Annual Report & Financial Statements 2010

Meeting the need for credit in the real world

Provident Financial provides tailored credit products to 2.4 million non-standard borrowers in the UK and Ireland. The Consumer Credit Division has been providing small loans, issued in the home and collected weekly, since 1880. Vanquis Bank issues credit cards to people often excluded by mainstream card issuers, allowing them to participate more fully in the modern world.

GROUP

Provident Financial comprises two businesses. The Consumer Credit Division offers home credit loans. Vanquis Bank issues Visa-branded credit cards.

Split of customers by business

1 Consumer Credit Division 1,869,000 **77%**
2 Vanquis Bank 544,000 **23%**

2.4m

Group customers

3,700

Group employees

CONSUMER CREDIT DIVISION

The Consumer Credit Division offers home credit loans through a network of local agents. It has offices in every town and city in the UK. 11,400 agents call weekly on our 1.9m customers, reaching around one in 20 households in the UK.

3,150

Consumer Credit Division employees

£874m

Consumer Credit Division year end receivables

VANQUIS BANK

Vanquis Bank, our credit card business, continues to make excellent progress and now serves over 500,000 customers. Its headquarters are in central London with a call centre in Chatham, Kent, which handles around 500,000 customer calls per month.

500

Vanquis Bank employees

£345m

Vanquis Bank year end receivables

£144.5m

(2009: £130.1m)

Profit before tax and exceptional costs

78.6p

(2009: 71.4p)

Basic earnings per share before exceptional costs

£142.0m

(2009: £125.7m)

Profit before tax

76.7p

(2009: 67.5p)

Basic earnings per share

63.5p

(2009: 63.5p)

Dividend per share

3.3 times

(2009: 3.3 times)

Gearing

1.24 times

(2009: 1.12 times)

Dividend cover before exceptional costs

£1,219m

(+7.0%)

Year end receivables

Cautionary statement: All statements other than statements of historical fact included in this document, including, with limitation, those regarding the financial condition, results, operations and business of Provident Financial plc and its strategy, plans and objectives and the markets in which it operates, are forward-looking statements. Such forward-looking statements which reflect the directors' assumptions made on the basis of information available to them at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Provident Financial plc or the markets in which it operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in the document shall be regarded as a profit forecast and its directors accept no liability to third parties in respect of this report save as would arise under English law. In particular, section 463 of the Companies Act 2006 limits the liability of the directors of Provident Financial plc so that their liability is solely to Provident Financial plc.

Meeting the need for credit in the real world

Credit may have got harder to access since the financial crisis, but most people are still able to pull out a card or get funds from their bank. For the majority, borrowing is about convenience. They are paying for a holiday, buying a new car, getting life's little luxuries without dipping into savings.

But for over 10 million people in the UK, the market we serve, access to credit is more important. Many have modest incomes and minimal savings. They need help navigating life's financial hurdles, but they are seen as too high a risk by mainstream lenders.

Provident has been providing credit to this market segment, which we understand intimately, for well over a century. Our small-sum loans help people get on with their daily lives. Even when times are hard, we are meeting real needs in the real world. It's why we continue to deliver strong shareholder performance.

Ali, Vanquis Bank customer

"I use my Vanquis Bank credit card for anything and everything – from buying groceries to treats like going to the cinema. I like the way that Vanquis keeps in regular contact and reminds me when my next payment's due. It helps me stay on top of my finances."

A specialist market

At the end of 2010, total personal debt balances in the UK stood at £1.5 trillion, of which just over £1.2 trillion was secured by mortgages and £214 billion was unsecured consumer credit. The mainstream market, limited to low-risk borrowers, accounts for over 80% of consumer credit balances. Provident competes in the non-standard market. Collectively, the 10 million-plus people in this market borrow around £65 billion annually.

THE MAINSTREAM LENDING MARKET

Mainstream lending is geared towards people with good credit records. Borrowers in the mainstream market are usually salaried, have few other unsecured borrowings and no history of non-payment. Most have a mortgage and most have a credit card on which they pay off the full balance every month. Lenders check potential borrowers' credit histories.

£1.5trn
Value of total personal debt balances in the UK

£214bn
Unsecured consumer credit balances

£1.2trn
Secured consumer credit balances

£55,272
Average household debt (including mortgage)

£175bn
Credit issued (unsecured consumer credit)

THE NON-STANDARD LENDING MARKET

£65bn
Credit issued in small amounts to low-income customers with limited access to credit

10m+
Number of non-standard borrowers

£1.5bn
Group credit issued

Unsecured consumer credit
Over 70% of unsecured lending is provided through credit cards. The remainder is split between unsecured personal loans, overdrafts, retail finance and motor finance.

Non-standard lending
The 10 million-plus people less able to access mainstream credit borrow in the non-standard sector where small-sum lending is the norm. This £65 billion market accounts for around 40% of all unsecured credit advances.

Provident Financial
Provident competes in the non-standard lending market. In 2010 we made gross advances of £1.5 billion to our 2.4 million customers.

OUR ROLE IN THE NON-STANDARD LENDING MARKET

At Provident we have been lending responsibly in the non-standard market ever since our foundation in 1880. Our values inform our approach.

We believe personal relationships are vital. In Home Credit, where we are the UK market leader, agents meet up with our 1.9 million customers weekly. Vanquis Bank stays in touch with its customers over the phone and through newer innovations such as SMS text messaging.

Home credit

Unsecured personal loans

Credit cards

Non-standard lending explained

Most products in the non-standard market are relatively short-term. They carry higher than average charges to reflect the greater costs and risk of lending to non-standard borrowers. Overdrafts, unsecured personal loans and credit cards make up the bulk of the market.

The remaining 5% of non-standard lending is split between home credit, payday loans, pawnbroking, rent-to-own and bills of sale.

Payday lending

Secured lending

Hire purchase/ retail finance

Overdrafts

Pawnbroking

1.9m
Home Credit customers

£867m
Home Credit receivables

0.5m
Vanquis Bank customers

£345m
Vanquis Bank receivables

Our customers

Typically, Provident customers are hard-working people living on modest incomes. They borrow relatively small amounts, but it is a big commitment. They need it to be easy to make repayments and they like the flexibility to adjust those payments if their circumstances change.

HOME CREDIT CUSTOMERS

Home Credit customers are not always the main breadwinners, but they often control the household budget. The majority of our customers are women. The breadwinners in these households are more likely to be hourly-paid or have part-time or casual work than be in salaried employment and less than half of our customers are in receipt of non-universal benefits. Home Credit customers value the discipline of the weekly visit and appreciate having flexibility on repayments.

Turn to page 6 to see how Home Credit works in detail

"I like being able to spread the cost of purchases across the year. I've used part of my loan to book us a holiday in the sun. We've also got some new things for the house."

Sue, Home Credit customer

80%

of Home Credit customers think our products offer good value for money

£250

Average weekly household income

VANQUIS BANK CUSTOMERS

The household income of most Vanquis Bank customers is between £10,000 and £30,000 a year. They use the card in a similar way to users of mainstream cards at major supermarkets, on the high street, and for internet shopping. Growth in online shopping and changes in merchants' payment policies have made everyday tasks increasingly difficult without a payment card. The card therefore has a high utility value and offers useful additional consumer protection – it is often the only one they have.

Turn to page 8 to see how Vanquis Bank works in detail

"I got my Vanquis Bank credit card when I was organising my wedding. It helped me stick to my budget and keep track of my spending. It's also really handy for ordering online and over the phone."

Nicola, Vanquis Bank customer

20%

Percentage of customers with mortgages

84%

Customer satisfaction rating

Policy and regulation

The group is subject to various regulatory and supervisory regimes, including the Office of Fair Trading in respect of its credit-granting businesses and the Financial Services Authority on account of the banking licence held by Vanquis Bank. Our business in the Republic of Ireland is subject to the authority of the Central Bank in the Republic of Ireland.

CURRENT REGULATORY FRAMEWORK

Consumer Credit Act
The provision of credit is regulated by the rules set out in the Consumer Credit Act 1974 as amended (CCA). The main provision of this legislation ensures that the UK consumer credit market operates in the interests of consumers in a fair, clear and competitive way. Both Home Credit and Vanquis Bank are subject to CCA regulation.

The CCA and its supporting regulations cover:

- advertising, canvassing and the provision of pre-contract information to customers;
- the form and content of credit agreements;
- cancellation rights and early settlement rebates;
- debt collection procedures; and
- the granting of consumer credit licences.

Changes were made to the CCA and EU regulations in March 2010 to implement the 2008 Consumer Credit Directive, with a transitional period for businesses to comply with the new rules by 31 January 2011. The group implemented the required changes to its procedures in line with the prescribed timetable.

Similar legislation applies to Home Credit's operations in the Republic of Ireland.

Credit and store card regulation
In March 2010, the Government and credit and store card companies entered into a Joint Commitment agreeing to implement five new rights for credit and store card users by the end of 2010. These included a right to repay against the highest-rate debt first, a right to control the level of credit limits, more time to reject interest rate increases, rights to clearer information to enable users to make comparisons and to deal more effectively with payment difficulties and a ban on increases in credit limits and interest rates for those who are at risk of financial difficulties. Along with other credit and store card providers, Vanquis Bank made the necessary systems and other procedural changes during 2010 and early 2011 to ensure compliance with the Joint Commitment.

Financial Services Authority (FSA)
Vanquis Bank holds a banking licence and is therefore regulated by the FSA. The FSA's regulation takes two main forms:

- regulatory capital requirements for both Vanquis Bank and the wider Provident Financial group; and
- liquidity requirements for Vanquis Bank.

During 2010, Vanquis Bank implemented the requirements of the FSA's new liquidity regime, including the need to hold a liquid assets buffer.

FUTURE REGULATORY LANDSCAPE

HM Treasury (HMT)/Department for Business, Innovation and Skills (BIS) Review of Consumer Credit and Personal Insolvency
In October 2010, HMT/BIS issued a call for evidence in support of its Review of Credit and Insolvency Law. The Review is wide-ranging and the call for evidence sought comments on issues arising at each stage of the life of a credit agreement, from advertising to debt recovery. The call for evidence closed on 10 December 2010 and responses are now being considered by HMT/BIS. There is, as yet, no formal indication of when the results will be published. The group welcomes the Government's evidence-based approach to the review.

HMT/BIS Consultation on Transfer of Responsibility for Consumer Credit
In December 2010, a joint HMT/BIS Consultation was launched setting out the Government's proposal to transfer responsibility for Consumer Credit from the Office of Fair Trading (OFT) to a new Financial Conduct Authority (formerly called the Consumer Protection and Market Authority). Although the paper sets out two options for regulation, it is made clear that the Government's preferred option would be to bring the regulation of all retail financial products under one regulatory regime. The Consultation closes on 22 March 2011 and the group's businesses have contributed to the submissions by their respective trade bodies.

Home Credit explained

WHAT MAKES HOME CREDIT DIFFERENT?

Engaging with our customers
For families on modest incomes, juggling finances can be problematic. Often with limited ability to save, negotiating peaks and troughs in spending is challenging.

Credit can be of enormous help, but it needs to be affordable, manageable and delivered in the right way.

Provident Financial is the UK's leading community-based provider of credit. We have been providing small-sum loans tailored to this specialist market since 1880.

Our Home Credit service is straightforward, personal and flexible. We tailor our products to suit our customers.

We lend responsibly. Detailed understanding of customers' circumstances gained from the face-to-face, personal service delivered through the agents we engage protects our customers from taking on too much credit. It is in no one's interests for us to lend to people who cannot afford it.

Many of our customers have incomes which are less predictable than those of borrowers in the mainstream market. We allow for that in the way we structure our loans. There may be weeks when they cannot afford to keep up their payments, but they never get charged extra fees or interest.

What they say

"It doesn't help anyone if I lend too much so I always visit new customers in their homes to assess what they can afford to borrow."

Karen, Home Credit agent

How it works

First contact
Many customers hear about us through a recommendation. Much of our new business comes from word of mouth, direct mail or is sourced through our network of agents. We are also recruiting increasing numbers through online advertising.

The agent's visit
After obtaining a request to call at the customer's home, the agent will visit to discuss the various products the company offers and make an appointment for the agent to call back.

How it's underpinned

We manage the business to strike the right balance between growth, credit quality, and collections capacity.

The branch network
Our 440 branches, extending to virtually every postcode in the country, make us one of the very few businesses with truly nationwide coverage in the UK and Ireland. We operate through two main brands: Provident Personal Credit and Greenwood Personal Credit. Local branch managers liaise with agents to manage payments and arrears.

"Karen's visit has become part of my weekly routine. She's really down to earth and understanding. I like being able to deal with a human being, not a robot."

Kim, Home Credit customer

"It really helps that I understand what life's like for my customers. I live in this community and was a Provident customer myself for many years."

Paula, Home Credit agent

Transparent terms
There are no hidden charges. The maximum amount to be repaid is clear and fixed at the start, even if the customer misses payments.

Applying for a loan
An agent will visit the customer in their own home to conduct affordability and creditworthiness checks, complete the paperwork required, and agree a suitable loan amount, having fully explained the loan terms and determined it to be suitable. They will then agree a weekly collection routine to suit the customer and hand over the loan in cash.

Building trust
We operate a 'low and grow' policy. First-time borrowers typically get smaller, shorter-term loans. Those able to manage their repayments become eligible for larger amounts over longer periods.

Local agents
A network of 11,400 self-employed agents advance credit and collect payments in the communities they serve. Crucially, the agents earn commission on amounts repaid, rather than on loans issued. It is in their interests to lend responsibly. Many are former customers themselves and generally live in the communities where they operate. As a result, they are able to build up strong, professional relationships with their customers.

Diverse, secure funding
We have medium and long-term funding from banks, other lending institutions and the public debt market. At any given time we maintain substantial headroom and have additional committed facilities in place. We borrow for an average of three to four years and lend for an average of less than 12 months. It allows us to adapt our lending if external funding circumstances change.

Credit management
Our field force is focused on collecting cash which allows us to manage impairment effectively. Every week we analyse the extensive data coming in from the field. We can identify trends early on and take the appropriate action on lending and collections.

Vanquis Bank credit card explained

WHAT MAKES THE VANQUIS BANK CREDIT CARD DIFFERENT?

Engaging with our customers
Vanquis Bank brings the advantages of credit cards to non-standard customers, many of whom are excluded by mainstream card issuers. We are specialists in the non-standard market. We lend responsibly to new and existing customers and provide information and support to help them manage their finances.

Provident Financial has a long experience of the non-standard market. We are therefore comfortable extending credit to people on modest incomes.

Lending decisions for mainstream credit cards are based on credit scoring and credit bureau data. We take account of credit scores and external bureau data, but we have also developed our own bespoke scoring and underwriting assessments. In contrast to other credit card companies, we speak to almost every new customer before issuing a card.

The Vanquis Bank card is highly prized. It is widely used for shopping online and on the high street, and provides access to the best deals. It offers useful consumer protection and helps customers establish better credit ratings. And it is popular. In 2010, 84% of customers rated their Vanquis Bank experience as good or excellent.

What they say

"I'd tried to get a credit card from other lenders, but my financial history let me down. Vanquis Bank was different. They looked at my situation and gave me a card with a low starting limit. Now my credit rating's improved, others want to sign me up. But I'm sticking where I am."

Aidan, Vanquis Bank customer

How it works

First contact
In 2010, 50% of new customers came from online channels, 33% from direct mail and 17% from partner recommendations.

Applying for a card
Online applicants get a provisional response within minutes. We aim to interview candidates by phone before making a final decision.

How it's underpinned

Vanquis Bank is maintaining customer and profit growth. As the business expands, we are improving its economies of scale.

UK call centre
The 450 staff at our call centre at Chatham in Kent stay in close contact with our 544,000 customers. We aim to speak by phone to every new customer prior to activating an account. Our staff are in phone contact with each customer on a regular basis, approximately four times as often as most mainstream card issuers.

"From day one we have much more regular contact than the average credit card issuer. We aim to get to know our customers so we can understand their priorities and assist them if they have problems or queries."

Natalie, Vanquis Bank contact centre operative

"I use my Vanquis card mainly to smooth out peaks and troughs in my finances. And with the internet so important nowadays, it's great to be able to use it to shop online too."

Shaneel, Vanquis Bank customer

Transparent terms
Every new customer receives a welcome pack outlining their rights and responsibilities and offering tips on managing finances and improving their credit rating. Our website provides detailed advice.

Payment channels
We have made repayments easier by accepting payment online. We are also trialling PayPoint channels. We send SMS text message reminders when payments are due to customers who have signed up for this facility.

Building trust
With our 'low and grow' lending policy, new customers typically receive a £250 initial credit limit. After the first six months, their limits are reviewed every four months. Where appropriate, we offer to increase them in small, manageable steps.

Account monitoring
We monitor accounts continuously. Our collections team analyses payment and spending patterns to understand the particular circumstances of each individual borrower. We periodically suggest changes in credit limits and interest rates in line with usage and risk levels. Customers who service their debt effectively can get reduced interest rates.

Analytical expertise
The senior management team has significant experience in financial services and the credit card industry. In particular, its key personnel have strong analytical capabilities. The business has invested heavily in scorecard development and underwriting systems. It supplements standard industry techniques with a bespoke underwriting methodology.

Operational efficiency
The Vanquis Bank trading model is highly scalable. As the business grows, profitability is increasing. Recent investments in infrastructure are promoting growth and productivity. We created a new call centre facility in 2008 and in 2009 we upgraded our underwriting engine and improved our IT systems. Further enhancements are planned in 2011 and 2012. We also continue to invest in developing our people.

Our role has never been more important

John van Kuffeler
Chairman

The group's businesses focus on lending responsibly to consumers in the non-standard segment of the market who are less able to access credit in the mainstream market and may otherwise face financial exclusion. It has built up a close understanding of this specialist market over many years, attracting high levels of customer satisfaction through delivering a range of credit products specifically tailored to the needs of people on modest incomes.

38.1p
Proposed final dividend

Group results
The group has reported a strong set of results for the year with profit before tax and exceptional costs up 11.1% to £144.5m (2009: £130.1m) and basic earnings per share before exceptional costs up 10.1% to 78.6p (2009: 71.4p). The growth in earnings was well ahead of receivables growth due to the strong management of yield, impairment and costs. The group incurred an exceptional charge of £2.5m in 2010 relating to the write-down of residual fixed assets following consolidation of the Consumer Credit Division's head office into a single, purpose-built facility.

Home Credit delivered profits of £129.1m* (2009: £128.9m), up £0.2m on last year. As anticipated, the demand for credit was subdued in the first nine months of the year due to pressure on household incomes from rising under-employment, characterised by reduced working hours, as well as the rising cost of food, fuel and utility bills. Against this backdrop, a strong focus on collections and the early actions taken to manage margins and reduce costs underpinned profitability. The last quarter of 2010 saw an improvement in the demand for credit as customers' visibility of their future earnings improved and details of the Government's Spending Review were announced. At the same time, the collections performance remained very sound. The good finish to the year leaves Home Credit well positioned to deliver profitable growth in 2011.

Vanquis Bank achieved an excellent result in 2010, with profits up 89.4% to £26.7m (2009: £14.1m). The business delivered growth of over 25% in customer numbers and average receivables against tight underwriting standards. Delinquency trends have been very favourable since the second quarter of the year enabling the business to deliver a post-tax return on equity in excess of its target of 30% for the year as a whole. Vanquis Bank is very well positioned to continue further strong growth in 2011 and deliver on its receivables target of £450m by the end of 2012 whilst continuing to earn a post-tax return on equity of 30%.

The group's funding and liquidity positions remain strong with the balance sheet showing modest gearing of 3.3 times (2009: 3.3 times) against a bank covenant of 5.0 times. In the first two months of 2011, the group has made further excellent progress in increasing and further diversifying its funding base by arranging private placements totalling £128.5m, including the 10-year £100m facility with M&G Investments announced on 13 January 2011. The headroom on committed facilities at the end of February 2011 is approximately £370m. This is predominantly earmarked to meet contractual debt maturities between now and the end of the first quarter of 2012 of £345m which include the final tranche relating to those banks who did not participate in the three-year extension to the group's syndicated bank facilities in February 2010. In line with the continuing strategy of diversifying its funding base, the group has commenced a roadshow to promote a second retail bond issue following the success of its inaugural issue in April 2010. The group has made good progress in its dialogue with the FSA concerning Vanquis Bank using its banking licence to take retail deposits and expects to conclude the dialogue in the second quarter of 2011.

The proposed final dividend is maintained at 38.1p per share (2009: 38.1p) reflecting the company's policy set out at the time of the demerger to at least maintain a full-year payment of 63.5p per share whilst moving to a target payout ratio of 80% of post-tax profit in the medium term. Dividend cover before exceptional costs for 2010 increased to 1.24 times (2009: 1.12 times).

Market conditions
The group's businesses focus on lending responsibly to consumers in the non-standard segment of the market who are less able to access credit in the mainstream market and may otherwise face financial exclusion. It has built up a deep understanding of this specialist market over many years, attracting high levels of customer satisfaction through delivering a range of credit products specifically tailored to the needs of people on modest incomes.

Household incomes for many families in the home credit market remained under pressure during 2010 because of the rise in under-employment from restrictions on working hours and wage rates, coupled with rising food, fuel and utility bills. Customers' reduced visibility of their future incomes, together with the uncertainty surrounding the potential impact of public sector cuts and changes to welfare benefits, resulted in cautious customer behaviour which tempered the demand for credit through the first nine months of the year. Anticipating these market conditions, management planned for modest receivables growth during 2010 and placed a strong emphasis on managing revenue yields, maintaining credit standards and driving through cost efficiency measures whilst protecting collections and arrears management. Market conditions improved in the final quarter of the year as customers' visibility over their future incomes improved in a more stable employment market and details of the Government's Spending Review became known. These more favourable conditions have continued in the early part of 2011.

The overall competitive landscape for Home Credit remained unchanged throughout the year with around 500 active participants in the UK.

Vanquis Bank remains the most active participant within the non-standard credit card market which continued to experience strong demand. As a result, the business has generated a strong flow of applications and strong utilisation of credit lines. Other issuers remain relatively inactive and the business has a significant medium-term growth opportunity.

Vanquis Bank's customers are typically in regular employment and the business is more sensitive than Home Credit to changes in unemployment rates which have been steady since mid-2009. This stability coupled with consistently tight underwriting has contributed to a favourable trend in delinquency during 2010.

At present, there is uncertainty about the future direction of the employment market which is likely to remain until the impact of the Government's Spending Review on UK economic growth is clearer. Consequently, tight underwriting standards will remain in place in both businesses.

Government's Spending Review
Based on its detailed understanding of the Home Credit customer base, the group has assessed the potential impact of the changes to welfare benefits to be phased in over the next four years which were included in the Government's October 2010 Spending Review and June 2010 Budget. The conclusion is that the changes will have limited impact on the predominantly working households served by Home Credit and that the short-term nature of the loan book means that any impact on individual households will be factored into agents' lending decisions in the normal course of business. Impairment typically arises in Home Credit due to unexpected rather than expected changes to customers' circumstances.

Regulation
The group has now implemented those parts of the Irresponsible Lending Guidance to Creditors and the EU Directive on Consumer Credit which were required to be implemented by February 2011. In conjunction with the UK Cards Association, Vanquis Bank has also implemented the necessary systems and other procedural changes during 2010 and early 2011 to ensure compliance with the Department for Business Innovation and Skills (BIS) consultation on credit and store card regulation.

In October 2010, HM Treasury (HMT)/BIS issued a call for evidence in connection with a review of consumer credit and insolvency. The review is wide-ranging and covers issues arising at each stage of the life of a credit agreement. HMT/BIS is now in the process of considering the responses and, at a date still to be determined, will publish the results of the consultation. The group welcomes the Government's evidence-based approach to the review.

In December 2010, a joint HMT/BIS consultation was launched setting out the Government's proposal to transfer responsibility for consumer credit from the OFT to a new Financial Conduct Authority (formerly called the Consumer Protection and Market Authority) and signalling the Government's preference to bring the regulation of all retail financial products under one regulatory regime. The Consultation closes on 22 March 2011 and the group's businesses have contributed to the submissions through their respective trade bodies.

Outlook
After a strong final quarter in 2010, both Home Credit and Vanquis Bank have made a good start to 2011. The first quarter is the peak collections period in the Home Credit business and it is encouraging to report sound collections and a continuation of year-on-year sales growth. Vanquis Bank entered 2011 with a high quality receivables book, 35.0% up on a year earlier, and has experienced strong growth and stable delinquency during the first two months of 2011.

In view of the uncertainty over the future direction of the UK employment market, the tight underwriting standards which have been in place for a considerable period of time will continue to be applied in both businesses.

The good start to 2011 and the group's strong funding and liquidity positions with current headroom against committed facilities of £370m, leaves the business well placed to deliver good quality growth in 2011.

John van Kuffeler
Chairman
1 March 2011

"The group has reported a strong set of results for the year with profit before tax and exceptional costs up 11.1% to £144.5m."

*In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks compared with 52 weeks in 2009.

Taking our cue from our customers

Peter Crook
Chief Executive

For most of 2010, people on lower incomes were quite rightly anxious about the sustainability of their household finances as well as the threat from cuts in Government spending. Given this difficult context, it is satisfying to be able to report on another year of progress. We have grown customer numbers, increased profits and managed risk. We have done all that by listening carefully to our customers and lending responsibly.

£144.5m
Group profit before tax and exceptional costs

10.1%
Growth in EPS before exceptional costs

1.25 times
Target dividend cover

3.5 times
Target gearing ratio

Results
I am very pleased to report that the group delivered an excellent set of results in 2010 with profit before tax and exceptional costs up £14.4m to £144.5m, and earnings per share, before exceptional costs, up 10.1% to 78.6p.

We have delivered these strong results despite the challenging economic environment, characterised by a weak employment market and rising inflation which has put increasing pressure on our customers' incomes. The fact that we have continued to trade successfully is testament to the focus on our clear strategy developed at the time we demerged our international business in 2007, the quality of our people and reflects the inherent characteristics of our businesses which make them more resilient than other business models.

Strategy
Our mission is straightforward – it is to be the leading non-standard lender in the UK and Ireland, acting responsibly in all our relationships and playing a positive role in the communities we serve.

As we have been saying for some time, the UK non-standard market is increasingly becoming the domain of specialist lenders. Many lenders who have operated in this market have either failed, withdrawn or restructured, whilst Provident Financial has continued to deliver high returns in the small-sum unsecured segment of the market. The key to this success is to understand the customer and build a business model to meet their needs whilst maintaining responsible lending at its foundation.

Our strategy is centred on the organic growth of high return on equity businesses:

- Having modernised the Home Credit business over the past three years, we plan to continue to expand the operation by attracting new customers, increasing our share of customers' financial purchases and broadening the product range.
- We continue to scale up our credit card business to realise its economies of scale. The significant market potential of Vanquis Bank is evident from its rapid growth and the business is already generating more than enough capital to fund its own growth and contribute to the group's dividends. Vanquis Bank's next milestone is to grow its receivables book to £450m by the end of 2012 whilst maintaining a post-tax return on equity of 30%. There is every reason to expect that it will double its customer base in the medium term.

Our strategy of developing businesses which generate strong returns on capital underpins our generous dividend policy which aims to distribute 80% of our profits in the form of dividends. In addition, we maintain a strong balance sheet and prudent funding. Our business model is based upon borrowing long and lending short and maintaining a diverse funding base. Our target gearing ratio is 3.5 times, comfortably inside our banking covenant of 5.0 times.

Our leading positions in both the Home Credit and non-standard credit card markets provide a very good base from which to deliver a strong performance as the economy recovers.

Learning from our customers
The stability and soundness of our business models is rooted in our intimate understanding of our customers. Unlike most mainstream credit organisations, we make a point of keeping close to our customers – from the moment they request a loan to final repayment.

We do not attempt, and would not wish, to invent complex products that are superficially attractive. Transparency is one of the great strengths of our business model and one reason for our resilience.

What we do is really very simple. We provide small amounts of money to help ordinary people on lower than average incomes get on with their lives and participate in society.

We work hard to get to know our customers well and build productive relationships with them. We seek to learn from them so that we can meet their particular needs at every stage of the lending cycle.

Our businesses

Consumer Credit Division

The Consumer Credit Division has produced a resilient performance through the downturn. In 2010, Home Credit delivered profits of £129.1m*, up £0.2m on 2009, benefiting from the close attention to yield, impairment and costs during a period of modest receivables growth. In addition, the losses associated with the collect-out of the Real Personal Finance receivables book reduced from £7.7m in 2009 to £1.8m in 2010, all of which arose in the first half of the year.

A continuation of increasing underemployment in 2010 has meant that some of our customers have been working fewer hours than they would have wished, resulting in pressure on their household incomes. Add to this increasing inflation and the months of uncertainty leading up to the Government's Spending Review in October 2010 and it is not surprising that for the first nine months of the year, some customers reduced their spending and did not take out a loan when they normally might have done. However, it is encouraging to report that market conditions for Home Credit improved in the last quarter of the year, demonstrated by a strong pick-up in sales. It is clear that our customers do not feel that the austerity measures announced by the Government impact their finances as significantly as they thought they might and they are also feeling more certain about their future incomes. Once again, our strong focus on collections paid off in 2010 with impairment remaining stable before edging down towards the end of the year.

The performance in 2010, particularly in the last quarter, leaves the Consumer Credit Division poised to deliver good quality growth and take advantage of a recovery in economic conditions. The modernisation programme which started in 2007 is now complete and the business is fully invested. We now have improved IT systems, use better credit science and have developed more channels to market such as direct mail and the internet. Our investment in the field force to improve spans of control has helped us to manage impairment during these tough times and gives us additional capacity as the economy recovers.

The modernisation programme has allowed us to grow our customer numbers by nearly 20% since the start of 2007. We will continue to focus on serving those existing customers who have the available headroom to borrow and whom we know well. However, we also believe our target market is growing as the temporary, part-time and casual labour market is growing and banks continue to restrict credit which will allow us to grow our customer base.

We will maintain our tight stance on underwriting and our investment in collections capacity. We are also confident that the impact from the Government's austerity measures will not have a significant impact on the future development of the business.

Vanquis Bank

Vanquis Bank delivered an excellent result in 2010, growing profits by £12.6m to £26.7m. The business recently passed the original objective, set at the time of the demerger, to serve 500,000 customers, with receivables of £300m and delivering a post-tax return on equity of 30%. The business is now generating more than enough capital to fund its own growth and contribute to the group's dividends.

Because of the successful progress of Vanquis Bank, at the start of 2010 we set ourselves new targets of achieving £450m receivables, generating a post-tax return on equity of 30% by the end of 2012. It is important to note that these new targets assume similar receivables growth to that achieved over the last two years, no changes to our tight underwriting stance and a prudent view of the economic outlook.

The non-standard credit card market remains significantly under-served with Vanquis Bank as the most active participant. Our success in 2010 means that we are well placed to deliver on our new targets and, in due course, Vanquis Bank has a significant opportunity to grow beyond its current targets.

Looking ahead

The UK and Ireland non-standard credit market currently comprises over 10 million people and is expected to grow modestly in 2011 and beyond. It is our aim to remain the leading lender in this market and I am confident that we have the right model, people and resources to bring that about.

We are building sustainable market share by listening carefully to our customers, responding to their needs and by building on our reputation as a responsible corporate citizen.

Provident Financial's future prospects are attractive:

- Provident Financial has a long track record of successfully operating in the non-standard market which will remain the domain of specialists.
- We have an attractive business model with businesses that are well managed and inherently more resilient through difficult market conditions.
- We have a fully invested and modernised Home Credit business with the capacity to serve increased demand as the economy recovers.
- We continue to generate strong profitable and now capital generative growth in Vanquis Bank and we expect further improvement as growth generates additional economies of scale.
- Our businesses generate high returns and are very capital-generative, supporting a high and sustainable distribution policy.
- We have a strong balance sheet and a prudent funding structure.

The group has performed very well in 2010. I am confident that we can continue to deliver on our strategy and deliver good returns for our shareholders.

Peter Crook
Chief Executive
1 March 2011

MISSION

The group aims to be the leading non-standard lender in the UK and Ireland. It has adopted a clear strategy to achieve this.

The group has adopted key performance indicators (KPIs) to assess progress against each of its strategic objectives, including both financial and non-financial measures.

These are helpful in assessing progress but not exhaustive. Management also takes account of other measures in assessing performance. Strategic aims and KPIs are presented overleaf.

*In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks compared with 52 weeks in 2009.

Delivering our strategy and KPIs

KPI and description

1. Growth of higher return businesses in the UK and Ireland non-standard market

- Grow and modernise our Home Credit business.
- Bring Vanquis Bank up to full operational scale, generating significant returns.
- Extend our product offerings to cover more of our chosen market.

Customer numbers

- The number of active customers within each business.

Return on equity

- Profit after tax, excluding exceptional costs, divided by average equity. Equity is stated after deducting the group's pension asset and the fair value of derivative financial instruments, both net of deferred tax, and the proposed final dividend.

2. Generating shareholder returns

- Generate sustainable growth in profits and dividends to deliver increasing shareholder returns.
- At least maintain a full-year dividend of 63.5p per share whilst moving to a target payout ratio of 80% of profit after tax (1.25 times dividend cover) and then maintaining this profile as profits grow.

Total Shareholder Return (TSR)

- The increase in the value of the group's shares together with any dividend returns made to shareholders. TSR is measured over periods of three years in line with the group's Long Term Incentive Schemes.

Adjusted earnings per share

- Profit after tax, excluding exceptional costs, divided by the weighted average number of shares in issue, excluding own shares held by the group.

Dividend per share

- Total dividends for the year, including the interim dividend paid and the proposed final dividend, divided by the number of shares in issue, excluding own shares held by the group.

Performance in 2010

- **Group customer numbers up by 5.7% to 2.41m (2009: 2.28m).**
- **Strong return on equity of 46% (2009: 45%).**
- **Consumer Credit Division:**
  - Home Credit customer growth of 1.0% to 1.86m (2009: 1.84m). Rate of growth deliberately moderated to focus field resources on serving good quality existing customers added in previous years.
  - Strong pick-up in sales in the fourth quarter, following subdued demand in the first nine months of the year.
  - Stable collections performance and tight credit standards maintained throughout 2010.
  - Home Credit profit before tax for 2010 of £129.1m* (2009: £128.9m), benefiting from early actions taken to improve margins and reduce costs during a period of modest receivables growth.
  - Losses associated with the collect-out of the Real Personal Finance receivables book reduced from £7.7m in 2009 to £1.8m in 2010, all of which arose in the first half.
- **Vanquis Bank:**
  - Continued strong flow of applications with customer numbers growing by 27.7% and average receivables growth of 25.1%.
  - Receivables passed the £300m milestone during September and ended the year at £345.0m (2009: £255.5m).
  - Risk-adjusted margin of 33.9% (2009: 30.1%) reflecting favourable delinquency trends experienced since the second quarter of the year.
  - Target post-tax return on equity of 30% achieved in the year.
  - Strong growth in profit before tax to £26.7m from £14.1m in 2009.

- **TSR of +9.4% per annum over the period from September 2007 to September 2010 compared with –2.1% per annum for the FTSE 250 over the same period.**
- **Adjusted earnings per share up 10.1% to 78.6p (2009: 71.4p).**
- **Dividend per share maintained at 63.5p (2009: 63.5p).**

Plans for 2011

- **Consumer Credit Division:**
  - Continue to focus on serving good quality existing customers and recruiting good quality new customers against tight credit standards in order to generate profitable growth in receivables.
  - Drive the efficiency of field operations and maintain tight cost control.
- **Vanquis Bank:**
  - Continue to advance towards the medium-term objective of £450m receivables by the end of 2012 generating a post-tax return on equity of 30%.
  - Maintain tight stance on underwriting and credit line increases in light of the uncertainty of the direction of the labour market.
  - Upgrade the core card processing system to improve efficiency.
  - Develop plans to expand call centre capacity to accommodate future growth.

- Continue the commitment made at the time of demerger to at least maintain the dividend per share at 63.5p, until cover reaches 1.25 times and then maintaining this profile as profits grow.

*In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks compared with 52 weeks in 2009.

Delivering our strategy and KPIs continued

Our strategy

3. Maintaining a secure funding and capital structure

- Maintain sufficient equity and borrowing facilities to sustain the group's operations and fund growth over at least the next 12 months.
- Maintain a gearing ratio of 3.5 times, to ensure alignment with the dividend payout ratio of 80% and the group's growth plans.
- Continue to diversify the group's sources of funding.

KPI and description

Gearing

- Borrowings (based on contracted rates of exchange and excluding deferred arrangement fees) divided by equity. Equity is stated after deducting the group's pension asset and the fair value of derivative financial instruments, both net of deferred tax, in line with the group's banking covenants.

Borrowings headroom

- Total committed borrowing facilities less actual borrowings (based on contracted rates of exchange and excluding deferred arrangement fees).

4. Acting responsibly in our relationships with customers and making a positive contribution to the communities served by the group's businesses

- Earn high levels of customer satisfaction.
- Invest in the communities in which our customers and agents live and in which our staff work.
- Maintain a system to manage corporate responsibility.
- Meet or exceed regulatory requirements on responsible lending.
- Follow our corporate values in the treatment of our stakeholders.

Customer satisfaction

- The percentage of customers surveyed who are satisfied with the service they have been given.

Investment in the community

- The amount of money invested in support of community programmes (based on the London Benchmarking Group's guidelines) and donated for charitable purposes.

Performance in 2010

- **Gearing stable at 3.3 times (2009: 3.3 times) compared with a target of 3.5 times and a banking covenant of 5.0 times.**
- **Headroom on committed borrowing facilities of £185m (2009: £331m) as at 31 December 2010 increased to £370m as at 28 February 2011.**
  - Extension of £380m of bank facilities maturing in March 2012 to May 2013 in February 2010.
  - Debut issue of retail bond of £25.2m in April 2010.
  - Excellent progress made in further diversifying funding sources in first two months of 2011 by arranging private placements totalling £128.5m, including £100m term loan facility with M&G Investments.
  - Headroom on committed borrowing facilities at the end of February 2011, earmarked to meet contractual debt maturities of £345m between now and the end of the first quarter of 2012.
  - Strong capital generation of £80.4m before the payment of dividends (2009: £55.6m) reflecting Vanquis Bank becoming capital-generative and measures taken to improve revenue yield and control impairment and costs in the Consumer Credit Division.
  - Regulatory capital levels comfortably ahead of FSA requirements.
  - Roadshow launched to promote the issue of a second retail bond. Good progress made in the dialogue with the FSA concerning Vanquis Bank using its banking licence to take retail deposits.

- **Customer satisfaction of 91% for Home Credit (2009: 94%) and 84% for Vanquis Bank (2009: 84%).**
- **Invested £1,468,000 in various programmes during 2010 to benefit the communities we serve (2009: £1,329,000).**
  - Further investment in Good Neighbour, a major new strand in the group's community programme, comprising substantial funding for: (i) projects within the communities we serve; (ii) employee volunteering schemes; and (iii) employee matched giving.
  - Continued to embed the group's core values into the behaviour of the organisation and our people through changes to HR, performance management and other processes.

+91%

Home Credit customer satisfaction

+84%

Vanquis Bank customer satisfaction

Plans for 2011

- Aim to maintain committed borrowing facilities which provide funding headroom for at least the following 12 months.
- Maintain capital and gearing at prudent levels.
- Continue to consider further opportunities to diversify funding sources.

- Maintain or improve customer satisfaction levels.
- Increase the group's investment in the communities we serve through the Good Neighbour initiative.

Group business review and management report

The group has produced a strong performance in 2010 as a result of the careful management of growth, impairment and costs against the backdrop of a difficult economic environment. The group has a strong balance sheet and liquidity position.

Split of business divisions by year end receivables

1 Consumer Credit Division £874.3m **72%**

2 Vanquis Bank £345.0m **28%**

Group results

	Year ended 31 December		
	2010 £m	2009 £m	Change £m
Home Credit	129.1	128.9	0.2
Real Personal Finance	(1.8)	(7.7)	5.9
Consumer Credit Division	127.3	121.2	6.1
Vanquis Bank	26.7	14.1	12.6
Yes Car Credit	–	0.2	(0.2)
Central:			
– costs	(8.1)	(7.0)	(1.1)
– interest (payable)/receivable	(1.4)	1.6	(3.0)
Total central	(9.5)	(5.4)	(4.1)
Profit before tax and exceptional costs	144.5	130.1	14.4

2.4m
Total number of group customers

£144.5m
Profit before tax and exceptional costs

Meeting the needs of non-standard borrowers:

Consumer Credit Division

For generations of working-class families the weekly visit from the 'Provi' has been part of everyday life. Today, as much as ever, we pride ourselves on the distinctly personal nature of our service. The business continues to fill an important space in the UK non-standard market.

Chris Gillespie
Managing Director,
Consumer Credit Division

Divisional strategy
- Grow customer numbers
- Continually improve credit management
- Broaden the product mix
- Fully embrace the new regulatory environment
- Maintain high levels of customer satisfaction

Stepping in when the fridge needs replacing...

UNEXPECTED EXPENSES

Spreading the load

Life is rarely predictable and even the best-laid plans sometimes get thrown off course. For most people replacing a broken fridge or washing machine is an unwelcome expense. For lower-income families this kind of unanticipated financial hurdle can be devastating. Our short-term loans can help by spreading the cost over several months.

Meeting the needs of non-standard borrowers: Consumer Credit Division

Since its foundation in 1880, Provident Financial has helped families on below-average incomes negotiate the peaks and troughs in their financial circumstances. Our Home Credit business is the longest running and the largest in the UK and Ireland.

It is the only high-touch, face-to-face lending business trading right across the UK. Every week 11,400 local agents visit 1.9 million customers, one in 20 of UK households, to issue loans and collect repayments. Our network covers almost every postcode in the country.

Our personal approach is very popular. For households on limited budgets, the agent's weekly visit is an essential discipline.

Our business is flourishing because we provide simple, transparent and flexible financial products to our customers. Our customers appreciate these attributes.

They like the fact that Home Credit loans are structured to allow borrowers to repay when they can. If customers are unable to meet a weekly payment they know they will get a sympathetic response. Perhaps more importantly, there are no penalty fees or extra interest whatsoever; the amount to be repaid remains unchanged.

A helping hand when the kids go back to school...

EXPENSIVE TIMES

Back to school

The start of the new school year is always a busy time. It's great to watch the kids growing up but it can also be costly. Parents have to find funds for new uniforms; then there's new shoes, stationery, books, sports kit – it all adds up. A Home Credit loan can ease the burden.

Customer acquisition channels

1 Agent **58%**
2 Internet **20%**
3 Fresh start **7%**
4 Direct mail **5%**
5 Other **10%**

£129.1m*

Home Credit profit before tax

£867.2m

Home Credit year end receivables

72%

of agents are female

*In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks compared with 52 weeks in 2009.

The agents play an important role. Many are former customers themselves. They live in the communities they serve and naturally empathise with the people there.

All agents are self-employed and only earn commission as loans get repaid. They therefore have no reason to encourage people to borrow more than they can afford. This acts as a valuable check on impairment and it makes sense for the customer too. It is one reason why our customers rate our services so highly. In our latest survey 91% said they were satisfied with our service and 80% felt our products offered good value for money.

Key activities in 2010

The Consumer Credit Division can be proud of its performance during a difficult year, having traded successfully through tough market conditions. Home Credit generated profits of £129.1m* (2009: £128.9m), up £0.2m on last year despite only moderate receivables and customer growth.
In addition, the loss associated with the collect-out of the Real Personal Finance receivables book reduced from £7.7m in 2009 to £1.8m in 2010, all of which arose in the first half of the year.

Many lenders who had over-extended in previous years have withdrawn from the non-standard credit sector. Mainstream lenders are shying away from lending to those at the margins of their lending models. It presents an opportunity to win back customers better suited to our high service, flexible, small-sum model.

With fewer mainstream, non-home credit competitors in the market we could have elected to grow volume. We opted instead to strengthen underwriting and moderate growth. By adopting a cautious approach to lending and staying close to our customers, we have been able to avoid the trap of lending too much too quickly. We maintain a highly selective approach and currently only accept around a quarter of lending opportunities.

Our customers appreciate that Home Credit has a useful place in financial planning. After an extended period of gradual decline, we have added to our customer numbers in each of the last five years.

Rebalancing the business

During 2010, we continued to focus on rebalancing the workforce to improve our profitability during a period of lower growth. We had to take some difficult decisions in the long-term interests of the business. The number of head office and direct repayment loan personnel fell by approximately 200 at the beginning of the year. Field collections and arrears management capacity were unaffected by these changes. As a result, our cost base remained broadly flat in 2010.

The business is well-balanced entering 2011 and we are poised to gain from any improvement in economic conditions. As the economy improves we have the capacity to increase our lending. If the economy moves back into recession we have more people in place to manage loans where customers are experiencing difficulties.

New headquarters

Our move to purpose-built headquarters in October 2010 marked an important staging post in our development. We are staying true to our Yorkshire roots by remaining in Bradford. It underlines our commitment to the regeneration of the area. We are proud to be one of the largest private sector employers in the city.
The new premises, which obtained a very good rating under the Building Research Establishment Environmental Assessment Methodology (BREEAM), will accommodate the future growth of the business and help us realise economies of scale more effectively.

Fresh Start

Fresh Start gained momentum as a customer acquisition tool during the year. We work with third parties who are having difficulty collecting payment on outstanding debts. With their permission we approach selected non-paying customers. Customers who might have struggled with remote lending models can often benefit from the discipline of weekly home collection. Those that opt to transfer their debt to us have the opportunity to improve their credit rating by beginning to repay what they owe.

Love2Shop vouchers

The Love2Shop voucher scheme has grown in popularity. We are now the largest reseller in the country. This is a highly seasonal business with most vouchers bought in the run-up to Christmas. It makes a significant contribution to the range of products we can make available to our customers.

Provident Money cards

We currently offer Visa cards as an alternative to cash advances which can be loaded with a fixed amount of £300. The cards can be used in cash machines, on the high street and online. We plan to replace these with a card which can be loaded and re-loaded with variable amounts. We anticipate growth in this product offering once the new card is established.

Meeting the needs of non-standard borrowers: Consumer Credit Division

1.9m
Number of Home Credit customers

Government Spending Review

On 20 October 2010, the Chancellor announced details of the Government's Spending Review, including cuts to public spending and reforms to welfare benefits.

Based on our deep understanding of our customers, we believe that the proposed changes to benefits will not have a significant impact on Home Credit:

- Savings of £18.1bn out of a total welfare budget of £200bn are phased over four years to 2014–15 with almost half relating to the switch of indexation of benefits from RPI to CPI and the removal of child benefit for higher-rate tax payers. Both these measures do not result in a loss of income for our customers.
- The incomes of Home Credit customers come from a diversified range of sources, typically including an income from employment. Non-universal benefits form a component of household income for less than half of Home Credit customers.
- The short-term nature of loans and the visibility of the impact of any changes in welfare benefits allow agents to adjust lending decisions in the normal course of business. Impairment typically arises in Home Credit due to unexpected, rather than expected, changes to customers' circumstances.
- The reduction in public sector employment is expected to be centred on those engaged in administration roles, which will not typically be Home Credit customers, who derive their income from hourly paid, part-time or casual work and are therefore not typically employed in administrative roles within Central or Local Government.
- The Government has stated that it will protect financially benefit claimants through the planned transition to the Universal Credit by 2017. Furthermore, the Government has estimated that its introduction will result in 2.5 million households receiving higher entitlements which should benefit the Home Credit business in due course.
- At least a third of Home Credit customers will benefit from planned future increases in the tax free threshold for income to £10,000 during the life of the current parliament.

Making sure the family car stays on the road...

RUNNING REPAIRS

Nipping problems in the bud

Many families can't do without a car, but with the price of tax, fuel and insurance all rising, the cost of keeping it on the road is mounting all the time. So when something goes wrong, the extra expense can be difficult to bear. But when it comes to repairs it rarely makes sense to put things off. A short-term loan to cover the cost keeps the car on the road, the family safe and addresses any problems before they get worse.

AGENT INSIGHT

Results

Consumer Credit Division

The Consumer Credit Division generated a profit before tax of £127.3m in 2010 (2009: £121.2m) analysed as follows:

	Year ended 31 December		
	2010 (53 weeks) £m	2009 (52 weeks) £m	Change %
Profit/(loss) before tax:			
Home Credit	129.1	128.9	0.2
Real Personal Finance	(1.8)	(7.7)	76.6
Consumer Credit Division	127.3	121.2	5.0

Home Credit

The Home Credit business generated a profit before tax of £129.1m (2009: £128.9m).

	Year ended 31 December		
	2010 (53 weeks) £m	2009 (52 weeks) £m	Change %
Customer numbers ('000)	1,861	1,842	1.0
Year end customer receivables	867.2	866.0	0.1
Average customer receivables*	753.6	759.2	(0.7)
Revenue	701.1	673.7	4.1
Impairment	(230.6)	(216.7)	(6.4)
Revenue less impairment	470.5	457.0	3.0
Revenue yield**	93.0%	88.7%	
Impairment % revenue***	32.9%	32.2%	
Costs	(292.3)	(288.4)	(1.4)
Profit before interest and tax	178.2	168.6	5.7
Interest	(49.1)	(39.7)	(23.7)
Profit before tax	129.1	128.9	0.2

* Based on an average of month end receivables throughout the year.
** Revenue as a percentage of average receivables for the 12 months ended 31 December.
*** Impairment as a percentage of revenue for the 12 months ended 31 December.

Kath, Home Credit agent

"It's important to build strong relationships. Then, if someone's having trouble making a repayment, we can sit down together to find a solution. A few weeks ago one of my customers had to deal with an unexpectedly high bill. We skipped a payment and he paid a little bit extra over the next few weeks. My customers really value that flexibility."

Meeting the needs of non-standard borrowers: Consumer Credit Division

LOW AND GROW

Developing relationships

We structure our loans to be simple to understand and with no nasty surprises. We typically offer our first-time customers smaller loans over a short period. There's no penalty if they miss payments but if they meet all their payments on time, we can talk about larger loans. Our 'low and grow' policy builds trust over time and protects customers from borrowing more than they can afford.

Melvyn, Home Credit customer

"My mum's been a Provident customer for years. She suggested I try out Home Credit and it's worked out really well. I'm paid weekly so the repayment structure ties in nicely with that. Knowing my agent is coming round each week helps me plan my finances and stick to a budget."

Results

The group's planning assumption at the start of the year was that Home Credit customers would continue to experience pressure on their household incomes and consumers would remain cautious. Accordingly, the business planned for relatively low receivables growth with no relaxation of credit standards and implemented a cost reduction programme whilst protecting collections and arrears management capacity in the field. This approach, combined with the introduction of a revised core product in late 2009 to shorten the book and increase the revenue yield, has ensured that Home Credit has delivered a 5.7% increase in profit before interest and tax to £178.2m against a broadly flat receivables profile. After absorbing a £9.4m increase in interest costs, £8.8m of which reflects an uplift in the group's average funding rate from 7.0% in 2009 to 8.5% in 2010, Home Credit's profit before tax increased marginally to £129.1m (2009: £128.9m).

The year-on-year growth in customer numbers was 1.0%. The growth rate moderated towards the end of the year from the annual growth of approximately 6% achieved since the start of 2007 because of management's decision to focus field resources on serving credit to the existing pool of good quality customers. During the first nine months of the year, some customers were cautious in requesting new credit. They were concerned about their future prospects because of the pressure on household incomes from increasing under-employment, characterised by reduced working hours and having to accept part-time or temporary work, together with rising food, fuel and utility bills. The last quarter of the year saw a pick-up in demand for credit as customers' visibility on their household incomes improved in a more stable employment market and details of the Government's Spending Review were announced. Whilst year-on-year sales growth for 2010 as a whole was just 1.2%, growth in the fourth quarter was 9% reflecting strong sales to existing customers against unchanged tight credit standards.

SEASONAL PEAKS

Planning for Christmas

Our customers are financially astute. They have to be – life on a modest income leaves little room for manoeuvre. If they know in advance they will have extra expenses they plan accordingly. Nearly two in five use Home Credit loans for Christmas and birthdays. Some choose Christmas hampers in January and pay for them through the year. Love2Shop vouchers are another popular option, allowing customers to buy treats for the family without spending more than planned.

Sylvia, Home Credit customer

"I've been with Provident for 36 years now. My agent, Kath, comes to see me at the same time every week so I always know exactly where I am with my repayments. She's really friendly and I feel comfortable talking to her if I have worries or concerns."

Average receivables were 0.7% lower than last year, reflecting relatively low sales growth for the year together with some shortening of the duration of the loan book to help mitigate risk in a difficult environment. Year end receivables of £867.2m (2009: £866.0m) were marginally higher than last year, benefiting from the strong pick-up in sales activity in the last quarter of the year, and in line with management's planning assumptions for 2011.

The revenue yield increased from 88.7% in 2009 to 93.0% in 2010. The core 50-week product introduced in late 2009 to replace the old 57-week product contributed approximately half of the growth in the revenue yield. The new product is better suited to customers' needs for a loan of a year in duration and allows more effective management of risk. The yield on the book will moderate in 2011 due to the strong fourth quarter growth in credit issued to existing good quality customers who, compared with new customers, tend to be served with slightly longer term products which carry a lower yield.

The collections performance remained sound throughout 2010. A relatively strong collections performance in the final quarter resulted in the rate of annualised impairment to revenue reducing from 33.3% at June 2010 to 32.9% at December 2010. This performance reflects the natural resilience of the Home Credit business model, continued tight underwriting and the investment in front-line collections and arrears management capacity through the difficult trading environment of the last two years. In the absence of any significant change in the external environment, collections performance and the rate of impairment in 2011 are expected to remain at similar levels to 2010.

Anticipating a lower growth environment in 2010, the business implemented a cost reduction programme at the start of the year which included removing 90 positions from the Home Credit head office support functions during February. Field collections and arrears management capacity were unaffected by these changes. After allowing for the additional trading week in 2010, costs during 2010 were broadly flat. Annual pay awards to staff of

Meeting the needs of non-standard borrowers: Consumer Credit Division

CUSTOMER INSIGHT

Gemma and family, Home Credit customer

"Ethan and Louis-James needed new uniforms for the start of the new school year in September. I only wanted a small loan so I chose Home Credit. I like the way it's structured, with weekly repayments and the reassurance of never having to worry about extra charges."

between 1.0% and 1.5% together with the additional cost of the new head office in Bradford have been largely offset by the savings generated by the cost reduction programme. Costs through the first half of 2011 will reflect an uplift in agents' commission following the strong sales in the final quarter of 2010 together with additional training and administrative costs associated with the implementation of the EU Consumer Credit Directive across the organisation.

In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks compared with 52 weeks in 2009. Overall, the additional week has added approximately 2% to revenue, costs and profit in 2010.

Real Personal Finance

Following the decision to focus direct repayment lending on known prospects generated through the Home Credit branch network, the re-focusing of the business and associated cost reductions made in February resulted in Real Personal Finance incurring a loss of £1.8m in 2010 (2009: loss of £7.7m), all of which arose in the first half of the year. The collect-out of the receivables book has progressed satisfactorily and receivables stood at £7.1m at the end of 2010, down from £17.8m at the end of 2009. Direct repayment loan products branded Provident Direct and Greenwood Direct were introduced in August as part of the Home Credit business and initial volumes have been modest.

Looking ahead

We have 1.9 million customers across the country. Agents visit each of them every week. We aim to leverage these strong personal relationships by doing more for our existing customers as well as working with new ones.

We anticipate steady growth in the underlying market for Home Credit in 2011 as the number of part-time, casual and temporary workers increases and mainstream lenders continue to restrict credit. Based on our detailed understanding of our customer base, we are satisfied that the changes to welfare benefits announced as part of the Government's Spending Review will not have a significant impact on our customers. With the steps we have taken to strengthen the business we are confident that this will translate into good earnings growth.

Meeting the needs of non-standard borrowers:

Vanquis Bank

In today's world, lack of access to plastic makes it hard to participate fully in modern life. Mainstream card issuers exclude borrowers with limited or uneven credit histories. The Vanquis card brings the flexibility, consumer protection and convenience of the credit card to this section of the population.

Michael Lenora
Managing Director,
Vanquis Bank

Divisional strategy
- Continue to scale up the business
- Generate a post-tax return on equity of 30%
- Reach £450m in receivables by 2012
- Fully embrace the new regulatory environment
- Continue to treat customers fairly

Taking advantage of online offers...

GIVING CUSTOMERS ACCESS TO THE BEST DEALS

Shopping online

The internet is a critical tool in today's world. It is extending choice and putting power in the hands of individuals – but only for those with unrestricted access. The Vanquis card puts people with adverse credit histories on an equal footing. They enjoy the benefits of shopping from home and can access online offers and discounts.

Meeting the needs of non-standard borrowers: Vanquis Bank

£250
Initial Vanquis Bank credit limit

£900
Average Vanquis Bank credit limit

Vanquis Bank again performed strongly in 2010, meeting or exceeding all of our targets on growth and profitability. Profits increased by 89.4% to £26.7m (2009: £14.1m) and we increased our customer accounts by 27.7%, passing the double milestone of 500,000 accounts and £300 million receivables. We are firmly on schedule to hit our target of £450 million receivables by 2012.

Growth was not achieved at the expense of quality and we remain highly selective. Our credit quality was even better in 2010 than in 2009, resulting in improved margins and healthy profitability. By the second half of 2010 we had already reached our target of a 30% post-tax return on equity.

Vanquis Bank operates in the non-standard sector of the UK credit card market. Many of our customers have been refused credit by mainstream card lenders. Of the 10 million people in the UK non-standard market, we estimate that five million may be suitable candidates for our credit card product. We currently have 544,000 customers, around 10% of the market. We typically lend to working people with limited access to other lines of credit who earn up to around £30,000 per annum.

The Vanquis card is already popular with customers. In our 2010 survey, customer satisfaction levels were 84%.

Responsible lending
Responsible lending is a fundamental requirement for our brand. As a specialist lender in the non-standard market, we take our responsibilities extremely seriously.

There is consistently high demand for our Visa-branded card, but we are highly selective about which applications to accept. In 2007 nearly one in four were approved. In 2010, just 18% were approved.

Low and grow
We have tailored our service to the non-standard market. Our experience in this sector makes us more comfortable lending to such customers. We do so mindful that there are additional risks. As such, the interest rate on our cards is generally at the higher end of credit card lenders' rates.

Our products are built around responsible lending. Our 'low and grow' lending policy allows us to get to know customers and only lend to those who can afford and manage repayments. Initial credit lines are a good deal lower than those of mainstream card issuers, typically starting at around £250. Customer requirements are reassessed every four months. The average credit limit is currently approximately £900.

Vanquis Bank is rapidly developing as a key player in the non-standard market. We only began trading in 2003, with full product launch in 2005. In just five years the business has progressed rapidly from a loss of £18.1m in 2006 to a £26.7m profit in 2010.

Customer contact
We have a closer relationship with customers than would normally be expected of a card-based lender. We manage more than a million customer accounts from our UK-based call centre in Chatham.

Before taking on any new customer we aim to conduct a telephone interview with them. This 'welcome conversation' is part of the underwriting process. It stands to reason that if we cannot manage to get hold of customers on the phone before lending, it will be more difficult when we need to speak with them once lending has started. We rigorously check security details to reduce the incidence of fraud.

Related products
The 'welcome call' is also an opportunity to offer customers related products which may suit them such as identity theft protection and a product which allows occasional missed repayments.

We have several recent innovations including customers being able to choose their favourite card design. In addition, we have a 24/7 Fraud Watch service and offer SMS account management.

Gold card
Whilst we endeavour to maintain a high level of service for all of our customers, above and beyond this we rolled out our gold card service during 2010. This is proving very popular, but is only available to our very best customers. They get priority support, with a dedicated call centre number. They are also sent account updates by SMS text.

Streamlined payment systems

Our SMS account management service allows us to communicate with customers by SMS text and allows customers to authorise payments on their debit card by SMS text message. We will automatically remind customers when a payment is due on their account. We will also notify them if they exceed their limit. We have also introduced an online payment channel and a PayPoint-based payment facility.

Our collections strategy focuses on contacting customers early, before there is a problem. We endeavour to work with the customer, educating them on the importance of good account management and offer a variety of solutions to get their account in good order.

SIMPLICITY AND CONVENIENCE

Simplifying regular shopping

Plastic is safer, simpler and more convenient than cash. It's also easier to keep track of spending. Customers use the Vanquis card to pay for the main weekly shop and monitor spending week by week. They can analyse spending over time and work out where savings can be made.

Anthony, Vanquis Bank customer

"Before I had my Vanquis card I bought my groceries a bit at a time, whenever I had spare cash. Now I do a single weekly shop and it's costing me less. Because I'm clear about what I'm spending, it's easier to stick to my budget."

Keeping track of the weekly shop...

Meeting the needs of non-standard borrowers: Vanquis Bank

£26.7m

Vanquis Bank profit before tax

544,000

Number of Vanquis Bank customers

Results

Vanquis Bank generated a profit before tax of £26.7m in 2010 (2009: £14.1m).

	Year ended 31 December		
	2010 £m	2009 £m	Change %
Customer numbers ('000)	544	426	27.7
Year end customer receivables	345.0	255.5	35.0
Average customer receivables*	289.2	231.1	25.1
Revenue	162.0	131.3	23.4
Impairment	(63.9)	(61.7)	(3.6)
Revenue less impairment	98.1	69.6	40.9
Risk-adjusted margin**	33.9%	30.1%	
Impairment % revenue***	39.4%	47.0%	
Costs	(52.9)	(43.3)	(22.2)
Profit before interest and tax	45.2	26.3	71.9
Interest	(18.5)	(12.2)	(51.6)
Profit before tax	26.7	14.1	89.4

* Based on an average of month end receivables throughout the year.

** Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.

*** Impairment as a percentage of revenue for the 12 months ended 31 December.

Vanquis Bank performed strongly during 2010, delivering profits up 89.4% on 2009. The business met its target post-tax return on equity of 30% in 2010 and is now generating sufficient capital to fund its own growth and start contributing to the group's dividends.

Demand for non-standard credit cards has remained strong and Vanquis Bank has experienced a flow of over 1,300,000 applications during 2010. Customer growth was 27.7%, up significantly on 2009 as a result of a more active customer acquisition programme which was assisted by securing a reduction in the average acquisition cost per account. The 241,000 (2009: 167,000) new customers in the year have been booked against tight underwriting standards that have remained consistent with those applied throughout 2009, resulting in a similar acceptance rate of 18%.

The growth in customer numbers together with the credit line increase programme to customers who have established a sound payment history, have led to a 25.1% increase in average receivables and a 23.4% increase in revenue. Returns from this 'low and grow' approach to extending credit remain strong. Vanquis Bank has also continued to be extremely active in managing the level of credit line utilisation and revenue yield to reflect underlying risk. Average utilisation during 2010 was 79% ensuring that a strong stream of revenue is earned whilst maintaining a relatively low level of contingent undrawn exposure.

Impairment showed a modest increase of just 3.6% during 2010 compared with growth of 35.0% in year end receivables. Delinquency rates improved consistently from the second quarter of the year against the backdrop of stable unemployment. This reflects the improvement in the underlying quality of the loan book as a direct result of the progressive tightening of underwriting from 2007 to 2009 and demonstrates the effectiveness of Vanquis Bank's credit decisioning. The impairment charge benefited by approximately £5m from the reduction in delinquency during the year which will not recur as delinquency levels stabilise.

Notwithstanding the improvement in delinquency during 2010, management is mindful of the potential for unemployment to rise as a result of the Government's austerity measures. Accordingly, the tight underwriting and credit line increase criteria applied in 2010 will remain in place for the foreseeable future.

During 2010, Vanquis Bank generated an annualised risk-adjusted margin of 33.9% (2009: 30.1%), above its target of 30.0%. This reflects the strong revenue yield on the receivables book and the benefit of the improvement in delinquency levels during the year. The risk-adjusted margin is expected to moderate towards the target level in 2011 as delinquency stabilises.

Cost growth of 22.2% in 2010 trailed the levels of revenue and receivables growth as the business continues to benefit from increased scale. Direct mail and internet marketing activities were increased to support higher customer growth, increasing customer acquisition costs by over £3m.

Interest costs increased by 51.6% during 2010. This reflects both the increase in average receivables levels together with a £3.2m impact from the increase in the average group funding rate for the year from 7.0% in 2009 to 8.5% in 2010.

The competitive landscape for Vanquis Bank continues to remain favourable and the business model has performed well during the economic downturn. In line with the guidance at the start of the year, the business is firmly on track to grow its receivables book from its current level of £345.0m to its target of £450m by the end of 2012, whilst maintaining a post-tax return on equity of 30%.

Vanquis Bank is on schedule to upgrade its core customer IT platform during 2011 at a capital cost of £2m. In addition, the business will need to bring on stream additional call centre capacity in 2012 and several options are in the process of being evaluated.

Looking ahead

We have invested in people and infrastructure. We have as strong a set of tools to work with as the largest high street lender, but we have fine-tuned these tools to serve the non-standard market. This is what we believe sets us apart and makes us a better lender, offering the right products and achieving higher overall results than our competitors. We are consistently growing receivables and profitability. We are also broadening the range of ancillary products we offer to customers.

The business model for Vanquis has been proven in different stages of the business cycle. There is a significant opportunity to grow market share; a million accounts is still only 20% of the addressable market. We fully expect to meet our published targets by the end of 2012, but there is clear potential for Vanquis to attract significantly more business in the medium term.

STAFF INSIGHT

Jade, Vanquis Bank contact centre operative

"We take the time to talk to our customers so that they are always clear about the terms and conditions when applying for a credit card. We make sure that they are kept up to date with their payments by giving them regular reminders and always keeping them in the loop."

Financial review

The group's strategy is to invest in businesses which generate a high return on capital. This allows the group to support a high dividend payout ratio whilst maintaining a modest level of gearing.

Andrew Fisher
Finance Director

Group profit before tax

Group profit before tax and exceptional costs was £144.5m in 2010, up £14.4m on 2009.

	2010 £m	2009 £m	Change £m
Home Credit	129.1	128.9	0.2
Real Personal Finance	(1.8)	(7.7)	5.9
Consumer Credit Division	127.3	121.2	6.1
Vanquis Bank	26.7	14.1	12.6
Yes Car Credit	–	0.2	(0.2)
Central:			
– costs	(8.1)	(7.0)	(1.1)
– interest (payable)/ receivable	(1.4)	1.6	(3.0)
Total central	(9.5)	(5.4)	(4.1)
Profit before tax and exceptional costs	144.5	130.1	14.4

After deducting an exceptional cost of £2.5m in 2010 (2009: £4.4m), group profit before tax was £142.0m (2009: £125.7m).

A review of the performance of the Consumer Credit Division and Vanquis Bank can be found on pages 23 to 26 and 30 to 31 respectively.

Central costs

Central costs of £8.1m in 2010 (2009: £7.0m) were higher than in 2009 as a result of an increased investment in the group's community programme and the impact of higher performance-related incentives.

Central interest payable was £1.4m in the year compared with a receivable of £1.6m in 2009. This reflects the absorption centrally of the interest costs previously allocated to Yes Car Credit prior to its closure at the end of 2009.

Exceptional costs

In October 2010, the Consumer Credit Division successfully completed its move to a new head office building in Bradford, consolidating split operations into a single, purpose-built facility that will accommodate the future growth of the business. An exceptional writedown of residual fixed assets of £2.5m in respect of the old properties has been reflected in 2010.

The exceptional cost in 2009 of £4.4m arose following the issue of the £250m senior public bonds together with the repurchase of £94m of subordinated loan notes at 97.5%. The net exceptional finance cost comprised: (i) a charge of £6.8m in respect of the fair value of interest rate swaps which became ineffective following the repayment of variable rate bank borrowings with the net proceeds of the bond issue; and (ii) a £2.4m credit representing the 2.5% discount on the repurchased subordinated loan notes.

Taxation
The effective tax rate for the year on profit before exceptional costs was 28.0% (2009: 28.0%), in line with the UK corporation tax rate. The future tax rate is expected to be in line with the statutory UK corporation tax rate which reduces to 27.0% on 1 April 2011.

Earnings per share
Basic earnings per share for the year were 76.7p (2009: 67.5p).

In order to provide a more comparable view of the performance of the group's ongoing operations, the directors have elected to show an adjusted earnings per share figure excluding the after tax impact of exceptional costs. Adjusted basic earnings per share on this basis amounted to 78.6p (2009: 71.4p), 10.1% higher than 2009.

Total Shareholder Return (TSR)
TSR is an important measure of performance for the group's shareholders as it combines the change in the value of the group's shares with any dividend returns made to shareholders. This measure also forms one of the performance conditions within the Long Term Incentive Scheme (LTIS) for directors and senior management and is measured over a three-year performance period for each LTIS grant.

The performance of the 2007 LTIS, the first LTIS to vest post-demerger was as follows:

	Performance period		TSR performance	
Year of grant	Start	End	PFG	FTSE 250
2007	Sep–07	Sep–10	+9.4%	-2.1%

Dividends
The group's dividend policy, set at the time of demerger of the international operations in 2007, is to maintain a full-year dividend payment of 63.5p per share whilst moving to a target payout ratio of 80% of post-tax profit and thereafter maintaining a progressive profile as profits grow.

For 2010, the directors have recommended a full year dividend per share of 38.1p (2009: 38.1p) which, after taking account of the interim dividend per share of 25.4p (2009: 25.4p), amounts to a full year dividend of 63.5p per share (2009: 63.5p). Based on adjusted earnings per share, dividends were covered 1.24 times (2009: 1.12 times) which equates to a payout ratio of 81% (2009: 89%), marginally above the 80% target.

The dividend yield, using the share price at 31 December 2010, was 7.3% (2009: 6.8%).

Balance sheet
The group's summary balance sheet is set out below:

	2010 £m	2009 £m	Change £m
Receivables:			
Consumer Credit Division	874.3	883.8	(9.5)
Vanquis Bank	345.0	255.5	89.5
Total receivables	1,219.3	1,139.3	80.0
Pension asset	41.0	19.9	21.1
Liquid assets buffer	10.0	–	10.0
Borrowings	(959.0)	(883.4)	(75.6)
Other net liabilities	(1.9)	(7.4)	5.5
Net assets	309.4	268.4	41.0

In order to maintain a robust capital structure the group has a target gearing ratio of 3.5 times. This provides a comfortable level of headroom against the group's banking covenants, including the gearing covenant of 5.0 times, and the regulatory capital requirements set by the FSA.

The gearing target of 3.5 times is fully aligned with the group's target of distributing 80% of post-tax earnings by way of dividends whilst retaining sufficient capital to support receivables growth consistent with management's medium-term growth plans for the group.

Receivables

Receivables ended 2010 at £1,219.3m (2009: £1,139.3m), showing year-on-year growth of £80.0m. Receivables in the Consumer Credit Division reduced marginally by £9.5m to £874.3m reflecting the collect-out of the Real Personal Finance receivables book which reduced from £17.8m at the end of 2009 to £7.1m at the end of 2010. Home Credit receivables showed modest growth in 2010 of 0.1% to £867.2m (2009: £866.0m). This reflects the careful management of the duration of the loan book to mitigate risk in the current environment together with the cautious behaviour of Home Credit customers through the first nine months of 2010. At Vanquis Bank, strong growth in customer numbers of 27.7% together with credit line increases to good quality existing customers led to an £89.5m (35.0%) growth in receivables from £255.5m to £345.0m.

Liquid assets buffer

In accordance with the FSA's new liquidity regime, since 1 October 2010 Vanquis Bank has been required to hold a liquid assets buffer in the form of a designated money market fund invested in sterling government bonds. As at 31 December 2010, Vanquis Bank's liquid assets buffer amounted to £10.0m (2009: £nil). The amount of the liquid assets buffer required to be held is based on Vanquis Bank's undrawn credit card commitments and has been calculated in accordance with the FSA's transitional arrangements.

Borrowings

Group borrowings at the end of 2010 were £964.9m compared with £890.3m at the end of 2009. Borrowings are stated using the year end exchange rate to translate the group's US private placement loan notes rather than the rate hedged at the time of issue by cross-currency swaps. After adjusting borrowings to reflect the hedged rate of exchange on the group's US private placement loan notes and after excluding deferred arrangement fees, borrowings were £959.0m at the end of 2010, compared with £883.4m at the end of 2009. Borrowings have increased during the year in line with the increase in Vanquis Bank's receivables.

The group borrows mainly to provide loans to customers. The seasonal pattern of lending results in peak funding requirements in December each year. The group's main sources of funding are committed term and revolving syndicated and bilateral bank facilities, senior public bonds and US private placement loan notes. The group's funding policy is designed to ensure that the group is able to continue to fund the growth of the business through its existing facilities. The group therefore maintains committed borrowing facilities in excess of expected borrowing requirements to ensure a significant and continuing headroom above forecast requirements at all times for at least the following 12 months.

On 26 February 2010, the group secured an extension to its syndicated bank facilities due to expire on 9 March 2011 and 9 March 2012 by means of forward starting facilities. Of the £213.2m due to expire on 9 March 2011, £135.7m was extended to 9 May 2013 and £4.8m was extended to 9 March 2012, and of the £436.8m due to expire on 9 March 2012, £243.8m was extended to 9 May 2013.

In April 2010, the group further diversified its funding base by becoming one of the first to issue a retail bond quoted on the new ORB platform established by the London Stock Exchange. This raised £25.2m through an issue of 10-year bonds at an all-in cost to the group of 7.5%.

At the end of 2010, the group had available borrowing facilities of £1,133.1m (2009: £1,240.8m), almost all of which were committed facilities. These facilities provided committed headroom of £184.7m as at 31 December 2010 (2009: £331.0m) and the average period to maturity was 3.5 years (2009: 3.5 years).

The group's gearing (calculated as the ratio of the group's borrowings to equity after excluding the pension scheme asset and the fair value of derivative financial instruments both stated net of deferred tax) stood at 3.3 times at 31 December 2010 (2009: 3.3 times), compared with the relevant borrowings covenant of 5.0 times. The ratio is lower than the target of 3.5 times due to below-trend receivables growth in the Consumer Credit Division during 2010.

On 13 January 2011, the group entered into a committed £100m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a £100m 10-year term loan which amortises between years five and 10. The facility ranks pari passu with the group's existing senior debt providers and the funding rate reflects a credit spread which is consistent with the group's 10-year senior public bond at issue. Subsequently, a further £28.5m has been raised through private placements on similar terms. These new issues provide the group with headroom on committed debt facilities of approximately £370m at the end of February 2011. This is predominantly earmarked to meet contractual debt maturities between now and the end of the first quarter of 2012 totalling £345m, which include the final tranche relating to those banks that did not participate in the three-year extension to the group's syndicated bank facilities in February 2010.

Following the success of the retail bond issue in April 2010, the group has commenced a roadshow to promote the issue of a five-year retail bond. In addition, the dialogue with the FSA concerning Vanquis Bank using its banking licence to take retail deposits is progressing well and the group expects to conclude this dialogue in the second quarter of 2011.

The group's credit rating was reviewed by Fitch Ratings in September 2010 and was set at BBB with a stable outlook.

The movement in borrowings during the year is as follows:

	2010 £m	2009 £m
Opening borrowings	883.4	803.9
Profit before tax[1]	(142.0)	(125.7)
Increase in receivables	80.0	76.0
Increase in liquid assets buffer	10.0	–
Tax payments	36.5	28.4
Dividends	84.9	84.1
Net capital expenditure	17.6	11.8
Other[2]	(11.4)	4.9
Closing borrowings	959.0	883.4

1 Stated after exceptional costs.

2 Other comprises other working capital movements, purchase of own shares and proceeds from the issue of share options.

Interest costs in 2010 were £69.7m, compared with £53.8m in 2009 prior to the exceptional finance cost. The increase primarily reflects the additional borrowings required to support the growth in receivables in the year and an increase in the group's average cost of borrowing from 7.0% in 2009 to 8.5% in 2010. The increase in the average cost of borrowing principally reflects: (i) the higher borrowing margin on bank borrowings following the extension of facilities in February 2010; (ii) the issue of the 10-year £250m 8.0% senior public bonds in October 2009; and (iii) the cost of commitment fees on the significant borrowings headroom being carried by the group throughout the year. The group's estimated average cost of borrowings in 2011 is expected to be approximately 8%.

Interest payable was covered 3.1 times by profit before interest, tax and exceptional costs (2009: 3.4 times) compared with the relevant borrowings covenant of 2.0 times.

The group has continued to comply with all of its borrowing covenants.

Pension asset

The group operates a defined benefit pension scheme. The scheme has been substantially closed to new employees since 1 January 2003. New employees joining the group after this date are invited to join a stakeholder pension plan into which the company typically contributes between 5.1% and 10.6% of members' pensionable earnings, provided the employee contributes, typically through a salary sacrifice arrangement, between 3.0% and 8.0%. The group's defined benefit pension asset stood at £41.0m at the end of 2010, compared with £19.9m at the end of 2009. The major movements can be analysed as follows:

	2010 £m	2009 £m
Pension asset as at 1 January	19.9	50.9
Charge to the income statement	(3.4)	(2.7)
Employer contributions	9.6	8.4
Actuarial gain/(loss)	14.9	(37.3)
Section 75 pension contribution	–	0.6
Pension asset as at 31 December	41.0	19.9

The key assumptions used in determining the pension asset were as follows:

	2010	2009
Discount rate	5.4%	5.6%
Inflation	3.5%	3.6%
Mortality assumptions:		
– Male retiring at 65	23 yrs	23 yrs
– Female retiring at 65	25 yrs	25 yrs

The actuarial gain during 2010 primarily reflects: (i) a higher than expected return on scheme assets of 11% in 2010 compared to an assumption at the start of the year of 6.5%; and (ii) a decrease in the inflation rate used to predict inflationary increases in pensions from 3.6% to 3.5%. These favourable movements were part-offset by a decrease in corporate bond yields, which are used to discount the value of the scheme liabilities, which reduced from 5.6% at the end of 2009 to 5.4% at the end of 2010. The scheme's investment strategy is to maintain a balance of assets between equities and bonds in order to reduce the risk of volatility in investment returns.

The group uses the S1PA standard tables, together with the medium cohort improvement factors for projecting mortality. These base calculations are adjusted to reflect: (i) lower life expectancies of scheme members based on a postcode analysis; and (ii) an annual minimum improvement factor of 1.0%. In more simple terms, it is assumed that members who retire at age 65 will live on average for a further 23 years if they are male (2009: 23 years) and for a further 25 years (2009: 25 years) if they are female. Further details are set out in note 18 to the financial statements.

Equity

The group's equity has increased during the year from £268.4m at the end of 2009 to £309.4m at the end of 2010. The movements are set out below:

	2010 £m	2009 £m
Opening equity	268.4	277.9
Profit after tax	101.5	88.6
Actuarial movement on pension asset, net of tax	10.7	(26.9)
Issue of shares for share schemes	1.8	8.4
Dividends paid	(84.9)	(84.1)
Movement in hedging reserve	5.4	(0.6)
Purchase of treasury shares	(0.2)	(0.9)
Share-based payment charge	6.4	6.1
Other	0.3	(0.1)
Closing equity	309.4	268.4

Profit after tax and exceptional costs contributed £101.5m (2009: £88.6m) to equity in the year, while the actuarial gain on the group's pension scheme, net of tax, increased the group's equity by £10.7m (2009: decreased by £26.9m).

Dividends paid, comprising payment of the 2009 final dividend and the 2010 interim dividend, amounted to £84.9m (2009: £84.1m).

The movement in the hedging reserve of £5.4m (2009: £0.6m) reflects the change in the fair value during the year of derivative financial instruments, predominantly interest rate swaps, which are used for hedging purposes. This treatment is in accordance with IAS 39.

The purchase of own shares of £0.2m (2009: £0.9m) represents the purchase of Provident Financial plc shares which are awarded under the group's share schemes. International Financial Reporting Standards (IFRS) requires the cost of these shares to be deducted from equity.

The increase in the share-based payment reserve of £6.4m (2009: £6.1m) reflects the charge made to the income statement in the year in respect of the group's various share schemes.

The group calculates return on equity (ROE) as profit after tax (prior to the impact of exceptional costs) divided by average equity. Average equity is stated after deducting the group's pension asset and the fair value of derivative financial instruments, both net of deferred tax, and after deducting the proposed final dividend.

The group continued to generate a strong ROE in 2010 of 46% (2009: 45%).

Capital generated

The group's strategy is to develop businesses which generate high returns on capital to support the group's high distribution policy. The table below shows the capital generated by the group's businesses after retaining the extra capital needed to support receivables growth. This is the amount of capital available to pay dividends.

	2010 £m	2009 £m
Consumer Credit Division	93.3	67.6
Vanquis Bank	6.3	5.1
Yes Car Credit	–	(0.6)
Central	(19.2)	(16.5)
Net surplus capital before dividends	80.4	55.6

Capital generated is calculated as operating cashflows less net capital expenditure and tax paid after assuming that 80% of the growth in customer receivables is funded with debt. This is consistent with a target gearing ratio of 3.5 times.

The Consumer Credit Division generated £93.3m of capital in 2010, compared with £67.6m in 2009 and continues to be highly capital-generative. The increase of £25.7m in the year is stated after one-off capital expenditure of £9.1m in respect of the fit-out of the Consumer Credit Division's new head office building and reflects the benefit of the measures taken to improve the revenue yield which has allowed the business to maintain stable profits without the need to invest in receivables growth.

Vanquis Bank generated £6.3m of capital during 2010 (2009: £5.1m) demonstrating that the business is generating sufficient profits to fund the capital required to grow its receivables book. Vanquis Bank is expected to pay its first dividend to Provident Financial plc during 2011 and will be an important contributor to the group's dividend going forward.

Central costs absorbed £19.2m of capital in 2010 compared with £16.5m in 2009 and includes £9.8m of costs in respect of arrangement fees.

Overall, the group generated £80.4m of capital in the year after absorbing one-off capital expenditure of £9.1m (2009: £55.6m) which compares with dividends paid of £84.9m (2009: £84.1m).

Regulatory capital

As Vanquis Bank holds a banking licence, it is regulated by the FSA. In its supervisory role, the FSA sets requirements relating to capital adequacy, liquidity management and large exposures.

The Consumer Credit Division operates under a number of consumer credit licences granted by the Office of Fair Trading but is not regulated by the FSA. However, the Provident Financial group, incorporating both the Consumer Credit Division and Vanquis Bank, is the subject of consolidated supervision by the FSA by virtue of Provident Financial plc being the parent company of Vanquis Bank. The FSA sets requirements for the consolidated group in respect of capital adequacy and large exposures but not in respect of liquidity.

The group adopted the Capital Requirements Directive (CRD) in 2008. The CRD requires the group and Vanquis Bank to conduct an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis. The key output of the ICAAP is a document which considers the risks faced by the group and the adequacy of internal controls in place, ascertains the level of regulatory capital that should be held to cover these risks and undertakes stress testing on the capital requirement. The ICAAP was used by the FSA in setting Individual Capital Guidance (ICG) for both the group and Vanquis Bank in September 2009.

The ICG is expressed as a percentage of the minimum Pillar I requirement for credit risk and operational risk calculated using predetermined formulas. As at 31 December 2010, the regulatory capital held as a percentage of the minimum Pillar I requirement was 300% for the supervised group (2009: 293%) and 257% for Vanquis Bank (2009: 259%). These were comfortably in excess of the ICGs set by the FSA.

The CRD requires the group to make annual Pillar III disclosures which set out information on the group's regulatory capital, risk exposures and risk management processes. A considerable amount of the information required by the Pillar III disclosures is included within the 2010 Annual Report & Financial Statements. However, the group's full Pillar III disclosures can be separately found on the group's website, www.providentfinancial.com.

In 2009, the FSA introduced a new liquidity regime in response to the credit crisis and liquidity concerns in the banking sector. The new regime is not applicable to the group as a whole but does impact Vanquis Bank on a solo basis. The key requirements of the new regime are increased systems and controls requirements, more granular and regular reporting to the FSA and the requirement to hold a liquid assets buffer in the form of government bonds or money-market deposits. The systems and controls elements of the new regime were implemented by Vanquis Bank in 2009 whilst the other aspects of the regime have been introduced during 2010 in line with the FSA's implementation timetable.

Accounting policies

The group's financial statements have been prepared in accordance with IFRS as adopted by the EU. The group's accounting policies are chosen by the directors to ensure that the financial statements present a true and fair view. All of the group's accounting policies are compliant with the requirements of IFRS, interpretations issued by the International Financial Reporting Interpretations Committee and UK company law. The continued appropriateness of the accounting policies, and the methods of applying those policies in practice, is reviewed at least annually. The principal accounting policies, which are consistent with the prior year, are set out on pages 83 to 89.

Treasury policy and financial risk management

The group is subject to a variety of financial risks including liquidity risk, interest rate risk, credit risk and, to a lesser extent, foreign exchange rate risk. The treasury policies of the group, which are approved annually by the board, are designed to reduce the group's exposure to these risks through securing appropriate funding, careful monitoring of liquidity and ensuring that effective hedging is in place.

Our treasury policies ensure that the group's borrowings are sufficient to meet business objectives; are sourced from high quality counterparties; are limited to specific instruments; the exposure to any one counterparty or type of instrument is controlled; and the group's exposure to interest rate and foreign exchange rate movements is maintained within set limits. The treasury function periodically enters into derivative transactions – principally interest rate swaps, cross-currency swaps and forward foreign exchange rate contracts. The purpose of these transactions is to manage the interest rate and foreign exchange rate risks arising from the group's underlying business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options.

The group's central treasury function manages the day to day treasury operations and application of the treasury policies for all of our businesses. The board delegates certain responsibilities to the treasury committee. The treasury committee, which is chaired by the Finance Director, is empowered to take decisions within that delegated authority. Treasury activities and compliance with treasury policies are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external.

Going concern

The directors have reviewed the group's budgets, plans and cashflow forecasts for the year to 31 December 2011 and outline projections for the four subsequent years. Based on this review, they have a reasonable expectation that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Managing our risks

The group has a rigorous risk management framework which ensures that adequate controls and procedures are in place to manage our risks in line with the group's strategic objectives and risk appetite. The framework incorporates a five-stage process comprising identification of risks, establishing risk appetite, risk and control assessments, development of action plans and ongoing monitoring and reporting.

Our risk management framework in detail

1. Identification
There is an ongoing process of identifying risks which threaten the achievement of business objectives.

2. Risk appetite
Risk appetite sets the boundaries for acceptable levels of risk and enables us to review and control business activities and deliver the group's strategy.

1 Identification

2 Risk appetite

5 Monitoring and reporting

3 Assessment

4 Action plans

5. Monitoring and reporting
Risk assessments and action plans are monitored regularly and overseen by divisional risk committees, the risk advisory group and the risk advisory committee on behalf of the board.

3. Assessment
Each identified risk is assessed and graded in terms of probability, impact and the controls in place to mitigate the risk.

4. Action plans
Action plans are developed for any risks where the level of risk being taken is deemed to be unacceptable.

Risks

The group's principal risks, together with the controls and procedures in place to mitigate the risks, are as follows:

Risk	Description	Risk management
Credit risk	The risk that the group will suffer unexpected losses in the event of customer defaults: • Defaults in the non-standard market are typically higher than in more mainstream markets. • Current economic conditions remain difficult which has led to pressure on customers incomes and increased levels of unemployment and under-employment.	**Customers** • CCD and Vanquis Bank credit committees set policy and review credit performance. • CCD – Home Credit loans are underwritten face-to-face by agents in the customer's home; agents maintain weekly contact with the customer and stay up to date with their circumstances; agents' commission is based on collections not credit issued; application and behavioural scoring is used to assist agents' underwriting; Home Credit issues short-term, small-sum loans, with average issue values of between £300 and £500 typically repayable over one year; direct repayment loans are underwritten in the home with the use of external bureau data. • Vanquis Bank – uses highly bespoke underwriting including full external bureau data; a telephone interview is conducted prior to issuing credit; initial credit lines are low (typically £250); customers are re-scored monthly; an intensive call centre-based operation focuses on collections; underwriting and credit line increase criteria remain unchanged following progressive tightening between 2007 and mid-2009 in light of economic conditions. • Comprehensive daily, weekly and monthly reporting on KPIs.
Regulatory risk	The risk of loss arising from a breach of existing regulation or regulatory changes in the markets within which the group operates. • The current volatile economic environment has resulted in greater focus on regulation. • Increased regulator scrutiny of non-standard lenders. • HMT/BIS issued a call for evidence in connection with a review of consumer credit and insolvency, the findings of which are expected in 2011. • BASEL III regulatory regime for determining regulatory capital and liquidity requirements to replace current regime in 2015.	• A central in-house legal team is in place which monitors legislative changes and supports divisional compliance functions. • Expert third party legal advice is taken where necessary. • Divisional compliance functions are in place which manage compliance and report to divisional boards. • There is constructive dialogue with regulators. • Full and active participation in all relevant regulatory review and consultation processes in the UK and EU.
Liquidity risk	The risk that the group will have insufficient liquid resources available to fulfil its operational plans and/or meet its financial obligations as they fall due. • Credit markets and economic conditions continue to be difficult making it more challenging to obtain funding. • Group's credit rating adjusted from BBB+ with a stable outlook to BBB with stable outlook reflecting rating agency concerns over companies with a reliance on wholesale funding in the current economic climate.	• A board approved policy is in place to maintain committed borrowing facilities which provide funding headroom for at least the following 12 months. • Liquidity is managed by an experienced central treasury department. • There is daily monitoring of actual and expected cashflows. • The group 'borrows long and lends short' meaning that the duration of the receivables book is significantly less than the average duration of the group's funding. • Syndicated bank facilities extended in February 2010. • Continuing to diversify funding sources away from wholesale bank funding. – £25.2m retail bond issued in April 2010 (following £250m senior bond issue in October 2009). – £128.5m of private placements arranged in the first two months of 2011, including a £100m facility with M&G Investments. – Roadshow launched to promote the issue of a second retail bond. Good progress made in the dialogue with the FSA concerning Vanquis Bank using its banking licence to take retail deposits. • Headroom on committed facilities of £184.7m as at 31 December 2010, increased to over £370m at the end of February 2011. Earmarked to meet contractual debt maturities between now and the end of March 2012 totalling £345m. • Vanquis Bank has established a liquid assets buffer of £10m, in line with the FSA's recent liquidity guidelines.

The group's risk management framework is overseen by the risk advisory committee, on behalf of the board.

Risk	Description	Risk management
Reputational risk	The risk that an event or circumstance could adversely impact on the group's reputation, including adverse publicity from the activities of legislators, pressure groups and the media. • Media and pressure group activity can increase during an economic downturn or when the company is performing well.	• Credit and collection policies are designed to ensure that both businesses adhere to responsible lending principles. • Compliance Committee oversees the application of the FSA's treating customers fairly regime in Vanquis Bank. • Regular customer satisfaction surveys are undertaken in both businesses. • The group invests in a centrally co-ordinated community programme. • Dedicated in-house teams with external advisers and established procedures are in place for dealing with media issues. • A proactive communication programme is targeted at key opinion formers and is co-ordinated centrally.
Pension risk	The risk that there may be insufficient assets to meet the liabilities of the group's defined benefit pension scheme. • The current economic environment has led to volatile movements in equity markets and corporate bond yields. • Improving mortality rates in the UK.	• The group's pension asset stands at £41.0m as at 31 December 2010. • The defined benefit pension scheme was substantially closed to new members from 1 January 2003. • Cash balance arrangements are now in place within the defined benefit pension scheme to reduce the exposure to improving mortality rates. • The pension investment strategy aims to maintain an appropriate balance of assets between equities and bonds. • New employees are invited to join the group's stakeholder pension scheme which carries no investment or mortality risk for the group.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems. • Vanquis Bank is reliant on a third party provider (FDI) for its core customer IT platform. • IT systems in Home Credit are hosted by an external third party provider (Node4). • IT systems continue to be developed to meet business demands. • Agents in Home Credit are required to carry cash to operate as agents.	**IT systems** • IT is managed in CCD and Vanquis Bank by experienced teams. • There are established disaster recovery procedures which are tested on a regular basis. • Specialist project teams are used to manage change programmes. • Insurance policies are in place to cover eventualities such as business interruption, loss of IT systems and crime. **Health and safety** • Significant time and expenditure is invested in ensuring staff are safety conscious. • Assistance is given to agents to ensure that they are safety aware. • Induction sessions and regular updates are provided on safety awareness. • Safety awareness weeks form part of the annual calendar. **Fraud** • Specialist departments are in place in each business to prevent, detect and monitor fraud. • There is regular reporting to divisional boards and to the group audit committee. **Key person risk** • Effective recruitment, retention and succession planning strategies are in place. • The group has competitive remuneration and incentive structures. • Effective training, development and communication are in place throughout the group.
Business risk	The risk of loss arising from the failure of the group's strategy or management actions over the planning horizon. • Continued pressure on customers' incomes in the current economic environment could impact the demand for credit and growth plans.	• A clear group strategy is in place. • A board strategy and planning conference is held annually. • A dedicated central resource is in place to develop corporate strategy. • New products and processes are thoroughly tested prior to roll-out. • There is comprehensive monitoring of competitor products, pricing and strategy. • Robust business change functions oversee change programmes. • The group has comprehensive monthly management accounts, a monthly rolling forecast and a bi-annual budgeting process.

Corporate responsibility

Peter Crook
Chief Executive

Rob Lawson
Corporate Responsibility Manager

For Provident Financial, corporate responsibility (CR) is no recent innovation. It's been part of how we've worked for some time. A decade ago we took the decision to formalise our approach to CR management. Ten years down the line we have refined and developed our approach to ensure that CR forms part of our overall strategy and continues to be firmly embedded across the organisation.

Highlights

- We continue to be represented on the main socially responsible investment indices
- Our new head office achieved a BREEAM environmental performance rating of 'very good'
- We supported 23 three-year community projects through our Good Neighbour programme during 2010

At Provident Financial our mission is to be the leading non-standard lender in the UK and Ireland, acting responsibly in all our relationships and playing a positive role in the communities we serve. That puts corporate responsibility right at the heart of what we do.

Our CR strategy

Our CR programme is a crucial part of our strategy to build a profitable, sustainable business. It helps us distinguish ourselves from other companies in our sector, secure business advantage and ultimately deliver long-term shareholder value.

It helps us to understand and manage the social, environmental and economic effects of our operations. This, in turn, ensures that we continue to deliver high levels of customer satisfaction, reduce our impacts on the environment, act responsibly in all our relationships and play a positive role in the communities we serve.

Our CR programme is also a useful tool for engaging with our key stakeholder groups, including customers, employees, suppliers, local communities, investors and regulators.

We regularly seek feedback from stakeholders and use it to inform our strategy. We consult with employees and focus groups, conduct customer satisfaction surveys and convene annual roundtable sessions with representatives from key stakeholder groups.

Our CR strategy is organised around six themes: governance, customers, our people, our supply chain, communities and the environment. In each area we have developed policies and initiatives that reflect our company values.

Five core values guide our behaviour. We aim to be fair, responsible, accessible, straightforward and progressive in all our dealings. We continue to embed these values right across the group by ensuring that all our employees understand and sign up to them.

CR reporting

In addition to reporting to stakeholders on our approach to CR in our annual report, we also produce a CR report each year which documents the CR programme in detail. This provides a written account of our CR performance and shows how it relates to our values and business strategy. It lists explicit targets and presents progress for each of our six areas of focus. The content and quality of the information in the CR report is externally assured against the AA1000 Assurance Standard. It is also evaluated against the Global Reporting Initiative's sustainability reporting guidelines.

Further information on CR reporting can be found at www.providentfinancial.com.

We respond positively to requests from investors and other stakeholders to share information about our CR programme. We make annual submissions to the Business in the Community Corporate Responsibility Index and the Carbon Disclosure Project.

We continue to be represented on the main global sustainability indices, including the FTSE4Good index, the Dow Jones Sustainability indices for the World (DJSI World) and Europe (DJSI STOXX) and the Ethibel Pioneer and Ethibel Excellence Investment Registers.

Governance

CR is embedded into the way we run our business. We have management structures in place to ensure that CR considerations play a full role in strategic decision-making.

The Chief Executive, Peter Crook, has overall responsibility for our group-wide CR programme. He chairs the Management Committee, which meets 12 times a year and guides overall CR strategy.

Other senior personnel on the committee include the Finance Director, the managing directors of the Consumer Credit Division and Vanquis Bank, the general counsel and company secretary, the corporate affairs director and the corporate strategy director.

The working groups we have in place help to address the social, environmental and economic issues that affect the business. Our corporate responsibility and environmental working groups collect performance data, co-ordinate management initiatives and contribute to CR strategy.

Our customers

Lending responsibly is a regulatory requirement, a CR commitment and a business imperative. We have built a successful business over 130 years by treating customers in a responsible manner. Some families have stayed with us through successive generations because they trust us to arrange tailored credit products that meet their needs and represent value for money.

As responsible lenders we don't want customers to take on more than they can reasonably afford. We offer straightforward products and provide clear information to help customers make informed choices.

In our Home Credit business, our loans are delivered to customers in their home through a network of 11,400 self-employed agents who then call back every week to collect repayments. Agents earn commission on what they collect, not what they lend. This encourages responsible lending.

A disciplined underwriting stance has been adopted. Agents will only extend credit if they are convinced that the customer can afford the repayments. Formal credit assessment systems assist decision-making.

For Home Credit, the System Enhanced Lending (SEL) system assesses existing customers on the basis of their previous payment history. Each customer's SEL status is updated weekly irrespective of whether an application has been made. Agents can view customers' status and use this to assist in lending decisions.

For new Home Credit customers, the Single View of Customer (SVC) system is used. SVC helps us create a risk profile of new customers using a bespoke risk index scorecard.

Vanquis Bank's system for assessing current customers applies behavioural data alongside bureau data to re-score each account every month.

We set repayments for Vanquis lending at a slightly higher minimum rate than mainstream providers. This suits the non-standard market. Experience has taught us that people on modest incomes want to stay in control and they prefer the discipline of quicker repayment. We also conform to The Lending Code & Joint Commitment which set out a number of new rights for card holders, for example, how payments are to be applied to their accounts.

We also recognise that sometimes money is tight. We have built payment flexibility into our Home Credit product. The total amount to be repaid remains unaffected if customers miss a payment. We find it makes sense to be flexible about the occasional missed payment. It helps build trust and we keep good customers in the longer term. Vanquis Bank cardholders can opt to pay a small fee to get a similar facility to miss occasional repayments.

Accreditations

95.25%

The score we were awarded in June 2010 which enabled us to achieve a 'platinum' rating in Business in the Community's annual CR Index.

Rani, Contact centre operative

"I led my team in a challenge to create a flower bed, paint fences and tidy the grounds of a local residential home. It was a refreshing change from our usual work routine and a great way of improving team skills and team morale whilst making a worthwhile contribution to our community. It was really satisfying to see what we had achieved and we eagerly await our next challenge!"

Our people

We want to attract, develop and retain the best people by providing a working environment that is safe, inclusive and challenging, and where behaviours aligned with our core values are recognised and rewarded.

We employ 3,700 people across the UK and Ireland. By helping them achieve their potential we are also helping our business to flourish.

We aim to promote a culture where everyone is encouraged and supported to do their best to meet our business objectives and their personal goals. We are committed to providing a working culture that is inclusive to all. We ensure that the latest thinking on equal opportunities underpins our recruitment, employment, training and remuneration practices.

We have introduced structured training and development programmes in both of our businesses. The process includes regular performance reviews. We work with staff to highlight individual development needs and maintain Personal Development Plans. PDPs are updated periodically to track progress and clarify new objectives. We also have mechanisms in place to identify and support high-achieving employees.

Our suppliers

Annual procurement spend in 2010 was £89.7m. The supply chain is a significant part of our CR footprint. We aim to purchase products and services that are ethically sound and have good sustainability credentials.

We work to ensure our suppliers are aware of our commitments to manage the social, environmental and economic impact of our operations. We undertake site audits and prepare pre-qualification questionnaires to assess their sustainability credentials.

We are committed to treating our suppliers fairly. Specifically, we undertake to pay for goods and services punctually.

Communities

There are two main strands to our community involvement. We support programmes that address education and social inclusion for people in less-privileged communities and work with the money advice sector to promote issues such as financial education.

Our flagship programme, Good Neighbour, supports communities in three ways. We provide three-year funding to help deliver long-term, local projects. We have initiated several company-led employee volunteer schemes. And we provide matched-funding and grant aid when employees get involved in local projects.

Among projects funded in 2010 were Reach Across, a cross-community initiative for young people in Londonderry, N. Ireland; a healthy eating project for people on Bradford's Holmewood estate; and the Venchie Children and Young People's Project which serves the Craigmillar area of Edinburgh. We also provided one-off funding for Veronica House Support Group's 'Breaking the Cycle', a project to help children seriously affected by domestic violence in Leicestershire.

We continue to support money advice and financial education across the UK. We support Advice UK, Citizens Advice, Consumer Credit Counselling Service, Institute of Money Advisers, Money Advice Liaison Group, Money Advice Scotland, Money Advice Trust, and National Debtline. We also support more specialised providers such as Credit Action, DebtCred, and Christians Against Poverty.

A GOOD NEIGHBOUR PROJECT

The Joshua Project

The Joshua Project is based in Great Horton, one of the most economically deprived areas in Bradford, and indeed the UK. The project aims to provide self-esteem enhancing activities for young people in the local community through youth clubs, drop-in sessions, music and media workshops, boxing and football academies, a small group mentoring network, one-to-one relationship counselling and much more. The work of the project has received commendation both locally and nationally. The project will receive £60,000 from Provident over the course of three years.

Rich,
The Joshua Project

"The demand for the project is ever expanding and with Provident's help we have been able to reach even more young people in the area. Our hope is to see the aspirations of a rising generation lifted beyond hopeless circumstances, thus enabling the young people we work with to have a positive impact on their community, city and nation."

Improving performance by reducing our carbon footprint...

Environment

Our overall impacts on the environment are relatively small compared to businesses in some other sectors. Even so, reducing energy and resources can make a significant contribution to our long-term sustainability.

We published our low carbon strategy in 2007. We are continuing to deliver on that by measuring and reporting on energy outputs, by promoting energy efficiency (both internally and with our customers), by progressively switching our electricity consumption to low carbon sources, by reducing unnecessary travel and through carbon offsetting.

The Consumer Credit Division moved into a new head office in Bradford city centre in the autumn of 2010. This building has been designed with sustainability in mind. We used the internationally recognised Building Research Establishment Environmental Assessment Methodology (BREEAM) for Offices to assess and improve its environmental performance. It was awarded a Very Good rating.

Details on the activities we undertook during 2010 to deliver our low carbon strategy, along with information on our performance against other environmental KPIs, are included in our annual corporate responsibility report (go to www.providentfinancial.com for more information).

Our directors and officers

Peter Crook, Chief Executive Age 47

Appointed to the board: March 2006

Committee membership: Member of the Nomination Committee and Chairman of the Executive Committee

Background and experience: Held a number of different roles within Halifax plc between 1990 and 1997. Moved to Barclays plc and became UK Managing Director of Barclaycard in 2000 and Managing Director of UK Consumer Finance in 2004. Joined Provident Financial in September 2005 as Managing Director of the Consumer Credit Division and was appointed to the board in March 2006. He became Chief Executive in July 2007.

External appointments: None

Andrew Fisher, Finance Director Age 53

Appointed to the board: May 2006

Committee membership: Member of the Risk Advisory Committee and Executive Committee

Background and experience: Finance Director at Premier Farnell plc for 11 years and previously a partner at Price Waterhouse. Joined Provident Financial as Finance Director and was appointed to the board in May 2006.

External appointments: None

Chris Gillespie, Managing Director, Consumer Credit Division Age 48

Appointed to the board: July 2007

Committee membership: Member of the Executive Committee

Background and experience: Held a number of senior positions at Barclays after joining in 1979, including Director of Consumer Lending from 2000 to 2002. Moved to HFC Bank as group Director before joining Bradford & Bingley in 2005 as group lending Director. Joined Provident Financial in May 2007 as Managing Director of the Consumer Credit Division and was appointed to the board in July 2007.

External appointments: None

John van Kuffeler, Non-executive Chairman Age 62

Appointed to the board: October 1991

Committee membership: Chairman of the Nomination Committee

Background and experience: Joined Provident Financial in 1991 as Chief Executive and was appointed Executive Chairman in 1997. He became non-executive Chairman in 2002.

External appointments: Non-executive Chairman of Hyperion Insurance Group Limited and Chairman of Marlin Financial Group Limited.

Manjit Wolstenholme, Independent non-executive Director Age 46

Appointed to the board: July 2007

Committee membership: Chair of the Audit Committee and member of the Nomination Committee, Remuneration Committee and Risk Advisory Committee

Background and experience: Spent 13 years with Dresdner Kleinwort, latterly as co-head of investment banking. She was a partner at Gleacher Shacklock from 2004 to 2006.

External appointments: Chair of Albany Investment Trust and a non-executive Director of Capital and Regional plc and Future plc.

Robert Hough, Senior independent non-executive Director Age 65

Appointed to the board: February 2007

Committee membership: Chairman of the Remuneration Committee and member of the Audit Committee, Nomination Committee and Risk Advisory Committee

Background and experience: Executive Deputy Chairman of Peel Holdings p.l.c for 15 years until 2002 and previously Chairman of Cheshire Building Society.

External appointments: Chairman of the Northwest Regional Development Agency, non-executive Director of Peel Holdings (Management) Limited and non-executive Director of Styles & Wood Group plc.

Rob Anderson, Independent non-executive Director Age 52

Appointed to the board: March 2009

Committee membership: Chairman of the Risk Advisory Committee and member of the Audit Committee, Nomination Committee and Remuneration Committee

Background and experience: Spent 19 years at Marks and Spencer, latterly as Director of the childrenswear business unit. Joined Signet Group plc in 2000 and was appointed Chief Executive of Signet Jewelers Limited's UK division in 2002.

External appointments: Chief Executive of Signet Jewelers Limited's UK division.

Ken Mullen, General Counsel and Company Secretary Age 52

Appointed as secretary to the board: June 2007

Committee membership: Secretary to the Audit Committee, Nomination Committee Remuneration Committee and Risk Advisory Committee

Background and experience: Company Secretary and General Counsel for a number of UK listed companies including Premier Farnell plc, Silentnight Holdings plc and Whessoe plc.

External appointments: Chairman of the Rexel UK Limited Pension Scheme.

Governance

The new UK Corporate Governance Code ('the Code') sets out guidance on how companies should operate a good corporate governance structure. The FSA requires companies listed in the UK to disclose how they have applied the principles and provisions set out in the Code throughout the year and explain any areas of non-compliance.

John van Kuffeler
Non-executive Chairman

Ken Mullen
General Counsel and Company Secretary

Contents

Share capital

Increase in issued ordinary share capital

During the year, the ordinary share capital in issue increased by 1,272,980 shares to 135,671,861 shares. Details are set out on page 120 in note 24 of the notes to the financial statements.

Employee savings-related share option schemes

The current scheme for employees resident in the UK is the Provident Financial plc Employee Savings-Related Share Option Scheme 2003 ('the 2003 scheme'). There are no options outstanding under the Provident Financial plc Employee Savings-Related Share Option Scheme 1993 ('the 1993 scheme'), and no further options can be granted under the 1993 scheme.

The current scheme for employees resident in the Republic of Ireland is the Provident Financial plc International Employee Savings-Related Share Option Scheme.

Executive share incentive schemes

Options are outstanding under the Provident Financial plc Unapproved Senior Executive Share Option Scheme (1996) ('the 1996 scheme') but no options are outstanding under the Provident Financial plc Senior Executive Share Option Scheme (1995) ('the 1995 scheme'). No further options may be granted under the 1995 scheme or the 1996 scheme.

Options are outstanding under the Provident Financial Executive Share Option Scheme 2006 ('the ESOS'). Awards are also outstanding under the Provident Financial Long Term Incentive Scheme 2006 ('the LTIS') and the Provident Financial Performance Share Plan ('the PSP').

As set out on pages 66 and 67 of the directors' remuneration report, the remuneration committee did not grant any options during the year under the ESOS or the LTIS.

The Provident Financial Qualifying Employee Share Ownership Trust ('the QUEST')

The QUEST, a discretionary trust for the benefit of group directors and employees, was established to operate in conjunction with the 1993 scheme and the 2003 scheme. The trustee, Provident Financial Trustees Limited, is a subsidiary of the company. As at 31 December 2010, the trustee held no ordinary shares in the company (2009: nil), and as a consequence, the QUEST has now been wound up. Further details on the QUEST are set out on page 120 in note 24 of the notes to the financial statements.

Provident Financial plc 2007 Employee Benefit Trust ('the EBT')

The EBT, a discretionary trust for the benefit of group directors and employees, was established on 11 September 2007 and operates in conjunction with the LTIS. The trustee, Kleinwort Benson (Jersey) Trustees Limited, is not a subsidiary of the company. The EBT has previously purchased shares in the market for the purpose of the LTIS and, following the passing of a resolution at the 2008 AGM, is able to subscribe for the issue of new shares. The number of shares held by the EBT at any time, when added to the number of shares held by any other trust established by the company for the benefit of employees, will not exceed 5% of the issued share capital of the company. The EBT is funded by loans from the company which are then used to acquire ordinary shares to satisfy conditional share awards granted under the LTIS. For the purpose of the financial statements, the EBT is consolidated into the company and group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 26 on page 124 of the financial statements.

On 12 April 2010, the company provided a loan of £176,110 to the EBT for the purpose of acquiring ordinary shares of 20⁸⁄₁₁p in the company. The EBT subscribed for the issue of 849,654 new shares on 12 April 2010 in order to satisfy the awards made under the LTIS on 12 April 2010.

On 15 June 2010, the company provided a further loan of £2,374 to the EBT for the purposes of acquiring ordinary shares of 20⁸⁄₁₁p in the company. The EBT subscribed for the issue of 11,458 new shares in order to satisfy the awards made under the LTIS on 15 June 2010. As at 31 December 2010 the EBT held the non-beneficial interest in 2,638,457 shares in the company (2009: 2,452,799).

Provident Financial Employee Benefit Trust ('the PF Trust')

The PF Trust, a discretionary trust for the benefit of group directors and employees, was established on 31 January 2003 and operates in conjunction with the PSP. The trustee, Provident Financial Trustees (Performance Share Plan) Limited, is a subsidiary of the company. The number of shares held by the PF Trust at any time, when added to the number of shares held by any other trust established by the company for the benefit of employees, will not exceed 5% of the issued share capital of the company. As at 31 December 2010, the PF Trust had no interest in any shares in the company (2009: nil).

The PF Trust has previously purchased shares in the market and subscribed for shares for the purpose of satisfying awards granted under the PSP. When the PF Trust purchases or subscribes for shares, it is funded by loans from the company which are then used to acquire ordinary shares for the purposes of satisfying share awards granted under the PSP. For the purposes of the financial statements, the PF Trust is consolidated into the company and group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 26 on page 124 of the financial statements. No awards were made under the PSP in 2010 and therefore no loan was made to the PF Trust.

Authority to purchase shares

At the 2010 AGM, the shareholders authorised the company to purchase up to 13,441,617 of its ordinary shares up until 4 November 2011 or, if earlier, the conclusion of the next annual general meeting. No shares were purchased pursuant to this authority. A further authority for the company to purchase its own shares will be sought from shareholders at the forthcoming AGM to be held on 4 May 2011.

Power to allot shares for cash

At the 2010 AGM, the shareholders authorised the directors to allot equity securities (as defined by the Companies Act 2006) for cash up to an aggregate nominal amount of £1,393,040. A further authority for the directors to allot equity securities for cash will be sought from shareholders at the forthcoming AGM to be held on 4 May 2011.

Substantial shareholdings

On the basis of the information available to the company as at 1 March 2011, the following investment managers (through segregated managed funds) have interests (though not necessarily beneficial ownership) in aggregate amounting to over 3% (5% for investment trusts and collective investment companies) in the issued ordinary share capital of the company:

Invesco Limited	23.22%
Schroder Investment Management Limited	9.78%
M&G Investment Management Limited	7.73%
Marathon Asset Management Limited	5.02%
Tweedy Browne Company LLC	5.00%
Legal & General Investment Management Limited	3.98%
Baillie Gifford & Co.	3.93%

Directors

The directors of the company as at 31 December 2010, are listed on pages 46 and 47. They all served as directors throughout 2010 and up to the date of signing of the financial statements.

During the year no director had a material interest in any contract of significance to which the company or a subsidiary undertaking was a party.

The company's articles of association ('the articles') permit it to indemnify directors of the company (or of any associated company) in accordance with the Companies Act 2006. The company may fund expenditure incurred by directors in defending proceedings against them. If such funding is by means of a loan, the director must repay the loan to the company if he/she is convicted of any criminal proceedings or judgment is given against him/her in any civil proceedings. The company may indemnify any director of the company or of any associated company against any liability. However, the company

The company encourages employee involvement in the company's activities and performance.

may not provide an indemnity against any liability incurred by the director to the company or to any associated company; against any liability incurred by the director to pay a criminal or regulatory penalty; or against any liability incurred by the director in defending criminal proceedings in which he/she is convicted; or in defending any civil proceedings brought by the company (or an associated company) in which judgment is given against him/her; or in connection with certain court applications under the Companies Act 2006. No indemnity was provided and no payments pursuant to these provisions were made in 2010 or at any time up to 1 March 2011.

Directors' interests in shares
The beneficial interests of the directors in the issued share capital of the company were as follows:

	Number of shares	
	31 December 2010	31 December 2009
John van Kuffeler	14,000	9,000
Peter Crook[1]	621,365	554,943
Andrew Fisher[1]	452,207	412,122
Chris Gillespie[1]	435,555	370,438
Rob Anderson	3,500	–
Robert Hough	7,500	1,425
Manjit Wolstenholme	5,663	5,663

[1] These interests include conditional share awards granted under the LTIS, awards under the PSP and deferred shares under the Deferred Bonus Scheme as detailed on pages 66 to 68 of the directors' remuneration report.

No director had any non-beneficial holdings at 31 December 2010 or at any time up until 1 March 2011.

The EBT operates in conjunction with the LTIS and the beneficial interest in shares is transferred from the EBT to directors and employees when conditional share awards are made. Full vesting of such shares is subject to the achievement of the performance targets set out on page 66 of the directors' remuneration report.

The PF Trust operates in conjunction with the PSP and the beneficial interest in shares is transferred from the PF Trust to directors and employees when awards are made. Full vesting of such shares is subject to the achievement of the performance target set out on page 67 of the directors' remuneration report.

Details of options granted to and exercised by directors are set out on page 73 of the directors' remuneration report. Details of conditional share awards made to directors are set out on page 71 of the directors' remuneration report.

There were no changes in the beneficial or non-beneficial interests of the directors between 1 January 2011 and 1 March 2011.

Employee involvement
The company encourages employee involvement in the company's activities and performance through operating company newsletters, weekly performance updates, regular management team briefings, staff meetings and conferences including trade union meetings in those companies which recognise unions. The company carries out employee engagement surveys on a regular basis. Details of the surveys are included in the corporate social responsibility report on page 42.

The company operates two savings-related share option schemes (referred to on page 48), aimed at encouraging employees' involvement and interest in the financial performance and success of the group through share ownership. 1,398 employees are currently saving to buy shares in the company under these schemes (2009: 1,419).

The group operates two pension schemes. Involvement in the group defined benefit pension scheme is achieved by the appointment of member-nominated trustees and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pension matters. The group also operates a stakeholder pension plan for employees who joined the group from 1 January 2003. Employees in this plan receive regular newsletters and have access to a dedicated website which provides information on their funds.

The company is fully committed to encouraging employees at all levels to study for relevant educational qualifications and to training employees at all levels in the group.

Environmental, social and governance matters
During the year, the company made donations for charitable purposes of £1,190,619 (2009: £1,046,841). The group invested a further £277,368 (2009: £282,576) in support of community programmes (based on the London Benchmarking Group's guidelines). No political donations were made during the year (2009: £nil).

Further information on the group's corporate responsibility activities is set out on pages 42 to 45 of the directors' report and on the company's website.

The significance of environmental, social and governance ('ESG') matters to the businesses of the group is regularly considered by the board. A corporate affairs activity report, which includes corporate responsibility and community affairs sections, is presented at each board meeting. The Chief Executive, Peter Crook, has responsibility for this area.

The group's risk management processes, details of which are set out on pages 57 to 58 of the key governance principles section of the directors' report, enable the board to review and manage material risks arising from ESG matters. The board has systems in place to identify and manage significant ESG risks and considers that it has adequate information relating to these.

There are no specific remuneration incentives in the group based on ESG matters. However, the annual bonus scheme for executive directors comprises specific personal objectives, and ESG matters are considered when setting these objectives. Details of this are set out page 65 of the directors' remuneration report. Details of training for directors are set out on page 57 of the key governance principles section of the directors' report.

The company has a well-established corporate responsibility programme which continues to play a key role in delivering the strategy to build a profitable and sustainable business. The programme continues to be informed by the company's key stakeholders to ensure that it responds to their needs and continually improves. The management of the company's corporate responsibility programme is carried out in-house, with support provided by a number of working groups across the group which oversee the delivery of a range of corporate responsibility activities. The company's community involvement activities, environmental management programme and annual corporate responsibility report are subject to processes of independent assurance and audit to, among other things, verify the company's performance against established standards and to give stakeholders confidence that the company's stated corporate responsibility objectives and targets are being delivered.

Health and safety

The group attaches great importance to the health and safety of its employees, to the self-employed agents it engages and other people who may be affected by its activities.

The board has approved a group-wide health and safety policy and a framework for health and safety. Each divisional board is responsible for the issue and implementation of its own health and safety policy in order to comply with the division's day to day responsibility for health and safety. Health and safety is considered regularly at divisional board meetings and each divisional board produces a formal written report on compliance with the group-wide health and safety policy and framework which is reviewed annually by the board at its meeting in February.

An annual audit of the health and safety policies established by the Consumer Credit Division, in particular those relating to agent safety, is carried out by the company's insurer, Chartis. The results of the 2010 audit indicated that there continued to be an excellent understanding of company expectations, rules and procedures in relation to health and safety throughout the Consumer Credit Division, with communication and training on health and safety matters working effectively. The majority of the recommendations made as a result of the audit in 2009 were implemented in 2010 and further recommendations to enhance the current processes following the 2010 audit will be implemented during the course of 2011.

Equal opportunities

The company is committed to equal opportunities in recruitment, promotion and employment and does not discriminate on the basis of age, gender, disability, religion or belief, nationality, ethnic or racial origin, sexual orientation or marital status.

The company gives full and fair consideration to applications for employment from disabled persons where they have the appropriate skills and abilities. It is the policy of the group that the training, career development and promotion opportunities of disabled persons should be, as far as possible, identical to those of other employees.

In the event of an employee becoming disabled, every effort is made to ensure that their employment with the group continues and employees are retrained where necessary to enable them to perform work identified as appropriate and tailored, where practicable, for their specific needs, aptitudes and abilities.

The board has approved a group-wide health and safety policy and a framework for health and safety.

The company is committed to equal opportunities in recruitment, promotion and employment.

Supplier policy statement
The company agrees terms and conditions for its business transactions with suppliers and payment is made in accordance with these, subject to the terms and conditions being met by the supplier.

The company acts as a holding company and had no trade creditors at 31 December 2010 or at 31 December 2009. The average number of days' credit taken by the group during the year was 15 days (2009: 17 days).

Financial instruments
Details of the financial risk management objectives and policies of the group and the exposure of the group to credit risk, liquidity risk, interest rate risk and foreign exchange rate risk are included on pages 90 to 92 of the financial statements.

Additional disclosures
Details of the company's issued share capital are set out on page 120 in note 24 of the notes to the financial statements and details of significant shareholdings are set out on page 49 of this report. All of the company's issued ordinary shares are fully paid up and rank equally in all respects and there are no special rights with regard to control of the company. The rights attached to them, in addition to those conferred on their holders by law, are set out in the company's articles. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except: (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the Financial Services Authority's ('FSA') Listing Rules or the City Code on Takeovers and Mergers.

Details of the EBT and the PF Trust, which are operated in accordance with the company's executive share incentive schemes, are set out on pages 48 to 49 of this report. As at 31 December 2010, the PF Trust did not hold any shares in the company and the EBT, which cannot hold more than 5% of the issued share capital of the company, may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the employee beneficiaries.

Rules about the appointment and replacement of directors are set out in the articles and on page 56 of the key governance principles section of this report. The directors' powers are conferred on them by UK legislation and by the articles. Changes to the articles must be approved by shareholders passing a special resolution and must comply with the provisions of the Companies Act 2006 and the FSA's Disclosure and Transparency Rules.

Details of the authority of the company to issue and purchase shares of the company are set out on page 49 of the governance report.

There are no agreements between any group company and any of its employees or any director of any group company which provide for compensation to be paid to an employee or a director for termination of employment or for loss of office as a consequence of a takeover of the company.

There are no significant agreements to which the company is a party that take effect, alter or terminate upon a change of control following a takeover bid for the company.

Directors' responsibilities in relation to the financial statements
The following statement, which should be read in conjunction with the independent auditors' report on page 128, is made to distinguish for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

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

The Companies Act 2006 requires the directors to prepare financial statements for each financial year. The directors have prepared the financial statements in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and the group for that period.

In preparing these financial statements, the directors are required to: (i) select suitable accounting policies and then apply them consistently; (ii) make judgments and estimates that are reasonable and prudent; (iii) state that the financial statements comply with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and (iv) prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are also required by the FSA's Disclosure and Transparency Rules to include a management report containing a fair review of the business of the group and the company and a description of the principal risks and uncertainties facing the group and company.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report & Financial Statements 2010 will be published on the company's website in addition to the normal paper version. The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure and Transparency Rules statement

Each of the directors, whose names and functions are set out on pages 46 to 47, confirms that, to the best of his/her knowledge and belief, the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group and company, and that the directors' report contained in this Annual Report & Financial Statements 2010 includes a fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties it faces.

Disclosure of information to auditors

In the case of each person who is a director at the date of this report, it is confirmed that, so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and he/she has taken all reasonable steps that ought to have been taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP ('PwC') as auditors to the company will be proposed at the forthcoming AGM.

Annual general meeting

The AGM will be held at 10.30am on 4 May 2011 at the offices of Provident Financial plc, No. 1 Godwin Street, Bradford, West Yorkshire BD1 2SU. The Notice of Meeting, together with an explanation of the items of business, will be contained in a circular to shareholders to be dated 25 March 2011.

The Annual Report & Financial Statements 2010 will be published on the company's website in addition to the normal paper version.

Key governance principles

John van Kuffeler
Non-executive Chairman

Contents

Dear Shareholder

This section of the report deals with how the board and its committees discharge their respective responsibilities and how the company applies the principles of good governance which are set out in the new UK Corporate Governance Code ('the Code')

The board has always been committed to achieving a high level of corporate governance and the changes required to our processes in light of the Code are minimal. The only major changes relate to the annual reappointment of all directors which we intend to introduce at the 2011 AGM, and the external performance review of the board at least every three years.

In 2010, we carried out the first external board and committee evaluation, which confirmed that the board consisted of a sound, experienced and diverse mix of directors with an appropriate and varied skill set. It also confirmed that the board functions effectively with a strong corporate governance and regulatory awareness. A small number of minor administrative proposals, to improve the smooth running of the board meetings, were made and these have been implemented.

I am pleased with the overall performance of the board during 2010, and continue to believe that the members of the board collectively have the necessary skill set which is suited to the business and its overall strategy. I am confident that the board will continue to lead the company effectively in 2011 and ensure that an appropriate level of challenge exists at all times.

John van Kuffeler
Chairman

The company complied with the main and supporting principles set out in Section 1 of the Combined Code on Corporate Governance (June 2008), and with the provisions of the Code throughout 2010, even though compliance with the Code is only required from 1 January 2011.

Section A of the Code:

Leadership

How do we ensure effective leadership of the company?

The board

The board of directors is responsible to shareholders for the long-term success of the company and ensuring that the company is appropriately managed. The board meets regularly to discuss the company's strategic direction, to review its financial performance, and to ensure that risk management and internal control systems are appropriately aligned with its strategic objectives.

The Chairman is responsible for: (i) chairing the board meetings and monitoring their effectiveness; (ii) chairing the AGM; and (iii) chairing the nomination committee. He is also responsible for ensuring that an effective strategy is approved by the board and that an annual evaluation of the board is carried out. The Chairman is also Chairman of Hyperion Insurance Group Limited. In 2010, the board considered and approved the Chairman's proposed appointment as Chairman of Marlin Financial Group Limited, having concluded that the proposed appointment neither presented a conflict of interest, nor prevented the Chairman from discharging his duties and responsibilities to the company. These appointments involve no more than two and a half days' work per week. There have been no material changes in his other commitments since the year end.

The Chief Executive is primarily responsible for implementing the company's strategy, as well as being a focal point for communication with shareholders. He also chairs the board of Vanquis Bank Limited.

The board has approved terms of reference which contain a schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets and financial results, new board appointments, proposals for dividend payments, the approval of all major transactions and authorisation of directors' interests that conflict, or may conflict, with the interests of the company. The board's five committees also have written terms of reference which can be found on the company's website. In addition, the group has detailed corporate policies which set out authority levels within the group and which were last reviewed and updated in June 2010. Divisional boards are required to report on compliance with the corporate policies on a biannual basis.

The executive committee, comprising the three executive directors, normally meets at least once a week, and more frequently as required. The executive committee deals with matters relating to the running of the group, other than those reserved to the board and those specifically assigned to the other committees. There is a formal schedule of matters reserved to it for decision.

Meetings

During 2010, the board had 11 meetings and an annual strategy and planning conference. Additional meetings are called when required and there is frequent contact between meetings, where necessary, to progress the company's business. Each director receives all relevant reports and papers so that he/she has sufficient time to review them. Attendance at board and committee meetings during 2010 is set out in the table below.

The executive committee, comprising the three executive directors, normally meets at least once a week, and more frequently as required.

Attendance at board and committee meetings

	Board meetings	Audit Committee	Nomination Committee	Remuneration Committee	Risk Advisory Committee
Total number of meetings in 2010	11	4	3	7	3
John van Kuffeler (Chairman)	11	–	3	–	–
Peter Crook	11	–	3	–	–
Andrew Fisher	11	–	–	–	3
Chris Gillespie	10	–	–	–	–
Rob Anderson	10	4	3	7	3
Robert Hough	11	4	3	7	3
Manjit Wolstenholme	11	4	3	7	3

In accordance with the recommendations of the Code, all directors will be offering themselves for reappointment annually with effect from the 2011 AGM.

Company Secretary
All directors are able to consult with the Company Secretary, who is secretary to all of the board committees. The appointment and removal of the Company Secretary is a matter for the board.

Independent advice
There is a formal procedure by which any director may take independent professional advice relating to the performance of his/her duties at the company's expense.

Insurance
The company has arranged appropriate Directors' and Officers' liability insurance in respect of legal action against directors.

Section B of the Code:
Effectiveness

How do we ensure there is an appropriate balance and refresh of skills on the board to ensure effective delivery of the company's objectives?
The board currently comprises three executive directors, three non-executive directors and a non-executive Chairman and has a clearly defined division of responsibilities between the Chairman and the Chief Executive.

Non-executive directors
Each of the three non-executive directors has been formally determined by the board to be independent for the purposes of the effective governance of the group, in line with the independence expectations of the Code. The board believes that there are no current or past matters which could materially interfere with their independent judgment.

Non-executive directors are currently appointed for fixed periods of three years, subject to appointment by shareholders. The initial three-year period may be extended for one further three-year period (and, in exceptional cases, further extended), subject always to annual reappointment by shareholders. Their letters of appointment may be inspected at the company's registered office or can be obtained on request from the Company Secretary.

Robert Hough is the senior independent director and is available to consult with shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

In December 2010, the Chairman met with the non-executive directors without any executive director present and the non-executive directors met without the Chairman present to discuss the Chairman's performance. The senior independent director discussed comments arising with the Chairman.

Reappointment of directors
Under the company's articles, each director should retire, but may be reappointed, at least at every third AGM, as well as at the first AGM following appointment. Also, after nine years, a director must offer himself/herself for reappointment annually. In 2010, biographical details of the directors submitted for reappointment at the AGM were supplied in the shareholders' circular and notice of the 2010 AGM.

However, in accordance with the recommendations of the Code, all directors will be offering themselves for reappointment annually with effect from the 2011 AGM.

Policy on other board appointments
The board's policy on other directorships is designed to ensure that all directors remain able to discharge their responsibilities to the company.

The letters of appointment of the non-executive directors state that any proposed appointment to the board of another company will require the prior approval of the board. The company's policy is that a non-executive director should have sufficient time to fulfil his/her duties to the company, including chairing a committee. The board will consider all requests for permission for other directorships carefully, subject to the following principles:

- a non-executive director would not be expected to hold more than four other material non-executive directorships; and

- if he/she holds an executive role in a FTSE 350 company, he/she would not be expected to hold more than two other material non-executive directorships.

In line with the Code, an executive director will be permitted to hold one non-executive directorship (and to retain the fees from that appointment) provided that the board considers that this will not adversely affect his executive responsibilities. The board would not permit an executive director to take on the chairmanship of a FTSE 100 company.

Any request for an exception to this policy is considered on its merits.

Performance evaluation
In November 2010, the board completed the eighth evaluation of its performance and that of its committees and individual directors. On this occasion the entire process was externally facilitated

and delivered through the governance services of Capita Registrars Limited. The process included confidential, unattributable, one-to-one interviews with every board member, the Company Secretary, and the Head of Audit & Risk. The review covered corporate governance; development of strategy and alignment with risk; board and committee effectiveness, composition, development and succession planning; board operation and dynamics; collective and individual capabilities and contribution; management information and operational oversight.

The results of the evaluation, which were discussed by the board as a whole at its meeting in December 2010, confirmed that the board of directors was balanced and no significant issues were identified. A number of minor logistical, communication and operational improvements were, however, recommended to strengthen the overall smooth running of board meetings, all of which the board agreed to implement during the 2011 financial year.

A performance evaluation of the board, the board committees and individual directors will continue to be conducted annually although the process for such evaluations will continue to be reviewed by the board in order to optimise the process.

Conflicts of interest

There is a procedure in place to enable the board to review and authorise conflict situations as appropriate. This procedure, which is in accordance with the company's articles, has been fully and properly complied with throughout the year. In addition, the board reviews the register of conflicts annually.

Training

Appropriate training and briefing is provided to all directors on appointment to the board, taking into account their individual qualifications and experience. Ongoing training is arranged to suit their individual needs (including environmental, social and governance training as appropriate) and the Chairman regularly reviews and agrees with each director their training and development needs. The Chairman has arranged one-to-one meetings with all directors in 2011 to discuss their respective training and development plans for the year.

Nomination Committee

The Nomination Committee ensures that the balance of directors remains appropriate as the group develops and that there is effective succession planning for senior positions within the group. It has a formal schedule of matters reserved to it for decision.

At its meeting in February 2010, the committee carried out a review of the performance of Robert Hough and recommended to the board an extension to his term of office. At the board meeting in February 2010 his term of office was extended to 31 January 2013, and his reappointment was approved by shareholders at the AGM on 5 May 2010.

At its meeting in June 2010, the committee carried out a review of the performance of Manjit Wolstenholme and recommended to the board an extension to her term of office. At the board meeting in June 2010, her term of office was extended to 31 July 2013.

At its meeting in December 2010, the committee reviewed and approved a detailed succession plan for the executive directors, the Chairman and the persons discharging managerial responsibility. The plan specifically identified those candidates who are, or would be, capable with training and development, of filling the roles identified. Bespoke training and development plans are being prepared and will be implemented as appropriate.

The committee formally considered its effectiveness in 2010. On the basis of the board and committee evaluation undertaken by Capita Registrars Limited, which did not identify any issues for consideration by the committee, the overall view was that it was working effectively.

Section C of the Code:

Accountability

How do we ensure that the board presents a balanced view of the company's position and prospects?

The board presents the company's position and prospects by means of an annual report, interim reports, interim management statements and in circulars and reports to shareholders. These documents are posted on the company's website. Announcements made by the company to the London Stock Exchange are also posted on the company's website.

Risk management and internal control

The board is responsible for the alignment of strategy and risk, and for maintaining a sound system of risk management and internal controls. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and any system can provide only reasonable, and not absolute, assurance against material misstatement or loss. Details of the group's risks, together with the controls and procedures in place to mitigate the risks, can be found on pages 39 to 41 of the Directors' report.

The results of the evaluation confirmed that the board of directors was balanced and no significant issues were identified.

The audit committee regularly reviews the adequacy of internal controls.

The key elements of the internal control system, including the financial reporting processes, have been established in accordance with the revised Guidance for Directors on the Combined Code and the Financial Services Authority's Disclosure and Transparency Rules. The company reports to shareholders on a half-yearly basis.

In December each year, the board approves detailed budgets and cashflow forecasts for the year ahead. It also approves outline projections for the subsequent four years. An update to the budget is performed in June each year. Actual performance against budget is monitored in detail within the group's management accounts and this is supplemented with a rolling forecast of the full-year outturn. The group's management accounts form part of the board papers for each meeting.

The audit committee, details of which can be found on this page, regularly reviews the adequacy of internal controls (including financial, operational and compliance controls) in conjunction with the internal audit function and reports back to the board. An annual programme of work which targets and reports on higher risk areas is carried out by the internal audit function. The operation of internal controls is monitored by regular management reviews, including a procedure by which each division certifies compliance quarterly.

The risk advisory committee, details of which can be found on page 59, considers the nature and extent of the risks facing the group, keeps them under review, reviews the framework to mitigate such risks, and notifies the board of changes in the status and control of risks. It reports to the board on a regular basis. In addition, the risk advisory group, details of which can be found on page 59, formally reviews the divisional risk registers four times a year and it reports to the risk advisory committee.

The board requires the divisions to operate in accordance with the group corporate policies and divisions are obliged to certify compliance on a biannual basis.

A six-weekly finance forum, chaired by the Finance Director and attended by divisional finance directors and senior finance management including the heads of tax, treasury and risk, reviews and provides oversight of the key financial matters of the group. The group finance function establishes the process and timetable for financial reporting and consolidation activities and identifies changes to accounting and financial reporting standards.

In accordance with the revised Guidance for Directors on the Combined Code, the board has reviewed the effectiveness of the group's framework of internal controls during 2010. The above process for identifying, evaluating and managing the significant risks faced by the group was in place throughout 2010 and up to 1 March 2011 and no significant failings or weaknesses were identified during this period.

Audit committee and auditors

The audit committee has a formal schedule of matters reserved to it for decision, including all matters relating to the appointment and reappointment of auditors, auditors' remuneration and the policy on the supply of non-audit services to the company by the auditors. In addition, it monitors the integrity of the financial statements of the group and the formal announcements relating to the group's financial performance and reviews significant financial reporting judgments contained in them. It also approves the internal audit plan annually and reviews the group's internal and external whistleblowing policies and the register of benefits offered to directors in accordance with the company's code of practice on benefits.

Manjit Wolstenholme has chaired the committee since joining the board in 2007. She is a chartered accountant and is considered to have the recent and relevant financial experience required by the provisions of the Code. The other members of the committee have a wide range of business and financial experience which is evidenced by their biographical summaries on pages 46 to 47.

There is an in-house internal audit function managed by the Head of Audit & Risk. The internal audit function reports to the audit committee which helps to ensure the function's independence from group management, and the audit committee reviews regular reports on the activity of this function.

At the invitation of the committee, meetings are attended by the Head of Audit & Risk, the external auditors, the Finance Director and the group Financial Controller, as required.

At its February and July meetings, the committee had a separate session with the group's auditors PwC, without any executive director or employee of the company or group being present. This gives members of the committee the opportunity to raise any issues, including any issues on the final or interim results of the group, directly with PwC. Manjit Wolstenholme, as Chair of the committee, also meets separately with the Head of Audit & Risk on a quarterly basis.

PwC have been the company's auditors for many years. The audit committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness, which is reviewed annually. Accordingly, it has not considered it necessary, to date, to require the firm to tender for

The risk advisory committee has overseen the continuing enhancement of the risk management framework across the group.

the audit work. The external auditors are required to rotate the audit partners responsible for the group and subsidiary audits every five years and a new lead audit partner was identified and agreed for the 2010 audit. There are no contractual obligations restricting the company's choice of external auditor. PwC provide the committee with a letter of independence, which is regularly updated and considered by the committee.

The committee has adopted a policy on the appointment of staff from the auditors to positions within the various group finance departments. It grades appointments into four categories and sets out the approvals required. Neither a partner of the audit firm who has acted as engagement partner, the quality review partner, other key audit partners or partners in the chain of command, nor a senior member of the audit engagement team, may be employed as group Finance Director, group Financial Controller or a divisional finance director.

The company has a formal policy on the use of auditors for non-audit work. This policy is reviewed once a year.

In 2010, the committee regularly considered a schedule of non-audit work carried out by PwC for the group. This fell broadly into four categories: fees payable for the audit of the parent company and consolidated financial statements; audit of the company's subsidiaries pursuant to legislation; other services pursuant to legislation and tax services; and advice on the establishment of an Employer Funded Retirement Benefit Scheme. Details of work carried out by PwC on behalf of the remuneration committee is summarised on page 63. Fees paid to PwC in 2010 are set out on page 96 in note 4 of the notes to the financial statements.

The committee formally considered its effectiveness in 2010. On the basis of the board and committee evaluation undertaken by Capita Registrars Limited, which did not identify any issues for consideration by the committee, the overall view was that it was working effectively.

Risk Advisory Committee

The group's risk management framework is overseen by the risk advisory committee on behalf of the board. The risk advisory committee is chaired by Rob Anderson and comprises the Finance Director and the two other independent non-executive directors. The Chief Executive, Managing Director of the Consumer Credit Division, the Head of Audit & Risk, and the group Financial Controller, attend the meetings by invitation. Its function is to keep under review the group's risk management framework, and to report to the board on its work. It reviews the group and divisional key risk registers, considers the most important risks facing the group and is responsible for reviewing the group's Internal Capital Adequacy Assessment Process ('ICAAP') prior to submission to the board.

The risk advisory committee delegates a number of responsibilities to the risk advisory group which comprises the executive directors, the Company Secretary, the group Financial Controller and the Head of Audit & Risk. The deputy Company Secretary and divisional risk managers also attend the meetings by invitation. The risk advisory group considers the extent and nature of the risks facing the group, the extent and categories of risk which are acceptable to bear, the likelihood of any risk materialising, the group's ability to mitigate any risk, and the costs of operating particular controls relative to the benefits obtained. It also reviews the key risk registers prepared by the group and the divisional

The company encourages private investors to attend the AGM.

risk committees four times a year, challenging and making changes where appropriate. It submits a schedule of key risks, the group and divisional key risk registers and the ICAAP to the risk advisory committee for review and approval.

Throughout 2010, the risk advisory committee has overseen the continuing enhancement and embedding of the risk management framework across the group. Improved reporting to an agreed risk appetite framework, complemented by focus on the key risks facing the group and, as required, detailed reporting on specific risks allows effective risk monitoring and oversight by the committee and board.

The committee formally considered its effectiveness in 2010. On the basis of the board and committee evaluation undertaken by Capita Registrars Limited, which did not identify any issues for consideration by the committee, the overall view was that it was working effectively.

Section D of the Code:
Remuneration

Remuneration Committee
Full details of the composition and work of the remuneration committee are set out on pages 63 to 64 of the directors' remuneration report.

The committee has a formal schedule of matters reserved to it for decision. It determines, within the framework agreed with the board, the specific remuneration packages and conditions of service of the Chairman, the executive directors and the Company Secretary, including their service agreements. It also monitors the level and structure of the remuneration of the most senior management below board level within the company. No director is involved in determining his/her own remuneration.

Section E of the Code:
Relations with shareholders

Members of the board meet with institutional shareholders on a regular basis. The Chairman is responsible for ensuring that appropriate channels of communication are established between directors and shareholders and ensuring that the views of shareholders are made known to the board.
An investor relations report is considered by the board at each meeting and independent reviews of shareholder views are commissioned annually and reviewed by the board.

The company encourages private investors to attend the AGM. The chair of each of the board committees is available to answer questions from shareholders at the AGM and there is an opportunity for shareholders to ask questions on each resolution proposed.

At the 2010 AGM, details of proxy votes cast on each resolution were made available to shareholders and other interested parties at the AGM and by means of an announcement to the London Stock Exchange and on the company's website.

At the 2010 AGM, the company proposed separate resolutions on substantially separate issues and will continue to do so. It is the company's policy to give shareholders in excess of 20 working days' notice of the AGM.

The company operates a dividend reinvestment plan which enables shareholders to elect to receive their dividends in shares should they wish to do so.

Approved by the board on 1 March 2011 and signed by order of the board.

Kenneth J Mullen
General Counsel and Company Secretary
1 March 2011

Directors' remuneration report

Robert Hough
Chairman of the remuneration committee

Contents

Dear Shareholder

As you will recall from my letter to you in the 2009 Annual Report and Financial Statements, I met with several of our major shareholders during the summer of 2009 to understand better their key concerns and issues in order to formulate our remuneration policy for 2010 and beyond.

This year's remuneration report includes a summary of the 2010 policy which was very much based on the consultation exercise with key shareholders. Towards the end of the report, there is a summary of the 2011 policy which you will note contains very few changes. The main changes in the 2011 remuneration policy are as follows:

- we have increased the base salaries of the executive directors by approximately 3.4%, consistent with overall increases awarded across the group;
- the fees of the non-executive directors (excluding the Chairman) have been increased by £10,000, reflecting the increased time commitment required of the non-executive directors and the changing regulatory environment within which the group operates;
- in accordance with the new UK Corporate Governance Code ('the Code') a clawback provision has been introduced into the annual cash bonus scheme, the LTIS and the PSP.

We decided it was not necessary to consult with our key shareholders this year on the basis that the 2011 policy remains consistent with our previous consultations, reflects the requirements of the Code and contains only minimal changes from the 2010 policy which was accepted by shareholders at the AGM in 2010.

During the year, the remuneration committee considered the company's remuneration practices in light of the recommendations set out in the Financial Services Authority's Remuneration Code and in the Walker Review. In particular, a risk assessment was carried out on the 2010 and proposed 2011 policy with the assistance of the group's Head of Audit & Risk and the committee was satisfied that:

(i) the weighting on long-term performance (through the requirement to defer part of any annual cash bonus award and participation in the PSP and LTIS) that exists in the current remuneration packages for the executive directors is appropriate for a financial company with our current risk profile; and

(ii) remuneration policy does not encourage undue risk-taking, given the internal controls operated by the company and the balanced approach that is taken to target setting. The risk advisory committee, which reviews the group and divisional risk registers on an ongoing basis, has agreed to keep the remuneration policy under review as part of its role in assessing the risk environment within which the company operates.

The remuneration committee also intends to keep the company's remuneration policy under review in light of further best practice recommendations.

Robert Hough
Chairman of the remuneration committee

Remuneration at a glance

Remuneration components 2010 – Fixed

Director's name	Salary[1] £000	Benefits in kind £000	Performance Share Plan dividends £000	Increase in transfer value of pension benefits accrued £000	Total £000
Peter Crook	579	38	92	214	923
Andrew Fisher	413	49	72	153	687
Chris Gillespie	399	36	70	147	652

[1] Reflects salary sacrifice arrangement in respect of the director's contribution to the pension scheme since 1 April 2009, as referred to on page 74.

Remuneration components 2010 – Variable

Director's name	Annual bonus[2] £000	Total £000
Peter Crook	595	595
Andrew Fisher	345	345
Chris Gillespie	281	281

Director's name	Performance Share Plan awards[3]	Conditional share awards
Peter Crook	–	140,552
Andrew Fisher	–	100,230
Chris Gillespie	–	96,774

[2] The annual bonus represents the gross bonus payable to the directors in respect of 2010. Each director has agreed to waive 50% of this gross bonus in order to participate in the Provident Financial Performance Share Plan.

[3] No awards were made as no bonus was payable in 2010 in respect of 2009.

Remuneration components 2010 – Summary

Fixed

	Base salary	Pension	Benefits
Objective	To recognise role and responsibilities	To provide funding for retirement	To provide benefits commensurate with role
Value	To reflect experience and market competitiveness	Pension credit of 35% of salary per annum which increases at the lower of RPI+1.5% and 6.5% Life cover of six times salary	Cost of permanent health insurance, private medical insurance, fully expensed car/cash alternative
Performance target	Not applicable	Not applicable	Not applicable

Variable

	Annual bonus	Performance shares	Conditional share awards
Objective	To improve company performance through improved personal performance	To link management interests to the long-term interests of shareholders	To align management's long-term interests with shareholders' interests
Value	Maximum 120% (CEO) and 100% (other executive directors) of basic salary	Based on deferral of up to 50% of annual cash bonus plus matching awards	Up to 200% of basic salary
Performance target	Based on budgeted group EPS and divisional profits (where applicable) (80%), personal objectives (20%)	EPS relative to RPI over a three-year period	Absolute TSR and EPS relative to RPI over a three-year period

Remuneration explained

Introduction
This directors' remuneration report complies with the Companies Act 2006 ('the Companies Act'), Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority. The company also followed the requirements of the new UK Corporate Governance Code ('the Code').

This report will be subject to an advisory vote at the AGM of the company to be held on 4 May 2011 and sets out the policy for the financial year just ended, the forthcoming year and, subject to ongoing review, for subsequent years.

The remuneration committee
The committee consists of three non-executive directors, each of whom is, in the opinion of the board, independent when assessed against the criteria set out in the Code. The attendance of each member at meetings of the committee is shown in the table below and full details of the terms of reference of the committee are available on the company's website.

	Remuneration committee meetings
Total number of meetings in 2010	7
Robert Hough (Chair)	7
Rob Anderson	7
Manjit Wolstenholme	7

Pursuant to its terms of reference, the committee considers and determines, within the framework agreed with the board, the specific remuneration packages and conditions of service of the Chairman, the executive directors and the Company Secretary, including their service agreements. It also monitors the level and structure of the remuneration of the most senior management below board level. No director is involved in determining his/her own remuneration.

The committee keeps itself fully informed of developments and best practice in the field of remuneration and it seeks advice from external advisers when it considers it appropriate. The committee has appointed Hewitt New Bridge Street (a trading name of Aon Corporation) as its remuneration consultant to advise on aspects of executive director and senior management pay, including advice in relation to the 2010 and the 2011 remuneration policy which include, inter alia, various benchmark pay reports. Aon Hewitt Limited provides investment advice in respect of the company's UK pension scheme and actuarial services in respect of its Irish pension schemes. The committee has, in addition, been advised by PwC, the company's auditors, in relation to the establishment of an Employer Funded Retirement Benefit Scheme. The General Counsel and Company Secretary is secretary to the committee and instructed the advisers on behalf of the committee.

The Chairman and Chief Executive of the company normally attend and speak at meetings of the committee (other than when their own remuneration or any matter relating to them is being considered). The secretary attended all the meetings of the committee in 2010 and provided legal and technical support to the committee.

The committee has reviewed and considered the impact of the FSA Remuneration Code ('the FSA Code') on the group. Whilst the FSA Code does not apply to the group, it will apply to Vanquis Bank Limited, and a process is under way to establish a Vanquis Bank remuneration committee, identify the relevant FSA Code employees and restructure remuneration where required to comply with the FSA Code by July 2011. It is not, however, anticipated that major changes to the company's remuneration policy will be required to achieve compliance.

Executive remuneration (excluding share incentive schemes)

Peter Crook

●	Base salary £579,000	40%
●	Annual bonus £595,000	42%
●	Benefits £38,000	3%
●	Pension £214,000	15%

Andrew Fisher

●	Base salary £413,000	43%
●	Annual bonus £345,000	36%
●	Benefits £49,000	5%
●	Pension £153,000	16%

Chris Gillespie

●	Base salary £399,000	46%
●	Annual bonus £281,000	33%
●	Benefits £36,000	4%
●	Pension £147,000	17%

Details of the work undertaken by the committee during the year are shown below:

Q1

- 2009 remuneration report
- 2010 remuneration policy
- Review of company-wide remuneration and incentive policy and senior management remuneration
- Review of prior-year performance against financial and non-financial objectives in relation to the annual cash bonus scheme
- Review of directors' expenses

Q2

- Grant of awards under the Long Term Incentive Scheme

Q3

- Establishment of an Employer Funded Retirement Benefit Scheme
- Grant of awards under the Employee Savings-Related Share Option Scheme
- Vesting of awards under the LTIS
- Review of the FSA Code

Q4

- Remuneration framework risk assessment
- 2011 proposed remuneration policy
- Review of executive directors' shareholdings
- Review of performance and effectiveness of the committee

The committee formally considered its effectiveness in 2010. On the basis of the board and committee evaluation undertaken by Capita Registrars Limited, which did not identify any issues for consideration by the committee, the overall view was that it was working effectively.

Remuneration policy

The committee considers it very important that there should be an appropriate proportion of fixed and variable pay. The remuneration policy operated by the committee during the year and, subject to ongoing review by the committee, to be applied for the following financial year and for future financial years, is based on the need to attract, reward, motivate and retain executive directors in a manner consistent with the long-term accumulation of value for shareholders and achievement of the company's strategic objectives. The committee is also conscious of the need to avoid paying more than is reasonable for this purpose. Therefore the policy of the committee is to pay remuneration which is competitive, with a significant proportion dependent on performance targets which have been risk assessed and adjusted as necessary. The committee will regularly review the remuneration framework in the context of the group's risk management structure to ensure it does not inadvertently promote irresponsible behaviour.

The executive directors' remuneration consists of a basic salary, an annual cash bonus (subject to performance conditions) and other benefits including participation in the company's pension scheme. Additionally, they may participate in the company's various share incentive schemes, including:

- a performance share plan (which necessitates the waiver of a minimum of 25% of the annual cash bonus award up to a maximum of 50%), which is subject to performance conditions;
- a long term incentive scheme, which is subject to performance conditions; and
- an employee savings-related share option scheme which is not subject to performance conditions (executive directors participate on the same terms as other eligible employees of the group).

The remuneration policy is designed to ensure that a significant proportion of the executive directors' remuneration is linked to performance, through the operation of the annual cash bonus scheme and the share incentive schemes. For 2010, variable remuneration accounted for approximately two-thirds of the fair value of executive remuneration (excluding pension), a policy which the committee considers appropriate.

The committee takes due account of remuneration structures elsewhere in the company when setting pay for the executive directors, including consideration of the overall salary increase budget and the incentive structures that operate across the company.

The committee normally reviews the executive directors' salary levels annually. This review takes into account individual performance, experience and market competitiveness. In 2010, reflecting the wider economic environment, the executive directors did not receive an increase.

The fees for the non-executive directors, other than the Chairman, are fixed by the board and are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the company. Full details of the non-executive directors' fees in 2010 and details of their business expenses, which are reimbursed by the company, with 2009 comparative figures, are set out in the table of directors' remuneration on page 70. The non-executive directors' remuneration does not include share options or other performance related elements. Reflecting the wider economic environment and on the basis of a benchmarking exercise, the fees were not increased in 2010.

The fees for the Chairman are fixed by the committee. Full details of the Chairman's fees in 2010, with 2009 comparative figures, are set out in the table of directors' remuneration on page 70. Reflecting the wider economic environment and on the basis of a benchmarking exercise, the Chairman's fees were not increased in 2010.

Senior management remuneration

The committee also considers the remuneration structure and level of pay for the most senior level of management within the group, including annual cash bonus and participation in the company's executive share incentive schemes. At its meeting in December 2010, the committee also reviewed the remuneration and incentive policies proposed for employees in CCD and Vanquis Bank.

Cash bonuses

An annual cash bonus is payable, subject to the satisfaction of performance conditions. The bonus is calculated as a percentage of salary. The purpose of the bonus scheme is to provide a meaningful cash incentive for executive directors which is clearly focused on improving the company's performance and aligns, so far as is practicable, shareholder and executive director interests. The committee considers corporate performance on environmental, social and governance ('ESG') issues when setting the performance conditions for the annual cash bonus and will use its discretion to ensure that, where appropriate, the management of ESG risks are reflected in the rewards granted to directors and senior management.

Executive directors are eligible for an annual cash bonus by reference to the company's audited earnings per share (as defined in the bonus scheme) and divisional profits (in the case of Chris Gillespie) (maximum 40%) which cannot exceed 80% of the maximum bonus opportunity, and achievement of specific personal objectives, which cannot exceed 20% of the maximum bonus opportunity. Typical personal objectives in 2010 included:

- strategic development
- funding
- external and investor relations
- product range

Upon the occurrence of any event or events as a result of which the committee, in its absolute discretion, considers it fair and reasonable to do so (such as material changes in accounting standards or material changes in the group structure), the committee may change the earnings per share target provided that any such change does not make the earnings per share target more or less onerous than it was before the event in question. The committee carries out a detailed review of the computations undertaken in determining the group's earnings per share and ensures that the rules are applied consistently. The company's auditors are asked to perform agreed-upon procedures on behalf of the committee on the earnings per share calculations.

The maximum bonus opportunity in respect of 2010 was restricted to 120% of salary for the Chief Executive and 100% of salary for the other executive directors and was split as follows:

Measure	Maximum bonus opportunity
Budgeted group EPS[1]	80%
Personal objectives	20%

[1] 40% of the maximum bonus opportunity for Chris Gillespie related to the profit before tax of the Consumer Credit Division and 40% to budgeted group EPS.

EPS is the key internal measure of financial performance as it is the broadest measure of the company's financial performance and is aligned to the shareholder base which is weighted towards longer-term income investors.

The actual proportions of the 2010 budgeted group EPS that needed to be delivered, which the committee considered to be challenging, were as follows:

	Threshold	Budget	Maximum
Budgeted group EPS target	95%	100%	105%
% of EPS element of annual bonus paid	0%	60%	100%

Straight-line vesting operated between budgeted group EPS and the maximum of 105% of budgeted group EPS. A similar principle applied to the divisional financial target set for Chris Gillespie.

For 2010, the personal objectives percentage of the annual cash bonus entitlement only became payable if 95% of the 2010 budgeted group EPS was achieved. Personal objectives are set to reflect the roles and responsibility of each executive director.

EPS is the key internal measure of financial performance as it is the broadest measure of the company's financial performance and is aligned to the shareholder base which is weighted towards longer-term income investors.

At its meeting in February 2011, the committee assessed the group's performance against the budgeted group EPS target. Budgeted group EPS of 76.9p was exceeded and the committee therefore determined that 77.8% of the EPS element of the 2010 annual cash bonus would be paid. The committee also considered the divisional profit before tax target set for Chris Gillespie, and determined that 54.4% of this element of his bonus would be paid. The balance of the annual cash bonus, as detailed in the table of directors' remuneration on page 70, was paid on the basis of the committee's assessment of the extent to which the personal objectives for each director had been achieved. The range of bonus payable as a percentage of salary in relation to 2010 was therefore 67% to 97%.

Bonuses do not form part of pensionable earnings.

Share incentive schemes

The grant of awards under the share incentive schemes to executive directors and senior management is normally considered once in each year after the preliminary announcement of the company's results, in accordance with a formula determined by reference to salary. The company has three operational schemes: the Provident Financial Executive Share Option Scheme 2006 ('the ESOS'), the Provident Financial Long Term Incentive Scheme 2006 ('the LTIS') and the Provident Financial Performance Share Plan ('the PSP'). The committee regularly reviews the long-term incentives for the executive directors and senior management, and has decided to continue to make conditional share awards to executive directors and senior management under the LTIS and awards under the PSP. This policy is in line with prevailing market practice and recognises that conditional share awards and the deferral of annual bonus in the case of the PSP, provide greater alignment with shareholders' interests.

LTIS

Participation is currently limited to executive directors, certain members of senior management and other employees by invitation. The committee can grant conditional share awards pursuant to the LTIS up to a maximum of 200% of a participant's basic salary. Executive directors received maximum grants during 2010.

The performance targets for awards under the LTIS in 2010 were based on challenging EPS targets (50%) and on absolute TSR targets (50%). In addition, no awards will vest unless the committee is satisfied that the TSR performance is a genuine reflection of the underlying business performance. There is no re-testing should performance targets not be met at the end of the three-year performance period.

The actual range of the EPS targets is as follows:

Annualised growth in EPS	Percentage vesting (of EPS part of award)
Below RPI + 3%	0%
RPI + 3%	25%
RPI + 8%	100%

The actual range of the TSR targets is as follows:

Annualised TSR	Percentage vesting (of TSR part of award)
Below 10%	0%
10%	25%
15%	100%

A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper EPS and TSR targets.

EPS and TSR are felt to provide an appropriate balance between internal and external performance measures. EPS is the key internal measure of financial performance as it is the broadest measure of the company's financial performance and is aligned to the shareholder base which is weighted towards longer-term income investors. With regard to TSR, delivering superior returns to shareholders remains the company's key, overarching, long-term objective.

The committee again reviewed the way in which TSR is measured. While some investors may have a preference for relative TSR, the committee continues to believe that absolute TSR is a more appropriate performance measure as there are doubts as to the suitability of the FTSE 250 as an appropriate benchmark for the company (this being the reason for the change to absolute TSR made in 2009) and the general financial sector is a diverse group of companies, none of which is considered to be directly comparable to the company and many of which continue to experience above-average historic levels of volatility. However, the committee will continue to keep the appropriateness of this measure under review.

In terms of the degree of stretch in the target ranges for 2010, the committee believes that the EPS range is demanding and the TSR target range of 10% to 15% (which is designed to be equivalent to median to upper quartile relative TSR performance) is challenging given the economic uncertainty.

The targets are reviewed annually prior to a grant being made to ensure that they remain challenging in the prevailing economic environment.

The graph shows the total shareholder return for Provident Financial plc against the FTSE 250 Index for the past five years. This Index was chosen for comparison because the company has been a member of this index for the five-year period.

Offshore employee benefit trust

The rules of the LTIS, approved by shareholders previously, allows the LTIS to be operated in conjunction with any employee trust established by the company. Accordingly, the company established the Provident Financial plc 2007 Employee Benefit Trust ('EBT') in Jersey on 11 September 2007 with Kleinwort Benson (Jersey) Trustees Limited acting as the trustee of the trust. The EBT, together with any other trust established by the company for the benefit of employees cannot, at any time, hold more than 5% of the issued share capital of the company.

Details of share subscriptions made by the EBT for the purposes of satisfying awards made under the LTIS during the course of the year are shown on page 71.

ESOS

The ESOS contains both an HMRC approved and unapproved section. Exercise of options is subject to a performance target and annual grants are ordinarily capped at 100% of salary, and at 200% in exceptional circumstances. No options remain outstanding for the executive directors following exercise of the options granted in 2006. The committee does not currently intend to make further grants to executive directors under the ESOS.

PSP

Participation in the PSP includes executive directors who may elect to defer up to 50% (with a minimum of 25%) of their annual cash bonus, and other eligible employees who may waive up to 50% or 30%, depending on their level of seniority, of their annual cash bonus for a period of three years. Participants then receive a basic award of shares equal to the value of their waived bonus, together with an equivalent matching award (on the basis of one share for each share acquired by a participant pursuant to their basic award) which is subject to a performance condition.

Following shareholder approval at the 2009 AGM, the committee amended the rules of the PSP to allow the grant of matching awards on the basis of up to two shares for each share acquired by a participant pursuant to their basic award. As a result, the 2009 awards to executive directors which were made on the basis of up to two shares for each share acquired pursuant to their basic award were subject to more stretching performance targets and will only vest in full if the company's average annual percentage growth in earnings per share is equal to, or greater than, the average annual percentage growth in RPI plus 7% measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the matching award. A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper targets. This upper target was stretched to RPI plus 8% for any awards made from 2010 onwards.

No awards were made pursuant to the PSP in 2010 due to no annual bonus awards being earned by executive directors in respect of 2009 performance.

In summary, the actual range of targets is as follows:

Average annual percentage growth in EPS	Matching shares vesting
Below RPI + 3%	No vesting
RPI + 3%	One matching share
RPI + 8%	Two matching shares

Deferred bonus

Separate to the annual cash bonus referred to on page 65, Peter Crook, Andrew Fisher and Chris Gillespie received an additional bonus in respect of the company's performance during 2008 valued at £200,000, £150,000 and £140,000 respectively. These bonuses are deferred until March 2012 and have taken the form of an award of ordinary shares in the company which have been acquired by the

The remuneration committee considers the LTIS an important means of incentivising and retaining key executives and senior management.

trustee of the EBT, who will hold the legal title to the shares until they vest. These shares are not subject to any performance conditions and will vest if the director is still employed by the group in March 2012 (although the committee will have the discretion to allow a departing director to retain some or all of these shares). The dividends payable on the shares subject to this deferred bonus award have been waived, but an amount equal to the dividends that would have been paid on these shares had the right to receive them not been waived will also be payable in cash or in the form of additional ordinary shares in March 2012. The committee believed that a deferred bonus satisfied with shares in the company in the manner set out aligned the interests of the executive directors with those of shareholders, recognised the company's exceptional performance in 2008 and reflected the need for such performance to be sustained in the medium term. The committee has agreed, following a series of discussions with shareholders, that this type of payment will not be made at any time in the future without prior consultation with, and agreement of, the company's major shareholders.

Dilution and use of equity

Following the demerger of the international business in 2007 and the subsequent share consolidation, the number of shares in issue was halved. As a consequence of this, the 5% anti-dilution limit contained within the company's executive share incentive schemes was completely utilised so that it was no longer possible for the company to satisfy any new awards granted under the executive share incentive schemes using newly issued shares (as opposed to satisfying awards by making market purchases of shares). Had the demerger not occurred, the company would have had sufficient headroom under the then-existing 5% limit to continue to satisfy awards under the executive share incentive schemes using newly issued shares.

The remuneration committee considers the LTIS an important means of incentivising and retaining key executives and senior management and consequently a resolution seeking shareholder approval for the temporary removal of the 5% anti-dilution limit from the LTIS rules was passed at the company's 2008 annual general meeting ('the 2008 AGM'). Information on the resolution was included in the shareholders' circular and notice of the 2008 AGM. This allows the continued operation of the LTIS and for awards granted to be satisfied using newly issued shares, up to the 10% anti-dilution limit in any 10 years, which applies to all share schemes operated by the company. In due course, the remuneration committee intends to re-introduce the 5% limit when the LTIS can be effectively operated in accordance with and subject to a 5% anti-dilution limit.

The table below sets out the headroom available for all employee share schemes and shares held in trust.

Headroom	2010 %	2009 %
All employee share schemes	1.78%	1.71%
Shares held in trust	3.05%	3.17%

Achievement of performance targets

Assessment of the achievement of the performance targets under the company's executive share incentive schemes is calculated by the company, and confirmed by PricewaterhouseCoopers LLP (for the PSP) or Hewitt New Bridge Street (for the LTIS) and approved by the committee. Further details can be found on page 71.

Savings-Related Share Option Scheme

The executive directors (together with other eligible group employees) may participate in the Provident Financial plc Employee Savings-Related Share Option Scheme (2003). Participants save a fixed sum each month for three or five years and may use these funds to purchase shares after three, five or seven years. The exercise price is fixed at up to 20% below the market value of the shares at the date directors and employees are invited to participate in the scheme. Up to £250 can be saved each month. This scheme does not contain performance conditions as it is an HMRC approved scheme designed for employees at all levels. Invitations to join the scheme were issued to eligible employees in August 2010.

Other benefits

The executive directors are provided with company-owned cars and fuel (or a cash alternative), long-term disability cover under the company's permanent health insurance policy and medical cover for them and their immediate families. Benefits in kind are not pensionable.

Service agreements

The current policy is for executive directors' service agreements to provide for both the company and the director to give one year's notice. No director has a service agreement containing a liquidated damages clause on termination. In the event of the termination of an agreement, it is the current policy to seek mitigation of loss by the director concerned and to aim to ensure that any payment made is the minimum which is commensurate with the company's legal obligations. Any awards under the company's executive share incentive schemes would be treated in accordance with the rules of the relevant scheme.

Details of the service agreement or letter of appointment of each director, each of whom will seek reappointment at the forthcoming AGM, are set out in the table below:

	Date of contract/ letter of appointment	Notice period	Unexpired term
Executive directors			
Peter Crook	27 April 2006	Terminable on 12 months' notice by either party	One year
Andrew Fisher	1 January 2008	Terminable on 12 months' notice by either party	One year
Chris Gillespie	31 May 2007	Terminable on 12 months' notice by either party	One year
Non-executive directors			
John van Kuffeler	29 January 2002	Terminable on 12 months' notice by the company and six months' notice by John van Kuffeler	One year
Rob Anderson	27 February 2009	Not applicable	to 30 March 2012
Robert Hough	18 October 2006	Not applicable	to 31 January 2013
Manjit Wolstenholme	1 June 2007	Not applicable	to 31 July 2013

Share ownership policy

The company has a share ownership policy for executive directors which requires them to acquire and maintain shares in the company with a value of one times their annual salary. Executive directors are required to retain 50% of vested LTIS awards, net of tax, until this requirement has been reached.

The committee reviews the shareholdings of the executive directors in the light of this policy once a year, based on the market value of the company's shares at the date of assessment. When performing the calculation to assess progress against the policy, shares held by a spouse, dependant, or in an ISA or pension scheme are included, whilst unvested LTIS and PSP awards are not.

All three executive directors complied with this policy as at 31 December 2010:

Director	Actual share ownership as a percentage of salary
Peter Crook	114%
Andrew Fisher	105%
Chris Gillespie	105%

Other directorships

The company will normally permit an executive director to hold one non-executive directorship and to retain the fee from that appointment, provided that the board considers that this will not adversely affect his executive responsibilities. In accordance with the Code, the board would not permit an executive director to take on the chairmanship of a FTSE 100 company.

Remuneration in detail

Directors' remuneration

There were no appointments to, or resignations from, the board during 2010. The aggregate directors' emoluments during the year amounted to £3,472,000 (2009: £2,244,000) analysed as follows:

Director's name	Salary[1] £000	Annual[2] cash bonus £000	Benefits in kind £000	Performance Share Plan dividends £000	2010 Total £000	2009 Total £000
Executive directors						
Peter Crook	579	595	38	92	1,304	718
Andrew Fisher	413	345	49	72	879	535
Chris Gillespie	399	281	36	70	786	508
Total	1,391	1,221	123	234	2,969	1,761

Director's name	Fees £000	Annual cash bonus £000	Benefits in kind £000	Performance Share Plan dividends £000	2010 Total £000	2009 Total £000
Chairman						
John van Kuffeler	265[3]	–	43	–	308	305
Non-executive directors						
Rob Anderson	60	–	3	–	63	50
Manjit Wolstenholme	60	–	5	–	65	61
Robert Hough	60	–	7	–	67	67
	180	–	15		195	178
Total	1,836	1,221	181	234	3,472	2,244

[1] Reflects salary sacrifice arrangement in respect of the director's contribution to the pension scheme since 1 April 2009.

[2] The annual bonus represents the gross bonus payable to the directors in respect of 2010. Each director has agreed to waive 50% of this gross bonus in order to participate in the Provident Financial Performance Share Plan.

[3] £25,000 of this fee is paid to Mr van Kuffeler's service company, Parchester Limited.

Long Term Incentive Scheme

Directors' conditional share awards at 31 December 2010 were as follows:

Director's name	Date of award	Awards held at 01.01.2010	Awards granted during the year	Awards vested during the year	Awards held at 31.12.2010	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Peter Crook	12.09.2007	103,626	–	103,626	–	868.5	873.0	12.09.2010
	05.03.2008	95,149	–	–	95,149	804.0		05.03.2011
	08.05.2009	136,771	–	–	136,771	892.0		08.05.2012
	12.04.2010	–	140,552	–	140,552	868.0		12.04.2013
Andrew Fisher	12.09.2007	79,907	–	79,907	–	868.5	873.0	12.09.2010
	05.03.2008	69,962	–	–	69,962	804.0		05.03.2011
	08.05.2009	97,533	–	–	97,533	892.0		08.05.2012
	12.04.2010	–	100,230	–	100,230	868.0		12.04.2013
Chris Gillespie	12.09.2007	78,295	–	78,295	–	868.5	873.0	12.09.2010
	05.03.2008	67,164	–	–	67,164	804.0		05.03.2011
	08.05.2009	94,170	–	–	94,170	892.0		08.05.2012
	12.04.2010	–	96,774	–	96,774	868.0		12.04.2013

The mid-market closing price of the company's shares on 31 December 2010 was 874p. The range during 2010 was 728.5p to 974p. No consideration is payable on the award of conditional shares.

There were no changes in directors' conditional share awards between 1 January 2011 and 1 March 2011.

None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

Kleinwort Benson (Jersey) Trustees Limited, as trustee of the EBT, subscribed for 849,654 ordinary shares in April 2010 and 11,458 shares in June 2010 for the purpose of satisfying the 2010 awards made pursuant to the LTIS. The trustee transferred the beneficial ownership (subject to the performance conditions set out on page 66) in 337,556 of the shares for no consideration to the executive directors on 19 May 2010. The trustee has entered into a dividend waiver in respect of all the shares it holds in the company at any time.

The executive directors have waived an entitlement to any dividend in respect of the conditional shares during the vesting period. To the extent an award vests at the end of the performance period, additional ordinary shares in the company or a cash amount equivalent to the dividends that would have been paid on the vested awards from the date of grant, will be provided to the executive directors when the award vests.

The 2007 and 2008 conditional share awards require the annualised company TSR over a consecutive three-year performance period, to be at least equal to the annualised Index TSR (being the FTSE 250 Index) for 25% of the award to vest, rising on a straight-line basis, with full vesting if the annualised company TSR exceeds the annualised Index TSR, by 8.5% on a multiplicative basis. No award will vest if the annualised company TSR is below the annualised Index TSR.

The assessment of the extent to which this performance condition was met for the conditional share awards granted in 2007 was discussed by the committee at its meeting in September 2010, with assistance from Hewitt New Bridge Street. The annualised company TSR of 9.4% exceeded the annualised Index TSR by more than 8.5% and the committee approved the vesting in full of the 2007 awards on 12 September 2010, having satisfied itself that the TSR performance was a genuine reflection of the underlying business performance.

The 2009 and 2010 conditional share awards require the company's annualised growth in earnings per share to be equal to or greater than the annualised growth in RPI plus 8% over a period of three consecutive financial years, the first of which is the financial year starting immediately before the date of grant, for 50% of the award to vest (12.5% of the award will vest if the company's annualised growth in earnings per share over a period of three consecutive financial years is equal to the annualised growth in RPI plus 3%, with vesting on a straight-line basis in between these levels). No award will vest if the annualised growth in RPI is below 3% over the performance period. The remaining 50% of the award vests if the company's annualised TSR is at least 15% measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the date of grant, (12.5% of the award will vest if the company's annualised TSR is at least 10% measured over a period of three consecutive financial years, with vesting on a straight-line basis in between these two levels). No award will vest if the company's annualised TSR is below 10% over the performance period.

There has been no variation in the terms and conditions of the participants' interests in the LTIS during the year.

Performance Share Plan

Awards held under the Provident Financial Performance Share Plan are as follows:

Director's name	Date of grant	Basic awards (number of shares) held at 01.01.2010	Matching awards (number of shares) held at 01.01.2010	Total basic awards (number of shares) held at 31.12.2010	Total matching awards (number of shares) held at 31.12.2010	Market price of each share when award was granted (p)	Earliest vesting date
Peter Crook	05.03.2008	24,539	24,539	24,539	24,539	804	05.03.2011
	04.03.2009	31,755	31,755	31,755	31,755	803	04.03.2012
	08.05.2009[1]	–	31,755	–	31,755	803	08.05.2012
Andrew Fisher	05.03.2008	21,579	21,579	21,579	21,579	804	05.03.2011
	04.03.2009	23,349	23,349	23,349	23,349	803	04.03.2012
	08.05.2009[1]	–	23,349	–	23,349	803	08.05.2012
Chris Gillespie	05.03.2008	21,144	21,144	21,144	21,144	804	05.03.2011
	04.03.2009	22,415	22,415	22,415	22,415	803	04.03.2012
	08.05.2009[1]	–	22,415	–	22,415	803	08.05.2012

[1] Additional matching award granted following the AGM in May 2009.

There are no further performance conditions attaching to the basic award. For awards granted in 2008, the matching award will vest only if the company's average annual percentage growth in earnings per share is equal to, or greater than, the average annual increase in RPI plus 3% measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the matching award.

In 2009, following shareholder approval at the AGM, the committee amended the rules of the PSP to allow the grant of matching awards on the basis of up to two shares for each share acquired by a participant pursuant to their basic award. Such awards in 2009 were subject to more stretching performance targets and will only vest in full if the company's average annual percentage growth in earnings per share is equal to, or greater than, the average annual percentage growth in RPI plus 7% measured over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the matching award. If the company's average annual percentage growth in earnings per share is equal to the average annual percentage growth in RPI plus 3% measured over a period of three consecutive financial years, then a matching award granted on a two-for-one basis (as described above) will only vest as to 50% of the shares subject to the award (which will be the equivalent of receiving a matching award on a one-for-one basis (as described above). A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper targets. For any awards made in 2010 and thereafter, the performance target was stretched to RPI plus 8%. However, no awards were granted under the PSP in 2010.

The dividends payable on the basic and matching award shares are paid to the directors. The dividends received in 2010 were: Peter Crook £91,658 (2009: £91,658), Andrew Fisher £71,885 (2009: £71,885), and Chris Gillespie £69,553 (2009: £69,553). These figures have been included in the table of directors' remuneration on page 70.

There has been no variation in the terms and conditions of the participants' interests in the PSP during the year.

Share option schemes

Directors' share options at 31 December 2010, granted under the Provident Financial plc Employee Savings-Related Share Option Scheme (2003) were as follows:

Director's name	Options held at 01.01.2010	Granted in 2010	Exercised in 2010	Options held at 31.12.2010	Exercise price (p)	Range of normal exercisable dates of options held at 31.12.2010
Peter Crook	3,335	–	–	3,335	491.00	01.12.2011–31.05.2012
Andrew Fisher	1,340	–	–	1,340	716.00	01.12.2010–31.05.2011
		1,359		1,359	662.00	01.12.2013–31.05.2014
Chris Gillespie	–	–	–	–	–	–
Total	4,675	1,359	–	6,034		

No consideration is payable on the grant of an option.

There were no changes in directors' share options between 1 January 2011 and 1 March 2011.

None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

Pensions and life assurance
There are three directors (2009: three) for whom retirement benefits are accruing under the cash balance section of the Provident Financial Staff Pension Scheme ('the pension scheme'). The pension scheme is a defined benefit scheme, with two sections: cash balance and final salary.

Peter Crook, Andrew Fisher and Chris Gillespie are members of the cash balance section of the pension scheme and are provided with a pension credit of 35% of their basic salary each year to a retirement account. Directors contribute at the rate of 5% of basic salary through a salary sacrifice arrangement (since 1 April 2009). Currently, the pension credit increases each year by the lower of the increase in RPI plus 1.5% and 6.5%. At retirement up to 25% of the total value of the director's retirement account can be taken as a lump sum, with the balance used to purchase an annuity. If the director dies in service, a death benefit of six times salary plus the value of the retirement account is payable.

Details of the pension entitlements earned under the cash balance section of the pension scheme are set out below.

John van Kuffeler has a defined contribution personal pension arrangement. A life assurance benefit of four times his fees is also provided by the pension scheme in the event he dies in service. During 2010, the company contributed £29,900 (2009: £29,900) to his pension arrangements.

Details of the pension entitlements earned under the cash balance section of the pension scheme are set out below:

	Age as at 31 December 2010	Accrued retirement account at 31 December 2010 £000	Accrued retirement account at 31 December 2009 £000	Increase in retirement account[1] 2010 £000	Increase in retirement account[1] 2009 £000	Director's contribution[2] 2010 £000	Director's contribution[2] 2009 £000	Transfer value of pension benefits accrued at 31 December 2010 £000	Transfer value of pension benefits accrued at 31 December 2009 £000	Increase in transfer value less director's contributions £000
Peter Crook	47	859	645	214	233	–	8	859	645	214
Andrew Fisher	52	651	498	153	169	–	5	651	498	153
Chris Gillespie	47	501	354	147	155	–	5	501	354	147

1 Whilst the member is in service, the accrued cash balance retirement account will increase by the lower of RPI plus 1.5% and 6.5% until retirement. At retirement, up to 25% of this balance can be taken as a lump sum, with the remaining amount used to purchase an annuity.

2 With effect from 1 April 2009, the directors' contributions to the pension scheme were made through a salary sacrifice arrangement.

2011 remuneration policy

2011 policy framework
The remuneration committee approved the following remuneration framework for 2011 at its meeting in December 2010.

Variable remuneration will continue to account for approximately two-thirds of the fair value of executive remuneration (excluding pension) through participation in the annual cash bonus scheme, the LTIS and the PSP, reflecting the long-term performance of the company. The committee considers that this policy remains appropriate.

Salary
At its meeting in December 2010 the committee, having considered the company's strong financial performance, agreed to increase the executive directors' salaries in 2011. These increases are consistent with the average percentage increases awarded across the group. 2011 salaries are as follows:

Director's name	% increase	£
Peter Crook	3.3	630,000
Andrew Fisher	3.4	450,000
Chris Gillespie	3.6	435,000

Non-executive directors
The fees for the non-executive directors and the Chairman were reviewed by the board and the remuneration committee respectively at their meetings in February 2011. It was agreed that the fees for the Chairman should remain the same as in 2010 and that the fees for the other non-executive directors should be increased by £10,000 to reflect the increased time commitment and the changing regulatory environment within which the group operates.

Annual cash bonus
The maximum bonus opportunity in respect of 2011 will continue to be restricted to 120% of salary for the Chief Executive and 100% of salary for the other executive directors. The following performance measures, which applied in 2010, will continue to apply in 2011:

Measure	Peter Crook	Andrew Fisher	Chris Gillespie
	Maximum bonus opportunity		
Budgeted group EPS	80%	80%	40%
Divisional profit before tax	–	–	40%
Personal objectives[1]	20%	20%	20%

[1] The personal objectives percentage of the annual cash bonus entitlement will only become payable if 95% of the 2011 budgeted group EPS is achieved. Personal objectives are set to reflect the roles and responsibility of each executive director.

The actual proportion of the 2011 budgeted group EPS that needs to be delivered for any bonus to be earned in respect of 2011, as it was in 2010, is as follows:

	Threshold	Budget	Maximum
Budgeted group EPS target	95%	100%	105%
% of EPS element of annual bonus paid	0%	60%	100%

LTIS
The performance targets for the LTIS will remain unchanged in 2011 with 50% vesting based on challenging EPS targets and 50% dependent on absolute TSR targets, which are also challenging in the current economic environment and are designed to be equivalent to median to upper quartile relative TSR performance. Annual awards will continue to be capped at 200% of salary.

The actual range of the EPS targets is as follows:

Annualised growth in EPS	Percentage vesting (of EPS part of award)
Below RPI + 3%	0%
RPI + 3%	25%
RPI + 8%	100%

The actual range of the TSR targets is as follows:

Annualised TSR	Percentage vesting (of TSR part of award)
Below 10%	0%
10%	25%
15%	100%

A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper EPS and TSR targets.

PSP
EPS will be retained as the sole measure for any awards under the PSP in 2011.

The actual range of targets is as follows:

Average annual percentage growth in EPS	Matching shares vesting
Below RPI + 3%	No vesting
RPI + 3%	One matching share
RPI + 8%	Two matching shares

A sliding scale of vesting (on a straight-line basis) will apply between these lower and upper EPS targets.

Clawback
In accordance with the recommendations within the Code and the FSA Code, the committee carefully considered the merits of introducing a clawback provision into the annual cash bonus scheme, the LTIS and the PSP, in relation to future awards only. Having consulted with Hewitt New Bridge Street, the committee decided that clawback provisions would be introduced for all awards under the annual cash bonus scheme, LTIS and PSP from December 2010, and would be applicable in the following circumstances:

(i) if there is a material prior period error requiring restatement of the group accounts in accordance with IAS 8 and such error resulted either directly or indirectly in any bonus being paid or any award under the LTIS or PSP vesting to a greater degree than would have been the case had that error not been made; and/or

(ii) if the Committee forms the view that an error was made in assessing the extent to which any performance target and/or any other condition imposed on any bonus or award under the LTIS or PSP was satisfied and that such error resulted either directly or indirectly in any bonus being paid or any award under the LTIS or PSP vesting to a greater degree than would have been the case had that error not been made.

Pensions
The committee is currently considering the impact of the Reduced Lifetime Allowance announced by the Government on directors' pension entitlements.

Audit
The elements of the directors' remuneration (including pension entitlements and share options set out on pages 70 to 74 of this report) which are required to be audited, have been audited in accordance with the Companies Act.

This report has been approved by the remuneration committee and the board and signed on its behalf.

Robert Hough
Chairman, remuneration committee
1 March 2011

Financial statements

The group's accounting policies are chosen by the directors to ensure that the financial statements present a true and fair view. All of the group's accounting policies are consistent with the requirements of International Financial Reporting Standards, interpretations issued by the International Financial Reporting Interpretations Committee and UK company law.

Contents

Consolidated income statement

for the year ended 31 December	Note	Group 2010 £m	Group 2009 £m
Revenue	1,2	866.4	815.6
Finance costs	3	(69.7)	(58.2)
Finance costs before exceptional costs	3	(69.7)	(53.8)
Exceptional costs	1	–	(4.4)
Operating costs		(440.6)	(425.3)
Administrative costs		(214.1)	(206.4)
Administrative costs before exceptional costs		(211.6)	(206.4)
Exceptional costs	1	(2.5)	–
Total costs		(724.4)	(689.9)
Profit before taxation	1,4	142.0	125.7
Profit before taxation and exceptional costs	1,4	144.5	130.1
Exceptional costs	1	(2.5)	(4.4)
Tax charge	5	(40.5)	(37.1)
Profit for the year attributable to equity shareholders		101.5	88.6

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	Group 2010 £m	Group 2009 £m
Profit for the year attributable to equity shareholders		101.5	88.6
Other comprehensive income:			
– cashflow hedges	16	7.6	(0.8)
– actuarial movements on retirement benefit asset	18	14.9	(37.3)
– tax on other comprehensive income	5	(6.3)	10.6
– impact of change in UK tax rate	5	0.2	–
Other comprehensive income for the year		16.4	(27.5)
Total comprehensive income for the year		117.9	61.1

Earnings per share and dividends

	Note	Group 2010 pence	Group 2009 pence
Earnings per share			
Basic	6	76.7	67.5
Diluted	6	76.6	67.3
Dividends per share			
Proposed final dividend	7	38.1	38.1
Total dividend for the year	7	63.5	63.5
Paid in the year*	7	63.5	63.5

*The total cost of dividends paid in the year was £84.9m (2009: £84.1m).

Balance sheets

as at 31 December	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
ASSETS					
Non-current assets					
Goodwill	10	2.1	2.1	–	–
Other intangible assets	11	17.4	19.5	–	–
Property, plant and equipment	12	29.9	26.3	10.7	3.6
Investment in subsidiaries	13	–	–	374.8	374.3
Financial assets:					
– amounts receivable from customers	14	97.4	86.9	–	–
– derivative financial instruments	16	12.4	12.5	–	–
– trade and other receivables	17	–	–	438.0	438.0
Retirement benefit asset	18	41.0	19.9	12.6	6.1
Deferred tax assets	19	2.8	7.7	1.9	5.2
		203.0	174.9	838.0	827.2
Current assets					
Financial assets:					
– amounts receivable from customers	14	1,121.9	1,052.4	–	–
– derivative financial instruments	16	3.5	–	–	–
– cash and cash equivalents	20	29.0	20.3	1.5	–
– trade and other receivables	17	23.6	28.2	974.7	901.1
Current tax assets		–	–	–	2.4
		1,178.0	1,100.9	976.2	903.5
Total assets	1	1,381.0	1,275.8	1,814.2	1,730.7
LIABILITIES					
Current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(147.7)	(72.7)	(125.8)	(43.1)
– derivative financial instruments	16	(13.4)	(18.4)	(13.3)	(17.4)
– trade and other payables	22	(46.0)	(48.0)	(134.3)	(126.6)
Current tax liabilities		(44.4)	(39.2)	(2.8)	–
Provisions	23	–	(0.8)	–	–
		(251.5)	(179.1)	(276.2)	(187.1)
Non-current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(817.2)	(817.6)	(519.1)	(504.8)
– derivative financial instruments	16	(2.9)	(10.7)	(2.9)	(9.1)
– trade and other payables	22	–	–	(103.2)	(131.3)
		(820.1)	(828.3)	(625.2)	(645.2)
Total liabilities	1	(1,071.6)	(1,007.4)	(901.4)	(832.3)
NET ASSETS	1	309.4	268.4	912.8	898.4
SHAREHOLDERS' EQUITY					
Called-up share capital	24	28.1	27.9	28.1	27.9
Share premium account		144.0	142.4	144.0	142.4
Other reserves	26	0.9	(13.0)	610.7	596.7
Retained earnings		136.4	111.1	130.0	131.4
TOTAL EQUITY		309.4	268.4	912.8	898.4

The financial statements on pages 78 to 127 were approved by the board of directors on 1 March 2011 and signed on its behalf by:

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

Statements of changes in shareholders' equity

Group	Note	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2009		27.3	134.6	(16.3)	132.3	277.9
Profit for the year		–	–	–	88.6	88.6
Other comprehensive income:						
– cashflow hedges	16	–	–	(0.8)	–	(0.8)
– actuarial movements on retirement benefit asset	18	–	–	–	(37.3)	(37.3)
– tax on other comprehensive income	5	–	–	0.2	10.4	10.6
Other comprehensive income for the year		–	–	(0.6)	(26.9)	(27.5)
Total comprehensive income for the year		–	–	(0.6)	61.7	61.1
Transactions with owners:						
– issue of share capital	24	0.6	7.8	–	–	8.4
– purchase of own shares		–	–	(0.9)	–	(0.9)
– share-based payment charge	25	–	–	6.1	–	6.1
– transfer of share-based payment reserve		–	–	(1.3)	1.3	–
– deferred tax on share-based payment reserve transfer		–	–	–	(0.1)	(0.1)
– dividends	7	–	–	–	(84.1)	(84.1)
At 31 December 2009		27.9	142.4	(13.0)	111.1	268.4
At 1 January 2010		27.9	142.4	(13.0)	111.1	268.4
Profit for the year		–	–	–	101.5	101.5
Other comprehensive income:						
– cashflow hedges	16	–	–	7.6	–	7.6
– actuarial movements on retirement benefit asset	18	–	–	–	14.9	14.9
– tax on other comprehensive income	5	–	–	(2.1)	(4.2)	(6.3)
– impact of change in UK tax rate	5	–	–	(0.1)	0.3	0.2
Other comprehensive income for the year		–	–	5.4	11.0	16.4
Total comprehensive income for the year		–	–	5.4	112.5	117.9
Transactions with owners:						
– issue of share capital	24	0.2	1.6	–	–	1.8
– purchase of own shares		–	–	(0.2)	–	(0.2)
– disposal of own shares on vesting of share options/awards		–	–	6.5	(6.5)	–
– share-based payment charge	25	–	–	6.4	–	6.4
– transfer of share-based payment reserve		–	–	(4.2)	4.2	–
– dividends	7	–	–	–	(84.9)	(84.9)
At 31 December 2010		28.1	144.0	0.9	136.4	309.4

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings is shown after directly writing off cumulative goodwill of £1.6m (2009: £1.6m). In addition, cumulative goodwill of £2.3m (2009: £2.3m) has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 26.

Company	Note	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2009		27.3	134.6	592.1	191.3	945.3
Profit for the year		–	–	–	30.6	30.6
Other comprehensive income:						
– cashflow hedges	16	–	–	0.9	–	0.9
– actuarial movements on retirement benefit asset	18	–	–	–	(10.6)	(10.6)
– tax on other comprehensive income		–	–	(0.2)	3.0	2.8
Other comprehensive income for the year		–	–	0.7	(7.6)	(6.9)
Total comprehensive income for the year		–	–	0.7	23.0	23.7
Transactions with owners:						
– issue of share capital	24	0.6	7.8	–	–	8.4
– purchase of own shares		–	–	(0.9)	–	(0.9)
– share-based payment charge	25	–	–	2.9	–	2.9
– share-based payment movement in investment in subsidiaries	13	–	–	3.2	–	3.2
– transfer of share-based payment reserve		–	–	(1.3)	1.3	–
– deferred tax on share-based payment reserve transfer	19	–	–	–	(0.1)	(0.1)
– dividends	7	–	–	–	(84.1)	(84.1)
At 31 December 2009		27.9	142.4	596.7	131.4	898.4
At 1 January 2010		27.9	142.4	596.7	131.4	898.4
Profit for the year		–	–	–	84.0	84.0
Other comprehensive income:						
– cashflow hedges	16	–	–	7.6	–	7.6
– actuarial movements on retirement benefit asset	18	–	–	–	6.2	6.2
– tax on other comprehensive income		–	–	(2.0)	(1.7)	(3.7)
– impact of change in UK tax rate		–	–	(0.1)	0.1	–
Other comprehensive income for the year		–	–	5.5	4.6	10.1
Total comprehensive income for the year		–	–	5.5	88.6	94.1
Transactions with owners:						
– issue of share capital	24	0.2	1.6	–	–	1.8
– purchase of own shares		–	–	(0.2)	–	(0.2)
– disposal of own shares on vesting of share options/awards		–	–	6.5	(6.5)	–
– share-based payment charge	25	–	–	2.9	–	2.9
– share-based payment movement in investment in subsidiaries	13	–	–	0.7	–	0.7
– transfer of share-based payment reserve		–	–	(1.4)	1.4	–
– dividends	7	–	–	–	(84.9)	(84.9)
At 31 December 2010		28.1	144.0	610.7	130.0	912.8

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the company has not presented its own income statement or statement of comprehensive income. The retained profit for the financial year reported in the financial statements of the company was £84.0m (2009: £30.6m).

Other reserves are further analysed in note 26.

Statements of cashflows

for the year ended 31 December	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cashflows from operating activities					
Cash generated from/(used in) operations	30	150.5	92.7	(74.2)	(30.3)
Finance costs paid		(80.0)	(57.0)	(73.5)	(50.4)
Finance income received		–	–	84.1	57.2
Tax (paid)/received		(36.5)	(28.4)	2.0	(12.6)
Net cash generated from/(used in) operating activities		34.0	7.3	(61.6)	(36.1)
Cashflows from investing activities					
Purchases of intangible assets	11	(4.4)	(6.2)	–	–
Purchases of property, plant and equipment	12	(14.8)	(7.2)	(9.3)	(0.4)
Proceeds from disposal of property, plant and equipment	12	1.6	0.9	–	–
Proceeds from disposal of subsidiary undertaking	10	–	0.7	–	–
Dividends received		–	–	80.0	30.0
Net cash (used in)/generated from investing activities		(17.6)	(11.8)	70.7	29.6
Cashflows from financing activities					
Proceeds from borrowings		99.0	250.0	99.0	250.0
Repayment of borrowings		(28.2)	(171.3)	–	(169.9)
Dividends paid to company shareholders	7	(84.9)	(84.1)	(84.9)	(84.1)
Proceeds from issue of share capital	24	1.8	8.4	1.8	8.4
Purchase of own shares	26	(0.2)	(0.9)	(0.2)	(0.9)
Repayment of loan from subsidiary undertaking		–	–	(28.1)	–
Net cash (used in)/generated from financing activities		(12.5)	2.1	(12.4)	3.5
Net increase/(decrease) in cash, cash equivalents and overdrafts		3.9	(2.4)	(3.3)	(3.0)
Cash, cash equivalents and overdrafts at beginning of year		14.5	16.9	(3.5)	(0.5)
Cash, cash equivalents and overdrafts at end of year		18.4	14.5	(6.8)	(3.5)
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	20	29.0	20.3	1.5	–
Overdrafts (held in bank and other borrowings)	21	(10.6)	(5.8)	(8.3)	(3.5)
Total cash, cash equivalents and overdrafts		18.4	14.5	(6.8)	(3.5)

Statement of accounting policies

General information

The company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU.

The company is listed on the London Stock Exchange.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgment in the application of the group and company's accounting policies.

In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks, compared with 52 weeks in 2009. The results of all other operations are based on calendar years in both the 2010 and 2009 financial years.

The group and company's principal accounting policies under IFRS, which have been consistently applied to all the years presented unless otherwise stated, are set out below.

The following new standards, amendments to standards and interpretations are mandatory and were applied by the group and company for the first time in the financial year commencing 1 January 2010 but had no impact on the group or company in the current or prior accounting periods:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes such as the requirement for all payments to purchase a business to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income.
- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.
- IFRIC 17, 'Distribution of non-cash assets to owners', provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.
- IFRIC 18, 'Transfers of assets from customers' clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category.
- IFRIC 16, 'Hedges of a net investment in a foreign operation', states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.
- IAS 1 (amendment), 'Presentation of financial statements', clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
- IAS 36 (amendment), 'Impairment of assets', clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', incorporates IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', and expands on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

Basis of preparation – continued

At the date of approval of these financial statements, the following new standards, amendments to standards and interpretations were in issue but were not effective for the financial year beginning 1 January 2010 and were not early adopted by the group or company. Adoption of these standards and interpretations is not expected to have a material impact on the group or company financial statements:

- IFRS 9, 'Financial instruments', is effective for accounting periods beginning on or after 1 January 2013 and is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets. The standard is available for early adoption but is subject to EU endorsement.
- IAS 24 (revised), 'Related party disclosures', is effective for accounting periods beginning on or after 1 January 2011 and clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.
- 'Classification of rights issues' (amendment to IAS 32), is effective for accounting period beginning on or after 1 February 2010 and addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', is effective for accounting periods beginning on or after 1 July 2010 and clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). The interpretation is subject to EU endorsement.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14), is effective for accounting periods beginning on or after 1 January 2011 and corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', which did not permit entities to recognise as an asset some voluntary prepayments for minimum funding contributions.

Basis of consolidation

The consolidated income statement, consolidated statement of comprehensive income, balance sheet, statement of changes in shareholders' equity, statement of cashflows and notes to the financial statements include the financial statements of the company and all of its subsidiary undertakings drawn up from the date control passes to the group until the date control ceases.

Control is assumed to exist where more than 50% of the voting share capital is owned or where the group controls another entity either through the power to:

- govern the operating and financial policies of that entity;
- appoint or remove the majority of the members of the board of that entity; or
- cast the majority of the votes at a board meeting of that entity.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

The accounting policies of subsidiaries are consistent with the accounting policies of the group.

Revenue

Revenue comprises interest income earned by the Consumer Credit Division and interest and fee income earned by Vanquis Bank.

Revenue excludes value added tax and intra-group transactions.

Revenue recognition

Within the Consumer Credit Division, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cashflows, being contractual payments adjusted for the impact of customers repaying early but excluding the anticipated impact of customers paying late or not paying at all. Directly attributable incremental issue costs are also taken into account in calculating the effective interest rate. Interest income continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value.

In respect of Vanquis Bank, interest is calculated on credit card advances to customers using the effective interest rate on the daily balance outstanding. Annual fees charged to customers' credit card accounts are recognised as part of the effective interest rate. Penalty charges and other fees are recognised at the time the charges are made to customers on the basis that performance is complete.

Segment reporting

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The group's chief operating decision maker is deemed to be the Executive Committee comprising Peter Crook (Chief Executive), Andrew Fisher (Finance Director) and Chris Gillespie (Managing Director, Consumer Credit Division) whose primary responsibility it is to manage the group's day to day operations and analyse trading performance. The group's segments comprise the Consumer Credit Division, Vanquis Bank and Central which are those segments reported in the group's management accounts used by the Executive Committee as the primary means for analysing trading performance. The Executive Committee assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the group financial statements.

Finance costs

Finance costs principally comprise the interest on bank and other borrowings and, for the company, on intra-group loan arrangements, and are recognised on an effective interest rate basis. Finance costs also include the fair value movement on those derivative financial instruments held for hedging purposes which do not qualify for hedge accounting under IAS 39.

Dividend income

Dividend income is recognised in the income statement when the company's right to receive payment is established.

Goodwill

All acquisitions are accounted for using the purchase method of accounting.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cashflows from the relevant business unit. Expected cashflows are derived from the group's latest budget projections and the discount rate is based on the group's weighted average cost of capital at the balance sheet date. Impairment losses on goodwill are not reversed.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

Other intangible assets

Other intangible assets, which comprise computer software and computer software development costs, represent the costs incurred to acquire or develop the specific software and bring it into use.

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 five and ten years.

The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

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

Foreign currency translation

Items included in the financial statements of each of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('the functional currency'). All of the group's subsidiaries operate primarily in the UK and Republic of Ireland. The consolidated and company financial statements are presented in sterling, which is the company's functional and presentational currency.

Transactions that are not denominated in the group's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as effective cashflow or net investment hedges.

Investments in subsidiaries

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

Amounts receivable from customers

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

The group assesses whether there is objective evidence that customer receivables have been impaired at each balance sheet date. The principal criterion for determining whether there is objective evidence of impairment is delinquency in contractual payments.

Within the weekly Home Credit business of the Consumer Credit Division, objective evidence of impairment is based on the payment performance of loans in the previous 12 weeks as this is considered to be the most appropriate indicator of credit quality in the short-term cash loans business. Loans are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12-week period since only at this point do the expected future cashflows from loans deteriorate significantly. Loans with one missed weekly payment over the previous 12-week period are not deemed to be impaired. The amount of impairment loss is calculated on a portfolio basis by reference to arrears stages and is measured as the difference between the carrying value of the loans and the present value of estimated future cashflows discounted at the original effective interest rate. Subsequent cashflows are regularly compared to estimated cashflows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

Within the monthly Vanquis Bank credit card business and the monthly unsecured direct repayment loans of the Consumer Credit Division, customer balances are deemed to be impaired as soon as customers miss one monthly contractual payment. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cashflows discounted at the original effective interest rate. Estimated future cashflows are based on the historical performance of customer balances falling into different arrears stages and are regularly reassessed.

For the Consumer Credit Division, impairment charges are deducted directly from the carrying value of receivables whilst in Vanquis Bank impairment is recorded through the use of an allowance account.

Impairment charges are charged to the income statement as part of operating costs.

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment.

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

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

	%	Method
Land	Nil	–
Freehold and long leasehold buildings	2½	Straight-line
Short leasehold buildings	Over the lease period	Straight-line
Equipment (including computer hardware)	10 to 33⅓	Straight-line
Motor vehicles	25	Reducing balance

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use 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 costs in the income statement.

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

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the group and company are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and amounts invested in money market funds. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances. For the statement of cashflows, bank overdrafts are shown as part of cash and cash equivalents.

Borrowings

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

Where borrowings are the subject of a fair value hedge, changes in the fair value of the borrowing that are attributable to the hedged risk are recognised in the income statement and a corresponding adjustment made to the carrying value of borrowings.

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

Derivative financial instruments

The group and company use derivative financial instruments, principally interest rate swaps, cross-currency swaps and foreign exchange contracts, to manage the interest rate and foreign exchange rate risk arising from the group's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39, 'Financial instruments: Recognition and measurement'. Derivatives that meet the hedge accounting requirements of IAS 39 are accordingly designated as either: hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cashflow hedges).

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

Derivatives are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the income statement. Where hedge accounting criteria have been met, the resultant gain or loss on the derivative instrument is recognised as follows:

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement as part of finance costs, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cashflow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cashflow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts accumulated in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Hedge accounting for both fair value and cashflow hedges is discontinued when:

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

When a cashflow hedging instrument expires or is sold, or when a cashflow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is transferred to the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was previously reported in equity is immediately transferred to the income statement.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve in shareholders' equity are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Provisions

Provisions are recognised when the group or company has a present obligation as a result of a past event, it is reliably measurable and it is probable that the group or company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Dividends

Dividend distributions to the company's shareholders are recognised in the group and company financial statements as follows:

- Final dividend: when approved by the company's shareholders at the annual general meeting.
- Interim dividend: when paid by the company.

Retirement benefits

Defined benefit pension schemes
The charge in the income statement in respect of defined benefit pension schemes comprises the actuarially assessed current service cost of working employees, together with the interest charge on pension liabilities offset by the expected return on pension scheme assets. All charges are recognised within administrative costs in the income statement.

The retirement benefit asset recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of the schemes' assets less the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised past service costs. A retirement benefit asset is recognised to the extent that the group and company have an unconditional right to a refund of the asset and it will be recovered in future years as a result of reduced contributions to the pension scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement, unless changes to the pension schemes are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

Defined contribution schemes
Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Share-based payments

The company grants options under senior executive share option schemes (ESOS/SESO) and employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS). All of the schemes are equity-settled.

The cost of providing options and awards to group and company employees is charged to the income statement of the group and 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 grant by the company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value at the date of grant or award, is recognised over the vesting period as an increase to investments in subsidiary undertakings, with a corresponding credit to equity.

The cost of options and awards is based on fair value. For ESOS/SESO, SAYE and PSP schemes the performance conditions are based on earnings per share (EPS). Accordingly, the fair value of options and awards is determined using a binomial option pricing model which is a suitable model for valuing options with internal related targets such as EPS. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected and actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

For the 2006, 2007 and 2008 LTIS schemes, performance conditions are based on Total Shareholder Return (TSR). Accordingly, the fair value of awards was determined using a Monte Carlo option pricing model as this is the most appropriate model for valuing options with external related targets such as TSR. For the 2009 and 2010 LTIS schemes, performance conditions are based on a combination of both EPS and TSR targets. Accordingly, the fair value of awards was determined using a combination of the Monte Carlo and binomial option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses. Where the Monte Carlo option pricing model is used to determine fair value, no adjustment is made to reflect expected and 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.

The proceeds received net of any directly attributable transaction costs for share options vesting are credited to share capital and the share premium account when the options are exercised. A transfer is made from the share-based payment reserve to retained earnings on vesting or when options and awards lapse. In accordance with IFRS 2 the group and company have elected to apply IFRS 2 to grants, options and other equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

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.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is included within a treasury shares reserve and deducted from equity until the shares are cancelled or reissued. Where such shares are reissued, any consideration received, net of any directly attributable incremental transaction costs, is included within the treasury shares reserve.

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 substantially enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially 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 provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group/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 profit will be available against which the temporary differences can be utilised.

Key assumptions and estimates

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

Amounts receivable from customers (£1,219.3m)
The group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable predictor of future payment performance. The group makes judgments to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cashflows. In the weekly Home Credit business, receivables are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks, since only at this point do the expected future cashflows from loans deteriorate significantly.

Customer accounts in Vanquis Bank and the monthly unsecured direct repayment loans of the Consumer Credit Division are deemed to be impaired when one contractual monthly payment has been missed. The level of impairment in all businesses is calculated using models which use historical payment performance to generate the estimated amount and timing of future cashflows from each arrears stage, and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment, product mix and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cashflows, a material adjustment to the carrying value of amounts receivable from customers may be required.

To the extent that the net present value of estimated future cashflows differs by +/- 1%, it is estimated that the amounts receivable from customers would be approximately £12m (2009: £11m) higher/lower.

Tax (current tax liabilities £44.4m, deferred tax asset £2.8m)
The tax treatment of certain items cannot be determined precisely until tax audits or enquiries have been completed by the tax authorities. In some instances, this can be some years after the item has first been reflected in the financial statements. The group recognises liabilities for anticipated tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due. If the outcome of such audits is that the final liability is different from the amount originally estimated, such differences will be recognised in the period in which the tax audit or enquiry is determined. Any differences may necessitate a material adjustment to the level of tax balances held in the balance sheet.

If the probability assessment of uncertain tax liabilities was adjusted by +/- 5%, it is estimated that the group's tax liabilities would be £1.5m (2009: £1.9m) higher/lower.

Retirement benefit asset (£41.0m)
The principal assumptions used in the valuation of the retirement benefit asset as at 31 December 2010 are set out in note 18.

The valuation of the retirement benefit asset is dependent upon a series of assumptions; the key assumptions being mortality rates, the discount rate applied to liabilities, investment returns, salary inflation, the rate of pension increase and the extent to which members take up the maximum tax-free commutation on retirement.

Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the group's own experience. Discount rates are based on the market yields of high quality corporate bonds which have terms closely linked with the estimated term of the benefit obligation. The returns on fixed asset investments are set to market yields at the valuation date to ensure consistency with the asset valuation. The returns on UK and overseas equities are set by considering the long-term expected returns on these asset classes using a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. The salary inflation and pension increase assumptions reflect the long-term expectations for both earnings and retail price inflation. The assumption as to how many members will take up the maximum tax-free commutation on retirement is based on the scheme's own experience of commutation levels.

A sensitivity analysis of certain of the key assumptions is provided in note 18.

Financial and capital risk management

Financial risk management

The group's activities expose it to a variety of financial risks, which can be categorised as credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The objective of the group's risk management framework is to identify and assess the risks facing the group and to minimise the potential adverse effects of these risks on the group's financial performance.

Financial risk management is overseen by the risk advisory committee and further detail on the group's risk management framework is described on page 59.

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

(i) Amounts receivable from customers
The group's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2010 is the carrying value of amounts receivable from customers of £1,219.3m (2009: £1,139.3m).

CONSUMER CREDIT DIVISION (CCD)
Credit risk within CCD is managed by the CCD credit committee which meets at least every two months and is responsible for approving product criteria and pricing.

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

The loans offered by the weekly Home Credit business are short-term, typically a contractual period of around a year, with an average value of around £400. The loans are underwritten in the home by an agent with emphasis placed on any previous lending experience with the customer and the Home Credit agent's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the agent visits the customer weekly to collect the weekly payment. The agent is well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the agent has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This can be in the form of taking part-payments, allowing missed payments or occasionally restructuring the debt in order to maximise cash collections.

Agents are paid commission for what they collect and not for what they lend, so their primary focus is on ensuring loans are affordable at the point of issue and then on collecting cash. Affordability is reassessed by the agent each time an existing customer is re-served, or not as the case may be. This normally takes place within 12 months of the previous loan because of the short-term nature of the product.

Underwriting of monthly unsecured direct repayment loans is performed in the home. The emphasis is placed on employment and residential history, credit bureau reports, bank statements, salary slips, disposable income calculations and the home visit. Average loans sizes are typically £1,800 repayable monthly via direct debit over a two-year period.

Arrears management for both Home Credit loans and monthly unsecured direct repayment loans is a combination of central letters, central telephony, and field activity undertaken by field management. This will often involve a home visit to discuss the customer's reasons for non-payment and to agree a resolution.

VANQUIS BANK
Credit risk within Vanquis Bank is managed by the Vanquis Bank credit committee which meets at least quarterly and is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance to policy.

A customer's risk profile and credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historic payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income and employment, and data from external credit bureau. Initial credit limits are low, typically £250. For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders. Credit lines can go up as well as down according to this point-in-time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in recovering to a good standing.

Financial risk management – continued

(ii) Bank counterparties
The group's maximum exposure to credit risk on bank counterparties as at 31 December 2010 was £18.8m (2009: £13.6m).

Counterparty credit risk arises as a result of cash deposits placed with banks and the use of derivative financial instruments with banks and other financial institutions which are used to hedge interest rate risk and foreign exchange rate risk.

Counterparty credit risk is managed by the group's treasury committee and is governed by a board approved counterparty policy which ensures that the group's cash deposits and derivative financial instruments are only made with high quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, regardless of credit rating. This is linked to the group's regulatory capital base in line with the group's regulatory reporting requirements on large exposures to the Financial Services Authority (FSA).

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

Liquidity risk is managed by the group's centralised treasury department through daily monitoring of expected cashflows in accordance with a board approved group funding and liquidity policy. This process is monitored regularly by the 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 through its existing borrowing facilities. The group therefore maintains committed borrowing facilities in excess of expected borrowing requirements to ensure a significant and continuing headroom above forecast requirements at all times for at least the following 12 months. As at 31 December 2010, the group's committed borrowing facilities had a weighted average maturity of 3.5 years (2009: 3.5 years) and the headroom on these committed facilities amounted to £184.7m (2009: £331.0m).

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the Home Credit business, the group's largest business, are of short-term duration (typically around one year) whereas the group's borrowings extend over a number of years.

A maturity analysis of the undiscounted contractual cashflows of the group's bank and other borrowings, including derivative financial instruments settled on a net and gross basis, is shown below. It should be noted that borrowings drawn under the group's revolving bank facilities are shown below as being repaid in less than one year. The group may then redraw these amounts until the contractual maturity of the underlying facility.

Financial liabilities

2010	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– senior public bonds	–	20.0	20.0	60.0	330.0	430.0
– private placement loan notes	–	66.1	1.8	112.4	–	180.3
– subordinated loan notes	–	0.4	0.4	7.0	–	7.8
– retail bond	–	1.9	1.9	5.7	33.8	43.3
– other	8.2	224.6	100.6	200.0	–	533.4
Total bank and other borrowings	8.2	313.0	124.7	385.1	363.8	1,194.8
Derivative financial instruments – settled gross	–	1.6	0.2	–	–	1.8
Derivative financial instruments – settled net	–	21.0	0.6	–	–	21.6
Total derivative financial instruments	–	22.6	0.8	–	–	23.4
Trade and other payables	–	46.0	–	–	–	46.0
Total	8.2	381.6	125.5	385.1	363.8	1,264.2

Financial assets

2010	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled gross	–	5.7	1.6	9.3	–	16.6
Total	–	5.7	1.6	9.3	–	16.6

Financial risk management – continued

Financial liabilities

2009	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– senior public bonds	–	20.0	20.0	60.0	350.0	450.0
– private placement loan notes	–	39.1	84.4	103.4	–	226.9
– subordinated loan notes	–	0.4	0.4	1.1	6.3	8.2
– other	4.9	236.4	–	200.0	–	441.3
Total bank and other borrowings	4.9	295.9	104.8	364.5	356.3	1,126.4
Derivative financial instruments – settled gross	–	1.5	2.3	2.1	–	5.9
Derivative financial instruments – settled net	–	27.0	4.3	–	–	31.3
Total derivative financial instruments	–	28.5	6.6	2.1	–	37.2
Trade and other payables	–	48.0	–	–	–	48.0
Total	4.9	372.4	111.4	366.6	356.3	1,211.6

Financial assets

2009	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled gross	–	2.3	5.2	15.8	–	23.3
Total	–	2.3	5.2	15.8	–	23.3

(c) Interest rate risk
Interest rate risk is the 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 sterling interest rates. This is achieved through a combination of issuing fixed–rate debt and by the use of derivative financial instruments such as interest rate swaps.

A 2% movement in the interest rate applied to borrowings during 2010 and 2009 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged.

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

The group's exposure to movements in foreign exchange rates is monitored monthly by the treasury committee and is governed by a board approved foreign exchange rate risk management policy which forms part of the group's treasury policies.

The group's exposures to foreign exchange rate risk arise solely from (i) the issuance of US dollar private placement loan notes, which are fully hedged into sterling through the use of cross-currency swaps, and (ii) the Home Credit operations in the Republic of Ireland, which are hedged by matching euro-denominated net assets with euro-denominated borrowings as closely as practicable.

As at 31 December 2010, a 2% movement in the sterling to US dollar exchange rate would have led to a £2.6m (2009: £8.9m) movement in external borrowings with an opposite movement of £2.6m (2009: £8.9m) in the hedging reserve within equity. Due to the hedging arrangements in place, there would have been no impact on reported profits.

As at 31 December 2010, a 2% movement in the sterling to euro exchange rate would have led to a £0.2m (2009: £1.0m) movement in customer receivables with an opposite movement of £0.2m (2009: £1.0m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been no impact on reported profits or equity.

(e) Market risk
Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The group's policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Capital risk management

The group's objective in respect of capital risk management is to maintain an efficient capital structure whilst satisfying the requirements of the group's banking covenants and the regulatory capital requirements set by the FSA.

The group manages its capital base against two measures as described below:

(a) Gearing
In order to maintain an efficient capital structure, the group has a target gearing ratio of 3.5 times. This provides a comfortable level of headroom against the group's banking covenants, particularly the gearing covenant of 5.0 times, and regulatory capital requirements. The target gearing ratio of 3.5 times is fully aligned with the group's target of distributing 80% of post-tax earnings by way of dividends whilst retaining sufficient capital to support receivables growth consistent with management's medium-term growth plans for the group.

Gearing is calculated as the ratio of the group's borrowings to adjusted equity after excluding the pension scheme asset and the fair value of derivative financial instruments, both stated net of deferred tax. Borrowings are stated using the hedged exchange rate used to translate the group's US private placement loan notes, rather than the year end rate disclosed in the group financial statements and exclude any deferred arrangement fees.

As at 31 December 2010, the gearing ratio stood at 3.3 times (2009: 3.3 times) as follows:

	Note	2010 £m	2009 £m
Borrowings	21	964.9	890.3
Exchange rate adjustment		(13.2)	(6.9)
Arrangement fees		7.3	–
Borrowings for gearing purposes		959.0	883.4
Shareholders' equity		309.4	268.4
Pension asset	18	(41.0)	(19.9)
Deferred tax on pension asset		11.1	5.6
Hedging reserve, net of deferred tax	26	7.2	12.6
Equity for gearing purposes		286.7	266.7
Gearing (times)		3.3	3.3

The level of gearing provides a comfortable level of headroom compared with the relevant borrowings covenant of 5.0 times. The gearing ratio is lower than the target of 3.5 times due to the planned moderation in receivables growth in the Consumer Credit Division during 2010.

(b) Regulatory capital
The group is the subject of consolidated supervision by the FSA. As part of this supervision, the group is required to maintain a certain level of regulatory capital (called Individual Capital Guidance (ICG)) to mitigate against unexpected losses. Regulatory capital differs from the group's equity base included in the balance sheet as it excludes items such as intangible assets and the group's pension asset, but includes the group's subordinated loan notes. Risk-weighted assets principally comprise receivables and other assets of the group but exclude the group's pension asset and intangible assets.

The treasury committee monitors the level of regulatory capital, and capital adequacy is reported to the board on a monthly basis in the group's management accounts. The group regularly forecasts regulatory capital requirements as part of the budgeting and strategic planning process. The group is required to report twice annually to the FSA on the level of regulatory capital it holds. Under the BASEL II framework, the group is required to report its regulatory capital as a percentage of its Pillar I minimum capital requirement which is determined based on pre-determined formulas for calculating credit risk and operational risk. As at 31 December 2010, the regulatory capital held by the group as a percentage of the Pillar I minimum capital requirement was 300% (2009: 293%) as set out below:

	2010 £m	2009 £m
Pillar I minimum capital requirement	90.6	85.6
Tier 1 capital	267.1	245.1
Tier 2 capital – subordinated loan notes	4.8	6.0
Total regulatory capital	271.9	251.1
Total regulatory capital as a percentage of Pillar I minimum capital requirement	300%	293%

When tier 2 subordinated loan notes have less than five years until maturity, the amount eligible for regulatory capital reduces by 20% per annum for each year below five years. Accordingly, the amount of the subordinated loan notes eligible for regulatory capital purposes as at 31 December 2010 amounts to 80% (2009: 100%) of the balance outstanding.

The group's total regulatory capital as a percentage of the Pillar I minimum capital requirement was comfortably in excess of the ICG set by the FSA.

Notes to the financial statements

1 Segment reporting

Group	Revenue 2010 £m	Revenue 2009 £m	Profit/(loss) before taxation 2010 £m	Profit/(loss) before taxation 2009 £m
Consumer Credit Division	704.4	681.6	127.3	121.2
Vanquis Bank	162.0	131.3	26.7	14.1
Yes Car Credit	–	2.7	–	0.2
	866.4	815.6	154.0	135.5
Central:				
– costs	–	–	(8.1)	(7.0)
– interest (payable)/receivable	–	–	(1.4)	1.6
Total central	–	–	(9.5)	(5.4)
Total group before exceptional costs	866.4	815.6	144.5	130.1
Exceptional costs	–	–	(2.5)	(4.4)
Total group	866.4	815.6	142.0	125.7

The Consumer Credit Division profit of £127.3m (2009: £121.2m) comprises a profit of £129.1m in respect of the Home Credit business (2009: £128.9m) and a loss of £1.8m in respect of Real Personal Finance (2009: loss of £7.7m). In order to align the weekly Home Credit business with the group's financial year, Home Credit's financial year includes 53 weeks, compared with 52 weeks in 2009.

All of the above activities relate to continuing operations.

The exceptional cost in 2010 of £2.5m represents the write down of residual fixed assets following the Consumer Credit Division's move into a new head office building in October 2010 (see note 12).

The exceptional cost in 2009 of £4.4m (see note 3) comprised:

- a £6.8m charge in respect of the fair value movements on interest rate swaps which were previously deferred in equity as cashflow hedges but which became ineffective following the issue of the group's fixed-rate £250m senior public bonds on 23 October 2009 and the consequent repayments under the group's revolving floating rate bank facilities; and
- a £2.4m credit reflecting the 2.5% discount in respect of the repurchase of £94.0m of the group's subordinated loan notes on 23 October 2009.

Revenue between business segments is not material.

All of the group's operations operate in the UK and Republic of Ireland.

Group	Segment assets 2010 £m	Segment assets 2009 £m	Segment liabilities 2010 £m	Segment liabilities 2009 £m	Net assets/(liabilities) 2010 £m	Net assets/(liabilities) 2009 £m
Consumer Credit Division	963.9	967.9	(716.6)	(734.3)	247.3	233.6
Vanquis Bank	369.4	269.5	(298.9)	(217.8)	70.5	51.7
Central	219.3	167.5	(227.7)	(184.4)	(8.4)	(16.9)
Total before intra-group elimination	1,552.6	1,404.9	(1,243.2)	(1,136.5)	309.4	268.4
Intra-group elimination	(171.6)	(129.1)	171.6	129.1	–	–
Total group	1,381.0	1,275.8	(1,071.6)	(1,007.4)	309.4	268.4

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing the borrowings of the Consumer Credit Division to reflect a borrowings -to-receivables ratio of 80%. The impact of this is an increase in the notional allocation of group borrowings to the Consumer Credit Division of £171.6m (2009: £129.1m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

Group	Capital expenditure 2010 £m	Capital expenditure 2009 £m	Depreciation 2010 £m	Depreciation 2009 £m	Amortisation 2010 £m	Amortisation 2009 £m
Consumer Credit Division	9.1	11.5	6.6	6.8	6.1	3.6
Vanquis Bank	0.8	1.5	0.9	1.0	0.4	0.2
Central	9.3	0.4	2.0	0.4	–	–
Total group	19.2	13.4	9.5	8.2	6.5	3.8

Capital expenditure in 2010 comprises expenditure on intangible assets of £4.4m (2009: £6.2m) and property, plant and equipment of £14.8m (2009: £7.2m).

The depreciation charge in 2010 includes an exceptional impairment charge of £2.5m (2009: £nil).

2 Revenue

	Group 2010 £m	Group 2009 £m
Interest income	813.1	770.4
Fee income	53.3	45.2
Total revenue	866.4	815.6

All fee income earned relates to Vanquis Bank.

3 Finance costs

	Group 2010 £m	Group 2009 £m
Interest payable on bank borrowings	40.6	33.4
Interest payable on senior public bonds	21.4	3.8
Interest payable on private placement loan notes	9.5	11.3
Interest payable on subordinated loan notes	0.4	5.8
Net hedge ineffectiveness and other fair value movements	(2.2)	(0.5)
Total finance costs before exceptional finance cost	69.7	53.8
Exceptional finance cost (note 1)	–	4.4
Total finance costs	69.7	58.2

The credit of £2.2m (2009: credit of £0.5m) in respect of net hedge ineffectiveness and other fair value movements comprises:

- a charge of £nil (2009: charge of £0.5m) in respect of the fair value movement on the fair value portion of the 2004 cross-currency swaps (see note 16(b)); and
- a credit of £2.2m (2009: credit of £1.0m) relating to derivatives that became ineffective in 2009 (see note 16(b)).

4 Profit before taxation

	Group 2010 £m	Group 2009 £m
Profit before taxation is stated after charging:		
Amortisation of other intangible assets:		
– computer software (note 11)	6.5	3.8
Depreciation of property, plant and equipment (note 12)	7.0	8.2
Exceptional impairment charge of property, plant and equipment (notes 1,12)	2.5	–
Loss on disposal of property, plant and equipment (note 12)	0.1	0.3
Operating lease rentals:		
– property	8.6	8.5
Employment costs (note 9(b))	130.1	123.1
Impairment of amounts receivable from customers (note 14)	296.6	283.4

4 Profit before taxation – continued

	Group	
	2010 £m	2009 £m
Auditors' remuneration		
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	0.1	0.1
Fees payable to the company's auditor and its associates for other services:		
– audit of company's subsidiaries pursuant to legislation	0.2	0.2
– other services pursuant to legislation	0.1	0.2
Total auditors' remuneration	0.4	0.5

5 Tax charge

	Group	
Tax (charge)/credit in the income statement	2010 £m	2009 £m
Current tax	(41.7)	(34.8)
Deferred tax (note 19)	1.4	(2.3)
Impact of change in UK tax rate	(0.2)	–
Total tax charge	(40.5)	(37.1)

The tax charge in 2010 includes a charge of £nil (2009: £0.7m) in respect of exceptional costs (see note 1).

During the year, as a result of the change in UK corporation tax rates which will be effective from 1 April 2011, deferred tax balances have been re-measured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2011 is measured at a tax rate of 28% and deferred tax relating to temporary differences expected to reverse after 1 April 2011 is measured at a tax rate of 27%, as these are the tax rates which will apply on reversal. A tax charge of £0.2m in 2010 (2009: £nil) represents the income statement adjustment to deferred tax as a result of this change. An additional deferred tax credit of £0.2m in 2010 (2009: £nil) has been taken directly to equity, reflecting the impact of the change in UK corporation tax rates on items previously reflected directly in equity.

	Group	
Tax (charge)/credit on items taken directly to equity	2010 £m	2009 £m
Current tax (charge)/credit on cashflow hedges	(2.1)	0.2
Deferred tax (charge)/credit on actuarial movements on retirement benefit asset	(4.2)	10.4
Tax (charge)/credit on other comprehensive income	(6.3)	10.6
Impact of change in UK tax rate	0.2	–
Total tax (charge)/credit on items taken directly to equity	(6.1)	10.6

The rate of tax charge on the profit before taxation for the year is higher than (2009: higher than) the average standard rate of corporation tax in the UK of 28.0% (2009: 28.0%). This can be reconciled as follows:

	Group	
	2010 £m	2009 £m
Profit before taxation	142.0	125.7
Profit before taxation multiplied by the average		
standard rate of corporation tax in the UK of 28.0% (2009: 28.0%)	(39.8)	(35.2)
Effects of:		
– adjustment in respect of prior years	(1.0)	0.1
– expenses not deductible for tax purposes net of non-taxable income	0.5	(2.0)
– impact of change in UK tax rate	(0.2)	–
Total tax charge	(40.5)	(37.1)

6 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, which are treated, for this purpose, as being cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For share options and awards, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options and awards. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and awards.

Reconciliations of basic and diluted earnings per share are set out below:

			2010			2009
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Earnings per share						
Shares in issue during the year		135.1			133.1	
Own shares held		(2.8)			(1.9)	
Basic earnings per share	101.5	132.3	76.7	88.6	131.2	67.5
Dilutive effect of share options and awards	–	0.2	(0.1)	–	0.4	(0.2)
Diluted earnings per share	101.5	132.5	76.6	88.6	131.6	67.3

The directors have elected to show an adjusted earnings per share prior to exceptional costs (see note 1). This is presented to show the earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted earnings per share to adjusted basic and diluted earnings per share is as follows:

			2010			2009
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	101.5	132.3	76.7	88.6	131.2	67.5
Exceptional costs after tax	2.5	–	1.9	5.1	–	3.9
Adjusted basic earnings per share	104.0	132.3	78.6	93.7	131.2	71.4
Diluted earnings per share	101.5	132.5	76.6	88.6	131.6	67.3
Exceptional costs after tax	2.5	–	1.9	5.1	–	3.9
Adjusted diluted earnings per share	104.0	132.5	78.5	93.7	131.6	71.2

7 Dividends

		Group and company 2010 £m	2009 £m
2008 final	– 38.1p per share	–	50.6
2009 interim	– 25.4p per share	–	33.5
2009 final	– 38.1p per share	51.0	–
2010 interim	– 25.4p per share	33.9	–
Dividends paid		84.9	84.1

The directors are recommending a final dividend in respect of the financial year ended 31 December 2010 of 38.1p per share which will amount to a dividend payment of £51.7m. If approved by the shareholders at the annual general meeting on 4 May 2011, this dividend will be paid on 21 June 2011 to shareholders who are on the register of members at 13 May 2011. This dividend is not reflected in the balance sheet as at 31 December 2010 as it is subject to shareholder approval.

8 Directors' remuneration

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24, 'Related party disclosures'. Further information in respect of directors' remuneration, share options and awards, pension contributions and pension entitlements is set out in the directors' remuneration report on pages 61 to 76.

	Group and company	
	2010 £m	2009 £m
Short-term employee benefits	3.5	2.3
Post-employment benefits	0.5	0.5
Share-based payment charge	2.3	2.4
Total	6.3	5.2

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year. Post-employment benefits represent the sum of: (i) the increase in the transfer value of the accrued pension benefits (less directors' contributions) for those directors who are members of the group's defined benefit pension scheme; and (ii) company contributions into personal pension arrangements for all other directors. The share-based payment charge is the proportion of the group's share-based payment charge that relates to those options and awards granted to the directors.

9 Employee information

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

	Group	
	2010 Number	2009 Number
Consumer Credit Division	3,154	3,192
Vanquis Bank	478	446
Yes Car Credit	–	9
Central	51	51
Total group	3,683	3,698
Analysed as:		
Full-time	3,109	3,154
Part-time	574	544
Total group	3,683	3,698

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

	Group	
	2010 £m	2009 £m
Aggregate gross wages and salaries paid to the group's employees	105.1	100.4
Employers' National Insurance contributions	11.5	10.6
Pension charge	7.1	6.0
Share-based payment charge (note 25)	6.4	6.1
Total	130.1	123.1

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan and contributions to personal pension arrangements.

10 Goodwill

	Group 2010 £m	Group 2009 £m
Cost		
At 1 January	93.1	94.1
Disposals	–	(3.1)
Additions	–	2.1
At 31 December	93.1	93.1
Accumulated amortisation		
At 1 January and 31 December	91.0	91.0
Net book value at 31 December	2.1	2.1
Net book value at 1 January	2.1	3.1

On 30 January 2009, the group completed the disposal of Cheque Exchange Limited to Hertford International Group plc for a total consideration of £3.0m less the value of the Section 75 pension contribution made into the group's defined benefit pension scheme. There was no gain or loss on disposal as follows:

Group	£m
Cash consideration	0.7
Section 75 pension contribution	0.4
Deferred consideration	1.9
Total consideration	3.0
Net liabilities on disposal	0.1
Goodwill written off	(3.1)
Profit/(loss) on disposal	–

The Section 75 pension contribution represented a payment by Cheque Exchange Limited of £0.6m, less tax relief of £0.2m, into the group's defined benefit pension scheme as a reduction in the total consideration received (see note 18).

The deferred consideration of £1.9m comprised £1.4m payable on 31 July 2009 with the remaining £0.5m due in equal instalments on 31 January 2010 and 31 January 2011. The group held a legal charge over the ordinary shares in Cheque Exchange Limited exercisable in the event of non-payment of the deferred consideration.

Following non-payment of the first instalment of the deferred consideration, the group exercised its charge over the ordinary shares and regained control of Cheque Exchange Limited on 1 November 2009. The goodwill arising on reacquisition can be analysed as follows:

Group	£m
Deferred consideration foregone	1.9
Fair value of net liabilities acquired	0.2
Goodwill on reacquisition	2.1

The trading results and cashflows of Cheque Exchange Limited prior to its disposal and following its reacquisition are not material to the group.

11 Other intangible assets

Group	Computer software 2010 £m	Computer software 2009 £m
Cost		
At 1 January	29.0	23.5
Additions	4.4	6.2
Disposals	(0.2)	(0.7)
At 31 December	33.2	29.0
Accumulated amortisation		
At 1 January	9.5	6.4
Charged to the income statement	6.5	3.8
Disposals	(0.2)	(0.7)
At 31 December	15.8	9.5
Net book value at 31 December	17.4	19.5
Net book value at 1 January	19.5	17.1

12 Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2010	4.2	0.7	69.7	74.6
Additions	–	–	14.8	14.8
Disposals	–	–	(7.7)	(7.7)
At 31 December 2010	4.2	0.7	76.8	81.7
Accumulated depreciation				
At 1 January 2010	1.5	0.4	46.4	48.3
Charged to the income statement	0.1	0.1	6.8	7.0
Exceptional impairment charge (note 1)	1.6	–	0.9	2.5
Disposals	–	–	(6.0)	(6.0)
At 31 December 2010	3.2	0.5	48.1	51.8
Net book value at 31 December 2010	1.0	0.2	28.7	29.9
Net book value at 1 January 2010	2.7	0.3	23.3	26.3

The loss on disposal of property, plant and equipment in 2010 amounted to £0.1m (2009: £0.3m) and represented proceeds received of £1.6m (2009: £0.9m) less the net book value of disposals of £1.7m (2009: £1.2m).

12 Property, plant and equipment – continued

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2009	4.2	0.8	67.2	72.2
Additions	–	0.1	7.1	7.2
Disposals	–	(0.2)	(4.6)	(4.8)
Disposal of business (note 10)	–	–	(0.5)	(0.5)
Acquisition of business (note 10)	–	–	0.5	0.5
At 31 December 2009	4.2	0.7	69.7	74.6
Accumulated depreciation				
At 1 January 2009	1.4	0.5	41.7	43.6
Charged to the income statement	0.1	0.1	8.0	8.2
Disposals	–	(0.2)	(3.4)	(3.6)
Disposal of business (note 10)	–	–	(0.4)	(0.4)
Acquisition of business (note 10)	–	–	0.5	0.5
At 31 December 2009	1.5	0.4	46.4	48.3
Net book value at 31 December 2009	2.7	0.3	23.3	26.3
Net book value at 1 January 2009	2.8	0.3	25.5	28.6

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2010	4.2	0.2	2.0	6.4
Additions	–	–	9.3	9.3
Disposals	–	–	(0.6)	(0.6)
At 31 December 2010	4.2	0.2	10.7	15.1
Accumulated depreciation				
At 1 January 2010	1.5	0.1	1.2	2.8
Charged to the income statement	0.1	–	0.1	0.2
Exceptional impairment charge	1.6	–	0.2	1.8
Disposals	–	–	(0.4)	(0.4)
At 31 December 2010	3.2	0.1	1.1	4.4
Net book value at 31 December 2010	1.0	0.1	9.6	10.7
Net book value at 1 January 2010	2.7	0.1	0.8	3.6

The exceptional impairment charge of £1.8m in 2010 represents the company element of the £2.5m group exceptional write-down of residual fixed assets following the Consumer Credit Division's move into a new head office building in October 2010 (see note 1).

The loss on disposal of property, plant and equipment in 2010 amounted to £0.2m (2009: £0.1m) and represented proceeds received of £nil (2009: £nil) less the net book value of disposals of £0.2m (2009: £0.1m).

12 Property, plant and equipment – continued

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2009	4.2	0.2	2.3	6.7
Additions	–	–	0.4	0.4
Disposals	–	–	(0.7)	(0.7)
At 31 December 2009	4.2	0.2	2.0	6.4
Accumulated depreciation				
At 1 January 2009	1.4	0.1	1.5	3.0
Charged to the income statement	0.1	–	0.3	0.4
Disposals	–	–	(0.6)	(0.6)
At 31 December 2009	1.5	0.1	1.2	2.8
Net book value at 31 December 2009	2.7	0.1	0.8	3.6
Net book value at 1 January 2009	2.8	0.1	0.8	3.7

13 Investment in subsidiaries

	Company	
	2010 £m	2009 £m
Cost		
At 1 January	406.0	402.8
Additions	0.7	3.2
At 31 December	406.7	406.0
Accumulated impairment losses		
At 1 January	31.7	31.7
Charged to the income statement	0.2	–
At 31 December	31.9	31.7
Net book value at 31 December	374.8	374.3

The additions to investments in 2010 of £0.7m represent options and awards over Provident Financial plc shares which have been granted/awarded to employees of subsidiary companies, net of options and awards vesting in the year (2009: £3.2m).

The directors consider the value of investments to be supported by their underlying assets.

13 Investment in subsidiaries – continued

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the group. A full list of subsidiary undertakings will be annexed to the next annual return of the company to be filed with the Registrar of Companies. All subsidiaries are consolidated and held directly by the company except for those noted below, which are held by wholly-owned intermediate companies.

		Country of incorporation or registration	Class of capital	% holding
Consumer Credit Division	Provident Financial Management Services Limited	England	Ordinary	100
	Provident Personal Credit Limited	England	Ordinary	100*
	Greenwood Personal Credit Limited	England	Ordinary	100*
Vanquis Bank	Vanquis Bank Limited	England	Ordinary	100
Central	Provident Investments plc	England	Ordinary	100

* Shares held by wholly-owned intermediate companies.

The above companies operate principally in their country of incorporation or registration.

14 Amounts receivable from customers

	2010			2009		
Group	Due within one year £m	Due in more than one year £m	Total £m	Due within one year £m	Due in more than one year £m	Total £m
Consumer Credit Division	776.9	97.4	874.3	796.9	86.9	883.8
Vanquis Bank	345.0	–	345.0	255.5	–	255.5
Total group	1,121.9	97.4	1,219.3	1,052.4	86.9	1,139.3

Amounts receivable from customers are held at amortised cost and are equal to the expected future cashflows discounted at the effective interest rate. The average effective interest rate for the year ended 31 December 2010 was 105% for the Consumer Credit Division (2009: 100%) and 35% for Vanquis Bank (2009: 35%).

The average period to maturity of the amounts receivable from customers within the Consumer Credit Division is 6.0 months (2009: 6.2 months). Within Vanquis Bank, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the higher of £5 or 4.5% of their outstanding balance.

The fair value of amounts receivable from customers is approximately £1.5 billion (2009: £1.4 billion). Fair value has been derived by discounting expected future cashflows (net of collection costs) at the group's weighted average cost of capital at the balance sheet date.

The credit quality of amounts receivable from customers is as follows:

	Group	
Credit quality of amounts receivable from customers	2010 £m	2009 £m
Neither past due nor impaired	611.4	545.4
Past due but not impaired	139.6	129.5
Impaired	468.3	464.4
Total	1,219.3	1,139.3

Past due but not impaired balances all relate to Home Credit loans within the Consumer Credit Division. There are no accounts/loans within Vanquis Bank or in respect of the unsecured direct repayment loans within the Consumer Credit Division which are past due but not impaired. In the Home Credit business of the Consumer Credit Division, past due but not impaired balances relate to loans which are contractually overdue. However, contractually overdue loans are not deemed to be impaired unless the customer has missed two or more cumulative weekly payments in the previous 12-week period since only at this point do the expected future cashflows from loans deteriorate significantly.

14 Amounts receivable from customers – continued

The following table sets out the ageing analysis of past due but not impaired balances within the Home Credit business of the Consumer Credit Division based on contractual arrears since the inception of the loan:

	Group	
	2010	2009
Ageing analysis of past due but not impaired balances	£m	£m
One week overdue	82.5	75.7
Two weeks overdue	27.8	27.4
Three weeks or more overdue	29.3	26.4
Past due but not impaired	139.6	129.5

Impairment in Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The movement in the allowance account during the year is as follows:

	Group	
	2010	2009
Vanquis Bank allowance account	£m	£m
At 1 January	40.0	26.4
Charge for the year	63.9	61.7
Amounts written off during the year	(64.1)	(57.2)
Amounts recovered during the year	6.1	9.1
At 31 December	45.9	40.0

Within the Consumer Credit Division, impairment is deducted directly from amounts receivable from customers without the use of an allowance account.

The impairment charge in respect of amounts receivable from customers reflected within operating costs can be analysed as follows:

	Group	
	2010	2009
Impairment charge/(credit) on amounts receivable from customers	£m	£m
Consumer Credit Division	232.7	223.4
Vanquis Bank	63.9	61.7
Yes Car Credit	–	(1.7)
Total group	296.6	283.4

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

	Group	
	2010	2009
Interest income recognised on impaired amounts receivable from customers	£m	£m
Consumer Credit Division	358.4	329.5
Vanquis Bank	16.7	14.8
Yes Car Credit	–	0.1
Total group	375.1	344.4

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

	Group	
	2010	2009
Currency profile of amounts receivable from customers	£m	£m
Sterling	1,165.0	1,088.8
Euro	54.3	50.5
Total group	1,219.3	1,139.3

15 Financial instruments

The following table sets out the carrying value of the group's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Group	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	2010 Total £m
Assets					
Cash and cash equivalents	29.0	–	–	–	29.0
Amounts receivable from customers	1,219.3	–	–	–	1,219.3
Derivative financial instruments	–	–	15.9	–	15.9
Trade and other receivables	23.6	–	–	–	23.6
Retirement benefit asset	–	–	–	41.0	41.0
Property, plant and equipment	–	–	–	29.9	29.9
Intangible assets (including goodwill)	–	–	–	19.5	19.5
Deferred tax assets	–	–	–	2.8	2.8
Total assets	1,271.9	–	15.9	93.2	1,381.0
Liabilities					
Bank and other borrowings	–	(964.9)	–	–	(964.9)
Derivative financial instruments	–	–	(16.3)	–	(16.3)
Trade and other payables	–	(46.0)	–	–	(46.0)
Current tax liabilities	–	–	–	(44.4)	(44.4)
Total liabilities	–	(1,010.9)	(16.3)	(44.4)	(1,071.6)

Group	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	2009 Total £m
Assets					
Cash and cash equivalents	20.3	–	–	–	20.3
Amounts receivable from customers	1,139.3	–	–	–	1,139.3
Derivative financial instruments	–	–	12.5	–	12.5
Trade and other receivables	28.2	–	–	–	28.2
Retirement benefit asset	–	–	–	19.9	19.9
Property, plant and equipment	–	–	–	26.3	26.3
Intangible assets (including goodwill)	–	–	–	21.6	21.6
Deferred tax assets	–	–	–	7.7	7.7
Total assets	1,187.8	–	12.5	75.5	1,275.8
Liabilities					
Bank and other borrowings	–	(890.3)	–	–	(890.3)
Derivative financial instruments	–	–	(29.1)	–	(29.1)
Trade and other payables	–	(48.0)	–	–	(48.0)
Current tax liabilities	–	–	–	(39.2)	(39.2)
Provisions	–	–	–	(0.8)	(0.8)
Total liabilities	–	(938.3)	(29.1)	(40.0)	(1,007.4)

15 Financial instruments – continued

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 IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	2010 Total £m
Assets					
Cash and cash equivalents	1.5	–	–	–	1.5
Investment in subsidiaries	–	–	–	374.8	374.8
Trade and other receivables	1,412.7	–	–	–	1,412.7
Retirement benefit asset	–	–	–	12.6	12.6
Property, plant and equipment	–	–	–	10.7	10.7
Deferred tax assets	–	–	–	1.9	1.9
Total assets	1,414.2	–	–	400.0	1,814.2
Liabilities					
Bank and other borrowings	–	(644.9)	–	–	(644.9)
Derivative financial instruments	–	–	(16.2)	–	(16.2)
Trade and other payables	–	(237.5)	–	–	(237.5)
Current tax liabilities	–	–	–	(2.8)	(2.8)
Total liabilities	–	(882.4)	(16.2)	(2.8)	(901.4)

Company	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	2009 Total £m
Assets					
Investment in subsidiaries	–	–	–	374.3	374.3
Trade and other receivables	1,339.1	–	–	–	1,339.1
Retirement benefit asset	–	–	–	6.1	6.1
Property, plant and equipment	–	–	–	3.6	3.6
Deferred and current tax assets	–	–	–	7.6	7.6
Total assets	1,339.1	–	–	391.6	1,730.7
Liabilities					
Bank and other borrowings	–	(547.9)	–	–	(547.9)
Derivative financial instruments	–	–	(26.5)	–	(26.5)
Trade and other payables	–	(257.9)	–	–	(257.9)
Total liabilities	–	(805.8)	(26.5)	–	(832.3)

16 Derivative financial instruments

The group uses derivative financial instruments to hedge the interest rate risk and foreign exchange rate risk on its borrowings. The group does not enter into speculative transactions or positions.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

	2010			2009		
Group	Contractual/ notional amount £m	Assets £m	Liabilities £m	Contractual/ notional amount £m	Assets £m	Liabilities £m
Interest rate swaps	685.0	–	(14.8)	1,361.0	–	(24.6)
Cross-currency swaps	117.9	15.9	(1.4)	164.8	12.5	(4.4)
Foreign exchange contracts	9.8	–	(0.1)	3.0	–	(0.1)
Total group	812.7	15.9	(16.3)	1,528.8	12.5	(29.1)
Analysed as – due within one year		3.5	(13.4)		–	(18.4)
– due in more than one year		12.4	(2.9)		12.5	(10.7)
		15.9	(16.3)		12.5	(29.1)

	2010			2009		
Company	Contractual/ notional amount £m	Assets £m	Liabilities £m	Contractual/ notional amount £m	Assets £m	Liabilities £m
Interest rate swaps	685.0	–	(14.8)	1,361.0	–	(24.6)
Cross-currency swaps	16.8	–	(1.4)	16.4	–	(1.9)
Total company	701.8	–	(16.2)	1,377.4	–	(26.5)
Analysed as – due within one year		–	(13.3)		–	(17.4)
– due in more than one year		–	(2.9)		–	(9.1)
		–	(16.2)		–	(26.5)

The fair value of derivative financial instruments has been calculated by discounting contractual future cashflows using relevant market interest rate yield curves and foreign exchange rates prevailing at the balance sheet date.

(a) Hedging reserve movements
The movement in the hedging reserve within equity as a result of the changes in the fair value of derivative financial instruments can be summarised as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Interest rate swaps	7.6	1.2	7.6	1.2
2001 cross-currency swaps	–	(0.3)	–	(0.3)
2003 cross-currency swaps	0.1	(1.6)	–	–
2004 cross-currency swaps	(0.1)	(0.7)	–	–
Foreign exchange contracts	–	0.6	–	–
Net credit/(charge) to the hedging reserve	7.6	(0.8)	7.6	0.9

The net credit/(charge) to the group and company hedging reserve in 2009 included £6.8m of previously deferred losses which were recycled and reported as part of the exceptional finance cost in the year (see note 1).

Under IFRS 7, 'Financial instruments: Disclosures', all derivative financial instruments are classed as Level 2 as they are not traded in an active market and the fair value is therefore determined through discounting future cashflows.

16 Derivative financial instruments – continued

(b) Income statement credit/(charge)

The net credit/(charge) to the income statement in the year in respect of the movement in the fair value of derivative financial instruments is as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Net fair value loss on 2004 cross-currency swaps	–	(0.5)	–	–
Movement in fair value of ineffective interest rate swaps	2.2	1.0	2.2	1.0
Net credit to the income statement prior to exceptional finance cost (note 3)	2.2	0.5	2.2	1.0
Exceptional finance cost – recycling of previously deferred losses (note 1)	–	(6.8)	–	(6.8)
Net credit/(charge) to the income statement	2.2	(6.3)	2.2	(5.8)

(c) Interest rate swaps

The group and company use interest rate swaps in order to manage the interest rate risk on the group's syndicated and bilateral bank borrowings. The group has entered into various interest rate swaps which were designated and effective under IAS 39 as cashflow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

	Group and company	
	2010 £m	2009 £m
Liability at 1 January	(24.6)	(20.0)
Credited to the hedging reserve	7.6	1.2
Movement in fair value of ineffective interest rate swaps credited to the income statement	2.2	1.0
Exceptional finance cost – recycling of previously deferred losses (note 1)	–	(6.8)
Liability at 31 December	(14.8)	(24.6)

The weighted average interest rate and period to maturity of the interest rate swaps held by the group and company were as follows:

	2010			2009		
Group and company	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity (years)	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity (years)
Sterling	3.3	3.1–3.5	0.9	4.2	3.1–5.2	1.2
Euro	1.9	1.8–2.0	0.7	3.8	3.8	1.7

16 Derivative financial instruments – continued

(d) Cross-currency swaps

The group and company use cross-currency swaps in order to manage the interest rate and foreign exchange rate risk arising on the group's US private placement loan notes issued in 2001, 2003 and 2004.

2001 and 2003 private placement loan notes

The group and company have put in place cross-currency swaps to swap the principal and fixed rate interest of the 2001 and 2003 US dollar private placement loan notes into fixed rate sterling liabilities. The maturity dates of the cross-currency swaps match the underlying loan notes (see note 21(e)). These swaps were designated as cashflow hedges and were effective under IAS 39 in the year ended 31 December 2010. The fair value movements in the swaps and the corresponding exchange movements on the underlying loan notes have been deferred in the hedging reserve within equity.

The cross-currency swaps used to hedge the 2001 US dollar private placement loan notes have a weighted average interest rate of 7.6% (2009: 7.6%), a range of interest rates of 7.6% (2009: 7.6%) and a weighted average period to maturity of 0.4 years (2009: 1.4 years). The movement in the fair value of the swaps can be analysed as follows:

	Group and company	
	2010 £m	2009 £m
Liability at 1 January	(1.9)	(0.1)
Exchange rate movements	0.5	(1.5)
Charged to the hedging reserve	–	(0.3)
Liability at 31 December	(1.4)	(1.9)

The exchange rate movements reflect the movement in the year of the difference between the translation of the 2001 US dollar private placement loan notes at the year end exchange rate compared to the contracted rate. A corresponding entry is made to borrowings.

The amount charged to the hedging reserve reflects the difference between the movement in the fair value of the cross-currency swaps and the exchange rate movements described above.

The cross-currency swaps used to hedge the 2003 US dollar private placement loan notes have a weighted average interest rate of 6.8% (2009: 6.7%), a range of interest rates of 6.8% (2009: range of 6.6% to 6.8%) and a weighted average period to maturity of 2.3 years (2009: 2.2 years). The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2010 £m	2009 £m
(Liability)/asset at 1 January	(2.5)	6.8
Exchange rate movements	2.8	(7.7)
Credited/(charged) to the hedging reserve	0.1	(1.6)
Asset/(liability) at 31 December	0.4	(2.5)

The exchange rate movements reflect the translation of the 2003 US dollar private placement loan notes at the year end exchange rate compared to the contracted rate. A corresponding entry is made to borrowings.

The amount credited/(charged) to the hedging reserve reflects the difference between the movement in the fair value of the cross-currency swaps and the exchange rate movements described above.

2004 private placement loan notes

The group has put in place cross-currency swaps to swap the principal and fixed rate interest of the US dollar private placement loan notes issued in 2004 into floating rate sterling interest liabilities. The maturity dates of the cross-currency swaps match the underlying loan notes (see note 21(e)).

The swaps comprise both cashflow hedges and fair value hedges. The cashflow hedge portion of the swaps were designated as cashflow hedges and were effective under IAS 39 in the year ended 31 December 2010. The movements in the swaps and the exchange movements in the underlying loan notes have been deferred in the hedging reserve within equity.

The fair value hedge portion of the swaps were designated and were effective under IAS 39 as fair value hedges during the year. As a result, fair value movements in the swaps were charged to the income statement with a corresponding entry made to the underlying loan notes within borrowings for the effective portion of the swaps, leaving a net charge within the income statement reflecting the net fair value loss on the fair value hedge in the year.

The swaps have a range of interest rates from LIBOR + 1.58% to LIBOR + 1.63% (2009: LIBOR + 1.58% to LIBOR + 1.63%) and a weighted average period to maturity of 2.7 years (2009: 3.7 years).

16 Derivative financial instruments – continued

The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2010 £m	2009 £m
Asset at 1 January	12.5	22.1
Exchange rate movements	3.1	(8.4)
Net fair value loss charged to the income statement	–	(0.5)
Charged to the hedging reserve	(0.1)	(0.7)
Asset at 31 December	15.5	12.5

The exchange rate movements reflect the movement in the year of the difference between the translation of the 2004 US dollar private placement loan notes at the year end exchange rate compared to the contracted rate. A corresponding entry is made to borrowings.

The amount charged to the hedging reserve reflects the difference between the movement in the fair value of the cashflow hedge portion of the cross-currency swaps and the cashflow hedge portion of the exchange rate movements described above.

The net fair value loss charged to the income statement reflects the difference between the movement in the fair value of the fair value hedge portion of the cross-currency swaps and the fair value hedge portion of the exchange rate movements described above.

(e) Foreign exchange contracts

The group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from the group's operations in the Republic of Ireland. A liability of £0.1m is held in the group balance sheet as at 31 December 2010 in respect of foreign exchange contracts (2009: liability of £0.1m).

The group's foreign exchange contracts comprise forward foreign exchange contracts to buy sterling for a total notional amount of £9.8m (2009: £3.0m). These contracts have a range of maturity dates from 11 January 2011 to 11 August 2011 (2009: 11 February 2010 to 12 July 2010). These contracts were designated and were effective under IAS 39 as cashflow hedges in the year and, accordingly, the movement in fair value of £nil has been credited to the hedging reserve within equity (2009: credit of £0.6m).

17 Trade and other receivables

	Company	
Non-current assets	2010 £m	2009 £m
Amounts owed by group undertakings	438.0	438.0

There are £nil amounts past due and there is no impairment provision held against amounts owed by group undertakings due for repayment in more than one year (2009: £nil). The amounts owed by group undertakings are unsecured, due for repayment in more than one year and accrue interest at rates linked to LIBOR.

	Group		Company	
Current assets	2010 £m	2009 £m	2010 £m	2009 £m
Trade receivables	1.0	0.6	–	–
Other receivables	5.9	13.9	–	–
Amounts owed by group undertakings	–	–	970.9	895.1
Prepayments and accrued income	16.7	13.7	3.8	6.0
Total	23.6	28.2	974.7	901.1

There are no amounts past due in respect of trade and other receivables due in less than one year (2009: £nil). Within the company, an impairment provision of £123.0m (2009: £122.1m) is held against amounts owed by group undertakings due in less than one year representing the deficiency in the net assets of those group undertakings. The movement in the provision in the year of £0.9m has been charged to the income statement of the company (2009: credit of £4.7m).

Amounts owed by group undertakings are unsecured, repayable on demand or within one year and generally accrue interest at rates linked to LIBOR.

The maximum exposure to credit risk of trade and other receivables is the carrying value of each class of receivable set out above (2009: carrying value set out above). There is no collateral held in respect of trade and other receivables (2009: £nil). The fair value of trade and other receivables equates to their book value (2009: fair value equalled book value).

18 Retirement benefit asset

(a) Pension schemes – defined benefit

The group operates a defined benefit scheme; the Provident Financial Staff Pension Scheme. The scheme covers 62% of employees with company-provided pension arrangements and is of the funded, defined benefit type providing retirement benefits based on final salary. Following a full group review of pension scheme arrangements, from 1 April 2006 members were provided with a choice of paying higher member contributions to continue accruing benefits based on final salary or paying a lower member contribution and accruing benefits based on a percentage of salary which would be revalued each year.

The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation was carried out as at 1 June 2009 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on this valuation updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

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

				Group
		2010		2009
	£m	%	£m	%
Equities	248.0	48	217.4	47
Corporate bonds	165.9	32	154.3	33
Fixed interest gilts	39.7	8	37.3	8
Index-linked gilts	60.2	12	55.0	12
Cash and money market funds	0.3	–	0.6	–
Total fair value of scheme assets	514.1	100	464.6	100
Present value of funded defined benefit obligations	(473.1)		(444.7)	
Net retirement benefit asset recognised in the balance sheet	41.0		19.9	

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

				Company
		2010		2009
	£m	%	£m	%
Equities	63.7	48	54.7	47
Corporate bonds	42.6	32	38.8	33
Fixed interest gilts	10.2	8	9.4	8
Index-linked gilts	15.5	12	13.8	12
Cash and money market funds	0.1	–	0.1	–
Total fair value of scheme assets	132.1	100	116.8	100
Present value of funded defined benefit obligations	(119.5)		(110.7)	
Net retirement benefit asset recognised in the balance sheet	12.6		6.1	

The assets and liabilities of the group's defined benefit pension scheme have been allocated between subsidiary companies on a pro-rata basis based upon the actual employer cash contributions made by each subsidiary company.

18 Retirement benefit asset – continued

The amounts recognised in the income statement were as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Current service cost	(7.7)	(5.1)	(2.4)	(1.6)
Past service cost	–	(0.1)	–	–
Interest cost	(24.8)	(22.4)	(7.6)	(7.2)
Expected return on scheme assets	29.1	24.9	9.5	7.9
Net charge recognised in the income statement	(3.4)	(2.7)	(0.5)	(0.9)

The net charge recognised in the income statement of the group has been included within administrative costs.

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

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Fair value of scheme assets at 1 January	464.6	410.7	116.8	99.9
Expected return on scheme assets	29.1	24.9	9.5	7.9
Actuarial movement on scheme assets	22.9	29.9	8.7	10.6
Contributions by the group/company	9.6	8.4	0.8	1.5
Section 75 contribution on disposal of subsidiary undertaking (note 10)	–	0.6	–	–
Contributions paid by scheme participants	0.1	0.6	–	0.2
Net benefits paid out	(12.2)	(10.5)	(3.7)	(3.3)
Fair value of scheme assets at 31 December	514.1	464.6	132.1	116.8

The expected contributions to the defined benefit pension scheme in the year ending 31 December 2011 are £10m.

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

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Defined benefit obligation at 1 January	(444.7)	(359.8)	(110.7)	(83.8)
Current service cost	(7.7)	(5.1)	(2.4)	(1.6)
Past service cost	–	(0.1)	–	–
Interest cost	(24.8)	(22.4)	(7.6)	(7.2)
Contributions paid by scheme participants	(0.1)	(0.6)	–	(0.2)
Actuarial movement on scheme liabilities	(8.0)	(67.2)	(2.5)	(21.2)
Net benefits paid out	12.2	10.5	3.7	3.3
Defined benefit obligation at 31 December	(473.1)	(444.7)	(119.5)	(110.7)

18 Retirement benefit asset – continued

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

		Group and company	
		2010 %	2009 %
Price inflation		3.50	3.60
Rate of increase in pensionable salaries		4.50	4.60
Inflationary increases to pensions in deferment		2.80	3.60
Discount rate		5.40	5.60
Long-term rate of return	– equities	8.00	8.05
	– bonds	5.40	5.60
	– fixed interest gilts	4.00	4.40
	– index-linked gilts	4.00	4.40
	– cash and money market funds	4.00	4.50
	– overall (weighted average)	6.40	6.50

The expected return on plan assets is determined by considering the expected returns available on the assets under the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect anticipated long-term real rates of return.

IAS 19 requires that the discount rate should be determined by reference to market yields at the balance sheet date on high quality corporate bonds and that the term of the instruments chosen should be consistent with the estimated term of the defined benefit obligations. In the UK, this is usually interpreted to mean the yield on AA-rated corporate bonds of an appropriate term. A movement of 0.1% in the discount rate would increase or decrease the retirement benefit asset by approximately £9m (2009: £9m).

The mortality assumptions used in the valuation of the defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy. The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- The projections are combined with the medium cohort improvement factors in order to predict future improvements in life expectancy, subject to an annual minimum rate of improvement of 1%.

In more simple terms, it is now assumed that members who retire in the future at age 65 will live on average for a further 23 years if they are male (2009: 23 years) and for a further 25 years if they are female (2009: 25 years). If assumed life expectancies had been one year greater for the scheme, the retirement benefit asset would have been reduced by approximately £16m (2009: £14m).

The actual return on scheme assets compared to the expected return is as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Expected return on scheme assets	29.1	24.9	9.5	7.9
Actuarial movement on scheme assets	22.9	29.9	8.7	10.6
Actual return on scheme assets	52.0	54.8	18.2	18.5

18 Retirement benefit asset – continued

Actuarial gains and losses are recognised through the statement of comprehensive income in the period in which they occur.

An analysis of the amounts recognised in the statement of comprehensive income is as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Actuarial movement on scheme assets	22.9	29.9	8.7	10.6
Actuarial movement on scheme liabilities	(8.0)	(67.2)	(2.5)	(21.2)
Total gain/(loss) recognised in the statement of comprehensive income in the year	14.9	(37.3)	6.2	(10.6)
Cumulative amount of losses recognised in the statement of comprehensive income	(47.9)	(62.8)	(13.4)	(19.6)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the group is as follows:

					Group
	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	514.1	464.6	410.7	465.7	467.9
Present value of funded defined benefit obligation	(473.1)	(444.7)	(359.8)	(404.2)	(459.0)
Net retirement benefit asset recognised in the balance sheet	41.0	19.9	50.9	61.5	8.9
Experience gains/(losses) on scheme assets					
– amount (£m)	22.9	29.9	(78.9)	0.1	7.1
– percentage of scheme assets (%)	4.5	6.4	(19.2)	–	1.5
Experience gains/(losses) on scheme liabilities					
– amount (£m)	–	10.3	–	(0.5)	(12.8)
– percentage of scheme liabilities (%)	–	2.3	–	(0.1)	(2.8)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the company is as follows:

					Company
	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	132.1	116.8	99.9	117.4	60.0
Present value of funded defined benefit obligation	(119.5)	(110.7)	(83.8)	(97.9)	(59.5)
Net retirement benefit asset recognised in the balance sheet	12.6	6.1	16.1	19.5	0.5
Experience gains/(losses) on scheme assets					
– amount (£m)	8.7	10.4	(24.5)	(3.9)	0.9
– percentage of scheme assets (%)	6.6	8.9	(24.5)	(3.3)	1.5
Experience gains/(losses) on scheme liabilities					
– amount (£m)	–	3.3	–	(0.1)	(1.9)
– percentage of scheme liabilities (%)	–	3.0	–	(0.1)	(3.2)

(b) Pension schemes – defined contribution

The group operates a stakeholder pension plan into which group companies contribute a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice (typically ranging between 3.0% and 8.0%). The assets of the scheme are held separately from those of the group and company. The pension charge in the consolidated income statement represents contributions payable by the group in respect of the plan and amounted to £3.6m for the year ended 31 December 2010 (2009: £3.2m). Contributions made by the company amounted to £0.3m (2009: £0.2m). No contributions were payable to the fund at the year end (2009: £nil).

The group contributed £0.1m to personal pension plans in the year (2009: £0.1m).

19 Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. During the year, as a result of the change in UK corporation tax rates which will be effective from 1 April 2011, deferred tax balances have been re-measured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2011 is measured at a tax rate of 28% (2009: 28%) and deferred tax relating to temporary differences expected to reverse after 1 April 2011 is measured at a tax rate of 27% (2009: 28%), as these are the tax rates which will apply on reversal. The movement in the deferred tax asset/(liability) during the year can be analysed as follows:

	Group		Company	
Asset/(liability)	2010 £m	2009 £m	2010 £m	2009 £m
At 1 January	7.7	(0.5)	5.2	1.3
Credit/(charge) to the income statement (note 5)	1.4	(2.3)	0.7	1.2
(Charge)/credit on other comprehensive income	(6.3)	10.6	(3.7)	2.8
Transfer to retained earnings	–	(0.1)	–	(0.1)
Impact of change in UK tax rate:				
– charge to the income statement	(0.2)	–	(0.3)	–
– credit to equity	0.2	–	–	–
At 31 December	2.8	7.7	1.9	5.2

The change in the UK tax rate relates to the impact of the change in UK corporation tax rate from 28% to 27% which will be effective from 1 April 2011 (see note 5).

An analysis of the deferred tax asset/(liability) for the group is set out below:

	2010				2009			
Group – asset/(liability)	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m
At 1 January	(0.5)	13.8	(5.6)	7.7	(0.8)	14.6	(14.3)	(0.5)
Credit/(charge) to the income statement	1.1	2.0	(1.7)	1.4	0.3	(0.9)	(1.7)	(2.3)
(Charge)/credit on other comprehensive income	–	(2.1)	(4.2)	(6.3)	–	0.2	10.4	10.6
Transfer to retained earnings	–	–	–	–	–	(0.1)	–	(0.1)
Impact of change in UK tax rate:								
– (charge)/credit to the income statement	–	(0.3)	0.1	(0.2)	–	–	–	–
– (charge)/credit to equity	–	(0.1)	0.3	0.2	–	–	–	–
At 31 December	0.6	13.3	(11.1)	2.8	(0.5)	13.8	(5.6)	7.7

An analysis of the deferred tax asset/(liability) for the company is set out below:

	2010				2009			
Company – asset/(liability)	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m
At 1 January	0.1	6.8	(1.7)	5.2	–	5.8	(4.5)	1.3
(Charge)/credit to the income statement	(0.2)	1.0	(0.1)	0.7	0.1	1.3	(0.2)	1.2
(Charge)/credit on other comprehensive income	–	(2.0)	(1.7)	(3.7)	–	(0.2)	3.0	2.8
Transfer to retained earnings	–	–	–	–	–	(0.1)	–	(0.1)
Impact of change in UK tax rate:								
– charge to the income statement	–	(0.3)	–	(0.3)	–	–	–	–
– (charge)/credit to equity	–	(0.1)	0.1	–	–	–	–	–
At 31 December	(0.1)	5.4	(3.4)	1.9	0.1	6.8	(1.7)	5.2

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

20 Cash and cash equivalents

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Cash at bank and in hand	29.0	20.3	1.5	–

Cash at bank and in hand includes £10.0m (2009: £nil) being held by Vanquis Bank as a liquid assets buffer in accordance with the FSA's liquidity requirements set out in BIPRU 12. The liquid assets buffer represents the cash held in a designated money market fund invested in sterling government bonds.

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

	Group		Company	
Currency	2010 £m	2009 £m	2010 £m	2009 £m
Sterling	28.8	19.9	1.4	–
Euro	0.2	0.4	0.1	–
Total	29.0	20.3	1.5	–

Cash and cash equivalents are non-interest bearing other than the amounts held by Vanquis Bank as a liquid assets buffer which bear interest at rates linked to sterling government bonds (2009: non-interest bearing).

The fair value of cash and cash equivalents approximates to their book value (2009: fair value approximated to book value).

21 Bank and other borrowings

(a) Borrowing facilities and borrowings

Borrowing facilities principally comprise syndicated and bilateral bank facilities arranged for periods of up to five years, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 21(d)), loan notes privately placed with US and UK institutions (see note 21(e)), retail bonds (see note 21(f)) and subordinated loan notes (see note 21(g)).

As at 31 December 2010, borrowings under these facilities amounted to £964.9m (2009: £890.3m), stated net of unamortised arrangement fees of £7.3m (2009: £nil).

(b) Maturity profile of bank and other borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

	2010		2009	
Group	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	25.3	10.6	27.9	5.8
In less than one year	147.7	137.1	116.9	66.9
Included in current liabilities	173.0	147.7	144.8	72.7
Between one and two years	237.8	194.6	272.3	166.3
Between two and five years	472.4	347.8	570.3	395.3
In more than five years	275.2	274.8	256.0	256.0
Included in non-current liabilities	985.4	817.2	1,098.6	817.6
Total group	1,158.4	964.9	1,243.4	890.3

	2010		2009	
Company	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	25.3	8.3	25.6	3.5
In less than one year	131.5	117.5	89.6	39.6
Included in current liabilities	156.8	125.8	115.2	43.1
Between one and two years	149.4	106.1	252.9	121.6
Between two and five years	273.9	138.2	276.9	127.2
In more than five years	275.2	274.8	256.0	256.0
Included in non-current liabilities	698.5	519.1	785.8	504.8
Total company	855.3	644.9	901.0	547.9

21 Bank and other borrowings – continued

As at 31 December 2010, the weighted average period to maturity of the group's committed facilities was 3.5 years (2009: 3.5 years) and for the company's committed facilities was 4.0 years (2009: 3.9 years). On 13 January 2011, the company entered into a committed £100m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years 5 and 10. Subsequently, a further £28.5m of private placements was arranged on similar terms. Including these additional facilities, the weighted average period to maturity of the group's committed facilities was 3.8 years and the weighted average period to maturity of the company's committed facilities was 4.4 years.

(c) Interest rate and currency profile of bank and other borrowings
Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the group and company, the interest rate and foreign exchange rate exposure on borrowings is as follows:

			2010			2009
Group	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	324.8	456.6	781.4	300.0	389.9	689.9
US dollar	131.1	–	131.1	153.0	–	153.0
Euro	–	52.4	52.4	–	47.4	47.4
Total group	455.9	509.0	964.9	453.0	437.3	890.3

			2010			2009
Company	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	322.8	254.4	577.2	298.0	187.6	485.6
US dollar	15.3	–	15.3	14.9	–	14.9
Euro	–	52.4	52.4	–	47.4	47.4
Total company	338.1	306.8	644.9	312.9	235.0	547.9

As detailed in note 16, the group and company have entered into various interest rate swaps and cross-currency swap arrangements to hedge the interest rate and foreign exchange rate exposures on borrowings. After taking account of the aforementioned interest rate swaps, the group's fixed rate borrowings are £912.0m (2009: £789.6m) and the company's fixed rate borrowings are £596.2m (2009: £510.8m). After taking account of cross-currency swaps, the group and company have no foreign exchange rate exposure to borrowings denominated in US dollars (2009: £nil).

(d) Senior public bonds
On 23 October 2009, the company issued £250m of senior public bonds. The bonds have an annual coupon of 8.0% and are repayable on 23 October 2019.

(e) Private placement loan notes
On 10 May 2001, the company issued private placement loan notes as follows:

(i) £42m of 7.21% loan notes repayable on 10 May 2011;
(ii) US$64m of 7.40% loan notes repayable on 10 May 2008*; and
(iii) US$24m of 7.60% loan notes repayable on 10 May 2011.

* Matured and repaid as scheduled on 10 May 2008.

On 24 April 2003, the group issued loan notes as follows:

(i) US$44m of 5.81% loan notes repayable on 24 April 2010**; and
(ii) US$76m of 6.34% loan notes repayable on 24 April 2013.

** Matured and repaid as scheduled on 24 April 2010.

On 12 August 2004, the group issued loan notes as follows:

(i) US$30m of 6.02% loan notes repayable on 12 August 2011;
(ii) US$67m of 6.45% loan notes repayable on 12 August 2014; and
(iii) £2m of 7.01% loan notes repayable on 12 August 2014.

As set out in note 21(c), cross-currency swaps have been put in place to swap the proceeds and liabilities for principal and interest under the US dollar denominated loan notes into sterling.

(f) Retail bonds
On 14 April 2010, the company issued £25.2m of retail bonds. The bonds have an all-in cost to the group of 7.5% and are repayable on 14 April 2020.

21 Bank and other borrowings – continued

(g) Subordinated loan notes

On 15 June 2005, the company issued £100.0m of subordinated loan notes repayable on 15 June 2015. The rights to repayment of holders of the loan notes are subordinated to all other borrowings and liabilities of the company upon a winding up of the company and, in certain circumstances, upon its administration. Prior to 15 June 2010, the notes accrued interest at 7.125%. Since 15 June 2010, the notes accrue interest at 5.594%. The company had an option to redeem the loan notes at par on 15 June 2010.

On 23 October 2009, in conjunction with the issue of the senior public bonds, Provident Financial Investments Limited (PFIL), a subsidiary undertaking of the company, purchased £94.0m of the subordinated loan notes at 97.5% following a tender offer. The 2.5% discount on the re-purchased subordinated loan notes, amounting to £2.4m, was credited to the group income statement in 2009 following the extinguishment of the existing liability and its replacement with a new debt instrument of substantially different terms (see note 1).

The purchase of the subordinated loan notes by PFIL was funded by an intra-group loan from the company. On 23 December 2009, the company and PFIL agreed to waive the respective amounts owed to each other under the intra-group loan and the subordinated loan notes. Accordingly, the outstanding amount of subordinated loans in both the company and group balance sheet as at 31 December 2010 amounts to £6.0m (2009: £6.0m)

(h) Undrawn committed borrowing facilities

The undrawn committed borrowing facilities at 31 December were as follows:

	Group	
	2010 £m	2009 £m
Expiring within one year	12.7	50.0
Expiring within one to two years	36.3	131.4
Expiring in more than two years	135.7	149.6
Total group	**184.7**	**331.0**

	Company	
	2010 £m	2009 £m
Expiring within one year	12.7	50.0
Expiring within one to two years	36.3	131.4
Expiring in more than two years	135.7	149.6
Total company	**184.7**	**331.0**

(i) Weighted average interest rates and periods to maturity

Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the group and company, the weighted average interest rate and the weighted average period to maturity of the group and company's fixed rate borrowings is as follows:

	2010		2009	
Group	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	7.80	7.65	7.87	8.51
US dollar	6.51	2.20	6.37	2.64

	2010		2009	
Company	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	7.80	7.67	7.87	8.54
US dollar	7.60	0.36	7.60	1.36

After taking account of interest rate swaps and cross-currency swaps, the sterling weighted average fixed interest rate for the group is 5.17% (2009: 6.37%) and for the company is 5.78% (2009: 6.94%). The sterling weighted average period to maturity on the same basis is 4.2 years (2009: 4.5 years) for the group and 4.9 years (2009: 6.0 years) for the company. There is £nil foreign exchange or interest rate risk denominated in US dollars after taking account of cross-currency swaps (2009: £nil).

21 Bank and other borrowings – continued

(j) Fair values

The fair values of the group and company's bank and other borrowings are compared to their book values as follows:

	2010		2009	
Group	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	521.8	521.8	437.3	437.3
Senior public bonds	250.0	244.5	250.0	260.0
Sterling private placement loan notes	44.0	48.0	44.0	47.5
US dollar private placement loan notes	117.9	133.4	153.0	157.5
Retail bonds	25.2	26.4	–	–
Subordinated loan notes	6.0	6.0	6.0	5.9
Total group	964.9	980.1	890.3	908.2

	2010		2009	
Company	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	304.9	304.9	235.0	235.0
Senior public bonds	250.0	244.5	250.0	260.0
Sterling private placement loan notes	42.0	45.9	42.0	45.3
US dollar private placement loan notes	16.8	17.3	14.9	17.7
Retail bonds	25.2	26.4	–	–
Subordinated loan notes	6.0	6.0	6.0	5.9
Total company	644.9	645.0	547.9	563.9

The fair value of the sterling private placement loan notes, the US dollar private placement loan notes and the subordinated loan notes has been calculated by discounting the expected future cashflows at the relevant market interest rate yield curves prevailing at the balance sheet date. The fair value of the senior public bonds and retail bonds equates to their publicly quoted market price at the balance sheet date.

22 Trade and other payables

	Group		Company	
Current liabilities	2010 £m	2009 £m	2010 £m	2009 £m
Trade payables	5.6	6.3	–	–
Amounts owed to group undertakings	–	–	115.6	109.2
Other payables including taxation and social security	9.1	13.2	3.1	2.0
Accruals	31.3	28.5	15.6	15.4
Total	46.0	48.0	134.3	126.6

The fair value of trade and other payables equates to their book value (2009: fair value equalled book value). The amounts owed to group undertakings are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR.

	Company	
Non-current liabilities	2010 £m	2009 £m
Amounts owed to group undertakings	103.2	131.3

The amounts owed to group undertakings are unsecured, due for repayment in more than one year and accrue interest at rates linked to LIBOR.

23 Provisions

Onerous property obligations	Group 2010 £m	Group 2009 £m
At 1 January	0.8	2.0
Utilised in the year	(0.8)	(1.2)
At 31 December	–	0.8
Analysed as – due within one year	–	0.8
– due in more than one year	–	–
Total group	–	0.8

The onerous property provision was originally created on closure of Yes Car Credit and related to the estimated costs of exiting the Yes Car Credit property portfolio. The provision was calculated by taking into account the full lease term, any sublet income that was recoverable and the potential for lease assignment. The provision was fully utilised during 2010 on exit of the last remaining property.

24 Called-up share capital

	Group and company			
	2010		2009	
	Authorised	Issued and fully paid	Authorised	Issued and fully paid
Ordinary shares of 20 8/11p each – £m	40.0	28.1	40.0	27.9
– number (m)	193.0	135.7	193.0	134.4

The movement in the number of shares in issue during the year was as follows:

	Group and company 2010 Number m	Group and company 2009 Number m
At 1 January	134.4	131.6
Shares issued pursuant to the exercise of options/awards	1.3	2.8
At 31 December	135.7	134.4

The shares issued pursuant to the exercise of options/awards comprised 1,272,980 ordinary shares (2009: 2,825,147) with a nominal value of £263,854 (2009: £585,576) and an aggregate consideration of £1.8m (2009: £8.4m).

Provident Financial plc sponsors the Provident Financial plc 2007 Employee Benefit Trust (EBT) which is a discretionary trust established for the benefit of the employees of the group. The company has appointed Kleinwort Benson (Jersey) Trustees Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2010, the EBT held 2,638,457 (2009: 2,452,799) shares in the company with a cost of £7.6m (2009: £13.7m) and a market value of £21.4m (2009: £23.0m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006.

In addition to the EBT, Provident Financial plc also sponsors the Provident Financial Qualifying Employee Share Ownership Trust (the QUEST) which is also a discretionary trust established for the benefit of the employees of the group. The company established Provident Financial Trustees Limited to act as trustee of the QUEST. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2010 and 31 December 2009, the QUEST did not hold any ordinary shares in the company.

Provident Financial plc also sponsors the Performance Share Plan Trust which was established to operate in conjunction with the Performance Share Plan (PSP). As at 31 December 2010, awards under the PSP were 748.896 (2009: 635,033) ordinary shares with a cost of £3.1m (2009: £2.4m) and a market value of £6.5m (2009: £5.9m).

All costs relating to the EBT, the QUEST and the PSP are dealt with in the income statement as they accrue. The net of the consideration paid to acquire shares by the EBT, the QUEST and in respect of the PSP and the consideration received on exercise of share options is held in a separate treasury shares reserve.

25 Share-based payments

The group operates four share schemes: the Long Term Incentive Scheme (LTIS), employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)), senior executive share option schemes (ESOS/SESO) and the Performance Share Plan (PSP). During 2010, awards/options have been granted under the LTIS and SAYE schemes (2009: awards/options granted under the LTIS, PSP and SAYE schemes).

For the purposes of assessing the income statement charge under IFRS 2, the options/awards under the SAYE, ESOS/SESO and PSP schemes were valued using a binomial option pricing model. The awards made under the LTIS in 2006, 2007 and 2008 were valued using a Monte Carlo option pricing model and the awards under the LTIS in 2009 and 2010 were valued using a combination of the Monte Carlo and binomial option pricing models.

The charge to the income statement in 2010 was £6.4m for the group (2009: £6.1m) and £2.9m for the company (2009: £2.9m).

The fair value per award/option granted and the assumptions used in the calculation of the share-based payment charge are as follows:

	2010		2009		
Group	LTIS	SAYE	LTIS	PSP	SAYE
Grant date	12 Apr 2010	31 Aug 2010	8 May 09	4 Mar 09–8 May 09	2 Sep 09
Share price at grant date (£)	8.68	8.39	8.92	8.03–8.60	8.83
Exercise price (£)	–	6.62	–	–	6.56
Shares awarded/under option (number)	861,112	428,443	883,931	370,273	460,234
Vesting period (years)	3	3, 5 and 7	3	3	3, 5 and 7
Expected volatility	37.2%	30.2%–34.0%	37.9%	37.8%–37.9%	31.8%–37.3%
Award/option life (years)	3	Up to 7	3	3	Up to 7
Expected life (years)	3	Up to 7	3	3	Up to 7
Risk-free rate	2.19%	1.15%–2.45%	2.08%	1.73%–2.08%	1.98%–3.10%
Expected dividends expressed as a dividend yield	n/a	7.2%	n/a	n/a	7.2%
Fair value per award/option (£)	5.48	1.65–1.71	5.04	8.03–8.60	1.74–2.18

	2010		2009		
Company	LTIS	SAYE	LTIS	PSP	SAYE
Grant date	12 Apr 2010	31 Aug 2010	8 May 09	4 Mar 09–8 May 09	2 Sep 09
Share price at grant date (£)	8.68	8.39	8.92	8.03–8.60	8.83
Exercise price (£)	–	6.62	–	–	6.56
Shares awarded/under option (number)	443,263	7,176	427,650	256,035	12,619
Vesting period (years)	3	3 and 5	3	3	3, 5 and 7
Expected volatility	37.2%	32.6%–34.0%	37.9%	37.8%–37.9%	31.8%–37.3%
Award/option life (years)	3	Up to 5	3	3	Up to 7
Expected life (years)	3	Up to 5	3	3	Up to 7
Risk-free rate	2.19%	1.15%–1.85%	2.08%	1.73%–2.08%	1.98%–3.10%
Expected dividends expressed as a dividend yield	n/a	7.2%	n/a	n/a	7.2%
Fair value per award/option (£)	5.48	1.70-1.71	5.04	8.03–8.60	1.87–2.18

The expected volatility is based on historical volatility over the last three, five or seven years depending on the length of the option/award. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero coupon UK government bonds.

25 Share-based payments – continued

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

	LTIS		ESOS/SESO		SAYE		PSP	
Group	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2010	2,316,169	–	109,084	6.06	1,418,929	6.39	635,033	–
Awarded/granted	861,112	–	–	–	428,443	6.62	–	–
Lapsed	(56,869)	–	(6,416)	5.77	(159,008)	6.54	(1,451)	–
Exercised	(674,940)	–	(43,940)	5.77	(220,394)	6.26	(33,327)	–
Outstanding at 31 December 2010	2,445,472	–	58,728	6.31	1,467,970	6.48	600,255	–
Exercisable at 31 December 2010	–	–	58,728	6.31	57,395	6.66	–	–

Share awards outstanding under the LTIS scheme at 31 December 2010 had an exercise price of £nil (2009: £nil) and a weighted average remaining contractual life of 1.3 years (2009: 1.4 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2010 had exercise prices ranging from 577p to 709p (2009: 577p to 709p) and a weighted average remaining contractual life of nil years (2009: nil years). Share options outstanding under the SAYE schemes at 31 December 2010 had exercise prices ranging from 453p to 716p (2009: 453p to 716p) and a weighted average remaining contractual life of 2.5 years (2009: 2.7 years). Share awards outstanding under the PSP schemes at 31 December 2010 had an exercise price of £nil (2009: £nil) and a weighted average remaining contractual life of 0.8 years (2009: 1.7 years).

	LTIS		ESOS/SESO		SAYE		PSP	
Group	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2009	1,652,082	–	1,437,976	5.94	1,438,534	5.98	285,195	–
Awarded/granted	883,931	–	–	–	460,234	6.56	370,273	–
Lapsed	(95,283)	–	(235,845)	6.83	(108,923)	6.54	(10,820)	–
Exercised	(124,561)	–	(1,093,047)	4.66	(370,916)	4.62	(9,615)	–
Outstanding at 31 December 2009	2,316,169	–	109,084	6.06	1,418,929	6.39	635,033	–
Exercisable at 31 December 2009	–	–	109,084	6.06	8,908	4.81	–	–

25 Share-based payments – continued

Company	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2010	1,105,404	–	49,766	6.22	48,904	6.62	425,814	–
Awarded/granted	443,263	–	–	–	7,176	6.62	–	–
Lapsed	(17,241)	–	–	–	(2,450)	6.93	(1,451)	–
Exercised	(347,316)	–	(21,100)	5.77	(2,760)	7.16	(7,758)	–
Outstanding at 31 December 2010	1,184,110	–	28,666	6.54	50,870	6.28	416,605	–
Exercisable at 31 December 2010	–	–	28,666	6.54	2,680	7.16	–	–

Share awards outstanding under the LTIS scheme at 31 December 2010 had an exercise price of £nil (2009: £nil) and a weighted average remaining contractual life of 1.3 years (2009: 1.4 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2010 had exercise prices ranging from 577p to 709p (2009: 577p to 709p) and a weighted average remaining contractual life of nil years (2009: nil years). Share options outstanding under the SAYE schemes at 31 December 2010 had exercise prices ranging from 491p to 716p (2009: 491p to 716p) and a weighted average remaining contractual life of 1.9 years (2009: 2.6 years). Share awards outstanding under the PSP schemes at 31 December 2010 had an exercise price of £nil (2009: £nil) and a weighted average remaining contractual life of 0.8 years (2009: 1.8 years).

Company	LTIS Number	LTIS Weighted average exercise price £	ESOS/SESO Number	ESOS/SESO Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £	PSP Number	PSP Weighted average exercise price £
Outstanding at 1 January 2009	861,003	–	506,530	5.89	50,708	5.89	172,696	–
Awarded/granted	427,650	–	–	–	12,619	6.56	256,035	–
Lapsed	(58,688)	–	(59,368)	5.26	(412)	5.31	–	–
Exercised	(124,561)	–	(397,396)	6.44	(14,011)	4.53	(2,917)	–
Outstanding at 31 December 2009	1,105,404	–	49,766	6.22	48,904	6.33	425,814	–
Exercisable at 31 December 2009	–	–	49,766	6.22	–	–	–	–

26 Other reserves

Group	Profit retained by subsidiary £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2009	0.8	3.6	(12.0)	(16.0)	7.3	(16.3)
Other comprehensive income:						
– cashflow hedges (note 16)	–	–	(0.8)	–	–	(0.8)
– tax on other comprehensive income	–	–	0.2	–	–	0.2
Other comprehensive income for the year	–	–	(0.6)	–	–	(0.6)
Transactions with owners:						
– purchase of own shares	–	–	–	(0.9)	–	(0.9)
– share-based payment charge (note 25)	–	–	–	–	6.1	6.1
– transfer of share-based payment reserve	–	–	–	–	(1.3)	(1.3)
At 31 December 2009	0.8	3.6	(12.6)	(16.9)	12.1	(13.0)
At 1 January 2010	0.8	3.6	(12.6)	(16.9)	12.1	(13.0)
Other comprehensive income:						
– cashflow hedges (note 16)	–	–	7.6	–	–	7.6
– tax on other comprehensive income	–	–	(2.1)	–	–	(2.1)
– impact of change in UK tax rate	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	5.4	–	–	5.4
Transactions with owners:						
– purchase of own shares	–	–	–	(0.2)	–	(0.2)
– disposal of own shares on vesting of share options/awards	–	–	–	6.5	–	6.5
– share-based payment charge (note 25)	–	–	–	–	6.4	6.4
– transfer of share-based payment reserve	–	–	–	–	(4.2)	(4.2)
At 31 December 2010	0.8	3.6	(7.2)	(10.6)	14.3	0.9

26 Other reserves – continued

Company	Non-distributable reserve £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2009	609.2	2.3	3.6	(14.3)	(16.0)	7.3	592.1
Other comprehensive income:							
– cashflow hedges (note 16)	–	–	–	0.9	–	–	0.9
– tax on other comprehensive income	–	–	–	(0.2)	–	–	(0.2)
Other comprehensive income for the year	–	–	–	0.7	–	–	0.7
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.9)	–	(0.9)
– share-based payment charge (note 25)	–	–	–	–	–	2.9	2.9
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	3.2	3.2
– transfer of share-based payment reserve	–	–	–	–	–	(1.3)	(1.3)
At 31 December 2009	609.2	2.3	3.6	(13.6)	(16.9)	12.1	596.7
At 1 January 2010	609.2	2.3	3.6	(13.6)	(16.9)	12.1	596.7
Other comprehensive income:							
– cashflow hedges (note 16)	–	–	–	7.6	–	–	7.6
– tax on other comprehensive income	–	–	–	(2.0)	–	–	(2.0)
– impact of change in UK tax rate	–	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	–	5.5	–	–	5.5
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.2)	–	(0.2)
– disposal of own shares on vesting of share options/awards	–	–	–	–	6.5	–	6.5
– share-based payment charge (note 25)	–	–	–	–	–	2.9	2.9
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	0.7	0.7
– transfer of share-based payment reserve	–	–	–	–	–	(1.4)	(1.4)
At 31 December 2010	609.2	2.3	3.6	(8.1)	(10.6)	14.3	610.7

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The non-distributable reserve was created as a result of an intra-group reorganisation to create a more efficient capital structure that more accurately reflects the group's management structure.

27 Commitments

Commitments under operating leases are as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Due within one year	11.7	8.7	2.6	–
Due between one and five years	34.1	21.4	8.6	–
Due in more than five years	17.2	5.3	12.4	–
Total	63.0	35.4	23.6	–

The operating lease commitments in the company are in respect of the new Consumer Credit Division head office property which is leased in the name of the company. The costs of the lease are substantially recharged to the Consumer Credit Division.

Other group commitments are as follows:

	Group	
	2010 £m	2009 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	0.4	1.1

The company had £nil capital expenditure commitments contracted with third parties but not provided for at 31 December 2010 (2009: £nil).

	Group	
	2010 £m	2009 £m
Unused committed credit card facilities at 31 December	131.8	88.7

The company has £nil unused committed credit card facilities at 31 December 2010 (2009: £nil).

28 Related party transactions

The company recharges the pension scheme referred to in note 18 with a proportion of the costs of administration and professional fees incurred by the company. The total amount recharged during the year was £0.5m (2009: £0.9m) and the amount due from the pension scheme at 31 December 2010 was £0.2m (2009: £0.4m).

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

	2010			2009		
Company	Management recharge £m	Interest charge/(credit) £m	Outstanding balance £m	Management recharge £m	Interest charge/(credit) £m	Outstanding balance £m
Consumer Credit Division	6.4	63.2	1,037.0	4.5	40.7	1,052.6
Vanquis Bank	1.7	20.9	279.5	1.1	13.4	198.6
Yes Car Credit	–	–	(3.7)	–	0.5	(3.8)
Other central companies	–	(0.2)	(122.7)	–	(0.2)	(154.8)
Total	8.1	83.9	1,190.1	5.6	54.4	1,092.6

During 2010, the company received a dividend of £80.0m from Provident Financial Management Services Limited, a subsidiary within the Consumer Credit Division (2009: £30.0m).

There are no transactions with directors other than those disclosed in the directors' remuneration report.

29 Contingent liabilities

As part of the demerger of the international business in 2007, the company agreed, subject to the application of a floor, to indemnify International Personal Finance plc (IPF) against a specified proportion of corporate income tax liabilities, and related interest and penalties, in respect of the tax returns of Provident Polska for certain periods ended prior to completion. In addition, subject to certain exceptions, the company has indemnified IPF against tax liabilities arising as a result of the demerger and certain pre-demerger reorganisation steps and against tax liabilities arising as a result of a member of the Provident Financial group making a chargeable payment within the meaning of Section 214 Income and Corporations Taxes Act 1988. No material liabilities are currently expected to arise under these indemnities.

The company has a contingent liability for guarantees given in respect of borrowing facilities of certain subsidiaries to a maximum of £455.3m (2009: £672.0m). At 31 December 2010, the fixed and floating rate borrowings in respect of these guarantees amounted to £311.4m (2009: £340.8m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2010 was £nil (2009: £nil).

30 Reconciliation of profit after taxation to cash generated from/(used in) operations

		Group		Company	
	Note	2010 £m	2009 £m	2010 £m	2009 £m
Profit after taxation		101.5	88.6	84.0	30.6
Adjusted for:					
Tax charge/(credit)	5	40.5	37.1	2.8	(3.3)
Finance costs	3	69.7	58.2	64.6	53.8
Finance income		–	–	(84.1)	(57.2)
Dividends received	28	–	–	(80.0)	(30.0)
Share-based payment charge	25	6.4	6.1	2.9	2.9
Retirement benefit charge	18	3.4	2.7	0.5	0.9
Amortisation of intangible assets	11	6.5	3.8	–	–
Depreciation of property, plant and equipment	12	7.0	8.2	0.2	0.4
Impairment of property, plant and equipment	12	2.5	–	1.8	–
Loss on disposal of property, plant and equipment	12	0.1	0.3	0.2	0.1
Impairment in investments in subsidiaries	13	–	–	0.2	–
Changes in operating assets and liabilities:					
Amounts receivable from customers		(80.0)	(76.0)	–	–
Trade and other receivables		3.1	(10.1)	(75.1)	(35.6)
Trade and other payables		0.3	(17.0)	8.6	8.6
Retirement benefit asset		(9.6)	(8.4)	(0.8)	(1.5)
Derivative financial instruments		(0.1)	0.4	–	–
Provisions		(0.8)	(1.2)	–	–
Cash generated from/(used in) operations		150.5	92.7	(74.2)	(30.3)

Independent auditors' report

Independent auditors' report to the members of Provident Financial plc

We have audited the financial statements of Provident Financial plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the group and company balance sheets, the group and company statements of changes in shareholders' equity, the group and company statements of cashflows, the statement of accounting policies, financial and capital risk management and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 52, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2010 and of the group's profit and group's and company's cashflows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 48 to 60 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the directors' remuneration report to be audited 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 38, in relation to going concern;
- the parts of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds, 1 March 2011

Information for shareholders

Financial calendar – final dividend

	2010 Final
Dividend announced	1 March 2011
Annual general meeting	4 May 2011
Ex-dividend date for ordinary shares	11 May 2011
Record date for the dividend	13 May 2011
Payment date of the dividend	21 June 2011

Share price
The Company's shares are listed on the London Stock Exchange under share code 'PFG'. The Share price is quoted daily in a number of national newspapers and is available on our website at www.providentfinancial.com.

Individual Savings Account (ISA)
Shareholders may take out an ISA which includes shares in the company with a provider of their choice. However, the company has made arrangements for its shareholders and employees with Redmayne Bentley for the provision of an ISA. Shareholders who are eligible and who wish to take advantage of this should contact:

Phil Armitage
Redmayne Bentley
Merton House
84 Albion Street
Leeds
LS1 6AG

Telephone: 0113 200 6433

Tax on dividends
A UK tax resident individual shareholder who receives a dividend is entitled to a tax credit in respect of the dividend.

The tax credit is 1/9th of the dividend (corresponding to 10% of the dividend and the associated tax credit).

A UK tax resident individual shareholder is therefore treated as having paid tax at 10% on the aggregate of the dividend and the associated tax credit; as starting and basic rate taxpayers are liable to tax on the dividend and the associated tax credit at 10%, they will have no further liability to tax in respect of the dividend. UK tax resident individuals cannot claim a refund of the 10% tax credit.

The tax liability on dividends for UK tax resident higher rate taxpayers is an amount equal to 32.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 25% of the dividend.

From 6 April 2010, for taxpayers whose income exceeds £150,000 and are subject to tax at the additional rate, the tax liability on dividends is an amount equal to 42.5% of the aggregate of the dividend and the associated tax credit less the tax credit. This equates to a liability for additional tax equal to 36.11% of the dividend.

Registrars
The Company's registrar is:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300
(from within the UK)

Calls cost 10p a minute plus network extras.

Telephone: +44 (0)20 8639 3399
(from outside the UK)

Lines are open 8.30am–5.30pm Monday to Friday.

Capita share portal
Capita Registrars offer a share portal service which enables registered shareholders to manage their Provident Financial shareholdings quickly and easily online. Once registered for this service, you will have access to your personal shareholding and a range of services including: setting up or amending dividend bank mandates; proxy voting and amending personal details. For further information visit www.capitashareportal.com.

Capita Dividend Reinvestment Plan
Capita Registrars offer a Dividend Reinvestment Plan whereby shareholders can acquire further shares in the company by using their cash dividends to buy additional shares. For further information contact Capita Registrars:

Telephone: 0871 664 0381
(from within the UK)

Calls cost 10p a minute plus network extras.

Telephone: +44 (0)20 8639 3402
(from outside the UK)

Special Requirements
A black and white large text version of this document (without pictures) is available on request from the Company Secretary at the address overleaf. An accessible HTML summary of the annual report is available on our website. A PDF version of the full annual report including financial statements is also available to download.

Provident Financial plc

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Company number
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