# Chairman's statement

"I am delighted and privileged to have been invited to be Chairman of Provident Financial plc, and I hope to see as many of you as possible at my first AGM in May. I have now been Chairman for six months and I am pleased with the progress that Malcolm Le May, Chief Executive Officer, and the team have made under challenging circumstances. We still have a lot to deliver in 2019 to fully turnaround the Group following the events of 2017 and in light of the ongoing political and economic uncertainty in the UK. However, I am confident that we are now well placed and have the right team to deliver a successful PFG for all our stakeholders."

Patrick Snowball
*Chairman*

## Introduction

PFG plays a very important role in the financial services sector and in society more generally. We provide financial inclusion to the 10 to 12 million adults in the UK and Ireland who are not well served by mainstream lenders.

We help our 2.4 million customers build better financial futures by providing them with access to credit and helping them to develop their credit profile. By making sure that we appropriately balance the needs of all our stakeholders – customers, regulators, equity and debt investors and colleagues – we aim to deliver attractive and sustainable returns for our shareholders.

We recognise that operating in our market comes with extra responsibility, particularly as we are the market leader. We are a fully authorised lender and have developed specialist business models and products that are tailored to serving our customers. We offer a more personal service, including face-to-face in our home credit business, and we support this with an increasing level of digital interaction. We undertake robust affordability assessments and support our customers through their entire credit journey with us, including dealing with them in a sympathetic way if they get into financial difficulty.

We are proud of the service we provide and we have over 130 years of successfully serving customers in our market.

## Offer from NSF

On 22 February 2019, NSF made an unsolicited offer for PFG. We were disappointed at the hostile and highly opportunistic approach taken by NSF, including its decision not to engage with the Board prior to the announcement. We do not believe that the offer is in the best interests of PFG and are confident in PFG's strategy to deliver growth and sustainable attractive returns through its complementary, synergistic and industry leading businesses.

As outlined in PFG's statements on 6 March 2019 and 11 March 2019, the Board believe that as well as undervaluing the Group and its prospects, the offer presents significant operational and execution risks due to the changing regulatory environment, NSF's track record of value destruction and NSF's limited experience across the full breadth of the Group's businesses. In addition, the offer has major strategic flaws and appears to be based upon a misguided view that the regulatory approach would be different if the Group was owned by NSF. The Board remains focused on executing its current strategy as outlined to all stakeholders and is committed to maximising value for all PFG shareholders, including actively exploring all appropriate alternatives to achieve that objective.

## Our Group

PFG has evolved significantly over the last decade, responding to ongoing changes in customer needs and preferences, as well as emerging market opportunities. We are now mainly a bank, combined with smaller more recently built and acquired online loan and vehicle finance operations, all of which have taken our business and our customer proposition well beyond our historic core of home credit. Our heritage has informed our more personal and human approach to credit, and given us the experience to lead our specialist sector, but we have changed and developed with our customers and the realities of the market to become a very different business than even five years ago. I believe that it is critical that we continue to focus on the future and increasingly work collaboratively across the Group to offer a unique range of joined up products and services, including through digital means, that help put people on a path to a better everyday life.

Vanquis Bank is now by far our largest business on all measures, and its growing 1.8 million customer base is central to our strategy of helping our customers progress through access to, and use of credit.
The business continues to generate strong new booking volumes, and through our well-established 'low and grow' approach we grant credit line increases to customers who demonstrate that they can afford them.

We are enhancing our approach by developing a comprehensive single view of our customers spanning all our product relationships, leveraging available external data including open banking. This will enable us to understand their circumstances more fully and make better informed and balanced decisions on the best way to help them progress in a sustainable way. The Vanquis Bank credit card has always helped our customers to build or rebuild their credit standing over time, and going forward we intend to further develop our capabilities to support even more applicants and customers in building their financial fitness, whether or not we are able to extend credit. This proposition, initially being built within Vanquis Bank, will be expanded across the Group to help more of our current and prospective customers to move forward positively in their lives.
Our Vanquis Bank app now has over 1 million registered users, demonstrating a huge appetite to interact with us through digital channels, while retaining the more human and personal call centre based elements at the core of our approach. The success of our app is giving us the opportunity to keep customers fully informed and up to date about their card use and status at a time and in a way that suits them best, while introducing the Group's other offers such as car finance at an appropriate stage as they progress in their credit-building journey.

**2.4m**
**customers**

> We help our 2.4 million customers build better financial futures by providing them with access to credit and helping them to develop their credit profile.

Patrick Snowball
*Chairman*

# Chairman's statement *continued*

Our proud heritage remains in our home credit business, but the future direction there, as with many sectors, is towards more remote and digital interaction that customers prefer and increasingly expect.

Patrick Snowball
*Chairman*

Our car finance business, Moneybarn, continues to grow strongly, demonstrating the attractiveness of our offer and the demand among consumers who continue to be underserved by mainstream lenders. We saw the opportunity in the aftermath of the credit crunch to provide the financial backing required to responsibly serve the needs of customers with vehicle finance where others lacked appetite.

However, the continued success of Moneybarn also provides opportunities to leverage the skills, capabilities and experience of Vanquis Bank, particularly in collections, decision science and new customer acquisition. As part of the Group, Moneybarn has thrived, but I believe there are further significant mutual benefits from continuing to share the Group's resources more fully.

Our proud heritage remains in our home credit business, but the future direction there, as with many sectors, is towards more remote and digital interaction that customers prefer and increasingly expect. In response, we have built our Satsuma online loans business from scratch to scale, and are now introducing a unique product extension called Provident Direct which spans the online and home credit channels building from our experience in both. Loans will be underwritten in the customer's home, but collected and managed largely remotely, providing a human experience that leverages technology appropriately and seamlessly for the customer.

We are able to launch this innovative and forward looking proposition with the approval of the regulator largely due to the robust home credit operating model we have put into place working closely with the FCA over the last 18 months. In particular, Provident alone mandates voice recording of all new UK lending which provides an unrivalled level of evidence of a genuine customer choice in their home for the new remotely collected proposition. I believe that this model represents the future of home credit, giving us strong differentiated growth opportunities as well as a very positive way to reconnect with customers who have left us in the past.

We are also expanding the Satsuma range from the small-sum short-term product into the longer larger online personal loans space, again with the FCA's approval. This gives our existing and new customers further progression opportunities, particularly as we begin to combine Satsuma's capabilities with those of Vanquis Bank which has also developed a loans product for its credit card customers.

This is part of our strategy to offer a joined-up product range that allows customers the opportunity to progress from home credit through Provident Direct and Satsuma offers to credit cards at Vanquis Bank and ultimately a car loan with Moneybarn. A full range of options to suit our customers through the main stages of their credit journey allows us to help them improve their everyday lives no matter what their circumstances are. Satsuma continues to grow very strongly, demonstrating the customer appeal of the online model, while adjacent competitors with unsustainable online business models continue to falter and leave the market.

I believe that Satsuma forms an important part of our comprehensive and joined up product range which clearly differentiates us from more focused and single product lenders.

## Regulation

The regulation of our sector has changed fundamentally over the last five years, as have the nature of our relationships with our three main regulators: the FCA, the Prudential Regulation Authority (PRA) and the Central Bank of Ireland (CBI). It's fair to say PFG lost its way in 2017, severely damaging our relationship with all our stakeholders, particularly the FCA, who took over regulation of the consumer credit sector from the Office of Fair Trading (OFT) in April 2014.

However, I am very proud to say that under new leadership we have made huge progress in turning around the situation. This includes beginning to earn back our trusted position as a leader in the sector, and starting to change the focus and the culture of the Group back in the right direction, centred around what we do for customers. Given what we have been through, this is not a quick or easy process, but I am committed to making sure we stay the course and see through the changes required.

We have recently begun to embed our new Blueprint throughout the organisation in 2019. This is based on a renewed purpose underpinned by strategic drivers and a defined set of behaviours. This is covered in more detail in Malcolm's CEO's review.

In Vanquis Bank, we have now implemented over 99% of the ROP refund programme within the previously announced financial provision for refunds and balance reductions and the agreed timetable with the FCA. We have also adapted to the developing regulatory requirements relating to enhanced forbearance, affordability and persistent debt in the credit cards market. We have also taken the opportunity to fully review and enhance all areas of how we treat our credit card customers including how we charge fees, how we price and what products we offer.

Following completion of the ROP refund programme, and having carefully considered the lessons we have learned, discussions with the FCA on our plans for an enhanced ROP product and return to new sales have recently commenced.

In Moneybarn, we have made significant progress towards a settlement of the investigation started by the FCA in November 2017, with the expected cost of the required customer redress and fine covered by the provisions made at the time. We have also enhanced our termination handling processes and affordability assessments in line with the latest requirements, working closely with the FCA throughout.

In our home credit business, the highly experienced management team we installed under the most difficult circumstances, have succeeded in turning around the business working closely to build a strong relationship with the FCA in the process. These efforts resulted in the FCA having sufficient confidence in the business, leadership and operating model to grant us full authorisation in November 2018.

From a position of extreme vulnerability just 12 months earlier, this is a remarkable achievement for our customers and our business. Since then, our management team has continued to work very closely with the FCA which has resulted in the FCA recently agreeing to the reintroduction of balanced scorecard targets, performance management and related variable pay throughout the field force for the first time since the first half of 2017. All of these achievements are based on the strong compliant operating model that has been developed under close FCA scrutiny and are dependent on the key elements of it being maintained going forward.

Our improved relationship with the regulators is of paramount importance not only to our delivery of good customer outcomes, but also for our ability to deliver attractive and sustainable returns for our shareholders.

> I intend to have a much more proactive communication programme with our shareholders in 2019 and beyond and more details of this are set out in the governance section of this report.
>
> Patrick Snowball
> *Chairman*

**10p**

The Board is proposing a nominal final dividend of 10p per share in respect of 2018 (2017: nil)

# Chairman's statement *continued*

## Dividends

Consistent with the commitment at the time of the rights issue, the Board is proposing a nominal final dividend of 10.0p per share in respect of 2018 (2017: nil) which results in a dividend cover of 4.7 times (2017: nil). If approved at the AGM on 21 May 2019, this will be paid on 21 June 2019 to shareholders on the register on 24 May 2019.

As previously stated, the Board's dividend policy is to maintain a dividend cover of at least 1.4 times as the home credit business recovers and moves into profitability.

The Board has recently re-evaluated the timing of dividend payments. Accordingly, in respect of the 2019 financial year and thereafter, the Board intends to:

> Pay the interim dividend in September rather than in late November; and

> Pay the final dividend in late May rather than in late June.

This will bring the Group in line with other financial institutions and recognises the support of shareholders through the Group's recent problems and the rights issue in April 2018.

The voluntary requirement agreed between Vanquis Bank and the Prudential Regulation Authority (PRA) not to pay dividends to, or enter into certain transactions outside the normal course of business with, the Group without the PRA's consent, remains in place. However, following the consent of the PRA, Vanquis Bank paid a dividend of £59.8m (2017: £nil) to its parent, Provident Financial plc, on 8 March 2019.

I am very much looking forward to working with the whole team to embed our new purpose and culture in 2019, and to continue the work to ensure that PFG is a strong and successful business going forward.

Patrick Snowball
*Chairman*

## Our people

The last two years have been a very turbulent time at PFG and we would not be where we are now without the hard work and efforts of all of the people in the organisation.

Firstly, I would like to thank Malcolm and the Group Executive Committee (ExCo) for their hard work this year in delivering our 2018 objectives during a very difficult time for the Group.

I would also like to thank both Stuart Sinclair, who stood in as Interim Chairman when Malcolm, who was previously Executive Chairman, took on the CEO's role, and Andrea Blance, who is now our Senior Independent Director. Together with Malcolm, they have brought much needed stability and helped to re-shape the Board over the last 12 months. Following my appointment in September 2018, Stuart stepped down from the Board, and I wish him all the very best for the future after 6 years with the Group.

I would also like to thank Rob Anderson, who stepped down as a non-executive director in December, after 9 years, Andrew Fisher, who stepped down as Finance Director in December, after 12 years with the Group, and John Straw, who will not stand for re-election at the forthcoming AGM in May. All three of these Board members made valuable contributions to the Group during their tenure.

Simon Thomas recently joined the Board as Chief Financial Officer (CFO), to replace Andrew Fisher. Simon is an experienced CFO with strong sector experience having spent the last 12 years as CFO of a FTSE 250 financial services company and served as Group Financial Controller at Nationwide Building Society earlier in his career. He is now working closely with Malcolm to deliver the Group's strategy.

We have invested a considerable amount of time strengthening the governance framework, clearly documenting how things should work and then communicating this clearly to the Board, the ExCo, central functions and each of our divisions.

# 5,700
people

Our 5,700 people are critical to delivering our tailored and understanding business model, balancing the personal touch with the use of technology where customers increasingly want and expect it.

We have supplemented this with the recruitment of three new non-executive directors – Angela Knight, Elizabeth Chambers and Paul Hewitt – each of whom bring a depth of experience and expertise in our sector. Angela's experience includes being a non-executive director of Lloyds TSB and the CEO of the British Bankers Association (now UK Finance). Elizabeth's experience includes being a non-executive director of Dollar Financial Group, serving as Chief Marketing Officer at Barclays and Barclaycard, and Chief Strategy, Product and Marketing Officer at Western Union. She also led Barclaycard's co-branded cards business in the UK. Paul's experience includes chairing the audit committees as a non-executive director of Tesco Bank and Co-operative Banking Group and serving as Deputy Group Chief Executive and CFO of the Co-operative Group from 2003 to 2007.

In addition, we have also decided to reposition the role of the Chairman of Vanquis Bank to include serving as a non-executive director on the PFG Board. This will help improve decision making and co-ordination between the two Boards.

This is another positive step in ensuring greater coordination and governance across the Group and I am pleased to announce that we have reached an agreement in principle with an individual for this dual role, subject to regulatory approval, who has a wealth of experience in retail banking and consumer lending. I would personally like to thank Jonathan Roe, the current Chairman of Vanquis Bank, who will step down from his role later this year.

I am very confident that we have assembled a strong Board with the right skills, experience and balance to run the Group centred around a PRA authorised and regulated bank, co-ordinated with smaller complementary consumer finance businesses authorised and regulated by the FCA and CBI. I am equally confident in the strong divisional management teams that we have built and maintained, most recently completed by the agreement in principle with a highly experienced banking executive to be appointed to the role of Managing Director of Vanquis Bank, subject to PRA and FCA approval.

And finally, but certainly not least, I would like to place on record my thanks for all the hard work and efforts of all my colleagues throughout the Group. I have been extremely impressed by the level of passion and commitment of everyone, whether they are in Vanquis Bank, CCD, Moneybarn or the corporate office. I am very much looking forward to working with the whole team to embed our new purpose and culture in 2019, and continuing the work to ensure that PFG is a strong and successful business going forward.

Patrick Snowball
*Chairman*
13 March 2019