Our strategy and progress

During 2018, the Group has developed a new Blueprint which outlines our purpose, the strategic drivers underpinning this and the behaviours we will need to be successful. Further detail on the new Blueprint is set out on pages 34-35.

The strategy, objectives and KPI's presented in this section of the Annual Report are those that were outlined in last year's annual report, and are the metrics against our performance in 2018 should be measured. We will assess our performance in 2019 against the new Blueprint.

The Group has four key strategic objectives which are measured through a number of key performance indicators (KPIs), both financial and non-financial.

Growing sustainable, customer-centric businesses that deliver attractive returns in non-standard markets

See more about this content
pages 26-27

Acting responsibly and with integrity in all we do

See more about this content
page 29

Maintaining a secure funding and capital structure

See more about this content
pages 31

Generating consistent and sustainable shareholder returns

See more about this content
page 32

KPIs

The KPIs presented here are helpful in assessing the Group's progress against its strategy and are the KPI's which are closely monitored internally. However, they are not exhaustive as management also takes account of a wide range of other measures in assessing underlying performance.

KPI descriptions:

Adjusted profit before tax

Profit before tax, the amortisation of acquisition intangibles and exceptional items.

Return on assets (ROA)

Adjusted profit before interest after tax as a percentage of average receivables.

Return on equity (ROE)

Adjusted profit after tax as a percentage of average equity. Equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments.

Customer satisfaction

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

Community investment

The amount of money invested in support of community programmes, money advice programmes and social research.

Adjusted basic earnings per share

Profit after tax, excluding the amortisation of acquisition intangibles and exceptional items, divided by the weighted average number of shares in issue, adjusted for the rights issue from 1 January 2017.

Total shareholder return

The change in the Group's share price, together with any dividend returns made to shareholders.

Dividend per share

The total dividend per share, comprising the interim dividend per share paid and the proposed final dividend per share.

Dividend cover

Adjusted basic earnings per share divided by dividend per share.

CET 1 ratio

The ratio of the Group's regulatory capital to the Group's risk-weighted assets measured in accordance with CRD IV.

Funding headroom

Committed bank and debt facilities less borrowings on those facilities.

Our strategy and progress *continued*

Growing sustainable, customer-centric businesses that deliver attractive returns in non-standard markets

Apply exacting standards in allocating capital to organic and acquisition opportunities to invest in businesses that:

> Deliver a target return on assets for the Group of approximately 10%. Attractive returns are available in the non-standard market to those companies that have developed tailored business models and focus on delivering good customer outcomes.

> Are sustainable and maintain high levels of regulatory compliance at all times.

> Have good growth potential to deliver future earnings and dividends growth.

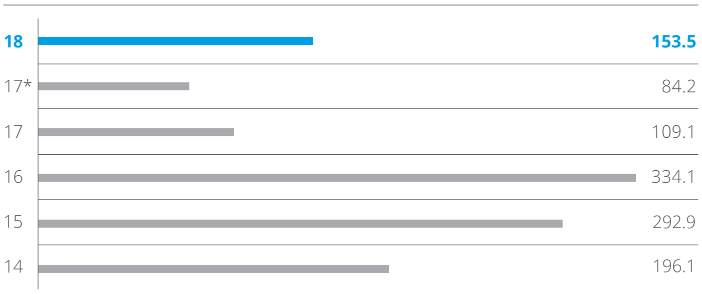
> Enjoy a strong market position in each division in order to develop the market in a responsible manner.

> Have good management and cultural fit.

Our progress against our KPIs in 2018

Adjusted profit before tax (£m)

£153.5m



* Unaudited proforma as though IFRS 9 had been implemented from 1 January 2017.

The Group has reported IFRS 9 profit before tax, amortisation of acquisition intangibles and exceptional items up by 82.3% to £153.5m (2017: pro forma IFRS 9 profit before tax, amortisation of acquisition intangibles and exceptional items of £84.2m, IAS 39 profit before tax, amortisation of acquisition intangibles and exceptional items of £109.1m).

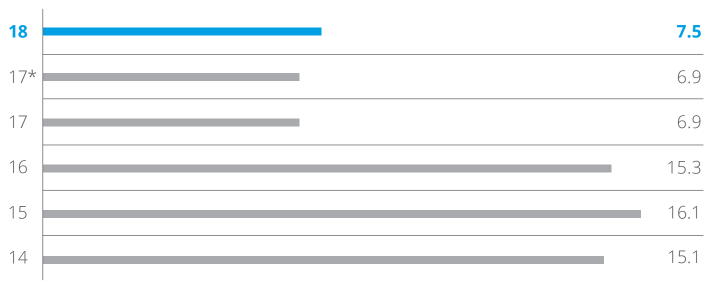
Vanquis Bank has delivered a 1.6% increase in IFRS 9 adjusted profit before tax to £184.3m (2017: pro forma IFRS 9 adjusted profit before tax of £181.4m, IAS 39 adjusted profit before tax of £206.6m), principally reflecting the benefit of operational leverage and receivables growth of 4.9%. This has been substantially offset by the continuing reduction in the revenue yield due to lower penetration of the ROP product within the customer base following the cessation of sales to new customers in April 2016 together with the continued expansion of the product offering into the near prime segment of the market through the Chrome branded credit card.

CCD has reported a reduced IFRS 9 adjusted loss before tax of £38.7m (2017: pro forma IFRS 9 adjusted loss before tax of £106.3m, IAS 39 adjusted loss before tax of £118.8m) reflecting successful implementation of the recovery plan following the significant losses caused by the poorly executed migration to the new operating model in 2017. The focus in 2019 will be on stabilising the rate of decline in the customer base and continuing to reduce the cost base.

Moneybarn's IFRS 9 adjusted profit before tax has increased by 28.3% to £28.1m (2017: pro forma IFRS 9 adjusted profit before tax of £21.9m, IAS 39 adjusted profit before tax of £34.1m), reflecting strong growth and improved credit quality.

Group ROA (%)

7.5%

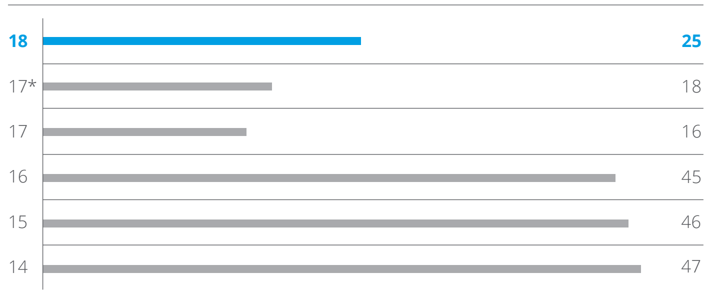


* Unaudited proforma IFRS 9 as though IFRS 9 had been implemented from 1 January 2017.

The Group's ROA has increased to 7.5% (2017: pro forma IFRS 9 ROA of 6.9%), primarily reflecting the reduction in losses in CCD due to the implementation of the UK recovery plan in home credit and stabilisation of the business following the significant disruption in 2017. Vanquis Bank's ROA has reduced to 10.9% (2017: pro forma ROA of 11.8%), reflecting the moderation in the risk-adjusted margin from the expected fall in the revenue yield partly offset by positive operational leverage. Moneybarn has delivered an ROA of 10.7% in 2018, up from 10.0% in 2017, reflecting the strengthening of the risk-adjusted margin due to improved credit quality partly offset by the investment in strengthening the management team and collections and customer service resource.

Group ROE (%)

25.0%



* Unaudited proforma IFRS 9 as though IFRS 9 had been implemented from 1 January 2017.

The Group's ROE has increased to 25.0% (2017: pro forma IFRS 9 ROE of 18%, IAS 39 ROE of 16%) primarily reflecting the reduction in losses in CCD party offset by the impact of the additional equity raised as part of the rights issue in April 2018.

Further detail on adjusted profit before tax, ROE and ROA, including an analysis of the calculation of these KPIs, is set out in the financial review on **pages 57-71.**

Our progress against our KPIs in 2018

- Significant progress has been made in strengthening our governance framework, improving our relationship with regulators and implementing the changes to our culture to place the customer firmly at the heart of the Group's strategy.
- CCD has made good progress in implementing the UK home credit recovery plan which culminated in the business gaining full authorisation by the FCA in November 2018.
- The Vanquis Bank ROP refund programme to current and former ROP customers was substantially completed and the business has adapted its business model to changes in regulation.
- Moneybarn has made very good progress with the FCA in progressing their investigation into affordability, forbearance and termination options.
- Underwriting standards have been progressively tightened throughout the Group in anticipation of the current uncertain UK economic environment we are facing.
- The Group has developed a new Blueprint to redefine the Group's purpose, the strategic drivers underpinning the purpose and the behaviours necessary to deliver it.

Our focus for 2019

- Continue to monitor and maintain tight underwriting standards given the current uncertain economic outlook in the UK.
- Fully complete the ROP refund programme in Vanquis Bank and the FCA investigation at Moneybarn in the first half of 2019.
- Stabilise the rate of decline in the credit customer base and continue to reduce CCD's cost base.
- Expansion of the products offered in CCD, including testing of: (i) an enhancement to the home credit proposition, which will leverage the upfront underwriting capabilities of home credit with the digital collections processes of Satsuma; and (ii) a personal loans pilot product under the Satsuma brand, reflecting evolving customer behaviours.
- Build on the Group's digital capability, including the further development of digital apps to help customers better manage their interaction with the Group.
- Improve the collaboration between divisions and share best practice across the Group, in particular, leveraging the capabilities of Satsuma and Vanquis Bank loans to deliver a more co-ordinated and cost efficient online loans offering.
- Embed the Group's Blueprint, including definition of the KPI's to monitor progress.
- Deliver growth and operational efficiency to maintain the progression towards the Group's target ROA of approximately 10%.

Further detail on the Group's operational recovery and performance in 2018 are set out in the Chief Executive Officer's review on **pages 12-17** and the divisional customer proposition sections on **pages 36-43.**

Paul's day

"When I needed a loan...
I knew who I could trust and turn to."

Paul
Home credit customer, Portsmouth

"I first came across Provident as a child and I remember my mum giving me Provident clothes vouchers. When I needed a loan later in life, I knew who I could trust and turn to. I can't speak highly enough of my CEM Nikki, and although very professional, she has a personal touch. The loan was explained very clearly and methodically and it has come in use for bits and pieces around the house."

Our strategy and progress *continued*

Acting responsibly and with integrity in all we do

Operating our core business of lending to our customers in a responsible and sustainable manner, putting their needs at the heart of everything we do.

Acting responsibly and sustainably in all our stakeholder relationships in order to:

> Put our customers on a path to a better everyday life;

> Create a working environment that is safe, inclusive and meritocratic;

> Treat our suppliers fairly; and

> Support our communities.

Our progress against our KPIs in 2018

Customer satisfaction (%)

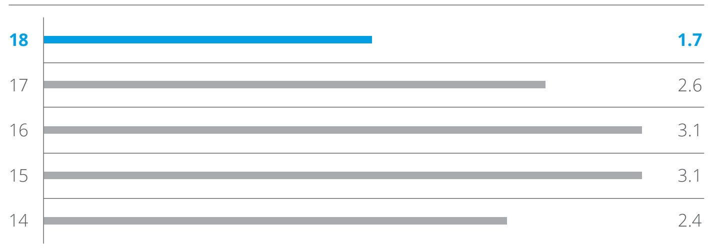
86/87%

Customer satisfaction of 86% for Vanquis Bank (2017: 87%), 87% for Provident home credit (2017: 85%), a Feefo score of 4.7 out of 5 for Moneybarn (2017: 4.7 out of 5) and a Reviews.co.uk score of 4.7 out of 5 for Satsuma (2017: 4.8). The improvement in customer satisfaction at Provident home credit reflects a significant improvement in customer service as a result of the successful implementation of the recovery plan during 2018.

The actions taken by the Group to improve customer service and customer outcomes during 2018 and the plans for 2019 are set out on **page 36-38** or Vanquis Bank, **page 39-41** for CCD and **page 42-43** for Moneybarn.

Community investment (£m)

£1.7m



Invested a total of £1.7m in various community programmes, money advice programmes and social research (2017: £2.6m).

Further detail on the Group's corporate responsibility programme is set out on **pages 72-93.**

Operational progress in 2018

> Significant strengthening of the Group's governance and culture, including the appointment of a new Chairman, three new non-executive directors and a new Chief Financial Officer.

> Improved the relationship with the Group's regulators.

> The home credit operational recovery plan has been completed and CCD obtained full authorisation from the FCA in November 2018.

> All of the Group's businesses have taken the necessary measures to meet the affordability principles arising from the FCA's review of creditworthiness in consumer credit.

> Enhanced forbearance procedures implemented throughout the Group to support customers in difficulty.

> Continued development of technology to allow customers more options of paying electronically in all businesses, including mobile apps.

> Developed a balanced scorecard approach to remuneration to ensure appropriate behaviours are adopted across the Group.

> Significant investment in the risk management frameworks supporting the operations throughout all divisions.

Our focus for 2019

> Embed the Group's Blueprint and our purpose – "We help put people on a path to better everyday life" – throughout the Group.

> Continue to enhance our products and services to meet the changing needs of our customers, including trials of personal loans in Satsuma and a extension of the home credit product, leveraging both home credit and Satsuma capabilities.

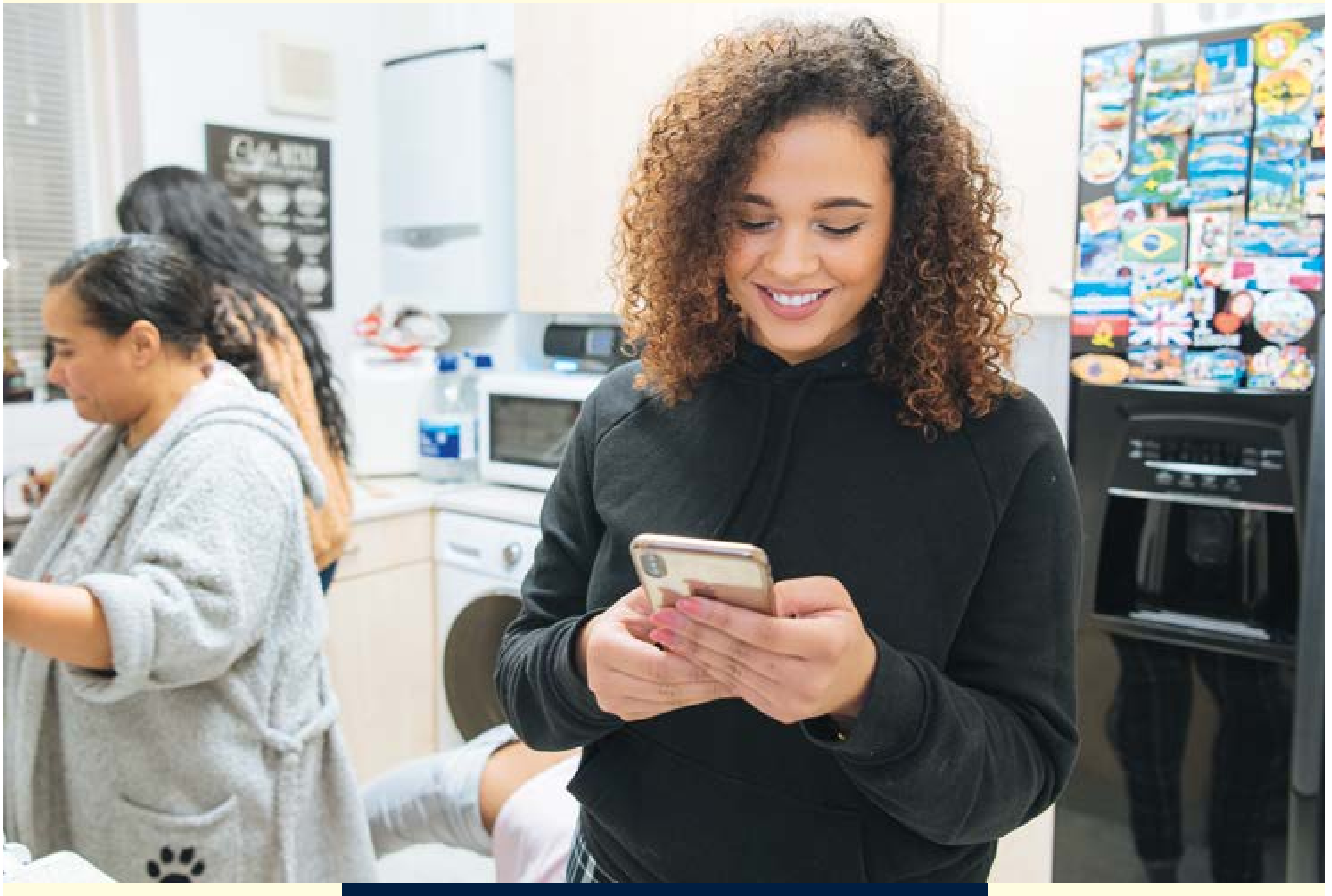
> Maintain or improve customer satisfaction levels in all businesses.

> Investment in the community through various community programmes, money advice programmes and social research.

Jess's day

"I want to use the card
to build my credit score to secure
cheaper credit in the future."

Jess
Vanquis Bank customer, London



"Having just left university, I had no credit history and I was unable to get credit from many lenders. After a search on the internet, I found Vanquis Bank and then applied. The application process was straightforward and the paperwork was clear. I was able to check my credit profile when applying and I found that they started me with a low limit so I could learn how to manage my budget. I want to use the card to build my credit score to secure cheaper credit in the future."

Our strategy and progress *continued*

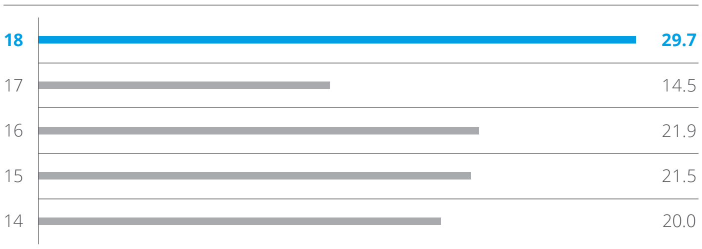
Maintaining a secure funding and capital structure

- > Maintain borrowing facilities which, together with Vanquis Bank's retail deposits programme, meet contractual maturities and fund growth over at least the next 12 months.
- > Maintain a CET 1 ratio for the Group of 25.5% together with headroom in excess of £50m.
- > Continue to diversify the Group's sources of funding.

Our progress against our KPIs in 2018

CET 1 ratio (%)

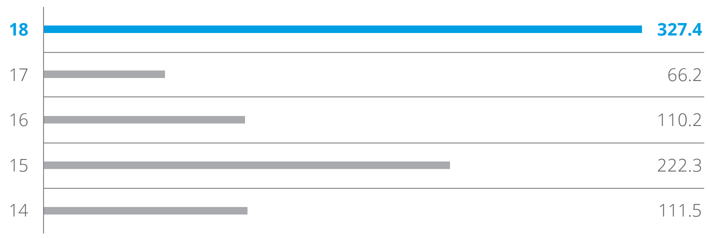
29.7%



The Group's CET 1 ratio at 31 December 2018 is 29.7% compared with a fully loaded regulatory capital requirement of 25.5%. This provides headroom of c.£100m, and is consistent with the Board's risk appetite of maintaining headroom in excess of £50m.

Funding headroom (£m)

£327.4m



Headroom on the Group's committed debt facilities was £327.4m at 31 December 2018. This is sufficient to fund contractual debt maturities and projected growth in the Group until May 2020, when the Group's syndicated revolving bank facility matures, assuming Vanquis Bank is fully funded by retail deposits.

Operational progress in 2018

- > Completion of the £300m rights issue to re-capitalise the Group was undertaken to meet increased regulatory capital requirements, maintain leverage in line with the Group's investment grade credit status and re-establish normal access to funding from bank and debt capital markets.
- > The Group issued £250m of 5-year fixed rate bonds carrying a semi-annual coupon of 7% in June 2018. 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.
- > Retail deposits at Vanquis Bank have increased from £1,301.0m to £1,431.6m which has allowed Vanquis Bank to repay its residual inter-company loan from Provident Financial of £55m in November 2018 and become fully funded with retail deposits.
- > Fitch Ratings reaffirmed the Group's credit rating at BBB- with a negative outlook and removed the Group from ratings watch negative.

Our focus for 2019

- > Manage regulatory capital in accordance with PRA regulations whilst maintaining headroom in excess of £50m, in line with the Board's current risk appetite.
- > Manage liquidity in accordance with PRA regulations as well as maintaining a prudent level of liquid resources.
- > Continue to manage the flow of retail deposits in Vanquis Bank at appropriate rates to meet funding requirements.
- > Review and consider additional funding options to support growth in CCD and Moneybarn and to fund growth and maturities.
- > Refinance the current syndicated bank facility maturing in May 2020, 12 months in advance of its maturity, in line with the Group's treasury policy.

Further detail on the Group's capital and funding position is set out in the Financial Review on **pages 57-71**.

Our strategy and progress *continued*

Generating consistent and sustainable shareholder returns

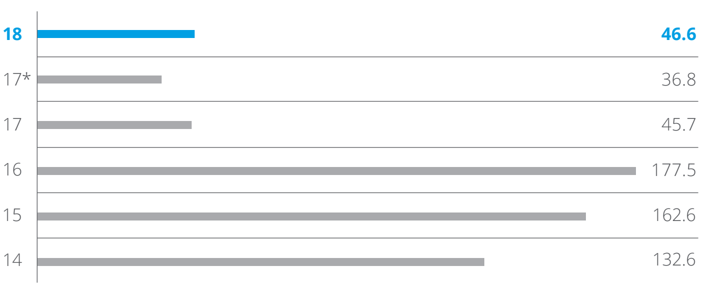
> Generate sustainable growth in profits and dividends to deliver increasing shareholder returns.

> Adopt a progressive dividend policy whilst maintaining a dividend cover of at least 1.4x.

Our progress against our KPIs in 2018

Adjusted earnings per share (p)

46.6p

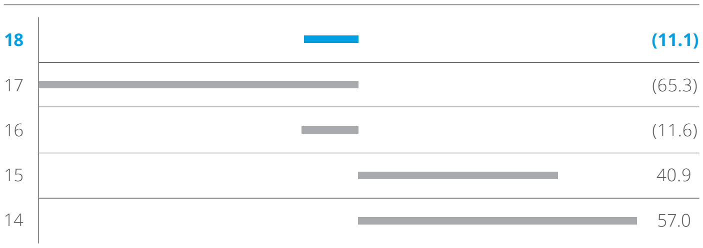


* Unaudited proforma as though IFRS 9 has been implemented from 1 January 2017.

IFRS 9 adjusted basic earnings per share of 46.6p (2017: pro forma IFRS 9 adjusted basic earnings per share of 36.8p, IAS 39 adjusted basic adjusted profits per share of 45.7p) increased by 26.6%, reflecting the increase in earnings partly offset by the impact of the rights shares issued in April 2018 and a higher effective tax rate.

Total shareholder return (TSR) (%)

(11.1)%



Annual total shareholder return of -11.1% in 2018 (2017: -65.3%), reflects some stabilisation in the Group's share price following the rights issue in April 2018.

Dividend per share/dividend cover

10p

Consistent with the commitment at the time of the rights issue, the Group is proposing a final dividend of 10p 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.

Our progress against our KPIs in 2018

> Growth in adjusted basic earnings per share as the Group continues to recover following the events of 2017.

> Returned to declaring a dividend, in line with the commitment at the time of the rights issue.

> The Board recently re-evaluated the timing of dividend payments to bring forward the payment of the interim dividend to September and the payment of the final dividend in May.

Our focus for 2019

> Maintain the ongoing recovery of the Group by delivering growth in earnings per share and a positive TSR.

> Adopt a dividend policy of maintaining a dividend cover of at least 1.4x taking into account the ongoing recovery of home credit, the transitional impact of IFRS 9 on regulatory capital levels and maintaining a regulatory capital buffer in excess of £50m, in line with the Board's current risk appetite.

Further detail on the Group's capital and funding position is set out in the financial review on **pages 57–71.**

Judith's day

"I have a very friendly CEM who visits every week which I find really supportive."

Judith
Home credit customer, Winchester

"I have been using the Provvy for years and years. I have a very friendly CEM who visits every week which I find really supportive. I have found them obliging and the money has helped with things around the home and day to day costs."