effectively discharge their responsibilities to the Company, whilst recognising the benefit of external appointments to director development and experience. The Board considers all requests for permission to accept other directorships carefully, subject to the following principles:

- a non-executive director would not be expected to hold more than four other material non-executive directorships;
- if a non-executive director holds an executive role in a FTSE 350 company, they would not be expected to hold more than two other material non-executive directorships;
- in line with the Code, an executive director will be permitted to hold one non-executive directorship in a FTSE 100 company (and to retain the fees from that appointment) provided that the Board considers that this will not adversely affect their executive responsibilities to the Company; and
- the Board would not permit an executive director to take on the chairmanship of a FTSE 100 company.

The Board holds meetings at regular intervals, where the Group's financial and business performance is reviewed, along with risk, IT, legal, human resources and strategic matters. There is a comprehensive meeting pack and agenda which are circulated before both Board and committee meetings to allow the directors adequate opportunity to consider the matters to be discussed. Board and committee meetings are scheduled more than a year in advance and if any director is unable to attend a meeting, they are encouraged to provide their opinions and comment on the papers and matters to be considered upon circulation prior to the meeting.

Meetings are structured such that appropriate time is devoted to all agenda items. In addition to these scheduled meetings, 'ad-hoc' meetings are held outside the published cycle where circumstances require, for example, key strategic developments.

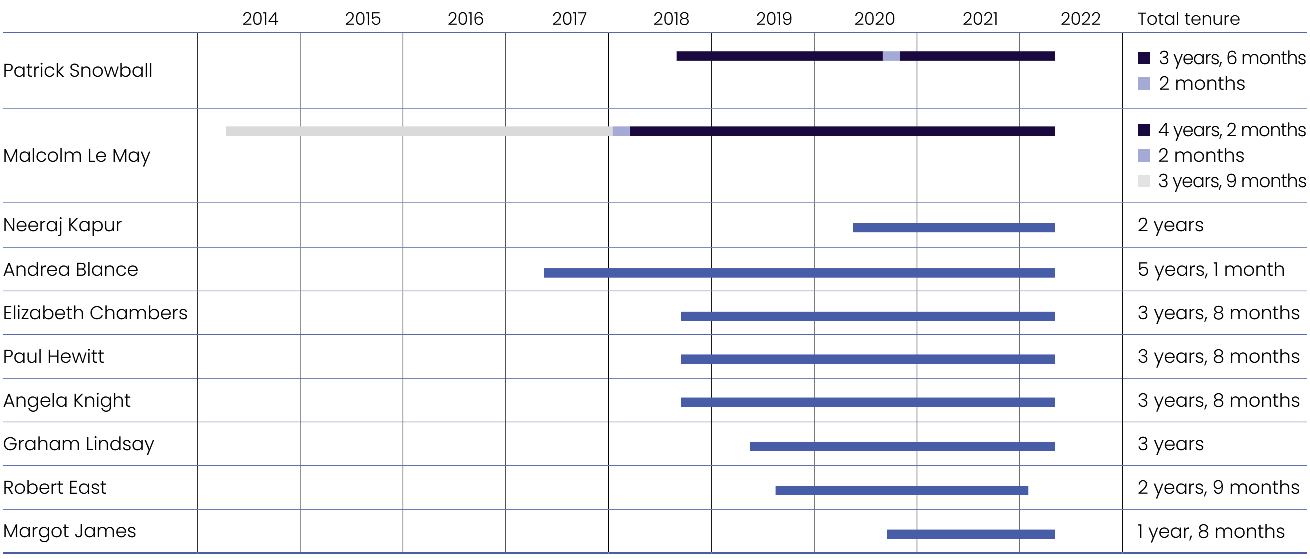
During the year, the Board considered Patrick Snowball's appointment as Chairman designate of AMP Capital's Private Markets business. The Board took account of his existing time commitments and resolved that he would have sufficient time to discharge his duties to the Company and as such approved the appointment.

Member attendance at Board and committee meetings in 2021

The table below sets out the Board and committee attendance during the year. Attendance is shown as the number of meetings attended out of the total number of meetings possible for each individual director. During 2021, the attendance was very strong both at the scheduled and additional meetings. The Board continues to be satisfied that each of the directors is able to allocate sufficient time to the Company. The absences shown below were a result of either an urgent personal matter or other pre-planned commitments. The Chair of each committee reports regularly to the Board on how that committee has discharged its responsibilities. Following completion of the restructure of the Board of Vanquis Bank to substantially align its membership with the Board of the Company, additional time commitment will be required by directors during 2022 and onwards in order to successfully execute their duties.

Board member	Board	Ad hoc	Audit Committee	Ad hoc	Nomination Committee	Ad hoc	Remuneration Committee	Ad hoc	Risk Committee	Ad hoc	Customer, Culture and Ethics Committee	Ad hoc
Total number of meetings	9	8	6	1	5	–	6	1	4	4	3	1
Patrick Snowball	9/9	8/8	–	–	5/5	–	–	–	–	–	–	–
Malcolm Le May	9/9	8/8	–	–	–	–	–	–	–	–	–	–
Neeraj Kapur	9/9	8/8	–	–	–	–	–	–	–	–	–	–
Andrea Blance	9/9	8/8	6/6	1/1	5/5	–	6/6	1/1	–	–	–	–
Graham Lindsay	9/9	8/8	–	–	5/5	–	6/6	1/1	–	–	3/3	1/1
Robert East	9/9	7/8	–	–	5/5	–	–	–	–	–	3/3	1/1
Paul Hewitt	9/9	8/8	6/6	1/1	5/5	–	–	–	4/4	4/4	–	–
Elizabeth Chambers	9/9	7/8	–	–	5/5	–	–	–	4/4	4/4	2/3	1/1
Angela Knight	9/9	8/8	6/6	1/1	5/5	–	–	–	4/4	4/4	–	–
Margot James	9/9	8/8	–	–	5/5	–	5/6	1/1	–	–	3/3	1/1

Directors' Board tenure as at 1 April 2022



Malcolm Le May key: ■ Chief Executive Officer ■ Interim Executive Chairman ■ Non-Executive Director

Patrick Snowball key: ■ Chairman ■ Interim Chief Executive Officer

Board composition

The Board is structured to ensure an appropriate combination of skills, experience, knowledge and independence is achieved. In determining this, consideration is given to the length of service of the Board as a whole to ensure membership is appropriately refreshed. We believe the right Board composition is a key cornerstone of Board effectiveness and successful delivery of the Group's strategy. Overall findings of the annual Board evaluation pertaining to Board composition are shared with and discussed by the Nomination Committee; these are then used to identify gaps in skills and experiences for incorporation into the Board training and development programme. You can read more about this in the Nomination Committee Report on page 143.

A review of the Board to consider its composition and diversity and how effectively its members work together to achieve the Group's objectives is undertaken annually. Further to this, the Board's composition was also reviewed prior to the Board approving the alignment of the Company and Vanquis Bank Boards.

The Nomination Committee ensures that a rigorous and transparent appointment procedure is followed, with a diverse pool of candidates considered for any vacancy which arises. Appointments are based on merit, having regard to the skills, competencies and experience of the candidate. The Board believes that good succession planning contributes to the long-term success of a company.

The Group-wide talent and succession approach provides a consolidated, single view of talent and succession across the Group. This enables visibility of the combined talent pool and enables more robust conversations and calibration to support succession planning, identify skills gaps, and support cross-business opportunities, which, in turn, develops our talent and promotes retention.

The Group's Equality, Diversity and Inclusion (EDI) Policy is designed to promote equality, diversity and inclusion across the Group and to ensure that our business and working environment is one that respects and includes everyone. This means understanding the potential that all people bring to the workplace regardless of age, disability, gender, gender reassignment, marital and civil partnership status, pregnancy and maternity, race, religion or belief, or sexual orientation.

The Nomination Committee oversees the development of a diverse pipeline for succession within the organisation. Developing a diverse executive pipeline is vital to reflecting society as a whole with the associated skills and insights which will support the successful growth of the Company. Improving diversity at each level of the Company is important if we wish to have a fully embedded diverse workforce. You can read more about the EDI Policy on page 165 and the oversight of diversity and inclusion within the Nomination Committee Report on pages 147 and 148.

The Board continues to meet the Hampton-Alexander target of at least 33% female representation on the Board. The Board also continues to meet the recommendations of the Parker Review to have at least one director of colour by 2024. Further details on our EDI initiatives, objectives and progress can be found within the Nomination Committee Report on pages 148 and 149.

Graham Lindsay has continued in his role as Designated Non-Executive Colleague Champion. Graham has attended a number of Colleague Forums virtually, where he has provided oversight and support on key ongoing matters such as the Future of Work strategy. You can read more about this work in the CCE Report on pages 150 to 152.

On appointment, non-executive directors receive a formal appointment letter and executive directors receive a formal service contract, which identifies the time commitment expected of them.

Board changes

The current Board composition remained in place throughout the year; however, on 13 January 2022, the non-executive directors except Elizabeth Chambers were appointed to the Board of Vanquis Bank as part of the Group's review and changes to the target operating model. As a consequence of these changes, Robert East (Independent Non-Executive Director on the Company's Board and Chairman of Vanquis Bank) stepped down from the Board and the Vanquis Bank Board with effect from 13 January 2022. The changes are described further in the Nomination Committee Report on pages 143 to 144.

As at March 2022, the Board of directors comprises the Non-Executive Chairman, one Senior Independent Director, five independent non-executive directors and two executive directors, who all bring considerable knowledge, skills and experience to the Group. Biographical details of all directors are given on pages 112 to 114.

More details of the directors' skills and experience can be found in the Nomination Committee Report on page 143 and in their biographies on pages 112 to 114.

Induction for new directors

Board induction

The Chairman and General Counsel and Company Secretary ensure that all new directors receive a comprehensive and tailored induction programme to suit the requirements of their role. Our induction provides directors with an in-depth understanding of the business, our Purpose, culture and values, and the markets in which the business operates. The induction also includes dedicated time for new directors to meet with colleagues. The induction programme comprises a combination of site visits and meetings with other Group executives and senior management as illustrated below. Whilst we did not make any significant changes to our induction programme during 2021, the pandemic taught us to embrace virtual meetings and we have now integrated these to ensure inductions are conducted in a timely manner. Following the implementation of a common Board structure for the Company and Vanquis Bank, a review of our induction plan is underway and an updated version will be rolled out in 2022.

The tailored induction programme

All new directors participate in a tailored induction programme when they join the Board. The induction programme is designed to ensure that full understanding of the Group is achieved, an example of which may include the following:

One-to-one meetings

Meetings are scheduled with senior management including the members of the Group Executive Committee and the divisional MDs. A director's specific induction is tailored to the role they are appointed to; therefore, senior management induction meetings are also held as appropriate, including with Group Internal Audit, Group Finance, and key individuals from the Finance and Risk functions. New directors will also meet key stakeholders relevant to their specific role such as the Group's key advisors and brokers, representatives from the FCA and Prudential Regulatory Authority (PRA), the Group's major investors, and the Group's auditor, Deloitte LLP.

Induction materials

Newly appointed directors are provided with full access to an electronic 'reading room' within the secure Diligent platform, which includes induction materials such as the Group's governance policies and structures, terms of reference, Group organisation charts, the latest trading statements, the Annual Report and Accounts, the Group Delegated Authorities Manual, recent shareholder information, broker notes, past Board and committee papers and relevant regulatory correspondence. Materials from Board training sessions are also stored in Diligent for reference.

Field and site visits

Due to the easing of government restrictions, site visits were rescheduled in the second half of 2021 and the Board visited the Chatham office to observe the Vanquis Operations teams. Management and colleagues took the opportunity to update the Board on how the pandemic was impacting the workplace and what measures were in place to overcome this, and presented an update on the Future of Work strategy. A Q&A with the Board members also took place.

Ongoing Board training and development

Under the direction of the Chairman, the General Counsel and Company Secretary facilitates Board training and assists the Board with ongoing professional development. Directors undertake training they consider necessary to assist them in carrying out their duties and responsibilities. Every year the non-executive directors discuss their professional development with the Chairman. During 2021, directors continued to receive training in line with the Board's annual training plan, attending sessions on cyber and information security, the Scheme of Arrangement and Capital Requirements Directive V (CRD V) to gain further insight into current key subject matters. These sessions were led by both internal and external facilitators. Following the streamlining of the Group and Vanquis Bank Boards, a Board training plan incorporating both Vanquis Bank and Group matters has been produced for completion in 2022.

In accordance with best practice and the ever-evolving regulatory landscape, there is an increased need to continuously scan the horizon and identify any significant developments that require the Board's prioritisation. As such, the General Counsel and Company Secretary delivers updates to the Board on any developing regulations, laws and corporate governance developments by presenting Legal Reports at each meeting. Regular updates are also provided by the Chief Risk Officer in relation to emerging regulatory themes and anticipated regulatory changes and various others, including our internal subject matter experts, on a range of topics pertinent to their areas of responsibility.

The Nomination Committee reviewed and approved an enhanced Board Skills Matrix during the year, to reflect the widening breadth of skills required following the changes to the governance structure. You can read more about how the Board Skills Matrix is used in the Nomination Committee Report on page 143.

Directors are also given access to an external online academy tool which provides a wide array of briefings, education and bespoke training. Following the Board evaluation which was carried out in 2021 and the scores from the Board Skills Matrix, individual Board member training plans are being drafted to help them develop further in their roles.

Preliminary Board training schedule 2022

Examples of the topics expected to form part of the Board's training programme during 2022 include:

- Senior Managers and Certification Regime and general banking regulation;
- financial and cyber crime;
- unconscious bias; and
- presentation from a debt charity.

2021 internal evaluation

The Board monitors and seeks to enhance performance by reviewing the continuing effectiveness of its activities, and the quality and effectiveness of its discussions and decision making and by considering the contributions of the Board as a whole, as well as of individual directors. In accordance with the 2018 Code, the 2021 Board effectiveness evaluation was conducted internally, led by the Chairman and facilitated by the Group General Counsel and Company Secretary.

This year's evaluation sought to explore further the themes and focus areas identified in the 2020 evaluation, whilst also seeking feedback on Board effectiveness from a broader group of management stakeholders. A population of colleagues who have regular engagement with the Board, its committees and members were asked to complete an anonymous questionnaire regarding the Board's performance, meeting effectiveness and culture, in order to provide the Board with honest insight and feedback. This approach demonstrated the Board's commitment to stakeholder engagement and a culture of openness. The process for the 2021 evaluation is set out below.

The 2021 evaluation process

1 Design of evaluation approach

In September 2021, the Board approved the scope of the evaluation, which had been previously reviewed by the Chairman. Detailed questionnaires were then designed, agreed and issued in relation to the following areas: Board and committee effectiveness, Chairman effectiveness, individual director effectiveness, and management feedback on Board effectiveness.

2 Data collation and analysis

The responses to the questionnaires were collated by the Group Company Secretariat, which prepared anonymised reports on the Board and its committees, the Chairman and individual director effectiveness. The reports summarised the findings of the evaluation and proposed recommendations for consideration.

3 Review of results

The draft report on Board and committee effectiveness was reviewed by the Chairman in December 2021 and a final report shared with the wider Board, including the Chairs of each committee, in February 2022. The Senior Independent Director reviewed the Chairman's effectiveness report prior to its discussion by the Board members (excluding the Chairman).

4 Board discussion and actions

At its February 2022 meeting, the Board discussed the evaluation results and approved focus areas to enhance the effectiveness of the Board and its committees. Feedback on the Chairman's performance was discussed without the Chairman present and the outcome of the discussion relayed to the Chairman by the Senior Independent Director. Individual performance discussions for directors were held with the Chairman in January 2022.

Effectiveness evaluation cycle

Update on areas of focus from the 2020 evaluation

Focus area	Progress
Continue to enhance the Board's awareness of and affinity for the Group's customer base through actions to be developed by the CCE Committee.	Our Customer, Culture and Ethics (CCE) Committee reviewed the most appropriate way to continue to drive Board focus on our customers. Following this, the managing directors of each of our operating divisions attended future CCE Committee meetings and presented on their customers, including on their customer base profile. The CCE Committee continued to review its 'Customer Dashboard' of KPIs and to undertake customer call listening at each meeting. This allows the Committee the opportunity to explore, understand and interrogate relevant customer metrics and gain a better understanding and appreciation of customer views and expectations.
Continue to focus on how to enhance the Board's oversight of risk.	During the year a new Group CRO was appointed to work with the Chair of the Risk Committee to support the Committee in its oversight of risk. The Board receives a regular Group CRO report to support its considerations of risk. We also continued to make positive progress in our Group Risk Harmonisation Programme, which you can read more about on page 87.
Drive continued focus on the Board's oversight of the Group's IT and digital strategy.	Following the appointment of the new Group CIO, the Board has received several updates in relation to information security maturity and a newly developed IT platform for loans products. The Board has also considered the Group's existing IT architecture and its future-state IT architecture and roadmap. The Board has also held a cyber risk session to consider the cyber risks posed to the Group and wider financial services sector.
Continue to drive enhancements to the Group's strategy and how it sets its strategy.	The Group held its Group Strategy Conference during the year in which it reviewed the Group's strategy, including focus on the evolving regulatory landscape and creating good customer outcomes. You can read more about how we set our strategy and the role of governance in strategy on pages 116 to 119.

Outcome of the 2021 evaluation process: Board and committees

The overall conclusion from this year's Board evaluation was that the Board and its committees continue to operate to a high standard and work effectively. The Board collectively views the Board and its committees as effective in discharging their responsibilities, with a number of key strengths, including those noted below. The evaluation also highlighted opportunity areas to enhance effectiveness, as highlighted below. The feedback provided by management as part of the evaluation process has proven a useful insight into the Board's effectiveness and its relationship with management. Progress regarding Board effectiveness and the improvement focus areas identified will continue to be monitored and assessed by the Board and committees, as appropriate.

> Board members are keen to understand the business and challenges facing management and ask probing and insightful questions to drive the business forward.
>
> **Feedback from a member of the management team**

> The Board is working hard to get closer to our workforce, visiting them and spending time with them.
>
> **Feedback from a Board member**

> Working together to achieve the Board's objectives has always been a strong suit of this Board.
>
> **Feedback from a Board member**

Some of the Board strengths identified

- The balance of skills and experience on the Board.
- The effective relationships on the Board and overall cohesion.
- How the Board works together as a team to deliver objectives and the oversight of the delivery of key strategic projects.
- The effectiveness of the Board committees.
- The Board's understanding of the views and requirements of investors.
- The reporting by the Board committees to the Board.

Areas of focus to enhance performance

- Continue to focus on how to enhance the Board's oversight of risk.
- Increase the level of engagement between the Board and senior management and between the Board and the wider workforce.
- Continue to focus on how the Board oversees and engages with the Group's customers.
- Drive continued focus on the Group's digital and data strategy and the enhancement of the Board's understanding and discussion of digital market trends and opportunities.
- Implement a robust Board training plan for 2022.

Outcome of individual director effectiveness review, independence and reappointment

As noted above, individual director performance and contribution was assessed through a questionnaire, which supported individual performance and development discussions with the Chairman.

The composition of our Board is reviewed annually by the Nomination Committee to ensure that there is an effective balance of skills, experience and knowledge. Having considered the skills, experience, knowledge and tenure of the Board, and the independence and time commitment of the directors and Chairman, together with the Chairman and individual director performance evaluation, the Nomination Committee and Board considered that each director continued to be committed to their roles, have sufficient time available to perform their duties and to contribute effectively and, accordingly, should stand for re-election at the 2022 AGM. The independence of the Non-Executive directors is also considered at least annually along with their character, judgement, commitment and performance. The Board took into consideration the 2018 Code and circumstances which would likely impair, or could appear to impair, a non-executive director's independence, including their length of service.

At the year end, all of the non-executive directors, with the exception of the Chairman, whose independence is only determined on appointment, have been determined by the Board to be independent. In determining the independence of those non-executive directors who are also non-executive directors of Vanquis Bank, the Nomination Committee and Board did take into account their appointments to Vanquis Bank and confirmed that they remained independent in relation to their appointments to the Company.

Outcome of the Chairman's effectiveness review

The review of the Chairman's performance focused on, amongst other matters, the effectiveness of his relationship with the executive and non-executive Board members, the management of Board meetings and how the Chairman facilitates the effective contribution of the directors both inside and outside of meetings. Following discussion by the Board (excluding the Chairman), it was concluded that the Chairman was performing his role of leading the Board effectively. Andrea Blance, as Senior Independent Director, discussed the feedback and areas for development with the Chairman.

Ensuring we have the right skills and experience

> The Committee is responsible for ensuring the leadership needs of the Group are met, overseeing a framework which seeks to drive a high-performing and inclusive leadership team for now and for the future.

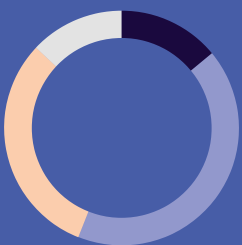
Patrick Snowball
Nomination Committee Chairman

Patrick Snowball
Nomination Committee Chairman

Members

Patrick Snowball (Chairman)
Andrea Blance
Elizabeth Chambers
Paul Hewitt
Angela Knight
Graham Lindsay
Margot James

Allocation of time



Diversity	14%
Succession and talent	42%
Board composition and appointments	31%
Governance	13%

The Committee's terms of reference are available at: **www.providentfinancial.com**

The delivery of our Purpose is dependent upon all of the colleagues we have across the Group. Our colleagues are at the heart of all that we do and how we serve our customers, and this emphasises the importance of the Nomination Committee in our governance framework and in the delivery of our strategy. The Committee is responsible for ensuring the leadership needs of the Group are met, overseeing a framework which seeks to drive a high-performing and inclusive leadership team for now and for the future. There were no changes to the Board membership during 2021, and this stability was important in a year full of significant change for the Group, the Board and our colleagues.

In January 2022 we announced that we had restructured the Board of Vanquis Bank, our wholly owned subsidiary, to substantially align its membership with that of the Company's Board. We believe this is an important step in the execution of the Group's specialist bank strategy. It is our view that combining the Boards of the two legal entities in this way will create a simpler, more efficient Group governance structure, whilst streamlining and enhancing both the Company's and Vanquis Bank's handling of corporate governance. The Committee played a key role in enabling this transition, reviewing the proposed Vanquis Bank Board membership and assessing the skills and experience of the Company's directors who were proposed for key senior management function roles on the Vanquis Bank Board.

We fully recognise that it is essential that the directors of Vanquis Bank have the skills and experience required to undertake roles on the board of a bank and, as you can read on the next page, we have adapted our Board Skills Matrix, which is a key input into our assessment of Board composition and our succession planning, to better reflect the skills and experience needed for the boards of both a publicly listed company and a bank. Furthermore, in its overseeing of these changes, the Committee considered the high-level operational design to support the Group's specialist bank strategy and how the changes impacted management, including where broader responsibilities were being undertaken. Changes to roles and to boards can lead to increased retention risk in certain areas, and the Committee discussed this and the mitigations for it as it discharged its role of ensuring that the Group's leadership needs continue to be met and that appropriate succession plans are in place. The Committee also considered the impact of the changes on diversity and the importance of remaining focused on this when making Board or management changes.

As a consequence of the changes described above, Robert East, who was a non-executive director of the Company and Chairman of Vanquis Bank, stepped down from both Boards in January 2022. I would like to thank Robert for his chairmanship of the Vanquis Bank Board and his support as a member of the Group Board. I would also like to extend my gratitude to the other departing members of the Vanquis Bank Board for their help and support.

Committee role

The Committee oversees the leadership and succession requirements of the Group. As part of this, the Committee monitors the balance of skills and experience on the Board and its committees to ensure that they comprise individuals with the necessary skills, knowledge, experience and diversity to operate effectively. Set out in the table below are those key Committee activities in 2021 and key Committee priorities for 2022.

Committee activities in 2021	Committee priorities for 2022
– Oversight of the Board governance changes and the impact of the changes, including regarding diversity. – Review of our talent and succession plans and retention risk mitigation actions. – Review of our inclusion and diversity initiatives, progress and the diversity of our Board and talent pipeline.	– Oversee how the Group makes progress in reaching its target of 40% female representation in the Group's senior management population by December 2024. – Continue to proactively review and plan for Board succession.

Board leadership

Composition and succession

Our Board composition is informed by an assessment of the skills, experience and diversity needed to deliver a strong and well-balanced Board and by our plans for orderly succession within Board roles.

Effective succession planning remains a key component of good governance and an essential enabler to the delivery of our strategy through ensuring the continuity of skills, experience and diversity on our Board to support effective discussions and decisions. During our review of non-executive director succession this year, the Committee considered our documented succession plan for each role on the Board and determined that no further changes were required to the succession plan. The Committee discussed the tenure of the non-executive directors and whilst the relatively short tenure of our directors results in no immediate concerns regarding succession planning, the Committee agreed that it was important to ensure the Board proactively planned and managed non-executive director succession and changes in order to stagger non-executive director succession in the future. This will enable us to balance continuity and stability on the Board with an appropriate refresh of skills, experience and diversity of perspectives. The succession plans for our executive director roles are considered as part of the wider talent management review, and you can read more about this on pages 144 and 145.

The Committee undertakes an ongoing assessment of the Board's collective skills and experience in order to support its considerations regarding Board composition, succession, training and development needs. In order to provide the Committee with a clear picture of the Board's areas of strength and gaps, we have in place a Board Skills Matrix which sets out an assessment of the skills and experience of our directors individually, and the Board as a whole, across a number of core skills and experience areas identified as key to Board effectiveness and therefore the Group's long-term success. Our Board Skills Matrix includes interpersonal skills as well as more commercial skills and experience, some of which are shown in the skills diagram on the next page. In the design and use of our Board Skills Matrix, the Committee has recognised that the Board requires a diverse representation of skills and experience and that individual directors bring their own specific strengths and views to the Board based upon their personal attributes and experience, thus providing greater strength to the Board as a unit. Having a clear understanding of the particular skills, experience and contribution each director brings the Board enables effective identification of the skills and experience needed to ensure continued diversity and effectiveness when succession planning and assessing Board composition. During the year, the Committee agreed that the Board Skills Matrix should be evolved through the introduction of additional skills and experience categories that reflected those areas needed to successfully support the Group's transition to: 1) be a leading specialist bank focused on underserved markets; and 2) reflect the roles that the majority of the Company's directors have on the Board of Vanquis Bank, thus driving greater alignment of our assessment of Board composition and succession with the Group's strategy.

As noted above, there were no appointments made to the Board during the year; however, our robust and transparent Board appointment process remains in place for any future such appointments.

There is in place a documented Board appointment process which sets out that appointments should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths. When undertaking a Board appointment process, the Committee ensures that searches are alert to all aspects of diversity and inclusion and that diverse short lists of candidates are prepared for the Group's consideration. Candidate specifications for roles are prepared to clearly recognise the value of diversity in the boardroom and throughout the Group, particularly in enabling us to understand our stakeholders. Whilst there were no Board appointments during the year, when we do undertake searches for new directors, we use the support of search consultants which follow the Enhanced Voluntary Code of Conduct for Executive Search Firms, which specifically acknowledges those firms with a strong track record in promotion of gender diversity in FTSE 350 companies against the scope of the Davies Review. During our search and interview process we work to understand how candidates understand and act in alignment with our culture.

The Committee has undertaken its annual review of the composition and balance of the Board and its committees taking into account several key factors, including: diversity; balance of skills, experience and knowledge; director length of service and time commitment; stakeholder expertise; the size and structure of the Board; and director independence. We continue to firmly believe that the Board's composition is appropriate to fulfil its role effectively and we are recommending to shareholders that all directors be re-elected at the 2022 AGM. You can read about each director's contribution to the Board in their biographies on pages 112 to 114.

Independence and conflicts of interest

In reviewing the composition of the Board and its committees, the Committee and Board considered the independence of the non-executive directors during the year and concluded that they all remain independent in character and judgement and contribute effectively to Board discussions and debate. In considering their independence, the Committee and Board took into account the appointment of the majority of the non-executive directors to the Board of Vanquis Bank. We do not believe that their appointment as independent non-executive directors of Vanquis Bank impinges on their independence, with their previous roles solely on the Company's Board already requiring oversight of Vanquis Bank, as the Group's largest subsidiary. Additionally, an enhanced Conflict of Interest Policy has been put in place to mitigate and manage the risk of intra-group conflicts arising as a result of common directors on the Company's Board and those of its subsidiaries.

Time commitment

The expected time commitment of the Chair and non-executive directors is agreed and set out in writing in the letter of appointment to the positions, at which point we assess any external demands on an individual's time in order to confirm their ability to undertake the role effectively. We also reassess time commitment annually and when any changes in a director's internal or external responsibilities occur. In appointing the majority of the Company's Board to the Board of Vanquis Bank, the impact of this change on the time commitment required of directors of the Group was reviewed and considered. The Committee and Board continue to consider that the Board members have sufficient time to undertake their roles effectively.

Board evaluation

The Committee discussed the outcome of the 2020 Board evaluation as it pertained to the composition of the Board. The Committee agreed that good progress had been made in relation to the Board's access to IT and risk expertise, following new appointments to the Group Chief Risk Officer and Chief Information Officer roles. It was also agreed that the CCE Committee should continue its work to enhance the Board's awareness of and affinity for the Group's customer base. You can read more about the progress in relation to the focus areas identified in the 2020 Board evaluation on page 141. This year an internal evaluation was undertaken of the effectiveness of the Board and its committees, and you can read about this in more detail on pages 141 and 142. In relation to Board composition, the balance of skills and experience on the Board was rated very highly in this year's evaluation. The diversity of the Board as a whole and the cohesion of the Board as a team are key drivers of success and this year's evaluation presented positive ratings for the Board's diversity and for its effectiveness as a team, with strong working relationships in place and an appropriately open and challenging Board environment. The Board recognised the importance of maintaining its focus on diversity in its broadest sense, including age and social background, and continuing to consider this as part of succession planning and future Board appointments. In the Board evaluation, the Committee was rated as very effective and a continued focus on Board and management diversity, talent management and succession planning was identified as a priority.

Links to strategy

1. Grow customer-centric businesses
2. Act responsibly and with integrity
3. Maintain a secure funding and capital structure

Board Skills Matrix

This diagram shows those Board members with competent or very competent skills or experience in some key skill areas. This diagram, together with the biographies on pages 112 to 114, shows the combined strength of our Board in areas central to delivering the Group's sustainable success.

Leadership: culture and ethics	8	1 2 3
Strategy	8	1 3
Audit and financial reporting	7	2 3
Customers	6	1 2
Product development	5	1 2
Banking	7	1 2 3
Banking regulation	7	2 3
Shareholder engagement	6	1 2
Change management	9	1
Loans	4	1 2
Sub to near-prime lending	5	1 2
HR, talent and employee engagement	8	1 2
IT and digital initiatives	5	1 2
Capital management and treasury	5	3
Risk management	8	2
M&A transactions	6	1 3
Regulatory landscape and engagement	8	2 3

Talent management

Our high-level process

Bi-annually, HR works with Group Executive Committee members to complete the talent management process for their teams.

HR reviews the outputs and completes a bi-annual calibration discussion with the Group Executive Committee.

The Nomination Committee discusses the outcomes of the talent management and succession review and the diversity of our talent pipeline at Group Executive Committee level.

Our talent management building blocks

Talent identification grid

We identify who in our colleague population has the potential to undertake a bigger and broader role, or who might be a future leader. An assessment is undertaken which helps focus discussions on the colleagues that have been identified as high potential. It also identifies the other senior leaders who are important to the business, but who might not at that point in time be ready to progress or do more.

Succession planning

We identify who might be 'ready now', or the talent we need to grow to fill leadership and business-critical roles in the future using a consistent approach to consider the short, medium and long-term successors. We also identify immediate and emergency replacements and track our leadership needs to ensure pipeline talent is ready to fulfil vacant roles when they occur.

Career profiles

We enable colleagues to be actively involved in the talent process through establishing career profiles for our senior leaders, allowing them to demonstrate their skills, experiences and aspirations. This tool supports the succession planning process and helps to raise a colleague's profile.

Retention risk review

We undertake an assessment of retention risk and this allows us to shape tailored solutions which are targeted to have the greatest impact.

Inclusion and diversity

To support a diverse pipeline of talent, inclusion and diversity are considered throughout the talent management process and discussed by management and the Nomination Committee together with talent management and succession matters. Inclusion and diversity remains a key focus of our talent agenda. You can read more about this on the following pages.

Talent management and succession

During the year, the Committee continued to work with HR to deepen its understanding of our talent pool and, in light of recent changes to our target operating model, talent management and retention remained an important focus area for us.

We as a Committee have focused on the impact of the changes we have made to reinforce our position as a leading specialist bank, reviewing changes to our target operating model and their potential impact on our leadership population and succession plans, including the diversity of those populations impacted. As part of this, the Committee was updated on the process used to determine those members of management who would undertake Group Executive Committee roles under the new target operating model and discussed how a transparent and merit-based selection process for roles under the new target operating model would be implemented so as to support diversity in the management population.

Our talent management framework is designed to support the identification, development, retention and progression of a diverse pipeline, and you can see our high-level talent management framework on the previous page. The Committee undertakes an annual review of the Group's talent and succession planning. This year's review included an update on the progress being made in the implementation of the Group's talent management framework and how increased visibility of our combined talent pool has enabled more robust conversations and calibration to support succession planning, identify any gaps, and support cross-business opportunities and moves, which, in turn, support the development of our talent and promote retention.

Succession planning and its oversight is a continuous cycle of activity and as part of the talent management review, the Committee reviewed succession plans for our Group Executive Committee members. This included plans for emergency, immediate, short to medium-term and longer-term succession, which could be addressed with internal or external talent. In reviewing the Group's succession plans, the Committee discussed areas of strength and areas for enhancement. In recent years, we have made a number of key external hires to senior roles; whilst this has ensured strong talent in key roles, it does mean that we as a Committee and our management team need to remain focused on our continued efforts and activities to build our internal talent pipeline. The Committee has also discussed in detail during the year the Group's strong internal talent pipeline of those with the potential to operate as future Chief Executive Officers, reviewing the Group's high-potential development framework, which has been designed and implemented to proactively support their continued development. Furthermore, the Committee has reviewed those other individuals identified as high potential and those who are considered to currently have the potential to undertake bigger and broader roles in the future.

A key element of our talent management framework and succession planning process is our retention risk assessment, which provides us with a clear understanding of which are our most critical roles and the required levels of engagement to maintain our key talent, enabling the Committee and management to plan and act proactively to mitigate retention and succession risk. The Committee discussed key retention risks during the year and the tailored action plans in place to mitigate this risk, including the roles that are key to the successful delivery of our strategy.

We recognise the fundamental importance of a diverse pipeline of talent to ensure the Group has a diverse and effective senior management team and Board. As such, we as a Committee consider the diversity of our talent pipeline as part of our review of the Group's talent management and succession planning and diversity is embedded in our talent management framework. We have made good progress as a Group in implementing a spectrum of inclusion and diversity initiatives needed to support a diverse talent pipeline and inclusive culture; however, we still have more progress to make in driving greater diversity in our senior management population. You can read more about our actions and progress in relation to inclusion and diversity below.

Inclusion and diversity

Policy, objectives and link to strategy

As a Group we are committed to supporting diversity in the broadest sense, within the boardroom and across the organisation, including amongst our senior management team, and we believe that a wide range of experience, age, background, perspectives, skills and knowledge combine to contribute towards a high-performing and effective leadership team. Our policy is designed to promote equality, diversity and inclusion across all parts of the Group and to ensure that our business and working environment is one that respects and includes everyone, understanding the potential that all people bring to the workplace. Our policy seeks for us to exceed the minimum requirements set out in legislation and proactively encourage a culture that supports equality, inclusion and diversity. You can read about our progress during the year in relation to these objectives on page 149.

Our Purpose emphasises our commitment to inclusion and diversity through our aim to put people on a path to a better everyday life, and it is the Group's ambition to build and sustain an inclusive culture and diverse workforce which will help us to respond to our diverse customer base. It is the Board's view that diversity and inclusion provide the basis for a wider range of perspectives and ideas represented at each level of management and at the Board level, providing the foundations for us as a Group to better understand and deliver for our stakeholders, challenge each other effectively and achieve the Group's overall strategic aims. We believe that a diverse team of colleagues enables us to better understand, and therefore serve, our diverse customer base. In creating an inclusive and diverse culture, it is also our objective to support the attraction and retention of talented people, improve effectiveness, deliver superior performance and enhance the success of the Company.

To ensure our appointment and succession processes support diversity, they are transparent and based solely on merit. Our Equality, Diversity and Inclusion Policy requires that we advertise our vacancies externally and internally using appropriate channels to give us the best possible choice for selection from the widest available talent pool. Under our policy, all vacancy advertisements should include language which will encourage applications from a diverse talent pool and will be written in language that avoids gender specific terminology and where recruitment agencies are required, their working practices and approach must align to those of the Company. We avoid the possibility of gender discrimination by proactively challenging candidate short lists to ensure as far as possible that there is a gender balance.

During the year, as a Committee we have discussed how cultural barriers to diversity can impact our progress to delivering greater diversity across the organisation and how having a diverse and inclusive leadership team can break down such barriers. As noted above, we have also discussed how the selection process for roles as part of our transition to our new target operating model would be implemented in a way that aligned with our inclusion and diversity ambitions and culture. The Committee has reviewed the broad range of initiatives underway to support inclusion and diversity across the Group, which also support the diversity of our talent pipeline, and you can read more about these initiatives below.

Inclusion and diversity continued

Policy, objectives and link to strategy continued

The Committee also reviewed our diversity targets during the year, which you can read on the next page, together with the progress made. I am pleased that we continue to exceed the Board gender diversity target set out in the Hampton-Alexander Review and that we also continue to meet the recommendations of the Parker Review to have at least one director of colour by 2024.

Developing a diverse pipeline

As noted above the Committee's considerations of the diversity of its talent pipeline have been integrated with its review of talent management and succession.

Gender balance, along with broader diversity, remains a key focus for our talent agenda. As a Committee and leadership team we feel that we must continue to act to meet our HM Treasury's Women in Finance Charter target to increase female representation in our senior management population to 40% by 2024. Whilst we did not meet our initial Women in Finance Charter target of 33% female representation in our senior management population by December 2020, we remain focused on our overall target for 2024 and believe we have several key actions in place to support greater female diversity in this population. We are pleased to report that once the pending appointment of the MD of Cards expected in April 2022 has been made, this will take our Group Executive Committee gender mix to 33% female. Our continued focus remains on ensuring that gender balance continues to improve within the direct reports of our Group Executive Committee members.

In order to drive broader diversity in our pipeline and across the Group, we will continue to focus on delivering the inclusion and diversity initiatives we have in place, as these are essential to the development of a diverse talent pipeline and for creating an inclusive culture, where differences are valued and our colleagues are empowered to reach their potential.

The Committee received an update on these initiatives during the year, including the progress that has been made on the implementation of our Group Job Levelling Framework which will enable us to look at our senior population more broadly than previously, will support us in achieving our diversity objectives and will also allow the Group to better focus its talent interventions to build talent pipelines. Examples of the Group's other inclusion and diversity initiatives are:

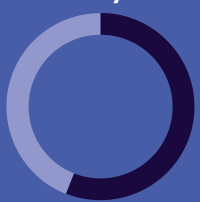
- The Group continues to seek to enhance its diversity data, which is key in order to understand the Group's colleague populations, identify diversity gaps, design inclusion and diversity initiatives and set robust internal diversity objectives.
- We have introduced and operate a 'Be Yourself' (I&D) Index within our Colleague Survey. This is a new set of questions created to support our Inclusion and Diversity programme. We are pleased that a positive response of 71% was received in our recent survey.
- We continue to operate our inclusion community across the Group with four aligned Affinity Groups (Disability, LGBTQ+, Gender Balance, Ethnicity and Social Mobility). We currently have circa 125 active members and a wider 'ally' membership. Inclusion targeted training has been delivered to our inclusion community members and sponsors. In addition, localised unconscious bias training sessions have been delivered to the inclusion community.
- We continue to focus on ensuring that we have gender balanced short lists and, equally importantly, candidates from other diverse backgrounds and communities. We have seen good success with this approach, such as with the appointment of the Group Chief Internal Auditor.

The Committee and our leadership team will remain focused on our diversity agenda during 2022, including the intended launch our Inclusive Leadership Programme.

> In order to drive broader diversity in our pipeline and across the Group, we will continue to focus on delivering the inclusion and diversity initiatives we have in place.

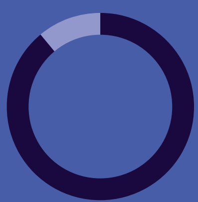
Patrick Snowball
Nomination Committee Chairman

Board gender diversity



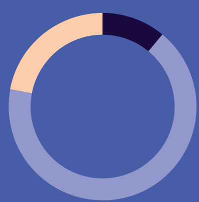
- Male 56%
- Female 44%

BAME representation on the Board



- Non-BAME 89%
- BAME 11%

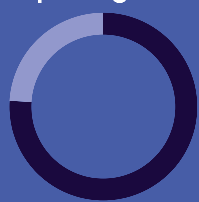
Board tenure*



- 0-1 years 1 (11%)
- 2-4 years 6 (67%)
- 5+ years 2 (22%)

* As at 1 April 2022.

Group Executive Committee and direct reports gender diversity



- Male 76%
- Female 24%

Objective	Progress and implementation
To ensure a rounded and diverse Board and Group Executive Committee, appointments will be made on merit, taking into account different backgrounds, diverse experience, perspectives, personalities, skills and knowledge, as well as alignment with the Group's culture.	Our Group Equality, Diversity and Inclusion Policy and our formal documented Board appointment process set out that appointments to the Board and Group Executive Committee are to be made on merit, taking into account diversity in its broadest sense and alignment with the Group's culture. There were no Board appointments made during the year. We have described above how diversity is included in our appointment and succession planning process and the Committee's considerations in this regard during the year, including how diversity would be addressed as part of our target operating model changes. We seek to utilise a number of mechanisms to embed diversity and culture into our director and senior executive recruitment processes, including: – our Chief Human Resources Officer oversees the diversity of candidate shortlists as we seek to drive shortlists of candidates for roles, incorporating gender and wider diversity; – utilising diverse interview/assessment panels; and – assessing candidates for cultural fit and against our strategic behaviours from our cultural Blueprint. We have experienced recent success in improving the diversity through utilising these mechanisms, such as in relation to the appointment of the Group Chief Internal Auditor during 2021. Furthermore, when reviewing the proposed Board changes to the Vanquis Bank Board, the Committee considered the impact on the diversity of the Vanquis Bank Board, noting that the changes improved the female representation on that Board. This year the Committee continued to review Board composition, including diversity. The Committee also reviewed the Board Skills Matrix which sets out the diverse experience, commercial skills and interpersonal skills of the Board.
To ensure Board appointment 'long lists' reflect the Board's diversity commitments.	For new Board appointments, the Nomination Committee works with executive search firms to drive diverse candidate 'long lists' for consideration by the Committee and considers culture as part of the appointment process. No Board appointment processes were operated during the year.
To maintain a balance of one-third of the directors being women as a minimum.	We have maintained our position of 40% female representation on the Board, exceeding the Hampton-Alexander Review target. Diversity will remain a key focus for any future Board appointments.
To maintain a minimum of one director from an ethnic minority background in support of the Parker Review target.	We have maintained our position of having one director on the Board from an ethnic minority background, meeting the target. Diversity will remain a key focus for any future Board appointments.
The Board will support and monitor Group activities undertaken to meet its diversity objectives and to increase the percentage of senior management roles held by women and other underrepresented groups across the Group.	During 2021 the Committee has continued to keep under review the inclusion and diversity initiatives in place across the Group to support progress in enhancing the diversity of our senior management and colleague population and in enabling an inclusive culture. When reviewing talent management and succession, the Committee has reviewed the diversity of our talent pipeline and discussed barriers to greater diversity. You can read more on our diversity initiatives in the Nomination Committee Report above and on page 17. During the year we experienced good success with our approach to diversity in external senior management searches following the appointment of the Group Chief Internal Auditor.
Additional management diversity objective	
As a signatory to the HM Treasury's Women in Finance Charter, we have a target to have 40% female representation in the Group's senior management population by December 2024.	We remain a signatory of the Women in Finance Charter with the aim to increase female representation in our senior management population to 40% by December 2024. Our current female representation in our Group Executive Committee and direct reports population is 24%. We continue to be focused on addressing the gender balance within the senior team and are pleased to report that once the pending appointment of the MD of Cards expected in April 2022 has been made, this will take our Group Executive Committee gender mix to 33% female. Our continued focus remains on ensuring that gender balance continues to improve within the direct reports of our Group Executive Committee members. We described in the Nomination Committee Report above and on page 17 the initiatives and processes we have in place to drive greater female representation in this population.

Patrick Snowball
Nomination Committee Chairman
6 April 2022

Monitoring our culture and strategy

> Corporate culture is important for the motivation and retention of talented colleagues. It is our people who deliver our strategy and how we choose to treat them will directly influence the experience of our stakeholders.

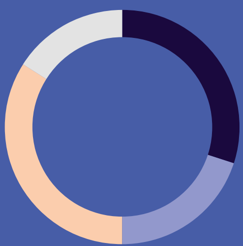
Graham Lindsay
Customer, Culture and Ethics Committee Chairman

Graham Lindsay
Customer, Culture and Ethics Committee Chairman and Designated Non-Executive Colleague Champion

Members

Graham Lindsay (Chairman)
Elizabeth Chambers
Robert East (resigned 13 January 2022)
Margot James

Allocation of time



Monitoring customer outcomes and KPI tracking	30%
Reviewing products, business practices and policies against the Group's Purpose and culture	20%
Monitoring governance, ESG commitments and corporate responsibility reporting	34%
Monitoring stakeholders' expectations and engagement mechanisms	16%

The Committee's terms of reference are available at: www.providentfinancial.com

I am pleased to present the Customer, Culture and Ethics (CCE) Committee Report in what has proven a busy and challenging year for the Committee. In May 2021, the Group made the difficult decision to close the home credit business, the Consumer Credit Division (CCD), and this report explains the Committee's supporting role during CCD's wind-down. This report also summarises the significant changes made during the year in how the Committee has overseen the adaptation of colleague working arrangements whilst ensuring that customers remained appropriately supported during the Covid-19 pandemic.

At each meeting, the Committee:

- reviewed and discussed the set of key performance measures within the Group's Blueprint Dashboard for the previous reporting period;
- reviewed and discussed the set of key performance measures pertinent to our customers for the previous reporting period;
- listened to a wide range of randomly selected customer calls from across the different divisions to monitor customer outcomes and identify any opportunities for improvement, which were fed back to the divisional CROs; and
- received detailed reporting on colleague engagement mechanisms and actions being taken to address issues identified in the Colleague Survey and from Colleague Forums. Key discussions at the Colleague Forums during 2021 centred on the Group's response to the ongoing Covid-19 pandemic and the Future of Work programme. You can read more about this in the Culture Report on page 124.

Key Committee responsibilities

The primary role of the Committee is to assist the Board in fulfilling its responsibilities by monitoring the Group's culture, stakeholders' expectations and evolving governance requirements. A stakeholder materiality assessment was undertaken and the Committee approved the stakeholder engagement strategy during the year. You can read more about the stakeholder materiality assessment on page 51.

The Committee's principal areas of responsibilities are as follows:

- assisting the Board with the evolving corporate governance requirements, ensuring full compliance with the Code and the accountabilities of the Board under s.172 to consider the interests of wider stakeholders in its decision making. For further information on our compliance with the Code this year please see page 168;
- supporting the Board in overseeing progress against key performance indicators (KPIs), to ensure that the Group conducts and develops business responsibly and consistently in accordance with the Company's customer objectives, Purpose and corporate culture;
- overseeing the embedding and monitoring of the Group's culture and whistleblowing reports, ensuring that any material issues in regard to the culture and ethics applied across the Group are addressed;
- ensuring that appropriate employee engagement mechanisms and opportunities are in place for the Board to understand the views of colleagues in order to factor these views into its decision making, and keeping these mechanisms under regular review. This has been more difficult during a period of lockdown;
- reviewing and providing guidance for external communications and the Group's public statements on key reputational issues; and
- providing advice and overseeing plans for the return of colleagues to work places and the Future of Work programme.

Monitoring Dashboards

As part of its duties, the Committee adopts a KPI and evidence-based approach to its work.

The Customer Dashboard includes five customer commitments with a set of measures that are based around the Financial Conduct Authority's (FCA's) six customer outcomes that firms should strive for in the fair treatment of customers. Each division has tailored metrics that are relevant to that division's products, channels and customer segments. These metrics are tracked and reported at a divisional level to the Committee. The Customer Director of Vanquis Bank is a standing attendee of the Committee and has responsibility for monitoring and reporting all divisional metrics to the Committee. Performance reviews that were held during the year suggested that the majority of measures within the Customer Dashboard had been above target.

The Blueprint Dashboard consists of four Blueprint outcomes, each measured by a variety of metrics, with targets set where appropriate, to ensure that the Group is able to demonstrate that it is delivering business activities in accordance with the agreed Blueprint. The Group's Head of Corporate Responsibility is a standing attendee at the Committee meetings and has responsibility for monitoring and reporting metrics within the Blueprint Dashboard. This involves using an updated dashboard of metrics from the previous year, to oversee the Group's embedding of the Blueprint, with a particular focus on determining whether the Group is delivering business activities in accordance with its Purpose and behaviours. The Blueprint Dashboard is updated and submitted for review by the Committee at each meeting so that it can monitor and challenge the embedding of the Group's culture and delivery of positive customer outcomes.

Metrics added during the year included the Better Everyday Index and colleague turnover and absenteeism rates. These metrics were used to provide further insight into the level of colleague engagement and morale across the Group. During the year, the Blueprint Dashboard indicated that performance in relation to the cost-to-income ratio metric has fallen with lower receivables as a result of strong collections and lower lending through the period of the pandemic. This metric is tracked to ensure that the Group is being run in an efficient manner.

Given the restrictions that were in place for periods of 2021, the Committee recognised that the number of hours volunteered by colleagues to support our communities, whilst below historical norms, had slightly improved on 2020. If it is safe to do so in 2022, colleagues will be encouraged to participate in community volunteering activities again. The Committee took responsibility to assess and opine on the Group non-financial metrics contained within the Group scorecard and with relevance to the elements that were appropriate for the Committee.

ESG and stakeholder considerations

During the year the Committee oversaw the review and approach to its community investment. The Committee fully supported management's decision to update the Social Impact Programme. The aim of the new strategy will be to focus on helping to put children and young people on a path to a better everyday life by providing them with access to education, social and financial inclusion and economic development opportunities. We will have more to say on this programme in the future.

Being a signatory to the Prompt Payment Code, the Group is committed to paying its suppliers within 60 days of invoice; however, it generally aims to pay them within 30 days. The Group's Blueprint Dashboard tracked the performance in this regard, which was in line with expectations. The vast majority of suppliers were paid within 60 days, with a high proportion being paid within 30 days. For further details please see pages 60 to 61.

The Committee measures the Group's Blueprint objectives of ensuring customer outcomes are consistent with the Company's Purpose and culture by using metrics such as customer satisfaction surveys, Trustpilot results, Google reviews and product and service complaints; these measures are tracked on the Blueprint Dashboard and are reported at each meeting.

The Committee has kept under close scrutiny the impact of Covid-19 upon the Group's customers. Each business has utilised different approaches to gathering customer feedback and insight during the pandemic. The Committee received updates from the Customer Director of each division. Moneybarn's customer panel and the Vanquis Customer Pulse Survey had shown the importance of government and industry support to their customers during the pandemic.

The Committee continued to pay particular attention to the Group's workforce engagement during the pandemic period and the adequacy of support made available, including attending colleague forums to hear first hand experiences and requirements. The Committee also oversees corporate responsibility activity so that the Group can be recognised as a responsible and inclusive employer that colleagues feel proud to work for. The Chair will continue to ensure that the Board has appropriate oversight of the work of the Committee.

Moneybarn has established feedback loops such as Trustpilot, Google reviews and Voice of Customer which enabled changes in customer communications that fostered enhanced customer experiences during the pandemic.

Vanquis has introduced and is using a Customer Pulse Survey to complement feedback and insight from Voice of Customer, Trustpilot and annual surveys. The Customer Pulse Survey has become a valuable source of customer insight and supports the development of Vanquis' customer-focused culture with the monthly survey results shared each month to stakeholders across Vanquis at the Customer Proposition Forum. This is being extended across the Group.

Monitoring our culture and strategy continued

CCD

The difficult decision was taken during the year to cease trading in the CCD business with the regretted consequential result. The Committee assisted in providing support on the colleague redundancy proposals and the closure of the CCD business. As part of its review into the closure of CCD, the Committee noted the significant efforts made by the management team in addressing the redundancy proposals at the consultation meetings. The Committee had been fully supportive of the internal opportunities across the Group which were shared with all CCD colleagues and efforts made to introduce colleagues to other employment opportunities. The Committee also spent time monitoring closely the impact on customers and all associated communications.

Future of Work

The Committee paid particular attention to the Group's Future of Work programme, the work of the Committee focused on overseeing the Future of Work strategy initiatives that were developed by management to keep our colleagues and customers safe. This enabled the Committee to oversee management actions and assisted the Committee in keeping the Board informed on the safe return of colleagues to offices under a new hybrid working model. The Committee received an update on the introduction of a new set of workforce policies to support 1PFG and to create a simplified approach across the divisions, align with our Blueprint and create a fair and consistent employee experience. I look forward to another year of development and improvement and will ensure the Committee retains its focus on all our stakeholders.

Graham Lindsay
Customer, Culture and Ethics Committee Chairman
6 April 2022

Committee activities in 2021

- Reviewed and approved the inclusion of the additional colleague-related metrics in the Blueprint Dashboard, such as the Better Everyday Index, colleague turnover and absenteeism rates.
- Reviewed progress made on workforce engagement including the return to office strategy, Colleague Surveys and wellbeing initiatives.
- Listened to customer calls and provided feedback on whether fair customer outcomes had been achieved and identified opportunities for improvement where appropriate.
- Approved the Group's Modern Slavery Act Statement.
- Received updates on the consolidation of the Group HR Policies including the launch of the Group policy hub. The policies which required updating due to the Covid-19 pandemic, such as the Flexible Working Policy, were prioritised.
- Reviewed and approved the updated non-financial metrics within the 2021 Group scorecard; the updated definitions now include examples of (i) below target, (ii) target, and (iii) above target descriptors.
- Received updates from divisional managing directors covering all aspects of their customers.
- Approved the newly introduced engagement mechanisms within the Stakeholder Engagement Plan for colleagues; this included the internal communication activities (e.g. the Blueprint 'Stay Connected' magazine and regular vlogs from the CEO) and updates were received on the Social Investment Programme.
- Approved the Stakeholder Engagement Strategy which set out the objectives that will enable the Group to ensure that stakeholder engagement activities support the delivery of the Group's priorities and ensure that we continue to comply with the requirements of s.172 and respond appropriately to stakeholder interests in the ESG agenda, and considered the external materiality assessment exercise which was undertaken to help understand and prioritise the ESG-related views and concerns that our stakeholders have with regard to their relationships with the Group.
- Received updates and provided oversight on the Group's withdrawal from the home credit market, including consultation and redundancy proposals as well as oversight of customer treatment.
- Reviewed the recommended Task Force on Climate-related Financial Disclosures (TCFD) that were required for Group and approved the Group signing up to the Business Ambition for 1.5°C pledge.
- Approved the product specification for the new Customer Product Plan ensuring it delivers good customer outcomes.

Committee priorities for 2022

- Continue to discuss and review workplace-related matters including the results of PFG's Colleague Surveys, feedback from Colleague Forums, the diversity and inclusion agenda and leadership and development provision, monitoring progress with the Future of Work programme.
- Continue to focus on the customer agenda by monitoring progress on customer metrics relating to the embedding of a customer-focused culture across PFG and ensuring that customer outcomes and interests are considered throughout every stage of the customer lifecycle.
- Review the previous year's s.172 statement against the market, consider external advice and identify areas for enhanced reporting in this area.
- Oversee PFG's approach to minimising its contribution to climate change by reviewing the delivery of the Group's net zero strategy and by managing climate-related risks through its Task Force on Climate-related Financial Disclosures (TCFD) work.
- Review PFG's disclosure and dialogue with investors, regulators and other key stakeholders on ESG issues.
- Review PFG's compliance with relevant regulatory and voluntary requirements, including the Company's Modern Slavery Statement, Gender Pay Gap Reports and Prompt Payment Code.
- Invite the Chairs of each Colleague Forum to attend the Committee on an annual basis to share views and to raise their exposure.
- Review and approve PFG's Community Investment Strategy for 2022-23.
- Continue to oversee implementation of consolidated Group HR Policies.
- Oversee the embedding of the Stakeholder Engagement Strategy and monitor progress against the same.
- Review whistleblowing data and consider any cultural root causes and issues.
- Review and approve the relevant non-financial metrics within the 2022 Group scorecard.

Maintaining an effective control environment

> The Committee's roles in both challenging the judgements made in the external reporting process and ensuring that Internal Audit provides robust assurance over the Group's control environment have never been more important.

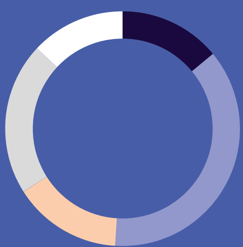
Paul Hewitt
Audit Committee Chairman

Paul Hewitt
Audit Committee Chairman

Members

Paul Hewitt (Chairman)
Andrea Blance
Angela Knight

Allocation of time



Governance	14%
Financial reporting	37%
External audit	15%
Internal audit	21%
Management reporting	13%

The Committee's terms of reference are available at:
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At each meeting, the Committee:

- had, on a rotating basis, a discussion with both the external and internal auditor without any executive director being present;
- reviewed a Group internal audit activity report; and
- reviewed updates from the external auditor.

I am pleased to present the Audit Committee Report for the year ended 31 December 2021. This report summarises the activities of the Audit Committee during 2021 and confirms compliance with the Competition and Markets Authority's Statutory Audit Services Order. Furthermore, I look forward to attending the AGM on 29 June to answer any questions on the work of the Committee, subject to prevailing government restrictions at that time.

Committee membership remains consistent with the prior two years and comprises a wide range of business and financial experience and has retained sector competence in compliance with the Code Provision 24. Member biographies, including details of my recent and relevant financial experience, are detailed on pages 113 and 114. Angela Knight, the GRC Chairman, continues to be a member of the Committee to ensure the work of both committees remains coordinated.

As reported in our Nomination Committee Report on page 143 we have restructured the Board of Vanquis Bank to substantially align its membership with that of the Company's Board, resulting in the Committee extending its responsibilities to oversee the internal control environment within Vanquis Bank. As part of this work I worked with Group Company Secretariat to perform a comprehensive review of the Committee's terms of reference and agendas to ensure they were reflective of governance best practice and focused the Committee's attention on the appropriate matters.

Key Committee responsibilities

The primary role of the Committee is to assist the Board in fulfilling its oversight responsibilities by monitoring the integrity of the financial statements of the Group and other financial information before publication, and reviewing significant financial reporting judgements contained in them.

Key Committee responsibilities continued

In addition, the Committee also reviews:

- the system of internal financial and operational controls on a continuing basis (the GRC reviews the internal control and risk management systems); and
- the accounting and financial reporting processes, along with the roles and effectiveness of both the Group Internal Audit function and the external auditor.

The Committee is also specifically responsible for:

- conducting the tender process and making recommendations to the Board in relation to the appointment of an external auditor, and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity;
- reviewing the effectiveness of the external audit process;
- developing, implementing and monitoring compliance with the Group's policy on the engagement of the external auditor to supply non-audit services;
- assisting the Board in assessing the Company's going concern status and ongoing viability, the basis of the assessment and the period of time covered;
- reviewing and recommending to the Board quarterly trading statements;
- approving the Group internal audit plan on a bi-annual basis; and
- keeping under review the effectiveness of the Group's system of internal financial controls.

Committee activities in 2021

- Reviewed and approved the 2020 financial statements and areas of significant judgement, including the going concern basis and viability statement. Confirmed that the 2020 financial statements were fair, balanced and understandable.
- Reviewed and approved the Preliminary Results Announcement.
- Reviewed and approved the Non-Audit Fees Policy and non-audit fees for 2020.
- Reviewed and approved the external audit fees.
- Confirmed Internal Audit's charter, statement of independence and objectivity and effectiveness.
- Reviewed the 2020 external auditor's full-year report, management letter and 2021 internal controls report and recommended approval of the same by the Board.
- Reviewed the results of the FRC's Audit Quality Review (AQR) of the external auditor for the 2020-21 cycle, which had improved year on year with no significant findings for individual inspections.
- Reviewed and confirmed the results of the Internal Audit Effectiveness Self-Assessment in March 2021.
- Commissioned and reviewed the results of Ernst & Young's External Quality Assessment (EQA) of Internal Audit, presented in November 2021, which confirmed that Internal Audit generally conforms with expected standards.
- Reviewed and approved the annual internal statement of governance, risk management and internal control.
- Received an update from Enterprise Risk on the Group Risk Management Framework and its effectiveness assessment.
- Received management's response to the FRC's Financial Reporting Review Panel (FRRP) letter on the 2020 Annual Report and Financial Statements.
- Received a 'lessons learned' review on the performance of the three lines of defence in relation to programme management of the First Line Controls Review within Vanquis.
- Received the results of the external assurance reports and updates regarding internal audit actions in relation to Group IT remediation, model validation, financial crime processes and first line controls within Vanquis Bank.
- Received the external auditor's interim review.
- Received and approved the external auditor's proposed 2021 audit plan.
- Reviewed the accounting judgements proposed by management including update reports on the development and implementation of enhancements to the suite of IFRS 9 models.
- Received an update from management on the proposed future structure of the Group Finance function.
- Received an update from Enterprise Risk on its implementation of an Integrated Assurance Framework across the three lines of defence.
- Reviewed and approved the interim management statement.
- Confirmed the coordination of activities between internal and external audit.
- Reviewed and recommended to the Board the Q1 and Q3 Trading Statements.
- Reviewed and approved the 2022 internal audit plan.
- Received the results of an internal financial controls maturity assessment, conducted by a third party.
- Reviewed and approved the Committee's terms of reference, 2022 forward agenda planner and adherence with its terms of reference during 2021.

Committee priorities for 2022

- Provide oversight of the Risk Mitigation Programme within Vanquis and Control Enhancement Programme within Moneybarn.
- Continue to monitor the closure of historical overdue audit actions.
- Oversee change in audit partner following Deloitte LLP's reappointment as external auditor in 2022.
- Ensure that Internal Audit's capabilities grow in line with the EQA.
- Monitor Group Finance's transformation to ensure it is well positioned to operate at the required level of maturity for an enhanced control regime as alluded to in the BEIS White Paper of March 2021.
- Review developments to the IFRS 9 model monitoring framework.
- Oversee the implementation of the Integrated Assurance Framework within the three lines of defence.

Fair, balanced and understandable

As in previous years, the Committee considered, in accordance with Code Principle N, whether, in its opinion, the Annual Report and Financial Statements 2021, taken as a whole, is fair, balanced and understandable and provides the necessary information for the reader to assess the Group's position and performance, business model and key audit matters.

In justifying this statement the Committee adopted the same robust process as adopted in prior years, including:

- the early involvement of the Committee in the preparation of the Annual Report and Financial Statements 2021 which enabled it to provide input into the overall messages and tone;
- the input provided by divisional and Group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;
- the regular review of the Group internal audit activity reports which are presented at Committee meetings and the opportunity for the non-executive directors to meet the external auditor without any executive of the Group being present via the private sessions of the Committee;
- the Committee reviewed and considered the draft Annual Report and Financial Statements 2021 in advance of the final sign-off;
- the reviews conducted by external advisors appointed to advise on best practice; and
- the final sign-off process by the Board.

In addition to this approach, the Committee considered in detail management's critical accounting assumptions detailing the approach taken and key sources of estimation uncertainty set out in the financial statements on pages 204 to 205.

These and the going concern assumption were carefully reviewed and challenged by the Committee, and following this were reviewed by the external auditor, which also fully analysed and concurred with the assumptions made as part of the year-end process. A review of the consistency between the risks identified and the issues which were of concern to the Committee was performed.

Following the conclusion of this review, the Committee is of the opinion that the Annual Report and Financial Statements 2021 is representative of the year, and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

However, the ultimate responsibility for reviewing and approving the Annual Report and Financial Statements 2021 remains with the Board.

Financial reporting process internal control and risk management systems

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receive reports of reviews undertaken by Group Risk and Group Internal Audit. The Audit Committee receives reports from Deloitte LLP, the Group's external auditor. Deloitte LLP also provides a management letter on an annual basis, which draws significant internal control matters which have been identified to the Audit Committee's attention, along with management's response. The Audit Committee also holds discussions with the external auditor at least three times a year without executives present, to ensure that there are no unresolved issues of concern.

The Group's risk management and internal control systems are reviewed by the Board and are consistent with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council and compliant with the requirements of CRD IV. They have been in place for the full year under review and up to the date of the approval of the Annual Report.

In response to the BEIS White Paper, 'Restoring trust in audit and corporate governance', published in March 2021, the Committee commissioned a third party to conduct a review of the Group's internal financial controls environment and provide recommendations that the Group should take to be ready for the future requirements. The results of this review were presented to the Committee at the November meeting and identified that continuing effort was required on three in-flight programmes: 1) the implementation of a Group-wide integrated risk system; 2) the embedding of IPFG; and 3) the IT platform modernisation, to ensure that the Group reached the expected level of maturity for an enhanced control regime. The Committee will continue to oversee these programmes during 2022.

Annual assessment of risk management and internal control systems

To assess the effectiveness of the risk management and internal control systems within the Group, Internal Audit conducted an analysis of the aggregate outcomes from audits carried out in 2021 from both a control environment and a risk and control culture perspective, assessed the progress made in terms of the enhancement of the second line of defence, and assessed the number of open and overdue audit issues. In addition Internal Audit also worked closely with the second line of defence to monitor levels of risk awareness across the Group. Internal Audit confirmed to the Committee that both the control environment and the level of risk and control awareness had improved within the Group during 2021, evidenced particularly through the progress made by the Vanquis Bank 'First Line Controls Review' programme and the swift remediation of the Moneybarn finance control environment. Management has robust plans for the continued remediation of the Vanquis Bank IT control environment, and is committed, across the Group, to the continued improvement of the control environment and the embedding of a risk-aware culture. This is demonstrated through the ongoing Risk Enhancement Programme within Vanquis Bank and the Control Mitigation Programme within Moneybarn. The Risk Harmonisation Programme referred to on page 87 will deliver improvements in developing a risk aware culture.

Internal Audit

The Group operates an in-house Group Internal Audit function which is managed by the Group Chief Internal Auditor, appointed in June 2021, with specialist services provided by third-party consultants where necessary. The Group Internal Audit function also reports, via the Group Chief Internal Auditor, to the Committee at each meeting, ensuring the function's independence from Group management. As Chairman of the Audit Committee, I also meet separately with the Group Chief Internal Auditor on at least a quarterly basis.

Internal auditor effectiveness

The Committee approves the internal audit charter on an annual basis and reviews, approves and monitors progress against the annual internal audit plan. As part of this approval process, the Committee requires confirmation from the Group's Chief Internal Auditor that the Internal Audit function has the requisite expertise and resources to successfully fulfil its role. The Committee also confirms annually that the activities of Internal and External Audit are coordinated.

The Committee commissioned an External Quality Assessment (EQA) of Internal Audit, and this was performed by Ernst & Young during the second half of 2021, with the results reported at the November Committee meeting. This found that Internal Audit generally conforms with the International Professional Practices Framework (IPPF) and the CIIA Financial Services Code, benchmarks against good practice for internal audit functions operating within the financial services sector in the UK.

Internal auditor effectiveness continued

There was particular recognition that Internal Audit had responded to the Covid-19 pandemic with flexibility and pragmatism and had enhanced relations with the first line of defence, achieving the highest possible colleague engagement index scores. In addition, the EQA showed that Internal Audit benchmarked well against the internal audit functions in equivalent organisations. The Committee confirmed Internal Audit's plan to address the areas where conformance could be enhanced and confirmed the effectiveness of the Internal Audit function for the year ended 31 December 2021.

The Committee debated and approved the internal audit plan for H1'22 and I can confirm that the audit plan is reflective of the material risk themes the Group faces, as well as the Group's strategic drivers. Further, the Committee is satisfied that the Group Internal Audit function has the appropriate resources to deliver the 2022 plan.

External audit

Principle M of the Code states that the Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of Internal and External Audit functions.

External auditor appointment and tenure

Deloitte LLP, the Group's external auditor, has been the Group's auditor for nine years, having been appointed in 2012. It is the Group's policy to undertake a formal tender process every 10 years, or earlier, if the Audit Committee feels that this would be in the best interests of the Group. As was reported last year, a formal audit tender was conducted in the second half of 2020, with Deloitte LLP selected by the selection panel for reappointment in December 2020. Further to this, at the February 2022 meeting it was concluded that Deloitte LLP was performing in line with expectations and was considered to be independent of the Group and it was therefore considered that Deloitte LLP be proposed to be reappointed as the Group's auditor for the financial year ended 31 December 2022. Deloitte LLP's reappointment will be proposed to shareholders at the 2022 AGM.

In accordance with best practice and guidance issued by the FRC, the Committee will continue to review the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process during the next financial year.

Working with the external auditor

The Committee held separate sessions with the external auditor without any executive director or employee of the Group being present at four of its meetings in 2021. This gave members of the Committee the opportunity to raise any issues, including any issues on the interim and final results of the Group, directly with the external auditor. The Committee schedules private sessions with the internal and external auditors on a rotating basis, with the option for an additional private session upon request. In addition I meet with the external audit partner on a quarterly basis to discuss pertinent issues. An annual assessment of the performance of Deloitte LLP is undertaken following finalisation of the Annual Report and Financial Statements and this report was discussed by the Committee at the July 2021 meeting.

External auditor independence and objectivity

The Committee has in place a policy on the appointment of staff from the external auditor to positions within the various Group finance departments. Neither a partner of the audit firm who has acted as engagement partner, nor the quality review partner, nor other key audit partners, nor partners in the chain of command, nor a senior member of the audit engagement team, may be employed as Group Chief Finance Officer, Group Financial Controller or any Divisional Finance Director.

The Committee has considered the independence of the Deloitte LLP audit team and has deemed that adequate safeguards have been in place including: separate partners and staff are responsible for the delivery of this work; the non-audit team does not prepare anything which would be relied upon in the audit of the Group; and the work performed is also subject to an independent Professional Standards Review and Engagement Quality Control Review process.

The Committee considers the reappointment of the external auditor, including the rotation of the audit partner, annually. This includes an assessment of the independence of the external auditor and an assessment of its performance in the previous year. This is achieved primarily through a questionnaire and scorecard which is completed by key stakeholders involved in the annual audit process, including the Audit Committee, and Heads of Finance in each of the divisions and at Group level. The scores and results of the questionnaire are collated and shared with the external auditor and an action plan to address any areas of concern identified is agreed.

Policy on non-audit work

The Company has a formal policy on the use of the external auditor for non-audit work which reflects the requirements of the EU Audit Directive and Regulations. This policy is reviewed annually by the Committee and was reviewed and approved at the December 2021 meeting.

The award of non-audit work to the external auditor is managed and monitored in order to ensure that the external auditor is able to conduct an independent audit and is perceived to be independent by the Group's shareholders and other stakeholders. Work is awarded only when, by virtue of its knowledge, skills or experience, the external auditor is clearly to be preferred over alternative suppliers.

I am also required to approve in advance any single award of non-audit work with an aggregate cost of between £50,000 and £250,000 and the Committee must provide prior approval for items in excess of £250,000. The Committee will always seek confirmation that Deloitte LLP's objectivity and independence are safeguarded.

The level of fees paid to Deloitte LLP for non-audit work during the year was £1.2m (2020: £0.2m). The ratio of audit to non-audit fees during the year was 1.4:1. The increase in non-audit fees from £0.2m in 2020 to £1.2m in 2021 was in relation to support with ongoing Group projects.

Significant issues and areas of judgement

The critical accounting assumptions and key sources of estimation uncertainty considered by the Committee in relation to the Annual Report and Financial Statements 2021 are outlined on pages 204 to 205. In addition to the matters set out on the next page, the Committee also considered the going concern statement set out on page 198. The Committee discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus as outlined in the Independent Auditor's Report on pages 261 to 270.

Issue	Judgement	Actions
Impairment of amounts receivable from customers Receivables are impaired on recognition in accordance with IFRS 9. The impairment allowance is initially dependent on the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) within 12 months, discounted at the original effective interest rate (EIR). Lifetime losses are recognised following a significant increase in credit risk. The assessment of credit risk and therefore impairment allowance should be probability weighted, and should utilise all information available, including past events, current conditions and supportable forecasts of economic conditions at the reporting date. In 2021, adjustments have been required to impairment allowances due to Covid-19. During the second half of 2021 the Group implemented new IFRS 9 models to further refine provision requirements based on market driven metrics.	Judgement is applied to the impairment allowance required. This includes whether past performance provides a reasonable estimate of future losses implicit within the PD, LGD and EAD. An assessment of macroeconomic factors, including the latest economic factors, is also required to estimate expected losses. This judgement was significantly enhanced in 2020 in light of the pandemic. During 2021 the macroeconomic environment, particularly lower than expected unemployment and a less than expected impact of Covid-19, resulted in a part release of in-model adjustments which were introduced in 2020. In light of rising inflation and rising energy costs, a cost of living post-model adjustment has been recognised.	The Audit Committee reviews and challenges the key judgements applied throughout the year. This includes adjustments to determining significant increases in credit risk and default. Post-model adjustments are reviewed and challenged when impacting PD, LGD or EAD. The process of creating future estimates is considered with peer analysis performed. The design, implementation and testing of new models and any associated model enhancements are reviewed and challenged. The embedding of the new IFRS 9 model monitoring control framework during 2022 will be overseen by the Committee, and the required ongoing monitoring of these models together with associated controls will be reviewed and challenged. Evidence following the period end is assessed to determine if the evidence would have been available at the period end and included within the assessments. The work performed by Deloitte LLP on validating the management assumptions is considered. Findings are presented in Deloitte LLP's report to the Audit Committee which is challenged with knowledge of the latest circumstances. The work performed by Group Internal Audit is considered, in particular, on technology and operational controls. The review performed by the Vanquis Bank Audit Committee on the Vanquis Bank significant assumptions was also taken into account.
Provisions for customer redress The Group makes provisions for customer remediation if all of the following are present: (i) a present obligation (legal or constructive) has arisen as a result of a past event; (ii) payment is probable (more likely than not); and (iii) the settlement amount can be estimated reliably. A contingent liability is recognised if the present obligation is not probable or the amount cannot be estimated reliably or there is a possible obligation dependent on a future event occurring. Provisions were created in 2020 in respect of ongoing customer claims of irresponsible lending of home credit in CCD and for the resulting Scheme to provide remediation, combined with the costs of delivering the remediation. These provisions are included within the continuing operations following approval of the Scheme and classification of CCD as a discontinued operation during 2021.	Following the Scheme approval during 2021 the remediation costs were no longer considered to be a key source of estimation uncertainty as a fixed amount is payable. The provision was passed to a separate SPV in line with the terms of the Scheme and will be held there until the remediation is paid out.	In order to assess the appropriateness of the judgements applied, the Committee: – challenged the assumptions made by management to determine the provision for redress to be recognised, including the impact of post balance sheet events; – where a provision is not recognised and a contingent liability is disclosed, reviewed the level of disclosure; – reviewed the work performed by external consultants in respect of conduct matters relating to the investigations where applicable; and – considered the work performed by Deloitte LLP and its views on the appropriateness of assumptions used by management, based on its experience.
Retirement benefit asset The valuation of the retirement benefit asset is dependent upon a series of actuarial assumptions. The key assumptions are in respect of the discount rate, inflation rates and mortality rates used to calculate the present value of future liabilities.	Judgement is applied in formulating each of the assumptions used in calculating the retirement benefit asset. This considers any adjustments made to the key judgements to ensure they remain appropriate for the Group's defined benefit pension scheme.	The Company's external actuary, Willis Towers Watson, proposes the appropriate assumptions and calculates the value of the retirement benefit asset. The Committee considers the adjustments made by management to the core assumptions proposed by the actuary. The Committee also considers the audit work performed by Deloitte LLP on the assumptions and to what extent the assumptions are within the suitable ranges of assumptions based on audit experience.

Compliance statement

The Group has fully complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 throughout the 2021 financial year.

Paul Hewitt
Audit Committee Chairman
6 April 2022

Holistic risk management to support our future strategy

> This has proven to be a year of unprecedented strategic development within the Group, and the Committee has provided vital programme assurance to the Board whilst overseeing the evolution of the Group Risk function.

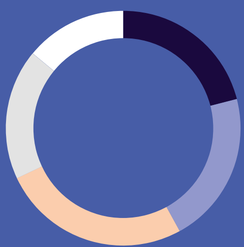
Angela Knight
Risk Committee Chairman

Angela Knight
Risk Committee Chairman

Members

Angela Knight (Chairman)
Elizabeth Chambers
Paul Hewitt

Allocation of time



Reviewing Group strategic and emerging risks and monitoring divisional risk reporting	21%
Setting overall risk appetite, framework and policy and risk harmonisation	21%
Reviewing regulatory and prudential risk reporting	26%
Assessing risk management effectiveness	18%
Maintaining good governance and approving external reporting	14%

The Committee's terms of reference are available at: **www.providentfinancial.com**

At each meeting, the Committee:

- reviewed and assessed the overall risk management status of the Group;
- reviewed and assessed the Group's key strategic and emerging risks;
- reviewed and confirmed the risk appetite status across the Group;
- reviewed the Group Regulatory Report including horizon scanning and breaches;
- reviewed divisional risk reports;
- reviewed minutes and actions from prior meetings; and
- received quarterly reports from the Group Executive Risk Committee (GERC).

The Committee has overseen the establishing of the Group Conduct Forum in recognition of the increased regulatory scrutiny around customer outcomes. Specifically, the Group Conduct Forum will be addressing the Consumer Duty Consultation and the key themes of affordability, creditworthiness, vulnerability, financial difficulty and forbearance. The Group Conduct Forum has representation from across the Group and has prioritised the development of the Group Conduct Risk Framework, as well as the enhancement of the Group Responsible Lending and Group Vulnerability policies and procedures. These were approved by the Committee during the year.

Prudential risk has been another key priority for the Committee in 2021 and it has received regular updates as the ICAAP has been refreshed in addition to reports on the Group's capital, liquidity and financial risk.

The Group CRO reported at each meeting on the second line oversight and the support and challenge that were undertaken in respect of the design and execution of the Group's strategic programmes. This included the Group transformation activity which assisted the future direction of IPFG; the Sunflower Loans proposition; the Vanquis Risk Mitigation Programme; and the Future of Work programme. The objectives of the Group Risk function were designed to ensure that these programmes were implemented in a controlled, sustainable and effective manner with the end result that our colleagues are well positioned to serve our customers.

Additionally, the Committee oversaw the work undertaken by the Group Risk function to establish a common approach to assessing the risk appropriateness of each of the Group's products. As part of this, the Committee approved the Group Responsible Lending policy in July 2021.

The Group is committed to undertaking its business in a sustainable manner and having recognised climate risk as an emerging risk in 2020, a Climate Risk Committee was created during 2021. The Climate Risk Committee is supported by a Climate Risk Working Group, which is focused on understanding and analysing the main climate-related risks to the Group. The intention is to design a strategy to stress test, mitigate and demonstrate resilience to the impacts of climate change. The Committee received inputs from first and second line colleagues and approved the Group's Climate Risk Appetite Statement and Policy in 2021. Following the reclassification of climate risk as a principal risk during 2021, a suite of appropriate metrics will be designed in 2022. For further information on climate risk please see page 96.

As I look ahead to 2022, there are several priorities for the Committee. Overseeing the embedding of the Risk Harmonisation Programme and the approach to mitigating the strategic and emerging risks are two important issues. In addition, the Group is going through a period of significant change and therefore there is a high level of execution risk. The management and mitigation of this risk is a key focus for the Committee. As Covid-19 hopefully steadily moves from pandemic to endemic status this will result in a diminishing of risk. However, the Committee recognises that as times continue to be uncertain credit risk is another area of key focus and close monitoring will be required.

I am pleased to be able to report that IT risk management has improved in 2021, although there is room for significant further improvement and so the Committee will be receiving regular updates throughout 2022. Just as the Risk Committee received a series of updates on conduct risk during 2021, so we will continue to monitor this closely in 2022.

Committee responsibilities

The primary roles of the Committee are to ensure that there is an appropriate Enterprise Risk Management Framework in operation across the Group, enabling effective oversight over the Group's principal risks and the aggregated risk position and to provide advice to the Board in relation to the Group's current and potential future risk strategies and exposures. The Committee's principal areas of responsibility are as follows:

- understanding the Board's strategy, desired culture and direction and identifying the key strategic and emerging risks which might prevent delivery;
- endorsing an overall risk appetite and recommending it to the Board for approval at least annually;
- carrying out an assessment of the principal risks facing the Group;
- monitoring the overall effectiveness of risk management across the Group and divisions as overseen by the Group CRO;
- in conjunction with the Audit Committee, reviewing the Group's capability to identify and manage new risk types, and keeping under review the effectiveness of the Group's internal control and risk management systems;
- reviewing the Group's management of current and forward-looking risk exposures;
- reviewing the Group's business continuity plans;
- notifying the Board of any changes in the status and control of material risks;
- reviewing and approving the Group ICAAP, Vanquis ILAAP and Group liquidity assessment, including the stress testing and capital allocation approach; and
- continuous improvement of risk outcomes for the Group through effective risk management planning.

Risk Harmonisation Programme

The Committee has overseen significant progress on the Risk Harmonisation Programme, with the newly appointed Group Head of Enterprise Risk reporting on the consolidation of the divisional frameworks into one integrated single Group-wide Enterprise Risk Management Framework (ERMF). All risk management, conduct and compliance activities performed within the second line of defence across the Group and divisions have been merged into one function, led by the Group CRO, to ensure consistent application of common practice across the organisation. The Committee has further approved a single risk and control self-assessment methodology and a consistent suite of Group Risk Policies. These will be monitored and embedded during 2022. The implementation of this Group risk system will improve risk and control effectiveness and, through the automation of both the processes and the reporting, will result in enhanced information being presented to the Committee.

Each of the product lines are developing their risk and control self-assessment approaches, facilitated by Group Risk. These are all at differing levels of maturity. Through this approach, key controls are identified, evaluated and monitored by line management as part of day-to-day activities. All product lines have continued to enhance these internal control frameworks during the year, with greater focus on end-to-end processes to bring about a better articulation of risks and controls.

To manage risk and ensure compliance with regulatory obligations, the Board sets the overall risk appetite of the Group. The Committee receives regular reporting on the risk appetite measures as well as progress updates on the development of enhanced risk appetite statements, metrics and thresholds, aligned to the Group Risk Policy Framework. The Committee regularly reports to the Board with updates and escalations.

The Group operates a three lines of defence model, bringing clarity to accountabilities and responsibilities for managing risk and to support the effective embedding of risk management across the Group. Further information on the Group risk appetite and three lines of defence model is on page 89.

“The Group is committed to undertaking its business in a sustainable manner and having recognised climate risk as an emerging risk in 2020, a Climate Risk Committee was created during 2021.

Angela Knight
Risk Committee Chairman

Committee activities in 2021	Committee priorities for 2022
– Approved the Group Risk Management Framework, Risk Policy Framework and Risk Policies. – Received risk reports and opinion in relation to the wind-down of CCD, the common Board structure and the First Line Controls Review in Vanquis. – Reviewed the principal risks, internal control and committee reports within the 2020 Annual Report and Financial Statements. – Approved the prudential regulation timetable for 2021. – Reviewed and approved the Group ICAAP, Vanquis ILAAP and Group liquidity assessment, including the stress testing and capital allocation approach. – Received a risk review of the Group's 2022 Budget and five-year Corporate Plan. – Following completion of the Group Credit Underwriting Review, oversaw the generation of a Group-wide Affordability Strategy and the alignment of creditworthy assessments as appropriate across the Group. – Oversaw the generation and approval of a Group Conduct Risk Framework and the design of customer outcome testing. – Approved the Group Risk Adjustment Framework. – Received the CRO's assessment of the executive directors' non-financial scorecard for 2021. – Confirmed the effectiveness of the annual Group Risk Management Framework following an internal review by management. – Received regular Group CRO reports outlining the Group's strategic and emerging risks. – Received the Group MLRO Report detailing divisional performance. – Monitored in detail complaints performance across the Group and oversaw resulting operational and process changes. – Monitored IT resilience across the Group and the progress of the IT Modernisation Plan via regular reporting from the Group Chief Information Officer (CIO). – Monitored the progress of the Group Risk Harmonisation Programme, including resource, reporting and risk appetite. – Reviewed the Group's Business Continuity Plan. – Approved the Group Model Risk Policy and oversaw the embedding of model governance within the divisions. – Received a prudential risk report from the Group Treasurer. – Approved the Committee's revised terms of reference (ToR) and forward agenda planner. – Received updates on the Group pension scheme and associated risks. – Received an update on gifts and hospitality. – Received regular data protection performance reports and action plan updates. – Approved the Group's annual risk acceptance approach. – Oversaw the recruitment and formation of a Group-wide Risk senior leadership team with sufficient capability to challenge all principal risks.	– Oversee the embedding of the Risk Harmonisation Programme, including the Group-wide risk system. – Monitor execution risk associated with strategic and operational change activity. – Approval of the Group ICAAP and ILAAP. – Continued enhancement of our approach to managing conduct risk. – Monitor credit risk change in light of changes to the macroeconomic environment.

Principal and emerging risks

The Committee is responsible for carrying out an assessment of the principal and emerging risks to the Group, including those which have the potential to impact delivery of its strategy and culture, business model and future performance. The Committee received reports from the CRO detailing the Group's aggregated risk profile, reviewing this in detail and confirming its accuracy.

Our principal and emerging risks are set out in the table below:

Principal risks	Key strategic and emerging risks
– Capital risk. – Funding and liquidity risk. – Market risk. – Credit risk. – Strategic risk. – Climate risk. – Legal and governance risk. – Financial crime risk. – Conduct and regulatory risk. – People risk. – Technology and information security risk. – Operational risk. – Model risk.	– Execution risk. – Responsible lending. – People risk, return to office. – Credit risk as we move to endemic environment. – General IT controls and robustness of IT platform.

Opportunities

A robust and embedded ERMF underpins the strategy of the Group, as it is only by understanding the level of risk the Board is willing to take so that we can identify and pursue strategic opportunities. Further, the second line's reporting on its monitoring and assurance of in-flight strategic programmes, ensures that the Committee can constructively challenge management's implementation and identify execution risks at an early stage. For further details regarding the principal and emerging risk assessment, full details of those principal and emerging risks the Board is willing to take in order to achieve its long-term strategic objectives, and the related risk appetites, please see pages 90 to 99.

Committee review of internal risk management and controls

In accordance with the 2018 UK Corporate Governance Code Principle O, the Group Board has a responsibility to establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives. Provision 29 requires the Board to monitor the Company's risk management and internal control systems. Following a detailed review by the Committee, the directors can confirm that the Group's key risks have been robustly assessed and are effective. 2021 was a year of significant improvement in terms of Group risk management. In reaching this conclusion, the Group Risk function has assessed the following criteria:

- a comparison between the strategic and emerging risk profile and positioning on both 1 January of 2021 and 2022, indicating an improvement year on year;
- an assessment of the progress made with the Group Risk Harmonisation Programme, including the expertise and experience within the Group Risk function, with a full suite of Group Risk Policies and a redesigned and enhanced suite of risk appetite metrics approved in the year;
- key strategic decisions taken and executed in 2021 which alter the risk profile of the Group, including the wind-down of CCD, and the implementation of a common Board between the Group and Vanquis;
- an assessment of our relationships with our regulators, which demonstrates a multi-year improvement; and
- other key indicators such as the reduction in open and overdue audit actions and enhanced risk awareness within first line management.

The Committee appreciates that the embedding of a risk-aware culture is a continual and iterative process, and to this end we have overseen the commencement of work on a number of initiatives to further enhance the Group's control environment during 2022:

1. embedding of the improvements made in 2021 within the Risk Harmonisation Programme to support first line management with a more consistent, efficient and integrated approach to managing the Group's risk within its appetite;
2. preparing and planning for Consumer Duty regulation, ensuring we can demonstrate delivery of customer centricity and optimal customer outcomes; and
3. continuing to enhance our capital and credit model capability to strengthen our ability to sustain the long-term viability of the Group.

Angela Knight
Risk Committee Chairman
6 April 2022

Our responsibilities as a listed business

"The Group's growth and delivery of good customer outcomes remain its focal points for 2022 and beyond.

Charlotte Davies
General Counsel and Company Secretary

Charlotte Davies
General Counsel and Company Secretary

Introduction

In accordance with section 414C(11) of the Companies Act, the directors present their report for the year ended 31 December 2021. The following provisions, which the directors are required to report on in the Directors' Report, have been included in the Strategic Report:

- future business developments (throughout the Strategic Report, in particular on pages 20 to 33);
- important events since the balance sheet date (throughout the Strategic Report and on page 167);
- viability statement (page 101);
- greenhouse gas emissions, energy consumption and energy efficient action (pages 72 and 73);
- risk management (pages 87 to 100);
- how the directors have engaged with employees, how they have had regard to employee interests and the effect of that regard, including on the principal decisions taken by the Company in the financial year (pages 75 to 86); and
- how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year (pages 75 to 86).

Both the Strategic Report and the Directors' Report have been prepared and presented in accordance with, and in reliance upon, applicable company law. The liabilities of the directors in connection with both the Directors' Report and the Strategic Report shall be subject to the limitations and restrictions provided by company law. Other information to be disclosed in the Directors' Report is given in this section.

Directors

The membership of the Board and biographical details of the directors at the year end are given on pages 112 to 114 and are incorporated into this report by reference.

All directors were present throughout 2021 and up to the date of signing the Annual Report and Financial Statements 2021 other than those set out below:

- Robert East resigned from the Company on 13 January 2022.

Further commentary about the Board's composition and Board tenure can be found on page 138.

Appointment and replacement of directors

Rules about the appointment and replacement of directors are set out in the Company's articles of association. In accordance with the recommendations of the 2018 UK Corporate Governance Code (the Code), all directors will offer themselves for appointment or reappointment, as appropriate, at the 2022 AGM.

Articles of association

The directors' powers are conferred on them by UK legislation and by the articles of association. Changes to the articles of association must be approved by shareholders passing a special resolution and must comply with the provisions of the Companies Act and the FCA's Disclosure Guidance and Transparency Rules.

Directors' indemnities

The articles of association permit the Company to indemnify directors of the Company (or of any associated company) in accordance with section 234 of the Companies Act.

The Company may fund expenditure incurred by directors in defending proceedings against them. If such funding is by means of a loan, the director must repay the loan to the Company, if they are convicted in any criminal proceedings or judgment is given against them in any civil proceedings. The Company may indemnify any director of the Company or of any associated company against any liability.

However, the Company may not provide an indemnity against:

1. any liability incurred by the director to the Company or to any associated company;
2. any liability incurred by the director to pay a criminal or regulatory penalty;
3. any liability incurred by the director in defending criminal proceedings in which they are convicted;
4. any liability incurred by the director in defending any civil proceedings brought by the Company (or an associated company) in which judgment is given against them; or
5. in connection with certain court applications under the Companies Act, no indemnity was provided and no payments pursuant to these provisions were made in 2021 or at any time up to the date of this report.

There were no other qualifying indemnities in place during this period.

The Company maintains both a deed of indemnity in favour of the directors and directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors.

Information required by Listing Rule 9.8.4R

Information required to be disclosed by LR 9.8.4R (starting on page indicated):

Interest capitalised	Not applicable
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	181 to 182
Waiver of emoluments by a director	179 and 182
Waiver of future emoluments by a director	182
Non-pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	256
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	182
Shareholder waivers of future dividends	182
Agreements with controlling shareholders	Not applicable

Share capital

The Company's issued ordinary share capital comprises a single class of ordinary shares. The rights attached to the ordinary shares are set out in the articles of association. Each share carries the right to one vote at general meetings of the Company.

No new shares were issued to satisfy awards made under the Provident Financial Long Term Incentive Scheme 2015 (LTIS), the RSP or the Provident Financial Savings-Related Share Option Scheme 2013.

Conflicts of interest

The Companies Act and the articles of association require the Board to consider any potential conflicts of interest of its members.

The Board has a formal policy and operates formal procedures regarding conflicts of interest in order to identify and manage conflicts and to maintain independent judgement. All members of the Board have completed conflict of interest forms which are reviewed annually. All directors have an ongoing duty to notify the Company of any changes and to ensure that appropriate authorisation is sought where required and are required to renew and confirm their external interests annually.

The Board (excluding the director concerned) considers and, if appropriate, authorises each director's reported actual and potential conflict of interest, taking into consideration what is in the best interests of the Company and whether the director's ability to act in accordance with his or her duties is affected. The Board will refer to the Conflict of Interest Policy for the most appropriate mitigating control.

Records and Board minutes of all authorisations granted by the Board and the scope of any approvals given are held and maintained by the Company Secretary.

Rights of ordinary shares

All of the Company's issued ordinary shares are fully paid up and rank equally in all respects and there are no special rights with regard to control of the Company. The rights attached to them, in addition to those conferred on their holders by law, are set out in the articles of association. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except:

1. where the Company has exercised its right to suspend its voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act; or
2. where their holder is precluded from exercising voting rights by the FCA's Listing Rules or the City Code on Takeovers and Mergers.

Substantial shareholdings

In accordance with the Disclosure Guidance and Transparency Rules (DTR 5) the Company, as at 14 March 2022 (being the latest practicable date prior to publication of this report), had been notified that the following persons hold directly or indirectly 3% or more of the voting rights of the Company.

Redwood Capital Management	14.03%
Schroder Investment Management	12.99%
Davidson Kempner Capital Management	8.45%
BlackRock	7.43%
Marathon Asset Management	5.21%
Aberforth Partners	4.68%
Vanguard Group	4.59%
Premier Miton Investors	3.55%
Coltrane Asset Management CfD	3.00%

Substantial shareholdings continued

Interests as at 31 December 2021 were as follows:

Schroder Investment Management	16.32%
Redwood Capital Management	14.04%
Davidson Kempner Capital Management	6.77%
Aberforth Partners	5.86%
BlackRock	5.56%
Marathon Asset Management	5.37%
Vanguard Group Inc.	3.44%
Coltrane Asset Management CfD	3.00%

All interests disclosed to the Company in accordance with DTR 5 that have occurred since 23 March 2022 can be found on the Group's website: www.providentfinancial.com.

Directors' interests in shares

The beneficial interests of the directors in the issued share capital of the Company were as follows:

	Number of shares	
	31 December 2021	31 December 2020
Malcolm Le May	942,231	914,241
Neeraj Kapur	400,838	300,143
Patrick Snowball	96,477	96,477
Andrea Blance	–	–
Elizabeth Chambers	12,000	12,000
Robert East	5,000	5,000
Paul Hewitt	34,205	34,205
Margot James	–	–
Angela Knight	–	–
Graham Lindsay	9,771	9,771

The above interests include those held by connected persons. There have been no changes to the above interests between 31 December 2021 and the date of this report.

Dividend waiver

Information on dividend waivers currently in place can be found on page 182.

Powers of the directors

Subject to the articles of association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The directors currently have powers both in relation to the issuing and buying back of the Company's shares, which were granted by shareholders at the 2021 AGM. The Board is seeking renewal of these powers at the 2022 AGM.

All-employee share schemes

The current schemes for employees resident in the UK are the Provident Financial Savings-Related Share Option Scheme 2013 and the Provident Financial Share Incentive Plan (SIP).

Share schemes are a long-established and successful part of the total reward package offered by the Company, encouraging and supporting employee share ownership. The Company's schemes aim to encourage employees' involvement and interest in the financial performance and success of the Group through share ownership.

Approximately 864 employees were participating in the Company's Save As You Earn schemes as at 31 December 2021 (2020: 1,100).

The Company's SIP offers employees the opportunity to further invest in the Company and to benefit from the Company's offer to match that investment on the basis of one matching share for every four partnership shares purchased.

Approximately 139 employees were participating in the SIP as at 31 December 2021 (2020: 344).

Executive share incentive schemes

Awards are also outstanding under the RSP and DBP. The Remuneration Committee did not grant any options during the year under the LTIS or DBP. RSP and CSOP options were granted under the RSP on 18 August 2021. Further information is set out on page 181.

Shares were awarded to the CEO under the role-based allowance (RBA). Further information is set out on page 183.

Provident Financial plc 2007 Employee Benefit Trust (EBT)

The EBT, a discretionary trust for the benefit of executive directors and employees, was established in 2007. The trustee, SG Kleinwort Hambros Trust (CI) Limited, is not a subsidiary of the Company. The EBT operates in conjunction with the LTIS, RSP, RBA and DBP and either purchases shares in the market or subscribes for the issue of new shares. The EBT is funded by loans from the Company which are then used to acquire, either via market purchase or subscription, ordinary shares to satisfy awards granted under the LTIS, RSP and DBP. Funds are used to acquire shares by way of market purchase for the RBA. For the purpose of the financial statements, the EBT is consolidated into the Company and Group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 29 on page 254 of the financial statements.

In 2021, the EBT agreed to satisfy awards made under the RSP and CSOP options under the RSP in relation to 1,419,974 shares in the Company. In 2021, the EBT also agreed to satisfy a buyout award agreement in relation to 34,265 shares in the Company and to satisfy an award under the RBA of 3,208 shares in the Company by way of market purchase.

As at 31 December 2021, the EBT held the non-beneficial interest in 2,864,456 shares in the Company (2020: 2,857,442). The EBT may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the beneficiaries.

Provident Financial Employee Benefit Trust (the PF Trust)

The PF Trust, a discretionary trust for the benefit of executive directors and employees, was established in 2003 and operated in conjunction with the PSP. The trustee, Provident Financial Trustees (Performance Share Plan) Limited, is a subsidiary of the Company.

The PF Trust has not been operated with the Performance Share Plan since 2012, when the previous PSP expired. As at 31 December 2021, the PF Trust had no interest in any shares in the Company (2020: nil).

Provident BAYE Trust (the BAYE Trust)

The Provident BAYE Trust is a discretionary trust which was established in 2013 to operate in conjunction with the SIP. The trustee, YBS Trustees, is not a subsidiary of the Company. The BAYE Trust is funded by loans from the Company which are then used to acquire ordinary shares via market purchase to satisfy the Matching Awards for participants of the SIP.

For the purposes of the financial statements, the BAYE Trust is consolidated into the Company and Group. Participants in the SIP can direct the trustee on how to exercise its voting rights in respect of the shares it holds on behalf of the participant. As at 31 December 2021, the BAYE Trust held the non-beneficial interest in 211,894 shares (2020: 284,183 shares).

Profit and dividends

The continuing operations profit before taxation, amortisation of acquisition intangibles and exceptional items amounts to £167.8m (2020 profit: £27.8m).

As at the date of this report, the directors have declared dividends as follows:

Ordinary shares (p) per share	
Interim dividend	
2022	12p
2021	£nil
2020	£nil
Proposed final dividend	
2021	£nil
2020 (dividend withdrawn)	£nil
Total ordinary dividend	
2022	12p
2021	£nil
2020	£nil

Colleague engagement and involvement

The Group is committed to colleague involvement across the Group. You can also read about how our directors have engaged with colleagues, how they had regard to colleague interests and the effect of that regard on pages 79 to 80 and 129 to 130.

In a conscious effort to further align all divisions, a new Group-wide intranet has been developed in order to keep all colleagues across the Group apprised of all relevant matters, including the ongoing Covid-19 return to office plans. The second half of 2021 has seen colleagues slowly return to the office under safe and documented processes; colleagues have adapted well to a hybrid working environment, with many individuals dividing up their working week between their respective office and their home. Furthermore, continuing on from 2020, we provided colleagues with information on matters of concern to them through a number of mechanisms, including: workforce panels in each division, Company briefings and updates, mobile applications, 'town halls' and internal newsletters from our CEO and managing directors. Following external announcements regarding the Group's operational and financial performance, internal communications and engagement are carried out to keep colleagues up to date on Group performance. Senior leaders across the Group regularly keep colleagues updated on financial and operational performance and relevant strategic issues through frequent updates. A regular vlog-style update from the CEO, Malcolm Le May, highlights our progress and focus on plans across the Group.

Colleagues are consulted with via our Group-wide Colleague Survey and a Colleague Pulse Survey was also undertaken during the year. Colleagues are also consulted via our divisional workforce panels, as well as other local engagement initiatives. We have a Designated Non-Executive Colleague Champion who plays a lead role in Board engagement with colleagues and understanding colleague interests. You can read more about this on pages 129 and 130.

You can read how we encourage the involvement of UK colleagues in the Company's performance through an employee share scheme on page 164.

The Group recognises Unite Ireland in respect of employee relations, collective consultation and pay and conditions for approximately 60 staff in the Republic of Ireland and the Group engages with Unite Ireland as appropriate.

Business relationships with suppliers, customers and others

You can read about how our directors had regard to the need to foster the Company's business relationships with suppliers, customers and others and the effect of that regard, including on the principal decisions taken by the Company, on pages 75 to 86.

Learning and leadership development

The Group is fully committed to continual personal and professional development, encouraging colleagues at all levels to explore development opportunities available to them.

Following the successful launch of our Blueprint behaviours and their alignment to our performance management process, we have launched a Group-wide Management Development programme, 'Manager Blueprint'. Accredited by the Institute of Leadership and Management, its aim is to equip our managers with the skills and behaviours to be as effective as possible in their role. In 2022 we will be launching our Inclusive Leadership programme which will build on the foundations of management and focus on developing the key competencies which drive an inclusive culture through our leadership practice. Our talent development activity will continue to invest in the career development of our colleagues, focusing on leadership development, professional qualifications and coaching.

We continue to commit to and utilise the apprenticeship levy as we support upskilling existing colleagues and utilising the levy to support in role development and professional qualifications.

Equal Opportunities and Diversity Policy

The Group is committed to employment policies which follow best practice, based on equal opportunities for all colleagues, irrespective of gender, pregnancy, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the Group to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary. 2021 saw the successful launch of the Group's inclusion community across the Group with four aligned Affinity Groups (Disability, LGBTQ+, Gender Balance, Ethnicity and Social Mobility). We currently have 125 active members and a wider ally membership. Further commentary on this initiative can be found on page 58.

Investing in our workforce

We invest in our colleagues through recognition, reward, development, wellbeing, the working environment and culture. Colleagues are recognised through our new 'Better Everyday' recognition platform and our 'Perks at Work' scheme, which offers colleagues in-store and online rewards and discounts, online training courses and mental wellbeing courses.

Vanquis Bank, alongside all divisions, has recently rolled out a new levelling structure linked to a harmonised Group Reward Framework. This is part of our journey to becoming 1PFG and will enable clear career progression and movement around the Group. A new Manager Blueprint programme has been designed and roll-out has started in Vanquis and the Company and this has been accredited by the Institute of Leadership Management. Moneybarn's 'Be Brilliant' leadership programme saw 43 managers at varying levels undertake the programme over a six-month period, with plans to pilot a Group-wide Manager Blueprint programme in early 2022.

Investing in our workforce continued

Moneybarn introduced the Academy in 2021 in an attempt to bolster its onboarding experience and help support staff with low quality assurance scores, which has seen the average result exceed the 85% benchmark and, after three months in their role, 100% of agents agreed that they felt the Academy had equipped them to work independently in the contact centre.

With the challenges that 2021 has brought in relation to the wind-down of CCD, the Group has looked to redeploy employees where possible throughout the rest of the business and limit the overall impact to existing colleagues. The Group has looked to maintain the support for those colleagues and facilitate a smooth transition.

As reported on page 126, our divisions support colleague wellbeing in a number of ways, such as through mental health training and Mental Health First Aiders, as well as the newly utilised Thrive application that enables colleagues to confidentially access materials that manage stress, anxiety and related conditions.

In 2019, we signed up to the Women in Finance Charter and this year we increased our female senior leadership representation following the appointment of Cheryl Ball, Chief Human Resources Officer, to the Group Executive Committee. We also remain committed to achieving 40% female senior leadership representation by December 2024.

Pensions

The Group operates two pension schemes in the UK.

Employee involvement in the Group defined benefit pension scheme is achieved by the appointment of member-nominated trustees and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pension matters. The trustees manage the assets of the defined benefit pension scheme which are held under trust separately from the assets of the Group. Each trustee is encouraged to undertake training and regular training sessions on current issues are carried out at meetings of the trustees by the trustees' advisors. The training schedule is based on The Pensions Regulator's Trustee Knowledge and Understanding requirements. The trustees have a business plan and, at the start of each year, review performance against the plan and objectives from the previous year. In addition, they agree objectives and a budget for the current year. The trustees have a risk register and an associated action plan and a Conflicts of Interest Policy, both of which are reviewed at least annually.

As at the year end there were three trustees nominated by members and five trustees appointed by the Company.

The trustees have implemented a de-risking investment strategy which has been agreed with the Company. The objective of the strategy is to reduce the risk that the assets would be insufficient in the future to meet the liabilities of the scheme. The de-risking investment strategy is kept under close review by both the trustees and the Company.

The Company has put Pension Trustee Indemnity Insurance in place to cover all of the Group's pension schemes where individuals act as trustees. The trustees are also protected by an indemnity within each scheme's rules and this insurance effectively protects the Group against the cost of potential claims impacting on the solvency of the pension schemes.

The Group also operates a Group Personal Pension Plan for employees who joined the Group from 1 January 2003. Employees in this plan have access to dedicated websites which provide information on their funds and general information about the plan.

The Group also operates a Group Personal Pension Plan for employees of Moneybarn who joined the Group from 1 January 2003. Employees in this plan have access to the insurer's website which provides information on their funds and general information about the plan.

Health and safety

The Group is committed to achieving high standards of health and safety in relation to all of its colleagues, those affected by its business activities and those attending its premises. Each division has its own health and safety agenda, policy standards and mandatory training in place to help colleagues work safely at all times.

CCD had the particular risk of personal safety whilst out collecting from customers but is now in wind-down.

During 2021, the Company has continued to support the government in its efforts to ensure measures are put in place that will prevent the spread of Covid-19 in the workplace. A Future of Work plan has been implemented, with a continued focus on preventing accidents, injuries and ill health, whilst maintaining a flexible and proportionate approach. Hybrid working capabilities have been put into effect with new preventative strategies to promote healthy working practices, and safe working procedures when working at home and in the office.

There has been a significant decline in accidents and incidents during the year, mainly attributable to the increase in remote working, reduced work travel, minimised field visits and risk reduction measures.

Anti-bribery and corruption

The Group policy

The Group has a policy on anti-bribery and corruption which reflects the requirements of the Bribery Act 2010 (the Policy).

The Policy sets out the Group's zero-tolerance approach to bribery and corruption and its commitment to acting professionally, fairly and with integrity in all its business dealings and relationships, wherever it operates, and implementing and enforcing effective systems and controls to counter bribery, corruption and other financial crimes.

The Policy applies to all employees, self-employed agents, contractors and directors in relation to the business activities undertaken by, or on behalf of, the Group. It also applies to any third party which is undertaking business for or on behalf of the Group, which must comply with the Policy or maintain equivalent standards and safeguards to prevent bribery and corruption.

Under the Policy, all employees, self-employed agents, contractors, directors, and relevant third parties of the Group and its divisions must comply with the following minimum requirements:

- they must not directly or indirectly engage in bribery or corruption in any form; and
- they also must not accept, solicit, agree to receive, promise, offer or give a bribe, or facilitate payment, kickback or other improper payment.

The Policy also states that if an employee, self-employed agent, contractor, director or relevant third party of the Group or its divisions becomes aware of a breach of the above minimum requirements they must immediately comply with applicable protocols and procedures to inform an appropriate person within the Group who must as soon as is reasonably practicable report the incident to the Deputy Company Secretary.

Compliance

The Risk and Audit Committees oversee compliance and work together to review the systems and controls for the prevention of bribery. Compliance is also monitored by the Divisional Boards.

Related policies

Gifts and Corporate Hospitality Policy

The Group also has a Corporate Hospitality Policy which requires divisional review, approval and documentation of any gifts or corporate hospitality which are accepted, offered or provided. The Audit Committee oversees the Corporate Hospitality Policy.

Whistleblowing Policy

The Group has a Whistleblowing Policy which is overseen by the Board. The Group is committed to fostering a culture of openness, honesty and accountability and requires the highest possible standards of professional and ethical conduct.

A Group Whistleblowing Forum is in place which oversees whistleblowing investigations, reviews management information and takes the opportunity to consider any concerns regarding persistent trends and shares best practice.

Should any Group colleagues have any concerns relating to anti-bribery and corruption or corporate hospitality then anonymous concerns can be raised through the Group's external third-party helpline facility as detailed in the Group Whistleblowing Policy. Whistleblowing arrangements are overseen by the Board.

Training

The Group provides anti-bribery and corruption and whistleblowing training to all of its colleagues.

Environment and greenhouse gas emissions

The Group's greenhouse gas (GHG) and energy use reporting is undertaken in accordance with our obligations under both The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the UK Government's Streamlined Energy and Carbon Reporting (SECR) policy that has been implemented through the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018. These emissions are reported in accordance with WRI/WBCSD GHG Protocol. We use a financial control approach to account for our GHG emissions and use emission conversion factors from Defra/DECC's GHG Conversion Factors for Company Reporting 2020. Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use, business travel bookings and waste management data.

The Group's total GHG emissions, in tonnes of CO_2 equivalent (CO_2e), along with details of our energy use and an intensity ratio, are reported in the table on page 73. Corporate Citizenship has provided limited level ISAE 3000 (Revised) assurance in respect of this data. Its full, independent assurance statement is available online at: www.providentfinancial.com/sustainability. Where challenges have occurred in obtaining data, estimates have been used and assured by Corporate Citizenship.

To support the Group to meet the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), we established a new Climate Risk Committee in 2021 to help us to assess and manage material climate-related risks and opportunities. This Committee is chaired by Gareth Cronin, the Group Chief Risk Officer, and includes senior representatives from functions such as Finance, Risk, Operations and Sustainability. Further details on the progress the Group has made during 2021 in meeting the TCFD recommendations are set out on pages 68 to 72.

To help us to manage and reduce our wider impacts on the environment the Group continues to have in place an environmental management system (EMS). Our EMS helps us to identify, assess and reduce key environmental risks and impacts; set and deliver against environmental targets; and ensure our legal compliance. This EMS is independently audited each year against the requirements of the international management standard ISO 14001:2015. Following the audits carried out in 2021, all our main premises in Bradford, London, Chatham in Kent and Petersfield in Hampshire were recertified to ISO 14001:2015. The ongoing functioning of this EMS is overseen by the environmental working groups that are in place across PFG.

Overseas branches

The Group closed its overseas branches in the Republic of Ireland on 30 June 2021.

Important events since the end of the financial year (31 December 2021)

On 13 January 2022 the Company announced a restructure of the Board of Vanquis Bank to substantially align its membership with the Board of the Company. The decision to streamline the Boards of the two legal entities formed part of the Group's new target operating model which has delivered immediate benefits of efficiency and reduced duplication in the Group's governance structure. The changes were an important step in transforming the operating model and executing the Group's strategy. You can read more about the Group's strategy in our Strategic Report on pages 1 to 107 and the governance process underpinning our strategy on page 117.

Corporate governance statement

The Group's Corporate Governance Report is set out on pages 108 to 168. The Group was fully compliant with all the provisions of the Code throughout the whole of 2021.

Financial instruments

Details of the financial risk management objectives and policies of the Group and the exposure of the Group to credit risk, liquidity risk, cash flow risk, price risk, interest rate risk and foreign exchange rate risk are included on pages 206 to 210 of the financial statements.

Significant agreements

There are no agreements between any Group company and any of its employees or any director of any Group company which provide for compensation to be paid to an employee or a director on termination of employment or for loss of office as a consequence of a takeover of the Company.

Political donations

The Group did not make any political donations nor incur any political expenditure during the year.

Directors' responsibilities

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 are required to prepare the group financial statements in accordance with UK-adopted international accounting standards.

Directors' responsibilities continued

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- 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 IFRS Standards 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

The directors are also required by the FCA's Disclosure Guidance and Transparency Rules (DTR) to include a management report containing a fair review of the business of the Group and the Company and a description of the principal risks, emerging risks and uncertainties facing the Group and Company.

The Directors' Report and the Strategic Report constitute the management report for the purposes of DTR 4.1.5R and DTR 4.1.8R. The directors are responsible for keeping proper accounting records that are sufficient to:

- show and explain the Company's transactions;
- disclose with reasonable accuracy at any time the financial position of the Company and Group; and
- enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report and Financial Statements 2021 will be published on the Group's website in addition to the normal paper version.

The directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with relevant IFRS, IFRIC interpretations and the Companies Act 2006.

Patrick Snowball	Chairman
Malcolm Le May	Chief Executive Officer
Neeraj Kapur	Chief Finance Officer
Andrea Blance	Senior Independent Director
Angela Knight	Independent Non-Executive Director
Elizabeth Chambers	Independent Non-Executive Director
Margot James	Independent Non-Executive Director
Paul Hewitt	Independent Non-Executive Director
Graham Lindsay	Independent Non-Executive Director

Disclosure of information to auditor

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

- so far as they are aware, there is no relevant audit information of which the Company's external auditor is unaware; and
- they have taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's external auditor is aware of that information.

Auditor

Deloitte LLP, the external auditor for the Company, was first appointed in 2012 and, following a tender process in 2021, a resolution proposing its reappointment will be proposed at the 2022 AGM.

2022 AGM

The 2022 AGM will be held at our Bradford office at No 1 Godwin Street, Bradford BD1 2SU, on 29 June 2022 at 3pm. The Notice of AGM, together with an explanation of the items of business, will be contained in the circular to shareholders dated 6 April 2022.

Approved by the Board on 6 April 2022 and signed by order of the Board.

Charlotte Davies
General Counsel and Company Secretary
6 April 2022

Ensuring remuneration reflects business outcomes

> Our Remuneration Policy has been stress tested in the last two years by the events of the pandemic and we believe it has delivered the right behaviours and reward outcomes across the Group.

Andrea Blance
Remuneration Committee Chair

Andrea Blance
Remuneration Committee Chair

Committee members (attendance)

Andrea Blance (Chair) (6/6 plus 1/1 ad hoc)
Margot James (6/6 plus 0/1 ad hoc)
Graham Lindsay (6/6 plus 1/1 ad hoc)

The Chairman, the Group Chief Executive Officer (CEO), the Chief Human Resources Officer (CHRO), the Group Reward Director and the Committee's independent advisor (PwC) attend Committee meetings by invitation. No person is in attendance when their own remuneration is being discussed.

The report complies with the provisions of the Companies Act, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Conduct Authority (FCA). The Company also follows the requirements of the UK Corporate Governance Code (the Code) updated in July 2018.

On behalf of the Board, and as the Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration report for the year ended 31 December 2021. The report sets out how the Committee carried out its responsibilities during the year and our approach to remuneration in 2021 and explains the rationale for our decision making.

It has been a testing year for us all. The lessons we learned in 2020 about living, and operating, in a pandemic were at the forefront of all of our minds as we entered 2021. Whilst recognising the human cost in 2021, we were all better prepared to manage in a pandemic environment and our colleagues continued to perform admirably and support our customers whose confidence increased noticeably during 2021.

As a result, 2021 was strategically important as it allowed us to focus on our journey to becoming a leading specialist bank focused on underserved markets. Our colleagues delivered the restructuring of the business to enable us to take the next step in our strategy and created (and launched) important new products to service our customers. Our new organisational structure, new products and robust liquidity ensure that we are well positioned to deliver attractive and sustainable returns to shareholders from our platform of credit cards, vehicle finance and personal loans supported by a strong balance sheet. All of this was underpinned by the announcement by PFG that we intended to restart dividend payments in 2022 with a communicated dividend strategy.

The remuneration strategy that we have been pursuing for a number of years also demonstrated clearly that it was sufficiently flexible to deliver the correct outcomes in this changing environment. 2020 was a year in which financial performance (albeit on many occasions outside of our control) was insufficient and this was reflected in zero bonuses for all management. 2021 was a year of material change and very significant successes in both our financial and non-financial metrics, which has meant that remuneration (via bonus payments) has responded in a proportionate manner.

2021 AGM and engagement with shareholders

The 2020 Remuneration Report received very strong support at the 2021 AGM, with 98.98% of votes received in favour. We believe this outcome provided further evidence that shareholders remain satisfied with the Group's remuneration structure, approved at the 2020 GM, and its implementation. During the year we have maintained ongoing engagement with investors about remuneration largely via our Chairman following our intensive schedule of meetings in 2020.

The existing Remuneration Policy has worked well during the pandemic and the outcomes in 2020 (when we decided not to pay bonus) and in 2021 (when we are paying bonus) are appropriate. As such, the Group remuneration framework will follow a similar approach for the year ahead. During 2022, we also look to refine our approach to remuneration taking into account our business needs, changing regulation and evolving best practice. This evolution will be presented to shareholders at the AGM in 2023 when we seek to update our Directors' Remuneration Policy, as required.

> "2021 was strategically important as it allowed us to focus on our journey to becoming a leading specialist bank focused on underserved markets. Our colleagues delivered the restructuring of the business to enable us to take the next step in our strategy and created (and launched) important new products to service our customers.
>
> **Andrea Blance**
> Remuneration Committee Chair

2021 Group performance

As mentioned earlier, 2021 was a strategically important year for PFG as we delivered very strong performance driven by favourable macroeconomic conditions and demand for credit from customers, reinforcing our position as the leading specialist bank focused on underserved markets. The Company launched the pilot of its new personal loans offering, Sunflower Loans, in the fourth quarter and the Vanquis Bank open market loans pilot has started encouragingly, demonstrating strong demand for a loans product in its target customer demographic.

In addition, there has been a strong focus on ensuring that our underlying financial position (and the supporting organisational structure) is sufficiently robust that we can attain our strategic goals.

One of the main organisational changes was in the withdrawal from the home credit market. This was due to a response to evolving customer demand, changing regulation, changing home credit market dynamics and the desire to focus on larger market segments. The home credit business was placed into a managed run-off, which was concluded before the end of 2021.

As a result, Group adjusted profit before tax (continuing operations), of £167.8m (up from £27.8m in 2020) reflects a reduction in impairment year on year which offsets the fall in revenue and rise in costs. For reference, the Adjusted profit before tax (including discontinued operations) is £72.3m (2020: loss of £47.1m). Adjusted Return on Required Equity ("RORE") for continuing operations is up from 6.3% to 32.6% and the Board is proposing a dividend of 30% of adjusted ongoing earnings with respect to 2021 (nil in 2020).

The Board and I look forward to 2022 with confidence, as reflected in the Board's dividend policy guidance. I would like to thank all our colleagues and customers without whom such important achievements would not have been possible. PFG is well positioned to deliver attractive and sustainable returns to shareholders built on a platform of credit cards, vehicle finance and personal loans underpinned by a strong balance sheet.

Executive director remuneration in 2021

Annual bonus for executive directors

The annual bonus pool is determined based on performance against corporate scorecard targets. The Committee reviews the specific metrics, and weightings, on an annual basis to ensure alignment between the interests of our executive directors, our strategy and the interests of our stakeholders. The targets are set, by reference to internal and external forecasts, to encourage stretching levels of performance and to align with the Group's annual budget. The Committee regularly reviews throughout the year the ongoing performance against the metrics.

The financial element of the annual bonus reflected the Group's strong performance over 2021, with exceptional delivery on targets for adjusted profit before tax and adjusted RORE. The Committee determined that the financial element of the annual bonus outcome should vest at 100% for both the CEO and CFO. With regard to achievement under the Group's non-financial scorecard, the Committee determined a vesting outcome of 90% for both executives based on strong performance against scorecard objectives. This results in an overall annual bonus vesting of 96% for the CEO and CFO (nil for both in 2020). We have set out in more detail the annual bonus results for 2021 on page 180.

The Committee believes that the remuneration outcomes accurately reflect the performance of the Group over the year and are justified in context of the experience across its stakeholders.

LTIS 2019 vesting

The 2019 Long Term Incentive Scheme (LTIS) award for the CEO was due to vest in March 2022 based on performance over three years from 2019 to 2021.

The EPS and TSR measures (which account for 90% of the overall award) have not been met. The risk position of the Group has slightly improved from last year, resulting in the risk measure (which accounts for 10% of the overall award) being partially met. Taking into consideration the wider context and to remain consistent with our assessment of LTIS in previous years, the Committee exercised its discretion and determined that the vesting outcome for the 2019 LTIS awards is nil.

Note, we have chosen not to adjust the performance targets to reflect the increased stretch in both the financial and strategic measures caused by the impact of the pandemic for existing LTIS awards.

Single total figures of remuneration for 2021

The resulting single total figure of remuneration was £1,972k for the CEO and £1,301k for the CFO. Full details are set out in the Annual Report on Remuneration on page 179. This represents a year-on-year increase of 141% and 52% driven entirely by the award of a bonus in 2021 which was not payable in 2020.

Wider employee pay

The Board is committed to ensuring there is an open dialogue with our colleagues over various decisions. The Committee Chairs (Remuneration and Culture, Customer and Ethics (CCE)) have discussed the remuneration policy and practice for executive directors with the Colleague Forum in 2021. In 2020, the Committee conducted a review of the wider colleague remuneration and incentives with a key part being consistency and fairness across the organisation via an appropriate framework. We have started to introduce a Group Reward Framework which brings full consistency in salary, bonus and benefit levels with the only variation being due to location (salary levels) and personal/divisional performance outcomes (bonus levels). This increase in fairness and transparency is particularly important as we continue our efforts to evolve to a 1PFG environment. It is also important as we can now more clearly demonstrate the linkages in bonus outcomes at all levels within PFG and the cascade of metrics between all our colleagues including the executive directors.

Implementation of Remuneration Policy in 2022

The Committee considers that the current Policy, approved at the November 2020 GM, has operated as intended and does not require a fundamental change. However, we are proposing the following changes which the Committee considers to be appropriate to ensure that the Policy will continue to operate effectively in line with our strategic priorities and support attraction and retention of key talent.

- **base salary:** increase level of base salary for executive directors of 5% in line with the average increase for the wider 5% colleague increase;
- **remuneration package for the CFO:** increase restricted stock awards for the CFO to 100% of base salary which is the maximum allowed under the Policy (actual award levels to date have been at 75% of base salary); and
- **annual bonus and corporate scorecard:** equalise the weighting of the measures under the Group non-financial scorecard for annual bonus, so each individual measure is 20% of the non-financial scorecard (currently 20% strategy, 40% regulatory risk and conduct, 10% investor relations, 20% customer and 10% colleague). We believe that this is the appropriate mix in 2022 and is in line with our priorities.

Base salary for executive directors

In line with our Policy, the Committee reviewed base salaries for the executive directors against comparator groups and considered what was appropriate given internal increases. The Committee concluded that a 5% increase, in line with our colleagues (all performing colleagues are receiving a 5% increase), is suitable with changes taking effect from 1 January 2022.

The Company previously announced a commitment for all eligible employees to receive a 5% salary increase in the 2022 financial year. This standard approach is a 'one-off' for us as we normally distribute our salary increases based on a performance vs market approach. However, we felt that as we exited the pandemic with all the associated increases in fuel, travel, etc. that this was the fairest approach for 2022.

Remuneration package for the CFO

During 2021, we reviewed the CFO's remuneration in recognition of his significant contribution in the ongoing evolution of business strategy and the ever-changing marketplace. We concluded that increasing the CFO's salary (beyond the standard colleagues' increase of 5%), or bonus, would not be appropriate. However, we concluded it was appropriate to increase his long-term incentive maximum opportunity from 75% of salary to align with the CEO at 100% of salary (actual award levels to date have been at 75% of base salary). We believe that this approach further strengthens his alignment to shareholders as we continue to deliver on our ambition to be the leading specialist bank focused on underserved markets. The change to his annual restricted stock grant will take place from 2022 onwards.

Annual bonus and corporate scorecard

There is no change in the mix of financials (60%) and non-financials (40%) – with an underlying risk underpin. We have used this structure for a number of years and it remains optimal. Each year we review the mix within the non-financial scorecard to make sure that it reflects our business plan priorities. For 2022, we have made a number of changes as follows:

Strategy	Regulatory risk and conduct	Investor relations	Customer	People
20%	20%	20%	20%	20%
(2020: 20%)	(2020: 40%)	(2020: 10%)	(2020: 20%)	(2020: 10%)

The weightings will be reviewed, as usual, for 2023.

2022 RSP to be granted in April 2022
After considering 2021 performance, 2022 RSP awards will be granted to the CEO, and the CFO, of 100% of base salary in line with our Policy. Subject to underpin criteria, as set out in our Policy, awards will vest in three years with an additional retention period of two years after vesting. All bonus and stock plans are subject to our Malus and Clawback Policy.

Chair and NED fees
In order to reflect the increased time and focus required as a result of the changes arising from the streamlining of the Group's governance, the Committee Chair fees increased from £20,000 to £25,000.

The increases in Chairman fees, NED base fees, committee membership fees and SID fees are in line with the 5% increase awarded to the wider workforce. All increases were applied from 1 January 2022.

Conclusion
Overall, the Committee is satisfied that the Remuneration Policy (approved at the 2020 GM), with the proposed changes as mentioned earlier, supports PFG's business strategy. As mentioned earlier, we believe that the Policy has been stress tested in the last two years by the events of the pandemic and we believe that it has delivered the right behaviours and reward outcomes across the Group, and competitively positions the Company's remuneration against its peers. The executive directors, the senior management team and all of our colleagues have made exceptional contributions to the business over the year, showing great resilience to support the Group through yet another challenging year. This is reflected in the outcomes of the bonus pool in 2021 (payable 2022) as opposed to 2020 (payable 2021).

In the rest of this report we present the disclosures required by regulations, as well as additional information to explain how our executive remuneration aligns with our strategy, with shareholder interests and with wider workforce pay.

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's 2022 AGM to answer any questions in relation to this Remuneration Report.

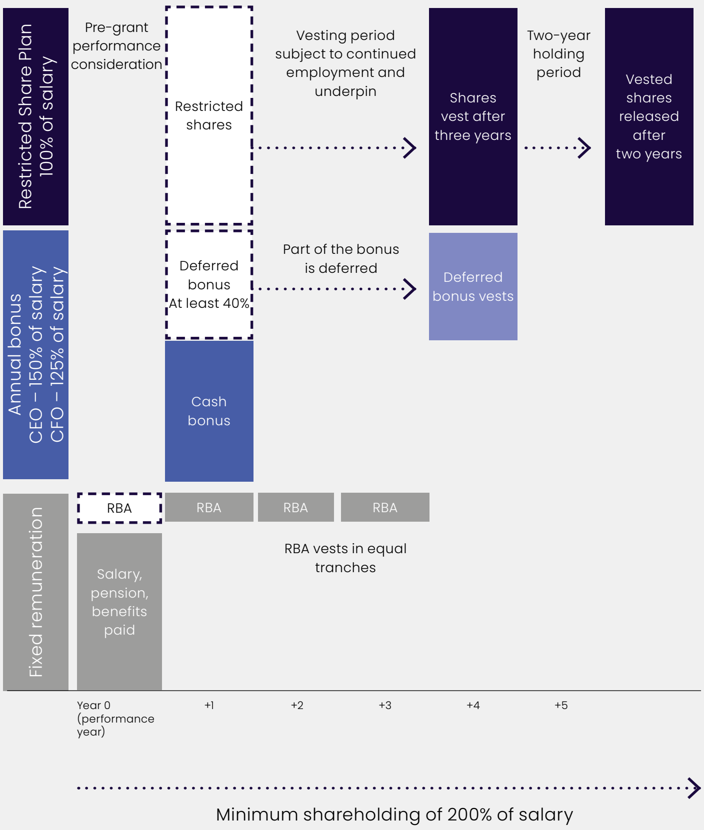
Andrea Blance
Remuneration Committee Chair
6 April 2022

Remuneration at a glance

The following section sets out:

- an illustration of the operation of the Policy for 2022;
- a summary of the executive directors' single total remuneration figures, and outcomes under the 2021 Annual Bonus Plan and the LTIS 2019; and
- an overview of executive directors' shareholdings.

Illustration of the Directors' Remuneration Policy in 2022



Salary: 5% increase in line with average increase for the wider workforce

- CEO: £749,700
- CFO: £551,250

Role-based allowance (RBA): No change from 2021

- CEO: 15% of salary
- Maximum annual RBA grant for individual – 25% of salary
- Delivered in shares. Released in equal instalments over three years

Pension: Executive pensions aligned with the wider workforce by end of 2022

- Current EDs:
  - CEO: 15% of salary (reducing to 10% of salary as of 31 December 2022, in line with the wider workforce)
  - CFO: 10% of salary (in line with the wider workforce)
- New EDs: In line with the wider workforce

Annual bonus: Changes to weightings of measures within non-financial scorecard to reflect business priorities for 2022

- Maximum opportunity:
  - CEO: 150% of salary
  - CFO: 125% of salary
- Performance conditions:
  - 60% financial
    - Adjusted PBT (30%)
    - Adjusted RORE (30%)
  - 40% non-financial:
    - Strategy 8% (2021: 8%)
    - Regulatory risk and conduct 8% (2021: 16%)
    - Investor relations 8% (2021: 4%)
    - Customer 8% (2021: 8%)
    - People 8% (2021: 4%)
  - Risk overlay and CET1 underpin
  - Deferral: At least 40% deferred for three years in Company shares

RSP: Increase in award level for CFO in line with Policy

- Award level:
  - CEO: 100% of salary
  - CFO: 100% of salary (2021: 75% of salary)
- As a part of grant process, Committee will consider individuals' personal and business performance for the prior year and determine whether the proposed level of grant remains appropriate
- Performance conditions: Underpin of Remuneration Committee discretion on vesting
- Vesting: Three years with a two-year holding period post-vesting

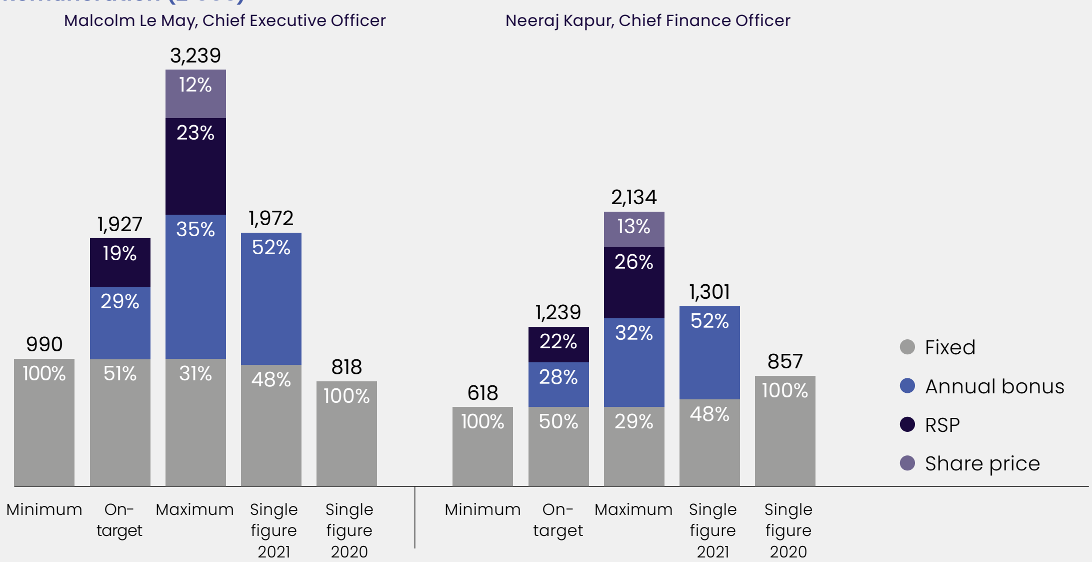
Shareholding requirement: No change from 2021

- CEO/CFO: 200% of salary
- Full requirement to be held for two years post-cessation

Executive director 2021 remuneration outcomes

The chart below shows an estimate of the remuneration that could be received by executive directors under the Policy and how our performance has flowed through to the remuneration provided to our executive directors. The full explanatory notes for each element of remuneration are detailed on page 185 in the Annual Report on Remuneration.

Remuneration (£'000)



- Minimum pay is fixed pay only, i.e. salary + benefits + pension + RBA.
- On-target pay includes fixed pay, 60% of the maximum bonus (equal to 150% of salary for the CEO and 125% for the CFO) and 100% vesting of the RSP awards (with grant levels of 100% of salary for the CEO and CFO).
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the RSP awards. The illustration assumes a 50% share price increase on RSP shares over the vesting period.
- All amounts have been rounded to the nearest £1,000.
- The value of taxable benefits is the cost of providing those benefits in the year ended 31 December 2021.

2021 annual bonus outcome

The tables below summarise performance against the targets set for the 2021 bonus and the outcome, before and after Committee discretion.

	Performance range					
	Threshold 85%	Target 100%	Maximum 110%	Actual*	Weighting	Outcome
Financial					60%	100%
Adjusted PBT	£59.4m	£69.9m	£76.9m	£147.2m	30%	100%
Adjusted RORE	12.1%	14.3%	15.7%	32.6%	30%	100%
Non-financial					40%	90%
Risk overlay			Satisfactory			
CET1 gateway			The Group achieved a CET1 ratio of 29.1% (above our hurdle)			
Total outcome before Committee discretion						96%
Total outcome after Committee discretion						96%

* The above targets were set during the finalisation of the CCD re-organisation and the outcomes of PBT and RORE have been suitably adjusted. Hence, the apparent variation between the published Adjusted PBT and what is stated in this table.

LTIS 2019 vesting

The table shows the outcome of the 2019 LTIS awards, for which the performance period ended on 31 December 2021. The value in the table below is based on the Remuneration Committee's assessment of the standard proportion of the total potential LTIS vesting.

The Committee determined that whilst our risk position was improving, remaining consistent with our assessment in 2020 and taking into account the wider context then, as in 2021, there should be a nil vest.

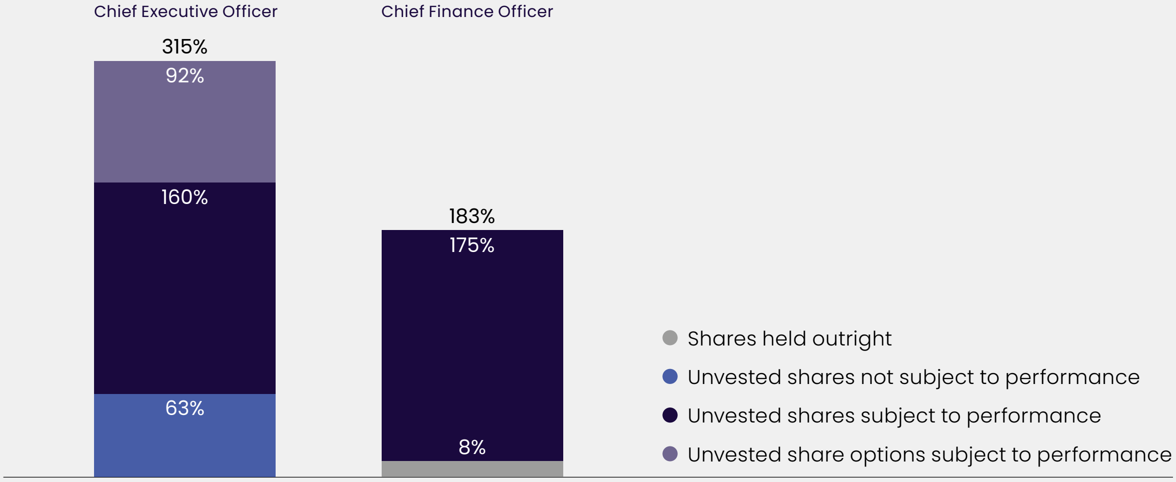
	Weighting	Threshold	Maximum	Assessment	Vesting outcome
Cumulative EPS	60%	153p	187p	Below threshold	0%
Relative TSR	30%	Median	UQ	Below threshold	0%
Risk indicators	10%	7	10	8 (out of 10)	0% (based on Committee discretion)

Executive directors' shareholdings

Executives are expected to build and maintain a Company shareholding in direct proportion to their remuneration in order to align their interests to those of shareholders. The chart below sets out the minimum shareholding requirements and the actual shareholdings for the individuals. The percentages are a function of base salary.

Our executive directors are on track to meet their shareholding requirements of 200% within the required time frame of five years.

In addition, executive directors are required to hold shares worth 200% of base salary – the in-employment requirement (or the executive's actual shareholding on cessation if lower) for two years following cessation of employment.



Link between remuneration and equity of the executive directors

We believe that equity has an important part to play in the remuneration of the executive directors. There is a need for the executive directors to understand from first-hand experience the position of the shareholders and our Restricted Share Plan (and deferred bonus schemes) are structured to support that understanding. This link has been strengthened in the last few years as we require our executive directors to hold their shares for a period of two years post-departure. We monitor regularly that the directors are on track to meet their obligations under the Share Ownership Policy and we confirm that they are both currently on track.

We believe that the remuneration outcomes of the last few years demonstrate the clear link to Company performance. Further evidence of the clear linkage can be found in the outcomes of the vesting stock plans (and the decisions made by the Committee).

To ensure that our executive directors are incentivised to take a long-term, sustainable view of the performance of the Company, when we look at the remuneration paid in the year, we also look at the total equity they hold and its value based on the performance of the Company.

The table sets out the number of shares beneficially owned by the executive directors at the beginning and end of the financial year, and the impact on the value of these shares taking the opening and closing price for the year.

	2021 single figure £'000	Shares held at the start of the year	Shares held at the end of the year	Value of shares at the start of the year[1] £'000	Value of shares at the end of the year[2] £'000	Difference £'000
CEO	1,972	703,834	942,231	2,160.8	3,384.5	1,223.7
CFO	1,301	287,695	400,838	883.2	1,439.8	556.6

1 Based on a closing share price on 31 December 2020 of £3.070.
2 Based on a closing share price on 31 December 2021 of £3.592.

Annual Report on Remuneration

The report complies with the provisions of the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Conduct Authority (FCA). The Company also follows the requirements of the UK Corporate Governance Code (the Code) updated in July 2018.

Certain alternative performance measures (APMs) have been used in this report. See page 181 for an explanation of relevance as well as their definition.

Contents

Remuneration principles

We strongly believe in fair and transparent reward throughout the organisation and when making decisions on executive remuneration the Committee considers the context of wider workforce remuneration. This section shows how the 2018 Code is embedded in our remuneration principles and how they are cascaded throughout the organisation. The table below shows how the Policy is aligned with the factors set out in Provision 40, and how our principles and Policy are aligned with the 2018 Code.

Our strategy

Grow customer-centric businesses	Act responsibly and with integrity	Maintain a secure funding and capital structure
– Support delivery of the Group's business strategy, realise our Blueprint vision and be customer champion within our sector. – Have flexibility in delivering total remuneration outcomes in changing market, economic, commercial and regulatory circumstances.	– Maintain a competitive reward and recognition offering in the markets in which we compete, thereby supporting our talent attraction, engagement and retention aims. – Align the interests of our employees with those of our customers, regulators and shareholders. – Ensure remuneration outcomes are fair and consistent, reflect pay for performance and are clear and transparent for all our employees. – Drive the Group's diversity, equality and inclusion agenda.	– Support and mitigate any conflicts of interests. – Manage remuneration opportunities and outcomes for regulated employees under the Senior Managers and Certification Regime and material risk takers under the Remuneration Code. – Support the effectiveness of the Group's Enterprise Risk Management Framework and incentivise the delivery of the business strategy within risk appetite via a controls-based framework and positive risk conduct culture.

Our remuneration principles

(see above)

How does the Committee address the requirements under Provision 40?

Culture alignment	Proportionality	Simplicity	Predictability	Clarity	Risk
– The Committee ensures that the overall reward framework embeds our Purpose. – The Committee reviews the executive reward framework regularly to ensure it supports the Company's culture and strategy. – The ED Remuneration Policy is cascaded down the organisation ensuring that there are common goals.	– Performance measures under the annual bonus as well as the RSP underpin are aligned with the Company's scorecard and the payouts reflect achievement against the target. – The Committee may apply discretion to reduce outcomes under the annual bonus and RSP – if they are considered inconsistent with the underlying performance of the business.	– Policy for EDs is simple and clear, consisting of: – fixed pay (salary, fixed pension contribution, role-based allowance) set to reflect the typical rate provided to the UK workforce; and – variable pay comprising an annual bonus scheme (partly deferred into shares) and restricted stock awards which provide focus over the long term. – The Committee avoids unnecessary complexity in operating the arrangements.	– The Committee sets specific targets for different levels of performance which are communicated to the EDs and disclosed to shareholders.	– Remuneration arrangements have defined parameters that can be transparently communicated to shareholders and stakeholders. – The Committee consulted with shareholders as part of the design phase of the Policy approved at the 2020 GM. How executives' pay is set has subsequently been communicated to the wider workforce along with how it is aligned with the Company's approach to wider pay policy and how decisions are made by the Committee.	– Remuneration arrangements are designed to have robust link between pay and performance thereby mitigating risk of excessive reward. – Policy has safeguards including Committee discretion to adjust incentive outcomes. – The Committee ensures that a significant portion of reward is equity based and has deferral (40% of annual bonus deferred in shares for three years and 100% of RSP is in shares) thereby linked to shareholder return. – Recovery provisions such as malus and clawback apply to the Policy. – Executives are required to build significant personal shareholdings in the Company.

Remuneration governance

The Committee met seven times in 2021. The following schematic sets out the key considerations for the Remuneration Committee during 2021:

	Governance		Annual bonus		Share plans			All colleague matters	
	General	DRR	Design	Review	Grant	Review	Risk		Shareholder
January	●	●	●	●	●	●	●	●	●
March	●	●	●	●	●	●	●	●	●
May	●				●		●		●
July	●				●		●		●
September	●		●	●			●	●	
November	●						●	●	
December	●	●		●			●	●	

The CEO, the Chief Human Resources Officer and the Group Reward Director also attend meetings, by invitation, to provide advice and respond to specific questions. Such attendances are specifically excluded on any matter concerning their own remuneration. The Chief Risk Officer attends several meetings throughout the year to provide updates, where necessary. The Company Secretary acts as secretary to the Committee.

Advisors to the Committee

To ensure that the Company's remuneration practices are in line with best practice, the Remuneration Committee has appointed independent external remuneration advisors, PricewaterhouseCoopers LLP (PwC). This appointment in 2020 followed a competitive tender process. PwC attends meetings of the Committee. The Committee reviewed the performance of PwC during 2021 and determined that it was strong and that the appointment should continue throughout 2022.

Fees, on a time-spent basis, for the advice provided by PwC to the Committee during the year were £114,575 excluding VAT (2020: £97,000). Other than in relation to advice on remuneration, PwC provides support to management in relation to tax compliance, IT and internal audit and ad-hoc tax and accounting advice. The Committee is satisfied that PwC engagement partners and teams which provided remuneration advice to the Committee do not have connections with the Group or the executive directors that may impair their objectivity and independence.

Single total figure of remuneration (audited)

The table below sets out a single total figure of remuneration for each director for the year ended 31 December 2021 and the prior year:

		Salary/fees £'000	Role-based allowance (RBA) £'000	Taxable benefits[1] £'000	Annual bonus[2] £'000	LTIS/RSP[5] £'000	Pension[3] £'000	Total £'000	Total fixed remuneration £'000	Total variable remuneration £'000
Executive directors										
Malcolm Le May	2021	714	107	16	1,028	–	107	1,972	944	1,028
	2020	679	–	32	0	–	107	818	818	0
Neeraj Kapur	2021	607	–	12	630	–	52	1,301	671	630
	2020	808	–	8	0	–	41	857	857	0
Non-executive directors										
Patrick Snowball	2021	320	–	1	–	–	–	321	321	–
	2020	347	–	3	–	–	–	350	350	–
Andrea Blance	2021	118	–	1	–	–	–	119	119	–
	2020	112	–	2	–	–	–	114	114	–
Elizabeth Chambers	2021	83	–	23	–	–	–	106	106	–
	2020	82	–	23	–	–	–	105	105	–
Robert East[4]	2021	78	–	–	–	–	–	78	78	–
	2020	74	–	–	–	–	–	74	74	–
Paul Hewitt	2021	103	–	3	–	–	–	106	106	–
	2020	98	–	2	–	–	–	100	100	–
Margot James	2021	83	–	–	–	–	–	83	83	–
	2020	36	–	–	–	–	–	36	36	–
Angela Knight	2021	103	–	–	–	–	–	103	103	–
	2020	101	–	–	–	–	–	101	101	–
Graham Lindsay	2021	103	–	2	–	–	–	105	105	–
	2020	95	–	4	–	–	–	99	99	–

1 Directors receive standard market comparable benefits such as medical insurance and life assurance. NEDs have travel expenses reimbursed and, to the extent that those are taxable, grossed up for tax and NIC.
2 40% of the annual bonus is deferred into shares for an additional three years (subject to continued service, in normal circumstances).
3 Pension participation is via a defined contribution plan (or cash alternative) with no executive director having a prospective entitlement under a defined benefit plan.
4 Robert East also receives an additional fee for his chairmanship of Vanquis Bank.
5 2019 LTIS vesting outcome was nil. None of the previous RSP awards have vested yet.

2021 bonus outcome calculation (audited)

The bonus is based 60% on financial performance conditions and 40% on non-financial performance conditions. The tables below set out performance against the targets set for the 2021 bonus and the outcome.

Details of the financial assessment

Percentage vesting	Weighting	Performance range Threshold 85%	Target 100%	Maximum 110%	Actual	Outcome as % of max	Weighted outcome
Adjusted PBT targets and performance	30%	£59.4m	£69.9m	£76.9m	£147.2m	100%	30%
Adjusted return on required equity (RORE)	30%	12.1%	14.3%	15.7%	32.6%	100%	30%

Details of the non-financial assessment

The non-financial element was assessed at 90% achievement with this broken down, in 2021, as follows:

Objective	Assessment of non-financial metrics	Rating
Strategy – 20%	**Corporate reorganisation and operating model development** – New IPFG corporate and management structure for the Group developed and implemented for improved governance and efficiency. – Development of a Group-wide shared services model covering back-office support functions. **Capital adequacy and funding plans** – Established, ahead of plan, a new intermediate holding company to optimise the Group legal structure and distributable reserves for the Group. – Issued £200m of Tier 2 subordinate debt capital achieved on terms ahead of plan, de-risking the Group of any future fundraise and enabling successful switching of debt funding into capital funding. **Non-bank funding requirements** – RCF successfully renegotiated. – Moneybarn securitisation successfully expanded, achieving increased advance rates at attractive terms and strongly positioning the Group with no debt maturities until 2023. **Credit card pricing models** – Profitability models refreshed, validated and embedded in the Product team to further enhance the decision making process. **TFSME funding** – Developed supporting securitisation structures in Vanquis cards enabling successful application for TFSME enabling funding of £174m by 2021 from the Bank of England by late 2021. **CCD wind-down** – Delivered, ahead of plan, the wind-down of CCD, with costs within plan which resulted in accelerated collections of the book by December 2021, and implemented customer redress programme to enable all CCD customers to have access to redress scheme.	Above target – 100%
Regulatory risk and conduct – 40%	**Risk upgrade** – Delivered progress ahead of plan on the Group-wide Risk Harmonisation Programme. **IFRS models** – Developed and embedded, ahead of schedule, new, enhanced IFRS models across the Vanquis Bank and Moneybarn businesses. **Conduct risk management** – Developed, ahead of plan, revised Group-wide vulnerable customer and affordability frameworks and approaches to mitigate risk in the event of further regulatory change. **Transformation** – New Group transformation capability established to lead the work on structural and operating model changes referred to above. – Group's divisional Change teams continually enhanced including the development of a Group-wide shared services model.	Above target – 85%
Investor and public relations – 10%	**Investor dialogue** – Strong and supportive market feedback received following 2021 results announcements (including shareholder perception survey). **Reputation** – Enhanced reputation with key stakeholders and maintained good relationships with regulators. This was reflected in the approval of the CCD Scheme, regulatory approvals for operating model roles changes and the oversubscribed support for a material Tier 2 debt capital issue. Repositioned the Group as a leading specialist bank focused on underserved markets. **ESG** – Developed comprehensive governance and management structures and strategy/risk management framework to meet the recommendations of the Task Force on Climate-related Financial Disclosures. – Progressed well in terms of setting a carbon reduction target which aligns with the Science Based Targets initiative by 2023.	Above target – 90%

Customer – 20%	**Customer outcomes** – Delivery of customer outcomes balanced scorecard (net promoter score/Trustpilot/credit score improvement/ complaints) ahead of targets. – Institute of Customer Service (ICS) study ranks Vanquis net promoter score (44.5) ahead of banks and building societies (average of 24). Vanquis also ranked highest in the industry for 'ease of doing business'. – Excellent Trustpilot scores across Vanquis and Moneybarn with almost 75% of paying Vanquis customers having seen their credit score improve materially within two years of becoming a customer. – Complaints remained favourable (vs risk appetite), excl. CCD, and Vanquis achieved significant reductions in late fees on credit cards. **Vanquis open market personal loans launch** – Enhanced customer proposition with Vanquis branded open market loans pilot launch in Q4'21. – Early volumes above expectations with loan performance in line with plan. **Moneybarn near-prime launch** – Enhanced customer proposition with launch of near-prime proposition, ahead of plan, in H1'21. **Sunflower Loans open market launch** – Enhanced customer proposition with the Q4'21 launch of our Sunflower Loans branded personal loans pilot, including development of a new IT platform.	Above target – 85%
People – 10%	**Employee opinion survey** – High annual colleague survey response rate with a strong engagement index and a significant increase in our Better Everyday index. **D&I** – Launched and embedded inclusion networks and design. Introduced D&I index in the colleague survey, the results of which showed 82% of colleagues feel they can be themselves at work (vs financial services average of 71%). **Leadership** – Design of Inclusive Leadership Programme to be rolled out in 2022 due to Covid-19. Management and Leadership framework developed and launched across the organisation. **Talent and performance** – Updated Group-wide Talent Management Succession Plans (including plans to address gaps), standardised performance management and increased colleague rotation. **Return to office (RTO)** – Developed and rolled out a RTO strategy, including increased communications, new hybrid working model and improved H&S standards including an online DSE tool to support colleagues. **Remuneration** – Established and rolled out a common levelling, Remuneration Policy and Reward Framework across the organisation which has created a harmonised approach across the organisation and improved fairness of bonus outcomes. This was a three-year project delivered in one year.	Above target – 85%
Overall	Improvement in risk position since 2020. Taking the above into consideration and following feedback from the CRO, the Committee determined that no discretion should be applied to remuneration outcomes.	Above target – 90%

Risk overlay

A risk overlay approach was used for potential risk adjustment with a range of factual criteria for assessment agreed with the Committee. This forms the basis of our Group Variable Risk Adjustment Framework and allows for a more flexible and holistic approach to be adopted which considers not only the business outcomes (quantitative), but also how these have been achieved (qualitative).

After discussion with the Group CRO, and the Chair of the Group Risk Committee, the Committee concluded that, overall, progress has been made this year on improving risk control in all parts of the Group. No risk adjustment was applied to the CEO or the CFO.

Scheme interests awarded in the year (audited)

RSP 2021 grant

The 2021 RSP awards were made in August 2021 as set out below. The reason for the delay in the grant was that the Board (and management) felt it inappropriate to make the grant in April/May due to the announcement of the reorganisation of CCD.

An award of 100% of salary was made to the CEO and 75% of salary to the CFO. This represented a 0% discount to the normal level permitted under the Policy.

The face value is based on the Company's share price at the date of grant of 336.88p. The grant price is calculated using the average price of a PFG share for the five dealing days prior to grant.

Director	Date of award	RSP award (shares)	Face value of award	Date of vesting	End of holding period
Malcolm Le May	18 August 2021	211,944	£714,000	18 August 2024	18 August 2026
Neeraj Kapur	18 August 2021	116,881	£393,750	18 August 2024	18 August 2026

Certain alternative performance measures (APMs) have been used in this report. See pages 271 to 274 for an explanation of relevance as well as their definition.

Scheme interests awarded in the year (audited) continued

RSP 2021 grant continued

These awards are conditional share awards without any performance targets. However, they are subject to underpins that will apply over the initial three-year vesting period. The Committee will take into account the following factors (amongst others) when determining whether to exercise its discretion to adjust the number of shares vesting:

– whether threshold performance levels have been achieved for the performance conditions for the Bonus Plan for each of the three years in the vesting period;
– the underlying financial performance progression over the vesting period, considering factors such as profit growth, return on equity and shareholder returns (amongst others);
– whether there have been any sanctions or fines issued by a regulatory body – participant responsibility may be allocated collectively or individually;
– whether there has been material damage to the reputation of the Company or the Group – participant responsibility may be allocated collectively or individually; and
– the level of employee and customer engagement over the vesting period.

In all cases, vesting is subject to the Committee's holistic assessment based on business performance, individual performance or wider Group considerations.

The RSP awards vest subject to continued employment (or 'Good Leaver' status) and must be held (subject to sales to meet PAYE and NIC liabilities) for a period of two years following vesting.

For awards prior to 2022, to the extent an award vests either additional ordinary shares in the Company or a cash amount equivalent to the dividends that would have been paid on the shares vesting from the date of grant will be provided to the executive directors on vesting.

LTIS 2019 vesting (audited)

The following table sets out the outcome of the LTIS 2019 targets:

Performance condition (% of award)	Threshold	Target	Maximum	Actual	Outcome
EPS (60%)	153p	170p	187p	<153p	0%
Relative total shareholder return (30%)	Median	Median	Upper quartile	<Median	0%
Risk indicators (10%)*	7	7	10	8	0%

* The Remuneration Committee, when considering the wider context, determined that no vesting should take place.

Fees from other directorships

Malcolm Le May has been a non-executive director of IG Group plc since September 2015. He retains the fees from this appointment. During 2021, the fees amounted to £156,000 (2020: £91,559). He does not receive any fees for being a non-executive of Vanquis Bank.

Neeraj Kapur did not hold any external directorship for the period from 1 January 2021 to 31 December 2021. He does not receive any fees for being a non-executive of Vanquis Bank.

Statement of directors' shareholding and share interests (audited)

The table below shows the interests of the directors and connected persons in shares (owned outright or unvested) as at 31 December 2021. The table also incorporates a move of 2,180 shares from Malcolm Le May to 'shares owned outright' and the zero vesting of the LTIS 2019. There have been no further changes in directors' interests in the period between 31 December 2021 and 30 March 2022.

		Outstanding scheme interests						
	Shares owned outright	Unvested shares not subject to performance	Unvested share options subject to performance	Unvested shares subject to performance	Total scheme interests	Shareholding guideline % of salary	Current shareholding % of salary*	Guideline met
Executive directors								
Malcolm Le May	3,250	183,952	476,217	–	660,169	200%	79.9%	No
Neeraj Kapur	18,079	141,397	241,362	–	382,759	200%	92.6%	No
Non-executive directors								
Patrick Snowball	96,477	–	–	–	–	n/a	n/a	n/a
Andrea Blance	–	–	–	–	–	n/a	n/a	n/a
Elizabeth Chambers	12,000	–	–	–	–	n/a	n/a	n/a
Robert East**	5,000	–	–	–	–	n/a	n/a	n/a
Paul Hewitt	34,205	–	–	–	–	n/a	n/a	n/a
Margot James	–	–	–	–	–	n/a	n/a	n/a
Angela Knight	–	–	–	–	–	n/a	n/a	n/a
Graham Lindsay	9,771	–	–	–	–	n/a	n/a	n/a

* Based on the share price of £3.20. Shares owned outright have been included. The shareholding guidelines have not yet been met but the Policy provides for more time to be compliant. A breakdown of the journey to compliance can be seen below.
** Correct as at date of departure – 13 January 2022.

Statement of directors' compliance with the Share Ownership Policy

The following sets out the expected level of share ownership that the executive directors will acquire over the period 2021 to 2025.

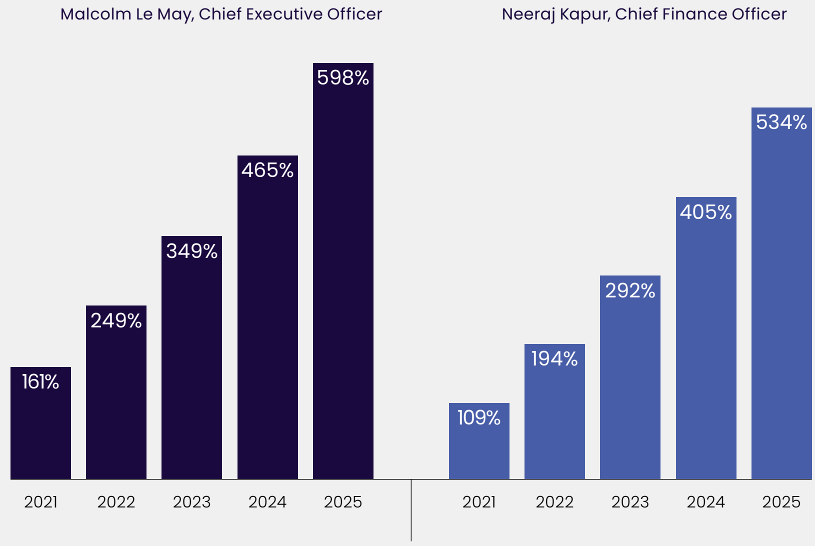
A number of assumptions have been made about: (i) retention; (ii) personal tax rates; (iii) Company performance; (iv) Company share price; and (v) ongoing grant policy. The calculations below therefore show the shareholding if the RSP is included when: (i) granted; and (ii) vested. The RSP has been included on a net of tax basis.

The current executive director holding requirement is 200% of base salary and it can be seen (under whichever model considered) that this will be achieved in the next few years – as per our requirement. Finally, in addition to the inclusion (or otherwise) of the RSP, this calculation includes: (i) shares held outright; (ii) shares provided due to 'buyout', i.e. Neeraj Kapur, tranches 2 and 3; (iii) shares deferred under the Bonus Plan; (iv) shares deferred under the role-based allowance, i.e. Malcolm Le May; and (v) shares under the SAYE plan.

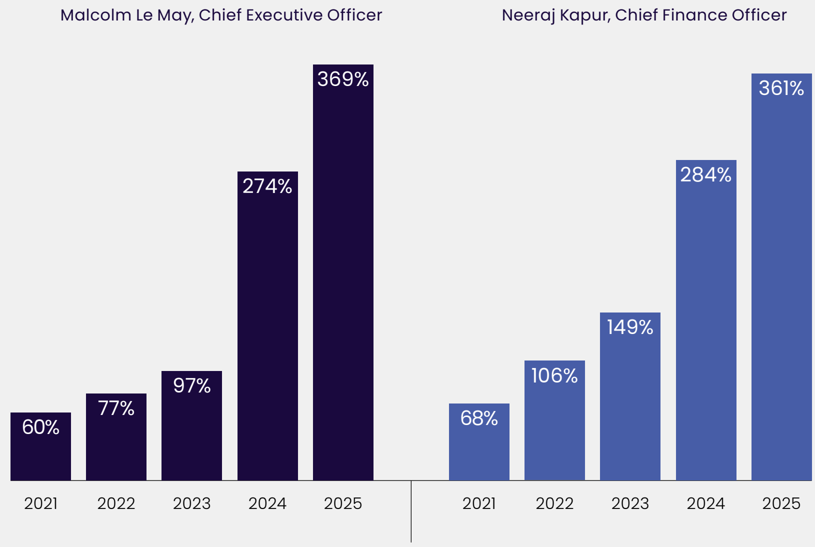
The charts below illustrate the forward-looking shareholding progression as a % of base salary. The charts on the left includes RSP when granted and the charts on the right includes RSP when it vests. The current shareholding requirement for executive directors is 200% of salary.

Shareholding progression (includes RSP when granted)

Included RSP when granted



Included RSP when vests



- The above charts use the assumption that the share price will increase by 15% p.a. from the 2021 share price of £2.40.
- Dates above are calculated for April of each year.

Relative importance of spend on pay

The table below shows how the Company's performance metrics compare to total colleague pay expenditure for the financial years ended 31 December 2020 and 31 December 2021.

Relative importance of spend on pay	2021	2020	Year-on-year change
Shareholder distributions	£0	£0	0%
Net income	£485.5m	£554.2m	(12.4)%
Adjusted PBT	£167.8m	£27.8m	503.6%
Adjusted EPS	57.5m	11.7	391.5%
Total remuneration costs	£210.2m	£197.2m	6.6%

Service contracts

The executive directors are employed under contracts of employment with the Company. The principal terms of the executive directors' service contracts are as follows.

			Notice period	
Executive director	Position	Effective date of contract	From Company	From director
Malcolm Le May	Chief Executive Officer	1 February 2018	12 months	12 months
Neeraj Kapur	Chief Finance Officer	1 April 2020	12 months	12 months

The Chairman and non-executive directors have letters of appointment. Dates of the directors' letters of appointment are set out below:

Name	Date of original appointment	Date and actual date of expiry
Patrick Snowball	21 September 2018	21 May 2022
Andrea Blance	1 March 2017	27 February 2023
Elizabeth Chambers	31 July 2018	30 June 2024
Robert East*	26 June 2019	26 June 2022
Paul Hewitt	31 July 2018	30 June 2024
Margot James	27 July 2020	28 June 2023
Angela Knight	31 July 2018	30 June 2024
Graham Lindsay	1 April 2019	29 June 2022

* Resigned with effect from 13 January 2022.

Implementation of Policy in 2022

The Policy was approved at the GM on 3 November 2020 and will continue to apply until the 2023 AGM unless changes are required. The table below summarises the key features of the Policy and how we plan to implement it in 2022/23. Full details of the Policy can be found under the Shareholder Hub section of providentfinancial.com.

Element of remuneration	Key features of Policy	Implementation in 2022
Salary	An executive director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of base salary, the Committee considers: – pay increases for other colleagues; – remuneration practices within the Group; – any change in scope, role and responsibilities; – the general performance of the Group and each individual; – the experience of the relevant director; and – the economic environment.	5% increase (average colleague increase) to 2021 salaries for CEO and CFO (0% increase in 2021). **Malcolm Le May** 2022: £749,700 2021: £714,000 **Neeraj Kapur** 2022: £551,250 2021: £525,000
Benefits	Benefits include market standard benefits.	No change from 2021.
Role-based allowance (RBA)	RBA of 15% of base salary. RBAs are non-pensionable and will be released in equal instalments over three years in the form of shares. The maximum annual value of an RBA grant for an individual is 25% of base salary.	No change from 2021.
Pension	The Company provides a pension contribution allowance that is fair, competitive and in line with corporate governance best practice.	No change from 2021. CEO 15% of salary*. CFO 10% of salary. 10% is the norm for the PFG Pension Plan. * This will reduce to 10% as of 31 December 2022.
Bonus	The Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 150% of base salary. The Annual Bonus Plan is based on a mix of financial and strategic/operational conditions and is measured over a period of one financial year. The financial measures will account for no less than 50% of the bonus opportunity.	No change from 2021. **Maximum opportunity:** CEO: 150% of salary. CFO: 125% of salary. **Measures:** Financial performance conditions in line with 2021: – adjusted PBT (30%); and – adjusted return on required equity (RORE) (30%). Strategic and operational objectives (40%) of which: – strategy (8%); – regulatory risk and conduct (8%); – investor relations (8%); – customer (8%); and – colleague (8%). Weightings for individual non-financial objectives have been rebalanced so that each objective has the same weighting. In addition, there is a risk overlay and CET1 underpin. No change. **Deferral:** At least 40% of the bonus is deferred for three years in Company shares. No change.

Implementation of Policy in 2022 continued

Element of remuneration	Key features of Policy	Implementation in 2022
Restricted Share Plan (RSP)	Awards are granted annually to executive directors in the form of conditional awards or options. Awards vest at the end of a three-year period subject to: – the executive director's continued employment at the date of vesting; and – the satisfaction of an underpin as determined by the Committee whereby the Committee can adjust vesting for business, individual and wider Company performance. A two-year holding period will apply following the three-year vesting period for all awards granted to the executive directors. Upon vesting, sufficient shares may be sold to pay tax on the shares.	The Committee is intending to grant an RSP award of 100% of base salary to our CEO and CFO in line with the Policy maximum. This reflects an increase for the CFO who was awarded an RSP at 75% of salary in 2021. No change from 2021 except for the CFO.
Shareholding requirements	Normal shareholding requirement of 200% of salary. Additional requirement to hold 200% of salary for two years following cessation of employment. Executive directors have agreed to be bound by the terms of the requirements and Company Secretariat will monitor compliance.	No change from 2021.
Malus and clawback	Standard market practice (and regulatory requirements) malus and clawback provisions as at the time the Policy was adopted.	Small technical change from 2021, i.e. provisions strengthened to refer specifically to risk management failure and corporate failure.
Chair and NED fees	Provides a level of fees to support recruitment and retention of a Chairman and NEDs with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.	The fee levels as at 1 January 2022 for the Chairman and NEDs are as below. These reflect a 5% increase from 2021 levels in line with the average colleague (further details in the following section). Changes reflect the average colleague rise of 5% – excepting Committee Chair fees, which rose by £5k.

Non-executive director fees for 2022

In 2021, the Committee reviewed non-executive director fee levels to ensure that they remain competitive with other listed companies of equivalent size and complexity. Taking this into account, and to reflect the increased focus and time required of the NEDs following the restructuring of the Group's governance structure, the Committee proposed the following increases to fees effective from January 2022. The table below shows fee levels for each role and how they compare to 2021.

	2022	2021	% change
Chairman of the Board	£336,000	£320,000	5%
Board fee	£71,400	£68,000	5%
Senior Independent Director	£15,750	£15,000	5%
Committee Chair	£25,000	£20,000	25%
Committee members	£15,750	£15,000	5%

Additional remuneration disclosures

Our approach to fairness and wider workforce considerations

This section of the report brings visibility of remuneration across the entire workforce together in one place. In this section, we provide context to our director pay by explaining our colleague policies and our approach to fairness, including the following:

- the report received by the Committee on wider workforce pay policies and whether the approach to executive remuneration is consistent and the alignment of the incentives operated by the Company with its culture and strategy;
- general pay and conditions in the Group;
- gender diversity and pay gap; and
- comparison metrics on executive and colleague remuneration.

In order for the Committee to carry out its oversight review of wider workforce pay, policies and incentives the Committee receives a report annually from the Company setting out key details of remuneration throughout the Company. Details of the information reviewed by the Committee and findings are set out below.

Overview of workforce remuneration and the Committee's review

The table illustrates how the remuneration policy for executive directors cascades throughout the employee population.

Colleague group	% of workforce	Average increase in base salaries[1]	Variable pay[2]		Share plans[3]	Pension[4]	Benefits[5]
			Commission schemes	Annual bonus			
Executive directors	0.1%	5%	No	All	Yes	Yes	Yes
Senior management	3.2%	5%	No	All	Yes	Yes	Yes
Management	15.7%	5%	No	All	Yes	Yes	Yes
All other colleagues	81.1%	5%	No	Role dependent	Yes	Yes	Yes

1 Base salaries:
- Base salaries are market competitive and determined with reference to role type, location, experience and market practice.
- Annual salary increases are applied on an equitable and objective basis dependent on role type. Due to the unusual nature of 2021, we decided that the standard increase would be 0% (and this was the norm) albeit that in a few roles an adjustment did take place due to market competitiveness). The base salaries of sales focused colleagues are subject to periodic market benchmarking rather than annual salary reviews due to the commission structures in place.

2 Variable pay:
- In line with our approach to executive director remuneration, a proportion of the remuneration of the wider workforce is in the form of variable pay, linked to the achievement of stretching targets that align with the Company's strategic goals.
- Approximately 90% of the workforce benefit from variable pay which is linked to the Group's performance in the form of annual bonuses. Variable pay is determined with reference to financial performance and/or the achievement of objectives which are aligned to the Group's strategic priorities.

3 Share plans:
- Historically, long-term incentive participation has been limited since the Group's variable pay arrangements provide the strong linkage between workforce remuneration and the Group's financial performance and/or strategic priorities.
- All colleagues have access to share ownership schemes (SAYE (an all-employee plan enabling colleagues to save monthly and receive an option to purchase PFG shares at a discount following a minimum of three years) and SIP (an all-employee plan enabling the colleagues to purchase PFG shares on a monthly basis out of deductions from salaries, also receiving some "matching" awards from PFG)) but only senior management participates in the RSP.

4 Pension:
- Maximum employer contributions are consistent across the Group (maximum 10% employer contribution for the PFG DC arrangements), with minor deviations appropriate for role type or for historical reasons. There also exists a NEST pension arrangement.

5 Benefits:
- Consistent approach applied and determined with reference to role type, market practice and seniority.

The levels of remuneration and the types offered will vary across the Company depending on a colleague's level of seniority and role. The Committee is not looking for a homogeneous approach; when conducting its review, it is paying particular attention to:

- whether the element of remuneration is consistent with the Company's remuneration principles;
- if there are differences, whether they are objectively justifiable; and
- whether the approach is fair and equitable in the context of other colleagues.

Additional remuneration disclosures continued

Overview of workforce remuneration and the Committee's review continued

The key findings of the Committee's review for 2021 have been set out in the following table.

Element	Findings
Salary	Average salary increases for colleagues across the Company are being applied on an equitable and objective basis.
Incentives	The majority of our colleagues have the ability to share in the success of the Company through incentive compensation in the form of variable pay linked to performance.
Shareholding requirements	Executive directors are required to adhere to minimum shareholding guidelines.
Pensions	All colleagues are eligible for enrolment in a defined contribution pension arrangement. The CEO has agreed that his current pension contribution will be reduced in order to achieve alignment with the wider workforce at the end of 2022. The pension contributions for the CFO are already aligned to the wider workforce.
Benefits	Benefits are offered according to the level of seniority of the role in line with market practice. Our benefits offering is broadly in line with similar companies but our 'wellbeing' offering is competitive vs companies of a similar size.

Having carried out a full review in 2021, the Committee is satisfied that the approach to remuneration across the Company is broadly consistent with the Company's principles of remuneration and the pay. Further, in the Committee's opinion the approach to executive remuneration aligns with the wider Company pay policy and there are no anomalies specific to the executive directors.

Communication and engagement with colleagues

The Board is committed to ensuring there is an open dialogue with our colleagues over various decisions and the Committee has the authority to ask for additional information from the Company in order to carry out its responsibilities.

The Colleague Forum was established to facilitate effective engagement between the Board and the workforce and to encourage workforce participation in shaping strategic initiatives. It supports the Group in satisfying Provision 5 of the UK Corporate Governance Code published in July 2018, as well as capturing meaningful input and feedback from staff.

Our Colleague Forum has colleague representatives from across all areas and all levels of the business and meets quarterly. The Non-Executive Director and Chair of the Customer, Culture and Ethics Committee (the CCE Committee) works closely with the Colleague Forum in his capacity as engagement sponsor on behalf of the Board to agree a rhythm of dialogue and meeting attendance to further cement the link between the Colleague Forum and the Board.

Alongside the Colleague Forum, we commission a Colleague Engagement Survey, which is independently administered by People Insight, as a channel for colleague voice and feedback. The output from each Colleague Engagement Survey is reviewed by the CCE Committee and appropriate actions are taken in response to any findings.

In 2021, the Committee conducted a review of the wider colleague remuneration and incentives with a key part being consistency and fairness across the organisation via an appropriate framework. The conclusions of this review are currently being implemented and they are bringing greater consistency, transparency and fairness across the Group.

In addition, this year the 'Blueprint behaviours' performance management framework was used fully across the Group for the first time to assess colleagues' performance and determine bonus allocations in line with the Group's values. Work has continued on harmonising pay and benefits opportunities for equivalent roles across the divisions through the new Group Reward Framework which will be implemented early next year. Group-wide job levels have also been rolled out to help drive consistency throughout our divisions and create a more unified colleague experience and support talent mobility.

Living Wage, equal opportunities and diversity initiatives

A summary of the Company's general policies in relation to Living Wage, equal opportunities and diversity initiatives are as follows:

Policy	Description
Living Wage employer	The National Living Wage is the amount of money all colleagues aged over 25 are legally entitled to. Our policy is to ensure that all colleagues, whatever their age, are paid the National Living Wage or above.
Equal opportunities and diversity initiatives	The Company is committed to an active equal opportunities policy from recruitment and selection, through to training and development, performance reviews and promotion. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its colleagues, customers and the community. We are an organisation which uses everyone's talents and abilities, and where diversity is valued. The Company ensures its promotion and recruitment practices are fair and objective and encourages the continuous development and training of its colleagues, as well as the provision of equal opportunities for the training and career development of all colleagues. Further details are provided in the Customer, Culture and Ethics Committee Report on pages 150 to 152.

Gender pay gap

We feel strongly about the importance of having a workforce which represents the customers we serve. We hire from diverse backgrounds, employing 46% men and 54% women across our business, and our recruitment policies, salary and bonus structures are designed to be gender neutral.

The Group recognises that the key driver behind both our hourly rate and bonus gap is a higher proportion of male colleagues in senior roles, and so we continue to remain focused on initiatives to increase female representation at senior management and leadership level. PFG produced a gender pay report in 2020 though the publication (October 2021) was delayed due to Covid-19. We are currently finishing the 2021 review which will be published at the end of March 2022.

Chief Executive Officer (CEO) pay ratio

We have decided to leverage our gender pay gap reporting data for the purposes of calculating the CEO pay ratio (Option B, as set out in the requirements). This decision reflects that the hourly pay metric used in the Group's gender pay gap reporting continues to provide an appropriate comparison of workforce pay to CEO pay. This is due to the components of remuneration that are not captured in hourly pay being either highly standardised (benefits) or, where more variable (such as bonus awards), of a relatively low absolute and relative value, as evidenced in the table below.

In assessing our pay ratio versus likely ratios from industry peers, we believe that we are comparable but note that annual and long-term incentive payments have varied considerably amongst this group. We recognise that ratios will be influenced by levels of colleague pay, and in the sector, colleague pay will be lower than in many other sectors of the economy.

The key reason for the difference between 2021 and 2020 is the impact of the pandemic on 2020 pay outcomes for the CEO. The inclusion of bonuses in 2021 (nil bonus in 2020) resulted in an increase in the pay ratio from the prior year. Therefore, the 2021 pay ratio is more akin to the 2019 figure. For the purposes of clarity, we have provided a set of ratios based on the CEO receiving 'target' levels of remuneration, i.e. as if a bonus had been payable.

The significant volatility in this ratio is caused by the fact that the CEO pay is made up of a higher proportion of incentive pay than that of our colleagues, in line with the expectations of our shareholders. This introduces a higher degree of variability in his pay each year which affects the ratio.

Year	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021 (actual)	79.6:1	66.3:1	44.1:1
2020 (actual)	28.9:1	26.9:1	21.3:1
2021 (incl. target bonus)	64.5:1	53.8:1	36.8:1
2020 (incl. target bonus)	55.8:1	51.8:1	41.0:1

Additional remuneration disclosures continued

CEO pay ratio continued

Base salary and total pay and benefits for CEO and employee percentiles

	2021
Base salary (£'000)	714.0
Total pay and benefits (£'000)	1,972.0
Employees	2,574
Base salary (£'000)	
Employee at the 25th percentile	22.2
Employee at the 50th percentile	25.9
Employee at the 75th percentile	39.2
Total pay and benefits (£'000)	
Employee at the 25th percentile	24.8
Employee at the 50th percentile	29.8
Employee at the 75th percentile	44.8

Total remuneration for each colleague was calculated on a full-time equivalent basis and the lower quartile, median and upper quartile colleagues were identified as at 31 December 2021. The hourly rates were annualised using the same number of contractual hours as the CEO. Colleague total remuneration includes: basic salary, maternity/paternity pay, annual cash bonus, commissions earned and benefits. The total remuneration for the relevant colleagues was compared to that of the CEO.

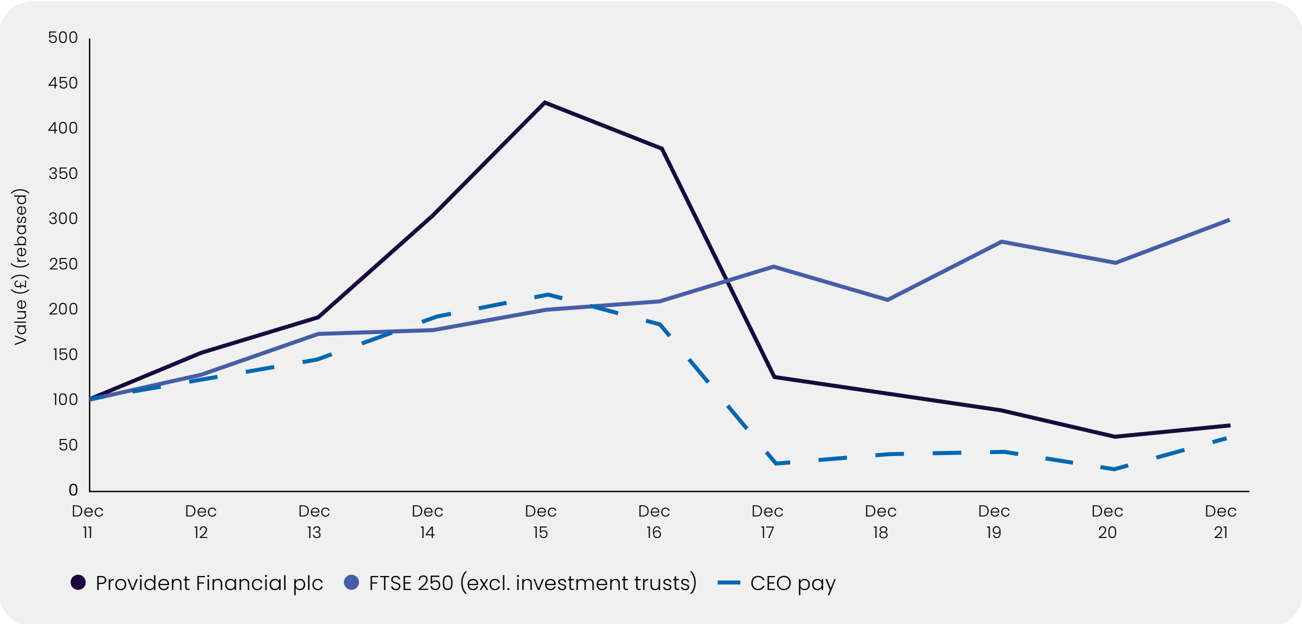
The Company believes that the median pay ratio for 2021 is consistent with the pay, reward and progression policies for the Company's employees. We also considered the pay composition of the employees who represent the median, lower and upper quartiles and were comfortable that it fairly represents pay in the Company.

CEO and average colleague pay against total shareholder return (TSR)

The chart below shows the single figure of remuneration for our CEO over time, and the pay of our average colleague, each rebased to 2011. We have also included our TSR performance over this period against the FTSE 250, based on £100 invested. The FTSE 250 was chosen as, in the opinion of the Committee, the size and complexity of the Company make this an appropriate basis for comparison.

Pay performance: TSR chart

(£'000)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO single figure of remuneration (£'000)	4,326	4,985	6,594	7,500	6,315	962	1,387	1,507	818	1,972
Annual bonus/ earning (% of maximum)	98	89	100	98	100	–	69	53	–	96
LTIS/RSP vesting (% of maximum)	100	100	100	100	100	–	–	–	–	–

The greater volatility of our CEO pay is due to the higher proportion of incentive pay in his package compared with that of our colleagues, which introduces a higher degree of variability in his pay each year versus colleagues. The above data incorporates prior CEO data before 2018.

Percentage change in directors', and employees', remuneration

The Committee monitors the changes year on year between our directors' pay and average colleague pay. As per our Policy, salary increases applied to executive directors will typically be in line with those of the wider workforce. In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, the table below shows the percentage change in executive director and non-executive director total remuneration compared to the change for the average of the percentage change for colleagues within the Company. The comparator group is based on all colleagues.

	Salary/fees		Taxable benefits		Short-term variable pay[5]	
	2021	2020	2021	2020	2021	2020
Executive directors						
Malcolm Le May[1]	18.1%	2%	(51.2)%	(24)%	See below	(100)%
Neeraj Kapur[2]	(31.6)%	n/a	54.9%	n/a	See below	n/a
Non-executive directors						
Patrick Snowball	(7.8)%	–	(67)%	n/a	n/a	n/a
Andrea Blance	5.4%	–	(50)%	–	n/a	n/a
Elizabeth Chambers	1.2%	–	0%	n/a	n/a	n/a
Robert East	5.4%	–	n/a	n/a	n/a	n/a
Paul Hewitt	5.1%	–	50%	n/a	n/a	n/a
Margot James[3]	130.6%	n/a	n/a%	n/a	n/a	n/a
Angela Knight	2.0%	–	n/a	n/a	n/a	n/a
Graham Lindsay	8.4%	–	(50)%	n/a	n/a	n/a
Average colleague[4]	3.1%	4.0%	0.0%	7.2%	723%	(54)%

1 Caused entirely by voluntary reduction in pay during Covid-19 in 2020 and there were no pay rises for executive directors in 2021.
2 Caused by (i) no buyout in 2021 (buyout awarded on joining in 2020), and (ii) voluntary reduction in pay during Covid-19 in 2020 and there were no pay rises for executive directors in 2021.
3 Joined mid-year 2020.
4 Variable pay is complicated by significantly reduced bonus during 2021 (relating to 2020) – hence the % are an increase on a small amount.
5 The bonus percentages are made meaningless by no bonus being paid in 2020 and resumed in 2021 – the percentage increases are disproportionately high (no matter what bonus is payable).

With respect to the non-executive directors, the year-on-year problems of the executive directors are replicated for the following reasons:

1 Patrick Snowball took on an executive role for a limited period due to the planned medical leave of the CEO; and

2 the non-executive directors (and the executive directors) took a voluntary 20% reduction in fees for three months (due to Covid-19).

The Committee is pleased to note the correlation between the executive directors, the non-executive directors and other colleagues in terms of the change in the remuneration above, which supports the Committee's conclusion that there is alignment between executive remuneration and wider workforce pay principles.

Andrea Blance
Remuneration Committee Chair
6 April 2022

Financial statements

Contents

Consolidated income statement

For the year ended 31 December

Continuing operations	Note	Group 2021 £m	Group 2020 £m
Interest income		474.3	531.9
Fee income		60.3	83.5
Total revenue	1,3	534.6	615.4
Finance costs	4	(53.0)	(59.9)
Net interest margin		481.6	555.5
Impairment	12	(50.4)	(312.6)
Risk-adjusted net interest margin		431.2	242.9
Operating costs		(289.0)	(279.9)
Profit/(loss) before taxation from continuing operations	1,5	142.2	(37.0)
Profit before taxation, amortisation of acquisition intangibles and exceptional items	1,5	167.8	27.8
Amortisation of acquisition intangibles	18	(7.5)	(7.5)
Exceptional items	1	(18.1)	(57.3)
Tax charge	6	(7.6)	–
Profit/(loss) for the year from continuing operations		134.6	(37.0)
Loss after tax from discontinued operations	2	(166.7)	(46.4)
Loss for the year attributable to equity shareholders		(32.1)	(83.4)

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Group 2021 £m	Group 2020 £m
Loss for the year attributable to equity shareholders		(32.1)	(83.4)
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	20	27.1	(1.7)
– fair value movements transferred to income statement[1]	14	(5.2)	3.8
– tax on items taken directly to other comprehensive income	6	(3.8)	(0.7)
– impact of change in UK tax rate on items in other comprehensive income	6	(6.4)	(1.7)
– deferred tax credit on disposal of investments		–	2.0
– current tax charge on disposal of investments		–	(2.0)
Other comprehensive income/(expense) for the year		11.7	(0.3)
Total comprehensive expense for the year		(20.4)	(83.7)

1 Refer to accounting policies for details on changes in accounting treatment.

Loss per share

For the year ended 31 December

	Note	Group 2021 pence	Group 2020 pence
Basic	7	(12.8)	(32.9)
Diluted	7	(12.8)	(32.9)

The above loss per share is on a Group basis including discontinued operations.

Dividends per share

For the year ended 31 December

	Note	Group 2021 pence	Group 2020 pence
Interim dividend	8	12	–

The total cost of dividends paid in the year was £nil (2020: £nil).

Balance sheets

	Note	Group At 31 December 2021 £m	Group At 31 December 2020 £m	Company At 31 December 2021 £m	Company At 31 December 2020 £m
ASSETS					
Cash and cash equivalents	11	717.7	919.7	206.6	59.1
Amounts receivable from customers	12	1,677.7	1,799.8	–	–
Trade and other receivables	13	18.8	35.7	1,053.2	1,050.6
Investments held at fair value through profit and loss	14	9.1	9.2	–	–
Property, plant and equipment	15	8.4	15.5	1.2	1.6
Right of use assets	16	47.9	58.0	15.3	17.9
Goodwill	17	71.2	71.2	–	–
Other intangible assets	18	52.3	45.3	–	–
Investment in subsidiaries	19	–	–	225.4	230.9
Retirement benefit asset	20	112.2	79.7	112.2	79.7
Derivative financial instruments	24	3.1	–	–	–
Deferred tax assets	21	6.9	44.0	–	–
TOTAL ASSETS	1	2,725.3	3,078.1	1,613.9	1,439.8
LIABILITIES AND EQUITY					
Liabilities					
Trade and other payables	23	95.6	64.9	386.7	264.8
Current tax liabilities		3.8	0.6	–	1.1
Provisions	26	72.1	91.0	3.5	–
Lease liabilities	25	58.9	69.4	18.9	21.9
Retail deposits	22	1,018.5	1,683.2	–	–
Bank and other borrowings	22	845.2	520.0	395.3	369.0
Deferred tax liabilities	21	–	–	22.6	14.2
Derivative financial instruments	24	–	1.3	–	–
Total liabilities	1	2,094.1	2,430.4	827.0	671.0
Equity attributable to owners of the parent					
Share capital	28	52.6	52.6	52.6	52.6
Share premium		273.3	273.2	273.3	273.2
Merger reserve		278.2	278.2	280.5	280.5
Other reserves	30	9.8	14.6	9.0	10.0
Retained earnings		17.3	29.1	171.5	152.5
Total equity	1	631.2	647.7	786.9	768.8
TOTAL LIABILITIES AND EQUITY		2,725.3	3,078.1	1,613.9	1,439.8

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement or statement of other comprehensive income. The retained profit for the financial year reported in the financial statements of the Company was £2.7m (2020: £117.6m).

The financial statements on pages 193 to 260 were approved and authorised for issue by the Board of directors on 6 April 2022 and signed on its behalf by:

Malcolm Le May
Chief Executive Officer
Company Number – 668987

Neeraj Kapur
Chief Finance Officer

Statements of changes in shareholders' equity

Group	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2020		52.5	273.2	278.2	17.7	107.7	729.3
Loss for the year		–	–	–	–	(83.4)	(83.4)
Other comprehensive (expense)/income:							
– actuarial movements on retirement benefit asset	20	–	–	–	–	(1.7)	(1.7)
– fair value movement on investments	14	–	–	–	3.8	–	3.8
– tax on items taken directly to other comprehensive income	6	–	–	–	(1.0)	0.3	(0.7)
– impact of change in UK tax rate	6	–	–	–	(0.2)	(1.5)	(1.7)
– deferred tax credit on disposal of investments	6	–	–	–	2.0	–	2.0
– current tax charge on disposal of investments	6	–	–	–	(2.0)	–	(2.0)
Other comprehensive income/(expense) for the year		–	–	–	2.6	(2.9)	(0.3)
Total comprehensive income/(expense) for the year		–	–	–	2.6	(86.3)	(83.7)
Transfer of cumulative gain on disposal of investment		–	–	–	(7.4)	7.4	–
Transfer of tax on disposal of investment		–	–	–	2.0	(2.0)	–
Issue of share capital		0.1	–	–	–	–	0.1
Share-based payment charge	29	–	–	–	2.3	–	2.3
Transfer of share-based payment reserve on vesting of share awards		–	–	–	(2.6)	2.6	–
Purchase of shares for share awards		–	–	–	–	(0.3)	(0.3)
At 31 December 2020		52.6	273.2	278.2	14.6	29.1	647.7
At 1 January 2021		52.6	273.2	278.2	14.6	29.1	647.7
Loss for the year		–	–	–	–	(32.1)	(32.1)
Other comprehensive income/(expense):							
– actuarial movements on retirement benefit asset	20	–	–	–	–	27.1	27.1
– fair value movements transferred to income statement	14	–	–	–	(5.2)	–	(5.2)
– tax on items taken directly to other comprehensive income	6	–	–	–	1.4	(5.2)	(3.8)
– impact of change in UK tax rate	6	–	–	–	–	(6.4)	(6.4)
Other comprehensive (expense)/income for the year		–	–	–	(3.8)	15.5	11.7
Total comprehensive expense for the year		–	–	–	(3.8)	(16.6)	(20.4)
Issue of share capital		–	0.1	–	–	–	0.1
Share-based payment charge	29	–	–	–	3.8	–	3.8
Transfer of share-based payment reserve on vesting of share awards		–	–	–	(4.8)	4.8	–
At 31 December 2021		52.6	273.3	278.2	9.8	17.3	631.2

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings are shown after directly writing off cumulative goodwill of £1.6m. In addition, cumulative goodwill of £2.3m has been written off against the merger reserve in previous years.

The rights issue in April 2018 was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. Of the resulting merger reserve of £278.2m, £228.2m was distributable as the capital was retained for the purposes of the Company with the remaining £50.0m not distributable as it was used to inject capital into Vanquis Bank Limited. Following the transfer of Vanquis Bank Limited to Provident Financial Holdings Limited in December 2020 the full merger reserve of £278.2m is now considered distributable.

Other reserves are further analysed in note 30.

Statements of changes in shareholders' equity continued

Company	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2020		52.5	273.2	280.5	10.3	36.9	653.4
Profit for the year		–	–	–	–	117.6	117.6
Other comprehensive (expense)/income:							
– actuarial movements on retirement benefit asset	20	–	–	–	–	(1.7)	(1.7)
– tax on items taken directly to other comprehensive income		–	–	–	–	0.3	0.3
– impact of change in UK tax rate		–	–	–	–	(1.5)	(1.5)
Other comprehensive expense for the year		–	–	–	–	(2.9)	(2.9)
Total comprehensive income for the year		–	–	–	–	114.7	114.7
Issue of share capital		0.1	–	–	–	–	0.1
Share-based payment charge	29	–	–	–	0.7	–	0.7
Transfer of share-based payment reserve on vesting of share awards		–	–	–	(1.2)	1.2	–
Share-based payment movement in investment in subsidiaries		–	–	–	0.2	–	0.2
Purchase of shares for share awards		–	–	–	–	(0.3)	(0.3)
At 31 December 2020		52.6	273.2	280.5	10.0	152.5	768.8
At 1 January 2021		52.6	273.2	280.5	10.0	152.5	768.8
Profit for the year		–	–	–	–	2.7	2.7
Other comprehensive income/(expense):							
– actuarial movements on retirement benefit asset	20	–	–	–	–	27.1	27.1
– tax on items taken directly to other comprehensive income		–	–	–	–	(5.2)	(5.2)
– impact of change in UK tax rate		–	–	–	–	(6.4)	(6.4)
Other comprehensive income for the year		–	–	–	–	15.5	15.5
Total comprehensive income for the year		–	–	–	–	18.2	18.2
Issue of share capital		–	0.1	–	–	–	0.1
Share-based payment charge	29	–	–	–	1.7	–	1.7
Transfer of share-based payment reserve on vesting of share awards		–	–	–	(0.8)	0.8	–
Share-based payment movement in investment in subsidiaries		–	–	–	(1.9)	–	(1.9)
At 31 December 2021		52.6	273.3	280.5	9.0	171.5	786.9

Other reserves are further analysed in note 30.

Statements of cash flows

For the year ended 31 December

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	33	240.5	450.6	(110.9)	(51.8)
Finance costs paid		(71.3)	(63.1)	(29.7)	(37.3)
Finance income received		–	–	51.7	58.0
Tax paid		(6.1)	(23.6)	–	–
Net cash generated from/(used in) operating activities		163.1	363.9	(88.9)	(31.1)
Cash flows from investing activities					
Purchase of intangible assets	18	(24.8)	(16.3)	–	–
Purchase of property, plant and equipment	15	(1.3)	(5.9)	–	–
Proceeds from disposal of property, plant and equipment	15	3.8	0.7	–	–
Dividends received from subsidiaries	31	–	–	88.8	110.0
Net cash (used in)/generated from investing activities		(22.3)	(21.5)	88.8	110.0
Cash flows from financing activities					
Proceeds from bank and other borrowings		746.0	926.8	197.5	–
Repayment of bank and other borrowings		(1,081.5)	(690.3)	(175.2)	(247.4)
Loan from subsidiaries		–	–	128.2	214.6
Payment of lease liabilities		(9.6)	(11.2)	(3.0)	(3.4)
Purchase of shares for share awards		–	(0.3)	–	(0.3)
Proceeds from issue of share capital	28	0.1	0.1	0.1	0.1
Net cash (used in)/generated from financing activities		(345.0)	225.1	147.6	(36.4)
Net (decrease)/increase in cash, cash equivalents and overdrafts		(204.2)	567.5	147.5	42.5
Cash, cash equivalents and overdrafts at beginning of year		918.3	350.8	59.1	16.6
Cash, cash equivalents and overdrafts at end of year		714.1	918.3	206.6	59.1
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	11	717.7	919.7	206.6	59.1
Overdrafts (held in bank and other borrowings)	22	(3.6)	(1.4)	–	–
Total cash, cash equivalents and overdrafts		714.1	918.3	206.6	59.1

Cash at bank and in hand includes £414.8m (2020: £833.3m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank Limited in accordance with the PRA's liquidity regime. As at 31 December 2021, £268.3m (2020: £691.9m) of the buffer was available to finance Vanquis Bank Limited's day-to-day operations.

General information
The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, England BD1 2SU. The Company is listed on the London Stock Exchange.

Basis of preparation
The financial statements of the Group and Company are prepared in accordance with IFRS as adopted by the UK, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006.

The change in basis of preparation from IFRS as adopted by the EU to IFRS as adopted by the UK is required as a result of the UK's exit from the EU on 31 January 2020. This change does not constitute a change in accounting policy and there is no impact on recognition, measurement or disclosure between the two frameworks in the period reported.

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 and investments held at fair value through profit and loss.

In assessing whether the Group is a going concern, the directors have reviewed the Group's corporate plan as approved in December 2021, which includes capital and liquidity forecasts from 2022 to 2026. The assessment included consideration of the Group's principal risks and uncertainties, with a focus on capital and liquidity.

The directors have also reviewed the Group's stress testing projections which are based on a severe but plausible scenario in which unemployment peaks at 12%. This shows that the Group is able to maintain sufficient capital headroom above minimum requirements. The directors have reviewed the Group's reverse stress testing projections to the point of non-viability, which concluded that the Group's viability only comes into question under an unprecedented macroeconomic scenario.

Changes in accounting treatment in 2021
The Group and Company's principal accounting policies under IFRS have been consistently applied to all the years presented, with the exception of the Visa Inc shares previously classified as fair value through other comprehensive income (OCI) which have been reclassified to fair value through profit or loss, the adoption of the IFRIC agenda decision on Software-as-a-Service (SaaS) and Interest Rate Benchmark Reform Phase 2.

Visa Inc shares
Following review of the treatment of the Visa Inc shares held in Vanquis Bank being recognised as fair value through OCI (FVTOCI) it was determined that on adoption of IFRS 9, the election to treat these shares as FVTOCI was not appropriate as they did not meet the definition of an equity instrument. The shares should have been treated as a financial asset recognised at fair value through profit or loss.

The Group has concluded that this is an immaterial change relative to the Group results and the cumulative impact has therefore been adjusted in the 2021 financial period rather than as a prior year adjustment.

The assets have been reclassified in 2021 resulting in the 2020 closing fair value reserve of £3.8m being recognised in the income statement. This has resulted in an increase in profit before tax of £5.2m and an increase in the tax charge of £1.4m. The cumulative fair value movements of £5.2m and all future fair value movements will be presented within operating costs in the income statement.

Software-as-a-Service (SaaS)
The IFRS Interpretations Committee (IFRIC) recently published two agenda decisions clarifying how certain aspects of cloud technology, SaaS, should be accounted for. The first agenda decision, published in March 2019, concludes that a contract that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contract (SaaS) rather than a software lease or the acquisition of a software intangible asset. The customer receives the service—the access to the software—over the contract term. The second agenda decision, published in April 2021, addresses how a customer should account for the costs of configuring or customising the supplier's application software in a SaaS arrangement that is determined to be a service contract.

Where a change in accounting policy is required to apply the conclusions reached by the IFRS Interpretations Committee this must be accounted for in line with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and, if material, prior period comparatives restated. The agenda decisions have not resulted in a material impact on the Group or Company and therefore the comparatives have not been restated.

Interest Rate Benchmark Reform Phase 2
In 2021, the Group adopted the Interest Rate Benchmark Reform Phase 2 amendments issued by the IASB. These amendments require that changes to expected future cash flows that both arise as a direct result of IBOR Reform and are economically equivalent to the previous cash flows are accounted for as a change to the effective interest rate with no adjustment to the asset or liability carrying value and no immediate gain or loss is recognised.

The new requirements also provide relief from the requirements to discontinue hedge accounting as a result of amending hedge documentation if the changes are required solely as a result of IBOR Reform. As at the end of 2021, the Group has refinanced all LIBOR linked derivatives to SONIA resulting in no impact from the implementation of these changes.

The impact of new standards not yet effective and not adopted by the Group from 1 January 2022
There are no new standards not yet effective and not adopted by the Group from 1 January 2022 which are expected to have a material impact on the Group.

Basis of consolidation
The consolidated income statement, consolidated statement of comprehensive income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and notes to the financial statements include the financial statements of the Company and all of its subsidiary undertakings drawn up from the date control passes to the Group until the date control ceases.

Control is achieved when the Group:

– has the power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect returns.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

The accounting policies of subsidiaries are consistent with the accounting policies of the Group.

Revenue
Revenue comprises interest and fee income earned by credit cards, personal loans and vehicle finance products.

Group revenue excludes value added tax and intra-group transactions.

Company revenue includes intra-group transactions and dividends received.

Interest is calculated on credit card advances to customers using the effective interest rate on the daily balance outstanding. Annual fees charged to customers' credit card accounts are recognised as part of the effective interest rate.

Other fees are recognised at the time the charges are made to customers on the basis that the performance obligation is complete.

Within CCD and vehicle finance, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows. For CCD this reflected 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 continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value 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 purposes at the Group's interim or year-end balance sheet date.

Directly attributable acquisition costs are capitalised as part of receivables and amortised over the life of the loan as a deduction to revenue.

Finance costs
Finance costs principally comprise the interest on retail deposits, bank and other borrowings, securitisation and, for the Company, intra-group loan arrangements, and are recognised on an effective interest rate basis.

Dividend income
Dividend income is recognised in the income statement when the Company's right to receive payment is established.

Goodwill
All acquisitions are accounted for using the purchase method of accounting.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units which are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cash flows from the relevant cash-generating unit. Expected future cash flows are derived from the Company's latest budget projections and the discount rate is based on the Company's risk-adjusted cost of equity at the balance sheet date.

Investments in subsidiaries
The Company's investments in subsidiaries are stated at cost less provisions for impairment where required. Impairment provisions reflect the shortfall between the carrying value of the investment with the higher of: (i) fair value less costs to sell; and (ii) value in use of the subsidiary.

Leases
The Group and Company as a lessee
The Group and Company assess whether a contract contains a lease at inception of a contract. A right of use asset and a corresponding liability are 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 (less than £4,000). For these leases, the lease payment is recognised within 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. This rate could not be readily determined, therefore the incremental borrowing rate has been 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. For Vanquis Bank Limited, this would represent an average retail deposit rate; for all other companies this would be based on the Group's non-bank funding rate.

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

- fixed lease payments;
- variable lease payments; and
- payment of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

The lease liability is remeasured whenever:

- the lease term has changed, in which case the lease liability is remeasured 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 remeasured by discounting the revised lease payments using the initial discount rate; and
- the lease contract is modified and the modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group or 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 income statement and presented within finance costs and operating costs respectively.

Leases continued

The Group and Company as a lessor

Vehicle finance is considered a lessor for its conditional sale agreements to customers; however, both revenue and impairment are accounted for under IFRS 9.

Other intangible assets

Other intangible assets include acquisition intangibles in respect of the broker relationships at vehicle finance, standalone computer software and development costs of intangible assets across the Group.

The fair value of vehicle finance broker relationships on acquisition of the Moneybarn Group was estimated by discounting the expected future cash flows from vehicle finance core broker relationships over their estimated useful economic life which was deemed to be 10 years. The asset is being amortised on a straight-line basis over its estimated useful life.

Computer software and computer software development assets represent the costs incurred to acquire or develop software and bring it into use. Directly attributable costs incurred in the development of software are capitalised as an intangible asset if the software will generate future economic benefits. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software and computer software development costs are amortised on a straight-line basis over their estimated useful economic life which is generally estimated to be between three and 10 years. The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Other intangible assets are valued at cost less subsequent amortisation and impairment. Amortisation is charged to the income statement as part of operating costs. 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 and its fair value less costs to sell.

Foreign currency translation

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The Group's subsidiaries primarily operate in the UK. The consolidated and Company financial statements are presented in sterling, which is the Company's functional and presentational currency.

Transactions that are not denominated in the Group'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 income statement, except when deferred in equity as effective cash flow hedges.

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

Amounts receivable from customers

Customer receivables are initially recognised at fair value which represents the amount advanced to the customer plus directly attributable issue costs less an impairment provision for expected losses. The receivables are originated under a business model that intends to collect the contractual cash flows and includes only elements of principle and interest, so are subsequently measured at amortised cost less impairment provisions. The impairment provision recognised is based on the probability of default (PD) within 12 months, the loss given default (LGD) and the exposure at default (EAD).

On initial recognition, all accounts are recognised in IFRS 9 stage 1.

The account moves to stage 2 when a significant increase in credit risk (SICR) becomes evident, such as a missed payment or a significant increase in PD, but has not defaulted. In absence of other factors indicating SICR, this will occur at 30 days past due.

An account moves to stage 3 and is deemed to have defaulted at 90 days past due, when a payment arrangement is initiated, or when other unlikeliness to pay factors arise (like customer bankruptcy proceedings).

Credit cards and personal loans

On inception an expected loss impairment provision is recognised using PD/LGD/EAD models which forecast customer behaviour to calculate losses.

For credit cards, the PD is determined by utilising a customer's behavioural score used for underwriting the credit card. The LGD discounts the exposure at default (EAD) which adjusts the current card balance for future expected spend and interest. It does not include any future credit line increases.

For personal loans, the EAD follows the amortisation schedules of the loan and is adjusted for expected missed payments at point of default.

Following a SICR, evident from a missed monthly payment or a significant increase in PD, lifetime losses are recognised.

A customer is deemed to have defaulted when they become three minimum monthly payments in arrears or they enter a temporary payment arrangement. A customer is written off in the following cycle after becoming six minimum monthly payments in arrears.

Vehicle finance

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to historical customer data and outcomes.

An account moves from stage 1 to stage 2 when there has been a SICR or when the customer is assessed as vulnerable. Lifetime losses are recognised for all accounts in stages 2 and 3.

A customer is deemed to have defaulted when they become three monthly payments in arrears or enter into a forbearance arrangement. Customer agreements which have been terminated, either voluntarily, by the customer settling their agreement early, or through the agreement being default terminated, are also included within stage 3. Cure from stage 3 is limited to some default reasons and for contracts not already terminated.

A customer's debt is written off when it is sold to debt collection agencies.

Amounts receivable from customers continued

CCD

Following the wind-down of CCD and the decision to stop collections, all customers' debt was written off in 2021.

Customers under forbearance

Customers are moved to IFRS 9 stage 3 and lifetime losses are recognised for all divisions where forbearance is provided to the customer or alternative payment arrangements are established. Customers under temporary payment arrangements are separately identified according to the type of arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows under that payment arrangement, discounted at the original effective interest rate.

Macroeconomic scenarios

Macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their agreements and the losses which are expected to be incurred given default. Following refinements to the models in 2021, these provisions are now included as part of the core model provision.

The provisions now consider the relationship between hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), debt to income ratio and default rates.

Property, plant and equipment

Property, plant and equipment is shown at cost less accumulated depreciation and impairment, except for land, which is shown at cost less 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 values over their useful economic lives.

The following principal bases are used:

	%	Method
Land	Nil	–
Leasehold improvements	Over the lease period	Straight-line
Equipment (including computer hardware)	10 to 33 1/3	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, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. 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 and 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 value of the asset and are recognised within operating costs in the income statement.

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

Investments

Investments held at fair value through profit and loss

During 2021 the Visa Inc shares previously classified as fair value through OCI were reclassified to fair value through profit or loss; refer to page 198 for details.

Visa Inc shares are measured at fair value in the balance sheet as a reliable estimate of the fair value can be determined. Valuation adjustments arising as a result of routine mark-to-market revaluation are recognised in the income statement against operating costs.

Fair value changes including any impairment losses and foreign exchange gains or losses are recognised within operating costs in the income statement. The fair value of monetary assets denominated in foreign currency is determined through translation at the spot rate at the balance sheet date.

Dividends on equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group continues to apply the requirements of IAS 39 to its hedging relationships. The only derivative held by the Group is a balance guaranteed swap (BGS) entered into as part of the vehicle finance securitisation. It is recognised at fair value with changes recognised in the income statement.

Hedge accounting allows the BGS to be designated as a hedge of another financial instrument, in this case customer receivables. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item, the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand which includes amounts invested in the Bank of England reserve account held in accordance with the Prudential Regulation Authority's (PRA's) liquidity regime. Cash held as part of securitisations is not immediately available due to the terms of the arrangements. Bank overdrafts are presented in borrowings to the extent that there is no right of offset with cash balances.

Intercompany

Expected credit losses on Company intercompany balances are assessed at each balance sheet date. The PDs and LGDs are determined for each loan based on the subsidiary's available funding and cash flow forecasts.

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

Dividends paid
Dividend distributions to the Company's shareholders are recognised in the Group and the Company's financial statements as follows:

- final dividend: when approved by the Company's shareholders at the Annual General Meeting; and
- interim dividend: when paid by the Company.

Retirement benefits
Defined benefit pension schemes
The charge in the income statement in respect of defined benefit pension schemes comprises the actuarially assessed current service cost of working employees, together with the interest on pension liabilities offset by the interest on pension scheme assets. All charges are recognised within operating costs in the income statement.

The retirement benefit asset recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of the schemes' assets less the present value of the defined benefit obligation at the balance sheet date. A retirement benefit asset is recognised to the extent that the Group and Company have an unconditional right to a refund of the asset or if it will be recovered in future years as a result of reduced contributions to the pension scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement.

Defined contribution pension schemes
Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

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.

Merger reserve
The rights issue completed in 2018 was transacted through a 'cash box' structure. The proceeds would ordinarily be recognised as share capital and share premium. However, as the proceeds were generated through a cash box structure, the proceeds are held as share capital and a merger reserve.

The share capital generated is in line with the 20 8/11p par value of the shares with the additional amounts credited to the merger reserve. All fees were recognised on an accruals basis and deducted from the merger reserve with the net credit being deemed distributable, subject to the capital injected into Vanquis Bank Limited. Following the transfer of Vanquis Bank Limited to Provident Financial Holdings No. 2 in December 2020 the full merger reserve of £278.2m is now considered distributable.

Share-based payments
Equity-settled schemes
The Company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Deferred Bonus Plan (DBP), the Long Term Incentive Scheme (LTIS), the Restricted Share Plan (RSP) and the Company Share Option Plan (CSOP). All of these schemes are equity settled.

The cost of providing options and awards to Group and Company employees is charged to the income statement of the entity over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The grant by the Company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the Company's financial statements. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding adjustment to the share-based payment reserve within equity.

The cost of options and awards is based on their fair value. A binomial model is used for calculating the fair value of SAYE options which have no performance conditions attached and the RSP for which vesting is based on the discretion of the Remuneration Committee. No charge has been recognised for the CSOP as it is linked to the RSP awards granted at the same time. Any gains made by an employee in relation to the CSOP reduces the number of shares exercisable under the RSP award.

The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

For LTIS schemes, performance conditions are based on EPS, total shareholder return (TSR) versus a peer group and risk metrics. Employees of credit cards, personal loans, vehicle finance and CCD also have targets relating to profit before tax of their division. The fair value of awards is determined using a combination of the binomial and Monte Carlo option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting. Where the Monte Carlo option pricing model is used to determine fair value of the TSR component, no adjustment is made to reflect expected or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

Share-based payments continued

Equity-settled schemes continued

Cancellations by employees of contributions to the Group's SAYE plans are treated as non-vesting conditions and the Group recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period.

Modifications are assessed at the date of modification and any incremental charges are recognised in the income statement.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest, lapse or are cancelled. In respect of the SAYE options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised.

Taxation

The tax charge represents the sum of current and deferred tax.

Current tax

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

Deferred tax

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

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Contingent liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but information about them is disclosed unless the possibility of any economic outflow in relation to settlement is remote.

Exceptional items

Exceptional items are items which the directors consider should be disclosed separately to enable a full understanding of the Group's results. An exceptional item needs to meet at least two of the following criteria:

- the financial impact is material;
- it is one-off and not expected to recur;
- it is outside the normal course of business.

Examples include, but are not limited to, costs arising from redundancy, acquisition or restructuring activities. The Audit Committee and Board may also apply judgement to determine whether an item should be classified as an exceptional item and be an allowable adjustment to a statutory measure.

Critical accounting judgements and key sources of estimation uncertainty

In applying the accounting policies set out above, the Group and Company make 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 judgements are based on historical experience; actual results may differ from these estimates.

In preparing the financial statements the Group and Company has considered the impact of the qualitative scenario analysis and climate-related risks on financial performance set out on pages 68 to 73. Whilst the effects of climate change represent a source of uncertainty, there has not been a material impact on any financial judgements and estimates due to the physical and transition climate-related risks in the short to medium term.

Critical accounting judgements and key sources of estimation uncertainty continued

Amounts receivable from customers (note 12)

Group: £1,677.7m (2020: £1,799.8m)

Critical accounting judgements

The Group reviews amounts receivable from customers for impairment at each balance sheet date. For the purposes of assessing the impairment, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The determination of expected credit losses involves complex modelling techniques and requires management to apply significant judgements to calculate expected credit losses. The most critical judgements are outlined below.

The determination of the significant increase in credit risk (SICR) thresholds to be used in the new models for credit card, vehicle finance and personal loans required management judgement to optimise the performance and therefore effectiveness of the staging methodology. Assessments are made to determine whether there is objective evidence of a SICR which indicates there has been an adverse effect on PD. A SICR for customers in credit cards is when there has been a significant increase in behavioural score or when one contractual monthly payment has been missed. In vehicle finance, a SICR is when there has been a significant increase in behavioural score or when one contractual monthly payment has been missed.

For the purpose of IFRS 9, default is assumed in credit cards, personal loans and vehicle finance when three contractual repayments have been missed.

During the second half of 2021 the Group implemented new IFRS 9 models to more accurately assess provision requirements based on market driven metrics. These models will be regularly tested using subsequent cash collections to assess accuracy. The impact of implementing these models was a c.£9m increase in the credit cards provision and c.£3.1m increase in the vehicle finance provision. For vehicle finance, the macroeconomic provision and revenue netting adjustment, previously included as post-model overlays, are now incorporated within the core model.

The Group's impairment models are subject to periodic monitoring, validation and back testing performed on model components, including probability of default, exposure at default and loss given default to ensure management judgements remain appropriate.

Limitations in the Group's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management makes appropriate adjustments to the Group's allowance for impairment losses to ensure that the overall provision adequately reflects all material credit risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays. Those changes applied to model inputs and parameters are deemed to be in-model overlays; more qualitative changes that have a higher degree of management judgement are deemed to be post-model overlays. All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated.

During Covid-19, in an economic environment which differed significantly from the historical economic conditions upon which the impairment models had been built, there was a greater need for management judgement to be applied in determining appropriate post-model adjustments. Following the refinements to the models during 2021 a number of the post-model adjustments are now included as part of the core model calculations.

A breakdown of the in-model and post-model overlays is included within note 12.

Macroeconomic impairment provision adjustments are now recognised in the core model to reflect an increased PD, based on future macroeconomic scenarios.

These provisions reflect the potential for future changes in hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), and debt to income ratio.

The provision reflects the potential for future changes under a range of forecasts, as analysis has clearly evidenced correlation between hazard rates, debt to income ratios and credit losses incurred.

Management judgement was required to determine the appropriate macroeconomic indicators to be used in the model by assessing their correlation with credit losses incurred by the business. Unemployment is judged to be a key macroeconomic indicator as analysis has clearly evidenced correlation between changes in unemployment and credit losses incurred by the business. This will continue to be analysed to assess if there are any additional macroeconomic indicators which also correlate to credit losses.

Critical accounting judgements and key sources of estimation uncertainty continued

Amounts receivable from customers (note 12) Group: £1,677.7m (2020: £1,799.8m) continued

Key sources of estimation uncertainty

The level of impairment recognised is calculated using models which utilise historical payment performance to generate the estimated amount and timing of future cash flows from each cohort of customers in each arrears stage. The models are regularly tested to ensure they retain sufficient accuracy. Sensitivity analysis has been performed in note 12 which shows the impact of a 1% movement of gross exposure into stage 2 from stage 1 on the allowance accounts.

The unemployment data used in the macroeconomic provisions has been compiled from a consensus of sources including the Bank of England, HM Treasury, the Office for Budget Responsibility (OBR), Bloomberg and a number of prime banks. These estimates are used to derive base case, upside, downside and severe scenarios.

The table below shows the scenario five-year peak and average unemployment assumptions adopted and the weightings applied to each. The weightings have remained consistent with prior year.

Scenario for year ended 2021	Base	Upside	Downside	Severe
Weighting	50%	10%	35%	5%
2022	4.6%	4.2%	5.4%	6.3%
2023	4.3%	3.9%	6.4%	8.5%
2024	4.3%	4.1%	5.9%	7.5%
2025	4.3%	4.1%	5.3%	6.2%
2026	4.3%	4.1%	4.9%	5.4%
Five-year peak	4.8%	4.7%	6.5%	8.6%

Scenario for year ended 2020	Base	Upside	Downside	Severe
Weighting	50%	10%	35%	5%
2021	7.1%	5.7%	9.0%	11.2%
2022	6.1%	4.8%	7.7%	9.0%
2023	5.1%	4.8%	5.8%	6.9%
2024	5.0%	4.8%	5.5%	6.1%
2025	5.0%	4.8%	5.5%	6.0%
Five-year peak	7.9%	6.2%	10.1%	12.7%

Weightings applied to the macroeconomic assumptions were reviewed and reconfirmed at the December 2021 Assumptions Committee meeting and remain unchanged from December 2020.

Sensitivity analysis has been performed on the weightings which show that changing the weightings for vehicle finance and personal loans would not have a material impact on the allowance account.

For credit cards, increasing the downside weighting by 5%, from 35% to 40%, and a corresponding reduction in the base case would increase the allowance account by £2.5m for credit cards and personal loans. Increasing the upside weighting by 5%, from 10% to 15%, and a corresponding reduction in the base case would decrease the allowance account by £0.4m.

The impact on the 2021 allowance account for the credit cards and personal loans, if each of the macroeconomic scenarios were applied at 100% weighting, rather than the weightings set out above, is shown below:

	Base £m	Upside £m	Downside £m	Severe £m
Credit cards and personal loans	(5.2)	(13.6)	8.1	23.5

Whilst the forward-looking nature of IFRS 9 requires provisions to be established for all losses arising out of the current Covid-19 crisis, the level of uncertainty may mean that additional impairment provision, or releases, may be required in future periods.

Retirement benefit asset (note 20) Group and Company: £112.2m (2020: £79.7m)

Key sources of estimation uncertainty:

- The valuation of the retirement benefit asset is dependent upon a series of assumptions, the key assumptions being mortality rates and the discount rate applied to liabilities. The most significant assumption which could lead to material adjustment is a change in discount rates.
- Discount rates are based on the market yields of high-quality corporate bonds which have terms closely linked with the estimated term of the retirement benefit obligation. Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the Group's own expected experience.

Sensitivity analysis of the Group's main assumptions is set out in note 20.

Financial risk management

The Group's activities expose it to a variety of financial risks, which can be categorised as credit risk, liquidity risk, interest rate risk, foreign exchange rate risk and market risk. The objective of the Group's Risk Management Framework is to identify and assess the risks facing the Group and to minimise the potential adverse effects of these risks on the Group's financial performance. Financial risk management is overseen by the Risk Committee.

Further details of the Group's Risk Management Framework are described on pages 87 to 99.

(a) Credit risk

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

(i) Amounts receivable from customers

The Group's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2021 is the carrying value of amounts receivable from customers of £1,677.7m (2020: £1,799.8m).

Credit cards and personal loans

The Risk Committee is responsible for setting the credit policy.

The CRO is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy. The CRO discharges and informs this decision making through the Credit Committee.

The Credit Risk Forum meets at least 10 times a year.

A customer's risk profile and credit line are evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historical payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income/expenditure and employment, and data from external credit bureaux. An affordability assessment is also carried out at application. For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders. Credit lines can go up as well as down according to this point in time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing or appropriate forbearance arrangements are put in place.

Vehicle finance

Credit risk within vehicle finance is managed by the vehicle finance Credit Committee which meets at least monthly and is responsible for approving underwriting parameters, decisioning strategy and credit control policy.

A customer's credit risk profile and ability to afford the proposed contract is initially evaluated at the point of application, and subsequently at the time of arrangement of any forbearance measures to address customer arrears. A scorecard based on historical payment patterns of customers is used to assess the applicant's potential default risk. The scorecard incorporates data from the applicant, such as income and employment, and data from an external credit bureau. The application assessment process involves verification of key aspects of the customer data. Certain policy rules including customer profile, proposed loan size and vehicle type are also assessed in the decisioning process, as well as affordability checks to ensure that, at the time of application, the loan repayments are affordable.

Arrears management is conducted by way of a combination of letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing and retaining use of the vehicle. These include appropriate forbearance arrangements, or where the contract has become unsustainable for the customer, then an appropriate exit strategy is implemented.

The FCA moratorium introduced as part of Covid-19 support measures restricted vehicle finance from terminating customer contracts and recovering the vehicle from a customer where a default termination would ordinarily have occurred. The restriction was lifted from 31 January 2021. Vehicle finance has subsequently worked with customers affected.

Financial risk management continued

(a) Credit risk continued

(ii) Bank and government counterparties

The Group's maximum exposure to credit risk on bank and government counterparties as at 31 December 2021 was £738.7m (2020: £947.4m).

Counterparty credit risk arises as a result of cash deposits placed with banks and central government.

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 PRA.

(b) Liquidity risk

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

Liquidity risk is managed by the Group's centralised treasury department through daily monitoring of expected cash flows in accordance with a Board-approved Group Funding and Liquidity Policy. This process is monitored regularly by the Assets and Liabilities Committee (ALCO).

Liquidity and funding risk appetite is established at Group and Vanquis Bank Limited level, with thresholds reported to and monitored by the Group and Vanquis Bank Limited Boards. 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 within vehicle finance and contractual maturities on its bank, private placement and bond funding for at least the following 12 months. As at 31 December 2021, the Group's committed borrowing facilities including retail deposits had a weighted average period to maturity of 2.5 years (2020: 1.5 years) and the headroom on these committed facilities amounted to £110.0m (2020: £79.3m).

Vanquis Bank Limited is a PRA-regulated institution and is fully funded via retail deposits. It is required to maintain a liquid assets buffer, and other liquid resources, based upon daily stress tests, in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. It also maintains an operational buffer over such requirements in line with the bank's risk appetite. As at 31 December 2021, the liquid assets buffer, including other liquid resources and the operational buffer, held by Vanquis Bank Limited, in cash and cash equivalents amounted to £414.8m (2020: £833.3m). Cash held has reduced in 2021 as the Group took on surplus liquidity in 2020 following the onset of the pandemic; this has now reduced to more typical levels.

Both the Group and Vanquis Bank Limited are required to meet the liquidity coverage ratio (LCR). The LCR requires institutions to match net liquidity outflows during a 30-day period with a buffer of 'high-quality' liquid assets.

Vanquis Bank Limited accepts retail deposits and, in line with its regulatory requirements, maintains high-quality liquid assets to meet the LCR and its internal stress tests as stipulated within its Internal Liquidity Adequacy Assessment Process (ILAAP). The Group and Vanquis Bank Limited monitor and report the LCR to the PRA on a consolidated and solo basis respectively. The Group's LCR at 31 December 2021 amounted to 2,073% (2020: 2,830%). Both the Group and Vanquis Bank Limited continue to meet the LCR requirements. Vanquis Bank Limited maintained a significant surplus of liquidity against its internal requirements throughout 2021, and is managing this down in a prudent manner to normalised levels.

The Group's funding strategy is to maintain sufficient available funds and committed facilities to pre-fund the Group's liquidity and funding requirements for at least the next 12 months, maintaining access to diversified sources of funding comprising: (i) external market funding; (ii) securitisation; (iii) retail deposits; and (iv) liquidity and funding facilities at the Bank of England.

In line with the Group's funding strategy to place less reliance on this source of funding, the facility was repaid early ahead of its contractual maturity in July 2023 and at the same time was cancelled at the discretion of the Group as allowed for in the terms of the facility. The headroom on committed facilities of £110.0m at 31 December 2021 reduced to £50.0m after cancellation of the facility. The Group does not require the funding and was not expecting to renew the facility on maturity.

The Group will continue to explore further funding options as appropriate including, but not limited to, using retail deposits taken in Vanquis Bank Limited to fund vehicle finance, further securitisation issuance and institutional bond issuance.

The Group continues to adopt a prudent approach to managing its funding and liquidity resources within risk appetite, and will optimise these resources when new opportunities become available to the Group. A maturity analysis of the undiscounted contractual cash flows of the Group's bank and other borrowings is shown on page 208.

This reflects both the interest payable and the repayment of the borrowing on maturity. For operational flexibility, drawings under the Group's revolving bank facilities are typically drawn for only three months at any time despite having the ability to draw the borrowings for much longer under the committed borrowing facility. Retail deposits' maturity within Vanquis Bank Limited is closely matched to the average life of a credit card customer. In the table on page 208, the cash flows of borrowings made under the Group's syndicated revolving bank facility shown as being due within one year given the discretionary cancellation of the facility by the Group in March 2022.

Financial risk management continued
(b) Liquidity risk continued
Financial liabilities

2021 – Group	Repayable on demand £m	<1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Retail deposits[1]	–	409.1	361.4	272.7	–	1,043.2
Bank and other borrowings:						
– bank facilities	3.6	30.0	–	–	–	33.6
– senior public bonds	–	8.3	107.7	–	–	116.0
– securitisation	–	7.9	114.9	174.0	–	296.8
– retail bonds	–	3.1	63.1	–	–	66.2
– Tier 2 capital	–	17.8	17.8	53.3	306.5	395.4
– TFSME	–	1.3	1.3	176.6	–	179.2
Total borrowings	3.6	477.5	666.2	676.6	306.5	2,130.4
Trade and other payables	–	95.6	–	–	–	95.6
Lease liabilities	–	10.6	10.5	26.0	18.8	65.9
Total	3.6	583.7	676.7	702.6	325.3	2,291.9

2020 – Group	Repayable on demand £m	<1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Retail deposits[1]	–	919.9	332.3	472.6	–	1,724.8
Bank and other borrowings:						
– bank facilities	1.4	69.3	–	–	–	70.7
– senior public bonds	–	14.0	14.0	189.0	–	217.0
– securitisation	–	3.2	3.3	157.4	–	163.9
– retail bonds	–	67.0	3.1	63.1	–	133.2
Total borrowings	1.4	1,073.4	352.7	882.1	–	2,309.6
Trade and other payables	–	64.9	–	–	–	64.9
Derivative financial instruments	–	0.7	0.4	0.2	–	1.3
Lease liabilities	–	10.9	10.9	32.4	22.7	76.9
Total	1.4	1,149.9	364.0	914.7	22.7	2,452.7

1 Following the onset of Covid-19 in 2020, the Group took on significant additional retail deposits to ensure it had adequate liquidity. This has reduced over the course of 2021 resulting in a more normal maturity profile.

The unutilised credit card commitments are included in note 12.

2021 – Company	Repayable on demand £m	<1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– bank facilities	–	30.0	–	–	–	30.0
– senior public bonds	–	8.3	107.7	–	–	116.0
– retail bonds	–	3.1	63.1	–	–	66.2
– Tier 2 capital	–	17.8	17.8	53.3	306.5	395.4
Total borrowings	–	59.2	188.6	53.3	306.5	607.6
Trade and other payables	–	386.7	–	–	–	386.7
Lease liabilities	–	3.6	3.6	8.0	6.5	21.7
Total	–	449.5	192.2	61.3	313.0	1,016.0

Financial risk management continued
(b) Liquidity risk continued
Financial liabilities continued

2020 – Company	Repayable on demand £m	<1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– bank facilities	–	69.3	–	–	–	69.3
– senior public bonds	–	14.0	14.0	189.0	–	217.0
– retail bonds	–	67.0	3.1	63.1	–	133.2
Total borrowings	–	150.3	17.1	252.1	–	419.5
Trade and other payables	–	264.8	–	–	–	264.8
Lease liabilities	–	3.4	3.6	10.8	7.4	25.2
Total	–	418.5	20.7	262.9	7.4	709.5

(c) Interest rate risk
Interest rate risk is the risk of potential loss through unhedged or mismatched asset and liability positions, which are sensitive to changes in interest rates. Primarily, the Group is at risk of a change in external interest rates which leads to an increase in the Group's cost of borrowing.

The Group's exposure to movements in interest rates is managed by the 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 2021 and 2020 would not have had a material impact on the Group's profit before taxation or equity given that the Group's receivables can be repriced over a relatively short timeframe.

LIBOR reform
Key benchmark interest rates and indices, such as the London Interbank Offered Rate (LIBOR), were reformed in favour of risk-free rates such as the Sterling Overnight Index Average (SONIA) in the UK. LIBOR was withdrawn at the end of 2021.

Over the course of 2021, the Group has refinanced all historically LIBOR-linked liabilities to reference SONIA.

(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.

Following the wind-down of the CCD operation there is no longer an exposure to movement in the sterling to euro exchange rate.

As at 31 December 2021, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.2m (2020: £0.2m) movement in the investment held at fair value through profit and loss (2020: through other comprehensive income) and a £0.2m (2020: £0.2m) impact on equity.

(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 Group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

(f) Exposures to structured entities
Starting in 2020, the Group has issued two securitisations to diversify its sources of funding. As at the end of 2021, the Group has securitised £810.1m of receivables, in exchange for receiving £275m of funding from external sources. A further £174m of funding has been obtained by using retained notes as collateral in the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TSFME).

The Group holds an exposure to the performance of these vehicles in the form of retained notes and has a contractual right to the variable returns of the vehicles. This risk is limited to the performance of the underlying assets, which have not been derecognised in the financial statements. The Group has no exposure to other contractual risks associated with the vehicles; no additional credit enhancements have been provided beyond the exposure created by the retained notes.

	2021		2020	
Vehicle	Receivables secured £m	Notes in issue £m	Receivables secured £m	Notes in issue £m
Oban-Cards 2021-1 Holdings Limited	453.1	232.0	–	–
Moneybarn Financing Limited	357.0	275.0	319.1	150.0

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Capital risk management

To support the delivery of the Group's Purpose, the Group operates a financial model that is founded on investing in customer-centric businesses offering attractive returns which aligns an appropriate capital structure focused on optimising shareholder value, in a safe and sustainable manner. The Capital Principal Risk Policy of the Group helps to ensure capital resources are sufficient to support planned levels of growth.

The Assets and Liabilities Committee is responsible for monitoring the level of regulatory capital. The level of surplus regulatory capital against requirements is reported to the Board on a monthly basis in the Group's management accounts.

The minimum regulatory capital requirement imposed by the PRA on firms is the sum of the total capital requirement, combined CRD buffer requirements as applicable and the PRA buffer requirements as applicable. The minimum amount of regulatory capital held by the Group and Vanquis Bank Limited represents the higher of the imposed requirement and their respective internal assessments of minimum capital requirements based upon an assessment of risks facing the Group. The Internal Capital Adequacy Assessment Process (ICAAP) considers all risks facing the business, including credit, operational, counterparty, conduct, pension and market risks, and assesses the capital requirement for such risks in the event of downside stresses should such requirement exceed that set out under the Pillar 1 framework.

The Group has elected to phase in the impact of adopting IFRS 9 over a five-year period ending 31 December 2022, arbitrarily named the dynamic 1 adjustment. This is achieved by applying add back factors of 95%, 85%, 70%, 50% and 25% for years one to five respectively to the initial IFRS 9 transition adjustment (net of attributable deferred tax) plus any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period. The PRA ratified additional capital mitigation proposed by the Basel Committee, in response to Covid-19, with these measures coming into force from 27 June 2020. The new measures allow for the increase in ECL in the non-credit-impaired book arising after 31 December 2019 to be fully added back in 2020 and 2021, arbitrarily named the dynamic 2 adjustment. This relief is then phased out over the following three years on a straight-line basis, ending 31 December 2024 (2022: 75%; 2023: 50%; 2024: 25%). The Group had no relief from the new measures at 31 December 2021 as the ECL in the non-credit impaired book had fallen back below the level at 31 December 2019.

The Group has in place a Capital Principal Risk Policy, which sets out the framework in which the Group aims to maintain a secure funding and capital structure and establishes defined capital risk appetite. Adherence to the policy ensures that the Group maintains minimum capital levels and that the capital held at business division levels is adequate to support the businesses' underlying requirements and is sufficient to support growth in that business. Internal capital is allocated to business lines and risk categories, calibrated to maximise return on equity while remaining within the risk appetite. The distribution of dividends is aligned with the Group's growth targets, whilst continuing to meet the required capital levels in line with regulatory requirements and internal risk appetite.

The following table reconciles the Group's equity to the regulatory capital resources for the Group.

Regulatory capital (unaudited)	2021 £m	2020 £m
Net assets	631.2	647.7
IFRS 9 transition	92.0	128.8
Dynamic 1 and 2 adjustments	16.4	74.2
Pension	(112.2)	(79.7)
Deferred tax on pension	28.0	15.1
Goodwill	(71.2)	(71.2)
Intangible assets	(52.3)	(45.3)
Deferred tax on acquired intangible asset	5.0	5.2
Foreseeable dividend	(30.4)	–
Common equity tier 1	506.5	674.8
Tier 2 capital	200.0	–
Total regulatory capital	706.5	674.8
Risk-weighted exposures	1,740.6	1,973.5
CET1 ratio	29.1%	34.2%
Total capital ratio[1]	40.6%	34.2%

1 In October 2021 the Group issued Tier 2 subordinated notes for gross proceeds of £200m, this further strengthened the Group's balance sheet and increased total capital resources and therefore the total capital ratio.

Pillar 3 complements Basel's Pillar 1 and Pillar 2 frameworks and seeks to encourage market discipline by developing a set of disclosure requirements which would allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Pillar 3 disclosures for the Group, for the year ended 31 December 2021, are published as a separate document and are available on the Group's website.

1 Segment reporting

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The Group's chief operating decision maker is deemed to be the Group ExCo, whose primary responsibility is to support the Chief Executive Officer in managing the Group's day-to-day operations and analyse trading performance. The Group's segments comprise credit cards and personal loans (Vanquis Bank), vehicle finance (Moneybarn), CCD (discontinued operations) and Central which are those segments reported in the Group's management accounts used by the Group ExCo as the primary means for analysing trading performance. The Group ExCo assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the Group financial statements.

	Revenue		Profit/(loss) before taxation	
Group	2021 £m	2020 £m	2021 £m	2020 £m
Credit cards	389.5	472.4	173.9	39.5
Vehicle finance	137.9	134.0	28.9	10.9
Personal loans	7.2	9.0	(8.7)	(1.5)
Central costs	–	–	(26.3)	(21.1)
Total Group before amortisation of acquisition intangibles and exceptional items	534.6	615.4	167.8	27.8
Amortisation of acquisition intangibles (note 18)	–	–	(7.5)	(7.5)
Exceptional items	–	–	(18.1)	(57.3)
Total Group – continuing operations	534.6	615.4	142.2	(37.0)
CCD – discontinued operations (note 2)	68.0	192.4	(95.5)	(74.9)
CCD – discontinued operations exceptional items (note 2)	–	–	(42.6)	(1.6)
Total Group	602.6	807.8	4.1	(113.5)

Revenue for credit cards, vehicle finance and personal loans comprises interest earned on amounts receivable from customers and fee income.

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The amortisation charge in 2021 amounted to £7.5m (2020: £7.5m).

Revenue between business segments is not material.

Exceptional items for continuing operations represent a net exceptional charge of £18.1m in 2021 (2020: £57.3m) and comprise:

	2021 £m	2020 £m
Corporate costs including CCD closure	(11.5)	–
CCD Scheme of Arrangement costs and provision (note 26)	(5.0)	(65.0)
(Costs)/gain in respect of the redemption of bonds (note 4)	(3.9)	1.3
Pension credit/(charge) (note 20)	2.3	(0.7)
Release of provisions in respect of ROP refund programme (note 26)	–	8.3
Costs in respect of the new intermediate holding company (note 19)	–	(1.2)
Total exceptional items	(18.1)	(57.3)

Corporate costs including CCD closure include redundancy amounts of £1.0m (see note 10).

1 Segment reporting continued

Group	Segment assets 2021 £m	Segment assets 2020 £m	Segment liabilities 2021 £m	Segment liabilities 2020 £m	Net assets/(liabilities) 2021 £m	Net assets/(liabilities) 2020 £m
Credit cards and personal loans	1,639.1	2,037.1	(1,264.6)	(1,710.6)	374.5	326.5
Vehicle finance	698.3	611.0	(592.5)	(591.7)	105.8	19.3
Central	546.5	730.4	(100.5)	(213.4)	446.0	517.0
Continuing operations before intra-group elimination	2,883.9	3,378.5	(1,957.6)	(2,515.7)	926.3	862.8
Discontinued operations	0.3	187.8	(295.4)	(402.9)	(295.1)	(215.1)
Intra-group elimination	(158.9)	(488.2)	158.9	488.2	–	–
Total Group	2,725.3	3,078.1	(2,094.1)	(2,430.4)	631.2	647.7

The presentation of segment net assets reflects the statutory assets, liabilities and net assets of each of the Group's divisions. This results in an intra-group elimination reflecting the difference between the central intercompany funding provided to the divisions and the external funding raised centrally.

Following the wind-down of CCD, the Group's businesses now operate principally in the UK.

Group	Capital expenditure 2021 £m	Capital expenditure 2020 £m	Depreciation 2021 £m	Depreciation 2020 £m	Amortisation 2021 £m	Amortisation 2020 £m
Credit cards and personal loans	24.8	19.1	2.2	2.7	5.0	4.6
Vehicle finance	1.1	0.8	0.8	0.8	2.1	0.8
Central	–	–	0.4	1.1	7.5	7.5
Continuing operations	25.9	19.9	3.4	4.6	14.6	12.9
Discontinued operations	0.2	2.3	1.5	1.6	3.6	2.2
Total Group	26.1	22.2	4.9	6.2	18.2	15.1

Capital expenditure in 2021 comprises expenditure on intangible assets of £24.8m (2020: £16.3m) and property, plant and equipment of £1.3m (2020: £5.9m).

The acquired intangible asset in respect of vehicle finance broker relationships is held on consolidation and, therefore, the amortisation charge has been allocated to Central in the above analysis, consistent with the segment net asset analysis.

2 Discontinued operations

The Group has closed CCD comprising Home Credit and Satsuma loans business during the year and in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' these businesses are now presented as discontinued operations.

The results from discontinued operations, which are included in the Group income statement, are set out below.

	2021 £m	2020 £m
Interest income (note 3)	68.0	192.4
Finance costs (note 4)	(12.1)	(9.7)
Net interest margin	55.9	182.7
Impairment (note 12)	(59.6)	(47.5)
Risk-adjusted net interest margin	(3.7)	135.2
Operating cost:		
– other	(91.8)	(210.1)
– exceptional items	(42.6)	(1.6)
Loss before taxation	(138.1)	(76.5)
Tax (charge)/credit (note 6)	(28.6)	30.1
Loss from discontinued operations	(166.7)	(46.4)
Basic loss per share (p)	(66.5)	(18.3)
Diluted loss per share (p)	(66.5)	(18.3)

2 Discontinued operations continued

During the year the discontinued operations used cash of £0.8m (2020: £3.5m) in respect of operating activities, generated £1.2m (2020: used £1.9m) in respect of investing activities and used £2.1m (2020: £1.2m) in respect of financing activities. Discontinued operations cash flows relating to exceptional items were £20.2m (2020: £2.1m) in respect of operating activities.

3 Revenue

Revenue is recognised by applying the effective interest rate (EIR) to the carrying value of a loan. The EIR is calculated at inception and represents the rate which exactly discounts the future contractual cash receipts from a loan to the amount of cash advanced under that loan, plus directly attributable issue costs (e.g. aggregator/broker fees). In addition, in vehicle finance, the EIR takes account of customers repaying early.

Fee income is recognised at the time the charges are made to the customer on the basis the performance obligation is complete.

	Group	
	2021 £m	2020 £m
Interest income	474.3	531.9
Fee income	60.3	83.5
Revenue – continuing operations	534.6	615.4
Revenue – discontinued operations (note 2)	68.0	192.4
Total revenue	602.6	807.8

Fee income predominantly relates to credit cards.

Interest income relates to the interest charges on credit cards, net of deferred acquisition costs, and vehicle finance conditional sale agreements. Fee income predominantly relates to credit cards and personal loans, and reflects default and over-limit fees as well as other ancillary income streams such as ROP fees. Interchange income is also recognised within credit cards and personal loans as part of fee income on an accruals basis. Fee income in 2021 represented 15% (2020: 17%) of credit cards and personal loans revenue.

4 Finance costs

	Group	
Interest payable on:	2021 £m	2020 £m
Retail deposits	24.4	33.4
Senior public and retail bonds	23.8	25.2
Bank borrowings	4.5	7.1
Securitisation	6.8	3.5
Private placement loan notes	–	0.4
Lease liabilities finance costs	1.7	1.9
Exceptional cost/(gain) in respect of the redemption of bonds (note 22)	3.9	(1.9)
Total finance costs	65.1	69.6
Finance costs – continuing operations	53.0	59.9
Finance costs – discontinued operations (note 2)	12.1	9.7

Discontinued finance costs included £0.3m (2020: £0.4m) in respect of lease liabilities.

Exceptional costs of £3.9m relate to the £71.5m tender of the 2018 five-year fixed-rate bond in October 2021 (see note 22(e)) following the Group's successful issuance of Tier 2 capital (see note 22(h)). In 2020 the exceptional gain of £1.9m relates to the tender and early redemption of £75m of the 2018 five-year fixed-rate bond in August 2020.

Discontinued finance costs included £nil (2020: £0.6m gain) in respect of exceptional costs.

5 Profit/(loss) before taxation

Profit/(loss) before taxation for continuing operations is stated after charging/(crediting):	Group 2021 £m	Group 2020 £m
Amortisation of other intangible assets:		
– computer software (note 18)	7.1	5.4
– acquisition intangibles (note 18)	7.5	7.5
Depreciation of property, plant and equipment (note 15)	3.4	4.6
Loss on disposal of property, plant and equipment (note 15)	0.1	0.4
Profit on disposal of intangibles (note 18)	(0.4)	–
Depreciation of right of use assets (note 16)	8.1	8.4
Lease liability finance costs (note 4)	1.4	1.5
Short-term lease costs (note 25)	–	0.1
Impairment of amounts receivable from customers (note 12)	50.4	312.6
Employment costs (prior to exceptional redundancy costs and pension costs/(credit) (note 10(b))	122.2	90.9
Exceptional items:		
Exceptional costs in relation to corporate costs including CCD closure	10.5	–
Exceptional CCD Scheme of Arrangement costs and provision (note 26)	5.0	65.0
Exceptional costs/(gain) in respect of the redemption of bonds (note 4)	3.9	(1.3)
Exceptional redundancy cost (note 10(b))	1.0	–
Exceptional pension (credit)/charges (note 20(a))	(2.3)	0.7
Exceptional release of provisions in respect of ROP refund programme (note 26)	–	(8.3)
Exceptional costs in respect of the new intermediate holding company (note 19)	–	1.2

All of the above activities relate to continuing activities.

Auditor's remuneration	Group 2021 £m	Group 2020 £m
Fees payable to the Company's auditor for the audit of Company and consolidated financial statements	0.4	0.4
Fees payable to the Company's auditor and its associates for other services:		
– audit of Company's subsidiaries pursuant to legislation	1.3	1.3
– other non-audit services	1.2	0.2
Total auditor's remuneration	2.9	1.9

The increase in non-audit fees from £0.2m in 2020 to £1.2m in 2021 was in relation to support with ongoing Group projects.

6 Tax charge

Tax charge/(credit) in the income statement	Group 2021 Continuing operations £m	Group 2021 Discontinued operations £m	Group 2021 Total £m	Group 2020 Continuing operations £m	Group 2020 Discontinued operations £m	Group 2020 Total £m
Current tax – UK	12.6	(3.3)	9.3	(3.5)	(7.2)	(10.7)
Deferred tax (note 21)						
– UK	–	31.9	31.9	6.0	(22.0)	(16.0)
– overseas	–	–	–	–	0.1	0.1
Impact of change in UK tax rate (note 21)	(5.0)	–	(5.0)	(2.5)	(1.0)	(3.5)
Total tax charge/(credit)	7.6	28.6	36.2	–	(30.1)	(30.1)

6 Tax charge continued

	2021						
	Continuing operations				Discontinued operations		
	Adjusted PBT £m	Exceptional items £m	Amortisation £m	Total £m	Adjusted PBT £m	Exceptional items £m	Total £m
Profit/(loss) on ordinary activities before tax	167.8	(18.1)	(7.5)	142.2	(95.5)	(42.6)	(138.1)
Profit/(loss) before tax multiplied by standard rate of corporation tax in the UK of 19%	31.8	(3.4)	(1.4)	27.0	(18.1)	(8.1)	(26.2)
Effect of:							
– impact of change of UK tax rate (note (a))	(5.8)	0.2	0.6	(5.0)	–	–	–
– impact of bank corporation tax surcharge (note (b))	12.3	(0.1)	–	12.2	–	–	–
– impact of lower tax rates overseas and overseas losses (note (c))	–	–	–	–	2.7	0.8	3.5
– write off of deferred tax assets (note (d))	(0.3)	–	–	(0.3)	23.4	–	23.4
– adjustments in respect of prior years (note (e))	0.5	–	–	0.5	0.5	–	0.5
– prior year adjustments related to transfer pricing and losses (note (f))	(7.8)	–	–	(7.8)	7.8	–	7.8
– non-deductible general expenses	0.1	0.4	–	0.5	0.1	–	0.1
– transfer pricing adjustments (note (g))	(0.6)	–	–	(0.6)	0.6	–	0.6
– discount on payment for losses of discontinued operations (note (h))	(6.5)	–	–	(6.5)	6.5	–	6.5
– benefit of capital losses offset against capital gain (note (i))	–	–	–	–	–	–	–
– reversal of exceptional complaints provision (note (j))	–	(12.4)	–	(12.4)	–	12.4	12.4
	23.7	(15.3)	(0.8)	7.6	23.5	5.1	28.6

	2020						
	Continuing operations				Discontinued operations		
	Adjusted PBT £m	Exceptional items £m	Amortisation £m	Total £m	Adjusted PBT £m	Exceptional items £m	Total £m
Profit/(loss) on ordinary activities before tax	27.8	(57.3)	(7.5)	(37.0)	(74.9)	(1.6)	(76.5)
Profit/(loss) before tax multiplied by standard rate of corporation tax in the UK of 19%	5.3	(10.9)	(1.4)	(7.0)	(14.2)	(0.4)	(14.6)
Effect of:							
– impact of change of UK tax rate (note (a))	(3.2)	–	0.7	(2.5)	(1.0)	–	(1.0)
– impact of bank corporation tax surcharge (note (b))	1.4	0.7	–	2.1	–	–	–
– impact of lower tax rates overseas and overseas losses (note (c))	–	–	–	–	1.8	–	1.8
– write off of deferred tax assets (note (d))	0.7	–	–	0.7	0.3	–	0.3
– adjustments in respect of prior years (note (e))	(7.7)	–	–	(7.7)	0.2	–	0.2
– prior year adjustments related to transfer pricing and losses (note (f))	–	–	–	–	–	–	–
– non-deductible general expenses	(0.7)	0.3	–	(0.4)	–	–	–
– transfer pricing adjustments (note (g))	4.4	–	–	4.4	(4.4)	–	(4.4)
– discount on payment for losses of discontinued operation (note (h))	–	–	–	–	–	–	–
– benefit of capital losses offset against capital gain (note (i))	(0.9)	–	–	(0.9)	–	–	–
– utilisation of losses not recognised for deferred tax (note (i))	(1.1)	–	–	(1.1)	–	–	–
– exceptional complaints provision (note (j))	–	12.4	–	12.4	–	(12.4)	(12.4)
	(1.8)	2.5	(0.7)	–	(17.3)	(12.8)	(30.1)

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6 Tax charge continued

(a) Impact of change of UK tax rate

In 2016, changes in corporation tax rates were enacted which reduced the mainstream corporation tax rate to 17% with effect from 1 April 2020. Prior to 1 April 2020, the mainstream corporation tax rate was 19%. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate remained at 19% for 2020. During 2021, a further change was enacted to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023.

Deferred tax balances at 31 December 2019 were measured at 17% and, in the case of credit cards and personal loans, at the combined mainstream corporation tax rate (17%) and the bank corporation tax surcharge rate (8%) of 25% to the extent that the temporary differences on which the deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances were remeasured at 19% and, in the case of credit cards and personal loans, at the combined mainstream corporation tax (19%) and bank corporation tax surcharge rates (8%) of 27%, as were movements in the deferred tax balances during the year.

At 31 December 2021, the deferred tax balances have been remeasured at 25% (2020: 19%) and, in the case of credit cards and personal loans, at the combined mainstream corporation tax (25%) and bank corporation tax surcharge rates (8%) of 33% (2020: 27%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse, or the tax loss is expected to be utilised, after 1 April 2023. A tax credit of £5.0m (2020: credit of £3.5m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £6.4m (2020: charge of £1.7m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income. Of the tax credit of £5.0m (2020: credit of £3.5m) taken to the income statement, £5.0m related to continuing operations (2020: £2.5m) and £nil (2020: £1.0m) to discontinued operations.

There is no impact in 2021 on discontinued operations from the change in tax rates as no deferred tax balances are recognised in discontinued operations at 31 December 2021.

(b) Impact of bank corporation tax surcharge

The adverse impact of the bank corporation tax surcharge amounts to £12.2m (2020: £2.1m) and represents tax at the bank corporation tax surcharge rate of 8% on credit cards and personal loans taxable profits in excess of £25m where taxable profits are calculated ignoring the benefit of losses elsewhere in the Group, including capital losses.

The only entity subject to bank corporation tax surcharge in the Group is Vanquis Bank Limited which sits within continuing operations.

(c) Impact of lower tax rates overseas and overseas losses

Prior to its closure in 2021, the home credit business in the Republic of Ireland was subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2020: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19% (2020: 19%). In 2021, the home credit business in the Republic of Ireland made a loss (2020: loss) which can only be relieved against future profits of the business in the Republic of Ireland at the 12.5% statutory rate rather than the 19% UK statutory tax rate. In light of the closure of the business, no deferred tax asset has been recognised in respect of this loss giving rise to a total adverse impact on the Group tax charge of £3.5m (2020: £1.8m), all of which relates to discontinued operations.

(d) Write off of deferred tax assets

Deferred tax assets written off comprise (a) £23.6m of deferred tax assets related to discontinued operations for which future tax relief is unlikely to be available following the closure of the business; net of (b) a deferred tax credit of £0.5m (2020: deferred tax charge of £1.0m) related to the deferred tax asset in respect of share scheme awards which had previously been written off on the basis that future deductions were expected to be lower than previously anticipated. Of the £0.5m deferred tax credit (2020: deferred tax charge of £1.0m), £0.3m (2020: deferred tax charge of £0.7m) relates to continuing operations and £0.2m (2020: deferred tax charge of £0.3m) relates to discontinued operations. The £23.6m deferred tax assets related to discontinued operations which have been written off in 2021 (2020: £nil) relate to tax losses carried forward and other temporary differences for which, following the closure of the business, it is considered unlikely that future tax relief will be available.

(e) Adjustments in respect of prior years

The £1.0m tax charge in respect of prior years (2020: tax credit of £7.5m) primarily comprises adjustments related to prior year deferred tax on share scheme awards and the impact of resolving historical tax liabilities, of which a £0.5m charge (2020: charge of £0.2m) relates to discontinued operations and a £0.5m charge (2020: credit of £7.7m) relates to continuing operations.

In 2020, the £7.5m credit in respect of prior years primarily relates to continuing operations and represents the benefit of claiming deductions for the costs incurred in 2019 in connection with the defence of the unsolicited offer from NSF, for which no tax deduction was assumed in the prior year, along with a release of part of the provision for uncertain tax liabilities net of other prior year adjustments.

(f) Prior year adjustments related to transfer pricing and losses

This comprises a £7.8m charge (2020: £nil) related to discontinued operations net of a £7.8m credit (2020: £nil) related to continuing operations and relates to transfer pricing adjustments between the continuing operations and discontinued operations in prior years, as well as adjustments related to prior year tax losses of the discontinued operation which have been surrendered as group relief to the continuing operation and which the continuing operation has paid for at a discounted price. They have a £nil (2020: £nil) overall impact on the tax charge.

(g) Transfer pricing adjustments

These comprise a £0.6m credit (2020: charge of £4.4m) related to continuing operations and a £0.6m charge (2020: £4.4m credit) related to discontinued operations, and represent the impact of transfer pricing adjustments between the profits of continuing and discontinued operations. They have a £nil (2020: £nil) overall impact on the tax charge.

(h) Discount on payment for losses of discontinued operations

These comprise a credit of £6.5m (2020: £nil) related to continuing operations and a £6.5m charge (2020: £nil) related to discontinued operations, and relate to tax losses of the discontinued operations which have been surrendered as group relief to the continuing operations and which the continuing operations have paid for at a discounted price. The overall impact on the tax charge is £nil (2020: £nil).

6 Tax charge continued

(i) Benefit of capital losses offset against capital gain and utilisation of losses not recognised for deferred tax

The conversion and subsequent sale of part of the preferred stock in Visa Inc during 2020 gave rise to a capital gain which was offset partly by: (i) in-year capital losses which give rise to a beneficial impact on the tax charge of £0.9m; and (ii) brought forward capital losses in respect of which a deferred tax asset was not previously recognised, which gave rise to a beneficial impact on the tax charge of £1.1m.

(j) Exceptional complaints provision

In 2020, the exceptional complaints provision which was booked in CCD gave rise to a tax credit in CCD of £12.4m. As the exceptional complaints provision has been recognised as part of continuing rather than discontinued operations, this gives rise to a tax reconciling difference of £12.4m between continuing and discontinued operations.

In 2021, the release of the exceptional complaints provision in CCD following the implementation of the Scheme of Arrangement gives rise to a tax charge in CCD of £12.4m. As the release of the provision has been recognised as part of continuing rather than discontinued operations, this gives rise to a similar tax reconciling difference in 2021 of £12.4m between continuing and discontinued operations.

These adjustments have a nil (2020: nil) overall impact on the tax charge.

In 2021, a tax deduction has been claimed for the £70m costs of the Scheme of Arrangement incurred by Provident Financial plc which have also been recognised as part of continuing operations.

Tax on exceptional items

The tax credit in respect of exceptional items amounts to £10.2m (2020: tax credit of £10.3m) and comprises a £15.3m credit (2020: charge of £2.5m) relating to continuing operations and a £5.1m charge (2020: £12.8m credit) relating to discontinued operations.

In 2021:

- The £15.3m tax credit relating to continuing operations represents: (i) a tax credit in respect of all exceptional costs of the continuing operation with the exception of certain project costs for which it is considered tax deductions may not be available; and (ii) the tax reconciling difference between continuing and discontinued operations referred to in note (j) above.
- The £5.1m tax charge relating to discontinued operations represents the tax reconciling difference between continuing and discontinued operations referred to in note (j) above net of a tax credit for the exceptional closure costs of the discontinued operations with the exception of those costs related to the Irish branch, for which no effective tax relief is available.

In 2020:

- The £2.5m tax charge relating to continuing operations represents: (i) a tax charge of £2.3m, being tax at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27% in respect of the £8.3m exceptional release of the provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally; and (ii) a tax charge of £0.2m, being tax on the exceptional net gain on the bond buyback net of a tax credit on the GMP pensions equalisation charge and exceptional restructuring costs.
- The £12.8m credit relating to discontinued operations represents a tax credit of £12.4m in respect of the exceptional provision for customer claims and associated costs which have been booked in CCD and a tax credit of £0.4m in respect of exceptional restructuring costs in CCD.

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

	Group	
Tax (charge)/credit on items taken directly to other comprehensive income	2021 £m	2020 £m
Deferred tax credit/(charge) on fair value movement in investment	1.4	(1.0)
Deferred tax credit on disposal of investment	–	2.0
Current tax charge on disposal of investment	–	(2.0)
Deferred tax (charge)/credit on actuarial movements on retirement benefit asset	(5.2)	0.3
Tax charge on items taken directly to other comprehensive income prior to impact of change in UK tax rate	(3.8)	(0.7)
Impact of change in UK tax rate	(6.4)	(1.7)
Total tax charge on items taken directly to other comprehensive income	(10.2)	(2.4)

The tax (charge)/credit on items taken directly to other comprehensive income relates entirely to continuing operations.

During 2020, Vanquis Bank Limited converted and subsequently sold its holding in the 'A' preference shares in Visa Inc which gave rise to a capital gain. In 2020, the £1.0m deferred tax charge recognised in other comprehensive income represents deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rate of 27% on the movement in the valuation of the 'B' preference shares in Visa Inc which were retained, as well as the movement in the valuation of the 'A' preference shares in Visa Inc up to the point of conversion and sale. The conversion and sale of the 'A' preference shares in Visa Inc in 2020 resulted in a deferred tax credit of £2.0m in other comprehensive income which represents the reversal of the £2.0m deferred tax charge in respect of the valuation of the company's shareholding in the 'A' preference shares in Visa Inc that had been recognised in other comprehensive income, and a current tax charge of £2.0m, representing tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 27% on the cumulative fair value gain on the disposed shares which had been recognised in other comprehensive income. In 2021, the £1.4m deferred tax credit represents the reversal of the deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates on the cumulative movement in the valuation of the 'B' preference shares in Visa Inc which has previously been recognised in other comprehensive income and is now being recognised in the income statement, with the shares now recognised at fair value through profit and loss rather than previously at fair value through other comprehensive income.

7 Earnings/(loss) per share

Basic earnings/(loss) (E/LPS) per share is calculated by dividing the profit/(loss) for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year less the number of shares held by the Employee Benefit Trust which are used to satisfy the share awards such as DBP, PSP, LTIS, RSP and CSOP.

Diluted E/LPS calculates the effect on E/LPS assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

(i) For share awards outstanding under performance-related share incentive schemes such as the Deferred Bonus Plan (DBP) (previously the Performance Share Plan (PSP)), the Long Term Incentive Scheme (LTIS), the Restricted Share Plan (RSP), and the Company Share Option Plan (CSOP), the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met as at that date.

(ii) For share options outstanding under non-performance-related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares. The Group also presents an adjusted EPS, prior to the amortisation of acquisition intangibles and exceptional items.

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share.

Reconciliations of basic and diluted E/LPS for continuing operations and the Group are set out below:

	2021			2020		
Continuing operations	Earnings £m	Weighted average number of shares m	Per share amount pence	Loss £m	Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	134.6	250.7	53.7	(37.0)	253.6	(14.6)
Dilutive effect of share options and awards	–	1.3	(0.3)	–	–	–
Diluted earnings/(loss) per share	134.6	252.0	53.4	(37.0)	253.6	(14.6)

	2021			2020		
Group	Loss £m	Weighted average number of shares m	Per share amount pence	Loss £m	Weighted average number of shares m	Per share amount pence
Basic loss per share	(32.1)	250.7	(12.8)	(83.4)	253.6	(32.9)
Dilutive effect of share options and awards	–	–	–	–	–	–
Diluted loss per share	(32.1)	250.7	(12.8)	(83.4)	253.6	(32.9)

The directors have elected to show an adjusted earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of vehicle finance in August 2014 (see note 18) and prior to exceptional items (see note 1). This is presented to show the earnings per share generated by the Group's continuing operations. A reconciliation of continuing and Group basic/diluted earnings/(loss) per share to adjusted basic and diluted earnings/(loss) per share is as follows:

	2021			2020		
Continuing operations	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	134.6	250.7	53.7	(37.0)	253.6	(14.6)
Amortisation of acquisition intangibles, net of tax	6.7	–	2.7	6.8	–	2.7
Exceptional items, net of tax	2.8	–	1.1	59.8	–	23.6
Adjusted basic earnings per share	144.1	250.7	57.5	29.6	253.6	11.7
Diluted earnings/(loss) per share	134.6	252.0	53.4	(37.0)	254.2	(14.6)
Amortisation of acquisition intangibles, net of tax	6.7	–	2.7	6.8	–	2.7
Exceptional items, net of tax	2.8	–	1.1	59.8	–	23.6
Adjusted diluted earnings per share	144.1	252.0	57.2	29.6	254.2	11.7

7 Earnings/(loss) per share continued

Group	2021 Earnings £m	2021 Weighted average number of shares m	2021 Per share amount pence	2020 Loss £m	2020 Weighted average number of shares m	2020 Per share amount pence
Basic loss per share	(32.1)	250.7	(12.8)	(83.4)	253.6	(32.9)
Amortisation of acquisition intangibles, net of tax	6.7	–	2.7	6.8	–	2.7
Exceptional items, net of tax	50.5	–	20.1	48.6	–	19.2
Adjusted basic earnings/(loss) per share	25.1	250.7	10.0	(28.0)	253.6	(11.0)
Diluted loss per share	(32.1)	252.0	(12.7)	(83.4)	253.6	(32.9)
Amortisation of acquisition intangibles, net of tax	6.7	–	2.7	6.8	–	2.7
Exceptional items, net of tax	50.5	–	20.0	48.6	–	19.2
Adjusted diluted earnings/(loss) per share	25.1	252.0	10.0	(28.0)	253.6	(11.0)

8 Dividends

There have been no dividends paid in the current or prior years.

The directors are recommending an interim dividend in respect of the financial year ended 31 December 2021 of 12p per share which will amount to an estimated dividend of £30m. This dividend will be paid on 20 May 2022 to shareholders who were on the register of members at 22 April with an ex-dividend date of 21 April 2022.

Going forwards, the Group anticipates moving towards a pay-out ratio of adjusted earnings of circa 40% from FY'22 onwards.

9 Directors' remuneration

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	Group and Company 2021 £m	Group and Company 2020 £m
Short-term employee benefits	2.6	2.9
Share-based payment charge	1.0	0.5
Total directors' remuneration	3.6	3.4

Short-term employee benefits comprise salary/fees, bonus, benefits earned in the year and pension salary supplements for executive directors.

The share-based payment charge reflects the expected vesting of the Group's share-based incentives.

10 Employee information

(a) Average monthly number of employees in the Group:

	2021 Credit cards and personal loans	2021 Vehicle finance	2021 Central	2021 CCD	2021 Group	2020 Credit cards and personal loans	2020 Vehicle finance	2020 Central	2020 CCD	2020 Group
Full time	1,312	363	132	1,232	3,039	1,328	317	75	2,335	4,055
Part time	179	49	13	114	355	177	43	12	257	489
Total	1,491	412	145	1,346	3,394	1,505	360	87	2,592	4,544
Total – continuing operations	1,491	412	145	–	2,048	1,505	360	87	–	1,952
Total – discontinued operations	–	–	–	1,346	1,346	–	–	–	2,592	2,592

Employees comprise all head office and contact centre employees within credit cards, personal loans and vehicle finance. Central employees represent corporate office employees and executive and non-executive directors employed by the Company. Discontinued operations includes employees who are part of the CCD operation. Central employees have increased by 67% largely to support the Group's transformation programme.

10 Employee information continued
(b) Employment costs

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Aggregate gross wages and salaries paid to the Group's employees	103.1	79.4	17.5	13.3
Employer's National Insurance contributions	11.3	8.4	2.4	1.7
Pension charge/(credit), prior to exceptional pension (credit)/cost	5.3	2.3	(0.7)	(3.2)
Share-based payment charge (note 29)	2.5	0.8	1.7	0.7
Total employment cost prior to exceptional costs	122.2	90.9	20.9	12.5
Exceptional redundancy cost	1.0	–	–	–
Exceptional pension (credit)/cost (note 20)	(2.3)	0.7	(2.3)	0.7
Total employment costs – continuing operations	120.9	91.6	18.6	13.2
Employment costs – discontinued operations	85.0	106.3	–	–
Total employment costs	205.9	197.9	18.6	13.2

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan and contributions to personal pension arrangements. The £0.7m credit (2020: £3.2m) in the Company for the pension charge represents contributions received from the subsidiaries in relation to the defined benefit schemes, partly offset by the charge in relation to the defined contribution schemes.

The increase in the share-based payment charge from a £0.8m charge in 2020 to a £2.5m charge in 2021 primarily reflects the higher RSP scheme costs in the year. The share-based payment charge of £2.5m (2020: £0.8m) relates to equity-settled scheme charges of £3.0m (2020: £1.4m) and a cash-settled scheme credit of £0.5m (2020: £0.6m). The share-based payment charge of £0.8m (2020: £0.9m) relates to equity-settled schemes in respect of discontinued operations.

The redundancy cost of £1.0m (2020: £nil) relates to Vanquis Bank Limited.

11 Cash and cash equivalents

Cash and cash equivalents includes cash at bank and held in short-term deposits and Vanquis Bank Limited's liquid assets buffer, including other liquid resources. In 2020 cash also included floats held by CEMs within CCD.

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Central bank reserves	414.8	833.3	–	–
Cash at bank	306.2	87.7	206.6	59.1
Cash in hand	(3.3)	(1.3)	–	–
Total cash and cash equivalents	717.7	919.7	206.6	59.1

In addition to cash and cash equivalents, the Group had £3.6m of bank overdrafts at 31 December 2021 (2020: £1.4m) and the Company had £nil bank overdrafts (2020: £nil), both of which are disclosed within bank and other borrowings (see note 22).

All cash and cash equivalents is held with investment grade rated banks.

Vanquis Bank Limited's total liquid assets buffer is held in the Bank of England Central reserve account and amounted to £414.8m (2020: £833.3m). As at 31 December 2021, £268.3m (2020: £691.9m) of the buffer was available to finance Vanquis Bank Limited's day-to-day operations.

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

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Sterling	716.3	919.0	205.2	58.5
Euro	1.4	0.7	1.4	0.6
Total cash and cash equivalents	717.7	919.7	206.6	59.1

Cash and cash equivalents are non-interest bearing other than in respect of the cash held on deposit and the amounts held by Vanquis Bank Limited as a liquid assets buffer and other liquid resources which bear interest at rates linked to the Bank of England base rate.

12 Amounts receivable from customers

	2021			2020		
	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
Credit cards and personal loans	1,083.1	8.4	1,091.5	1,092.7	1.5	1,094.2
Vehicle finance	168.5	417.7	586.2	174.8	391.8	566.6
Total – continuing operations	1,251.6	426.1	1,677.7	1,267.5	393.3	1,660.8
CCD – discontinued operations	–	–	–	126.5	12.5	139.0
Total reported amounts receivable from customers	1,251.6	426.1	1,677.7	1,394.0	405.8	1,799.8

Credit cards and personal loans receivables comprise £1,063.4m (2020: £1,075.1m) in respect of credit cards and £28.1m (2020: £19.1m) in respect of personal loans.

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

	2021				2020			
Group	Credit cards and personal loans £m	Vehicle finance £m	CCD £m	Group £m	Credit cards and personal loans £m	Vehicle finance £m	CCD £m	Group £m
Gross amounts receivable from customers	1,450.9	841.7	–	2,292.6	1,568.4	765.3	454.2	2,787.9
Allowance account	(359.4)	(255.5)	–	(614.9)	(474.2)	(198.7)	(315.2)	(988.1)
Reported amounts receivable from customers	1,091.5	586.2	–	1,677.7	1,094.2	566.6	139.0	1,799.8

12 Amounts receivable from customers continued

Amounts receivable from customers for credit cards and personal loans can be reconciled as follows:

Credit cards and personal loans	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
Gross carrying amount								
At 1 January	1,044.5	188.3	335.6	1,568.4	1,367.9	171.6	363.6	1,903.1
New financial assets originated and new drawdowns	2,003.1	81.3	34.6	2,119.0	1,931.7	47.5	31.6	2,010.8
Net transfers and changes in credit risk:								
– from stage 1 to stage 2	(835.2)	835.2	–	–	(664.7)	664.7	–	–
– from stage 1 to stage 3	(51.8)	–	51.8	–	(127.5)	–	127.5	–
– from stage 2 to stage 1	545.0	(545.0)	–	–	412.9	(412.9)	–	–
– from stage 2 to stage 3	–	(121.8)	121.8	–	–	(224.9)	224.9	–
– from stage 3 to stage 1	63.5	–	(63.5)	–	46.0	–	(46.0)	–
– from stage 3 to stage 2	–	24.9	(24.9)	–	–	23.8	(23.8)	–
Write offs	(11.2)	(11.1)	(159.7)	(182.0)	(12.2)	(13.4)	(253.1)	(278.7)
Recoveries	(2,171.3)	(176.1)	(127.9)	(2,475.3)	(2,334.5)	(127.0)	(115.3)	(2,576.8)
Revenue	321.5	60.4	14.8	396.7	418.3	56.4	6.7	481.4
Other movements	5.6	6.6	11.9	24.1	6.6	2.5	19.5	28.6
At 31 December	913.7	342.7	194.5	1,450.9	1,044.5	188.3	335.6	1,568.4
Allowance account								
At 1 January	170.0	90.2	214.0	474.2	146.6	85.2	209.8	441.6
Movements through income statement:								
– drawdowns and net transfers and changes in credit risk:								
– from stage 1 to stage 2	(157.5)	331.1	–	173.6	(137.3)	334.5	–	197.2
– from stage 1 to stage 3	(9.9)	–	24.3	14.4	(20.7)	–	62.8	42.1
– from stage 2 to stage 1	122.2	(248.3)	–	(126.1)	95.5	(212.5)	–	(117.0)
– from stage 2 to stage 3	–	(80.3)	93.0	12.7	–	(153.2)	167.5	14.3
– from stage 3 to stage 1	6.3	–	(9.4)	(3.1)	3.4	–	(7.1)	(3.7)
– from stage 3 to stage 2	–	6.5	(3.8)	2.7	–	2.3	(1.6)	0.7
– other movements	(18.1)	13.4	(63.7)	(68.4)	93.6	46.1	(33.4)	106.3
Total movements through income statement	(57.0)	22.4	40.4	5.8	34.5	17.2	188.2	239.9
Other movements:								
– write offs	(11.2)	(11.1)	(159.7)	(182.0)	(12.2)	(13.4)	(253.1)	(278.7)
– amounts recovered	1.4	1.4	58.6	61.4	1.1	1.2	69.1	71.4
Allowance account at 31 December	103.2	102.9	153.3	359.4	170.0	90.2	214.0	474.2
Reported amounts receivable from customers at 31 December	810.5	239.8	41.2	1,091.5	874.5	98.1	121.6	1,094.2
Reported amounts receivable from customers at 1 January	874.5	98.1	121.6	1,094.2	1,221.3	86.4	153.8	1,461.5

Credit card and personal loans refined their IFRS 9 models during the year, further details can be found on page 204.

Write offs have reduced significantly in 2021 due to: (i) tightened underwriting of new customer bookings as a result of Covid-19; (ii) lower new customer bookings; and (iii) a higher number of accounts remaining up to date due to payment holidays and government support. The allowance accounts also include the macroeconomic provision which takes account of the expected changes in unemployment under a range of unemployment forecasts.

Other movements through income statement include movements from risk level changes that do not result in staging movements, charged off accounts, exited accounts and debt sales.

As at 31 December unutilised credit card commitments were £1,229.3m (2020: £1,180.6m).

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £1.7m (2020: £3.3m) based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

12 Amounts receivable from customers continued

A breakdown of the in-model and post-model adjustments for credit cards and personal loans is shown below:

	2021 £m	2020 £m
Core model	303.7	403.4
In-model adjustments	27.9	59.6
Post-model adjustments	27.8	11.2
Total allowance account	359.4	474.2

Description	2021 £m	2020 £m
In-model overlays:		
Covid-19 overlay for cards (note (a))	27.9	59.6
Total in-model overlays	27.9	59.6
Post-model overlays:		
Affordability (note (b))	5.0	–
Covid-19 overlay for personal loans (note (c))	1.7	3.3
Persistent debt (note (d))	5.8	9.1
Cost of living (note (e))	7.8	–
Recoveries (note (f))	7.4	–
Other	0.1	(1.2)
Total post-model overlays	27.8	11.2
Total overlays	55.7	70.8

(a) Impact of Covid-19

The impact of Covid-19 has significantly influenced credit card ECL. The core IFRS 9 models utilise a scorecard approach to calculating a 12-month PD and the relationships between the established drivers of default risk found in the PD scorecards; the 12-month PD may be distorted during Covid-19. This potential distortion could be caused by external government support initiatives or the natural lag that is apparent when risk profiles change. Accordingly, a utilisation adjustment is made to the probability of default models:

– An in-model adjustment was made to account for the impact of lower utilisation of credit cards due to Covid-19. The introduction of numerous lockdowns during 2020 and 2021, alongside travel bans, has meant that customer spending since March 2020 has put additional pressure on declining utilisation trends. The model is built using pre-Covid-19 data and utilisation is a key driver of the 12-month PD. Accordingly, reduced utilisation throughout Covid-19 has meant that the 12-month PD estimates produced by the existing models have reduced. However, the underlying risk profile of these customers has not fundamentally changed.

(b) Affordability

An additional IFRS 9 impairment provision has been created to cover the principal balance of those customers impacted by risk events which may need to be written off. These risk events arose from minor temporary data misalignment instances impacting a small number of accounts which have now been remediated.

(c) Covid-19 overlay for personal loans

In December 2020, a post-model adjustment for the payment holiday population and any future take-up of payment holidays expected in the personal loans portfolio was held, as these customers will exhibit greater losses than indicated based on the historical experience within the core model. However, this is no longer applicable for December 2021 as payment holidays have ceased. An increased PD for up-to-date accounts was applied as a result of more accounts being expected to fall into default after the removal of the government support scheme has been maintained for December 2021.

(d) Persistent debt

A post-model adjustment was calculated to refine ECL for those customers who have entered PD36. These customers have been split into two categories: those who have responded to communications and agreed to pay down their outstanding balance; and those who are making minimum payments but have not responded to communications. The core model does not consider this refinement and therefore a post-model overlay is required.

(e) Cost of living

In light of rising inflation and higher energy costs, an additional provision is required for the expected rise in cost of living which may impact customers ability to make repayments.

(f) Recoveries

A post-model adjustment was created in 2021 to account for an estimated reduction in recoveries for debt sold to debt collection agencies.

12 Amounts receivable from customers continued

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

Credit cards and personal loans	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
Good	789.5	270.5	–	1,060.0	937.6	89.5	–	1,027.1
Satisfactory	124.2	72.2	–	196.4	106.9	98.8	–	205.7
Lower quality	–	–	194.5	194.5	–	–	335.6	335.6
Total	913.7	342.7	194.5	1,450.9	1,044.5	188.3	335.6	1,568.4

Low quality receivables relate to defaulted accounts and are therefore assigned as stage 3. Satisfactory receivables consist of accounts that are above a prescribed PD cut off, dependent on the customer's credit score. High quality receivables consist of accounts that are below a prescribed PD cut off, dependent on the customer's credit score.

Amounts receivable from customers for vehicle finance can be reconciled as follows:

Vehicle finance	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3[2] £m	2020 Total[2] £m
Gross carrying amount								
At 1 January	443.8	100.1	221.4	765.3	335.4	131.0	120.4	586.8
New financial assets originated	272.8	–	–	272.8	286.5	–	–	286.5
Transfers due to changes in credit risk:								
– from stage 1 to stage 2	(108.2)	108.2	–	–	(69.2)	69.2	–	–
– from stage 1 to stage 3	(156.1)	–	156.1	–	(52.5)	–	52.5	–
– from stage 2 to stage 1	2.8	(2.8)	–	–	21.0	(21.0)	–	–
– from stage 2 to stage 3	–	(73.8)	73.8	–	–	(56.0)	56.0	–
– from stage 3 to stage 1	0.1	–	(0.1)	–	1.7	–	(1.7)	–
– from stage 3 to stage 2	–	0.5	(0.5)	–	–	4.8	(4.8)	–
Write offs	(0.3)	(0.7)	(15.6)	(16.6)	–	–	(1.0)	(1.0)
Recoveries	(199.6)	(47.3)	(103.7)	(350.6)	(171.4)	(47.0)	(44.4)	(262.8)
Revenue[1]	93.7	27.6	46.3	167.6	91.6	29.2	41.9	162.7
Other changes	1.2	1.1	0.9	3.2	0.7	(10.1)	2.5	(6.9)
At 31 December	350.2	112.9	378.6	841.7	443.8	100.1	221.4	765.3
Allowance account								
At 1 January	21.8	17.9	159.0	198.7	9.5	12.4	75.8	97.7
Movements through income statement:								
– new financial assets originated	39.1	–	–	39.1	10.0	–	–	10.0
– transfers due to changes in credit risk:								
– from stage 1 to stage 2	(12.7)	15.0	–	2.3	(1.3)	6.4	–	5.1
– from stage 1 to stage 3	(23.5)	–	46.8	23.3	(1.1)	–	13.4	12.3
– from stage 2 to stage 1	0.1	(0.4)	–	(0.3)	0.7	(3.1)	–	(2.4)
– from stage 2 to stage 3	–	(12.5)	23.6	11.1	–	(9.6)	21.5	11.9
– from stage 3 to stage 1	–	–	(0.1)	(0.1)	–	–	(0.4)	(0.4)
– from stage 3 to stage 2	–	–	(0.2)	(0.2)	–	0.6	(1.3)	(0.7)
– remeasurements within existing stage	(10.2)	(3.5)	(23.2)	(36.9)	4.0	11.2	22.7	37.9
– other changes	–	–	6.3	6.3	–	–	(1.0)	(1.0)
Total amount recorded in impairment charges	(7.2)	(1.4)	53.2	44.6	12.3	5.5	54.9	72.7
Amounts netted off against revenue for stage 3 assets	–	–	29.7	29.7	–	–	28.7	28.7
Other movements:								
– write offs	(0.3)	(0.7)	(15.6)	(16.6)	–	–	–	–
– other changes	–	–	(0.9)	(0.9)	–	–	(0.4)	(0.4)
Allowance account at 31 December	14.3	15.8	225.4	255.5	21.8	17.9	159.0	198.7
Reported amounts receivable from customers at 31 December	335.9	97.1	153.2	586.2	422.0	82.2	62.4	566.6
Reported amounts receivable from customers at 1 January	422.0	82.2	62.4	566.6	325.9	118.6	44.6	489.1

1 In the income statement vehicle finance revenue is £137.9m (2020: £134.0m) is reported net of the impairment charge for stage 3 assets of £29.7m (2020: £28.7m).
2 Gross loan receivables and provisions for expected credit losses were unintentionally reduced by equal amounts of £30.9m in 2020 to reflect the net revenue recognition for loans in stage 3. Comparatives included in note 12 have been amended to remove this adjustment as part of Moneybarn's implementation of new IFRS 9 models. This prior period adjustment has no impact on the Group's primary statements.

12 Amounts receivable from customers continued

Moneybarn refined its IFRS 9 models during the year, further details can be found on page 204.

Including within vehicle finance receivables is £2.9m in relation to receivables classified as purchased or originated as credit impaired under IFRS 9.

Vehicles are held as collateral against a vehicle finance conditional sale agreement until it is repaid in full. The impact of holding the collateral of £494.7m (2020: £423.6m) on the allowance account as at 31 December 2021 was £85.8m (2020: £76.4m), representing 84% (2020: 76%) of the balance.

Vehicle finance gross receivables are stated net of unearned finance income of £322.4m (2020: £335.8m).

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £0.4m (2020: £0.6m) based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

A breakdown of the in-model and post-model adjustments for vehicle finance is shown below:

	2021 £m	2020[2] £m
Core model	257.5	165.7
In-model adjustments	–	13.1
Post-model adjustments	(2.0)	19.9
Total allowance account	255.5	198.7

Description	2021 £m	2020 £m
In-model overlays:		
Definition of default (note (a))	–	13.1
Total in-model overlays	–	13.1
Post-model overlays:		
Macroeconomic assumption (note (b))	–	6.6
FCA moratorium (note (c))	–	13.3
Fraud (note (d))	(2.0)	–
Total post-model overlays	(2.0)	19.9
Total overlays	(2.0)	33.0

(a) Definition of default
Following the scheduled review of the IFRS 9 model in late 2020, it was determined that the previous definition of default of 'termination of the vehicle contract' did not meet the requirements of IFRS 9. Loans in IFRS 9 stage 2 were identified to have been greater than 90 days past due, despite it being inappropriate to rebut the 90-day backstop presumption included within IFRS 9. The change in the point of default from termination to three missed payments (90 days) for this cohort of customers resulted in this in-model adjustment in 2020.

The models were updated during 2021 and this is now part of the core model provision.

(b) Macroeconomic assumptions
A post-model macroeconomic provision was in place to reflect an increased PD and LGD, in addition to the core impairment provisions already recognised, based on future macroeconomic scenarios. The provision reflected the potential for future changes in unemployment under a range of unemployment forecasts that are not included in the underlying models. Following refinements to the model during 2021 this is now part of the core model provision.

(c) FCA moratorium
The FCA moratorium initiated in response to Covid-19 temporarily restricted Moneybarn from terminating customer contracts and recovering the vehicle from a customer where a default termination would ordinarily have occurred. This led to c.12k contracts which could not be terminated at the end of 2020. This post-model adjustment was designed to recalibrate modelled LGDs, to reflect the inability to maximise recoveries, and was calculated using observed termination experience. This overlay was no longer required in 2021.

(d) Fraud
The fraud overlay represents a small cohort of live accounts that have been identified as fraud customers.

12 Amounts receivable from customers continued

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

	2021				2020			
Vehicle finance	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3[2] £m	Total £m
Good	113.6	35.1	33.0	181.7	106.5	11.2	11.8	129.5
Satisfactory	224.6	71.2	258.6	554.4	305.9	71.8	139.0	516.7
Lower quality	12.0	6.5	83.9	102.4	31.0	16.8	67.6	115.4
Below standard	–	0.1	3.1	3.2	0.4	0.3	3.0	3.7
Total	350.2	112.9	378.6	841.7	443.8	100.1	221.4	765.3

Internal credit risk rating is based on the internal credit score of a customer at inception of the loan.

	2021				2020			
CCD – discontinued operations	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount								
At 1 January	76.9	17.9	359.4	454.2	155.9	36.0	402.0	593.9
New financial assets originated	13.8	0.3	–	14.1	160.7	3.4	–	164.1
Transfers due to changes in credit risk:								
– from stage 1 to stage 2	(8.3)	8.3	–	–	(13.0)	13.0	–	–
– from stage 1 to stage 3	(16.9)	–	16.9	–	(58.2)	–	58.2	–
– from stage 2 to stage 1	1.4	(1.4)	–	–	3.5	(3.5)	–	–
– from stage 2 to stage 3	–	(15.0)	15.0	–	–	(18.9)	18.9	–
– from stage 3 to stage 1	0.5	–	(0.5)	–	3.2	–	(3.2)	–
– from stage 3 to stage 2	–	2.9	(2.9)	–	–	3.7	(3.7)	–
Write offs	(8.1)	(6.7)	(360.1)	(374.9)	(0.2)	(0.3)	(80.5)	(81.0)
Recoveries	(102.4)	(17.2)	(41.0)	(160.6)	(299.3)	(41.5)	(76.9)	(417.7)
Revenue	43.3	10.9	13.8	68.0	123.4	25.7	42.2	191.3
Other movements	(0.2)	–	(0.6)	(0.8)	0.9	0.3	2.4	3.6
At 31 December	–	–	–	–	76.9	17.9	359.4	454.2
Allowance account								
At 1 January	5.7	3.8	305.7	315.2	10.4	10.1	324.4	344.9
Movements through income statement:								
– new financial assets originated	0.5	–	–	0.5	7.6	0.5	–	8.1
– transfers due to changes in credit risk:								
– from stage 1 to stage 2	(2.1)	2.1	–	–	(0.6)	0.6	–	–
– from stage 1 to stage 3	(4.2)	–	4.2	–	(2.9)	–	2.9	–
– from stage 2 to stage 1	0.6	(0.6)	–	–	0.5	(0.5)	–	–
– from stage 2 to stage 3	–	(6.9)	6.9	–	–	(5.9)	5.9	–
– from stage 3 to stage 1	0.4	–	(0.4)	–	0.9	–	(0.9)	–
– from stage 3 to stage 2	–	2.4	(2.4)	–	–	1.1	(1.1)	–
– remeasurements within existing stages	7.1	5.9	46.1	59.1	(11.4)	(2.2)	53.1	39.5
– other movements	–	–	–	–	–	–	(0.1)	(0.1)
Total movements through income statement	2.3	2.9	54.4	59.6	(5.9)	(6.4)	59.8	47.5
Other movements:								
– write offs	(8.0)	(6.7)	(360.1)	(374.8)	(0.2)	(0.3)	(80.5)	(81.0)
– other movements	–	–	–	–	1.4	0.4	2.0	3.8
Allowance account at 31 December	–	–	–	–	5.7	3.8	305.7	315.2
Reported amounts receivable from customers at 31 December	–	–	–	–	71.2	14.1	53.7	139.0
Reported amounts receivable from customers at 1 January	71.2	14.1	53.7	139.0	145.5	25.9	77.6	249.0

12 Amounts receivable from customers continued

As part of the closure of the CCD business the remaining receivables balance was written off at the end of the year.

A breakdown of the gross receivable by internal credit risk rating for 2020 is shown below:

CCD	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
Very good	–	–	–	–	38.6	5.7	4.4	48.7
Good	–	–	–	–	15.6	4.2	7.4	27.2
Satisfactory	–	–	–	–	16.7	5.5	25.2	47.4
Lower quality	–	–	–	–	3.1	1.7	55.6	60.4
Below standard	–	–	–	–	2.9	0.8	266.8	270.5
Total	–	–	–	–	76.9	17.9	359.4	454.2

The movement in directly attributable acquisition costs included within amounts receivable from customers can be analysed as follows:

Group	2021 Credit cards and personal loans £m	2021 Vehicle finance £m	2021 CCD £m	2021 Group £m	2020 Credit cards and personal loans £m	2020 Vehicle finance £m	2020 CCD £m	2020 Group £m
Brought forward	32.9	27.9	0.4	61.2	31.8	24.6	1.9	58.3
Capitalised	10.2	23.3	0.2	33.7	11.9	22.4	1.6	35.9
Amortised	(13.5)	(18.8)	(0.6)	(32.9)	(10.8)	(19.1)	(3.1)	(33.0)
Carried forward	29.6	32.4	–	62.0	32.9	27.9	0.4	61.2

The impairment charge in respect of amounts receivable from customers can be analysed as follows:

Impairment charge on amounts receivable from customers	Group 2021 £m	Group 2020 £m
Credit cards	3.7	233.3
Vehicle finance	44.6	72.7
Personal loans	2.1	6.6
Total impairment charge – continuing operations	50.4	312.6
CCD – discontinued operations	59.6	47.5
Total impairment charge	110.0	360.1

The average effective interest rate for the year ended 31 December 2021 was 24% for credit cards (2020: 24%), and 29% for vehicle finance (2020: 34%).

The average period to maturity of the amounts receivable from customers within vehicle finance is 35 months (2020: 36 months). Within credit cards and personal loans, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the greater of 3% of the amount owed plus any fees and interest charges in the month and £10.

12 Amounts receivable from customers continued

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

	Group	
	2021 £m	2020 £m
Sterling	1,677.7	1,781.5
Euro	–	18.3
Reported amounts receivable from customers	1,677.7	1,799.8

Euro receivables in 2020 represented loans issued by the home credit business in the Republic of Ireland.

13 Trade and other receivables

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade receivables	0.3	0.1	–	–
Other receivables	2.5	14.8	–	–
Stock	1.6	2.2	–	–
Fair value adjustment for portfolio hedged risk	(3.6)	0.6	–	–
Amounts owed by Group undertakings	–	–	1,050.0	1,047.6
Prepayments and accrued income	18.0	18.0	3.2	3.0
Total assets	18.8	35.7	1,053.2	1,050.6

There are £nil amounts past due in respect of trade and other receivables (2020: £nil).

Within the Company, an impairment provision of £105.2m (2020: £123.8m) is held against amounts owed by Group undertakings due in less than one year. This consists of performing loans of £1,049.6m, categorised as stage 1 against which no provision is recognised and £106.2m loans categorised as stage 3 against which a provision of £105.2m has been recognised. Performing loans have no provision recognised as the loans entities have sufficient expected cash flow to service their obligations and sufficient realisable net assets to sell in the event of a default. Non performing loans are close to fully provided as they have either little or no expected cash flow and are recognised at the realisable value of net assets. The Company has assessed the estimated credit losses for these intercompany loans, as a result of which there has been a £18.6m credit to the Company income statement in 2021 primarily relating to the liquidation of dormant companies (2020: £2.4m cost) (see note 31).

Stock represents cars held by vehicle finance where customer agreements have been terminated.

Fair value adjustment for portfolio hedged risk relates to the hedge accounting adjustments recognised in relation to the balance guaranteed swap (see note 24).

Amounts owed by Group undertakings are unsecured, repayable on demand or within one year, and generally accrue interest at rates linked to SONIA.

14 Investments

	Group	
	2021 £m	2020 £m
Visa shares	9.1	9.2
Total investments	9.1	9.2

Visa shares

The Visa Inc shares represent preferred stock in Visa Inc held by Vanquis Bank Limited following completion of Visa Inc's acquisition of Visa Europe Limited on 21 June 2016. In consideration for Vanquis Bank Limited's interest in Visa Europe Limited, Vanquis Bank Limited received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m which was received in 2019.

During 2021 the Visa Inc shares previously classified as fair value through OCI were reclassified as fair value through income statement; refer to page 198 for details of the change in accounting policy. This has resulted in an increase in profit before tax of £5.2m and an increase in the tax charge of £1.4m. The cumulative fair value movements of £5.2m and all future fair value movements will be presented within operating costs in the income statement.

During 2020 there was a partial conversion event and 50% of the preferred stock was converted into class A shares which were then sold in December, as the shares are non-core to the business and it was deemed economically efficient by management to liquidate. On disposal of the shares, the cumulative gain recognised in the fair value reserve was transferred to retained earnings (£7.4m) net of the tax arising on the disposal (£2.0m). The movement in the fair value during the year of the A shares, until they were sold, and the preferred stock, was recognised in the statement of comprehensive income (£3.8m).

The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity, as the preferred stock is not tradeable on an open market and can only be transferred to other Visa members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion.

15 Property, plant and equipment

Group	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2021	8.6	56.0	64.6
Additions	0.3	1.0	1.3
Disposals	–	(35.5)	(35.5)
At 31 December 2021	8.9	21.5	30.4
Accumulated depreciation and impairment			
At 1 January 2021	2.8	46.3	49.1
Charged to the income statement – continuing operations	0.8	2.6	3.4
Charged to the income statement – discontinued operations	–	1.5	1.5
Disposals	–	(32.0)	(32.0)
At 31 December 2021	3.6	18.4	22.0
Net book value at 31 December 2021	5.3	3.1	8.4
Net book value at 1 January 2021	5.8	9.7	15.5

The profit on disposal of property, plant and equipment in 2021 amounted to £0.3m (2020: loss of £0.6m) and included a profit of £0.4m in respect of discontinued operations (2020: £0.2m). The profit comprised proceeds received of £1.5m (2020: £0.7m) less the net book value of disposals of £1.2m (2020: £1.3m). In 2020 there was also a transfer of £2.2m between property, plant and equipment and trade and other receivables in the year.

The charge to the income statement for continuing operations comprises of depreciation. The charge to the income statement for discontinued operations includes depreciation of £0.4m and impairment of £1.1m.

Additions in 2021 and 2020 principally comprise expenditure in respect of the routine replacement of IT equipment. Disposals in 2021 principally relate to the write-off of assets no longer used including £26.4m for discontinued operation.

Group	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2020	8.6	60.6	69.2
Additions	–	5.9	5.9
Disposals	–	(10.5)	(10.5)
At 31 December 2020	8.6	56.0	64.6
Accumulated depreciation and impairment			
At 1 January 2020	1.9	48.0	49.9
Charged to the income statement – continuing operations	0.9	3.7	4.6
Charged to the income statement – discontinued operations	–	1.6	1.6
Disposals	–	(7.0)	(7.0)
At 31 December 2020	2.8	46.3	49.1
Net book value at 31 December 2020	5.8	9.7	15.5
Net book value at 1 January 2020	6.7	12.6	19.3

15 Property, plant and equipment continued

Company	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2021	0.2	12.3	12.5
Additions	–	–	–
Disposals	–	(0.1)	(0.1)
At 31 December 2021	0.2	12.2	12.4
Accumulated depreciation			
At 1 January 2021	0.1	10.8	10.9
Charged to the income statement	–	0.4	0.4
Disposals	–	(0.1)	(0.1)
At 31 December 2021	0.1	11.1	11.2
Net book value at 31 December 2021	0.1	1.1	1.2
Net book value at 1 January 2021	0.1	1.5	1.6

The profit on disposal of property, plant and equipment in 2021 amounted to £0.1m (2020: £nil) and represented proceeds received of £0.1m (2020: £nil) less the net book value of disposals of £nil (2020: £nil).

Company	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2020	0.2	12.4	12.6
Additions	–	–	–
Disposals	–	(0.1)	(0.1)
At 31 December 2020	0.2	12.3	12.5
Accumulated depreciation			
At 1 January 2020	0.1	9.8	9.9
Charged to the income statement	–	1.1	1.1
Disposals	–	(0.1)	(0.1)
At 31 December 2020	0.1	10.8	10.9
Net book value at 31 December 2020	0.1	1.5	1.6
Net book value at 1 January 2020	0.1	2.6	2.7

16 Right of use assets

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Cost				
At 1 January	84.0	84.6	23.0	23.6
Additions	0.3	0.6	–	–
Disposals	(4.3)	(1.2)	–	(0.6)
At 31 December	80.0	84.0	23.0	23.0
Accumulated depreciation and impairment				
At 1 January	26.0	17.5	5.1	2.8
Charged to the income statement – continuing operations	8.1	8.4	2.6	2.9
Charged to the income statement – discontinued operations	2.3	1.1	–	–
Disposals	(4.3)	(1.0)	–	(0.6)
At 31 December	32.1	26.0	7.7	5.1
Net book value at 31 December	47.9	58.0	15.3	17.9
Net book value at 1 January	58.0	67.1	17.9	20.8

Lease liabilities are disclosed in note 25.

All right of use assets relate to property leases. There have been no modifications to leases in the year.

Additions in the year relate to the lease of new branch offices by vehicle finance.

All disposals related to discontinued operations.

The charge to the income statement for continuing operations comprises of depreciation. The charge to the income statement for discontinued operations includes depreciation of £0.4m and impairment of £1.9m.

17 Goodwill

	Group 2021 £m	Group 2020 £m
Cost		
At 1 January and 31 December	73.3	73.3
Accumulated impairment		
At 1 January and 31 December	2.1	2.1
Net book value at 1 January and 31 December	71.2	71.2

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. The net book value of goodwill relates wholly to the acquisition of vehicle finance product in 2014. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. Management adopts pre-tax discount rates which reflect the time value of money and the risks specific to the vehicle finance business. The cash flow forecasts are based on the most recent financial budgets approved by the Group Board for the next five years and extrapolate cash flows for the following five years using a terminal growth rate of 2% (2020: 2%). The rate used to discount the forecast cash flows is 10.5% (2020: 10.5%); this represents the Company's risk-adjusted cost of capital. No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented.

18 Other intangible assets

	2021			2020		
	Acquisition intangibles £m	Computer software £m	Total £m	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	75.0	77.9	152.9	75.0	65.4	140.4
Additions	–	24.8	24.8	–	16.3	16.3
Disposals	–	(59.2)	(59.2)	–	(3.8)	(3.8)
At 31 December	75.0	43.5	118.5	75.0	77.9	152.9
Accumulated amortisation and impairment						
At 1 January	47.5	60.1	107.6	40.0	56.3	96.3
Charged to the income statement – continuing operations	7.5	7.1	14.6	7.5	5.4	12.9
Charged to the income statement – discontinued operations	–	3.6	3.6	–	2.2	2.2
Disposals	–	(59.6)	(59.6)	–	(3.8)	(3.8)
At 31 December	55.0	11.2	66.2	47.5	60.1	107.6
Net book value at 31 December	20.0	32.3	52.3	27.5	17.8	45.3
Net book value at 1 January	27.5	17.8	45.3	35.0	9.1	44.1

Acquisition intangibles represent the fair value of the broker relationships arising on acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with vehicle finance core broker relationships and is being amortised over an estimated useful life of 10 years.

Additions to computer software in the year of £24.8m (2020: £16.3m) comprise £24.2m (2020: £13.8m) of internally generated assets and £0.6m (2020: £2.5m) of externally purchased software.

The £24.8m (2020: £16.3m) of computer software expenditure predominantly relates to the development of systems in relation to the personal loans business.

The charge for continuing operations includes amortisation of £13.3m and impairment of £1.3m. The charge for discontinued operations includes amortisation £1.0m and impairment of £2.6m.

19 Investment in subsidiaries

	Company	
	2021 £m	2020 £m
Cost		
At 1 January	257.8	817.0
Additions	35.1	197.1
Disposals	(1.9)	(756.3)
At 31 December	291.0	257.8
Accumulated impairment losses		
At 1 January	26.9	421.8
Charge to the income statement	38.7	–
Disposals	–	(394.9)
At 31 December	65.6	26.9
Net book value at 31 December	225.4	230.9
Net book value at 1 January	230.9	395.2

The directors consider the value of investments to be supported by their underlying assets and cash flow forecasts.

19 Investment in subsidiaries continued

The £35.1m addition in the year and the £38.7m impairment charge relates to the issue of shares to settle intercompany loans as part of the wind-down of Direct Auto Finance Limited and Direct Auto Financial Services Limited. The companies were placed into members' voluntary liquidation on 22 July 2021 and the liquidations were subsequently closed on 28 March 2022.

The £1.9m disposal is in relation to the IFRIC 11 adjustment relating to share options/awards provided to subsidiary employees. Under IFRIC 11, the fair value of the share options/awards issued is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/awards that have vested.

The £197.1m addition in 2020 related to the shares acquired in Provident Financial Holdings Limited (£196.8m) and £0.2m in relation to the IFRIC 11 adjustment.

An investment valuation review was performed at the balance sheet date; a £38.7m impairment charge has been recognised in 2021. The cost, accumulated impairment losses and carrying value of investment at 31 December 2021 are shown below:

Company	Cost £m	Accumulated impairment losses £m	Carrying value £m
Provident Financial Holdings Limited	196.8	–	196.8
Erringham Holdings Limited	13.6	(0.1)	13.5
Yes Car Credit (Holdings) Limited	29.9	(22.8)	7.1
Provident Print Limited	5.1	–	5.1
Direct Auto Finance Limited	18.8	(18.8)	–
Direct Auto Financial Services Limited	16.3	(16.3)	–
Other	10.5	(7.6)	2.9
Net book value at 31 December	291.0	(65.6)	225.4

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the Group or are a guaranteeing subsidiary of the Group's syndicated bank facility and certain other borrowings. A full list of subsidiary undertakings will be annexed to the next annual return of the Company to be filed with the Registrar of Companies (see note 35). All subsidiaries are consolidated and held directly by the Company except for those noted below, which are held by wholly owned intermediate companies.

Company		Activity	Country of incorporation	Class of capital	% holding
Vanquis Bank	Vanquis Bank Limited	Financial services	England	Ordinary	100[1]
Moneybarn	Duncton Group Limited	Financial services	England	Ordinary	100[1]
	Moneybarn Group Limited	Financial services	England	Ordinary	100[1]
	Moneybarn No. 1 Limited	Financial services	England	Ordinary	100[1]
Central	Provident Financial Holdings Limited	Intermediate holding company	England	Ordinary	100

1 Shares held by wholly owned intermediate companies.

The entities Provident Financial Management Services Limited and Provident Personal Credit Limited form part of the CCD discontinued operations and are no longer considered to principally affect the profit or assets of the Group.

The above companies operate principally in their country of incorporation.

20 Retirement benefit asset

(a) Pension schemes – defined benefit

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 2021, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded.

The Group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme is of the funded, defined benefit type. It is now also closed to future accrual.

The scheme provides pension benefits which were accrued on a final salary and, more recently, on a cash balance basis. With effect from 1 August 2021 it was fully closed to future accrual and benefits are no longer linked to final salary, although accrued benefits are subject to statutory inflationary increases.

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the Group on funding and investment strategy decisions. 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.

The Group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid. As a result, the Group recognises surplus assets under IAS 19.

The Group 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 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 – some of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a 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 net retirement benefit asset recognised in the balance sheet of the Group and the Company is as follows:

	Group and Company			
	2021		2020	
	£m	%	£m	%
Equities	95.8	11	80.6	9
Corporate bonds	129.7	14	383.0	41
Other quoted securities	672.7	75	–	–
Fixed interest gilts	–	–	275.2	29
Index-linked gilts	–	–	192.7	21
Cash and money market funds	0.6	–	1.5	–
Total fair value of scheme assets	898.8	100	933.0	100
Present value of funded defined benefit obligation	(786.6)		(853.3)	
Net retirement benefit asset recognised in the balance sheet	112.2		79.7	

20 Retirement benefit asset continued
(a) Pension schemes – defined benefit continued

The Company and the pension trustees have agreed a low risk investment strategy which involves hedging the inflation and interest rate risks associated with the liabilities of the pension scheme, whilst also holding a modest allocation to growth funds, such as equities. This position is reviewed periodically by the trustees, who consult the Company as part of this process.

The valuation of the pension scheme has increased from £79.7m at 31 December 2020 to £112.2m at 31 December 2021. A high-level reconciliation of the movement is as follows:

Group and Company	2021 £m	2020 £m
Pension asset as at 1 January	80	78
Cash contributions made by the Group	4	4
Return on assets being held to meet pension obligations in excess of discount rate	(20)	103
Change in mortality assumptions	13	(2)
Decrease/(increase) in discount rate used to discount future liabilities	79	(102)
Increase in inflation rate used to forecast pensions	(34)	(4)
Actuarial/membership experience	(10)	4
Other	–	(1)
Pension asset as at 31 December	112	80

The amounts recognised in the income statement were as follows:

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Current service cost	(2.1)	(1.7)	(2.1)	(1.7)
Interest on scheme liabilities	(11.8)	(15.1)	(11.8)	(15.1)
Interest on scheme assets	13.0	16.7	13.0	16.7
Contributions from subsidiaries	–	–	2.7	3.9
Net (charge)/credit recognised in the income statement before exceptional past service credit/(cost)	(0.9)	(0.1)	1.8	3.8
Exceptional past service credit/(cost) – plan amendment (note 1)	1.5	(0.7)	1.5	(0.7)
Exceptional past service credit – curtailment credit (note 1)	0.8	–	0.8	–
Exceptional past service credit/(cost)	2.3	(0.7)	2.3	(0.7)
Net credit/(charge) recognised in the income statement	1.4	(0.8)	4.1	3.1

The exceptional credit in 2021 relates to a curtailment credit of £0.8m in respect of the closure of the CCD division and a £1.5m credit in relation to the closure of the cash balance section of the scheme during the year.

The cost for plan amendment in 2020 relates to charges in respect of the estimated liabilities arising due to amending members' benefits for historical transfer values in relation to the equalisation of Guaranteed Minimum Pensions, following the High Court judgment in November 2020.

The net credit/(charge) recognised in the income statement of the Group and the Company has been included within operating costs.

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

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Fair value of scheme assets at 1 January	933.0	842.6	933.0	842.6
Interest on scheme assets	13.0	16.7	13.0	16.7
Contributions by subsidiaries	–	–	2.7	3.9
Actuarial movement on scheme assets	(20.2)	102.8	(20.2)	102.8
Contributions by the Group/Company	4.0	4.2	1.3	0.3
Net benefits paid out	(31.0)	(33.3)	(31.0)	(33.3)
Fair value of scheme assets at 31 December	898.8	933.0	898.8	933.0

The Group contributions to the defined benefit pension scheme in the year ending 31 December 2022 are expected to be approximately £3.5m.

20 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

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

	Group and Company	
	2021 £m	2020 £m
Present value of the defined benefit obligation at 1 January	(853.3)	(764.6)
Current service cost	(2.1)	(1.7)
Interest on scheme liabilities	(11.8)	(15.1)
Exceptional past service credit/(cost) – plan amendment (note 1)	1.5	(0.7)
Exceptional past service credit – curtailment credit (note 1)	0.8	–
Actuarial movement – experience	(10.3)	4.3
Actuarial movement – demographic assumptions	12.9	(2.0)
Actuarial movement – financial assumptions	44.7	(106.8)
Net benefits paid out	31.0	33.3
Present value of the defined benefit obligation at 31 December	(786.6)	(853.3)

The liabilities of the scheme are based on the current value of expected benefit payments over the next 80 years. The weighted average duration of the scheme liabilities is approximately 17 years (2020: 18 years).

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

	Group and Company	
	2021 %	2020 %
Price inflation – RPI	3.40	2.85
Price inflation – CPI	3.00	2.25
Rate of increase to pensions in payment	3.00	2.70
Inflationary increases to pensions in deferment	3.00	2.20
Discount rate	1.85	1.30

The pension increase assumption shown above applies to pensions increasing in payment each year in line with RPI up to 5%. Pensions accrued prior to 2000 are substantially subject to fixed 5% increases each year. In deferment increases prior to retirement are linked to CPI.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 2 tables (2020: SAPS series 2 tables), with multipliers of 96% (2020: 96%) and 101% (2020: 101%) respectively for males and females. The 4% downwards (2020: 4% downwards) adjustment to mortality rates for males and a 1% upwards (2020: 1% upwards) adjustment for females reflect higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2020 model with a long-term improvement trend of 1.00% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
Group and Company	2021 years	2020 years	2021 years	2020 years
Current pensioner aged 65	21.7	21.9	23.4	23.5
Current member aged 45 from age 65	22.7	23.2	24.6	25.0

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 and Company	
	2021 £m	2020 £m
Discount rate decreased by 0.5% (2020: 0.5%)	64	79
Inflation increased by 0.1%	6	7
Life expectancy increased by one year	38	43

20 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

The actual return on scheme assets compared to the expected return is as follows:

	Group and Company	
	2021 £m	2020 £m
Interest on scheme assets	13.0	16.7
Actuarial movement on scheme assets	(20.2)	102.8
Actual return on scheme assets	(7.2)	119.5

Actuarial gains and losses are recognised through other comprehensive income in the period in which they occur.

An analysis of the amounts recognised in the statement of other comprehensive income is as follows:

	Group and Company	
	2021 £m	2020 £m
Actuarial movement on scheme assets	(20.2)	102.8
Actuarial movement on scheme liabilities	47.3	(104.5)
Total movement recognised in other comprehensive income in the year	27.1	(1.7)
Cumulative movement recognised in other comprehensive income	(70.5)	(97.6)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the Group is as follows:

	Group and Company				
	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Fair value of scheme assets	898.8	933.0	842.6	788.3	835.5
Present value of funded defined benefit obligation	(786.6)	(853.3)	(764.6)	(704.4)	(733.2)
Retirement benefit asset recognised in the balance sheet	112.2	79.7	78.0	83.9	102.3
Experience (losses)/gains on scheme assets:					
– amount (£m)	(20.2)	102.8	67.4	(31.3)	18.2
– percentage of scheme assets (%)	(2.2)	11.0	8.0	(4.0)	2.2
Experience gains/(losses) on scheme liabilities:					
– amount (£m)	10.3	(4.3)	(0.1)	(9.1)	(3.7)
– percentage of scheme liabilities (%)	1.3	(0.1)	–	(1.3)	(0.5)

(b) Pension schemes – defined contribution

The Group operates a Group Personal Pension Plan into which Group companies contribute 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% and 8%). The assets of the scheme are held separately from those of the Group and Company.

The Group also operates a separate pension scheme for auto-enrolment into which the Company and subsidiaries contribute a proportion of qualifying earnings of the member of 4%. The assets of the scheme are held separately from those of the Group or the Company. The pension charge in the consolidated income statement represents contributions paid by the Group in respect of these plans and amounted to £12.1m for the year ended 31 December 2021 (2020: £10.2m). Contributions made by the Company amounted to £0.8m (2020: £0.7m). £0.6m contributions were payable to the fund at the year end (2020: £0.6m).

The Group contributed £nil in 2021 into individual personal pension plans in the year (2020: £nil).

21 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences between the accounting value of assets and liabilities and their value for tax purposes or from tax losses carried forward at the reporting date.

Deferred tax arises primarily in respect of: (a) property, plant and equipment which is depreciated on a different basis for tax purposes (accelerated capital allowances); (b) the Group's retirement benefit asset; (c) Vanquis Bank Limited's investment in the preference shares in Visa Inc which are recognised at fair value for accounting purposes but which are taxed only on disposal; (d) the opening balance sheet adjustments to restate the IAS 39 balance sheet to an IFRS 9 basis for which tax deductions are available over 10 years; (e) tax losses carried forward to be relieved against profits in future periods; and (f) other temporary differences including: (i) deductions for employee share awards which are recognised differently for tax purposes, (ii) certain cost provisions for which tax deductions are only available when the costs are paid, (iii) the opening balance sheet adjustment in respect of the change in accounting treatment of directly attributable acquisition costs in Vanquis Bank Limited which is taxable over 10 years; (iv) the opening balance sheet adjustment in respect of the adoption of IFRS 16 'Leases' which is deductible over the average period of the relevant leases; and (v) the balance guaranteed swap entered into as part of the vehicle finance securitisation.

In addition, a deferred tax liability is recognised in respect of the acquisition of the vehicle finance product relating primarily to the intangible asset in respect of vehicle finance broker relationships which are amortised in future periods but for which tax deductions are not available.

In 2016, changes in corporation tax rates were enacted which reduced the mainstream corporation tax rate to 17% with effect from 1 April 2020. Prior to 1 April 2020, the mainstream corporation tax rate was 19%. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate remained at 19% for 2020. During 2021, a further change was enacted to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023.

Deferred tax balances at 31 December 2019 were measured at 17% and, in the case of credit cards and personal loans, at the combined mainstream corporation tax (17%) and bank corporation tax surcharge rates (8%) of 25% to the extent that the temporary differences on which the deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances were remeasured at 19% and, in the case of credit cards and personal loans, at the combined mainstream corporation tax (19%) and bank corporation tax surcharge rates (8%) of 27%, as were movements in the deferred tax balances during the year.

At 31 December 2021, the deferred tax balances have been remeasured at 25% (2020: 19%) and, in the case of credit cards and personal loans, at the combined mainstream corporation tax (25%) and bank corporation tax surcharge rates (8%) of 33% (2020: 27%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse, or the tax loss is expected to be utilised, after 1 April 2023, as have movements in deferred tax balances during the year. A tax credit of £5.0m (2020: credit of £3.5m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £6.4m (2020: charge of £1.7m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income. Of the tax credit of £5.0m (2020: credit of £3.5m) taken to the income statement, £5.0m related to continuing operations (2020: £2.5m) and £nil (2020: £1.0m) to discontinued operations. The tax charge/(credit) on items taken directly to other comprehensive income relates entirely to continuing operations.

During 2021, the UK Government announced that the rate of bank corporation tax surcharge will decrease from 8% to 3% with effect from 1 April 2023. At the same time the bank corporation tax surcharge allowance, being the threshold below which banking profits are not subject to the bank corporation tax surcharge, will increase from £25m to £100m. These changes were not substantively enacted by the reporting date of 31 December 2021 and so are not reflected in the measurement of the carrying value of deferred tax balances at 31 December 2021. In line with the requirements of IAS 10, the expected impact of these changes is a reduction of deferred tax balances of £4.1m.

The movement in the deferred tax balance during the year can be analysed as follows:

	Group						Company	
	2021			2020				
Asset/(liability)	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m	2021 £m	2020 £m
At 1 January	12.1	31.9	44.0	16.0	9.0	25.0	(14.2)	(11.6)
(Charge)/credit to the income statement	–	(31.9)	(31.9)	(6.0)	21.9	15.9	3.2	(1.5)
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	(3.8)	–	(3.8)	1.3	–	1.3	(5.2)	0.3
Impact of change in UK tax rate:								
– credit to the income statement	5.0	–	5.0	2.5	1.0	3.5	–	0.1
– charge to other comprehensive income	(6.4)	–	(6.4)	(1.7)	–	(1.7)	(6.4)	(1.5)
At 31 December	6.9	–	6.9	12.1	31.9	44.0	(22.6)	(14.2)

21 Deferred tax continued

Group – asset/(liability)	2021 Continuing operations: Accelerated capital allowances £m	Visa shares £m	Tax losses £m	IFRS 9 £m	Retirement benefit obligations £m	Other temporary differences £m	Total £m	2021 Discontinued operations: Accelerated capital allowances £m	Tax losses £m	IFRS 9 £m	Other temporary differences £m	Total £m	Total Group £m
At 1 January	1.0	(2.5)	–	34.3	(15.1)	(5.6)	12.1	2.1	23.6	6.0	0.2	31.9	44.0
Credit/(charge) to the income statement	0.5	(1.4)	3.7	(4.9)	(1.0)	3.1	–	(2.1)	(23.6)	(6.0)	(0.2)	(31.9)	(31.9)
Credit/(charge) on other comprehensive income prior to change in UK tax rate	–	1.4	–	–	(5.2)	–	(3.8)	–	–	–	–	–	(3.8)
Impact of change in UK tax rate:													
– credit/(charge) to the income statement	0.4	(0.5)	–	5.6	(0.3)	(0.2)	5.0	–	–	–	–	–	5.0
– charge to other comprehensive income	–	–	–	–	(6.4)	–	(6.4)	–	–	–	–	–	(6.4)
At 31 December	1.9	(3.0)	3.7	35.0	(28.0)	(2.7)	6.9	–	–	–	–	–	6.9

Group – asset/(liability)	2020 Continuing operations: Accelerated capital allowances £m	Visa shares £m	Tax losses £m	IFRS 9 £m	Retirement benefit obligations £m	Other temporary differences £m	Total £m	2020 Discontinued operations: Accelerated capital allowances £m	Tax losses £m	IFRS 9 £m	Other temporary differences £m	Total £m	Total Group £m
At 1 January	0.7	(4.1)	–	36.2	(13.4)	(3.4)	16.0	2.2	–	6.2	0.6	9.0	25.0
Credit/(charge) to the income statement	0.2	1.0	–	(4.9)	(0.5)	(1.8)	(6.0)	(0.4)	23.6	(0.9)	(0.4)	21.9	15.9
Credit on other comprehensive income prior to change in UK tax rate	–	1.0	–	–	0.3	–	1.3	–	–	–	–	–	1.3
Impact of change in UK tax rate:													
– credit/(charge) to the income statement	0.1	(0.2)	–	3.0	–	(0.4)	2.5	0.3	–	0.7	–	1.0	3.5
– charge to other comprehensive income	–	(0.2)	–	–	(1.5)	–	(1.7)	–	–	–	–	–	(1.7)
At 31 December	1.0	(2.5)	–	34.3	(15.1)	(5.6)	12.1	2.1	23.6	6.0	0.2	31.9	44.0

Deferred tax assets on losses and other temporary differences

At 31 December 2020, there were £124.5m of carried forward UK tax losses in CCD on which a deferred tax asset was recognised. At 31 December 2021, there are £96.7m of carried forward UK tax losses in CCD (2020: £124.5m) for which it is no longer appropriate to recognise a deferred tax asset as the ability to carry forward the losses for offset against future Group profits is likely to have lapsed following the closure of the business. At 31 December 2021, no deferred tax assets are recognised in respect of any other temporary differences in CCD or in respect of the losses of the home credit business in the Republic of Ireland for similar reasons.

There are £19m (2020: £nil) of losses carried forward in the continuing Group. A deferred tax asset of £3.7m (2020: £nil) has been recognised in full on these losses at the mainstream corporation tax rate of 19% on the basis that the Group considers it probable that sufficient future taxable profits will be available across the Group before 1 April 2023 for the losses to be fully utilised against Group profits. This recoverability assessment takes into account the corporate loss restriction rules whereby the use of brought forward losses is restricted to 50% of relevant Group taxable profits above a £5m Group allowance.

No deferred tax asset has been recognised in respect of the Group's capital losses carried forward of £133.1m (2020: £133.1m) as it is not probable that future chargeable gains will be realised against which these losses can be utilised.

21 Deferred tax continued

Deferred tax assets on losses and other temporary differences continued

During 2020, Vanquis Bank Limited converted and subsequently sold its holding in the 'A' preference shares in Visa Inc which gave rise to a capital gain. In 2020, the £1.0m deferred tax credit recognised in other comprehensive income relates to (i) a £1.0m deferred tax charge being tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 27% on the movement in the valuation of the 'B' preference shares in Visa Inc which were retained, as well as the movement in the valuation of the 'A' preference shares in Visa Inc up to the point of conversion and sale; and (ii) a deferred tax credit of £2.0m recognised as a result of the sale of the 'A' preference shares in Visa Inc and represents the reversal of the £2.0m deferred tax charge in respect of the valuation of the Vanquis Bank's shareholding in the 'A' preference shares in Visa Inc that had been recognised in other comprehensive income. In 2021, the £1.4m deferred tax credit represents the reversal of the deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates on the cumulative movement in the valuation of the 'B' preference shares in Visa Inc which has previously been recognised in other comprehensive income and is now being recognised in the income statement, with the shares now recognised at fair value through profit and loss rather than previously at fair value through other comprehensive income.

An analysis of the deferred tax liability for the Company is set out below:

	2021					2020			
Company – asset/(liability)	Accelerated capital allowances £m	Tax losses £m	Other temporary differences £m	Retirement benefit obligations £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit obligations £m	Total £m
At 1 January	0.3	–	0.6	(15.1)	(14.2)	0.1	1.7	(13.4)	(11.6)
Credit/(charge) to the income statement	–	3.6	0.6	(1.0)	3.2	0.2	(1.2)	(0.5)	(1.5)
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	–	–	–	(5.2)	(5.2)	–	–	0.3	0.3
Impact of change in UK tax rate:									
– credit/(charge) to the income statement	0.1	–	0.2	(0.3)	–	–	0.1	–	0.1
– charge to other comprehensive income	–	–	–	(6.4)	(6.4)	–	–	(1.5)	(1.5)
At 31 December	0.4	3.6	1.4	(28.0)	(22.6)	0.3	0.6	(15.1)	(14.2)

22 Borrowings

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Retail deposits	1,018.5	1,683.2	—	—
Bank and other borrowings	845.2	520.0	395.3	369.0
Total	1,863.7	2,203.2	395.3	369.0

(a) Facilities and borrowings

A breakdown of borrowings is shown below:

	Group	
	2021 £m	2020 £m
Retail deposits:	1,010.4	1,668.8
– accrued interest	8.1	14.4
Total retail deposits (note (b))	1,018.5	1,683.2
Bank and other borrowings:		
– senior bonds (note (e))	103.5	175.0
– vehicle finance securitisation (note (f))	275.0	150.0
– syndicated bank facility	30.0	68.7
– retail bonds (note (g))	60.0	125.0
– Tier 2 (note (h))	200.0	—
– TFSME (note (i))	174.0	—
– bank overdrafts	3.6	1.4
– accrued interest	6.0	2.9
– arrangement fees	(6.9)	(3.0)
Total bank and other borrowings	845.2	520.0
Total borrowings	1,863.7	2,203.2

(b) Retail deposits

Vanquis Bank Limited is a PRA-regulated bank and is now fully funded through retail deposits. As at 31 December 2021, £1,018.5m (2020: £1,683.2m) of fixed-rate, fixed-term retail deposits of six months and one, two, three, four and five years had been taken. The deposits in issue at 31 December 2021 have been issued at rates of between 0.05% and 2.7%.

A reconciliation of the movement in retail deposits is set out below:

Group	2021 £m	2020 £m
At 1 January	1,683.2	1,345.2
New funds received	121.8	680.9
Maturities	(906.3)	(434.3)
Retentions	125.2	95.9
Cancellations	(16.4)	(22.9)
Interest	11.0	18.4
At 31 December	1,018.5	1,683.2

22 Borrowings continued

(c) Maturity profile borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

Group	2021 Borrowing facilities available £m	2021 Borrowings £m	2020 Borrowing facilities available £m	2020 Borrowings £m
Repayable:				
On demand (uncommitted)	4.6	3.6	5.5	1.4
In less than one year	399.6	399.6	965.7	965.7
Between one and two years	927.4	817.3	466.0	386.7
Between two and five years	436.0	436.0	835.1	835.1
In more than five years	200.0	200.0	–	–
Accrued interest	–	14.1	–	17.3
Arrangement fees	–	(6.9)	–	(3.0)
Total Group	1,967.6	1,863.7	2,272.3	2,203.2

Borrowings are stated after deducting £6.9m of unamortised arrangement fees (2020: £3.0m) and the addition of accrued interest of £14.1m (2020: £17.3m).

Company	2021 Borrowing facilities available £m	2021 Borrowings £m	2020 Borrowing facilities available £m	2020 Borrowings £m
Repayable:				
On demand (uncommitted)	1.0	–	5.5	–
In less than one year	–	–	65.0	65.0
Between one and two years	253.5	193.5	148.1	68.7
Between two and five years	–	–	235.0	235.0
In more than five years	200.0	200.0	–	–
Accrued interest	–	5.6	–	2.9
Arrangement fees	–	(3.8)	–	(2.6)
Total Company	454.5	395.3	453.6	369.0

As at 31 December 2021, the weighted average period to maturity of the Group's committed facilities, including retail deposits, was 2.5 years (2020: 1.5 years) and for the Company's committed facilities was 4.0 years (2020: 1.9 years). Excluding retail deposits, the weighted average period to maturity of the Group's committed facilities was 3.7 years (2020: 2.5 years). In line with the Group's funding strategy to place less reliance on this source of funding, the syndicated bank facility was repaid early in March 2022 ahead of its contractual maturity in July 2023 and at the same time was cancelled at the discretion of the Group as allowed for in the terms of the facility (see note 34).

(d) Interest rate and currency profile of borrowings

The interest rate and foreign exchange rate exposure on borrowings is as follows:

Group	2021 Fixed £m	2021 Floating £m	2021 Total £m	2020 Fixed £m	2020 Floating £m	2020 Total £m
Sterling	1,383.5	480.2	1,863.7	1,983.6	200.9	2,184.5
Euro	–	–	–	–	18.7	18.7
Total Group	1,383.5	480.2	1,863.7	1,983.6	219.6	2,203.2

Company	2021 Fixed £m	2021 Floating £m	2021 Total £m	2020 Fixed £m	2020 Floating £m	2020 Total £m
Sterling	365.0	30.3	395.3	300.4	49.9	350.3
Euro	–	–	–	–	18.7	18.7
Total Company	365.0	30.3	395.3	300.4	68.6	369.0

22 Borrowings continued

(e) Senior public bonds

On 4 June 2018, the Group issued £250m of five-year fixed-rate bonds carrying a semi-annual coupon of 8.25%. In October 2021 £71.5m of the bonds which were due to be repaid in 2023 were tendered early following the Group's successful issuance of Tier 2 capital (see note 22(h)).

(f) Vehicle finance securitisation

The Group successfully renegotiated the bilateral securitisation facility in July 2021, adding Barclays as an additional lender, extending the facility and achieving an improved advance rate. At 31 December 2021 £275m had been drawn. The rates paid on the borrowings are linked to SONIA and the facility has a maturity date of June 2024.

(g) Retail bonds

The Company has one outstanding retail bond issued on the Order Book for Retail Bonds (ORB) platform established by the London Stock Exchange as follows:

Issue date	Amount £m	Rate %	Maturity date
27 March 2013	65.0	6.9%	27 September 2021
9 April 2015	60.0	5.125%	9 October 2023
Total Group and Company	125.0		

The £65.0m retail bond was repaid in line with its contractual maturity date on 27 September 2021.

(h) Tier 2

On 7 October 2021, the Group issued Tier 2 subordinated bonds for a total amount of £200m. The bonds have a 10.25 year maturity that is callable at the Group's discretion between 5 and 5.25 years, and that pays a coupon of 8.875%. The issuance was written from the Group's £2bn EMTN Programme as the Group diversifies and optimises its sources of capital in support of future lending growth.

(i) TFSME

Following the onset of Covid-19, the Bank of England announced a resumption of the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) to provide liquidity support for the banking sector. In January 2021, Vanquis Bank Limited completed its inaugural issue from its newly established credit card receivable master trust. The senior notes in the transaction have been rated (AAAsf/Aaa(sf)/AAAsf) by Fitch Ratings, Kroll Bond Rating Agency and Standard & Poor's respectively and the bonds are listed on the London Stock Exchange. The rated notes were accepted as eligible for use in the Bank of England's Liquidity and Funding Schemes, providing access to a low cost of funds, and a source for contingent liquidity where unutilised. The majority of the senior rated notes have now been placed as collateral with the Bank of England to support borrowing of £174m from the TFSME at a rate of 21bps over bank rate. This funding is expected to be fully repaid by October 2025.

(j) Undrawn committed borrowing facilities

The Group's current funding strategy is to maintain diversified committed facilities to meet contractual maturities and fund growth and maintain access to five main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; (iii) securitisation; (iv) tier 2 capital and (v) retail deposits.

The undrawn committed borrowing facilities at 31 December were as follows:

	Group and Company	
	2021 £m	2020 £m
Expiring within one year	—	—
Expiring within one to two years	110.0	79.3
Expiring in more than two years	—	—
Total undrawn committed borrowing facilities	110.0	79.3

Undrawn committed facilities of £110.0m exclude available cash and liquid resources of £714.1m. Of the £50.0m undrawn securitisation facility, £30.0m has been committed to further revolving credit facility reductions, meaning the £110.0m undrawn committed borrowing facilities gave the Group access to £80.0m of additional liquidity resources. In line with the Group's funding strategy to place less reliance on it, the syndicated bank facility was repaid early ahead of its contractual maturity in July 2023 and at the same time was cancelled at the discretion of the Group as allowed for in the terms of the facility (see note 34). Undrawn committed facilities would have been £50m had this event occurred prior to 31 December 2021. The Group has committed borrowing facilities of £1,933.0m (2020: £2,266.8m) at the end of 2021.

22 Borrowings continued

(j) Undrawn committed borrowing facilities continued

Headroom on the Group's committed debt facilities was £290.2m at 31 December 2021 together with ongoing access to the retail deposits programme in Vanquis Bank Limited. There are no contractual maturities of the Group's wholesale funding until a scheduled maturity of the £103.5m Senior Bond in June 2023.

In order to reconcile the borrowings and the headroom on committed facilities shown, the facilities and borrowings in respect of amounts repayable on demand and interest accrued and cash held on deposit should be deducted and unamortised arrangement fees should be added back to borrowings as follows:

Group	2021 Facilities £m	2021 Borrowings £m	2020 Facilities £m	2020 Borrowings £m
Total facilities and borrowings	1,967.6	1,863.7	2,272.3	2,203.2
Repayable on demand	(4.6)	(3.6)	(5.5)	(1.4)
Unamortised arrangement fees	–	6.9	–	3.0
Accrued interest	–	(14.1)	–	(17.3)
Total committed facilities and borrowings	1,963.0	1,852.9	2,266.8	2,187.5
Headroom on committed facilities		110.0		79.3
Headroom committed to further syndicated bank facility reduction		(30.0)		–
Available cash and liquid resources		210.2		64.4
Total headroom on committed facilities, available cash and liquid resources		290.2		143.7

In line with the Group's funding strategy to place less reliance on this source of funding, the syndicate bank facility was repaid early in March 2022, ahead of its contractual maturity in July 2023 and at the same time was cancelled at the discretion of the Group as allowed for in the terms of the facility. The headroom on committed facilities of £110.0m at 31 December 2021 would have reduced to £50.0m after cancellation of the facility. The Group does not require the funding and did not plan to renew the facility on maturity (see note 34).

(k) Weighted average interest rates and periods to maturity

The weighted average interest rate and the weighted average period to maturity of the Group and Company's fixed-rate borrowings are as follows:

Group	2021 Weighted average interest rate %	2021 Weighted average period to maturity years	2020 Weighted average interest rate %	2020 Weighted average period to maturity years
Sterling	3.6	2.7	2.9	1.3

Company	2021 Weighted average interest rate %	2021 Weighted average period to maturity years	2020 Weighted average interest rate %	2020 Weighted average period to maturity years
Sterling	8.1	6.2	6.4	2.1

(l) Fair values

The fair values of the Group and Company's borrowings are compared to their book values as follows:

Group	2021 Book value £m	2021 Fair value £m	2020 Book value £m	2020 Fair value £m
Retail deposits	1,018.5	1,026.4	1,683.2	1,703.7
Bank loans and overdrafts	33.5	33.5	69.0	69.0
Senior public bonds	103.5	109.0	175.0	176.1
Retail bonds	60.5	59.9	126.4	125.7
Securitisation	274.1	288.9	149.6	162.8
Tier 2	201.4	214.6	–	–
TFSME	172.2	172.2	–	–
Total Group	1,863.7	1,904.5	2,203.2	2,237.3

All the above numbers include interest and fees.

22 Borrowings continued
(l) Fair values continued

Company	2021 Book value £m	2021 Fair value £m	2020 Book value £m	2020 Fair value £m
Bank loans and overdrafts	29.9	29.9	67.7	67.7
Senior public bonds	103.5	109.0	175.0	176.1
Retail bonds	60.5	59.9	126.3	125.7
Tier 2	201.4	214.6	–	–
Total Company	395.3	413.4	369.0	369.5

All the above numbers include interest and fees.

23 Trade and other payables

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Trade payables	12.5	7.7	–	–
Amounts owed to Group undertakings	–	–	371.7	255.4
Other payables including taxation and social security	6.2	11.5	0.5	1.0
Accruals	76.9	45.7	14.5	8.4
Total trade and other payables	95.6	64.9	386.7	264.8

The amounts owed to Group undertakings are unsecured and accrue interest at rates linked to SONIA. Included with the amounts owed to Group undertakings is £70.0m (2020: £70.0m) of upstream funding provided by Vanquis Bank Limited to the Company, and £272.8m (2020: £144.6m) of funding provided from the vehicle finance securitisation via Provident Financial Holdings Limited.

24 Derivative financial instruments

	Group 2021 £m	Group 2020 £m
Balance guaranteed swap	3.1	(1.3)

The balance guaranteed swap was entered into as part of the vehicle finance securitisation in January 2020 in order to manage the market risk associated with movements in interest rates. The derivative is a bespoke over-the-counter interest rate swap. The securitised notes are floating rate, whilst the vehicle finance receivables against which the notes are secured have fixed interest rates, creating interest rate risk exposure. Only the interest rate risk on the portfolio is hedged; other risks such as credit risk are managed but not hedged.

Over the course of 2021, the Group has renegotiated the facility with lenders and both the swap and the notes are now linked to SONIA, enabling the Group to comply with IBOR reform.

The Group has elected to apply fair value hedge accounting in the consolidated accounts, using the portfolio hedging rules under IAS 39.

The effectiveness of the hedge is assessed prospectively using matched terms as the swap has been specifically designed to perfectly match the underlying assets. Retrospectively, the swap only experiences ineffectiveness from changes in notional value as a result of prepayment or additions.

Had hedge accounting not been applied, the Group would have recognised an additional £4.2m credit to the income statement (2020: cost of £0.6m) relating to derivative instruments. The swap is expected to mature in June 2024 in line with the securitisation.

	Group 2021 £m	Group 2020 £m
Notional value	344.0	262.4
Fair value adjustments for portfolio hedged risk	(3.6)	0.6
Hedge ineffectiveness	(0.2)	0.7
Fair value of balance guaranteed swap	3.1	(1.3)

The fair value adjustments for portfolio hedged risk of (£3.6m) (2020: £0.6m) are included within trade and other receivables (see note 13). The ineffectiveness is recognised within operating costs in the income statement.

25 Lease liabilities

A maturity analysis of the lease liabilities is shown below:

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Due within one year	10.6	10.9	3.6	3.4
Due between one and five years	36.5	43.3	11.6	14.4
Due in more than five years	18.8	22.7	6.5	7.4
Total	65.9	76.9	21.7	25.2
Unearned finance cost	(7.0)	(7.5)	(2.8)	(3.3)
Total lease liabilities	58.9	69.4	18.9	21.9

Right of use assets are disclosed in note 16.

Lease payments for the Group of £11.4m (2020: £11.8m) include: (i) capital repayments of £9.6m (2020: £9.3m); (ii) interest of £1.5m (2020: £1.9m); and (iii) short-term lease cash outflows of £0.3m (2020: £0.6m). At 31 December 2021, the Group is also committed to £nil (2020: £0.2m) for short-term leases. Total cash outflows for the Company amounted to £3.3m (2020: £3.5m) and include: (i) capital repayments of £3.0m (2020: £3.1m); and (ii) interest of £0.3m (2020: £0.4m).

Short-term lease cash outflows included £0.3m (2020: £0.6.m) in respect of discontinued operations.

26 Provisions

	Group						Company			
	2021			2020			2021		2020	
Provisions	Scheme £m	Others £m	Total £m	Scheme £m	Others £m	Total £m	Scheme £m	Total £m	Scheme £m	Total £m
At 1 January	65.0	26.0	91.0	–	14.5	14.5	–	–	–	–
Created in the year	5.0	17.4	22.4	65.0	45.5	110.5	5.0	5.0	–	–
Reclassified in the year	–	–	–	–	17.6	17.6	15.0	15.0	–	–
Utilised in the year	(16.5)	(24.8)	(41.3)	–	(43.3)	(43.3)	(16.5)	(16.5)	–	–
Released in the year	–	–	–	–	(8.3)	(8.3)	–	–	–	–
At 31 December	53.5	18.6	72.1	65.0	26.0	91.0	3.5	3.5	–	–

The Scheme of Arrangement (the Scheme): Group: £53.5m (2020: £65m) Company: £3.5m (2020: £nil)

The Scheme of Arrangement was sanctioned on 30 July 2021. The Scheme will now remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline in February 2022. The objective of the Scheme is to ensure:

- all customers with redress claims are treated fairly; and
- outstanding claims are treated consistently for all customers who submit a claim under the Scheme.

The Group will fund legitimate Scheme claims with £50m and will cover further Scheme-related costs. These were estimated at approximately £15m at 31 December 2020 with an additional £5m being recognised in the year for additional expected costs in supporting the delivery of the Scheme. At 31 December 2021, £16.5m of the provision for costs of the scheme has been utilised.

Following the Scheme approval in August 2021 the £50m remediation costs were no longer considered to be a key source of estimation uncertainty for the Group as a fixed amount is payable.

Other provisions include:

Complaints of irresponsible lending: £nil (2020: £23.4m)

Significantly higher claims volumes were received by CCD in 2020 in respect of irresponsible lending of home credit loans. £23.4m was provided at 31 December 2020 for the claims received for irresponsible lending. This reflected the recent uphold rates and settlement values. The provision also assumed a settlement rate of customer claims to the date of the Practice Statement Letter (PSL) being issued on 15 March 2021, as part of the Scheme of Arrangement (the Scheme). These amounts were fully utilised during the first half of 2021.

FCA investigation into CCD: £4.1m (2020: £nil)

CCD was informed in Q1'21, that the FCA had opened an enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process, in the period between February 2020 and February 2021. Discussions continue with the FCA on this matter. Analysis of lending during the period of investigation has resulted in a provision of £5m being recognised which reflects the current best estimate of the settlement; £0.9m of this was utilised in the second half of the year.

26 Provisions continued

The Scheme of Arrangement (the Scheme): Group: £53.5m (2020: £65m) Company: £3.5m (2020: £nil) continued

ROP Provision: £2.1m (2020: £2.6m)

The remaining ROP provision of £2.1m (2020: £2.6m) principally reflects the estimated cost of the forward flow of ROP complaints more generally which may be received and in respect of which compensation may need to be paid.

Customer compliance: £3.4m (2020: £nil)

The customer compliance provision relates to general customer compliance matters.

Discontinued operations: £9.0m (2020: £nil)

A number of smaller provisions have been recognised in relation to the closure of the CCD business. These have been calculated based on estimated costs at the year end.

27 Financial instruments

(a) Classification and measurement

The following table sets out the carrying value of the Group'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:

	2021			
Group	Investment/ derivative held at FVTPL £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets				
Cash and cash equivalents	–	717.7	–	717.7
Amounts receivable from customers	–	1,677.7	–	1,677.7
Trade and other receivables	–	16.3	2.5	18.8
Investments held at fair value through profit and loss	9.1	–	–	9.1
Property, plant and equipment	–	–	8.4	8.4
Right of use assets	–	–	47.9	47.9
Goodwill	–	–	71.2	71.2
Other intangible assets	–	–	52.3	52.3
Retirement benefit asset	–	–	112.2	112.2
Derivative financial instruments	3.1	–	–	3.1
Deferred tax assets	–	–	6.9	6.9
Total assets	12.2	2,411.7	301.4	2,725.3
Liabilities				
Retail deposits	–	(1,018.5)	–	(1,018.5)
Bank and other borrowings	–	(845.2)	–	(845.2)
Trade and other payables	–	(95.6)	–	(95.6)
Lease liabilities	–	(58.9)	–	(58.9)
Current tax liabilities	–	–	(3.8)	(3.8)
Provisions	–	–	(72.1)	(72.1)
Total liabilities	–	(2,018.2)	(75.9)	(2,094.1)

27 Financial instruments continued

(a) Classification and measurement continued

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

	2020				
Group	Investment held at fair value through OCI £m	Derivative held at fair value through P&L £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets					
Cash and cash equivalents	–	–	919.7	–	919.7
Amounts receivable from customers	–	–	1,799.8	–	1,799.8
Trade and other receivables	–	–	18.7	17.0	35.7
Investments held at fair value through other comprehensive income	9.2	–	–	–	9.2
Property, plant and equipment	–	–	–	15.5	15.5
Right of use assets	–	–	–	58.0	58.0
Goodwill	–	–	–	71.2	71.2
Other intangible assets	–	–	–	45.3	45.3
Retirement benefit asset	–	–	–	79.7	79.7
Deferred tax assets	–	–	–	44.0	44.0
Total assets	9.2	–	2,738.2	330.7	3,078.1
Liabilities					
Retail deposits	–	–	(1,683.2)	–	(1,683.2)
Bank and other borrowings	–	–	(520.0)	–	(520.0)
Trade and other payables	–	–	(64.9)	–	(64.9)
Derivative financial instruments	–	(1.3)	–	–	(1.3)
Lease liabilities	–	–	(69.4)	–	(69.4)
Current tax liabilities	–	–	–	(0.6)	(0.6)
Provisions	–	–	–	(91.0)	(91.0)
Total liabilities	–	(1.3)	(2,337.5)	(91.6)	(2,430.4)

Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

	2021		
Company	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets			
Cash and cash equivalents	206.6	–	206.6
Trade and other receivables	1,050.0	3.2	1,053.2
Property, plant and equipment	–	1.2	1.2
Right of use assets	–	15.3	15.3
Investment in subsidiaries	–	225.4	225.4
Retirement benefit asset	–	112.2	112.2
Total assets	1,256.6	357.3	1,613.9
Liabilities			
Bank and other borrowings	(395.3)	–	(395.3)
Trade and other payables	(386.7)	–	(386.7)
Lease liabilities	(18.9)	–	(18.9)
Provisions	–	(3.5)	(3.5)
Deferred tax liabilities	–	(22.6)	(22.6)
Total liabilities	(800.9)	(26.1)	(827.0)

27 Financial instruments continued
(a) Classification and measurement continued

Company	2020 Amortised cost £m	2020 Non-financial assets/ liabilities £m	2020 Total £m
Assets			
Cash and cash equivalents	59.1	–	59.1
Trade and other receivables	1,047.5	3.1	1,050.6
Property, plant and equipment	–	1.6	1.6
Right of use assets	–	17.9	17.9
Investment in subsidiaries	–	230.9	230.9
Retirement benefit asset	–	79.7	79.7
Total assets	1,106.6	333.2	1,439.8
Liabilities			
Bank and other borrowings	(369.0)	–	(369.0)
Trade and other payables	(264.8)	–	(264.8)
Lease liabilities	(21.9)	–	(21.9)
Current tax liabilities	–	(1.1)	(1.1)
Deferred tax liabilities	–	(14.2)	(14.2)
Total liabilities	(655.7)	(15.3)	(671.0)

(b) Fair values of financial assets and liabilities held at fair value
The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy on the degree to which the fair value is observable.

The following financial assets and liabilities are held at fair value:

Group	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m
Investments held at fair value through P&L:						
– Visa Inc shares	–	–	9.1	–	–	–
Investments held at fair value through OCI:						
– Visa Inc shares	–	–	–	–	–	9.2
Derivative held at fair value through P&L:						
– balance guaranteed swap	–	–	3.1	–	–	(1.3)
Total	–	–	12.2	–	–	7.9

Level 1 fair value measurements are those derived from quoted market prices in active markets for identical assets and liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted market prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group holds Visa shares and the balance guaranteed swap in Level 3.

Transfers between the different levels of the fair value hierarchy would be made when the inputs used to measure the fair value no longer satisfy the conditions required to be classified in a certain level within the hierarchy. There have been no transfers between levels in the current or prior year.

27 Financial instruments continued

(b) Fair values of financial assets and liabilities held at fair value continued

Visa Inc shares

The valuation has been determined using a combination of observable and non-observable inputs. As the common stock share price of Visa Inc is readily available, this input is deemed to be observable. However, certain assumptions have been made in respect of the illiquidity adjustment to the share price and the likelihood of future litigation costs. These inputs are therefore deemed to be a significant unobservable input.

The following table sets out their movement during the year:

	Group	
	2021 £m	2020 £m
At 1 January	9.2	16.6
(Losses)/gain recognised in income statement	(0.1)	3.8
Disposal of investment	–	(11.2)
At 31 December	9.1	9.2

The illiquidity adjustment for the shares still held has been estimated at around 6% and the expected future litigation costs have been estimated at around 15% of the Visa Inc share price. These assumptions are consistent with 2020.

The higher the illiquidity and future litigation costs the lower the fair value. The sensitivity to the unobservable inputs, in isolation, is set out in the table below:

	Group	
	2021 £m	2020 £m
Illiquidity +/-1%	0.1	0.1
Future litigation costs +/-1%	0.1	0.1

Balance guaranteed swap

The Group entered into a balance guaranteed swap to manage the interest rate risk on the vehicle finance securitisation. The following table sets out the movement during the year:

	Group	
	2021 £m	2020 £m
At 1 January	(1.3)	–
Fair value gain/(loss) recognised in income statement	4.4	(1.3)
At 31 December	3.1	(1.3)

The fair value gain recognised in the income statement of £3.1m is before hedge accounting is applied. The effect of applying hedge accounting reduced the gain to £0.2m.

Whilst the swap is linked to SONIA, it has a non-standard repayment curve as it is tailored to match the expected repayment profile of the vehicle finance receivables. This is a combination of the remaining contractual term and an assumption about prepayment rates. Both of these are deemed to be unobservable inputs with the prepayment rate being the significant input. A 5% movement on the prepayment rate would not have a material impact on the Group's profit before tax.

27 Financial instruments continued

(c) Fair values of financial assets and liabilities not held at fair value

The table below shows the fair value of financial assets and liabilities not presented at fair value in the balance sheet:

Group	2021 Fair value £m	2021 Book value £m	2020 Fair value £m	2020 Book value £m
Assets				
Cash and cash equivalents	717.7	717.7	919.7	919.7
Amounts receivable from customers	2,063.8	1,677.7	2,246.5	1,799.8
Trade and other receivables	18.8	18.8	35.7	35.7
Total assets	2,800.3	2,414.2	3,201.9	2,755.2
Liabilities				
Retail deposits	(1,026.4)	(1,018.5)	(1,703.7)	(1,683.2)
Bank and other borrowings	(878.1)	(845.2)	(533.6)	(520.0)
Trade and other payables	(95.6)	(95.6)	(64.9)	(64.9)
Lease liabilities	(58.9)	(58.9)	(69.4)	(69.4)
Total liabilities	(2,059.0)	(2,018.2)	(2,371.6)	(2,337.5)

Company	2021 Fair value £m	2021 Book value £m	2020 Fair value £m	2020 Book value £m
Assets				
Cash and cash equivalents	206.6	206.6	59.1	59.1
Trade and other receivables	1,053.2	1,053.2	1,050.6	1,050.6
Total assets	1,259.8	1,259.8	1,109.7	1,109.7
Liabilities				
Bank and other borrowings	(413.4)	(395.3)	(369.5)	(369.0)
Trade and other payables	(386.7)	(386.7)	(264.8)	(264.8)
Lease liabilities	(18.9)	(18.9)	(21.9)	(21.9)
Total liabilities	(819.0)	(800.9)	(656.2)	(655.7)

Key considerations in the calculation of fair values of those financial assets and liabilities not presented at fair value in the balance sheet are set out below. Where there is no significant difference between carrying value and fair value no additional information has been presented.

The fair value of amounts receivable from customers has been derived by discounting expected future cash flows (net of collection costs) at the credit risk-adjusted discount rate at the balance sheet date. They are categorised within Level 3 as the expected future cash flows and discount rate are deemed to be significant unobservable inputs.

The fair value of retail deposits has been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date and they are categorised within Level 3 of the fair value hierarchy as the expected future cash flows are deemed to be significant unobservable inputs.

Within bank and other borrowings, the Tier 2 capital, senior public bonds and retail bonds are classed as Level 1 as they are valued within quoted market prices. The TFSME and RCF are floating rate instruments with a fair value equivalent to book value. The fair value of the securitisation was calculated using a discounted cash flow and is classed as level 3. Whilst it uses publicly available information for the discount rate, the cash flow forecast is not publicly available.

28 Share capital

Group and Company		2021 Issued and fully paid	2020 Issued and fully paid
Ordinary shares of 20 8/11p each	– £m	52.6	52.6
	– number (m)	253.7	253.6

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28 Share capital continued

The movement in the number of shares in issue during the year was as follows:

Group and Company	2021 m	2020 m
At 1 January	253.6	253.4
Shares issued pursuant to the exercise/vesting of options and awards	0.1	0.2
At 31 December	253.7	253.6

The shares issued pursuant to the exercise/vesting of options and awards comprised 83,755 ordinary shares (2020: 237,193) with a nominal value of £17,360 (2020: £49,164) and an aggregate consideration of less than £0.1m (2020: £0.1m).

Provident Financial plc sponsors the Provident Financial plc 2007 Employee Benefit Trust (EBT) which is a discretionary trust established for the benefit of the employees of the Group. The Company has appointed SG Kleinwort Hambros Trust Company (CI) Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2021, the EBT held 2,846,456 (2020: 2,857,442) shares in the Company with a cost of £0.6m (2020: £0.6m) and a market value of £10.3m (2020: £8.8m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Deferred Bonus Plan (previously the 2013 Performance Share Plan), the Restricted Share Plan and the Company Share Option Plan.

29 Share-based payments

The Group issues share options and awards to employees as part of its employee remuneration packages. The Group operates five equity-settled share schemes: the Long Term Incentive Scheme (LTIS), the Restricted Share Plan (RSP), the Company Share Option Plan (CSOP), employees' savings-related share option schemes typically referred to as Save As You Earn schemes (SAYE), and the Deferred Bonus Plan (DBP) (previously the Performance Share Plan (PSP)).

The Group also operates a cash-settled share incentive scheme, the Provident Financial Equity Plan (PFEP), for eligible employees based on a percentage of salary; no awards have been granted since 2018.

No awards have been granted under the LTIS in 2021. Certain employees who were granted shares under the 2020 LTIS had the option to forfeit those shares in November 2020 and replace them with an award under the RSP and CSOP. This has been treated as a modification under IFRS 2 and an incremental charge recognised for the new awards.

When an equity-settled share option or award is granted, a fair value is calculated based on the share price at grant date, the probability of the option/award vesting, the Group's recent share price volatility, and the risk associated with the option/award. A fair value is calculated based on the value of awards granted and adjusted at each balance sheet date for the probability of vesting against performance conditions.

The fair value of all options/awards is charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

During 2021, awards/options have been granted under the RSP/CSOP and SAYE (UK) schemes (2020: awards/options have been granted under the LTIS, DBP, RSP/CSOP and SAYE (UK only)).

(a) Equity-settled schemes

The charge to the income statement in 2021 for equity-settled schemes was £3.8m for the Group (2020: £2.3m) and £1.7m for the Company (2020: £0.7m). The charge included £0.8m (2020: £0.9m) in respect of discontinued operations.

The fair value per award/option granted and the assumptions used in the calculation of the equity-settled share-based payment charges for the Group and the Company are as follows:

	2021		2020			
Group	RSP/CSOP	SAYE	RSP/CSOP	DBP	LTIS	SAYE
Grant date	18 Aug 2021	5 Oct 2021	9 Nov 2020	30 Mar 2020	30 Mar 2020	7 Oct 2020
Share price at grant date (£)	3.43	3.32	2.73	2.02	2.02	2.19
Exercise price (£)	–	2.84	–	–	–	1.82
Shares awarded/under option (number)	1,657,986	403,204	2,157,605	237,193	3,767,551	3,495,925
Vesting period (years)	3	3 and 5	3	3	3	3 and 5
Expected volatility	61.2%	61.5%–78.5%	68.2%	85.0%	85.0%	68.5%–76.0%
Award/option life (years)	3	Up to 5	3	3	3	Up to 5
Expected life (years)	3	Up to 5	3	3	3	Up to 5
Risk-free rate	–	0.5%–0.7%	–	–	0.13%	(0.01%)–(0.06%)
Expected dividends expressed as a dividend yield	n/a	5.1%–6.0%	n/a	n/a	n/a	6.8%
Fair value per award/option (£)	3.34	1.06– 1.33	2.41	2.20	1.42	0.71–0.80

29 Share-based payments continued

(a) Equity-settled schemes continued

	2021		2020			
Company	RSP/CSOP	SAYE	RSP/CSOP	DBP	LTIS	SAYE
Grant date	18 Aug 2021	5 Oct 2021	9 Nov 2020	30 Mar 2020	30 Mar 2020	7 Oct 2020
Share price at grant date (£)	3.43	3.32	2.73	2.02	2.02	2.19
Exercise price (£)	–	2.84	–	–	–	1.82
Shares awarded/under option (number)	947,693	46,953	934,625	172,863	1,788,694	304,577
Vesting period (years)	3	3 and 5	3	3	3	3 and 5
Expected volatility	61.2%	61.5%–78.5%	68.2%	85.0%	85.0%	68.5%–76.0%
Award/option life (years)	3	Up to 5	3	3	3	Up to 5
Expected life (years)	3	Up to 5	3	3	3	Up to 5
Risk-free rate	–	0.5%–0.7%	–	–	0.13%	(0.01%)–(0.06%)
Expected dividends expressed as a dividend yield	n/a	5.1%–6.0%	n/a	n/a	n/a	6.80%
Fair value per award/option (£)	3.34	1.06– 1.33	2.41	2.20	1.38	0.71–0.80

The expected volatility is based on historical volatility over the last three or five years depending on the length of the option/award. 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 award/share option movements during the year is shown below:

	RSP/CSOP		DBP/PSP		LTIS		SAYE	
Group	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2021	2,157,605	–	322,991	–	2,389,447	–	4,424,320	2.32
Awarded/granted	1,657,986	–	–	–	–	–	403,204	2.84
Lapsed	(227,590)	–	–	–	(1,549,255)	–	(1,774,090)	2.77
Exercised	–	–	–	–	–	–	(118,124)	1.82
Outstanding at 31 December 2021	3,588,001	–	322,991	–	840,192	–	2,935,310	2.15
Exercisable at 31 December 2021	–	–	–	–	–	–	64,192	5.38

	RSP/CSOP		DBP/PSP		LTIS		SAYE	
Group	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2020	–	–	196,492	–	3,121,418	–	2,674,402	3.87
Awarded/granted	2,157,605	–	237,193	–	3,767,551	–	3,495,925	1.82
Cancelled	–	–	–	–	(3,144,898)	–	–	–
Lapsed	–	–	(62,171)	–	(1,354,624)	–	(1,745,460)	3.68
Exercised	–	–	(48,523)	–	–	–	(547)	17.07
Outstanding at 31 December 2020	2,157,605	–	322,991	–	2,389,447	–	4,424,320	2.32
Exercisable at 31 December 2020	–	–	–	–	–	–	–	–

The amounts included in the RSP/CSOP table reflect the total amount of shares awarded under both schemes.

29 Share-based payments continued

(a) Equity-settled schemes continued

Share awards outstanding under the LTIS at 31 December 2021 had an exercise price of £nil (2020: £nil) and a weighted average remaining contractual life of 0.3 years (2020: 0.9 years). Share options outstanding under the SAYE schemes at 31 December 2021 had exercise prices ranging from 182p to 1,723p (2020: 182p to 1,707p) and a weighted average remaining contractual life of 2.3 years (2020: 2.9 years). Share awards outstanding under the DBP/PSP schemes at 31 December 2021 had an exercise price of £nil (2020: £nil) and a weighted average remaining contractual life of 1.0 year (2020: 2.0 years). Share awards outstanding under the RSP at 31 December 2021 had an exercise price of £nil (2020: £nil) and a weighted average remaining contractual life of 2.2 years (2020: 2.9 years). Share awards outstanding under the CSOP at 31 December 2021 had an exercise price ranging from 241p to 334p (2020: 241p) and a weighted average remaining contractual life of 2.2 years (2020: 2.9 years).

Cash awards were granted under the PFEP to eligible employees that require the Group to pay amounts linked to a combination of salary, and the financial performance and share price performance of Provident Financial plc. The credit to the income statement in 2021 was £0.5m (2020: £0.6m) and the Group has a liability of £nil as at 31 December 2021 (2020: £0.5m).

	RSP/CSOP		DBP/PSP		LTIS		SAYE	
Company	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2021	934,625	–	242,170	–	1,279,367	–	340,836	2.03
Awarded/granted	947,693	–	–	–	–	–	46,953	2.84
Lapsed	(101,900)	–	–	–	(775,226)	–	(56,757)	2.58
Transferred	70,764	–	–	–	29,308	–	–	–
Exercised	–	–	–	–	–	–	–	–
Outstanding at 31 December 2021	1,851,182	–	242,170	–	533,449	–	331,032	2.05
Exercisable at 31 December 2021	–	–	–	–	–	–	1,204	5.38

	RSP/CSOP		DBP/PSP		LTIS		SAYE	
Company	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2020	–	–	146,776	–	1,259,432	–	162,617	3.45
Awarded/granted	934,625	–	172,863	–	1,788,694	–	304,577	1.82
Cancelled	–	–	–	–	(1,615,578)	–	–	–
Lapsed	–	–	(40,055)	–	(153,181)	–	(126,358)	3.33
Exercised	–	–	(37,414)	–	–	–	–	–
Outstanding at 31 December 2020	934,625	–	242,170	–	1,279,367	–	340,836	2.03
Exercisable at 31 December 2020	–	–	–	–	–	–	–	–

Share awards outstanding under the LTIS at 31 December 2021 had an exercise price of £nil (2020: £nil) and a weighted average remaining contractual life of 0.2 years (2020: 0.9 years). Share options outstanding under the SAYE schemes at 31 December 2021 had exercise prices ranging from 182p to 538p (2020: 182p to 333p) and a weighted average remaining contractual life of 2.3 years (2020: 2.9 years). Share awards outstanding under the DBP/PSP schemes at 31 December 2021 had an exercise price of £nil (2020: £nil) and a weighted average remaining contractual life of 1.0 year (2020: 2.0 years). Share awards outstanding under the RSP at 31 December 2021 had an exercise price of £nil (2020: £nil) and a weighted average remaining contractual life of 2.3 years (2020: 2.9 years). Share awards outstanding under the CSOP at 31 December 2021 had an exercise price ranging from 241p to 334p (2020: 241p) and a weighted average remaining contractual life of 2.3 years (2020: 2.9 years).

There was no liability in the Group or Company in relation to the PFEP at 31 December 2021.

(b) Cash-settled scheme

Cash awards were granted under the PFEP to eligible employees that require the Group and Company to pay amounts linked to a combination of salary, and the financial performance and share price performance of Provident Financial plc. No awards have been granted since 2018. The credit to the income statement in 2021 was £0.5m for the Group (2020: £0.6m) and £nil for the Company (2020: £nil). The Group has a liability of £nil as at 31 December 2021 (2020: £0.5m) and £nil for the Company (2020: £nil).

30 Other reserves

Group	Profit retained by subsidiary £m	Capital redemption reserve £m	Share-based payment reserve £m	Fair value reserve £m	Total other reserves £m
At 1 January 2020	0.8	3.6	6.7	6.6	17.7
Other comprehensive income/(expense):					
– fair value movements in investments (note 14)	–	–	–	3.8	3.8
– tax on items taken directly to other comprehensive income (note 6)	–	–	–	(1.0)	(1.0)
– impact of change in UK tax rate	–	–	–	(0.2)	(0.2)
– deferred tax release on disposal of investment	–	–	–	(2.0)	(2.0)
– current tax recognised on disposal of investment	–	–	–	2.0	2.0
Other comprehensive income for the year	–	–	–	2.6	2.6
Transfer of cumulative gain on disposal of investment	–	–	–	(7.4)	(7.4)
Transfer of tax on disposal of investment	–	–	–	2.0	2.0
Share-based payment charge (note 29)	–	–	2.3	–	2.3
Transfer of share-based payment reserve on vesting of share awards	–	–	(2.6)	–	(2.6)
At 31 December 2020	0.8	3.6	6.4	3.8	14.6
At 1 January 2021	0.8	3.6	6.4	3.8	14.6
Other comprehensive income/(expense):					
– fair value movements transferred to income statement (note 14)	–	–	–	(5.2)	(5.2)
– tax on items taken directly to other comprehensive income (note 6)	–	–	–	1.4	1.4
Other comprehensive income for the year	–	–	–	(3.8)	(3.8)
Share-based payment charge (note 29)	–	–	3.8	–	3.8
Transfer of share-based payment reserve on vesting of share awards	–	–	(4.8)	–	(4.8)
At 31 December 2021	0.8	3.6	5.4	–	9.8

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

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

The movements in 2021 through the fair value reserve reflect the transfer of investments held at fair value through other comprehensive income to fair value through P&L, net of deferred tax (see note 14).

Company	Capital redemption reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2020	3.6	6.7	10.3
Share-based payment charge (note 29)	–	0.7	0.7
Transfer of share-based payment reserve on vesting of share awards	–	(1.2)	(1.2)
Share-based payment movement in investment in subsidiaries	–	0.2	0.2
At 31 December 2020	3.6	6.4	10.0
At 1 January 2021	3.6	6.4	10.0
Share-based payment charge (note 29)	–	1.7	1.7
Transfer of share-based payment reserve on vesting of share awards	–	(0.8)	(0.8)
Share-based payment movement in investment in subsidiaries	–	(1.9)	(1.9)
At 31 December 2021	3.6	5.4	9.0

Company distributable reserves include: (i) retained earnings, adjusted to reflect the unrealised gain on the retirement benefit asset; (ii) share-based payment reserve, net of deferred tax and the IFRIC 11 adjustment; and (iii) merger reserve. The distributable reserves do not include distributable reserves currently held within subsidiary companies.

31 Related party transactions

The Company recharges the pension scheme referred to in note 20 with a proportion of the costs of administration and professional fees incurred by the Company. The total amount recharged during the year was £0.3m (2020: £0.7m) and the Company amount payable to the pension scheme at 31 December 2021 was £0.1m (2020: £0.1m).

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

	2021			2020		
Company	Management recharge £m	Interest credit £m	Outstanding balance £m	Management recharge £m	Interest credit £m	Outstanding balance £m
Vanquis Bank	8.4	4.4	(35.6)	5.2	1.7	(58.6)
Moneybarn	3.5	–	–	2.0	(24.5)	–
CCD	3.6	–	16.5	6.9	(9.9)	(15.5)
Provident Financial Holdings	–	(52.6)	739.5	–	–	890.5
Other central companies	1.3	–	63.1	–	–	99.6
Total related party transactions	16.8	(48.2)	783.5	14.1	(32.7)	916.0

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

In August 2020 Vanquis Bank provided the Company with a £70m intercompany loan facility to allow upstream funding. The loan has a two-year term and an interest rate of 6.25%. The loan has been fully utilised since it was provided; the balance outstanding at 31 December 2021 and 2020 was £70m. The difference of £34.4m (2020: £11.4m) to the outstanding balance reflects year-end management recharges and Group relief on trading losses which were settled shortly after the year end by Vanquis Bank.

In December 2020, a new subsidiary holding company, Provident Financial Holdings Limited (PFH), was incorporated which simplified the intercompany relationships across the Group. As part of that process certain intercompany loans with Moneybarn and CCD were transferred from the Company to PFH and equivalent loans were entered into between the Company and PFH.

A revolving loan facility of £340m is provided to Provident Personal Credit Limited from PFH which is reviewed every three months. A £684m facility is provided to Moneybarn No. 1 Limited which is reviewed every 12 months and an upwards funding facility of £396m provided from Moneybarn No. 1 Limited to PFH. The intercompany loans accrue interest at the Company's monthly weighted average cost of funds plus a margin.

The outstanding balance represents the gross intercompany balance receivable by the Company, against which a provision of £105.2m (2020: £123.8m) is held. The reduction of £18.6m in 2021 relates to impairment of CCD intercompany loans of £16.5m offset by a release of intercompany provisions of £35.1m. This release was offset in the income statement by a corresponding increase in investment provisions. The net charge to the income statement for both intercompany and investment provisions in 2021 is therefore £16.5m (2020: credit of £2.4m).

PFH approved and paid dividends totalling £85m in 2021 (2020: £nil). PFH received equivalent dividends from Vanquis Bank. In 2020 Vanquis Bank paid dividends of £110m direct to the Company.

Direct Auto Finance Insurance Services Limited approved and paid dividends totalling £3.8m in 2021 (2020: £nil).

There are no transactions with directors other than those disclosed in the Directors' Remuneration Report.

32 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty exists regarding the outcome of future events and the obligation cannot be measured with sufficient reliability.

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

In July 2017, Provident Personal Credit Limited (PPC) changed its 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.

It is understood from discussions with HMRC that they commenced an industry-wide review of the self-employed status of agents in 2019. The Group'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, have remained in the initial fact-finding stages. The Group has continued to work positively and collaboratively with HMRC but it remains the case that HMRC has reached no decision on the position.

Were the Group to be unsuccessful in defending the historic self-employed position of agents with HMRC, PPC could be liable for additional taxes, including employer's National Insurance contributions, on the commission it paid to agents in the UK for the years concerned. However, PPC does not know the amounts of tax and National Insurance contributions paid by agents through self-assessment which are available for offset, and it is therefore difficult to calculate an accurate liability should the Group be unsuccessful in defending the position. HMRC has raised protective assessments on PPC which have been appealed pending the outcome of the review. These are a procedural matter to ensure that, in the event the review concludes that taxes are payable, HMRC can recover such amounts that would otherwise be excluded due to the lapse of statutory time limits.

32 Contingent liabilities continued

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

The Group has worked with HMRC over many years to manage employment status risk and it remains confident, based on advice received, that agents were self-employed as a matter of law throughout their engagement by PPC.

PPC has now completed the managed run-off of its home credit business, which has not resulted in a surplus for creditors of the Scheme of Arrangement, or more generally, and the company is expected ultimately to be placed into formal wind-down proceedings. Any contingent liabilities in respect of any additional tax liabilities would then be dealt with as part of those proceedings.

(b) Other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, agents, customers, investors or third parties. This extends to legal and regulatory reviews, challenges, investigations and enforcement actions combined with tax authorities taking a view that is different to the view the Group has taken on the tax treatment in its tax returns, both in the UK and overseas. All such material matters are periodically assessed, with the assistance of external professional advisors, where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established for management's best estimate of the amount required at the relevant balance sheet date. In some cases it may not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the merits of the case, and no provisions are held in relation to such matters. However, the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

33 Reconciliation of (loss)/profit after taxation to cash generated from/(used in) operations

		Group		Company	
	Note	2021 £m	2020 £m	2021 £m	2020 £m
(Loss)/profit after taxation		(32.1)	(83.4)	2.7	117.6
Adjusted for:					
– tax charge/(credit)	6	36.2	(30.1)	(19.5)	(2.0)
– finance costs	4	61.2	71.5	33.7	38.6
– exceptional costs/(gain) on redemption of bonds	4	3.9	(1.9)	–	–
– finance income		–	–	(51.7)	(58.0)
– dividends received	31	–	–	(88.8)	(110.0)
– share-based payment charge	29	3.8	2.3	1.7	0.7
– retirement benefit charge/(credit) prior to exceptional pension (credit)/charge	20	0.9	0.1	(1.8)	(3.8)
– exceptional pension (credit)/charge	20	(2.3)	0.7	(2.3)	0.7
– amortisation of intangible assets	18	18.2	15.1	–	–
– exceptional complaints provision in CCD	26	–	65.0	–	–
– provisions created in the year	26	22.4	45.5	5.0	–
– depreciation of property, plant and equipment and right of use assets	15	15.3	15.7	3.0	4.0
– (profit)/loss on disposal of property, plant and equipment	15	(0.3)	0.6	–	–
– profit on disposal of intangible assets	18	(0.4)	–	–	–
– profit on lease disposal	16	(1.2)	–	–	–
– provision for investment impairment		–	–	38.7	–
– provision for intercompany impairment		–	–	(18.6)	–
– exceptional release of provisions	26	–	(8.3)	–	–
– hedge ineffectiveness	24	(0.2)	0.7	–	–
Changes in operating assets and liabilities:					
– amounts receivable from customers		122.1	399.8	–	–
– trade and other receivables		12.7	11.6	11.1	(153.6)
– disposal of investments through intercompany		–	–	–	164.5
– trade and other payables		30.7	(6.8)	(6.3)	(50.2)
– provisions	26	(41.3)	(43.3)	(16.5)	–
– cumulative fair value movements on Visa shares transferred to income statement	14	(5.2)	–	–	–
– current year fair value movements on Visa shares	14	0.1	–	–	–
– contributions into the retirement benefit scheme	20	(4.0)	(4.2)	(1.3)	(0.3)
Cash generated from/(used in) operations		240.5	450.6	(110.9)	(51.8)

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33 Reconciliation of (loss)/profit after taxation to cash generated from/(used in) operations continued

The movement in amounts receivable from customers of £122.1m (2020: £399.8m) includes the non-cash movement in the impairment provision of £373.2m (2020: £103.9m).

Group	2021 £m	2020 £m
Cash movement in amounts receivable from customers	495.3	295.9
Non-cash provision movement – allowance account	(373.2)	103.9
Net movement in amounts receivable from customers	122.1	399.8

The table below details changes in the Group and Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	2021							
		Cash changes		Non-cash changes				
Group	1 January 2021 £m	Financing cash flows £m	Lease payments £m	Amortised fees £m	Interest paid £m	Included within overdrafts £m	Lease additions and disposals £m	31 December 2021 £m
Total borrowings (note 22)	(2,203.2)	335.5	–	(4.8)	11.0	(2.2)	–	(1,863.7)
Lease liabilities (note 25)	(69.4)	–	11.1	–	(1.5)	–	0.9	(58.9)
Total	(2,272.6)	335.5	11.1	(4.8)	9.5	(2.2)	0.9	(1,922.6)

	2020							
		Cash changes		Non-cash changes				
Group	1 January 2020 £m	Financing cash flows £m	Lease payments £m	Amortised fees £m	Interest paid £m	Included within overdrafts £m	Lease additions and disposals £m	31 December 2020 £m
Total borrowings (note 22)	(1,963.5)	(236.5)	–	(1.7)	(2.9)	1.4	–	(2,203.2)
Lease liabilities (note 25)	(78.3)	–	11.2	–	(1.9)	–	(0.4)	(69.4)
Total	(2,041.8)	(236.5)	11.2	(1.7)	(4.8)	1.4	(0.4)	(2,272.6)

	2021						
		Cash changes		Non-cash changes			
Company	1 January 2021 £m	Financing cash flows £m	Lease payments £m	Amortised fees £m	Interest paid £m	Included within overdrafts £m	31 December 2021 £m
Total borrowings (note 22)	(369.0)	(22.3)	–	(1.3)	(2.7)	–	(395.3)
Lease liabilities (note 25)	(21.9)	–	3.3	–	(0.3)	–	(18.9)
Total	(390.9)	(22.3)	3.3	(1.3)	(3.0)	–	(414.2)

	2020						
		Cash changes		Non-cash changes			
Company	1 January 2020 £m	Financing cash flows £m	Lease payments £m	Amortised fees £m	Interest paid £m	Included within overdrafts £m	31 December 2020 £m
Total borrowings (note 22)	(616.3)	247.4	–	(2.9)	2.0	0.8	(369.0)
Lease liabilities (note 25)	(24.9)	–	3.4	–	(0.4)	–	(21.9)
Total	(641.2)	247.4	3.4	(2.9)	1.6	0.8	(390.9)

34 Post balance sheet events

In line with the Group's funding strategy to place less reliance on this source of funding the Group exercised its contractual option to early repay the RCF on 30 March 2022, ahead of its contractual maturity in July 2023. The Group does not require the funding and did not plan to renew the facility. The headroom on committed facilities of £110m at 31 December 2021 would have reduced to £50m after repayment of the facility.

35 Details of subsidiary undertakings

The subsidiary undertakings of the Group at 31 December 2021 are shown below. The Company is the parent or ultimate parent of all subsidiaries and they are all 100% owned by the Group. All companies are incorporated within the UK with the exception of Erringham Holdings Limited, which is incorporated in Jersey.

Company name	Company number
Registered at No. 1 Godwin Street, Bradford BD1 2SU:	
Provident Financial Holdings Limited	13061852
Provident SPV Limited[1]	12988335
Vanquis Bank Limited[1]	2558509
Provident Financial Management Services Limited[1]	328933
Provident Personal Credit Limited[1]	146091
Greenwood Personal Credit Limited[1]	125150
N&N Simple Financial Solution Limited[1]	3803565
Cheque Exchange Limited[1]	2927947
Provident Investments Limited	4541509
PFG Corporate Services Limited[1]	13423666
Direct Auto Finance Insurance Services Limited[2]	3834656
Direct Auto Finance Limited[2]	3412137
Direct Auto Financial Services Limited[2]	3444409
Provfin Limited[1]	1879771
Provident Limited	575965
Provident Print Limited	2211204
Provident Yes Car Credit Limited	4253314
Provident Financial Group Limited (previously known as Yes Car Credit (Holdings) Limited)	194214
Yes Car Credit Limited	3459042
Aquis Cards Limited	7036307
HT Greenwood Limited[1]	954387
Peoples Motor Finance Limited	1078365
Policyline Limited	1294141
Provfin Investments Limited	953919
Provident Family Finance Limited	912244
Provfin No.1 Limited (previously known as Provident Financial Group Limited)	642504
Provident Financial Trustees (Performance Share Plan) Limited	4625062
The Provident Clothing and Supply Company Limited	509371
Registered at Athena House, Bedford Road, Petersfield, Hampshire GU32 3LJ:	
Moneybarn No. 1 Limited[1]	4496573
Duncton Group Limited[1]	6308608
Moneybarn Group Limited[1]	4525773
Moneybarn Limited[1]	2766324
Moneybarn No. 4 Limited[1]	8582214
Registered at 13 Castle Street, St. Helier, Jersey, Channel Islands JE4 5UT:	
Erringham Holdings Limited	39894

1 Companies whose immediate parent is not Provident Financial plc.
2 The companies were placed into members' voluntary liquidation on 22 July 2021 and the liquidations were subsequently closed on 28 March 2022.

35 Details of subsidiary undertakings continued

Company name	Company number
Registered at DWF LLP, No.2 Lochrin Square, 96 Fountainbridge, Edinburgh EH3 9QA:	
First Tower LP (1) Limited[1]	SC122077
First Tower LP (2) Limited[1]	SC125164
First Tower LP (3) Limited[1]	SC129388
First Tower LP (4) Limited[1]	SC118423
First Tower LP (5) Limited[1]	SC127062
First Tower LP (6) Limited[1]	SC127489
First Tower LP (7) Limited[1]	SC127807
First Tower LP (8) Limited[1]	SC118257
First Tower LP (9) Limited[1]	SC118428
First Tower LP (10) Limited[1]	SC118426
First Tower LP (11) Limited[1]	SC122181
First Tower LP (12) Limited[1]	SC129378
Lawson Fisher Limited[1]	SC004758

1 Companies whose immediate parent is not Provident Financial plc.

The following companies act as a vehicle to allow the securitisation of the Moneybarn customer receivables and Vanquis Bank's TFSME. These companies are not owned by Provident Financial plc but form part of the consolidated Group due to meeting the requirements of IFRS 10 'Consolidated Financial Statements'.

Company name	Company number
Registered at 5th Floor, 100 Wood Street, London, England EC2V 7EX:	
Moneybarn Financing Limited	12323134

Company name	Company number
Registered at 10th Floor, 5 Churchill Place, London, England E14 5HU:	
Oban Cards 2021-1 Holdings Limited	12754762
Oban Cards 2021-1 PLC	12757121
Oban Cards Receivables Trustee Limited	12756504

The following subsidiaries are taking an audit exemption and are therefore exempt from the requirement to the audit of accounts under section 479A of the Companies Act 2006.

Company name	Company number
Provident Investments Limited	4541509
Greenwood Personal Credit Limited	125150
N&N Simple Financial Solution Limited	3803565
Cheque Exchange Limited	2927947
Provfin Limited	1879771
Provident Limited	575965
Provident Print Limited	2211204
Provident Yes Car Credit Limited	4253314
Provident Financial Group Limited	194214
Duncton Group Limited	6308608
Moneybarn Group Limited	4525773
First Tower LP (1) Limited	SC122077
First Tower LP (2) Limited	SC125164
First Tower LP (3) Limited	SC129388
First Tower LP (4) Limited	SC118423
First Tower LP (5) Limited	SC127062
First Tower LP (6) Limited	SC127489
First Tower LP (7) Limited	SC127807
First Tower LP (8) Limited	SC118257
First Tower LP (9) Limited	SC118428
First Tower LP (10) Limited	SC118426
First Tower LP (11) Limited	SC122181
First Tower LP (12) Limited	SC129378

Report on the audit of the financial statements

1. Opinion

In our opinion:

– the financial statements of Provident Financial plc (the parent company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;

– the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;

– the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

– the consolidated income statement;

– the consolidated statement of comprehensive income;

– the consolidated and parent company balance sheets;

– the consolidated and parent company statements of changes in equity;

– the consolidated cash flow statement;

– the statement of accounting policies; and

– the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. 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 Group and the parent 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 (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 5 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – the estimation of expected credit losses in Vanquis Bank and Moneybarn; and – the valuation of the pension obligation. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group and parent company financial statements was £6.3m (2020: £6.5m) and £6.0m (2020: £6.1m) respectively which was determined on the basis of 1.0% of net assets.
Scoping	The Group is organised into two continuing operating segments: Vanquis Bank and Moneybarn. The Consumer Credit Division (CCD) no longer represents a continuing operating segment due to the closure of the division during 2021. CCD is therefore presented as a discontinued operation. As in the prior year, our Group audit scope focused on Vanquis Bank, Moneybarn and CCD which, together with the parent company, account for 100% of the Group's net assets.
Significant changes in our approach	We have re-focused our key audit matter in relation to the estimation of expected credit losses to Vanquis Bank and Moneybarn due to the closure of CCD and the remaining loan account balances being written off prior to the year end. We no longer identify provisions for liabilities under the Scheme of Arrangement in CCD as a key audit matter following approval of the Scheme by the Courts in August 2021 which reduced the level of management judgement required in determining customer redress. In the prior year we identified revenue recognition in Vanquis Bank as a key audit matter, specifically the appropriateness of the behavioural life assumption used to amortise directly attributable acquisition costs (DAC). We have revised our risk assessment as the expected behavioural life assumption is no longer considered as sensitive in the context of our materiality.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's stress testing and reverse stress testing analysis as well as consideration of the impact of ongoing macroeconomic factors and strategic projects in order to understand, challenge and assess the key judgements made by management using our knowledge of the Group, the industry and the regulatory environment;
- assessing management's capital and liquidity stress testing and calculation of Total Capital Ratio (TCR);
- obtaining an understanding of relevant controls around management's going concern assessment including Board approval;
- supported by our prudential regulation specialists:
  - reading the most recent Internal Capital Adequacy Assessment and Internal Liquidity Adequacy Assessment, assessing management's capital and liquidity projections, assessing the results of management's capital and liquidity stress testing and evaluating key assumptions and methods used in the capital and liquidity stress testing models; and
  - testing the mechanical accuracy of the forecasts, including reconciling opening capital and liquidity ratios to the year-end Common Reporting Framework regulatory submissions and assessing whether the year-end balance sheet within the model was consistent with the audited position;
- inspecting correspondence with regulators to understand the capital and liquidity requirements imposed on the Group by the Prudential Regulation Authority (PRA), and evaluating any changes to those requirements; and
- assessing the appropriateness of the disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Estimation of expected credit losses in Vanquis Bank and Moneybarn

Key audit matter description

The Group holds portfolios of receivables from credit card, personal loans and vehicle financing arrangements, totalling £1,677.7m (2020: £1,799.8m), net of provisions.

The IFRS 9 expected credit losses on amounts receivable from customers are calculated by modelling expected credit performance of the receivables' portfolios. During 2021 management has adopted new IFRS 9 models in Vanquis Bank and Moneybarn. The underlying modelling techniques are complex and require management to make significant judgements regarding the quantum and timing of expected future cash flows to calculate expected credit losses. Provisions for expected credit losses are an area of management judgement where there is a risk of fraud due to the potential ability of management to introduce inappropriate bias to judgements made in the estimation process.

IFRS 9 requires that an impairment assessment should be the best estimate of expected credit losses and that reasonable forward-looking information should be incorporated into the calculation as at the balance sheet date. The ongoing impacts of the Covid-19 pandemic, alongside uncertainties in the macroeconomic environment and inflationary pressures, mean there exists a wide range of scenarios with different loss outcomes. The key economic variables relevant for the Group's portfolio were determined to be the hazard rate, which is the likelihood of moving from employment to unemployment in a given time period, and debt-to-income (DTI) ratios. The hazard rate is not a widely used variable for which forecasts are published; however, there is a strong correlation between hazard rates and unemployment such that hazard rates can be predicted based on unemployment forecasts. There is significant judgement in determining the probability weighting of the scenarios adopted by management and the associated assumptions.

The Group's provision for impairment against loans and receivables is £614.9m (2020: £988.1m).

Within Vanquis Bank modelling techniques are applied by management to estimate the provision for expected credit losses on credit card receivables. Provisions for expected credit losses as at 31 December 2021 amounted to £359.4m (2020: £474.2m).

5. Key audit matters continued

5.1. Estimation of expected credit losses in Vanquis Bank and Moneybarn continued

Key audit matter description continued

The expected credit loss provision estimate is driven by account-specific estimation of probability of default (PD), exposure at default (EAD) and loss given default (LGD) which represent the key areas of judgement. We focused our work on the significant increases in credit risk (SICR) criteria and the valuation of Covid-19 in-model adjustments (IMAs).

The key area of challenge in relation to SICR is around the determination of the point at which a relative change in PD constitutes a SICR. Whilst historical data can be used to inform these thresholds it also requires significant management judgement to determine the criteria that best evidences this SICR.

The Covid-19 IMA reduced from £59.6m to £27.9m as at 31 December 2021. The IMA is designed to continue to adjust PDs to reflect that actual default experience observed in 2021 did not increase as anticipated. Furthermore, lower levels of utilisation of credit cards typically indicating a reduction in credit risk, are distorted by spending patterns in the pandemic and are unlikely to represent a genuine improvement in credit quality.

Within Moneybarn provisions for expected credit losses at 31 December 2021 were £255.5m (2020: £198.7m).

The expected credit loss provision estimate is driven by account-specific estimation of probability of default (PD), exposure at default (EAD) and loss given default (LGD) which represent the key areas of judgement. We focused our work on the significant increases in credit risk (SICR) criteria.

Further detail in respect of these is set out in the accounting policies on pages 203 to 205, in note 12 of the financial statements and also within the Strategic Report on page 105.

How the scope of our audit responded to the key audit matter

Control procedures

Within Vanquis Bank and Moneybarn we obtained an understanding of relevant controls relating to the identification, valuation and recording of expected credit losses.

Substantive procedures

We obtained an understanding of the new IFRS 9 methodology and its implementation in the new models in both Vanquis Bank and Moneybarn. We engaged our credit risk modelling specialists to assist in our assessment and challenge of management's methodology and evaluated whether the methodology is compliant with the requirements of IFRS 9. In performing these procedures, we further considered whether there were any indicators of bias in the methodology applied by management or in the estimation of the amount and timing of expected future cash flows, through a stand back assessment performed on the ECL coverage ratios derived from the new models.

In respect of the macroeconomic scenarios applied we engaged with our internal economics specialist to review the appropriateness of the shape of the hazard rate and DTI curves and the respective weightings attached to the curves, whilst also testing the underlying data used in this assessment for completeness and accuracy.

We benchmarked the underlying unemployment economic variables against various external sources including Her Majesty's Treasury forecasts, Office for Budget Responsibility forecasts, Bank of England Monetary Policy Report, Office for National Statistics and other available data.

We challenged the significant changes in credit risk (SICR) criteria within Vanquis Bank and Moneybarn, with the assistance of our credit risk modelling specialists, and assessed the staging criteria against the requirements of IFRS 9. In addition, we tested that the SICR thresholds had been appropriately implemented in the models through review of the underlying scripts, tested the completeness and accuracy of the historical data used to form the SICR thresholds and challenged management's conclusions regarding the appropriateness of the SICR threshold changes in the current macroeconomic environment.

We tested the valuation of Covid-19 IMAs for Vanquis Bank by evaluating and challenging the validity of the adjustments incorporated by management and testing their accuracy by challenging the model logic and the accuracy of underlying data. This included, where appropriate, a review and challenge of the methodology and scripts to value IMAs with support from our credit risk modelling specialists. We also considered, through a completeness assessment, whether inclusion or exclusion of IMAs by management was indicative of bias or fraud.

We also challenged, using the assistance of our credit risk modelling specialists, whether the potential impact of economic uncertainty, including inflation, had been appropriately incorporated into expected credit loss calculations through inclusion of reasonable forward-looking information. This resulted in an additional PMA of £7.8m being recognised in relation to inflation and cost of living expectations as at the balance sheet date.

Key observations

Based on our substantive testing we found that the provision for expected credit losses is appropriate. We considered the macroeconomic assumptions and weightings, SICR thresholds and IMAs in Vanquis to be appropriate and the data used in the models to be accurate.

5. Key audit matters continued

5.2. Valuation of the pension obligation

Key audit matter description	Under IAS 19, the value of the Group's defined benefit pension scheme is recognised on the Group's balance sheet, reflecting the fair value of the assets and an actuarial valuation of the liabilities of the scheme at the balance sheet date. The valuation of the pension obligation involves judgements in relation to inflation, discount and mortality rates. The most critical element identified was the discount rate assumption as set out in the sensitivity analysis in note 20. The pension obligation is £786.6m as at 31 December 2021 (2020: £853.3m). Further detail in respect of these assumptions is set out in the accounting policies on page 202 and note 20 of the financial statements and within the Audit Committee Report on page 157.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls surrounding the determination of the discount rate and other inputs used in the pension valuation. We used internal actuarial specialists to assist us in evaluating the appropriateness of the principal actuarial assumptions used in the calculation of the pension obligation being the discount rate, mortality rates and inflation rates. We also challenged and benchmarked management's assumptions against those used by a range of organisations as at 31 December 2021 and considered the consistency of those judgements compared with the prior year.
Key observations	All assumptions, including the discount rate adopted by management, are within what we considered to be an acceptable range.

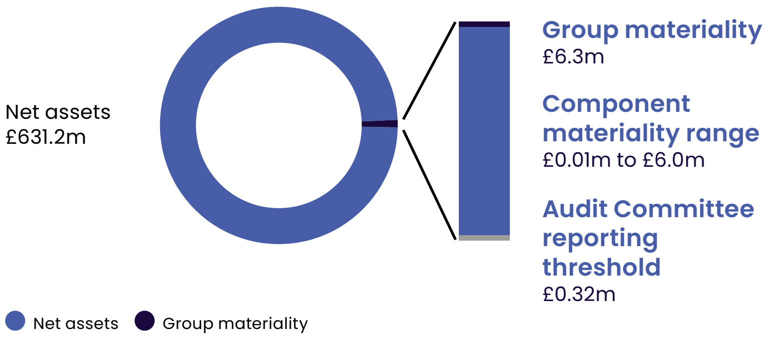
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£6.3m (2020: £6.5m)	£6.0m (2020: £6.1m)
Basis for determining materiality	1% of net assets (2020: 1% of net assets)	1% of net assets (2020: 1% of net assets)
Rationale for the benchmark applied	Our benchmark upon which materiality is determined is consistent with the prior period. We determined that net assets continue to be a more stable and relevant measure used by investors, regulators and stakeholders when assessing the performance and longer-term prospects of the Group and parent company as well as the importance of net assets to the Group's regulatory capital position.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of Group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered a number of factors, including: our understanding of the control environment and controls reliance obtained; our understanding of the business; and the number of uncorrected misstatements identified in the prior year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.32m (2020: £0.13m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The Group is organised into two continuing operating segments: Vanquis Bank and Moneybarn. CCD no longer represents a continuing operating segment due to the closure of the division during 2021. CCD is therefore presented as a discontinued operation. Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, and as in the prior year, our Group audit scope focused on Vanquis Bank, Moneybarn and CCD which, together with the parent company, account for 100% of the Group's net assets. Vanquis Bank, Moneybarn and CCD are audited by separate engagement teams led by the Group audit partner.

7.2. Our consideration of the control environment

We identified the financial reporting, lending and deposit business cycles to be the most relevant to the audit, including the identification, valuation and recording of expected credit losses. We were able to take a controls reliance approach over the Vanquis Bank credit card lending and deposit business cycles and with the assistance of our IT specialists we tested and relied upon IT controls across the credit card lending and deposit systems identified for Vanquis Bank only. Vanquis Bank outsources the processing of customer deposits and card transaction processing to a third party. We engaged with our IT specialists to review the service auditor's report. We have shared observations from our procedures with management and the Audit Committee. The assessment of the Group's internal control environment is set out on pages 154 to 155 and 161.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements.

The Group continues to develop its assessment of the potential impacts of climate change which is currently being considered using two scenarios: a low-carbon scenario and a high-carbon scenario, as explained in the Strategic Report on pages 68 to 73. Management has performed forward-looking qualitative scenario analysis to explore the potential range of climate change implications on the Group. Over the next year, the scenario analysis will include quantitative information to enhance their assessment.

As part of our audit, we have obtained management's climate-related risk assessment and held discussions with the Head of Sustainability, the Chief Risk Officer and Finance to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. Management has identified there to be no material impact arising from climate change on the judgements and estimates made in the financial statements as explained in accounting policies on page 203.

We performed our own qualitative and quantitative risk assessment of the potential impact of climate change material misstatement. Our procedures included reading disclosures included in the Strategic Report with the involvement of our climate change and sustainability specialists and audit team consideration as to whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information contained within the Annual Report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

9. 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 Group's and the parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. 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.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit Committee about its own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of its policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether it was aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether it has knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including pensions, tax, valuations, share-based payments, data analytics, information technology, prudential regulatory, fraud, macroeconomic and credit risk modelling specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the estimation of expected credit losses and valuation of the pension obligation. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulation set by the Financial Conduct Authority and by the Prudential Regulation Authority relating to the regulatory capital and liquidity requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified estimation of expected credit losses and valuation of the pension obligation as key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory bodies such as the Prudential Regulation Authority, the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with 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 light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement
The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 101;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 101;
- the directors' statement on fair, balanced and understandable set out on page 168;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 125;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 155; and
- the section describing the work of the Audit Committee set out on pages 153 to 157.

14. Matters on which we are required to report by exception
14.1. Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the directors on 29 June 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ended 31 December 2012 to 31 December 2021.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. 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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This Auditor's Report provides no assurance over whether the Annual Financial Report has been prepared using the single electronic format specified in the ESEF RTS.

Matthew Perkins (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
6 April 2022

In addition to statutory results and key performance indicators (KPIs) reported under International Financial Reporting Standards (IFRS), the Group provides certain alternative performance measures (APMs). These APMs are used internally by management and are also deemed helpful in understanding the Group's performance. These non-statutory measures should not be considered as replacements for IFRS measures. The definition of these non-statutory measures may not be comparable to similarly titled measures reported by other companies. All the below APMs are on continuing operations basis.

APM	Method of calculation	Relevance
Adjusted profit before tax – continuing operations	A reconciliation of adjusted profit before tax to statutory profit before tax for continuing operations, is shown below:	Adjusted profit before tax for continuing operations excludes the impact of amortisation of acquisition intangibles and exceptional items and is used to provide further clarity on the ongoing, underlying financial performance of the divisions and Group.

Year ended 31 December

Continuing operations	2021 Adjusted £m	2021 Exceptionals £m	2021 Amortisation £m	2021 Statutory £m	2020 Adjusted £m	2020 Exceptionals £m	2020 Amortisation £m	2020 Statutory £m
Revenue	534.6	–	–	534.6	615.4	–	–	615.4
Finance costs	(49.1)	(3.9)	–	(53.0)	(61.2)	1.3	–	(59.9)
Net interest margin	485.5	(3.9)	–	481.6	554.2	1.3	–	555.5
Impairment	(50.4)	–	–	(50.4)	(312.6)	–	–	(312.6)
Risk-adjusted net interest margin	435.1	(3.9)	–	431.2	241.6	1.3	–	242.9
Operating costs	(267.3)	(14.2)	(7.5)	(289.0)	(213.8)	(58.6)	(7.5)	(279.9)
Profit/(loss) before tax	167.8	(18.1)	(7.5)	142.2	27.8	(57.3)	(7.5)	(37.0)
– Credit cards	173.9				39.5			
– Vehicle finance	28.9				10.9			
– Personal loans	(8.7)				(1.5)			
– Central costs	(26.3)				(21.1)			
Adjusted profit before tax	167.8				27.8			

Adjusted profit before tax for continuing operations is stated before £7.5m (2020: £7.5m) of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 and exceptional items.

Exceptional items in 2021 represent net exceptional charges of £18.1m (2020: £57.3m) and comprise:

	2021 £m	2020 £m
Corporate costs including CCD closure	(11.5)	–
CCD Scheme of Arrangement costs and provision (note 26)	(5.0)	(65.0)
(Costs)/gain in respect of the redemption of bonds (note 4)	(3.9)	1.3
Pension credit/(charges) (note 20)	2.3	(0.7)
Release of provisions in respect of ROP refund programme (note 26)	–	8.3
Costs in respect of the new intermediate holding company (note 19)	–	(1.2)
Total exceptional items	(18.1)	(57.3)

APM	Method of calculation	Relevance
Net interest margin (NIM)[1]	Revenue less funding costs, excluding exceptional items, divided by the average receivables.	This measure shows the returns generated from customers to allow comparison to other banks and banking groups.

	2021 £m	2020 £m
Total revenue	534.6	615.4
Finance costs	(49.1)	(61.2)
NIM	485.5	554.2
Average receivables	1,616.0	1,767.1
NIM (%)	30.0%	31.4%

APM	Method of calculation	Relevance
Risk-adjusted net interest margin[1]	NIM less impairment, excluding exceptional items, divided by average receivables.	This measure shows the returns from customers after impairment charges.

	2021 £m	2020 £m
NIM	485.5	554.2
Impairment	(50.4)	(312.6)
Risk-adjusted NIM	435.1	241.6
Average receivables	1,616.0	1,767.1
Risk-adjusted NIM (%)	26.9%	13.7%

APM	Method of calculation	Relevance
Adjusted basic earnings per share (EPS)	Profit after tax, excluding the amortisation of acquisition intangibles and exceptional items, divided by the weighted average number of shares in issue (see note 7 for more details).	This is used to assess the Group's operational performance from continuing operations per ordinary share. It removes the effect of amortisation of acquisition intangibles and exceptional items.
Average receivables[1]	Average of receivables for the period ended 31 December.	This is used to smooth the seasonality of receivables across the divisions in calculating performance KPIs.

	2021 £m	2020 £m
Credit cards	1,003.3	1,207.4
Vehicle finance	593.8	533.1
Personal loans	18.9	26.6
Total average receivables	1,616.0	1,767.1

APM	Method of calculation	Relevance
Cost:income ratio[1]	Operating costs as a percentage of net interest margin.	This ratio is a measure of the efficiency of the Group's cost base.

	2021 £m	2020 £m
Net interest margin	485.5	554.2
Operating costs	(267.3)	(213.8)
Cost:income ratio	55.1%	38.6%

1 APMs related to continuing operations.

APM	Method of calculation	Relevance
Adjusted return on assets (ROA)[1]	Adjusted profit before interest after tax as a percentage of average receivables.	This measures the return a company generates from its assets prior to the impact of funding strategy for each division.

	2021 £m	2020 £m
Adjusted profit before tax	167.8	27.8
Interest	49.1	61.2
Adjusted profit before interest and tax	216.9	89.0
Tax (charge)/credit	(30.6)	5.8
Adjusted profit before interest after tax	186.3	94.8
Average receivables	1,616.0	1,767.1
ROA	11.5%	5.4%

APM	Method of calculation	Relevance
Adjusted return on equity (ROE)[1]	Adjusted profit after tax as a percentage of average equity. Equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments, net of deferred tax.	ROE shows the return being generated from the shareholders' equity retained in the business.

	2021 £m	2020 £m
Adjusted profit before tax	167.8	27.8
Tax (charge)/credit	(23.7)	1.8
Adjusted profit after tax	144.1	29.6
Average adjusted equity	564.5	624.4
ROE	25.5%	4.7%

Average equity	2021 £m	2020 £m
Equity as per balance sheet	631.2	647.7
Pension asset	(112.2)	(79.7)
Deferred tax on pension asset	28.0	15.1
Derivative financial instrument	(3.1)	1.3
Deferred tax on derivative financial instrument	0.8	(0.2)
Adjusted equity	544.7	584.2
Opening adjusted equity	584.2	664.6
Average adjusted equity	564.5	624.4

APM	Method of calculation	Relevance
Adjusted return on required equity (RORE)[1]	Adjusted profit after tax divided by the Group's average PRA regulatory capital requirement including PRA buffers for the period.	This demonstrates how well the Group's returns are reinvested and is an indicator of its growth potential.

	2021 £m	2020 £m
Adjusted profit before tax	167.8	27.8
Tax (charge)/credit	(23.7)	1.8
Adjusted profit after tax	144.1	29.6
Average equity requirement	442.6	471.9
RORE	32.6%	6.3%

Average equity requirement	2021 £m	2020 £m
Equity requirement	440.3	444.8
Opening equity requirement	444.8	499.0
Average equity requirement	442.6	471.9

APM	Method of calculation	Relevance
Adjusted return on tangible equity (ROTE)[1]	Adjusted profit after tax, divided by average tangible equity. Average tangible equity reflects average equity over the period less intangible assets and goodwill.	This demonstrates how well the Group's returns are generated from its tangible equity, removing the impact of whether development has occurred through organic or inorganic growth.

	2021 £m	2020 £m
Adjusted profit before tax	167.8	27.8
Tax (charge)/credit	(23.7)	1.8
Adjusted profit after tax	144.1	29.6
Average tangible equity	519.5	572.6
ROTE	27.7%	5.2%

Average tangible equity	£m	£m
Equity as per balance sheet	631.2	647.7
Intangible assets	(52.3)	(45.3)
Goodwill	(71.2)	(71.2)
Tangible equity	507.7	531.2
Opening tangible equity	531.2	614.0
Average tangible equity	519.5	572.6

APM	Method of calculation	Relevance
Funding headroom	Committed bank and debt facilities less borrowings on those facilities and amounts committed to further syndicated bank facility reduction, plus available cash and liquid resources (see note 22(j) for more details).	This represents the difference between the total amount of committed contractual debt facilities provided by banks, bond holders and other lenders and the amount of funds drawn on those facilities plus cash held on deposit.
Liquidity	Liquidity is the sum of all liquid resources held by Vanquis Bank Limited in the Bank of England reserve account, cash held with relationship bank (net of restricted funds) and available undrawn committed borrowing facilities.	
Customer satisfaction	The rate at which surveyed customers were satisfied (or more than satisfied) with the service they have been provided.	
Common equity tier 1 (CET1) ratio	The ratio of the Group's CET1 to the Group's risk-weighted assets measured in accordance with the CRR (see page 210 for more details).	The CET1 Ratio is a key measure of weather a firm has adequate CET1 to cover the risks associated with its assets.
Total capital ratio (TCR)	The ratio of the Group's total regulatory capital (own funds) to the Group's risk-weighted assets measured in accordance with the CRR.	The Total Capital Ratio is a key measure of whether a firm has adequate total regulatory capital to cover the risks associated with its assets.
Regulatory capital	Common Equity Tier 1 capital (CET1) is the sum of the Group's equity as calculated in accordance with IFRS, an accrued foreseeable dividend and regulatory adjustments. Tier 2 is the sum of capital instruments meeting the criteria for Tier 2 as set out in the Capital Requirements Regulation (CRR). Total available regulatory capital is the sum of these two elements for the Group (as the Group does not hold any Additional Tier 1 instruments). The calculation is set out under Capital Risk Management on page 210.	

3LOD	Three lines of defence
ABS	Asset-backed security
AGM	Annual General Meeting
APR	Annual percentage rate
BOE	Bank of England
CBI	Central Bank of Ireland
CCD	Consumer Credit Division
CCE	Customer, Culture and Ethics Committee
CDP	Carbon Disclosure Project
CEM	Customer Experience Managers
CEO	Chief Executive Officer
CET1	Common equity tier 1
CFO	Chief Finance Officer
CHRO	Chief Human Resources Officer
CJRS	Coronavirus Job Retention Scheme
CLI	Credit line increase
CMC	Claims management company
CPA	Continuous Payment Authority
CPC	Corporate Planning Conference
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSOP	Company Share Option Plan
CR	Corporate responsibility
DAM	Delegated Authorities Manual
DBP	Deferred Bonus Plan
DJSI World	Dow Jones Sustainability World Indices
DPO	Data Protection Officer
DRP	Directors' Remuneration Policy
DRR	Directors' Remuneration Report
DT	Default termination
DTR	Disclosure Guidance and Transparency Rules
DWF	Discount Window Facility
EAD	Exposure at default
EAP	Employee Assistance Programme
EBT	Employee Benefit Trust
ECL	Expected credit losses
EIR	Effective interest rate
EMS	Environmental Management System
EMTN	European Medium Term Notes
EPS	Earnings per share
ERMF	Enterprise Risk Management Framework
ESG	Environmental, Social and Corporate governance
EWI	Early warning indicators
FCA	Financial Conduct Authority
FLCR	First Line Controls Review
FOS	Financial Ombudsman Service
FY	Financial year
GERC	Group Executive Risk Committee
GM	General Meeting
HMRC	Her Majesty's Revenue and Customs
HQLA	High-quality liquid assets
HR	Human Resources
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
KPI	Key performance indicators
LBT	Loss before tax
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Inter-bank Offered Rate
LSO	Liquidity Support Operations
LTIS	Long Term Incentive Scheme
MB	Moneybarn
MP	Member of Parliament
NEET	Not in Education, Employment or Training
NHS	National Health Service
NIM	Net interest margin
OCI	Other comprehensive income
ORB	Order Book for Retail Bonds
PBT	Profit before tax
PD	Probability of default
PFEP	Provident Financial Equity Plan
PFG	Provident Financial Group plc
PFH	Provident Financial Holdings
PFMSL	Provident Financial Management Services Limited
PRA	Prudential Regulation Authority
PSD2	Payment Services Directive
PSP	Performance Share Plan
RAF	Risk appetite framework
RAM	Risk-adjusted margin
RBA	Role-based allowance
RC	Risk Committee
RCF	Revolving credit facility
RemCo	Remuneration Committee
RMF	Risk Management Framework
ROE	Return on equity
ROP	Release of provisions
RORE	Return on required equity
ROTE	Return on tangible equity
RSP	Restricted Share Plan
RTO	Return to office
SAYE	Save As You Earn
SDG	Sustainable Development Goal
SICR	Significant increase in credit risk
SID	Senior Independent Director
SIP	Social Impact Programme
SIP	Share Incentive Plan
SMCR	Senior Managers and Certification Regime
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
TCFD	Task Force on Climate-related Financial Disclosures
TFSME	Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises
TSR	Total shareholder return
UN	United Nations
UURBS	Unfunded Unapproved Retirement Benefits Scheme
VBC	Vanquis Bank cards
VLOG	Video log
VREQ	Voluntary Requirements Notice
VT	Voluntary termination

Share price
The Company's shares are listed on the London Stock Exchange under share code 'PFG.L'. The share price is quoted daily in a number of national newspapers and is available on the Group's website at www.providentfinancial.com.

Tax on dividends
The following information is intended to provide general guidance to individuals who are tax resident in the UK. It does not constitute professional advice. Shareholders who are in any doubt as to their personal tax position should seek their own professional advice, as should shareholders who are not resident in the UK.

A UK tax resident individual shareholder will be taxed on the total cash dividends you receive (the amount paid into your bank account) above the annual tax-free dividend allowance at the following rates:

- 7.5% for basic rate taxpayers;
- 32.5% for higher-rate taxpayers; and
- 38.1% for additional rate taxpayers.

The dividend allowance means that you can receive certain amounts of dividends tax free no matter what other non-dividend income you have in the tax year. The dividend allowance for the tax years from 2015/16 to 2016/17 was £5,000. This allowance was reduced to £2,000 from the 2018/19 tax year onwards.

From April 2022 the rate of tax on dividends will increase by 1.25%.

Registrar
The Company's registrar is:

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Shareholder helpline
For information relating to your shares call:
+44 (0)371 664 0300

Website helpline
For information on using our website call:
+44 (0)371 664 0391

Calls to 0371 are charged at the standard geographic rate and will vary by provider.

Calls outside the United Kingdom are charged at the applicable international rate.

We are open between 9.00am and 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Link Signal Hub
Link Asset Services offers a share portal service which enables registered shareholders to manage their Provident Financial plc shareholdings quickly and easily online. Once registered for this service, you will have access to your personal shareholding and a range of services including: setting up or amending dividend bank mandates, proxy voting and amending personal details. For further information visit www.linksignalhub.com.

Link Dividend Reinvestment Plan
Link Asset Services offers a Dividend Reinvestment Plan whereby shareholders can acquire further shares in the Company by using their cash dividends to buy additional shares. For further information contact Link Asset Services:

Telephone: 0371 664 0381 (from within the UK)

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +371 664 0381 (from outside the UK)

Special requirements
A PDF version of the full Annual Report and Financial Statements is available on our website.

Advisors

Independent auditor

Deloitte LLP
4 Brindley Place
Birmingham
B1 2HZ

Company advisors and stockbrokers

Barclays
1 Churchill Place
Canary Wharf
London
E14 5HP

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

Fenchurch Advisory Partners LLP
110 Bishopsgate
London
EC2N 4AY

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London
EC2A 2EG

Addleshaw Goddard LLP
Milton Gate
60 Chiswell Street
London
EC1Y 4AG

TLT LLP
1 Redcliff Street
Bristol
BS1 6TP

Company details

Registered office and contact details:

Provident Financial plc
No. 1 Godwin Street
Bradford
West Yorkshire
England
BD1 2SU

Telephone:
+44 (0)1274 351 351

Fax:
+44 (0)1274 730 606

Website:
www.providentfinancial.com

Company number

668987

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Provident Financial plc
No. 1 Godwin Street
Bradford
BD1 2SU
United Kingdom

+44 (0)1274 351 351

www.providentfinancial.com

Company number 668987

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