

A turning point for the Group



Introduction

Provident Financial is the market leader in helping the underserved access finance, as we have been for the past 140 years. We are excited about using our market-leading proposition as a platform for growth to provide more and better customer propositions. Growth can, and will, be achieved by attracting new customers, by launching new products as demanded by our customers, and by expanding into new markets. This is our Vision for the Future as we set out at our Capital Markets Day (CMD) in November 2019.

Our market

There are approximately 10 to 12 million adults in the UK, or 1 in 5 of the adult population, who are not well served by mainstream lenders. The market is reasonably dynamic with 1.5 to 2 million consumers moving in and out of it each year and it is often counter-cyclical with the number of consumers increasing during and immediately following a downturn as prime lenders tighten their risk appetite. Provident Financial is the biggest provider of consumer finance in this market and has 2.3 million customers.

There are no high street banks in our market, nor do we believe the more established banks have any desire to enter the space with a material presence. The more stringent regulatory environment requires companies to operate at much higher standards of compliance with positive customer outcomes a priority, which we fully support. To operate at these standards requires scale and smaller companies find this environment tougher to operate within. With our market-leading position, Provident Financial has a platform to deliver attractive and sustainable growth.

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Provident Financial is the market leader in a large market, where there are clear opportunities to grow customers, market share, product, distribution, and move into new market segments.

Malcolm Le May
Chief Executive Officer

Our customers' core needs

Access and acceptance	Affordability	Empathy and flexibility	Ease and convenience	Reward
<p>“</p> <p>I need someone to say yes and give me credit</p> <hr/> <p>I need to trust you</p>	<p>“</p> <p>I need my repayments to be manageable and affordable</p> <hr/> <p>It's the cost per month/week that is important to me</p>	<p>“</p> <p>Recognise that my circumstances can change</p> <hr/> <p>I need to not feel judged or patronised</p>	<p>“</p> <p>I need dealing with you to be quick and easy</p> <hr/> <p>I need simplicity</p>	<p>“</p> <p>I need to improve my credit score (build and re-build)</p> <hr/> <p>I need the cost of credit to reduce over time</p>

1 in 5

adults in the UK are not well-served
by mainstream lenders

Our businesses, products and customers

We operate through three divisions: Vanquis Bank, which provides credit cards, loans and savings products; Moneybarn, which provides vehicle finance; and CCD, which comprises Provident home credit and Satsuma digital loans. Each of our businesses seeks to lend responsibly and has a tailored business model and product suite for underserved customers.

Though served by different products from different divisions, our customers have common traits. They manage their everyday lives on low to average incomes; they may have irregular or variable earnings; they are often new to credit in the UK and have little or no credit history; or they may have experienced a significant life event, for example divorce or loss of a job. Our customers are also typically less sensitive to changes in economic conditions as they are more used to managing on tight budgets and they have lower levels of debt than prime customers. They are, therefore, often better placed to manage a recession than prime customers which is why our businesses have proven to be resilient during a downturn in economic conditions. Nevertheless, we have progressively tightened underwriting over the last two years to alleviate the impact of any weakening in the UK economy.

Given their circumstances, it is not surprising our customers need a lender to deliver them the tailored products and service they need. Provident Financial is the largest specialist credit provider to this segment of society, and, if companies like us did not exist, alternative customer options would be severely limited.

Our customer quotes are set out opposite.

Adapting to regulation

Regulators have quite rightly had a more intensive focus on customer outcomes recently, which has led to increased regulatory standards. To do business in our markets, and have a sustainable business, stakeholders need to know we operate to both the highest customer conduct rules and with prudence.

Since early 2018, Provident Financial has been at the forefront of changing its business model and approach to evolving sector-wide regulation. We see this as a competitive advantage for us going forward.

There have been a significant number of changes within the Group over the last two years in response to the change in regulation and our focus on delivering the right customer outcomes. Provident home credit has changed and adapted to its employed business model, became Financial Conduct Authority (FCA) authorised in late 2018 and implemented the home credit part of the high-cost credit review earlier in 2019. Satsuma has continued to adapt its business model to reflect evolving FCA guidance following the high-cost, short-term credit review. Vanquis Bank has completed its Repayment Option Plan (ROP) remediation programme following the FCA investigation in 2017/2018, has introduced new affordability criteria at the end of 2018, and is on track in implementing measures to meet the new FCA persistent debt requirements.

Moneybarn has now completed its customer redress programme and received the final notice following the FCA investigation into affordability, forbearance and termination options. It also does not

pay variable commission so will not be impacted by the FCA review into motor finance that came out in the third quarter of 2019.

Regulation will of course continue to evolve in our sector, as it does in all financial sectors. We continue to work with the Financial Ombudsman Service (FOS), particularly in CCD, in respect of any customer complaints referred to them. In addition, we also continue to assist HM Revenue & Customs (HMRC) on its market-wide review of the self-employed status of agents prior to the change in the home credit operating model in 2017.

We believe we are well prepared given the changes we have made and the improved relationships we have with our regulators. Customer outcomes are now front and centre at Provident Financial, which benefits all stakeholders and will help to deliver long-term attractive sustainable growth.

 [View our 2019 Corporate Responsibility Report at **providentfinancial.com**](#)

Our Blueprint

Linked closely to regulatory attitudes, we launched a new Blueprint in early 2019 to define our purpose and create a stronger culture across the Group. Our purpose sets out what we do for our customers and why we need to exist. A strong purpose running through the organisation improves the culture and helps deliver the right outcome for customers, and is increasingly an important consideration for all stakeholders.

Our purpose at Provident Financial is: "We help put customers on a path to a better everyday life." This purpose is the guiding principle for everything we do, and we have continued to successfully embed our purpose throughout the Group in 2019. Initial key performance indicators have been devised for the Blueprint, are being monitored by the Culture, Customer and Ethics Board Committee and are embedded in employee performance objectives.

Our purpose is supported by strategic business drivers and behaviours. These, in combination with our purpose and new culture, help to deliver more sustainable business models, increase customer centricity and unify colleagues, thereby creating a business advantage for Provident Financial.

 Certain alternative performance measures (APMs) have been used in this report. See page 237 for an explanation of relevance as well as their definition.

Our performance in 2019

Despite the distractions of the hostile NSF bid, we have made good operational and financial progress over the last 12 months. Adjusted profit before tax, prior to the impact of the amortisation of acquisition intangibles and exceptional items, of £162.6m was up 1.6% on 2018 (2018 (restated): £160.1m). Statutory profit before tax increased by 32.4% to £128.8m (2018 (restated): £97.3m) due to a reduction in exceptional costs from £55.3m in 2018 to £26.3m in 2019, of which £23.8m related to defending the NSF hostile bid.

Adjusted basic earnings per share, prior to the impact of the amortisation of acquisition intangibles and exceptional items, reduced by 2.9% to 47.3p (2018 (restated): 48.7p) due to the impact of the rights issue shares issued in April 2018. Basic earnings per share of 33.3p increased by 22.0% (2018 (restated): 27.3p) due to lower exceptional costs.

Divisional performance Vanquis Bank

Vanquis Bank has continued to successfully evolve its business model in 2019, increasing its customer centricity and responding to the regulatory direction of travel. It introduced new measures in relation to the FCA's new persistent debt regime, which are designed to help customers pay debt off faster, pay less in total, and prevent customers getting into persistent debt.