Chief Executive Officer's review

Introduction

"PFG is the leading provider of credit products which provide financial inclusion for the 10 to 12 million consumers who are not well served by mainstream lenders. We serve 2.4 million customers through our four brands; Vanquis Bank credit cards, Provident home credit, Satsuma online loans, and Moneybarn car finance, all of which have market-leading positions. There remains a significant opportunity to enhance our market-leading positions through our businesses working much more collaboratively across our core capabilities of credit, collections, distribution, data and analytics. Continuing to develop our digital capability will be central to maintaining our market-leading positions. The delivery of the Group's strategy is supported by a financial model that is based on investing in capital generative businesses offering an attractive return, and which aligns the dividend policy with a strong capital base and future growth plans."

Malcolm Le May
Chief Executive Officer

2018 – A year of operational recovery

2018 has been a year of operational recovery after the events of 2017. Following the recapitalisation of the Group's balance sheet through completion of the rights issue in April 2018, we committed to five clear objectives for 2018. These were: (i) implementation of the home credit recovery plan with a view to the business becoming fully authorised by the FCA; (ii) completing the ROP refund programme in Vanquis Bank and adapting the business model to changes in regulation, particularly in respect of the new persistent debt measures; (iii) maintaining a constructive dialogue with the FCA to progress the investigation at Moneybarn; (iv) strengthening the Group's governance framework and changing culture to refocus more on the customer; and (v) re-accessing debt markets.

I am very pleased to report that we have delivered against each of these objectives.

Home credit recovery plan

CCD has made excellent progress in implementing the UK home credit recovery plan which culminated in the business gaining full authorisation by the FCA in November 2018. This is a major achievement by the CCD team who have worked tirelessly to turnaround the business following the events of 2017.

The implementation of the recovery plan has required a significant strengthening of the controls and processes throughout the business in 2018. In particular, there have been two major milestones delivered in the year.

Firstly, we now use voice recording for all issuance of credit in the UK and the majority of collections visits. This enables us to evidence our interactions with customers and oversee customer outcomes, both of which are very important in meeting regulatory requirements. It also allows us to use the recordings for training purposes, ensuring that our CEMs continuously improve their service to customers.

Secondly, during the second quarter of the year, we piloted a new field structure in 20 locations which involved the introduction of a new management role, called a Business Manager, to directly manage and support CEMs in delivering the right quality of service to our customers. The aim of the new structure is to better define roles and responsibilities, improve spans of control, provide greater support for CEMs in dealing with arrears and provide better structured training with a clear focus on enhancing the control environment. Following a successful pilot, including a number of branches being visited by the FCA in July, we rolled out the new structure across the field organisation in the second half of the year.

Both of these changes, together with numerous other actions undertaken by management, will allow the business to give customers the best possible service whilst maintaining high levels of regulatory compliance.

We have been focused on collections activity during the turnaround of the home credit business in 2018. This has resulted in the collections performance of credit originated since the fourth quarter of 2017, where the CEM has ownership of the customer relationship and has issued the credit, performing broadly in line with historic levels. However, the collections performance of credit issued prior to the fourth quarter of 2017 has performed significantly below historic levels. These customers were typically active during the migration to the new operating model and we have seen a large number of these customers making less frequent payments which are also typically lower than their contracted rate. The CEMs collecting from these customers did not originate the loan in most cases and therefore the customer relationship is not as strong. Importantly, however, these balances now only represent approximately £20m of CCD's receivables book of £292.5m.

During the implementation of the recovery plan, the performance management of field resource has been focused on managing activity and customer outcomes without the use of performance-related pay or financial objectives. However, in early March 2019, the FCA confirmed that the business can implement enhanced performance management of CEMs based on a balanced scorecard and agreed to the introduction of an element of variable performance-related pay. The scorecard will be tested for impact on customer outcomes and for calibration in an area and then a larger region before being deployed in full by the end of the second quarter of 2019. The implementation of this full suite of performance measures is a key milestone in ensuring the sustainability of returns in CCD and the creation of longer term value for shareholders. It is essential to improving the efficiency and effectiveness of the field organisation, both in terms of delivering consistently good customer outcomes and returning the business to run-rate profitability in due course through growing the customer base and improving collections performance.

We have made very good progress in the turnaround of CCD in 2018 and the business has delivered a significant reduction in losses. Provident remains the clear market leader in the home credit market with a strong franchise and Satsuma is showing strong growth. We believe that we have now developed an operating model for our UK business that meets the standards expected by the FCA. Importantly, we believe the key requirements of the recent high-cost credit review can be best evidenced through the recording of customer interactions, particularly at the point of credit being issued. However, due to the events of 2017 and the subsequent need to implement the recovery plan, the customer base and receivables book has contracted significantly over the last 18 months and the business is now sub-scale.

46.6p
Adjusted EPS
(26.6% growth on 2017)

We have made excellent progress in 2018 on delivering against the operational objectives we set ourselves at the start of the year.

Malcolm Le May
Chief Executive Officer

Chief Executive Officer's review *continued*

As a result, the business has two main objectives in 2019: (i) stabilising the customer base to set the business up for growth in the future; and (ii) reducing the cost base. Both of these objectives will be necessary to return the business to run-rate profitability in due course and then deliver the Group's target ROA of approximately 10% in the medium term.

In respect of growth, we saw good momentum on new customer recruitment in the last quarter of 2018 and encouragingly this has continued in early 2019. We also plan to expand the products we offer our customers in CCD in two ways during 2019. Following agreement with the FCA, we will be trialling an enhancement of our home credit product offering during the second quarter of 2019, leveraging the capabilities in home credit and Satsuma. The product enhancement will continue to be relationship managed in the home by a CEM, but payments will be collected remotely via continuous payment authority (CPA). We anticipate that this will allow us to attract new and former customers who do not wish to have a weekly collections visit by a CEM and are of suitable credit quality. Secondly, as well as continuing to increase the distribution of the core Satsuma small-sum, short-term loan product, following agreement with the FCA, we intend to undertake a trial of larger, longer duration personal loans at rates below 100% APR during the third quarter of 2019. We believe continued innovation in Satsuma is a crucial tool for the Group to enhance its digital customer proposition which is increasingly important in responding to ongoing changes in customer needs and preferences.

In terms of costs, we will continue to align the cost base of the business to the current size of the customer base. We have recently announced a voluntary redundancy programme with a view to reducing headcount by approximately 200 in CCD's central support functions. This will mean that over the last 12 months we have reduced headcount in CCD by approximately 1,000 (around 20%). Whilst redundancies are always regrettable, we believe that we need to continue to reduce the cost base which, together with delivering growth, is necessary to achieve run-rate profitability in due course. The actions we have already taken, and continue to take, demonstrates that we are prepared to make the hard choices required to ensure that the Group's operations are lean in order to remain the most competitive player in the sector.

In June 2018, we were deeply shocked and saddened by the death of Tina Cantello, a CEM in Romford. Tina was a well-liked and respected colleague who had been with Provident for over 25 years. She will be sorely missed and we are supporting her family through these difficult times. The safety of our employees remains of paramount importance.

> The business successfully implemented the necessary measures to meet the affordability principles arising from the FCA review of creditworthiness in consumer credit which took effect from 1 November 2018.
>
> Malcolm Le May
> *Chief Executive Officer*

Vanquis Bank refund programme and regulatory changes

The ROP refund programme is now over 99% implemented, with around 1.3 million current and former customers refunded by early March 2019. The team at Vanquis Bank have done very well to deliver this in line with the timetable agreed with the FCA and within the provisions established at the end of 2017. It is pleasing to report that there has been no material change in the level of complaints arising in relation to ROP.

Vanquis Bank has successfully delivered a number of business model refinements during 2018 in order to adapt to changes in regulation and to improve the customer proposition, including: (i) reducing the cash interest rate to be in line with the purchase rate; (ii) implementing voluntary controls allowing changes to repayment dates and alerting customers when promotional periods are expiring or they are nearing their credit limit; (iii) introducing credit line increase consents; and (iv) early interventions have been implemented so that customers in potential financial difficulty are being contacted quickly. In addition, in response to the FCA's definition of persistent debt within the Credit Card Market Study (CCMS), Vanquis Bank increased its minimum due payments by around 50bps in the third quarter of the year and will shortly roll-out the use of recommended payments which we expect to be typically between 100bps and 150bps higher than the minimum payment due. Together with the implementation of other communication strategies across the customer base, these measures should reduce the risks that customers meet the definition of being in persistent debt and lose access to the benefits of owning a Vanquis Bank credit card.

The affordability principles arising from the FCA's review of creditworthiness in consumer credit took effect from 1 November 2018. Following implementation of a new underwriting platform in November, Vanquis Bank successfully migrated all distribution channels to the new decision module with enhanced creditworthiness assessments. All of the Group's businesses are compliant with the FCA's affordability requirements.

I am very pleased that Vanquis Bank has managed to deliver stable profits in 2018, despite the significant focus on the ROP refund programme and adapting to changes in regulation. Looking into 2019, we expect the impact of the regulatory measures implemented in 2018 to moderate Vanquis Bank's receivables growth as they fully flow through the receivables book. However, we expect new customer bookings in 2019 to be at a similar level to 2018 and the business is working on a number of a new initiatives to support growth in 2020 and beyond including enhancing the credit line increase programme, improved targeting of customers within Vanquis Bank's risk appetite such as 'thin file' consumers, development of partnership opportunities and marketing of credit cards to the Moneybarn customer base.

Moneybarn FCA investigation

The FCA has completed the information gathering phase of its investigation into affordability, forbearance and termination options at Moneybarn. We have made significant progress with the FCA in reaching an agreed resolution to the investigation and are working towards concluding the matter in the coming weeks. The combined cost of the agreement reached with the FCA is expected to be within the scope of previously made financial provisions of £20m set aside at the end of 2017. The FCA will be issuing its final notice in respect of the investigation in due course. This represents the closure of a significant operational headwind and demonstrates the effectiveness of our remediation process and the constructive relationship we have established with the regulator.

Moneybarn delivered strong growth in customers, receivables and profits in 2018 and this has continued into early 2019. We have been developing a number of additional growth initiatives which should provide further traction as we go forward, including using the Vanquis Bank app to offer bespoke Moneybarn products to Vanquis Bank customers, expansion of relationships with lead generators and quotation search partners, introduction of an existing customer re-solicitation programme to retain high-quality customers and the introduction and development of new asset classes that resonate with Moneybarn's target customer base.

2.4m customers

We serve 2.4 million customers through our four brands; Vanquis Bank credit cards, Provident home credit, Satsuma online loans, and Moneybarn car finance, all of which have market-leading positions.

5,700

colleagues work together across our divisions to deliver our objective of being the leading provider of credit products to provide financial inclusion to the 10-12 million customers not well-served by mainstream lenders.

Corporate Governance section
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Chief Executive Officer's review *continued*

Governance and culture

We have made significant progress in strengthening our governance framework, improving our relationship with regulators and implementing the changes necessary to culture to place the customer firmly at the heart of the Group's strategy. This provides the basis for delivering attractive and sustainable returns to shareholders.

We have invested further in strengthening our governance framework by recruiting a central risk team to work under the Interim Chief Risk Officer, the co-ordination of IT under a new Group Chief IT Officer and the recruitment of a new Interim Group Chief Internal Auditor and a Group Head of Human Resources. A permanent Group Chief Risk Officer has recently been appointed and the process for recruiting a permanent Group Chief Internal Auditor is well advanced.

The ExCo, which was established in early 2018 and comprises Group and divisional senior executives, is now playing a far greater role in delivering on the Group's vision through enhancing information flows and collaboration. As previously announced, the Board is finalising plans to establish a Customer, Culture and Ethics Committee, which is intended to be a committee of the Board and will be chaired by Elizabeth Chambers.

We have undertaken significant activity to realign the Group's culture more closely to the developing needs of the customer, and to collaborate across businesses to deliver better customer outcomes. We have recently launched a new Blueprint throughout the Group to support our new purpose of: "We help put people on a path to a better everyday life". I am very passionate about our new purpose and PFG's role in society. Our purpose is underpinned by a number of strategic drivers and behaviours. These aim to deliver an appropriate balance between the needs of our customers, the regulator, equity and debt investors and our employees in order to ensure that PFG is successful and sustainable for all of its stakeholders.

> We help put people on a path to a better everyday life.
>
> Malcolm Le May
> *Chief Executive Officer*

See our Customer interviews
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Funding and capital

The completion of the rights issue to recapitalise the Group was undertaken with a view to maintaining the Group's investment grade credit status and re-establishing normal access to funding from bank and debt capital markets. The Group's CET 1 ratio at 31 December 2018 was 29.7% compared with a fully loaded minimum regulatory capital requirement of 25.5%. This provides headroom of approximately £95m, and is consistent with the Board's risk appetite of maintaining regulatory capital headroom in excess of £50m.

We have made very good progress in strengthening the Group's funding position during the year. On 4 June 2018, we issued £250m of 5-year fixed rate bonds carrying a semi-annual coupon of 7%. The proceeds of the bond issue were used to finance the tender offer for the £250m existing senior bonds which carry a coupon of 8% and mature in October 2019. 89% of the existing bonds were tendered and redeemed at an 8.0% premium on 30 May 2018. The remaining existing senior bonds of £27.5m will mature on their original maturity date in October 2019. The retail deposits programme at Vanquis Bank continues to be strong. During the year, retail deposits have increased from £1,301.0m to £1,431.7m which allowed Vanquis Bank to repay its residual intercompany loan from Provident Financial of £55m in November 2018. Vanquis Bank is now fully funded with retail deposits.

All of this means that the Group has sufficient debt facilities, together with access to retail deposits, to fund growth and contractual maturities until May 2020, when the syndicated bank facility matures. It is our intention to refinance this facility 12 months in advance of maturity in line with our treasury policy.

The actions we have taken during 2018 mean that we have a strong balance sheet and access to a diverse range of funding sources, including retail deposits which fully funds by far the largest portion of the Group in Vanquis Bank. The Group's businesses outside of Vanquis Bank are funded by the bank and debt capital markets through a combination of syndicated bank facilities, retail bonds, institutional bonds and private placements. Our funding position underpins our confidence in our ability to realise the opportunities to grow and successfully develop all of our businesses across the Group.

Looking forward

2018 has been a year of recovery and we have successfully delivered against the operational objectives we committed to at the start of the year. We expect to build on this progress in 2019 as we continue to adapt the businesses to changes in regulation, further strengthen the relationship with our regulators, refinance the Group's syndicated bank facility, embed our new purpose and Blueprint and continue the turnaround of our home credit business. All of these actions enhance the Group's ability to create value for shareholders. We also recognise that we are managing the Group's recovery at a time when the UK macro-economic and political outlook is uncertain and we have proactively tightened our underwriting standards throughout the Group over the last two years.

PFG is a leading provider of credit products which provide financial inclusion for the 10 to 12 million consumers who are not well served by mainstream lenders. As a leader in credit cards, home credit and motor finance for this market and with a strong trajectory in digitally originated and delivered instalment loans, the Group has strong growth potential and attractive product line diversification. Given our breadth of customer base and product offering and through our core capabilities of credit, collections, distribution, data and analytics, the Group is very well positioned to deliver attractive and sustainable shareholder returns and to further strengthen our market-leading positions through greater capture of the commercial and financial synergies that exist between our businesses. Continuing to develop our digital capability will be central to maintaining our market-leading positions and will also allow enhanced management of the customer journey and greater collaboration across divisions.

The Board is confident in the strategic direction for the Group, anchored in both the opportunities presented by Vanquis Bank and the ability of the Group's other businesses to work more closely with Vanquis Bank going forward. The management team is in the process of developing and implementing a number of planned growth and efficiency initiatives which the Board believes will have benefits both for customers in terms of improved experience and for shareholders in terms of delivering attractive and sustainable returns. The Board confirms that PFG continues to trade in line with expectations.

Finally, I would like to thank all of my colleagues for their hard work over the last year.

Malcolm Le May
Chief Executive Officer
13 March 2019

> We expect 2019 to be a continuation of the progress made in 2018 as we continue to adapt the businesses to become more customer centric.
>
> Malcolm Le May
> *Chief Executive Officer*