

PROVIDENT FINANCIAL STAFF PENSION SCHEME

Registered number: 10119828

Annual report for the year ended 31 May 2024

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Trustees and advisers to the Scheme

Registration Number: 10119828

Trustees: K J Mullen (Chair)
R G Pye
S Pyrah* (appointed 11 June 2024)
E Shepherd
S B Wilkie

* Member-Nominated Trustee, 1 Member-Nominated Trustee position vacant

Secretary: S S Nimmo

Principal Employer: Vanquis Banking Group plc
("The Company")
No.1 Godwin Street
Bradford
BD1 2SU

Professional advisers:

Administration Services: Vanquis Banking Group plc

Actuaries and Consultants: Willis Towers Watson Limited, Leeds

Auditor: Crowe UK LLP, Manchester

Bankers: Barclays Bank PLC, Bradford

Investment Adviser: Aon Solutions UK Limited, London

Scheme Actuary: Richard Lawson FIA, Willis Towers Watson Limited

Solicitors: Herbert Smith Freehills LLP, London

Investment managers: Legal & General Assurance (Pensions Management) Limited, London
PIMCO Global Advisors (Ireland) Limited, Dublin
Insight Investment Management (Global) Limited
Robeco Institutional Asset Management
Aon Solutions UK Limited, London

Additional voluntary contribution providers: Aviva UK Life and Pensions Ltd
Aegon (formerly Scottish Equitable plc)
Utmost Life and Pensions Ltd
Royal London Mutual Insurance Society Ltd

Report of the Trustees to the members of the Provident Financial Staff Pension Scheme

Introduction

The Trustees present their report to members for the year ended 31 May 2024. The Trustees confirm that the financial statements for the year ended 31 May 2024 have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

The Scheme provides benefits for the qualifying staff of Provident Financial plc (“the Company”) and certain of its subsidiary companies. It is established under, and governed by, a trust deed and rules dated 14 April 1960, and subsequent amendments. In accordance with the provisions of schedule 36 of the Finance Act 2005, the Scheme became a registered pension Scheme under chapter 2 of part 4 of the Finance Act 2004 with effect from 6 April 2006. The final salary section of the Scheme was contracted out under the provisions of the Pensions Act 1993. The Scheme is a Qualifying Scheme under the Auto-Enrolment provisions of the Pensions Act 2008.

The Scheme is administered by Trustees who are responsible for the affairs of the Scheme. There are currently eight Trustees who are appointed and removed by the Company. Appointment is effected by deed, removal by the giving of seven days’ written notice. The procedure for the appointment of Trustees is in accordance with the Member-Nominated Trustee regulations of the Pensions Act 2004.

During the Scheme year there were four full Trustees’ meetings. The Trustees’ administration committee did not meet in the year but exchanged a number of emails in order to discuss and determine, amongst other things, early retirement and ill-health early retirement matters and the distribution of death benefits.

Statement of Trustees' responsibilities

The financial statements, which are prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ (United Kingdom Generally Accepted Accounting Practice), are the responsibility of the Trustees. Pension scheme regulations require, and the Trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Report of the Trustees to the members of the Provident Financial Staff Pension Scheme (continued)

Statement of Trustees' responsibilities (continued)

The Trustees are responsible under pensions legislation for preparing, maintaining and from time to time revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustees are responsible for the maintenance and integrity of the financial information of the Scheme included on the Scheme's website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Membership

The Scheme was closed to new employees who joined Provident Financial plc and certain of its subsidiary companies on or after 1 January 2003. The changes in membership are summarised below:

Participating staff:	<u>Number</u>
Membership at 1 June 2023	0
Retirements during the year	0
Members leaving during the year	(0)
Deaths	(0)
Membership at 31 May 2024	0
Deferred pensioners:	
Membership at 1 June 2023	2,821
Members transferring benefits	(9)
Pensions into payment/finalised	(149)
Commutated pensions	(11)
Deaths	(13)
Membership at 31 May 2024	2,639
Pensioners:	
Pensioners at 1 June 2023	2,950
New pensioners during the year	181
Suspended pensions	(7)
Commutations	(9)
Deaths	(98)
Pensioners at 31 May 2024	3,017

Note: The above pensioners are those paid directly by the Scheme. At 31 May 2024 there were 146 (2023:165) pensions paid through annuities purchased with Legal & General. The income and expenditure represented by the pension payments is recognised in the financial statements.

Report of the Trustees to the members of the Provident Financial Staff Pension Scheme (continued)

Going concern

The Trustees are responsible for preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will continue on this basis.

In December 2021 the Trustees entered into a Flexible Apportionment Arrangement (FAA) with the employer so that there is a sole statutory employer which has principal liability for all of the Scheme liabilities. Prior to entering the FAA the Trustees undertook a covenant assessment review and it was agreed that the FAA would lead to an overall improvement in the Scheme's covenant.

The Trustees believe it remains appropriate to prepare the financial statements on a going concern basis.

Contributions

In accordance with the rules of the Scheme, contributions are received from both members and employers. The members' contribution rates up to 31st August 2021 were 5% of pensionable earnings and the employer paid contributions of 17.4% up to October 2019 and 19.3% thereafter.

Members' contributions during the Scheme year were paid via a salary sacrifice arrangement unless the member had opted out of that arrangement.

Following consultation with the active members the Cash Balance section was closed on 31st August 2021. Any active members were moved to the VBG Retirement Plan from 1st September 2021.

Benefits

In accordance with the rules of the Scheme, pensioners received the usual increase of 5% on the part of their pension which is in excess of their Guaranteed Minimum Pension in respect of pre-1 January 2000 pensionable service. Inflation measured as the annual increase in the RPI for the year to September 2023 was 8.86% and the increase awarded on that part of their pension in respect of post 1 January 2000 pensionable service was also 5%.

Deferred pensioners who left service after 1 June 1985 have the amount of their deferred pension which is in excess of their Guaranteed Minimum Pension revalued in line with the Occupational Pensions (Revaluation) Orders. This is also in accordance with the rules of the Scheme. No discretionary increases were awarded during the year.

Tax Status

The Scheme was approved by the Inland Revenue as an exempt approved scheme under the Finance Act 1970 and from April 2006 became a registered Scheme under the terms of the Finance Act 2004.

Cash Balance section

From 31 December 2012 the members of the Final Salary section transferred to the Cash Balance section and all Final Salary benefits of members of both sections ceased to be linked to Final Pensionable Earnings from the same date. All members' Final Salary benefits were calculated as at 31 December 2012 and revalued thereafter on the statutory basis.

Following consultation with the active members the Cash Balance section was closed on 31st August 2021. Any active members were moved to the VBG Retirement Plan from 1st September 2021.

Report of the Trustees to the members of the Provident Financial Staff Pension Scheme (continued)

Cash equivalents

All transfer values paid in the year were calculated and verified in the manner prescribed by the regulations under Section 97 of the Pension Schemes Act 1993. These payments were “cash equivalents” as defined by, and required to be so calculated under, the legislation. Transfer values do not take into account any future discretionary increases in pensions in payment in accordance with actuarial advice.

Investment managers

The Trustees have delegated the management of the Scheme’s investments and the members’ additional voluntary contributions (AVC) funds to the managers and providers listed on page 1. The Trustees are not involved in any day to day investment decisions relating to the Legal & General or PIMCO managed fund contracts or the AVC contracts.

The investment management fee for LGIM Developed Balanced Factor Equity Index Fund is 0.03% per annum* while the investment management fees underlying the LGIM bespoke portfolio range from 0.045% to 0.11% per annum. The investment management fee for PIMCO (Low Duration Income Fund) is 0.55% per annum. The investment management fee for Robeco (Global Credits Short Maturity Fund) is 0.21% per annum. The investment management fee for Insight (Short-Dated Buy and Maintain Bond Fund) is 0.10% per annum. The investment management fee for Aon (Adept Strategy 30 Fund) is 0.15% per annum.

Source: investment managers

*In addition to the 0.03% p.a. LGIM investment management charge, the Scheme also pays a fee of 0.04% per annum to Aon for investing in the Fund via their Factor Service.

At 31 May 2024, the investments at bid values, except for PIMCO that uses Net Asset Value pricing, excluding the annuity policies comprised:

	£	£	%
Legal & General	334,892,450		
PIMCO	37,789,348		
Aon	30,031,689		
Insight	20,695,480		
Robeco	25,785,993		
		449,194,960	99.8
AVC funds:			
Aviva	923,827		
Utmost	16,629		
Aegon	19,754	960,210	
		<u>450,155,170</u>	<u>0.2</u>
			<u>100.0</u>

Investment of the Scheme’s assets is made in accordance with the Occupational Pension Schemes (Investments of Scheme’s Resources) Regulations 1992.

Report of the Trustees to the members of the Provident Financial Staff Pension Scheme (continued)

Investment strategy

The Trustees take advice on investment strategy from Aon Solutions UK Limited.

Investment principles

The Trustees have adopted a Statement of Investment Principles as required by section 35 of the Pensions Act 1995. A copy of this statement may be obtained on request from the Secretary to the Trustees at the address shown on page 1.

Employer-related investments

The Scheme had no direct employer-related investments at any time during the year. Shares in Vanquis Banking Group are held indirectly within the Legal & General Equity Index Fund. However, this is less than 1% of the total Scheme assets (2023: less than 1%). No shares in Vanquis Banking Group are held within the PIMCO Low Duration Income Fund.

Investment performance

The investment performance of the Scheme's equity funds over the year was 21.67% (LGIM Developed Balanced Factor Equity Index Fund) and 17.25% (Aon Adept Strategy 30 Fund). The investment performance for each of the Scheme's investment-grade credit funds over the year was 7.84% (PIMCO Low Income Duration Fund), 5.91% (Robeco Global Credits Short Maturity Fund) and 7.96% (Insight Short-Dated Buy and Maintain Bond Fund). The investment performance of the LGIM bespoke portfolio (comprising the LDI portfolio and global credit) was 1.52% over the year.

Source: investment managers, Barnett Waddingham.

Performance for the LGIM Bespoke Portfolio shown gross of fees, all other fund performance figures given net of fees.

The Scheme's investments (excluding annuity policies and AVCs) amounting to £476,194,956 (2023: 482,028,767) were invested in managed funds in the United Kingdom and overseas. The Trustee regards the Scheme's investments as freely marketable and the security of the investment is indicated by the fact that the managers are regulated by the Financial Conduct Authority of the fund control assets in excess of £1bn invested in a wide variety of UK and foreign equities, gilts and property. An analysis of investments is set out in note 9 to the financial statements.

Actuarial position

The latest actuarial valuation as at 1 June 2021 was completed and signed by the Scheme actuary on 30 June 2022. The Actuary's Certification of Technical Provisions is shown on page 36. The latest valuation showed a valuation surplus of £33.7m (2018 deficit of £29.8m) in respect of the value of benefits for past service.

The Company agreed to pay expense contributions to the Scheme of £0.84m a year from 1 July 2022 to 30 June 2027.

Further details of this valuation are set out in the Report on Actuarial Liabilities on page 35 of this report. Within the actuarial valuation an allowance was made of £8.2m for the estimated cost in respect of the consequences of GMP Equalisation brought about by the High Court judgement of 26 October 2018 in relation to Lloyds Bank. No accrual for this cost is included in these financial statements as detailed calculations have not been carried out.

The next actuarial valuation has an effective date of 1 June 2024 and this process is underway.

Implementation Statement

Provident Financial Staff Pension Scheme

Purpose of this Statement

This Implementation Statement has been approved by the Trustees of the Provident Financial Staff Pension Scheme (“the Scheme”) and sets out the following information over the year to 31 May 2024:

- How the Trustees’ policies on exercising rights (including voting rights) and engagement activities have been followed over the year; and
- The voting activity undertaken by the Scheme’s investment managers on behalf of the Trustees over the year, including information regarding the most significant votes.

The voting activity is not reported over the Scheme year to 31 May 2024 because investment managers only report this data on a quarterly basis. This information has therefore been provided for the year to 31 March 2024.

Stewardship policy

The Trustees’ Statement of Investment Principles (“SIP”) in force at 31 May 2024 describes the Trustees’ stewardship policy on the exercise of rights (including voting rights) and engagement activities. It was last reviewed on 19 September 2023 and has been made available online here:

https://pfpensions.co.uk/documents/sip_2023.pdf

There were no changes made to the Scheme’s stewardship policy over year to 31 May 2024.

At this time, the Trustees have not set stewardship priorities or themes for the Scheme, but will consider the extent that they wish to do so in due course, in line with other Scheme risks.

How stewardship, voting and engagement policies have been followed over the year

Based on the information provided by the Scheme’s investment managers, the Trustees believe that their policies on voting and engagement have been met in the following ways:

- The Scheme invests entirely in pooled funds and, as such, delegates responsibility for carrying out voting and engagement activities to the Scheme’s investment managers. Investment rights (including voting rights) will have been exercised by the managers in line with the managers’ general policies on corporate governance. The Trustees also expect the managers to have engaged with the companies in which they invest (where relevant) in relation to environmental, social and governance (“ESG”) matters. More information on the managers’ stewardship activities can be found in the following sections of this Statement.
- Over the year, as part of the ongoing monitoring of the Scheme’s investment managers, the Trustees used ESG ratings provided by their investment consultant (where available), to assess how the Scheme’s investment managers take account of ESG issues.

- Annually, the Trustees receive and review information on the voting behaviour and engagement activities of the investment managers. The Trustees review this information to ensure alignment with the Scheme's policies (as set out in the Scheme's SIP). This exercise was undertaken as part of preparation of the Implementation Statement in respect of the managers' activities over the year to 31 May 2024.
- The Trustees regularly consider the performance of the Scheme's funds and any significant developments that arise.

Summary

Based on the information contained in this Implementation Statement, the Trustees are comfortable that the actions of the investment managers are in alignment with the Scheme's stewardship policies. The Trustees are supportive of the key voting and engagement action taken by the relevant managers over the period.

Approved by the Trustees of the Provident Financial Staff Pension Scheme

Voting data

This section provides a summary of the voting activity undertaken by the relevant investment managers within the Scheme's return-seeking portfolio on behalf of the Trustees over the year to 31 May 2024. The assets held with PIMCO, Robeco and Insight (as well as the hedging portfolio held with LGIM), are expected to have no voting rights given the nature of the mandates.

The Aon Adept Strategy 30 Fund is a "fund of funds" arrangement, whereby Aon select and invest in a number of underlying funds (as opposed to directly investing in a pool of securities). Of the underlying funds that comprise the Adept Strategy 30 Fund, Aon have provided voting data for the Mirova Global Sustainable Equity Fund and the Nordea Global Climate and Environment Fund, which they classify as "material" funds.

Manager	LGIM	Aon	
		Mirova	Nordea
Fund name	Developed Balanced Factor Equity Index Fund	Global Sustainable Equity Fund ²	Global Climate and Environment Fund ²
Structure	Pooled		
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour		
No. of eligible meetings	827	44	62
No. of eligible votes	12,190	651	841
% of resolutions voted	99.8%	100.0%	100.0%
% of resolutions abstained ¹	0.2%	2.0%	3.0%
% of resolutions voted with management ¹	78.7%	53.0%	86.7%
% of resolutions voted against management ¹	21.1%	45.0%	10.3%
Proxy voting advisor employed	Institutional Shareholder Services ("ISS")	None ³	Institutional Shareholder Services ("ISS")
% of resolutions voted against proxy voter recommendation ¹	16.6%	Not applicable	7.4%

Source: Investment managers. Totals may not sum due to rounding.

¹As a percentage of the total number of resolutions voted on.

²Held within the Aon Adept Strategy 30 Fund.

³Mirova votes in line with their own policy, however they do use the ISS proxy voting platform as one of many sources when determining how to vote.

Significant votes

The change in Investment and Disclosure Regulations that came into force from October 2020 requires information on significant votes carried out on behalf of the Trustees over the year to be set out. The guidance does not currently define what constitutes a “significant” vote.

However, recent guidance states that a significant vote is likely to be one that is linked to one or more of a scheme’s stewardship priorities or themes.

At this time, the Trustees have not set stewardship priorities for the Scheme and so have asked the investment managers to determine what they believe to be a “significant vote”. The Trustees have not communicated voting preferences to their investment managers over the period, as the Trustee is yet to develop a specific voting policy. In future, the Trustees will consider the most significant votes in conjunction with any agreed stewardship priorities or themes.

LGIM and Aon have provided a selection of votes which they believe to be significant. In the absence of agreed stewardship priorities or themes, the Trustees have opted to show three votes (for each fund where information has been provided) that cover a range of themes. To represent the most significant votes, the votes of the largest holdings relating to each theme (as at the date of the vote, as a percentage of the portfolio) are shown below.

LGIM, Developed Balanced Factor Equity Index Fund

	Vote 1	Vote 2	Vote 3
Company name	Walmart Inc.	Synopsys Inc.	Alphabet Inc.
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.8%	0.7%	0.7%
Theme	Diversity	Board independence	Shareholder resolution
Summary of the resolution	Elect Director Thomas W. Horton	Elect Director Aart J. de Geus	Approve recapitalization plan for all stock to have one vote per share
How the manager voted	Against	Against	For
Rationale for the voting decision	LGIM expects companies to have at least one-third women on their board.	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.	LGIM expects companies to apply a one-share-one-vote standard.

	Vote 1	Vote 2	Vote 3
Outcome of the vote	Not provided	Not provided	Fail
Implications of the outcome	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.		
Criteria on which the vote is considered "significant"	LGIM views gender diversity as a financially material issue for their clients, with implications for the assets they manage on their behalf.	LGIM considers this vote an escalation of their vote policy on the topic of the combination of Chair and CEO (that is, an escalation of engagement by vote).	LGIM considers this vote to have received a relatively high level of support (30.7% voted in favour).

Source: LGIM.

Mirova, Global Sustainable Equity Fund ¹

	Vote 1	Vote 2	Vote 3
Company name	Microsoft Inc.	Legal & General Group Plc	Legal & General Group Plc
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.8%	0.6%	0.6%
Theme	Shareholder resolution	Dividend policy	Climate
Summary of the resolution	Shareholder proposal regarding tax, climate and political contributions	Approval of dividend	Resolution on climate strategy
How the manager voted	Against management	Against management	Supported management
Rationale for the voting decision	Mirova routinely engage with Microsoft regarding tax disclosures and believe country by country reporting is critical information for investors. They were also in favour of the shareholder proposals relating to climate reporting and political contributions.	Mirova believe the company has a history of very low effective tax rates. They claim that while the company discloses some information on its tax data, the variance in rates is mainly due to its very "favourable" country mix. Mirova thinks this approach seems aggressive when compared to the company's peers.	Mirova believe that the company's climate transition plan is sufficiently robust to warrant a vote for at this stage. They note the company's investment policy is aligned with +1.5°C trajectory and the targets set cover all scopes for the short, medium, and long-term.
Outcome of the vote	Fail	Pass	Pass
Implications of the outcome	While Mirova believe the discussions around tax disclosure have been helpful, they continue to encourage the company to improve disclosure ahead of the 2025 Global Reporting Initiative reporting requirements.	Mirova have contacted the company to inform them of their voting decision and supporting rationale.	Mirova's main criticism is that they would have preferred the inclusion of sovereigns.
Criteria on which the vote is considered "significant"	Mirova consider these votes significant as they are relevant to their engagement strategy.		

Source: Aon, Mirova.

¹ Held within the Aon Adept Strategy 30 Fund.

Nordea, Global Climate and Environment Fund ¹

	Vote 1	Vote 2	Vote 3
Company name	Air Liquide	Eversource energy	Aptiv Plc
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	4.1%	2.6%	1.4%
Theme	Issuance of equity (or equity-linked securities) and associated rights	Executive compensation	Board independence
Summary of the resolution	Authorise issuance of equity or equity-linked securities with pre-emptive rights up to aggregate nominal amount of €470m.	Ratify named Executive Officers' compensation	Elect director Kevin P. Clark
How the manager voted	Against management	Against management	Against management
Rationale for the voting decision	The share issuance authority with pre-emptive rights has a volume of 16.3% of currently issued capital. Nordea also have concerns given that the term length of the authority is 26 months.	Nordea think that bonuses and share based incentives should only be paid when management reach clearly defined and relevant targets, which are aligned with the interest of the shareholders. They note 25% of the share-based long-term incentive plans for executives are time-based and lack performance targets.	Nordea believe that, given the board's supervisory role, it should be separated from the company's management to the greatest extent possible. They voted against to ensure that the board maintains its independence.
Outcome of the vote	Pass	Pass	Pass
Implications of the outcome	Nordea feel authorisation comprising more than ten percent of the company's capital should be avoided unless otherwise specifically justified.	Nordea see less and less support at many annual general meetings for remuneration packages and will continue to be critical of badly structured remuneration programs with large proportions of time-based variable compensation.	Nordea will continue to vote against combined Chair and CEO roles in all companies.
Criteria on which the vote is considered "significant"	Nordea classify significant votes as those that are severely against their principles and where they feel they need to enact change in the company.		

Source: Aon, Nordea.

¹ Held within the Aon Adept Strategy 30 Fund.

Engagement data

The investment managers may engage with investee companies on behalf of the Trustees. The table below provides a summary of the engagement activities undertaken with respect to each fund in which the Scheme invests (where data has been provided) during the year to 31 March 2024¹.

Manager	LGIM	Aon		PIMCO ¹	Robeco	Insight	LGIM
		Mirova	Nordea				
Fund name	Developed Balanced Factor Equity Index Fund	Global Sustainable Equity Fund ²	Global Climate and Environment Fund ²	Low Income Duration Fund	Global Credits Short Maturity Fund	Short Dated Buy and Maintain Bond Fund	Bespoke hedging mandate
Number of engagements undertaken on behalf of the holdings in this fund in the year	374	42	42	100	24	104	159
Number of entities engaged on behalf of the holdings in this fund in the year	177	35	27	57	22	45	59
Number of engagements undertaken at a firm level in the year	2,144	122	1,214	1,355	349	2,521	2,144

Source: Investment managers

¹ PIMCO only compiles engagement activity statistics on a calendar year basis. As such, the figures shown are for the 12 months to 31 December 2024.

² Held within the Aon Adept Strategy 30 Fund.

Examples of engagement activity undertaken over the year to 31 May 2024

Source: Investment managers.

LGIM – Developed Balanced Factor Equity Index Fund and bespoke hedging mandate Bayer: Litigation risks and management changes

As a leading pharmaceuticals and crop science company, Bayer plays a significant role in global food production and security. However, Bayer faces meaningful reputation risks regarding ongoing litigation related to its “Roundup” herbicide product. Since 2018, Bayer has faced over \$16 billion total charges or payments related to this litigation, which remains ongoing and poses still meaningful risks to Bayer's ability to deleverage its balance sheet while investing for future growth in its pharmaceuticals business.

From 2019 to 2024, LGIM's Stewardship and Investment teams met with members of Bayer's supervisory board, ESG team and its new CEO. Additionally, they have engaged with Bayer's investor relations and treasury teams via numerous email exchanges. In their meetings, LGIM have sought to ascertain how Bayer will fund and manage ongoing litigation risks. This would include soliciting its views regarding employing controversial legal strategies. LGIM have always made clear that Bayer cannot settle its legal challenges in a manner that creates long-lasting harm to its balance sheet in exchange for potentially short-term gains for its shareholders.

Mirova – Global Sustainable Equity Fund ¹

Ecolab Inc: Biodiversity

As a member of The Taskforce on Nature-related Financial Disclosures, Mirova participated in the dedicated group on chemicals and pharmaceuticals to bring the voice of responsible investors in the establishment of a relevant disclosure framework. Within this working group, Mirova requested the chemicals industry to disclose material indicators including chemical substances banned in some jurisdictions, persistent chemicals, emerging chemicals, pesticides active substances and dependence on water.

In 2023, Mirova engaged with a set of companies within the chemical sector in order to assess their practices regarding hazardous substances risk management. Considering that most material chemical risks relate to the lack of hazardousness assessment for new chemical substances, Mirova engaged the companies on:

1. Setting timebound targets to reduce manufacturing and use of Substances of Very High Concern. (“SVHC”).
2. Assessing their global chemical risk via third-party verified methodology such as the Chemical Footprint Project (“CFP”).
3. Establishing methodologies meant to prioritize substance development in the research and development phase.

To illustrate this, Mirova engaged with a chemical detergent company, Ecolab, on the above. As a result, the company disclosed a policy on SVHC reduction and now discloses that only 2% of its products contain SVHC traces. The company assesses its global chemical impact based on the CFP framework, which allocates a total of 100 points across 20 questions to companies.

Nordea – Global Climate and Environment Fund ¹

Cleanaway Waste Management: Net zero targets

Nordea is a founding member and signatory of the Net Zero Asset Managers Initiative (a global coalition of asset managers working for the achievement of net-zero greenhouse gas emissions by 2050) and has adopted a historic set of climate targets to support this ambition. For companies in high carbon emitting sectors such as waste management, Nordea engages to understand their decarbonisation strategy.

Several waste management companies are present in Nordea’s top 200 highest CO2 emitters list, including Cleanaway Waste Management. This triggered an engagement to assess the company’s science-based decarbonisation strategy and targets and how it plans to align with the Paris-agreement by 2030. Another topic subject to increased public and regulatory scrutiny are “PFAS” (per- and poly fluoroalkyl substances), also known as ‘forever chemicals’, which may ultimately end up in landfills, highlighting possible waste management operators’ liability.

Nordea held a virtual meeting with Cleanaway’s Head of Carbon and Head of Sustainability to discuss the company’s carbon and methane measurement methodology, decarbonisation targets, Paris-aligned trajectory and PFAS handling at collection, processing and landfills. As Cleanaway’s decarbonisation initiative involves the use of carbon credits incentivised by the Australian government (and ultimately traded with international carbon credits), this does not comply with the Science-Based Target initiative (“SBTi”) framework. Nordea plan to follow up on Cleanaway’s extensive use of carbon credits and when the company will begin a dialogue with SBTi.

¹ Held within the Aon Adept Strategy 30 Fund.

PIMCO - Low Duration Income Fund

Multinational Bank: Climate change and human/labour rights

One of the issuers within the PIMCO portfolio is a major global bank that has set net zero targets. The bank has published some targets on sectoral financed emissions and sustainable finance with improving climate risks disclosure.

PIMCO has been engaging with the bank both collaboratively with other investors (through The Institutional Investors Group on Climate Change) and bilaterally on broader ESG topics. Some progress has been made in target setting and assessing transition progress, as well as positive acknowledgement on methane reduction as part of their engagement with oil and gas sector.

However, PIMCO believe there remain gaps in the bank's climate ambition. In particular, PIMCO encouraged the bank to consider further alignment between sectoral targets and their financing policy (for example, setting time-bound expectations for carbon-intensive sectors to have a credible transition plan and/or Paris-aligned greenhouse gas emissions targets in place), greater transparency in absolute greenhouse gas emissions and client engagement on net zero. PIMCO are planning to further engage the issuer on their approach to identifying and assessing human right risks across their financing activities, as well as other material ESG topics.

Robeco - Global Credits Short Maturity Fund

Tencent Holdings Ltd: Social impact of gaming

Robeco believe further insight into how companies within the video gaming industry are dealing with the societal impacts of their products can help investors gain additional insight in how future-proof companies are. In particular, their engagement objectives include fostering improvement on:

- Safeguarding online communities
- Spending and time management
- Creating in-game diversity
- Managing violent content
- Human capital management
- Stakeholder management

Robeco started their engagement with Tencent, a Chinese company with businesses and investments in a wide variety of internet services and contents, with their dialogue focused on its wholly-owned subsidiary called Riot Games. The main concern around Riot Games was in-game harassment and that transparency of the company around social impacts of products should be improved in order for stakeholders to better assess the performance of Riot Games in these areas. During the years of engagement, Robeco had multiple conference calls, as well as an in-person meeting, with Riot Games' Investor Relations team and ESG specialists.

In December 2023, Robeco successfully closed their engagement with Tencent on the social impact of its games. The company demonstrated a proactive attitude to the social impact of its products, which proved beneficial in the tightening regulatory environment. This included the development of diversity equity and inclusion and anti-sexual harassment policies over 2022 and 2023, as well as significant improvements in ESG reporting.

Robeco believe that Tencent's expansion into international markets leaves room for improvement in managing violent content in the absence of strict guidelines.

Insight - Short Dated Buy and Maintain Bond Fund

Heathrow Funding Ltd: Climate change

One of the issuers within the Insight portfolio is a UK airport, offering facility maintenance, baggage handling, air traffic control, on board catering and aircraft fuelling services. Insight previously engaged with the Heathrow in 2022 to better understand its decarbonisation strategy.

While the company is targeting net-zero by 2050, the two main challenges it faces are its degree of influence on airlines to decarbonise their fleet, and that its net zero plan relies on technology which is costly and/or unproven (for example, sustainable aviation fuel - "SAF").

The last time Insight met with the Heathrow, they requested the company get their decarbonisation targets approved by SBTi due to the materiality of the airline industry to carbon emissions.

In 2023, their target was approved by SBTi: Heathrow have committed to a 46.2% reduction in absolute scope 1, 2 and scope 3 greenhouse gas emissions by 2030 (using 2019 as a base year). Insight have highlighted a number of areas for improvement regarding the company's ESG reporting, including submitting a public disclosure to the Carbon Disclosures Project. They also noted some of the issuer's targets don't appear to be very ambitious. For example, Heathrow's target for SAF to be used in airlines operating at the airport by 2030 is only 1% more than the UK government's ambition. Insight highlighted that it would be beneficial to see what the company is doing to influence the UK government into supporting SAF as a more material part of fuel supply.

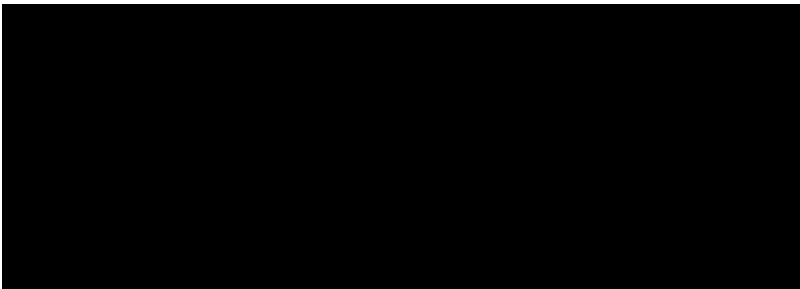
Report of the Trustees to the members of the Provident Financial Staff Pension Scheme (continued)

Further information

All members have received an explanatory booklet detailing the benefits and contributions applicable to the Scheme. Details of the Scheme are also available on the pensions website at www.pfpensions.co.uk

Requests for further information about the Scheme and enquiries about an individual's entitlement to benefits should be sent to the Secretary to the Trustees, Provident Financial Staff Pension Scheme, No.1 Godwin Street, Bradford BD1 2SU or via pensionenquiries@vanquisbankinggroup.com.

The Report of the Trustees including the Report on Actuarial Liabilities and the Investment Reports were approved by the Trustees and signed on behalf of the Trustees by:



10 December 2024

Independent Auditor's Report to the Trustees of Provident Financial Staff Pension Scheme

Opinion

We have audited the financial statements of Provident Financial Staff Pension Scheme for the year ended 31 May 2024 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 May 2024, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The Trustees are responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustees

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

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias

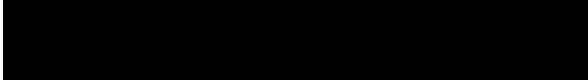
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing noncompliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

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

Use of our report

This report is made solely to the Scheme's Trustees, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.



Crowe U.K. LLP
Statutory Auditor
Manchester

34 December 2024

Basis of preparation and identification of financial statements

The individual financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 FRS 102— The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP') (2018) - Financial Reports of Pension Schemes, published by the Pensions Research Accountants Group ("PRAG").

The Scheme has been established as a trust, subject to English law. All enquiries should be sent to the address listed on page 1.

Accounting policies

Functional and presentational currency

The Scheme's functional and presentational currency is pounds sterling (GBP).

Going concern

As stated in the Statement of Trustees' responsibilities the Trustees are responsible for preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will continue on this basis.

In December 2021 the Trustees entered into a Flexible Apportionment Arrangement (FAA) with the employer so that there is now a sole statutory employer which has principal liability for all of the Scheme liabilities. Prior to entering into the FAA the Trustees undertook a covenant assessment review and it was agreed that the FAA would lead to an overall improvement in the Scheme's covenant.

The Trustees therefore believe it remains appropriate to prepare the financial statements on a going concern basis.

Contributions

Employer deficit funding contributions are accounted for on the due dates on which they are paid under the Schedule of Contributions or on receipt if earlier with the agreement of the Employer and the Trustee.

Expense contributions are made by the Employer to reimburse costs and levies are accounting for in accordance with the Schedule of Contributions.

Benefits and payments to and on account of leavers

Pensions in payment, including pensions funded by annuity contracts and amounts paid under income draw-down arrangements are accounted for in the period to which they relate.

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Payments to and on account of leavers

Individual transfers to other schemes are accounted for when member liability is discharged which is normally when the transfer amount is paid.

Administrative expenses

Administrative expenses are accounted for on an accruals basis, net of recoverable VAT.

Investment income

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income from cash and short-term deposits is accounted for in these financial statements on an accruals basis. All investment income is stated inclusive of any related recoverable taxation but net of any irrecoverable tax, including overseas withholding taxes and the costs of collection.

Income arising from insurance (annuity) policies held by the Trustee to fund benefits payable to Scheme members is included within investment income and is accounted for on an accruals basis.

Change in market value of investments

The change in market value of investments during the year comprises all increases and decrease in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Transactions costs

Transactions costs are included in the cost of purchases and sale proceeds. Transaction costs are charged directly to the Scheme such as fees, commissions, stamp duty and other fees.

Investment management expenses

Investment management fees and rebates are accounted for on an accruals basis, net of recoverable VAT.

Investments

Investments are included at fair value as described below:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

Annuity (insurance) policies purchased in the name of the Scheme and which provide benefits to members have been valued by the Scheme Actuary at the present value of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date.

AVC funds are included within the Statement of Net Assets (Available for Benefits) on the basis of fair values provided by the AVC provider at the year end.

Foreign currencies

The Scheme functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year-end. Foreign currency transactions are recorded in sterling at the spot exchange at the date of the transaction.

Significant Judgements & Estimates

Other than annuities outlined above, the Trustees do not consider there to be any significant material judgements or accounting estimates.

Fund account for the year ended 31 May 2024

	Note	2024 £000's	2023 £000's
Contributions and benefits			
Contributions receivable – Employer Normal	1	-	-
Contributions receivable - Employer Smart	1	-	-
Contributions receivable - Employer Deficit Funding	1	-	250
Contributions receivable – Employer Expenses	1	840	810
Contributions receivable – Member	1	-	-
Contributions receivable - AVCs	1	-	-
Contributions receivable – PPF Levies	1	40	54
Other income	2	-	3
		<hr/>	<hr/>
		880	1,117
Benefits paid or payable	3	25,961	22,705
Payments to and on account of leavers	4	1,841	4,812
PPF Levies	5	40	54
Other payments	5	-	-
Administrative expenses	6	1,124	1,273
		<hr/>	<hr/>
		28,966	28,844
Net withdrawals from dealings with members		(28,086)	(27,727)
Returns on investments			
Investment income	7	5,335	1,351
Investment management expenses	8	(320)	(358)
Change in market value of investments	9	16,448	(187,289)
		<hr/>	<hr/>
		21,463	(186,295)
Net increase/(decrease) in fund during the year		(6,623)	(214,002)
Net assets of the Scheme at beginning of year		492,153	706,176
Net assets of the Scheme at 31 May 2024		<hr/> 485,530 <hr/>	<hr/> 492,153 <hr/>

The accompanying accounting policies and notes form an integral part of these financial statements.

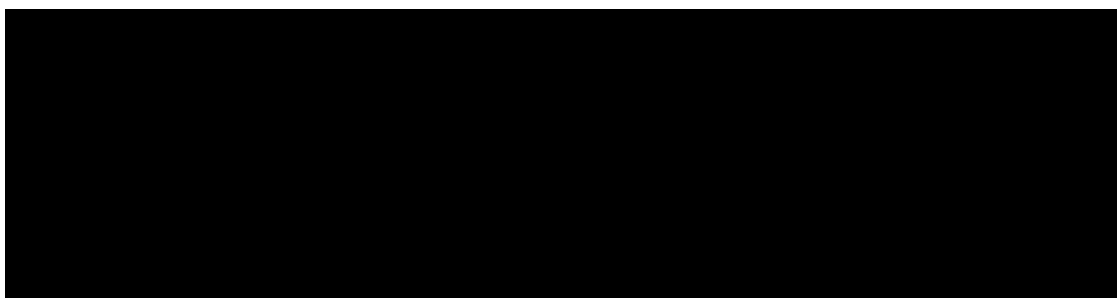
Statement of net assets (available for benefits) at 31 May 2024

	Note	2024 £000's	202 £000's
Investment assets			
Pooled investment vehicles	9	476,195	482,029
Annuity policies	9	7,000	8,000
AVC investments	9	960	879
Current assets	10	2,876	2,271
Current liabilities	10	(1,501)	(1,026)
Net assets of the Scheme at 31 May 2024		485,530	492,153

These financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

The actuarial position of the Scheme which does take account of such liabilities is dealt with in the statements by the Actuary and the Report on Actuarial Liabilities which should be read in conjunction with these financial statements.

These financial statements were approved by the Trustees and signed, on 10 December 2024, on their behalf by:



The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 May 2024

	2024	2023
	£000's	£000's
1 Contributions receivable		
Employers' contributions		
Normal	-	-
Smart	-	-
Deficit	-	250
Additional		
Expense contributions	840	810
Members' contributions		
Normal	-	-
Additional voluntary contributions	-	-
PPF Levies	40	54
	<u>880</u>	<u>1,114</u>
<p>Deficit funding contributions became payable at the rate of £250,000 per month from 1 November 2019 in accordance with the Schedule of Contributions signed 23 October 2019 and these ceased with effect from 30 June 2022 following completion of the 2021 Valuation.</p> <p>The current Schedule of Contributions covers the period 30 June 2022 to 30 June 2027 and states Expense contributions of £70,000 per month and nil deficit contributions.</p>		
2 Other income	2024	2023
	£000's	£000's
Sundry income	<u>-</u>	<u>3</u>
3 Benefits paid or payable	2024	2023
	£000's	£000's
Pensions	20,410	19,456
Commutations and lump sum retirement benefits	3,927	2,502
Purchase of annuities	1,573	633
Lump sum death benefits	51	114
	<u>25,961</u>	<u>22,705</u>
4 Payments to and on account of leavers	2024	2023
	£000's	£000's
Individual transfers out to other schemes	1,841	4,753
Transfers on divorce	-	59
	<u>1,841</u>	<u>4,812</u>

Notes to the financial statements for the year ended 31 May 2024 (continued)

	2024 £000's	2023 £000's
5 Other payments		
PPF Levies	40	54
Sundry payment	-	-
	<u>40</u>	<u>54</u>
6 Administrative expenses		
	2024 £000's	2023 £000's
Administration and processing	480	339
Legal fees	29	44
Actuarial fees	560	769
Audit fees	27	31
Employer Covenant Assessment fees	-	67
Trustee fees	26	22
Sundry	2	1
	<u>1,124</u>	<u>1,273</u>
All other costs of administration are borne by the Provident Financial group of companies.		
7 Investment income		
	2024 £000's	2023 £000's
Legal & General annuity income	1,037	1,145
PIMCO dividend income	2,107	201
Robeco dividend income	1,282	-
Insight dividend income	897	-
Interest on cash deposits	12	5
	<u>5,335</u>	<u>1,351</u>
8 Investment management expenses		
	2024 £000's	2023 £000's
Administration, management, and custody	<u>320</u>	<u>358</u>

Notes to the financial statements for the year ended 31 May 2024 (continued)

9 Investment assets

All investments are managed by companies which are registered in the United Kingdom.

The Scheme's pooled investment vehicles are held under managed fund policies in the name of the Trustees. Income generated by these units is not distributed but retained in the market value of the units.

Costs are borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable. There have been no direct transaction costs during the year.

Pooled Investment Vehicles	Market value at 31 May 2023 000's	Purchases 000's	Withdrawals 000's	Change in market value 000's	Market value at 31 May 2024 000's
Legal & General					
Equities	24,864			5,407	30,271
Bonds	330,052		(3,366)	4,936	331,622
PIMCO	47,937		(11,301)	1,153	37,789
Aon	25,602			4,430	30,032
Insight	27,984		(8,500)	1,211	20,695
Robeco	25,590			196	25,786
Pooled Investment Vehicles	482,029		(23,167)	17,333	476,195
Annuities	8,000			(1,000)	7,000
AVC investments	879		(34)	115	960
Total Investments	490,908	-	(23,201)	16,448	484,155

Notes to the financial statements for the year ended 31 May 2024 (continued)

9 Investment assets

The Scheme's investments in pooled investment vehicles at the year-end comprised

	2024	2023
	£000's	£000's
PIMCO Credit	37,789	47,937
Equity LGIM	30,271	24,864
Bonds LGIM	331,622	330,052
Aon	30,032	25,602
Insight	20,695	27,984
Robeco	25,786	25,590
	<u>476,195</u>	<u>482,029</u>

The Scheme's investments in insurance policies at the year-end comprised:

	2024	2023
	£000's	£000's
Annuities with Legal and General	<u>7,000</u>	<u>8,000</u>

The Scheme's investments in Additional Voluntary Contributions at the year-end comprised:

	2024	2023
	£000's	£000's
AVC policies with Aviva	924	844
AVC policies with Utmost	16	16
AVC policies with Scottish Equitable	20	19
	<u>960</u>	<u>879</u>

10 Current assets and current liabilities

	2024 £000's	2023 £000's
Assets		
Cash at bank and on deposit	767	1,679
PPF Levies	0	-
Sundry Debtors	2,109	592
	<u>2,876</u>	<u>2,271</u>
Liabilities		
Annuities to purchase	757	509
Pensions payable	-	47
Retirement lump sums payable	11	38
Trustee Fees	-	-
Death benefits payable	-	-
Amount due to Legal & General Administration	136	163
Trivial Commutations	110	72
Audit fee	-	24
Audit fee	27	26
Actuarial/consultancy fee	67	49
Trustees' indemnity insurance	25	25
PAYE	326	31
PPF Levy	42	42
	<u>1,501</u>	<u>1,026</u>

11 Related Party transactions

The administration of the Scheme is undertaken by Vanquis Banking Group which recharges the Scheme with a proportion of the costs of administration. The amount recharged during the year was £246,903 (2023: £303,761), plus £26,000 in respect of the salary to Chairman of Trustees both of these amounts are included in administrative expenses in note 6. The amount outstanding at the year-end was £110,380 (2023 £71,380).

12 Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

Investment strategy

The Trustees' overall strategic objectives are:

To target, over the long-term, a return on the investments which aims to improve the funding level of the Scheme so that it is sufficiently well funded by 2035 that the Scheme can be run with minimal investment, mortality and other risks.

To seek to preserve the security of member's benefits having regard to the risks associated with the target levels of return.

The Trustees set the investment strategy taking into account considerations such as the strength of the Employer covenant, the long-term liabilities of the Scheme, the funding agreed with the Employer and environmental, social and governance ("ESG") factors.

The investment strategy is set out in the Scheme's Statement of Investment Principles dated 19 September 2023.

The target strategy (excluding annuities) in place as at 31 May 2024 was to hold:

- 30% in return-seeking assets, comprising global equities, diversified credit strategies and short dated credit.
- 70% in hedging assets that aim to provide a hedge against the long-term liabilities of the Scheme, comprising liability driven investment ("LDI") funds, global credit and cash.

The actual allocation and target allocation in place as at 31 May 2024 (excluding annuities and the Scheme bank account) are shown in the table below:

Portfolio	Asset class	Target allocation	Actual allocation
Return-seeking portfolio	Equities	10.0%	12.7%
	Diversified credit	10.0%	7.9%
	Short-dated credit	10.0%	9.8%
Hedging portfolio	Global credit	20.0%	21.5%
	LDI portfolio	50.0%	48.2%
Total		100%	100%

Source: Investment managers. Totals may not sum due to rounding.

The Trustees have agreed that reasonable deviations around the strategic allocations from time to time are acceptable.

The target asset allocation above is used as a guideline only and the Trustees retain discretion to rebalance back to the above split. The actual asset allocation is regularly monitored by the Trustees and where the actual allocation is materially different to the above target allocation the Trustees will take advice from their advisers before deciding whether any action is required or if the deviation from the above target is acceptable.

As at 31 May 2024, the overall asset allocation was in line with long-term strategic control ranges agreed by the Trustees

Changes to investment strategy over year to 31 May 2024

There were no changes to the strategic asset allocation over the year. Over the period, the Scheme's hedging portfolio was restructured to align with the Scheme's long-term funding basis. As at the year-end, the hedging strategy sought to hedge 94% of the Scheme's total liabilities' exposure to movements in interest rates and inflation on the revised hedging basis.

Types of risk relating to investments

FRS102 requires the disclosure of information in relation to certain investment risks as follows:

- Credit risk – one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk – comprises the following three types of risk:
 1. Interest rate risk: The risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in market interest rates.
 2. Currency risk: The risk that the fair value or future cashflows of a financial asset will fluctuate because of changes in foreign exchange rates.
 3. Other price risk: The risk that the fair value, or future cashflows of a financial asset will fluctuate because of changes in market prices (other than those due to interest rates and currency).

The Trustees determine the investment strategy after taking advice from a professional investment adviser and consulting with the Employer.

The Scheme has exposure to these risks because of the investments it makes in following the investment strategy.

The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees via regular reviews of the investment portfolio.

Further information on the Trustees' approach to risk management, credit and market risk is set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

The following table summarises the extent to which the various classes of investments are typically affected by financial risks:

Asset class	Exposure (£m)		Credit risk	Currency risk	Interest rate risk	Other price risk
	2024	2023				
Equities	60.3	50.5	○	○	○	●
Diversified credit	37.8	47.9	●	○	●	●
Short-dated credit	46.5	53.6	●	○	●	●
Global credit	102.2	99.8	●	○	●	●
Liability driven investment (“LDI”) portfolio	229.5	230.3	●	○	●	●
Cash	0.8	1.7	●	○	●	○
Annuities	7.0	8.0	●	○	○	○

*Key: The risk noted affects the asset class (●) or hardly/not at all (○).
Source: Investment managers / Barnett Waddingham.*

Market risk: Interest rates

The Scheme is subject to interest rate risk because some of the Scheme’s investments are held in bonds and other credit and derivative instruments through pooled investment vehicles.

The Scheme’s hedging portfolio (which comprises the LDI portfolio and global credit) has been designed to hedge a specified proportion of the impact of changes in interest rates on the Scheme’s liabilities. The Trustees have set a target for investments in the hedging portfolio of 70% the total investment portfolio (excluding annuities). Under this strategy, if interest rates fall and all else being equal, the value of the hedging portfolio will rise to help match the increase in the value placed on the actuarial liabilities arising from a decrease in the discount rate. Similarly, if interest rates rise and all else being equal, the hedging portfolio will fall in value, as will the value placed on the actuarial liabilities because of an increase in the discount rate.

The annuities held by the Scheme will also be exposed to interest rate risk

Market risk: Currency

The Scheme is exposed to currency risk because some of its investments are held in overseas markets whilst its liabilities are denominated in sterling. For example, the Scheme invests indirectly in overseas equities and bonds through pooled investment vehicles.

The Scheme manages currency risk by investing in the sterling-hedged share classes of the equity, diversified credit and short-dated credit funds, whilst the investment manager hedges the vast majority of the currency risk associated with overseas holdings in the global credit portfolio back to sterling.

Market risk: Other price

Other price risk arises principally in relation to the Scheme's return-seeking portfolio which includes equities, diversified credit and short-dated credit strategies held in pooled investment vehicles. The Trustees have set a target for investments in the return-seeking portfolio of 30% the total investment portfolio (excluding annuities).

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments via pooled investment vehicles across various types of markets.

Credit risk

The Scheme is subject to credit risk in relation to its holdings in units of pooled investment vehicles and the holding of cash balances. The Scheme also has indirect exposure to credit risks from some of the underlying investments held by the pooled investment vehicles.

Pooled investment vehicles used by the Scheme comprise unit-linked insurance contracts, open-ended investment companies and investment companies with variable capital.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying investments being ring-fenced from the pooled investment manager, the regulatory environments in which the pooled investment managers operate, diversification of investments among a number of pooled arrangements and the ongoing due diligence of the underlying investment managers. The Trustees carry out due diligence checks on the appointment and review of the investment managers.

A summary of pooled investment vehicles by type of arrangement is as follows:

Pooled investment vehicles (by type of arrangement)	31 May 2024 (£000)	31 May 2023 (£000)
Unit-linked insurance contracts	361,892	354,916
Open ended investment companies	58,485	75,921
Investment company with variable capital	55,818	51,192
Total	476,195	482,029

Source: Investment managers. Totals may not sum due to rounding.

Credit risk also arises from the Scheme's investments in bonds and other credit and derivative instruments. In particular, the diversified credit, short-dated credit, global credit and LDI mandates are expected to be subject to varying degrees of credit risk. This risk is managed by primarily holding instruments with an investment-grade credit ratings within these mandates.

Credit risk associated with the Scheme's allocation to annuities is mitigated through the protections provided by the UK insurance regime.

Fair value determination

The fair value of investments has been determined using the following hierarchy:

- Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's invested assets have been categorised using the above hierarchy as follows:

	31 May 2024 (£)			
	Tier 1	Tier 2	Tier 3	Total
LGIM Developed Balanced Factor Equity Index Fund (GBP Hedged)		30,270,832		30,270,832
Aon Adept Strategy 30 Fund (GBP Hedged)		30,031,689		30,031,689
PIMCO Low Duration Income Fund (GBP Hedged)		37,789,348		37,789,348
Insight Short-Dated Buy and Maintain Bond Fund (GBP Hedged)		20,695,480		20,695,480
Robeco Global Credits Short Maturity Fund (GBP Hedged)		25,785,993		25,785,993
LGIM Bespoke Portfolio <i>Comprising LDI portfolio and global credit</i>		331,621,619		331,621,619
Total pooled investment vehicles		476,194,961		476,194,961
LGIM annuities			7,000,000	7,000,000
AVC investments		960,209		960,209
Total investments		477,155,170	7,000,000	484,155,170

Source: Investment managers / Barnett Waddingham / WTW / AVC managers

	31 May 2023 (£)			Total
	Tier 1	Tier 2	Tier 3	
LGIM Developed Balanced Factor Equity Index Fund (GBP Hedged)		24,863,933		24,863,933
Aon Adept Strategy 30 Fund (GBP Hedged)		25,601,720		25,601,720
PIMCO Low Duration Income Fund (GBP Hedged)		47,936,868		47,936,868
Insight Short-Dated Buy and Maintain Bond Fund (GBP Hedged)		27,983,633		27,983,633
Robeco Global Credits Short Maturity Fund (GBP Hedged)		25,590,059		25,590,059
LGIM Bespoke Portfolio <i>Comprising LDI portfolio and global credit</i>		330,052,555		330,052,555
Total pooled investment vehicles		482,028,767		482,028,767
LGIM annuities			8,000,000	8,000,000
AVC investments		879,310		879,310
Total investments		482,908,077	8,000,000	490,908,077

Source: Annual report for the year ended 31 May 2023.

Concentration of investments

The following investments each accounted for more than 5% of the Scheme's investments in pooled investment vehicles at the year-end:

	31 May 2024		31 May 2023	
	£	%	£	%
LGIM Bespoke Portfolio <i>Comprising LDI portfolio and global credit</i>	331,621,619	69.6%	330,052,555	68.5
PIMCO Low Duration Income Fund (GBP Hedged)	37,789,348	7.9%	47,936,868	9.9
LGIM Developed Balanced Factor Equity Index Fund (GBP Hedged)	30,270,832	6.4%	24,863,933	5.2
Aon Adept Strategy 30 Fund (GBP Hedged)	30,031,689	6.3%	25,601,720	5.3
Robeco Global Credits Short Maturity Fund (GBP Hedged)	25,785,993	5.4%	25,590,059	5.3
Insight Short-Dated Buy and Maintain Bond Fund (GBP Hedged)	<i>Not applicable</i>	<i>Not applicable</i>	27,983,633	5.8

Independent auditor's statement about contributions to the Trustees of the Provident Financial Staff Pension Scheme

We have examined the summary of contributions to the Provident Financial Staff Pension Scheme for the Scheme year ended 31 May 2024 to which this statement is attached. In our opinion contributions for the Scheme year ended 31 May 2024 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the Scheme Actuary on 30th June 2022.

Scope of work on Statement about Contributions

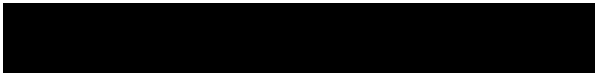
Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions.

Respective responsibilities of Trustees and the auditor

As explained more fully in the Statement of Trustees' Responsibilities, the Scheme's Trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. It is our responsibility to provide a Statement about Contributions paid under the schedule of contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Scheme's Trustees, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees as a body, for our work, for this statement, or for the opinion we have formed.



Crowe U.K. LLP
Statutory Auditor
Manchester

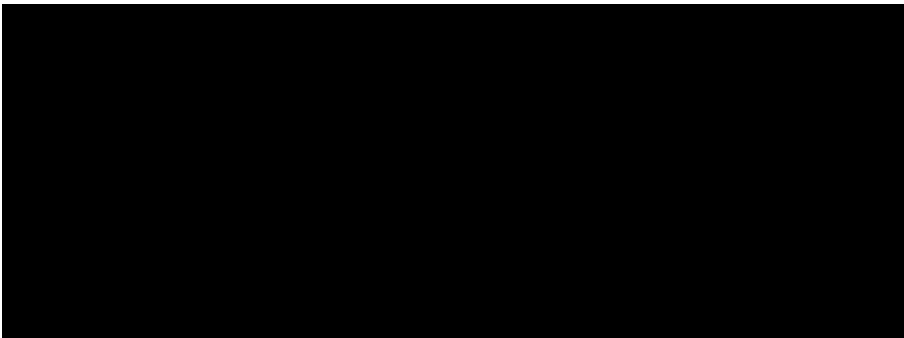
12 December 2024

Summary of contributions payable to the Scheme in respect of the year ended 31 May 2024

The contributions payable to the Scheme in respect of the year under the Schedule of Contributions were as follows:

	£ (000's)
Employers' contribution re deficit funding	£0
Employers' contributions re Scheme expenses	£840
Total contributions in respect of the year	£840

Signed on behalf of the Trustees:



Date: 10 December 2024

Report on Actuarial Liabilities (forming part of the Report of the Trustees)

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service, to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Principal Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 1 June 2021. This showed that on that date:

The value of the Technical Provisions was: £829.9 million

The value of the assets at that date was: £863.6 million

The technical provisions funding level had increased to 104.1% at 1 June 2021 with a funding surplus of £33.7 million (96.5% and deficit of £29.8m at 1 June 2018). The methods and significant actuarial assumptions used to determine the technical provisions are as follows.

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method. This means that the technical provisions will be calculated as the capital value of the prospective benefits arising from service completed before the date of the actuarial valuation on 1 June 2021. An allowance was included for the cost of adjusting benefits for the effect of GMP Equalisation of £8.2m.

Significant actuarial assumptions

Discount rate: A term-dependent discount rate approach has been adopted. Non-pensioner and pensioner liabilities were derived from the WTW zero-coupon gilt nominal yield curve plus an additional 0.75% pa to 1 June 2032 then 0.25% pa thereafter.

Retail Price Inflation (RPI): Term-specific assumptions derived from WTW zero-coupon gilt implied breakeven inflation (BEI) curve.

Consumer Price Inflation (CPI): Term-specific Consumer Prices Index (CPI) assumptions are based on the RPI assumptions less a margin of 1.0% pa pre 2030 and 0.0% pa thereafter.

Pension increases: Derived from the term-specific rates for future Retail and Consumer Price Inflation considering the effect of inflation volatility and allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules. The long-term single equivalent assumptions adopted for each pension increase at 1 June 2021 are shown below:

	% p.a.
RPI (maximum 5%, minimum 0%)	3.41
RPI (maximum 3%, minimum 0%)	2.79
CPI (maximum 3%, minimum 0%)	2.61

Mortality: SAPS "S3" all pensioner table/all pensioner mid-tables for male pensioners/all other members, projected from 2013 in line with the CMI's core 2020 projection model using a long-term trend for improvements of 1.5% pa, and otherwise default parameters (no initial addition to mortality improvements, smoothing parameter of 7 and no weighting to 2020 experience). A 103% multiplier is applied for non-pensioners, a 97% multiplier is applied for male pensioners and a 100% multiplier is applied for female pensioners.

Transfers out of the Scheme

Transfer values paid during the year in respect of transfers to other pension schemes have been calculated and verified by the Scheme Actuary in accordance with the Pension Schemes Act 1993.

Schedule of Contributions

Provident Financial Staff Pension Scheme ("the Scheme")

Date of schedule

This schedule has been prepared by the Trustees, after obtaining the advice of Richard Lawson, the actuary to the Scheme. It is dated 30 June 2022. This date applies for reference purposes only and it will become effective from the date of its actuarial certification.

Introduction

This schedule specifies, for the period from 30 June 2022 until 30 June 2027, the rates and due dates of contributions to the Scheme. No employee contributions are due.

This schedule has been prepared in accordance with the requirements of the Pensions Act 1995. It is subject to review from time to time as required by legislation and by the Scheme's Trust Deed and Rules and following actuarial valuations.

The rates of contributions payable to the Scheme during the period of this schedule, and the due dates of these contributions, are as set out below.

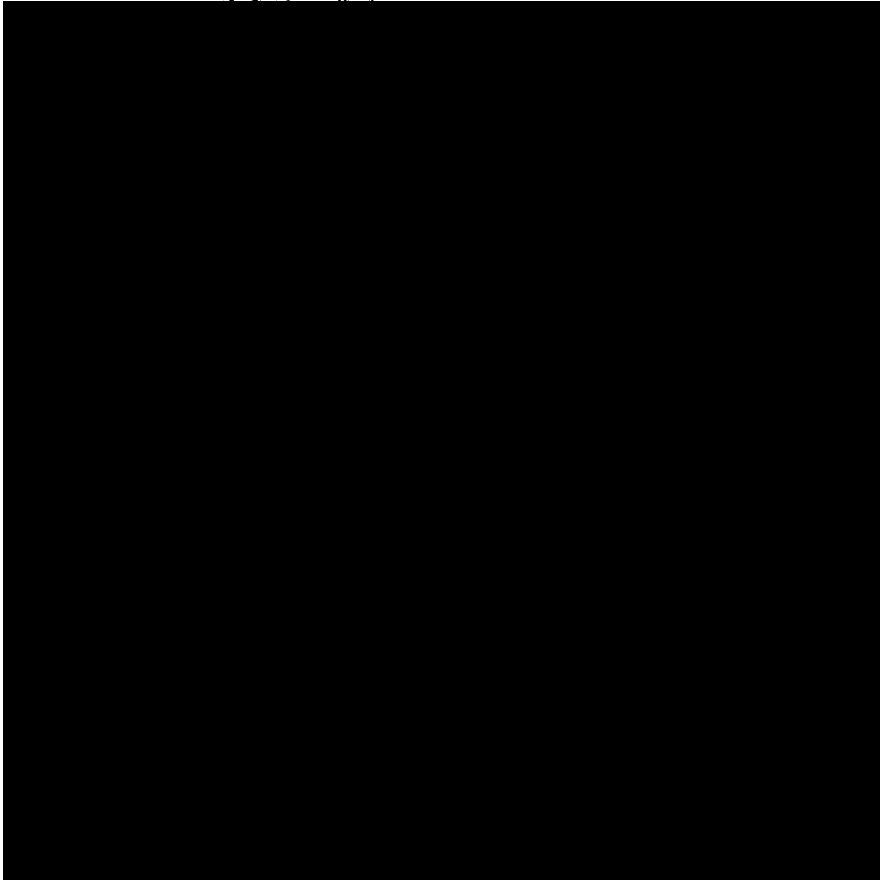
Employer contributions

In respect of the expenses of operating the Scheme, Provident Financial plc (the "Company") will pay contributions of £70,000 per month. In addition, the Company will also contribute an annual amount equal to the aggregate of any statutory levies that are paid from the Schemes assets (including the Pension Protection Fund levy, if relevant) and will separately meet life assurance costs.

All employer contributions are to be paid to the Scheme no later than the nineteenth of the calendar month following that to which the payment relates but may be made in advance.

In respect of any augmentations granted, the Company will pay additional amounts to cover the cost of benefit augmentations within one month of the later of the date of granting the augmentation and the date on which the Trustees receive the details of the costs from the Scheme Actuary.

Signed and dated on behalf of the Trustees of the Provident Financial Staff Pension Scheme:



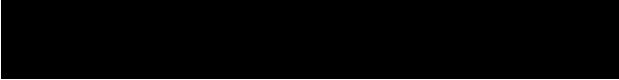
1 Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected, on 1 June 2021, to continue to be met for the period for which the schedule is to be in force.

2 Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 30 June 2022.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective could be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.



Richard Lawson
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW company

5 Wellington Place
Wellington Street
Leeds
LS1 4AP

Date: 30 June 2022


Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Provident Financial Staff Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 1 June 2021 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Scheme and set out in the Statement of Funding Principles dated 30 June 2022.



Richard Lawson
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW Company
30 June 2022

WTW
5 Wellington Place
Leeds
LS1 4AP

Provident Financial Staff Pension Scheme (Equities)

Managed Fund Policy Number MF 30803/000

Investment Report for the year ended 1 June 2024

The assets of the Scheme are invested in an insurance policy with Legal & General Assurance (Pensions Management) Limited, part of the Legal & General Group, which is one of the largest financial institutions in the United Kingdom.

The policy is designed for corporate and public sector Pension Schemes and takes full advantage of the tax exemptions available to an insurance policy of this type. It is a unitised policy and the value of the units fluctuates directly in relation to the value of the underlying assets. All units are redeemable at bid prices that are calculated from independent, external pricing sources. The assets underlying the units are held by independent corporate custodians which are regularly reviewed by external auditors.

Legal & General's investment brief is to apply cash flows in accordance with instructions received from the Trustees or their authorised Administrators.

The value of the units held under the policy at the beginning and end of the reporting period, on a bid price basis were:

LGIM Equities 1 June 2023: £24,863,932.75

1 June 2024: £30,270,831.55

Sub-account	Asset	Bought/(Sold) date	Performance (%) Last 3 Months			Performance (%) Last 1 Year			Performance (%) Last 3 Years		
			Client return	Index return	Relative return	Client return	Index return	Relative return	Client return	Index return	Relative return
30803/000:Provident Staff Pension (Equities)	Financial Scheme	HBAB - Dev Balanced Factor Eqty Idx Fd - GBP Ccy Hgd	3.20	3.24	(0.04)	21.74	21.76	(0.02)	-	-	-
		Total	3.20	-	-	21.74	-	-	6.01	-	-

Provident Financial Staff Pension Scheme (Bonds)

Managed Fund Policy Number MF 30803/001

Investment Report for the year ended 1 June 2024

The assets of the Scheme are invested in an insurance policy with Legal & General Assurance (Pensions Management) Limited, part of the Legal & General Group, which is one of the largest financial institutions in the United Kingdom.

The policy is designed for corporate and public sector Pension Schemes and takes full advantage of the tax exemptions available to an insurance policy of this type. It is a unitised policy and the value of the units fluctuates directly in relation to the value of the underlying assets. All units are redeemable at bid prices that are calculated from independent, external pricing sources. The assets underlying the units are held by independent corporate custodians which are regularly reviewed by external auditors.

Legal & General's investment brief is to apply cash flows in accordance with instructions received from the Trustees or their authorised Administrators.

The value of the units held under the policy at the beginning and end of the reporting period, on a bid price basis were:

LGIM Bonds 1 June 2023: £330,052,554.73

1 June 2024: £331,621,618.80

Sub-account	Asset	Bought/Sold date	Performance (%) Last 3 Months			Performance (%) Last 1 Year			Performance (%) Last 3 Years		
			Client return	Index return	Relative return	Client return	Index return	Relative return	Client return	Index return	Relative return
30803/001: Provident Financial Staff Pension Scheme (Bonds)	TLEJ - Bespoke (30803)		(1.54)	-	-	1.52	-	-	(22.39)	-	-
	Total		(1.54)	-	-	1.52	-	-	(22.39)	-	-