PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

CONTENTS

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

DIRECTORS' REPORT

Provident Financial Management Services Limited (the 'company') is a wholly-owned subsidiary of Provident Financial plc which, together with its subsidiaries, forms the Provident Financial group (the 'group'). Provident Financial plc is a public limited company, listed on the London Stock Exchange.

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

- how the directors have engaged with colleagues, how they have had regard to colleague interests and the effect of that regard, including on the principal decisions taken by the company in the financial year (page 7); and,
- how the directors have had regard to the need to foster the company's business relationship with suppliers, customers and others, and the effect of that regard, including on the principal decision taken by the company in the financial year (pages 5 to 9).

Principal activity and review of business

The principal activity of the company is to provide management services to its subsidiaries within the Consumer Credit Division ('CCD') of Provident Financial plc. During 2020, the company provided management services of £79.6m (2019: £99.4m).

CCD operational review

In November 2020, the group communicated its intention to initiate an operational review of CCD. In response to evolving customer demand, changing home credit market dynamics and the desire to focus on larger market segments, on 10 May 2021 the group announced its intention to withdraw from the home credit market entirely and is considering a sale of this business. Further details on the CCD operational review are provided on page 11.

Due to the company's net liability position at the year-end, the ultimate parent undertaking, Provident Financial plc, has confirmed its intention to support the company for a period of at least twelve months from the date of approval of the financial statements. Accordingly, the financial statements of the company have been prepared on a going concern basis.

Results

The statement of comprehensive income for the year is set out on page 18. The loss for the year of £124.9m (2019: £191.7m) has been deducted from reserves. The company's loss before taxation and exceptional items in 2020 was £12.3m compared to profit before taxation and exceptional items of £1.2m in 2019. Further details are set out within the Strategic Report on page 4.

Dividends

The directors are unable to recommend the payment of a final dividend in 2020 (2019: £nil).

Directors

The directors of the company during the year ended 31 December 2020, all of whom were directors for the whole year then ended, and to the date of this report, were:

M J Le May	Chairman
N Kapur	(Appointed 30 June 2020)
N L M Moore	(Appointed 30 April 2021)
H S Paton	(Appointed 30 December 2020)
C D Gillespie	(Resigned 28 August 2020)
S G Thomas	(Resigned 31 March 2020)
E C Thornhill	(Resigned 18 November 2020)

Indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Consolidation exemption

The company is not required to produce consolidated financial statements for its subsidiaries as the ultimate parent of the company, Provident Financial plc, produces consolidated financial statements which includes the company and its subsidiaries. The annual report and financial statements for Provident Financial plc are publicly available.

Financial risk management

The financial and capital risk management reports of the company are set out on pages 27 to 28.

Post balance sheet events

Post balance sheet events have been disclosed in note 22 of the accounts. Further details are also set out within the Strategic Report on page 4.

Employee involvement

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company and group is encouraged as achieving a common awareness amongst all employees of the financial and economic factors affecting the company and group plays a major role in maintaining its competitive position. The company encourages the involvement of employees by means of newsletters, performance updates, regular management team briefings, staff meetings and conferences. The company also carries out regular employee engagement surveys. Save As You Earn (SAYE) and Buy As You Earn (BAYE) share schemes are operated by the group to reinforce staff involvement in the group and to encourage an interest in its progress. These schemes are open to all permanent employees of the company with more than six months' service.

Climate change

Disclosures are made in the annual report and financial statements of Provident Financial plc in respect of the group's:

- scope 1 and 2 greenhouse gas emissions in tonnes of carbon dioxide equivalent;
- a relevant intensity ratio (i.e. kilograms of carbon dioxide equivalent per customer); and
- information on underlying energy use for 2020.

The disclosures are produced 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,. This disclosure covers the greenhouse gas emissions and energy use for the Group and its operating divisions incorporating the Company.

Equal opportunities

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, pregnancy, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the group to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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DIRECTORS' REPORT (CONTINUED)

Auditor information

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

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

Auditor

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

BY ORDER OF THE BOARD

N L M Moore
Director
Bradford
19 July 2021

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STRATEGIC REPORT

The principal activity of the company is to provide management services to its subsidiaries within the Consumer Credit Division ('CCD') of Provident Financial plc. As a result there are no key performance indicators for the company.

CCD operational review and Scheme of Arrangement

In November 2020, the group communicated its intention to initiate an operational review of CCD. In response to evolving customer demand, changing home credit market dynamics and the desire to focus on larger market segments, on 10 May 2021 the group announced its intention to withdraw from the home credit market entirely and is considering a sale of this business. Further details on the CCD operational review are provided on page 11.

On 15 March 2021, the group informed the market of its decision to launch a Scheme of Arrangement (the 'Scheme') to address the liability of ongoing customer complaints based on historic lending at CCD. Further details on the Scheme are provided on page 11.

Review of the business

The company's loss before taxation and exceptional costs in 2020 was £12.3m; the company's profit before taxation and exceptional costs in 2019 was £1.2m.

Exceptional costs in 2020 of £115.0m reflect a further impairment charge of £115.0m against the investment held in the subsidiary undertaking, Provident Personal Credit Limited ('PPC'), following continued significant losses incurred in PPC since 2017. Exceptional costs in 2019 of £194.4m reflect: (i) an impairment charge of £185.0m against the investment held in the subsidiary undertaking, Provident Personal Credit Limited ('PPC'), following the losses incurred in PPC since 2017 following the poor execution of the migration to the employed home credit operating model in July 2017; (ii) redundancy costs of £7.0m following the voluntary redundancy programme in the company in January 2019 which reduced headcount by approximately 200; and (iii) £2.4m in respect of the ongoing turnaround of the home credit business including £2.0m of asset disposals.

Revenue recognised through the provision of management services to other group undertakings of £79.6m is 19.9% lower than the prior year comparative (2019: £99.4m), broadly consistent with the reduction in costs detailed below.

Administrative and operating costs prior to exceptional impairment charge costs of £77.4m in 2020 are 18.5% lower than the prior year comparative of £95.0m, due to lower employment costs, lower property costs, as well as reduced amortisation and depreciation charges following rationalisation of the company's asset base in the prior period.

Principal risks and uncertainties

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

Statement regarding section 172 Companies Act 2006

Our purpose, as part of the Provident Financial group, is predicated on our customers and is underpinned by a number of strategic drivers and behaviours. These aim to deliver an appropriate balance between the needs of our customers, our regulators, investors and our employees, in order to ensure that we are successful and sustainable for all of our stakeholders. Our stakeholders are individuals or groups who have an interest in, or are affected by, the activities of our business and our key stakeholders are set out in the table below. We seek to engage with them regularly to ensure that we are aware of their views and concerns with regard to a wide range of issues and we do this in a number of ways, as detailed on this page and pages 5 to 9. By balancing the interests of our stakeholders, lending responsibly, contributing to wider society and ensuring the appropriate corporate governance arrangements are in place, we can seek to maintain a reputation for high standards of business conduct. You can read about how the group has generated and preserved value over the long term in the strategic report and review of business within the annual report and financial statements of Provident Financial plc.

STRATEGIC REPORT (CONTINUED)

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our Customers We engage with our customers to determine whether we are delivering our business activities in accordance with our purpose and ensuring that we deliver good outcomes for them throughout their journey with us.	• Utilising a wide variety of customer engagement methods including engagement surveys, third party research and complaints monitoring • Continually reviewing the customer proposition • Monitoring performance against good customer outcomes • Considering the customer experience, customer contact strategy and customer journeys	• Financial inclusion and well-being • Responsible lending • Understanding our customers • Our current products, possible future products and digital integration of the customer journey • Customer outcomes, satisfaction, care, service levels and complaints • Customer affordability, vulnerability and persistent debt • Safeguarding our Customers' personal data • Clear and transparent customer communications • Policy suite pertaining to customers, processes and safeguards including, but not limited to: Anti Money Laundering ('AML'), Data Protection and Record Retention, Vulnerable Customers and Financial Promotions	• Adapted the business model to reflect a better understanding of customer needs • Accelerated the roll out of Provident Direct in the UK by Q1 2020 to meet rapidly changing customer needs • Oversaw the inception of a dedicated Complaints Model Office during 2020 to facilitate the timely and efficient processing of complaints and investigate root causes • Oversaw the progress of a programme of work undertaken to understand the feasibility and appropriateness of a Scheme of Arrangement for customer complaints • Remote lending and collections facilities to enable customers to safely make payments throughout the Covid-19 pandemic • Tightened credit underwriting reflective of the desire to lend responsibly through a period of unprecedented disruption • Designed and implemented enhanced policies in order to continue to best protect customers and their information

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
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STRATEGIC REPORT (CONTINUED)

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our shareholders The company is a wholly owned subsidiary of Provident Financial plc, and as such it is of paramount importance that the group is kept updated on the company's progress in delivering the group's shared purpose, its budget, its strategy, governance and culture. Direct and regular engagement with our shareholder ensures that the company has a clear understanding of its role as part of the group.	• Adapting the business model to take into account the group-wide purpose, our Blueprint • The group CEO and group CFO are members of the company Board • Reporting on financial performance, strategy and common accounting principles at group committee meetings • Budget and financial plan developed as part of wider group process • The Directors and CRO of the company participate in the group Executive Risk Committee to support alignment of risk strategy to group • The group has an aligned corporate governance framework and structure including complementary Delegated Authorities Manuals • The group has a centralised Corporate Responsibility team and a group-wide approach to CSR • Participation in the group credit underwriting review • The Directors and CRO participate in the group Executive Committee to support alignment of business model and strategy	• Strategy and long-term value creation • Culture • Financial and operational performance • Risk Management • Corporate Governance arrangements and alignment • Corporate Responsibility • Interactions with regulators	• Business model aligns with evolving regulatory expectations • Continued alignment and evolution of the business model with the group's vision and purpose • Operational review of CCD initiated in response to financial underperformance • Group approved budget and operational plan • Enterprise Risk Management Framework aligned to that of the group • Tightened underwriting standards in April 2020 aligned with the group Risk Appetite

STRATEGIC REPORT (CONTINUED)

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our colleagues To ensure that they understand the group's purpose and how they can support its delivery, which we believe helps our customer base. To maintain high levels of colleague engagement in order to enable us to attract, retain and develop the talent we need.	• A group-wide colleague survey was carried out during the year together with additional Covid-19 specific surveys • A workforce panel consultation was undertaken to establish Covid-19 secure working environment and practices • Our Designated Group Non-Executive Director Colleague Champion plays the lead role in Board engagement with employees, understanding and representing employee interests across the group • The group's inclusion programme was launched via a dedicated remote roll-out during the year and included hosted discussion panels • Group recognition platform, 'Better Everyday' to help create a culture where we say 'thank you' or 'well done' to colleagues who demonstrate our Blueprint behaviours • A confidential externally facilitated whistleblowing line is available for colleagues to raise concerns • Board oversight of policies that protect employees, their rights and their personal data • Gender pay gap report produced • Review of internal communications strategy	• Culture, purpose and behaviours • Financial and operational performance • Reward and recognition • Employee engagement • Leadership performance and succession • Development, training and career opportunities • Diversity and Inclusion • Health and safety • Colleague wellbeing at work	• Review of colleague survey results and action plans • Introduction of personal protective equipment to Customer Representatives to enable safe customer visits • Provision of Colleague Mental Health Toolkits for managers and the roll-out of the 'Thrive' mental health app across the group • Launch of the 'Be yourself' diversity and inclusion initiative including hosted discussion panels • Review of the whistleblowing process and output • Embedded mechanisms for colleague recognition 'Better Everyday' • The Board and Executive Management agreed a 20% pay reduction for a three month period whilst operations were impacted by Covid-19 related disruption • The purchase and distribution of equipment to enable colleagues to work from home • More frequent and broader types of colleague communications including regular Vlogs from the group CEO and company MD • Programme of work initiated to update the group and Divisional Intranets

STRATEGIC REPORT (CONTINUED)

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our communities To invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, may reduce someone's likelihood to be accepted for credit.	• Participation in the group Social Impact Programme that delivers community investment • The company participates in the group Customer, Culture and Ethics Committee at which group-wide community matters are discussed and overseen by the group Board • Group Board oversight of community matters and the approach to external engagement regarding the company's purpose and role in society	• Community contributions and charitable giving • Volunteering • Matched employee fundraising • Relationships with debt charities	• Group volunteering policy • Group approved approach to external engagement regarding the company's purpose and role in society • Matched employee charitable fundraising • The group Social Impact Fund constituted a foundation in Scotland and provided 800 printed information packs for the first Virtual Numeracy day, in keeping with the group's purpose
Our regulators To plan for regulatory change with greater certainty and confidence, to maintain our reputation as a responsible lender and to maintain our sustainable business model.	• Board members and executive management engage proactively with regulators via regular face to face and telephone meetings • Proactive interaction with regulators on business and operational models and product design • Regulatory risk reporting, including horizon scanning, is carried out and reported to the company's dedicated Risk Committee and Board which is attended by the Company CRO • Regulatory engagement and correspondence is reported to and discussed by the Board and escalated to the group Board as appropriate • Dialogue and engagement regarding current and potential products, customer outcomes and digitisation • Appropriate Risk Office structure and resource levels via the Risk Management Framework • Company CRO attends the group Executive Risk Committee	• Customer vulnerability and persistent debt • Our products, our potential products and digitisation • The company's Governance Framework • The company's regulatory capital level and wind down plan • Customer proposition improvements • Complaints levels and handling • Senior Management & Certification Regime (SM&CR) embedding and ongoing compliance • Culture and Blueprint	• The views of regulators and the regulatory environment have informed the business model updates and any amendments to our product offering during the year. • Enhanced oversight and monitoring of customer lending and collections processes • The implementation of wearable technology within the ROI field teams following discussion with the Central Bank of Ireland • Engaging with FOS on areas of mutual interest • SM&CR responsibilities mapped and policy embedded

STRATEGIC REPORT (CONTINUED)

Our Stakeholders and why we engage with them	• **How?** (How management and/or directors engaged with and considered our stakeholders)	• **What?** (What were the key topics of engagement and consideration)	• **Key outcomes and actions** (What was the impact of the engagement and/or consideration?)
Our suppliers To treat our suppliers fairly and develop strong relationships with them which ensure that we only buy products and services from those who operate responsibly and mitigates risk in our supply chain.	• There is an established due diligence process to manage supply chain-based risks and comply with company policies • There are standardised contractual terms that we attempt to use with all of our suppliers to reduce contractual risks • The company is a signatory to the Prompt Payment Code, and we publish our Payment Practices Reporting at Companies House • There is a Supplier Relationship Management Framework in place which highlights supplier performance and enables joint roadmaps	• Prompt payment • Data protection • Information Security • CCO and Tax Evasion • Environmental issues • Supplier on-boarding process • Supplier performance • Delegated authorities • Anti-bribery and corruption • Modern Slavery • Conduct, behaviour and performance	• Signatories of the Prompt Payment Code • Compliance with SYSC regulations and European Banking Authority Outsourcing Guidelines
Our environment To minimising our environmental impact, in particular to reducing the greenhouse gas emissions associated with our business activities, thereby lessening our contribution to issues such as climate change.	• The company utilises and contributes to the group's Environmental Management System (EMS) • The company participates in the group Customer, Culture and Ethics Committee at which group-wide environmental matters are discussed and overseen by the group Board Committee • Participation in the group submission to the Carbon Disclosure Project • Execution of activities to support achievement of ISO 14001	• Climate change • Greenhouse gas emissions • Achievement of the Task Force on Climate Related Financial Disclosures objectives	• Group-wide reduced emissions targets resulting in a reduction in the group's scope 1 and 3 emissions • Group submission to the Carbon Disclosure Project • Achievement of ISO 14001 • Continued offset of the group's operational carbon footprint • Group commitment to the six long-term ESG objectives • Implementation of the Task Force on Climate Related Financial Disclosures objectives and recommendations

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

Responding to Covid-19

Under the leadership of the Board, the company adapted swiftly and effectively to the early stages of the Covid-19 pandemic and continued to adapt to the demands of the crisis as it evolved. Listed below are some of the key Covid-19 related matters discussed by the Board during the year. They demonstrate how the Board has integrated stakeholder considerations, including its duties under s.172 of the Companies Act 2006 into its deliberations and decision making. A Steering Group, at which Directors of the company were present, was incepted in February 2020 to plan for the potential impact of the Covid-19 pandemic on the group's colleagues and customers. The company communicated frequently with its key stakeholders including the regulator, colleagues, customers and the shareholder about changes that might impact them. These included changes to processes, new or adapted methods of engagement and the working environment.

In May 2020, the Board received a fulsome summary of management's Covid-19 decision making and an assessment of the key risks arising from it, what mitigations had been implemented and what mitigations were available to be implemented in the future. The Board considered in detail amongst other things: the amendments that had been made to customer journeys; the approach to lending to new and existing customers; areas where there might be potential for customer detriment; and colleague variable remuneration and associated colleague retention. The assessment covered critical risks such as credit risk, fraud and financial crime, customer service, regulatory risk and reputational risk. In noting and discussing the key risks and determining an approach to address them, the Board gave due and careful consideration of its stakeholders and duties under s172 of the Companies Act 2006 and reached conclusions which it believes are in the best interests of the company.

Customers

The Board monitored management's customer facing processes, including the transition of those relating to lending and collections to be fully remote, including: customer loan repayments taken over the phone; the processing of loan applications remotely; and the national roll-out of Provident Direct in the UK by the end of Q1 2020. The action taken by the company under the direction of the Board helped to ensure that customers were able to maintain their payments and therefore the status of their credit files, ensuring they had continued access to credit where appropriate. In doing so the Board acknowledged the group's common strategic purpose of 'helping put people on the path to a better everyday life'. The Board has met more frequently throughout the reporting period and has received comprehensive business and financial updates from management at each meeting. Updates to operational processes have been supported by both the group Internal Audit and Risk functions, who have completed reviews of proposed processes and controls and reported on their findings.

Colleagues

Board directors and executive management agreed to take a 20% reduction in fees/salary for an initial three-month period given the challenges facing customers and colleagues. Colleagues were advised to work from home from 23 March 2020 onwards and the Board received updates on the technological resources required to make this possible. Management's enhanced communication tools and increased use of social media was overseen by the Board. The Board challenged and supported management in their approach to colleague and regulator engagement with regards the requirements for offices to remain open and ensuring they operated within applicable guidelines. Government guidance introduced a requirement to consult with elected representatives on a Covid-19 related workplace risk assessment, and colleague representatives were therefore elected to our existing Colleague Forums, and their terms of reference were updated to meet this requirement. The Board has received updates on colleagues' return to work strategy, including health and safety, planning and internal communications.

Suppliers

The company has continued to pay its suppliers promptly, thereby remaining signatories of the Prompt Payment Code and maintaining the group's reputation for high standards of business conduct.

CCD operational review and Scheme of Arrangement

In November 2020, the group communicated its intention to initiate an operational review of CCD, to be carried about by Hamish Paton, Managing Director, and his team. In the context of Covid-19, rising customer complaint volumes driven by Claims Management Companies (CMCs) and evolving customer choice dynamics, it was clear that CCD needed to evolve its business model in order to keep providing sustainable returns to shareholders.

On 15 March 2021, the group informed the market of its decision to launch a Scheme of Arrangement (the 'Scheme') to address the liability of ongoing customer complaints based on historic lending at CCD. The £65m cost of claims and related costs under the Scheme has been recorded as a provision in 2020 within Provident Personal Credit Limited, a subsidiary of the company (comprising £50m remediation and £15m of costs to administer the Scheme). On 22 April 2021, the High Court made an order enabling CCD to convene a meeting of Scheme creditors to consider the merits of the Scheme. CCD customers, past and present, as well as the Financial Ombudsman Service (FOS), now have the opportunity to vote on the Scheme. The creditors meeting will be held on 19 July 2021 and, if creditors vote in favour of the Scheme, the final Court sanction hearing will be held on 30 July 2021.

In response to evolving customer demand, changing home credit market dynamics and the desire to focus on larger market segments, on 10 May 2021 the group announced its intention to withdraw from the home credit market entirely and is considering a sale of this business. The home credit business has been placed into a managed run-off, which is expected to conclude by December 2021. The business expects to manage the IT infrastructure and support service expenditure lower as the receivables book falls. At the end of March 2021, CCD had approximately 2,100 employees and an internal consultation for these employees started on 10 May 2021. It is anticipated that the cost to the group of placing the business into managed run-off or disposing of CCD will be up to c.£100m.

Going concern

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

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

In assessing whether the group is a going concern, the directors have reviewed the group's reforecast, as approved in May 2021, which includes capital and liquidity forecasts, on detailed projections for 2021 to 2023. This assessment has included consideration of the group's principal risks and uncertainties, focusing on capital and liquidity, and the likelihood of these risks materialising into losses.

CCD has suffered financial difficulties since 2016. Whilst there are a number of reasons for the poor financial performance, three key factors have led to its recent decline: i) Covid-19 lockdowns; ii) the increasing number of customer complaints for loans which may have been incorrectly issued; and iii) reduced customer access to new loans following the tightening of regulatory requirements.

In November 2020, the group communicated its intention to initiate an operational review of CCD. Following the review, which highlighted reducing customer demand, changing home credit market dynamics and the desire to focus on larger addressable market segments, the group has now decided to withdraw from the home credit and high-cost short-term credit markets entirely.

Going concern (continued)

The group has therefore decided that the home credit business will be placed into a managed orderly run-off, which would be expected to conclude by December 2021. It is, however, considering a sale of the home credit business, either as a whole or in part, and has received a preliminary expression of interest. Whilst there is no guarantee that these discussions will lead to a transaction, the group will continue to engage with interested parties in parallel with its market withdrawal plans.

The regulatory dynamics set out above have changed the operating environment materially for CCD during the second half of 2020. When combined with the impact of Covid-19 on CCD's profitability, customer complaints can no longer be treated as part of its operating costs. As a result, CCD has decided to seek a Scheme of Arrangement, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from historical customer creditworthiness complaints.

The proposed Scheme is considered by the group Board to be the fairest compromise that can be offered for CCD customers and if the Scheme is not sanctioned, it is likely that PPC will be placed into administration or liquidation. As the only other alternative for PPC and the fact that the Company exists principally to provide management services to PPC, this creates a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. It is therefore appropriate to make full disclosure on the risk to the going concern status. The Board believes that it is unlikely that the proposed scheme of arrangement will not be sanctioned but the consequences of not being successful indicate the existence of a material uncertainty.

In addition, due to the company's net liability position at the year end, the ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for a period of at least twelve months from the date of approval of the financial statements. Accordingly the financial statements of the company have been prepared on a going concern basis of accounting with the material uncertainty as noted above. Further details on the basis of preparation are provided on page 20.

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

BY ORDER OF THE BOARD

N L M Moore
Director
Bradford
19 July 2021

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Provident Financial Management Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in shareholder's equity;
- the statement of cash flows;
- the statement of accounting policies;
- the financial and capital risk management report; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the Statement of Accounting Policies, which indicate that if the proposed Scheme of Arrangement is not sanctioned it is likely that the company will be placed into administration or liquidation. As stated in the Statement of Accounting Policies, these events or conditions, along with the other matters as set out in the Statement of Accounting Policies, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)
We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included regulation set by the Financial Conduct Authority.

We discussed among the audit engagement team, including relevant internal specialists, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

Use of our report

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

Stewart Cumberbatch FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
19 July 2021

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	2020 £m	2019 £m
Revenue	1	79.6	99.4
Finance costs	2	(14.5)	(12.6)
Administrative and operating costs		(192.4)	(280.0)
Total costs		(206.9)	(292.6)
Loss before taxation	3	(127.3)	(193.2)
Loss before taxation and exceptional costs	3	(12.3)	1.2
Exceptional items	3	(115.0)	(194.4)
Tax credit	4	2.4	1.5
Loss and total comprehensive expense for the year attributable to the equity shareholder		(124.9)	(191.7)

All of the above operations relate to continuing operations.

BALANCE SHEET

As at 31 December	Note	2020 £m	2019 £m
ASSETS			
Trade and other receivables	7	15.3	95.2
Current tax assets		2.5	1.5
Intangible assets	8	3.5	3.7
Property, plant and equipment	9	1.0	1.4
Right of use assets	10	2.2	2.9
Investments in subsidiaries	11	-	115.0
Deferred tax assets	14	1.8	2.2
Total assets		26.3	221.9
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	15	147.2	217.6
Lease liabilities	16	2.3	3.0
Total liabilities		149.5	220.6
Equity attributable to the shareholder			
Share capital	17	257.8	257.8
Share-based payment reserve		1.1	1.1
Retained losses		(382.1)	(257.6)
Total equity		(123.2)	1.3
Total liabilities and equity		26.3	221.9

The financial statements on pages 18 to 45 were approved by the board of directors on 19 July 2021 and signed on its behalf by:

N L M Moore
Director

H S Paton
Director

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share-based payment reserve £m	Retained losses £m	Total £m
At 1 January 2019		257.8	1.1	(66.0)	192.9
Loss and total comprehensive loss for the year		-	-	(191.7)	(191.7)
- share-based payment charge	18	-	0.1	-	0.1
- transfer of share-based payment reserve		-	(0.1)	0.1	-
At 31 December 2019		257.8	1.1	(257.6)	1.3
At 1 January 2020		257.8	1.1	(257.6)	1.3
Loss and total comprehensive loss for the year		-	-	(124.9)	(124.9)
- share-based payment charge	18	-	0.4	-	0.4
- transfer of share-based payment reserve		-	(0.4)	0.4	-
At 31 December 2020		257.8	1.1	(382.1)	(123.2)

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from operations	20	18.0	13.9
Finance costs paid		(14.5)	(12.6)
Net cash generated from operating activities		3.5	1.3
Cash flows from investing activities			
Purchase of intangible assets	8	(1.9)	(1.1)
Purchase of property, plant and equipment	9	(0.4)	(0.4)
Proceeds from disposal of property, plant and equipment	9	-	1.6
Net cash generated from/(used in) investing activities		(2.3)	0.1
Cash flows from financing activities			
Payment of lease liabilities		(1.2)	(1.4)
Net cash used in financing activities		(1.2)	(1.4)
Net increase in cash, cash equivalents and overdrafts		-	-
Cash, cash equivalents and overdrafts at beginning of year		-	-
Cash, cash equivalents and overdrafts at end of year		-	-
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		-	-
Total cash, cash equivalents and overdrafts		-	-

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

STATEMENT OF ACCOUNTING POLICIES

General information

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

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the company's accounting policies.

Going concern

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

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

In assessing whether the group is a going concern, the directors have reviewed the group's reforecast, as approved in May 2021, which includes capital and liquidity forecasts, on detailed projections for 2021 to 2023. This assessment has included consideration of the group's principal risks and uncertainties, focusing on capital and liquidity, and the likelihood of these risks materialising into losses.

CCD has suffered financial difficulties since 2016. Whilst there are a number of reasons for the poor financial performance, three key factors have led to its recent decline: i) Covid-19 lockdowns; ii) the increasing number of customer complaints for loans which may have been incorrectly issued; and iii) reduced customer access to new loans following the tightening of regulatory requirements.

In November 2020, the group communicated its intention to initiate an operational review of CCD. Following the review, which highlighted reducing customer demand, changing home credit market dynamics and the desire to focus on larger addressable market segments, the group has now decided to withdraw from the home credit and high-cost short-term credit markets entirely.

The group has therefore decided that the home credit business will be placed into a managed orderly run-off, which would be expected to conclude by December 2021. It is, however, considering a sale of the home credit business, either as a whole or in part, and has received a preliminary expression of interest. Whilst there is no guarantee that these discussions will lead to a transaction, the group will continue to engage with interested parties in parallel with its market withdrawal plans.

The regulatory dynamics set out above have changed the operating environment materially for CCD during the second half of 2020. When combined with the impact of Covid-19 on CCD's profitability, customer complaints can no longer be treated as part of its operating costs. As a result, CCD has decided to seek a Scheme of Arrangement, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from historical customer creditworthiness complaints.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)
The proposed Scheme is considered by the group Board to be the fairest compromise that can be offered for CCD customers and if the Scheme is not sanctioned, it is likely that PPC will be placed into administration or liquidation. As the only other alternative for PPC and the fact that the company exists principally to provide management services to PPC, this creates a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. It is therefore appropriate to make full disclosure on the risk to the going concern status. The Board believes that it is unlikely that the proposed scheme of arrangement will not be sanctioned but the consequences of not being successful indicate the existence of a material uncertainty.

In addition, due to the company's net liability position at the year end, the ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for a period of at least twelve months from the date of approval of the financial statements. Accordingly the financial statements of the company have been prepared on a going concern basis of accounting with the material uncertainty as noted above.

The company's principal accounting policies under IFRSs, which have been consistently applied to all years presented unless otherwise stated, are set out below:

(a) The impact of new standards adopted by the company from 1 January 2020

There have been no new or amended standards adopted in the financial year beginning 1 January 2020 which have a material impact on the company.

(b) The impact of new standards not yet effective and not adopted by the company from 1 January 2020

There are no new standards not yet effective and not adopted by the company from 1 January 2020 which are expected to have a material impact on the company.

Consolidation exemption
The company is not required to produce consolidated financial statements for its subsidiaries as the ultimate parent of the company, Provident Financial plc, produces a consolidation which includes the company and its subsidiaries. The annual report and financial statements for Provident Financial plc are publicly available.

Revenue
Revenue comprises income from the provision of management services and related activities to other group companies which is recognised on an accruals basis.

Dividend income
Dividend income from investments is recognised when the shareholder's rights to receive payment has been established, provided that it is probable that the economic benefits will flow and the amount of revenue can be measured reliably.

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

Intangible assets
Intangible assets, which comprise bespoke computer software and computer software development costs, represent the costs incurred to acquire or develop the specific software and bring it into use. These are valued at cost less subsequent amortisation.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)
Directly attributable costs associated with the development of software that will generate future economic benefits are capitalised as an intangible asset. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software is amortised on a straight-line basis over its estimated useful economic life which is generally estimated to be between three and ten years.

The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date to identify any requirement for impairment.

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

Investments in subsidiaries
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Impairment is calculated by comparing the carrying value of the investment to the higher of the net asset value of the relevant subsidiary or its discounted expected future cash flows.

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

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

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

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

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

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

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

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

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

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

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

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

The lease liability is re-measured whenever:

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

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

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

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

Trade and other receivables and payables
Trade and other receivables and payables are held at amortised cost and receivables are assessed for impairment at the balance sheet date based on lifetime expected credit loss (ECL). The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets.

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

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

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

Dividends
Dividend distributions to the company's shareholder are recognised in the financial statements when approved by the company's shareholders.

Retirement benefits
Defined benefit pension schemes:
The company participates in the Provident Financial Staff Pension Scheme, a multi-employer scheme, sponsored by Provident Financial plc.

As there is no contractual agreement for charging the company a portion of the defined benefit costs of the plan as a whole, the company recognises their cash contributions on an accruals basis.

Defined contribution pension schemes:
For defined contribution schemes the amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. Cash contributions to defined contribution pension schemes are charged to the statement of comprehensive income on an accruals basis.

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

Share-based payments
Equity-settled schemes:
The company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the 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 company employees is charged to the statement of comprehensive income of the company over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity.

The cost of options and awards is based on their fair value. 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, risk metrics and profit before tax. The fair value of awards is determined using a combination of the binomial and Monte Carlo option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting. Where the Monte Carlo option pricing model is used to determine fair value of the TSR component, no adjustment is made to reflect expected or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards. A transfer is made from the share-based payment reserve to retained earnings when options and awards vest or lapse.

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 statement of comprehensive income.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)
Cash-settled schemes:
The company previously granted awards under the Provident Financial Equity Plan (PFEP) to eligible employees based on a percentage of their salary. The cost of the awards is based on the performance conditions of divisional profit before tax and share price growth or TSR compared to a comparator group. The scheme is cash settled.

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

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

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

Taxation
The tax charge represents the sum of current and deferred tax.

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

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

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

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

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

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

Going concern
As set out within the Statement of Accounting Policies on pages 20 and 21, CCD has decided to seek a Scheme of Arrangement, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from historical customer creditworthiness complaints.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Key assumptions and estimates (continued)
Going concern (continued)

The proposed Scheme is considered by the group Board to be the fairest compromise that can be offered for CCD customers and if the Scheme is not sanctioned, it is likely that PPC, the largest subsidiary of the company, will be placed into administration or liquidation. As the only other alternative for PPC and the fact that the company exists principally to provide management services to PPC, this creates a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. It is therefore appropriate to make full disclosure on the risk to the going concern status. The Board believes that it is unlikely that the proposed scheme of arrangement will not be sanctioned but the consequences of not being successful indicate the existence of a material uncertainty.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

FINANCIAL AND CAPITAL RISK MANAGEMENT REPORT

Provident Financial Management Services Limited (the 'company') is a wholly-owned subsidiary of Provident Financial plc which, together with its subsidiaries, forms the Provident Financial group (the 'group').

The overall group internal control and risk management framework is the responsibility of the group board with certain responsibilities in respect of internal control and risk management being delegated to various sub-committees who report directly to the board. An overview of the group’s risk management framework can be found in the annual report and financial statements of Provident Financial plc.

The group operates with a centralised treasury function and therefore the funding requirements of the company are met wholly or partially via funding from Provident Financial plc or one of its subsidiaries. In addition, the allocation of capital is managed on a group basis by the centralised treasury function. Accordingly, it is inappropriate to consider the management of liquidity risk, interest rate risk, market risk and capital risk on a stand-alone company basis.

(a) Liquidity risk

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

Liquidity risk is managed by the group’s centralised treasury department through daily monitoring of expected cash flows in accordance with a board-approved group funding and liquidity policy. This process is monitored regularly by the group treasury committee.

The group’s funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months. As at 31 December 2020, the group’s committed borrowing facilities had a weighted average period to maturity of 1.5 years (2019: 2.2 years) and the headroom on these committed facilities amounted to £79.3m (2019: £69.1m).

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the group’s borrowings extend over a number of years. The group’s current funding strategy seeks to maintain a secure funding structure by maintaining committed facilities to pre-fund the group’s liquidity and funding requirements for at least the next 12 months, maintaining access to four main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) external market funding; (iii) securitisation; and (iv) retail deposits. Headroom on the group’s committed debt facilities together with available cash was £143.7m at 31 December 2020 together with ongoing access to the retail deposits programme in Vanquis Bank. There are no contractual maturities of the group’s facilities until a scheduled maturity of a £65m bond in September 2021.

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

Due to the company's net liability position at the year-end, the ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for a period of at least twelve months from the date of approval of the financial statements.

(b) 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.

(b) Interest rate risk (continued)
A 2% movement in the interest rate applied to group borrowings during 2020 and 2019 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. Further details of the interest rate risk management are detailed within the annual report and financial statements of Provident Financial plc.

Key benchmark interest rates and indices, such as the London Interbank Offered Rate (LIBOR), are being reformed in favour of risk free rates such Sterling Overnight Index Average (SONIA) in the UK. LIBOR will be withdrawn at the end of 2021. The group currently only has LIBOR linked liabilities relating to the group's revolving credit facility and securitisation funding in Moneybarn. There is no impact to financial assets or our fixed rate liabilities, which are all on administered rates. The securitisation funding is expected to be refinanced in 2021 and will be priced based on SONIA. The revolving credit facility moved to SONIA benchmark for all new drawings after 31 March 2021. LIBOR reform is therefore not considered to have a material impact on the group or the company.

Interest rate risk is not expected to have a significant impact on the company.

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

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

(e) Brexit
On 31 January 2020 the UK withdrew from the European Union and a transitional period formally ended on 31 December 2020. The economic outlook post Brexit remains uncertain against the backdrop of the impact of the Covid-19 pandemic and there remains significant amount of instability in the UK economy and capital markets, albeit unemployment levels have remained stable due to the UK Government's job retention schemes.

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

The group's only direct exposure to the EU is the home credit operation in the Republic of Ireland. This represents c.13% of the home credit business and is, therefore, relatively immaterial to the group as a whole. The foreign exchange exposure to the Republic of Ireland operation is hedged through a net investment hedge.

PROVIDENT FINANCIAL MANAGEMENT SERVICES LIMITED
(Company Number 00328933)

NOTES TO THE FINANCIAL STATEMENTS

1 Revenue

	2020	2019
	£m	£m
Provision of management services	79.6	99.4

2 Finance costs

	2020	2019
	£m	£m
Interest payable to other group undertakings	14.1	12.1
Lease liabilities finance costs	0.4	0.5
Total	14.5	12.6

3 Loss before taxation

	2020	2019
	£m	£m
Loss before taxation is stated after charging:		
Amortisation of intangible assets:		
- computer software (note 8)	2.1	3.9
Loss on disposal of intangible assets (note 8)	-	0.9
Depreciation of tangible assets:		
- property, plant and equipment (note 9)	0.6	1.3
Loss on disposal of tangible assets (note 9)	0.2	-
Operating lease rentals:		
- property	0.3	0.9
Depreciation of right of use assets (note 10)	1.0	1.3
Lease liability finance costs (note 2)	0.4	0.5
Employment costs (prior to exceptional redundancy costs) (note 6(b))	32.5	33.6
Exceptional item - impairment of investments in subsidiaries (note 11)	115.0	185.0
Exceptional item - restructuring costs	-	0.4
Exceptional loss on disposal of intangible assets (note 8)	-	1.9
Exceptional loss on disposal of tangible assets (note 9)	-	0.1
Exceptional redundancy costs (note 6(b))	-	7.0

Exceptional costs in 2020 of £115.0m reflect an impairment charge of £115.0m against the investment held in the subsidiary undertaking, Provident Personal Credit Limited (‘PPC’), following the significant losses incurred in PPC since 2017.

Exceptional costs in 2019 of £194.4m reflect: (i) an impairment charge of £185.0m against the investment held in the subsidiary undertaking, PPC, following the significant losses incurred in PPC since 2017 following the poor execution of the migration to the employed home credit operating model in 2017; (ii) redundancy costs of £7.0m following the voluntary redundancy programme in the company in January 2020 which reduced headcount by approximately 200; and (iii) £2.4m in respect of the ongoing turnaround of the home credit business including £2.0m of asset write off.

3 Loss before taxation (continued)

Auditor's remuneration payable to Deloitte LLP in respect of the audit of the company's financial statements totalled £150,000 (2019: £137,000). Auditor's remuneration to Deloitte LLP in respect of other services was £nil (2019: £nil).

4 Tax credit

Tax credit in the income statement	2020 £m	2019 £m
Current tax	2.8	1.1
Deferred tax (note 14)	(0.6)	0.4
Impact of change in UK tax rate (note 14)	0.2	-
Total tax credit	2.4	1.5

During 2015, changes in corporation tax rates were enacted, reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. During 2016, a further change was enacted which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate has remained at 19% for 2020.

Deferred tax balances at 31 December 2019 were measured at 17% to the extent that the temporary differences on which deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances have been re-measured at 19%. A tax credit in 2020 of £0.2m (2019: £nil) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes. Movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19% (2019: 19%).

The rate of tax credit on the loss before taxation for the year is lower than (2019: lower than) the average standard rate of corporation tax in the UK of 19% (2019: 19%). This can be reconciled as follows:

	2020 £m	2019 £m
Loss before taxation	(127.3)	(193.2)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 19% (2019: 19%)	24.2	36.7
Effect of:		
- impact of non deductible write down of investment	(21.9)	(35.1)
- impact of write off of deferred tax assets	(0.1)	-
- impact of change in UK tax rate	0.2	-
- adjustment in respect of prior years	-	(0.1)
Total tax credit	2.4	1.5

The impact of the write down of the cost of investment in Provident Personal Credit Limited which is not tax-deductible gives rise to an adverse impact on the tax charge of £21.9m (2019: £35.1m).

5 Directors' remuneration

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

	2020	2019
	£m	£m
Short-term employee benefits	1.1	1.4
Share-based payment	(0.3)	0.2
Total	0.8	1.6

The directors' emoluments disclosed above exclude the emoluments of M J Le May and N Kapur, which are paid and disclosed by the ultimate parent company, Provident Financial plc, and recharged to Provident Financial Management Services Limited, as part of a management charge. This management charge, which in 2020 amounted to £7.7m (2019: £8.8m), also includes a recharge of administrative costs borne by the parent company on behalf of the company and it is not possible to identify separately the amount of M J Le May and N Kapur’s emoluments. The emoluments of these directors are disclosed in the annual report and financial statements of Provident Financial plc.

Retirement benefits accrue to one director under a money purchase scheme (2019: one). Six directors were entitled to shares under the Provident Financial plc share option/award arrangements (2019: four). During the year awards vested for no directors (2019: none).

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

	2020	2019
	£m	£m
Short-term employee benefits	0.7	1.2
Share-based payment	(0.2)	0.2
Total	0.5	1.4

The above director did not accrue any benefits under a defined benefit pension arrangement during the year (2019: £nil). The above director did not exercise share options/awards during the year and did not receive awards under share incentive schemes.

6 Employee information

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

	2020 Number	2019 Number
Commercial	16	20
Directors and administrative support	12	15
Finance	68	79
Home credit support services	203	226
Human resources	78	83
Risk	178	199
Technology and change	171	161
Total	726	783
Analysed as:		
Full time	647	697
Part time	79	86
Total	726	783

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

	2020 £m	2019 £m
Aggregate gross wages and salaries paid to the company's employees	26.5	27.1
Employer's National Insurance contributions	2.8	3.4
Pension charge (note 13)	3.3	3.1
Share-based payment credit (note 18)	(0.1)	-
Total employment costs prior to exceptional redundancy costs	32.5	33.6
Exceptional redundancy costs (note 3)	-	7.0
Total employment costs	32.5	40.6

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

The share-based payment credit of £0.1m (2019: £nil) relates to equity-settled schemes charge of £0.4m (2019: £0.1m) and cash-settled schemes credit of £0.5m (2019: £0.1m).

7 Trade and other receivables

	2020 £m	2019 £m
Other receivables	0.9	0.9
Amounts owed by ultimate parent undertaking	11.0	64.0
Amounts owed by subsidiary undertakings	-	27.5
Amounts owed by fellow subsidiary undertakings	2.1	0.3
Prepayments and accrued income	1.3	2.5
Total	15.3	95.2

Amounts owed by the ultimate parent, subsidiary and fellow subsidiary undertakings are unsecured, repayable on demand and generally accrue interest at rates linked to LIBOR. Expected credit losses on intercompany balances are assessed at each balance sheet date; there are no expected credit losses at the balance sheet date.

The maximum exposure to credit risk of trade and other receivables is the carrying value of each class of receivable set out above. There is no collateral held in respect of trade and other receivables (2019: £nil).

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

8 Intangible assets

	Computer software	
	2020 £m	2019 £m
Cost		
At 1 January	57.0	74.1
Additions	1.9	1.1
Disposals	-	(12.6)
Exceptional disposals	-	(5.6)
At 31 December	58.9	57.0
Accumulated amortisation and impairment		
At 1 January	53.3	64.8
Charged to the statement of comprehensive income	2.1	3.9
Disposals	-	(11.7)
Exceptional disposals	-	(3.7)
At 31 December	55.4	53.3
Net book value at 31 December	3.5	3.7
Net book value at 1 January	3.7	9.3

Intangible assets within the company represent externally purchased bespoke and internally developed software for the Consumer Credit Division supporting the ongoing deployment of technology in the Provident home credit business and the systems to support Satsuma.

The loss on disposal of intangible assets in 2020 amounted to £nil (2019: £2.8m) and represented proceeds received of £nil (2019: £nil) less the net book value of disposals of £nil (2019: £2.8m). 2019 included an exceptional loss on disposal of £1.9m in respect of software development costs associated with the ongoing turnaround of the home credit business.

9 Property, plant and equipment

	Equipment and vehicles	
	2020	2019
	£m	£m
Cost		
At 1 January	20.4	32.2
Additions	0.4	0.4
Disposals	(0.3)	(11.5)
Exceptional disposals	-	(0.8)
Transfers to other group undertakings	-	0.1
At 31 December	20.5	20.4
Accumulated depreciation and impairment		
At 1 January	19.0	28.3
Charged to the statement of comprehensive income	0.6	1.3
Disposals	(0.1)	(9.9)
Exceptional disposals	-	(0.7)
At 31 December	19.5	19.0
Net book value at 31 December	1.0	1.4
Net book value at 1 January	1.4	3.9

The loss on disposal of property, plant and equipment in 2020 amounted to £0.2m (2019: £0.1m) and represented proceeds received of £nil (2019: £1.6m) less the net book value of disposals of £0.2m (2019: £1.7m). 2019 included an exceptional loss on disposal of £0.1m in respect of hardware associated with the ongoing turnaround of the home credit business.

10 Right of use assets

	2020	2019
	£m	£m
Cost		
At 1 January	4.1	3.9
Additions	0.5	0.5
Disposals	(0.6)	(0.3)
At 31 December	4.0	4.1
Accumulated depreciation		
At 1 January	1.2	-
Charged to the statement of comprehensive income	1.0	1.3
Disposals	(0.4)	(0.1)
At 31 December	1.8	1.2
Net book value at 31 December	2.2	2.9
Net book value at 1 January	2.9	3.9

All right of use assets relate to property leases.

11 Investments in subsidiaries

	2020 £m	2019 £m
Cost		
At 1 January	800.3	800.3
At 31 December	800.3	800.3
Accumulated impairment losses		
At 1 January	685.3	500.3
Charge to the statement of comprehensive income	115.0	185.0
At 31 December	800.3	685.3
Net book value at 31 December	-	115.0
Net book value at 1 January	115.0	300.0

In 2020 a full review was undertaken of the company's £115.0m investment in Provident Personal Credit Limited (PPC), following the losses incurred within the subsidiary since 2017, and the expectation that PPC will make losses until it ceases to trade. As a result of this review, the investment in PPC of £115.0m was fully impaired and an exceptional charge of £115.0m was taken to the company's statement of comprehensive income in 2020.

The following are the subsidiary undertakings of the company.

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

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

12 Financial instruments

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

			2020
	Amortised cost	Non-financial assets/ liabilities	Total
	£m	£m	£m
Assets			
Trade and other receivables	15.3	-	15.3
Current tax assets	-	2.5	2.5
Intangible assets	-	3.5	3.5
Property, plant and equipment	-	1.0	1.0
Right of use assets	-	2.2	2.2
Deferred tax assets	-	1.8	1.8
Total assets	15.3	11.0	26.3
Liabilities			
Trade and other payables	(147.2)	-	(147.2)
Lease liabilities	(2.3)	-	(2.3)
Total liabilities	(149.5)	-	(149.5)

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

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

13 Retirement benefits

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

(a) Pension schemes - defined benefit

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

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

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

The scheme is a multi-employer scheme, sponsored by Provident Financial plc and, although the company participates in the scheme, there is no contractual agreement for charging the company a portion of the defined benefit costs of the plan as a whole. In accordance with IAS 19, 'Employee benefits', the company recognises the contributions payable in respect of its current employees in its individual financial statements, similar to the treatment of a defined contribution scheme. In 2020 these contributions amounted to £1.2m (2019: £0.9m). The expected contributions to the defined benefit pension scheme in the year ending 31 December 2021 are approximately £1.2m. If the plan was wound up any surplus or deficit would be allocated based on the scheme rules.

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

The retirement benefit asset reflects the difference between the present value of the group's obligation to current and past employees to provide a defined benefit pension and the fair value of assets held to meet that obligation. As at 31 December 2020, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded in the group's financial statements. The most recent actuarial valuation of the scheme was carried out as at 1 June 2018 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet. 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.

13 Retirement benefits (continued)

(a) Pension schemes - defined benefit (continued)

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

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

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

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

				Group
	2020		2019	
	£m	%	£m	%
Equities	80.6	9	76.4	9
Corporate bonds	383.0	41	219.3	26
Fixed interest gilts	275.2	29	252.9	30
Index-linked gilts	192.7	21	284.8	34
Cash and money market funds	1.5	-	9.2	1
Total fair value of scheme assets	933.0	100	842.6	100
Present value of funded defined benefit obligations	(853.3)		(764.6)	
Net retirement benefit asset recognised in the balance sheet	79.7		78.0	

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

		Group
	2020	2019
	£m	£m
Fair value of scheme assets at 1 January	842.6	788.3
Interest on scheme assets	16.7	21.9
Actuarial movement on scheme assets	102.8	67.4
Contributions by the group	4.2	2.6
Net benefits paid out	(33.3)	(37.6)
Fair value of scheme assets at 31 December	933.0	842.6

13 Retirement benefits (continued)

(a) Pension schemes - defined benefit (continued)

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

	Group	
	2020	2019
	£m	£m
Present value of the defined benefit obligation at 1 January	(764.6)	(704.4)
Current service cost	(1.7)	(1.7)
Interest on scheme liabilities	(15.1)	(19.5)
Exceptional past service credit - plan amendment	(0.7)	-
Exceptional past service credit - curtailment credit	-	0.5
Actuarial movement - experience	4.3	0.1
Actuarial movement - demographic assumptions	(2.0)	19.9
Actuarial movement - financial assumptions	(106.8)	(97.1)
Net benefits paid out	33.3	37.6
Present value of defined benefit obligation at 31 December	(853.3)	(764.6)

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

	Group	
	2020	2019
	%	%
Price inflation - RPI	2.85	2.95
Price inflation - CPI	2.25	2.05
Rate of increase to pensions in payment	2.70	2.70
Inflationary increase to pensions in deferment	2.20	2.10
Discount rate	1.30	2.00

(b) Pension schemes - defined contribution

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

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

The pension charge in the company's statement of comprehensive income represents contributions payable by the company in respect of the plan and amounted to £2.1m for the year ended 31 December 2020 (2019: £2.2m). No contributions were payable to the fund at the year end (2019: £nil).

The company made no contributions into personal pension plans in the year (2019: £nil).

14 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. Deferred tax is calculated in full on temporary differences under the balance sheet liability method. During 2015, reductions in corporation tax rates were enacted, reducing the mainstream UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. During 2016, a further change was enacted which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate has remained at 19% for 2020.

Deferred tax balances at 31 December 2019 were measured at 17% to the extent that the temporary differences on which deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances have been re-measured at 19%, and movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19% (2019: 19%). A tax credit in 2020 of £0.2m (2019: £nil) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes. The movement in the deferred tax asset during the year can be analysed as follows:

Asset	2020 £m	2019 £m
At 1 January	2.2	1.8
(Charge)/credit to the statement of comprehensive income (note 4)	(0.6)	0.4
Impact of change in UK tax rate:		
- credit to the statement of comprehensive income (note 4)	0.2	-
At 31 December	1.8	2.2

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

	2020			2019		
	Accelerated capital allowances £m	Other temporary differences £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 January	1.7	0.5	2.2	1.5	0.3	1.8
(Charge)/credit to the statement of comprehensive income	(0.2)	(0.4)	(0.6)	0.2	0.2	0.4
Impact of change in UK tax rate:						
- credit to the statement of comprehensive income	0.2	-	0.2	-	-	-
At 31 December	1.7	0.1	1.8	1.7	0.5	2.2

Deferred tax arises primarily in respect of deductions for employee share awards which are recognised differently for tax purposes, property, plant and equipment which is depreciated on a different basis for tax purposes, certain cost provisions for which tax deductions are only available when the costs are paid, and the opening balance sheet adjustment in respect of the adoption of IFRS 16 which is deductible over the average period of the relevant leases.

15 Trade and other payables

	2020 £m	2019 £m
Trade payables	1.6	1.0
Amounts owed to subsidiary undertaking	131.0	200.0
Amounts owed to fellow subsidiary undertakings	8.5	8.5
Other payables including taxation and social security	0.9	0.7
Accruals	5.2	7.4
Total	147.2	217.6

The fair value of trade and other payables equates to their book value (2019: fair value equated to book value). The amounts owed to the ultimate parent undertaking, subsidiary and fellow subsidiary undertakings are unsecured, due for repayment in less than one year and generally accrue interest at rates linked to LIBOR.

16 Lease liabilities

A maturity analysis of the lease liabilities is shown below:

	2020 £m	2019 £m
Due within one year	0.8	1.1
Due between one and five years	1.4	1.7
Due in more than five years	0.4	0.6
Total	2.6	3.4
Unearned finance cost	(0.3)	(0.4)
Total lease liabilities	2.3	3.0

The total cash outflow for leases in the year amounted to £1.2m (2019: £1.4m) for the company, including short-term lease cash outflows of £0.4m (2019: £0.5m). At 31 December 2020, the company is also committed to £0.2m (2019: £0.3m) for short-term leases.

17 Share capital

		2020		2019	
		Authorised	Issued and fully paid	Authorised	Issued and fully paid
Ordinary shares of 100p each	**- £m**	272.0	257.8	272.0	257.8
	- number (m)	272.0	257.8	272.0	257.8

There are no shares issued and not fully paid at the end of the year (2019: no shares).

18 Share-based payments

Provident Financial plc operates five equity-settled share schemes: the Restricted Share Plan (RSP), the Company Share option Plan Option (CSOP), the Long Term Incentive Scheme (LTIS), employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)), and the Deferred Bonus Plan (DBP) where shares in the parent company are available to the employees of the company. Provident Financial plc also operates a cash-settled share incentive scheme, the Provident Financial Equity Plan (PFEP) for eligible employees based on a percentage of salary, no awards have been granted since 2018. The RSP was granted in November 2020 in conjunction with the CSOP. Any gains made by employees under the CSOP offset against the number of shares that can be exercised under the RSP. 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.

During 2020, awards/options have been granted under the RSP/CSOP, SAYE and LTIS schemes (2019: SAYE and LTIS schemes).

(a) Equity-settled schemes

The charge to the statement of comprehensive income during the year was £0.4m (2019: £0.1m) for equity settled schemes. The assumptions to consider the appropriate fair values of options are outlined below:

			2020			2019
	RSP/CSOP	LTIS	SAYE	RSP/CSOP	LTIS	SAYE
Grant date	09-Nov-20	30-Mar-20	07-Oct-20	-	01-Apr-19	08-Oct-19
Share price at grant date (£)	2.73	2.02	2.19	-	5.17	3.87
Exercise price (£)	-	-	1.82	-	-	3.23
Shares awarded/under option (number)	302,983	668,361	1,372,877	-	291,507	607,364
Vesting period (years)	3	3	3 and 5	-	3	3 and 5
Expected volatility	68.2%	85.0%	68.5% to 76.0%	-	74.1%	68.0% to 84.9%
Award/option life (years)	3	3	Up to 5	-	3	Up to 5
Expected life (years)	3	3	Up to 5	-	3	Up to 5
Risk-free rate	-	0.13%	(0.01%) to (0.06%)	-	0.66%	0.2% to 0.3%
Expected dividends expressed as a dividend yield	n/a	n/a	6.80%	-	n/a	3.00%
Fair value per award/option (£)	2.41	1.35	0.71 to 0.80	-	4.69	0.38 to 0.76

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

18 Share-based payments (continued)

(a) Equity-settled schemes (continued)

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

	RSP/CSOP		PSP		LTIS		SAYE	
2020	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	-	-	1,484	-	534,472	-	730,509	3.64
Granted	302,983	-	-	-	668,361	-	1,372,877	1.82
Cancelled	-	-	-	-	(398,730)	-	-	-
Lapsed	-	-	-	-	(544,368)	-	(557,303)	3.53
Exercised	-	-	(1,484)	-	-	-	-	-
Outstanding at 31 December	302,983	-	-	-	259,735	-	1,546,083	2.09
Exercisable at 31 December	-	-	-	-	-	-	-	-

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

The amounts includes in the RSP/CSOP table reflect the total amount of shares awarded under both schemes.

Share awards outstanding under the LTIS scheme at 31 December 2020 had an exercise price of £nil (2019: £nil) and a weighted average remaining contractual life of 0.9 years (2019: 1.8 years). Share options outstanding under the SAYE schemes at 31 December 2020 had exercise prices ranging from 182p to 353p (2019: 323p to 1,760p) and a weighted average remaining contractual life of 3.2 years (2019: 3.0 years). Share awards outstanding under the PSP schemes at 31 December 2020 had an exercise price of £nil (2019: £nil) and a weighted average remaining contractual life of nil years (2019: 0.2 years). Share awards outstanding under the RSP at 31 December 2020 had an exercise price of £nil and a weighted average remaining contractual life of 2.9 years. Shares outstanding under the CSOP at 31 December 2020 have an exercise price of £2.41 and a weighted average remaining contractual life of 2.9 years.

(b) Cash-settled schemes

Cash awards were granted under the PFEP to eligible employees that require the company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The credit to the statement of comprehensive income in 2020 was £0.5m (2019: £0.1m) and the company has a liability of £nil as at 31 December 2020 (2019: £0.5m).

19 Related party transactions

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

	2020			2019		
	Management recharge £m	Interest charge £m	Outstanding balance £m	Management recharge £m	Interest charge £m	Outstanding balance £m
Ultimate parent undertaking	6.6	(0.1)	11.0	8.5	(0.5)	64.0
Subsidiary undertakings	(75.8)	14.2	(131.0)	(95.7)	12.6	(172.5)
Other group undertakings	(0.5)	-	(6.4)	(0.5)	-	(8.2)
Total	(69.7)	14.1	(126.4)	(87.7)	12.1	(116.7)

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

During 2020, the company no longer met the threshold to be classified as a material subsidiary of Provident Financial plc as set out in the respective agreements of the group's revolving credit facility and bonds issued under the £2bn Guaranteed Euro Medium Term Note Programme. In accordance with the provisions of the relevant agreements, the company was released from all obligations and ceased to be a Guarantor with effect from 17 December 2020.

20 Reconciliation of loss after taxation to cash generated from operations

	Note	2020 £m	2019 £m
Loss after taxation		(124.9)	(191.7)
Adjusted for:			
- tax credit	4	(2.4)	(1.5)
- finance costs	2	14.5	12.6
- share-based payment charge	18	0.4	0.1
- amortisation of intangible assets	8	2.1	3.9
- loss on disposal of intangible assets	8	-	0.9
- exceptional loss on disposal of intangible assets	8	-	1.9
- depreciation of property, plant and equipment	9	0.6	1.3
- loss on disposal of tangible assets	9	0.2	-
- exceptional loss on disposal of property, plant and equipment	9	-	0.1
- depreciation of right of use assets	10	1.0	1.3
- exceptional impairment of investments in subsidiaries	11	115.0	185.0
Changes in operating assets and liabilities:			
- trade and other receivables		81.9	6.8
- trade and other payables		(70.4)	(6.8)
Cash generated from operations		18.0	13.9

20 Reconciliation of loss after taxation to cash generated from operations (continued)

The table below details changes in the 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.

	2020				
		Cash changes	Non-cash changes		
	1 January 2020	Lease payments	Interest accrued	Lease additions and disposals	31 December 2020
	£m	£m	£m	£m	£m
Lease liabilities	(3.0)	1.2	(0.1)	(0.4)	(2.3)

	2019				
		Cash changes	Non-cash changes		
	1 January 2019	Lease payments	Interest accrued	Lease additions and disposals	31 December 2019
	£m	£m	£m	£m	£m
Lease liabilities	(4.0)	1.4	(0.1)	(0.3)	(3.0)

21 Parent undertaking and controlling party

In December 2020, a new group holding company, Provident Financial Holdings No.2 (PFH2), was incorporated. The company was transferred from PF plc to PFH2 in exchange for an intercompany loan. Following the transfer, the immediate parent undertaking of the company was PFH2. On 3 February 2021, PFH2 was renamed to Provident Financial Holdings Limited.

The ultimate parent undertaking and controlling party is Provident Financial plc, a company incorporated in the United Kingdom, which is the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of Provident Financial plc may be obtained from the Company Secretary, Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.

22 Post balance sheet event

Change in corporation tax rate

In the March 2021 Budget, the Government announced that the mainstream corporation tax rate would increase to 25% from 1 April 2023. Revaluing the deferred tax balances at 31 December 2020 at the mainstream corporation tax rate of 25% to the extent they relate to temporary differences which are expected to reverse after 1 April 2023, gives rise to a tax credit of £0.4m.

Operational review

Following the CCD operational review, and in response to evolving market and customer dynamics, the group has regrettably decided to withdraw from the home credit market entirely. The group intends to either place the business into a managed run-off or consider a disposal. It is anticipated that the cost to the group of placing it into managed run-off or disposing of CCD will be up to c.£100m. CCD began a collective consultation process for c.2,100 colleagues on 10 May 2021.