PFG | Provident Financial Group

# Everyday matters

Provident Financial plc
Annual Report and Financial Statements 2018

# Inside this report



## Cautionary statement

# Our purpose

## We help put people on a path to a better everyday life

Jennie's day

See how we helped Jennie
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Bianca's day

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Paul's day

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Jess's day

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Judith's day

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Shirley's day

See how we helped Shirley
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# A snapshot of the Group

## Customer numbers
2017: 2,550k

**2,395k**

## Amounts receivable from customers
2017: , £2,071.3m (IFRS 9[1]), £2,309.4m (IAS 39)

**£2,162.9m**

## Adjusted basic earnings per share[2,3] (p)
2017: 36.8p (IFRS 9[1]), 45.7p (IAS 39)

**46.6p**

## Basic earnings/(loss) per share[2,3]
2017: (75.3p) (IFRS 9[1]), (66.4p) (IAS 39)

**25.2p**

## Adjusted profit before tax[2]
2017: £84.2m (IFRS 9), £109.1m (IAS 39)

**£153.5m**

## Statutory profit/(loss) before tax
2017: (£147.9m) (IFRS 9), (£123.0m) (IAS 39)

**£90.7m**

## Proposed dividend
2017: £nil

**10p**

## Dividend cover
2017: n/a

**4.7times**

## Return on assets[1,4]
2017: 6.9% (IFRS 9[1]), 6.9% (IAS 39)

**7.5%**

## CET 1 ratio (%)[5]
2017: 14.5%

**29.7%**

## Community investment
2017: £2.6m

**£1.7m**

## Total tax contribution
2017: £168.0m

**£133.6m**

1 The Group has adopted IFRS 9 from 1 January 2018. Statutory prior year comparatives have not been restated. The Group has provided unaudited pro forma 2017 income statement and balance sheet comparatives as though IFRS 9 had been implemented from 1 January 2017.
2 Adjusted profit before tax is stated before: £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2017: £7.5m) and exceptional charges of £55.3m (2017: £224.6m).
3 The weighted average number of shares in the period prior to the rights issue in April 2018 has been adjusted to take account of the bonus element of the rights issue of 1.367 and EPS comparatives restated.
4 Return on assets is calculated as adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.
5 Common equity tier 1 (CET 1) ratio is measured against a fully loaded total capital requirement of 25.5%.

# Our divisions

## Consumer Credit Division

### Provident
Home credit

Provident offers home credit loans, typically of a few hundred pounds, to consumers on low incomes and tight budgets who require affordable credit to manage the household budget or one-off items of expenditure.

| Customers | Employees | Adjusted loss before tax[1,2] |
|---|---|---|
| 440,000 | 3,800 | £(38.7)m |

Loan range
£100-£2,000

### Satsuma loans.co.uk
Online lending

Satsuma is our online instalment loan product. We give new customers a small-sum, short-term loan and collect repayments by continuous payment authority either weekly or monthly.

| Customers | Loan range |
|---|---|
| 117,000 | £100-£1,000 |

See more about this content **pages 62-63.**

### VANQUIS BANK
Credit cards

Vanquis Bank is the leading supplier of credit cards to those not well served by mainstream lenders. We provide new customers with a low credit limit and only increase it when we have sufficient experience of the customer handling their account responsibly.

| Customers | Employees | Adjusted profit before tax[1] |
|---|---|---|
| 1.8m | 1,600 | £184.3m |

Loan range
£250-£4,000

See more about this content **pages 60-61.**

### moneybarn credit you can trust
Vehicle finance

Moneybarn is the market leader in the provision of vehicle finance for people well-served by mainstream lenders.

| Customers | Employees | Adjusted profit before tax[1] |
|---|---|---|
| 62,000 | 300 | £28.1m |

Loan range
£400-£25,000

See more about this content **pages 64-65.**

1 Before exceptional items and, in respect of Moneybarn, prior to the amortisation of acquisition intangibles.
2 Represents CCD as a whole.

# Our business model

## We provide our customers with tailored and affordable products that match their specific needs, and we help them to handle the inevitable challenges that everyday life throws their way.

### Consumer credit
£100–£2k
Consumer loan range

### Customer needs
138 years
Experience

**We create value for customers by generating high satisfaction and loyalty.**

### We develop tailored products to meet customers' needs

We focus on the UK credit market, developing simple, transparent products with flexibility to help customers not well served by mainstream lenders cope with life.

### Vehicle finance
£4k–25k
Vehicle loan range

### Credit cards
£250–£4k
Credit card limits

TV adverts
Direct mail
Face-to-face meetings
Online applications

**We create value for customers through offers of financial inclusion, and for colleagues and brokers through the income and commission they earn.**

### We attract customers who we can serve

We use many ways to reach consumers. We target our offers using increasingly digital methods, as well as face-to-face and partners such as field colleagues, agents and brokers.

### Attractive offers
2.4m
Customers

### Great service
5,700
Employees

## The resources and relationships critical to our success:

### Our customers

Our 2.4 million customers are at the heart of what we do, they are the 20% of UK adults who at any one time are looking for something that mainstream lenders don't offer. We specialise in serving their needs and have adapted our business model to do so.

See more about this content **pages 36-43.**

### Regulators and government

The nature of our customer base and the market we specialise in makes the building and maintaining of open and trusting dialogue with policy makers and our key regulators (the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and Central Bank of Ireland (CBI) critical to a sustainable business model.

See more about this content **pages 55-56.**

### Long-term funds and capital

We secure long term, lower rate funding through strong relationships with our lending banks, depositors and investors. We generate capital to deploy in growing our business and serving more customers as well as delivering returns to shareholders.

See more about this content **pages 57-71.**

Data analytics
Face-to-face interaction

**We create value for customers by ensuring loans are appropriate to their situation, and thereby generate sustainable returns for shareholders.**

## We carefully assess customer affordability and creditworthiness

We use internal and external data, including face-to-face interactions, taking into account both the current situation and the likely future.

### Enhanced affordability

**1 November 2018**
Implementation date

Building credit scores
From £100

**We create value for customers by helping them access credit, stay in control and build their credit score to improve future access and choice.**

## We lend responsibly

We tend to lend smaller amounts over shorter periods and take a 'low and grow' approach as customers demonstrate sustainability.

### Corporate responsibility

**£1.7m**
Community investment

Call centre communications
Digital communications
Face-to-face meetings

**We create value for customers by helping them minimise the impact of any difficulties in an understanding way.**

## We collect payments due

We offer many ways to pay in cash and remotely, maintaining frequent customer contact. We stay close to customers through call centre, digital communications and face-to-face meetings in the home.

## We manage arrears and customer difficulties

We establish early contact and an ongoing dialogue with customers who have difficulties, with a sympathetic approach, to understand and offer forbearance.

**We create value for customers by helping them stay on track and adapt to life's challenges whilst building their credit score.**

Sympathetic approach
Dialogue with customers

## Our 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.

See more about this content **pages 73-89.**

## Our communities

Our community investment strategy is aligned to our social purpose and seeks to invest in activities and initiatives which address the key factors that tend to reduce somebody's access to credit.

See more about this content **pages 73-89.**

# 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

# 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
www.providentfinancial.com

# 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
**www.providentfinancial.com**

## 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*

# Jennie's day

"With the help
of Vanquis Bank I have built
up my credit score."

Jennie
*Vanquis Bank customer, London*


"I have been with Vanquis Bank for quite a few years and have built my credit profile up over that period. I saw a leaflet initially and applied as my credit was not very good and I had been refused credit elsewhere. I received a card with a £200 limit and was able to meet my repayments so qualified for further credit. With the help of Vanquis Bank I have built up my credit score and now use their Black card. The customer service is really good and I would recommend it. I have now recommended to my son who is looking to take credit for the first time".

# Our market

## We specialise in helping the 20% of UK adults at any one time who are looking for something that mainstream lenders don't offer.

There are c.10-12m adults at any one time who are looking for something different.

**c.10-12m**
Adults

**c.41-43m**
Adults

There are c.41-43m adults at any one time who are served by mainstream credit providers based on their good credit file and history, along with their more straightforward personal and financial situations.

## Why our market exists

Around 20% of adults are not well served by mainstream credit providers because:

**c.20%**
of UK adults

### Life events

They are dealing with significant life events – divorce, loss of a job, long-term illness and other challenges – which have meant they have fallen behind with their financial commitments and resulted in their credit file being impaired, and/or;

### New to credit

They are new to credit in the UK – they have little or no credit history on which lenders can base a lending decision, and/or;

### Low incomes

They are simply managing the realities of everyday life on low incomes – their incomes are low and they are sometimes reliant on state support which creates challenges in managing their finances and consistently meeting their everyday financial commitments, and/or;

### Tailored product and service

They choose something different from the mainstream– they value the more tailored and varied product and service proposition offered and trust the brands and providers more than those available to them elsewhere.

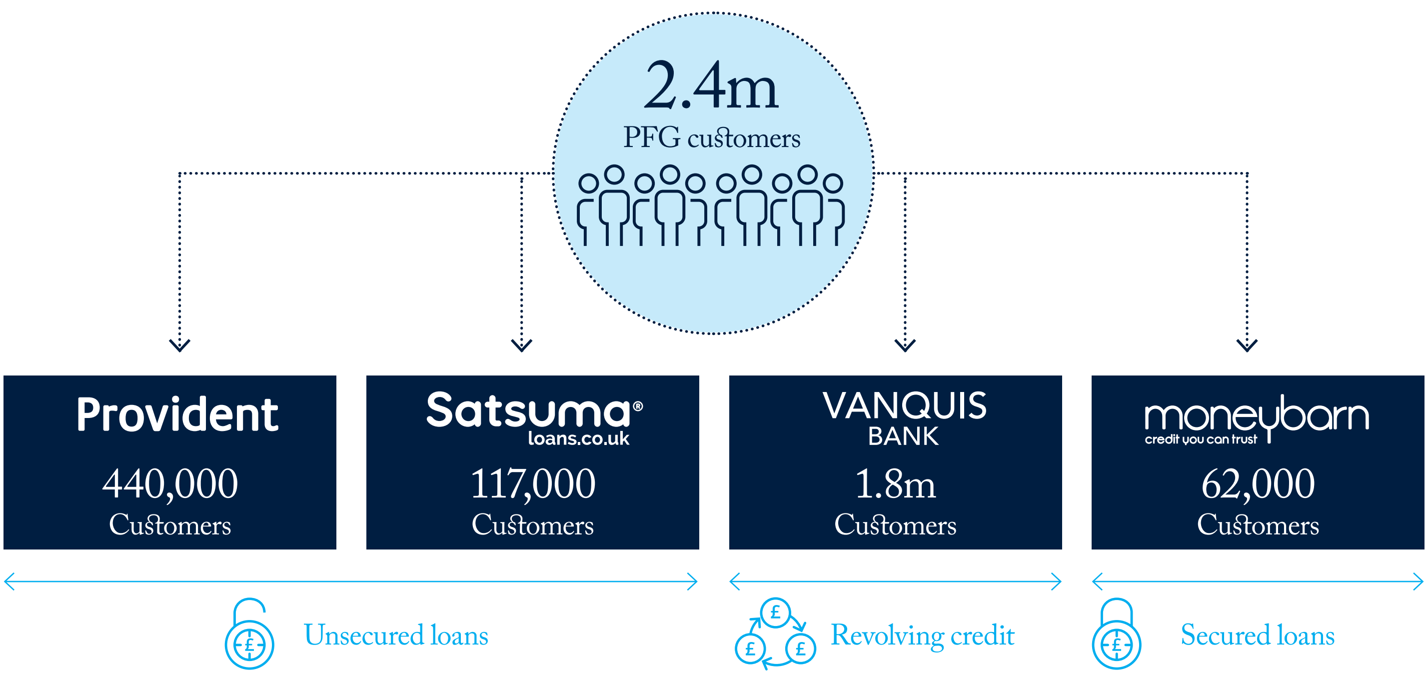
# Our market *continued*

## Our customers

The customers we specialise in serving have many similarities to mainstream credit customers. However, there are important differences which require a tailored approach and a wider range of suitable and sustainable credit solutions to best serve their more varied needs and circumstances. These needs and circumstances also tend to change more over time, requiring a more flexible approach from lenders.

Our 2.4m customers come from all across the UK and Ireland and typically have low to average incomes, generated from a range of types of employment and state support. Our customers mostly rent their homes, which include social housing, with relatively few having a mortgage or owning outright. Most of our customers are middle aged, with online lending attracting a younger audience, whilst the face-to-face approach also appeals to older borrowers. All Moneybarn, Vanquis Bank and Satsuma customers are required to have a bank account, whilst nearly 90% of Provident customers also have at least one.

Our customers increasingly prefer to engage and interact with lenders electronically, and expect seamless interactions as a result. This trend, along with increasing data availability and improved methods of analysis give us the opportunity to better use knowledge and insight in serving our customers, while carefully balancing the valued human element of our offers leveraging new technology available.




**Employment**

Part time/casual/not working — Full/part time — Full time

**Income**

Below national average £10,000–£15,000 — Around national average £20,000–£30,000

**Housing**

Rented accommodation/social housing — Rented accommodation

**Age**

25-54 years — 25-35 years — 35-45 years

## Our specialised approach

Our customers' circumstances and needs tend to be more varied and change more over time as a result of: (i) unpredictable life events; (ii) the unexpected expenses of everyday life; (iii) being new to credit; and (iv) their own product and service preferences.

Our customers tend to have different needs and expectations and different levels of access to products and price points through their more varied credit journeys.

Our market is therefore more challenging to serve and more fluid in its make up:

> There are a wider range of ways our customers search for and find the credit they need, involving a more diverse range of channels and partners for lenders to access and manage.

> Serving our customers requires a wider range of tailored products, solutions and approaches to meet their needs than are typically offered by mainstream lenders serving customers with more uniform and stable situations.

> Assessing affordability and creditworthiness in our market requires greater effort, specialised skills and experience given the greater range of customer circumstances.

> Managing our ongoing customer relationships also requires more varied and higher levels of contact and more options for forbearance.

> The 20% of adults who we specialise in serving are also changing all the time, with around 1.5-2m moving into or out of the mainstream credit market each year.

The nature of our customer base, the needs we serve, the products we offer and the price points required to address the inherent costs and risks mean that our sector has always been subject to closer regulatory and challenge:

> The sector is highly regulated, primarily by the PRA, FCA and CBI, with the potential for future regulatory requirements to increase, as recently demonstrated in the areas of affordability and persistent debt.

> There remains an ongoing potential for further direct political intervention such as the requirement placed on the FCA to cap the price of payday loans.

> Most customers of financial services providers are supported by a robust and unbiased Financial Ombudsman Service (FOS) to adjudicate on complaints. However, each case referred to the FOS comes at a cost to the lender regardless of the merits of the case or the outcome. Some claims management companies may also pursue speculative and unfounded claims on behalf of their clients.

As a specialist, we are better placed to address the needs of our customers and deal with the inherent challenges the sector poses.

## Our products

Over £70bn is lent each year in our market across a wide range of specialised products at price points tailored to the range of customers served. The three main categories of products are secured loans, where the car or house purchased, or item pawned provides the security; revolving credit accounts including credit cards; and unsecured loans of various forms including home collected credit and online lending.

We have offers spanning all three product types aimed at the higher risk, mid-risk and nearer-prime customer situations.

We have the opportunity to better serve our customers' developing needs through their credit journeys by expanding our offer to other product types and price/risk points which we do not currently address. A comprehensive, more joined-up set of products and offers, including helping those we are unable to lend to and currently decline, would allow us to improve our ability to offer the right solution at the right time to more customers, and help them to build their financial fitness.

### Main product type

Reducing credit risk and APR

| | Unsecured loans | Revolving credit | Secured loans |
|---|---|---|---|
| Prime/mainstream | | | |
| APR<20% | Personal loans and retail point-of-sale finance<br>Guarantor loans | Credit and store cards, retail credit accounts<br>VANQUIS BANK | 1st & 2nd charge mortgages<br>Motor finance<br>moneybarn credit you can trust |
| APR>100% | High-Cost Short-Term Credit (HCSTC)<br>Satsuma loans.co.uk<br>Home credit<br>Provident | Overdrafts and lines of credit | Pawn broking |
| Decline/unable to lend | | | |

# Our market *continued*

## Our market position

We are the leading provider of credit to those not well served by mainstream lenders in the UK and Ireland. We have built and maintain leading positions in the products we offer across three areas of the credit market: unsecured, revolving and secured. Most of our competitors are also specialists but are more narrowly focused, although some in the credit card sector in particular also serve wider needs. We are building our position in the newer area of online lending and direct repayment instalment loans, addressing the opportunities presented by developing customer needs and preferences, along with new technologies and data analysis. There may also be opportunities in more established sectors like home credit due to consolidation or the increasing burden of regulatory compliance for smaller players or those yet to implement key business model changes.

Our customers choose us because our specialisation and history has allowed us to: (i) build the capabilities and knowledge to design and deliver attractive and appropriate offers, and (ii) serve them in an understanding way that reflects the realities of their everyday lives.

See our customer profiles throughout the Annual Report and customer interviews on our website
**www.providentfinancial.com**

## Market context and position

| | Unsecured loans | | Revolving credit | Secured loans |
|---|---|---|---|---|
| Market sector | Home credit | HCSTC | Credit cards | Motor finance |
| PFG Brand | Provident | Satsuma loans.co.uk | VANQUIS BANK | moneybarn credit you can trust |
| Market size | Medium | Medium | Large | Medium |
| Market trends | Short-term decline | Stable overall | Continued growth | Continued growth |
| PFG position | Strong, #1 | Building, top 4 | Strong, #1 | Strong, #1 |
| Competition | 3 national competitors, hundreds of small local players, PFG transition impact | Few competitors profitable, move from payday into instalment loans | 4 main competitors, PFG only specialist: others have mixed portfolios | Some competitors exited due to risk appetite or funding/ business model issues |
| Key competitors | Morses and Non-Standard Finance | Enova | NewDay, Barclays and Capital One | Advantage |

# Bianca's day

"The credit card from Vanquis Bank gave me flexibility at a time when no one else would help me with money."

Bianca
*Vanquis Bank customer, London*

"Due to being sick, awaiting surgery and unable to work, I wasn't able to build up a good credit rating and was refused credit from many lenders. The credit card from Vanquis Bank gave me flexibility at a time when no one else would help me with money. The online application process was really simple, and the credit has been invaluable for paying for courses for future work and learning to drive!"

# 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
**page 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.

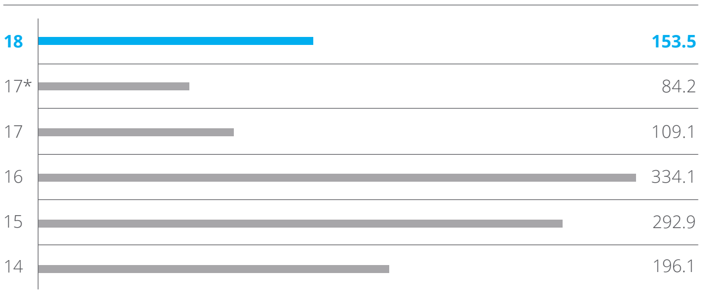
> Enjoy a strong market position in each division in order to develop the market in a responsible manner.

> 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).

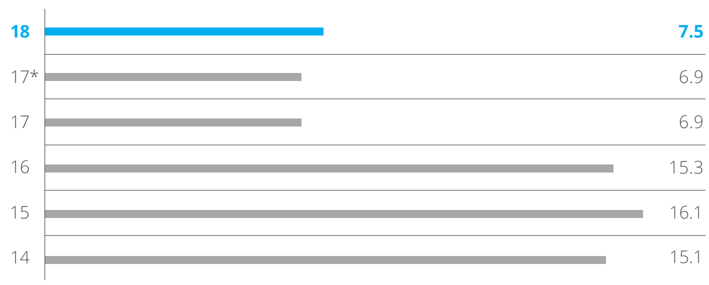
Vanquis Bank has delivered a 1.6% increase in IFRS 9 adjusted profit before tax to £184.3m (2017: pro forma IFRS 9 adjusted profit before tax of £181.4m, IAS 39 adjusted profit before tax of £206.6m), principally reflecting the benefit of operational leverage and receivables growth of 4.9%. This has 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%

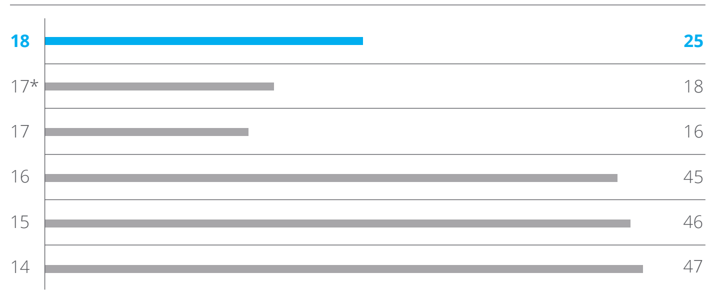



* Unaudited proforma IFRS 9 as though IFRS 9 had been implemented from 1 January 2017.

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 (%)

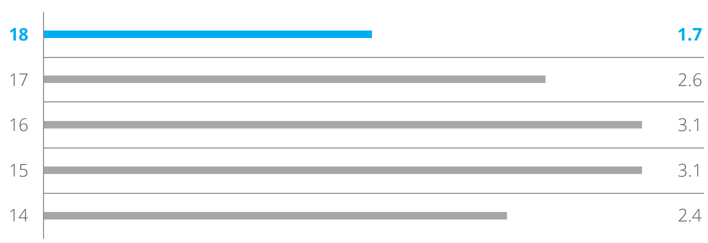
86/87%


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*

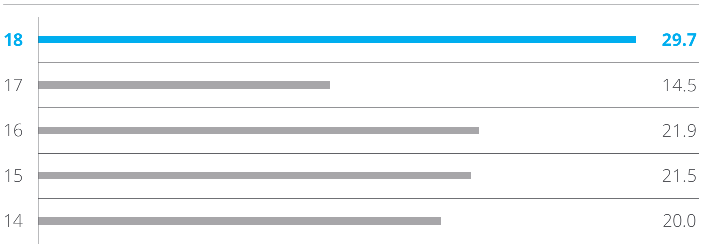
## Maintaining a secure funding and capital structure

- > 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 (%)

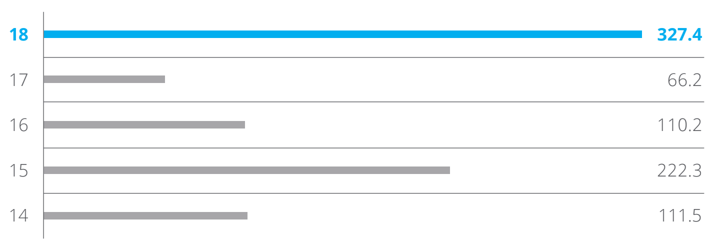
**29.7%**




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**

| Year | Adjusted EPS (p) |
|---|---|
| **18** | **46.6** |
| 17* | 36.8 |
| 17 | 45.7 |
| 16 | 177.5 |
| 15 | 162.6 |
| 14 | 132.6 |

* 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)%**

| Year | TSR (%) |
|---|---|
| **18** | **(11.1)** |
| 17 | (65.3) |
| 16 | (11.6) |
| 15 | 40.9 |
| 14 | 57.0 |

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**

| Year | Dividend per share (p) |
|---|---|
| **18** | **10.0** |
| 17 | – |
| 16 | 134.6 |
| 15 | 120.1 |
| 14 | 98.0 |

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."

# Our purpose and strategy

"In 2018, our focus has been on addressing the immediate business challenges I described earlier. Now however, PFG is at a turning point. Success in the eyes of investors, regulators and our people rests on our ability to pivot the Group back to growth, and in doing so, address competing demands quickly, effectively and sustainably."

Malcolm Le May
*Chief Executive Officer*

We need to balance providing our customers with an excellent proposition, maintaining high levels of regulatory compliance, providing a stimulating and rewarding workplace for our employees, and delivering appropriate, sustainable returns for our shareholders.

We know we can better address the needs of our customers across the Group. This means building a better understanding of what our customers' lives are like, what they need and want from us, as well as building smarter propositions and driving a more customer-centric mindset.

We can also better harness the scale of the Group to deliver better solutions for our customers by bringing the best of PFG and doing so in a smarter way. We believe there is significant opportunity to enhance our market-leading positions through our businesses working much more collaboratively across our core capabilities: credit, collections, distribution, data and analytics. In addition, continuing to develop our digital capability will be central to maintaining our market leading positions.

We can only do this if we are clear on why and how we are more than the sum of our parts. To this end, we have invested a lot of time and effort in building a Blueprint for the future of PFG. It will give us this clarity, unify the whole organisation and create a springboard for significant change at pace.

Our Blueprint brings together why we exist as an organisation, framed in the context of the role we play in our customers' lives.

99.2%*

The Blueprint creates shared purpose and ambition that motivates me.

We believe our purpose embodies our role to help and support customers with their everyday lives.

Malcolm Le May
*Chief Executive Officer*

We coupled this with what we'll deliver, looking at the areas of strategic focus and the key priorities that will drive both competitive advantage and commercial success for the whole Group. Finally, we have looked at how we'll deliver this and identified the behaviours we will need to succeed.

The first part of our Blueprint is our purpose. In setting our social purpose, we wanted something that provides the anchor for the whole organisation; what we do commercially, how we do it and why we exist. Our customers told us: (i) they use our products and services to help them in the everyday; (ii) they are aspirational and sometimes borrow for holidays or treats for the kids; and (iii) they value ease and convenience, but not at the expense of the human touch.

As a result of this feedback, we've developed our purpose as: "We help put people on a path to a better everyday life."

We believe our purpose embodies our role to help and support customers with their everyday lives.

During 2019, we will devote significant time and effort to embedding our new strategic Blueprint throughout PFG and link everything we do to the messages therein, including training and development, reward and our performance (KPIs).

In our strategy and progress section on pages 24 to 32, we have continued to report against our historic strategic objectives and KPIs. However, next year we will report against our new purpose and the strategic drivers underpinning these, together with the KPIs we feel best measure our progress.

* Respondents to a post- event survey strongly agreed or agreed with this statement.

## Constructing the Blueprint


### Purpose

**Our reason for being. It unifies us and is something everyone can get behind both practically and emotionally.**

**A great purpose leads to action.**

**Help =** our purpose, our role in helping customers achieve.

**People =** references the humanity, intrinsic to the way we do business.

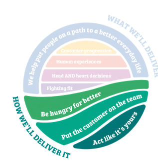
**On the path =** progression, growth, moving them forward in their lives, it's a journey.

**Better everyday life =** our business is not in the big life-changing moments, we help people in the everyday spending.

### Strategic drivers

**Our purpose is built upon a number of strategic drivers. They're critical pillars of our strategy, under which sit practical priorities. They drive our competitive advantage and force choices. However, they are not everything we do as an organisation; they are designed to focus our minds, time and investment. During our process, we identified four strategic drivers:**

- **Customer progression** – We will build products, services and partnerships that change the game for our customers.
- **Human experiences** – We will build enduring relationships by delivering experiences that seamlessly integrate the latest technology with our brilliant people.
- **Head AND heart decisions** – We will deliver for our stakeholders by balancing: (i) data and insight; (ii) financial return and doing the right thing; and (iii) customer need and customer want; in order to build a long-term, sustainable business.
- **Fighting fit** – We will continuously challenge our cost base, efficiency and effectiveness, and change our capability to ensure we remain the most competitive player in the market.



### Behaviours

**To make sure we deliver on our purpose, it is essential we create a culture where: (i) we think 'customer' all the time; (ii) we constantly innovate and make things better for all our stakeholders; and (iii) we hold ourselves and each other personally accountable for success. As a result, we have developed a set of behaviours we are now beginning to embed in our overall culture:**

- **Be hungry for better** – This is seeking out opportunities for constant improvement, as well as having conversations that will help us move the dial, even when it's tough.
- **Put the customer on the team** – This is making every decision with our customer in mind, as well as owning the trade-off between commercial and customer impact.
- **Act like it's yours** – This is using resources with the same respect and consideration you would your own, as well as doing your bit to step-change our performance and maximise value.

# Our customer proposition

## Vanquis Bank

Vanquis Bank is the leading provider of credit cards to people in the non-standard credit market, promoting financial inclusion by bringing credit cards and loans to people who are typically declined by mainstream providers.

VANQUIS BANK

Malcolm Le May
*Vanquis Bank Interim Managing Director*

### Develop tailored products to meet customers' needs

The key areas where Vanquis Bank has developed its business model in 2018 are as follows:

In being the leading provider of credit cards to people in the under-served market, Vanquis Bank helps people to establish or rebuild a credit history and to share in modern buying methods such as online shopping, that can only really be achieved with card-based payment products.

Vanquis Bank has over 16 years of experience in lending responsibly to its chosen target market through a low and grow business model where credit line increases are provided utilising improved decision science and open banking. Its success is based on a clearly defined strategy and a tailored approach to serving customers in an underserved credit market.

In 2018, the product agenda focused on enhancing the customer proposition and operational efficiency through product portfolio consolidation and simplification. The product offering was successfully streamlined from sixteen down to four core credit cards targeted towards distinct customer segments. The Vanquis portfolio is now structured along distinct price points, which makes our proposition easy to understand and communicate.

In 2018, we broadened our product offering to our existing customers by providing a seamless process in our mobile app for customers to process their non-Vanquis credit card debt on to promotional rate, which resulted in a 20% uplift in the number of customers transferring a balance to Vanquis. 70% of all Balance Transfers are now processed through the app. In the first quarter of 2019 we will also be providing our customers the opportunity to seamlessly process a Money Transfer within the app.

Account Level Profitability (ALP) capability – In 2018 we developed our ALP tool which provides a rich source of data exposing the drivers of profitability at a customer level, including allocating the cost base taking account of specific customer behaviour. For example ALP allows us to analyse the cost of servicing a customer through the call centre (allocating the cost of the call to the second) versus the cost of servicing a customer via our self-serve channels such as the App. This level of detail unlocks a wealth of information that helps improve all elements of our analytics, from optimising customer engagement strategies, to adjusting our underwriting where segments or channels have varying costs of servicing customers. ALP also serves as a strategic asset to further enable our move to machine learning, serving as a core feedback loop through activity tracking against our test and learn strategies, accessing 500m+ data points per month.

Vanquis Bank has also launched an unsecured loan proposition to its existing credit card customers.

### Attract target customers

The business continues to be active in many distribution channels and improved offering to 'thin file' customers,building ongoing relationships with declined customers ("financial fitness") and increased penetration in the near prime segments through expansion of distribution.

We have developed further partnerships, including new affiliate and co-brand relationships.

We have also built systems to allow the development and marketing of Vanquis Bank credit cards to the Moneybarn customer base.

I am proud that Vanquis Bank has delivered stable profits in 2018 whilst adapting to changes in regulatory requirements and almost entirely settling the ROP refund programme.

Malcolm Le May
*Vanquis Bank Interim Managing Director*

## Working with IncomeMax to help customers manage their finances

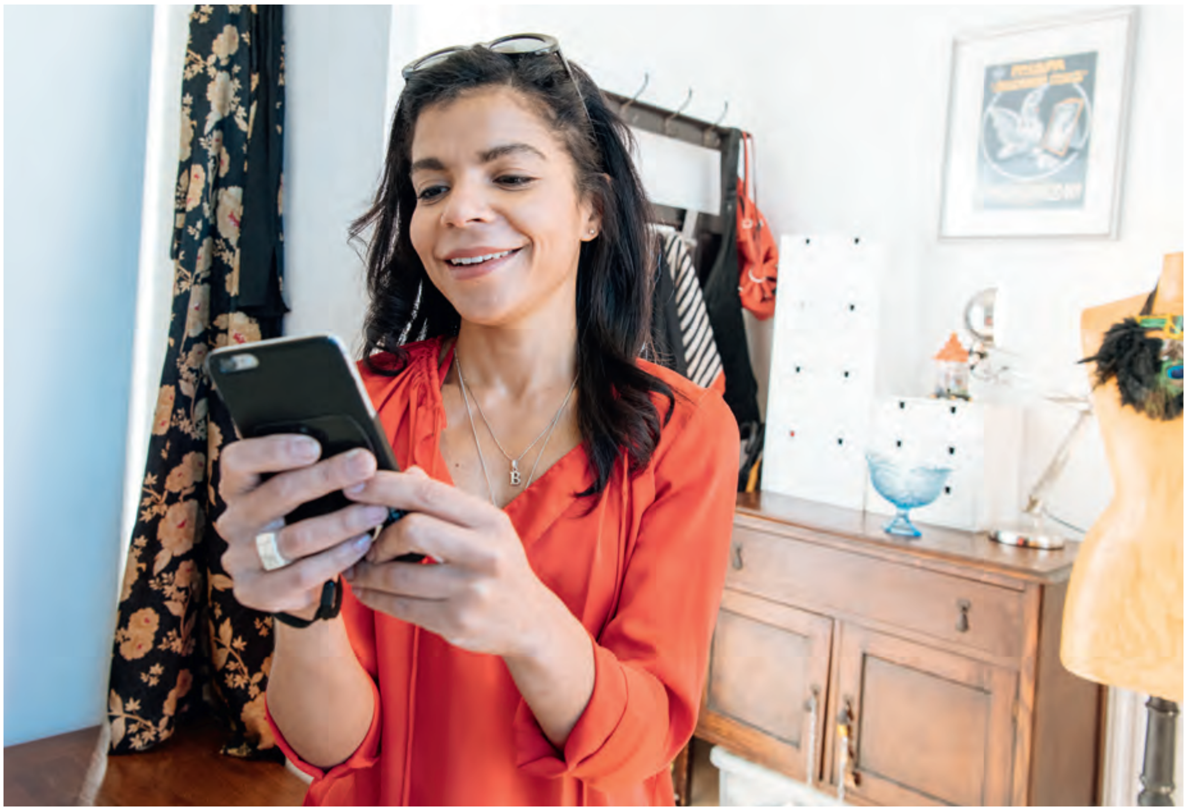
Vanquis Bank continues to work with IncomeMax, through an innovative partnership that began in 2015, to support customers of the Bank that are experiencing financial difficulties. IncomeMax is a Community Interest Company that helps people to maximise their household income by providing them with independent personal welfare advice that helps them take control of their finances. Vanquis Bank's dedicated One Call team, which offers additional support through financial capability and capacity assistance, puts customers in touch with IncomeMax.

**1,773k customers**

(3.1% increase year on year)

**86%**

Of Vanquis Bank customers are satisfied with the service they had been provided with in 2018. This has been consistently delivered year on year.



Our new TV adverts, launched in May, were screened over 46,000 times driving a 50% increase in "effective recognition" (people who recognise the adverts and know who they are for), a 17% improvement in prompted awareness of the Vanquis brand and the cost of driving a response from TV advertising has fallen by over 25% as a result of continuous channel and time of day optimisation.

The launch of the Provident Knowledge Universe, a data collaboration with Experian, has added a substantial growth in new customers originated through our Direct Mail channel relative to our BAU baseline.

2018 sees a record number of new customers originated through comparison site channels as key initiatives significantly improve the customer journey and provide a seamless customer experience. Vanquis use advanced analytical techniques to ensure the right product is presented to the customer, pre approving customers where possible. Material improvements to the customer journey, including pre-populating application forms has significant improved the conversion rate of applications through to account booking.

## Assess affordability and credit worthiness

Following the FCA's review of credit worthiness in consumer credit which concluded in July 2018, Vanquis Bank, along with all of the Group's businesses reviewed, and continued to develop its affordability process to ensure it is able to meet regulatory requirements while meeting customer demand.

A suite of new Acquisition scorecards were deployed in the first half of 2018, which are built on the more granular, raw bureau data available to us, demonstrating the continued advancement in analytical strength at Vanquis Bank. The new scorecards and underwriting routines represent a significant uplift in predictive power and improved data matching routines.

In Q4 2018 we implemented a new Decision platform for New Business, which represents a step change in our ability to marry advancements in analytical strategies with the speed with which these changes can be deployed. These new capabilities will support our continued optimisation of our new business channels and ensure we have the flexibility to enhance or course correct our strategies quickly and safely.

Vanquis Bank has demonstrated that it is considerably less sensitive to changes in the employment market than mainstream card issuers. Underwriting standards have been progressively tightened over the last 18 months which, together with the historic resilience of the business model, means that Vanquis Bank is well-positioned if there is any deterioration in the UK economic environment.

## Lend responsibly

Vanquis Bank's 'low and grow' approach to extending credit and high levels of customer contact underpin a sustainable, responsible lending model which produces consistently high levels of customer satisfaction approaching 90%. When an existing customer has demonstrated a sound payment performance they may also be able to benefit from a Vanquis Bank loan.

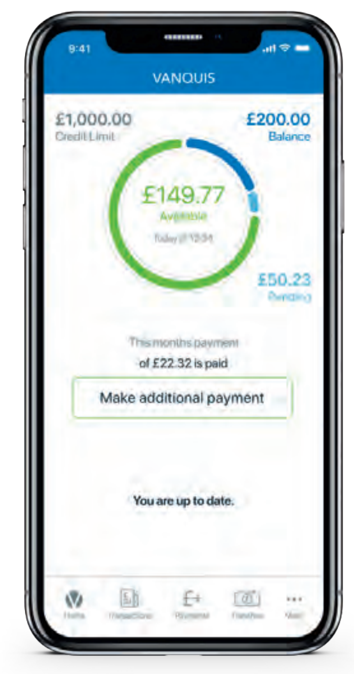
Vanquis Bank has successfully delivered a number of business model refinements during 2018 in order to adapt to changes in regulation. In response to the remedies arising from the FCA's credit card market study, the business has undertaken a number

# Our customer proposition *continued*

## Vanquis Bank *continued*

**700k**

customers use the mobile app each month, logging in an average of 9 times per month. We increased minimum due payments in the second half of the year, to reduce the number of customers falling into the FCA's definition of persistent debt. We will also be introducing recommended payments in early 2019. These measures are designed to help customers manage their finances better and retain the utility of a Vanquis Bank credit card.




**1m**

**customers have registered for the mobile app since it launched in June 2017.**

of actions including: (i) reducing its 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) the introduction of 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 definition of persistent debt, Vanquis Bank increased its minimum due payments by around 0.5% in the third quarter of the year and will shortly roll-out the use of recommended payments which we expect to be typically between 1.0% and 1.5% higher than the minimum due payment. 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.

### Collect repayments due

Vanquis Bank's migration to digital platforms continues to progress. More than 1 million customers were registered for the mobile app at the end of 2018, with 700k customers active through this channel in any month. More than half of debit card payments are now made through the app, replacing telephone as the channel of choice for customers.

Vanquis "Next Best Action" capability continues to support customers in avoiding arrears. Around 300k customers actions were taken following recommendation of improving financial fitness, such as setting up a regular payment method, making additional payments to avoid going overlimit, or changing when payments are due to align to personal circumstances.

Early intervention strategies are helping customers to avoid default and overlimit fees. All customers now receive payment due and overlimit reminders by SMS, where we have been provided with a mobile number.

Increased customer engagement and regular releases of new functionality is moving customers away from more traditional channels and into self-serve methods. 80% of new customers register for the app within 30 days of activating their card. For example, 55% of all debit card payments are now taken via the app and 58% of first time card activations are completed.

### Manage arrears and customer difficulties

In 2018, Vanquis Bank continue to support customers when they are experiencing financial difficulty by offering appropriate and affordable solutions to allow the customer to repay their balance in an efficient manner.

Approximately 18k customers per month now make a commitment to resolve their arrears through the mobile app. This constitutes more than 10% of collections activity. In December, new capabilities to message customers in the app to prompt repayment were rolled out, this will further support our digital migration through 2019.

Enhancements to the suite of forbearance tools were rolled out in the second half. This included reduced interest rates on short-term forbearance, and lower payments required for those already benefiting from payment arrangements. This is expected to support more customers who find themselves in short term difficulties to recover, avoiding default.

# Consumer Credit Division

The Consumer Credit Division is the Group's longest running business, stretching back to the Company's foundation in 1880. The Provident home credit business continues to fill an important need for consumers in the non-standard market, providing access to credit for those who might otherwise be financially excluded.

Consumer Credit Division

Provident | Satsuma loans.co.uk

Chris Gillespie
*CCD Managing Director*

The home credit business continues to serve its customers with short-term cash loans provided in the home by a Customer Experience Manager (CEM). Satsuma has been established more recently and provides a customer proposition for those customers who wish to transact online However, some key features of the Home credit proposition are retained such as a fixed amount to repay with no hidden fees on either a weekly or monthly basis,

2018 has been a year of turnaround for CCD after the events of 2017 which focussed on stabilisation and authorisation of the business. In addition, the key areas where CCD have developed their business model are as follows:

## Develop tailored products to meet customers' needs

The Provident home credit business continues to fill an important need for consumers in the underserved credit market, providing access to credit for those who might otherwise be financially excluded.

Consumers on low incomes and tight budgets require affordable credit in order to manage the peaks and troughs in their household budgets or one-off items of expenditure which may arise. They value the simple, flexible and transparent nature of the home credit product with its fixed repayments and no additional fees or charges, even if payments are missed. Customers value these features as well as the face-to-face relationship. The regular contact with customers and thorough affordability checking for each loan issued further reinforces Provident's responsible lending approach.

In 2018, the focus in the home credit business has been on rolling out and embedding a new operating model in the UK, incorporating enhanced management oversight and controls over field activity and customer outcomes whilst in Satsuma, the emphasis has been on generating controlled customer growth.

Although home credit and Satsuma have not introduced new product lines in 2018, CCD has developed clear plans to extend and improve its products and propositions from 2019 onwards. Firstly, as well as continuing to increase the distribution of the core Satsuma small-sum, short-term loan product, we intend to undertake a trial of larger, longer duration personal loans at rates below 100% APR, expanding the addressable market and leveraging the Satsuma platform. Secondly, we are looking to extend our home credit product offering, leveraging the capabilities in home credit and Satsuma. The product extension will continue to be relationship managed in the home by a CEM, but payments will be collected remotely. 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.

**560k**
customers
(2017: 780k)

**87%**
of customers interviewed were satisfied with the service they have been provided with in 2018. This has increased by 2% in 2018.

# Our customer proposition *continued*

## Consumer Credit Division *continued*


### Home credit customer, London

"I have been using Provident for a while and have found it very helpful around Christmas and birthday times when the household budget is stretched. I have found it easy to discuss getting credit with my CEM and the finance easy to understand with no hidden charges. I have also found the customer service really helpful. I have recommended it to family members as they give credit to people who not many will lend to."

### Attract target customers

Although the competitive landscape in the home credit market remains largely unchanged, there is evidence of some industry consolidation materialising as a result of more exacting regulation under the FCA.

The field acquisition channel in Home Credit has been reinvigorated in the UK following FCA authorisation, aligned to an enhanced management framework to ensure oversight and good customer outcomes.

There has been focus on increasing efficiency of direct mail activity in Home Credit, including development of targeting models, frequent testing of the creative material and leveraging of internal data to reach new populations. In late 2018, the foundations for customer acquisition in home credit have been built and incremental marketing activity tested including local promotional activity.

The business has optimised the investment in customer acquisition in Satsuma in 2018, which involves ensuring the business attracts the right customers at an appropriate cost based on constant evaluation of the performance of customers attracted through each of the different B2C channels and B2B partners.

Satsuma has benefited from internal expertise in driving continued SEO activity across a range of high-volume, core key word search terms driven by regular, relevant content updates and ongoing site optimisation. This approach is also being used for home credit. Satsuma has also driven ongoing improvement in the management of the Pay Per Click (PPC) channel, supported by profitability tracking at a campaign level.

Growth has been experienced in Satsuma through key partner relationships, enabled through bespoke, performance-based decisioning. Incremental customer 'journey' and experience improvements for new and existing Satsuma customers have been delivered by 'specialists' which focus on each route to market who are able to assess the frequency of change required dependent on external and internal requirements.

### Assess affordability and credit worthiness

CCD continually evolves its assessment of creditworthiness and affordability in both home credit and Satsuma, including the use of new data sources, checks and controls to assess whether the information received is accurate. During 2018, data from across the Group was integrated into our decisioning processes, ensuring that we make best use of information known within the Group in Satsuma's lending decisions.

In home credit in the UK, we have provided capability to CEMs to collect and store photographic evidence of customers' incomes, so that this can be evidenced and used in the creditworthiness and affordability checking process.

In Satsuma, a new business scorecard has been redeveloped for deployment in 2019 and, as Satsuma has continued to mature in 2018, adjustments to scorecard cut-offs for both new business and further lending have delivered incremental improvements to credit quality.

**2.5m times**

The Satsuma app has been launched 2.5m times by our customer wanting to check their balance or catch up missed payments.

> We have worked with our regulators to adapt our operating models in the interests of our customers.
>
> Eleanor Thornhill
> *CCD Finance Director*

## Lend responsibly

The focus in 2018 for home credit in the UK, has been on rolling out and embedding the new operating model which has included the implementation of additional controls such as voice recording technology which is used by the field when interacting with customers and is reviewed for compliance and quality. The recording of sales transactions is mandatory. The relaunched collections and recoveries policy is underpinned by revised standard operating procedures.

## Collect repayments due

The roll out of the new operating model in home credit in the UK, including the creation of a new field oversight role, ensures that colleagues are provided with the right amount of support and that the principles underpinning the approach to collections activity are being consistently followed. The principles were delivered in 2018 via a training programme specifically for CEMs to ensure that they are able to have productive conversations with the customer to ensure positive customer outcomes are achieved.

A new version of Satsuma's mobile app has made it easier for customers to see when their next payment is due and enables them to catch-up missed payments via the app to clear arrears. Customer research has provided clarity on what customers want regarding repayment functionality, enabling further improvements to be planned for 2019. The Satsuma app has been downloaded by 84,000 customers and launched over 2.5m times.

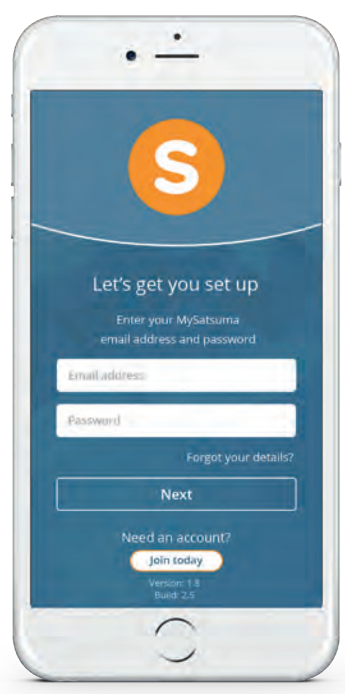
## Manage arrears and customer difficulties

In the first half of 2018 collections was the responsibility of the home credit UK field team with little support provided centrally for non-paying customers. The central collections function has, in the second half of the year, introduced a number of initiatives representing email, SMS and letter campaigns that support CEM activity on both non-paying and part-paying accounts.

A post field collections strategy has been introduced to continue to have dialogue with customers who have declined to interact with home credit field colleagues, which includes both an internal contact strategy and a third party placement. It is too early to evaluate the impact of the post field strategies although we anticipate that this will ultimately improve our overall collection rate. Collections will continue to be a focus area in 2019, ensuring that we provide as many options as possible to contact and interact with customers.

In 2018 the business has reviewed processes for handling vulnerable customers to ensure there is a mechanism in place that treats vulnerable customers fairly. A centralised unit was provided to evaluate potential signs of vulnerability and training across the business was centred on a policy of ensuring that staff recognised the triggers and could refer the customers centrally for a full evaluation. Inevitably, high initial referral volumes were experienced and throughout 2018 we have increased our resource to ensure that potentially vulnerable customers are handled in a timely manner, including having strict service levels e.g. contacting customers within 24 hours of a referral. Analysing referral reasons and continuously training colleagues has enabled a slight reduction in resource in the latter part of 2018, whilst improving the service offered to our customers.

2018 started with a challenging level of complaints (particularly following the disruption in 2017) that required external support to be sought to handle complaint volumes and enable the existing volume of complaints to be addressed. As 2018 has progressed, we have been developing our internal capacity and capability to deal with complaint volumes. At the end of 2018 we have achieved our target to handle all complaints with our own employed complaint handlers and our service levels are all well within the recognised market standards.




**126,000 devices**

Since launch in March 2017 the app has been downloaded by 84,000 customers on 126,000 devices.

# Our customer proposition *continued*

## Moneybarn

Moneybarn provides car finance to non-standard customers in the UK. By assessing every customer's personal history, needs and situation, the company is able to make responsible lending decisions and provide non-standard customers access to good quality vehicles.

moneybarn
credit you can trust

Shamus Hodgson
*Moneybarn Managing Director*

The profile of a Moneybarn customer is very similar to a Vanquis Bank customer. They typically have a thin or impaired credit history and find it difficult to access credit from prime lenders. They have an average age of approximately 40, are employed or self-employed and have an income level around the national average of £25,000.

The key areas where Moneybarn have developed their business model in 2018 are as follows:

### Develop tailored products to meet customers' needs

Moneybarn promotes financial inclusion by providing vehicle finance to those consumers who may be unable to obtain mainstream credit, generally enabling them to get to work and earn a living.

Responsible lending is reinforced through straightforward products which do not involve the sale of ancillary products such as PPI or GAP insurance, or hidden fees or charges.

The product range has been expanded in the year to include Light Commercial Vehicles (LCV), motorbikes and touring caravans to serve customer demand without any significant increase in risk appetite.

The business has also moved to fixed rate APRs for each credit tier which means that customers have comfort from certainty of rate and monthly instalment at the start of the application process.

### Attract target customers

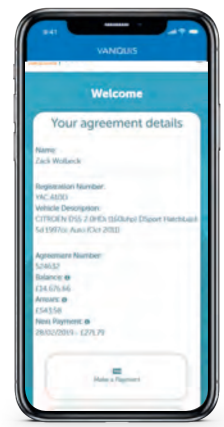
Moneybarn has made significant service enhancements to the application and digital onboarding process through the inclusion of a pre-qualification team, improving the customer journey whilst maintaining risk and regulatory rigour. This also improves the offering for our distribution partners compared to competitors in our market.

The business has continued to expand the number of distribution partners which we work with, maintaining our position as lender of choice to those consumers who may be unable to obtain mainstream credit.

Management information has become more detailed to have strategic conversations with our key introducers. This enables them to better understand the customer base and maximise to enable them to better meet demand and customer preferences.

Enhanced management information has also facilitated the introduction of a re-solicitation programme to retain high quality customers who currently settle early and move to other lenders.

The Experian Financial Strategy Segmentation tool has been integrated into the business to enhance the understanding to the customer profile and enable key word focus for SEO campaigns. The customer experience can be improved by better understanding their needs and by tailoring which offers are available to the customer.




**62k**
customers
(2017: 50k)

**4.7/5**
Feefo score of 4.7 out of 5. This is consistent with the prior year and demonstrates customers are very satisfied with the service provided by Moneybarn.

## Moneybarn customer Janet, Chichester

"After paying expensive monthly lease payments for a number of years and then not owning the car at the end of the lease, I decided to look for another option. My son who works in the motor industry recommended Moneybarn although I thought it would be complicated to arrange. I was pleasantly surprised with the simple process which allowed me to snap up my dream car!"

## Assess affordability and credit worthiness

The business has continued to develop the credit risk function who can analyse the broad data held to drive operational processes from acquisition throughout the customer journey.

Following the FCA's review of credit worthiness in consumer credit which concluded in July 2018, Moneybarn has continued to enhance its affordability model. This is a project which has been continuing for two years and included an automated affordability programme launched in October. This has also led to an improvement in the level of service delivered to customers, brokers and dealers.

## Lend responsibly

To ensure that the Moneybarn lends responsibly is through providing straightforward products. A programme of credit tightening initiatives has been introduced to manage and control delinquency levels within the business's credit risk appetite.

In 2018, this has included additional policies when dealing with higher risk customers, removal of Tier 3B which served Moneybarn's highest risk customers and the introduction of a new credit scorecard.

Management has continued to develop the end-to-end credit risk performance management and monitoring providing insight into drivers of portfolio performance This supports early identification of adverse portfolio trends to enable the offer to be adjusted where required.

## Collect repayments due

Through the development of the analytical support provided by the credit risk function, collections processes have been developed in 2018. This improves customer outcomes by optimising the way in which we interact with customers at different stages of financial difficulty.

All pre-termination fees and charges previously charged have been eliminated during the year to enable the business to support customers and remove a barrier to having effective conversations with them.

A customer portal has been implemented in 2018, providing the customer with flexibility over how they may wish to make payments.

## Manage arrears and customer difficulties

As with the other divisions of the Group, Moneybarn has focussed on identifying and helping to resolve customers in financial difficulty in the year.

The business has continued to invest in resource and technology in customer operations through 2018. Significant investment in this area has led to increased customer contact rates, higher levels of performing payment plans, and a moderation in arrears and terminations.

A new collections system will be implemented in 2019 and we have chosen to the most suitable supplier. This will represent a significant change in the businesses capabilities in managing customers in arrears allowing internal processes to be more efficient and continuing to maximise positive customer outcomes as the business continues to grow.

# Risk management and principal risks

The Board has focused on strengthening the Group's governance through 2018. This has involved development of the Group's risk management framework and the creation of a Cross Divisional Risk Forum to provide clear and co-ordinated second and third line risk focus to the newly formed Group ExCo to ensure greater first line senior management attention at the Group level.

Risk management is the process of identifying, assessing and managing the principal risks that the Group faces, including those arising from market disruption and evolving regulatory requirements.

## Risk management and regulation

Historically, the Group's risk management approach has always been organised such that each of Vanquis Bank, CCD and Moneybarn independently maintain and manage their respective risk management frameworks. As a result of this Group structure, primary responsibility for risk management (including conduct and regulatory risk), has sat at divisional level. The divisions each have in place risk management frameworks, which are developed and operated in each division. The Group has provided broad direction to ensure a degree of consistency, and has overseen the implementation of the divisional frameworks. During 2018, the appointment of a Group Interim Chief Risk Officer (CRO) has led to increased co-ordination, collaboration and clarity around the respective risk profiles and their management, although the underlying fundamentals of divisional risk and regulatory responsibility remain unchanged. The processes around the Group's risk management have been strengthened with greater focus on the Group's key risk profile, development of the new Group risk appetite and policy frameworks, and enhanced reporting to the Group Risk Committee (GRC).

The focus is now to ensure these changes are effectively embedded over time.

## Recent developments

During 2018, significant progress has been made in relation to the Group governance and risk frameworks. The Board sponsored a dedicated programme to complete the recommendations of the review undertaken in early 2018 and as a result the following have all been completed:

> A Board skills review was undertaken and several new appointments have been made to considerably strengthen the mix and levels of direct and relevant skills and experience;

> The Group Board has reviewed the composition of each of the divisional boards with the respective divisional chairmen. A process is now underway to implement changes which enhance broader capabilities and drive greater cultural and strategic alignment between the Group and the divisions;

> The Board has reviewed and approved new versions of all of the committee terms of reference to ensure these drive the key activities of the Board and its sub-committees effectively;

> The Board has reviewed and approved a significantly enhanced series of Board-reserved matters (providing greater clarity on arrangements between the Group and the divisions);

> In support of the Board-reserved matters, a Delegated Authorities Manual (DAM) has been approved by the Board which sets out specific levels of authority in relation to the Group and also the divisions. This provides much greater clarity over when and where key Group decisions can be made;

> All of the above documentation and revised arrangements have been incorporated into a comprehensive Board Governance Manual (BGM) which sets out the full range of operating processes, roles, responsibilities, authorities, and inter-group arrangements that support the effective running of the Board;

> The BGM is further supported by a similar, comprehensive, Executive Governance Manual (EGM). Using the BGM as a backdrop, this more clearly defines the modus operandi, roles, responsibilities and authorities of the new Group ExCo which came into operation in January and has now been operating throughout the year; and

> Following a changing strategic focus as reported last year, the Chief Executive Officer has been instrumental in establishing a cultural development programme which has put in place new key strategic drivers that centre around our customers and how we would like to operate going forward. This work has been finalised and is now being rolled out across the business.

More specifically focusing on risk, the following actions have been delivered:

> As covered last year, a new interim Group CRO was appointed and his focus has been on improving the Group risk and governance frameworks. In combination with the recent appointment of a new GRC Chairman, we have seen significant steps forward in the way the Group identifies, manages and controls risk;

> As part of a revised Group risk framework, the activities of the former Risk Advisory Committee (now disbanded) have been transferred across to (a) the Cross Divisional Risk Forum to provide clear and co-ordinated second and third line risk focus; and (b) to the newly formed Group ExCo to ensure greater first line senior management attention at the Group level. The re-titled GRC is the formal sub-committee of the Board and its terms of reference, scope and coverage have been reviewed and enhanced;

- The Board has reviewed Group risk appetite and approved a new Group framework and series of appetite measures;
- A new Group policy framework has been approved with new policies included and reflecting existing policies updated to reflect the new risk appetite;
- The new Board appointments have created a stronger and more rounded and challenging GRC;
- The focus of the GRC has moved significantly towards the key issues facing the Group, both current and forward looking;
- 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 would be chaired by Elizabeth Chambers;
- Group risk reporting has been expanded to provide wider coverage across the full spectrum of risks, with particular emphasis on those of current or potential future significance. Each risk is assessed on grounds of materiality and probability of impact and action plans are included to demonstrate how each is being managed;
- A forward looking agenda has been created for the GRC which ensures it has time allocated to fulfil all of its responsibilities whilst allowing time to 'deep dive' into key areas of concern or potential future threat;
- The Group interim CRO has worked closely with the divisional CROs (who maintain full responsibility for managing risks at a divisional level) and has greatly improved collaboration, information sharing and risk transparency as it escalates up to the Group ExCo and the Board;
- The Group has ensured it develops the best possible relationship with all our regulators and, at the Group level, we have improved co-ordination and consistency in how contact is managed with the regulator. This has included regular meetings between our Group CEO and senior management with the PRA, FCA and CBI; and
- During the year a comprehensive conduct risk assessment was undertaken and an action plan is in place to ensure all possible steps are taken to manage and address past, current and potential future risks. This has been submitted to the FCA.

In last year's report, a number of key risks were highlighted which were particularly important to that point in time. During the year a number of these have been addressed, particularly those around capital and funding following the successful completion of the rights issue, and implementation of the home credit operational recovery plan. Our GDPR programme was completed on time and it is felt we are in a good position in this regard, with only minor aspects remaining outstanding.

In a revised approach for this year, this report now sets out firstly the principal risks which face the Group, followed by a number of more specific and generally forward looking risks which have the Board's specific attention and are a focus of the GRC. It is not an exhaustive list but addresses the risks which are currently deemed to be potentially the most material to the Group.

# Risk management and principal risks *continued*

## The Group's approach to risk management

### The Board

Reviews the risk management framework annually to ensure that it remains fit for purpose and complies with relevant laws and regulations including the Code.

Further detail covering the operation of the Board committees can be found on **pages 109 to 136.**

### Board committees

#### Customer, Culture and Ethics Committee

The role of this committee of the Board will be to review the Group's culture and business processes to ensure they are focused on delivering fair customer outcomes; oversight of the Group's delivery and embedding of its Blueprint; and ensuring the Board meets its corporate governance requirements under the 2016 UK Corporate Governance Code.

#### Group Risk Committee

Chaired by a non-executive director of the Board, it is responsible for ensuring that there is an appropriate risk management framework embedded across the Group, and monitors key risk positions and trends.

#### Audit Committee

The Audit Committee provides governance and oversight of the financial reporting and disclosure process, the audit process and the system of internal controls and compliance.

#### Remuneration Committee

The Committee is responsible for the remuneration of the Chairman, the executive directors and the Company Secretary. The remuneration and terms of appointment of the non-executive directors are determined by the Board. The Committee also reviews and sets remuneration of the senior management teams within the three divisions and the corporate office.

### Management committees

#### Group ExCo

Chaired by the CEO the ExCo is responsible for supporting the CEO in developing, proposing and implementing a Board approved strategy. In so doing, it is also responsible for managing the Group strategic risks and overseeing divisional risk. The ExCo receives reports from the individual divisional managing directors which cover key risks within their respective divisions. The interim Group CRO also provides a regular report from a second line perspective on the enterprise wide risks facing the Group, how they are trending, whether they are within risk appetite and highlighting any emerging or developing risks that require focus.

#### Finance Forum

A quarterly finance forum, chaired by the Group Finance Director and attended by divisional finance directors and senior finance management including the heads of tax, audit, treasury and risk, reviews and provides oversight of the key financial matters of the Group.

#### Group Treasury committee

A quarterly Group treasury committee, chaired by the Group CFO and attended by divisional finance directors, the Group treasurer, head of Group tax, and the Group financial controller ensures that there is active management of the financial risks and that liquidity, market, counterparty and prudential regulatory risks are managed within Board approved appetites.

### Cross Divisional Risk Forum (CDRF)

A monthly forum which brings together the interim Group CRO, each of the divisional CRO's, the interim Group Chief Internal Auditor, and the Group Risk Committee Chairman. The forum:

- Provides a platform for sharing views of risks across all areas of the Group;
- Reviews key divisional risks and agrees on the Group aggregate risk profile;
- Undertakes forward looking risk assessments and identifies any new or emerging risks;
- Provides an independent forum for the divisional CRO's to escalate any concerns they may have;
- Enables the Group interim CRO and Group interim Chief Internal Auditor to give a further independent viewpoint on both the risks of the divisions and the Group;
- Shape Executive and Board Risk reporting; and
- Assists the Chairman of the GRC to better understand and prioritise the key risks of the Group.

### Whistleblowing

Whistleblowing policies and procedures are in place in each of the Group's divisions. The Group is committed to the highest standards of quality, honesty, openness and accountability and employees are encouraged to raise genuine concerns under these policies either by contacting a manager or telephoning a dedicated external helpline in confidence.

During 2018, this external helpline was operational throughout the Group and procedures are in place to ensure issues raised are addressed in a confidential manner. The Company Secretary is required to report to the Audit Committee in December each year on the integrity of these procedures, the state of ongoing investigations and conclusions reached.

### Group and Corporate policies

The Board has completely reviewed policies in place across the Group and has approved an over-arching set of Group policies with which all business units must comply. The review process took into account our Group Risk Appetite and existing Divisional policies and sought to ensure alignment where practical, but the Group Board are now clearly sighted on the policies in place across the Group. A certification process to ensure compliance is in place and each Division will be required to certify compliance on a biannual basis. This includes any suggestions for improvements.

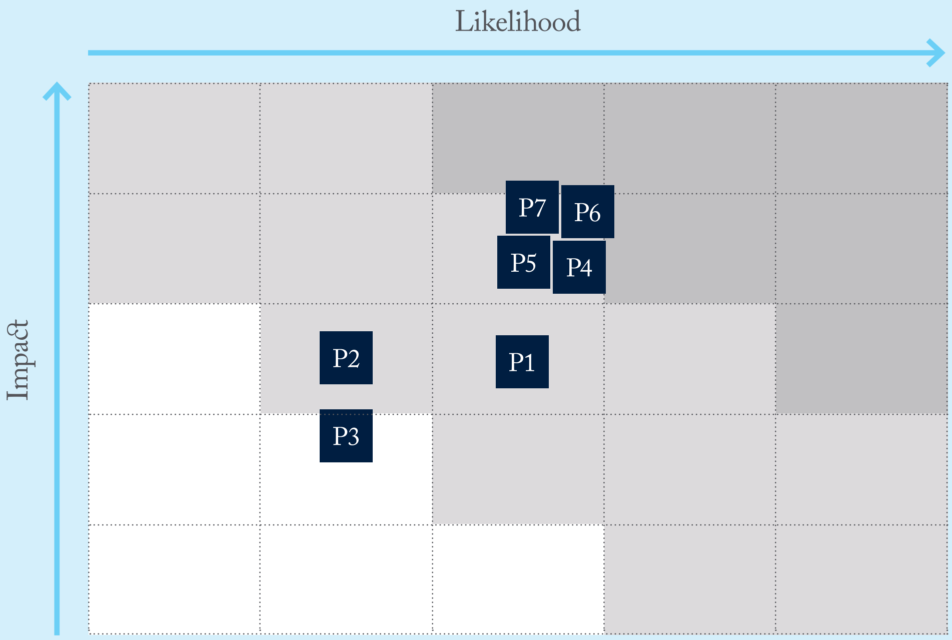
## Three lines of defence model

From the internal control description above it can be seen that the Group operates an effective three lines of defence model as set out below:

<table>
<tr><th>Line of defence</th><th>Division responsibilities</th><th>Group responsibilities</th></tr>
<tr><td>First line</td><td>The divisional Managing Directors and the key approved persons/senior managers are fully responsible for managing and controlling the risks within their area of responsibility. They must operate within the Group and divisional risk appetite, policy and control frameworks, reporting on key risks and escalating as appropriate.<br>They ensure they have sufficient resources and effectively controlled processes to operate the business and sustainably deliver against business strategy and objectives.</td><td>The Group CEO and senior management of the Group (including Divisional Managing Director's who sit on the Group ExCo) are responsible for developing the Group strategy for approval and for effectively overseeing its implementation. Through this process, key risks facing the Group are identified and managed by the respective senior managers, either directly (as in the case of the Group CFO) or indirectly through the divisional first line activities. Monthly reports to ExCo from all senior managers provide key risk coverage.</td></tr>
<tr><td>Second line</td><td>Each division has its own dedicated CRO, who acts as the approved person/senior manager with that prescribed responsibility. The CROs have developed specific risk frameworks appropriate to their divisional and regulatory needs, and are responsible for:<br>> Establishing a risk management framework for their respective divisions;<br>> Agreeing risk appetite with the divisional board and effectively managing and reporting against this;<br>> Independent challenge, review and assurance over divisional first line activities;<br>> Resourcing, managing and directing the activities of their local risk specialist teams; and<br>> Acting as a key liaison point for their respective regulators.</td><td>As the Group itself is an unregulated entity, the interim Group CRO carries no specific approved person or senior manager status. This role is therefore to:<br>> Support the Group in developing and maintaining an effective governance and risk management framework appropriate to the Group structure;<br>> To provide additional expert advice, support and challenge to the divisional CROs;<br>> To provide an additional escalation route for divisional CROs if required;<br>> To aggregate and independently assess the divisional risk profiles;<br>> To provide Group ExCo and Board risk reporting;<br>> To undertake strategic risk identification and risk analysis at the Group level and to co-ordinate activity relating to the Group specific risks; and<br>> To lead on developing a co-ordinated and integrated approach to the management of the Group's ExCo conduct risks and regulatory relationships.</td></tr>
<tr><td>Third line</td><td>The Group internal audit function encompasses all divisions, with a dedicated senior audit leader for each. The divisions are subject to a suite of audit reviews each year, as part of the annual audit plan which is agreed by divisional executive teams, the Group ExCo and the Group Audit Committee. The audit reviews focus on both the design and operational effectiveness of internal controls, as operated by management. The reviews highlight opportunities for management to improve the existing control environment, to support better business performance and management of risk.</td><td>The Group Interim Chief Internal Auditor helps the Board and ExCo to protect the assets, reputation and sustainability of the organisation. Through the work of the Group internal audit function, the Interim Group Chief Auditor focuses on:<br>> Assessing whether significant risks are identified and appropriately reported by management and the risk function to the Board and the Group ExCo;<br>> Assessing whether significant risks are adequately controlled; and<br>> Challenging the Group ExCo to improve the effectiveness of governance, risk management and internal controls.<br>The Interim Group Chief Internal Auditor reports primarily to the Chairman of the Group Audit Committee with a dotted reporting line to the Group CEO.</td></tr>
</table>

# Risk management and principal risks *continued*

## Principal risks

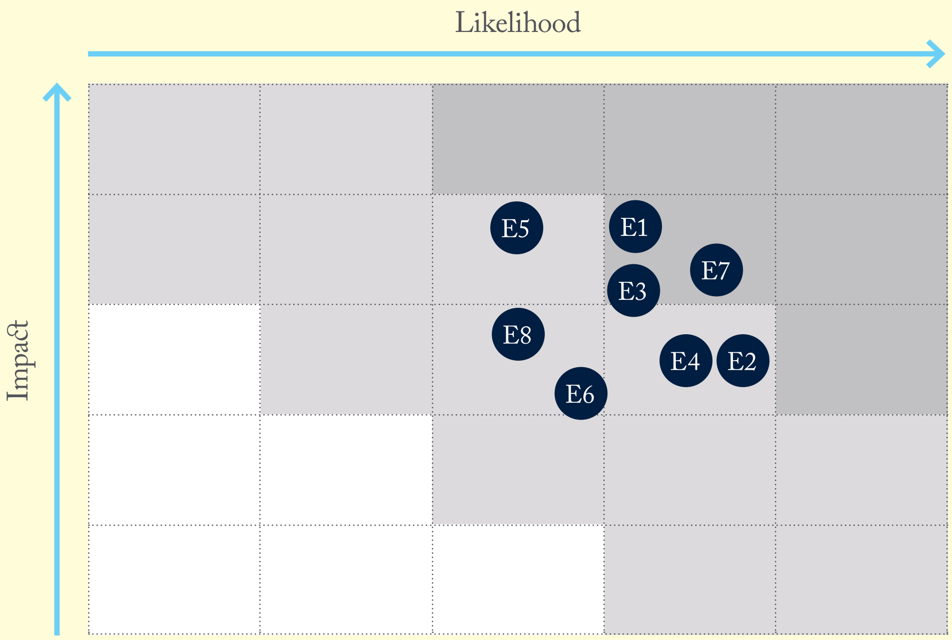



Key

- P1. Credit risk
- P2. Capital risk
- P3 Liquidity and funding risk
- P4. IT risk
- P5. Operational risk
- P6. Regulatory and conduct risk
- P7. Challenge to agent self-employed status

The above risks are shown on a net basis, after mitigating actions.

## Emerging risks




Key

- E1. Threats to industry
- E2. Conduct risk – Product liability
- E3. Responsible lending/affordability
- E4. Claims management companies
- E5. Data and information security
- E6. Risk and governance capabilities
- E7. Home credit recovery plan – Arrears
- E8. Brexit

The above risks are shown on a net basis, after mitigating actions.

## Principal risks

| Risk # | Risk | Movement in 2018 | Description | Likelihood | Mitigating activities | Link to strategy |
|---|---|---|---|---|---|---|
| P1 | Credit risk | → | The Group operates three credit businesses (Vanquis Bank, CCD and Moneybarn) and the risk is one of unexpected credit losses arising through either adverse macro-economic factors or systems and control failures in credit processes. | → | > The Group operates credit scoring methodologies led by credit specialists in all of its businesses and these are well maintained and monitored on a regular basis.<br>> These are variously supported by clearly defined credit policies to restrict certain types of lending and there are also manual underwriting support processes in many parts of the business, particularly home credit.<br>> The Group operates in the non-standard lending sector and as such credit default levels are higher, but all indicators confirm the risk profile is within expected ranges.<br>> During 2018, each division has reviewed their respective credit profiles and has undertaken selective tightening to ensure any higher than desired risk segments have been addressed.<br>> Macro-economic downturn risks are assessed through stress testing as part of the ICAAP processes and these confirm the Group can comfortably withstand the impact of a material stress, as defined by the PRA.<br>> The Group is reliant upon third party data from credit bureau and, as such, is dependent upon the accuracy of this data. | |
| P2 | Capital risk | ↓ | The risk that the Group has insufficient capital to either meet regulatory requirements or to sustain the long term viability of the business. | → | > During the year, the rights issue was successfully undertaken and has restored the Group to a position of capital strength.<br>> The ICAAP process has confirmed that the Group is projected to have sufficient capital resources even under a severe stress environment.<br>> The resolution of the FCA investigation into ROP at Vanquis Bank has been substantially completed and the Group is close to finalising the remediation programme, with all amounts fully provided for.<br>> The FCA investigation into affordability, forbearance and termination options at Moneybarn is reaching a conclusion and it is believed that existing provisions, created in 2017 are sufficient to address any resulting remediation. | |

# Risk management and principal risks *continued*

## Principal Risks *continued*

| Risk # | Risk | Movement in 2018 | Description | Likelihood | Mitigating activities | Link to strategy |
|---|---|---|---|---|---|---|
| P3 | Liquidity and funding risk | ↓ | The risk that the Group has insufficient liquidity to meet its obligations as they fall due, and or is unable to maintain sufficient funding for its future needs. | → | > The Group seeks to maintain a secure funding and capital structure. It has three core funding objectives:<br>— To maintain borrowing facilities to fund growth and contractual maturities outside of Vanquis Bank over the next 12 months;<br>— Maintaining a CET 1 ratio in excess of the minimum regulatory requirement of 25.5% together with regulatory capital headroom in excess of £50m; and<br>— Maintaining diversified funding sources.<br>> During the year, the Group significantly improved the capital and liquidity position with the £300m rights issue and by refinancing the £250m October 2019 bond with the issue of a new £250m bond maturing in 2023 and buy back of £222.5m of the existing bond.<br>> During the year, the Group has maintained its investment grade credit rating and, as at 31 December 2018, the Group had headroom on its committed bank facility of £327.4m.<br>> In addition, Vanquis Bank accepts retail deposits and, in line with its regulatory requirements, maintains liquid resources to meet certain stress events as stipulated within its Internal Liquidity Adequacy Assessment Process (ILAAP). | |
| P4 | IT risk | → | IT systems failure, unavailability or denial of service/security issues can lead to material business interruption or customer detriment causing significant financial loss. | ↓ | > As a customer-led business reliant upon technology to serve customers through a number of different channels, IT risk remains high and receives continued management focus.<br>> To date, there have been no material issues affecting the business, but shortcomings are being addressed through a focussed programme of work.<br>> The Group's core technology infrastructure is being upgraded to provide increased resiliency and continuing reliability. The new Group Chief Information Officer (CIO) leads on a wide ranging program of continuing investment and it is expected that this risk will continue to reduce over time.<br>> Given known shortcomings, the probability of incidents occurring is increased as the Group goes through the required changes. To date any incidents have been quickly resolved and not caused any material harm. Accordingly the overall impact is not assessed as high. | |

| Risk # | Risk | Movement in 2018 | Description | Likelihood | Mitigating activities | Link to strategy |
|---|---|---|---|---|---|---|
| P5 | Operational risks | | The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.<br><br>Operational risk covers a wide range of different categories including specific event risk, fraud, IT/Systems risk, business continuity, AML, etc. | | > Each division has effective operational risk frameworks in place which include risk identification and assessment, and control remediation.<br>> Risk registers are in place across the Group and either risk process maps or risk control self-assessment processes ensure management have a clear view of the risks they manage.<br>> The three lines of defence model throughout the Group ensures there is management responsibility for controlling the business operations, and independent lines of challenge from risk and audit.<br>> Issues arising in CCD during 2017 continue to be addressed through the implementation of the home credit recovery plan.<br>> IT risk remains a key area of focus for the Group and a series of infrastructure and IT upgrade/resiliency improvements are already in train. | |
| P6 | Regulatory and conduct risk | | The risk of failing to meet regulatory requirements or expectations and/or deliver poor customer outcomes leading to potential customer detriment. | | > The Group operates in a highly regulated environment and in an industry sector where customers are potentially more vulnerable and need careful management.<br>> The FCA investigations into Vanquis bank and Moneybarn are either fully resolved or close to finalisation and the Group has worked hard to ensure a positive future relationship with its regulators.<br>> The Group undertook a 'conduct risk assessment' covering all business areas and has identified a series of progressive actions that will further ensure we continue to deliver positive customer outcomes. This has been submitted to the FCA.<br>> We remain mindful that the regulatory landscape is continually evolving and regularly reassess our risks through horizon scanning and regulatory impact assessment across the Group.<br>> As was seen with Wonga, claims management companies (CMC's) have become particularly active around non-standard lending sectors and there remains a risk that they might target one of the sectors in which we operate.<br>> We have seen increases in customer complaints via this channel, but we continue to robustly defend inappropriate or unsubstantiated claims and work closely with the Financial Ombudsman Service (FOS) in this regard. | |

# Risk management and principal risks *continued*

## Principal Risks *continued*

| Risk # | Risk | Movement in 2018 | Description | Likelihood | Mitigating activities | Link to strategy |
|---|---|---|---|---|---|---|
| P7 | Challenge to agent self-employed status | → | The Group has been, and may continue to be, subject to claims brought against it by either former agents or tax authorities challenging the historic employment status of the Group's home credit agents in the UK and the employment status of agents in the Republic of Ireland, particularly given recent employment status cases reported in the media.<br><br>Were the Group to be unsuccessful in defending such claims, it may be required to make payments to former agents as well as being liable to pay additional taxes, including PAYE and National Insurance Contributions to the relevant authorities.<br><br>Furthermore, were a class action or tax authority challenge to be made against the Group, whether or not such action is successful, the Group could suffer harm to its reputation by virtue of any press or media attention. | → | > In July 2017, the Group changed their operating model of its home credit business in the UK from a self-employed agent model to an employed workforce so as to take direct control of all aspects of the customer relationship. In the Republic of Ireland the Group continues to operate a self-employed agent operating model.<br>> Policies and procedures were in place in the UK up to the transition to the new operating model in 2017 and continue to be in place in the Republic of Ireland which seek to ensure that the relationship between the business and the agents it engages is such that self-employed status is maintained. Compliance with policies is also tested.<br>> To date the Group has successfully defended historic employment status claims brought against it by former agents in the UK and employment status claims brought by agents in the Republic of Ireland. The Group has also previously agreed the self-employed status of agents with the tax authorities in the UK and the Republic of Ireland, although there can be no guarantee that future claims or challenges will be successfully defended. | |

## Emerging risks

| Risk # | Risk | Description | Likelihood | Mitigating activities | Link to strategy |
|---|---|---|---|---|---|
| E1 | Threats to industry | The FCA has been looking closely at the non-standard lending sectors, particularly high cost credit and home collected credit. There remains a risk that further regulatory intervention could result in constraints leading to required changes in the Group and divisional business model(s). | ↑ | > To date the Group and its businesses has successfully accommodated regulatory changes including the Credit Card Market Study (CCCMS), affordability changes (PS18/19) and the more recent changes announced under the High Cost Credit review (CP18/42).<br>> All of these changes have either been addressed or have been anticipated through actions already in train.<br>> The FCA has been supportive of home credit in their plans but the Group will continue to work closely with the regulators to ensure we are able to fully comply and also potentially help shape any future reforms.<br>> This risk is considered to have a very high potential gross impact if the regulators were to consider extreme steps, but given the level of action taken so far the probability of further significant industry regulation beyond expected levels is considered lower. | |

| Risk # | Risk | Description | Likelihood | Mitigating activities | Link to strategy |
|---|---|---|---|---|---|
| E2 | Conduct risk – Product liability | As was seen with the FCA's investigation into ROP, there are risks that certain aspects of the products by the Group or the way we lend or promote them will always remain under close regulatory scrutiny. There is a future risk that the regulator identifies product features or pricing or customer outcomes that they consider unacceptable, leading to possible remediation and intervention. | ↑ | > The pro-active ROP remediation programme to refund interest on customer accounts is approaching its final stages.<br>> Other than ROP, which is not currently on sale to new customers, the Group believes its products are simple and straightforward, and sold or promoted in a fully compliant manner.<br>> Each division has product review processes which consider customer outcomes and product construct and design, and we monitor closely all complaints received and take corrective action should this prove appropriate.<br>> As we saw with the ROP during 2017, the impact of a material finding carries a very high gross risk, but we consider the potential for any further product related findings from the FCA to be considerably lower. | |
| E3 | Responsible lending/ affordability | In the non-standard lending sector, the risks of inadequately undertaking affordability assessments can be high and lead to customer detriment and regulatory intervention. | ↑ | > Moneybarn are currently nearing the end of an enforcement review into its lending processes, including affordability, and it is expected that the outcome of this review will be concluded shortly. The Group believes it has raised a more than adequate level of provision against any remediation that might be necessary.<br>> Across the Group, an extensive review of past and current affordability processes has been undertaken in order to determine whether there may be any systemic issues. Supported by external legal advisors, the review has concluded processes are compliant and that there are no obvious systemic back book issues.<br>> Isolated instances of process failure may be identified. However, it is not considered that they would require significant action other than on a case by case basis. | |
| E4 | Claims management companies | As evidenced in recent well-publicised cases, concerted efforts by CMCs can lead to a significant increase in the level of complaints being raised against the Group, whether these end up being settled or rejected. | ↑ | > During the last year the Group have seen an increase in the level of complaints received via CMCs. In a number of cases these have been completely spurious claims and have been rejected outright.<br>> Where valid claims are received, the Group considers each on a case by case basis and only settles a claim where it is clear there has been a process failure which may have led to potential or actual customer detriment.<br>> The Group is not aware of any systemic issues and is able to provide a robust defence against complaints received via this channel.<br>> The Group assesses the probability of increasing complaint levels as relatively high during the year.<br>> With the upcoming regulation of CMCs under the FCA, it is believed that volumes may plateau or reduce over time.<br>> As with all our complaints management activities, we undertake root cause analysis to improve our customer lending processes and ensure we continue deliver fair outcomes for our customers. | |

# Risk management and principal risks *continued*

## Emerging risks *continued*

| Risk # | Risk | Description | Likelihood | Mitigating activities | Link to strategy |
|---|---|---|---|---|---|
| E5 | Data and information security | The risk of data breaches or failure to comply with data protection requirements such as GDPR can result in costs to remediate, fines and reputational damage. | ↑ | > Significant work has been completed in 2018 to deliver GDPR compliance. Further plans are in place to continue towards full compliance.<br>> Internal control processes call for the classification of data and protection of any customer or sensitive data appropriate to its content. Refresher training is provided to all staff on the risks, controls and personal responsibilities in this regard.<br>> Fines for non-compliance with GDPR are potentially very large but the controls and security mechanisms in place provide comfort for the Group that probability of occurrence is low. | |
| E6 | Risk and governance capabilities | Failures in governance and or risk management systems and controls can lead to unexpected outcomes or surprises for senior management, as well as potential regulatory censure under the Senior Managers Certificate Regime. | ↑ | > A dedicated program was undertaken during 2018 to strengthen governance and risk management at both Group and divisional levels.<br>> A fully documented approach has now been signed off at the Group Board and a number of much improved governance, risk and control processes have been introduced during 2018.<br>> Although some elements are still relatively new and require further embedding, it is considered that this risk is low in terms of overall impact and probability.<br>> We recognise that the speed of embedding these new activities could be hampered by changes in our operating model arising through the recently announced takeover offer. | |
| E7 | Home credit recovery plan – Arrears | CCD may fail to identify and manage customers showing signs of actual or possible repayment difficulty. | ↑ | > A great deal of work has taken place to improve the overall arrears process in home credit; the introduction of targeted customer communications as well as internal and external recoveries activities should support the forward flow management of arrears.<br>> There still remains some challenges around how the home credit business better supports customers who find themselves in financial difficulty. | |
| E8 | Brexit | The ongoing confusion and lack of clarity as to how and when Brexit may occur is generating potential adverse economic consequences. These include potentially lower investment, uncertainty over job security and possible withdrawal of business and investment from the UK. | ↑ | > The consequences for the Group would most likely be felt through the knock on effects of a macro-economic downturn, including potentially higher unemployment and increased living costs.<br>> Customers financial positions would potentially be impacted leading to higher levels of financial distress and ultimately losses for the Group.<br>> The non-standard lending sector has a higher degree of losses under normal conditions, and the impact from economic decline are comparatively lower in their impact.<br>> Through the ICAAP macro-economic stress testing, the Group has considered the outcome of a severe stress and has sufficient capital to manage its way through a downturn, although shorter term income and results will be materially affected.<br>> Brexit is inherently uncertain and the risks assessments reflect this position. | |

# Relations with regulators

We know that building strong and enduring relationships with our regulators is extremely important. It influences our strategic thinking as well as enabling us to plan for regulatory change with greater certainty and confidence.

Under the UK regulatory regime, both Moneybarn and, with effect from November 2018, CCD are fully authorised by the FCA. Vanquis Bank is authorised by the PRA and dual-regulated by the FCA and the PRA. Both CCD and Moneybarn have approved persons for controlled functions in compliance with the FCA's approved person's regime, whilst Vanquis Bank has senior managers for senior manager functions in compliance with the Senior Managers and Certification Regime (SMCR). During 2019 both Moneybarn and CCD will be brought into the SMCR as the FCA extend their coverage to solo regulated entities.

As Provident Financial plc is a holding company, there are no approved persons or senior managers at the Group Board level. However, in seeking to improve the connection between the divisions and the Group Board and to provide more effective oversight by the Group. The Group Executive Directors and some Group non-executive directors undertake roles on the Boards of divisional subsidiaries; as such they carry regulatory approvals specific to that regulated entity.

We know that building strong and enduring relationships with our regulators is extremely important. It influences our strategic thinking as well as enabling us to plan for regulatory change with greater certainty and confidence.

With this is mind, over the last 12 months the Group and its divisions have made excellent progress in dealing proactively with several legacy regulatory issues. These include remediation over the Vanquis Bank ROP, redesigning our operating model within home credit, as well as supporting the ongoing regulatory investigation within Moneybarn. While these have created significant challenges for management, they have also created opportunities to rebuild trust and credibility in all aspects of our regulatory relationship management.

Considering specific feedback from the FCA, we have enhanced our governance arrangements and regulatory responsibilities through a number of specific activities led by Group Risk and approved by Group ExCo and Board. These include:

> Introduction of a Group regulatory tracker which provides a more holistic view of all our regulatory interactions;

> Enhanced reporting to the Group Board and ExCo of our outstanding regulatory actions and any risks to delivery; and

> Improved coordination in managing emerging regulatory change that might materially impact our businesses. These include responding to relevant consultation papers and undertaking point in time regulatory risk assessments, particularly in relation to conduct risk.

We view these activities as the start of an ongoing program of change which will further strengthen how we interact with our regulators. While ultimate accountability for managing our regulatory risk and relationships sits within the divisions, the Group's aim is to be a key influencer in the non-standard credit market, helping to shape regulatory thinking while delivering compelling propositions to our customers. This will be reinforced through implementation of the SMCR across the whole of the Group, including enhancements to our regulatory risk operating model.

The regulatory changes which the Group has focused on during the year have included:

## Transfer of regulation to the FCA

CCD received full authorisation from the FCA on 9 November 2018 following implementation of the home credit recovery plan over the previous 12 months. Vanquis Bank and Moneybarn received their change of permission and full authorisation respectively in 2016.

As a consequence of: (i) the disruption to the home credit business following the migration to the new operating model in July 2017 and the subsequent implementation of the recovery plan in response to the disruption; (ii) the FCA's investigation into Vanquis Bank's ROP product; and (iii) the FCA's ongoing investigation into Moneybarn, the Group is subject to enhanced supervision by the FCA as notified by the FCA Watchlist Letter. The FCA Watchlist Letter requires that the Group: (i) provides the FCA with a draft of an executable wind-down plan for the Group and each of the entities within the Group; (ii) successfully executes the recovery plan in home credit; and (iii) completes a successful turnaround of CCD so that CCD is financially stable and the Group can meet its funding requirements to 2020. Firms placed under enhanced supervision may be required to provide formal commitments, where appropriate, to the FCA to tackle the underlying concerns raised by the FCA and the FCA may also exercise other wide-ranging powers.

# Relations with regulators *continued*

## FCA review of high-cost credit

On 18 December 2018, the FCA published CP18/43 in respect of its review of high-cost credit, including final rules and guidance in respect of home-collected credit. The rules introduce a package of reforms to raise standards in disclosure and sales practices to prevent home credit firms from offering new loans or refinancing existing loans during home visits without the customer specifically requesting it. The changes made by CCD to the UK home credit operating model over the last 18 months, in particular the recording of all sales interactions with customers, means that the business will be able to evidence compliance with the revised requirements by the deadline of 19 March 2019.

## FCA credit card market study

In February 2018, the FCA published PS18/4 setting out its final policy rules in respect of persistent debt and earlier intervention remedies from its Credit Card Market Study. The overall objective of the package of remedies is to reduce the number of customers in problem credit card debt and put borrowers in greater control of their borrowing. In particular, the rules require credit card firms to undertake separate measures in respect of customers defined as being in persistent debt. The FCA define persistent debt as where, over a period of 18 months, a customer pays more in interest, fees and charges than they have repaid of the principal. At 18 months, firms are required to prompt customers in persistent debt to change their repayment behaviour if they can afford to. At 27 months firms are required to send another reminder if payments indicate a customer is still likely to be in persistent debt at the 36 month point. Customers need to be made aware that, if they do not change their repayment behaviour, their card may be suspended, which may be reported to credit reference agencies. The customer should also get contact details for debt advice services. At 36 months firms need to intervene again if a customer remains in persistent debt. Firms need to help the customer by proposing ways of repaying more quickly over a reasonable period, usually between 3 and 4 years.

The proposals in PS 18/4 came into force on 1 March 2018 and firms had 6 months to be fully compliant. Vanquis Bank increased its minimum payment rates in the second half of 2018 and will introduce further measures, such as recommended payments, to encourage increased monthly repayments in early 2019.

## FCA review of creditworthiness in consumer credit

In July 2018, the FCA published its policy statement (CP18/19) entitled 'Assessing creditworthiness in consumer credit' in which the FCA set out the changes to its existing rules and guidance in this area. The FCA has amended its rules and guidance with regards to creditworthiness (which the FCA stated comprises both credit risk and affordability) and in particular, the rules introduce a new explicit definition of 'affordability risk', in which the FCA sets out the factors to be considered by firms when assessing if credit is likely to be affordable for the borrower. The rules require a more detailed creditworthiness assessment including affordability at the outset. In particular, this applies to Vanquis Bank in respect of all new non-prime credit card customers and for significant individual or cumulative credit line increases thereafter.

The final rules and guidance from PS18/19 came into effect on 1 November 2018. All of the Group's businesses have taken the necessary measures to meet the affordability principles arising from this review.

## FCA review of the vehicle finance market

In the FCA's Business Plan for 2017/18 the FCA stated that it was looking at the motor finance market to ensure that it works well and to assess whether consumers are at risk of harm. The FCA published an update on this work on 15 March 2018 and then published its final findings on 4 March 2019. The FCA's final findings indicated that they have concerns regarding four areas of the motor finance market: (i) Commission arrangements, in particular non-flat rate structures; (ii) Sufficient, timely and transparent information, mainly in respect of broker practice and information about DIC type commission arrangements; (iii) Lender controls in respect of the oversight of dealers and brokers; and (iv) Affordability assessments, whereby the FCA reference the additional clarity given in PS18/19 last year around affordability checks, and the expectation that all lenders have implemented the appropriate additional practices.

Moneybarn has flat fee commission structures and has never given discretion to brokers in setting the interest or commission levels. Customers are made aware of the existence of a payment of commission in Moneybarn's pre-contractual paperwork that all brokers must provide to the customer and evidence that the customer has received it. Moneybarn has an active physical audit programme for all of its brokers and was the first in the market to have such an audit process in place. Like all of the group's other businesses, Moneybarn has made all necessary changes to its processes required by PS18/19 in advance of the 1 November 2018 deadline.

## Irish Consumer Credit Bill on a cap on moneylenders' rates

In November 2018, a report entitled: 'Interest Rate Restrictions on Credit for Low-income Borrowers' was published by the Social Finance Foundation, an Irish government funded body set up in 2007 to provide funding for community organisations and social enterprises. The report was part-funded by the Central Bank of Ireland and called for a rate-cap to be introduced on interest and other charges and for the development of the credit union sector to provide alternative sources of credit for moneylending customers.

Following publication of the report, a private members' bill which seeks to cap moneylenders' rates at 36% APR was then debated in the Irish Parliament. The draft bill then passed its second reading and will now enter the Finance Committee stage. No date for the Finance Committee hearing has yet been published. Private members' bills are generally voted down by the Irish Government although the Irish Government's position is not clear in the case of this private members' bill.

The Group's operations in the Republic of Ireland are in respect of the home credit business which has approximately 65,000 customers.

# Financial review

"I am pleased to present my first financial review following my appointment in December 2018. 2018 was a year of operational recovery and stabilisation for PFG following the completion of the rights issue in April 2018 and the new issue of the senior bonds in the first half of 2018.

The Group now has a robust balance sheet and funding position to deliver on our purpose of 'helping put people on a path to a better everyday life'."

Simon Thomas
*Chief Financial Officer*

# Financial review *continued*

## Financial model

To support the delivery of the Group's purpose, the financial model is founded on investing in customer-centric businesses offering attractive returns, which aligns an appropriate capital structure with the Group's dividend policy and future growth plans.

The Group targets an ROA of approximately 10%, which is considered to be a sustainable level of return for the Group, balancing the estimated impact of known regulatory changes whilst delivering good customer outcomes.

The attractive growth opportunities available to each of the Group's businesses is expected to allow for receivables growth of between 5% and 10% per annum, subject to economic conditions and maintaining the Group's minimum returns thresholds.

The Group has a minimum CET 1 requirement of 25.5%. This represents the Group's minimum regulatory capital requirement set by the PRA following the rights issue, together with the fully loaded capital conservation buffer (2.5%) and existing counter cyclical buffer (1.0%) effective from 1 January 2019. The Board aims to maintain a headroom in excess of £50m above the minimum CET 1 requirement. This is considered to be an appropriate level of headroom based on the ongoing recovery of the Group, the economic and regulatory backdrop and maintaining an appropriate level of capital to support the ongoing access to funding from the bank and debt capital markets.

Following the declaration of a nominal dividend in respect of the 2018 financial year, the Board intends to adopt a dividend policy of maintaining a dividend cover of at least 1.4 times as the home credit business recovers and moves into profitability. The dividend policy will reflect the Group's risk appetite of maintaining a regulatory capital headroom in excess £50m and the remaining transitional impact of IFRS 9 on regulatory capital of £157m over the next 4 years.

## Implementation of IFRS 9

The Group has reported its results under IFRS 9 for the first time in 2018. IFRS 9 requires the recognition of impairment provisions on the inception of a loan based on the probability of default and the expected loss on a loan when it defaults. This differs to IAS 39 which required impairment provisions to be made when there was an impairment event such as a missed payment. IFRS 9 therefore results in the earlier recognition of impairment provisions than IAS 39 and results in lower profits whilst a business is growing. Conversely, shrinking businesses would experience an increase in profits.

Whilst the Group's results in 2018 are reported under IFRS 9, the 2017 statutory prior year comparatives have not been restated due to the IFRS 9 requirement in respect of the de-recognition of financial assets which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year. As this would distort comparability with the 2018 income statement and balance sheet which is on a full IFRS 9 basis, the Group has also provided unaudited pro forma 2017 income statement and balance sheet comparatives on a full IFRS 9 basis as though IFRS 9 had been adopted from 1 January 2017.

The Group's unaudited pro forma disclosures in respect of the year ended 31 December 2017 are as follows:

### Summary balance sheet as at 31 December 2017

| | IAS 39 | adjustment | IFRS 9 |
|---|---|---|---|
| **£m** | | | |
| Receivables: | | | |
| – Vanquis Bank | 1,554.7 | (149.5) | **1,405.2** |
| – CCD | 390.6 | (43.2) | **347.4** |
| – Moneybarn | 364.1 | (45.4) | **318.7** |
| **Total receivables** | 2,309.4 | (238.1) | **2,071.3** |
| Pension asset | 102.3 | – | **102.3** |
| Liquid assets buffer | 263.4 | – | **263.4** |
| Borrowings | (2,193.0) | – | **(2,193.0)** |
| Deferred tax (liabilities)/assets | (20.3) | 54.1 | **33.8** |
| Other | 73.3 | – | **73.3** |
| **Net assets** | 535.1 | (184.0) | **351.1** |

The adoption of IFRS 9 results in a reduction in receivables of £238.1m at 31 December 2017, which net of deferred tax, results in a reduction in net assets of £184.0m. The regulatory capital impact of IFRS 9 will be phased in on a transitional basis over five years, as follows: 5% was taken at the start of 2018 (£9m), 15% taken on 1 January 2019 (£18m), 30% in 2020 (£27m), 50% in 2021 (£36m), 75% in 2022 (£46m) and 100% from the start of 2023 (£46m).

### Group adjusted profit before tax for the year ended 31 December 2017

| £m | IAS 39 | adjustment | IFRS 9 |
|---|---|---|---|
| Adjusted profit/(loss) before tax: | | | |
| – Vanquis Bank | 206.6 | (25.2) | 181.4 |
| – CCD | (118.8) | 12.5 | (106.3) |
| – Moneybarn | 34.1 | (12.2) | 21.9 |
| – Central costs | (12.8) | – | (12.8) |
| **Adjusted profit before tax[1]** | 109.1 | (24.9) | 84.2 |
| **Adjusted EPS[2]** | 45.7p | (8.9p) | 36.8p |
| **Annualised ROA[3]** | 6.9% | – | 6.9% |

1 Adjusted profit before tax in 2017 is stated before: (i) amortisation of £7.5m in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014; and (ii) exceptional costs of £224.6m comprising £172.1m in respect of the estimated cost of restitution, other costs and provisions and a fine following resolution on 27 February 2018 of the FCA investigation into ROP in Vanquis Bank, £20.0m in respect of the estimated cost arising in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn and £32.5m in respect of the costs relating to the migration to the new home credit operating model and the subsequent implementation of the recovery plan following the poor execution of the migration.

2 EPS has been adjusted to reflect the bonus element of the rights issue in 2018. A conversion factor of 1.367 has been applied to the weighted average number of shares for year ended 31 December 2017.

3 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December 2017.

The Group's unaudited pro forma IFRS 9 adjusted profits in 2017 of £84.2m were £24.9m lower than IAS 39 adjusted profits. This reflects the impact of the growth in receivables in Vanquis Bank, Moneybarn and Satsuma partly offset by the impact of the shrinkage in home credit receivables. Profits in growing businesses are typically lower under IFRS 9 whilst conversely profits of shrinking business are typically higher.

Despite the adjustments required to receivables, net assets and earnings, it is important to note that IFRS 9 only changes the timing of profits made on a loan. The Group's underwriting and scorecards are unaffected by the change in accounting. The ultimate profitability of a loan is the same under both IAS 39 and IFRS 9 and more fundamentally the cash flows and capital generation over the life of a loan remain unchanged. The calculation of the Group's bank covenants are unaffected by IFRS 9, as they are based on accounting standards in place at the time the covenants were set. Based on transitional arrangements, the regulatory capital impact of IFRS 9 is being phased in on a transitional basis over five years.

## 2018 performance

The Group's 2018 results can be summarised as follows:

| | 2018 IFRS 9 £m | 2017 IFRS 9[1] £m | Change % | 2017 IAS 39 £m |
|---|---|---|---|---|
| Adjusted profit/(loss) before tax: | | | | |
| – Vanquis Bank | **184.3** | 181.4 | 1.6 | 206.6 |
| – CCD | **(38.7)** | (106.3) | 63.6 | (118.8) |
| – Moneybarn | **28.1** | 21.9 | 28.3 | 34.1 |
| – Central costs | **(20.2)** | (12.8) | (57.8) | (12.8) |
| **Adjusted profit before tax[2]** | **153.5** | 84.2 | 82.3 | 109.1 |
| **Adjusted EPS[3]** | **46.6p** | 36.8p | 26.6 | 45.7p |
| **Annualised ROA[4]** | **7.5%** | 6.9% | | 6.9% |

1 Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017.

2 Adjusted profit before tax is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2017: £7.5m); and (ii) exceptional charges of £55.3m (2017: £224.6m) comprising £29.9m in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017 (2017: £32.5m); (ii) £18.5m in respect of the 8% premium and fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019 (2017: £nil); and (iii) £6.9m of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018 (2017: £nil). 2017 exceptional costs also included £172.1m following the resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn.

3 The weighted average number of shares in the period prior to the rights issue in April 2018 has been adjusted to take account of the bonus element of the rights issue of 1.367 and EPS comparatives restated.

4 Annualised return on assets is calculated as adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.

# Financial review *continued*

## VANQUIS BANK

### Financial performance

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2018 IFRS 9 £m** | 2017 IFRS 9[1] £m | Change % | 2017 IAS 39 £m |
| Customer numbers ('000) | **1,773** | 1,720 | 3.1 | 1,720 |
| Year-end receivables prior to balance reduction provision[2] | **1,477.5** | 1,480.6 | (0.2) | 1,630.1 |
| Reported year-end receivables | **1,473.8** | 1,405.2 | 4.9 | 1,554.7 |
| Average receivables[3] | **1,489.0** | 1,366.8 | 8.9 | 1,497.3 |
| Revenue | **650.3** | 650.5 | – | 638.8 |
| Impairment | **(241.6)** | (223.5) | (8.1) | (186.6) |
| Revenue less impairment | **408.7** | 427.0 | (4.3) | 452.2 |
| Annualised revenue yield[4] | **43.7%** | 47.6% | | 42.7% |
| Annualised impairment rate[5] | **16.3%** | 16.4% | | 12.5% |
| Annualised risk-adjusted margin[6] | **27.4%** | 31.2% | | 30.2% |
| Costs | **(188.4)** | (209.1) | 9.9 | (209.1) |
| Interest | **(36.0)** | (36.5) | 1.4 | (36.5) |
| **Adjusted profit before tax[7]** | **184.3** | 181.4 | 1.6 | 206.6 |
| **Annualised return on assets[8]** | **10.9%** | 11.8% | | 11.9% |

1 Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017.
2 Year-end receivables are stated prior to the estimated balance reduction provision of £3.7m arising as a result of the resolution of the FCA investigation into ROP reached on 27 February 2018 (see 7 below).
3 Calculated as the average of month end receivables for the 12 months ended 31 December excluding the impact of the balance reduction provision (see 2 above).
4 Revenue as a percentage of average receivables for the 12 months ended 31 December.
5 Impairment as a percentage of average receivables for the 12 months ended 31 December.
6 Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.
7 Adjusted profit before tax for the year ended 31 December 2017 was stated before an exceptional cost of £172.1m in respect of the estimated cost of restitution, other costs and provisions and a fine following resolution on 27 February 2018 of the FCA investigation into ROP of which £75.4m was reflected as a balance reduction provision in receivables.
8 Profit before interest and exceptional items after tax as a percentage of average receivables for the 12 months ended 31 December.

Given the strong growth in new customers and receivables experienced over recent years, the implementation of IFRS 9 has reduced the historical level of earnings in Vanquis Bank as losses are brought forward to the inception of a loan rather than when there is evidence of an impairment such as a missed payment. As a result, unaudited pro forma IFRS 9 adjusted profits of £181.4m in 2017 are 12.2% lower than IAS 39 reported profits for the same period of £206.6m. Revenue in Vanquis Bank is marginally higher under IFRS 9 reflecting revenue being predominantly recognised on the gross receivable under IFRS 9 compared with the net receivable under IAS 39.

Vanquis Bank has delivered a 1.6% increase in IFRS 9 adjusted profit before tax to £184.3m in 2018 (2017: Unaudited pro forma IFRS 9 adjusted profit before tax of £181.4m, IAS 39 adjusted profit before tax of £206.6m). The modest increase in profits reflects slower growth in new account bookings and receivables together with the benefit of operational leverage. These have been substantially offset by the continued moderation in the annualised risk-adjusted margin from the reduced penetration of the ROP product and a shift in business mix towards nearer prime.

Whilst the marketing activity of competitors in both the direct mail and internet channels has continued, demand for non-standard credit cards continues to be strong. New customer bookings of 366,000 were 71,000 lower than 2017 which reflects the impact of tighter underwriting, the cessation of the Argos contract in early 2018 and a temporary reduction in the marketing programme in the fourth quarter as the business focused on implementation of a new underwriting platform which went live in November. As a result, customer numbers ended the year at 1.77m (2017: 1.72m), representing year-on-year growth of 3.1%.

There are now over 1 million registered users of Vanquis Bank's new mobile app launched in June 2017. The new app has been designed to be highly customer centric and features a number of functions which allow customers to remain more in control of their account through push notifications, arrears support, money transfer and the presentation of other products. In addition, the Provident Knowledge Universe (PKU) customer database has now been rolled out in Vanquis Bank and Satsuma. PKU provides a unique richness and granularity of data for the Group's customers and the wider UK population. This capability enhances the Group's new customer prospecting, existing customer management, macro and micro monitoring of the UK market and the Group's strategic planning and development. Both the new app and PKU will allow enhanced management of the customer journey and greater collaboration across divisions. The continuing development of digital capability is an essential driver in delivering good customer outcomes and maintaining the returns of Vanquis Bank in the context of a moderating revenue yield.

IFRS 9 reported receivables ended the year at £1,473.8m, up 4.9% on the 2017 year end (2017: Unaudited pro forma IFRS 9 receivables of £1,405.2m) reflecting the growth in new customer accounts and the ongoing credit line increase programme to good-quality existing customers.

Following a successful pilot to a small segment of customers towards the end of the first half of 2018, the ROP refund programme went into full roll-out during the second half of the year. In particular, there was a significant step up in the volume of refunds being processed in the final quarter of the year. As a result, the balance reduction provision held against receivables reduced from £75.4m at the end of 2017 to £3.7m at the end of 2018. This represents balance reductions of £60.9m applied to the accounts of existing customers and £10.8m reclassified to provisions, reflecting an increase in the estimate of the number of customers who will receive a cash refund rather than a balance reduction. In addition, £61.8m of the provision for cash refunds, operating costs and for complaints that may arise in relation to ROP more generally have been used during 2018. Accordingly, after the reclassification of £10.8m from the balance reduction provision, the remaining provision amounts to £45.7m, down from £96.7m established at the end of 2017. There has been no material change in the level of complaints arising in relation to ROP.

Refund activity has continued in 2019 in line with the FCA's agreed timetable. By early March 2019, the ROP refund programme was over 99% complete with 1.3 million current and former customers refunded. The cost of refunds and balance reductions in 2019 are within the remaining provisions for refunds and balance reductions held at the end of 2018.

Discussions with the FCA are now commencing for a Group Board approved enhancement to the ROP product and return to new sales. The Group expects to provide further updates during the course of 2019.

In response to the definition of persistent debt arising from the FCA's credit card market study, Vanquis Bank increased its minimum payments in the third quarter of the year and is in the process of rolling out the use of recommended payments and other communication strategies across its customer base to mitigate the risks that customers lose access to the benefits of owning a Vanquis Bank credit card. The timing of implementing these measures has not resulted in a material impact on receivables growth in 2018 as was originally anticipated at the start of the year. However, the measures are expected to moderate receivables growth in 2019, particularly through the first half of the year, as they fully flow through into customer repayment behaviour.

The focus of the Vanquis Bank loans proposition remains on providing unsecured loans to existing credit card customers, with volumes deliberately moderated during the second half of the year reflecting the focus on credit card operations including progressing the ROP refund programme, implementing measures to address the FCA's definition of persistent debt and the implementation of the new underwriting platform. The IFRS 9 receivables book in respect of loans has increased from £14.8m at December 2017 to £26.0m at December 2018.

Having adapted the business to a number of regulatory changes and the implementation of a number of customer focused measures during 2018, Vanquis Bank is in the process of developing a number of initiatives to deliver further growth. These include:

> Enhancements to the "low and grow" strategy of credit line increases, utilising improved decision science and open banking;
> Increased penetration within our existing risk appetite, through improved targeting of 'thin file' customers, building ongoing relationships with declined customers ('financial fitness') and increased penetration in the near prime segments through expansion of distribution;
> Development of further partnerships, including new affiliate and co-brand relationships;
> Further development of the app to improve customer experience and the ability to self-serve; and
> Development and marketing of Vanquis Bank cards to the Moneybarn customer base.

These initiatives are expected to support growth, particularly in 2020 and beyond.

IFRS 9 revenue has remained in line with 2017 compared with the 8.9% increase in average IFRS 9 receivables. The annualised IFRS 9 revenue yield has moderated from 47.6% to December 2017 to 43.7% to December 2018 due to two factors. Firstly, a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales in April 2016. This resulted in a year-on-year reduction in ROP income of approximately £15m. Secondly, there has been some further moderation in the interest yield from the continued expansion of the product offering into the near prime segment of the market through the Chrome branded card.

Notwithstanding the progressive tightening of underwriting over the last 18 months, lower new customer bookings and the increased mix of better quality Chrome customers within the customer base, the annualised IFRS 9 impairment rate to December 2018 has remained broadly stable at 16.3% of average receivables compared with 16.4% to December 2017. The expected improvement in the impairment rate has been substantially offset by some pressure on delinquency and arrears, primarily from an increase in the use of payment arrangements during the second half of the year. The increase in payment arrangements, which are the subject of high impairment provisions based on historical experience, reflects a number of factors including: (i) continued enhanced forbearance under FCA regulation; (ii) the increase in minimum payments in the second half of 2018 to address the FCA's definition of persistent debt; and (iii) the significantly reduced penetration of the ROP product into the customer base following the cessation of sales in April 2016. Underwriting standards have been progressively tightened over the last 18 months which, together with the historic resilience of the business model, means that Vanquis Bank is well-positioned if there is any deterioration in the UK economic environment. The rate of increase in payment arrangements has moderated in early 2019.

The annualised IFRS 9 risk-adjusted margin has moderated from 31.2% to December 2017 to 27.4% to December 2018, reflecting the reduction in the annualised IFRS 9 revenue yield together with the stable impairment rate discussed above.

Costs have reduced by 9.9% to £188.4m in 2018 (2017: £209.1m). Vanquis Bank has been able to access operational leverage reflecting tight cost control, a reduction of approximately £5m in acquisition costs from lower new customer account bookings and a reduction of approximately £4m in the investment spend on digital development of approximately £4m. In addition, costs in 2018 benefited from the release of approximately £10m in respect of share-based payment, incentive and bonus arrangements as a result of the business performing below expectations through 2017 and 2018. Cost efficiency will remain a strong focus for Vanquis Bank in 2019.

Interest costs of £36.0m have reduced by 1.4% during 2018 (2017: £36.5m). This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 3.7% in 2017 to 3.5% in 2018. This reflects a lower average interest rate on retail deposits and a lower average level of intercompany loan from PFG which represented a higher cost of funding for Vanquis Bank. Vanquis Bank fully repaid its intercompany loan to PFG in November 2018 and is now fully funded with retail deposits.

Vanquis Bank's annualised IFRS 9 return on assets has reduced to 10.9% (2017: Unaudited pro forma IFRS 9 annualised return on assets of 11.8%, IAS 39 annualised return on assets of 11.9%), reflecting the moderation in the annualised IFRS 9 risk-adjusted margin partly offset by positive operational leverage.

# Financial review *continued*

## Consumer Credit Division

### Financial performance

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2018 IFRS 9 £m | 2017 IFRS 9[1] £m | Change % | 2017 IAS 39 £m |
| Customer numbers ('000) | **560** | 780 | (28.2) | 780 |
| Year-end receivables | **292.5** | 347.4 | (15.8) | 390.6 |
| Average receivables[2] | **296.2** | 406.0 | (27.0) | 443.8 |
| Revenue | **342.2** | 481.2 | (28.9) | 451.2 |
| Impairment | **(120.8)** | (311.0) | 61.2 | (293.5) |
| Revenue less impairment | **221.4** | 170.2 | 30.1 | 157.7 |
| Annualised revenue yield[3] | **115.5%** | 118.5% | | 101.7% |
| Annualised impairment rate[4] | **40.8%** | 76.6% | | 66.2% |
| Annualised risk-adjusted margin[5] | **74.7%** | 41.9% | | 35.5% |
| Costs | **(244.7)** | (253.4) | 3.4 | (253.4) |
| Interest | **(15.4)** | (23.1) | 33.3 | (23.1) |
| **Adjusted loss before tax[6]** | **(38.7)** | (106.3) | 63.6 | (118.8) |
| **Annualised return on assets[7]** | **(6.4%)** | (16.5%) | | (17.4%) |

1 Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017.
2 Calculated as the average of month end receivables for the 12 months ended 31 December.
3 Revenue as a percentage of average receivables for the 12 months ended 31 December.
4 Impairment as a percentage of average receivables for the 12 months ended 31 December.
5 Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.
6 Adjusted loss before tax is stated before exceptional costs of £29.9m in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the recovery plan following the poor execution of the migration to the new operating model in July 2017 (2017: £32.5m).
7 Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 31 December.

CCD's historic earnings profile under IFRS 9 is influenced by the contraction in home credit receivables which reduces impairment partly offset by the growth in Satsuma receivables which increases impairment. IFRS 9 unaudited pro forma adjusted losses of £106.3m in 2017, were lower than IAS 39 reported losses of £118.8m, reflecting the contraction in the home credit receivables book following poor execution of the change in the UK operating model from self-employed agents to employed CEMs in July 2017, partly offset by higher impairment in Satsuma due to the strong growth in lending volumes. CCD's revenue under IFRS 9 is higher than under IAS 39. This is due to revenue being predominantly recognised on the gross receivable under IFRS 9 compared with the net receivable under IAS 39 which increases the level of revenue recognised. This is partly offset by revenue now being capped under IFRS 9 at the level of the service charge on a loan whereas under IAS 39 revenue was not capped in this way and therefore produced a gross up of both revenue and impairment.

CCD has reported an adjusted loss before tax of £38.7m for 2018 (2017: Unaudited pro forma IFRS 9 adjusted loss before tax of £106.3m, IAS 39 adjusted loss before tax of £118.8m) as the business implemented the home credit recovery plan which resulted in the full FCA authorisation of the business in November 2018.

CCD customer numbers ended 2018 at 560,000, 28.2% lower than 2017 (2017: 780,000).

Home credit customer numbers have reduced from 697,000 to 440,000 during 2018, reflecting two factors. Firstly, the business has not managed to reconnect with approximately 200,000 customers who ceased paying in the second half of 2017. This was a direct result of the damage caused to customer relationships following the poorly executed migration to the new UK home credit operating model in July 2017 whereby approximately 90% of customers were allocated a new CEM. Secondly, the focus of the business during implementation of the home credit recovery plan since the last quarter of 2017 has primarily been on collections performance as opposed to customer recruitment. As a result, the number of new customers recruited in 2018 was approximately 50,000 lower than in 2017 which has resulted in the underlying home credit customer base contracting through the first three quarters of the year. The recruitment of new customers was marginally above plan in the fourth quarter and resulted in a stabilisation in the home credit customer base during the peak trading period.

Stabilising the rate of decline and then returning the home credit customer base to growth remains a priority for the business. The good momentum on new customer recruitment has continued in early 2019. In addition, following agreement with the FCA, CCD will be trialling an enhancement of its 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 CPA. The evidence and oversight that voice recording provides is critical to the product enhancement as it represents a clear record of the choices of repayment method made by customers, which may change during the life of the loan. It is anticipated that the product enhancement will allow the business 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.

Satsuma customer numbers have shown strong growth of 48% in 2018 to 117,000 (2017: 79,000). Satsuma has continued to experience a step-up in volumes through ongoing improvements in the customer journey and product distribution. New business plus further lending to previous or existing customers was 50% higher than 2017 despite the progressive tightening of underwriting during 2018. As well as continuing to increase the distribution of the core Satsuma small-sum, short-term loan product, following agreement with the FCA, Satsuma intends to undertake a trial of larger, longer duration personal loans at rates below 100% APR during the third quarter of 2019.

CCD customer numbers also include 3,000 in respect of the run-off of glo (2017: 4,000).

Total CCD IFRS 9 receivables were £292.5m at December 2018 (2017: Unaudited pro forma IFRS receivables of £347.4m), comprising £251.9m in respect of the home credit business (2017: Unaudited pro forma IFRS 9 receivables of £319.4m), £39.5m in respect of Satsuma (2017: Unaudited pro forma IFRS 9 receivables of £25.4m) and £1.1m in respect of the run-off of glo (2017: Unaudited pro forma IFRS 9 receivables of £2.6m).

Home credit IFRS 9 receivables have fallen by 21.1% in 2018 compared with the 36.9% reduction in customer numbers. This reflects the large impairment charge taken in 2017 on the receivables relating to the 200,000 non-paying customers that the business has not managed to reconnect with.

Satsuma's receivables have shown 55.5% growth on December 2017, due to the 48% increase in customer numbers together with the continued development of further lending to good-quality customers.

IFRS 9 revenue in CCD has fallen by 28.9% in 2018, a modestly higher rate than the 27.0% reduction in average receivables.

The annualised IFRS 9 revenue yield of 115.5% to December 2018 has reduced from 118.5% to December 2017. This reflects a reduction in home credit's revenue yield partly offset by the growth in Satsuma which has a higher revenue yield. The reduction in home credit's revenue yield reflects the treatment of revenue under IFRS 9. Revenue is now recognised by reference to the gross receivables balance for all customers other than those in default. For customers in default, revenue is recognised by reference to the net receivables balance after impairment provision. However, IFRS 9 stipulates that accounts are only reclassified for revenue recognition purposes every 6 months, in line with the Group's external reporting periods (30 June, 31 December). Consequently, revenue continued to be recognised through the second half of 2017 on the gross receivable attributable to the significant number of home credit customers that defaulted in the third quarter of 2017. In contrast, impairment of receivables is assessed on a weekly basis. The application of IFRS 9 through the second half of 2017 thereby produced a ratio of revenue to average receivables for home credit that was unusually high. There has been no change to product pricing in either home credit or Satsuma over the last two years.

IFRS 9 impairment in CCD has reduced by 61.2%, over twice the rate of reduction in average receivables. This reflects: (i) the large impairment charge reflected in the second half of 2017 on the 200,000 customers who ceased paying following the poorly executed migration to the new operating model in July 2017; (ii) the improvement in collections performance following establishment of the recovery plan towards the end of 2017; and (iii) the reduction in the number of new home credit customers recruited throughout 2018. As a result, the annualised IFRS 9 impairment rate of 40.8% to December 2018 is significantly lower than 76.6% to December 2017.

The implementation of the home credit recovery plan has included a number of actions designed to improve collections performance. These include the implementation of a new arrears strategy to support field activity through centrally led letters and SMS reminders and the implementation of a new field structure. The new field structure was rolled-out in the second half of the year and includes better defined roles and responsibilities, improved spans of control, greater support for CEMs in dealing with arrears and better structured training.

The collections performance of credit originated since the fourth quarter of 2017 continues to remain broadly in line with the levels achieved prior to the change of operating model in July 2017, where the CEM has issued the credit and has ownership of the customer relationship. However, the collections performance on credit originated prior to the fourth quarter of 2017, where the CEM typically did not originate the credit following the change in operating model, remains significantly lower than historic levels and has not shown any improvement since the first quarter of the year. Importantly, however, these balances now only represent approximately £20m of CCD's carrying value of receivables.

During the implementation of the recovery plan, the performance management of the field force has been focused on managing activity and customer outcomes without the use of performance-related pay or financial objectives. From the start of 2019, the business agreed with the FCA to test a team-based customer acquisition incentive. Following a successful trial, the FCA confirmed in early March 2019 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 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.

CCD's annualised IFRS 9 risk-adjusted margin has shown a significant improvement from 41.9% to December 2017 to 74.7% to December 2018, primarily reflecting the significant improvement in impairment.

Actions to align the cost base with the reduced size of the business were a priority through the early months of 2018. The rationalisation of the home credit central support functions announced in January 2018 was completed by the end of the first quarter and improvements in the effectiveness and efficiency of the field organisation are being delivered without compromising customer service. Approximately, 70 employees in the Bradford head office were made redundant. Together with natural attrition and vacancies not filled, this resulted in the overall headcount in the Bradford head office being some 200 lower than was originally planned when the business changed its operating model in July 2017. In addition, whilst the business has continued to invest in field management to bolster spans of control, the number of CEMs has reduced from around 2,700 at the start of the year to around 2,100 at the end of 2018, reflecting the better alignment of customer facing resource with the active customer base. However, the capacity of the field organisation still remains capable of supporting a greater number of customers than is currently being served.

In January 2019, CCD announced a voluntary redundancy programme in central support functions with the aim of reducing central headcount by approximately 200. Together with actions already taken and the ongoing tight control of costs, this is expected to result in CCD's cost base reducing in 2019. An exceptional cost of approximately £10m is expected in 2019 in relation to redundancies. Overall, there has been a reduction in headcount within CCD of approximately 1,000 over the last 12 months.

Notwithstanding the headcount reductions, CCD's overall cost base in 2018 of £244.7m has shown only a modest reduction of 3.4% on 2017 (2017: £253.4m). This reflects: (i) the increased cost of strengthening the control environment, risk management and compliance functions; (ii) investment in replacing part of the legacy IT estate with a third party hosted solution; (iii) the roll-out of the new field structure; and (iv) an increase in local marketing activity to support new customer recruitment in the fourth quarter of the year.

Interest costs in CCD have fallen by 33.3% to £15.4m in 2018 (2017: £23.1m). This is broadly in line with the reduction in average receivables with CCD's funding rate remaining unchanged at 6.5% in 2018 (2017: 6.5%).

# Financial review *continued*

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## Financial performance

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2018 IFRS 9 £m** | 2017 IFRS 9[1] £m | Change % | 2017 IAS 39 £m |
| Customer numbers ('000) | **62** | 50 | 24.0 | 50 |
| Year-end receivables prior to balance reduction provision[2] | **398.4** | 330.8 | 20.4 | 376.2 |
| Reported year-end receivables | **396.6** | 318.7 | 24.4 | 364.1 |
| Average receivables[3] | **377.4** | 303.8 | 24.2 | 345.1 |
| Revenue | **131.9** | 106.3 | 24.1 | 106.3 |
| Impairment | **(48.0)** | (43.3) | (10.9) | (31.1) |
| Revenue less impairment | **83.9** | 63.0 | 33.2 | 75.2 |
| Annualised revenue yield[4] | **35.0%** | 35.0% | | 30.8% |
| Annualised impairment rate[5] | **12.8%** | 14.3% | | 9.0% |
| Annualised risk-adjusted margin[6] | **22.2%** | 20.7% | | 21.8% |
| Costs | **(33.9)** | (25.5) | (32.9) | (25.5) |
| Interest | **(21.9)** | (15.6) | (40.4) | (15.6) |
| **Adjusted profit before tax[7]** | **28.1** | 21.9 | 28.3 | 34.1 |
| **Annualised return on assets[8]** | **10.7%** | 10.0% | | 11.6% |

1 Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017.
2 Year-end receivables are stated prior to the estimated balance reduction provision of £1.8m (2017: £12.1m) reflected on 31 December 2017 in respect of the FCA investigation into affordability, forbearance and termination options (see 7 below).
3 Calculated as the average of month end receivables for the 12 months ended 31 December prior to the impact of the estimated balance reduction provision (see 2 above).
4 Revenue as a percentage of average receivables for the 12 months ended 31 December.
5 Impairment as a percentage of average receivables for the 12 months ended 31 December.
6 Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.
7 Adjusted profit before tax is stated before: (i) the amortisation of acquisition intangibles of £7.5m (2017: £7.5m); and (ii) an exceptional cost of £20.0m in 2017 in respect of the estimated cost arising from the ongoing FCA investigation into affordability, forbearance and termination options of which £12.1m was reflected as a balance reduction provision in receivables.
8 Profit before interest and exceptional items after tax as a percentage of average receivables for the 12 months ended 31 December.

The implementation of IFRS 9 has had a more significant impact on the earnings profile of Moneybarn than the Group's other divisions due to its strong growth. In a growing business such as Moneybarn, profitability is reduced as future losses are brought forward to inception rather than when there is evidence of an impairment such as a missed payment. When combined with the higher expected default rates from the higher risk categories of business written by Moneybarn prior to the tightening of underwriting in the second quarter of 2017, this results in unaudited pro forma IFRS 9 adjusted profits of £21.9m in 2017, 35.8% lower than IAS 39 reported profits for the same period of £34.1m. Revenue recognition in Moneybarn is unchanged following the implementation of IFRS 9 as revenue is required to be recognised in accordance with IAS 17 'Leases' reflecting the conditional sales agreements provided by Moneybarn.

Moneybarn has delivered a 28.3% increase in IFRS 9 adjusted profit before tax to £28.1m in 2018 (2017: Unaudited pro forma IFRS 9 adjusted profit before tax: £21.9m, IAS 39 adjusted profit before tax of £34.1m). This reflects the benefit from improved credit quality following the progressive tightening of underwriting over the last 18 months partly offset by the investment in strengthening the management team and collections and customer service resource.

Whilst the non-standard vehicle finance market remains competitive, there have been a number of competitors who have either withdrawn to focus on prime to near prime offerings or entirely exited the market. In addition, demand for used cars and residual values have remained robust. As a result, despite tighter underwriting standards, new business volumes during 2018 were very strong. Continued development of core broker introduced distribution channels, the introduction of fixed pricing by tier of business and the extension of the product offering, including the continued traction from light commercial vehicles, has reinforced Moneybarn's primacy amongst its broker network. As a result, new business volumes were 18% higher than last year and customer numbers ended the year at 62,000, up from 50,000 at December 2017.

Moneybarn continues to extend its product offering and distribution channels through: (i) using the Vanquis Bank app to offer bespoke Moneybarn products to Vanquis Bank customers; (ii) expansion of relationships with lead generators and quotation search partners such as Clearscore, leveraging Moneybarn's quotation search and digital onboarding capabilities; (iii) introduction of a re-solicitation programme to retain high-quality customers who currently settle early and move to other lenders; and (iv) introduction and development of new asset classes that resonate with Moneybarn's target customer base, such as light commercial vehicles, motorbikes and touring caravans.

The strong growth in new business volumes has resulted in IFRS 9 receivables ending 2018 at £396.6m, showing growth of 24.4% (2017: Unaudited pro forma IFRS 9 receivables of £318.7m). Receivables are stated after the remaining balance reduction provision of £1.8m which has reduced from £12.1m reflected at the 2017 year-end in respect of the FCA investigation into affordability, forbearance and termination options. The reduction during the year of £10.3m reflects the write down of gross receivables based on the expected outcome of the termination options and forbearance parts of the FCA investigation. In addition, the provision in respect of potential cash restitution, administration costs and an FCA fine has reduced from £7.9m to £7.5m during 2018, primarily reflecting legal costs in respect of the investigation.

Subsequent to the year end, Moneybarn has made significant progress with the FCA on the total redress and balance reductions to be paid to resolve the investigation. The cost is expected to be within the remaining provisions of £9.3m held by Moneybarn at the end of 2018 but this will not be reflected until receipt of the final settlement agreement from the FCA.

IFRS 9 revenue has increased by 24.1% compared with the growth in average IFRS 9 receivables of 24.2%. The annualised IFRS 9 revenue yield has remained stable at 35.0% to December 2018, in line with 35.0% to December 2017.

Default rates through 2016 and 2017 showed a progressive increase principally reflecting the combination of two factors. Firstly, the change in product proposition from lending up to the trade value of a vehicle to lending up to the retail value of a vehicle shortly after the acquisition of the business has increased the propensity of customers to default and the loss being experienced by the business when the customer defaults. This is primarily due to the reduced level of deposit being made by a customer.

Secondly, the strong growth in new business volumes over the two year period has contributed to increased defaults as Moneybarn's peak in defaults is approximately 9 to 12 months following inception of a loan with risk-based revenue being recognised over the duration of the average contract life of between four and five years. As a result of the higher level of defaults, underwriting was tightened in the second quarter of 2017 on higher risk categories of business and a tier of lower value business which was only marginally profitable was also removed in the second quarter of 2018. Default rates and arrears levels stabilised through the second half of 2018 and the credit quality of new business being written is now materially better than two years ago. As a result of these factors, the annualised IFRS 9 impairment rate has reduced from 14.3% to December 2017 to 12.8% to December 2018.

The improvement in the impairment rate has resulted in Moneybarn's annualised IFRS 9 risk-adjusted margin strengthening from 20.7% to December 2017 to 22.2% to December 2018.

The business has continued to invest in the resources necessary to support future growth and enhance the customer experience. In particular, the executive team and first tier of management have been strengthened, including the recruitment of a Chief Credit Officer, a Commercial Director and a HR Director. Resource has also been added within customer service and collections. Accordingly, headcount has increased from 225 at the end of 2017 to 294 at the end of 2018. This has resulted in cost growth of 32.9% in 2018, higher than the growth in IFRS 9 average receivables of 24.2%.

Interest costs have shown growth of 40.4% in 2018, higher than the growth in average receivables. This reflects an increase in Moneybarn's Group funding rate from 5.0% in 2017 to 5.9% in 2018. This is due to an increase in the cost of funding for the non-bank segment of the Group now that Vanquis Bank is fully funded through retail deposits. This has more than offset the impact of the retention of profits since acquisition as the capital base is built towards the Group's minimum capital ratio of a CET 1 ratio of 25.5%. Moneybarn's funding rate is expected to increase to around 6.5% in 2019, consistent with the rate being charged to CCD.

Moneybarn has delivered an annualised IFRS 9 return on assets of 10.7% to December 2018, up from 10.0% to December 2017, reflecting the strengthening of the annualised IFRS 9 risk-adjusted margin partly offset by the investment in strengthening the management team and collections and customer service resource.

## Central costs

Central costs in 2018 were £20.2m up from £12.8m in 2017. The increase reflects two factors. Firstly, the Group has invested further in strengthening its governance framework including the recruitment of a central risk team to work under the Interim Chief Risk Officer, the co-ordination of IT under a new Interim Group Chief IT Officer, the recruitment of a new Interim Group Chief Internal Auditor and a Group Head of Human Resources. Secondly, as a result of the adverse trading performance in 2017, the 2017 results benefited from a share-based payment credit of £2.2m compared with a small charge in 2018. Central costs in 2019 are expected to remain broadly stable reflecting a tight control of costs.

## Exceptional items

Exceptional charges of £55.3m (2017: £224.6m) have been recognised in 2018 comprising: (i) £29.9m (2017: £32.5m) in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017; (ii) £18.5m (2017: £nil) in respect of the 8% premium and fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019; and (iii) £6.9m (2017: £nil) of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018. 2017 exceptional costs also included £172.1m following resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn.

Exceptional costs in 2019 are expected to comprise: (i) approximately £10m in relation to the voluntary redundancy programme announced in CCD in January 2019; and (ii) any costs associated with NSF's unsolicited offer for the Group.

## Tax

The tax charge for 2018 represents an effective tax rate of 27.3% (2017: Unaudited pro forma IFRS effective tax rate of 11.5%; IAS 39 effective tax rate of 15.1%) on profit before tax, amortisation of acquisition intangibles and exceptional items which reflects: (i) the mainstream corporation tax rate of 19.0% on Group profits (2017: 19.25%); and (ii) the 8.0% bank corporation tax surcharge on Vanquis Bank's profits in excess of £25m (2017: 8.0%). The tax charge in 2017 benefited from a tax credit in respect of prior years, including the release of provisions for uncertain tax liabilities of approximately £20m. The Group is expected to benefit in future years from the further reduction in the mainstream corporate tax rate to 17% on 1 April 2020 announced by the Government and enacted in 2016.

The tax credit (2017: tax credit) in respect of exceptional costs in 2018 (2017: exceptional costs) amounts to £10.2m (2017: £3.8m) and represents: (i) tax relief of £5.5m in respect of the exceptional restructuring costs in CCD (2017: £6.2m); (ii) tax relief of £3.5m in respect of the premium and fees paid on redemption of £222.5m of the £250m senior bonds (2017: £nil); and (iii) tax relief of £1.2m in respect of the GMP equalisation charge in respect of the Group's defined benefit scheme (2017: £nil). The tax credit in 2017 also comprised: (i) tax relief of £6.3m in respect of the estimated balance reductions and restitution payable to Moneybarn customers in respect of the FCA investigation and administration costs in respect of the FCA investigation into ROP in Vanquis Bank; and (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to customers as part of the settlement of the FCA investigation into ROP in Vanquis Bank which are treated as bank compensation payments and the release of the related impairment provision.

# Financial review *continued*

### Table 1: Calculation of ROA

| £m | 2018 Vanquis Bank | 2018 CCD | 2018 Moneybarn | 2018 Group | 2017 (IFRS 9)[3] Vanquis Bank | 2017 (IFRS 9)[3] CCD | 2017 (IFRS 9)[3] Moneybarn | 2017 (IFRS 9)[3] Group |
|---|---|---|---|---|---|---|---|---|
| Adjusted profit before tax[1] | **184.3** | **(38.7)** | **28.1** | **153.5** | 181.4 | (106.3) | 21.9 | 84.2 |
| Interest | **36.0** | **15.4** | **21.9** | **73.2** | 36.5 | 23.1 | 15.6 | 77.0 |
| Adjusted PBIT[1] | **220.3** | **(23.3)** | **50.0** | **226.7** | 217.9 | (83.2) | 37.5 | 161.2 |
| Corporation/Banking tax | **(57.5)** | **4.4** | **(9.5)** | **(61.9)** | (56.9) | 16.0 | (7.2) | (18.6) |
| Adjusted PBIAT[1] | **162.8** | **(18.9)** | **40.5** | **164.8** | 161.0 | (67.2) | 30.3 | 142.6 |
| Average receivables[2] | **1,498.0** | **296.2** | **377.4** | **2,162.6** | 1,366.8 | 406.0 | 303.8 | 2,076.6 |
| **ROA[1]** | **10.9%** | **(6.4%)** | **10.7%** | **7.6%** | 11.8% | (16.5%) | 10.0% | 6.9% |

1 Prior to the amortisation of acquisition intangibles of £7.5m (2017: £7.5m) and exceptional costs of £55.3m (2017: £224.6m).
2 Prior to the impact of balance reductions provisions in Vanquis Bank and Moneybarn which were reflected on 31 December 2017 in relation to the estimated cost of the investigations by the FCA.
3 Unaudited pro forma IFRS 9 comparative information as though IFRS 9 had been adopted from 1 January 2017.

## Dividends

Consistent with the commitment at the time of the rights issue, the Board is proposing a nominal 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.

As previously reported, 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.

> 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 for Vanquis Bank to not 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 receipt of consent from the PRA, Vanquis Bank paid a dividend of £59.8m (2017: £nil) to its parent, Provident Financial plc on 8 March 2019.

## Returns

Investing in capital generative businesses remains central to the Group's financial model.

Management assesses the relative performance of each business through a return on assets (ROA) measure. The Group calculates ROA as profit before interest, amortisation of acquired intangibles and exceptional items, after tax (PBIAT) divided by the average receivables during the period. This ensures that the returns being generated by each business are not distorted by differences in the capital structure of each business and allows for better comparability. Table 1 sets out the calculation of ROA in 2018 and 2017. The 2017 calculation has been restated onto an unaudited pro forma IFRS 9 basis to provide a comparable basis.

The Group's ROA showed an increase from 6.9% in 2017 to 7.6% in 2018 primarily reflecting the reduction in losses in CCD partly offset by: (i) a moderation in returns at Vanquis Bank due to the expected reduction in revenue yield; and, (ii) the release of provisions for uncertain tax liabilities of approximately £20m in 2017.

The Group continues to calculate return on equity (ROE) in order to assess the overall returns being generated for shareholders.

The Group calculates ROE as profit after tax, prior to the amortisation of acquisition intangibles and exceptional items divided by average equity. Average equity is now stated after deducting the Group's pension asset net of deferred tax and the fair value of derivative financial instruments. The Group previously stated average equity after the deduction of the proposed final dividend but this deduction is no longer made in order to provide consistency with the calculation of gearing and more widely used industry methodology. Table 2 sets out the calculation of ROE in 2018 and 2017 on the new basis. The 2017 calculation has also been restated onto an unaudited pro forma IFRS 9 basis to provide a comparable basis.

The Group's ROE of 25.0% in 2018 is higher than 17.9% in 2017, consistent with the increase in the Group's ROA, primarily reflecting the significant recovery from the operational disruption in home credit following the poorly executed migration to the new operating model in July 2017.

### Table 2: Calculation of ROE

| £m | 2018 | 2017[2] |
|---|---|---|
| Adjusted profit before tax[1] | 153.5 | 84.2 |
| Tax | (41.9) | (9.7) |
| Adjusted profit after tax[1] | 111.6 | 74.5 |
| Shareholders' equity | 696.1 | 351.1 |
| Pension asset | (83.9) | (102.3) |
| Deferred tax on pension asset | 14.3 | 17.4 |
| Adjusted equity | 626.5 | 266.2 |
| Average adjusted equity | 446.4 | 415.3 |
| **ROE[1]** | **25.0%** | 17.9% |

1 Prior to the amortisation of acquisition intangibles of £7.5m (2017: £7.5m) and exceptional costs of £55.3m (2017: £224.6m).

2 Unaudited pro forma IFRS 9 comparative information as though IFRS 9 had been adopted from 1 January 2017.

## Prudential regulation

As a result of holding a banking licence and accepting retail deposits, Vanquis Bank is regulated by the PRA which sets requirements for Vanquis Bank as an individual entity relating to capital adequacy, liquidity and large exposures. Vanquis Bank is also regulated by the FCA for conduct purposes. In addition, the Group, incorporating Vanquis Bank, CCD and Moneybarn, is the subject of consolidated supervision by the PRA by virtue of Provident Financial plc being the parent company of Vanquis Bank. The PRA sets requirements for the consolidated Group in respect of capital adequacy, liquidity and large exposures.

The PRA requires financial institutions to maintain a sufficient level of regulatory capital to withstand a series of downside stress events. The requirement specific to each institution is known as the Total Capital Requirement (TCR). This is determined following consideration of the Internal Capital Adequacy Assessment Process (ICAAP) conducted by the firm.

The minimum amount of regulatory capital held by the Group and Vanquis Bank represents the higher of the PRA imposed requirement, being their respective TCR requirements together with the CRD IV stipulated buffers, and their respective internal assessments of minimum capital requirements based upon an assessment of risks facing the Group. The ICAAP considers all risks facing the business, including credit, operational, counterparty, conduct, pension and market risks, and assesses the capital requirement for such risks in the event of downside stresses.

The TCR, together with a fixed add-on for pension risk, includes the aggregate of the minimum Pillar 1 and Pillar 2a regulatory capital requirements, which are set following a supervisory review and evaluation process 'SREP' undertaken by the PRA.

In addition, CRD IV requires the Group and Vanquis Bank to maintain buffers. In line with the transitional arrangements within CRD IV, the capital conservation buffer increased to 1.875% on 1 January 2018 and increased further to 2.5% on 1 January 2019. In addition, CRD IV requires a countercyclical buffer to be held and this is a weighted average of the countercyclical buffers set by the regulators in the jurisdiction in which the group has a credit exposure. The weighted average buffer at 31 December 2018 was 1% of risk weighted assets.

The Group and Vanquis Bank continually monitor and assess the internal assessment of minimum regulatory capital requirements. The minimum regulatory capital requirements of the Group and Vanquis Bank reflects the TCR, together with a fixed add-on in respect of pension risk, and are 25.5% and 24.9% of total risk weighted assets respectively. These assessments include: (i) fully loaded CRD IV buffers of 3.5% of total risk weighted assets comprising the capital conservation buffer (2.5%) effective from 1 January 2019 and counter cyclical buffer (1.0%); (ii) the minimum Pillar 1 prescribed requirement of 8.0% of risk weighted assets; and (iii) Pillar 2a regulatory capital requirements of 14.0% and 13.4% of total risk weighted assets for the Group and Vanquis Bank, respectively.

The Provident Financial plc Board expects to maintain a suitable level of headroom in excess of £50m against this requirement to provide mitigation against the ongoing recovery of the Group, the regulatory backdrop and to support ongoing access to funding from the bank and debt capital markets. The Vanquis Bank Board expects to maintain a regulatory capital buffer of £30m above its TCR at all times. The Group's CET 1 ratio on an accrued profits basis at 31 December 2018 was 29.7% (2017: 14.5%) and Vanquis Bank was 30.3% (2017: 21.6%).

The Group and Vanquis Bank intends to meet the above minimum requirements with CET 1 capital only.

The Group's financial model is founded on investing in capital generative businesses offering an attractive return, and which aligns to the Group's dividend policy with a strong regulatory capital base and future growth plans. The Group generated surplus regulatory capital to support future growth and dividends of £59.9m in 2018 (2017: absorbed regulatory capital of £156.7m).

### Table 3: Regulatory capital generated

| £m | 2018 | 2017 |
|---|---|---|
| Adjusted profit before tax[1] | 153.5 | 109.1 |
| Tax | (41.9) | (16.5) |
| Adjusted profit after tax | 111.6 | 92.6 |
| Exceptional items | (55.3) | (224.6) |
| Add back amortisation/impairment of intangible assets | 24.5 | 11.7 |
| Deduct intangible assets additions | (7.6) | (20.5) |
| Add back pension charge/(credit) | 6.5 | (1.7) |
| Deduct pension contributions | (9.8) | (10.7) |
| Add back share-based payments charge/(credit) | 1.1 | (3.4) |
| Other and tax on the above items | 12.2 | 6.6 |
| Regulatory capital generated/(absorbed) from operations | 83.2 | (150.0) |
| | | |
| Capital required to support increase in risk weighted assets at TCR of 25.5% | (23.3) | (6.7) |
| **Surplus capital generated/(absorbed) from operations** | 59.9 | (156.7) |
| Analysed as: | | |
| – Vanquis Bank | 116.1 | (53.6) |
| – CCD | (34.0) | (107.2) |
| – Moneybarn | (0.1) | (6.7) |
| – Central | (22.1) | 10.8 |

1 Prior to the amortisation of acquisition intangibles and exceptional items.

# Financial review *continued*

On a divisional basis, Vanquis Bank generated £116.1m of capital during the year (2017: absorbed £53.6m), significantly up from 2017 which was impacted by the £172.1m of exceptional costs taken in respect of the settlement of the FCA's ROP investigation.

CCD consumed £34.0m of capital in 2018, down from £107.2m in 2017. This reflects the ongoing recovery of the home credit business following the significant trading disruption arising from the transition to the new operating model in 2017.

Moneybarn absorbed £0.1m of capital in 2018, an improvement from £6.7m of capital absorbed in 2018 and is now supporting its own strong growth.

The reconciliation of the Group's net assets to regulatory capital held can be found in the Capital Risk Management sections on page 183.

## Pillar III disclosures

As part of the regulatory supervision by the PRA, the Group, consistent with other regulated financial institutions, is required to make annual Pillar III disclosures which set out information on the Group's regulatory capital, risk exposures and risk management processes. A considerable amount of the information required by the Pillar III disclosures is included within the 2018 Annual Report and Financial Statements. The Group's full Pillar III disclosures can be found on the Group's website, www.providentfinancial.com.

## Funding and liquidity

The Group borrows to provide loans to customers. The seasonal pattern of lending results in peak funding requirements in December each year. The Group is less exposed than mainstream lenders to liquidity risk as loans to customers are of a short-term duration whilst the Group's borrowing facilities extend over a number of years. The profile of borrowing longer-term and lending shorter-term creates a positive maturity mismatch.

The Group's funding strategy is to maintain committed facilities to meet contractual maturities excluding retail deposits and fund growth for at least the following 12 months and maintain access to three main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; and (iii) retail deposits to fully-fund Vanquis Bank on a stand alone basis.

Bank funding, bonds and private placements are used to fund CCD, Moneybarn and central operations (the non-bank Group) whilst retail deposits are used to fund Vanquis Bank. The Group will continue to explore further funding options as appropriate, including but not limited to, the refinancing of the syndicated revolving bank facility and further private placements and the ongoing retail deposit programme within Vanquis Bank.

The Group had total committed borrowing facilities, including retail deposits, of £2,363.0m (2017: £2,242.0m) at the end of 2018. These facilities have an average period to maturity of 2.3 years (2017: 2.3 years). This has increased during the year as a result of the tender offer for the £250m senior bonds, due to mature in October 2019 and the new issue of £250m of 5 year bonds due to mature in May 2023.

Group borrowings at the end of 2018 were £2,055.5m (2017: £2,193.0m), including £12.1m (2017: £18.9m) of interest accrued on borrowings. Historically, such interest was included in trade and other payables but have now been included as part of the principal balances to which they relate within borrowings. Prior year comparatives have been reclassified. The reduction in borrowings in 2017 reflects the completion of the rights issue raising £300m net of expenses, together with cash generated from operations and profits generated, offset by growth in receivables, the cash required to settle the ROP refund programme and the increase in liquid resources at Vanquis Bank.

The Group's overall blended funding rate during 2018 was 4.4%, down from 4.5% in 2017. This reflects a lower average blended rate on retail deposits and a lower average rate on the Group's syndicated bank facility.

The funding structure of the Group's committed facilities is shown in Table 4 below.

### Table 4: Committed borrowing facilities

| | Maturity | £m |
|---|---|---|
| **Bank facility** | 2020 | **450.0** |
| **Bonds and other borrowings** | | |
| Senior public bond | 2023 | 250.0 |
| Senior public bond | 2019 | 27.5 |
| M&G term loan | 2019–2021 | 65.0 |
| Retail bond 2010 | 2020 | 25.2 |
| Retail bond 2013 | 2021 | 65.0 |
| Retail bond 2015 | 2023 | 60.0 |
| **Total bonds and other borrowings** | | **492.7** |
| **Total non-bank Group committed facilities** | | **942.7** |
| **Vanquis Bank retail deposits** | 2019–2022 | **1,420.3** |
| **Total Group committed facilities** | | **2,363.0** |

### Non-bank Group funding

The following transactions impacted the Group's non-bank funding during 2018:

- The Group repaid the third instalment of £15m on the M&G term loan in January 2018, in line with its contractual maturity.
- As part of the rights issue process, the Group arranged an £85m bridge facility with Barclays Bank plc and JP Morgan Securities plc in February 2018. The bridge facility was used to provide sufficient funds to allow Vanquis Bank to draw down £85m under an intercompany term loan between Provident Financial and Vanquis Bank, providing Vanquis Bank with an additional £85m of funding which Vanquis Bank held as additional liquid resources. At the same time, committed headroom under an existing intercompany facility was cancelled. The net proceeds of £300m from the rights issue were received in April 2018 and £85m of the proceeds were used to repay the bridge facility. £50m of the proceeds were injected into Vanquis Bank via a subscription of equity. The capital injection, together with cash and additional borrowings from retail depositors, is being used by Vanquis Bank to settle the FCA's investigation into ROP. In November 2018, having already repaid a proportion of its intercompany loan, Vanquis Bank repaid the residual £55m to Provident Financial plc and is now fully funded with retail deposits.

- During February 2018, the Group agreed amendments and waivers of certain covenants with the Group's banks in respect of the syndicated revolving bank facility and with M&G in respect of the term loan to provide the Group with greater covenant headroom to address the impact arising from: (i) the disruption in the home credit business in 2017; and, (ii) the impact of the provisions taken by the Group in the balance sheet as at 31 December 2017 relating to the FCA investigations. The net worth covenant was temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant was temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant was temporarily reduced from 2.0 times to 1.25 times for the 12 months ended 31 March 2018 and 30 June 2018. The Group complied with the temporarily reduced covenants and has continued to comply with the unadjusted covenants. Table 5 sets out the performance against covenants at 31 December 2018 and 2017.
- On 1 March 2018, Fitch Ratings reaffirmed the Group's credit rating at BBB- with a negative outlook and removed the Group from ratings watch negative.
- In line with its contractual maturity, the Group repaid a private placement of £20m in March 2018.
- On 23 May 2018, the Group launched and priced £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% premium on 30 May 2018 resulting in an exceptional cost of £18.5m. The remaining existing senior bonds of £27.5m will mature on their original maturity date in October 2019.

Headroom on the Group's committed non-bank Group debt facilities was £327.4m at 31 December 2018. Together with forecast dividend receipts from Vanquis Bank, this is sufficient to fund contractual debt maturities and projected growth in the non-bank group until May 2020, when the Group's syndicated revolving bank facility matures.

### Table 5: Performance against covenants (IAS 39)

| Covenant | Limits | 2018 | 2017 |
|---|---|---|---|
| **Gearing**[1] | < 5.0 times | **2.0** | 4.3 |
| **Net worth – Group**[2] | > £400m | **804.3** | 450.3 |
| **– Excluding Vanquis Bank** | > £155m | **313.3** | 161.0 |
| **Interest cover**[3] | > 2.0 times | **3.2** | 2.6 |
| **Cash cover**[4] | > 1.1 times | **1.20** | 1.21 |

1 Borrowings less the liquid assets buffer and other liquid resources held in satisfaction of the PRA liquidity requirements divided by equity (excluding the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments).

2 Equity less the Group's pension asset and fair value of derivative financial instruments, both net of deferred tax.

3 Profit before interest, amortisation, the movement in the fair value of derivative financial instruments, exceptional items and tax divided by the interest charge prior to the movement in the fair value of derivative financial instruments.

4 Cash collected divided by credit issued. This covenant is 1.1 times under the M&G facility and 1.0 times under the syndicated bank facility.

## Retail deposits

The flow of retail deposits within Vanquis Bank continues to be strong and, at 31 December 2018, retail deposits amounted to £1,431.7m up from £1,301.0m at 31 December 2017. As discussed above, this allowed Vanquis Bank to fully repay its remaining intercompany loan of £55m with Provident Financial in November 2018 (2017: £77m). Vanquis Bank is now fully funded by retail deposits and the retail deposits market represents a very liquid source of funding for Vanquis Bank to fund its future growth and dividends to Provident Financial.

A reconciliation of the movement in retail deposits during 2018 and 2017 is as follows:

### Table 6: Reconciliation of retail deposits

| £m | 2018 | 2017[1] |
|---|---|---|
| At 1 January | **1,301.0** | 949.0 |
| New funds | **352.2** | 456.1 |
| Maturities | **(347.9)** | (180.6) |
| Retentions | **134.9** | 82.4 |
| Cancellations | **(24.4)** | (18.5) |
| Interest | **15.9** | 12.6 |
| **At 31 December** | **1,431.7** | 1,301.0 |

1 Retail deposits at 1 January 2017 and 31 December 2017 have been restated by £7.8m and £9.2m respectively to include interest previously accrued within trade and other payables.

The overall inflow of new funds through Vanquis Bank's retail deposits programme during 2017 was £352.2m (2017: £456.1m).

There were £347.9m of retail deposit maturities during the year (2017: £180.6m), of which £134.9m were retained (2017: 82.4m). This represents a retention rate of approximately 39% (2017: 46%), consistent with the positioning of the interest rates offered during the year.

Rates of between 1.40% and 2.20% have been paid on retail deposits during 2018 (2017: 1.60% and 2.51%) and the blended interest rate on the deposit portfolio in 2018 was 2.17% (2017: 2.26%) reflecting the low interest rate environment currently being experienced. Including the cost of holding a liquid asset buffer the overall blended interest rate on retail deposits in 2018 was 3.3%.

The average period to maturity of retail deposits at 31 December 2018 was 2.2 years (2017: 2.2 years).

## Liquidity requirements

To ensure that sufficient liquid resources are available to fulfil operational plans and meet financial obligations as they fall due in a stress event, the PRA requires that all regulated entities maintain a liquid assets buffer held in the form of high-quality, unencumbered assets.

The total liquid resources required to be held is calculated in line with the Overall Liquidity Adequacy Rule (OLAR) as set out in the Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken by Vanquis Bank. Liquid resources must be maintained based upon daily stress tests linked to the three key liquidity risks of Vanquis Bank, namely retail deposit maturities, undrawn credit card lines and operating cash flows. This results in a dynamic liquid resources requirement.

# Financial review *continued*

As at 31 December 2018, the liquid assets buffer, including additional liquid resources to meet the OLAR and an operational buffer, amounted to £420.6m (2017: £263.4m). The increase during the year primarily reflects a change in risk appetite by the Vanquis Bank board resulting in an increased severity of the stresses set out in the 2018 ILAAP and an operational buffer reflecting the stand alone funding arrangements for Vanquis Bank with no committed facility available from its parent. Vanquis Bank holds its liquid assets buffer, including other liquid resources, in a combination of a Bank of England Reserves Account and UK government gilts.

CRD IV introduces further liquidity measures applicable to the group: the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). As at 31 December 2018, the Group, on a consolidated basis, and Vanquis Bank, on an individual basis, had an LCR of 688% and 646% respectively.

On 23 November 2016, the European Commission published proposals to amend CRR and CRD, including a binding Pillar I NSFR. The proposals are yet to be finalised and the binding minimum will apply two years from the date of entry into force of the proposed regulations.

## Accounting policies

The Group's financial statements have been prepared in accordance with IFRS as adopted by the European Union. The Group's financial model is underpinned by the application of prudent, appropriate accounting policies chosen by the Directors to ensure that the financial statements present a true and fair view of the business. All of the Group's accounting policies are compliant with the requirements of IFRS, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and UK company law. The continued appropriateness of the accounting policies, and the methods of applying those policies in practice, is reviewed at least annually.

The principal accounting policies, which are consistent with the prior year with the exception of the adoption of IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers', are set out on pages 173 to 178.

IFRS 9 has been adopted by the Group from the mandatory adoption date of 1 January 2018. Full details of the impact of adoption can be found in note 32.

IFRS 15 has been adopted from 1 January 2018. The standard establishes the principles to determine the nature, amount and timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Interest income in both Vanquis Bank and CCDs now accounted for in accordance with IFRS 9. Interest income generated from Moneybarn's conditional sales agreements continues to be accounted for in accordance IAS 17 'Leases'.

Non-interest income generated by Vanquis Bank is now accounted for in accordance with IFRS 15. However, there has been no change in the recognition of revenue to the approach adopted previously under IAS 39.

The Group will adopt IFRS 16 'Leases' from its effective date of 1 January 2019.

IFRS 16 will replace IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors.

The standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions between operating leases and finance leases are removed for lessee accounting and will be replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases where the Group is the lessee, except for short-term assets and leases of low value assets.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated amortisation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of future minimum lease payments. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The classification of cash flows will also be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

Adoption will increase assets by approximately £82m and liabilities by approximately £89m which net of deferred tax of £1m, results in a reduction in net assets of £6m.

In order to assist stakeholders using of the Group's financial statements, supplementary commentary has been provided within the Group's financial statements in highlighted boxes. The additional commentary addresses questions regularly asked by investors, analysts and other stakeholders, as well as providing further information on the Group's key accounting policies, financial model and important movements in income statement and balance sheet items during the year.

## Going concern

The 2018 financial statements have been prepared on a going concern basis under the historical cost convention, unless otherwise stated.

In adopting the going concern assumption in preparing the financial statements, the directors have considered the activities of its principal subsidiaries, as set out in the strategic report, as well as the principal risks and mitigating activities as set out in the risk report. The board has also considered the Group's budget projections, as approved in March 2019, including:

> Regulatory capital projections against the PRA's regulatory capital requirements;

> Funding levels and headroom against committed borrowing facilities;

> Cash flow and liquidity requirements; and

> Compliance against covenant requirements.

Based on these forecasts and projections, the Board is satisfied that the Group has adequate resources to continue to operate for the foreseeable future. For this reason the Group and Company continues to assess the going concern basis in preparing the financial statements.

Simon Thomas
*Chief Financial Officer*
13 March 2019

## Viability statement

In accordance with the 2016 FRC Corporate Governance Code, the directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years.

The directors' assessment has been made with reference to the Group's current position, proceeds from the rights issue and prospects outlined within the strategic report and the Group's ongoing strategy. The Board continues to believe in the strong market position of the Group's attractive businesses, its prudent funding and capital structure and its strategy to build sustainable businesses for the long-term strength of the Group. The Board remains confident of the Group's underlying prospects and value, together contributing to attractive future shareholder returns. The three-year plan is built on a divisional basis using a bottom up model, as part of a five-year budget. The first three years of the budget plan receive the greatest focus, with the later years produced robustly, but at a higher level. The Group focuses on relatively short-term lending to consumers and operates a prudent and well-tested 'low and grow' business model that has previously proven resilient to economic and business cycles. The longest contractual loan term available in CCD is around two years, Moneybarn typically issue 4 year loans, while the average time a Vanquis Bank credit card customer remains with the business is only around four years. The first three years of the budget plan therefore forms the basis of this statement. The three-year plan makes certain assumptions about the regulatory environment, future economic conditions, new strategies, products, the acceptable performance of the Group's divisions, the ability to fund growth and the sustainability of the business models.

The plan is stress tested in a number of different robust downside scenarios as part of the Board's review of the Group's ICAAP. Stress testing covers significant financial, business, operational and regulatory downsides which are then aggregated into a combined severe downside scenario. The stress test scenarios are formulated using information and data from the 2008/09 financial crisis, the operational and regulatory events affecting the Group during 2017 and the scenarios published by the PRA as guidance to banks and building societies on stress tests. The scenarios therefore, reflect the principal risks of the Group through reducing new funds raised, increasing impairment, operational impacts and regulatory changes.

As part of the ICAAP process, a reverse stress test exercise is also undertaken to identify the circumstances under which the business model becomes unviable. The exercise indicates that Group viability only comes into question under unprecedented macroeconomic conditions or extreme regulatory intervention and constraints across the Group's three operating divisions.

As part of the exercise, it is assumed that both businesses could be subjected to a controlled run-off with no or limited further lending, allowing the Group to meet contractual maturities as they fall due, in the absence of dividend payments.

As a PRA regulated bank which is a subsidiary of Provident Financial plc, Vanquis Bank is required to produce a Recovery and Resolution Plan (RRP) covering the bank and the wider Group. The RRP outlines how Vanquis Bank and the Group would regain viability under severe financial pressure (recovery plan) and the steps the PRA could take to resolve the situation (resolution plan). The process of producing the RRP involves considering, assessing and documenting the options available to Vanquis Bank and the Group in a severe stress situation. This not only improves the understanding of the sources and impact of risks to viability, but it also enables the recovery options to be mobilised quickly and effectively, should they ever be required.

The RRP is an integral element of the overarching prudential risk management framework incorporating the ILAAP and ICAAP, and are all produced at least annually. The ILAAP is designed to ensure the bank meets the overall liquidity adequacy rule and further requirements of CRD IV, whilst the ICAAP outlines the process to ensure that Vanquis Bank and the Group maintain adequate capital resources at all times. In the event that the Group suffers a severe stress, then the Group could be materially adversely affected, for example due to a breach of a financial covenant under its debt facilities or a breach of a regulatory requirement. In such a scenario, there is a risk that its creditors could initiate insolvency proceedings against the Group and/or the PRA and the FCA exercising their wide-ranging powers over the Group and/or Vanquis Bank.

The review of the three-year plan is underpinned by the regular Board briefings provided by the divisional managing directors and the discussion of any new strategies undertaken by the Board in its normal course of business. These reviews consider both the market opportunity and the associated risks, principally conduct, operational and credit risk. These risks are considered within the Board's risk appetite framework.

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as set out on page 142.

# Shirley's day

"I found Satsuma on the internet, the application was straightforward and I was able to use the loan quickly."

Shirley
*Satsuma customer, London*

"I work as a freelance photographer which is great but has its downfalls – my customers may not pay straight away and therefore I don't always have a regular income which meant I was refused credit by other lenders. I found Satsuma on the internet, the application was straightforward and I was able to use the loan quickly to pay my expenses whilst waiting for customers to pay me. I found the people nice and would recommend for short-term lending."

# Corporate responsibility

"The Group was founded 140 years ago with a clear purpose of providing much valued access to credit for customers who often find themselves underserved by mainstream lenders. This purpose resonates as much today as it did back in 1880, and I firmly believe that the Group has an important role to play in serving our customers responsibly and providing them with access to credit which is closely tailored to their needs and helps put them on a path to a better everyday life.

I also recognise that this purpose extends beyond financial inclusion for our customers and includes taking account of the Group's wider impacts. The way we treat our people, contractors and suppliers, the role we play in our local communities and civic society, and as a steward of the environment, and how we engage with regulators and tax authorities, all have a role to play in underlining the importance of our purpose."

Malcolm Le May
*Chief Executive Officer*

# Corporate responsibility *continued*

## Introduction

Provident Financial Group's purpose of **helping to put people on a path to a better everyday life** is about ensuring that our customers are provided with responsible and accessible products and services that meet their particular needs. This purpose is underpinned by the four strategic drivers and three behaviours described on page 34 and 35 of this report. This is our Blueprint and it is designed to help us to balance delivering responsible and sustainable products, services and partnerships to our customers, maintain high levels of regulatory compliance, and provide a stimulating and rewarding workplace for our employees, while generating appropriate, sustainable returns for our shareholders.

In this section of the report, you will see how both the purpose and strategic drivers are aligned to the Group's responsible business strategy, as well as a summary of the progress we've made during 2018 in delivering against this strategy.

Our strategy is to operate our business of lending to our customers in a responsible manner, and act responsibly and sustainably in all our other stakeholder relationships.

This means that we have to put the needs of our customers at the heart of everything we do; create a working environment that is safe, inclusive and meritocratic; treat our suppliers fairly; support our communities; engage with the investment community on sustainability matters; and minimise the environmental impacts of our business.

> Ensuring that we operate our business in accordance with our purpose is about lending to our customers in a responsible manner and taking account of the wider impacts that the Group has on society and the environment.
>
> Rob Lawson
> *Head of Sustainability, Provident Financial Group*

## Governance and management

Overall responsibility for the Group's responsible business programme rests with the Provident Financial plc Board generally, and Malcolm Le May, the Chief Executive Officer, specifically. The Group's Executive Committee, which is chaired by the Chief Executive Officer and includes the Group's Chief Financial Officer, General Counsel and Company Secretary, HR Director, Chief Risk Officer, Chief Auditor, Corporate Communications Director, and the Managing Directors of the operating companies, also plays an important role as it reviews and approves aspects of the responsible business programme and its budgets.

The Executive Committee is also tasked with overseeing the development, embedding and monitoring of the culture and ethics of the group, and ensuring they are consistent with being a trusted, responsible and sustainable business. This will involve ensuring that the policies, procedures, systems and behaviours of our operating companies are aligned to our Blueprint,

## Alignment of our Blueprint to our Responsible Business Strategy

### Our purpose is that…

…we help put people on a path to a better everyday life.

### Our purpose commits us to…

…not only provide our customers with the tailored and affordable credit products that meet their particular needs and enable them to do the things they want to do in their lives, but also to ensure that we deliver fair outcomes to them throughout their journey with us, whether that's when we market our products to our customers and conduct affordability checks, or when we collect payments due or when we deal with customers who are in arrears or experiencing financial difficulties.

It's also about ensuring that our community activities address the issues that matter most to the everyday lives of our customers, whether that's by addressing issues such as money advice, customer vulnerability and product accessibility, supporting both children and adults in their education, helping them to secure a better financial future, or by working with local community partners on social inclusion and social mobility issues relevant to our customers and their communities.

### Our strategic drivers are…

…customer progression, human experiences, head and heart decisions, and fighting fit.

### Our strategic drivers commit us to…

…ensure that our corporate responsibility (CR) activities address the issues that matter most to our customers so that we can help change their lives for the better, build lasting relationships with all our stakeholders, whether they're customers, employees or suppliers, balance profit and purpose in all that we do to ensure that we generate a financial return while responding to the needs of our stakeholders. It is also about operating in an efficient and effective manner which, among other things, means seeking to minimise our environmental impacts, in particular by reducing our carbon emissions in order to lessen our contribution to climate change.

### The behaviours we are starting to embed within our culture are…

…put the customer on the team, be hungry for better and act like its yours.

### These behaviours commit us to…

…create a culture where colleagues think 'customer' all the time, constantly innovate and make things better for all the Group's stakeholders, be they customers, employees, suppliers, regulators and investors, and hold ourselves personally accountable for success.

and ensuring that any material issues which relate to the culture and ethics of the group are reported to other relevant Board committees.

In addition, as mentioned on page 16, the Board is finalising plans to establish a new committee that will focus on customer, culture and ethics. It is expected that this committee will focus on reviewing the Group's culture and business processes to ensure that they are focused on delivering fairer customer outcomes, provide oversight of management's delivery and embedding of the new Blueprint, and oversee the Board's compliance with the new corporate governance requirements under the 2018 UK Corporate Governance Code. In focusing on these areas, it is anticipated that the committee will, among other things, provide oversight and challenge to the group's Executive Committee to deliver real cultural change. As such, it will help to strengthen the way that the Group's responsible business programme is governed and managed by providing oversight of the Group's management of a number of key themes, including culture and ethics, being a responsible and inclusive employer; community involvement, environmental protection, and stakeholder engagement and reputation.

The Group's CR team continues to be responsible for the ongoing delivery of this programme and is supported by colleagues from the Group's operating companies. This includes the colleagues who sit on our environmental working groups and operate the environmental management system, which provides us with a framework for controlling and improving environmental performance across the group.

> I am very passionate about our new purpose and the Group'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, shareholders and our employees in order to ensure that PFG is a successful and sustainable group for all of its stakeholders.
>
> Malcolm Le May
> *Chief Executive Officer*

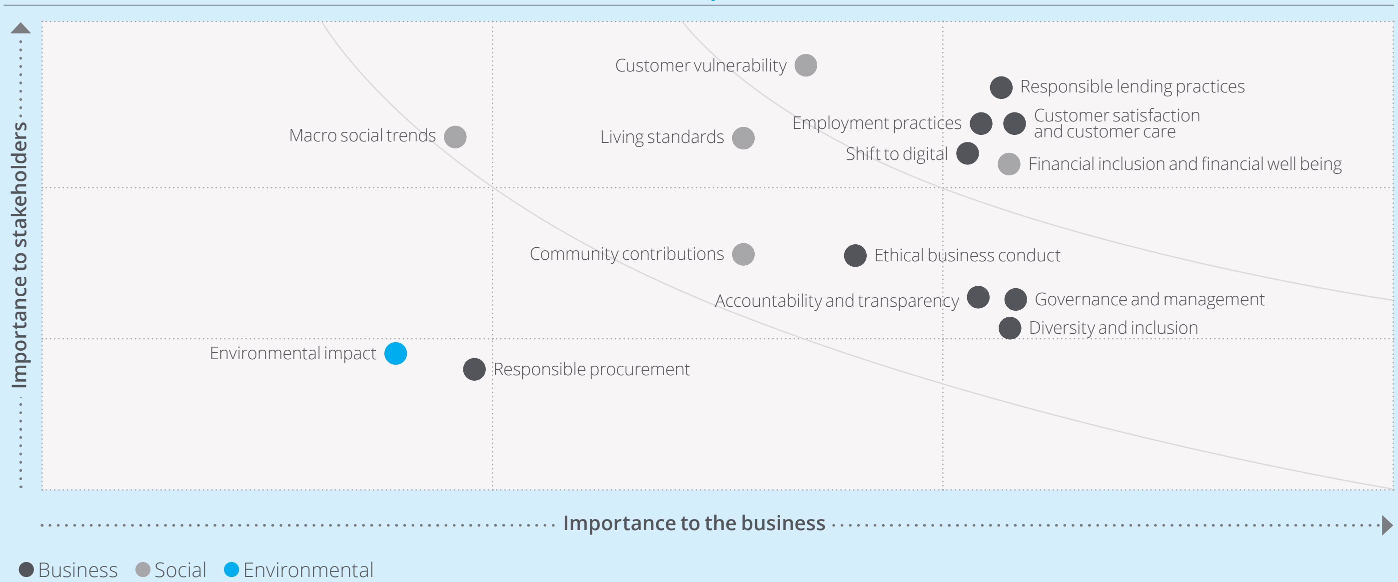
## Our stakeholders

Provident Financial Group's key stakeholders are our customers, employees, shareholders and debt investors, regulators, communities and suppliers. We define our stakeholders as individuals or groups who have an interest in, or are affected by, the activities of our business. We engage with them regularly to ensure that we are aware of their views and concerns with regard to a wide range of issues. We do this through surveys and focus groups, and by participating in consultation exercises.

Further information on our stakeholder engagement activities is set out on **pages 101–108.**

We also engage with our stakeholders to ensure that we manage and report on the CR issues that matter most to them and our business. The below materiality matrix was developed in 2017. We undertake materiality assessments at least every two years to identify and prioritise the CR issues that are material to Provident Financial Group. This exercise helps to inform the Group's purpose and CR strategy, and ensures that our CR reports respond to the interests of our stakeholders and comply with the Global Reporting Initiative's G4 reporting guidelines. Our most recent materiality assessment was, as in previous years, carried out by the independent sustainability management consultancy Corporate Citizenship. The issues that were identified as a result of the materiality assessment exercise have been plotted on the materiality matrix below.

## Materiality matrix



# Corporate responsibility *continued*

## Doing business transparently

Alongside being transparent about the products, services and partnerships we deliver to our customers, we also strive to be transparent in all other areas of our business. This includes maintaining our commitment to being a fair and responsible tax payer, operating in an open, honest and straightforward manner in all tax matters and being fair and reasonable in all our dealings with tax authorities. Through this commitment we seek to ensure that we comply with all tax rules and regulations in each territory in which we operate.

While we safeguard our reputation as a responsible taxpayer, we recognise that we also have a responsibility to protect shareholder value by managing and controlling our tax liabilities.

Our tax strategy is aligned with HM Revenue & Customs' (HMRC) Code of Practice on Taxation for Banks ("the Code") which sets out the principles and behaviours expected of banking groups with regard to tax, and we have unconditionally adopted the Code. The Group's most recent tax strategy was last updated and approved by our Board in May 2018 and can be accessed on our website at www.providentfinancial.com.

This tax strategy is supported by our tax procedures manual, which sets out how the objectives and policies in the tax strategy are achieved, as well as setting out further details of our tax risk management framework. These details, as well as the total direct and indirect tax contributions we pay on an annual basis, are disclosed in our annual CR reports which we publish in June each year. The Group's annual CR reports can be found at: www.providentfinancial.com.

**2.4m**
**customers**

We are proud to serve customers drawn from all across the UK and Ireland.

## Serving our customers in a responsible manner

The Group's core business is to provide tailored and responsible products, services and partnerships that help put our customers on a path to a better everyday life. The 2.4 million customers we are proud to serve come from all across the UK and Ireland. The employment status of our customers can vary and, due to their personal circumstances, they can be in receipt of state support. As a result, they typically have low to average incomes. Some of them have also had to deal with significant life events such as divorce, loss of a job, long-term illness and other challenges which, given that they have low to average incomes, can occasionally cause them to fall behind with their financial commitments. This can cause their credit files to be impaired and contribute to them being underserved or totally excluded by mainstream credit providers.

The products, services and partnerships that we offer through our three operating companies are therefore tailor-made to meet the particular needs of our customers. In general, the approach we take to providing credit to our customers involves lending smaller amounts over shorter periods of time. In the case of Moneybarn, where a vehicle is held as security, we are able to lend more credit for longer periods.

Under this approach, new customers to Vanquis Bank, Satsuma and Provident home credit get lower credit limits, or smaller, shorter-term loans to begin with. This enables us to observe and understand the behaviour of our customers before we consider granting further lending and it also enables the customers to experience our products and see if they suit their needs. It also enables our customers to enter or re-enter the credit market, stay in control of their finances and build credit scores for greater future access and choice.

Further information on the responsible lending characteristics of our products is set out in **pages 37, 41 and 43.**

## Improving customer satisfaction rates

One of the key performance indicators we track to determine whether we are providing our customers with products, services and partnerships that meet their particular needs and help put them on a path to a better everyday life is customer satisfaction. Measuring this year-on-year also gives us some insight into where we can make improvements to our offerings so that we can continually meet or surpass customer expectations. Information on customer satisfaction is collected through a variety of methods such as online forums, phone and face-to-face surveys, as well as focus groups. The overall customer satisfaction rates in 2018 for each of our brands are set out below. The improvement in customer satisfaction within our Provident home credit business reflects an improvement in customer service as a result of the successful ongoing implementation of the recovery plan during 2018. But we also recognise that there is more we can do in 2019 to continue to improve these scores, including:

- In Vanquis Bank, continuing to make enhancements to the suite of forbearance tools that were rolled out in the second half of 2018 to support more customers who find themselves in short-term difficulties to recover, avoiding default.
- In Provident home credit, continuing to review the additional controls, such as the voice recording technology we have been embedding throughout 2018, which is used by our Customer Experience Managers (CEMs) when interacting with customers. This technology not only enables us to review compliance and the quality of our interactions with customers to ensure that positive customer outcomes are achieved, it also plays an important role in enabling us to review other matters, for example, the health, safety and wellbeing of our CEMs, as they go about doing their jobs.
- In Satsuma, continuing to review and update our mobile app to improve its repayment functionality and make it easier for customers to see when their next payment is due and enable them to make catch-up missed payments via the app to clear any arrears.
- In Moneybarn, continuing to invest resource and technology in customer operations to help us to identify and resolve situations where customers are in financial difficulty.

### Customer Satisfaction Rates for 2018

| | |
|---|---|
| Vanquis Bank | **86%** (2017: 87%) |
| Moneybarn | **4.7/5** (Feefo rating) (2017: 4.7/5) |
| Provident home credit | **87%** (2017: 85%) |
| Satsuma | **4.7/5** (Review.co.uk rating) (2017: 4.8/5) |

## Dealing responsibly with customer complaints

Ensuring that we keep customer complaints to an absolute minimum is also a good indicator that we are treating our customers fairly and that our products, services and partnerships meet their specific needs. Understanding the reasons behind complaints also helps us to improve the services we offer. We have well-established complaint-handling processes, procedures and timescales to guide our customer relations teams in resolving issues in a professional and timely way.

Vital to resolving customer complaints satisfactorily is ensuring our staff are trained well enough to deliver excellent customer service whether face-to-face, on the telephone or via e-mail. The total amount of hours employees spent on customer-focused training in 2018 was 134,055.

### Customer complaints received in 2018

| | |
|---|---|
| Vanquis Bank | **38,767** (2017: 33,768) |
| Moneybarn | **4,551** (2017: 3,691) |
| Consumer Credit Division | **36,584** (2017: 33,254) |

We provide the contact details of the Financial Ombudsman Services (FOS) to all our customers, so they have another option if they feel we have been unable to resolve their complaint to their satisfaction. During 2018, the total number of complaints referred to the FOS was 4,302 (2017: 1,792). Of these, 1,278 or 30% (2017: 20%) were upheld in favour of the customer. During 2019, we will focus attention on ensuring that customer complaints are kept to an absolute minimum.

The FCA defines a complaint as an expression of dissatisfaction, whether oral or written, and whether justified or not, from or on behalf of an eligible complainant about the firm's provision of, or failure to provide, a financial service.

We recognise that our customers may, at any point in the relationship with us, find themselves in potentially financially difficult situations. This could be due to a significant life event such as a loss of income, illness or family bereavement.

You can read more about this on **page 81**.

# Corporate responsibility *continued*

## Creating a safe, inclusive and meritocratic workplace

Our employees are a key stakeholder in our business. Without them we wouldn't be able to have customer relationships, engage with our investors, work with suppliers or get involved in our local communities.

Throughout 2018, we have made a number of management changes across the Group which have seen the introduction of new appointments working at a Group-wide level such as the Group HR Director, Group Director of Corporate Communications, Group Internal Communications Director and Chief Procurement Officer, as well as new positions being created in our operating companies. These appointments were made to create key Group functions and improve coordination, cooperation and efficiency across the business.

However, in 2018, we also had to make a number of redundancies in the Consumer Credit Division in order to reduce and reshape some of its central support functions. This was a difficult but necessary step that had to be taken to align the Division's cost base to the reduced size of the business.

To ensure affected employees' voices were heard in the decision-making process that underpinned the redundancies, we held a collective consultation with employee representatives from the Division's elected Colleague Forum. The consultation focused on the proposed job roles that would be reduced. It lasted 45 days and enabled the affected individuals and their representatives to give feedback on the proposed redundancies, and for senior management to respond to that feedback. Employees affected by redundancy received financial compensation that exceeded the statutory minimum level and, where appropriate, were offered early retirement. They also received support to find a new role including paid time off to find a new job; additional training; coaching; and online tools and resources. Support was also offered through our 24/7 Employee Assistance Programme.

### Mental Health and Wellbeing

We are partnering with a variety of leading mental health charities to establish a Mental Health First Aider network, in line with best practice as outlined by Mental Health First Aid England. We are also piloting a programme of interactive sessions for our managers to understand the causes and impacts of stress, anxiety and depression and how to support people, in order to improve their ability to spot the signs of mental health distress amongst colleagues and help them to develop ways to reduce stress.

In 2019 we aim to have 48 qualified Mental Health First Aiders and put 100 people managers through the interactive mental health training sessions.

## Spotlight on equality, diversity and inclusion

We want our business to be diverse and inclusive as employing people with different skills and backgrounds will help us understand our customers' needs and develop products and services that support them better.

During 2018, we appointed both a Group Human Resources (HR) Director, to ensure the HR teams in each of our businesses are tackling challenges and overcoming barriers together, and a gender diversity lead for the Group, Catherine Diamond, HR Director for Moneybarn. Catherine will lead on the gender diversity agenda for the Group, ensuring we are doing more to create a talent pipeline of future female leaders.

### Gender diversity across employee levels at 31 December 2018

| Employee level | Female | Female % | Male | Male % |
|---|---|---|---|---|
| Total staff | 3,117 | 55 | 2,591 | 45 |
| Director | 7 | 23 | 24 | 77 |
| Senior management | 29 | 26 | 84 | 74 |
| Middle management | 103 | 35 | 190 | 65 |
| First level management | 186 | 44 | 239 | 56 |
| Colleague | 2,780 | 57 | 2,066 | 43 |

We are also aware that we need a strong benchmark for equality, diversity and inclusion (EDI) metrics, so that we can set targets and measure progress more effectively. Our HR teams recognise that we need to collect EDI data at the point of staff on-boarding, to ensure that we can monitor our performance in areas like ethnicity, race and physical/mental wellbeing or disabilities. By doing this, we can further underline the commitment set out in our corporate EDI policy which states that we will support diversity and create an inclusive workplace culture for employees and other stakeholders, including customers, suppliers and contractors.

We will therefore conduct a review of how this data is captured to help us monitor metrics relative to this area, and initiate projects to enhance the EDI performance of our workplace. As at 31 December 2018, the percentage of employees from Black, Asian and Minority Ethnic groups stood at 9% (2017: 15%) and the percentage of employees who had declared a disability was 0.4% (2017: 0.36%).

### Catherine Diamond, HR Director, Moneybarn

"We are committed to creating a positive step-change in the senior leadership gender balance by supporting women in, or aspiring to be in, leadership positions. We are investing more in our gender diversity efforts and expect an increase in our gender representation at executive and senior leadership level over the coming years. We are setting the foundations on which to build upon, focusing action around attracting, retaining and developing female talent to contribute to us achieving gender balance over time."

## Treating our suppliers fairly

Our suppliers play a vital role in our operations, so it is imperative that we encourage best practice within our supply chain by ensuring we are compliant with legislation such as the Modern Slavery Act 2015 and support supplier payment by being signatories to the Prompt Payment Code.

We use a large number of suppliers that range from small and medium-sized enterprises to large multinational corporations, and we are always seeking to be forward-thinking in our approach to supply chain management and develop strong supplier relationships to ensure we only procure products and services from those who operate in a responsible manner.

## Paying suppliers promptly

As a Group, we are signatories of the Prompt Payment Code, which means we are committed to paying our suppliers promptly. We understand the pressure late payments can have on businesses, and particularly small to medium-sized local ones. Being signatories to the Prompt Payment Code allows us to encourage best practice within our supply chains. In 2018, 97% of invoices were paid in line with the Prompt Payment Code terms, and we continue to strive to achieve 100%.

### Percentage of companies paid in 60 days

| | |
|---|---|
| Group Corporate Office | **94%**<br>(2017: 96%, 2016: 95%) |
| Consumer Credit Division | **94%**<br>(2017: 93%, 2016: 95%) |
| Vanquis Bank | **90%**<br>(2017: 95%, 2016: 95%) |
| Moneybarn | **100%**<br>(2017: 99%, 2016: 99%) |

# Corporate responsibility *continued*

## Preventing modern slavery in our supply chain

As a business with a turnover of more than £36m we are required to produce an annual statement which describes the steps that have been taken to prevent modern slavery and human trafficking from occurring in our supply chain and direct business activities.

Our most recent statement, dated March 2018, sets out the actions that the Group is taking to ensure instances of modern slavery or human trafficking are not occurring directly in our businesses as well as indirectly in the supply chains that we use to procure goods and services. The statement also communicates the measures we have taken to improve internal understanding and awareness around modern slavery and human trafficking.

The Group is committed to understanding the risks posed by modern slavery and human trafficking, and ensuring that they don't exist in our businesses or supply chains.

One of our key objectives for 2018 was to engage with a third-party consultancy to deliver a workshop to corporate responsibility and procurement personnel from across the Group to raise awareness and understanding of the changing expectations around human rights and modern slavery risks. This workshop took place in January 2018 with senior procurement representatives from each operating company in attendance. The workshop firstly provided background and up-to-date information on the Modern Slavery Act 2015, ensuring that the representatives had a good overall understanding of the purpose of the Act and why it was introduced in the UK. It then encouraged participants to review their own current procurement practices and assess whether there are any potential risks and opportunities that relate human rights in the Group's supply chains. It went on to highlight case studies of companies where instances of modern slavery and human trafficking had been identified. The session also supported a Group-wide piece of work that was initiated in 2018 to harmonise the due diligence processes and procedures used by the Group's operating companies to manage supply chain-based risks.

The workshop was very informative and opened my eyes to industries and work practices that you wouldn't normally expect to be exposed to risks associated with modern slavery. After the event, a reassessment of our supply chain was necessary to highlight those businesses that posed the greatest potential risk from a modern slavery and human trafficking perspective.

Steven Schools
*Head of Procurement, Consumer Credit Division*

Provident Financial Group's community investment strategy supports our purpose by addressing key barriers to inclusion and helping people overcome them.

Rob Lawson
*Head of Sustainability, Provident Financial Group*

## Supporting our communities

The primary way in which Provident Financial Group fulfils its purpose is through the provision of credit to customers who are not well served by other lenders or are excluded altogether. We do this by responsibly providing our customers with appropriate amounts of credit, maintaining close contact with them throughout the term of their loan, and supporting them sympathetically if they experience difficulties.

It is through this knowledge and understanding of our customers, and the market we have proudly served since 1880, that we have been able to develop our approach to community investment and ensure that it is aligned to the Group's purpose of helping to put people on a path to a better everyday life.

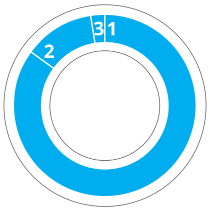
Our community investment activities are delivered through our Group-wide Social Impact Programme. The strategy of this programme is to invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, can reduce someone's likelihood to be accepted for credit. These factors include: lack of literacy or numeracy skills; disabilities and/or mental health issues; unemployment or under-employment; low levels of educational attainment; and low, uncertain or fluctuating incomes.

The Provident Financial Group Social Impact Programme delivers community investment activities under the following three work streams:

- > **Customer and Vulnerability** – Working with charities and specialist partners to address issues such as money/debt advice, customer vulnerability, product accessibility and financial difficulties.
- > **Education** – Supporting both children and adults on aspects of education, particularly those that relate to literacy and numeracy.
- > **Community** – Supporting Community Foundations and other partners to address the wide range of social inclusion and social mobility issues that are relevant to our customers and the communities where we operate.

### 2018 community investment figures

| | |
|---|---|
| 1 Cash | **£1,431,990** (2017: £2,354,863) |
| 2 Management costs | **£210,759** (2017: £227,581) |
| 3 Value of employee time | **£37,829** (2017: £9,552) |
| **Total** | **£1,680,578** (2017: £2,591,996) |



## Customer and Vulnerabilities

We support the vulnerable customer agenda through this dedicated work stream of the Group's Social Impact Programme. The focus of this work stream is to support charities and specialist partners to address issues such as money/debt advice, customer vulnerability and financial difficulties.

The Group has a long history of supporting a wide range of organisations within the free and voluntary money advice sector. This approach recognises that our customers and the other consumers within our market seek advice and support from a wide variety of organisations when they encounter financial difficulties. These include organisations within the free and voluntary money advice sector and fee-charging debt management companies. They will also seek advice and guidance from debt advice forums. Our approach also recognises that the interventions our customers require to help address any financial difficulties vary from the provision of generic money saving tips to more tailored and intensive advice. We currently provide funding to the following national money advice organisations and signpost customers to them via our operating companies' customer-facing websites:

> **National Debtline** – National Debtline, which is part of the Money Advice Trust, offers free and impartial debt advice over the telephone and online to help clients manage their money with confidence. Our donations help support National Debtline to advise more than 170,000 clients per annum via telephone and webchat. Our funding also contributes to supporting over one million visits per annum made to the National Debtline website to access web guides, fact sheets and sample letters via the 'My Money Steps' tool.

> **StepChange Debt Charity/Christians Against Poverty** – While our operating companies are working to collect outstanding debt from customers, sometimes they enter debt agreement plans with leading debt charities such as StepChange Debt Charity (a similar arrangement is in place with Christians Against Poverty (CAP)). We continue to accept the offers of payment when customers have sought advice from these charities and a financial assessment has been made. Through the 'Fairshare' agreements we have with these charities, we contribute almost 12% of any payment we receive from a customer who has entered a debt agreement plan to the charities. The 'Fairshare' contributions mean our subsidiary businesses pay for the debt advice received by the customer. They provide the charities with financial support so that they can continue to provide free, independent advice and operate independently of taxpayer support. During 2018, the Group's operating companies paid £864,107 (2017: £665,783) to StepChange Debt Charity and Christians Against Poverty in 'Fairshare' contributions.

Through our Social Impact Programme we work with charities and specialist partners to address issues such as money/debt advice, customer vulnerability, product accessibility and financial difficulties.

Annette Saunders
*Customer and Vulnerabilities Lead, Provident Financial Group*

The operating companies of Provident Financial Group also provide their customers with information on the Money Advice Service (MAS). MAS, which was initially set up by the Government, provides free and impartial money advice to consumers. The service is funded by a charge levied on the financial services industry and collected by the FCA.

We also provide funding and support to a wide range of intermediary organisations in the money advice sector to build its capacity and contribute to the provision of advice to consumers who find themselves in financial difficulty. In 2018, the Group supported the following intermediary organisations:

> **The Money Advice Trust** – Partnering with the Money Advice Trust we have completed a programme of training to improve the knowledge, skills and confidence of our colleagues when working with customers who may have a mental health problem or a wider vulnerable situation.

> **IncomeMax** – Vanquis Bank continues to work with IncomeMax, through an innovative partnership that began in 2015, to support customers of the Bank that are experiencing financial difficulties. IncomeMax is a Community Interest Company that helps people to maximise their household income by providing them with independent personal welfare advice that helps them take control of their finances. The advice provided by IncomeMax helps households to increase their income, reduce household bills and get the debt advice they need. Vanquis Bank's dedicated One Call team, which offers additional support through financial capability and capacity assistance, puts customers in touch with IncomeMax. IncomeMax then provides independent personal money advice to help customers take control of their finances.

# Corporate responsibility *continued*

## Education

Our work on the education theme began in 2017 when we created a communal book space at our Bradford head office, allowing staff to read and share books. Deciding that education should become one of the three pillars of our Social Impact Programme was a straightforward decision, as we know that enabling the children and adults in the communities we serve to improve their levels of educational attainment and develop new skills plays an important role in enabling them to have a better quality of life.

Throughout 2018, we worked with four key partners. These were the national charities the National Literacy Trust and National Numeracy and two smaller organisations; Leading Children and School-Home-Support. We are also a founding member and trustee of the Social Mobility Business Partnership.

## National Numeracy Day 2018

From getting the best supermarket deals to managing family finances, or understanding salaries to gaining a promotion at work – we all use numbers in our everyday lives. Despite this, one in two working-age people have numeracy levels associated with primary schoolchildren. So when we were approached by National Numeracy to get involved in the first ever National Numeracy Day in May 2018, we were delighted to sign up as one of the Lead Supporters because, as a financial services business, ensuring that our customers and staff, and the children and adults in the communities we serve understand the basics of numeracy is fundamental to being a responsible financial services company.

Our purpose is to put people on a path to a better everyday life, and key to this is ensuring our customers understand the terms and conditions of the products they are purchasing from us. In order to do this, they require basic numeracy skills. It is also vital that our staff have the right level of numerical knowledge and skill to support our customers throughout their journey with us.

The day was a success and we achieved an excellent response from staff with 695 registering to use the National Numeracy's online assessment tool as well as other free learning resources.

We are in the process of establishing a three-year partnership with National Numeracy, with whom we are developing a programme that will help our colleagues, and those who live in the local communities where we operate, to increase their confidence with numbers.

## Leading Children into Literacy

Leading Children is a Bradford-based learning consultancy which has developed a bespoke literacy programme for us to offer to 12 schools local to our head office in Bradford. We decided to develop this programme after becoming aware that only 70% of schoolchildren in Bradford achieve the expected standards in reading, and even less so for writing. There are a wide variety of reasons why this can occur – it could be due to a learning disability, or poor teaching, but it could also be because parents can't afford to buy their children books, or perhaps they can't help their child with their homework because they don't have good literacy standards themselves. Having difficulty when it comes to reading and writing can lead to low self-esteem and self-worth, closed mind-sets, disengagement and lower academic achievements and career prospects.

Through our work with Leading Children, we provide teachers with tools which combine the concepts of reciprocal reading and growth-mindset which helps to change their classroom culture into one that not only allows the children to learn the strategies they need to become good readers and increase their confidence and knowledge, but also enables them to develop a love for reading for pleasure.

Through the Leading Children literacy programme we:

> Worked with seven primary schools and five secondary schools in Bradford.

> Positively impacted almost 1,000 primary school students in reading, writing, mindset and wellbeing.

> Provided training to 27 primary school teachers.

As a result of the programme, all seven primary schools have taken on board the programme as their principle method of teaching comprehension and supporting reading in children from Y2 and above. Out of the five secondary schools who took part, three achieved an average of 61% on their reading scores as a result of the programme whilst the other two achieved an increase of 50% on their reading ages.

## Our partnership with the National Literacy Trust

Developing a partnership with National Literacy Trust was a natural progression for us having previously been involved in a small scheme which saw employee volunteers providing one-to-one reading support to children in a number of primary schools in Bradford. Our partnership with National Literacy Trust continued to progress in 2018. We funded the Trust's Words for Work programme in two Bradford secondary schools. This programme aims to increase aspirations for disadvantaged young people, and give them access to the communication and employability skills they may need for their futures. This insight is provided by inviting students into local businesses and engaging with business volunteers. We also funded two Early Words Together programmes which supports parents and carers from disadvantaged communities by giving them the tools they need to support their children's early communication and literacy development.

We have recently established a three-year partnership with the trust which began in January 2019, and will deliver activities with a focus on all stages of a person's literacy development. The activities include the Early Words Together programme, and Words for Work, which will be extended to include a primary school programme and a post-16 programme. In addition to this, we will also pilot a new programme in Bradford called School Gates Volunteers, which will aim to support schools in engaging hard-to-reach parents through a parental peer-to-peer support network.

## The Social Mobility Business Partnership

The Group has been a supporter of, and involved in, the Social Mobility Business Partnership (SMBP) since 2014. SMBP is a registered charity, of which the Group is a founding member and trustee, which delivers activities across 16 clusters in Birmingham, Brighton, Bristol, Glasgow, Leeds and Bradford, London, Manchester, Norwich and Reading.

The SMBP works with Year 12 state school students from low income backgrounds to enable them to access business, with a focus on showcasing how commercial departments work with their legal and finance teams to deliver their business strategies. Through the programme, students attend a Work Insight and Skills week, spending a day at four different businesses and a fifth day at a professional sports club where they learn about the psychology of resilience and goal achievement models.

> We're supporting both children and adults in their literacy and numeracy education because they are vital skills to securing a brighter financial future.
>
> Cathy Prior
> *Education Lead, Provident Financial Group*

In 2018, the Group, along with the other regional SMBP partners Burberry, Yorkshire Water, the Ministry of Justice, BT Plusnet, Aviva and ITV, hosted 53 students in the Work Insight and Skills week held in the Leeds and Bradford cluster, with the resilience training provided by the Leeds Rhinos rugby league football club.

In addition to enabling these students to access business, legal and finance work experience during their week with the SMBP partners, they were also able to access support through the programme's bespoke coaching platform which was launched in 2018. Through this platform, participating students can draw on advice on writing impactful CVs and personal statements, completing university and job application forms and preparing for job interviews. As well as coaching guidance, students can opt to receive information and signposting to employment opportunities and recruitment events at our partner organisations.

## Supporting the Bradford Literature Festival

In the 140 years since the Group was founded in Bradford, the city has transformed. It is now an incredibly multicultural city with a strong industrial and cultural heritage. But it is not without its challenges. The city is below the national average for primary education reading skills and lags behind Leeds and other northern cities in school league tables.

As one of Bradford's largest employers, we want to inspire young people living in deprived areas to raise their aspirations. We want to help them leave school with the skills they need and ensure a talent pipeline with the skills we need to drive both our business and the local economy forward. We believe our partnership with Bradford Literature Festival, alongside other local organisations, allows us to do this.

We are now in our third year of support for the Festival and have pledged to continue that support until 2020.

Key figures from the 2018 Bradford Literature Festival include:

- The 2018 Festival successfully delivered 467 events across 10 days of activity.
- The 335 public, and 132 schools events of the 2018 Festival, attracted an audience of 70,349; a 40% increase on the 2017 audience of 50,158.
- 52% of tickets to BLF 2018 were given away, or sold at discounted rates as part of the Festival's ethical pricing policy.
- The BLF Schools Programme more than doubled in scale, growing to 30,676 attendees.
- Audience diversity increased by 2% to 51% BAME, with 61% of audiences reporting gross household incomes of less than £40,000 annually. 55% of audiences were female.
- Audience geographic split was 1% international, 13% national, 33% regional and 53% local.

# Corporate responsibility *continued*

- The Festival delivered a new Early Years Programme, funded by the Bradford Opportunity Area, expanded City Park activity, and launched the Young People's programme, funded by the Esme Fairbairn Foundation.
- The 2018 Festival also saw the launch of the Culture Sector Industry Day – to be significantly developed for BLF 2019.
- The Festival attained a Net Promoter Score of 9.26, when audiences were asked how likely they would be to recommend the Festival to a friend, family member or colleague, with 10 being extremely likely and 1 not at all likely.

## Supporting small community partners

We continue to develop partnerships with Community Foundations as an effective way of disbursing our funding, allowing us to leverage the expertise that they offer, including their due diligence support. It means that we can also harness their local knowledge. As Community Foundations are rooted in the communities they serve, they have unrivalled insight into the specific issues that those communities are dealing with, as well as the small charities that are helping to tackle them effectively. This means that we can channel our funding to the areas where it will have the greatest impact.

We currently have partnerships with:

- Leeds Community Foundation
- London Community Foundation
- Hampshire & Isle of Wight Community Foundation
- Kent Community Foundation
- Community Foundation In Wales

In 2018, grants totalling £70,511 were awarded to 17 community organisations.

> We partner with Community Foundations around the UK to support a range of small community organisations to address the social inclusion and social mobility issues that are relevant to our customers and the communities where they live and work.

Sharon Orr
*Local Community Lead, Provident Financial Group*

## Tackling barriers to education with School-Home Support

School-Home Support (SHS) is a charity that provides personalised support to children and families to tackle the underlying barriers to successful education and improve the life chances of children. Partnering with schools, local authorities and communities, SHS looks beyond the classroom to understand and tackle the issues affecting children's learning, such as poverty, inadequate housing and mental ill health. The organisation uses early intervention to address the root causes of low attendance and poor behaviour, to ensure that children are in school, ready to learn.

The biggest influence on a child's life is their experiences at home. SHS employs expert practitioners to work with families on addressing a wide range of complex issues, building their engagement and resilience so that they can resolve future issues independently. Without this support, children are much less likely to achieve their best potential.

Working closely with our partner school in Bradford, One In A Million, we provided funding for an SHS practitioner to support a number of young people and their families. From January to December 2018, the practitioner supported 32 individuals on issues such as school attendance, poor housing and mental health. As a result of these interventions, more than half of the young people engaged in the programme saw their school attendance improve. In addition, the practitioner was able to use funding from the SHS Welfare Fund to provide essential items to eight of the families worked with. This included purchasing school uniforms, emergency food and bedding.

> The contribution that the SHS practitioner makes not only to the students at One In A Million's school attendance, but also to their quality of life experience, cannot be underestimated or understated. For many young people and their families, she is an invaluable advocate and a bridge to accessing a meaningful educational experience.

Jaz Qadri
*Deputy Head, One In A Million*

## #GiveBradford update


> Our partnership with Provident Financial Group means that we can use our local knowledge and expertise to help them address the social inclusion issues that are important to them. We help them to effectively target their investment to the needs of the communities where they operate. It's essential for businesses to support the small charity sector, and Provident does this really well. Their ongoing commitment to small charities is essential.
>
> The Group's employees also have the opportunity to be involved in the grant-making process, which means they can make a valuable contribution to deciding which organisations will receive a grant from the fund.

Matthew Roberts
*Head of Development, Leeds Community Foundation*

Supported by funding from Provident Financial Group, Leeds Community Foundation launched the #GiveBradford campaign in 2017. The aim of the campaign was to develop a giving platform for corporates and individuals across the district, and to leverage existing funding streams and investments already made. Initial development of the platform was informed by consultation with key stakeholders in the city and this process of collaboration continues through the campaign's steering group which comprises representation from businesses, such as Provident Financial Group and other key organisations from across the city, including Bradford Council.

Funding from the Group has also been used to underwrite the continued growth of The Bradford 100 Club which was launched in 2017. This has continued to attract new members from Bradford's business community who recognise the opportunity to support Bradford's local communities. A number of events have brought members together to network and hear first-hand feedback from organisations funded through the community foundation.

As a result of the development of the #GiveBradford campaign, Leeds Community Foundation has been able to:

- Distribute £1.2 million in grants across the Bradford District.
- Identify £2.3 million in trust transfers.
- Set up a new £375,000 "Holiday Hunger" fund with investment from the BG Campbell Trust, Morrisons and the Big Lottery.

# Corporate responsibility *continued*

## Adding value to United Estates of Wythenshawe (UEW)

UEW was established in 1996 by a group of families and local community leaders in Wythenshawe, South Manchester, and is a social enterprise that provides facilities for local people, including a professional gym, recording studio and therapy rooms, and seeks solutions to local problems such as anti-social behaviour.

When we began our funding partnership with UEW in 2015, we also identified a number of areas where we could offer added value support. We therefore enlisted the help of another of our community partners, Participate Projects, to provide expert and bespoke support for UEW, to help them to secure a more sustainable future. The Participate team are experts in working to address the specific needs of small charities, and following a strategic review and needs analysis, a number of areas were highlighted at UEW for particular focus and support. This has included key areas such as the organisation's strategic aims, governance and fundraising priorities.

As a result of this work, a range of positive outcomes have been achieved, including the securing of additional funding. Of particular importance has been the support provided to UEW to secure funding to enable it to recruit a Development Manager within the organisation. This role is expected to provide much needed resource, working with the CEO to drive the organisation's continued development and success.

> I am immensely grateful to Provident Financial Group and Participate Projects for the support that has been provided to UEW. It positively influenced and greatly contributed to our ongoing success and progress in the last three years – all very much down to the experience, enthusiasm, unique delivery and informed support and advice.

Greg Davis
*Founder and CEO, United Estates of Wythenshawe*

> It's important that we enable our people to engage with our community involvement programme. Volunteering provides them with valuable development opportunities, helping them develop skills and build teams while supporting initiatives close to their hearts.

Rob Lawson
*Head of Sustainability, Provident Financial Group*

## Colleague involvement

Our colleagues have a natural propensity to make a positive impact in the communities we serve in a number of ways, and we continue to support them to do this through a range of activities and schemes offered as part of our Social Impact Programme. Our aim is to give colleagues the tools and resources to contribute to the causes and organisations that mean the most to them, in the way that they feel is most appropriate.

In Bradford, for example, we work with Participate Projects to provide community team challenges for staff to get involved in. These offer a number of important benefits in terms of behavioural and personal skills development. Significantly, during a period where there has been considerable restructuring across the business, the team challenges have been an effective vehicle for bringing new teams and colleagues together in an external environment, to work collaboratively, learn about each other and deliver something valuable for the local community. As a result, in 2018, we saw a significant increase in the number of employees taking part in the team community challenges, with 2,191 hours volunteered during working time.

And by using the expertise and local knowledge of Participate Projects, we can ensure that our community team challenges are tackling the issues where volunteers really can make a difference, based on the specific needs of the community organisation itself. It means that colleagues can truly feel they have added value within the community by working with the rest of their team to deliver something that is absolutely needed.

Employer-led volunteering programmes are also available. For example, staff can volunteer to take part in grant panels to help decide how to allocate funding via our community foundation partnerships. In 2018, we saw employees taking part in panels with the Kent Community Foundation, Leeds Community Foundation and Hampshire & Isle of Wight Community Foundation.

Our reciprocal reading scheme is growing with the ongoing development of our literacy programme. Employees are given specialist training and can use their paid volunteering allowance to support children's reading development as part of a structured programme.

Additionally, we encourage our colleagues to volunteer their time and skills for the community organisations of their choosing. They can also claim a volunteering grant for that organisation.

Our matched funding programme continues its popularity and in 2018 we matched employees fundraising efforts by £30,389.

## Engaging the investment community in CR

Given that our CR programme is such an integral part of our purpose and strategic vision, we are keen to share information on our sustainability performance, alongside our financial performance, with the investment community so investors, analysts and other key stakeholders can see how we have, in delivering our business activities, balanced profit and purpose. We do this by responding directly to requests for information from individual investors and analysts, and by maintaining a presence on specific investment indices and registers which focus on sustainability matters. This enables us to share with the investment community information on material issues such as responsible lending, customer satisfaction and corporate governance, as well as on a broader spectrum of issues such as climate change, equality, diversity and inclusion, and human rights.

In 2018, the Group engaged with:

**CDP** – We made our annual submission of climate change data to CDP (formerly the Carbon Disclosure Project) in August 2018. CDP requests information on the risks and opportunities of climate change from the world's largest companies, on behalf of over 650 institutional investor signatories with a combined US$87 trillion of assets under management. Through the CDP submission, we can inform investors of any material climate change-related risks and opportunities, and how we manage them. Our 2018 CDP submission was rated 'C Awareness' demonstrating that we have knowledge of our impacts on climate change and of climate change issues more broadly. Our CDP submissions are published at www.cdp.net.

CDP DRIVING SUSTAINABLE ECONOMIES

**Dow Jones Sustainability Indices** – S&P Dow Jones Indices, one of the world's leading index providers, and RobecoSAM, the investment specialist that focuses exclusively on Sustainability Investing, announced the results of the annual Dow Jones Sustainability Indices (DJSI) review in September 2018. In the announcement, Provident Financial plc was notified of its continued inclusion in both Dow Jones Sustainability World Index (DJSI World) and the Dow Jones Sustainability Europe Index (DJSI Europe). Our DJSI score was 62 which is considerably higher than the sector average of 32 for the Diversified Financial Services and Capital Markets industry sector. The DJSI World represents the top 10% of the largest 2,500 companies in the S&P Global BMI, and the DJSI Europe selects the top 20% of the largest 600 European companies in the S&P Global BMI based on long-term economic, environmental and social criteria.

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

**FTSE4Good** – Following the annual review undertaken by the FTSE4Good Advisory Committee, we were once again included in the FTSE4Good Index Series. Our overall score was 4.5 out of 5. The FTSE4Good is an extra-financial market index, which measures the performances of over 800 companies against a range of environmental, social and governance (ESG) criteria. To be included in the FTSE4Good Indexes companies must: support human rights, have good relationships with the various stakeholders, be making progress to become environmentally sustainable, ensure good labour standards in their own company and in companies that supply them, and seek to address bribery and corruption.

FTSE4Good

**Forum ETHIBEL** – In September 2018, we were reconfirmed as constituent of the Ethibel Sustainability Index (ESI) Excellence Europe index. The ESI Excellence Europe index is an investment register of companies that show the best CR performance. Inclusion is based on our performance against a wide range of CR parameters and consultation with relevant stakeholders.

ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Europe

**ISS-oekom** – Also in September 2018, Provident Financial Group received a 'C Prime' corporate rating by ISS-oekom, one of the world's leading rating agencies on sustainable investments. Through corporate rating process, our management of key environmental, social and governance (ESG) issues was analysed on the basis of up to 100 rating criteria. This process was supported by the gathering of information through media and other public sources, conducting interviews with stakeholders, and collecting information on publicly available company policies and practices. Companies qualify as Prime when achieving or exceeding the minimum sustainability performance requirements in their industries. This means that Prime companies rank among the leaders in their industry in terms of their sustainability performance.

Corporate Responsibility Prime rated by ISS-oekom

> Maintaining our place in the mainstream sustainability indices during 2018 was a particularly encouraging achievement for Provident Financial Group. We place a very important emphasis on corporate responsibility and our purpose, and continuing to be represented in these indices helps to show that we put our customers first in our thinking and actions, as well as take account of the wider CR impacts that our business has.

Malcolm Le May
*Chief Executive Officer*

# Corporate responsibility *continued*

## Our approach to environmental management

Like any other company, Provident Financial Group's business activities impact the environment, whether these occur directly as a result of the energy that is used by our offices and by our people when they travel, or indirectly through the activities in our supply chains. We are committed to minimising our environmental impacts, in particular to reducing the greenhouse gas emissions associated with our business activities, thereby lessening our contribution to issues such as climate change.

## Action on climate change

We recognise the importance of acting on climate change which poses a significant risk to the global economy and to society in general. In response, we have developed a low carbon strategy to help us reduce the carbon intensity of the Group's operations, products and services.

The Group's low carbon strategy aims to:

> Demonstrate commitment and leadership in working towards achieving significant reductions in GHG emissions.

> Continue to measure and benchmark our energy usage and carbon dioxide performance to ensure that we adhere to best practice in carbon management and reduction.

> Establish challenging targets to enable us to be more efficient with the energy we consume and to reduce the emission of GHGs that arise from our operations, products and services.

> Influence our customers, employees and suppliers to act on climate change and reduce their carbon footprints.

> Engage positively and proactively with stakeholders to ensure that the voice of business is heard in the debate on climate change.

Provident Financial Group is committed to minimising its impact on the environment and acting to address specific environmental issues such as climate change.

Rob Lawson
*Head of Sustainability, Provident Financial Group*

## Environmental management at Provident Financial Group

A key tool in helping us to manage our environmental impacts is our Environmental Management System (EMS). This helps us to identify, assess, and reduce key environmental risks and impacts; set and deliver against environmental targets; and ensure our legal compliance. Our EMS is independently audited each year. The scope of these audits covers the business activities of our Bradford-based head office, a small sample of the Consumer Credit Division's branch offices, and Vanquis Bank's business premises in London and Chatham, Kent.

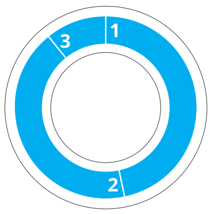
The EMS at our Bradford head office has been certified to the international management standard ISO 14001:2015 since 2011. And following the independent audit that was carried out in 2018, we successfully extended this ISO 14001: 2015 certification to cover all of Vanquis Bank's other operations in London and Chatham.

## GHG emissions

During 2018, our scope 1 and 2 emissions and associated scope 3 emissions accounted for 3,852 tonnes of $CO_2$e. We have also voluntarily reported some of our scope 3 emissions; in particular, indirect 'well-to-tank' emissions from the extraction, refining, distribution, storage, transport and retail of the fuel we use.

### GHG emissions in 2018 (tonnes of $CO_2$e)*

| | | |
|---|---|---|
| 1 | Direct $CO_2$ (scope 1) $CO_2$e emissions | 1,803 (2017: 1,846**) |
| 2 | Indirect $CO_2$ (scope 2) $CO_2$e emissions | 1,637 (2017: 2,176**) |
| 3 | Associated indirect $CO_2$ (scope 3) $CO_2$e emissions | 412 (2017: 1,018**) |
| **Total** | | **3,852** (2017: 5,040**) |
| | Scope 1 and 2 (and associated scope 3) emissions intensity ratio (kg of $CO_2$e/£1,000 of receivables | 1.78 (2017: 2.18**) |



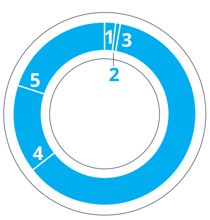

* Our emissions are reported in accordance with WRI/WBCSD Greenhouse Gas (GHG) Protocol. We use an operational control consolidation approach to account for our GHG emissions and use emission conversion factors from Defra/DECC's GHG Conversion Factors for Company Reporting 2013. Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use. These are the emissions the Group is required to disclose in order to meet the requirements of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

** We have restated our carbon footprint for 2017 due to the availability of improved electricity and gas data at our Bradford head office.

The business travel of our employees continues to make a significant contribution to the Group's overall carbon footprint. During 2018, the business-related journeys made by employees accounted for 8,476 tonnes of $CO_2$e.

### Business travel GHG emissions (tonnes of $CO_2$e)*

| | | |
|---|---|---|
| 1 | Air travel | 217 |
| 2 | Rail travel | 86 |
| 3 | Car travel – own vehicles | 6,524 |
| 4 | Company car fuel use | 1,649 |
| 5 | Extracting, refining and transportation of raw fuel associated with business travel | 2,112 |
| **Total** | | **10,588** |




We also monitor the GHG emissions associated with the waste that is generated and handled by the Group and the water that is used in our offices. The GHG emissions associated with these aspects of the Group's activities amounted to 30 tonnes of $CO_2$e.

**3,852**

(2017: 5,040)

Total scope 1 and 2 (and associated scope 3) emissions in tonnes of $CO_2$e

**1.78**

(2017: 2.18)

Scope 1 and 2 (and associated scope 3) emissions intensity ratio (kg of $CO_2$e/£1,000 of receivables

**12,409 tonnes of $CO_2$e**

overall operational carbon footprint (2017: 10,697)

## Carbon offsetting

We continue to offset all our operational carbon footprint. To offset these emissions, we finance renewable energy projects around the world which help to mitigate the effects our operations have on climate change. In 2019, we offset the GHG emissions associated with the Group's 2018 total operational footprint. This amounted to 12,409 metric tonnes of carbon dioxide equivalent ($CO_2$e).

### Case Study

We offset our 2018 GHG emissions through the purchase of Gold Standard-certified carbon credits in the Yuntdag wind power project in Northwest Turkey. This project comprises 17 turbines which each generate 2.5 megawatts of electricity per annum which, taken together, equates to clean and sustainable electricity for more than 80,000 households. The revenues generated by the carbon credits we purchase help to finance the ongoing running of this project which produces electricity that would otherwise have come from the combustion of fossil fuels. The project therefore reduces the amount of emissions going into the atmosphere which contribute to climate change.

The project also generates a number of economic benefits as it actively supports the development of sustainable industries in Turkey, which stimulates the market for renewable energy, and makes use of a local workforce which benefits the local community around the power plant.

# Governance

We have made good progress in ensuring greater Board effectiveness, clarity of Group purpose and better interaction between the Group and its Divisions. We remain committed to the highest standards of corporate governance throughout our business as we strive to deliver long-term, sustainable value to our stakeholders.

# Chairman's introduction

"I am pleased to present our Corporate Governance Statement for 2018, my first as Chairman, which explains how the Company has applied the principles of corporate governance as set out in the 2016 edition of the UK Corporate Governance Code (the Code) as published by the Financial Reporting Council (FRC) and available on its website www.frc.org.uk."

Patrick Snowball
*Chairman*

## Compliance with the UK Corporate Governance Code

For the year ended 31 December 2018, the Board considers that appropriate corporate governance standards were in place throughout 2018. For the period under review, the Board believes it had complied in full with the provisions of the UK Corporate Governance Code, except for those set out on page 142.

This report explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles and complied with the provisions in the Code. The Corporate Governance Statement also explains compliance with the FCA's Disclosure Guidance and Transparency Sourcebook.

# Chairman's introduction *continued*

## Dear shareholder

I am pleased to introduce, on behalf of the Board, our first Corporate Governance report since my appointment as Chairman.

On 21 September 2018 I succeeded Stuart Sinclair, who had latterly led the Board as Interim Chairman for seven months, undertaking the role at a time of uncertainty for the Company. On behalf of the Board, I would like to thank Stuart for his dedication, guidance and stewardship.

The Board is responsible to shareholders for the effective oversight of the Company and its businesses; it determines the Company's strategic direction and objectives; its viability; and governance structure. The Board remains committed to the highest standard of corporate governance when delivering in these areas and in delivering long-term, sustainable value to our stakeholders. The last year has seen the Board focus on addressing a number of operational, regulatory, risk and governance priorities, as we led the Group's recovery and steered it to a position where it could continue its valuable role in providing credit and delivering financial inclusion to parts of the market which are under served.

During April 2018, we completed a rights issue (Rights Issue) to bolster the Group's regulatory and capital position following the provisions required within the financial results for 2017 in respect of the FCA investigations into ROP and Moneybarn and losses due to the disruption within the home credit business, as well as to strengthen its balance sheet, and re-establish normal access to funding. We describe the role of the Board and its committees during the Rights Issue process on page 100.

## Regulation

Through 2018, the Board has focused on the rectification of key outstanding regulatory issues. It has monitored and kept under review the progress on implementing the Home Credit operational recovery plan; the Vanquis Bank Repayment Option Plan (ROP) refund programme following resolution of the Financial Conduct Authority's (FCA) investigation in February 2018; and constructive engagement with the FCA in respect of their investigation at Moneybarn.

Whilst I am pleased with the progress made on regulatory issues during 2018, which are set out in the Chief Executive Officer (CEO) review on pages 12 to 17, Malcolm and I remain focused on continuing to develop our constructive relationship with our regulators and enhancing our reputation with them, as we seek to lead by example. As the market leader, we see this as part of our ongoing commitment to strengthening our governance and the control environment, and embedding the right culture, focused on the customer.

## Risk, governance and business oversight

As reported last year, a key priority for the Board for 2018 was to address certain risk and governance issues which had been identified and ensure effective oversight of the Group's operating businesses.

Throughout this year, Malcolm and the Board have led various initiatives to strengthen our risk management and governance framework. I believe good progress has been made, as the Board and management have spent time reviewing and clarifying roles and responsibilities across the Board, its Committees and the wider Group, including our subsidiaries. This work is also an important precursor to the implementation of the Senior Managers and Certification Regime in our Home Credit and Moneybarn divisions during 2019. At its December meeting, the Board approved a Board Governance Manual and Delegated Authorities Manual and reviewed the Executive Governance Manual, which are key elements of the Group's governance framework.

The reconstituted Executive Committee, comprised of senior management from across the Group, is now playing a greater and more proactive role in overseeing operational performance and delivering our vision through enhanced information flows and collaboration. The Executive Committee receives updates on the performance of each of the Group's operating businesses at each meeting and also has a key role to play in relation to the Group's governance, strategy and culture. Further detail of the work of the Executive Committee can be found on page 111.

In addition to our usual ongoing oversight of the Group's risk management and internal control systems and assessment of our principal risks, there has also been a focus on the Group's risk framework led by the Group Interim Chief Risk Officer and a new centralised risk team, overseen by the Group Risk Committee and the Board. This has included review, challenge and approval of a re-designed Group Risk Appetite Framework, Risk Policy Framework and Risk Policies. The Board also renewed and approved a comprehensive conduct risk assessment, which was submitted to the FCA. You can read more about the Group Risk Committee's work on page 132.

## Driving culture through our purpose and strategic behaviours

Promoting a culture of openness and debate is one of my key responsibilities as Chairman, and as a Board we play an important leadership role in promoting the desired culture throughout the organisation and making sure that good governance, which underpins a healthy culture, is established.

The events of 2017, upon which we reported last year, demonstrated that, although the Group's intentions were good in what it was seeking to do for customers, the culture and governance around them had not always been set at the highest standards. I firmly believe that the right culture and governance can support us in achieving our purpose and strategic priorities, delivering sustainable value to our shareholders and other stakeholders.

This year, the Board has supported Malcolm in his work to address these issues, with significant activity focussed on continuing to realign the Group's culture more closely to the developing needs of the customer, and to collaborate more effectively across our businesses to deliver better customer outcomes. The Board will have an important ongoing role in setting the right tone from the top in terms of the Group's culture.

## Engaging our Stakeholders and section 172

Meeting our commitments to the highest standards of corporate governance and alignment with best practice will require ongoing focus as the corporate governance landscape continues to evolve. As a Board, we have reviewed and discussed compliance under the 2018 UK Corporate Governance Code (2018 Code) and will oversee any changes needed to address the new shorter, sharper 2018 Code.

The Board also recognises the importance of our wider stakeholders and takes its responsibilities and duty to them under section 172 of the Companies Act 2006 very seriously. We have set out in our business model on pages 4 and 5 who our key stakeholders are and why they are important to us. We have also set out on pages 101 to 108 how we engage with them. Engagement with our stakeholders, in a way that is best suited to the Group, continues to be an important priority for us, and as noted above, we are implementing the changes necessary to our culture to place the customer firmly at the heart of the Group's strategy and we will remain focused on continuing the good progress made in developing a positive working relationship with our regulators. In December 2018 the Board reviewed and approved proposals to enhance the way it engages with the workforce. You can read more about this on page 104.

## A strengthened leadership team and Board effectiveness

As Chairman, I am responsible for leading the Board and ensuring that it is effective in all aspects of its role.

The right board composition is essential to its effectiveness. As evidenced in this report, significant progress has been made during 2018 to strengthen the Board, meeting one of the key objectives identified in our annual report and financial statements last year. As reported last year, following a process led by Stuart Sinclair and engagement with key shareholders and the FCA, we were pleased to appoint Malcolm Le May as Group CEO in February 2018. Malcolm has a wealth of existing knowledge of the Group, a deep knowledge of the business and sector, regulatory understanding and turn-around and leadership skills.

The Board was also pleased to appoint three new non-executive directors on 31 July 2018: Angela Knight, Elizabeth Chambers and Paul Hewitt. The appointments add to the Board's financial services, consumer finance, regulatory and general non-executive director skill set. You can read their biographies on page 94 to 97 and get more detail on our induction programme on pages 115 to 116. The Nomination Committee report on page 120 provides more information regarding the Board appointment processes which have been undertaken this year, including in respect of my appointment as Chairman.

As announced in November 2018, Andrew Fisher stepped down as Finance Director, and was replaced by Simon Thomas who was appointed to the Board as Chief Financial Officer (CFO) with effect from 3 December 2018. Simon has a strong financial services background, including consumer, retail banking and insurance experience. We also announced in December 2018 that after over nine years on the Board, Rob Anderson had confirmed he would stand down as a director of the Company with effect from 11 December 2018.

The Board would like to express its thanks to Andrew and Rob for their contribution to the Group and Board; their knowledge and insight has been invaluable to us over many years.

As announced in January 2019, John Straw informed the Board that he does not intend to stand for re-election at the 2019 AGM and will step down as a director with effect from 20 May 2019 in order to spend additional time on his other commitments. On behalf of the Board, i would like to thank John for the contribution he has made throughout his time with the Group.

As noted on page 11, we have also decided to reposition the role of the Chairman of Vanquis Bank. Following the conclusion of the ongoing appointment process for the role, the Chairman of Vanquis Bank will also join the Group's Board as a non-executive director, which will help improve decision making and ensure greater coordination between the two Boards.

Management have also made good progress in strengthening the central Group functions, with the appointment of a Group Human Resource Director, Group Chief Information Officer and Group Data Protection Officer.

The Group believes that diversity amongst directors helps contribute towards a high performing and effective Board, and diversity is and remains a key consideration of the Board appointment processes. Further details on diversity are set out on page 122.

Last year we reported on a number of areas of focus identified in the 2018 Board effectiveness evaluation. I am pleased to report good progress on these, which is set out on page 117.

## Looking ahead

The Board and I will continue to focus on the effective oversight of the Group and our progress against our purpose during 2019.

Patrick Snowball
*Chairman*
13 March 2019

# Leadership and purpose

## Our Board

### Patrick Snowball
Chairman

### Malcolm Le May
Chief Executive Officer

### Simon Thomas
Chief Financial Officer

### Andrea Blance
Senior Independent Director (SID)

### Elizabeth Chambers
Independent non-executive director

### Paul Hewitt
Independent non-executive director

### Angela Knight
Independent non-executive director

### John Straw
Independent non-executive director

### Kenneth Mullen
General Counsel and Company Secretary

## Skills key

- C Chairmanship
- ED Executive director
- NED Non-Executive director
- A Accounting/Audit
- B Banking
- CM Change management
- CUL Culture
- CUS Customer
- DT Digital and technology
- FS Financial Services experience
- FT Fintech
- GS Growth/Strategy
- I Investor
- M Marketing
- PLC PLC
- R Regulator

## Patrick Snowball 68

**Chairman**

Appointed: 21 September 2018

Tenure: Less than 1 year

### Career and experience

Patrick has extensive boardroom and financial services experience. Before joining the Board, Patrick was a non-executive director of Jardine Lloyd Thompson Group plc from 2008 to 2009, Deputy Chairman at Towergate Partnership between 2007 and 2009 and a member of the FSA Practitioner Panel from 2006 to 2008. He is Chairman of Sabre Insurance Group plc and was Chairman of IntegraFin Holdings plc from 2017 to 2018. Prior to this Patrick was CEO of Suncorp Group Limited, an ASX20 Australian financial services group, between 2009 and 2015 where he successfully led the turnaround of the group following the global financial crisis. Patrick started his career in the Army serving for almost 20 years and joined Ajax Insurance (which became part of the Aviva group) in 1988 progressing to hold executive director roles between 2001 and 2007, including UK GI CEO where he played a key role in merging and consolidating a number of businesses into Aviva General Insurance.

### Patrick's contribution to the Board and his key strengths and skills are summarised below:

Patrick's unique career and experiences bring a wealth of skills to the Board. In particular, as Chairman, his previous leadership and demonstrable success in driving change, strengthening governance, creating strong and efficient Boards, and instilling stability through a positive culture, are key strengths he brings to the Board.

> Experienced Chairman, non-executive director and Chief Executive Officer.

> Extensive experience of the financial services industry and the regulatory environment.

> Wealth of knowledge of the challenges faced by the financial services sector, acquired over a 30-year career.

> Long track record in leading companies to develop and deliver growth plans.

> Change project management, typically involving digital transformation and brand-building.

> Building strong customer relationships, leveraging data and insights, as well as leading and developing the wider stakeholder engagement.

### Current External Appointments

> Chairman of Sabre Insurance Group plc.

### Committees

> Nomination Committee (Chairman)

### Example of key skills

C ED NED B CM CUL CUS DT FS GS I PLC R

## Malcolm Le May 61

**Chief Executive Officer (CEO)**

Appointed as CEO: 1 February 2018

Joined the Board: 1 January 2014

Tenure: 5 years

### Career and experience

Malcolm has extensive experience and knowledge of the financial services and investment banking sectors. He joined the Group as an independent non-executive director, becoming Interim Executive Chairman in November 2017. Malcolm provided effective leadership to the Board, working with them to redefine roles and responsibilities, and initiated a process to ensure the Board had the right mix of skills, experience and diversity. Through his role as Interim Executive Chairman, the Board observed Malcolm in action and decided his management style and extensive relevant experience made him best placed to be appointed as Group CEO. Prior to joining the Group, he held a number of senior positions within banking, including as Co-Head of Banking for Barclays in New York; Head of European Investment Banking at UBS; and deputy CEO at Morley Fund Management (now Aviva Investors). Malcolm's experience in the boardroom includes being a Non-executive director of RSA plc and Hastings Group plc, Senior Independent Director of Pendragon plc, as well as his current position as a Senior Independent Director at IG Group Holdings plc. In addition, he is a Trustee of the Grange Festival, a partner at Juno Capital LLP and Opus Corporate Finance, and he was previously a senior advisor to EY and Heidrick & Struggles.

### Malcolm's contribution to the Board and his key strengths and skills are summarised below:

Malcolm's extensive career, his deep knowledge of various businesses and sectors, his understanding of the regulatory environment and turn-around situations and his proven leadership skills are considered by the Board to be invaluable qualities that made him best placed to lead the business in the development of its purpose and delivery of its strategy, as well as effectively contributing to the Board.

As an experienced CEO and non-executive director he has:

> A deep knowledge and experience of the financial services industry and regulatory environment.

> Driven change by redefining roles and responsibilities throughout the business.

> Built relationships with key stakeholders, such as investors and the Group's banks, including leading the rights issue process which has enabled the Group access to funding from bank and debt capital markets.

> Led the strengthening of the Group's governance framework and the realignment of the Group's culture more closely to the developing needs of the customer.

> Re-established and developed an ongoing and transparent relationship with the Group's regulators enabling the Group, inter alia, to achieve authorisation of its Consumer Credit Division, the resolution of the FCA's investigation into the Vanquis Bank's ROP product and made significant progress on the Moneybarn investigation.

### Current External Appointments

> Senior Independent Director of IG Group Holdings plc.

> Trustee of the Grange Festival.

> Partner at Opus Corporate Finance* and Juno Capital LLP.

### Committees

> Disclosure Committee (Chairman)

### Example of key skills

C ED NED B CM CUL CUS FS GS I PLC R

* Non-Equity.

## Simon Thomas 55

**Chief Financial Officer (CFO)**

Appointed: 3 December 2018

Tenure: Less than 1 year

### Career and experience

Simon is an experienced and proven public company Chief Financial Officer within the financial services sector. Prior to joining the Group, he was Group Chief Financial Officer of Just Group plc, a FTSE 250 financial services company. Simon began his career at Price Waterhouse in 1985, where he qualified as a Chartered Accountant. In 1990, Simon joined the Nationwide Building Society, becoming Group Financial Controller in 1995. Following his role at Nationwide, Simon was Head of Finance at the Equitable Life Assurance Society and HECM Ltd between 2000 and 2003. He was then approached by Canada Life UK and joined as Finance Director in 2003, becoming Finance & Customer Services Director from 2004 to 2006. In 2006 Simon joined Just Retirement Ltd as Group Chief Financial Officer, until its merger with Partnership Assurance Group plc in 2016, when it was rebranded to the Just Group.

### Simon's contribution to the Board and his key strengths and skills are summarised below:

Simon's strong financial services background, including consumer, retail banking and insurance experience are central to his role as Chief Financial Officer. He helped lead considerable growth and change at Just Retirement, and through his various roles he has delivered on both cost and culture initiatives. At Just Group he led the Group's initial subordinated debt issuance, successfully raising £250 million and led the negotiations which resulted in the completion of a £200 million revolving credit facility and the attainment of the first credit rating for the business, rated A+.

> Proven public company Chief Financial Officer.

> Experience in both growth and turnaround situations, contributing to successful strategic change, including in challenging environments.

> Deep understanding of the financial services industry and the challenges faced in a regulatory environment.

> Extensive experience leading financial and management reporting, investor relations, financial systems and reporting to the regulator.

> Built strong relationships with stakeholders, including investors, analysts and other banks.

### Current External Appointments

> None

### Committees

> Disclosure Committee

### Example of key skills

ED A B CM CUL CUS FS GS I PLC R

# Leadership and purpose *continued*

## Our Board *continued*

### Andrea Blance 54

**Senior Independent Director (SID)**

Appointed: 1 March 2017

Tenure: Over 1 year

**Career and experience**

Andrea has extensive Board and financial services experience. She is currently a non-executive director and Risk Committee Chair at Scottish Widows Group and Lloyds Banking Group's Insurance Division and a non-executive director at The Mentoring Foundation. She spent her executive career at Legal & General Group plc, where she was a member of the Group Executive Committee and held a range of senior leadership roles, including Divisional Chief Financial Officer, Group Financial Controller, Group Chief Risk Officer and Strategy & Marketing Director. During 2016 Andrea was a member of William & Glyn's pre-IPO Board.

**Andrea's contribution to the Board and her key strengths and skills are summarised below:**

Andrea brings a wealth of relevant experience, including her understanding of governance, the regulatory environment and conduct risk. She has extensive experience of strategy and customer marketing, complex change, finance & reporting, investor relations and stakeholder management.

> Experienced Senior Independent Director, non-executive director, Board Committee Chair and senior leader.

> Deep understanding of the financial services industry.

> Track record of working with businesses at different stages of development and supporting both growth and recovery strategies.

**Current external appointments:**

> Non-executive director at Scottish Widows Group and Lloyds Banking Group's Insurance Division.

> Non-executive director at The Mentoring Foundation.

**Committees**

> Remuneration Committee (Chairman)

> Audit Committee

> Group Risk Committee

> Nomination Committee

**Example of key skills**

C ED NED A B CM CUL CUS DT FS GS I M PLC R

### Elizabeth Chambers 56

**Independent non-executive director**

Appointed: 31 July 2018

Tenure: Less than 1 year

**Career and experience**

Elizabeth is an experienced board director, senior financial services executive, strategist and marketing leader in the UK and globally. Her previous board experience includes being a non-executive director at Dollar Financial Group, Hibu plc (formerly Yell Group) and The Home and Savings Bank. Prior to these roles, Elizabeth served on the boards relating to consumer finance joint ventures between Barclaycard and other brands, such as Argos and Thomas Cook. She is currently a non-executive director at Smith & Williamson, the wealth management and professional services firm, and Hastings Group Holdings plc, a major home and auto insurance provider to consumers and businesses in the UK. Elizabeth is also on the Advisory Boards of several fintech and software start-ups. She has extensive executive experience through roles including Chief Marketing Officer at Barclays and Barclaycard; Chief Marketing and Business Development Officer at Freshfields Bruckhaus Deringer LLP; Partner at McKinsey & Company ; and recently serving as Chief Strategy, Product and Marketing Officer at Western Union.

**Elizabeth's contribution to the Board and her key strengths and skills are summarised below:**

Elizabeth brings more than 25 years of experience in strategy, marketing and product development across a range of financial services. As an executive, she has a long track record of driving revenue growth and solving complex business challenges at major global financial institutions. In various roles she has led businesses through brand and reputation transformations, strengthened customer acquisition and engagement, built innovative digital businesses, and led major business turnarounds.

> C-suite marketing executive, board director and strategist.

> Proven people leader.

> Extensive marketing and communications functional background.

> Broad and deep knowledge of financial services, including credit cards and payments products, a wide range of customer loan segments and marketing in a regulated environment.

> Substantial turnaround expertise.

> Wide exposure to international operations and the unique challenges of leading them.

**Current external appointments:**

> Non-executive director of Smith & Williamson.

> Non-executive director of Hastings Group Holdings plc.

**Committees**

> Audit Committee

> Group Risk Committee

> Nomination Committee

> Remuneration Committee

**Example of key skills**

C ED NED B CM CUL CUS DT FS FT GS I M PLC

### Paul Hewitt 62

**Independent non-executive director**

Appointed: 31 July 2018

Tenure: Less than 1 year

**Career and experience**

Paul is an experienced Chief Financial Officer, Chairman, Non-executive Director and Audit Committee Chair who operates in a number of different sectors. He is currently also a non-executive director and Audit Committee chair at Charles Taylor plc and Chairman of Kintell Limited. Paul's past non-executive director roles include chairing audit committees for Tokio Marine, Kiln, NEST Corporation, Tesco Bank, Collins Stewart Hawkpoint, Co-operative Banking Group and GMT Global Aviation. He is also a past non-executive director of Playtech plc and past chairman of several private equity backed businesses. He began his executive career in finance working for over 20 years as a finance director of various companies, culminating in becoming Deputy Group Chief Executive and CFO of the Co-operative Group from 2003 to 2007.

**Paul's contribution to the Board and his key strengths and skills are summarised below:**

Paul's varied and wide-ranging career is built on a successful career in finance. He has a track record of creating and realising value for shareholders and has worked across a number of sectors including financial services, technology, healthcare, retail and business services. Through his non-executive roles he has helped several management teams adapt their business models to respond to, and anticipate, changes in their competitive and regulatory environments. In both his executive and non-executive career he has had extensive experience of transactions and ensuring that businesses have an appropriate financial structure.

> Experienced non-executive director, Chairman and Chief Financial Officer.

> Broad experience of the financial services industry and the regulatory environment.

> Strong track record in delivering good returns for shareholders.

> Extensive experience of transactions.

> Broad experience as both an executive and a non-executive of developing and challenging business strategies.

> Has helped several management teams adapt business models in anticipation of changes in their environments and markets.

**Current external appointments:**

> Non-executive director and Audit Committee Chairman of Charles Taylor plc.

> Chairman of Kintell Limited.

**Committees**

> Audit Committee (Chairman)

> Remuneration Committee

> Nomination Committee

> Group Risk Committee

**Example of key skills**

C ED NED A B CM CUL CUS FS GS I PLC R

## Angela Knight 68

**Independent non-executive director**

Appointed: 31 July 2018

Tenure: Less than 1 year

**Career and experience**

Angela has extensive experience in both the public and private sectors. Prior to joining the Board, Angela was Senior Independent Director of Brewin Dolphin plc from 2008 to 2017 and has held a number of non-executive directorships at a variety of companies, including Lloyds TSB plc; South East Water; and Scottish Widows. Her current roles include being a non-executive director of Taylor Wimpey plc and Senior Independent Director at TPICAP plc. Angela has had a broad range of executive roles, including a number as Chief Executive Officer (CEO). She was CEO at Energy UK; British Bankers Association (the BBA, now UK Finance); and APCIMS (now Personal Investment Management and Financial Advice Association). Angela started her career training as an engineer with Air Products Limited and set up the specialist metal heat treatment company, Cook & Knight (Metallurgical Processors) Ltd. She was previously a Member of Parliament and Treasury Minister between 1992 and 1997 and was the Chair of the Office of Tax Simplification from December 2015 to March 2019.

**Angela's contribution to the Board and her key strengths and skills are summarised below:**

Angela's varied career brings a wealth of knowledge in both the private and public sectors as a result of over 20 years' experience in non-executive director and CEO roles. Her experience in the public sector means she has a strong understanding of the expectations of regulators and other public stakeholders. This combination means she is a skilled director who knows how to manage organisations and how to challenge management to deliver. Angela's thought leadership, technical and policy skills, as well as a deep understanding of the financial sector, are demonstrated through her leadership of the repositioning of Energy UK in the energy sector and of the BBA through the banking crisis respectively.

> Experienced Government Minister, CEO, Chair and non-executive director.

> Wealth of knowledge of the financial services sector.

> Deep knowledge of regulated industries, the public sector and of science and engineering.

> Adept at solving difficult problems with effective solutions.

> Built strong relationships with wider stakeholders in a variety of sectors.

> Understanding of public presentation, in particular as a proficient public speaker.

**Current external appointments:**

> Senior Independent Director of TPI CAP plc.

> Non-executive director of Taylor Wimpey plc and Arbuthnot Latham & Co.

**Committees**

> Group Risk Committee (Chairman)

> Audit Committee

> Nomination Committee

> Remuneration Committee

**Example of key skills**

C ED NED A B CM CUL CUS FS GS I M PLC R

## John Straw 59

**Independent non-executive director**

Appointed: 1 January 2017

Tenure: 2 years

**Career and experience**

John is a digital veteran with 33 years in IT and marketing. Before joining the Board, he was involved in a range of digital initiatives across a number of industries. John was also a founder and non-executive director of Linxdex, a leading SEO platform firm, between 2009 and 2016. He is currently a non-executive director and investor at CTRLio, which he joined in 2013, and is a Senior Advisor at McKinsey & Company and IBM Watson.

Having used his experience to help the Group resolve some of the issues it has faced over the last two years, John has decided not to stand for re-election at the 2019 AGM and will step down as a Director with effect from 20 May 2019 in order to spend time on his other commitments.

**John's contribution to the Board and his key strengths and skills are summarised below:**

John brings a wealth of knowledge and digital expertise to the Board. In particular, as a non-executive director and digital entrepreneur, he has led and advised on critical digital transformations across a number of sectors; has contributed to a number of startups (martech and searchtech) and exits (including one to Microsoft); and led the digital transformation of Thomas Cook.

> Experienced non-executive director and digital entrepreneur.

> Extensive experience of the digital, marketing and IT industries.

> Deep understanding of technology disruptors and associated economics.

**Current external appointments:**

> Non-executive director of CTRLio Ltd.

> Senior advisor at McKinsey & Co.

> Senior advisor at IBM.

> Senior advisor at Bought By Many Ltd.

**Committees**

> Audit Committee

> Nomination Committee

> Group Risk Committee

**Example of key skills**

ED NED CUS DT GS I M PLC

## Kenneth Mullen 60

**General Counsel and Company Secretary**

Appointed: 16 July 2007

Tenure: 11 years

**Career and experience**

Ken is an experienced Legal Counsel and Company Secretary of many years who has held roles for a number of UK listed companies, including Premier Farnell plc, Silentnight Holdings plc and Whessoe plc. He qualified as a lawyer in Scotland in 1983 having graduated in law. Ken joined PF in 2007 from Hagemeyer (UK) Limited and is a member of the GC100.

After more than 11 years as Group General Counsel and Company Secretary, Kenneth has decided to retire from the Company and will step down from this role with effect from 31 March 2019.

**Kenneth's contribution to the Board and his key strengths and skills are summarised below:**

Ken is an experienced General Counsel and Company Secretary who has worked for a number of UK listed companies.

> Experienced General Counsel and Company Secretary.

> Deep understanding of the financial services industry and the challenges faced in a regulatory environment.

> Played a leading role in the stabilisation of the Group following events in 2017 and the Rights Issue process in April 2018.

> Contributed to the rebuilding of the Group's governance and its relationship with the Regulators.

> Adept negotiator who negotiated the Heads of Terms to secure the redevelopment of the premises adjacent to the Group's head office in Bradford.

> Oversaw the Group's participation in the Legal Social Mobility Partnership Work Experience Programme for 26 students from local schools in Leeds.

**Current external appointments:**

> Chairman of Rexel UK Limited Pension Scheme.

**Committees**

> Member Disclosure Committee

**Secretary**

> Remuneration Committee

> Audit Committee

> Group Risk Committee

> Nomination Committee

# Leadership and purpose *continued*

## Activities of the Board during the year

The following pages provide examples of key Board activities during the year. Whilst the table is non-exhaustive, it provides an insight into the Board's discussions and how the directors promote the success of the Company. One of the key Board priorities during the year was the Rights Issue in April, and greater detail is set out on page 100.

- Growing sustainable, customer-centric businesses that deliver attractive returns in non-standard markets
- Acting responsibly and with integrity in all we do
- Maintaining a secure funding and capital structure
- Generating consistent and sustainable shareholder returns

| Areas of focus | Matters considered | Outcome | Link to strategy |
|---|---|---|---|
| Strategy | The Board played an important role in the 2018 Corporate Planning Conference (CPC), during which a review of key business initiatives and opportunities was undertaken. Prior to the CPC, the Board had provided key input into the CPC agenda, shaping the discussion.<br>More details are set out on page 100. The prioritised strategic initiatives from the CPC were monitored by the Board throughout the year. | > Prioritised initiatives to be progressed across the Group in response to the challenges and opportunities.<br>> Monitoring of the progress of strategic initiatives. | |
| Business performance and oversight | The Board has received regular updates on how our three divisions have performed and progressed against our strategic priorities. At each meeting both CEO and CFO reports are presented to the Board.<br>Throughout the year, the Board also received a number of detailed operational updates on the performance of each of our three divisions, presented by the Managing Director of each Division.<br>The Board also oversaw the Company's financing activity during the year and the Group made very good progress in strengthening its funding position during the first half of the year. More detail on its activities in relation to the Rights Issue is set out on page 100. In June 2018, the Group also issued £250m of 5-year fixed rate bonds carrying a semi-annual coupon of 7%. The proceeds of the bond issue were partly used to finance the tender offer for the £250m existing senior bonds.<br>During the year the Board also received a detailed update on the Group's IT, technology and data estate and reviewed enhancement proposals. | > Oversight of each Division's operational performance against targets, and the strategy to achieve the same.<br>> Refinanced the Group with the successful Rights Issue in April 2018 and refinancing of the senior bond in June 2018.<br>> In-depth review of the current status of the Group's IT function and endorsement of the proposed approach to enhancements. | |
| Governance and Risk | Risk and governance were key areas of focus for the Board during the year.<br>During 2018 the Board reviewed, challenged and approved a number of the important components of the Company's governance framework. A thorough review of the framework setting out the Board's role and responsibilities was undertaken, the Matters Reserved for the Board and its committee terms of reference were reviewed to ensure alignment with best practice and subsequently approved by the Committees and Board where appropriate. Furthermore, the Board reviewed and approved a Board Governance Manual and Delegated Authorities Manual and reviewed an Executive Governance Manual: these documents formally outline the Group's governance framework and arrangements, clearly documenting roles and responsibilities, and clarifying areas of accountability.<br>The Board also received an update on the implications of the new 2018 Code. The Board reviewed and challenged the action plan designed to ensure full compliance and agreed an approach to Board oversight of the implementation of the action plan in order to ensure compliance.<br>Following appointment of the Group Interim Chief Risk Officer (CRO), the Board reviewed the forward-looking priorities in the CRO work plan.<br>The Board receives regular risk updates from the Group Interim CRO on key risk issues. In addition to the ongoing risk reporting and Board oversight of risk, the Board reviewed a Group Conduct Risk framework and, a Group-wide Conduct Risk Assessment, and following challenge, approved the assessment and action plan.<br>In order to set out a clear picture of the Group's aggregate risk profile and to ensure that the Board set an overall risk appetite at an acceptable level, it reviewed and approved a new Group Risk Appetite Framework. Following approval by the Group Risk Committee, the Board also reviewed the proposed Group level Risk Policies, which support the Group Risk Appetite Framework. | > Carrying out a complete review and approval of our corporate governance arrangements and the setting out of a clear framework for how the Group and Divisions will operate in the future.<br>> Review and challenge of the action plan for compliance with the 2018 Code.<br>> Review and approval of a new Group Risk Appetite Framework and Group level Risk Policies.<br>> Board support, approval and oversight of the 2018 Code action plan.<br>> Board approval of the Group-wide Conduct Risk Assessment and action plan. This provided a clearer view on our Group Conduct profile and areas of continuing focus. | |

| Areas of focus | Matters considered | Outcome | Link to strategy |
|---|---|---|---|
| **People and culture** | As set out on page 123, during 2018 the Board played an important role in the appointment processes for several new Board members. The Board reviewed and approved the appointments of a new CEO, a new CFO, three new non-executive directors and a new non-executive Chairman, following recommendations from the Nomination Committee.<br>The Board has also been kept up-to-date on the progress being made to hire various key senior managers across the Group.<br>At its March 2018 meeting, the Board reviewed and discussed the Company's reporting obligations and initiatives in relation to the gender pay gap.<br>In recognition of the importance of our workforce and in order to ensure that their voice is heard at Board level, the Board reviewed and approved a workforce engagement model for implementation. You can read more about this on page 104.<br>Our Board sets the Company's purpose, values and strategy, and satisfies itself that there is alignment with the Group's culture. As part of this role, the Board reviewed, challenged and approved a new Blueprint, launched in 2019, with a renewed purpose underpinned by strategic drivers and a defined set of behaviours. You can read more on page 35. | > A strengthened Board to lead the Company.<br>> Monitoring of the hiring processes for key management roles.<br>> Review and approval of a workforce engagement model.<br>> Review and approval of our new Blueprint. | |
| **Regulatory** | Oversight of the regulatory agenda has been an important focus for the Board during 2018.<br>The Board received regular regulatory updates from the Group Interim CRO, including a regulatory tracker of all Group-wide regulatory matters and engagement. The CEO also updated the Board on his regulatory engagement activities as the Group sought to develop a stronger working relationship with our regulators.<br>The Board monitored the resolution of the regulatory issues that the Group has faced, as we looked to deliver the recovery plan in CCD and to progress the FCA investigations in respect of Vanquis Bank and Moneybarn.<br>The Board has also been kept up-to-date as the Group adapted to the FCA's affordability rules which impact all of the Group's businesses. | > Oversight of Group-wide regulatory performance, and monitoring progress and engagement with the regulator.<br>> Good progress in the regulatory matters impacting each Division. | |
| **Stakeholders** | The Board understands the importance of considering its stakeholders.<br>As part of the regular business performance reporting, focus is given to oversight of and progress on customer-related performance, particularly customer complaints.<br>In addition to an Investor Relations report at each Board meeting, the Board also reviewed the results of an annual investor and analyst perception audit undertaken by a third party; this enabled the Board to get a detailed insight into the views of investors and analysts on key issues, particularly in light of the challenges the Group had faced over 2017 and 2018. Details on our investor engagement strategy is set out on pages 105 to 108.<br>In 2018 the Board also reviewed how the Group can make an impact on the communities in which it operates, through it's Social Impact Programme, and how this can be aligned to its social purpose and culture. Following a review, the Board approved an updated Social Impact Programme, focused on our customers, education and our community partners which included the establishment of a Social Impact Programme Steering Group chaired by a member of the senior management team.<br>At its March 2018 meeting, the Board reviewed the Group's Modern Slavery Act statement, which was signed by Malcolm Le May, our CEO.<br>In 2018 the Board continued to focus on how to promote the success of the Group during a year of further developments in our external environment. As part of this, it reviewed the Group's political risks and received regular updates on external communication matters. | > Oversight of customer-related matters.<br>> Consideration of investor and analyst perceptions.<br>> Approval of an updated Social Impact Programme, aligned to our social purpose and culture.<br>> Review of our Modern Slavery Act statement. | |

## Looking forward, the Board's focus for 2019 is expected to include:

> addressing all regulatory matters and focussing on the working relationship with our regulators;

> embedding our Blueprint and monitoring and assessing the Group's culture;

> the continued review of our customer-centric way of working;

> the continued review of our strategy;

> the continued oversight of business performance;

> the continued recovery of our home credit business; and

> addressing changes to the 2018 Code and other corporate governance policy developments.

# Leadership and purpose *continued*

## Activities of the Board during the year *continued*

### The Board in focus: Rights Issue

An important achievement for the Group in 2018 was the successful fully-underwritten Rights Issue in April, raising approximately £300 million. We took this necessary action to raise additional capital to bolster the Group's regulatory capital position to enable it to meet its current and future regulatory capital requirements, as well as to strengthen its balance sheet with the appropriate level of buffers. This also allowed the Group to capture underlying organic growth opportunities and maintain its investment grade rating during 2018; allowing it to re-establish normal access to funding from the bank and debt capital markets.

The Board played a leading role in the Rights Issue, overseeing the process and made key decisions at various stages.

The Company's directors have the primary responsibility to ensure that the public documents relating to a rights issue are accurate, complete and not misleading. As a result of this, each director read proofs of the entire Prospectus and Circular, considered each statement and satisfied themselves that the facts contained within it were true and not misleading. To enable each director to be able to do this, the business undertook both a due diligence and verification exercise whereby all key statements included in the Prospectus and Circular had to be verified by the best available source of information in order for the directors to be able to sign the responsibility letters.

Amongst other matters, the Board also:

- Received briefings by external advisors, including key considerations and the Board's responsibilities in relation to the Rights Issue, which included an analysis of directors' legal and fiduciary duties and responsibilities; the Group's obligations under the Listing Rules, the Disclosure Guidance and Transparency Rules and the EU Market Abuse Regulation;
- Reviewed key aspects of the Rights Issue, such as:
  - the timetable for the Rights Issue and monitoring of progress of the different workstreams against the timetable;
  - considered the key capital elements of the Rights Issue and the capital plan submitted to the PRA;
  - assessment of the risks in relation to the Rights Issue, particularly in relation to the regulatory matters facing the Group;
  - the process undertaken to ensure the accuracy and completeness of the information contained within the Prospectus and approved draft submissions to the UKLA;
  - considered and took advice on the Company's obligations under the Market Abuse Regulation;
  - established an approach to stakeholder engagement, including approval of stock exchange announcements as appropriate;
- reviewed and approved the key public documents and legal agreements/documents, including the Rights Issue Prospectus, the Circular to shareholders and Notice of General Meeting; and
- approved the admission of the new shares to the Official List of the UK Listing Authority which allowed them to trade on the London Stock Exchange.

The Board committees also played important roles in supporting the Board in relation to the Rights Issue.

- **Audit Committee:** The Audit Committee reviewed the structure of the Rights Issue and its impact on the Group from a going concern and viability perspective. The Audit Committee considered the accounting considerations of the Rights Issue, the approach taken in respect of material judgements during the year-end accounting process and the impact of the Rights Issue on the Company's key accounting assumptions and estimates. The Audit Committee also considered the independence of Deloitte LLP, the Group's external auditor, in light of its services in relation to the Rights Issue and approved their engagement and their fees in relation to those services.
- **Remuneration Committee:** As part of the Rights Issue process, the Remuneration Committee had to consider the impact of the proposed Rights Issue on each of the Group's employee share plans and the treatment of unallocated shares in its Provident Financial plc 2007 Employee Benefit Trust ("EBT").

As part of the Rights Issue, our Interim Chairman, Stuart Sinclair, wrote to all shareholders explaining why the Rights Issue was necessary, why it was in best interests of the Company and shareholders as a whole, and sought their support and approval to provide the Board with the necessary power and authority to allot sufficient ordinary shares to undertake the Rights Issue. At a General Meeting held on 21 March 2018, 99.93% of votes were cast in favour of the resolution put to shareholders in relation to the Rights Issue.

Following the completion of the Rights Issue, and the refinancing of the senior bond in June 2018, the Group's capital position and liquidity has been restored.

### 2018 Corporate Planning Conference (CPC)

In June 2018, the Group held its annual CPC event, with the whole Board, Executive Committee and members of the senior management team attending.

The purpose of the two day off-site was to: 1) create an understanding of the emerging and future challenges facing the Group; and 2) review key business initiatives and how the Group should be organised to address the opportunities at hand.

Delegates engaged in a range of Group discussions and separate mixed team interactive working sessions were arranged, covering competition, markets, technology and regulation.

The Board members played an active role in the sessions and provided clear input on the future direction and key strategic decisions throughout the conference. The event generated a list of prioritised initiatives for implementation across the Group in response to the challenges and opportunities which were identified, the progress of which has been monitored by the Board throughout the year.

# Ensuring effective engagement with stakeholders

The Board recognises its responsibility to take into consideration the needs and concerns of the Group's stakeholders as part of its decision making process, fulfilling its duty under Section 172 Companies Act 2006 to promote the long-term success of the Company supported through hearing and understanding stakeholder's views.

In our interactions with our stakeholders, the Group is committed to demonstrating our values: Collaborative, Fair, Responsible, Accessible, Straightforward and Progressive.

The following eight pages contain an explanation of the importance of each of the Group's key stakeholders, together with the variety of methods employed across the Group to foster constructive and effective engagement between our stakeholders and the Board.

## Employees

Our employees, who are central to the success of the Group, are focussed on achieving positive outcomes for our customers on a daily basis and representing the values of the Group within the communities we serve. A mix of activities are utilised across the Group as it is acknowledged that employees like to give and respond to feedback in a variety of ways.

> Employees in CCD are kept fully informed of the financial and operational performance and strategy of the Divisions through fortnightly huddles in Bradford, regional team meetings in the field, supported by the intranet portal and personal briefings by senior leadership. In addition to a well maintained intranet, Vanquis Bank hold monthly business update sessions run by various members of senior management where colleagues are invited to participate and ask questions. Moneybarn's senior management conduct a monthly Company briefing were employees are updated on strategic and operational plans.

> The Divisions continue to use social network sites, intranet discussion boards and blogs by employees and Managing Directors. The Managing Director of CCD, Chris Gillespie, also holds open invitation huddles, where employees based in Bradford are able to ask questions concerning any aspect of the CCD business. Chris has also spent time in the field, speaking to employees and answering questions. CCD consults with employees through a Colleague Forum, so that workforce representatives acting on behalf of employees can share their views and ideas and these can be taken into account when making decisions that are likely to affect their interests.

> Malcolm Le May has utilised both email communications and the Divisional intranets to deliver key Group messages to employees and keep them updated on Group performance, increasing Group leadership visibility and the focus on collaborative working across the Divisions.

> Moneybarn and Vanquis Bank undertake an annual survey to obtain feedback from employees anonymously, with the aim of continually developing each business.

> The Group also encourages employee engagement in community activities through its Social Impact Programme. This includes employee volunteering, volunteering grants and matched fundraising.

> Chris Gillespie has, in addition to his other responsibilities, assumed the post of Head of the Bradford office, to provide employees with leadership visibility, and input into and oversight of all decisions affecting the Bradford facility. This role is consistent with the Group's objective of encouraging the Divisions to work more closely together and makes collective decisions about our people, where they work and what matters to them easier.

> As part of their induction process, Board members undertake a combination of site visits and meetings with other senior management, ensuring they are familiar with the business, its purpose, culture and values. Further detail is set out on page 115.

> Across the Group there are mentoring programmes whereby members of the senior leadership give up their time to share the benefit of their experience with employees.

> A series of expert speakers were invited into the Group's offices across the UK to give talks on diversity and inclusion, which were hosted by senior management team including Malcolm Le May.

> Moneybarn conduct a 'Star of the Month' programme where employees are nominated by their colleagues and are rewarded with vouchers or with a donation to a charity of their choosing.

For the future of employee engagement mechanisms, see **page 104.**

# Leadership and purpose *continued*

## Ensuring effective engagement with stakeholders *continued*

### Provident Financial Rights Issue

During April 2018, we carried out a Rights Issue to bolster the Group's regulatory and capital positions, as well as to strengthen its balance sheet, and re-establish normal access to funding.

We outline the Board's role in the process on page 100. The engagement between the Group and its key stakeholders throughout the Rights Issue is summarised below.

#### Banks

The Group's lending banks and M&G Investments (M&G) were updated by the Company on all aspects of the Group's uncertainties in early February 2018, including an update on ROP, the home credit turnaround plan, the Moneybarn investigation and the Rights Issue itself. Due to the fact that the directors would be required to make a working capital statement in any rights issue prospectus, the Board needed to receive suitable waivers and amendments to certain financial covenants from the lending banks and M&G under a term facility agreement to ensure that the Group could rely on the facility provided by its banks and M&G being available over the relevant period covered by the working capital report. The presentations to the banks and M&G were approved by the Board and delivered by the Group Finance Director and Group Treasurer and all bank waivers and consent letters were agreed in February 2018. In addition a bridge facility between JP Morgan, Barclays and the Company was also agreed in February 2018.

#### Regulators

During the Rights Issue process there was constructive engagement with both the PRA and FCA regarding 1) the Rights Issue, 2) the capital plan for the Group and Vanquis Bank, 3) the Vanquis Bank FCA investigation and settlement, 4) the Moneybarn FCA investigation, and 5) the Home Credit operational recovery plan. There was also constructive and helpful dialogue with the UKLA as part of the Rights Issue Prospectus process. The Board was kept regularly updated at each meeting on the progress being made to resolve the Group's regulatory issues and the Rights Issue process more generally. Malcolm Le May, as Interim Executive Chairman, led a number of critical meetings, supported by relevant members of the senior management team, with the regulators.

#### Shareholders & Investors

The Company's directors had the primary responsibility to ensure that the public documents in relation to the Rights Issue was accurate, complete and not misleading. It included the Notice of Meeting, Prospectus, Provisional Allotment Letters, and Proxy Forms, calling the General Meeting on 21 March 2018 which sought and received shareholder approval of the Rights Issue. Malcolm Le May, Andrew Fisher and Gary Thompson, Head of Investor Relations, were involved in the pre-marketing meetings between 21 and 26 February 2018 with the Company's top investors, and following approval of the Rights Issue by the Board on 10 April 2018.

#### Employees

Regular communications about the Rights Issue were sent to employees, through the employee newsletter. The Company also specifically updated employees on the impact of the Rights Issue on the Group's share schemes, by providing frequently asked questions and individual communications to participants of the Group's employee and executive share plans, which included guidance on what steps they need, or need not, take. The Company was pleased to have received recognition of its Republic of Ireland Save As You Earn scheme communications during the Rights Issue in the form of an Irish Pro Share Award for Most Effective Communication of an Employee Share Plan.

### Community

The Group's community investment strategy is aligned to our social purpose and seeks to invest in activities and initiatives which address the key factors that tend to reduce n individual's access to credit. In particular, we help people overcome issues which prevent financial inclusion.

During 2018, the Board was engaged on matters that relate to the communities that the Group serves, which included approving the Group's approach to community investment. In July 2018 the Board approved the manner in which the Group's community investment activities will be governed, managed and delivered from January 2019 onwards by approving a new Social Impact Programme, which is aligned to the Group's purpose, culture, and existing and future strategic objectives. In addition, individual Board members make periodic visits to the community partners that the Group supports through its various initiatives in order to gain a first hand understanding of the issues that they are seeking to address.

The Group also engages with the community to:

> Help identify and prioritise the issues that are material to the Group. This informs the Group's purpose and ensures that our corporate reports address the interests of our stakeholders, as well as comply with best practice requirements such as the Global Reporting Initiative's G4 reporting guidelines. The Group most recently engaged with community partners in this regard in December 2018. Further details are included on page 75.

> Collect feedback from the partners that the Group supports which enables us to assess the impact of our activities and evaluate the efficacy of our community programmes.

## Customers

The Group is committed to financial inclusion for its 2.4 million customers, assisting them, where possible, to help themselves build brighter financial futures.

- A key feature of Home Credit is the home collection service and the business makes on average 302,000 home visits each week. Directors appointed to the Board participate in field site visits when they shadow a Customer Experience Manager and meet with our customers as part of their induction.
- Customers are able to maintain contact with the Group throughout the life of their product, with thoroughly trained staff able to answer queries via telephone, letter or email. In addition the Group has a number of digital platforms, such as an interactive website, VLOG, social media forums and mobile applications, through which customers can interact and share their views.
- Customer complaint levels are closely monitored by the Board and its Executive Committee, together with originations.
- 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 would be chaired by Elizabeth Chambers.
- The Group created customer focus groups to provide feedback on its current and potential products. Key points are reported to the Board and form part of strategy discussions.
- Customer performance data forms an important part of the Board and Executive Committee discussions, with the detailed management information feeding into the Group's strategy.

## Regulators and Government

The nature of our customer base and the market we specialise in, makes the building and maintaining of open and trusting dialogue with policy makers and our key regulators (the PRA, FCA and CBI) critical to a sustainable business model.

We know that building strong and enduring relationships with our regulators is extremely important. It influences our strategic thinking as well as enabling us to plan for regulatory change with greater certainty and confidence.

With this is mind, over the last 12 months, the Group and its divisions have made good progress in dealing proactively with several regulatory issues. These include, remediation in relation to the Vanquis Bank ROP, redesigning our operating model within Home Credit, as well as supporting the ongoing FCA investigation into Moneybarn, and reviewing the staffing model in Ireland. While these have created significant challenges for management, they have also created opportunities to rebuild trust and credibility in all aspects of our regulatory relationships.

Following an active dialogue with the FCA and CBI, we have enhanced our governance arrangements and regulatory responsibilities through a number of specific activities led by the Board. These include:

- Introduction of a Group regulatory tracker which provides a more holistic view of all our regulatory interactions.
- Enhanced reporting to the Board and Executive Committee of our outstanding regulatory actions and any risks to delivery.
- Improved coordination in managing emerging regulatory change that might materially impact our businesses. These include responding to relevant consultation papers and undertaking point in time regulatory risk assessments, particularly in relation to conduct risk.

We view these activities as the start of an ongoing programme of change which will further strengthen how we interact with the regulator(s). While ultimate accountability for managing our regulatory risk and relationships sits within the Divisions, our aim as a Group is to raise the bar on regulation within the non-standard credit market, shaping regulatory thinking as we deliver compelling propositions to our customers. This will be reinforced through implementation of the Senior Manager and Certification Regime (SM&CR) across the whole Group, including enhancements to our regulatory risk model.

# Leadership and purpose *continued*

## Ensuring effective engagement with stakeholders *continued*

### Debt Investors

The Group finances its operations via a combination of retained profits, bank borrowing funds from private placement and public and retail bond investors in addition to the retail deposits sourced by Vanquis Bank.

> The Group, primarily through its treasury function, has regular dialogue with its lending banks and debt investors.

> Banks and debt investors receive announcements made by the Group and meetings are arranged with the key bank and debt investors as required.

> The Group's website provides bank and debt investors with relevant detail regarding the composition of the Board, up to date financial information and regulatory news, together with detail regarding how the Group meets its Code obligations.

> The Group provides quarterly management statements to the market. Approved by the Board, the quarterly reporting cycle ensures our bank and debt investors are given timely information pertaining to the Group's performance.

> The annual report and financial statements is the key document for the Board to communicate its performance and future plans to its bank and debt investors. Reviewed in detail by the Board and its Audit Committee, a copy is provided to bank and debt investors and made available on the Group's IR website.

> Results and other news releases are published via the London Stock Exchange's RNS and are available on the Group's IR website.

> The Group's Annual General Meeting is an opportunity for bondholders to ask Board members any questions they may have and to cast their votes for proposed courses of action, including the appointment of Board members and the Directors' Remuneration Report.

### The Future of Employee Engagement & Culture

The Board recognises that its culture is what unifies the Group, reinforcing ethical behaviour and underpinning its purpose and values.

> Representatives from the senior management teams across the Group were involved in workshops related to culture which created our Blueprint, which was approved by the Board in October 2018. This programme of work will be embedded throughout 2019.

> The Blueprint brings together why the Group exists as an organisation, framed in the context of the role we play in our customers' lives and outlines the behaviours we will need to succeed. In setting our social purpose, we wanted something which provided the anchor for the whole organisation – what we do commercially and how we do it. Our purpose is underpinned by a number of strategic drivers, which serve as the critical pillars of our strategy, under which sit practical priorities. These drive our competitive advantage and force choices. The Blueprint, and particularly the behaviours set out therein, will create a culture where we think 'customer' all the time; we constantly innovate and make things better for all our stakeholders; and we hold ourselves and each other personally accountable for success. During 2019, we will devote significant time and effort in embedding our new strategic blueprint throughout the Group and will be linking everything we do to this Blueprint: training and development; reward; and our performance via tailored KPIs.

> The Group has formed a Provident Group Internal Communications and Engagement function (formed by merging existing Divisional teams) which will drive consistency in internal engagement, and creates the opportunity for dialogue, irrespective of Division or location. A key action is the implementation of a Group wide employee survey, which will track engagement, opinion and progress against the Group's Blueprint following its launch in early 2019.

> To comply with the requirements of the 2018 Code, workforce engagement panels will facilitate employee engagement. An effective reporting approach and feedback loop will be agreed between the panels, the Executive Committee and Board, which will be agreed in the first quarter of the 2019 financial year. In addition, the Board approved an updated Board reporting template in December 2018 to emphasise the importance of stakeholder considerations in all of its decision making.

> As outlined on pages 105 to 108, more proactive engagement with shareholders is planned throughout 2019 and beyond, and to this end, the Board reviewed a new Investor Relations Strategy in January 2019.

# Shareholder and Investor Relations

## Key themes discussed with shareholders and analysts in 2018

The Chairman is responsible for ensuring that appropriate channels of communication are established between directors and shareholders, and that all directors are aware of any issues and concerns that major shareholders may have.

The Group engages effectively with shareholders through its regular communications, the Annual General Meeting (AGM) and other IR activity. Results and other news releases such as changes to our strategy and Board composition are published via the London Stock Exchange's RNS. Any announcements published via RNS are also available on the Group's website at https://www.providentfinancial.com/investors/.

Regular engagement provides investors with an opportunity to discuss particular areas of interest and raise any concerns. The Group is committed to effectively communicating its strategy and understanding shareholders' views on its strategy and performance.

The Group is committed to delivering attractive and sustainable returns for shareholders and engaging in open and honest dialogue with them regarding the opportunities and risks facing the Group.

The Group's website provides shareholders with relevant details regarding the composition of the Board, up to date financial information and regulatory news, together with detail regarding how the Group meets its Code obligations.

The Group provides quarterly management statements to the market. Approved by the Board, the quarterly reporting cycle ensures our shareholders are given timely information pertaining to the Group's performance.

The annual report and financial statements is the key document for the Board to communicate its performance and future plans to its shareholders. Reviewed in detail by the Board and its Audit Committee, a copy is posted to eligible shareholders and made available on the Group's website.

The Company's Annual General Meeting is shareholders' opportunity to ask Board members any questions they may have and to cast their votes for proposed courses of action, including the appointment of Board members and the Directors Remuneration Report.

The Board receives an IR Report at each meeting and approves detailed shareholder engagement plans.

## Board oversight

Communications with shareholders are given a high priority by the Board. In order to ensure that Board members develop an understanding of the views of major shareholders, there is regular dialogue with institutional shareholders, including meetings after the announcement of the preliminary and interim results. Patrick Snowball as Chairman, Stuart Sinclair as Interim Chairman and Andrea Blance as senior independent non-executive director and the chairman of the Remuneration Committee have all met with shareholders during 2018.

The Board also considers an IR report at each main Board meeting which outlines the general nature of matters communicated and discussed with institutional investors, including feedback. Independent reviews of shareholder views are also commissioned through an annual perception audit carried out by h2glenfern and reviewed by the Board. The Group collates broker feedback from roadshows to present in the IR Board report and all analyst and broker reports on the Group are also distributed to all Board members and the senior management teams.

## AGM

Shareholders are invited each year to attend the AGM, where the Board members are available to answer any questions shareholders may have. Facilities are also available to shareholders to submit questions in advance of the meeting and to cast their votes electronically or by post. Details of proxy votes cast are published via an RNS and on the Group's website. It is the Company's policy to give shareholders in excess of 20 working days' notice of the AGM and the Notice of the 2019 AGM, together with an explanation of the items of business, is contained in the circular to shareholders dated 26 March 2019. In 2019 the AGM will be held in London for the first time at the offices of Clifford Chance, and further details are set out on page 143 of the Directors' Report.

# Shareholder and Investor Relations *continued*

## Provident home credit

### Q When will the business gain full FCA authorisation?

The business was granted full authorisation by the FCA in November 2018. Management are progressing the dialogue with the FCA regarding the implementation of enhanced performance management of CEMs based on a balanced scorecard approach and some element of variable pay. This will be important in returning the business to run-rate profitability in due course. The Group, including home credit, still remains under enhanced supervision from the FCA.

### Q Why has collections performance not improved as you had hoped?

Collections performance on credit issued since the last quarter of 2017 has performed in line with historic levels. However, credit originated prior to the change in operating model has performed much worse as this was not originated by the current CEM and the customer relationship is not as strong.

### Q The cost base for the business is high – are you going to be able to grow the business?

The business has taken significant action to reduce the cost base in 2018 and again in early 2019. The focus of 2019 will be on seeking to grow customer numbers. The implementation of enhanced performance management (subject to FCA approval) will be important in delivering growth. In addition, the introduction of a new hybrid product is being piloted.

### Q When do you expect the business to become profitable?

The focus in 2019 will be on stabilising the customer base to set the business up for growth in the future and continuing to reduce the cost base, both of which are necessary to return the business to run-rate profitability in due course.

## Satsuma loans.co.uk

### Q When do you expect Satsuma to break even?

Satsuma is now delivering good volume growth and we expect the business to break even in 2019.

### Q What is the competitive landscape like in HCSTC?

The market is less competitive than it has been since Satsuma was launched due to the collapse of Wonga and a number of former payday lenders investing a lot of time and resources in dealing with irresponsible lending complaints from claims management companies.

### Q Do you have similar problems to Wonga?

Satsuma has never offered payday loans so it has not experienced the significant increase in claims for irresponsible lending from claims management companies as experienced by Wonga and other payday lenders.

## moneybarn credit you can trust

### Q Why do new business volumes continue to be so strong?

Continued development of distribution channels and the product offering, together with a relatively benign competitive environment as a number of competitors have retrenched to focus on more prime to near prime offerings.

### Q Why is the business incurring higher levels of impairment? Is this macro related?

Following the tightening of underwriting in 2017 and earlier in 2018, default rates stabilised during the second half of 2018.

### Q What is the impact of falling used car prices on impairment levels?

Not significantly material as the business is only exposed to those vehicles where customers default. Used car residual values currently remain robust.

### Q When do you expect the FCA investigation to be completed?

We are working towards a conclusion in the first half of 2019.

## PFG Provident Financial Group

### Q What is the progress with appointing a new Chairman?

After a rigorous process Patrick Snowball was appointed in September 2018. For more detail on the appointment process see page 123.

### Q How is the Board being strengthened?

Three new non-executive directors with strong sector experience were appointed in July 2018 – Angela Knight, Elizabeth Chambers and Paul Hewitt.

### Q Why do you hold so much regulatory capital headroom?

The Board has a risk appetite to hold between £50m and £100m regulatory capital headroom in order to absorb the ongoing transitional impact of IFRS 9, to provide a buffer against the current risks of the business and to maintain a suitable level of equity for debt funders of the non-bank Group.

### Q Why did Andrew Fisher, Finance Director, leave the business?

Following restoration of the Group's capital and liquidity positions in 2018, he agreed with the Board that he would step down as Finance Director. Simon Thomas joined as Chief Financial Officer in December 2018.

### Q When will the Group return to paying dividends?

Consistent with the commitment at the time of the rights issue, we will be paying a nominal final dividend for 2018. Our dividend policy going forward is to maintain a dividend cover of at least 1.4 times as home credit recovers and moves into profitability.

## VANQUIS BANK

### Q How is the ROP refund programme progressing?

Progressing in line with plan – over 1 million customers had been refunded by the end of 2018 and the programme is expected to be substantially completed in the first quarter of 2019.

### Q Are you seeing any impact from a more uncertain economic backdrop on impairment?

The impairment rate in Vanquis Bank has remained stable which reflects the benefit of the tightening of underwriting we have undertaken over the last 18 months. We have seen some pressure on delinquency and arrears from more customers entering payment arrangements due to enhanced forbearance procedures.

### Q What has been the impact from the CCMS measures on persistent debt?

Minimum due payments were increased in the third quarter of the year and the business will be introducing higher recommended payments in the first quarter of 2019. These are likely to curtail receivables growth in 2019 as they flow through into customer behaviour.

### Q Why did Chris Sweeney, Managing Director Vanquis Bank, leave the business?

Following the settlement of the ROP investigation with the FCA and the good progress made in delivering the refund programme, it was felt to be an appropriate time to change the leadership of Vanquis Bank. Malcolm Le May, Chief Executive Officer, Provident Financial plc, became Managing Director of Vanquis Bank on an interim basis whilst the search for Chris Sweeney's successor progresses.

### Q What is the impact from the FCA's final rules on affordability?

The final rules and guidance in respect of CP17/18 in respect of assessing creditworthiness in consumer credit came into effect on 1 November 2018. All of the Group's businesses have taken the necessary measures to meet these principles.

> "We seek to engage regularly with shareholders to ensure a meaningful and collaborative relationship is maintained."

Patrick Snowball
*Chairman*

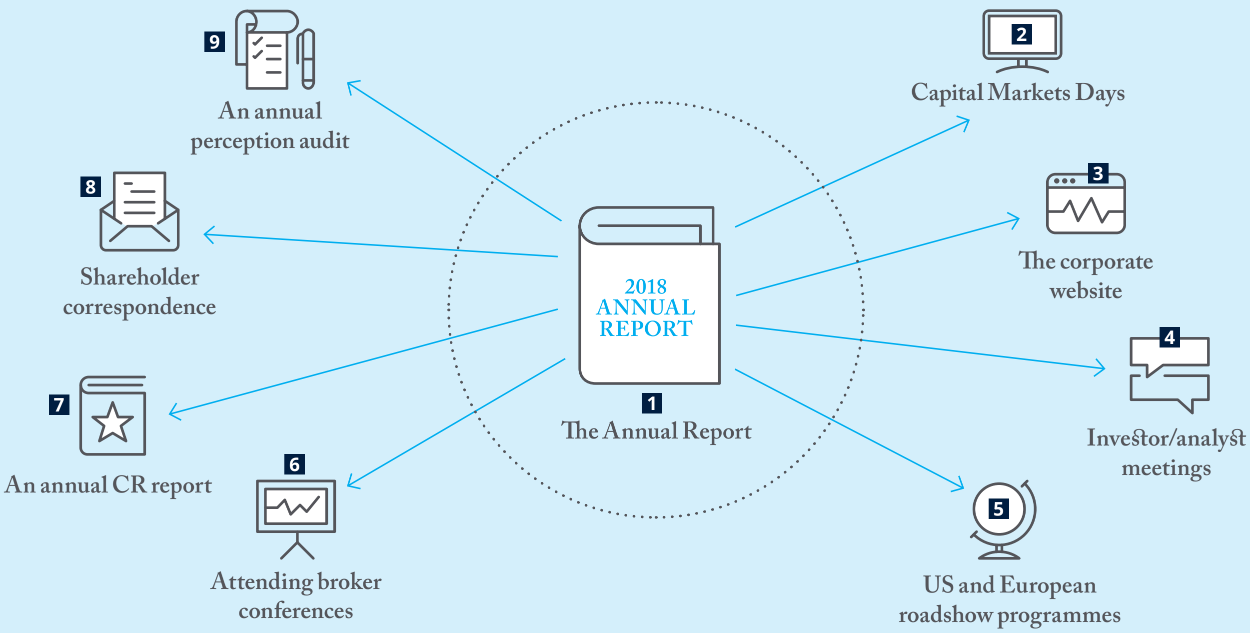
# Shareholder and Investor Relations *continued*

## Investor Relations

### IR programme

The Group has a comprehensive IR programme through which the Chairman, Chief Executive Officer, Chief Financial Officer and Head of IR engage regularly with the Company's largest shareholders on a one-to-one basis to discuss strategic and other issues, as well as to give presentations on the Group's results.

Further communication is achieved through:




#### 1 The Annual Report

This is the most significant communication tool, ensuring that investors are kept fully informed regarding developments in the Group. The Group continually strives to produce a clear and transparent annual report which provides shareholders with a complete and balanced picture of the Group;

#### 2 Capital Markets Day

Inviting institutional shareholders and sell-side analysts to an onsite facility or an external location to provide them with a more detailed insight into the Group. The next Capital Markets Day is expected to be held in the third quarter of 2019 to outline the Board's future vision for the Group following the operational recovery in 2018;

#### 3 The corporate website

Provides investors with timely information on the Group's performance as well as details of the Group's corporate responsibility (CR) activities. The website is fully accessible from either a PC, tablet or smartphone without the need for a separate mobile app;

#### 4 Investor/analyst meetings

The Group takes a proactive approach by inviting investors and sell-side analysts to meet with divisional senior management and to visit operational facilities;

#### 5 US and European roadshow programmes

Allows overseas investors better access to management, enabling them to receive the same access to information as investors in the UK. Usually attended by the Chief Executive Officer, the Chief Financial Officer and the Head of IR;

#### 6 Attending broker conferences

Management regularly attend and present at various conferences hosted by brokers to ensure that a wide variety of shareholders, including those from different geographies, have access to senior management;

#### 7 An annual CR report

A standalone report clearly demonstrating the significant importance placed on corporate responsibilities within the Group;

#### 8 Shareholder correspondence

The Group is committed to responding to shareholders, regardless of the size of their holding, within two working days of receipt of correspondence; and

#### 9 An annual perception audit

Designed to obtain formal independent feedback from investors and sell-side analysts. This enables management to consider and respond to any concerns in the investment community.

#### Additional activities in 2019

To complement the existing IR programme, during 2019 the Chairman will host a number of investor lunches, to allow shareholders to discuss the Group in a more informal setting, and senior management will conduct a number of roadshows specifically targeted at the wealth management community.

# Division of responsibilities

"The success of the Group, is down to an effective Board, with clear rules and areas of responsibility for Board members, both executive and non-executive. The General Counsel and Company Secretary ensures that we have the right policies and processes in place, and the right resources available for the Board to operate effectively."

Patrick Snowball
*Chairman*

## Role of the Board and its committees

A successful company is led by an effective board. Board members are qualified, individually and collectively, for their positions. They develop and promote the collective vision of the Company's purpose, its strategy, culture, values and behaviours.

The Chairman creates the conditions for overall Board and individual director effectiveness, with the aim of encouraging all Board members to engage in Board and committee meetings by drawing on their skills, experience, knowledge and, where applicable, independence.

The Board is collectively responsible for overseeing the Group strategy and ensuring that the Group is managed effectively and in the best interests of its shareholders, having regard to its customers, employees, regulators and other stakeholders. Pages 101 and 108 highlight how we consider and engage with our stakeholders.

The Board operates within a formal schedule of matters reserved to it, which is reviewed and updated on a regular basis. The Board meets regularly and provides direction, oversight and detailed review and challenge to management. Some of the key responsibilities of the Board are set out below:

> responsibility for the overall leadership of the Group through effective oversight and review. With the support of its committees, the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term;
> set, instil and monitor the Group's culture, values and standards, in both the Boardroom and throughout the Group;
> review performance in light of the Group's strategic aims, regulatory obligations and business plans and budgets;
> financial reporting and controls;
> corporate governance;
> sets the risk appetite of the Group and oversees the implementation of appropriate risk management systems and processes to identify, manage and mitigate the principal and emerging risks of the Group; and
> ensuring effective succession planning at Board and senior management level.

In order for it to operate effectively and provide the right amount of time and consideration to relevant matters, the Board delegates authority to its principal committees which are set out on page 112. Its committees then report, and make recommendations, to the Board to ensure it maintains oversight of the committees' activities. The chairmen of the Board committees also report to the Board after each committee meeting, as appropriate, on key areas of committee discussion. More detail on the committees and their work is described in the 'committees' sections in this report on pages 120, 125, 132 and 144.

The Board also delegates the execution of the Group's strategy and day to day management of the Group to its executive directors, who are supported by the Executive Committee.

As well as reviewing it's matters reserved on a regular basis, the Board also reviews the terms of reference for its committees at least annually. During the course of the year, the Board's matters reserved and the terms of reference for its committees have been thoroughly refreshed to, inter alia, reflect best practice and the work which has been undertaken in relation to wider governance issues and culture during the course of 2018.

The matters reserved for the Board and the terms of reference of each of its committees can be found on the Group's website at www.providentfinancial.com.

In addition, the Group has corporate policies which are explained on page 46 of this report and which are periodically reviewed and refreshed when and where required. These were reviewed and approved by the Board in July 2018. On a day-to-day basis, the Divisions and the corporate office have responsibility for the implementation of the corporate policies and the Board is responsible for the general oversight of this process.

During 2018, as part of the governance and risk development programme, the Board approved a number of documents which are key components of the Group's governance framework, including a Board Governance Manual and a Delegated Authorities Manual. The aim of these documents is to clarify areas of accountability that are not traditionally captured within the Board's matters reserved or its committees' terms of reference.

# Division of responsibilities *continued*

## How our governance contributes to the delivery of our strategy

Governance is essential to the Group achieving its purpose and the successful delivery of its strategy. Our governance arrangements, designed to support the delivery of our strategy and purpose, which the Board is responsible for, determine how the Group is directed and controlled and who has authority and accountability.

Our governance arrangements ensure that our Board determine our purpose, which enables them to set out the strategy and objectives for long-term success and value creation, in the context of the Group's social, regulatory and market environment. The Board recognises the importance of its duties to our wider stakeholders and our relationships with them in achieving our strategy and long-term success. The Board monitors how the Executive Directors, supported by our Executive Committee and wider senior management teams, deliver against this strategy.

Another key role of the Board and of our governance framework in relation to the pursuit of our strategy, is the oversight and management of risk and internal controls, in accordance with the Code. The Board determines the nature and extent of the principal risks it is willing to take to achieve the strategy and is additionally responsible for assessing and monitoring the Group's risks, including emerging risks to ensure the effective operation of the Company in achieving its objectives. Risk, our risk management framework and our internal control framework is overseen by the Group Risk Committee, the Audit Committee and the Board.

The Group Risk Committee assists the Board by taking an active role in defining risk appetite and monitoring the risk management and internal controls systems across the Group. There is significant focus on the risk culture within the organisation which is overseen by the Group Risk Committee on behalf of the Board. The Group Risk Committee considers the Group risk appetite, the nature and extent of the risks facing the Group, including the framework to mitigate such risks and notifies the Board of changes to status and control of risks across the Group.

It is supported by the Group Interim Chief Risk Officer and the Chief Risk Officers in each Division. Further details of how the Group's processes and internal controls work are set out on pages 46 and 135.

Our governance arrangements ensure that the Board is responsible for setting the desired behaviours and monitoring the Group's culture, seeking to ensure alignment with our strategy. We believe that employee behaviour and culture are key enablers in achieving our strategic objectives.

The Remuneration Committee's role is to ensure that remuneration policies and practices are designed to support our strategy and promote long-term sustainable success, encouraging behaviours consistent with the Group's purpose, values, strategy and business model. Further details on remuneration and how the Remuneration Committee operates are set out on pages 144 to 166.

For our governance arrangements to operate effectively and for the strategy to be delivered, it is also essential that our Board and senior management composition is appropriate. Our Nomination Committee's role is to ensure that the Board and its committees have the right combination of diversity, skills, experience and knowledge; that appropriate succession planning is in place for the Board and senior management teams; and to ensure that appropriate arrangements are in place for the development of a diverse pipeline of succession to the Board and senior management roles. Further details on the work of the Nomination Committee is set out on pages 120 to 124.

As such, our governance provides the framework for the effective running of the Group, supporting appropriate decision-making that balances the interests of our stakeholders. High quality decision making is essential for the effective delivery of our strategy and as such, long-term value and success.

## Meetings and attendance

The Board held 18 meetings during 2018, of which four were specifically related to the Rights Issue. The table below sets out the attendance of the directors at the Board and committee meetings during the year.

The Board holds meetings at regular intervals when the Group's financial and business performance is reviewed, along with risk, IT, legal and human resources and strategic matters. There is a comprehensive meeting pack and agenda which is circulated before both Board and committee meetings to allow the directors adequate opportunity to consider the matters to be discussed. Board and committee meetings are scheduled more than a year in advance and if any director is unable to attend a meeting, they are encouraged to provide their opinions and comment on the papers and matters to be considered when circulated before the meeting. Meetings are structured so that appropriate time is devoted to all agenda items. In addition to these scheduled meetings, 'ad hoc' meetings are held outside the published cycle where circumstances require – for example, to approve appointments to the Board, to deal with any material transactions or to approve regulatory submissions.

## Member attendance at Board and committee meetings in 2018

The table below sets out the Board and committee attendance during the year. Attendance is shown as the number of meetings attended out of the total number of meetings possible for each individual director. During 2018, the absences by directors shown below were all as a result of other pre-planned commitments, urgent personal matters or meetings which were called at short notice.

| | Board | Audit committee | Nomination committee | Remuneration committee | Group risk committee |
|---|---|---|---|---|---|
| **Total number of meetings** | **18** | **6** | **2** | **8** | **5** |
| Stuart Sinclair[1] | 13/16 | 4/4 | 2/2 | 6/6 | 4/4 |
| Patrick Snowball[2] | 2/2 | – | – | – | – |
| Malcolm Le May | 18/18 | – | 0/1 | – | – |
| Andrew Fisher[3] | 17/17 | – | – | – | – |
| Andrea Blance | 18/18 | 6/6 | 2/2 | 8/8 | 5/5 |
| Rob Anderson[4] | 15/18 | – | 2/2 | 4/8 | – |
| John Straw | 15/18 | 5/5[6] | 2/2 | – | 4/5 |
| David Sear[6] | 1/2 | – | – | – | 1/1 |
| Paul Hewitt[7] | 3/3 | 2/2 | – | 2/2 | 2/2 |
| Elizabeth Chambers[7] | 3/3 | 2/2 | – | 2/2 | 2/2 |
| Angela Knight[7] | 3/3 | 2/2 | – | 1/2 | 2/2 |

1 Stuart Sinclair's attendance up until he resigned on 21 September 2018.
2 Patrick Snowball's attendance since he was appointed as Chairman on 21 September 2018.
3 Andrew Fisher's attendance up until he resigned as director on 3 December 2018.
4 Rob Anderson's attendance up until he resigned as a non-executive director on 11 December 2018.
5 John Straw was appointed to the Audit Committee with effect from 12 February 2018.
6 David Sear's attendance up until he resigned as a non- executive director on 26 January 2018.
7 Paul Hewitt, Elizabeth Chambers and Angela Knight's attendance is shown from 31 July 2018 when they were all appointed as non-executive directors.

## Work of the Executive Committee during 2018

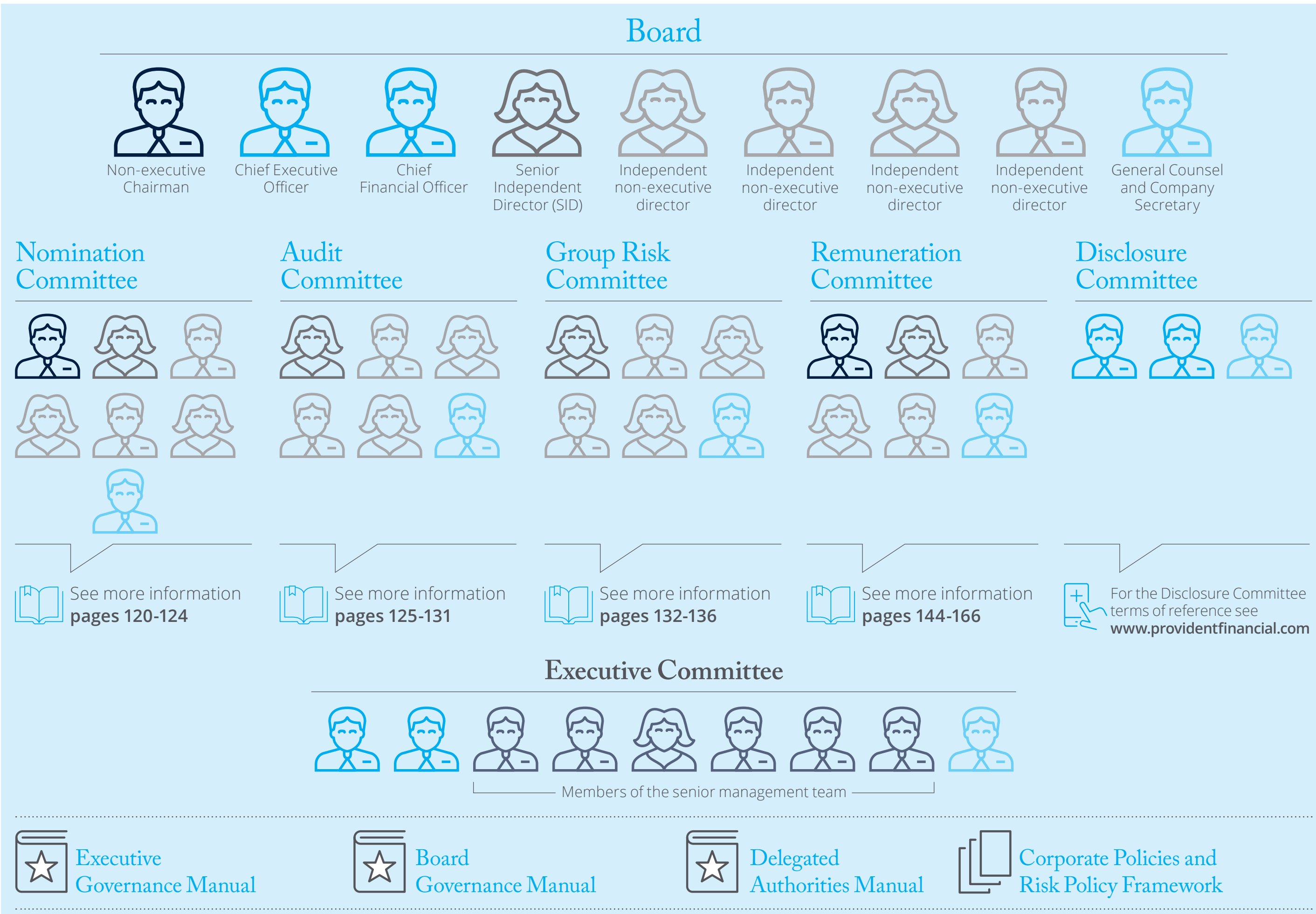
Malcolm Le May, CEO, chairs the Executive Committee, and its members are made up of the CFO, General Counsel and Company Secretary, the managing directors of each Division, the Group HR Director, Group Interim Chief Risk Officer, Group Interim Chief Internal Auditor, and Group Corporate Communications Director. The Deputy Company Secretary is secretary to the Committee.

During the year, amongst other matters, the Executive Committee:

- reviewed operational and financial performance across the Group;
- closely monitored progress on the ROP refund programme;
- oversaw the recruitment for, and implementation of, several centralised functions including Group IT, Group HR, and Group Procurement;
- reviewed and approved for recommendation to the Board a new enhanced Governance and Risk Programme, including a new Delegated Authority Framework and Board Governance Manual, and approved an Executive Committee Governance Manual, Risk Policy Framework and Risk Appetite Framework;
- oversaw the successful implementation of the operational design project within the home credit business and the successful authorisation of CCD;
- oversaw the implementation of EU GDPR and the Data Protection Act 2018 across the Group;
- generated and closely monitored progress on the actions arising from the CPC;
- monitored the newly implemented Group regulatory liaison tracker;
- reviewed and approved an updated Social Impact Programme Proposal;
- established and monitored the Wind Down Plan submitted to the FCA; and
- received updates on the implementation of SMCR within Moneybarn and CCD which comes into force on 9 December 2019.

# Division of responsibilities *continued*

## Governance framework




## Independence of non-executive directors

The Board reviews the independence of its non-executive directors on appointment and annually. In carrying out these reviews, consideration is given to factors set out in the Code, such as length of tenure, the ability of the director to provide objective challenge to the executive directors and the senior management teams and each director's other material commitments.

Each of the non-executive directors appointed during the year were formally determined to be independent on appointment in July 2018. Both the Nomination Committee, and the Board considered the independence of all the non-executive directors at meetings held in January 2019. Following consideration, and recommendation from the Nomination Committee, the Board determined that each non-executive director remained independent. As part of this determination, the Board considered the factors required by the Code, and other relevant matters.

All directors are required to disclose to the Board any outside interests which may pose a conflict with their duty to act in the best interests of the Company. Further details on this process can be found on page 139.

Patrick Snowball was appointed as non-executive Chairman on 21 September 2018 and was determined by the Board to be independent on appointment.

On appointment, he was also the Chairman of Sabre Insurance Group plc and IntegraFin Holdings Plc, however he stepped down from IntegraFin Holdings Plc on 22 August 2018 and there have been no material changes to his commitments since. Therefore the Board still consider that he has sufficient time to perform his role effectively.

## Division of roles and responsibilities

### Chairman

- Provides leadership of the Board.
- Safeguards corporate governance.
- Ensures effective communication with stakeholders.
- Demonstrates ethical leadership and promotes high standards of integrity.
- Ensures alignment to strategic objectives.
- Encourages and promotes critical discussion and appropriate challenge.
- Ensures Board decisions are taken on a sound and well-informed basis.

### Chief Executive Officer

- Provides leadership and direction of the Group.
- Chairs the Executive Committee and makes decisions on matters affecting the operation, performance and strategy of the Group's businesses.
- Develops and recommends strategy and long-term objectives of the Group for approval by the Board.
- Responsible for day-to-day management of the Group.
- Ensures that there are appropriate risk management and internal controls in place.

### Executive directors

- Responsible for all matters affecting the performance of the Group.
- Responsible for implementation of strategy and performance of the Group which is consistent with its purpose, culture and values.
- Provide specialist knowledge and experience to the Board.

### Non-executive directors

- Provide independent and constructive challenge.
- Support the Chairman by ensuring effective governance across the Group.
- Monitor and review the performance of the executive directors.
- Bring experience and knowledge from other sectors which is of relevance to the Group.

### Senior Independent Director (SID)

- Available to address any concerns of shareholders.
- Acts as a sounding board for the Chairman.
- Acts as a conduit for the other directors and takes the initiative to discuss any issues amongst Board members.
- Responsible for reviewing the effectiveness of the Chairman.

### Company Secretary

- Responsible to the Board.
- Ensures the information sent to the Board is fit for purpose and facilitates effective discussions.
- Provides comprehensive practical legal support and guidance to directors, both as individuals and collectively.
- Provides support for the Board on corporate governance.
- Responsible for communicating with shareholders, as appropriate.

## Division of responsibility

To ensure that the Board operates effectively and efficiently, each director has certain responsibilities in line with their role. These are set out in the diagram above. The composition of the Board is subject to continual review and appointments result from a combination of effective succession planning, and formal and rigorous searches. Further information on this can be found in the Nomination Committee report on pages 120 to 124.

Between 24 November 2017 and 1 February 2018, Malcolm Le May, took on the role of Interim Executive Chairman acting, in effect, as both Chairman and Chief Executive Officer and therefore, for this period, there was no clear division of responsibilities between the roles of Chairman and Chief Executive Officer. As reported last year, however, following a recruitment process, Malcolm Le May was appointed as Group Chief Executive Officer on 1 February 2018, and Stuart Sinclair stepped up to be Interim Chairman whilst a recruitment process was undertaken for a new independent non-executive Chairman. Details on the recruitment processes undertaken during 2018 are outlined on page 123.

# Composition, induction and evaluation

> "Appointing the right directors to the Board who are able to make valuable contributions is one of the key elements of Board effectiveness."

Patrick Snowball
*Chairman*

## Composition

### Board composition

The right Board composition is important as it supports the effective operation of the Board and therefore the successful delivery of the Group's strategy. Important factors in our Board composition are diversity and the appropriate balance of skills and experience, as this ensures that each Board member is able to effectively challenge and so enhances the Board's ability to work effectively as a unit.

As reported last year, prior to the appointment of Malcolm Le May as CEO on 1 February 2018, the Group had gone through a significant number of changes in its leadership. Since then, the Board has recruited three new non-executive directors and a new non-executive Chairman.

As a result of the Board changes, which are described in more detail throughout this report, the Board currently consists of eight members, including the non-executive Chairman, one senior independent director, four independent non-executive directors, and two executive directors. Biographical details of all directors are given on pages 94 to 97.

The Board is of sufficient size and has the appropriate skills, experience and independence to enable it to undertake its role effectively. Following the new appointments, the composition of the committees was refreshed and more details on this can be found in each committee report on pages 120, 125 and 132.

The composition, skills and effectiveness of the Board are reviewed annually. The Board ensures a diverse pool of candidates is considered for any vacancy which arises and any appointments are made based on merit, having regard to the skills, competencies and experience of the candidate.

### Board changes:

Board appointments are reviewed and approved by the Board based on a recommendation from the Nomination Committee. On joining, non-executive directors receive a formal appointment letter and executive directors receive a formal service contract, which identifies the time commitment expected of them. The terms and conditions of appointment of non-executive directors and service contracts of executive directors are available to shareholders for inspection at the Group's registered office during normal business hours.

During 2018, the following changes to the Board took place;

> on 26 January 2018, David Sear stepped down from the Board.

> on 1 February 2018, Malcolm Le May was appointed Group CEO, Stuart Sinclair was appointed Interim Non-Executive Chairman and Andrea Blance was appointed Senior Independent Director.

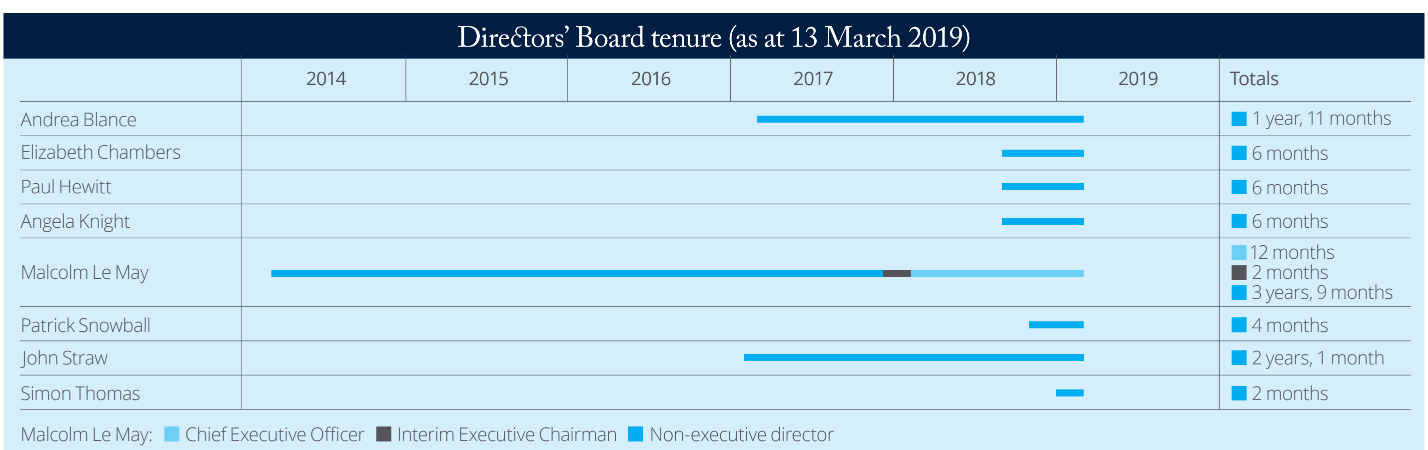
> on 31 July 2018, Elizabeth Chambers, Paul Hewitt and Angela Knight were appointed as non-executive directors.

> on 21 September 2018, Stuart Sinclair stepped down from the Board, and from his appointment as Interim Non-Executive Chairman and Patrick Snowball was appointed as non-executive Chairman.

> on 3 December 2018, Andrew Fisher stepped down from the Board as Group Finance Director and Simon Thomas was appointed as Group Chief Finance Officer.

> as reported last year, Rob Anderson agreed to continue as a non-executive director until 31 December 2018 to provide support to the Board whilst it underwent the recruitment process to strengthen its composition notwithstanding he fact he had served for nine years on the Board. Following the recruitment of three new non-executive directors and a new non-executive Chairman, Rob felt it was time to step down from the Board on 11 December 2018.

> John Straw has informed the Board that he does not intend to stand for re-election at the 2019 AGM and will step down as a Director with effect from 20 May 2019.



# Induction for new Directors

## Board Induction

On joining the Board, all new directors receive a comprehensive and tailored induction programme, comprising a combination of site visits and meetings with other senior management. The aim of the induction is to ensure that all new directors are familiar with the business, its purpose, culture and values. More details on the general induction programmes for our new directors is set out below.

### Non-executive induction programme

#### One to one meetings with key individuals

New directors meet with senior management including, but not limited to, the members of the Executive Committee and the Divisional Managing Directors. The directors' specific induction will also be tailored to the role they are appointed to, therefore other senior management induction meetings may also include meetings with Group Internal Audit, Group Finance, the Divisional Chief Finance Directors and the Divisional Chief Risk Officers.

#### One to one meetings with key stakeholders

The directors also meet any key stakeholder that may be important or relevant to the specific role the director has assumed. This may include meetings with the Group's key advisors and brokers, representatives from the FCA and Prudential Regulatory Authority (PRA), the Group's major investors, and the Group's auditor's, Deloitte LLP.

#### Induction materials

Each new director is provided with full access to an electronic "reading room", which includes induction material, such as various relevant policies, terms of reference, Group organisation charts, the latest trading statements, annual report and accounts, recent shareholder information and broker notes as well as recent and relevant regulatory correspondence.

#### Field visits

As part of the induction programme for Board members are encouraged to go on a customer visit with a Customer Experience Manager. We find this gives an insight into not just how the home credit product operates, but also how important the customer relationship is to the business. Each Board member also undertakes a field visit which includes spending time at a regional home credit office with local management who give an overview of the home credit operation and how the team, together with the Customer Experience Manager, work towards achieving best customer outcomes.

#### Site visits

Directors undertake various site visits as part of their induction programme. This includes a visit to the main offices of each of the businesses and spending time with employees across the businesses at different operational levels to gain a thorough understanding of the business, its culture, its customers and its products. Its crucial to the Group that the Board understands not only how the business operates, but how it treats its customers and its employees on a day to day basis. These induction site visits include:

- time spent within the operations of CCD in the Group's Head Office in Bradford and with management who are responsible for the home credit and Satsuma brands.
- one-to-one meetings with senior management at Vanquis Bank's London office.
- time spent in the Vanquis Bank call-centre meeting a variety of employees and gaining an understanding of the direct contact the business has with its customers. Time is also spent with the customer service team listening to calls, and receiving presentations which provide an overview on fraud, collections, analytics and customers services.
- time spent at Moneybarn's Head Office in Petersfield, meeting the senior management team and gaining an understanding of the business operations in more depth which includes having one to one sessions with the members of the Moneybarn Executive Committee.

# Composition, induction and evaluation *continued*

## Induction for new Directors *continued*

### Ongoing Board Training and Development

The Board is kept up-to-date with relevant laws and regulations and receives a report at each Board meeting from the General Counsel and Company Secretary. Regular updates are also provided on relevant legal, corporate governance and financial reporting developments and directors are also encouraged to attend external seminars on areas of relevance to their role.

The Board programme includes regular presentations from management and informal meetings to build the directors understanding of the business and sector. This year the Board held its CPC in June 2018 to review and develop the Group's strategy. The CPC is attended by all Board members and Executive Committee members, along with other senior management and the agenda included discussions and presentations around competition, the future of credit markets and its customers, technology, regulation, and culture as well as on specific business strategy issues.

The Board also held an additional offsite strategy day on 8 January 2018 to discuss the difficulties faced by the Group during 2017 and to re-set the future direction of the Group, re-affirm the 'tone from the top' regarding the Group's purpose, vision, mission and values and set an action plan to achieve these objectives. The event was attended by the Board, its Executive Committee and other key individuals from the senior management team as well as external advisors.

Appropriate training is made available to any newly appointed director. During 2018, each member of the Board signed up to the Deloitte Academy, which provides a broad programme of briefings, education and bespoke training for both executive and non-executive board members.

The Audit Committee received a teach in session from the Group Finance Function in September 2018 relating to significant assumptions and the treatment of the IFRS9 accounting standard.

All directors also have access to the advice and services of the General Counsel & Company Secretary. The Company Secretary is also the secretary to all the Board committees, with the exception of the Disclosure Committee. The Board obtains advice from professional advisors as and when required.

### Training provided to the Board during the Rights Issue

Throughout the Rights Issue process, the Board had engaged advisors to provide individual directors with advice and training on their responsibilities.

At its Board meeting on 21 November 2017, Clifford Chance provided training to the Board on the draft Prospectus, explaining each section of the content, and the directors' responsibilities in relation to the statements in the Prospectus. They also explained the nature and scope of the director responsibility letters which each director was required to sign.

At its Board meeting on 23 January 2018, JP Morgan did a "Rights Issue Teach-in" to the Board, which summarised the mechanics of a rights issue and highlighted the key considerations for the Board. At the same meeting Clifford Chance gave a further presentation on director's responsibilities.

At its Board meeting on 6 February 2018, Deloitte LLP gave a presentation on the Financial Position and Prospects (FPP) workstream the basis of which was to demonstrate that the Group had an appropriate level of governance and internal controls over its financial reporting processes. This presentation included an introduction to FPP and an overall report on Deloitte LLP's progress.

Prior to the Board's approval of the Rights Issue, both JP Morgan and Clifford Chance delivered training to the Board which covered:

> the importance of ensuring that the information contained in the final Prospectus was accurate, complete and not misleading, and directors liability under English civil and criminal law for its contents;

> the importance of the verification exercise in relation to the Prospectus;

> the potential liabilities arising from an offering of ordinary shares under US securities laws;

> the ongoing obligation of the Group to control and disclose to the market price sensitive information, emphasising the importance placed by the FCA on "inside information";

> the restrictions on dealings in the ordinary shares of the Company; and

> the general obligations on the directors to comply with the Listing Rules, and the Code.

# Board evaluation

## Board evaluation: monitoring and improving our performance

We recognise that a key cornerstone of corporate governance is an effective Board; and as such the Board needs to continuously monitor and improve its performance in order to remain effective, supporting the long-term success of the Company.

Each year the Board undertakes a formal and rigorous evaluation of its own performance, the performance of its committee and individual directors; this gives us an opportunity to reflect on our effectiveness.

It is important for the effectiveness of this process that this good governance principle is applied in a way that reflects the Company's circumstances and Board composition. We reported last year that Lintstock had been appointed to undertake an external Board evaluation over a three year period up to 2018. The Board has seen significant change in its composition this year, and particularly in the second half of the year: a new CEO and CFO, the arrival of three new non-executive directors; a new Chairman and the departure of three non-executive directors; with many of the changes taking place in the second half of the year. Given the level of change, this year's evaluation process was designed to give an early initial insight into effectiveness, reflecting the fact that the Board is a new team, with the majority of the Board only being in role for part of 2018, and is led by a new Chairman who was only appointed on 21 September 2018.

We set out more details about this year's process and outcome below, together with updates on the actions identified last year. The conclusions of this year's review have been positive and confirmed that the Board and its Committees were performing effectively, the balance of the Board agenda was moving in the right direction and that the Directors felt able to contribute in an open and challenging environment.

## Board evaluation 2017

As reported last year, the 2017 Board and Committee evaluation, undertaken by Lintstock, identified the following focus areas. An update on steps taken during 2018 is also provided.

| Area | Activities during 2018 |
|---|---|
| Board composition | We achieved a key priority with the appointment of Malcolm Le May as CEO. The Board believes that Malcolm Le May was an outstanding candidate for the role, given his existing knowledge of the Group, his deep knowledge of the business and sector, his regulatory understanding, together with his turn-around and leadership skills.<br>As reported on page 93, we were pleased to appoint three new experienced non-executive directors to the Board in July. These three new non-executive directors bring a wealth of experience and expertise to the Board, including in particular financial, consumer finance and regulatory experience. They have enhanced the capabilities of the Board.<br>In July, we also announced the appointment of a new Chairman to lead the Board from September 2018 onwards Patrick Snowball is an experienced Chairman, non-executive director and CEO, and has extensive experience in financial services, and a strong background in delivering good customer outcomes, ensuring strong governance and the execution of turn-arounds. |
| Board expertise | The Board appointments described above have strengthened the Board's capabilities, including in relation to customer and regulatory understanding and culture. The Board has approved a mechanism and approach on how to secure workforce engagement, as set out on page 104, which will enhance the whole Board's understanding of the views of the workforce once embedded during 2019. The comprehensive induction programme for new directors, including site and customer visits, enables Board members to get a strong understanding of the Group and its stakeholders. |
| Board dynamics | As a result of the significant number of Board changes, the Board are still developing as a new team. Additional informal meetings of the Board members around each Board meeting have been introduced and it is intended that key members of the senior management teams will attend these dinners during 2019. |
| Board support | During 2018 there has been increased focus on ensuring the Board receives the information it needs to carry out its role in a timely manner. To support this, a Board and committee paper submission report is utilised to ensure that the Board are clear about what input is required, what the key risks are and what the impact of any proposal is on the Company's stakeholders, including its customers. At its December 2018 meeting, the Board approved a proposal for the Company Secretarial team to lead a fundamental review of Board and Committee reporting across the Group, in order to identify enhancements. This will be undertaken during 2019. |
| Oversight of operating divisions | A Group governance project has been undertaken to clarify the roles and responsibilities across the Board, its Committees and the wider Group, including our subsidiaries. At its December 2018 meeting, the Board approved a Board Governance Manual and Delegated Authorities Manual, which are key elements of the Group's governance framework, together with an Executive Governance Manual. The Board and Executive Committee receive updates on the performance of the Group and each of the Divisions at each meeting. The directors also engaged with directors of Divisional operating companies during the year to ensure they were kept informed of divisional board matters.<br>Risk and regulatory reporting enhancements have been implemented, including a regulatory tracker to monitor Group and Divisional regulatory matters and engagement. |

# Composition, induction and evaluation *continued*

## Board evaluation *continued*

| Area | Activities during 2018 |
|---|---|
| Management and focus of meetings | The effective use of Board time is a key focus for the Company's new Chairman. He has enhanced the process for finalising Board agendas. Work has also been undertaken to identify the key focus areas for the Board, its committees and the Executive Committee for 2019, in order to ensure the commitments made to shareholders in the Rights Issue Prospectus continue to be delivered. |
| Strategic oversight | The Board's role in the 2018 CPC is set out on page 100. The Board has monitored progress on the work areas and actions arising from the CPC during the year. The Board also reviewed the Company's Blueprint, including strategic drivers. You can read more about this on page 35. |
| Risk management and internal control | The CEO, Board and Executive Committee have led various initiatives to strengthen our risk management framework during the year. The improvements in this area are set out in our Group Risk Committee (GRC) report on pages 132 to 136. A new Chairman of the GRC has been appointed, and membership further strengthened with two further members of the Board joining the Committee.<br>Following the appointment of an Group Interim Chief Risk Officer (CRO), the GRC has been focused on effective oversight of the key risks across the Group, which has involved greater challenge on strategic risk issues, being focused on the customer and horizon scanning for emerging risks.<br>A new Group Risk Appetite framework has been implemented, together with Group level risk policies. The management information and reporting in support of the risk framework has also been enhanced and now focuses on key risks facing the Group, both current and emerging, and identifies actions to mitigate the risks.<br>A cross Divisional Risk forum has been created which meets monthly involving the Chairman of the GRC, Divisional CRO's, the Group Interim CRO and the Group Interim Chief Internal Auditor.<br>During the year a Group-wide Conduct Risk Assessment was also completed and this, together with an ongoing action plan, has been submitted to the FCA. |
| Succession planning and human resource management | As reported above and elsewhere throughout this report, the composition of the Board has been strengthened during 2018.<br>There has also been a focus on adding centralised functions to support the Divisions. This has included the appointment of a Group Director of Communications, a Group Data Protection Officer, a Group HR Director, a Group Head of Reward, a Group Chief Information Officer and a Group Chief Information Security Officer.<br>A Group Interim Chief Internal Auditor was appointed during the year. |

### Board evaluation 2018

Given the significant and far reaching Board changes, as described above, Patrick Snowball asked Andrea Blance, Senior Independent Director (SID) to facilitate this year's Board and Committee evaluation process.

Having been on the Board through the whole of 2018, being appointed in March 2017, Andrea has played a key role in ensuring continuity on the Board; as such, Andrea was able to utilise her knowledge of the Group and her experience, including of the events of 2017, to develop the evaluation process.

The process can be summarised as follows:

**1. Design of the questionnaire**

A series of questions were designed, in collaboration with Lintstock, to seek input from Board members on the effectiveness and composition (including diversity) of the Board and its Committees, how the Board was operating following the membership changes which had been implemented during the year, and the performance of the Chairman.

**2. Interviews with Board members**

Through a series of one-to-one interviews, the SID reviewed the Directors' responses to the questionnaire and any other issues raised. The SID did not interview Simon Thomas as he had only very recently joined the Board during December 2018 and had only attended one Board meeting.

**3. Report produced**

Following the one-to-one interviews, the SID analysed the Directors' responses to the questions and the discussions that were held. The SID then compiled a confidential and non-attributable report with recommended improvement actions for discussion by the Board. The SID shared the report with the Non-executive Directors prior to the Board meeting.

**4. Board review of the outcome and action plan proposal**

The Board reviewed the outcome of the interview process and the recommended actions. It considered the effectiveness of the Board, its Committees and individual directors.

## Outcome of the evaluation process: Board and Committees

> There was an expectation that effectiveness would be enhanced as the new Board members increased their knowledge of the Group and its businesses following completion of their extensive induction programmes;

> There were positive initial views on the diversity and composition of the newly composed Board and a feeling that the skillset of the new directors was complementary; and

> There was an agreement that Board members acted in a collegiate and constructive manner.

Following the Board's discussion on the findings of this year's evaluation of the performance of the Board and its committees, it was agreed that in general, the Board and its Committees were performing effectively, discharging their duties and responsibilities.

## Outcome of the evaluation process: Chairman

As noted above, as part of our annual evaluation process, Andrea Blance, as SID, led an early initial review of the Chairman's performance, tailored to reflect the fact that Patrick had only been in post since the 21 September and focused on a number of areas, including:

> the overall effectiveness of the Chairman;

> the Chairman's working relationship with the CEO and non-executive directors;

> whether and how the Chairman fostered an open, inclusive atmosphere in Board meetings, and encouraged participation by all members; and

> the Chairman's priorities for the Board.

As part of the process Andrea Blance interviewed Board members in private sessions. It was concluded that the Chairman was performing his role of leading the Board effectively. Andrea Blance discussed the feedback and areas for development with the Chairman.

## Actions

As always there are some areas that provide room for improvement. The following key areas were identified, which the Board agreed to action, following a recommendation from the SID and Chairman:

> Whilst the view was that the focus of time on the agendas was appropriate at this point, there was a need to increase the focus of agendas on the key strategic issues which it was agreed would add value for the Group's various stakeholders, as the Board members' knowledge of the Group and its businesses began to increase. Responsibility: Chairman.

> New Board members to continue deepening their understanding of the Group and its businesses. Responsibility: Board members.

## Individual Director Performance, Independence and Re-appointment

The composition of our Board is reviewed annually by the nomination committee to ensure that there is an effective balance of skills, experience and knowledge.

Having undertaken a review of the skills, experience and knowledge of the Board, the Nomination Committee considered the independence and time commitment of the directors, including the Chairman. Following recommendations from the Nomination Committee, the Board determined that all Directors continue to be committed to their roles, have sufficient time available to perform their duties and perform effectively. As such, all the Directors will be seeking election or re-election by the shareholders at the 2019 AGM, with the exception of John Straw who has informed the Board that he does not intend to stand for re-election at the 2019 AGM.

The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance. The Board took into consideration the Code and indicators of potential non-independence, including length of service. At year end, all of the Non-executive Directors, with the exception of the Chairman, whose independence is only determined on appointment, have been determined by the Board to be independent.

## Next year

A rigorous and formal evaluation will also be undertaken next year. Whilst under the 2018 Code we are not required to undertake an external evaluation, the Chairman and Board will review and determine the most appropriate evaluation process.

# Nomination Committee report

"Over the last year, the Nomination Committee has focused on strengthening the Board following our commitment made shareholders in 2018"

Patrick Snowball
*Chairman*

## Members

### Current members

**Patrick Snowball**
(Chairman from 21 September 2018)

**Andrea Blance**

**Elizabeth Chambers**
(Member from 31 July 2018)

**John Straw**

**Paul Hewitt**
(Member from 31 July 2018)

**Angela Knight**
(Member from 31 July 2018)

**Secretary: Kenneth Mullen**

### Other members during the year

**Malcolm Le May**
(Chairman until 1 February 2018)

**Stuart Sinclair**
(Chairman from 1 February to 21 September 2018)

**Rob Anderson**
(Member from 2 March 2009 until 11 December 2018)

**David Sear**
(Member from 1 March 2017 until 26 January 2018)

## Annual Statement by the chairman of the Nomination Committee

On behalf of the Board, I am pleased to present to you a report on the work of the Nomination Committee during 2018, a year of significant transformation for the Group.

As reported last year, the Board and Nomination Committee reviewed the composition of the Board and identified the need to strengthen it following the turnover of individuals during the last half of 2017. Success of the Group begins at the top, with a strong Board and senior management team at both Group and divisional level.

The primary focus of the Nomination Committee and the Board has been on the recruitment of new Board members as well as strengthening the senior management teams across the Group. During 2018, I have joined the Board as Chairman as well as three additional non-executive directors.

To find the most suitable candidates for the Board, the Committee makes a determination on the skills and experience required to align the Board's composition with the Group's strategic goals, whilst also maintaining an appropriate level of diversity. In that regard, I am pleased to report that the Board has 38% female representation.

The Committee and the Board also reviewed the composition, skills and membership of the Board committees, including the Nomination Committee, to ensure it has the right individuals on all its committees following the recent recruitments. More detail on the composition of the Committee can be found on the right, and on the Board recruitment process undertaken during 2018 on page 123.

The Committee has also focused on succession planning for the senior management team by strengthening the Group's executive team as part of the wider governance review. We have secured a number of senior management appointments, including a Group HR Director, Group Chief Information Officer and a Group Data Protection Officer, and have made a number of key interim Group senior management appointments with the aim of creating permanent positions during 2019. Further details on succession planning can be found on page 123.

We have, as a Committee, also had oversight of the applicable aspects of the 2018 Code which is effective for financial years beginning on or after 1 January 2019. During 2019, we will continue to have oversight of the changes needed to ensure compliance with the 2018 Code where relevant to the Committee. The Committee approved its new terms of reference and agenda planner in January 2019 which have been specifically reviewed and updated to reflect the 2018 Code and its requirements. It also approved a number of recommended changes to its processes and documentation including establishing a formal board skills matrix. We also requested that the senior management team, with Group HR support, refocus on diversity during 2019, taking into account the 2018 Code, the voluntary recommendations of the Hampton Alexander, Parker and Davies reviews, as well as the Group's wider strategy, objectives and remuneration.

## Composition of the Committee

The Nomination Committee has had a number of changes to its composition during 2018, with the Chairman having changed three times from Malcolm Le May who was chairman in his capacity as Interim Executive Chairman until 1 February 2018, followed by Stuart Sinclair until 21 September 2018 as part of his appointment as Interim Chairman, and finally to Patrick Snowball as the current non-executive Chairman. It has also been refreshed following the appointment of three new non-executive directors. As a result, there are now seven members of the Committee. Further details on the Board changes can be found on pages 114.

All non-executive directors are members of the Nomination Committee and the CEO attends meetings by invitation only. The role of the CEO as an attendee is to provide a better understanding of the strategic issues facing the Group and the current skills and experience of the senior management teams in the Divisions and in the corporate office. During 2018, the Committee was particularly focused on the recruitment of both the non-executive Chairman and the non-executive directors. Further information on the recruitment process can be found on page 123.

## Role of the Committee:

The primary function of the Committee is to monitor the balance of skills and experience on the Board and its committees and to ensure that the Board comprises individuals with the necessary skills, knowledge, experience and diversity to ensure it is effective.

The terms of reference of the Committee can be found on the Group's website at www.providentfinancial.com.

In order to fulfil its role, the Committee:

- regularly reviews the structure, size and composition (including skills, knowledge, experience and diversity) of the Board, and makes recommendations to the Board for any changes to its composition to ensure it remains appropriately refreshed;
- fully considers the succession planning requirements for directors and the senior management teams in the Divisions and the corporate office, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board, in the Divisions and in the corporate office in the future;
- keeps under review the leadership needs of the Group, to ensure it remains competitive in the marketplace;
- evaluates the balance of skills, knowledge, experience and diversity on the Board before any appointments are made and prepares a description of the role and identifies the capabilities required for a particular appointment. The Committee considers candidates on merit and against objective criteria with due regard to the benefits of diversity, including gender;
- identifies and nominates to the Board candidates to fill Board vacancies; and
- periodically reviews and considers the performance and effectiveness of the Committee through the results of the Board and committee performance evaluation process.

# Nomination Committee report *continued*

## Key Achievements for 2018

- The appointment of Malcolm Le May as Chief Executive Officer.
- The appointment of Patrick Snowball as non-executive Chairman, providing effective leadership and direction for the Board.
- The appointment of Elizabeth Chambers, Paul Hewitt and Angela Knight as non-executive directors, thereby strengthening the mix of relevant skills and experience on the Board.
- The appointment of a Group Human Resources Director.
- As part of the new appointments mentioned above, the Board reviewed its composition (including diversity), skills and membership of its committees to ensure it had the individuals with the right experience and skills on each committee. More details on this can be found on page 123.
- Through the new appointments, the Nomination Committee has reached its target to achieve 33% female representation on the Board by 2020. See the below chart for more details.
- The recruitment and appointment of Simon Thomas as the successor to the Group Finance Director.
- Provided advice and guidance on a number of key executive and senior management appointments and continued to oversee succession planning.

## Priorities for 2019

- Continue the search to appoint a permanent Group Chief Risk Officer.
- Continue to work towards having a better mix of diversity and skills by achieving the target of 33% female representation on its Executive Committee (and its direct reports) as well as maintaining its target at Board level.
- Review, approve and embed the changes needed to ensure compliance with the 2018 Code.
- Continue to focus on succession planning across the Group, including senior management roles and Board appointments, to strengthen the diverse talent pipeline and identify recruitment needs for key roles.
- Consider the requirements of the senior management and certification regime on future recruitment across the Group.
- The appointment of a new Chairman of Vanquis Bank, who will also join the Company's Board as a non-executive director.
- Continue to strengthen the Board with the necessary recruitment.
- Appoint a CEO for Vanquis Bank.

## Diversity

The Board is committed to supporting diversity and inclusion in the boardroom, and it believes that a wide range of experience, age, background, perspectives, skills, and knowledge combine to contribute towards a high performing and effective board. An effective and diverse board then has the foundations to be able to support stakeholders views, challenge management and achieve the Group's overall strategic aims by having a wider range of perspectives represented at Board level.

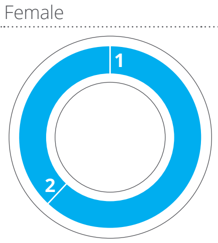
Our approach to diversity at all levels in the Group is set out in our corporate policy on equality, diversity and inclusion. The Board, through the Nomination Committee, strives to recruit directors from different backgrounds, with diverse experience, perspectives, personalities, skills and knowledge. In the case of non-executive directors, the selection process is designed to ensure there is consideration given to the specific responsibilities allocated to the non-executive directors on the Board.

The Nomination Committee and the Group as a whole continues to be committed to increasing diversity across the Group's businesses and supporting the development and promotion of talented individuals, regardless of gender, nationality or ethnic background. The Committee continues to believe that appointments to the Board and to other senior management positions should be based on merit.

## Board composition

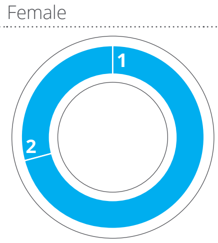
### The Board

| | | |
|---|---|---|
| 1 | Male | 62% |
| 2 | Female | 38% |




### Executive Committee and direct reports

| | | |
|---|---|---|
| 1 | Male | 71% |
| 2 | Female | 29% |




During 2018, the Group only engaged executive search firms who signed up to the Voluntary Code of Conduct for Executive Search Firms as reported on page 123, and as set out in more detail on page 123 has made a number of internal female promotions and Board appointments.

As reported in previous years, we continue to support the voluntary Lord Davies' and Hampton Alexander 'Women on Boards' target of having 33% female representation on the Board by 2020, and having more than 33% female representation in the wider executive committee and direct report roles. As part of the recruitment processes, which were overseen by the Committee and are set out in more detail on page 123, diversity was an important consideration of the Board. With the addition of three new non-executive directors, the Board is pleased to report it has 38% representation of women on the Board. In anticipation for the 2018 Code reporting requirements next year and following the recommendations of the Hampton Alexander review, we have included a breakdown of male and female representation on the Group's Executive Committee and their direct reports, and as previously reported we are still committed to achieving the goal of 33% before 2020. The percentage of female representation in the wider senior management can be found on page 78.

In support of our policy on equality, diversity and inclusion, which we have operated during 2018 and in accordance with the following principles and initiatives will continue throughout 2019:

- to consider candidates for appointment as non-executive directors from a wider pool, including those with little or no listed company board experience;
- to only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms which promotes gender diversity and best practice for corporate board searches;
- to ensure the Board evaluation process includes an assessment of the Board's diversity including gender, social and ethnic backgrounds, and cognitive and personal strengths; and
- where possible, each time a member of a senior management team or a director is recruited, at least one of the shortlisted candidates will be female.

It is the Nomination Committee's role to review the corporate policy on equality, diversity and inclusion and any action plans that support this policy.

## Recruitment

### Appointment of Malcolm Le May

Following Peter Crook's resignation in August 2017, the Board commenced the search for a new Chief Executive Officer, facilitated by Russell Reynolds (previously Zygos). As part of this process, consideration was given to an internal talent review and succession plan which Ridgeway Partners had completed for the Board in August 2017.

Russell Reynolds presented a list of potential candidates to the Board.

Manjit Wolstenholme, Stuart Sinclair and Malcolm Le May met with six shortlisted candidates some of whom were also interviewed by other members of the Board. Malcolm Le May, who was acting as Interim Executive Chairman was approached by the Board and asked to consider applying for the role.

When considering the candidates, the Nomination Committee, excluding Malcolm Le May, took the time to consider the attributes Malcolm Le May could bring to the role, particularly as the Committee and the Board had been in a position to observe him in action and had been impressed with his management style and leadership since taking on the role of Interim Executive Chairman.

The Board approved the appointment of Malcolm Le May on 1 February 2018 with immediate effect.

### Appointment of Patrick Snowball

Following the tragic death of Manjit Wolstenholme, Malcolm Le May was appointed as Interim Executive Chairman. On the subsequent appointment of Malcolm as CEO, Stuart Sinclair assumed the role of Interim Executive Chairman whilst the Board commenced the search for a new, independent Chairman.

The search was facilitated by Russell Reynolds and based on discussions with the Board members, input from major shareholders and regulators, a role specification was agreed.

Six potential candidates were interviewed by Stuart Sinclair, Andrea Blance and Malcolm Le May. The preferred candidate, Patrick Snowball also met with the Company's audit partner and a representative from one of the Company's brokers, Barclays Bank.

The Board believed it was appropriate to include Stuart Sinclair in the recruitment process for the new Chairman due to the interim nature of his appointment and the notable changes of the Board members at that time.

The Nomination Committee reviewed Patrick Snowball's proposed appointment and recommended this to the Board following consideration of the structure, size and composition of the Board and its committees, and satisfied itself that he had sufficient time, skills, knowledge, experience and independence to carry out his proposed role and responsibilities as Chairman.

The appointment was approved by the Board with effect from 21 September 2018.

### Appointment of Elizabeth Chambers, Paul Hewitt and Angela Knight

The Nomination Committee agreed in December 2017 that it was necessary to add to the current skillset of the Board in order to strengthen its composition and it recommended to the Board that it should seek to recruit at least two additional non-executive directors with experience in the consumer credit sector.

The Group engaged Ridgeway Partners to facilitate the recruitment process. It was specifically identified, following a detailed review of the Board composition, that the Group would benefit from the recruitment of specifically (i) a chairman of the Audit Committee; (ii) a chairman of the Group Risk Committee; and (iii) a non-executive director to chair the future customer, culture and ethics committee, once established by the Board.

11 potential candidates were interviewed by some members of the Board including Stuart Sinclair, Andrea Blance and Malcolm Le May.

A number of candidates then went on to meet the rest of the Board members.

Angela Knight, Paul Hewitt and Elizabeth Chambers were identified as the preferred candidates for their respective roles as chairmen of the Group Risk, Audit and the future customer, culture and ethics Committee(s) respectively.

The Nomination Committee recommended the appointments to the Board following consideration of the structure size and composition of the Board and its committees, having made a determination that they each had sufficient time, skills, knowledge and experience to carry out their proposed roles and responsibilities as non-executive directors.

The appointments of the three new non-executive directors were approved by the Board with effect from 31 July 2018.

### Appointment of Simon Thomas

A succession planning exercise for the Group Chief Financial Officer role and Russell Reynolds were engaged to facilitate this process.

Following agreement of the role specification a list of 10 candidates were proposed to the Board.

All members of the Nomination Committee met with four potential candidates. In parallel to this, Russell Reynolds continued to present further potential candidates for consideration. After an internal succession planning assessment was also undertaken, the Board members met again with Simon Thomas as the preferred candidate.

The Nomination Committee recommended the appointment of Simon Thomas to the Board following consideration of the structure size and composition of the Board and its committees, his role profile and curriculum vitae. They were also satisfied that there were no conflicts of interest and that he had sufficient time, skills, knowledge and experience to carry out his responsibilities as Group Chief Financial Officer.

The appointment was approved by the Board with effect from 3 December 2018.

As some of these appointments were made since the last AGM, Patrick Snowball, Elizabeth Chambers, Angela Knight, Paul Hewitt and Simon Thomas are standing for election at the 2019 AGM.

Russell Reynolds is a signatory to the Voluntary Codes Of Conduct for Executive Search Firms. Except for being engaged to recruit a non-executive Chairman, Chief Executive Officer and Chief Financial Officer, Russell Reynolds had no other connection to the Group during the rest of 2018.

Ridgeway Partners has been accredited by the Hampton Alexander Review for its compliance with the Voluntary Codes Of Conduct for Executive Search Firms. During 2018, other than the recruitment of the three non-executive directors mentioned above, Ridgeway Partners had no other services or connection to the Group.

## Succession planning

Prior to the issues the business faced during 2017, the Board had engaged Ridgeway Partners to conduct a talent review and succession planning exercise, part of which fed into the initial search for a Group CEO in 2017 and which was reported last year as being presented to the Nomination Committee in December 2017. Following the recruitment of the CEO in early February 2019, the Group decided to create additional central roles and accordingly, during 2018, a number of Group level appointments have been made such as a new Group HR Director. As a result of this appointment the continued work on talent review and succession planning has now been subsumed into the role of the central Group HR function and will be further developed in 2019.

Succession planning is vitally important to the continued success of the Group, and achieving its strategic aims. It safeguards a pipeline of talented individuals and enables the Group to fill vacancies by internal appointments, creating a good balance with the skillset available through external appointments. As the Board believes in its importance, succession planning for senior management across the Group is kept under review by the Committee.

During 2018, the Nomination Committee has received updates on succession planning and appointments of members of the Executive Committee and the wider senior management team including the appointment of Chris Gillespie as permanent Managing Director of CCD and the appointment of a new Finance Director in CCD.

# Nomination Committee report *continued*

## Committee calendar in 2018

### January

- > Received an update on the recruitment process for a CEO, including consideration of Malcolm Le May's application.
- > Considered, and approved for recommendation to the Board, a number of key executive committee and senior management appointments.
- > Discussed the need for an additional non-executive director.

### February

- > Approved the appointment of Malcolm Le May as CEO and the appointment of Stuart Sinclair as Interim Chairman.
- > Approved appointments to Board committees.
- > Approved the extension of Rob Anderson's term of office.
- > Approved a subsidiary board appointment.

### June

- > Received an update on the recruitment process for a non-executive Chairman.
- > Received an update for the recruitment process of the new non-executive directors.
- > Received an update on the succession planning and recruitment process for a Group Chief Financial Officer.

### July

- > Approved for recommendation to the Board, the appointment of Elizabeth Chambers, Angela Knight and Paul Hewitt as non-executive directors.
- > Approved for recommendation to the Board, the appointment of Patrick Snowball as non-executive Chairman with effect from 21 September 2018.

### November

- > Approved for recommendation to the Board, the appointment of Simon Thomas, as Group Chief Financial Officer with effect from 3 December 2018.

During 2018, the Nomination Committee was particularly active between its meetings due to the exceptional circumstances and priorities of the Board during the Rights Issue process in early 2018. Whilst, it only formally met twice during the year, it was active outside of the two formal meeting as shown by the Committee calendar in 2018. The Nomination Committee focussed on the various recruitment processes that were needed for the Board following the huge amount of change that has occurred during 2017 and 2018.

Succession planning will remain a key ongoing focus of the Nomination Committee in 2019 and beyond. The Committee will continue to ensure that there are appropriate succession plans in place across the Group and that there are appropriate skills and experience on the Board amongst both the executive and non-executive directors, and within the Executive Committee and senior management teams across the Group.

The Committee also intends to support the Group's diversity policy within its succession planning activities by ensuring that there is a diverse pipeline for succession and that the level of female representation within the senior management teams across the Group is maintained and, where possible, improved during the course of 2019 whilst at the same time ensuring that the right level of knowledge, skills and experience is maintained. As part of the succession planning and strengthening of the Group functions, a variety of internal promotions were made during 2018 to Group level, including the Group Director of Communications, the Group Data Protection Officer, the Group Head of Reward, the Group Chief Information Officer and the Group Chief Information Security Officer. Two of these were female promotions.

## Policy on Board appointments

The Board reviewed its policy on Board appointments and other directorships in December 2018, and its policies were amended shortly thereafter to reflect the changes of the 2018 Code.

The Board's policy on other directorships is designed to ensure that all directors remain able to discharge their responsibilities to the Company.

Prior to the appointment of any new directors, the Board should consider the other demands and significant commitments on the prospective director's time before approval of that appointment. Prior to appointment, significant commitments will be disclosed with an indication of the time involved for consideration by the Board.

Each director should not undertake any additional external appointments without the prior approval of the Board and the reasons for permitting the appointment will be explained in the Annual Report and Financial Statements.

The contractual appointment documents for directors state that any proposed appointment to the board of another company will require the prior approval of the Board. The Company's policy is that a non-executive director should have sufficient time to fulfil his/her duties to the Company, including, where appropriate, chairing a committee.

The Board must consider all requests for permission to accept other directorships carefully, subject to the following principles:

- > a non-executive director would not be expected to hold more than four other material non-executive directorships;
- > if a non-executive director holds an executive role in a FTSE 350 company, they would not be expected to hold more than two other material non-executive directorships;
- > in line with the Code, an executive director will be permitted to hold one non-executive directorship in a FTSE 100 company (and to retain the fees from that appointment) provided that the Board considers that this will not adversely affect their executive responsibilities to the Company; and
- > the Board would not permit an executive director to take on the chairmanship of a FTSE 100 company.

Patrick Snowball
*Chairman*
13 March 2019

# Audit, risk and internal control

## Audit Committee and auditor

"The Audit Committee provides governance and oversight of the financial reporting and disclosure process, the audit process and the system of internal controls and compliance."

Paul Hewitt
*Audit Committee Chairman*

### Members

#### Current members

**Paul Hewitt**
(Chairman from 31 July 2018)

**Andrea Blance**
(Chairman up to 30 July 2018)

**John Straw**

**Angela Knight**
(Member from 31 July 2018)

**Elizabeth Chambers**
(Member from 31 July 2018)

**Secretary: Kenneth Mullen**

#### Other members during the year

**Stuart Sinclair**
(Member until 21 September 2018)

**Malcolm Le May**
(Member until 1 February 2018)

# Audit, Risk and Internal Control *continued*

## Audit Committee and auditor *continued*

### Annual Statement by the Chairman of the Audit Committee

As the recently appointed chairman of the Audit Committee, I am pleased to present the Audit Committee's report for the year ended 31 December 2018. I would like to thank Andrea Blance for her diligence during her tenure in the role of Audit Committee Chairman, and welcome her continued valuable input as a member, along with Angela Knight and Elizabeth Chambers. This report is intended to provide a summary of the activities of the Audit Committee and its key responsibilities and confirms compliance with the Competition and Markets Authority's Statutory Services Order. Furthermore, I look forward to attending the AGM on 21 May 2019 to answer any questions on the work of the Committee.

### Composition of the Committee

The membership of the Committee has been updated significantly in 2018, with the addition of Angela Knight, Elizabeth Chambers and myself. The members have a wide range of business and financial experience which is evidenced by their biographical summaries on pages 94 to 97. Andrea Blance and myself both have considerable recent and relevant financial experience, as detailed on pages 96 to 97. Other attendees at the Audit Committee meetings in 2018 were, by invitation; Malcolm Le May (Chief Executive Officer who was formerly a member until 1 February 2018), Andrew Fisher, (Group Finance Director to 3 December 2018); Gary Thompson, (the Group Financial Controller), David Mortlock, (the Head of Group Internal Audit until 25 April 2018), Shaun Temple Brown (Interim Group Chief Auditor from 17 April 2018), Patrick Snowball (Group Chairman from 21 September 2018), Vicki Turner (Group Senior Finance Manager), Simon Thomas (Group Chief Financial Officer from 3 December 2018) and Deloitte LLP, the external auditor.

### Role of the Audit Committee and auditor

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities by monitoring the integrity of the financial statements of the Group and other financial information before publication, and reviewing significant financial reporting judgements contained in them. In addition, the Committee also reviews:

> the system of internal financial and operational controls on a continuing basis, and the arrangements and procedures in place to deal with fraud and bribery; and

> the accounting and financial reporting processes, along with the roles and effectiveness of both the Group internal audit function and the external auditor.

However, the ultimate responsibility for reviewing and approving the Annual Report and Financial Statements 2018 remains with the Board. The terms of reference of the Committee can be found on the Group's website at www.providentfinancial.com.

The Committee is also specifically responsible for:

> Initiating and oversight of any tender process in relation to the appointment of an external auditor;

> Oversight and approval of the scope and fee for the audit;

> Assisting the Board in assessing the Company's ongoing viability, the basis of the assessment and the period of time covered;

> Reviewing and recommending to the Board quarterly trading statements;

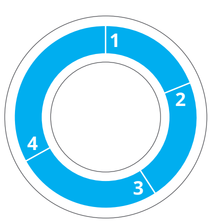
> Approving the Group internal audit plan annually; and

> Keeping under review the effectiveness of the Group's system of internal controls by considering Group internal audit activity reports at each meeting and reporting to the Board on a regular basis.

The Audit Committee debated and approved the internal audit plan for 2019. The audit plan is reflective of both the material risk themes the Group faces, as well as the Group's strategic drivers. The Committee is satisfied that the Group internal audit function has the appropriate resources to deliver the 2019 plan (both in-house and through its strategic co-sourcing relationship).

### Allocation of time

| | | |
|---|---|---|
| 1 | Governance | 19% |
| 2 | Financial reporting | 22% |
| 3 | External Audit | 26% |
| 4 | Internal audit | 33% |




### At each meeting, the Committee:

> Had a discussion with both the external and internal auditor without any executive director being present, this being on a rotating basis from December 2018;

> Reviewed a Group internal audit activity report;

> Reviewed updates from the external auditors; and

> Received an update on the activities of the Vanquis Bank audit committee.

## Committee calendar in 2018

### January

- Reviewed the 2017 Financial Statements & areas of significant judgement, including going concern and the viability statement;
- Received an update on non-audit fees;
- Reviewed and approved the internal audit charter 2018;
- Received a verbal update on external audit activity, including the Group IT audit;
- Reviewed the internal controls positioning paper;
- Received an update on the FCA discussions concerning CCD; and
- Reviewed the Audit Committee effectiveness review results.

### February

- Reviewed and approved the non-audit fee policy;
- Received an update on whistleblowing across the Group;
- Reviewed a prepared response letter to the FRC answering questions in relation to the Vanquis Bank ROP;
- Reviewed and approved the viability statement for the final results;
- Reviewed and recommended the Annual Report and Financial Statements 2017 be prepared on a going concern basis, and recommended the Annual Report and Financial Statements 2017 be approved by the Board;
- Reviewed and approved the fair, balanced and understandable report;
- Reviewed the Chairman's annual audit report for inclusion in the Annual Report and Financial Statements 2017;
- Confirmed the external auditor's statement of independence and objectivity;
- Reviewed the 2017 external audit full year report;
- Reviewed and proposed the reappointment of the external auditor;
- Reviewed and approved the annual internal controls/risk management opinion;
- Reviewed the Group internal audit activity report; and
- Received an update on the FCA discussions concerning CCD.

### May

- Reviewed and confirmed the whistleblowing escalation process;
- Reviewed and approved the Group internal audit effectiveness review to be undertaken by PwC;
- Received an update on legacy internal audit findings and approved proposals for their future treatment;
- Received an update from Group internal audit in relation to the work they were completing at the FCA's request;
- Reviewed the and considered the results of the Moneybarn impairment review following the implementation of IFRS 9;
- Reviewed and noted the results of the FRC's audit quality review of Deloitte;
- Reviewed and considered the content of Deloitte's management letter on internal controls; and
- Approved the revised non-audit fee policy.

### July

- Reviewed and approved the revised Committee terms of reference;
- Received an update on the outstanding internal audit IT findings;
- Reviewed, carefully considered and approved the areas of significant judgement for the ix months ended 30 June 2018;
- Reviewed and approved the going concern paper for the interim results;
- Reviewed and recommended to the Board the interim results for the six months ended 30 June 2018;
- Reviewed and carefully considered contingent liabilities;
- Received feedback on the external auditor from the Group finance function and the divisional finance teams;
- Reviewed and approved an external audit IT benchmarking proposal;
- Reviewed and approved the Group internal audit status and action plan, including the external quality assessment review;
- Received an update from Group internal audit in relation to the work they were completing at the FCA's request;
- Received an update on the successful implementation of the GDPR;
- Reviewed and approved the external quality assessment (EQA) action plan;
- Received a 'teach-in' case study session related to IFRS 9 treatment within Moneybarn; and
- Received an update on a letter to the FRC responding to queries raised in relation to the FCA's investigation into ROP and its disclosure within the 2016 accounts.

### October

- Reviewed and approved the revised committee terms of reference (ToR);
- Reviewed the ToR adherence plan – status of compliance throughout 2018;
- Reviewed and recommended the Q3 interim management statement to the Board;
- Received an update on the revised 2018 budget forecast;
- Reviewed and approved the 2018 external audit planning report for the year ending 31 December 2018;
- Reviewed and approved the external audit fees;
- Confirmed the external auditor's statement of independence and objectivity;
- Reviewed the Group internal audit update and activity report; and
- Received an update on the EQA.

### December

- Received an update on the design and process in relation to the Annual Report and Financial Statements 2018;
- Reviewed and considered the annual report on whistleblowing and anti-bribery and corruption;
- Received a status update on the EQA action plan;
- Received an update on the interim audit by the external auditors;
- Confirmed the coordination between the activities of Internal and external audit;
- Reviewed and approved the 2019 internal audit plan; and
- Reviewed the Group internal audit update and activity report.

In addition to the above, the Audit Committee also received a teach in session from the Group finance function on 21 September 2018 relating to significant assumptions and the treatment of the IFRS 9 accounting standard.

# Audit, Risk and Internal Control *continued*

## Audit Committee and auditor *continued*

### Fair, balanced and understandable

At the request of the Board, the Committee considered whether, in its opinion, the Annual Report and Financial Statements 2018, taken as a whole, is fair, balanced, and understandable and provides the necessary information for the reader to assess the Group's position and performance, business model and key audit matters.

#### Process

In justifying this statement the Committee considered the robust process in place to create the Annual Report and Financial Statements 2018 including:

> The early involvement of the Committee in the preparation of the Annual Report and Financial Statements 2018 which enabled it to provide input into the overall messages and tone;

> The input provided by divisional and Group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;

> The reviews conducted by external advisors appointed to advise on best practice;

> The regular review of the Group internal audit activity reports which are presented at Committee meetings and the opportunity for the non-executive directors to meet the external auditor without any executive of the Group being present via the private sessions of the Committee;

> The Committee meetings reviewed and considered the draft Annual Report and Financial Statements 2018 in advance of the final sign-off; and

> The final sign-off process by the Board.

When forming its opinion, the Committee reflected on the information it had received and its discussions through the year. In particular, the Committee considered whether:

#### The report is fair

> Is the narrative reporting on the divisions consistent with the reporting in the financial statements;

> Are the key messages in the narrative reporting reflective of the financial reporting; and

> Are the KPIs disclosed appropriate to understanding the underlying performance of the Group and its divisions.

#### The report is balanced

> Is there a good level of consistency between the narrative reporting and the financial reporting and is the messaging in each consistent when read independently of each other;

> Does the narrative reporting on the Divisions reflect both the positive and negative aspects of performance;

> Are both the statutory and adjusted financial measures explained clearly and given equal priority and prominence;

> Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee report consistent with the disclosures and critical judgements set out in the financial statements; and

> How do these judgements and issues compare with the risks that the external auditor will include in its report.

#### The report is understandable

> Is there a clear and understandable structure to the report;

> Are the important messages highlighted appropriately and consistently throughout the document with clear signposting to where additional information can be found; and

> Is the narrative within the Annual Report and Financial Statements 2018 straightforward and transparent.

This assessment was also underpinned by the following:

> The papers on critical accounting assumptions and key sources of estimation uncertainty presented by management to the Audit Committee which documents the approach taken to the critical accounting assumptions and key sources of estimation uncertainty documented in the financial statements on page 178. The assumptions and the going concern statement were carefully reviewed and challenged by the Committee with the assistance of the external auditor who also fully analysed and concurred with the assumptions made as part of the year-end process;

> The consistency between the risks identified and the issues that are of concern to the Committee;

> The comprehensive reviews of the Annual Report and Financial Statements 2018 undertaken at different levels in the Group which aims to ensure consistency and overall balance; and

> The external auditor's report on the Annual Report and Financial Statements 2018.

#### Conclusion

Following its review, the Committee was of the opinion that the Annual Report and Financial Statements 2018 is representative of the year, and presents a fair, balanced, and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

### Key activities in 2018

- Continued to monitor the integrity of the financial statements of the Group including, in particular, the annual and half-yearly reports and the interim management statements;
- Reviewed the statement set out on page 135 concerning internal controls and risk management and considered the significant risks identified in relation to the implementation of the new operating model in CCD;
- Oversaw the Group's co-operation with the Financial Reporting Council (FRC) in respect of its enquiries in relation to, amongst other things, the adequacy of the disclosures in the Group's annual report and financial statements for the year ended 31 December 2016 regarding the FCA's investigation into, and the suspension of, the sale of ROP to new customers. The external auditors have also been subject to an inspection review;
- Monitored and approved the methodologies adopted to comply with the adoption of IFRS 9, receiving in-house training on the topic in September 2018;
- Considered and approved proposed actions in response to the 2017 EQA on the Group internal audit function;
- Performed a deep dive on the Moneybarn IFRS 9 impairment methodology, received progress reports on addressing legacy IT control observations and the implementation of the GDPR; and
- Updated and approved its terms of reference to ensure they align with best practice and there are no areas of duplication with the work of the Group Risk Committee.

### Priorities for 2019

- Oversight of the continued embedding of IFRS 9 and other new accounting standards into the control related framework;
- Focus on Group-wide IT issues and an enhanced risk culture as well as ensuring that historic internal and external audit control observations are remediated, and thereby implementing a more integrated and robust approach to IT across the divisions;
- Oversee the implementation of the relevant parts of the new Corporate Governance Code 2018 requirements as they apply to the audit committees;
- Monitor the embedding of the changes made to the Group internal audit function during 2018, in response to the 2017 EQA;
- Continue to hold executive management to account for the implementation of corrective action plans within expected time-frames;
- Oversight of the roll out of the revised model governance framework developed in 2018 across the Group;
- Continue to monitor developments and recommendations arising from the reviews into the market and financial reporting requirements in the UK; and
- The Group internal audit plan for 2019 considers both the Group's material risk themes and strategic objectives and as such the audit plan is characterised by a number of themed reviews including: Group governance framework; Group risk management framework; affordability and responsible lending; collections, arrears and forbearance; complaints management; data governance and protection; and business continuity and resiliency.

## Group Internal Audit

The Group operates an in-house Group internal audit function which is managed by the Group Interim Chief Internal Auditor who was appointed on 17 April 2018, with specialist services provided by third-party consultants where necessary. The Group internal audit function also reports to the Committee which helps to ensure the function's independence from Group management. The Committee reviews regular reports on the activity of this function and as chairman of the Audit Committee, I also meet separately with the Group Interim Chief Internal Auditor on a quarterly basis.

From 2018 Vanquis Bank have their own internal audit function separate to that of the remainder of the Group, however there are reporting lines between the functions to ensure a consistent and balanced overview of the Group to the Committee, and I work with the Vanquis Audit Committee Chairman to ensure appropriate coordination. Vanquis Bank internal audit provided assurance over the Bank's major programmes of work during the year, including the ROP refund programme.

Group internal audit conducted three important reviews during 2018, at the request of the FCA. The reviews were focused on historic lending and collection practices in the UK home credit business. The reviews helped to confirm that the new ways of working in home credit – as a result of the strategic plan – are much improved compared to those historically.

In response to the EQA a comprehensive action plan was established – designed to improve the function's stature, relationships and working practices. The plan was approved by the Audit Committee, shared with the regulator, and its progress subsequently tracked. The plan was successfully completed in February 2019.

## External audit

### Effectiveness of the external auditor

The Committee considers the reappointment of the external auditor, including the rotation of the audit partner, annually. This includes an assessment of the independence of the external auditor and an assessment of its performance in the previous year. This is achieved primarily through a questionnaire and scorecard which is completed by key stakeholders involved in the annual audit process, including the Audit Committee, heads of finance in each of the divisions and at Group level. The scores and results of the questionnaire are collated and shared with the external auditor and an action plan to address any areas of concern identified is agreed.

# Audit, Risk and Internal Control *continued*

## Audit Committee and auditor *continued*

### Significant issues and areas of judgement considered by the Group Audit Committee

The critical accounting assumptions and key sources of estimation uncertainty considered by the Audit Committee in relation to the Annual Report and Financial Statements 2018 are outlined on page 131. In addition to the matters set out on page 131, the Committee also considered the going concern statement set out on page 70. The Committee discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus as outlined in the independent auditor's report on pages 225 to 233.

### Working with the external auditor

Until December 2018, at each of its meetings, the Committee held a separate session with the external auditor without any executive director or employee of the Group being present. This gave members of the Committee the opportunity to raise any issues, including any issues on the interim and final results of the Group, directly with the external auditor. The Committee schedules private sessions with the internal and external auditors on a rotating basis, with the option for a private session upon request. In addition I meet with the external audit partner on a quarterly basis to discuss pertinent issues.

An annual feedback report is provided to the external auditor and discussed at the Audit Committee at the July 2018 meeting.

### Audit Quality Review

During the year the FRC concluded a review of the audit performed by Deloitte LLP of the Group's financial statements for the year ended 31 December 2016. The focus of the review and their reporting is on identifying areas where improvements are required. The Chairman of the Audit Committee received a full copy of the findings of the Audit Quality Review Team and has discussed these with Deloitte LLP. Some matters were identified as requiring improvement and an action plan was agreed to ensure that the matters identified were addressed, where relevant, as part of the audit of the 2018 financial statements.

The Audit Committee was satisfied that there was nothing within the report which might have a bearing on their audit appointment.

### External auditor appointment

Deloitte LLP, the Group's external auditors, have been the Group's auditors for 7 years. It is the Group's policy to undertake a formal tender process every 10 years, or earlier, if the Audit Committee feel that this would be in the best interests of the Group. An annual assessment of the performance of Deloitte LLP is undertaken following finalisation of the Annual Report and Financial Statements and presented to the Audit Committee is May each year. The last assessment took place in May 2018. This assessment indicated that Deloitte LLP were performing in line with expectations and were considered to be independent of the Group. It was therefore considered that Deloitte LLP be proposed to be reappointed at the Group's auditor for the financial year ended 31 December 2018. The next assessment will be presented to the Committee in May 2019.

In accordance with best practice and guidance issued by the FRC, the Committee will continue to review the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process during the next financial year.

### Compliance statement

The Group has fully complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 throughout the 2018 financial year.

### Independence and objectivity

The Committee has adopted a policy on the appointment of staff from the external auditor to positions within the various Group finance departments. The policy grades appointments into four categories and sets out the approvals required. Neither a partner of the audit firm who has acted as engagement partner, or the quality review partner, or other key audit partners, or partners in the chain of command, nor a senior member of the audit engagement team, may be employed as Group CFO, Group Financial Controller or Divisional Finance Director.

The Committee has considered the independence of the Deloitte LLP audit team in light of the continued significant level of non-audit services provided in the year and have deemed that adequate safeguards have been in place including: separate partners and staff being responsible for the delivery of this work; the non-audit team do not prepare anything which would be relied upon in the audit of the Group; and the work performed is also subject to an independent Professional Standards Review and Engagement Quality Control Review process.

## Non-audit work

The Company has a formal policy on the use of the external auditor for non-audit work. This policy is reviewed annually by the Committee and was reviewed in 2018 to reflect the requirements of the EU Audit Directive and Regulations and approved at the February 2018 meeting.

The award of non-audit work to the external auditor is managed and monitored in order to ensure that the external auditor is able to conduct an independent audit and is perceived to be independent by the Group's shareholders and other stakeholders.

Work is awarded only when, by virtue of their knowledge, skills or experience, the external auditor is clearly to be preferred over alternative suppliers.

I am also required to approve in advance any single award of non-audit work with an aggregate cost of between £50,000–£250,000 and the Committee must provide prior approval for items in excess of £250,000. The Committee will always seek confirmation that Deloitte LLP's objectivity and independence are safeguarded.

The level of paid Deloitte LLP fees for non-audit work during the year was £2,269,000 (2017: £344,000) comprising £2,000,000 for services related to the Rights Issue, £67,000 for the Group interim review and £135,000 for other projects. The ratio of non-audit to audit fees during the year was 2.87:1.

The Committee have considered the independence of the Deloitte LLP audit team in light of the level of non-audit services provided in the year and have deemed that adequate safeguards have been in place including: separate partners and staff being responsible for the delivery of this work; the non-audit team do not prepare anything which would be relied upon in the Group audit; and the work performed is also subject to an independent Professionals Standards Review and Engagement Quality Control Review process.

Paul Hewitt
*Audit Committee Chairman*
13 March 2019

## Significant issues and areas of judgement

| Issue | Judgement | Actions | |
|---|---|---|---|
| **Impairment of receivables**<br><br>Receivables are impaired on recognition in accordance with IFRS 9. The level of impairment is initially dependent on the probability of a customer defaulting (PD) within 12 months utilising historic repayment data, the loss incurred if a customer default (LGD) and the exposure at default (EAD).<br><br>Repayment data for Home credit excludes data through 2017 which is not deemed to be indicative of future performance given the operational disruption within the home credit business.<br><br>Lifetime losses are recognised following a significant increase in credit risk. | Judgement is applied as to the level of impairment recognised. There is a judgement as to whether past payment performance provides a reasonable guide as to the collectability of the current receivables book, the probability of default, loss given default and exposure at default. Accordingly, this is a primary source of audit effort for the Group's external auditor. | In order to assess the appropriateness of the judgements applied, management produce a detailed report for the audit committee and the external auditor which sets out the assumptions underpinning the calculations of the probability of default, loss given default and exposure at default.<br><br>> Reviewed management's report and challenged management on the results and judgements used in the test;<br><br>> Considered the work performed by Deloitte on validating the data used in the testing performed by management and their challenge of the assumptions used; | > Considered the findings within the report in light of current trading performance and expected future performance;<br><br>> Considered the work performed by the Group Internal Audit function on information technology controls and operational controls such as cash collections, credit management and arrears management; and<br><br>> Considered the review performed by the Vanquis Bank audit committee on the Vanquis Bank impairment provisions. |
| **Retirement benefit asset**<br><br>The valuation of the retirement benefit asset is dependent upon a series of assumptions. The key assumptions are the discount rate, inflation rates and mortality rates used to calculate the present value of future liabilities. | Judgement is applied in formulating each of the assumptions used in calculating the retirement benefit asset. | The Company's external actuary, Willis Towers Watson, propose the appropriate assumptions and calculate the value of the retirement benefit asset. | The Committee considered the work performed by Deloitte on the valuation and their views on the suitable ranges of assumptions based on their experience. |
| **Provisions**<br><br>The Group makes provisions for customer remediation if all of the following are present:<br><br>(i) a present obligation (legal or constructive) has arisen as a result of a past event (ii); payment is probable (more likely than not); and (iii) the amount can be estimated reliably. | Judgement is applied as to whether the criteria for recognition has been met. In addition, if the criteria for recognition are met, judgement is applied to determine the quantum of such liabilities including making assumptions regarding the number of future complaints that will be received and the extent to which they will be upheld, average redress payments and related administrative costs. | In order to assess the appropriateness of the judgements applied, the Committee:<br><br>> Challenged the assumptions made by management to determine the provision for redress and administration costs, including sensitivity analysis of the range of outcomes; | > Reviewed the work performed by external consultants in respect of conduct matters relating to the investigations where applicable; and<br><br>> Considered the work performed by Deloitte and their views on the appropriateness of assumptions used by management, based on their experience. |

# Group Risk Committee

"I am pleased to present the report of the Group Risk Committee (GRC) which has replaced the Risk Advisory Committee, established by the previous management. As it is clearly unacceptable that Group risk was demoted to an advisory committee, the new GRC is a sub-committee of the Board and positive and significant developments have taken place in risk management during the year."

Angela Knight
*Group Risk Committee Chairman*

## Members

### Current members

**Angela Knight**

(Chairman from 31 July 2018)

**Paul Hewitt**

(member from 31 July 2018)

**Elizabeth Chambers**

(member from 31 July 2018)

**John Straw**

**Andrea Blance**

**Secretary: Kenneth Mullen**

### Other members during the year

**Stuart Sinclair**

(Chairman until 21 September 2018)

**Malcolm Le May**

(Member until 1 February 2018)

## Annual Statement of the Group Risk Committee

I would like to commence by thanking Stuart Sinclair for his valuable contribution during his tenure as the GRC Chairman, and I welcome Paul Hewitt and Elizabeth Chambers to the Committee, who bring a wealth of valuable experience to the GRC.

As it was stated last year that the risk frameworks across the Group had not been sufficiently effective, I am pleased to report on significant progress during the year. At the heart of this progress is the programme to develop and strengthen our governance and risk frameworks and the way in which the Group oversees the Divisional arrangements.

More detail on recent developments is covered later in this report, but in summary the following changes have been made during the year:

> The Board has completely reviewed its wider corporate governance arrangements and set out a clear framework for how the Group and the Divisions will operate in future. The Board are driving a new customer focused culture across the Group, 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 would be chaired by Elizabeth Chambers.

> Under this new governance framework, the GRC has been re-designed to focus on effective oversight of the Group, bring a greater challenge to strategic risk issues, underpin a customer focused viewpoint and establish forward looking risk identification.

> The GRC membership has been strengthened following the appointments of new non-executive directors with more direct and relevant industry experience, including my own appointment as Chairman with effect from July.

> A new Group Risk Appetite framework was approved by the Board which presents a clearer picture of the Group's aggregate risk profile, enabling the Board to set an overall risk appetite at the appropriate level.

> This Group Risk Appetite framework is supported by new and enhanced Group level risk policies, also approved by the Board. The management information and reporting in support of the Risk Appetite Framework has been enhanced and focusses on key risks facing the Group, both current and forward looking, and includes and monitors the mitigating actions being taken.

> A Cross Divisional Risk forum has been created which meets monthly involving Divisional CRO's, the Group Interim CRO, the Group Interim Chief Internal Auditor and I also attend this as Chairman of GRC. This forum provides an excellent mechanism for giving greater transparency on Divisional risks, a better and clearer articulation of aggregate Group level risks, a clear escalation route for emerging issues and an empowered and effective risk team, sharing forward looking risk views.

> During the year a Group-wide Conduct Risk Assessment was completed and this, together with an ongoing action plan, has been submitted to the FCA. Our Divisions operate in a highly regulated environment with very specific FCA focus, and this risk assessment gave us a much clearer view on our Group conduct profile and areas requiring continuing focus.

> Within the Divisions, each management team has been continuing to develop their individual frameworks with good progress being made. Vanquis Bank has undertaken a complete governance review and CCD have responded to the FCA related governance and control questions sufficiently to warrant the granting of full authorisation.

These are positive steps in improving the way in which we manage risk and even in my short tenure I can see we have moved a long way forward with a much more effective framework in place, with better coordination and integration in relation to how we work across the Group as a whole. There is more to be done and in particular in embedding the new frameworks, enhancing our reporting even further and aligning the GRC meetings and agendas directly to the changing risk profile. My key areas of focus during 2019 will be to build on the progress made, consider whether further Group Risk integration steps might be useful, within regulatory constraints, and to ensure the Committee stays focussed on key risks and takes direct action. This will ensure we have a supportive risk culture underpinning the Group as a whole.

The Group Risk Frameworks and supporting Divisional frameworks have been significantly enhanced. From a start point last year where there was a demonstrable need for improvement, the Group is now in a position where it has a better understanding of all risks and greater transparency of Divisional Risks, leading to a much more coordinated and well-orchestrated approach to the overall management of risk across the Group. As Chairman, I intend to build on this improving position and further embed and enhance the excellent work done in this regard throughout the year.

## Composition of the Committee

The membership of the Committee was updated in the year, to involve Paul Hewitt and Elizabeth Chambers. I took over the Chairmanship from Stuart Sinclair following my appointment on 31 July 2018 and details of my biography are set out on page 97.

Other mandatory attendees at the Committee meetings in 2018, as reflected in the terms of reference were: the Chief Executive Officer, Malcolm Le May (formerly a member until 1 February 2018); the Chief Financial Officer, Simon Thomas (from 3 December 2018); the former Group Finance Director, Andrew Fisher (up to 3 December 2018); the Group Chief Strategy Officer, David Merrett; the Group Chief Auditor, Shaun Temple Brown (from 17 April 2018); and the managing directors and Chief Risk Officers of each Division (until 21 September 2018) to discuss, inter alia, conduct risk and related governance issues. The Interim Group CRO is also required to be in attendance at all meetings. I have refocussed the attendee list of the Committee post my appointment and the Committee ToRs were updated accordingly.

# Group Risk Committee *continued*

## Key activities in 2018

- Establishing and monitoring the Group wide Risk Framework and ensuring that it operates consistently with those in place at divisional levels.
- Developing a new Risk Appetite Framework, so presenting a clearer picture of the Group's aggregate risk profile.
- Enhancing of management information and reporting, in support of the Risk Appetite Framework.
- Developing and establishing new and enhanced governance documents and policies.
- Completion of a Group wide Conduct Risk assessment and monitoring of an ongoing action plan that has been submitted to the FCA.
- Strengthening the Group Risk Committee membership through the appointment of new non-executive directors.
- Creation of a Cross Divisional Risk Forum, to provide a mechanism for the review of divisional risks and a clear escalation route for emerging issues.

## Priorities for 2019

- Building on strong progress made during 2018, the GRC will focus on a programme of continual improvement in the way the Group manages risk. The current interim Group CRO has agreed to remain in role until the end of the first Quarter 2019, by which time we expect to have progressed a new full time appointment. This will ensure a continuing risk focus and also the opportunity to provide for effective handover of responsibilities.
- To support the Board in developing its new customer centric approach and to help develop the target culture, supported by an appropriate risk infrastructure.
- To on-board the new permanent Group CRO and ensure an effective handover from the current interim.
- To review and consider the Group Risk operating model and determine where and how greater integration (subject to regulatory constraints) might provide opportunities to further enhance risk coverage, expertise and co-ordination.
- To embed and enhance the risk frameworks and associated reporting.
- To undertake reviews of key elements of our Group Risk Appetite and ensure these remain appropriate given a changing environment.
- To complete the actions set out for the Group as part of the Conduct Risk Assessment.
- To maintain a forward looking focus and ensure the Group is quick to identify emerging issues and address them with responsive action plans.

## Role of the Committee:

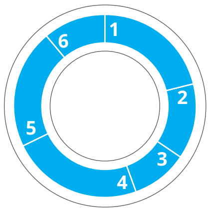
In an organisation where a non-regulated Group parent company owns three individually regulated operating entities, the GRC has a slightly different set of requirements when compared to a more standard structure where all resources are centralised. The primary role of the GRC is therefore to make sure that there is an effective Group wide risk framework which works consistently with those in place at Divisional level, with strategic as well as operational risks effectively managed.

The GRC's principal areas of responsibility are as follows:

- Understanding the Board's strategy, desired culture and direction and identifying the key strategic risks which are relevant to the capability to deliver on these;
- Endorsing an overall risk appetite and recommending it to the Board for approval;
- Monitoring the effectiveness of the Divisions in establishing and maintaining risk management frameworks, policies and procedures;
- Carrying out an assessment of the principal risks facing the Group, including those that have the potential to impact its strategy and culture, business model, future performance, solvency or liquidity;
- Reviewing the Group's capability to identify and manage new risk types, and keeping under review the effectiveness of the Group's internal control and risk management systems in conjunction with the Audit Committee;
- Reviewing the Group's management of current and forward-looking risk exposures;
- Reviewing the Group's business continuity plans;
- Notifying the Board of any changes in the status and control of risks; and
- Reviewing and approving: (i) the Internal Capital Adequacy Assessment Process (ICAAP), including the stress testing and capital allocation approach; (ii) the Internal Liquidity Adequacy Assessment Process (ILAAP); and (iii) the recovery and resolution plan (RRP) adopted by Vanquis Bank on an individual and consolidated basis for submission to the Board for final approval.

## Allocation of time

| | | |
|---|---|---|
| 1 | Setting Group risk management | 19% |
| 2 | Setting overall risk appetite | 12% |
| 3 | Assessing outcomes against risk appetite | 19% |
| 4 | Assessing risk management effectiveness | 21% |
| 5 | Overseeing management actions | 19% |
| 6 | Approving ICAAP, ILAAP and RRP | 10% |




## At each meeting, the Committee:

- Reviewed and confirmed the overall risk management status of the Group;
- Reviewed and confirmed the key Group risks;
- Reviewed and confirmed the risk appetite status across the Group;
- Reviewed and accepted the quarterly Group Internal Audit opinion on risk management reporting; and Reviewed minutes and actions from prior meetings.

## Statement on internal controls

In accordance with the UK Corporate Governance Code, section C.2: Risk Management and Internal Control (provisions C.2.1 and 2.3), the Group Board has a responsibility to maintain sound risk management and internal control systems. With improvements to risk and internal control frameworks made during the year, the Directors can confirm that key risks have been robustly assessed, and that the Company's Risk Management and Internal Control systems are effective.

To manage risk and ensure compliance with regulatory obligations the Board sets the overall risk appetites of the Group and seeks to ensure that the Divisions (and corporate centre) have designed, implemented and maintained effective and appropriate risk appetites, risk management frameworks and processes of their own, consistent with those set by the Group. The Divisions have day-to-day responsibility for risk management and through the Group Risk function the key risks are aggregated and closely monitored at Group Risk Committee. Each Division also has a three lines of defence approach, with second line oversight coming from Divisional CROs and their teams, supported further by Internal Audit who provide third line independent review of the risk frameworks.

From an internal controls perspective, the Group operates a 'three lines of defence' model of risk management and control. The first line of defence consists of operational identification, assessment and management of risk. Line management in each Division or function 'own' the risks and it is the risk owners who are accountable within the Group for the ongoing assessment and management of these risks as part of day to day controls.

The second line of defence consists of independent review and challenge of first line actions against established risk appetites. In each Division, risk and compliance functions constitute the second line of defence and are responsible for adherence to risk appetites and providing independent review and challenge to the first line.

The third line of defence consists of independent assurance. Group and Divisional Internal Audit functions constitute the third line of defence and are responsible for providing independent assurance in connection with the identification, assessment and management of risk and maintenance of appropriate controls. The work of the Internal Audit teams is subject to review by the Audit Committee established by the Board.

Each of the Divisions have established Risk and Control Self-Assessment processes within the first line. Through this approach, all key controls are identified, evaluated and monitored by line management as part of day to day activities. The second line Divisional Risk teams support these processes through review and challenge, and Internal Audit evaluate the effectiveness of key controls as part of their regular audit programme during the year. Any key issues emerging from second or third line reviews are highlighted and tracked through to resolution. All Divisions have continued to enhance these internal control frameworks during the year, with greater focus on end to end processes ensuring a better articulation of risks and controls.

Angela Knight
*Group Risk Committee Chairman*
13 March 2019

# Group Risk Committee *continued*

## Committee calendar in 2018

### January (Risk Advisory Committee (RAC))

> Reviewed and approved the new future structure and organisation of the Committee including its Terms of Reference;
> Considered the results of the performance effectiveness review;
> Received an update on the state of the nation report;
> Reviewed the Risk Management Framework and Risk Appetite review paper;
> Received an update on cyber security priorities and costings; and
> Received an update on the General Data Protection Regulation roll out across the Group.

### March

> Reviewed and endorsed the ICAAP approach and methodology, prior to approval by the Board;
> Reviewed and approved the ILAAP proposal for Vanquis Bank;
> Reviewed and considered the Group conduct & regulatory compliance report, including the new Regulatory Interactions Tracker;
> Reviewed the outputs of the CCD Credit Deep Dive Review;
> Received an update on progress with the embedding of the General Data Protection Regulation across the Group;
> Received an update on Group Treasury risk; and
> Reviewed an update on the Governance and Risk Development Plan.

### May

> Reviewed and considered the output from the risk review of Vanquis Bank;
> Reviewed and discussed the IT, data and cyber security risks across the Group, agreeing new reporting;
> Received an update on the Group governance and risk development programme;
> Reviewed and considered in detail the Group conduct risk assessment;
> Received an update on Group Treasury risk;
> Further reviewed the outputs from the CCD Credit Deep Dive Review;
> Reviewed and endorsed the ICAAP approach and methodology, prior to approval by the Board; and
> Reviewed and approved the ILAAP for Vanquis Bank.

### September

> Received initial perception feedback from the newly appointed Chairman;
> Further reviewed the Vanquis Bank Recovery and Resolution Plan (RRP) prior to approval by the Board;
> Received an update on Treating Customers Fairly (TCF) principles and agreed the formation of a common reporting platform;
> Received an update on the risk and governance development programme;
> Reviewed and approved the Committee's revised Terms of Reference;
> Received an update on IT, data and cyber security risks and issues; and
> Reviewed and endorsed the Vanquis Bank ICAAP for submission to the Vanquis Bank Board for approval and the Consolidated ICAAP to the Board for approval.

### October

> Reviewed and considered a further update in relation to cyber risk across the Group;
> Received an update on the implementation of FCA PS18/19 in relation to affordability;
> Received an update on the Vanquis Bank ROP refund programme;
> Reviewed progress with the implementation of the Senior Managers & Certification Regime within Moneybarn and CCD;
> Reviewed and considered in detail the Group governance and risk development programme documentation including the Group Risk Appetite Framework;
> Received an update in relation to IT, data and cyber security risk; and
> Reviewed and approved the Vanquis Bank RRP approach.

# Directors' report

"Last year I reported that the Group would enhance its governance structure, improve effective decision making and address its control environment. During 2018 the Group has made good progress in these areas, strengthening our risk management and governance framework; clarifying roles and responsibilities across the Group and improving oversight of our Divisions; and appointing three new non-executive directors and a new Chairman. 2019 will see the Group continuing to work to enhance its governance and its partnership with its regulators and other stakeholders, so that we can operate with the highest standards of governance and conduct."

Kenneth J Mullen
*General Counsel and Company Secretary*

It is on this positive note that, after more than 11 years as Group Counsel and Company Secretary, I have decided to retire from the Group with effect from 31 March 2019. The Group has announced the appointment of Charley Davies, who will take over the role of Group General Counsel and Company Secretary on 1 April 2019. Charley joins the Group from Cabot Credit Management where she was General Counsel and Company Secretary. Charley brings a wealth of experience in the financial services sector and has significant legal experience over a range of areas including corporate, commercial, risk management, regulatory and government and she will be a great addition to the Group's Executive Committee.

# Directors' report *continued*

## Introduction

In accordance with section 414C(11) of the Companies Act 2006 (the Act), the directors present their report for the year ended 31 December 2018. The following provisions, which the directors are required to report on in the Directors' Report, have been included in the Strategic Report:

> future business developments (throughout the Strategic Report, in particular on pages 24 to 43);

> important events since the balance sheet date throughout the Strategic Report;

> Viability Statement (page 71);

> greenhouse gas emissions (page 89); and

> risk management (pages 44 to 54).

Both the Strategic Report and the Directors' Report have been prepared and presented in accordance with, and in reliance upon, applicable company law. The liabilities of the directors in connection with both the Directors' Report and the Strategic Report shall be subject to the limitations and restrictions provided by company law. Other information to be disclosed in the Directors' Report is given in this section.

## Directors

The membership of the Board and biographical details of the directors at the year-end are given on pages 94 to 97 and are incorporated into this report by reference.

All directors, except as set out below, served throughout 2018 and up to the date of signing of the Annual Report and Financial Statements 2018. The following individuals stepped down from the Board on the following dates:

| | |
|---|---|
| > David Sear | 26 January 2018 |
| > Stuart Sinclair | 21 September 2018 |
| > Andrew Fisher | 3 December 2018 |
| > Rob Anderson | 11 December 2018 |

With effect from the beginning of the 2018 financial year there have been the following additions to the Board:

The following individuals were appointed to the Board on the following dates:

| | |
|---|---|
| > Elizabeth Chambers | 31 July 2018 |
| > Paul Hewitt | 31 July 2018 |
| > Angela Knight | 31 July 2018 |
| > Patrick Snowball | 21 September 2018 |
| > Simon Thomas | 3 December 2018 |

Further commentary about the Board's composition, Board changes and Board tenure can be found on page 114.

During the year, no director had a material interest in any contract of significance to which the Company or a subsidiary undertaking was a party.

## Appointment and replacement of directors

Rules about the appointment and replacement of directors are set out in the Company's articles of association (Articles). In accordance with the recommendations of the Code, all directors, will offer themselves for appointment or reappointment, as appropriate, at the 2019 AGM. This is with the exception of John Straw who will step down from the Board as a director with effect from 20 May 2019.

## Articles

The directors' powers are conferred on them by UK legislation and by the Articles. Changes to the Articles must be approved by shareholders passing a special resolution and must comply with the provisions of the Act and the FCA's Disclosure Guidance and Transparency Rules.

## Directors' indemnities

The Articles permit the Company to indemnify directors of the Company (or of any associated company) in accordance with section 234 of the Act.

The Company may fund expenditure incurred by directors in defending proceedings against them. If such funding is by means of a loan, the director must repay the loan to the Company, if they are convicted in any criminal proceedings or judgment is given against them in any civil proceedings. The Company may indemnify any director of the Company or of any associated company against any liability.

However, the Company may not provide an indemnity against: (i) any liability incurred by the director to the Company or to any associated company; (ii) any liability incurred by the director to pay a criminal or regulatory penalty; (iii) any liability incurred by the director in defending criminal proceedings in which they are convicted; (iv) any liability incurred by the director in defending any civil proceedings brought by the Company (or an associated company) in which judgment is given against them; or (v) in connection with certain court applications under the Act. No indemnity was provided and no payments pursuant to these provisions were made in 2018 or at any time up to the date of this report.

There were no other qualifying indemnities in place during this period.

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors.

## Information required by Listing Rule 9.8.4R

Information required under LR 9.8.4R (4), (5), (6), (12) and (13) is set out in the directors' remuneration report on pages 144 to 166.

## Share capital

The Company's issued ordinary share capital comprises a single class of ordinary share. The rights attached to the ordinary shares are set out in the Articles. Each share carries the right to one vote at general meetings of the Company.

During the year, 105,051,096 ordinary shares in the Company with an aggregate nominal value of £21,774,227, were issued as follows:

> 35,000 shares in relation to the Provident Financial Long Term Incentive Scheme 2015 (LTIS) at a price of 6.8460p; and

> 17,192 shares in relation to the Provident Financial Savings-Related Share Option Scheme 2013 and the Provident Financial Employee Savings-Related Share Option Scheme (2003) at prices ranging between 484p and 772p; and

> 104,998,904 new ordinary shares of 20 8/11p were admitted nil paid on the London Stock Exchange in relation to the Rights Issue at a price of 315p per share.

No Provident Financial Performance Share Plan 2013 (PSP) awards were made during 2018.

## Conflicts of interest

The Act and the Articles require the Board to consider any potential conflicts of interest of its members.

The Board operates formal procedures regarding conflicts of interest and all members of the Board have completed conflict of interest forms which are reviewed annually. All directors have an ongoing duty to notify the Company of any changes and to ensure that appropriate authorisation is sought where required.

The Board (excluding the director concerned) considers and, if appropriate, authorises each director's reported actual and potential conflict of interest, taking into consideration what is in the best interests of the Company and whether the director's ability to act in accordance with his or her duties is affected.

Records and Board minutes of all authorisations granted by the Board and the scope of any approvals given are held and maintained by the Company Secretary.

The Board considers these procedures to be working effectively.

## Rights of ordinary shares

All of the Company's issued ordinary shares are fully paid up and rank equally in all respects and there are no special rights with regard to control of the Company. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except:

1. where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Act; or
2. where their holder is precluded from exercising voting rights by the FCA's Listing Rules or the City Code on Takeovers and Mergers.

## Substantial shareholdings

In accordance with the Disclosure Guidance and Transparency Rules (DTR 5) the Company, as at 8 March 2019 (being the latest practicable date prior to publication of this report), had been notified that the following persons hold directly or indirectly 3 per cent. or more of the voting rights of the Company.

| | |
|---|---|
| Woodford Investment Management Ltd | 24.70% |
| Invesco Ltd | 21.43% |
| Schroders Plc | 14.63% |
| Marathon Asset Management LLP | 5.55% |
| BlackRock Inc | 4.96% |
| Coltrane Asset Management LP | 3.58% |
| The Vanguard Group Inc | 3.58% |
| Standard Life Aberdeen | 3.48% |

Interests as at 31 December 2018 were as follows:

| | |
|---|---|
| Woodford Investment Management Ltd | 25.62% |
| Invesco Ltd | 21.81% |
| Schroders plc | 12.38% |
| Marathon Asset Management LLP (UK) | 5.57% |
| BlackRock Inc. | 5.53% |
| Standard Life Aberdeen | 3.47% |
| The Vanguard Group Inc | 3.39% |

All interests disclosed to the Company in accordance with DTR 5 that have occurred since 8 March 2019 can be found on the Group's website: www.providentfinancial.com

## Directors' interests in shares

The beneficial interests of the directors in the issued share capital of the Company were as follows:

| | Number of shares | |
|---|---|---|
| | **31 December 2018** | 31 December 2017 |
| Patrick Snowball | – | – |
| Malcolm Le May | **204,498** | – |
| Simon Thomas | – | – |
| Andrea Blance | – | – |
| John Straw | – | – |
| Angela Knight | – | – |
| Elizabeth Chambers | – | – |
| Paul Hewitt | – | – |

1 These interests include conditional share awards granted under the LTIS, awards under the PSP and shares purchased under the SIP as detailed on pages 151 to 157 of the annual report on remuneration.

No director had any non-beneficial interests at 31 December 2018 or at any time up to 8 March 2019.

There were no changes in the beneficial or non-beneficial interests of the directors between 1 January and 8 March 2019 except for the automatic monthly purchases under the SIP, details of which can be found on the Group's website: www.providentfinancial.com.

## Dividend waiver

Information on dividend waivers currently in place can be found on pages 152 and 153.

# Directors' report *continued*

## Powers of the directors

Subject to the Articles, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The directors currently have powers both in relation to the issuing and buying back of the Company's shares, which were granted by shareholders at the 2018 AGM. The Board is seeking renewal of these powers at the 2019 AGM.

## All employee share schemes

The current schemes for employees resident in the UK are the Provident Financial plc Employee Savings-Related Share Option Scheme (2003), the Provident Financial Savings-Related Share Option Scheme 2013 and the Provident Financial Share Incentive Plan (SIP).

The current scheme for employees resident in the Republic of Ireland is the Provident Financial Irish Savings-Related Share Option Scheme 2014.

Share schemes are a long-established and successful part of the total reward package offered by the Company, encouraging and supporting employee share ownership. The Company's four schemes aim to encourage employees' involvement and interest in the financial performance and success of the Group through share ownership.

Around 1,718 employees were participating in the Company's save as you earn schemes as at 31 December 2018 (2017: 1,466).

The Company's SIP offers employees the opportunity to further invest in the Company and to benefit from the Company's offer to match that investment on the basis of one matching share for every four partnership shares purchased.

Around 483 employees were participating in the SIP as at 31 December 2018 (2017: 318).

## Executive share incentive schemes

Awards are also outstanding under the LTIS and the PSP and the Remuneration Committee did not grant any options during the year under the LTIS or PSP. Further information is set out on pages 151 to 153.

## Provident Financial plc 2007 Employee Benefit Trust (the EBT)

The EBT, a discretionary trust for the benefit of executive directors and employees, was established in 2007. The trustee, SG Kleinwort Hambros Trust (CI) Limited, is not a subsidiary of the Company. The EBT operates in conjunction with the LTIS and the PSP and either purchases shares in the market or subscribes for the issue of new shares. The EBT is funded by loans from the Company which are then used to acquire, either via market purchase or subscription, ordinary shares to satisfy awards granted under the LTIS and awards granted under the PSP. For the purpose of the financial statements, the EBT is consolidated into the Company and Group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in note 25 on page 215 of the financial statements.

In 2018, the EBT subscribed for the issue of 35,000 new shares in order to satisfy the awards made under the LTIS and none in relation to the PSP. Previously lapsed shares were used to satisfy the remaining awards under the LTIS.

As at 31 December 2018, the EBT held the non-beneficial interest in 2,853,722 shares in the Company (2017: 2,174,534). The EBT may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the beneficiaries.

## Provident Financial Employee Benefit Trust (the PF Trust)

The PF Trust, a discretionary trust for the benefit of executive directors and employees, was established in 2003 and operated in conjunction with the PSP. The trustee, Provident Financial Trustees (Performance Share Plan) Limited, is a subsidiary of the Company.

The PF Trust has not been operated with the PSP since 2012, when the previous PSP expired. As at 31 December 2018, the PF Trust had no interest in any shares in the Company (2017: nil).

## Provident BAYE Trust

The Provident BAYE Trust (the BAYE Trust) is a discretionary trust which was established in 2013 to operate in conjunction with the SIP. The trustee, YBS Trustees, is not a subsidiary of the Company. The BAYE Trust is funded by loans from the Company which are then used to acquire ordinary shares via market purchase to satisfy the Matching Awards for participants of the SIP.

For the purposes of the financial statements, the BAYE Trust is consolidated into the Company and Group. Participants in the SIP can direct the trustee on how to exercise its voting rights in respect of the shares it holds on behalf of the participant. As at 31 December 2018, the BAYE Trust held the non-beneficial interest in 134,417 shares (2017: 54,089 shares).

## Profit and dividends

The profit, before taxation, amortisation of acquisition intangibles and exceptional items, amounts to £153.5m (2017: £109.1m). The directors have declared dividends as follows:

| Ordinary shares | (p) per share |
|---|---|
| Interim dividend | 2018 Nil (no dividend declared)<br>(2017: Nil (dividend withdrawn)) |
| Proposed final dividend | 2018 10 pence<br>(2017: Nil (no dividend declared)) |
| Total ordinary dividend | 2018 10 pence<br>(2017: Nil (dividend cancelled/not declared)) |

The final dividend will be paid on 21 June 2019 to shareholders on the register on 24 May 2019.

## Employee involvement

The Group is committed to employee involvement across the Group. Further details are provided on pages 101 and 104.

## Training

The Group is fully committed to continual personal and professional development, encouraging employees at all levels to study for relevant educational qualifications.

In particular, the Group has initiated a series of talent and development initiatives as part of its investment in the career progression of its employees.

The Group is also fully committed to making full use of the Apprenticeship Levy in 2019 and has plans in place to grow both its Graduate entry and Apprenticeship training programmes. The Group is authorised by the Solicitors Regulation Authority and the Institute of Chartered Accountants of England and Wales to issue training contracts to employees wishing to qualify as solicitors or chartered accountants, respectively.

## Equal opportunities and diversity policy

The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, pregnancy, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the Group to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary. In 2017, the Group signed up to the National Equality Standard, and the initial report identified some key opportunities. Details of our diversity policy are set out on page 122.

## Pensions

The Group operates four pension schemes in the UK. Employee involvement in the Group defined benefit pension scheme is achieved by the appointment of member-nominated trustees and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pension matters. The trustees manage the assets of the defined benefit pension scheme which are held under trust separately from the assets of the Group. Each trustee is encouraged to undertake training and regular training sessions on current issues are carried out at meetings of the trustees by the trustees' advisors. The training schedule is based on The Pension Regulator's Trustee Knowledge and Understanding requirements and the sessions are tailored to current issues, emerging issues or to address any skills gaps. The trustees have a business plan and, at the start of each year, review performance against the plan and objectives from the previous year. In addition, they agree objectives and a budget for the current year. The trustees have a risk register and an associated action plan and a conflicts of interest policy, both of which are reviewed at least annually.

As at the year end there were three trustees nominated by members and three trustees appointed by the Company.

The trustees have implemented a de-risking investment strategy which has been agreed with the Company. The objective of the strategy is to reduce the risk that the assets would be insufficient in the future to meet the liabilities of the scheme. The de-risking investment strategy is kept under close review by both the trustees and the Company.

The Company has put Pension Trustee Indemnity Insurance in place to cover all of the Group's pension schemes where individuals act as trustees. The trustees are also protected by an indemnity within each scheme's rules and this insurance effectively protects the Group against the cost of potential claims impacting on the solvency of the pension schemes.

The Group also operates a Group Personal Pension Plan for employees who joined the Group from 1 January 2003. Employees in this plan have access to dedicated websites which provide information on their funds and general information about the plan.

In 2011, the Company established an Unfunded Unapproved Retirement Benefits Scheme (UURBS), for the benefit of those employees who are affected by the HMRC annual allowance and lifetime allowance which applies to members of registered pension schemes. The UURBS offers an alternative to a cash payment in lieu of a pension benefit.

In October 2013, the Group auto-enrolled all eligible staff into a new scheme designed for auto-enrolment.

The Group also operates two defined contribution pension schemes for employees in the Republic of Ireland.

## Health and safety

The Group is committed to achieving high standards of health and safety in relation to all of its employees, those affected by its business activities and those attending its premises. Each Division has its own health and safety agenda, policy standards and mandatory training in place to help colleagues work safely at all times.

The CCD division has the particular risk of personal safety whilst out collecting from customers. We pride ourselves in having the right systems in place; and CCD carries out an extensive training programme and conducts safety weeks for employees in spring and autumn each year to reinforce our strong safety culture. However, the tragic events in CCD last year with the murder of Tina Cantello by a customer has meant we must redouble our efforts on safety and the Company is looking at what further safety enhancements can be made.

## Anti-bribery and corruption

### The Group policy

The Group has a policy on Anti-bribery and Corruption which reflects the requirements of the Bribery Act 2010 ('the Policy'). The Policy sets out the Group's zero-tolerance approach to bribery and corruption and its commitment to acting professionally, fairly and with integrity in all its business dealings and relationships, wherever it operates, and implementing and enforcing effective management systems to counter bribery, corruption and other financial crimes.

The Policy applies to all employees, self-employed agents, contractors and directors in relation to the business activities undertaken by, or on behalf of the Group. It also applies to any third party which is undertaking business for or on behalf of the Group, who must comply with the Policy or maintain equivalent standards and safeguards to prevent bribery and corruption.

# Directors' report *continued*

Under the Policy, all employees, self-employed agents, contractors, directors, and relevant third parties of the Group and its Divisions must comply with the following minimum requirements:

> They must not directly or indirectly engage in bribery or corruption in any form.

> They also must not accept, solicit, agree to receive, promise, offer or give a bribe, facilitation payment, kickback or other improper payment.

The Policy also states that if an employee, self-employed agent, contractor, director or a relevant third party of the Group or its Divisions becomes aware of a breach of the above minimum requirements they must immediately comply with applicable protocols and procedures to inform an appropriate person within the Group who must as soon as is reasonably practicable report the incident to the Deputy Company Secretary.

### Compliance

The Group Risk Committee and the Audit Committees oversee compliance and work together to review the systems and controls for the prevention of bribery. Compliance is also monitored by the Divisional Boards.

### Related policies

The Group also has a Corporate Hospitality policy which requires Divisional review, approval and documentation of any gifts or corporate hospitality which is accepted, offered or provided. The Audit Committee oversees the Corporate Hospitality policy.

Should any Group employee have any concerns relating to anti-bribery and corruption or corporate hospitality then anonymous concerns can be raised through the Group's external third party helpline facility as detailed in the Corporate Whistleblowing policy. Whistleblowing arrangements are overseen by the Board.

### Training

The Group provides Anti-Bribery and Corruption and Whistleblowing training to all of its employees.

## Environmental management

The Group is committed to minimising its impact on the environment and acting to address specific environmental issues such as climate change. The Group's Environmental Management System (EMS) helps to identify, assess and address key environmental risks and impacts; set and achieve environmental targets; and ensure compliance with environmental rules, regulations and policy requirements. The EMS at the Group's Bradford head office has been certified to the international environmental management standard ISO 14001:2015 since 2011 and in 2018 we extended the scope of the ISO 14001:2015 certified EMS to include all of Vanquis Bank's operations in Chatham and London. Details relating to the Group's approach to environmental management and our direct and indirect greenhouse gas ('GHG') emissions, which we are required to disclose in order to meet the requirements of the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, are set out in the Strategic Report section of this document on page 89. The GHG data has been subjected to external assurance by the management consultancy, Corporate Citizenship.

## Overseas branches

The Group has an overseas branch in the Republic of Ireland.

## Important events since the end of the financial year (31 December 2018)

The Company became the subject of an unsolicited takeover bid from Non-Standard Finance plc on Friday 22 February 2019. The takeover process is ongoing as at the date of this report and we will continue to keep our stakeholders informed as things develop. There have been no other important events since the end of the financial year. You can read more about the unsolicited takeover bid on page 7 and on our website.

## Corporate governance statement

The Group's Corporate Governance Report is set out on pages 90 to 143. The Group has complied with the provisions of the Code throughout 2018 with the exception of the following:

### Principle A.2 – Clear Division of Responsibilities

### Code Provision – A.2.1 The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

As reported last year, due to exceptional circumstances during 2017, an executive Chairman was in post from the 23 August 2017 to 1 February 2018, and as such the Group was not compliant with this requirement for part of 2018. Malcolm Le May was subsequently appointed as Chief Executive Officer on 1 February 2018, and Stuart Sinclair was appointed Interim non-executive Chairman on the same day and so the Group became compliant with this Principle with effect from 1 February 2018.

## Financial instruments

Details of the financial risk management objectives and policies of the Group and the exposure of the Group to credit risk, liquidity risk, cash flow risk, price risk, interest rate risk and foreign exchange rate risk are included on pages 179 to 183 of the financial statements.

## Significant agreements

There are no agreements between any Group company and any of its employees or any director of any Group company which provide for compensation to be paid to an employee or a director on termination of employment or for loss of office as a consequence of a takeover of the Company.

## Political donations

The Group did not make any political donations nor incur any political expenditure during the year.

## Directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the independent auditor's report on pages 225 to 233 is made to distinguish for shareholders the respective responsibilities of the directors and of the external auditor in relation to the financial statements.

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU; and must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

> properly select and apply accounting policies;
> present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
> provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
> make an assessment of the Company's ability to continue as a going concern.

The directors have also considered and accepted the review undertaken and the report provided by the Audit Committee, as set out on pages 125 to 131 of this report, and are satisfied that the Annual Report and Financial Statements 2018, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

The directors are also required by the FCA's Disclosure Guidance and Transparency Rules (DTR) to include a management report containing a fair review of the business of the Group and the Company and a description of the principal risks, emerging risks and uncertainties facing the Group and Company.

The Directors' Report and the Strategic Report constitute the management report for the purposes of DTR 4.1.5R and DTR 4.1.8R.

The directors are responsible for keeping proper accounting records that are sufficient to:

> show and explain the Company's transactions;
> disclose with reasonable accuracy at any time the financial position of the Company and Group; and
> enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Act and as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report and Financial Statements 2018 will be published on the Group's website in addition to the normal paper version. The directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

Each of the directors listed below, confirms that, to the best of their knowledge, the Group financial statements which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, the Company and the undertakings included in the consolidation taken as a whole, and that the Strategic Report contained in this Annual Report and Financial Statements 2018 includes a fair review of the development and performance of the business and the position of the Company and Group, and the undertakings included in the consolidation taken as a whole, and a description of the principal risks and uncertainties they face.

| | |
|---|---|
| Patrick Snowball | Chairman |
| Malcolm Le May | Chief Executive Officer |
| Simon Thomas | Chief Financial Officer |
| Andrea Blance | Senior independent director |
| John Straw | Non-executive director |
| Angela Knight | Non-executive director |
| Elizabeth Chambers | Non-executive director |
| Paul Hewitt | Non-executive director |

## Disclosure of information to auditor

In accordance with section 418 of the Act, each person who is a director as at the date of this report confirms that:

> so far as they are aware, there is no relevant audit information of which the Company's external auditor is unaware; and
> they have taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's external auditor is aware of that information.

## Auditor

Deloitte LLP, the external auditor for the Company, was first appointed in 2012 and a resolution proposing their reappointment will be proposed at the 2019 AGM.

## 2019 AGM

The 2019 AGM will be held at 12:00pm on Tuesday 21 May 2019 at the offices of Clifford Chance, 10 Upper Bank Street, Canary Wharf, London, E14 5JJ. The Notice of AGM, together with an explanation of the items of business, is contained in the circular to shareholders dated 26 March 2019.

Approved by the Board on 12 March 2019 and signed by order of the Board.

Kenneth J Mullen
*General Counsel and Company Secretary*
13 March 2019

# Directors' remuneration report

Remuneration has an important part to play in realigning our culture and ensuring best practice.

# Annual statement by the Chairman of the remuneration committee

"I am pleased to present the report of the Group Remuneration Committee. The first section of the report explains how the Directors' Remuneration Policy (DRP) applied in 2018, and subject to shareholder approval, how the new DRP will be implemented in 2019.

The new DRP is set out in the second section and is for approval at the 2019 AGM. The new Board of the Provident Financial Group concluded that the former short-term targets and reward policy were inappropriate and should be replaced with a balanced scorecard approach with appropriate behavioural and risk management targets, which rewards long-term performance."

Andrea Blance
*Remuneration Committee Chairman*

The report complies with the provisions of the Companies Act 2006, Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority (FCA). The Company also follows the requirements of the UK Corporate Governance Code (Code) published in April 2016. For the new requirements under the revised Code published in July 2018, the Company has reviewed the current practice. Compliance with these new requirements will be disclosed in our Directors' Remuneration Report for 2019.

# Annual statement by the Chairman of the remuneration committee *continued*

## Board changes

Stuart Sinclair and Rob Anderson stepped down from the Board, and as members of the Committee, with effect from 21 September 2018 and 11 December 2018 respectively. Patrick Snowball was appointed the Board Chairman on 21 September 2018. We also welcomed Paul Hewitt, Elizabeth Chambers and Angela Knight to the Committee with effect from 31 July 2018.

Malcolm Le May was appointed the interim Executive Chairman on 24 November 2017. On 1 February 2018, he was appointed the Chief Executive Officer.

Andrew Fisher, the Finance Director, stepped down from the Board on 3 December 2018, but remained employed by the Company for three months to provide an orderly handover until 4 March 2019, when his employment terminated.

Simon Thomas was appointed the Chief Financial Officer (CFO) and joined the Board on 3 December 2018.

Full details of the Board changes are set out on page 114.

Details of the remuneration earned by Stuart Sinclair, Rob Anderson, Patrick Snowball, Elizabeth Chambers, Angela Knight and Paul Hewitt as non-Executive Directors, and Malcolm Le May, Andrew Fisher and Simon Thomas as Executive Directors, during the year ending 31 December 2018, have been included in the Directors' Remuneration Report.

## New Directors' Remuneration Policy (DRP) for shareholder approval at 2019 AGM

The current DRP was approved by over 93% of our shareholders at our AGM in May 2017. The next binding vote on the DRP is not required until 2020. However, after careful consideration, we are proposing several amendments to the current Policy at the 2019 AGM. The amended Policy will apply to awards in respect of 2019 performance year onwards for all Executive Directors. The proposed amendments will bring the Policy in line with best practice and ensure the overall remuneration for the Executive Directors is at a market competitive level. The key proposed changes to the DRP are:

> Reduction in the maximum pension allowance from 30% to 15% for existing Executive Directors. For any future Executive Director appointments from 2019 AGM onwards, pension allowance will be capped at 10%, in line with the allowance available to the workforce;

> Removal of the deferred bonus matching plan from the Policy for future awards;

> Increase in mandatory deferral from one third to 40% of any bonus payable;

> Increase in the maximum annual bonus opportunity from 120% to 175%, recognising the removal of the deferred bonus matching plan, the reduction in pension allowance, the increase in mandatory deferral, and the market levels of maximum annual bonus in other financial services companies;

> Formalisation of a 2-year post-vesting holding period on the Long-term Incentive Scheme (LTIS), creating a "3+2" structure in line with the new UK Corporate Governance Code requirements; and Strengthening of Malus and Clawback provisions.

The amended DRP will be submitted for shareholder approval at the 2019 AGM.

## Changes to the UK Corporate Governances Code, and shareholder and proxy voting agency guidelines

We are considering other changes resulting from the new Corporate Governance Code (published in July 2018) and new shareholder guidelines. We will be considering how these changes should impact our executive remuneration practices during the course of 2019, and will include an update on how we have responded to these changes in our Directors' Remuneration Report for 2019.

## Performance in 2018

During 2018, the Company has made sound progress in delivering the Group's operational goals for the year with a Group adjusted PBT of £153.5m (41% increase from 2017). The Group's capital position and liquidity both remain strong following completion of the rights issue in April 2018 and the re-financing of the £250m senior bonds in June 2018. Vanquis Bank's customer refund programme affecting 1.2 million current and past Repayment Option Plan (ROP) customers is progressing well and is on-track to be substantially completed in early 2019. The home credit business has substantially completed the recovery plan, including the Financial Conduct Authority (FCA) authorisation process.

## Annual bonus outcomes in respect of 2018

The CEO was eligible for a maximum bonus of 120% of salary for performance in 2018.

A new balanced scorecard and more formal risk evaluation was introduced to the annual bonus for 2018. For the CEO, 30% of maximum was based on Group adjusted PBT, 20% was based on CET 1 ratio, 50% of maximum was based on Company strategic non-financial and personal objectives. The Group achieved adjusted PBT of £153.5m, which is below the threshold level set by the Committee. Therefore, for Group adjusted PBT, zero percent out of the maximum for this element was awarded. The Group achieved a CET 1 ratio of 29.7%. Therefore, 95% out of the maximum for this element was awarded. The strategic non-financial and personal elements included key qualitative objectives in the areas of: restabilising the Group's financial strength, reviewing and strengthening the Group's culture, improving governance and risk management, implementing our customer strategy, and improving our capabilities in talent and organisation. The Committee assessed performance against these criteria and awarded 100% of the maximum available for these key strategic non-financial and personal objectives, in recognition of the achievements in delivering the ROP restitution, the Rights Issue and Bond refinancing and other key milestones. Malcolm Le May received a total bonus of 69% of maximum for 2018 performance.

The Finance Director, Andrew Fisher was eligible for a maximum bonus of 100% of salary for performance in 2018.

During 2018, the Group had a strategic focus on stabilising and strengthening the financial position through the rights issue and the re-financing of the corporate bond. Therefore, it was appropriate that Andrew Fisher's bonus reflected the key role he played in these financial stabilisation activities. His bonus was based on Group PBT (30% weighting), CET 1 ratio (20% weighting), with the remainder based on Company strategic non-financial targets and personal objectives. Based upon a Group adjusted PBT of £153.5m and a CET 1 ratio of 29.7%, 0% and 95% of the maximum were paid out under each element respectively. The strategic non-financial metrics include: re-financing the corporate bond, supporting the CEO for a successful Rights Issue, managing relationships with the Group's banks and rating agencies, effectively managing the Group's balance sheet, participation in the selection of an appropriate successor and planning the transition to the new CFO, leading the recruitment process and developing formal succession plans for key individuals in the Finance function. Because of the strong performance in these areas, this element of bonus achieved 100% pay-out. Andrew Fisher received a total bonus of 69% of maximum for 2018 performance.

## Deferral in respect of 2018 bonus

Under the current Policy, one third of the annual bonus is subject to deferral into shares under the Deferred Bonus Plan (formerly PSP). However, in anticipation of the changes to Policy being proposed at the 2019 AGM, the Committee has determined that 40% of the CEO's bonus in respect of 2018 should be subject to deferral. One third of Andrew Fisher's 2018 bonus will be deferred. Furthermore, the current Policy allows for matching of deferred bonuses, of up to two shares for every share deferred. In anticipation of the changes proposed to the Policy, the Committee has determined that no matching should apply to the bonuses in respect of 2018.

## LTIS outcomes in respect of 2018

Awards made under the 2016 LTIS to Andrew Fisher were due to vest on 1 March 2019. These awards were subject to performance conditions of annualised adjusted EPS growth and annualised absolute TSR over the three financial years ended 31 December 2018. As the minimum performance requirements for these performance metrics were not met, the vesting outcome for this award is zero, and the award has therefore lapsed.

Matching Awards granted under the 2016 PSP to Andrew Fisher were also due to vest on 1 March 2019. These awards were subject to performance conditions of annualised adjusted EPS growth over the three financial years ended 31 December 2018. As the minimum performance requirements for this metric were not met, the vesting outcome for the Matching Award is zero and these awards have also lapsed.

## LTIS grants during 2018

The Committee made grants of LTIS of 50% base salary, reduced from 200% in 2017, for Andrew Fisher and 200% of base salary for Malcolm Le May. These will vest in 2021 subject to three performance metrics. These are cumulative EPS (60% weighting), relative TSR (30% weighting) and risk metrics (10% weighting). Relative TSR was implemented to replace the previous metric of absolute TSR, to bring the LTIS closer in line with normal market practice. The Committee considered whether 200% of salary was an appropriate LTIS grant for Malcolm Le May in 2018, given the movements in share price during 2017. The Committee noted that Malcolm Le May did not take up an executive role until 24 November 2017. It concluded that it was important to provide a clear incentive for the new CEO to grow EPS and TSR over the next three-year LTIS performance period, and maintain an emphasis on driving long-term performance.

## Base salaries

Malcolm Le May's base salary as CEO was set at £700,000 in 2018, which is £55,000 (7%) lower than his predecessor. With effect from the salary review date, 1 January 2019, the Committee determined that his salary for 2019 should remain unchanged at £700,000.

Andrew Fisher's base salary was set at £551,000 effective 1 January 2018 (a 2.5% increase from 2017), which was approximately in line with the average increase for the wider workforce.

The new CFO, Simon Thomas, who joined the Board on 3 December 2018, has a base salary of £510,000.

## Conclusion

2018 remuneration for the Executive Directors continues to be closely aligned with performance. LTIS and Matching Awards due to vest for performance to the end of 2018 have both lapsed as the minimum performance requirements were not met. Annual bonuses in respect of 2018 reflect the progress that has been made this year towards stabilising the Company and establishing the path to future success. The proposed changes to our DRP will be submitted to the shareholders at the 2019 AGM, and bring the Policy in line with current best practice, simplify the arrangements, and provide a competitive level of remuneration whilst reducing the maximum total remuneration substantially relative to the maximum available under the current Policy.

I would like to thank shareholders for the support they have given in the past, and I hope you will support our new Directors' Remuneration Policy at the 2019 AGM, together with our Annual Report on Remuneration for 2018.

Andrea Blance
*Remuneration committee chairman*
13 March 2019

# Annual report on remuneration

## Introduction

This Annual Report on Remuneration provides an overview of the workings of the Committee during the year, sets out details of how the approved DRP was implemented in 2018, and explains the total remuneration earned by the directors during the year. It also outlines how the proposed new DRP will be implemented in 2019.

This report, together with the Committee Chairman's annual statement will be subject to an advisory vote at the 2019 AGM.

## 1. Implementation of the approved DRP in 2018

### 1.1 Directors' remuneration

The table shows the Directors' emoluments for the 2018 financial year and the 2017 financial year for comparison.

#### Executive Directors' remuneration

| | Fixed pay | | | | | | | | | | | | | | | | Variable pay | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Share incentive schemes | | | | | | | | | |
| | Salary | | Benefits in kind[4] | | Pension | | Total fixed pay | | Annual bonus[5] | | Vesting of LTIS | | Vesting of PSP Matching | | PSP dividends | | Total variable pay | | | |
| Director's name | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018[6] £'000 | 2017 £'000 | 2018[7] £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Executive Directors | | | | | | | | | | | | | | | | | | | | |
| Malcolm Le May[1] | 692 | 68 | 29 | 3 | 93 | 6 | 814 | 77 | 573 | – | – | – | – | – | – | – | 573 | – | 1,387 | 77 |
| Andrew Fisher[2] | 509 | 538 | 33 | 36 | 153 | 172 | 695 | 746 | 349 | – | – | – | – | – | – | – | 349 | – | 1,044 | 746 |
| Simon Thomas[3] | 43 | – | 1 | – | 6 | – | 50 | – | – | – | – | – | – | – | – | – | – | – | 50 | – |
| Total | 1.244 | 606 | 63 | 39 | 252 | 178 | 1,559 | 823 | 922 | – | – | – | – | – | – | – | 922 | – | 2,481 | 823 |

1 Malcolm Le May received an annual salary of £600,000 for the period from 1 Jan 2018 to 31 Jan 2018, as the Executive Chairman. His annual salary as the Chief Executive Officer is £700,000, effective from 1 February 2018.

2 Andrew Fisher stepped down from the Board on 3 December 2018 but remained an employee until 4 March 2019. The figures in the above table however relate only to this period as a Director during the year (i.e. 1 January to 3 December 2018).

3 Simon Thomas was appointed the Chief Financial Officer on 3 December 2018.

4 This figure includes amounts in respect of a company car benefit, fuel allowance, private medical insurance and permanent health insurance.

5 The annual bonus represents the gross bonus payable to the directors in respect of 2017 and 2018.

6 Amount calculated based on no vesting of the 2016 LTIS.

7 Amount calculated based on no vesting of the 2016 PSP Matching Awards.

## Non-executive directors' fees and benefits

| Director's name | Fees 2018 £'000 | Fees 2017 £'000 | Benefits in kind 2018 £'000 | Benefits in kind 2017 £'000 | Total 2018 £'000 | Total 2017 £'000 |
|---|---|---|---|---|---|---|
| **Chairman** | | | | | | |
| Stuart Sinclair[1,2] | **252** | 94 | **1** | 1 | **253** | 95 |
| Patrick Snowball[3] | **88** | – | **1** | – | **89** | – |
| **Non-executive directors** | | | | | | |
| Rob Anderson[2] | **66** | 70 | **5** | 4 | **71** | 74 |
| Andrea Blance | **116** | 75 | **3** | – | **119** | 75 |
| Elizabeth Chambers[4] | **43** | – | **5** | – | **48** | – |
| Paul Hewitt[4] | **41** | – | **1** | – | **42** | – |
| Angela Knight[4] | **41** | – | **–** | – | **41** | – |
| David Sear[5] | **7** | 71 | **–** | 1 | **7** | 72 |
| John Straw | **78** | 66 | **3** | 3 | **81** | 69 |
| Total | **732** | 376 | **19** | 9 | **751** | 385 |

Note: The non-executive directors did not receive a pension benefit nor did they receive any bonus or share incentive entitlements.

1 Stuart Sinclair was appointed the Interim Chairman on 1 February 2018 and retired from the Board on 21 September 2018.

2 Stuart Sinclair and Rob Anderson each received an additional fee of £50,000 per annum in respect of their respective directorships of the relevant companies of CCD and Moneybarn. Rob Anderson stepped down from the Board with effect from 11 December 2018.

3 Patrick Snowball was appointed Chairman and joined the Board on 21 September 2018.

4 Angela Knight, Elizabeth Chambers and Paul Hewitt were appointed as directors effective 31st July 2018.

5 David Sear stepped down from the Board on 26 January 2018.

## 1.2 Executive Directors' salaries and Non-Executive Directors' fees in 2018

### Executive Directors' salaries

Malcolm Le May received an annual salary of £600,000 for the period between 1 January 2018 and 31 January 2018 as the Executive Chairman. He was subsequently appointed Chief Executive Officer on 1 February 2018. At the time of his appointment as the CEO, the Committee considered the responsibilities of the role, his experience, the Group's salary structures, pay and conditions. As a result, it was agreed that he would receive a salary of £700,000 as the CEO. This was set at a lower level than his predecessor Peter Crook, whose salary was £755,000.

The Committee reviewed the salary of the Group Finance Director at the normal salary review data of 1 January 2018, and awarded him a salary increase of 2.5% to £551,000. The increase was broadly consistent with the average percentage increases awarded elsewhere in the Group.

### Chairman

The fees for the Chairman are set by the Committee. Full details of the Chairman's fees are set out on page 160.

### Other non-executive directors' fees

Non-executive directors' fees are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the strategy and future growth of the Company. There were no increases in Non-executive directors' fees in 2018. Full details of the fees are set out on page 160. Non-executive directors' remuneration is set by the Board, except for the Board Chairman whose fee is set by the Committee. The fees do not include share options or other performance-related elements.

### Fees from other directorships

Malcolm Le May has been a non-executive director of IG Group plc since September 2015 and Hastings Group Holdings plc since 2015 until April 2018 when he resigned as a non-executive director. He retains the fees from those appointments. During 2018, the fees amounted to £113,235 (£14,067 between 24 November and 31 December 2017).

Andrew Fisher has been a non-executive director of Arrow Global Group PLC since 9 December 2016 and retains the fee from that appointment. During 2018, the fee amounted to £65,000 (2017: £65,000).

Simon Thomas did not hold any external directorship for the period from 3 December to 31 December 2018.

# Annual report on remuneration *continued*

## 1.3 Annual bonus scheme

### Annual bonus opportunities and targets for 2018

A new balanced scorecard was introduced for 2018 annual bonus, to increase focus on key objectives and the transformation of the business. The 2018 annual bonus was based on Group adjusted PBT, CET 1 ratio, Company strategic non-financial objectives and personal objectives. Group adjusted PBT and CET 1 ratio were chosen as the financial metrics for 2018 bonus because Group adjusted PBT is an important metric of the Company's profitability and the CET 1 ratio is a key metric of the strength of the Company's balance sheet, and an underpin for future growth. The non-financial objectives are critical to the turnaround of the business, and are the drivers of future success. The maximum bonus opportunity in respect of 2018 remained at 120% of salary for the CEO and 100% of salary for the Finance Director, and was split as follows:

| | Malcolm Le May | | Andrew Fisher | |
|---|---|---|---|---|
| Performance metric weightings | % of max bonus | Max as % of salary | % of max bonus | Max as % of salary |
| Group adjusted PBT | 30% | 36% | 30% | 30% |
| CET 1 ratio | 20% | 24% | 20% | 20% |
| Company non-financial objectives | 30% | 36% | 30% | 30% |
| Personal objectives | 20% | 24% | 20% | 20% |
| Total | | 120% | | 100% |

## 1.4 Assessment of performance and pay-outs for 2018 annual bonus

Bonuses were assessed on a sliding scale with threshold performance delivering a pay-out of 25% of maximum, on-target performance paying 60% of maximum, and stretch performance paying 100% of maximum. Straight-line vesting operated between Threshold and Target, and between Target and Maximum. The Group achieved an adjusted PBT of £153.5m, which resulted in a zero bonus pay-out under the Group adjusted PBT element for Malcolm Le May and Andrew Fisher.

| | Group adjusted PBT | | | | | Bonus outcome | |
|---|---|---|---|---|---|---|---|
| | Threshold (25% of max) | Target (60% of max) | Max (100% of max) | Weighting | 2018 actual Group adjusted PBT | % of max under PBT | £ |
| Malcolm Le May | £156.6m | £184.3m | £202.2m | 30% | £153.5m | 0 | 0 |
| Andrew Fisher | | | | 30% | | 0 | 0 |

| | CET 1 ratio | | | | | Bonus outcome | |
|---|---|---|---|---|---|---|---|
| | Threshold (25% of max) | Target (60% of max) | Max (100% of max) | Weighting | 2018 actual CET 1 ratio | % of max under CET 1 ratio | £ |
| Malcolm Le May | 23.2% | 27.3% | 30.0% | 20% | 29.7% | 95% | 157,974 |
| Andrew Fisher | | | | 20% | | 95% | 104,872 |

The Committee also assessed Executive Directors' performance relative to the Company strategic non-financial objectives and their personal objectives for 2018. The detailed objectives, the assessment of each objective and the resulting bonus outcome are outlined below.

### Malcolm Le May non-financial performance

| Criteria | Achievement under the Group strategic non-financial objectives (30% weighting) | Performance achieved (score 1-5) | % of max under Group non-financial |
|---|---|---|---|
| Set the Group on a path to financial stability | Took the lead and successfully completed the Rights Issue in April 2018.<br>Instrumental in deciding the timing of the bond issue and the timetable and successfully delivered the bond refinancing.<br>Successfully negotiated settlement on ROP with the FCA.<br>Worked closely with key shareholders during the year to rebuild their understanding of the Group's sense of purpose and direction.<br>Lead all dialogues with the FCA to settle ongoing Moneybarn investigation, anticipated to be concluded within the first quarter of 2019. | 5 | |
| Culture, governance and risk management | Delivered significant progress in establishing the Group Executive Committee, centralised risk function, IT, HR, communications and Group Counsel and Co Sec function.<br>Successfully improved the relationships with all three major regulators with discussions taking place on strategic growth initiatives.<br>Successfully established a new governance framework/model to improve transparency on subsidiary governance and to pave the way for a migration to a single entity facilitating a more consistent approach to serving customers across the Group. | 5 | |
| Customer strategy | Made significant progress on the implementation of the home credit recovery plan, achieved a full authorisation by the FCA.<br>Working with the Group executives, developed the new sense of Group purpose, which encapsulates the strategy that puts the customer at the forefront of our thinking. | 5 | |
| Total | | | 100% |

| Criteria | Achievement under the personal objectives (20% weighting) | Performance achieved (score 1-5) | % of max payable under this element |
|---|---|---|---|
| People, capabilities and behaviours | Successfully recruited a new CFO (started December 2018).<br>All personnel changes were conducted with full knowledge and support of the appropriate regulatory authorities.<br>Successfully established a new performance management framework based on balanced scorecards aligned to the new Group purpose, business drivers and behavioural expectations. | 5 | |
| Total | | | 100% |

## Andrew Fisher non-financial performance

| Criteria | Achievement under the Group strategic non-financial objectives (30% weighting) | Performance achieved (score 1-5) | % of max under Group non-financial |
|---|---|---|---|
| Set the Group to a path to financial stability | Played a role during the Rights Issue process, instrumental in ensuring its successful launch in April 2018.<br>Effectively managed the relationship with the Group's banks, ensuring satisfactory waivers were obtained to certain of the covenants contained in the facilities agreements, which were critical to the successful launch of the Rights Issue.<br>Effectively managed the Group's balance sheet, successfully completed the partial refinance of the existing senior bonds for the Group.<br>Successfully managed the relationship with the rating agencies which was important to the successful launch of the Rights Issue, the bond issue and maintaining the Group's investment grade. | 5 | |
| Total | | | 100% |

| Criteria | Achievement under the personal non-financial objectives (20% weighting) | Performance achieved (score 1-5) | % of max under personal non-financial |
|---|---|---|---|
| People, capabilities and behaviour | Supported the CEO in assessing current Group-wide capabilities and behaviours against those needed to deliver the new customer strategy and a more open, collegiate culture.<br>Identified gaps within the Finance function and lead a programme to hire fresh talent and develop formal succession plans for key individuals below the CFO.<br>Supported the implementation of a new performance management framework based on balanced scorecards which reward collegiate working and good customer outcomes.<br>Lead an effective appointment process to secure a new Group Finance Director. | 5 | |
| Total | | | 100% |

| Total bonus payout* | Payout under Group adjusted PBT (% of salary) | Payout under CET 1 ratio (% of salary) | Payout under Company strategic non-financial (% of salary) | Payout under personal objectives (% of salary) | Total bonus paid As % of salary | As % of max | £ |
|---|---|---|---|---|---|---|---|
| Malcolm Le May | 0 | 95% | 100% | 100% | 82.8% | 69% | 572,974 |
| Andrew Fisher | 0 | 95% | 100% | 100% | 69% | 69% | 380,372 |

* In determining the overall bonus outcomes for both Executive Directors, a written risk assessment and appraisal was presented to the Committee by the Chief Risk Officer prior to finalising the outcomes, taking account of the substantial and positive changes during the year and recognising that further work is required.

## 1.5 Long-term incentive schemes

In 2018 the Committee granted awards under the LTIS, which have a three-year performance period covering the years from 2018 to 2020. Details of the LTIS grants are provided below.

### 1.5.1 LTIS – 2018 grant and performance targets

LTIS awards of 200% of base salary were granted to Malcolm Le May and 50% of base salary to Andrew Fisher in 2018. These are due to vest in 2021 subject to performance conditions, continued service and a further two year holding period.

For the 2018 LTIS grant, the absolute TSR metric was replaced with relative TSR compared with the constituents of FTSE 250 excluding investment trusts. The performance targets for 2018 LTIS and the corresponding vesting schedule are provided in the table below.

| Performance metrics | Weighting | Threshold: Performance requirement | Threshold: % of max vesting | Maximum: Performance requirement | Maximum: % of max vesting | Between threshold and max |
|---|---|---|---|---|---|---|
| Cumulative EPS | 60% | 137.3 | 20% | 167.9 | 100% | Straight line vesting |
| Relative TSR | 30% | Median | 20% | Upper quartile | 100% | |
| Risk metrics[1] | 10% | Based on Committee assessment | 20% | Based on Committee assessment | 100% | |

1 Risk metrics include: performance against risk appetite (assessment), risk culture and conduct reviews (in particular at the Divisional level) and audit and issue assessment.

# Annual report on remuneration *continued*

## Dividend waiver

The Executive Directors have waived any entitlement to dividends payable during the performance period on their LTIS awards. To the extent an award vests at the end of the performance period, either additional ordinary shares in the Company or a cash amount equivalent to the dividends that would have been paid on the vested awards from the date of grant, would be provided to the Executive Directors on vesting. As the awards did not vest during 2018, no dividends were paid.

## LTIS

Details of the LTIS awards granted to the Executive Directors during 2018 are summarised below:

| Director's name | Date of award | Number of shares | Face value[1] | Percentage of salary | Performance condition | Performance period | % vesting at threshold |
|---|---|---|---|---|---|---|---|
| Malcolm Le May | 16.04.2018 | 204,498 | £1,400,000 | 200% | 30% based on relative TSR, 60% based on absolute EPS growth, and 10% based on risk indicators | Three consecutive financial years ending 31 December 2020 | 20% |
| Andrew Fisher | 16.04.2018 | 40,169 | £275,500 | 50% | | | 20% |

1 Face value calculation is based on the share price of £6.8460 on 13 April 2018. Actual value at vesting may be greater or lesser depending on actual share price at vesting and as a result of any dividend equivalent payable on vested shares.

Awards held by the Executive Directors under the LTIS at 31 December 2018 were as follows:

| Director's name | Date of award | Awards held at 01.01.2018 | Awards granted during the year | Awards vested during the year | Awards lapsed during the year | Awards held at 31.12.2018 | Market price at date of grant (p) | Market price at date of vesting (p) | Vesting date |
|---|---|---|---|---|---|---|---|---|---|
| Malcolm Le May | 16.04.2018[1] | – | 204,498 | – | – | 204,498 | 684.60 | – | 16.04.2021 |
| Andrew Fisher | 25.02.2015[2] | 36,977 | – | – | 36,977 | – | 2,726.0 | – | 25.02.2018 |
| | 01.03.2016[3] | 32,009 | – | – | – | 32,009 | 3,249.0 | – | 01.03.2019 |
| | 24.03.2017[3] | 36,714 | – | – | – | 36,714 | 2,928.0 | – | 24.03.2020 |
| | 16.04.2018[1] | – | 40,169 | – | – | 40,169 | 684.60 | – | 16.04.2021 |

1 Details of the performance targets for the 2018 awards are provided in the table '2018 grant and performance targets'.

2 Details of the performance targets for the 2015 award were included in the annual report on remuneration in 2017.

3 Half of the 2016 and 2017 award vests subject to EPS growth with 20% of this part of the award vesting for EPS growth of 5% per annum through to full vesting for EPS growth of 11% per annum. The remaining half of the award is subject to absolute TSR with 20% of this part of the award vesting for 8% absolute TSR per annum and full vesting for absolute TSR of 15% per annum. No vesting takes place below the threshold performance levels with straight-line vesting taking place between threshold and maximum performance levels. In addition: (1) with regard to the absolute TSR performance targets, that part of the award will not vest unless the committee is satisfied that the TSR performance is a genuine reflection of the underlying performance of the Company; and (2) with regard to the absolute EPS performance targets, that part of the award will not vest unless the committee is satisfied that the vesting is consistent with the broader financial performance of the Company. Full details of historic performance targets have been fully set out in previous directors' remuneration reports.

## 2016 awards

Vesting of the 2016 LTIS awards, which was due to take place on 1 March 2019, was split equally between the Company's annualised growth in adjusted EPS and its annualised absolute TSR over the three-year performance period. The minimum performance requirements were not met, therefore the vesting outcome of the 2016 LTIS is zero and the awards lapsed. For information, the performance metrics and targets were as follows:

| Annualised growth in adjusted EPS | Percentage vesting (of EPS part of award) | Outcome |
|---|---|---|
| Below 5% | 0% | |
| 5% | 20% | 0% vesting |
| 11% | 100% | |

| Annualised absolute TSR | Percentage vesting (of TSR part of award) | Outcome |
|---|---|---|
| Below 8% | 0% | |
| 8% | 20% | 0% vesting |
| 15% | 100% | |

A sliding scale of vesting (on a straight-line basis) applied between the lower and upper EPS and TSR targets.

The Company's annualised growth in adjusted EPS over the performance period was minus 586% which did not exceed the minimum annualised growth in adjusted EPS target of 5%, resulting in no part of the EPS element of the award vesting.

Aon, the Committee's remuneration advisors, also confirmed that the Company's annualised TSR over the three-year performance period was minus 37.5%, which fell below the minimum annualised TSR target of 8%, resulting in no part of the TSR element of the award vesting.

## 1.5.2 PSP – bonus deferral and matching plan

The PSP is a bonus deferral and matching plan. Deferred bonuses vest after three years. Under the DRP, Matching Awards can be made on the deferred bonus with a value of up to two matching shares for each deferred bonus share. However, as reported last year and to align with best practice, the facility to grant Matching Awards was discontinued in 2018. There is a mandatory deferral of bonus for Executive Directors which is a minimum of one third of any bonus awarded.

### 2018 awards

In 2018, no bonuses were awarded to the Executive Directors in respect of 2017 performance. As a result, there was no deferral of bonus and no PSP Awards were made in 2018. (No Matching Awards were granted as disclosed in the 2017 DRR).

Awards held by the Executive Directors under the PSP at 31 December 2018 were as follows:

| Director's name | Date of grant | Basic Awards (number of shares) held at 01.01.2018 | Matching Awards (number of shares) held at 01.01.2018 | Total Basic Awards (number of shares) vested during the year | Total Matching Awards (number of shares) vested during the year[1] | Total Matching Awards lapsed during the year | Total Basic Awards (number of shares) held at 31.12.2018 | Total Matching Awards (number of shares) held at 31.12.2018 | Market price at date of grant (p) | Market price at date of vesting (p) | Vesting date |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Malcolm Le May | – | – | – | – | – | – | – | – | – | – | – |
| Andrew Fisher | 25.02.2015[2] | 11,959 | 23,918 | 11,959 | – | 23,918 | – | – | 2,726.0 | 656.60 | 25.02.2018 |
| | 01.03.2016[3,4] | 10,135 | 20,270 | – | – | | 10,135 | 20,270 | 3,249.0 | | 01.03.2019 |
| | 24.03.2017[3,4] | 11,840 | 23,680 | – | – | – | 11,840 | 23,680 | 2,928.0 | | 24.03.2020 |
| | – | – | – | – | – | – | – | – | – | – | – |

1 No Matching Awards vested in 2018 and as a result, no dividend shares were received.

2 Details of the performance targets for the 2015 awards were included in the annual report on remuneration in 2017.

3 The Matching Awards vest subject to a performance target based on average annual growth in EPS, with 25% of the Matching Award vesting for EPS growth of 5% per annum (threshold) through to full vesting for EPS growth of 11% per annum (maximum). No vesting takes place below the threshold performance level with straight-line vesting taking place between threshold and maximum performance levels. In addition, no awards will vest unless the Committee is satisfied that the vesting is consistent with the broader financial performance of the Company. Full details of historic performance targets have been fully set out in previous directors' remuneration reports.

4 Andrew Fisher's PSP Matching Awards granted in 2016 and 2017 were adjusted post Rights Issue in 2018 using the standard TERP formula.

### Vesting of 2016 awards

For the Matching Awards granted in 2016, which were due to vest on 1 March 2019, the range of the EPS target was as follows:

| Average annual growth in EPS | Matching shares vesting |
|---|---|
| Below 5% | No vesting |
| 5% | Half of one matching share |
| 11% | Two matching shares |

A sliding scale of vesting (on a straight-line basis) applied between these lower and upper targets which were measured over a period of three consecutive financial years, the first of which was the 2016 financial year.

As the minimum performance requirements were not met, the vesting outcome on the Matching Awards was zero, and the awards lapsed.

### Dividends

For awards granted under the PSP, the dividend payable on the Basic Award only is paid to participants on the normal dividend payment date. Any dividend payable on the shares comprising the PSP Matching Awards will be paid to participants as a dividend equivalent on the normal vesting date and to the extent of vesting.

No Executive Directors received any dividends during 2018 in respect of PSP Matching Awards granted in 2015.

## 1.5.3 Other relevant share incentive scheme information

The mid-market closing price of the Company's shares on 28 December 2018 was £5.75. The range during 2018 was £7.33 to £4.30.

No consideration is payable on the award of conditional shares.

On 1 March 2019, Andrew Fisher's 2016 LTIS lapsed and his 2016 PSP Basic Awards (deferred bonus awards) vested.

# Annual report on remuneration *continued*

### 1.5.4 Offshore Employee Benefit Trust

The rules of the LTIS and PSP allow these schemes to be operated in conjunction with any employee trust established by the Company. The Company established the Provident Financial plc 2007 Employee Benefit Trust (EBT) in Jersey with SG Kleinwort Hambros Trust (CI) Limited (KB Trustees) acting as the trustee of the trust.

The EBT, together with any other trust established by the Company for the benefit of employees cannot, at any time, hold more than 5% of the issued share capital of the Company.

KB Trustees, as trustee of the EBT, subscribed for 35,000 ordinary shares in March 2018 for the purpose of satisfying the 2018 awards made pursuant to the LTIS. Previously lapsed shares were used to satisfy the remaining 2018 awards made under LTIS. The trustee transferred the beneficial ownership (subject to achievement of performance conditions) in 244,667 of the shares for no consideration to the Executive Directors on 16 April 2018.

## 1.6 Statement of shareholder voting at the AGM

At the 2018 AGM the Directors' Annual Report on Remuneration received the following votes from shareholders:

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 208,527,239 | 99.92 |
| Against | 156,924 | 0.08 |
| Total votes cast (for and against) | 208,684,163 | 100.00 |

The total number of votes withheld was 13,618.
A total of 89,155 shares were voted at proxy's discretion.

## 1.7 Savings-related share option schemes

The Executive Directors may also participate in the Provident Financial Savings-Related Share Option Scheme 2013 (SAYE Scheme).

The CEO joined the Scheme in October 2018, with a monthly employee contribution of £500, which is the statutory maximum.

The SAYE Scheme does not contain performance conditions as it is an HMRC-approved scheme designed for employees at all levels. Invitations to join the scheme were issued to eligible employees in September 2018. No consideration is payable on the grant of an option.

During the year, no Executive Directors exercised any options.

Options held by the Executive Directors under the SAYE Scheme at 31 December 2018 were as follows:

| Director's name | Options held at 01.01.2018 | Granted in 2018 | Exercised in 2018 | Options held at 31.12.2018 | Exercise price (£) | Market value at date of exercise (£) | Range of normal exercisable dates of options held at 31.12.2018 |
|---|---|---|---|---|---|---|---|
| Malcolm Le May | – | 5,576 | – | 5,576 | 5.38 | – | – |
| Andrew Fisher | – | – | – | – | – | – | – |
| Total | – | 5,576 | – | 5,576 | – | – | – |

## 1.8 Malus and clawback

In accordance with the recommendations within the Code and other best practice guidance, the Committee introduced malus and clawback provisions into all awards under the annual bonus scheme, LTIS and the PSP from December 2010. This enabled the Committee, at its discretion, to reduce awards before vesting (malus) or to clawback value overpaid for a period of three years from the date of vesting/payment in the event of: (i) a material prior period error requiring restatement of the Group financial statements; or (ii) an error in assessing the extent to which a performance target (and/or any other condition) has been met.

The mechanisms open to the Committee when undertaking a clawback include the withholding of variable pay to offset the value to be clawed back and/or seeking repayment from the individual of the value overpaid.

During 2018, the Committee determined that the malus and clawback provisions should be further strengthened. For awards from 2018 onwards, a new Group Malus and Clawback Policy applies, which, in addition to the existing 'triggers', includes the following circumstances:

> There has been a substantial failure in risk management of the Company or of any company in the Group;

> The Company or a relevant business unit suffers a material downturn in its financial performance and the Committee considers that an act(s) or omissions(s) of the participant have significantly contributed to that downturn;

> There is reasonable evidence of misbehaviour or material error on the part of the relevant individual; or

> Any other triggers or circumstances which justify the application of malus and clawback that are required by any regulatory obligations to which the Company or any part of the Company is subject.

## 1.9 Dilution and use of equity

Since 2008, the Company had, with shareholder approval, disapplied the 5% anti-dilution limit on the use of newly issued shares for the LTIS and PSP and only applied the 10% anti-dilution limit that covers all of the Company's share plans. The disapplication of the limit related back to the demerger of the international business in 2007 and the subsequent share consolidation which made it impossible to operate the LTIS and PSP within the 5% limit if the plans were to act as a motivational tool and reward performance. The Committee undertook to reintroduce the 5% limit when the LTIS and PSP could be effectively operated within that limit and is pleased to confirm that, with effect from 2018, the 5% limit is being applied.

The table below sets out the headroom available for all share schemes (10% in 10 years limit) and shares held in trust, and discretionary share schemes (LTIS and PSP) (5% in 10 years limit) as at 31 December 2018:

| Headroom | 2018 | 2017 |
|---|---|---|
| All share schemes | **5.6%** | 3.9% |
| Shares held in trust | **3.8%** | 3.4% |
| Executive share schemes | **2.2%** | n/a |

## 1.10 Andrew Fisher's leaving arrangements

We announced on 5 November 2018 that Andrew Fisher would step down from the Board on 3 December 2018. Andrew remained employed until 4 March 2019, to provide an orderly handover to his successor, notice having been served on 5 November 2018. For the period from 5 November 2018 to 4 March 2019, Andrew received salary and benefits under his Service Agreement. Thereafter, Andrew was paid in lieu for the balance of his 12-month notice period (£496,368) (salary and benefits). The amount of this payment may be reduced by reference to mitigation. He also received a compensation payment of £70,000.

Andrew received a bonus for the 2018 financial year of £380,372. 30% of his bonus was subject to the Group adjusted PBT target of £184.3m. 20% of his bonus was subject to the CET 1 ratio target of 27.3%. 50% of his bonus was subject to the achievement of Company strategic non-financial and personal objectives. One third of his bonus was deferred into shares for three years. Andrew will not be eligible to receive a bonus in respect of 2019.

Andrew's outstanding awards under the LTIS and Matching Awards under the PSP will vest on the normal vesting date subject to the relevant performance conditions. The awards will also be subject to time proration in respect of the portion of the vesting period that has been served as an employee. The 2018 LTIS award is also subject to a two-year post-vesting holding period, which continues post-employment. Malus and clawback also continue to apply to all variable pay awards. He retains deferred bonus awards under the PSP Basic Awards in respect of bonuses awarded for performance in 2016 and 2018; these vest on the normal vesting dates.

## 1.11 Total shareholder return: Provident Financial plc vs FTSE 250 (excluding investment trusts)

The graph opposite shows the total shareholder return for Provident Financial plc against the constituents of FTSE 250 (excl. investment trusts) for the past ten years. The FTSE 250 has been selected as the Committee considers it the index most relevant to the Company.

Total shareholder return: Provident Financial plc vs FTSE 250 (excl. investment trusts) – 31.12.2008–31.12.2018

# Annual report on remuneration *continued*

## 1.12 Chief Executive Officer pay

The table below shows the total remuneration figure for the Chief Executive Officer over the ten-year period. Peter Crook's figure is shown up to the date his employment terminated in August 2017. Malcolm Le May's figure is shown from January 2018, including the period he was in the role of the Executive Chairman. The total remuneration figure includes the annual bonus paid together with LTIS and PSP Matching Awards which vested based on the relevant performance targets in those years. The annual bonus, LTIS and PSP Matching Awards percentages show the pay-out for each year as a percentage of the maximum opportunity.

### Chief Executive Officer remuneration 2009 to 2018

| | Year ended 31 December | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Single total figure of remuneration (£'000) | 2,023 | 2,727 | 3,443 | 4,326 | 4,985 | 6,594 | 7,500 | 6,315 | 962 | **1,387** |
| Annual bonus (%) | – | 81 | 100 | 98 | 89 | 100 | 98 | 100 | – | **69** |
| LTIS vesting (%) | 100 | 66 | 49 | 100 | 100 | 100 | 100 | 100 | – | **–** |
| PSP Matching Awards vesting (%) | – | 100 | 79 | – | 100 | 100 | 100 | 100 | – | **–** |

### Chief Executive Officer relative pay

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the years ended 31 December 2017 and 31 December 2018 for the Chief Executive Officer, compared to the average for the corporate office employees during the same period. A comparison with the corporate office employee is considered to be more suitable due to the range and composition of employees across the Group and the wide range of different remuneration structures and practices which operate in the Divisions, making any meaningful comparison difficult.

| | 2017/2018 | | |
|---|---|---|---|
| % | **Salary[1]** | **Benefits[2]** | **Annual bonus[3]** |
| Chief Executive Officer | **-8%** | **-46.3%** | **N/A** |
| Average corporate office employee | **4.2%** | **1.3%** | **N/A** |

1 For 2017 the former CEO, Peter Crook, received salary for the period from January to August 2017 (when he stepped down). His 2017 salary was annualised to provide a meaningful comparison with Malcolm Le May's 2018 salary.

2 For 2017, the former CEO, Peter Crook's benefits were annualised to provide a meaningful comparison with Malcolm Le May's 2018 benefits. For simplicity, average benefits for the same corporate office employee population as reported in P11d for the tax year 2016/17 and 2017/18 were used.

3 No corporate office employees (including the CEO) received any bonus in respect of 2017 performance. In respect of 2018 performance, the CEO received a bonus of £572,974, and the bonus for average corporate employees was £13,966.

## 1.13 Relative importance of spend on pay

The table below shows the total pay (including bonuses) for all the Group's employees in the 2017 and 2018 financial years compared to the distributions made to shareholders in the same periods.

### Relative importance of spend on pay

| | Year ended 31 December | | **% change 2017/2018** |
|---|---|---|---|
| | **2018** | 2017 | |
| Aggregate gross wages and salaries paid to the Group's employees (£m) | **201.1** | 177.5 | 13.3% |
| Total shareholder distributions (£m) | **0** | 133.4 | -100% |

## 1.14 Shareholding requirements

The Company has share ownership guidelines for Executive Directors which in 2018 required them to acquire and maintain shares in the Company with a total value of 200% of basic salary. Executive Directors are required to retain 50% of vested LTIS awards, net of tax, until this requirement has been reached.

The Committee reviews the shareholdings of the Executive Directors in light of these guidelines once a year, based on the market value of the Company's shares at the date of assessment. When performing the calculation to assess progress against the guidelines, shares held by a spouse, dependant, or in an ISA or pension scheme are included, whilst unvested LTIS awards are not.

The current shareholding of the Executive Directors as at 31 December 2018 are as follows:

| **Director's name** | **Actual share ownership as a percentage of salary** | **Estimated ownership post 2019 DBP grant (formerly PSP)[1]** |
|---|---|---|
| Malcolm Le May[2] | 0 | 17% |
| Simon Thomas[3] | 0 | 0 |

1 Net of notional tax.

2 Malcolm Le May was appointed CEO on 1 February 2018.

3 Simon Thomas was appointed CFO on 3 December 2018.

## 1.15 Directors' share ownership

Details of shares held by the Executive Directors and their connected persons, are shown in the table below:

| Director | Type | Owned outright | Unvested: Subject to performance conditions | Unvested: Not subject to performance conditions | Total as at 31.12.18 |
|---|---|---|---|---|---|
| Malcolm Le May | Own name | – | – | – | – |
| | Held in YBS Trustees (SIP) | – | – | – | – |
| | LTIS | – | 204,498 | – | 204,498 |
| | PSP | – | | – | – |
| Total | | – | 204,498 | – | 204,498 |
| Andrew Fisher[1] | Own name | 136,160 | – | – | 136,160 |
| | Held in YBS Trustees (SIP) | 904 | – | – | 904 |
| | LTIS | – | 108,892 | – | 108,892 |
| | PSP | – | 60,066 | 21,975 | 82,041 |
| Total | | 137,064 | 168,958 | 21,975 | 327,997 |
| Simon Thomas | Own name | – | – | – | – |
| | Held in YBS Trustees (SIP) | – | – | – | – |
| | LTIS | – | – | – | – |
| | PSP | – | – | – | – |
| Total | | – | – | – | – |

1 Andrew Fisher's share ownership is as at 3 December 2018 when he stepped down as an Executive Director.

Details of shares held by the non-executive directors and their connected persons are shown in the table below:

| Director | Owned outright | Total as at 31.12.18 |
|---|---|---|
| Rob Anderson[1] | 7,137 | 7,137 |
| Andrea Blance | 0 | 0 |
| Elizabeth Chambers | 0 | 0 |
| Paul Hewitt | 0 | 0 |
| Angela Knight | 0 | 0 |
| David Sear[2] | 1,311 | 1,311 |
| Stuart Sinclair[3] | 50,324 | 50,324 |
| Patrick Snowball | 0 | 0 |
| John Straw | 0 | 0 |
| Total | 58,772 | 58,772 |

1 Rob Anderson's shareholding is as at 11 December 2018, when he stepped down from the Board.
2 David Sear's shareholding is as at 26 January 2018, when he stepped down from the Board. His shares were held in Interactive Investor SIPP.
3 Stuart Sinclair's shareholding is as at 21 September 2018, when he stepped down from the Board. His shares were held in Bestinvest.

There have been no changes in the beneficial or non-beneficial interests of the Executive Directors and non-executive directors between 1 January and 13 March 2019.

## 1.16 Pension

The Executive Directors receive a cash allowance in lieu of pension.

The Committee carried out a detailed review of the current Directors Remuneration Policy during the year, and it determined that the maximum pension level of 30% under the current DRP should be reduced to 15% to bring it in line with market practice and closer in line with employees below Executive Director level.

At the time of Malcolm Le May's appointment as Chief Executive Officer, the Committee initially set his pension allowance level at 6% pending a more detailed review of the Policy. After discussion, analysis of market level and the pension level of other employees below Executive Director level, the Committee set his pension allowance level at 15% of salary, in anticipation of the proposed changes to the 2019 DRP. However, for new Executive Directors appointments under the proposed new Policy, the pension allowance will be capped at 10% of base salary, in line with the level available to the wider workforce.

### 1.16.1 Pension schemes

#### Executive Directors

All received a benefit in the form of a cash allowance. However, for information, we have provided summary below of the pension schemes that have been operated by the Group for other employees or for former Directors.

#### Provident Financial Staff Pension Scheme

The pension scheme is a defined benefit scheme with fixed salary benefits prior to 2013, and cash balance benefits subsequently.

#### PFG Retirement Plan

The PFG Retirement Plan is a Group Personal Pension Plan insured with Standard Life. In March 2018, Malcolm Le May had contributions paid on his behalf into the PFG Retirement Plan, the value of this was £24,550. He subsequently elected to receive cash supplement from April 2018 onwards.

#### Unfunded Unapproved Retirement Benefits Scheme (closed)

The Company operated an Unfunded Unapproved Retirement Benefits Scheme (UURBS) to provide cash balance benefits to those employees affected by the Lifetime Allowance or the Reduced Annual Allowance. For former employees, the accumulated amounts payable under the UURBS increase each year by the lower of the increase in CPI and 2.5%. At retirement, UURBS benefits will be paid in accordance with current HMRC practice.

#### Cash supplement

A further option for employees affected by the Lifetime Allowance or the Reduced Annual Allowance is to receive a cash supplement in lieu of other forms of retirement provision. This option was elected by Malcolm Le May from April 2018, by Andrew Fisher from June 2017 and by Simon Thomas from December 2018.

## 1.17 Audit

The elements of the Directors' Remuneration Report (including pension entitlements and share options set out on pages 148 to 157 of this report) which are required to be audited, have been audited in accordance with the Companies Act 2006.

This Annual Report on Remuneration has been approved by the Remuneration Committee and the Board and signed on its behalf.

Andrea Blance
*Remuneration Committee Chairman*
13 March 2019

# Annual report on remuneration *continued*

## 2. Committee effectiveness and governance

### 2.1 Committee role

The role of the Committee is set out in its terms of reference which are reviewed annually and were last updated in December 2018. These can be found on the Group's website at www.providentfinancial.com. The Committee meets at least three times a year and thereafter as circumstances dictate.

The Committee regularly reviews the approved DRP in the context of the Group's strategy and the Group's risk management framework to ensure it does not inadvertently promote irresponsible behaviour. It has coordinated its work with both the audit committee and the risk advisory committee, who assist with the monitoring and assessment of risk management specifically in relation to the incentives provided under the approved DRP.

#### At each meeting, the Committee:

> Reviewed the minutes of the previous meeting and progress against any actions arising; and

> Reviewed the minutes or a summary of the minutes of the Vanquis Bank remuneration committee.

### 2.2 Membership

The members of the Committee, all of whom are considered to be independent, and their attendance at meetings during the year, is shown in the table below.

Details of the work undertaken by the Committee during the year are set out on page 159.

#### Committee members and meeting attendance

| Name | Notes | Date appointed | 2018 Attendance |
|---|---|---|---|
| Andrea Blance | Chairman<br>Member | 27 November 2017<br>1 March 2017 | 8/8 |
| Stuart Sinclair[1] | Retired | 1 October 2012 | 6/6 |
| Rob Anderson[2] | | 2 March 2009 | 4/8 |
| Paul Hewitt[3] | | 31 July 2018 | 2/2 |
| Angela Knight[3] | | 31 July 2018 | 1/2 |
| Elizabeth Chambers[3] | | 31 July 2018 | 2/2 |

1 Stuart Sinclair's attendance until he resigned on 21 September 2018.
2 Rob Anderson's attendance until he resigned as a non-executive director on 11 December 2018.
3 Paul Hewitt, Angela Knight and Elizabeth Chambers attendance is shown from 31 July 2018 when they were all appointed as non-executive directors.

### 2.3 Effectiveness

Given the significant Board changes, Patrick Snowball has asked Andrea Blance, the Senior Independent Director (SID), to facilitate this year's Board and Committee evaluation process. You can read about this process on page 117 to 119.

### 2.4 External advisors

In 2018, independent advice on executive remuneration and share schemes is received from the Executive Compensation practice of Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct, which requires its advice to be objective and impartial. The total fees paid to Aon in respect of the provision of advice to the Committee during the year were £165,316 (excluding VAT). Aon has also provided support to the HR team on remuneration implementation, and pension consultancy and investment advice to the Company. The Committee is satisfied that these additional services provided by other parts of Aon in no way compromised the independence of the advice received from Aon's Executive Compensation practice.

The terms of engagement for Aon are available from the Company Secretary on request.

The Company Secretary is secretary to the Committee.

In selecting advisors, the Committee considers a range of factors, such as independence and objectivity, experience, technical ability and market knowledge.

#### Priorities for 2019

Continue to monitor upcoming changes relating to remuneration and assess the potential impact on the Group's remuneration structure and framework.

Continue to engage with shareholders and shareholder advisory bodies, as appropriate, in relation to the approval and implementation of the proposed new DRP in 2019.

## 2.5 Remuneration committee key items in 2018

### January

- Approve 2018 salary across the Group;
- Review annual bonus scheme for executive directors;
- Review draft 2017 Directors' Remuneration Report;
- Review vesting of 2015 LTIS, PSP and PF Equity Plan;
- Receive update on 2018 share schemes grant;
- Performance evaluation of the Committee;
- Review independent Remuneration Committee advisor; and
- Review Directors' expenses for 2017.

### February

- Approval 2017 bonus outcome and 2017 LTIS vesting;
- Approve performance conditions for all incentive plans, including bonus, LTIS, PF Equity Plan and Vanquis Equity Plan;
- Approve the grant of 2018 LTIS;
- Approve retention awards;
- Discuss impact of the rights issue on share schemes;
- Receive update on potential changes to Vanquis Equity Plan; and
- Approve in principle of the 2017 Directors' Remuneration Report.

### March

- Review of ExCo annual bonus balanced scorecard objectives;
- Approve the new Group Malus and Clawback Policy; and
- Receive update on the Group-wide remuneration review.

### July

- Discussion of proposed amendments to the DRP;
- Review and discussion of the Group-wide remuneration findings including pension; and
- Approve package for an incoming Division CFO.

### October

- Review of Committee Terms of Reference;
- Regulatory developments and remuneration best practice in the market;
- Discussion of proposed amendments to the DRP;
- Reviewed CEO and Executive Committee salary and remuneration benchmarking; and
- Reviewed and approve departing CFO leaving arrangement and incoming CFO package.

### December

- Discussed the CEO 2018 annual bonus;
- Reviewed the 2019 reward strategy and approach for Group Executive Committee and Divisional executive committees;
- Discussed the approach to strengthening employee voice in accordance with the new Corporate Governance Code;
- Reviewed the 2018 Directors' Remuneration Report;
- Reviewed the current Executive Directors' shareholding;
- Reviewed and approved the Board Chairman's fees and subsidiary NED fees;
- Approved updated Committee Terms of Reference; and
- Reviewed Group NED fees.

# Annual report on remuneration *continued*

## 3. Implementation of the proposed new DRP in 2019

### 3.1 2019 implementation for the CEO

During 2018, the Committee carried out a detailed review of the current DRP taking into account the new circumstances facing the Company and the latest shareholder feedback. Following this review, and consultation with the shareholder, the Committee decided to propose a number of changes to the current DRP. The details of the changes are set out in the Directors' Remuneration Policy. Subject to shareholder approval, the following changes will be made to the CEO remuneration package in 2019:

- Malcolm Le May's salary will not be increased in 2019.
- He will receive a cash allowance in lieu of pension of 15% of base salary.
- He will be eligible for a maximum bonus award of 175% of base salary, which will continue to be subject to the achievement of Company financial, Company non-financial and personal objectives. 60% of maximum bonus will be payable for on-target performance, 25% of maximum bonus will be payable for threshold performance.
- 40% of any bonus payable is required to be deferred into shares under the Deferred Bonus Plan (formerly PSP) for three years. However, no further Matching Awards under the PSP will be granted.
- He will be eligible for a maximum LTIS grant of 200% of salary with three-year performance period. The Committee considered whether 200% of salary is an appropriate LTIS grant for the CEO in 2019, given the movements in share price over the last 12 months and the impact of that on the number of shares he will receive. The Committee concluded that it remains important to provide a clear incentive to grow EPS and TSR over the next three-year LTIS performance period, and maintain an emphasis on driving long-term performance. Performance metrics and weightings will be the same as those for 2018 LTIS grant.
- A two-year post-vesting holding period will apply to his LTIS award (net of tax).

### 3.2 Appointment of Simon Thomas as Chief Financial Officer

Simon Thomas was appointed the Chief Financial Officer (CFO) on 3 December 2018. His remuneration package for 2019 is as follows:

- Base salary £510,000.
- Pension allowance of 15%. This is significantly lower than his predecessor's pension level of 30%.
- Annual bonus up to a maximum of 150% of base salary, within the limit under the proposed DRP. 40% of the annual bonus will be mandatorily deferred into Deferred Bonus Plan (formerly PSP), the deferred bonuses will not be eligible for a Matching Award. The mandatory 40% deferral of annual bonus is higher than the one third that applied to the previous CFO.
- He will be eligible for an LTIS award of up to 200% of base salary subject to performance conditions measured over three years. For 2019, he will receive an LTIS grant of 175% of salary in line with his employment agreement. These LTIS awards, net of tax, will also be subject to a two-year post-vesting holding period.
- Performance conditions for his annual bonus and LTIS will mirror those for the CEO. With the lower base salary, lower pension, lower car allowance and absence of deferred bonus Matching Awards, the package for the new CFO is significantly lower than his predecessor.

### 3.3 Non-executive directors

#### 3.3.1 Non-executive directors' fees

At its meeting in December 2018, the Board reviewed the non-executive directors' fees in the context of a benchmarking exercise undertaken by Aon, taking due account of the need to use such benchmarking exercises with caution. After taking into account the circumstances facing the Company, the Board determined the fee levels with effect from 1 January 2019 as follows:

- Non-executive director base fee: £68,000 (no change);
- Supplementary fee for chairing the Group audit, remuneration, risk, Customer, Culture and Ethics Committee: £20,000 (no change);
- Supplementary fee for membership of the audit, remuneration, Customer, Culture and Ethics, or risk committees: £5,000 (no change). This fee is not paid to the chairman of these committees; and
- Supplementary fee for the role of Senior Independent Director (SID): £15,000 (£5,000 increase from 2018).

#### 3.3.2 Chairman's fee

The Committee reviewed the Chairman's fee, also on the basis of a benchmarking exercise carried out by Aon in December 2018, taking due account of the need to use such benchmarking exercises with caution. Taking into account the circumstances facing the Company, the Committee determined that the Chairman's fee for 2019 should remain at £320,000.

Andrea Blance
*Remuneration Committee Chairman*
13 March 2019

# Directors' remuneration policy

## Introduction

The Committee is responsible for the remuneration of the Chairman, the Executive Directors and the Company Secretary. The remuneration and terms of appointment of the non-executive directors are determined by the Board as a whole. The Committee also reviews and sets the remuneration of the senior management teams within the three divisions and the corporate office.

The Chief Executive Officer is consulted on proposals relating to the remuneration of the other Executive Directors and the senior management teams. The Chairman is consulted on proposals relating to the Chief Executive Officer's remuneration. When appropriate, both are invited by the Committee to attend meetings but are not present when their own remuneration is considered.

The Committee recognises and manages any conflict of interest when consulting the Chief Executive Officer and Chairman about its proposals.

The current Directors' Remuneration Policy was approved by shareholders at the 2017 AGM on 12 May 2017. During 2018, the Committee carried out a detailed review of the current Directors' Remuneration Policy, taking into account of the new circumstances facing the Company, the latest shareholder feedback and the 2018 UK Corporate Governance Code. Following the review, the Committee decided to propose a number of amendments to the current DRP. The proposed amendments will bring the DRP in line with best practice and ensure the overall remuneration of Executive Directors is at a market competitive level.

### Considerations when setting policy

In setting the remuneration policy for the Executive Directors and senior management, the Committee takes into account the following:

- The need to maintain a clear link between the overall reward policy and the specific performance of the Group;
- The need to achieve alignment to the business strategy both in the short- and long-term;
- The requirement for remuneration to be competitive, with a significant proportion dependent on risk-assessed performance targets;
- The responsibilities of each individual's role and their individual experience and performance;
- The need to attract, retain and motivate Executive Directors and senior management when determining remuneration packages, including an appropriate proportion of fixed and variable pay;
- Pay and benefits practice and employment conditions both within the Group as a whole and within the sector in which it operates; and
- Periodic external comparisons to examine current market trends and practices and equivalent roles in companies of similar size, business complexity and geographical scope.

### How employees' pay is taken into account

Pay and conditions elsewhere in the Group were considered when finalising the policy for Executive Directors and the senior management teams. The same principles apply throughout the Group but are proportionate relative to an individual's influence at Group level. The base salary increases awarded to the Executive Directors are consistent with the average percentage increases awarded elsewhere in the Group and reflect the financial performance of the Group and each individual director's personal performance. The Committee does not formally consult directly with employees on executive pay but does receive periodic updates from the divisions on remuneration issues in general and specifically in relation to remuneration structures throughout the Group.

### How the Executive Directors' remuneration policy relates to the senior management teams

Remuneration for the level below Executive Director (including share incentives, bonus, benefits and pension entitlement) is set primarily by reference to market comparatives.

Long-term incentives are typically only provided to the most senior executives and are reserved for those identified as having the greatest potential to influence Group level performance.

# Directors' remuneration policy *continued*

## How shareholders' views are taken into account

We remain committed to taking into account shareholder views on any proposed changes to our remuneration policy. The Committee chairman maintains contact, as required, with the Company's principal shareholders about all relevant remuneration issues and the Company consulted with its principal shareholders, as well as the shareholder advisory bodies, in relation to the renewal of its remuneration policy. Ongoing and transparent dialogue with our shareholders on the topic of executive remuneration is very important to us and the feedback received on the proposed remuneration policy was carefully considered and discussed by the Committee.

## Summary of proposed amendments to the DRP

- Reduction in the maximum pension allowance from 30% to 15% for existing Executive Directors and the introduction of a 10% maximum for new appointments.
- Removal of the deferred bonus matching from the Policy for future awards.
- Increase in the mandatory deferral from one third to 40% of any bonus payable.
- Formalisation of a two-year post-vesting holding period on the Long-term Incentive Scheme (LTIS), creating a "3+2" structure in line with the new UK Corporate Governance Code requirements.
- Increase in the maximum annual bonus opportunity from 120% to 175%, recognising the removal of the deferred bonus matching plan, the reduction in pension allowance, and the market levels of maximum annual bonus in other financial services companies.
- Strengthening of Malus and Clawback provisions.
- The total target remuneration under the new policy is 8.6% less than under the current policy and at maximum it is 29% less than under the current policy.

## Executive Director remuneration policy

| Element | Purpose and link to strategy | Operation including maximum levels | Performance targets and provisions for recovery of sums paid |
|---|---|---|---|
| **Salary** | To reflect the responsibilities of the individual role.<br>To reflect the individual's skills and experience and their performance over time.<br>To provide an appropriate level of basic fixed income and avoid excessive risk taking arising from over reliance on variable income. | Reviewed annually and effective from 1 January.<br>Typically set following review of the budget for the forthcoming year, taking into account salary levels in companies of a similar size and complexity.<br>Typically targeted at or around median. Annual increases typically linked to those of the wider workforce. Increases beyond those granted to the wider workforce may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. | Broad assessment of Group and individual performance as part of the review process.<br>Malus and clawback provisions do not apply. |
| **Retirement benefits** | Provision of market competitive pension benefits | Provide either a cash allowance or a contribution to the defined contribution plan or a combination of the two.<br>Pension allowance of up to 15% of salary per annum is given to all existing Executive Directors. For any future Executive Director appointments from the 2019 AGM onwards, pension allowance will be capped at 10% of salary, in line with the allowance available to the workforce. | Not applicable. |
| **Annual bonus** | Incentivises annual delivery of agreed financial and operational goals.<br>Rewards the achievement of an agreed set of annual financial and operational goals. | Financial and operational goals set annually.<br>Maximum opportunity of 175% of salary.<br>40% of the bonus is subject to compulsory deferral in which case an award is made under the Deferred Bonus Plan (formerly PSP).<br>Remainder of bonus paid in cash.<br>At the discretion of the Committee, participants may also be entitled to receive dividend or dividend equivalent for the period between grant and vesting on vested deferred bonus shares. | A minimum of 50% of any bonus opportunity will be subject to financial targets (e.g. EPS) with up to 20% linked to personal objectives.<br>A graduated scale operates from threshold performance through to the maximum performance level. For financial targets, 25% of the maximum bonus becomes payable for achieving the threshold performance target. 60% of the maximum bonus becomes payable for achieving on-target performance. 100% of the maximum bonus becomes payable for achieving stretch performance. A straight-line payout is operated between threshold and on-target performance and between on-target and stretch performance. In relation to non-financial and personal objectives, it is not always practicable to set a sliding scale for each objective. Where it is, a similar proportion of the bonus becomes payable for exceeding the threshold performance level as for financial targets.<br>Malus and clawback provisions apply in accordance with the strengthened Group Malus and Clawback Policy. The period of clawback is three years from the date of payment.<br>Details of the bonus measures operating each year will be included in the relevant annual report on remuneration.<br>The Committee reserves the power to make changes over the life of the policy to achieve alignment with the Group's annual strategy. |

| Element | Purpose and link to strategy | Operation including maximum levels | Performance targets and provisions for recovery of sums paid |
|---|---|---|---|
| **Long Term Incentive Scheme (LTIS)** | Alignment of management's long-term strategic interests with long-term interests of shareholders.<br>Rewards strong financial performance and sustained increase in shareholder value.<br>Encourages an increased shareholding in the Group. | Annual grant of share awards (structured as conditional share awards or nil-cost options).<br>Executive directors are eligible for awards of up to 200% of salary which is the maximum opportunity contained within the scheme rules.<br>Executive Directors are required to retain vested LTIS shares, net of tax, for a further period of two years.<br>Dividend equivalent provisions allow the Committee to pay dividends on vested shares at the time of vesting.<br>Shareholders approved the renewal of the LTIS at the 2015 AGM. | Awards vest based on a three-year performance period against a challenging range of EPS, relative TSR targets, and risk metrics set and assessed by the Committee. The relative TSR will be measured against a suitable comparator group. 20% of the award vests at the threshold performance level with full vesting taking place on a graduated scale for achieving the maximum performance level. The performance conditions are reviewed annually by the Committee prior to grant (in terms of the range of targets and the choice of metrics) and may be refined to ensure that the targets remain aligned with the Group's strategy and KPIs. Any substantive reworking of the current performance metrics would be accompanied by appropriate dialogue with the Company's shareholders and/or approval sought for a revised remuneration policy depending on the nature of the change.<br>The Group Malus and Clawback Policy applies. The period of clawback is three years from the date of vesting. |
| **Other benefits** | Provision of a range of insured and non-insured benefits commensurate with the role. | Market competitive benefits, which may include:<br>> Life cover;<br>> Permanent health insurance;<br>> Private medical insurance;<br>> Car benefits;<br>> Participation in any all-employee share plans operated by the Company on the same basis as other eligible employees; or<br>> Other benefits that the Committee may consider appropriate. | Not applicable. |
| **Share ownership** | To ensure alignment of the long-term interests of executive directors and shareholders. | Executive Directors are required to build a holding of 200% of salary in the form of shares in the Company normally within a period of five years from the date of appointment.<br>Executive Directors are required to retain half of any shares vesting (net of tax) under the LTIS until the guideline is met. Unvested shares held under the LTIS are not taken into account. | Not applicable. |

The Committee will operate the incentive schemes within the policy detailed above and in accordance with their respective rules. In relation to the discretions included within the scheme rules, these include, but are not limited to: (i) who participates in the schemes; (ii) testing of the relevant performance targets; (iii) undertaking an annual review of performance targets and weightings; (iv) the determination of the treatment of leavers in line with the scheme rules; (v) adjustments to existing performance targets and/or share awards under the incentive scheme if certain relevant events take place (e.g. a capital restructuring, a material acquisition/divestment etc.) with any such adjustments to result in the revised targets being no more or less challenging to achieve; and (vi) dealing with a change of control. For the purposes of incentive pay, EPS is calculated on an adjusted basis to show the EPS generated by the Group's underlying operations.

## Remuneration Committee discretion

In addition to the performance metrics set by the Committee annually for the incentive plans, the Committee will also assess the overall, or underlying, performance of the Company and its Divisions. In light of this assessment, the Committee may make a downward adjustment, including to zero, to the vesting outcome on all or any of the performance metrics.

The Committee will also assess the Company's and its Divisions' performance against the risk metrics, and may make a downward adjustment, including to zero, to the vesting outcome on all or any of the performance metrics, to take account of any material failures of risk management or regulatory compliance in the Company and its Divisions.

# Directors' remuneration policy *continued*

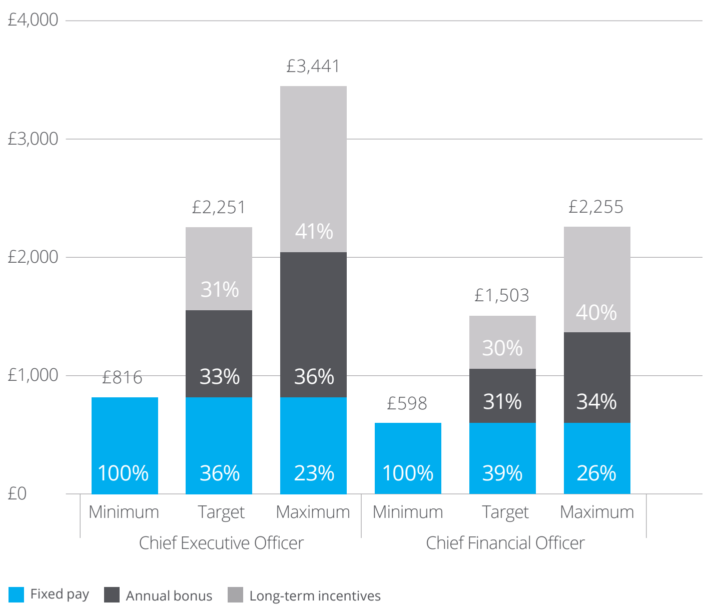
## Post-employment shareholding

Under the Rules of the Deferred Bonus Plan (formerly PSP) and LTIS, deferred bonus shares and unvested LTIS shares, that are permitted to be retained by 'good leavers', will normally vest at the original vesting dates, normally subject to the original performance conditions and time proration in the case of unvested LTIS shares. The post-vesting holding period for LTIS will also continue to apply post-employment.

Taking account of the 2018 UK Corporate Governance Code and the latest guidance from the proxy agencies, the Committee will review and establish a post-employment shareholding policy for Executive Directors during the course of 2019. The policy will be disclosed in our 2019 Directors' Remuneration Report.

## Illustrations of application of the DRP

Under the Company's Directors' Remuneration Policy, a large proportion of the remuneration received by Executive Directors depends on performance. The charts below show how total pay for the CEO and CFO vary under three different performance scenarios: minimum, target and maximum.




**Minimum:** this comprises the fixed elements of pay, being base salary, benefits and pension allowance. Base salary and pension are effective as at 1 January 2019 and the benefits value is an estimate value for the 2019 financial year.

**Target:** this comprises fixed pay and the target value of 2019 annual bonus (87.5% of salary for the CEO and 75% of salary for the CFO) and LTIS (100% of salary for CEO and 87.5% for CFO).

**Maximum:** this comprises fixed pay and the maximum value of 2019 annual bonus (175% of salary for the CEO and 150% of salary for the CFO) and LTIS (200% of salary for CEO and 175% for CFO).

The charts do not include the effect of any share price growth on the LTIS. If 50% share price growth between grant and vesting is assumed, the maximum total remuneration would be £4,172,000 and £2,912,000 for the CEO and the CFO, respectively.

## Arrangements from prior years

All variable remuneration arrangements previously disclosed in prior years' directors' remuneration reports will remain eligible to vest or become payable on their original terms and vesting dates, subject to any related clawback provisions.

## Regulatory changes

The Committee is mindful that regulatory changes in the financial services sector may result in a need to rebalance the Executive Directors' pay and, accordingly, the Committee retains discretion to adjust the current proportions of fixed and variable pay within the current total remuneration package if new legislation were to impact the Executive Directors in due course. Should this be the case, the Company would enter into appropriate dialogue with its major shareholders and, depending on the nature of any changes, may be required to seek shareholder approval for a revised remuneration policy.

## Policy for new directors

Base salary levels will be set in accordance with the approved remuneration policy, taking into account the experience and calibre of the individual. Benefits will also be provided in line with the approved DRP and relocation expenses/arrangements may be provided if necessary.

The maximum level of variable pay that may be offered on an ongoing basis and the structure of remuneration will be in accordance with the approved DRP. This limit does not include the value of any buyout arrangements.

Any incentive offered above these limits would be contingent on the Company receiving shareholder approval for an amendment to the approved DRP at its next AGM.

Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual and the point in the financial year that they join the Company.

The above policy applies to both an internal promotion to the Board or an external hire.

In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving a previous employer), then the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration or benefit being forfeited will be taken into account. The Company will not pay any more than necessary and will not pay more than the expected value of the remuneration or benefit being forfeited. The approved DRP will apply to the balance of the remuneration package. The Company will also not make a golden hello payment.

In the case of an internal promotion, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the Board appointment), even if inconsistent with the policy prevailing when the Commitment is fulfilled.

On the appointment of a new chairman or non-executive director, the fees will be set taking into account the experience and calibre of the individual. Where specific cash or share arrangements are delivered to non-executive directors, these will not include share options or other performance-related elements.

## Choice of performance metrics

The performance metrics used for the annual bonus scheme and the LTIS have been selected to reflect the key indicators of the Group's financial performance.

EPS continues to be considered by the Committee as one of the broadest and most well understood measures of the Group's long-term financial performance and therefore it remains appropriate to maintain the option to use it as a key metric in our long-term incentive plans.

Furthermore, EPS is fully aligned with the Group's objective of continuing to deliver a high dividend yield and thus is aligned with the shareholder base which is weighted towards longer-term income investors.

In 2012, the link to RPI was removed from the performance targets for the LTIS following consideration by the Committee of various factors prevailing at the time. This approach has been retained in relation to awards under the LTIS since 2012. Performance targets will, however, be assessed annually when setting targets for future awards to take account of prevailing rates of inflation.

In addition, relative TSR in relation to a suitable comparator group is used to provide an appropriate external balance to the internal EPS measure used under the LTIS and is consistent with delivering superior returns to shareholders which remains the Group's key, over-arching, long-term objective.

Each year, a number of risk indicators may be used in the areas of risk management, regulatory performance/compliance, risk profile and conduct.

No performance targets are set for options granted under the Company's Save As You Earn Scheme (SAYE) or for awards under the Company's Share Incentive Plan (SIP) as they form part of the all-employee arrangements which are designed to encourage employee share ownership across the Group.

## Service contracts and exit policy

The Committee ensures that the contractual terms for the Executive Directors take due account of best practice.

Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. All service contracts contain provisions for early termination. The contracts of the Executive Directors are dated 1 February 2018 for the Chief Executive Officer and 3 December 2018 for the Chief Financial Officer. All contracts operate on a rolling basis with 12 months' notice required to be served by either the Executive Director or the Company.

An Executive Director's contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. No director has a service contract providing liquidated damages on termination.

In the event of the termination of a service contract, it is the current policy to seek mitigation of loss by the Executive Director concerned and to aim to ensure that any payment made is the minimum which is commensurate with the Company's legal obligations. Payments in lieu of notice are not pensionable.

In the event of a change of control of the Company, there is no enhancement to contractual terms.

Notice periods are limited to 12 months. If the Company terminates the employment of an Executive Director without giving the period of notice required under the contract, then the Executive Director may be entitled to receive up to 12 months' compensation. Compensation is limited to: base salary due for any unexpired notice period; any amount assessed by the Committee as representing the value of contractual benefits and pension which would have been received during the period; and any annual bonus which the Executive Director might otherwise have been eligible to receive on a pro rata basis, subject to the Committee's assessment of financial and personal performance.

To the extent that an Executive Director seeks to bring a claim against the Company in relation to the termination of their employment (e.g. for breach of contract or unfair dismissal), the Committee retains the right to make an appropriate payment in settlement of such claims.

In the case of a termination by the Company of the contract of any new Executive Director who has been appointed where a payment in lieu of notice is made, the Committee would normally seek to limit this to base salary, pension and benefits for up to 12 months. An amount in respect of loss of annual bonus for the period of notice served (pro rata) would only be included in exceptional circumstances and would not apply in circumstances of poor performance. For the avoidance of doubt, in such exceptional circumstances, the director would be eligible to be considered in the normal way for an annual bonus for any period they have served as a director, subject to the normal assessment by the Committee of financial and personal performance.

Any share-based entitlements granted to an Executive Director under the Company's share incentive schemes will be determined by reference to the relevant scheme rules. In the case of a 'bad leaver' (e.g. resignation) awards will typically lapse and in certain 'good leaver' circumstances (e.g. ill-health) awards will remain eligible to vest subject to assessment of the relevant performance target and a pro rata reduction (unless the Committee determines otherwise).

Any buyout arrangements agreed between the Company and the relevant directors would be treated in accordance with the terms agreed on finalisation of the buyout arrangement.

## Policy on other appointments

Executive Directors are permitted to hold non-executive directorships but may only hold one non-executive directorship in a FTSE 100 company (and may retain the fees from their appointment) provided that the Board considers that this will not adversely affect their executive responsibilities.

Copies of directors' service contracts and/or letters of appointment are available from the Company Secretary on request.

# Directors' remuneration policy *continued*

## Non-executive directors

Non-executive directors are not employed under service contracts and do not receive compensation for loss of office. They are appointed for fixed terms of three years, renewable for a further three-year term and, in exceptional circumstances, further extended if both parties agree. Any such extension will be subject to annual reappointment by shareholders.

The table below shows details of the terms of appointment for the non-executive directors. All directors will seek reappointment at the forthcoming AGM (with the exception of John Straw).

### Non-executive director remuneration policy

| Element | Purpose and link to strategy | Operation including maximum levels |
|---|---|---|
| **Fees** | To attract and retain a high-calibre Chairman and non-executive directors by offering market competitive fees which reflect the individual's skills, experience and responsibilities. | The Chairman and non-executive directors receive annual fees (paid in monthly instalments). The fee for the Chairman is set by the remuneration committee and the fees for the non-executive directors are approved by the Board.<br><br>The Chairman is paid an all-inclusive fee for all Board responsibilities. The other non-executive directors receive a basic non-executive director fee, with supplementary fees payable for additional responsibilities, including a fee for chairing a committee and, from 2018, for membership of the risk, remuneration, audit, Customer, Culture and Ethics committees (but not if performing a chairman role).<br><br>The non-executive directors do not participate in any of the Company's incentive arrangements.<br><br>Relevant expenses and/or benefits may be provided to the non-executive directors.<br><br>The fee levels are reviewed on a regular basis and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity.<br><br>Flexibility is retained to go above the current fee levels and/or to provide the fees in a form other than cash (but not as share options or other performance-related incentives) if necessary to appoint a new Chairman or non-executive director of an appropriate calibre. |

### Terms of Appointment of the Non-executive directors

| Name | Appointment | Date of most recent term | Expected & (Actual) date of expiry |
|---|---|---|---|
| Rob Anderson | 2 March 2009 | 30 March 2018 | 11 December 2018 |
| Stuart Sinclair | 1 October 2012 | 31 October 2015 | 21 September 2018 |
| Andrea Blance | 1 March 2017 | 1 March 2017 | 1 March 2020 |
| David Sear[1] | 1 January 2017 | 1 January 2017 | 26 January 2018 |
| John Straw[2] | 1 January 2017 | 1 January 2017 | 20 May 2019 |
| Patrick Snowball | 21 September 2018 | 21 September 2018 | 20 May 2022 |
| Paul Hewitt | 31 July 2018 | 31 July 2018 | 31 July 2021 |
| Angela Knight | 31 July 2018 | 31 July 2018 | 31 July 2021 |
| Elizabeth Chambers | 31 July 2018 | 31 July 2018 | 31 July 2021 |

1 David Sear's term was expected to expire on 31 December 2020, prior to him stepping down from the Board on 26 January 2018.
2 John Straw 's term was expected to expire on 31 December 2020 prior to him announcing his intention to step down from the Board on 20 May 2019.

Remuneration payments and payments for loss of office will only be made if consistent with this approved remuneration policy or otherwise approved by an ordinary resolution of shareholders.

Andrea Blance
*Remuneration Committee Chairman*
13 March 2019

# Our results

The Group continues to operate a financial model that is founded on investing in customer-centric businesses that offer attractive returns.

# Financial statements

## Consolidated income statement

For the year ended 31 December

| | Note | Group 2018 IFRS 9 £m | 2017 IAS 39 £m |
|---|---|---|---|
| **Revenue** | 1,2 | **1,124.4** | 1,196.3 |
| Finance costs | 3 | **(91.7)** | (77.0) |
| Impairment charges | 14 | **(410.4)** | (476.1) |
| Administrative and operating costs | | **(531.6)** | (766.2) |
| **Total costs** | | **(1,033.7)** | (1,319.3) |
| **Profit/(loss) before taxation** | 1,4 | **90.7** | (123.0) |
| Profit before taxation, amortisation of acquisition intangibles and exceptional items | 1,4 | **153.5** | 109.1 |
| Amortisation of acquisition intangibles | 11 | **(7.5)** | (7.5) |
| Exceptional items | 1 | **(55.3)** | (224.6) |
| Tax charge | 5 | **(30.4)** | (11.4) |
| **Profit/(loss) for the year attributable to equity shareholders** | | **60.3** | (134.4) |

All of the above activities relate to continuing operations.

## Consolidated statement of comprehensive income

For the year ended 31 December

| | Note | Group 2018 IFRS 9 £m | 2017 IAS 39 £m |
|---|---|---|---|
| **Profit/(loss) for the year attributable to equity shareholders** | | **60.3** | (134.4) |
| **Items that will not be reclassified subsequently to the income statement:** | | | |
| > actuarial movements on retirement benefit asset | 19 | **(21.7)** | 17.5 |
| > tax on items that will not be reclassified subsequently to the income statement | 5 | **4.1** | (3.4) |
| > impact of change in UK tax rate on items that will not be reclassified subsequently to the income statement | 5 | **(0.5)** | 0.4 |
| **Items that may be reclassified subsequently to the income statement:** | | | |
| > fair value movement on investments | 15 | **2.2** | 1.9 |
| > fair value movements on cash flow hedges | 17 | **–** | 0.2 |
| > exchange differences on translation of foreign operations | | **–** | (0.2) |
| > tax on items that may be reclassified subsequently to the income statement | 5 | **(0.5)** | (0.4) |
| > impact of change in UK tax rate on items that may be reclassified subsequently to the income statement | 5 | **(0.2)** | (0.1) |
| Other comprehensive (expense)/income for the year | | **(16.6)** | 15.9 |
| **Total comprehensive income/(expense) for the year** | | **43.7** | (118.5) |

## Earnings/(loss) per share

For the year ended 31 December

| | Note | Group 2018 IFRS 9 pence | 2017 IAS 39 restated pence |
|---|---|---|---|
| Basic | 6 | **25.2** | (66.4) |
| Diluted | 6 | **25.1** | (66.4) |

## Dividends per share

For the year ended 31 December

| | Note | Group 2018 pence | 2017 pence |
|---|---|---|---|
| Proposed final dividend | 7 | **10.0** | – |
| Total dividend for the year | 7 | **10.0** | – |
| Paid in the year* | 7 | **–** | 91.4 |

* The total cost of dividends paid in the year was £nil (2017: £133.4m).

# Balance sheets

As at 31 December

| | Note | Group 2018 IFRS 9 £m | Group 2017 IAS 39 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 10 | **71.2** | 71.2 | **–** | – |
| Other intangible assets | 11 | **55.0** | 79.4 | **–** | – |
| Property, plant and equipment | 12 | **24.6** | 30.9 | **4.5** | 4.6 |
| Investment in subsidiaries | 13 | **–** | – | **469.7** | 482.3 |
| Financial assets: | | | | | |
| > amounts receivable from customers | 14 | **349.6** | 328.2 | **–** | – |
| > trade and other receivables | 18 | **–** | – | **–** | 76.9 |
| Retirement benefit asset | 19 | **83.9** | 102.3 | **83.9** | 102.3 |
| Deferred tax asset | 20 | **38.3** | – | **–** | – |
| | | **622.6** | 612.0 | **558.1** | 666.1 |
| **Current assets** | | | | | |
| Financial assets: | | | | | |
| > investments held at fair value through income statement | 15 | **47.8** | 45.8 | **–** | – |
| > amounts receivable from customers | 14 | **1,813.3** | 1,981.2 | **–** | – |
| > cash and cash equivalents | 21 | **387.9** | 282.9 | **1.0** | 35.6 |
| > trade and other receivables | 18 | **49.6** | 44.0 | **823.6** | 744.4 |
| Current tax asset | | **–** | – | **1.8** | – |
| | | **2,298.6** | 2,353.9 | **826.4** | 780.0 |
| **Total assets** | 1 | **2,921.2** | 2,965.9 | **1,384.5** | 1,446.1 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Financial liabilities: | | | | | |
| > retail deposits | 22 | **(339.3)** | (350.8) | **–** | – |
| > bank and other borrowings | 22 | **(49.8)** | (38.1) | **(47.1)** | (35.3) |
| Total borrowings | 22 | **(389.1)** | (388.9) | **(47.1)** | (35.3) |
| > derivative financial instruments | 17 | **–** | (0.1) | **–** | – |
| > trade and other payables | 23 | **(91.8)** | (96.9) | **(86.6)** | (97.0) |
| Current tax liabilities | | **(24.6)** | (15.9) | **–** | (0.4) |
| Provisions | 24 | **(53.2)** | (104.6) | **–** | – |
| | | **(558.7)** | (606.4) | **(133.7)** | (132.7) |
| **Non-current liabilities** | | | | | |
| Financial liabilities: | | | | | |
| > retail deposits | 22 | **(1,092.4)** | (950.2) | **–** | – |
| > bank and other borrowings | 22 | **(574.0)** | (853.9) | **(574.0)** | (853.9) |
| Total borrowings | 22 | **(1,666.4)** | (1,804.1) | **(574.0)** | (853.9) |
| Deferred tax liabilities | 20 | **–** | (20.3) | **(13.3)** | (15.9) |
| | | **(1,666.4)** | (1,824.4) | **(587.3)** | (869.8) |
| **Total liabilities** | 1 | **(2,225.1)** | (2,430.8) | **(721.0)** | (1,002.5) |
| **NET ASSETS** | 1 | **696.1** | 535.1 | **663.5** | 443.6 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | 25 | **52.5** | 30.7 | **52.5** | 30.7 |
| Share premium | | **273.2** | 273.0 | **273.2** | 273.0 |
| Other reserves | 27 | **292.1** | 13.4 | **290.4** | 51.1 |
| Retained earnings | | **78.3** | 218.0 | **47.4** | 88.8 |
| **TOTAL EQUITY** | | **696.1** | 535.1 | **663.5** | 443.6 |

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement or statement of other comprehensive income. The retained loss for the financial year reported in the financial statements of the Company was £62.2m (2017: £556.0m).

The financial statements on pages 168 to 224 were approved and authorised for issue by the Board of directors on 13 March 2019 and signed on its behalf by:

**Malcolm Le May**
Chief Executive Officer

**Simon Thomas**
Chief Financial Officer

Company Number – 668987

# Financial statements *continued*

## Statements of changes in shareholders' equity

| Group | Note | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2017 | | 30.6 | 272.7 | 24.3 | 462.5 | 790.1 |
| Loss for the year | | – | – | – | (134.4) | (134.4) |
| Other comprehensive income/(expense): | | | | | | |
| > actuarial movements on retirement benefit asset | 19 | – | – | – | 17.5 | 17.5 |
| > fair value movement on investments | 15 | – | – | 1.9 | – | 1.9 |
| > fair value movements on cash flow hedges | 17 | – | – | 0.2 | – | 0.2 |
| > exchange differences on translation of foreign operations | | – | – | – | (0.2) | (0.2) |
| > tax on items taken directly to other comprehensive income | 5 | – | – | (0.4) | (3.4) | (3.8) |
| > impact of change in UK tax rate | 5 | – | – | (0.1) | 0.4 | 0.3 |
| Other comprehensive income for the year | | – | – | 1.6 | 14.3 | 15.9 |
| Total comprehensive income/(expense) for the year | | – | – | 1.6 | (120.1) | (118.5) |
| Transactions with owners: | | | | | | |
| > issue of share capital | 25 | 0.1 | 0.3 | – | – | 0.4 |
| > purchase of own shares | | – | – | (0.1) | – | (0.1) |
| > transfer of own shares on vesting of share awards | | – | – | 1.1 | (1.1) | – |
| > share-based payment credit | 26 | – | – | (3.4) | – | (3.4) |
| > transfer of share-based payment reserve on vesting of share awards | | – | – | (10.1) | 10.1 | – |
| > dividends | 7 | – | – | – | (133.4) | (133.4) |
| **At 31 December 2017** | | 30.7 | 273.0 | 13.4 | 218.0 | 535.1 |
| Impact of adoption of IFRS 9 'Financial Instruments' (note 32) | | **–** | **–** | **–** | **(184.0)** | **(184.0)** |
| **At 1 January 2018** | | **30.7** | **273.0** | **13.4** | **34.0** | **351.1** |
| Profit for the year | | **–** | **–** | **–** | **60.3** | **60.3** |
| Other comprehensive income/(expense): | | | | | | |
| > actuarial movements on retirement benefit asset | 19 | **–** | **–** | **–** | **(21.7)** | **(21.7)** |
| > fair value movement on investments | 15 | **–** | **–** | **2.2** | **–** | **2.2** |
| > tax on items taken directly to other comprehensive income | 5 | **–** | **–** | **(0.5)** | **4.1** | **3.6** |
| > impact of change in UK tax rate | 5 | **–** | **–** | **(0.2)** | **(0.5)** | **(0.7)** |
| Other comprehensive income/(expense) for the year | | **–** | **–** | **1.5** | **(18.1)** | **(16.6)** |
| Total comprehensive income for the year | | **–** | **–** | **1.5** | **42.2** | **43.7** |
| Transactions with owners: | | | | | | |
| > proceeds from rights issue | 25 | **21.8** | **–** | **278.2** | **–** | **300.0** |
| > issue of share capital | 25 | **–** | **0.2** | **–** | **–** | **0.2** |
| > share-based payment charge | 26 | **–** | **–** | **1.1** | **–** | **1.1** |
| > transfer of share-based payment reserve on vesting of share awards | | **–** | **–** | **(2.1)** | **2.1** | **–** |
| **At 31 December 2018** | | **52.5** | **273.2** | **292.1** | **78.3** | **696.1** |

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings are shown after directly writing off cumulative goodwill of £1.6m. In addition, cumulative goodwill of £2.3m has been written off against the merger reserve in previous years.

The rights issue in April 2018 was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. The resulting merger reserve of £278.2m is included within other reserves, of which £228.2m is distributable as the capital was retained for the purposes of the Company with the remaining £50.0m not distributable as it was used to inject capital into Vanquis Bank. Other reserves are further analysed in note 27.

| Company | Note | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2017 | | 30.6 | 272.7 | 634.9 | 188.5 | 1,126.7 |
| Loss for the year | | – | – | – | (556.0) | (556.0) |
| Other comprehensive income/(expense): | | | | | | |
| > actuarial movements on retirement benefit asset | 19 | – | – | – | 17.5 | 17.5 |
| > fair value movements on cash flow hedges | 17 | – | – | 0.1 | – | 0.1 |
| > tax on items taken directly to other comprehensive income | | – | – | – | (3.4) | (3.4) |
| > impact of change in UK tax rate | | – | – | – | 0.4 | 0.4 |
| Other comprehensive income for the year | | – | – | 0.1 | 14.5 | 14.6 |
| Total comprehensive income/(expense) for the year | | – | – | 0.1 | (541.5) | (541.4) |
| Transactions with owners: | | | | | | |
| > issue of share capital | 25 | 0.1 | 0.3 | – | – | 0.4 |
| > purchase of own shares | | – | – | (0.1) | – | (0.1) |
| > transfer of own shares on vesting of share awards | | – | – | 1.1 | (1.1) | – |
| > share-based payment credit | 26 | – | – | (2.2) | – | (2.2) |
| > transfer of share-based payment reserve on vesting of share awards | | – | – | (5.0) | 5.0 | – |
| > share-based payment movement in investment in subsidiaries | | – | – | (6.4) | – | (6.4) |
| > dividends | 7 | – | – | – | (133.4) | (133.4) |
| > transfer of non-distributable reserve following write downs of investment and loans to subsidiaries | 13 | – | – | (571.3) | 571.3 | – |
| **At 31 December 2017** | | 30.7 | 273.0 | 51.1 | 88.8 | 443.6 |
| At 1 January 2018 | | **30.7** | **273.0** | **51.1** | **88.8** | **443.6** |
| Loss for the year | | **–** | **–** | **–** | **(62.2)** | **(62.2)** |
| Other comprehensive income/(expense): | | | | | | |
| > actuarial movements on retirement benefit asset | 19 | **–** | **–** | **–** | **(21.7)** | **(21.7)** |
| > tax on items taken directly to other comprehensive income | | **–** | **–** | **–** | **4.1** | **4.1** |
| > impact of change in UK tax rate | | **–** | **–** | **–** | **(0.5)** | **(0.5)** |
| Other comprehensive expense for the year | | **–** | **–** | **–** | **(18.1)** | **(18.1)** |
| Total comprehensive expense for the year | | **–** | **–** | **–** | **(80.3)** | **(80.3)** |
| Transactions with owners: | | | | | | |
| > proceeds from rights issue | 25 | **21.8** | **–** | **278.2** | **–** | **300.0** |
| > issue of share capital | 25 | **–** | **0.2** | **–** | **–** | **0.2** |
| > share-based payment charge | 26 | **–** | **–** | **0.4** | **–** | **0.4** |
| > transfer of share-based payment reserve on vesting of share awards | | **–** | **–** | **(1.0)** | **1.0** | **–** |
| > share-based payment movement in investment in subsidiaries | | **–** | **–** | **(0.4)** | **–** | **(0.4)** |
| > transfer of non-distributable reserve following write down of investment in subsidiary | 13 | **–** | **–** | **(37.9)** | **37.9** | **–** |
| **At 31 December 2018** | | **52.5** | **273.2** | **290.4** | **47.4** | **663.5** |

Other reserves are further analysed in note 27.

# Financial statements *continued*

## Statements of cash flows

For the year ended 31 December

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(used in) operations | 31 | **67.2** | 72.0 | **(81.5)** | (76.1) |
| Finance costs paid | | **(66.1)** | (73.7) | **(44.5)** | (49.9) |
| Premium paid on early redemption of senior bonds | 1 | **(18.5)** | – | **(18.5)** | – |
| Finance income received | | **–** | – | **51.4** | 76.1 |
| Tax paid | | **(22.3)** | (55.0) | **–** | (5.1) |
| **Net cash used in operating activities** | | **(39.7)** | (56.7) | **(93.1)** | (55.0) |
| **Cash flows from investing activities** | | | | | |
| Purchase of shares in subsidiary | 13 | **–** | – | **(50.0)** | – |
| Purchase of intangible assets | 11 | **(7.6)** | (20.5) | **–** | – |
| Purchase of property, plant and equipment | 12 | **(5.3)** | (12.2) | **(1.7)** | (0.3) |
| Proceeds from disposal of property, plant and equipment | 12 | **1.5** | 1.7 | **0.2** | 0.7 |
| Purchase of government gilts held as an investment | 15 | **0.2** | (35.9) | **–** | – |
| Long-term loans repaid by subsidiaries | | **–** | – | **76.9** | 156.6 |
| Dividends received from subsidiaries | | **–** | – | **–** | 70.2 |
| **Net cash (used in)/generated from investing activities** | | **(11.2)** | (66.9) | **25.4** | 227.2 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from bank and other borrowings | | **737.1** | 650.0 | **247.7** | 106.0 |
| Repayment of bank and other borrowings | | **(885.3)** | (332.1) | **(518.7)** | (138.5) |
| Dividends paid to Company shareholders | 7 | **–** | (133.4) | **–** | (133.4) |
| Net proceeds from rights issue | | **300.0** | – | **300.0** | – |
| Proceeds from issue of share capital | 25 | **0.2** | 0.4 | **0.2** | 0.4 |
| Purchase of own shares | 27 | **–** | (0.1) | **–** | (0.1) |
| **Net cash generated from/(used in) financing activities** | | **152.0** | 184.8 | **29.2** | (165.6) |
| **Net increase/(decrease) in cash, cash equivalents and overdrafts** | | **101.1** | 61.2 | **(38.5)** | 6.6 |
| Cash, cash equivalents and overdrafts at beginning of year | | **279.8** | 218.6 | **35.3** | 28.7 |
| **Cash, cash equivalents and overdrafts at end of year** | | **380.9** | 279.8 | **(3.2)** | 35.3 |
| Cash, cash equivalents and overdrafts at end of year comprise: | | | | | |
| Cash at bank and in hand | 21 | **387.9** | 282.9 | **1.0** | 35.6 |
| Overdrafts (held in bank and other borrowings) | 22 | **(7.0)** | (3.1) | **(4.2)** | (0.3) |
| **Total cash, cash equivalents and overdrafts** | | **380.9** | 279.8 | **(3.2)** | 35.3 |

Cash at bank and in hand includes £384.9m (2017: £227.5m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. As at 31 December 2018, £106.5m (2017: £22.3m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

# Statement of accounting policies

## General information

The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, England, BD1 2SU. The Company is listed on the London Stock Exchange.

## Basis of preparation

The financial statements of the Group and Company are prepared in accordance with IFRS adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments and investments held at fair value through other comprehensive income. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the Group and Company's accounting policies.

The Group and Company's principal accounting policies under IFRS, which have been consistently applied to all the years presented unless otherwise stated, are set out below:

### (a) New and amended standards adopted by the Group and Company:

IFRS 9 has been adopted by the Group and Company from the mandatory adoption date of 1 January 2018. Full details of the impact of adoption can be found in note 32.

IFRS 15 has been adopted from 1 January 2018. The standard establishes the principles to determine the nature, amount and timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Interest income in both Vanquis Bank and the Consumer Credit Division (CCD) is accounted for in accordance with IFRS 9. Interest income generated from Moneybarn's conditional sales agreements continues to be accounted for in accordance IAS 17 'Leases'.

Non-interest income generated by Vanquis Bank is now accounted for in accordance with IFRS 15. However, there has been no change in the recognition of revenue to the approach adopted previously under IAS 39.

There has been no other new or amended standards adopted in the financial year beginning 1 January 2018 which had a material impact on the Group or Company.

### (b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted:

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors and is effective from 1 January 2019.

The standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees, except for short term assets and leases of low value assets.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The classification of cash flows will be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as operating and financing cash flows respectively.

Interest income generated from Moneybarn's conditional sales agreements will be accounted for in accordance IFRS 16. However, there will be no impact on the amounts recognised.

The adoption of IFRS 16 into the Group's opening balance sheet on 1 January 2019 results in an increase in assets of £82m and liabilities of £89m, which net of deferred tax of £1m, results in a reduction in net assets of £6m.

### Disclosure reclassification

Historically, interest accruals on borrowings and retail deposits have been presented within trade and other payables in the balance sheet. They have now been disclosed as part of the principal balances to which they relate within borrowings, replicating the presentation of interest recognised on customer receivables. Prior year comparatives have also been reclassified.

The impact on the financial statements is presentational only and there is no impact on the income statement or the statement of cash flows.

### Basis of consolidation

The consolidated income statement, consolidated statement of comprehensive income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and notes to the financial statements include the financial statements of the Company and all of its subsidiary undertakings drawn up from the date control passes to the Group until the date control ceases.

Control is achieved when the Group:

> Has the power over the investee;
> Is exposed, or has rights, to variable return from its involvement with the investee; and
> Has the ability to use its power to affect returns.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

The accounting policies of subsidiaries are consistent with the accounting policies of the Group.

## Revenue

Revenue comprises interest and fee income earned by Vanquis Bank and Moneybarn and interest income earned by CCD.

Group revenue excludes value added tax and intra-group transactions.

Company revenue includes intra-group transactions and dividends received.

Within Vanquis Bank, interest is calculated on credit card advances to customers using the effective interest rate on the daily balance outstanding. Annual fees charged to customers' credit card accounts are recognised as part of the effective interest rate. Penalty charges and other fees are recognised at the time the charges are made to customers on the basis that performance is complete.

Within CCD and Moneybarn, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows. For CCD this reflects estimated cash flows, being contractual payments adjusted for the impact of customers who either repay early, to term or beyond term, but do not trigger the IFRS 9 default arrears stage during the full life of the loan. Directly attributable incremental issue costs are also taken into

# Statement of accounting policies *continued*

account in calculating the effective interest rate. Interest income continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value until revenue equal to the loan's original service charge has been fully recognised.

Revenue for Vanquis Bank and CCD is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2 and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition purposes at the Group's interim or year end balance sheet date.

## Finance costs

Finance costs principally comprise the interest on retail deposits, bank and other borrowings and, for the Company, on intra-group loan arrangements, and are recognised on an effective interest rate basis. Finance costs also include any fair value movement on those derivative financial instruments held for hedging purposes which do not qualify for hedge accounting under IAS 39.

## Dividend income

Dividend income is recognised in the income statement when the Company's right to receive payment is established.

## Goodwill

All acquisitions are accounted for using the purchase method of accounting.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units which are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cash flows from the relevant cash-generating unit. Expected future cash flows are derived from the Company's latest budget projections and the discount rate is based on the Company's risk adjusted cost of capital at the balance sheet date.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

## Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Impairment is calculated by comparing the carrying value of the investment with the higher of the net asset value of the relevant subsidiary and its discounted expected future cash flows.

## Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group and Company are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

## Other intangible assets

Other intangible assets include acquisition intangibles in respect of the broker relationships at Moneybarn, stand-alone computer software and development costs of intangible assets across the Group.

The fair value of Moneybarn's broker relationships on acquisition was estimated by discounting the expected future cash flows from Moneybarn's core broker relationships over their estimated useful economic life which was deemed to be 10 years. The asset is being amortised on a straight-line basis over its estimated useful life.

Computer software and computer software development assets represent the costs incurred to acquire or develop software and bring it into use. Directly attributable costs incurred in the development of software are capitalised as an intangible asset if the software will generate future economic benefits. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software and computer software development costs are amortised on a straight-line basis over their estimated useful economic life which is generally estimated to be between three and 10 years. The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Other intangible assets are valued at cost less subsequent amortisation. Amortisation is charged to the income statement as part of administrative and operating costs.

## Foreign currency translation

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The Group's subsidiaries primarily operate in the UK and Republic of Ireland. The consolidated and the Company financial statements are presented in sterling, which is the Company's functional and presentational currency.

Transactions that are not denominated in the Group's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as effective cash flow hedges.

If a foreign operation were to be disposed of, the cumulative amount of the differences arising on translation recognised in other comprehensive income would be recognised in the income statement when the gain or loss on disposal is recognised.

## Amounts receivable from customers

Customer receivables are initially recorded at the amount advanced to the customer plus directly attributable issue costs. Subsequently, receivables are increased by revenue and reduced by cash collections and deduction for impairment. Impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the loss arising on default (LGD).

On initial recognition, all accounts are recognised in IFRS 9 stage 1. When an account is deemed to have suffered a significant increase in credit risk, such as missing a payment, but they have not defaulted, they move to stage 2. When accounts default, after missing further payments or moving to a payment arrangement, they move into stage 3.

### Vanquis Bank

Vanquis Bank has developed PD/LGD models which focus on forecasting customer behaviour to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to the customer's application score used in underwriting the credit card. The LGD for Vanquis Bank card customers represents the current balance on the card plus future expected spend and interest. It does not include any credit line increases which a customer may become eligible for after the balance sheet date.

Lifetime losses are recognised when a significant increase in credit risk is evident, either from a missed monthly payment or an increase in credit score. Revenue continues to be recognised on the gross receivable until the customer defaults.

A customer is deemed to have defaulted when they become three minimum monthly payments in arrears, they enter a payment arrangement or if there is evidence of a further significant increase in credit score.

### CCD

CCD has created a PD/LGD model for customers who are up to date or have missed one payment in the last 12 weeks to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months utilising historic repayment data excluding data from 2017 which is not deemed to be indicative of future performance given the operational disruption at that time within the home credit business.

Lifetime losses are then recognised using a discounted cash flow model when a significant increase in credit risk is evident from two missed weekly payments in the last 12 weeks.

A customer is deemed to have defaulted when the customer would typically no longer be eligible to be re-served with a subsequent loan which is considered to be five missed weekly payments in the last 12 weeks.

For certain loans the presumption of 30 days in respect of the definition of significant increase in credit risk and 90 days for the definition of default has been rebutted. This is supported by historical data which supports payment recency as a better indicator of the degree of impairment than overall days past due.

### Moneybarn

Moneybarn has created a PD/LGD model to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to historical customer's data and outcomes.

Lifetime losses are then recognised when a significant increase in credit risk is evident from a missed monthly payment.

A customer is deemed to have defaulted when they are no longer able to sustain payments under their agreement and the agreement is subsequently terminated.

Customers are moved to IFRS 9 stage 3 and lifetime losses are recognised for all divisions where forbearance is provided to the customer and alternative payment arrangements are established. Customers under payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows under that payment arrangement, discounted at the original effective interest rate.

Separate macro-economic provisions are created to reflect the expected impact of future economic events on a customers ability to make payments on their accounts. For Vanquis Bank, downturns in unemployment rates and for Moneybarn deterioration in both unemployment and the used car market are used to calculate separate provisions which are held in addition to the core provisions for accounts in stages 1 to 3. Within CCD, there is no separate macro-economic provision applied as its customers are not reflective of the wider economy as they are less indebted and are therefore not impacted by the same macro-economic factors.

## Property, plant and equipment

Property, plant and equipment is shown at cost less accumulated depreciation and impairment, except for land, which is shown at cost less impairment.

Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable values over their useful economic lives.

The following principal bases are used:

| | % | Method |
|---|---|---|
| Land | Nil | – |
| Short leasehold buildings | Over the lease period | Straight line |
| Equipment (including computer hardware) | 10 to 33 ⅓ | Straight line |
| Motor vehicles | 25 | Reducing balance |

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use and its fair value less costs to sell. Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying value of the asset and are recognised within administrative costs in the income statement.

Depreciation is charged to the income statement as part of administrative and operating costs.

## Investments

### Investments held at fair value through other comprehensive income (OCI)

Visa Inc. shares classed as equity investment holdings are measured at fair value in the balance sheet as a reliable estimate of the fair value can be determined.

Fair value changes including any impairment losses and foreign exchange gains or losses are recognised directly in equity through other comprehensive income. The fair value of monetary assets denominated in foreign currency are determined through translation at the spot rate at the balance sheet date.

Dividends on equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

The cumulative gain or loss that is recognised in equity is recycled to the income statement on disposal of the equity holding.

## Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand which includes amounts invested in the Bank of England account held in accordance with the Prudential Regulation Authority's (PRA) liquidity regime. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

# Statement of accounting policies *continued*

## Derivative financial instruments

The Group and the Company use derivative financial instruments, principally interest rate swaps and forward contracts, to manage the interest rate and foreign exchange rate risk arising from the Group's operations in the UK and Republic of Ireland. No transactions of a speculative nature are undertaken.

All derivative financial instruments continue to be assessed against the hedge accounting criteria set out in IAS 39, 'Financial instruments: Recognition and measurement' as permitted under IAS 39. Derivative financial instruments that meet the hedge accounting requirements of IAS 39 are designated as either: hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operations.

The relationship between hedging instruments and hedged items is documented at the inception of a transaction, as well as the risk management objectives and strategy for undertaking various hedging transactions. The assessment of whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items is documented, both at the hedge inception and on an ongoing basis.

Derivative financial instruments are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date to their fair value. Where derivative financial instruments do not qualify for hedge accounting, movements in the fair value are recognised immediately within the income statement. Where hedge accounting criteria have been met, the resultant gain or loss on the derivative financial instrument is recognised as follows:

### Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts deferred in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Hedge accounting for cash flow hedges is discontinued when:

> It is evident from testing that a derivative financial instrument is not, or has ceased to be, highly effective as a hedge; or

> The derivative financial instrument expires, or is sold, terminated or exercised; or

> The underlying hedged item matures or is sold or repaid.

When a cash flow hedge expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss deferred in equity at that time is immediately transferred to the income statement.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 17. Movements on the hedging reserve in shareholders' equity are shown in note 27. The full fair value of a derivative financial instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months from the balance sheet date and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months from the balance sheet date.

### Net investment hedges

The Group uses a combination of borrowings denominated in overseas currencies and foreign currency forward contracts as a hedge against the translation exposure on the Company's net investment in the Republic of Ireland. Where the hedge is fully effective at hedging the variability in the net assets of those operations and/or the Company's investment caused by changes in exchange rates, the changes in value of the borrowings and forward contracts are recognised in the statement of comprehensive income and accumulated in the hedging reserve. When a hedge is no longer deemed to be highly effective, the ineffective part of any change in value caused by changes in exchange rates is recognised in the income statement. Amounts recognised in equity are recycled to the income statement on disposal of the foreign operation.

## Borrowings

Borrowings are recognised initially at fair value, being issue proceeds less any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds less transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate.

Borrowings are classified as current liabilities unless the Group or Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## Dividends paid

Dividend distributions to the Company's shareholders are recognised in the Group and the Company's financial statements as follows:

> Final dividend: when approved by the Company's shareholders at the Annual General Meeting; and

> Interim dividend: when paid by the Company.

## Retirement benefits

### Defined benefit pension schemes

The charge in the income statement in respect of defined benefit pension schemes comprises the actuarially assessed current service cost of working employees, together with the interest on pension liabilities offset by the interest on pension scheme assets. All charges are recognised within administrative costs in the income statement.

The retirement benefit asset recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of the schemes' assets less the present value of the defined benefit obligation at the balance sheet date. A retirement benefit asset is recognised to the extent that the Group and Company have an unconditional right to a refund of the asset or if it will be recovered in future years as a result of reduced contributions to the pension scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement.

### Defined contribution pension schemes

Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

## Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## Merger reserve

The rights issue completed in April 2018 was transacted through a 'cash box' structure. The proceeds would ordinarily be recognised as share capital and share premium. However, as the proceeds were generated through a cash box structure, the proceeds are held as share capital and a merger reserve.

The share capital generated is in line with the 20 8/11 par value of the shares with the additional amounts credited to the merger reserve. All fees are recognised on an accruals basis and have been deducted from the merger reserve with the net credit being deemed distributable, subject to the capital injected into Vanquis Bank.

## Share-based payments

### Equity-settled schemes

The Company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS). All of these schemes are equity-settled.

The cost of providing options and awards to Group and Company employees is charged to the income statement of the entity over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The grant by the Company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the Company's financial statements. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding adjustment to the share-based payment reserve within equity.

The cost of options and awards is based on their fair value. For PSP schemes, the performance conditions are based on earnings per share (EPS). Accordingly, the fair value of options and awards is determined using a binomial option pricing model which is a suitable model for valuing options with internal related targets such as EPS. A binomial model is also used for calculating the fair value of SAYE options which have no performance conditions attached. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

For LTIS schemes, performance conditions are based on EPS, Total Shareholder Return (TSR) versus a peer group and risk metrics. Employees of Vanquis Bank, CCD and Moneybarn also have targets relating to profit before tax of their division. The fair value of awards is determined using a combination of the binomial and Monte Carlo option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting. Where the Monte Carlo option pricing model is used to determine fair value of the TSR component, no adjustment is made to reflect expected or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest or lapse. In respect of the SAYE options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised.

### Cash-settled schemes

The Company also grants awards under the Provident Financial Equity Plan (PFEP) to eligible employees based on a percentage of their salary. The cost of the awards is based on the performance conditions of either divisional profit before tax or EPS and TSR growth compared to a comparative group. The scheme is cash settled.

The cost of the award is charged to the income statement over the vesting period and a corresponding credit is made within liabilities. The value of the charge is adjusted at each balance sheet date to reflect expected levels of vesting.

## Taxation

The tax charge represents the sum of current and deferred tax.

### Current tax

Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

# Statement of accounting policies *continued*

## Contingent liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but information about them is disclosed unless the possibility of any economic outflow in relation to settlement is remote.

## Exceptional items

Exceptional items are items that are unusual because of their size, nature or incidence and which the directors consider should be disclosed separately to enable a full understanding of the Group's results.

## Supplementary information

In order to assist users of the financial statements, supplementary commentary has been provided within the financial statements within highlighted boxes. This supplementary information does not form part of the statutory, audited financial statements.

## Critical accounting assumptions and key sources of estimation uncertainty

In applying the accounting policies set out above, the Group and Company make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions that affect the reported amounts of assets and liabilities. The estimates and assumptions are based on historical experience, actual results may differ from these estimates.

### Amounts receivable from customers (£2,162.9m)

Critical accounting assumptions:

The Group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The Group makes assumptions to determine whether there is objective evidence that credit risk has increased significantly which indicates that there has been an adverse effect on expected future cash flows.

A significant increase in credit risk for customers in Vanquis Bank, is when there has been a significant increase in behavioural score or when one contractual monthly payment has been missed. In Moneybarn and on the Satsuma monthly product a significant increase in credit risk is deemed to be when one contractual monthly payment has been missed. In CCD, credit risk is assumed to increase significantly when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly.

Key sources of estimation uncertainty:

> The level of impairment in each of the Group's businesses is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage, and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment, product mix and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, a material adjustment to the carrying value of amounts receivable from customers may be required; and

> To the extent that the net present value of estimated future cash flows differs by +/– 1%, it is estimated that the amounts receivable from customers would be approximately £21m (2017: £23m) higher/lower. Given the trading performance of the home credit business since 2017, the suitability of the 1% sensitivity has been reviewed and considered appropriate given ongoing improvement in collections performance and the linear relationship of the impact.

### Retirement benefit asset (£83.9m)

Key sources of estimation uncertainty:

> The valuation of the retirement benefit asset is dependent upon a series of assumptions; the key assumptions being mortality rates, the discount rate applied to liabilities and inflation rates. The most significant assumption which could lead to material adjustment is a change in mortality rates; and

> Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the Group's own expected experience. Discount rates are based on the market yields of high quality corporate bonds which have terms closely linked with the estimated term of the retirement benefit obligation. Inflation assumptions reflect long-term market expectations for retail price inflation.

Sensitivity analysis of the Group's main assumptions are set out in note 19.

### Provisions for customer redress (£53.2m)

Critical accounting assumptions:

Provisions for customer redress are established based on the following conditions being present: (i) a present obligation (legal or constructive) has arisen as a result of a past event; (ii) payment is probable (more likely than not); and (iii) the amount can be estimated reliably. Judgement is applied to determine whether the criteria for establishing and retaining a provision have been met, including obtaining legal advice from the Group's lawyers. Any provisions established are based on either: (i) the basis of any settlement agreed with the FCA; (ii) any future claims which may arise outside the settlement agreement reached with the FCA; and (iii) the expected costs of administering the redress programme. Judgement is applied to determine the quantum of such liabilities, particularly those relating to future claims volumes, including making assumptions regarding the number of future complaints that may be received and the extent to which they may be upheld, average redress payments and related administrative costs. Past experience is used as a predictor of future expectations with management applying overlays where necessary depending on the nature and circumstances of any restitution programme.

The total amount provided for redress represents the Group's best estimate of the likely future cost. However, a number of risks and uncertainties remain in particular with respect to future claim volumes outside of any settlement agreed with the FCA. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required.

Key sources of estimation uncertainty are:

> There is significant uncertainty around the impact of the proposed regulatory changes, FCA media campaign and claims management companies and customer activity; and

> Sensitivity analysis of the Group's main assumptions is set out in note 24.

# Financial and capital risk management

## Financial risk management

The Group's activities expose it to a variety of financial risks, which can be categorised as credit risk, liquidity risk, interest rate risk, foreign exchange rate risk and market risk. The objective of the Group's risk management framework is to identify and assess the risks facing the Group and to minimise the potential adverse effects of these risks on the Group's financial performance. Financial risk management is overseen by the Group Risk Committee.

Further details of the Group's risk management framework are described on pages 44 to 54.

### (a) Credit risk

Credit risk is the risk that the Group will suffer loss in the event of a default by a customer, bank counterparty or the UK Government. A default occurs when the customer or bank fails to honour repayments as they fall due.

### (i) Amounts receivable from customers

The Group's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2018 is the carrying value of amounts receivable from customers of £2,162.9m (2017: £2,309.4m).

### Vanquis Bank

Credit risk within Vanquis Bank is managed by the Vanquis Bank credit committee which meets at least quarterly and is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy.

A customer's risk profile and the affordability of the credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historic payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income and employment and data from an external credit bureau. Potential new customers receive a welcome call from the contact centre to verify details and complete the underwriting process. Initial credit limits are low, typically between £250 and £500 and the maximum credit limit is £4,000.

For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' default risk with payment performance information with other lenders' data. Credit lines can increase or decrease according to this point-in-time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing or appropriate forbearance arrangements are put in place.

### CCD

Credit risk within CCD is managed by the CCD Credit Committee which meets at least 8 times per year and is responsible for reviewing credit risk, performance of the portfolio and approving model/scorecard changes. The Credit Committee makes recommendations on credit strategy to the CCD MD for approval.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, affordability assessment processes, and a home visit in the home credit business to make a decision on applications for credit.

The loans offered by the weekly home credit business are short term, typically a contractual period of around a year, with an average value of approximately £600. The loans are underwritten in the home by a Customer Experience Manager (CEM) based on consideration of any previous lending experience with the customer, affordability and the CEM's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the CEM typically visits the customer weekly, to collect payment. The CEM is well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the CEM has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This forbearance can be in the form of taking part-payments, allowing missed payments or other payment arrangements in order to support customers with their repayments.

Affordability is reassessed by the CEM each time an existing customer is re-served.

Arrears management within the home credit business is a combination of central letters, text messages, emails, central telephony, and field activity undertaken by field management. This will often involve a home visit to discuss the customer's reasons for non-payment and to agree a suitable resolution, based on an affordability assessment where required.

The loans offered by the Satsuma business are short-term, with a contractual period of between 3 and 12 months, or weekly equivalent, and an average value of around £450. The loans are underwritten using credit decisioning, enhanced with the use of external credit bureau data, and regularly refined as the business grows. An affordability assessment is performed on all lending decisions.

Satsuma collections processes are undertaken utilising the collections capabilities at Vanquis Bank. Contact Centre representatives are engaged at an early stage to optimise collections performance and work closely with customers, and for those customers whose circumstance have changed, representatives utilise their extensive range of forbearance measures, based on an affordability assessment where required.

### Moneybarn

Credit risk within Moneybarn is managed by the Moneybarn credit committee which meets at least monthly and is responsible for approving underwriting parameters, decisioning strategy and credit control policy.

A customer's credit risk profile and ability to afford the proposed contract is initially evaluated both at the point of application, and subsequently should the customer fall into arrears. A scorecard based on historic payment patterns of customers is used to assess the applicant's potential default risk. The scorecard incorporates data from the applicant, such as income and employment, and data from an external credit bureau. The application assessment process involves verification of key aspects of the customer data. Certain policy rules including customer profile, proposed loan size and vehicle type are also assessed in the decisioning process, as well as affordability checks to ensure that, at the time of application, the loan repayments are affordable.

# Financial and capital risk management *continued*

Arrears management is conducted by way of a combination of letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing and retaining use of the vehicle. These include appropriate forbearance arrangements, or where the contract has become unsustainable for the customer, then an appropriate exit strategy is implemented.

### (ii) Bank and government counterparties

The Group's maximum exposure to credit risk on bank and government counterparties as at 31 December 2018 was £427.3m (2017: £301.7m).

Counterparty credit risk arises as a result of cash deposits placed with banks, central government and the use of derivative financial instruments with banks and other financial institutions which are used to hedge interest rate and foreign exchange rate risk.

Counterparty credit risk is managed by the Group's Treasury Committee and is governed by a Board-approved counterparty policy which ensures that the Group's cash deposits and derivative financial instruments are only made with high-quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, regardless of credit rating. This is linked to the Group's regulatory capital base in line with the Group's regulatory reporting requirements on large exposures to the PRA.

### (b) Liquidity risk

Liquidity risk is the risk that the Group will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due.

Liquidity risk is managed by the Group's centralised treasury department through daily monitoring of expected cash flows in accordance with a Board-approved Group funding and liquidity policy. This process is monitored regularly by the Treasury Committee.

The Group's funding and liquidity policy is designed to ensure that the Group is able to continue to fund the growth of the business. The Group therefore maintains headroom on its committed borrowing facilities to fund growth within CCD and Moneybarn and contractual maturities on its bank, private placement and bond funding for at least the following 12 months. As at 31 December 2018, the Group's committed borrowing facilities including retail deposits, had a weighted average period to maturity of 2.3 years (2017: 2.3 years) and the headroom on these committed facilities amounted to £327.4m.

Vanquis Bank is a PRA regulated institution and is fully funded via retail deposits. It is required to maintain a liquid assets buffer, and other liquid resources, based upon daily stress tests, in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. It also maintains an operational buffer over such requirements in line with the Bank's risk appetite. As at 31 December 2018, the liquid assets buffer, including other liquid resources and the operational buffer, held by Vanquis Bank amounted to £420.6m (2017: £263.4m), comprising £384.9m (2017: £227.5m) held within cash and cash equivalents and £35.7m (2017: £35.9m) held as an investment.

Both the Group and Vanquis Bank are required to meet the liquidity coverage ratio (LCR). The LCR requires institutions to match net liquidity outflows during a 30-day period with a buffer of 'high-quality' liquid assets.

The Group and Vanquis Bank developed systems and controls to monitor and forecast the LCR and have been submitting regulatory reports on the ratio since 1 January 2014. The Group's LCR at 31 December 2018 amounted to 688% (2017: 189%). Both the Group and Vanquis Bank continue to meet the LCR requirements.

The Group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the Group's borrowings extend over a number of years. The Group's funding strategy is to maintain diversification in its funding and, as such, currently accesses three main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; and (iii) retail deposits which fully funds the ring-fenced Vanquis Bank. The Group will continue to explore further funding options as appropriate, including but not limited to the refinancing of the syndicated revolving bank facility and further private placements and institutional bond issuance.

A maturity analysis of the undiscounted contractual cash flows of the Group's bank and other borrowings, is shown overleaf.

This reflects both the interest payable and the repayment of the borrowing on maturity. Due to the seasonal nature of the home credit business, drawings under the Group's revolving bank facilities are typically drawn for only three months at any time despite having the ability to draw the borrowings for much longer under the committed borrowing facility. Retail deposits maturity within Vanquis Bank are also matched to the average life of a credit card customer. In the table overleaf, the cash flows of borrowings made under the Group's syndicated revolving bank facility are required to be shown as being due within one year, despite the Group having the ability to redraw these amounts until the contractual maturity of the underlying facility.

# Financial risk management *continued*

## Financial liabilities

| 2018 – Group | Repayable on demand £m | < 1 year £m | 1–2 years £m | 2–5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Retail deposits | – | 347.0 | 390.6 | 766.9 | – | 1,504.5 |
| Bank and other borrowings: | | | | | | |
| > bank facilities | 7.0 | 125.5 | – | – | – | 132.5 |
| > senior public bonds | – | 47.2 | 17.5 | 35.0 | 267.5 | 367.2 |
| > private placement loan notes | – | 17.9 | 26.4 | 25.4 | – | 69.7 |
| > retail bonds | – | 8.9 | 33.1 | 75.1 | 63.1 | 180.2 |
| Total borrowings | 7.0 | 546.5 | 467.6 | 902.4 | 330.6 | 2,254.1 |
| Trade and other payables | – | 91.8 | – | – | – | 91.8 |
| **Total** | 7.0 | 638.3 | 467.6 | 902.4 | 330.6 | 2,345.9 |

## Financial assets

| 2018 – Group | Repayable on demand £m | < 1 year £m | 1–2 years £m | 2–5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Trade and other receivables | – | 49.6 | – | – | – | 49.6 |
| Total | – | 49.6 | – | – | – | 49.6 |

## Financial liabilities

| 2017 – Group | Repayable on demand £m | < 1 year £m | 1–2 years £m | 2–5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Retail deposits | – | 363.6 | 288.8 | 712.0 | – | 1,364.4 |
| Bank and other borrowings: | | | | | | |
| > bank facilities | 3.1 | 388.5 | – | – | – | 391.6 |
| > senior public bonds | – | 20.0 | 270.0 | – | – | 290.0 |
| > private placement loan notes | – | 38.7 | 17.9 | 52.1 | – | 108.7 |
| > retail bonds | – | 8.9 | 8.8 | 108.2 | 63.1 | 189.0 |
| Total borrowings | 3.1 | 819.7 | 585.5 | 872.3 | 63.1 | 2,343.7 |
| Trade and other payables | – | 96.9 | – | – | – | 96.9 |
| **Total** | 3.1 | 916.6 | 585.5 | 872.3 | 63.1 | 2,440.6 |

## Financial assets

| 2017 – Group | Repayable on demand £m | < 1 year £m | 1–2 years £m | 2–5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Trade and other receivables | – | 44.0 | – | – | – | 44.0 |
| **Total** | – | 44.0 | – | – | – | 44.0 |

# Financial and capital risk management *continued*

## Financial risk management *continued*

### (c) Interest rate risk

Interest rate risk is the risk of a change in external interest rates which leads to an increase in the Group's cost of borrowing.

The Group's exposure to movements in interest rates is managed by the Treasury Committee and is governed by a Board-approved interest rate hedging policy which forms part of the Group's treasury policies.

The Group seeks to limit the net exposure to changes in interest rates. This is achieved through a combination of issuing fixed-rate debt and by the use of derivative financial instruments such as interest rate swaps.

A 2% movement in the interest rate applied to borrowings during 2018 and 2017 would not have had a material impact on the Group's profit before taxation or equity as the Group's interest rate risk was substantially hedged given that the Group's receivables can be re-priced over a relatively short timeframe.

### (d) Foreign exchange rate risk

Foreign exchange rate risk is the risk of a change in foreign currency exchange rates leading to a reduction in profits or equity.

The Group's exposure to movements in foreign exchange rates during 2018 arose from the home credit operations in the Republic of Ireland which are generally hedged by matching euro-denominated net assets with euro-denominated borrowings or forward contracts as closely as practicable.

As at 31 December 2018, a 2% movement in the sterling to euro exchange rate would have led to a £0.8m (2017: £0.9m) movement in customer receivables with an opposite movement of £0.8m (2017: £0.9m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been a minimal impact on reported profits and equity.

As at 31 December 2018, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.2m (2017: £0.2m) movement in the investment held at fair value through other comprehensive income and a £0.2m impact on equity.

### (e) Market risk

Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The Group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

### (f) Brexit

The UK's EU referendum on 23 June 2016 resulted in a decision to leave the EU (Brexit). The Government has so far been unable to negotiate a withdrawal deal with the UK to the satisfaction of the UK Parliament and therefore the UK may leave the EU without a withdrawal agreement on 29 March 2019.

Brexit has led to a significant amount of instability in the UK economy and capital markets over the last 30 months, albeit unemployment levels have remained stable and there has not been any significant impact on the Group's businesses to date.

Despite any potential second order risks of Brexit, the Group has proven resilient during previous economic downturns due to the specialist business models deployed by its divisions which are tailored to serving non-standard customers. In addition, all four of the Group's businesses – Vanquis Bank, Moneybarn, Provident home credit and Satsuma – have tightened underwriting over the last two years in advance of a potential weakening in the UK economy.

The Group's only direct exposure to the EU is the home credit operation in the Republic of Ireland. This represents c.15% of the home credit business and is, therefore, relatively immaterial to the Group as a whole. The foreign exchange exposure to the Republic of Ireland operation is hedged through a net investment hedge.

The Group has current committed facilities to fund growth and contractual maturities until May 2020, when the current syndicated bank facility is due to mature, assuming ongoing access to retail deposits to fully fund Vanquis Bank. No effect is anticipated on Vanquis Bank's ability to access retail deposits, although it maintains a minimum operational buffer over its liquid requirements stipulated by the PRA to withstand any short term disruption. In line with the Group's treasury policy, the Group is in discussions with its lending banks with a view to refinancing the current syndicated revolving bank facility 12 months in advance of its maturity. The Group's lending banks are predominantly UK based, have supported the Group for many years and have broader relationships through ancillary business such as transactional banking. In the event of a pro-longed period of market disruption and the closure of debt capital markets, then the Group has the ability to manage receivables growth and/or dividend flows.

The Group maintains regulatory capital headroom in excess of £50m, in line with the Board's risk appetite. Despite the need to absorb the continued transitional arrangements of IFRS 9, this headroom, together with the regulatory prescribed buffers, should be sufficient to withstand a potential downturn in economic conditions caused by Brexit.

## Capital risk management

To support the delivery of the Group's purpose, the Group operates a financial model that is founded on investing in customer-centric businesses offering attractive returns which aligns an appropriate capital structure with the Group's dividend policy and future growth plans.

The minimum amount of regulatory capital held by the Group and Vanquis Bank represents the higher of the PRA imposed requirement, being their respective Total Capital Requirement (TCR) together with the CRD IV stipulated buffers, and their respective internal assessments of minimum capital requirements based upon an assessment of risks facing the Group. The Internal Capital Adequacy Assessment Process (ICAAP) considers all risks facing the business, including credit, operational, counterparty, conduct, pension and market risks, and assesses the capital requirement for such risks in the event of downside stresses.

The Group and Vanquis Bank continually monitor and assess the internal assessment of minimum regulatory capital requirements. The minimum regulatory capital requirements of each of the Group and Vanquis Bank reflects the TCR, together with a fixed add-on for the Group in respect of pension risk, and are 25.5% and 24.9% of total risk weighted assets, respectively. These assessments include: (i) fully loaded CRD IV buffers of 3.5% of total risk weighted assets comprising the capital conservation buffer (2.5%) and counter cyclical buffer (1.0%) effective from 1 January 2019; (ii) the minimum Pillar 1 prescribed requirement of 8.0% of risk weighted assets; and, (iii) Pillar 2a regulatory capital requirements of 14.0% and 13.4% of total risk weighted assets for the Group and Vanquis Bank, respectively.

The Board expects to maintain a suitable level of headroom in excess of £50m against this requirement to provide mitigation against the ongoing recovery of the Group, the regulatory backdrop and to support ongoing access to funding from the bank and debt capital markets.

IFRS 9 'Financial instruments' was effective from 1 January 2018 resulting in a reduction in receivables of £238.1m at 31 December 2017, which net of deferred tax, resulted in a reduction in net assets of £184.0m. The regulatory capital impact of IFRS 9 will be phased in on a transitional basis over five years, as follows: 5% was taken at the start of 2018 (£9m), 15% taken on 1 January 2019 (£18m), 30% in 2020 (£28m), 50% in 2021 (£37m), 75% in 2022 (£46m) and 100% from the start of 2023 (£46m). The Group's future capital generation, together with the minimum dividend cover of at least 1.4 times as the home credit business recovers and moves into profitability, will be managed to absorb the transitional impact of IFRS 9.

A reconciliation of the Group's equity to regulatory capital and the CET 1 ratio is set out below:

| Regulatory capital | 2018 IFRS 9 £m | 2017 IAS 39 £m |
|---|---|---|
| Net assets | **696.1** | 535.1 |
| IFRS 9 transition (95% addback) | **174.8** | – |
| Pension | **(83.9)** | (102.3) |
| Deferred tax on pension | **14.3** | 17.4 |
| Goodwill | **(71.2)** | (71.2) |
| Other intangible assets | **(55.0)** | (79.4) |
| Deferred tax on acquired intangible asset | **7.2** | 8.5 |
| Proposed dividend | **(25.1)** | – |
| **Total regulatory capital (Common Equity Tier 1)** | **657.2** | 308.1 |
| Risk weighted exposures | **2,209.2** | 2,118.0 |
| **CET 1 ratio** | **29.7%** | 14.5% |

The CET 1 ratio of 29.7% at the end of 2018 provides headroom of c.£95m against the group's TCR of 25.5%. A reconciliation of the movement in regulatory capital during 2018 and 2017 is as follows:

| Regulatory capital | 2018 IFRS 9 £m | 2017 IAS 39 £m |
|---|---|---|
| At 31 December | **308.1** | 457.8 |
| IFRS 9 transition adjustment (5%) | **(9.2)** | – |
| **At 1 January** | **298.9** | 457.8 |
| Profit before tax, amortisation of acquisition intangibles and exceptional items | **153.5** | 109.1 |
| Exceptional items | **(55.3)** | (224.6) |
| Add back amortisation of intangible assets | **24.5** | 11.7 |
| Deduct intangible asset additions | **(7.6)** | (20.5) |
| Add back pension charge/(credit) | **6.5** | (1.7) |
| Deduct pension contributions | **(9.8)** | (10.7) |
| Add back share-based payment charge/(credit) | **1.1** | (3.4) |
| Tax and other | **(29.7)** | (9.4) |
| **Regulatory capital generated/(absorbed) from operations** | **83.2** | (149.5) |
| Shareholder capital movements: | | |
| Shares issued | **300.2** | 0.4 |
| Purchase of treasury shares | **–** | (0.1) |
| Dividends accrued | **(25.1)** | – |
| Dividends paid exceed dividends accrued | **–** | (0.5) |
| **At 31 December** | **657.2** | 308.1 |

The Treasury Committee is responsible for monitoring the level of regulatory capital. The level of surplus regulatory capital against the TCR is reported to the Board on a monthly basis in the Group's management accounts.

# Notes to the financial statements

## 1 Segment reporting

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The Group's chief operating decision maker is deemed to be the ExCo whose primary responsibility is to support the CEO in managing the Group's day-to-day operations and analyse trading performance. The Group's segments comprise Vanquis Bank, CCD, Moneybarn and Central which are those segments reported in the Group's management accounts used by the ExCo as the primary means for analysing trading performance. The ExCo assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the Group financial statements.

| | Revenue | | Profit/(loss) before taxation | |
|---|---|---|---|---|
| **Group** | **2018 IFRS 9 £m** | 2017 IAS 39 £m | **2018 IFRS 9 £m** | 2017 IAS 39 £m |
| Vanquis Bank | **650.3** | 638.8 | **184.3** | 206.6 |
| CCD | **342.2** | 451.2 | **(38.7)** | (118.8) |
| Moneybarn | **131.9** | 106.3 | **28.1** | 34.1 |
| Central costs | **–** | – | **(20.2)** | (12.8) |
| Total Group before amortisation of acquisition intangibles and exceptional items | **1,124.4** | 1,196.3 | **153.5** | 109.1 |
| Amortisation of acquisition intangibles | **–** | – | **(7.5)** | (7.5) |
| Exceptional items | **–** | – | **(55.3)** | (224.6) |
| **Total Group** | **1,124.4** | 1,196.3 | **90.7** | (123.0) |

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. The amortisation charge in 2018 amounted to £7.5m (2017: £7.5m).

Exceptional items comprise:

| | **2018 £m** | 2017 £m |
|---|---|---|
| CCD costs in respect of the migration to the new home credit operating model | **29.9** | 32.5 |
| Premium and fees on redemption of senior bond (see note 3) | **18.5** | – |
| Pension charges in respect of GMP equalisation (see note 19) | **6.9** | – |
| Estimated costs of settlement of the FCA investigation into ROP at Vanquis Bank (see note 24) | **–** | 172.1 |
| Estimated costs of settlement of the FCA investigation at Moneybarn (see note 24) | **–** | 20.0 |
| **Total exceptional items** | **55.3** | 224.6 |

Exceptional charges of £55.3m (2017: £224.6m) have been recognised in 2018 comprising: (i) £29.9m in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017 (2017: £32.5m); (ii) £18.5m in respect of the 8% premium and fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019 (2017: £nil) and (iii) £6.9m of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018 (2017: £nil). 2017 exceptional costs also included £172.1m following the resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn.

All of the above activities relate to continuing operations. Revenue between business segments is not material.

| | Segment assets | | Segment liabilities | | Net assets/(liabilities) | |
|---|---|---|---|---|---|---|
| **Group** | **2018 IFRS 9 £m** | 2017 restated IAS 39 £m | **2018 IFRS 9 £m** | 2017 restated IAS 39 £m | **2018 IFRS 9 £m** | 2017 restated IAS 39 £m |
| Vanquis Bank | **1,958.7** | 1,854.5 | **(1,577.4)** | (1,559.1) | **381.3** | 295.4 |
| CCD | **342.6** | 454.4 | **(352.1)** | (341.8) | **(9.5)** | 112.6 |
| Moneybarn | **438.9** | 393.5 | **(421.9)** | (350.8) | **17.0** | 42.7 |
| Central | **368.7** | 182.7 | **(61.4)** | (98.3) | **307.3** | 84.4 |
| Total before intra-group elimination | **3,108.9** | 2,885.1 | **(2,412.8)** | (2,350.0) | **696.1** | 535.1 |
| Intra-group elimination | **(187.7)** | 80.8 | **187.7** | (80.8) | **–** | – |
| **Total Group** | **2,921.2** | 2,965.9 | **(2,225.1)** | (2,430.8) | **696.1** | 535.1 |

Historically, segment net assets have reflected the statutory basis of the companies forming the Group's business segments adjusted to assume repayment of intra-group balances and rebasing of the borrowings of CCD to reflect the Group's target capital ratio. Due to the significant losses incurred by CCD in 2017, CCD's statutory net assets are now considerably lower than the Group's target capital ratio. As a result, the presentation of segment net assets has been adjusted to show the statutory assets, liabilities and net assets of each of the Group's divisions. This results in an intra group elimination reflecting the difference between the central intra-group funding provided to the divisions and the external funding raised centrally. Comparatives have been restated onto a similar basis which has resulted in CCD's net assets at 31 December 2017 reducing from £180.1m to £112.6m and central net assets increasing from £16.9m to £84.4m.

Vanquis Bank segment net assets have increased due to profit generated in the year and a £50.0m increase in capital from the Company following the rights issue, partly offset by the adoption of iFRS 9 on net assets. CCD segment net assets have reduced due to the adoption of IFRS 9 and the loss generated in the year. Moneybarn segment net assets have decreased due to adoption of IFRS 9 partly offset by profit generated in the year. Central net assets have increased predominantly due to the net proceeds of the rights issue.

## 1 Segment reporting *continued*

The Group's businesses operate principally in the UK and Republic of Ireland.

| | Capital expenditure | | Depreciation | | Amortisation | |
|---|---|---|---|---|---|---|
| **Group** | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Vanquis Bank | **3.7** | 6.5 | **1.2** | 1.7 | **2.7** | 2.8 |
| CCD | **6.1** | 24.8 | **5.6** | 5.2 | **8.3** | 8.3 |
| Moneybarn | **1.4** | 1.0 | **0.7** | 0.6 | **0.7** | 0.6 |
| Central | **1.7** | 0.4 | **1.6** | 1.8 | **7.5** | 7.5 |
| **Total Group** | **12.9** | 32.7 | **9.1** | 9.3 | **19.2** | 19.2 |

Capital expenditure in 2018 comprises expenditure on intangible assets of £7.6m (2017: £20.5m) and property, plant and equipment of £5.3m (2017: £12.2m).

The acquired intangible asset in respect of Moneybarn's broker relationships is held on consolidation and, therefore, the amortisation charge has been allocated to central in the above analysis, consistent with the segment net asset analysis.

## 2 Revenue

Revenue is recognised by applying the effective interest rate (EIR) to the carrying value of a loan. The EIR is calculated at inception and represents the rate which exactly discounts the future contractual cash receipts from a loan to the amount of cash advanced under that loan, plus directly attributable issue costs (e.g. aggregator/broker fees). In addition, in Moneybarn the EIR takes account of customers repaying early and in CCD customers repaying early or beyond term, but who have not defaulted. Fee income is recognised at the time the charges are made to the customer on the basis the performance is complete. As a result, the introduction of IFRS 15, effective from 1 January 2018, has not had a material impact on the Group or Company.

| | Group | |
|---|---|---|
| | **2018 IFRS 9 £m** | 2017 IAS 39 £m |
| Interest income | **976.9** | 1,047.5 |
| Fee income | **147.5** | 148.8 |
| **Total revenue** | **1,124.4** | 1,196.3 |

All fee income earned relates to Vanquis Bank and Moneybarn.

Interest income relates to the interest charges on Vanquis Bank credit cards and Moneybarn conditional sale agreements together with the service charge on home credit and Satsuma loans. Fee income relates to Vanquis Bank and Moneybarn and predominantly reflects default and over-limit fees as well as other ancillary income streams such as ROP fees within Vanquis Bank. Interchange income is also recognised within Vanquis Bank as part of fee income on an accruals basis. Fee income in 2018 represented 22% (2017: 23%) of Vanquis Bank revenue and 1% (2017: 1%) of Moneybarn revenue.

## 3 Finance costs

| | Group | |
|---|---|---|
| **Interest payable on:** | **2018 £m** | 2017 £m |
| Bank borrowings | **11.0** | 10.7 |
| Senior public and retail bonds | **29.1** | 36.0 |
| Private placement loan notes | **3.7** | 5.0 |
| Retail deposits | **29.4** | 25.3 |
| Exceptional premium and fees on redemption of senior bond (note 1) | **18.5** | – |
| **Total finance costs** | **91.7** | 77.0 |

The Group's blended funding rate in 2018 was 4.4%, down from 4.5% in 2017. This primarily reflects a lower average blended rate on retail deposits and the increased mix of retail deposits. Retail deposits represent approximately 70% of the Group's funding at the end of 2018 compared with approximately 59% in 2017 as Vanquis Bank is now fully funded through retail deposits. The all-in blended cost of taking retail deposits in 2018, after the cost of holding a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime, and an operation buffer, was 3.3% (2017: 2.9%).

Interest cover continues to be one of the Group's banking covenants. It is calculated as IAS 39 profit before tax and exceptional items, interest and amortisation divided by finance costs, and has a minimum requirement of 2.0 times. Interest cover, prior to exceptional items, in 2018 was 3.2 times compared with 2.6 times in 2017. The increase in this measure reflects the impact of the significant trading disruption within the home credit business during 2017.

# Notes to the financial statements *continued*

## 4 Profit/(loss) before taxation

| Profit/(loss) before taxation is stated after charging/(crediting): | Group 2018 IFRS 9 £m | 2017 IAS 39 £m |
|---|---|---|
| Amortisation of other intangible assets: | | |
| > computer software (note 11) | **11.7** | 11.7 |
| > acquisition intangibles (note 11) | **7.5** | 7.5 |
| Depreciation of property, plant and equipment (note 12) | **9.1** | 9.3 |
| Loss on disposal of property, plant and equipment (note 12) | **–** | 0.6 |
| Operating lease rentals: | | |
| > property | **8.8** | 14.1 |
| Impairment of amounts receivable from customers (note 14) | **410.4** | 511.2 |
| Employment costs (prior to exceptional redundancy costs and curtailment credit) (note 9(b)) | **234.4** | 204.6 |
| **Exceptional items:** | | |
| Premium and fees on redemption of senior bond (note 22(e)) | **18.5** | – |
| Pension charges in respect of GMP equalisation (note 19(a)) | **6.9** | – |
| Exceptional curtailment credit (note 19(a)) | **(0.6)** | (3.9) |
| Exceptional redundancy cost in CCD (note 9) | **4.8** | 18.4 |
| Exceptional intangible impairment charge (note 11) | **12.8** | – |
| Exceptional property, plant and equipment impairment charge (note 12) | **1.0** | – |
| Exceptional retention, training and consultancy costs in CCD | **11.9** | 18.0 |
| Exceptional release of impairment provision as part of balance reduction at Vanquis Bank (note 14) | **–** | (14.7) |
| Estimated costs of settlement of the investigation into ROP at Vanquis Bank (note 24) | **–** | 186.8 |
| Exceptional release of impairment provision as part of balance reduction at Moneybarn (note 14) | **–** | (20.4) |
| Estimated costs of settlement of the FCA investigation at Moneybarn (note 24) | **–** | 40.4 |

Administrative and operating costs include costs incurred in running the business, the largest of which is employment costs (see note 9), marketing and customer acquisition costs.

| Auditor's remuneration | Group 2018 £m | 2017 £m |
|---|---|---|
| Fees payable to the Company's auditor for the audit of Company and consolidated financial statements | **0.1** | 0.1 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| > audit of Company's subsidiaries pursuant to legislation | **0.7** | 0.9 |
| > other non audit services | **0.1** | 0.2 |
| **Total auditor's remuneration** | **0.9** | 1.2 |

An additional £0.6m (2017: £1.4m) was paid to the Company's auditor relating to work undertaken in respect of the rights issue in 2018. As these were directly attributable to the rights issue they were deducted from the proceeds within equity, they have therefore not been recognised in the income statement.

## 5 Tax charge

| Tax charge in the income statement | Group 2018 IFRS 9 £m | 2017 IAS 39 £m |
|---|---|---|
| Current tax | | |
| > UK | **(32.3)** | (5.1) |
| > Overseas | **0.3** | (0.2) |
| Total current tax | **(32.0)** | (5.3) |
| Deferred tax (note 20) | **2.2** | (6.7) |
| Impact of change in UK tax rate (note 20) | **(0.6)** | 0.6 |
| **Total tax charge** | **(30.4)** | (11.4) |

The tax credit in respect of exceptional costs in 2018 amounts to £10.2m (2017: £3.8m) and represents: (i) tax relief of £5.5m in respect of the exceptional restructuring costs in CCD (2017: £6.2m); (ii) tax relief of £3.5m in respect of the premium and fees paid on redemption of £222.5m of the £250m senior bonds (2017: £nil); and (iii) tax relief of £1.2m in respect of the GMP equalisation charge in respect of the Group's defined benefit scheme (2017: £nil). The tax credit in 2017 comprised: (i) tax relief of £6.3m in respect of the estimated balance reductions and restitution payable to Moneybarn customers in respect of the FCA investigation and administration costs in respect of the FCA investigation into ROP in Vanquis Bank; and (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to customers as part of the settlement

## 5 Tax charge *continued*

of the FCA investigation into ROP in Vanquis Bank which are treated as bank compensation payments and the release of the related impairment provision.

The tax credit in respect of the amortisation of acquisition intangibles amounts to £1.3m (2017: £1.4m).

The effective tax rate for 2018, prior to the amortisation of acquisition intangibles and exceptional items, is 27.3% (2017: 15.1%). The increase in the rate principally reflects a tax credit in 2017 in respect of prior years, including a release of part of the provision for uncertain tax liabilities.

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015, changes were also enacted reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In 2016, a further change was enacted, which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2018 have been measured at 17% (2017: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2017: 25%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). In 2018, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.00% (2017: 19.25%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.00% (2017: 27.25%). A tax charge of £0.6m (2017: credit of £0.6m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.7m (2017: credit of £0.3m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

| | | Group |
|---|---|---|
| **Tax credit/(charge) on items taken directly to other comprehensive income** | **2018 IFRS 9 £m** | 2017 IAS 39 £m |
| Deferred tax charge on fair value movement in investment | **(0.5)** | (0.4) |
| Deferred tax credit/(charge) on actuarial movements on retirement benefit asset | **4.1** | (3.4) |
| Tax credit/(charge) on items taken directly to other comprehensive income prior to impact of change in UK tax rate | **3.6** | (3.8) |
| Impact of change in UK tax rate | **(0.7)** | 0.3 |
| **Total tax credit/(charge) on items taken directly to other comprehensive income** | **2.9** | (3.5) |

The deferred tax charge of £0.5m (2017: £0.4m) on the fair value movements in investments represents the deferred tax at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.0% (2017: 27.25%) on the change in the valuation of the Visa Inc. preferred stock during the year.

The rate of tax charge on the profit (2017: loss) before taxation for the year is higher than (2017: higher than) the average rate of mainstream corporation tax in the UK of 19.00% (2017: 19.25%). This can be reconciled as follows:

| | | Group |
|---|---|---|
| | **2018 IFRS 9 £m** | 2017 IAS 39 £m |
| Profit/(loss) before taxation | **90.7** | (123.0) |
| Profit/(loss) before taxation multiplied by the average rate of mainstream corporation tax in the UK of 19.00% (2017: 19.25%) | **(17.2)** | 23.7 |
| Effects of: | | |
| > impact of lower tax rates overseas | **(0.4)** | 0.1 |
| > adjustment in respect of prior years | **1.2** | 22.5 |
| > non-deductible general expenses | **(0.1)** | (0.2) |
| > impact of change in UK tax rate | **(0.6)** | 0.6 |
| > tax rate difference on tax losses carried back to prior years | **–** | 0.6 |
| > write off of deferred tax asset in relation to share-based payment reserve | **–** | (0.9) |
| > non-deductible bank compensation expenses | **–** | (35.3) |
| > additional 10% of bank compensation expenses | **–** | (3.5) |
| > non-deductible fines and expenses | **–** | (1.2) |
| > impact of bank corporation tax surcharge | **(13.3)** | (17.8) |
| **Total tax charge** | **(30.4)** | (11.4) |

The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2017: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.00% (2017: 19.25%). In 2018, the home credit business in the Republic of Ireland made a loss (2017: profit) which can only be relieved against profits of the business in the Republic of Ireland at the 12.5% statutory tax rate rather than the 19.00% UK statutory tax rate. This gives rise to an adverse impact on the Group tax charge of £0.4m (2017: beneficial impact of £0.1m).

# Notes to the financial statements *continued*

## 5 Tax charge *continued*

The £1.2m credit (2017: £22.5m credit) in respect of prior years represents the benefit of resolving historic tax liabilities, securing tax deductions for employee share awards which are higher than those originally anticipated and, in the case of 2017, the release of part of the provision for uncertain tax liabilities which is no longer required.

The £0.6m adverse impact (2017: £0.6m beneficial impact) on the tax charge due to the change in UK tax rate arises because movements in deferred tax balances during the year have been measured at the mainstream corporation tax rate for the year of 19.0% (2017: 19.25%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.0% (2017: 27.25%) whereas deferred tax balances at 31 December 2018 have been measured at 17% (2017: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2017: 25%).

In 2017, the £0.6m impact of the change in UK tax rate on tax losses carried back represents the benefit of carrying back 2017 tax losses in CCD to 2016 when the higher mainstream corporation tax rate of 20% applied.

Deferred tax assets are typically recognised on share-based payment charges on the basis that these represent a good estimate of the tax relief that will be available when the share awards vest. In 2017, the write off of the deferred tax asset of £0.9m (2018: £nil) represents the reduction in tax relief expected to arise because of the reduction in the share price, where such reduction in share price has not been reflected through the share-based payments charges.

The settlements payable to Vanquis Bank customers in 2017 following the resolution with the FCA are, in accordance with the bank compensation provisions which apply to banking companies, non-deductible in computing Vanquis Bank's profits for tax purposes. This gave rise to an adverse impact on the tax charge of £35.3m (2018: £nil). It also gives rise to an additional 10% deemed taxable receipt under the bank compensation provisions which is intended to equate to a disallowance of the administration costs associated with the compensation. This gives rise to a further adverse impact on the tax charge for 2017 of £3.5m (2018: £nil).

In 2017, the actual and estimated fines levied by the FCA and certain other expenses were not tax deductible for both Vanquis Bank and Moneybarn. This gave rise to an adverse impact on the 2017 tax charge of £1.2m (2018: £nil).

The adverse impact of the bank corporation tax surcharge amounts to £13.3m (2017: £17.8m) and represents tax at the bank corporation tax surcharge rate of 8% on Vanquis Bank's taxable profits in excess of £25m where taxable profits are calculated after adding back bank compensation payments, the 10% deemed taxable receipt, the FCA fine and other add backs.

## 6 Earnings/(loss) per share

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares in the period prior to the rights issue in April 2018 has been adjusted to take account of the bonus element of the rights issue of 1.367 in accordance with IAS 33: 'Earnings per share' and prior year comparatives restated.

Diluted EPS calculates the effect on EPS assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

(i) For share awards outstanding under performance-related share incentive schemes such as the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS), the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met as at that date.

(ii) For share options outstanding under non-performance related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares. The Group also presents an adjusted EPS, prior to the amortisation of acquisition intangibles and exceptional items.

Reconciliations of basic and diluted earnings/(loss) per share are set out below:

| | | | 2018 IFRS 9 | | | 2017 restated IAS 39 |
|---|---|---|---|---|---|---|
| Group | Earnings £m | Weighted average number of shares m | Per share amount pence | Loss/ (earnings) £m | Weighted average number of shares m | Per share amount pence |
| **Basic earnings/(loss) per share** | **60.3** | **239.5** | **25.2** | (134.4) | 202.5 | (66.4) |
| Dilutive effect of share options and awards | **–** | **0.7** | **(0.1)** | – | – | – |
| **Diluted earnings/(loss) per share** | **60.3** | **240.2** | **25.1** | (134.4) | 202.5 | (66.4) |

Potential ordinary shares should be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share. As the Group has reported a basic loss per share in 2017, the dilutive effect of share options and awards has been removed.

## 6 Earnings/(loss) per share *continued*

The Directors have elected to show an adjusted earnings/(loss) per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 (see note 11) and prior to exceptional items (see note 1). This is presented to show the earnings per share generated by the Group's underlying operations. A reconciliation of basic and diluted earnings/(loss) per share to adjusted basic and diluted earnings per share is as follows:

| | 2018 IFRS 9 | | | 2017 restated IAS 39 | | |
|---|---|---|---|---|---|---|
| Group | Earnings £m | Weighted average number of shares m | Per share amount pence | Loss/ (earnings) £m | Weighted average number of shares m | Per share amount pence |
| **Basic earnings/(loss) per share** | **60.3** | **239.5** | **25.2** | (134.4) | 202.5 | (66.4) |
| Amortisation of acquisition intangibles, net of tax | **6.2** | **–** | **2.6** | 6.2 | – | 3.1 |
| Exceptional items, net of tax | **45.1** | **–** | **18.8** | 220.8 | – | 109.0 |
| **Adjusted basic earnings per share** | **111.6** | **239.5** | **46.6** | 92.6 | 202.5 | 45.7 |
| **Basic earnings/(loss) per share** | **60.3** | **239.5** | **25.2** | (134.4) | 202.5 | (66.4) |
| Dilutive effect of share options and awards | **–** | **0.7** | **(0.1)** | – | 0.9 | 0.3 |
| **Diluted earnings/(loss) per share** | **60.3** | **240.2** | **25.1** | (134.4) | 203.4 | (66.1) |
| Amortisation of acquisition intangibles, net of tax | **6.2** | **–** | **2.6** | 6.2 | – | 3.0 |
| Exceptional items, net of tax | **45.1** | **–** | **18.8** | 220.8 | – | 108.6 |
| **Adjusted diluted earnings per share** | **111.6** | **240.2** | **46.5** | 92.6 | 203.4 | 45.5 |

Adjusted basic EPS shown above has increased by 2.0% in 2018. This is not a like-for-like comparison as 2018 is presented on an IFRS 9 basis and 2017 is presented on an IAS 39 basis. Compared with unaudited pro forma IFRS 9 comparatives, adjusted basic EPS has increased by 26.6% from 36.8p to 46.6p, reflecting the increase in IFRS 9 profit before tax of 82.3% partly offset by the higher tax rate and the impact of the rights issue shares issued in April 2018.

## 7 Dividends

| | Group and Company | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| 2016 final – 91.4p per share | **–** | 133.4 |
| **Dividends paid** | **–** | 133.4 |

The directors are recommending a final dividend in respect of the financial year ended 31 December 2018 of 10p per share (2017: nil) which will amount to an estimated dividend payment of £25.1m (2017: £nil). If approved by the shareholders at the Annual General Meeting on 21 May 2019, this dividend will be paid on 21 June 2019 to shareholders who are on the register of members at 24 May 2019. This dividend is not reflected in the balance sheet as at 31 December 2018 as it is subject to shareholder approval.

## 8 Directors' remuneration

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24, 'Related party disclosures'.

| | Group and Company | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| Short-term employee benefits | **2.1** | 2.0 |
| Post-employment benefits | **–** | 1.2 |
| Share-based payment charge/(credit) | **0.2** | (1.6) |
| **Total directors' remuneration** | **2.3** | 1.6 |

The directors' remuneration above reflects:

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year.

Post-employment benefits represent the sum of: (i) the increase in the transfer value of the accrued pension benefits (less directors' contributions) for those directors who are members of the Group's defined benefit pension scheme; (ii) Company contributions into personal pension arrangements for all other directors; and (iii) amounts accrued under the Unfunded, Unapproved Retirement Benefit Scheme (UURBS).

The share-based payment charge (2017: credit) reflects the expected vesting of the Group's share-based incentives.

No directors (2017: nil) accrued retirement benefits in the year under the cash balance section of the Provident Financial Staff Pension Scheme (the pension scheme). The pension scheme is a defined benefit scheme with cash balance benefits.

No directors (2017: nil) paid or had contributions paid on their behalf into the PFG Retirement Plan in the year. The PFG Retirement Plan is a Group Personal Pension Plan insured with Standard Life.

# Notes to the financial statements *continued*

## 8 Directors' remuneration *continued*

The Company previously operated an Unfunded Unapproved Retirement Benefits Scheme (UURBS) to provide cash balance benefits to those employees affected by the Lifetime Allowance or the Reduced Annual Allowance. During 2017, the increase in the UURBS relating to Andrew Fisher and Peter Crook was £0.3m and the balance outstanding at 31 December 2017 was £nil for Andrew Fisher and £1.4m for Peter Crook. During 2018 their remaining balances were withdrawn from the UURBS.

Andrew Fisher elected to receive a cash supplement from June 2017. The balance outstanding at 31 December amounted to £nil (2017: £0.1m). Malcolm Le May received a cash supplement from February 2018 and Simon Thomas from December 2018. The balance outstanding at 31 December was £0.1m.

## 9 Employee information

### (a) Average monthly number of persons employed by the Group:

| | | | | | 2018 | | | | | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Vanquis Bank | CCD | Moneybarn | Central | Group | Vanquis Bank | CCD | Moneybarn | Central | Group |
| Full-time | 1,386 | 3,643 | 235 | 62 | 5,326 | 1,307 | 2,906 | 196 | 57 | 4,466 |
| Part-time | 161 | 327 | 25 | 10 | 523 | 162 | 212 | 15 | 9 | 398 |
| **Total** | 1,547 | 3,970 | 260 | 72 | 5,849 | 1,469 | 3,118 | 211 | 66 | 4,864 |

Employees comprise all head office and branch employees within CCD, head office and contact centre employees within Vanquis Bank and Moneybarn. Central employees represent corporate office employees, executive and non executive directors employed by the Company. The 27% increase in CCD average employee numbers reflects the impact of the change in the UK operating model in July 2017 from self employed agents to an employed workforce partly offset by headcount reductions in 2018 due to the ongoing alignment of the cost base with customer numbers. Moneybarn's 23% increase in average headcount continues to reflect the resource required to support the growth of the business and strengthen the senior management team. The 9% increase in central is due to recruitment of new central functions including Group risk, IT and HR.

### (b) Employment costs

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Aggregate gross wages and salaries paid to the group's employees | **205.6** | 177.5 | **10.4** | 7.2 |
| Employers' National Insurance contributions | **22.1** | 19.0 | **1.7** | 1.1 |
| Pension charge, prior to exceptional pension credit | **9.5** | 10.5 | **(8.6)** | (7.2) |
| Share-based payment (credit)/charge (note 26) | **(2.8)** | (2.4) | **0.4** | (2.5) |
| Total employment cost prior to exceptional costs | **234.4** | 204.6 | **3.9** | (1.4) |
| Exceptional redundancy cost | **4.8** | 18.4 | **–** | – |
| Exceptional pension curtailment credit (note 19) | **(0.6)** | (3.9) | **(0.6)** | (3.9) |
| Exceptional pension cost for GMP equalisation (note 19) | **6.9** | – | **6.9** | – |
| **Total employment costs** | **245.5** | 219.1 | **10.2** | (5.3) |

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan, contributions to personal pension arrangements. The £8.6m (2017: £7.2m) credit in the Company for the pension charge represents contributions received from the subsidiaries in relation to the defined benefit schemes, partly offset by the charge in relation to the defined contribution schemes. The increase in the share-based payment credit from £2.4m in 2017 to £2.8m in 2018 primarily reflects the lower expected vesting levels across cash settled schemes in the Group. The share-based payment credit of £2.8m (2017: £2.4m) relates to equity settled schemes charges of £1.1m (2017: £3.4m credit) and a cash settled schemes credit of £3.9m (2017: £1.0m charge).

## 10 Goodwill

| | Group | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| **Cost** | | |
| At 1 January and 31 December | **73.3** | 73.3 |
| **Accumulated impairment** | | |
| At 1 January and 31 December | **2.1** | 2.1 |
| **Net book value at 1 January and 31 December** | **71.2** | 71.2 |

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. Management adopt pre-tax discount rates which reflect the time value of money and the risks specific to the Moneybarn business. The cash flow forecasts are based on the most recent financial budgets approved by the Group Board for the next five years and extrapolates cash flows for the following five years using a terminal growth rate of 1.5% (2017: 1.5%). The rate used to discount the forecast cash flows is 11% (2017: 11%), this represents the Company's risk adjusted cost of capital. No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented.

## 11 Other intangible assets

| | | | **2018** | | | 2017 |
|---|---|---|---|---|---|---|
| | **Acquisition intangibles £m** | **Computer software £m** | **Total £m** | Acquisition intangibles £m | Computer software £m | Total £m |
| **Cost** | | | | | | |
| At 1 January | **75.0** | **92.1** | **167.1** | 75.0 | 72.4 | 147.4 |
| Additions | **–** | **7.6** | **7.6** | – | 20.5 | 20.5 |
| Disposals | **–** | **(23.5)** | **(23.5)** | – | (0.8) | (0.8) |
| At 31 December | **75.0** | **76.2** | **151.2** | 75.0 | 92.1 | 167.1 |
| **Accumulated amortisation and impairment** | | | | | | |
| At 1 January | **25.0** | **62.7** | **87.7** | 17.5 | 51.8 | 69.3 |
| Charged to the income statement | **7.5** | **11.7** | **19.2** | 7.5 | 11.7 | 19.2 |
| Exceptional impairment charge (note 1) | **–** | **12.8** | **12.8** | – | – | – |
| Disposals | **–** | **(23.5)** | **(23.5)** | – | (0.8) | (0.8) |
| At 31 December | **32.5** | **63.7** | **96.2** | 25.0 | 62.7 | 87.7 |
| **Net book value at 31 December** | **42.5** | **12.5** | **55.0** | 50.0 | 29.4 | 79.4 |
| Net book value at 1 January | **50.0** | **29.4** | **79.4** | 57.5 | 20.6 | 78.1 |

Acquisition intangibles represents the fair value of the broker relationships arising on acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. Additions in the year of £7.6m (2017: £20.5m) comprise £2.5m (2017: £7.2m) of internally generated assets and £5.1m (2017: £13.3m) of externally purchased software.

The £7.6m (2017: £20.5m) of computer software expenditure principally relates to: (i) the development of systems and mobile app in Vanquis Bank; (ii) systems to support the development of Satsuma including a new mobile app; and (iii) software to support the ongoing recovery in home credit.

# Notes to the financial statements *continued*

## 12 Property, plant and equipment

| Group | Freehold land and buildings £m | Leasehold land and buildings £m | Equipment and vehicles £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2018 | 3.4 | 6.5 | 78.7 | 88.6 |
| Additions | – | – | 5.3 | 5.3 |
| Disposals | – | – | (6.7) | (6.7) |
| At 31 December 2018 | 3.4 | 6.5 | 77.3 | 87.2 |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2018 | 3.3 | 1.1 | 53.3 | 57.7 |
| Charged to the income statement | – | – | 9.1 | 9.1 |
| Exceptional impairment charge (see note 1) | – | – | 1.0 | 1.0 |
| Disposals | – | – | (5.2) | (5.2) |
| At 31 December 2018 | 3.3 | 1.1 | 58.2 | 62.6 |
| **Net book value at 31 December 2018** | 0.1 | 5.4 | 19.1 | 24.6 |
| Net book value at 1 January 2018 | 0.1 | 5.4 | 25.4 | 30.9 |

The loss on disposal of property, plant and equipment in 2018 amounted to £nil (2017: £0.6m) and represented proceeds received of £1.5m (2017: £1.7m) less the net book value of disposals of £1.5m (2017: £1.1m).

Additions in 2018 principally comprises expenditure in respect of the routine replacement of IT equipment in CCD, Vanquis Bank and Moneybarn and motor vehicles for field employees within CCD.

| Group | Freehold land and buildings £m | Leasehold land and buildings £m | Equipment and vehicles £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2017 | 4.0 | 6.1 | 71.5 | 81.6 |
| Additions | – | 0.4 | 11.8 | 12.2 |
| Disposals | (0.6) | – | (4.6) | (5.2) |
| At 31 December 2017 | 3.4 | 6.5 | 78.7 | 88.6 |
| **Accumulated depreciation** | | | | |
| At 1 January 2017 | 3.3 | 1.1 | 46.9 | 51.3 |
| Charged to the income statement | – | – | 9.3 | 9.3 |
| Disposals | – | – | (2.9) | (2.9) |
| At 31 December 2017 | 3.3 | 1.1 | 53.3 | 57.7 |
| **Net book value at 31 December 2017** | 0.1 | 5.4 | 25.4 | 30.9 |
| Net book value at 1 January 2017 | 0.7 | 5.0 | 24.6 | 30.3 |

## 12 Property, plant and equipment *continued*

| Company | Freehold land and buildings £m | Leasehold land and buildings £m | Equipment and vehicles £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2018 | 3.4 | 0.2 | 13.0 | 16.6 |
| Additions | – | – | 1.7 | 1.7 |
| Disposals | – | – | (0.4) | (0.4) |
| At 31 December 2018 | 3.4 | 0.2 | 14.3 | 17.9 |
| **Accumulated depreciation** | | | | |
| At 1 January 2018 | 3.3 | 0.1 | 8.6 | 12.0 |
| Charged to the income statement | – | – | 1.6 | 1.6 |
| Disposals | – | – | (0.2) | (0.2) |
| At 31 December 2018 | 3.3 | 0.1 | 10.0 | 13.4 |
| **Net book value at 31 December 2018** | 0.1 | 0.1 | 4.3 | 4.5 |
| Net book value at 1 January 2018 | 0.1 | 0.1 | 4.4 | 4.6 |

The loss on disposal of property, plant and equipment in 2018 amounted to £nil (2017: £0.1m) and represented proceeds received of £0.2m (2017: £0.7m) less the net book value of disposals of £0.2m (2017: £0.8m).

| Company | Freehold land and buildings £m | Leasehold land and buildings £m | Equipment and vehicles £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2017 | 4.0 | 0.2 | 13.1 | 17.3 |
| Additions | – | – | 0.3 | 0.3 |
| Disposals | (0.6) | – | (0.4) | (1.0) |
| At 31 December 2017 | 3.4 | 0.2 | 13.0 | 16.6 |
| **Accumulated depreciation** | | | | |
| At 1 January 2017 | 3.3 | 0.1 | 7.1 | 10.5 |
| Charged to the income statement | – | – | 1.7 | 1.7 |
| Disposals | – | – | (0.2) | (0.2) |
| At 31 December 2017 | 3.3 | 0.1 | 8.6 | 12.0 |
| **Net book value at 31 December 2017** | 0.1 | 0.1 | 4.4 | 4.6 |
| Net book value at 1 January 2017 | 0.7 | 0.1 | 6.0 | 6.8 |

# Notes to the financial statements *continued*

## 13 Investment in subsidiaries

| | Company | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| **Cost** | | |
| At 1 January | **773.8** | 529.0 |
| Additions | **50.0** | 251.2 |
| Disposals | **(6.9)** | (6.4) |
| At 31 December | **816.9** | 773.8 |
| **Accumulated impairment losses** | | |
| At 1 January | **291.5** | 31.5 |
| Exceptional charge to the income statement | **62.2** | 258.0 |
| Charge to the income statement | **–** | 2.0 |
| Disposal | **(6.5)** | – |
| At 31 December | **347.2** | 291.5 |
| **Net book value at 31 December** | **469.7** | 482.3 |
| Net book value at 1 January | **482.3** | 497.5 |

The directors consider the value of investments to be supported by their underlying assets and cash flow forecasts.

Additions in 2018 of £50.0m represent capital injected into Vanquis Bank following receipt of the rights issue proceeds of £300.0m in April 2018.

Following the significant losses incurred in CCD during 2017, a full review was undertaken of the Company's £258.0m investment in Provident Financial Management Services Limited (PFMSL) (the holding company within CCD) and the loans of £438.0m provided to PFMSL in 2004 and £200.0m provided to Provident Personal Credit Limited in 2012. As a result of this review:

> The investment in PFMSL of £258.0m was fully impaired in the Company's income statement.

> The Company released PFMSL from its obligations under the £438.0m loan and released Provident Personal Credit Limited from its obligations under the £200.0m loan.

> As a result of the intercompany loan releases, an amount of £386.8m was booked as an impairment to the Company's income statement and the remaining balance of the intercompany loans of £251.2m was capitalised as an investment in PFMSL. The investment value in PFMSL was supported by the forecast future cash flows from CCD.

> The total exceptional impairment charges taken to the Company's income statement in 2017 was £644.8m.

> A reserve transfer of £571.3m was made from the non-distributable reserve to retained earnings to offset the impact of the above impairment charges. The non-distributable reserve was created on the sale of Provident Personal Credit Limited by the Company to PFMSL in 2000 (see note 27). £73.5m of the impairment charges was not matched with a transfer from the non-distributable reserve as this amount represented the Company's original cost of investment in Provident Personal Credit Limited.

During 2018, a further review of the investment carrying value in PFMSL was performed and an exposure of intercompany loans. Based on a valuation of the CCD business on a consistent basis as 2017, using forecast future cash flows, this has resulted in an additional impairment of £62.2m to be recognised. Of this £37.9m has been reflected against the residual non distributable reserve and the remaining £24.3m against retained earnings.

The disposals in 2018 relates to: (i) the elimination of dormant companies of £6.5m (2017: £nil) and the associated provision of £6.5m (2017: £nil); and, (ii) £0.4m (2017: £6.4m) relating to the IFRIC 11 adjustment relating to share options/awards provided to subsidiary employees. Under IFRIC 11, the fair value of the options/awards issued is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/award that have vested.

The impairment charge to the income statement in 2017 of £2.0m represented the impairment of investments in various dormant and non trading companies following dormant company rationalisations.

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the Group or are a guaranteeing subsidiary of the Group's syndicated bank facility and certain other borrowings. A full list of subsidiary undertakings will be annexed to the next annual return of the Company to be filed with the Registrar of Companies (see note 33). All subsidiaries are consolidated and held directly by the Company except for those noted below, which are held by wholly owned intermediate companies.

| Company | | Activity | Country of incorporation | Class of capital | % holding |
|---|---|---|---|---|---|
| Vanquis Bank | Vanquis Bank Limited | Financial services | England | Ordinary | 100 |
| CCD | Provident Financial Management Services Limited | Management services | England | Ordinary | 100 |
| | Provident Personal Credit Limited | Financial services | England | Ordinary | 100* |
| | Greenwood Personal Credit Limited | Financial services | England | Ordinary | 100* |
| Moneybarn | Duncton Group Limited | Financial services | England | Ordinary | 100 |
| | Moneybarn Group Limited | Financial services | England | Ordinary | 100* |
| | Moneybarn No. 1 Limited | Financial services | England | Ordinary | 100* |
| Central | Provident Investments Limited (formerly Provident Investments plc) | Financial intermediary | England | Ordinary | 100 |

* Shares held by wholly owned intermediate companies.

The above companies operate principally in their country of incorporation.

# 14 Amounts receivable from customers

IFRS 9: 'Financial Instruments' was adopted from 1 January 2018. Under IFRS 9, all receivables are recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk either through a missed payment or an adverse change in behavioural score. Stage 3 represents a customer in default. Revenue recognition is recognised on the gross receivable in stage 1 and 2 and on the net receivable in stage 3. A customer can only move to stage 3 for revenue recognition purposes at the Group's interim or year end.

Impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the typical loss arising on default (LGD):

> Stage 1 – Accounts at initial recognition. The expected loss is based on a 12 month PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.

> Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.

> Stage 3 – Accounts which have defaulted. The expected loss is based on a lifetime PD, based on historic experience. Revenue is recognised on the net receivable after impairment provision. This stage is effectively the previous IAS 39 treatment for impairment.

Impairment provisions under IFRS 9 are calculated based on an unbiased probability-weighted outcome which takes into account historic performance and considers the outlook for macro-economic conditions. Further details can be found on pages 174 and 175.

| Group | 2018 IFRS 9 Due within one year £m | 2018 IFRS 9 Due in more than one year £m | 2018 IFRS 9 Total £m | 2017 IAS 39 Due within one year £m | 2017 IAS 39 Due in more than one year £m | 2017 IAS 39 Total £m |
|---|---|---|---|---|---|---|
| Vanquis Bank | **1,459.7** | **14.1** | **1,473.8** | 1,540.2 | 14.5 | 1,554.7 |
| CCD | **263.1** | **29.4** | **292.5** | 339.2 | 51.4 | 390.6 |
| Moneybarn | **90.5** | **306.1** | **396.6** | 101.8 | 262.3 | 364.1 |
| **Total reported amounts receivable from customers** | **1,813.3** | **349.6** | **2,162.9** | 1,981.2 | 328.2 | 2,309.4 |

Vanquis Bank receivables comprise £1,447.8m (2017: £1,538.9m) in respect of credit cards and £26.0m (2017: £15.8m) in respect of loans. The balance at 31 December 2018 is stated net of an estimated balance reduction of £3.7m (2017: £75.4m) in respect of the resolution of the FCA investigation into ROP on 27 February 2018. The balance reduction provision of £75.4m created at the end of 2017 comprised a gross balance reduction of £90.1m less release of impairment provisions of £14.7m.

CCD receivables comprise £251.9m in respect of the home credit business (2017: £352.2m), £39.5m in respect of Satsuma (2017: £35.8m) and £1.1m in respect of the collect-out of glo (2017: £2.6m).

Moneybarn receivables are stated net of an estimated balance reduction of £1.8m (2017: £12.1m) in respect of the FCA investigation into affordability, forbearance and termination options. The balance reduction provision of £12.1m created at the end of 2017 comprised a gross balance reduction of £32.5m less release of impairment provisions of £20.4m.

The gross amounts receivable from customers and allowance account which form the net amounts receivable from customers is as follows:

| Group | 2018 IFRS 9 Vanquis Bank £m | 2018 IFRS 9 CCD £m | 2018 IFRS 9 Moneybarn £m | 2018 IFRS 9 Group £m | 2017 IAS 39 Vanquis Bank £m | 2017 IAS 39 CCD £m | 2017 IAS 39 Moneybarn £m | 2017 IAS 39 Group* £m |
|---|---|---|---|---|---|---|---|---|
| Gross amounts receivable from customers | **1,976.5** | **725.6** | **534.5** | **3,236.6** | 1,843.6 | – | 408.5 | 2,252.1 |
| Allowance account | **(502.7)** | **(433.1)** | **(137.9)** | **(1,073.7)** | (288.9) | – | (44.4) | (333.3) |
| **Reported amounts receivable from customers** | **1,473.8** | **292.5** | **396.6** | **2,162.9** | 1,554.7 | 390.6 | 364.1 | 2,309.4 |

* Excludes gross receivable and allowance account for CCD as impairment was deducted directly from amounts receivable from customers without the use of an allowance account under IAS 39.

# Notes to the financial statements *continued*

## 14 Amounts receivable from customers *continued*

Amounts receivable from customers for Vanquis Bank can be reconciled as follows:

| Vanquis Bank | 2018 IFRS 9 Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m | 2017 IAS 39 Total £m |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| At 1 January | 1,388.8 | 94.5 | 360.3 | 1,843.6 | |
| New financial assets originated and new drawdowns | 2,279.6 | 82.0 | 4.8 | 2,366.4 | |
| Net transfers and changes in credit risk | (395.1) | 11.4 | 383.7 | – | |
| Write offs | – | – | (193.3) | (193.3) | |
| Recoveries | (2,533.3) | (62.2) | (95.0) | (2,690.5) | |
| Revenue | 548.4 | 47.1 | 54.8 | 650.3 | |
| **At 31 December** | 1,288.4 | 172.8 | 515.3 | 1,976.5 | 1,843.6 |
| **Allowance account** | | | | | |
| At 1 January (IAS 39) | | | | 288.9 | 261.4 |
| Impact of IFRS 9 adoption | | | | 149.5 | |
| At 1 January (IFRS 9) | 136.2 | 50.4 | 251.8 | 438.4 | 261.4 |
| **Movements through income statement:** | | | | | |
| > Drawdowns and net transfers and changes in credit risk | 43.9 | 5.6 | 192.1 | 241.6 | |
| > Other movements | – | – | – | – | 186.6 |
| > Exceptional release of impairment provisions (see note 1) | – | – | – | – | (14.7) |
| **Total movements through income statement** | 43.9 | 5.6 | 192.1 | 241.6 | 171.9 |
| **Other movements:** | | | | | |
| > Write offs | – | – | (193.3) | (193.3) | (176.0) |
| > Amounts recovered | 6.9 | 2.7 | 6.4 | 16.0 | 31.6 |
| **Allowance account at 31 December** | 187.0 | 58.7 | 257.0 | 502.7 | 288.9 |
| **Reported amounts receivable from customers at 31 December** | 1,101.4 | 114.1 | 258.3 | 1,473.8 | 1,554.7 |
| Reported amounts receivable from customers at 1 January | 1,252.6 | 44.1 | 108.5 | 1,405.2 | 1,424.7 |

Amounts receivable from customers for CCD can be reconciled as follows:

| CCD | 2018 IFRS 9 Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| At 1 January | 221.2 | 60.9 | 443.1 | 725.2 |
| New financial assets originated | 404.4 | 6.7 | – | 411.1 |
| Net transfers and changes in credit risk | (145.1) | 10.6 | 134.5 | – |
| Write offs | (2.2) | (3.0) | (60.0) | (65.2) |
| Recoveries | (506.5) | (78.4) | (99.7) | (684.6) |
| Revenue | 211.6 | 51.6 | 76.8 | 340.0 |
| Other movements | 0.2 | – | (1.1) | (0.9) |
| **At 31 December** | 183.6 | 48.4 | 493.6 | 725.6 |
| **Allowance account** | | | | |
| At 1 January | 20.4 | 15.1 | 342.3 | 377.8 |
| **Movements through income statement:** | | | | |
| > New financial assets originated | 38.6 | 1.1 | – | 39.7 |
| > Net transfers and changes in credit risk | (44.8) | (0.3) | 126.2 | 81.1 |
| **Total movements through income statement** | (6.2) | 0.8 | 126.2 | 120.8 |
| **Other movements:** | | | | |
| > Write offs | (2.2) | (3.0) | (60.0) | (65.2) |
| > Other movements | – | – | (0.3) | (0.3) |
| **Allowance account at 31 December** | 12.0 | 12.9 | 408.2 | 433.1 |
| **Reported amounts receivable from customers at 31 December** | 171.6 | 35.5 | 85.4 | 292.5 |
| Reported amounts receivable from customers at 1 January | 200.8 | 45.8 | 100.8 | 347.4 |

## 14 Amounts receivable from customers *continued*

Amounts receivable from customers for Moneybarn can be reconciled as follows:

| Moneybarn | Stage 1 £m | Stage 2 £m | Stage 3 £m | 2018 IFRS 9 Total £m | 2017 IAS 39 Total £m |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| At 1 January | 244.7 | 95.1 | 71.9 | 411.7 | |
| New financial assets originated | 234.6 | – | – | 234.6 | |
| Net transfers and changes in credit risk | (155.7) | 40.8 | 114.9 | – | |
| Write offs | (0.4) | (0.2) | (2.5) | (3.1) | |
| Recoveries | (101.3) | (42.0) | (94.7) | (238.0) | |
| Revenue | 61.8 | 32.6 | 37.5 | 131.9 | |
| Other changes | (1.6) | (0.4) | (0.6) | (2.6) | |
| **At 31 December** | 282.1 | 125.9 | 126.5 | 534.5 | 408.5 |
| **Allowance account** | | | | | |
| At 1 January (IAS 39) | | | | 44.4 | 34.1 |
| Impact of IFRS 9 adoption | | | | 45.4 | |
| Reclassification | | | | 3.2 | |
| At 1 January (IFRS 9) | 8.6 | 29.7 | 54.7 | 93.0 | 34.1 |
| **Movements through income statement:** | | | | | |
| > New financial assets originated | 8.3 | – | – | 8.3 | |
| > Net transfers and changes in credit risk | (7.3) | (1.1) | 48.1 | 39.7 | |
| > Other movements | – | – | – | – | 31.1 |
| > Exceptional release of impairment provisions (see note 1) | – | – | – | – | (20.4) |
| **Total movements through income statement** | 1.0 | (1.1) | 48.1 | 48.0 | 10.7 |
| **Other movements:** | | | | | |
| > Write offs | (0.4) | (0.2) | (2.5) | (3.1) | (0.4) |
| **Allowance account at 31 December** | 9.2 | 28.4 | 100.3 | 137.9 | 44.4 |
| **Reported amounts receivable from customers at 31 December** | 272.9 | 97.5 | 26.2 | 396.6 | 364.1 |
| Reported amounts receivable from customers at 1 January | 236.1 | 65.4 | 17.2 | 318.7 | 297.3 |

The reclassification represents movements between gross receivables and provision on adoption of IFRS 9 with no impact on net receivables.

Vehicles are held as collateral against a Moneybarn conditional sale agreement until it is repaid in full. The impact of holding the collateral of £286.3m on the allowance account as at 31 December 2018 was £65.1m.

The impairment charge in respect of amounts receivable from customers can be analysed as follows:

| Impairment charge on amounts receivable from customers | Group 2018 IFRS 9 £m | Group 2017 IAS 39 £m |
|---|---|---|
| Vanquis Bank | 241.6 | 186.6 |
| Exceptional release of impairment provision as part of balance reduction (see note 1) | – | (14.7) |
| Total Vanquis Bank | 241.6 | 171.9 |
| CCD | 120.8 | 293.5 |
| Moneybarn | 48.0 | 31.1 |
| Exceptional release of impairment provision as part of balance reduction (see note 1) | – | (20.4) |
| Total Moneybarn | 48.0 | 10.7 |
| **Total Group** | 410.4 | 476.1 |

The average effective interest rate for the year ended 31 December 2018 was 28% for Vanquis Bank (2017: 28%), 119% for CCD (2017: 111%) and 34% for Moneybarn (2017: 30%).

# Notes to the financial statements *continued*

## 14 Amounts receivable from customers *continued*

The average period to maturity of the amounts receivable from customers within CCD is 6 months (2017: 7 months) and within Moneybarn is 39 months (2017: 40 months). Within Vanquis Bank, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the greater of 2.3% of the amount owed plus any fees and interest charges in the month and £5.

The currency profile of amounts receivable from customers is as follows:

| | Group | |
|---|---|---|
| Group | **2018 IFRS 9 £m** | 2017 IAS 39 £m |
| Sterling | **2,124.0** | 2,263.0 |
| Euro | **38.9** | 46.4 |
| **Reported amounts receivable from customers** | **2,162.9** | 2,309.4 |

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 13% of CCD's receivables (2017: 12%).

## 15 Investments

| | Group | |
|---|---|---|
| Group | **2018 £m** | 2017 £m |
| Government gilts | **35.7** | 35.9 |
| Visa shares | **12.1** | 9.9 |
| **Total investments** | **47.8** | 45.8 |

### (a) Government gilts

Government gilts comprise UK government gilts which form part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime. The gilts have a maturity on origination in excess of three months and are therefore disclosed as an investment held at fair value through the income statement. Vanquis Bank's total liquid assets buffer and other liquid resources, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £420.6m (2017: £263.4m). This includes £384.9m (2017: £227.5m) held in cash and cash equivalents.

### (b) Visa shares

The Visa Inc. shares represents preferred stock in Visa Inc. held by Vanquis Bank following completion of Visa Inc.'s acquisition of Visa Europe Limited on 21 June 2016. In consideration for Vanquis Bank's interest in Visa Europe Limited, Vanquis Bank received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m due on the third anniversary of the completion date. The preferred stock is convertible into Class A common stock of Visa Inc. at a future date, subject to certain conditions.

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 31 December 2018 of £12.1m (2017: £9.9m) is held at fair value through the OCI and the fair value of the deferred cash consideration of £1.2m (2017: £1.2m) is included within debtors. The increase in the fair value of the investment during the year of £2.2m (2017: £1.9m) in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates has been recognised in the statement of comprehensive income.

The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity, as the preferred stock is not tradeable on an open market and can only be transferred to other VISA members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion.

# 16 Financial instruments

## (a) Classification and measurement

The following table sets out the carrying value of the Group's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

| | | | | 2018 IFRS 9 |
|---|---|---|---|---|
| **Group** | **Investment held at fair value through OCI £m** | **Amortised cost £m** | **Non-financial assets/liabilities £m** | **Total £m** |
| **Assets** | | | | |
| Investments | 47.8 | – | – | 47.8 |
| Cash and cash equivalents | – | 387.9 | – | 387.9 |
| Amounts receivable from customers | – | 2,162.9 | – | 2,162.9 |
| Trade and other receivables | 1.3 | 10.0 | 38.3 | 49.6 |
| Deferred tax asset | – | – | 38.3 | 38.3 |
| Retirement benefit asset | – | – | 83.9 | 83.9 |
| Property, plant and equipment | – | – | 24.6 | 24.6 |
| Goodwill | – | – | 71.2 | 71.2 |
| Other intangible assets | – | – | 55.0 | 55.0 |
| **Total assets** | 49.1 | 2,560.8 | 311.3 | 2,921.2 |
| **Liabilities** | | | | |
| Retail deposits | – | (1,431.7) | – | (1,431.7) |
| Bank and other borrowings | – | (623.8) | – | (623.8) |
| Trade and other payables | – | (91.8) | | (91.8) |
| Current tax liabilities | – | – | (24.6) | (24.6) |
| Provisions | – | – | (53.2) | (53.2) |
| **Total liabilities** | – | (2,147.3) | (77.8) | (2,225.1) |

Following adoption of IFRS 9, investments previously held as available for sale which included Visa Inc shares and gilts held as part of the Vanquis Bank liquid assets buffer have been reclassified as fair value through other comprehensive income. There was no change in the measurement basis following reclassification on transition to IFRS 9 for these financial assets.

Financial assets that were previously classified as loans and receivable under IAS 39 have been included within amortised cost under IFRS 9. However, these assets were previously measured at amortised cost therefore there has been no change in the measurement basis following adoption of IFRS 9.

The carrying value for all financial assets represents the maximum exposure to credit risk.

# Notes to the financial statements *continued*

## 16 Financial instruments *continued*

Assets and liabilities were classified under IAS 39 in 2017. These classifications have not been restated.

| Group | Loans and receivables £m | Available for sale £m | Amortised cost £m | Hedging derivatives £m | Non-financial assets/liabilities £m | Total £m |
|---|---|---|---|---|---|---|
| | | | | | | 2017 IAS 39 |
| **Assets** | | | | | | |
| Available for sale investments | – | 45.8 | – | – | – | 45.8 |
| Cash and cash equivalents | 282.9 | – | – | – | – | 282.9 |
| Amounts receivable from customers | 2,309.4 | – | – | – | – | 2,309.4 |
| Trade and other receivables | 42.8 | 1.2 | – | – | – | 44.0 |
| Retirement benefit asset | – | – | – | – | 102.3 | 102.3 |
| Property, plant and equipment | – | – | – | – | 30.9 | 30.9 |
| Goodwill | – | – | – | – | 71.2 | 71.2 |
| Other intangible assets | – | – | – | – | 79.4 | 79.4 |
| **Total assets** | 2,635.1 | 47.0 | – | – | 283.8 | 2,965.9 |
| **Liabilities** | | | | | | |
| Retail deposits | – | – | (1,301.0) | – | – | (1,301.0) |
| Bank and other borrowings | – | – | (892.0) | – | – | (892.0) |
| Derivative financial instruments | – | – | – | (0.1) | – | (0.1) |
| Trade and other payables | – | – | (96.9) | – | – | (96.9) |
| Current tax liabilities | – | – | – | – | (15.9) | (15.9) |
| Deferred tax liabilities | – | – | – | – | (20.3) | (20.3) |
| Provisions | – | – | – | – | (104.6) | (104.6) |
| **Total liabilities** | – | – | (2,289.9) | (0.1) | (140.8) | (2,430.8) |

The following table sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9. Financial assets that were previously classified as loans and receivable under IAS 39 have been included within amortised cost under IFRS 9. However, these assets were previously measured at amortised cost therefore there has been no change in the measurement basis following adoption of IFRS 9.

Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

| Company | Amortised cost £m | Non-financial assets/ liabilities £m | Total £m |
|---|---|---|---|
| | | | 2018 IFRS 9 |
| **Assets** | | | |
| Cash and cash equivalents | 1.0 | – | 1.0 |
| Investment in subsidiaries | – | 469.7 | 469.7 |
| Trade and other receivables | 821.0 | 2.6 | 823.6 |
| Retirement benefit asset | – | 83.9 | 83.9 |
| Current tax asset | – | 1.8 | 1.8 |
| Property, plant and equipment | – | 4.5 | 4.5 |
| **Total assets** | 822.0 | 562.5 | 1,384.5 |
| **Liabilities** | | | |
| Bank and other borrowings | (621.1) | – | (621.1) |
| Trade and other payables | (86.6) | – | (86.6) |
| Deferred tax liabilities | – | (13.3) | (13.3) |
| **Total liabilities** | (707.7) | (13.3) | (721.0) |

## 16 Financial instruments *continued*

In 2017, assets and liabilities were classified under IAS 39. These classifications have not been restated.

| Company | Loans and receivables £m | Amortised cost £m | Non-financial assets/liabilities £m | 2017 IAS 39 Total £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 35.6 | – | – | 35.6 |
| Investment in subsidiaries | – | – | 482.3 | 482.3 |
| Trade and other receivables | 821.3 | – | – | 821.3 |
| Retirement benefit asset | – | – | 102.3 | 102.3 |
| Property, plant and equipment | – | – | 4.6 | 4.6 |
| **Total assets** | 856.9 | – | 589.2 | 1,446.1 |
| **Liabilities** | | | | |
| Bank and other borrowings | – | (889.2) | – | (889.2) |
| Trade and other payables | – | (97.0) | – | (97.0) |
| Current tax liabilities | – | – | (0.4) | (0.4) |
| Deferred tax liabilities | – | – | (15.9) | (15.9) |
| **Total liabilities** | – | (986.2) | (16.3) | (1,002.5) |

### (b) Fair values of financial assets and liabilities held at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy on the degree to which the fair value is observable.

The following financial assets and liabilities are held at fair value:

| | | | **2018** | | | 2017 |
|---|---|---|---|---|---|---|
| **Group** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | Level 1 £m | Level 2 £m | Level 3 £m |
| **Assets** | | | | | | |
| Investments held at fair value through other comprehensive income: Government gilts | **35.7** | **–** | **–** | 35.9 | – | – |
| Investments held at fair value through other comprehensive income: Visa Inc. shares | **–** | **–** | **12.1** | – | – | 9.9 |
| **Total assets** | **35.7** | **–** | **12.1** | 35.9 | – | 9.9 |
| **Liabilities** | | | | | | |
| Derivatives | **–** | **–** | **–** | – | (0.1) | – |
| **Total liabilities** | **–** | **–** | **–** | – | (0.1) | – |

Level 1 fair value measurements are those derived from quoted market prices in active markets for identical assets and liabilities. The Group holds Government gilts within level 1 as they are valued using available market prices.

Level 2 fair value measurements are those derived from inputs other than quoted market prices included in level 1 that are observable for the asset or liability either directly or indirectly. The fair value of derivatives are calculated by discounting contractual future cash flows using relative market rate yield curves and foreign exchange rates prevailing at the balance sheet date. They are discounted using appropriate market rates and yield curves which are deemed to be observable.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group holds Visa shares in level 3. The valuation has been determined using a combination of observable and non-observable inputs. As the common stock share price of Visa Inc. is readily available, this input is deemed to be observable. However, certain assumptions have been made in respect of the illiquidity adjustment to the share price and the likelihood of future litigation costs. These inputs are therefore deemed to be a significant unobservable input.
The following table sets out their movement during the year:

| | **Group 2018 £m** | 2017 £m |
|---|---|---|
| At 1 January | **9.9** | 8.0 |
| Gains or losses recognised in other comprehensive income | **2.2** | 1.9 |
| **At 31 December** | **12.1** | 9.9 |

The illiquidity adjustment has been estimated at around 6% and the expected future litigation costs have been estimated around 15% of the Visa Inc. share price.

# Notes to the financial statements *continued*

## 16 Financial instruments *continued*

The higher the illiquidity and future litigation costs the lower the fair value. The sensitivity to the unobservable inputs, in isolation, is set out in the table below:

| | Group | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| Illiquidity +/- 1% | **0.2** | 0.2 |
| Future litigation costs +/- 1% | **0.2** | 0.2 |

Transfers between the different levels of the fair value hierarchy would be made when the inputs used to measure the fair value no longer satisfy the conditions required to be classified in a certain level within the hierarchy. There have been no transfers between levels in the current or prior year.

**(c) Fair values of financial assets and liabilities not held at fair value**

The table below shows the fair value of financial assets and liabilities not presented at fair value in the balance sheet:

| | **2018 £m** | | 2017 £m | |
|---|---|---|---|---|
| **Group** | **Fair value** | **Book value** | Fair value | Book value |
| **Assets** | | | | |
| Cash and cash equivalents | **387.9** | **387.9** | 282.9 | 282.9 |
| Amounts receivable from customers | **3,329.2** | **2,162.9** | 3,600.0 | 2,309.4 |
| Trade and other receivables | **49.6** | **49.6** | 44.0 | 44.0 |
| **Total assets** | **3,766.7** | **2,600.4** | 3,926.9 | 2,636.3 |
| **Liabilities** | | | | |
| Retail deposits | **(1,441.0)** | **(1,431.7)** | (1,311.8) | (1,301.0) |
| Bank and other borrowings | **(658.8)** | **(623.8)** | (882.3) | (892.0) |
| Trade and other payables | **(91.8)** | **(91.8)** | (96.9) | (96.9) |
| **Total liabilities** | **(2,191.6)** | **(2,147.3)** | (2,291.0) | (2,289.9) |

| | **2018 £m** | | 2017 £m | |
|---|---|---|---|---|
| **Company** | **Fair value** | **Book value** | Fair value | Book value |
| **Assets** | | | | |
| Cash and cash equivalents | **1.0** | **1.0** | 35.6 | 35.6 |
| Trade and other receivables | **823.6** | **823.6** | 821.3 | 821.3 |
| **Total assets** | **824.6** | **824.6** | 856.9 | 856.9 |
| **Liabilities** | | | | |
| Bank and other borrowings | **(656.1)** | **(621.1)** | (860.6) | (889.2) |
| Trade and other payables | **(86.6)** | **(86.6)** | (97.0) | (97.0) |
| **Total liabilities** | **(742.7)** | **(707.7)** | (957.6) | (986.2) |

Key considerations in the calculation of fair values of those financial assets and liabilities not presented at fair value in the balance sheet are set out below. Where there is no significant difference between carrying value and fair value no additional information has been presented.

Fair value of amounts receivable from customers has been derived by discounting expected future cash flows (net of collection costs) at the credit risk adjusted discount rate at the balance sheet date. They are categorised within Level 3 as the expected future cash flows and discount rate are deemed to significant unobservable inputs.

The fair value of retail deposits have been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date and are categorised within Level 3 of the fair value hierarchy as the expected future cash flows are deemed to be significant unobservable inputs.

Within bank and other borrowings, the senior public bonds and retail bonds are classed as Level 1 as they are valued within quoted market prices. The private placement loan notes are classed as Level 2 as their fair value has been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date.

## 17 Derivative financial instruments

The derivative financial instruments previously held by the Group were interest rate swaps used to fix the interest rates paid on the Group's borrowings and foreign exchange contracts used to manage the foreign exchange risk arising on CCD's operations in the Republic of Ireland.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Group** | **Contractual/ notional amount £m** | **Assets £m** | **Liabilities £m** | Contractual/ notional amount £m | Assets £m | Liabilities £m |
| Interest rate swaps | – | – | – | 20.0 | – | – |
| Foreign exchange contracts | – | – | – | 3.2 | – | (0.1) |
| **Total Group – due within one year** | – | – | – | 23.2 | – | (0.1) |

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Company** | **Contractual/ notional amount £m** | **Assets £m** | **Liabilities £m** | Contractual/ notional amount £m | Assets £m | Liabilities £m |
| Interest rate swaps | – | – | – | 20.0 | – | – |
| **Total Company – due within one year** | – | – | – | 20.0 | – | – |

### (a) Hedging reserve movements

The movement in the hedging reserve within equity as a result of the changes in the fair value of derivative financial instruments can be summarised as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Interest rate swaps | – | 0.1 | – | 0.1 |
| Foreign exchange contracts | – | 0.1 | – | – |
| **Net credit to the hedging reserve** | – | 0.2 | – | 0.1 |

### (b) Income statement

All cash flow hedges were deemed to be effective. There was no impact on the income statement of the Group and the Company in the year in respect of the movement in the fair value of ineffective interest rate swaps, previously designated as cash flow hedges (2017: £nil).

### (c) Interest rate swaps

The Group and Company used interest rate swaps in order to manage the interest rate risk on the Group's borrowings. The Group entered into various interest rate swaps which were designated and effective under IAS 39 as cash flow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

| | Group and Company | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| Liability at 1 January | – | (0.1) |
| Credited to the hedging reserve | – | 0.1 |
| **Liability at 31 December** | – | – |

# Notes to the financial statements *continued*

## 17 Derivative financial instruments *continued*

The weighted average interest rate and period to maturity of the interest rate swaps held by the Group and Company were as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| Group and Company | Weighted average interest rate % | Range of interest rates % | Weighted average period to maturity years | Weighted average interest rate % | Range of interest rates % | Weighted average period to maturity years |
| Sterling | – | – | – | 0.7 | 0.6 – 0.8 | 0.2 |

### (d) Foreign exchange contracts

The Group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from CCD's euro operations in the Republic of Ireland. A liability of £nil is held in the Group balance sheet as at 31 December 2018 in respect of foreign exchange contracts (2017: liability of £0.1m).

In 2017 the Group's foreign exchange contracts comprised forward foreign exchange contracts to buy sterling and sell euros for a total notional amount of £3.2m. These contracts had a range of maturity dates from 16 January 2018 to 14 August 2018. These contracts were designated as cash flow hedges and were effective under IAS 39. Accordingly, the movement during 2017 in fair value of £0.1m was credited to the hedging reserve within equity.

## 18 Trade and other receivables

| | Company | |
|---|---|---|
| Non-current assets | 2018 £m | 2017 £m |
| **Amounts owed by Group undertakings** | **–** | 76.9 |

The amounts owed by Group undertakings at the end of 2017 represented amounts owed to Vanquis Bank. During 2018 the intercompany loan was repaid in full. As at 31 December there were no amounts past due and there was no impairment provision held against amounts owed by Group undertakings due for repayment in more than one year (2017: £nil). The amounts owed by Group undertakings were unsecured, due for repayment in more than one year and accrued interest at rates linked to LIBOR.

| | Group | | Company | |
|---|---|---|---|---|
| Current assets | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| Trade receivables | **0.1** | 0.1 | **–** | – |
| Other receivables | **11.2** | 8.9 | **–** | – |
| Amounts owed by Group undertakings | **–** | – | **821.0** | 739.2 |
| Prepayments and accrued income | **38.3** | 35.0 | **2.6** | 5.2 |
| **Total current assets** | **49.6** | 44.0 | **823.6** | 744.4 |

Trade and other receivables include utility prepayments, prepaid broker costs and amounts paid on behalf of the group's pension scheme but not yet recharged. There are £nil amounts past due in respect of trade and other receivables due in less than one year (2017: £nil). Within the Company, an impairment provision of £122.9m (2017: £122.9m) is held against amounts owed by Group undertakings due in less than one year representing the deficiency in the net assets of those Group undertakings. There has been no charge to the Company income statement in 2018 (2017: £0.4m credit) in respect of the provision.

Prepayments and accrued income have increased by £3.3m due to higher deferred broker fees at Moneybarn.

Amounts owed by Group undertakings are unsecured, repayable on demand or within one year, and generally accrue interest at rates linked to LIBOR.

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## 19 Retirement benefit asset

### (a) Pension schemes – defined benefit

The retirement benefit asset reflects the difference between the present value of the Group's obligation to current and past employees to provide a defined benefit pension and the fair value of assets held to meet that obligation. As at 31 December 2018, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded.

The Group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme is of the funded, defined benefit type and has been substantially closed to new members since 1 January 2003.

All future benefits in the scheme are now provided on a 'cash balance' basis, with a defined amount being made available at retirement, based on a percentage of salary that is revalued up to retirement with reference to increases in price inflation. This retirement account is then used to purchase an annuity on the open market. The scheme also provides pension benefits which were accrued in the past on a final salary basis, but which are no longer linked to final salary. The scheme also provides death benefits.

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the Group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2015 by a qualified independent actuary. A valuation as at 1 June 2018 is currently in progress but is not yet finalised. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the preliminary results of the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet.

The Group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid.

The Group is exposed to a number of risks, the most significant of which are as follows:

> Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match liabilities;

> Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets;

> Inflation risk – part of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a long-term de-risking strategy, the scheme has increased its portfolio in inflation matched assets; and Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

The net retirement benefit asset recognised in the balance sheet of the Group and the Company is as follows:

| | Group and Company | | | |
|---|---|---|---|---|
| | | 2018 | | 2017 |
| | £m | % | £m | % |
| Equities | **62.6** | **8** | 68.7 | 8 |
| Other diversified return seeking investments | **71.5** | **9** | 75.8 | 9 |
| Corporate bonds | **136.0** | **17** | 141.6 | 17 |
| Fixed interest gilts | **177.3** | **22** | 202.9 | 24 |
| Index-linked gilts | **334.4** | **43** | 341.6 | 41 |
| Cash and money market funds | **6.5** | **1** | 4.9 | 1 |
| Total fair value of scheme assets | **788.3** | **100** | 835.5 | 100 |
| Present value of funded defined benefit obligation | **(704.4)** | | (733.2) | |
| **Net retirement benefit asset recognised in the balance sheet** | **83.9** | | 102.3 | |

As part of a de-risking strategy agreed between the Company and the pension trustees to hedge the inflation and interest rate risks associated with the liabilities of the pension scheme, a substantial amount of more volatile growth funds (equities) were reinvested in liability protection assets (fixed interest and index-linked gilts) in January 2015. Further work was undertaken to refine the liability protection assets in early 2016.

# Notes to the financial statements *continued*

## 19 Retirement benefit asset *continued*

The valuation of the pension scheme has decreased from £102.3m at 31 December 2017 to £83.9m at 31 December 2018. A high level reconciliation of the movement is as follows:

| Group and Company | 2018 £m | 2017 £m |
|---|---|---|
| Pension asset as at 1 January | **102** | 72 |
| Cash contributions made by the Group | **10** | 11 |
| Actuarially based cost of new benefits | **–** | (2) |
| Exceptional past service cost – plan amendment | **(7)** | – |
| Exceptional past service cost – curtailment credit | **1** | 4 |
| Return on assets being held to meet pension obligations in excess of discount rate | **(31)** | 18 |
| Change in mortality assumptions | **(31)** | 21 |
| Increase/(decrease) in discount rate used to discount future liabilities | **51** | (20) |
| (Increase)/decrease in inflation rate used to forecast pensions | **(2)** | 2 |
| Actuarial/membership experience | **(9)** | (4) |
| **Pension asset as at 31 December** | **84** | 102 |

The amounts recognised in the income statement were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| Current service cost | **(2.7)** | (4.2) | **(2.7)** | (4.2) |
| Interest on scheme liabilities | **(17.4)** | (19.1) | **(17.4)** | (19.1) |
| Interest on scheme assets | **19.9** | 21.1 | **19.9** | 21.1 |
| Contributions from subsidiaries | **–** | – | **9.2** | 10.1 |
| Net (charge)/credit recognised in the income statement before exceptional past service (costs)/credit | **(0.2)** | (2.2) | **9.0** | 7.9 |
| Exceptional past service cost – plan amendment (note 1) | **(6.9)** | – | **(6.9)** | – |
| Exceptional past service cost – curtailment credit (note 1) | **0.6** | 3.9 | **0.6** | 3.9 |
| Exceptional past service (costs)/credit | **(6.3)** | 3.9 | **(6.3)** | 3.9 |
| **Net (charge)/credit recognised in the income statement** | **(6.5)** | 1.7 | **2.7** | 11.8 |

The exceptional cost for plan amendment relates to charges in respect of the acquisition of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018.

The exceptional curtailment credit of £0.6m in 2018 (2017: £3.9m) represents the reduction in headcount following business restructuring within CCD (see note 1).

The net (charge)/credit recognised in the income statement of the Group and the Company has been included within administrative and operating costs.

Movements in the fair value of scheme assets were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| Fair value of scheme assets at 1 January | **835.5** | 830.1 | **835.5** | 830.1 |
| Interest on scheme assets | **19.9** | 21.1 | **19.9** | 21.1 |
| Contributions by subsidiaries | **–** | – | **9.2** | 10.1 |
| Actuarial movement on scheme assets | **(31.3)** | 18.2 | **(31.3)** | 18.2 |
| Contributions by the Group/Company | **9.8** | 10.7 | **0.6** | 0.6 |
| Net benefits paid out | **(45.6)** | (44.6) | **(45.6)** | (44.6) |
| **Fair value of scheme assets at 31 December** | **788.3** | 835.5 | **788.3** | 835.5 |

The Group contributions to the defined benefit pension scheme in the year ending 31 December 2019 are expected to be approximately £10m.

## 19 Retirement benefit asset *continued*

Movements in the present value of the defined benefit obligation were as follows:

| | Group and Company | |
|---|---|---|
| | 2018 £m | 2017 £m |
| Present value of the defined benefit obligation at 1 January | **(733.2)** | (757.7) |
| Current service cost | **(2.7)** | (4.2) |
| Interest on scheme liabilities | **(17.4)** | (19.1) |
| Exceptional past service cost – plan amendment (note 1) | **(6.9)** | – |
| Exceptional past service cost – curtailment credit (note 1) | **0.6** | 3.9 |
| Actuarial movement – experience | **(9.1)** | (3.7) |
| Actuarial movement – demographic assumptions | **(31.4)** | 21.3 |
| Actuarial movement – financial assumptions | **50.1** | (18.3) |
| Net benefits paid out | **45.6** | 44.6 |
| **Present value of the defined benefit obligation at 31 December** | **(704.4)** | (733.2) |

The liabilities of the scheme are based on the current value of expected benefit payments over the next 90 years. The weighted average duration of the scheme liabilities is approximately 17 years (2017: 19 years).

The principal actuarial assumptions used at the balance sheet date were as follows:

| | Group and Company | |
|---|---|---|
| | 2018 % | 2017 % |
| Price inflation – RPI | **3.30** | 3.20 |
| Price inflation – CPI | **2.20** | 2.10 |
| Rate of increase to pensions in payment | **3.00** | 2.95 |
| Inflationary increases to pensions in deferment | **2.20** | 2.10 |
| Discount rate | **2.80** | 2.40 |

The pension increase assumption shown above applies to pensions increasing in payment each year in line with RPI up to 5%. Pensions accrued prior to 2000 are substantially subject to fixed 5% increases each year. In deferment increases prior to retirement are linked to CPI.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 1 tables, with multipliers of 96% (2017: 105%) and 101% (2017: 115%) respectively for males and females. The 4% downwards (2017: 5% upwards) adjustment to mortality rates for males and an 1% upwards (2017: 15%) adjustment for females reflects the lower life expectancies within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2016 model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

| | Male | | Female | |
|---|---|---|---|---|
| **Group and Company** | 2018 years | 2017 years | 2018 years | 2017 years |
| Current pensioner aged 65 | **22.2** | 21.4 | **23.8** | 22.9 |
| Current member aged 45 from age 65 | **23.6** | 22.9 | **25.3** | 24.5 |

The table below shows the sensitivity on the defined benefit obligation (not including any impact on assets) of changes in the key assumptions. Depending on the scenario, there would also be compensating asset movements.

| | Group and Company | |
|---|---|---|
| | 2018 £m | 2017 £m |
| Discount rate decreased by 0.1% | **12** | 14 |
| Inflation increased by 0.1% | **5** | 6 |
| Life expectancy increased by 1 year | **30** | 30 |

The actual return on scheme assets compared to the expected return is as follows:

| | Group and Company | |
|---|---|---|
| | 2018 £m | 2017 £m |
| Interest on scheme assets | **19.9** | 21.1 |
| Actuarial movement on scheme assets | **(31.3)** | 18.2 |
| **Actual return on scheme assets** | **(11.4)** | 39.3 |

Actuarial gains and losses are recognised through other comprehensive income in the period in which they occur.

# Notes to the financial statements *continued*

## 19 Retirement benefit asset *continued*

An analysis of the amounts recognised in the statement of other comprehensive income is as follows:

| | Group and Company | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| Actuarial movement on scheme assets | **(31.3)** | 18.2 |
| Actuarial movement on scheme liabilities | **9.6** | (0.7) |
| **Total movement recognised in other comprehensive income in the year** | **(21.7)** | 17.5 |
| **Cumulative movement recognised in other comprehensive income** | **(86.2)** | (64.5) |

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the Group is as follows:

| | Group and Company | | | | |
|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | 2016 £m | 2015 £m | 2014 £m |
| Fair value of scheme assets | **788.3** | 835.5 | 830.1 | 666.4 | 700.1 |
| Present value of funded defined benefit obligation | **(704.4)** | (733.2) | (757.7) | (604.1) | (644.1) |
| **Retirement benefit asset recognised in the balance sheet** | **83.9** | 102.3 | 72.4 | 62.3 | 56.0 |
| Experience gains/(losses) on scheme assets: | | | | | |
| > amount (£m) | **(31.3)** | 18.2 | 153.7 | (52.4) | 77.9 |
| > percentage of scheme assets (%) | **(4.0)** | 2.2 | 18.5 | (7.9) | 11.1 |
| Experience gains/(losses) on scheme liabilities: | | | | | |
| > amount (£m) | **(9.1)** | (3.7) | 4.5 | 25.9 | 4.1 |
| > percentage of scheme liabilities (%) | **(1.3)** | (0.5) | 0.6 | 4.3 | 0.6 |

### (b) Pension schemes – defined contribution

The Group operates a Group Personal Pension plan into which Group companies contribute a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice arrangement (typically ranging between 3% and 8%). The assets of the scheme are held separately from those of the Group and Company.

The Group also operates a separate pension scheme for auto-enrolment into which the Company and subsidiaries contribute a proportion of qualifying earnings of the member of 1%. The assets of the scheme are held separately from those of the Group or the Company. The pension charge in the consolidated income statement represents contributions paid by the Group in respect of these plans and amounted to £9.3m for the year ended 31 December 2018 (2017: £8.1m). Contributions made by the Company amounted to £0.4m (2017: £0.4m). £0.6m contributions were payable to the fund at the year end (2017: £0.6m).

The Group contributed £nil in 2018 into individual personal pension plans in the year (2017: less than £0.1m).

The Unfunded, Unapproved Retirement Benefit Scheme (UURBS) decreased by £1.5m in the year as amounts were withdrawn from the scheme, the balance outstanding, for the Group at 31 December 2018 was £0.5m. The increase of £0.2m in 2017 was a result of the transfer of Andrew Fisher's scheme to a personal pension plan, and £1.6m into cash supplements

## 20 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences or timing differences between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of derivative financial instruments, the Group's pension asset, deductions for employee share awards which are recognised differently for tax purposes, property, plant and equipment which is depreciated on a different basis for tax purposes, certain cost provisions for which tax deductions are only available when the costs are paid, investments held at fair value through OCI which are taxed only on disposal and the opening balance sheet adjustments to state the IAS 39 balance sheet onto an IFRS 9 basis, for which tax deductions are available over 10 years. The deferred tax liability recognised on the acquisition of Moneybarn relates primarily to the intangible asset in respect of Moneybarn's broker relationships which will be amortised in future periods but for which tax deductions will not be available.

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. During 2015, reductions in corporation tax rates were enacted, reducing the mainstream UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In addition, the Government introduced a bank corporation tax surcharge enacted in the 2015 Finance (No 2) Act which imposes, with effect from 1 January 2016, an additional 8% corporation tax on profits of Vanquis Bank over £25m. During 2016, a further change was enacted which further reduced the mainstream UK corporation tax rate from 18% to 17% with effect from 1 April 2020.

Deferred tax at 31 December 2018 has been measured at 17% (2017: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2017: 25%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). The exception to this is the opening balance sheet adjustment to restate the IAS 39 balance sheet to an IFRS 9 basis where deferred tax has been measured at the mainstream UK corporation tax rate and in the case of Vanquis Bank at combined mainstream UK corporation tax and bank corporation tax surcharge rates at which the amount will be deductible over the next 10 years. In 2018, movements in deferred tax balances were measured at the mainstream corporation tax rate for the year of 19% (2017: 19.25%), and, in the case of Vanquis Bank, at the combined mainstream corporation tax and bank corporation tax surcharge rates for the year of 27% (2017: 27.25%). A tax charge of £0.6m (2017: credit of £0.6m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.7m (2017: credit of £0.3m), has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

## 20 Deferred tax *continued*

The movement in the deferred tax balance during the year can be analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Asset/liability | 2018 IFRS 9 £m | 2017 IAS 39 £m | 2018 IFRS 9 £m | 2017 IAS 39 £m |
| At 1 January | (20.3) | (10.7) | (15.9) | (9.8) |
| Credit on adjustment arising on transition to IFRS 9 (note 32) | 54.1 | – | – | – |
| At 1 January restated | 33.8 | (10.7) | (15.9) | (9.8) |
| Credit/(charge) to the income statement | 2.2 | (6.7) | (1.1) | (3.5) |
| Credit/(charge) on other comprehensive income prior to impact of change in UK tax rate | 3.6 | (3.8) | 4.1 | (3.4) |
| Impact of change in UK tax rate: | | | | |
| > (charge)/credit to the income statement | (0.6) | 0.6 | 0.1 | 0.4 |
| > (charge)/credit to other comprehensive income | (0.7) | 0.3 | (0.5) | 0.4 |
| **At 31 December** | 38.3 | (20.3) | (13.3) | (15.9) |

The deferred tax credit of £54.1m (2017: £nil) arising on transition to IFRS 9 represents the deferred tax arising on the opening balance sheet adjustment to restate the IAS 39 balance sheet on to an IFRS 9 basis. The adjustment is tax deductible over 10 years commencing in 2018 and deferred tax has been measured at the UK corporation tax rate and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates, at which the temporary differences on which deferred tax has been recognised will reverse.

An analysis of the deferred tax liability for the Group is set out below:

| | 2018 IFRS 9 | | | | 2017 IAS 39 | | | |
|---|---|---|---|---|---|---|---|---|
| Group – (liability)/asset | Accelerated capital allowances £m | Other temporary differences £m | Retirement benefit obligations £m | Total £m | Accelerated capital allowances £m | Other temporary differences £m | Retirement benefit obligations £m | Total £m |
| At 1 January | 2.7 | (5.8) | (17.2) | (20.3) | 2.4 | (1.0) | (12.1) | (10.7) |
| Credit on adjustment arising on transition to IFRS 9 (note 32) | – | 54.1 | – | 54.1 | – | – | – | – |
| At 1 January restated | 2.7 | 48.3 | (17.2) | 33.8 | 2.4 | (1.0) | (12.1) | (10.7) |
| (Charge)/credit to the income statement | (0.1) | 3.2 | (0.9) | 2.2 | 0.3 | (4.6) | (2.4) | (6.7) |
| (Charge)/credit on other comprehensive income prior to change in UK tax rate | – | (0.5) | 4.1 | 3.6 | – | (0.4) | (3.4) | (3.8) |
| Impact of change in UK tax rate: | | | | | | | | |
| > (charge)/credit to the income statement | – | (0.7) | 0.1 | (0.6) | – | 0.3 | 0.3 | 0.6 |
| > (charge)/credit to other comprehensive income | – | (0.2) | (0.5) | (0.7) | – | (0.1) | 0.4 | 0.3 |
| **At 31 December** | 2.6 | 50.1 | (14.4) | 38.3 | 2.7 | (5.8) | (17.2) | (20.3) |

An analysis of the deferred tax liability for the Company is set out below:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| Company – (liability)/asset | Accelerated capital allowances £m | Other temporary differences £m | Retirement benefit obligations £m | Total £m | Accelerated capital allowances £m | Other temporary differences £m | Retirement benefit obligations £m | Total £m |
| At 1 January | (0.1) | 1.4 | (17.2) | (15.9) | (0.2) | 2.5 | (12.1) | (9.8) |
| Credit/(charge) to the income statement | 0.1 | (0.3) | (0.9) | (1.1) | 0.1 | (1.2) | (2.4) | (3.5) |
| Credit/(charge) on other comprehensive income prior to impact of change in UK tax rate | – | – | 4.1 | 4.1 | – | – | (3.4) | (3.4) |
| Impact of change in UK tax rate: | | | | | | | | |
| > credit to the income statement | – | – | 0.1 | 0.1 | – | 0.1 | 0.3 | 0.4 |
| > (charge)/credit to other comprehensive income | – | – | (0.5) | (0.5) | – | – | 0.4 | 0.4 |
| **At 31 December** | – | 1.1 | (14.4) | (13.3) | (0.1) | 1.4 | (17.2) | (15.9) |

Deferred tax assets have been recognised in respect of all temporary differences because it is probable that these assets will be recovered.

# Notes to the financial statements *continued*

## 21 Cash and cash equivalents

Cash and cash equivalents includes cash at bank and held in short-term deposits, floats held by CEMs within CCD and Vanquis Bank's liquid assets buffer, including other liquid resources, held in accordance with the PRA's liquidity regime and an operational buffer. The PRA requires regulated entities to maintain a liquid assets buffer to ensure they have available funds to help protect against unforeseen circumstances. The total liquid resources required to be held is calculated in line with the Overall Liquidity Adequacy Rule (OLAR) as set out in the Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken by Vanquis Bank. Liquid resource must be maintained based upon daily stress tests linked to the three key liquidity risks of Vanquis Bank, namely retail deposit maturities, undrawn credit lines and operating cash flows. This results in a dynamic liquid resources requirement largely driven by retail deposits maturities in the following three months.

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| **Cash at bank and in hand** | **387.9** | 282.9 | **1.0** | 35.6 |

In addition to cash and cash equivalents, the Group had £7.0m of bank overdrafts at 31 December 2018 (2017: £3.1m) and the Company had £4.2m of bank overdrafts (2017: £0.3m) both of which are disclosed within bank and other borrowings (see note 22).

Vanquis Bank's total liquid assets buffer, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £420.6m (2017: £263.4m). This includes £384.9m (2017: £227.5m) held in cash and cash equivalents and £35.7m held in a combination of UK government gilts. As at 31 December 2018, £106.5m (2017: £22.3m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

The currency profile of cash and cash equivalents is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Sterling | **387.7** | 280.5 | **1.0** | 34.4 |
| Euro | **0.2** | 2.4 | **–** | 1.2 |
| **Total cash and cash equivalents** | **387.9** | 282.9 | **1.0** | 35.6 |

Cash and cash equivalents are non-interest bearing other than in respect of the cash held on deposit and the amounts held by Vanquis Bank as a liquid assets buffer and other liquid resources which bear interest at rates linked to the Bank of England base rate.

## 22 Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| **Current liabilities** | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Retail deposits | **339.3** | 350.8 | **–** | – |
| Bank and other borrowings | **49.8** | 38.1 | **47.1** | 35.3 |
| **Total** | **389.1** | 388.9 | **47.1** | 35.3 |
| **Non-current liabilities** | | | | |
| Retail deposits | **1,092.4** | 950.2 | **–** | – |
| Bank and other borrowings | **574.0** | 853.9 | **574.0** | 853.9 |
| **Total** | **1,666.4** | 1,804.1 | **574.0** | 853.9 |
| **Total borrowings** | **2,055.5** | 2,193.0 | **621.1** | 889.2 |

### (a) Facilities and borrowings

Borrowings principally comprise retail deposits issued by Vanquis Bank (see note 22(b)), syndicated bank facility, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 22(e)), loan notes privately placed with UK institutions (see note 22(f)) and retail bonds (see note 22(g)). As at 31 December 2018, borrowings under these facilities amounted to £2,055.5m (2017: £2,193.0m).

Historically, interest accruals on borrowings and retail deposits have been presented within trade and other payables in the balance sheet. They have now been disclosed as part of the principal balances to which they relate within borrowings, replicating the presentation of interest on customer receivables. Prior year comparatives have also been reclassified.

## 22 Borrowings *continued*

### (b) Retail deposits

Vanquis Bank is a PRA-regulated bank and is now fully funded through retail deposits. As at 31 December 2018, £1,431.7m (2017: £1,301.0m) of fixed-rate, fixed-term retail deposits of one, two, three, four and five years had been taken. The deposits in issue at 31 December 2018 have been issued at rates of between 1.5% and 2.7%.

A reconciliation of the movement in retail deposits is set out below:

| Group | 2018 £m | 2017 £m |
|---|---|---|
| At 1 January | **1,301.0** | 949.0 |
| New funds received | **352.2** | 456.1 |
| Maturities | **(347.9)** | (180.6) |
| Retentions | **134.9** | 82.4 |
| Cancellations | **(24.4)** | (18.5) |
| Interest | **15.9** | 12.6 |
| **At 31 December** | **1,431.7** | 1,301.0 |

### (c) Maturity profile borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Group | Borrowing facilities available £m | Borrowings £m | Borrowing facilities available £m | Borrowings £m |
| Repayable: | | | | |
| On demand (uncommitted) | **14.5** | **7.0** | 24.5 | 3.1 |
| In less than one year | **370.7** | **370.7** | 383.3 | 383.0 |
| Accrued interest | **–** | **11.4** | – | 2.8 |
| **Included in current liabilities** | **385.2** | **389.1** | 407.8 | 388.9 |
| Between one and two years | **870.4** | **543.0** | 536.1 | 536.1 |
| Between two and five years | **1,121.9** | **1,121.9** | 1,262.6 | 1,196.7 |
| In more than five years | **–** | **–** | 60.0 | 60.0 |
| Accrued interest | **–** | **5.7** | – | 16.1 |
| Arrangement fees | **–** | **(4.2)** | – | (4.8) |
| **Included in non-current liabilities** | **1,992.3** | **1,666.4** | 1,858.7 | 1,804.1 |
| **Total Group** | **2,377.5** | **2,055.5** | 2,266.5 | 2,193.0 |

Borrowings are stated after deducting £4.2m of unamortised arrangement fees (2017: £4.8m) and the addition of accrued interest of £17.1m (2017: £18.9m)

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Company | Borrowing facilities available £m | Borrowings £m | Borrowing facilities available £m | Borrowings £m |
| Repayable: | | | | |
| On demand (uncommitted) | **14.5** | **4.2** | 24.4 | 0.3 |
| In less than one year | **42.5** | **42.5** | 35.0 | 35.0 |
| Accrued interest | **–** | **0.4** | – | – |
| **Included in current liabilities** | **57.0** | **47.1** | 59.4 | 35.3 |
| Between one and two years | **500.2** | **173.0** | 265.0 | 265.0 |
| Between two and five years | **400.0** | **400.0** | 590.2 | 524.0 |
| In more than five years | **–** | **–** | 60.0 | 60.0 |
| Accrued interest | **–** | **5.2** | – | 9.7 |
| Arrangement fees | **–** | **(4.2)** | – | (4.8) |
| **Included in non-current liabilities** | **900.2** | **574.0** | 915.2 | 853.9 |
| **Total Company** | **957.2** | **621.1** | 974.6 | 889.2 |

# Notes to the financial statements *continued*

## 22 Borrowings *continued*

As at 31 December 2018, the weighted average period to maturity of the Group's committed facilities, including retail deposits, was 2.3 years (2017: 2.3 years) and for the Company's committed facilities was 2.5 years (2017: 2.5 years). Excluding retail deposits, the weighted average period to maturity of the Group's committed facilities was 2.3 years (2017: 2.5 years).

### (d) Interest rate and currency profile of borrowings

Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the Group and Company, the interest rate and foreign exchange rate exposure on borrowings is as follows:

| | | | 2018 | | | 2017 |
|---|---|---|---|---|---|---|
| **Group** | **Fixed £m** | **Floating £m** | **Total £m** | Fixed £m | Floating £m | Total £m |
| Sterling | **1,859.4** | **168.0** | **2,027.4** | 1,703.0 | 440.9 | 2,143.9 |
| Euro | **–** | **28.1** | **28.1** | – | 49.1 | 49.1 |
| **Total Group** | **1,859.4** | **196.1** | **2,055.5** | 1,703.0 | 490.0 | 2,193.0 |

| | | | 2018 | | | 2017 |
|---|---|---|---|---|---|---|
| **Company** | **Fixed £m** | **Floating £m** | **Total £m** | Fixed £m | Floating £m | Total £m |
| Sterling | **427.7** | **165.3** | **593.0** | 402.0 | 438.1 | 840.1 |
| Euro | **–** | **28.1** | **28.1** | – | 49.1 | 49.1 |
| **Total Company** | **427.7** | **193.4** | **621.1** | 402.0 | 487.2 | 889.2 |

As detailed in note 17, the Group and the Company uses various interest rate swaps to hedge the interest rate exposure on borrowings. In 2017, after taking account of the aforementioned interest rate swaps, the Group's fixed rate borrowings were £1,707.5m and the Company's fixed rate borrowings were £415.7m. There were no interest rate swaps in place at 31 December 2018.

### (e) Senior public bonds

On 23 October 2009, the Company issued £250.0m of senior public bonds. The bonds have an annual coupon of 8.0% and are repayable on 23 October 2019.

On 4 June 2018, the Group issued £250m of five 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 £250.0m existing senior bonds, maturing on 23 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 on 23 October 2019.

### (f) Private placement loan notes

On 13 January 2011, the Company entered into a committed £100.0m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years five and ten. The first two repayments of £10.0m were repaid in 2016 and 2017 and the third instalment of £15.0m was paid in 2018. A fourth instalment of £15.0m was paid on 31 January 2019.

The Company also entered into a £20m private placement loan note with a third party in March 2011, which was repaid on its contractual maturity date in March 2018, at a rate linked to LIBOR.

### (g) Retail bonds

The Company has three outstanding retail bonds issued on the Order Book for Retail Bonds (ORB) platform established by the London Stock Exchange as follows:

| **Issue date** | **Amount £m** | **Rate %** | **Maturity date** |
|---|---|---|---|
| 14 April 2010 | 25.2 | 7.5%* | 14 April 2020 |
| 27 March 2013 | 65.0 | 6.0% | 27 September 2021 |
| 9 April 2015 | 60.0 | 5.125% | 9 October 2023 |
| **Total Group and Company** | 150.2 | | |

* Represents an all-in cost of 7.5%, comprising a 7.0% interest rate payable to the bond holder and 0.5% payable to the distributor.

## 22 Borrowings *continued*

### (h) Undrawn committed borrowing facilities

The Group's funding and liquidity policy is designed to ensure that the Group is able to continue to fund the growth of the business. The Group therefore maintains headroom on its committed borrowing facilities, together with cash held on deposit, to fund growth and contractual maturities for at least the following 12 months.

The undrawn committed borrowing facilities at 31 December were as follows:

| | Group and Company | |
|---|---|---|
| | 2018 £m | 2017 £m |
| Expiring within one year | – | – |
| Expiring within one to two years | 327.4 | – |
| Expiring in more than two years | – | 66.2 |
| **Total undrawn committed borrowing facilities** | **327.4** | 66.2 |

The Group has committed borrowing facilities of £2,363.0m (2017: £2,242.0m ) at the end of 2018.

Headroom on the Group's committed debt facilities was £327.4m at 31 December 2018. Together with the ongoing retail deposits programme, 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.

In order to reconcile the borrowings and the headroom on committed facilities shown, the facilities and borrowings in respect of amounts repayable on demand and interest accrued should be deducted and unamortised arrangement fees should be added back to borrowings as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Group** | Facilities £m | Borrowings £m | Facilities £m | Borrowings £m |
| Total facilities and borrowings | 2,377.5 | 2,055.5 | 2,266.5 | 2,193.0 |
| Repayable on demand | (14.5) | (7.0) | (24.5) | (3.1) |
| Unamortised arrangement fees | – | 4.2 | – | 4.8 |
| Accrued interest | – | (17.1) | – | (18.9) |
| **Total committed facilities and borrowings** | **2,363.0** | **2,035.6** | 2,242.0 | 2,175.8 |
| **Headroom on committed facilities** | | **327.4** | | 66.2 |

### (i) Weighted average interest rates and periods to maturity

Before taking account of the various interest rate swaps entered into by the Group and Company, the weighted average interest rate and the weighted average period to maturity of the Group and the Company's fixed-rate borrowings is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Group** | Weighted average interest rate % | Weighted average period to maturity years | Weighted average interest rate % | Weighted average period to maturity years |
| Sterling | 3.20 | 2.4 | 3.36 | 2.31 |

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Company** | Weighted average interest rate % | Weighted average period to maturity years | Weighted average interest rate % | Weighted average period to maturity years |
| Sterling | 6.65 | 2.5 | 7.18 | 2.75 |

# Notes to the financial statements *continued*

There were no interest rate swaps in place at 31 December 2018. In 2017, after taking account of interest rate swaps, the sterling-weighted average fixed interest rate for the Group was 3.2% and 6.65% for the Company. The sterling-weighted average period to maturity on the same basis was 2.3 years for the Group and 2.9 years for the Company.

## 22 Borrowings *continued*

### (j) Fair values

The fair values of the Group and Company's borrowings are compared to their book values as follows:

| Group | 2018 Book value £m | 2018 Fair value £m | 2017 Book value £m | 2017 Fair value £m |
|---|---|---|---|---|
| Retail deposits | **1,431.7** | **1,441.0** | 1,301.0 | 1,302.6 |
| Bank loans and overdrafts | **126.6** | **126.6** | 384.8 | 384.8 |
| Senior public bonds | **279.2** | **310.8** | 254.1 | 242.1 |
| Sterling private placement loan notes | **65.6** | **69.7** | 100.7 | 107.0 |
| Retail bonds | **152.4** | **151.7** | 152.4 | 139.6 |
| **Total Group** | **2,055.5** | **2,099.8** | 2,193.0 | 2,176.1 |

| Company | 2018 Book value £m | 2018 Fair value £m | 2017 Book value £m | 2017 Fair value £m |
|---|---|---|---|---|
| Bank loans and overdrafts | **123.9** | **123.9** | 382.0 | 382.0 |
| Senior public bonds | **279.2** | **310.8** | 254.1 | 242.1 |
| Sterling private placement loan notes | **65.6** | **69.7** | 100.7 | 107.0 |
| Retail bonds | **152.4** | **151.7** | 152.4 | 139.6 |
| **Total Company** | **621.1** | **656.1** | 889.2 | 870.7 |

## 23 Trade and other payables

| Current liabilities | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Trade payables | **7.3** | 6.8 | **–** | – |
| Amounts owed to Group undertakings | **–** | – | **72.7** | 77.8 |
| Other payables including taxation and social security | **9.6** | 11.2 | **1.7** | 1.6 |
| Accruals | **74.9** | 78.9 | **12.2** | 17.6 |
| **Total trade and other payables** | **91.8** | 96.9 | **86.6** | 97.0 |

The amounts owed to Group undertakings are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR.

Accruals principally relate to normal operating accruals such as rent, rates and utilities. Historically, interest accruals on borrowings and retail deposits were presented within accruals. They have now been disclosed as part of the principal balances to which they relate within borrowings, this replicates the presentation of interest on customer receivables. Prior year comparatives have also been reclassified.

## 24 Provisions

| Provisions | Group 2018 £m | 2017 £m |
|---|---|---|
| At 1 January | **104.6** | – |
| Created in the year | **–** | 104.6 |
| Utilised in the year | **(62.2)** | – |
| Reclassification from balance reduction provisions | **10.8** | – |
| **At 31 December** | **53.2** | 104.6 |

On 27 February 2018, Vanquis Bank agreed a settlement with the FCA into the investigation into ROP. The investigation concluded that Vanquis Bank did not adequately disclose in its sales calls that the charges for ROP would be treated as a purchase transaction and therefore potentially incur interest. The total estimated cost of settlement amounts to £172.1m and was reflected in the 2017 financial statements, of which £75.4m was reflected as a balance adjustment to receivables with the remaining £96.7m reflected as a provision. The provision comprised: (i) cash settlements to customers of £51.7m; (ii) higher expected forward flow of ROP complaints more generally in respect of which compensation may need to be paid of £30.7m; (iii) administration costs of £12.3m; and (iv) the fine levied by the FCA of just under £2.0m.

The ROP refund programme is on-track to be substantially completed in early 2019. Following a successful pilot during the summer, there was a significant step up in the volume of refunds being processed in the final quarter of the year and over 1 million current and former ROP customers had been refunded by the end of 2018. As a result, £61.8m of the provision established at the end of 2017 has been used during 2018. In addition, a reclassification of £10.8m has been made from the balance reduction provision held against receivables during 2018 which reflects an increase in the estimate of the number of customers that will receive a cash refund rather than a balance reduction. The balance reduction provision has reduced from £75.4m at the end of 2017 to £3.7m at the end of 2018 (see note 14), of which £60.9m relates to balance reductions applied to customer accounts and £10.8m relates to the reclassification to provisions.

Moneybarn continues to cooperate with the FCA with its ongoing investigation into affordability, forbearance and termination options. Management's best estimate of the potential liability in respect of the investigation of £20.0m was reflected in the 2017 financial statements and comprised a £12.1m balance adjustment to receivables with the remaining £7.9m reflected as a provision in respect of potential cash restitution, administration costs and an FCA fine.

Moneybarn has used £0.4m of the provision in 2018 in respect of legal costs. The balance reduction adjustment has also reduced by £10.3m from £12.1m to £1.8m during 2018 reflecting the write down of gross receivables based on the expected outcome of the termination options and forbearance parts of the FCA investigation (see note 14). Moneybarn is working towards concluding the matter in the first half of 2019

## 25 Share capital

| Group and Company | | 2018 Issued and fully paid | 2017 Issued and fully paid |
|---|---|---|---|
| Ordinary shares of 20 8/11p each | **– £m** | **52.5** | 30.7 |
| | **– number (m)** | **253.3** | 148.2 |

The movement in the number of shares in issue during the year was as follows:

| Group and Company | 2018 m | 2017 m |
|---|---|---|
| At 1 January | **148.2** | 147.8 |
| Shares issued due to rights issue | **105.0** | – |
| Shares issued pursuant to the exercise/vesting of options and awards | **0.1** | 0.4 |
| **At 31 December** | **253.3** | 148.2 |

Share capital increased by £21.8m as a result of the rights issue in April 2018. The rights issue was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. The resulting merger reserve of £278.2m is included within other reserves.

The shares issued pursuant to the exercise/vesting of options and awards comprised 52,192 ordinary shares (2017: 463,504) with a nominal value of £10,818 (2017: £96,072) and an aggregate consideration of £0.1m (2017: £0.4m).

Provident Financial plc sponsors the Provident Financial plc 2007 Employee Benefit Trust (EBT) which is a discretionary trust established for the benefit of the employees of the Group. The Company has appointed SG Kleinwort Hambros Trust Company (CI) Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2018, the EBT held 2,853,722 (2017: 2,174,534) shares in the Company with a cost of £4.5m (2017: £2.3m) and a market value of £16.4m (2017: £19.5m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006 and the 2013 Performance Share Plan.

# Notes to the financial statements *continued*

## 26 Share-based payments

The Group issues share options and awards to employees as part of its employee remuneration packages. The Group operates three equity settled share schemes: the Long Term Incentive Scheme (LTIS), employees' savings-related share option schemes typically referred to as Save As You Earn schemes (SAYE), and the Performance Share Plan (PSP). The Group also operates a cash-settled share incentive scheme, the Provident Financial Equity Plan (PFEP) for eligible employees based on a percentage of salary.

When an equity settled share option or award is granted, a fair value is calculated based on the share price at grant date, the probability of the option/award vesting, the Group's recent share price volatility, and the risk associated with the option/award. A fair value is calculated based on the value of awards granted and adjusted at each balance sheet date for the probability of vesting against performance conditions.

The fair value of all options/awards are charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

During 2018, awards/options have been granted under the LTIS, SAYE and PFEP schemes (2017: awards/options have been granted under the LTIS, PSP, SAYE and PFEP schemes).

### (a) Equity-settled schemes

The charge to the income statement in 2018 for equity settled schemes was £1.1m for the Group (2017: credit of £3.4m) and £0.4m for the Company (2017: credit of £2.2m).

The fair value per award/option granted and the assumptions used in the calculation of the equity settled share-based payment charges for the Group and the Company are as follows:

| | 2018 | | 2017 | | |
|---|---|---|---|---|---|
| **Group** | **LTIS** | **SAYE** | PSP | LTIS | SAYE |
| Grant date | **16 Apr 2018** | **4 Oct 2018** | 24 Mar 2017 | 24 Mar 2017 | 29 Sep 2017 |
| Share price at grant date (£) | **6.85** | **5.90** | 29.28 | 29.28 | 8.31 |
| Exercise price (£) | **–** | **5.38** | – | – | 6.90 |
| Shares awarded/under option (number) | **1,417,274** | **963,978** | 135,389 | 300,086 | 1,833,284 |
| Vesting period (years) | **3** | **3 and 5** | 3 | 3 | 3 and 5 |
| Expected volatility | **82.6%** | **65.8%-83.3%** | 27.7% | 27.7% | 60.7%-76.8% |
| Award/option life (years) | **3** | **Up to 5** | 3 | 3 | Up to 5 |
| Expected life (years) | **3** | **Up to 5** | 3 | 3 | Up to 5 |
| Risk-free rate | **0.82%** | **1.0%** | 0.75% | 0.75% | 0.92%-1.09% |
| Expected dividends expressed as a dividend yield | **n/a** | **3.0%** | n/a | n/a | 3.0% |
| Fair value per award/option (£) | **5.89** | **2.61-3.36** | 29.28 | 29.28 | 2.01-2.76 |

| | | | 2017 | | |
|---|---|---|---|---|---|
| **Company** | **LTIS** | **SAYE** | PSP | LTIS | SAYE |
| Grant date | **16 Apr 2018** | **4 Oct 2018** | 24 Mar 2017 | 24 Mar 2017 | 29 Sep 2017 |
| Share price at grant date (£) | **6.85** | **5.90** | 29.28 | 29.28 | 8.31 |
| Exercise price (£) | **–** | **5.38** | – | – | 6.90 |
| Shares awarded/under option (number) | **460,947** | **28,651** | 106,614 | 133,702 | 89,535 |
| Vesting period (years) | **3** | **3 and 5** | 3 | 3 | 3 and 5 |
| Expected volatility | **82.6%** | **65.8%-83.3%** | 27.7% | 27.7% | 60.7%-76.8% |
| Award/option life (years) | **3** | **Up to 5** | 3 | 3 | Up to 5 |
| Expected life (years) | **3** | **Up to 5** | 3 | 3 | Up to 5 |
| Risk-free rate | **0.82%** | **1.0%** | 0.75% | 0.75% | 0.92%-1.09% |
| Expected dividends expressed as a dividend yield | **n/a** | **3.0%** | n/a | n/a | 3.0% |
| Fair value per award/option (£) | **5.89** | **2.61-3.36** | 29.28 | 29.28 | 2.01-2.76 |

The expected volatility is based on historical volatility over the last three or five years depending on the length of the option/award. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero coupon UK Government bonds of a similar duration to the life of the share option.

## 26 Share-based payments *continued*

A reconciliation of award/share option movements during the year is shown below:

| | PSP | | LTIS | | SAYE | |
|---|---|---|---|---|---|---|
| **Group** | **Number** | **Weighted average exercise price £** | **Number** | **Weighted average exercise price £** | **Number** | **Weighted average exercise price £** |
| Outstanding at 1 January 2018 | **296,741** | **–** | **595,503** | **–** | **1,932,732** | **7.28** |
| Awarded/granted | **–** | **–** | **1,417,274** | **–** | **963,978** | **5.39** |
| Granted through rights issue | **50,085** | **–** | – | **–** | **581,918** | **–** |
| Lapsed | **(548)** | **–** | **(53,211)** | **–** | **(717,115)** | **8.03** |
| Exercised | **(139,123)** | **–** | **(192,235)** | **–** | **(17,192)** | **5.13** |
| **Outstanding at 31 December 2018** | **207,155** | **–** | **1,767,331** | **–** | **2,744,321** | **5.31** |
| Exercisable at 31 December 2018 | **–** | **–** | **–** | **–** | **20,677** | **12.08** |

| | PSP | | LTIS | | SAYE | |
|---|---|---|---|---|---|---|
| **Group** | Number | Weighted average exercise price £ | Number | Weighted average exercise price £ | Number | Weighted average exercise price £ |
| Outstanding at 1 January 2017 | 499,328 | – | 961,560 | – | 625,446 | 19.42 |
| Awarded/granted | 135,389 | – | 300,086 | – | 1,833,284 | 6.90 |
| Lapsed | (142,264) | – | (306,720) | – | (499,579) | 19.58 |
| Exercised | (195,712) | – | (359,423) | – | (26,419) | 12.13 |
| **Outstanding at 31 December 2017** | 296,741 | – | 595,503 | – | 1,932,732 | 7.28 |
| Exercisable at 31 December 2017 | – | – | – | – | 57,076 | 14.34 |

Share awards outstanding under the LTIS scheme at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 1.9 years (2017: 1.3 years). Share options outstanding under the SAYE schemes at 31 December 2018 had exercise prices ranging from 483p to 1,760p (2017: 662p to 2,406p) and a weighted average remaining contractual life of 2.6 years (2017: 3.2 years). Share awards outstanding under the PSP schemes at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 0.7 years (2017: 1.1 years).

| | PSP | | LTIS | | SAYE | |
|---|---|---|---|---|---|---|
| **Company** | **Number** | **Weighted average exercise price £** | **Number** | **Weighted average exercise price £** | **Number** | **Weighted average exercise price £** |
| Outstanding at 1 January 2018 | **189,005** | **–** | **227,380** | **–** | **94,718** | **7.51** |
| Awarded/granted | **–** | **–** | **460,947** | **–** | **28,651** | **5.38** |
| Granted through rights issue | **30,409** | **–** | **–** | **–** | **34,860** | **–** |
| Lapsed | **–** | **–** | **–** | **–** | **(33,534)** | **8.30** |
| Exercised | **(76,272)** | **–** | **(74,697)** | **–** | **(697)** | **5.01** |
| **Outstanding at 31 December 2018** | **143,142** | **–** | **613,630** | **–** | **123,998** | **5.34** |
| Exercisable at 31 December 2018 | **–** | **–** | **–** | **–** | **386** | **11.75** |

| | PSP | | LTIS | | SAYE | |
|---|---|---|---|---|---|---|
| **Company** | Number | Weighted average exercise price £ | Number | Weighted average exercise price £ | Number | Weighted average exercise price £ |
| Outstanding at 1 January 2017 | 328,877 | – | 417,348 | – | 32,967 | 19.24 |
| Awarded/granted | 106,614 | – | 133,702 | – | 89,535 | 6.85 |
| Lapsed | (114,170) | – | (148,304) | – | (26,414) | 17.99 |
| Exercised | (132,316) | – | (175,366) | – | (1,370) | 11.81 |
| **Outstanding at 31 December 2017** | 189,005 | – | 227,380 | – | 94,718 | 7.51 |
| Exercisable at 31 December 2017 | – | – | – | – | 5,349 | 16.44 |

Share awards outstanding under the LTIS scheme at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 1.9 years (2017: 1.2 years). Share options outstanding under the SAYE schemes at 31 December 2018 had exercise prices ranging from 501p to 1,760p (2017: 685p to 2,406p) and a weighted average remaining contractual life of 2.8 years (2017: 3.4 years). Share awards outstanding under the PSP schemes at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 0.7 years (2017: 1.2 years).

# Notes to the financial statements *continued*

## 26 Share-based payments *continued*

### (b) Cash-settled schemes

During 2018, cash awards were granted under the PFEP to eligible employees that require the Group and Company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The credit to the income statement in 2018 was £3.9m for the Group (2017: charge of £1.0m) and £nil for the Company (2017: credit of £0.3m). The Group has a liability of £1.7m as at 31 December 2018 (2017: £5.6m) and £nil for the Company (2017: £nil).

## 27 Other reserves

| Group | Merger reserve £m | Profit retained by subsidiary £m | Capital redemption reserve £m | Hedging reserve £m | Treasury shares reserve £m | Share-based payment reserve £m | Fair value reserve £m | Total other reserves £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2017 | – | 0.8 | 3.6 | (0.2) | (1.0) | 20.8 | 0.3 | 24.3 |
| Other comprehensive income/(expense): | | | | | | | | |
| > fair value movement in investments (note 15) | – | – | – | – | – | – | 1.9 | 1.9 |
| > fair value movements on cash flow hedges (note 17) | – | – | – | 0.2 | – | – | – | 0.2 |
| > tax on items taken directly to other comprehensive income (note 5) | – | – | – | – | – | – | (0.4) | (0.4) |
| > impact of change in UK tax rate | – | – | – | – | – | – | (0.1) | (0.1) |
| Other comprehensive income for the year | – | – | – | 0.2 | – | – | 1.4 | 1.6 |
| Transactions with owners: | | | | | | | | |
| > purchase of own shares | – | – | – | – | (0.1) | – | – | (0.1) |
| > transfer of own shares on vesting of share awards | – | – | – | – | 1.1 | – | – | 1.1 |
| > share-based payment credit (note 26) | – | – | – | – | – | (3.4) | – | (3.4) |
| > transfer of share-based payment reserve on vesting of share awards | – | – | – | – | – | (10.1) | – | (10.1) |
| **At 31 December 2017** | – | 0.8 | 3.6 | – | – | 7.3 | 1.7 | 13.4 |
| At 1 January 2018 | **–** | **0.8** | **3.6** | **–** | **–** | **7.3** | **1.7** | **13.4** |
| Other comprehensive income/(expense): | | | | | | | | |
| > fair value movements in investments (note 15) | **–** | **–** | **–** | **–** | **–** | **–** | **2.2** | **2.2** |
| > tax on items taken directly to other comprehensive income (note 5) | **–** | **–** | **–** | **–** | **–** | **–** | **(0.5)** | **(0.5)** |
| > impact of change in UK tax rate | **–** | **–** | **–** | **–** | **–** | **–** | **(0.2)** | **(0.2)** |
| Other comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **–** | **1.5** | **1.5** |
| Transactions with owners: | | | | | | | | |
| > proceeds from rights issue (note 25) | **278.2** | **–** | **–** | **–** | **–** | **–** | **–** | **278.2** |
| > share-based payment charge (note 26) | **–** | **–** | **–** | **–** | **–** | **1.1** | **–** | **1.1** |
| > transfer of share-based payment reserve on vesting of share awards | **–** | **–** | **–** | **–** | **–** | **(2.1)** | **–** | **(2.1)** |
| **At 31 December 2018** | **278.2** | **0.8** | **3.6** | **–** | **–** | **6.3** | **3.2** | **292.1** |

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The hedging reserve reflected the corresponding entry to the fair value of hedging derivatives held on the balance sheet as either assets or liabilities, net of deferred tax (see note 17).

The treasury shares reserve represented shares acquired by the Company, through various trusts, both from the market and through a fresh issue to satisfy awards under the Group's various share schemes (see note 26). The cost of the shares is treated as a deduction from equity. When the relevant awards vest, the cost of the shares provided to employees is transferred to retained earnings.

The share-based payment reserve reflects the corresponding credit entry to the cumulative share-based payment charges made through the income statement as there is no cash cost or reduction in assets from the charges. When options and awards vest, that element of the share-based payment reserve relating to those awards and options is transferred to retained earnings.

The fair value reserve reflects the fair value movements in the investments held at fair value through other comprehensive income, net of deferred tax (see note 15).

## 27 Other reserves *continued*

| Company | Non-distributable reserve £m | Merger reserve £m | Capital redemption reserve £m | Hedging reserve £m | Treasury shares reserve £m | Share-based payment reserve £m | Total other reserves £m |
|---|---|---|---|---|---|---|---|
| At 1 January 2017 | 609.2 | 2.3 | 3.6 | (0.1) | (1.0) | 20.9 | 634.9 |
| Other comprehensive income: | | | | | | | |
| > fair value movements on cash flow hedges (note 17) | – | – | – | 0.1 | – | – | 0.1 |
| Other comprehensive income for the year | – | – | – | 0.1 | – | – | 0.1 |
| Transactions with owners: | | | | | | | |
| > purchase of own shares | – | – | – | – | (0.1) | – | (0.1) |
| > transfer of own shares on vesting of share awards | – | – | – | – | 1.1 | – | 1.1 |
| > share-based payment credit (note 26) | – | – | – | – | – | (2.2) | (2.2) |
| > transfer of share-based payment reserve on vesting of share awards | – | – | – | – | – | (5.0) | (5.0) |
| > share-based payment movement in investment in subsidiaries | – | – | – | – | – | (6.4) | (6.4) |
| > transfer of non-distributable reserve following write down of investments and loans to subsidiaries (note 13) | (571.3) | – | – | – | – | – | (571.3) |
| **At 31 December 2017** | 37.9 | 2.3 | 3.6 | – | – | 7.3 | 51.1 |
| At 1 January 2018 | **37.9** | **2.3** | **3.6** | **–** | **–** | **7.3** | **51.1** |
| Transactions with owners: | | | | | | | |
| > proceeds from rights issue (note 25) | **–** | **278.2** | **–** | **–** | **–** | **–** | **278.2** |
| > share-based payment charge (note 26) | **–** | **–** | **–** | **–** | **–** | **0.4** | **0.4** |
| > transfer of share-based payment reserve on vesting of share awards | **–** | **–** | **–** | **–** | **–** | **(1.0)** | **(1.0)** |
| > share-based payment movement in investment in subsidiaries | **–** | **–** | **–** | **–** | **–** | **(0.4)** | **(0.4)** |
| > transfer of non-distributable reserve following write down of investment in subsidiaries (note 13) | **(37.9)** | **–** | **–** | **–** | **–** | **–** | **(37.9)** |
| **At 31 December 2018** | **–** | **280.5** | **3.6** | **–** | **–** | **6.3** | **290.4** |

The non-distributable reserve arose on the sale of Provident Personal Credit Limited (PPC) by the Company to Provident Financial Management Services Limited (PFMSL) in 2000. The transaction enabled PFMSL to be established as a central service function for its subsidiaries PPC and Greenwood Personal Credit Limited and ensured that the entities forming CCD were consolidated into one sub-group which more accurately reflected the Group's structure. The original gain on sale of £809.2m was recognised as a non-distributable reserve as the consideration provided by PFMSL comprised cash funded by the issue of debt and shares by PFMSL to the Company. The debt was refinanced in 2004 with a new £638m term loan from the Company. £200m of the original gain was made distributable in 2005 following the settlement in cash of £200m of the £638m loan by PFMSL.

Following the significant losses incurred in CCD during 2017, a full review was undertaken of the Company's investment in PFMSL and the intercompany loans of £438m and £200m provided to PFMSL and PPC respectively. As a result of this review, the Company released PFMSL and PPC from their obligations under the intercompany loans and impairment charges of £644.8m were taken to the Company's income statement in 2017. £571.3m of the non-distributable reserve was transferred to retained earnings to offset these impairment charges (see note 13). The remaining £73.5m of impairment charges was not matched with a transfer from the non-distributable reserve as this amount represented the Company's original cost of investment in PPC. During 2018 a further £62.2m was recognised as impairment in PPC, of which £37.9m was reflected against the non distributable reserve and £24.3m against retained earnings.

Historically, approximately £50m of the intra-group loan receivable from PFMSL created as part of the aforementioned group reorganisation in 2000 met the criteria for qualifying consideration in accordance with Tech 02/17. This was on the basis that the debtor was capable of settling the receivable within a reasonable period of time, there was reasonable certainty that the debtor would be capable of settling when called upon to do so, and there was an expectation that the receivable would be settled. Based on historic dividends levels, £50m was considered to be an appropriate amount that PFMSL could settle within a year. Accordingly, the Company had historically included £50m as part of distributable reserves for the purposes of assessing dividend distributions. Following the significant deterioration in performance of CCD during 2017 and the subsequent release of the intra-group loan receivable, there are no longer any intra-group loan receivables capable of meeting the criteria for qualifying consideration.

The distributable reserves do not include distributable reserves held within subsidiary companies.

The rights issue was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium and thereby creating distributable reserves for the Company where capital is not injected in Vanquis Bank. The net proceeds of the rights issue of £300m, was recorded as an increase in share capital and the creation of a merger reserve. £50.0m of the capital raised was injected into Vanquis Bank with the remaining £250m was retained in the Company.

For the purposes of declaring dividends distributable reserves include: (i) retained earnings, adjusted to reflect the unrealised gain on the retirement benefit asset; (ii) share-based payment reserve net of deferred tax; (iii) merger reserve; (iv) treasury share reserve and; (v) an element of the intra-group loan receivable created as part of the Group reorganisation in 2000.

# Notes to the financial statements *continued*

## 28 Commitments

Commitments under operating leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Due within one year | **13.6** | 13.2 | **3.6** | 3.2 |
| Due between one and five years | **48.7** | 47.9 | **16.5** | 15.8 |
| Due in more than five years | **55.1** | 67.8 | **17.1** | 22.2 |
| **Total commitments under operating leases** | **117.4** | 128.9 | **37.2** | 41.2 |

Operating lease commitments principally relate to the future rental payments until the first break on: (i) head office properties in Bradford; (ii) CCD branches nationwide; and (iii) Vanquis Bank head office in London and contact centre in Chatham.

Other group commitments are as follows:

| | Group | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| **Unutilised credit card facilities at 31 December** | **1,148.9** | 969.2 |
| **Vehicles held as collateral** | **286.3** | 239.1 |

Vehicles are held as collateral against a Moneybarn conditional sales agreement until it is repaid in full. At 31 December 2018, £286.3m of collateral is held against the net amounts receivable from customers of £396.6m (see note 14), representing 72% of the balance.

The Company has £nil unutilised credit card facilities and £nil vehicles held as collateral at 31 December 2018 (2017: £nil).

| | Company | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| **Vanquis Bank intercompany loan facility** | **–** | 140.0 |

The Company previously provided its subsidiary, Vanquis Bank, with a committed intercompany loan facility which was used to fund growth in the business alongside retail deposits. At 31 December 2017, the facility of £140m had a maturity date of 28 February 2020. On 26 February 2018, the Company and Vanquis Bank agreed a new intercompany term loan of £125m, which was drawn on 27 February 2018. This was subsequently reduced to £55m on 4 May 2018. During the year, Vanquis Bank has increased its retail deposits from £1,301.0m to £1,431.7m, allowing it to repay the residual intercompany loan from Provident Financial of £55m on 15 November 2018.

## 29 Related party transactions

The Company recharges the pension scheme referred to in note 19 with a proportion of the costs of administration and professional fees incurred by the Company. The total amount recharged during the year was £0.5m (2017: £0.4m) and the amount payable to the pension scheme at 31 December 2018 was £nil (2017: £nil).

Details of the transactions between the Company and its subsidiary undertakings, which comprise management recharges and interest charges on intra-group balances, along with any balances outstanding at 31 December are set out below:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Company** | **Management recharge £m** | **Interest credit £m** | **Outstanding balance £m** | Management recharge £m | Interest credit £m | Outstanding balance £m |
| Vanquis Bank | **4.3** | **(6.6)** | **2.1** | 2.7 | (10.7) | 76.9 |
| CCD | **8.5** | **(15.4)** | **364.4** | 5.5 | (23.1) | 347.0 |
| Moneybarn | **2.0** | **(21.9)** | **405.8** | 0.7 | (15.6) | 337.6 |
| Other central companies | **–** | **–** | **98.8** | – | – | 99.7 |
| **Total related party transactions** | **14.8** | **(43.9)** | **871.1** | 8.9 | (49.4) | 861.2 |

The outstanding balance represents the gross intercompany balance receivable by the Company, against which a provision of £122.9m (2017: £122.9m) is held.

During 2017, the Company received dividends of £67.3m from Vanquis Bank and £2.9m from other non-trading companies as part of a rationalisation and wind up process which was offset by a write down in investments. In 2016, Vanquis Bank and the PRA agreed a voluntary requirement for Vanquis Bank not to pay dividends to, or enter into certain transactions outside the normal course of business with, the Provident Financial Group without the PRA's consent. The voluntary requirement remains in place. With the consent of the PRA, Vanquis Bank has approved and paid a £59.8m dividend in March 2019.

There are no transactions with directors other than those disclosed in the directors' remuneration report.

## 30 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty exists regarding the outcome of future events.

### (a) Threatened proceedings in respect of the Company's alleged failure to previously disclose certain matters contained in the Company's public announcement on 22 August 2017

On 26 January 2018, the Company received a letter on behalf of an institutional investor (which has a number of subsidiary investment funds) in connection with certain matters disclosed in its public announcement on 22 August 2017. On that date, as part of a trading update, the Company announced, among other things, that Vanquis Bank was co-operating with an investigation by the FCA into ROP, had agreed with the FCA to enter into a voluntary requirement to suspend all new sales of ROP in April 2016 and had agreed with the 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. The institutional investor asserts that the Company is liable to compensate it and its subsidiary investment funds for losses suffered as a result of the fact that certain matters disclosed in the trading update were not publicly announced earlier or disclosed to them by the Company in investor meetings. The institutional investor has not quantified the losses that it alleges have been incurred, although it alleges that it and its subsidiary investment funds held significant positions in the Company's shares at the time. The institutional investor also asserts that the Company's earlier public announcements were false or misleading or, alternatively, the delay in disclosing those matters publicly was dishonest pursuant to Section 90A of the Financial Services and Markets Act 2000, and the Company made actionable misstatements during those investor meetings.

The Company believes the claims by the institutional investor are unmeritorious and considers the prospects of the claims being upheld to be limited. The Company has responded to the claims and intends to defend its position vigorously and to the fullest extent possible. In the event these claims, or claims brought by any other investors in connection with these, or other, announcements or investor meetings, were upheld, the compensation which the Company may be required to pay could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

### (b) Bank guarantees and Unfunded Unapproved Retirement Benefits Scheme (UURBS)

The Company has a contingent liability for guarantees given in respect of borrowing facilities of certain subsidiaries to a maximum of £330.2m (2017: £69.0m). At 31 December 2018, the fixed and floating rate borrowings in respect of these guarantees amounted to £2.8m (2017: £2.8m). No loss is expected to arise. These guarantees are defined as financial guarantees under IFRS 9 and their fair value at 31 December 2018 was not deemed to be material (2017: not material).

A floating charge is held over CCD's receivables of up to £15m in respect of the unfunded pension benefit promises made to executive directors and certain members of senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise.

### (c) Other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, agents, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However, the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

# Notes to the financial statements *continued*

## 31 Reconciliation of profit/(loss) after taxation to cash generated from/(used in) operations

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| Profit/(loss) after taxation | | 60.3 | (134.4) | (62.2) | (556.0) |
| Adjusted for: | | | | | |
| > tax charge | 5 | 30.4 | 11.4 | (1.2) | 3.5 |
| > finance costs | 3 | 73.2 | 77.0 | 43.8 | 51.7 |
| > exceptional premium and fees paid on refinancing of senior bonds | | 18.5 | – | 18.5 | – |
| > finance income | | – | – | (51.4) | (76.1) |
| > dividends received | 29 | – | – | – | (70.2) |
| > share-based payment charge/(credit) | 26 | 1.1 | (3.4) | 0.4 | (2.2) |
| > retirement benefit charge/(credit) prior to exceptional pension charge/(credit) | 19 | 0.2 | 2.2 | (9.0) | (7.9) |
| > exceptional pension charge/(credit) | 19 | 6.3 | (3.9) | 6.3 | (3.9) |
| > amortisation of intangible assets | 11 | 19.2 | 19.2 | – | – |
| > exceptional impairment of intangible assets | 1 | 12.8 | – | – | – |
| > depreciation of property, plant and equipment | 12 | 9.1 | 9.3 | 1.6 | 1.7 |
| > exceptional impairment on property, plant and equipment | 12 | 1.0 | – | – | – |
| > loss on disposal of property, plant and equipment | 12 | – | 0.6 | – | 0.1 |
| > increase of impairment provision against investment in subsidiaries | 13 | – | – | 62.2 | 260.0 |
| Changes in operating assets and liabilities: | | | | | |
| > amounts receivable from customers | | (80.8) | (90.1) | – | – |
| > balance reduction on amounts receivable from customers | 14 | – | 87.5 | – | – |
| > trade and other receivables | | (6.2) | (8.1) | (79.5) | 349.1 |
| > trade and other payables | | (5.9) | 10.8 | (10.4) | (25.3) |
| > provisions | 24 | (62.2) | 104.6 | – | – |
| > contributions into the retirement benefit scheme | 19 | (9.8) | (10.7) | (0.6) | (0.6) |
| **Cash generated from/(used in) operations** | | 67.2 | 72.0 | (81.5) | (76.1) |

## 32 IFRS 9

IFRS 9 'Financial instruments' has been adopted by the Group from the mandatory adoption date of 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'.

### IFRS 9 prescribes:

(i) Classification and measurement of financial instruments – requires asset classification and measurement based upon business model;
(ii) Hedge accounting – wider eligibility criteria to hedging of financial instruments; and
(iii) Expected loss accounting for impairment – replaces an incurred loss model.

### Classification and measurement

Under IFRS 9, the classification of financial assets is determined by a contractual cash flows test referred to as the 'Solely payment of principal and interest' (SPPI) business model test.

Financial assets are required to be measured at amortised cost if they are held as part of a business model where the objective is to hold the financial asset in order to collect contractual cash flows. This is known as the 'hold to collect' business model.

Financial assets are required to be measured at fair value through other comprehensive income if they are held in a business model to both collect contractual cash flows and sell the financial assets. This is known as the 'hold to collect and sell' business model.

Financial assets that fail the SPPI test are required to be measured at fair value through the income statement.

There are no changes to the classification and measurement of the Group's financial assets as a result of the IFRS 9 SPPI test.

### Hedge accounting

The requirements on hedge accounting are revised under IFRS 9 but adoption is optional. IAS 39 continues to be available.

The Group is continuing to apply the IAS 39 hedge accounting requirements but has implemented the amended IFRS 7 disclosure requirements.

## 32 IFRS 9 *continued*

### Expected loss accounting

The area within IFRS 9 which materially affects the Group is expected loss accounting for impairment. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the typical loss arising on default:

- Stage 1 – Accounts at initial recognition. The expected loss is based on a 12-month PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.
- Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historic experience, and recognised on the gross receivable before impairment provision.
- Stage 3 – Accounts which have missed a payment and are in arrears. Provisions are based on expected losses based on historic cash flows. Revenue is recognised on the net receivable after impairment provision. This stage is effectively the current IAS 39 treatment for impairment.

Provisions under IFRS 9 are calculated based on an unbiased probability-weighted outcome which take into account historic performance and considers the outlook for macro-economic conditions.

All credit issued is recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk either through a missed payment or an adverse change in behavioural score. Revenue recognition will be recognised on a gross basis in stage 1 and 2 and on a net basis in stage 3. A customer can only move to stage 3 for revenue recognition purposes at the Group's interim or year end.

The impairment approach under IFRS 9 differs from the incurred loss model under IAS 39 where impairment provisions were only reflected when there was objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This resulted in the following one-off adjustment to receivables, deferred tax and reserves on adoption as follows:

| | IAS 39 £m | IFRS 9 adjustment £m | IFRS 9 £m |
|---|---|---|---|
| Receivables: | | | |
| Vanquis Bank | 1,554.7 | (149.5) | 1,405.2 |
| CCD | 390.6 | (43.2) | 347.4 |
| Moneybarn | 364.1 | (45.4) | 318.7 |
| Total receivables | 2,309.4 | (238.1) | 2,071.3 |
| Pension asset | 102.3 | – | 102.3 |
| Liquid assets buffer | 263.4 | – | 263.4 |
| Borrowings | (2,193.0) | – | (2,193.0) |
| Deferred tax (liabilities)/assets | (20.3) | 54.1 | 33.8 |
| Other | 73.3 | – | 73.3 |
| **Net assets** | **535.1** | **(184.0)** | **351.1** |

A reconciliation from the closing IAS 39 loss allowance account to opening IFRS 9 loss allowance account is shown below:

| | Vanquis Bank £m | Moneybarn £m |
|---|---|---|
| At 31 December 2017 (IAS 39) | **288.9** | **44.4** |
| Stage 1 provision (12 month ECL) | **126.0** | **9.1** |
| Stage 2 and 3 provision (lifetime ECL) | **22.0** | **39.5** |
| Macro economic provision | **0.1** | **–** |
| Other | **1.4** | **–** |
| **At 1 January 2018 (IFRS 9)** | **438.4** | **93.0** |

Within CCD, under IAS 39, impairments was deducted directly from amounts receivable from customers without the use of an allowance account. A loss allowance account was created by CCD on adoption of IFRS 9.

The Group has not restated its 2017 statutory prior year comparatives. This is due to the IFRS 9 requirement in respect of de-recognition of a financial asset which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year which will distort comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis.

# Notes to the financial statements *continued*

## 33 Details of subsidiary undertakings

The subsidiary undertakings of the Group at 31 December 2018 are shown below. The Company is the parent or ultimate parent of all subsidiaries and they are all 100% owned by the Group. All companies are incorporated within the UK with the exception of Erringham Holdings Limited and PF JerseyCo Limited which are/were incorporated in Jersey.

| Company Name | Company number |
|---|---|
| **Registered at 1 Godwin Street, Bradford, BD1 2SU:** | |
| Vanquis Bank Limited | 2558509 |
| Provident Financial Management Services Limited | 328933 |
| Provident Personal Credit Limited* | 146091 |
| Greenwood Personal Credit Limited* | 125150 |
| N&N Simple Financial Solution Limited | 3803565 |
| Cheque Exchange Limited* | 2927947 |
| Provident Investments Limited (formerly Provident Investments plc) | 4541509 |
| Direct Auto Finance Insurance Services Limited | 3834656 |
| Direct Auto Finance Limited | 3412137 |
| Direct Auto Financial Services Limited | 3444409 |
| Provfin Limited* | 1879771 |
| Provident Limited | 575965 |
| Provident Print Limited | 2211204 |
| Provident Yes Car Credit Limited | 4253314 |
| Yes Car Credit (Holdings) Limited | 194214 |
| Yes Car Credit Limited | 3459042 |
| Aquis Cards Limited | 7036307 |
| Ellaf Limited | 1858423 |
| Envoyhead Limited | 1910002 |
| HT Greenwood Limited* | 954387 |
| Peoples Motor Finance Limited | 1078365 |
| Policyline Limited | 1294141 |
| Provfin Investments Limited | 953919 |
| Provident Family Finance Limited | 912244 |
| Provident Financial Group Limited | 642504 |
| Provident Financial Trustees (Performance Share Plan) Limited | 4625062 |
| Provident Home Shopping Limited | 543498 |
| The Provident Clothing and Supply Company Limited | 509371 |
| **Registered at The New Barn, Bedford Road, Petersfield, Hampshire, GU32 3LJ:** | |
| Moneybarn No.1 Limited* | 4496573 |
| Duncton Group Limited | 6308608 |
| Moneybarn Group Limited* | 4525773 |
| Moneybarn Limited* | 2766324 |
| Moneybarn No. 4 Limited* | 8582214 |

* Companies whose immediate parent is not Provident Financial plc.

| Company Name | Company number |
|---|---|
| **Registered at Suite 2/04 King James VI Business Centre, Friarton Road, Perth, Scotland, PH2 8DY:** | |
| First Tower LP (1) Limited | SC122077 |
| First Tower LP (2) Limited | SC125164 |
| First Tower LP (3) Limited | SC129388 |
| First Tower LP (4) Limited | SC118423 |
| First Tower LP (5) Limited | SC127062 |
| First Tower LP (6) Limited | SC127489 |
| First Tower LP (7) Limited | SC127807 |
| First Tower LP (8) Limited | SC118257 |
| First Tower LP (9) Limited | SC118428 |
| First Tower LP (10) Limited | SC118426 |
| First Tower LP (11) Limited | SC122181 |
| First Tower LP (12) Limited | SC129378 |
| Lawson Fisher Limited | SC004758 |
| **Registered at 13 Castle Street, St. Helier, Jersey, Channel Islands, JE4 5UT:** | |
| Erringham Holdings Limited | 39894 |

Companies dissolved during 2018:

| Company Name | Company number |
|---|---|
| **Registered at 1 Godwin Street, Bradford, BD1 2SU:** | |
| Arden Insurance Services | 670843 |
| Colonnade Insurance Services Limited | 1877501 |
| Ellaf Limited | 1858423 |
| Envoyhead Limited | 1910002 |
| I for Insurance Services Limited | 2422430 |
| Provident Finance Limited | 40725 |
| Provident Check Traders Limited | 1730008 |
| Provident No 1 Limited | 1524084 |
| Provident Personal Credit (London) Limited | 499964 |
| Provident Personal Credit (North) Limited | 100957 |
| Provident Personal Credit (South) Limited | 716773 |
| **Registered at The New Barn, Bedford Road, Petersfield, Hampshire, GU32 3LJ:** | |
| Moneybarn Vehicle Finance Limited | 7431494 |
| **Registered at 22 Grenville Street, St Helier, Jersey, Channel Islands, JE4 8PX:** | |
| PF JerseyCo Limited (created and dissolved during 2018) | 125851 |

## 34 Post balance sheet events

On Friday 22 February 2019, Non-Standard Finance plc announced the terms of a firm all share offer to acquire the entire issued share capital of the Company. Shareholders have given irrevocable undertakings, and letters of intent, to accept the offer, which, at 13 March 2019, amount to just below 50% of the Company's share capital. However, the transaction remains subject to a number of conditions set out in the offer.

# Independent auditor's report to the members of Provident Financial plc

## Report on the audit of the financial statements

In our opinion:

> the financial statements of Provident Financial plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;

> the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Provident Financial plc (the 'Company') and its subsidiaries (the 'Group') which comprise:

> The consolidated income statement;

> The consolidated statement of comprehensive income;

> The consolidated and Company balance sheets;

> The consolidated and Company statements of changes in equity;

> The consolidated and Company cash flow statements;

> The statement of accounting policies; and

> The related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent auditor's report to the members of Provident Financial plc *continued*

**Summary of our audit approach**

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>> Provision for impairment losses against loans and receivables in the home credit business, Vanquis Bank and Moneybarn<br>> Vanquis Bank Repayment Option Plan ("ROP") provision<br>> Moneybarn FCA investigation into affordability, forbearance and termination options<br>> Revenue recognition in the home credit business and Vanquis Bank<br>> Defined benefit pension scheme valuation<br>Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ▶ |
| **Materiality** | The materiality that we used for the Group financial statements was £8.6 million which was determined on the basis of 4.5% of the average profit before tax and exceptional items for the past three years. |
| **Scoping** | As in the prior year, our Group audit scope focused on all of the principal trading subsidiaries within the Group's three reportable segments which account for 100% of the Group's profit before tax. |
| **Significant changes in our approach** | We have determined that there is no longer a material uncertainty relating to going concern following on from the completion of the rights issue in April 2018 that raised net share proceeds of £300m. This recapitalised the group and generated sufficient funds to cover the estimated costs of the ROP refund programme, Moneybarn's affordability, forebearance and termination options investigation and regulatory capital headroom.<br>In the current year we have set out separate key audit matters in respect of the Vanquis Bank ROP provision and the Moneybarn conduct provision as the audit risks identified and the audit approach in 2018 are different.<br>In the previous year we referred to the Consumer Credit Division in relation to our key audit matters for loan loss provisioning and revenue recognition, the current year we more specifically refer to home credit in line with where our work is focussed.<br>We determined that application of a three-year average profit measure remains appropriate due to the importance of applying a consistent materiality benchmark during a period of significant change and rebuilding of the group. The percentage applied to the benchmark has been increased from 3.5% to 4.5% to reflect the improved result in the current year. |

## Conclusions relating to going concern, principal risks and viability statement

| | | |
|---|---|---|
| **Going concern** | We have reviewed the directors' statement in the statement of accounting policies in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.<br>We considered as part of our risk assessment the nature of the Company, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.<br>We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit. | **We confirm that we have nothing material to report, add or draw attention to in respect of these matters.** |
| **Principal risks and viability statement** | Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:<br>> the disclosures on pages 46-54 that describe the principal risks and explain how they are being managed or mitigated;<br>> the directors' confirmation on page 143 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; or<br>> the directors' explanation on page 70 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.<br>We are also required to report whether the directors' statement relating to the prospects of the Company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | **We confirm that we have nothing material to report, add or draw attention to in respect of these matters.** |

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Provision for impairment losses against loans and receivables (Home Credit Division, Vanquis Bank and Moneybarn) ▶**

### Key audit matter description

The IFRS 9 provision for impairment losses is calculated by modelling portfolios of receivables within the Group. The assessment of the Group's calculation of provisions is complex and requires management to make significant judgements regarding the level and timing of expected future cash flows to calculate expected credit losses. There is further judgement involved in assessing whether the model and any adjustments capture all relevant factors that have a significant influence on expected credit losses.

Due to the ability of management to introduce inappropriate bias to judgements made in the estimation process, we have determined that there was a potential for fraud through possible manipulation of any provision for loan impairment.

The Group's provision for impairment against loans and receivables is £1,073.7 million and further detail in respect of these assumptions is set out on page 174 and 175 and in note 14 of the financial statements and also on page 131 within the governance section.

Within the **Home Credit Division** receivables are valued using collections curves to estimate the expected future losses on cohorts of loans exhibiting similar risk characteristics including the customer's internal credit score, the number of missed payments in the previous 12 weeks, and whether the customer has previously had a Provident home-collect loan. These collections curves are based on 2016 collections levels, which was prior to the operational disruption experienced during 2017 and the corresponding impact on customer collections and customer relationships. We have therefore identified a risk that the embedded IFRS 9 collection curves do not accurately predict future cash collections for the current composition of the receivables book.

Within **Vanquis Bank** modelling techniques are applied by management to estimate the provision for expected credit losses on credit card receivables.

The underlying IFRS 9 models and calculation techniques are complex and make use of significant amounts of data from a variety of sources.

We consider that the key areas of judgement in determining the provision are:

> The determination of the probability of default ("PDs") for accounts which have not experienced a significant increase in credit risk since origination; and

> The level and timing of expected future cash flows from defaulted loans impacting the estimate of loss given default ("LGDs").

Historical payment patterns are generated using data extracted from the Company's loan administration system. The extracted data is used to calibrate the developed models updating their parameters to capture the most recent performance of the portfolio which then estimates account-specific PDs and LGDs. Inappropriate calibration of the models could materially impact the provision for expected credit losses.

Within **Moneybarn** management use SQL scripts to extract historical collections which are then used to manually create PD and LGD models within excel spreadsheets. We identified a significant risk in relation to the ability of the PD and LGD models to estimate future losses as historical collections data will not necessarily reflect future performance.

# Independent auditor's report to the members of Provident Financial plc *continued*

| Provision for impairment losses against loans and receivables (Home Credit Division, Vanquis Bank and Moneybarn) ▶ | |
|---|---|
| How the scope of our audit responded to the key audit matter | **Controls procedures**<br>Within the **Home Credit Division** and **Vanquis Bank** we evaluated the design and implementation and tested the operating effectiveness of relevant controls relating to calibration of the expected credit loss models. Identification, valuation and recording of impairment provisions.<br><br>Within the **Home Credit Division** this included using our IT specialists to test the data flow of loans made and collections received from source systems to the automated IFRS 9 model scripts to test their completeness and accuracy.<br><br>Within **Moneybarn** we evaluated the design and implementation of relevant controls relating to the recording of impairment provisions.<br><br>**Substantive procedures**<br>Across each of the divisions we obtained an understanding of the IFRS 9 methodology and models. We evaluated whether the methodology applied by management is compliant with requirements of IFRS 9. This included considerations related to the appropriateness of portfolio segmentation into homogeneous cohorts. In performing these procedures we further considered whether there were any indications of bias in the methodology applied by management or in the estimate of the level and timing of expected future cash flows. We also challenged whether the potential impact of Brexit has been appropriately incorporated into expected credit loss calculations.<br><br>Within the **Home Credit Division** we utilised our data specialists to independently reperform the expected credit loss calculation for the entire population of loans using the fixed 2016 collections curves. We tested management's calculation of the provision shortfall on loans which are performing below 2016 levels. This cohort is made up of loans written in the first half of 2017, which is consistent with the period most significantly impacted following the announcement of the plan for transition to an employee based collections model.<br><br>We engaged our data specialists to test the completeness and accuracy of the data used in the provision shortfall calculations, and we reviewed and challenged the underlying methodology.<br><br>Within **Vanquis Bank** we evaluated the mechanics of the model with the assistance of an internal credit modelling specialist to confirm that it is consistent with the methodology designed by management.<br><br>We obtained, evaluated and tested the model performance monitoring reports produced by management which compare observed default data to parameters predicted by the models.<br><br>We tested the data used in the models including historical data used to generate expected future cash flows, the current portfolio data and the macroeconomic forecast data which are sourced by the company from a third party provider. When testing the macroeconomic data, we have considered whether the potential impact of Brexit has been incorporated into the forecasts.<br><br>Within **Moneybarn** we engaged internal data specialists to evaluate the PD and LGD data extraction.<br><br>We reperformed a sample of model calculations for terminated customer loans to ensure the PD and LGD data was being corrected captured and represented by the SQL scripts within the excel models; thus further challenging the underlying logic of the scripts and ensuring that the models work as expected.<br><br>We challenged whether there was any evidence to suggest that historical collections data would not appropriately estimate future performance; by reference to recent actual loss experience and loan book trend analysis using internal management information. |
| Key observations | The provision models across the Group were found to be working as intended and the methodology used reflects the requirements of IFRS 9.<br><br>Within the Home Credit Division, we identified that a number of individuals had privileged user access to databases that are key to the flow of data into the IFRS 9 models. We did not place reliance on these controls and addressed the corresponding audit risks substantively.<br><br>We found the Home Credit Division provision shortfall calculated by management to be appropriate. |

| ROP provision (Vanquis Bank) ▶ | |
|---|---|
| Key audit matter description | On 27 February 2018 the Group reached a settlement with the Financial Conduct Authority ("FCA") in respect of the investigation into the sale of the ROP product sold by the Group. Significant management judgement was required to assess the level of provision which should be recognised and the nature of any contingent liability disclosure.<br><br>As disclosed in note 24 the total provision remaining at 31 December 2018 following redress paid out to customers amounts to £45.7m (2017: £96.7m). |
| How the scope of our audit responded to the key audit matter | **Controls procedures**<br><br>We evaluated the design and implementation of the controls over the valuation of the ROP provision.<br><br>**Substantive procedures**<br><br>In order to understand whether key assumptions in estimation of the cash redress settlements are appropriate, we obtained and reviewed the correspondence between the Group and the FCA in relation to ROP.<br><br>We have reviewed and tested the accuracy of the calculations supporting the valuation of the provision recognised by management. We have evaluated whether the underlying assumptions are reasonable and supportable. We have tested the data used in the calculations by agreeing to supporting evidence.<br><br>We also evaluated whether the provision disclosures contained within note 24 were appropriate and in accordance with the requirements of IAS 37. |
| Key observations | No material issues were identified in the data used in the calculations. We did not identify any material issues in the methodology used to calculate the redress and the calculations themselves were found to be appropriate.<br><br>The disclosures are in line with the requirements of IAS 37. |

| Moneybarn FCA investigation into affordability, forbearance and termination options ▶ | |
|---|---|
| **Key audit matter description** | At 31 December 2017 Moneybarn recognised a provision of £20m as management's best estimate of the cost of settlement in respect of the FCA investigation. The investigation specifically related to the business' failure to ensure that repayments were affordable at the time of writing a loan; that affordable arrears payment plans were put in place when a customer showed signs of detriment; and that clear communications were issued to customers in the run up to the termination of their contracts.<br><br>The investigation remains open and further customer redress may be required. As a result we have identified a significant risk in relation to the completeness of the provision recorded in relation to the FCA investigation.<br><br>As disclosed in note 24 the total provision remaining at 31 December 2018 amounts to £7.5m (2017: £7.9m). |
| **How the scope of our audit responded to the key audit matter** | We engaged an internal conduct risk specialist to obtain and review all correspondence between the Group and the FCA during the year and determine the completeness of the Moneybarn conduct risk provisions.<br><br>In order to understand whether key assumptions in estimating the total cost of settlement are appropriate we reviewed their consistency with those used to create the provision in 2017, with changes expected and noted as a result of the ongoing dialogue with the FCA and the introduction of the IFRS 9 provisioning model.<br><br>We also evaluated whether the provision disclosures contained within note 24 were appropriate and in accordance with the requirements of IAS 37. |
| **Key observations** | The provision recognised is appropriate and the disclosures are in line with the requirements of IAS 37. |

| Revenue Recognition (Vanquis Bank and Home Credit Division) ▶ ▲ | |
|---|---|
| **Key audit matter description** | The Group's revenue is £1,124.4 million (FY17: £1,196.3 million) and further detail in respect of the accounting policies and revenue recognised is set out in the accounting policies on pages 173 and 174 and notes 1 and 2 of the financial statements.<br><br>Within **Vanquis Bank** we concluded that manual adjustments posted to the revenue balance pose a significant risk of material misstatement.<br><br>These manual adjustments are necessary to ensure revenue is recognised in compliance with the requirements of IFRS 9, which requires that interest should be accrued using the original effective interest rate applied to the net carrying value of the asset for credit-impaired assets and to the gross carrying value of assets that are not credit-impaired. The loan administration system accrues revenue on a gross contractually billed basis, and therefore a manual adjustment is necessary.<br><br>The revenue calculation within the **Home Credit Division** is calculated in the IFRS 9 models using SQL scripts. As a result of the additional complexities when calculating revenue under IFRS 9 with regards to whether or not the customer has met the definition of default, there exists an increased risk related the accuracy of the design of the underlying scripts to capture these complexities. |
| **How the scope of our audit responded to the key audit matter** | **Controls procedures**<br>We evaluated the design and implementation of the controls over the manual adjustments to revenue recognised by management<br><br>We tested the operating effectiveness of relevant controls over the flow of data from source systems into the revenue models within the **Home Credit Division.**<br><br>**Substantive procedures**<br>Within **Vanquis Bank**, we critically assessed the methodology used to calculate the manual adjustments to revenue against the IFRS requirements. We also involved an internal specialist to review the programming code used to perform the calculation and evaluate whether it is performed in line with IFRS 9.<br><br>Within the **Home Credit Division** we challenged the appropriateness of the Effective Interest Rates used to calculate revenue and reperformed the EIR calculations for a sample of products.<br><br>We utilised internal data specialists to create an independent IFRS 9 revenue model and recalculated the weekly revenue for a sample of customers. |
| **Key observations** | Within the **Home Credit Division** we found the models to be working as intended and the underlying assumptions to be reasonable. From the evidence we obtained, the underlying data used was found to be complete and accurate.<br><br>Within **Vanquis Bank** We concluded that the calculation is performed in compliance with IFRS 9 and the underlying data was found to be complete and accurate. |

| Defined benefit pension scheme valuation ▶ | |
|---|---|
| **Key audit matter description** | Under IAS 19, the value of the defined benefit pension scheme is recognised on the Group's balance sheet, reflecting an actuarial valuation of the assets and liabilities of the scheme at the balance sheet date. The key risk of material misstatement is the valuation of the pension obligation of £704.4 million (2017: £733.2 million). This valuation involves judgements in relation to inflation rates, discount rates and mortality rates. The most critical element identified was the discount rate assumption as set out in the sensitivity analysis in note 19.<br><br>We also focussed on the Guaranteed Minimum Pensions ("GMP") equalisation ruling and the resulting increase in the scheme's liabilities of £6.9 million.<br><br>Further detail in respect of these assumptions is set out in the accounting policies on page 176 and note 19 of the financial statements and also on page 131 in the governance section. |
| **How the scope of our audit responded to the key audit matter** | We used internal actuarial specialists to assist us in evaluating the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation. This involved benchmarking management's assumptions against those used by a range of organisations as at 31 December 2018 and considering the consistency of those judgements compared to prior year.<br><br>Our actuarial specialists also performed a review of the GMP equalisation calculation and recalculated the estimated past service cost with no material differences noted. |

# Independent auditor's report to the members of Provident Financial plc *continued*

| Revenue Recognition (Vanquis Bank and Home Credit Division) ▶ ▲ | |
|---|---|
| **Key observations** | The GMP equalisation methodology was found to be in line with expectations and no material differences were identified through independent recalculation by our actuarial specialists. |
| | All assumptions, including the discount rate adopted by management are within what we deem to be an acceptable range.<br><br>Our actuarial specialists also performed a review of the GMP equalisation calculation and recalculated the estimated past service cost with no material differences noted. |

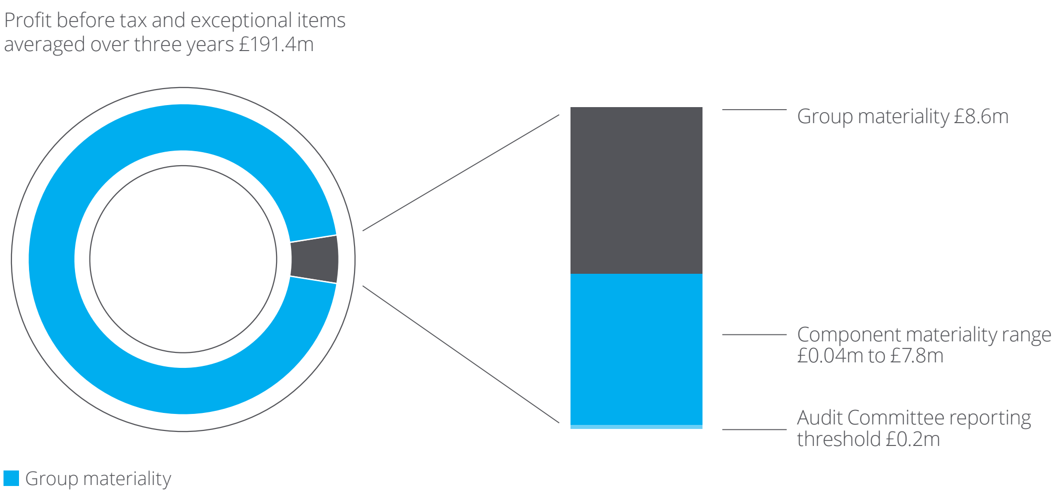
## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent company financial statements |
|---|---|---|
| **Materiality** | £8.6 million (2017: £8.3 million) | £5.4 million (2017: £4.6 million) |
| **Basis for determining materiality** | 4.5% of profit before tax and exceptional items averaged over the previous three years (2017: 3.5%) | 0.75% of net assets (2017: 5% of profit before tax and exceptional items). |
| **Rationale for the benchmark applied** | Profit based measures are the financial measures most relevant to users of the financial statements. We considered the most relevant basis for materiality to be the profits earned from continuing business operations and have therefore excluded the exceptional items as identified by management in note 1 to the financial statements.<br><br>We determined that application of a three-year average profit measure remains appropriate due to the importance of applying a consistent materiality benchmark during a period of significant change and rebuilding of the Group.<br><br>The percentage applied to the benchmark has been increased from 3.5% to 4.5% to reflect the improved result in year. | We determined net assets to be the most appropriate benchmark as the Company made a loss in the current year.<br><br>We considered that equity represented a relevant measure used by investors and other stakeholders when assessing the performance of the parent company. |

## Materiality




We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2 million (2017: £0.2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, and as in the prior year, our Group audit scope focused on all of the principal trading subsidiaries within the Group's three reportable segments which account for 100% of the Group's profit before tax. Moneybarn and the Consumer Credit Division are audited by separate engagement teams led by the Group audit partner; Vanquis Bank is audited by a separate component team, under the supervision of the Group team who have maintained regular communication throughout the audit.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic report, the Governance section and the Directors' remuneration 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.

In connection with our audit of the financial statements, 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 there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

> **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

> **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

> **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**We have nothing to report in respect of these matters.**

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 directors are responsible for assessing the Company'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 directors either intend to liquidate the Company or to cease operations, 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below. 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.

## Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

# Independent auditor's report to the members of Provident Financial plc *continued*

### Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: provisions for impairment losses against loans and receivables, ROP provision, Moneybarn conduct provision and revenue recognition, and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation. In addition, compliance with the requirements of the Financial Conduct Authority and Prudential Regulation Authority were fundamental to the Group's ability to continue as a going concern.

### Audit response to risks identified

As a result of performing the above, we identified provisions for impairment losses against loans and receivables, Vanquis Bank ROP provision, Moneybarn affordability forbearance and termination options provision, pension scheme valuation and revenue recognition as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters. As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory bodies such the Prudential Regulation Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns

**We have nothing to report in respect of these matters.**

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

## Other matters

### Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Directors on 29 June 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2012 to 31 December 2018.

### Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Perkins, (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
13 March 2019

# Shareholder Information

# Information for shareholders

## Financial calendar

| | |
|---|---|
| Dividend announced | 13 March 2019 |
| Annual general meeting | 21 May 2019 |
| Ex-dividend date for ordinary shares | 23 May 2019 |
| Record date for the dividend | 24 May 2019 |
| Payment date for the dividend | 21 June 2019 |

## Share price

The Company's shares are listed on the London Stock Exchange under share code 'PFG.L'. The share price is quoted daily in a number of national newspapers and is available on the Group's website at www.providentfinancial.com

## Individual Savings Account (ISA)

Shareholders may take out an ISA which includes shares in the Company with a provider of their choice. However, the Company has made arrangements for its shareholders and employees to use Redmayne Bentley's ISA and general stockbroking services. Shareholders who are eligible and who wish to discuss associated fees and charges should contact:

Redmayne Bentley LLP
9 Bond Court
Leeds
LS1 2JZ

Telephone: 0113 243 6941

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## Tax on dividends

The following information is intended to provide general guidance to individuals who are tax resident in the UK. It does not constitute professional advice. Shareholders who are in any doubt as to their personal tax position should seek their own professional advice, as should shareholders who are not resident in the UK.

For UK resident individuals, the tax treatment of dividends depends on whether the dividends are received before or after 5 April 2016.

### Dividends received on or before 5 April 2016

A UK tax resident individual shareholder who receives a dividend prior to 5 April 2016 will be subject to tax on the dividend as follows:

- The cash dividend you receive (the amount paid into your bank account) is grossed up for a notional 10% tax credit so that you are taxed on a gross dividend of 10/9ths of the cash dividend you receive.
- The gross dividend is then taxed as follows:
  - 10% for basic rate taxpayers;
  - 32.5% for higher rate taxpayers; and
  - 37.5% for additional rate taxpayers.
- You can then deduct the notional 10% tax credit.
- The overall result, after deducting the notional tax credit, is that you will have suffered an effective rate of tax on the cash dividend you receive of:
  - 0% for basic rate taxpayers;
  - 25% for higher rate taxpayers; and
  - 30.56% for additional rate taxpayers.

### Dividends received on or after 6 April 2016

For dividends received after 6 April 2016 the notional tax credit is abolished.

Instead, a UK tax resident individual shareholder will be taxed on the total cash dividends you receive (the amount paid into your bank account) above the new £5,000 annual tax free dividend allowance at the following rates:

- 7.5% for basic rate taxpayers;
- 32.5% for higher rate taxpayers; and
- 38.1% for additional rate taxpayers.

The dividend allowance means that you can receive certain amounts of dividends tax free no matter what other non-dividend income you have in the tax year. The dividend allowance for the tax years from 2015/16 to 2016/17 was £5,000. This allowance has reduced to £2,000 in the 2018/19 tax year.

# Information for shareholders *continued*

## Registrars

The Company's registrar is:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300 (from within the UK)

Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am-5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +44 (0)20 371 664 0300 (from outside the UK)

## Link Signal Hub

Link Asset Services offers a share portal service which enables registered shareholders to manage their Provident Financial plc shareholdings quickly and easily online. Once registered for this service, you will have access to your personal shareholding and a range of services including: setting up or amending dividend bank mandates, proxy voting and amending personal details. For further information visit www.linksignalhub.com

## Link Dividend Reinvestment Plan

Link Asset Services offers a Dividend Reinvestment Plan whereby shareholders can acquire further shares in the Company by using their cash dividends to buy additional shares. For further information contact Link Asset Services:

Telephone: 0371 664 0381 (from within the UK)

Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am-5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +371 664 0381 (from outside the UK)

## Special requirements

A black-and-white large text version of this document (without pictures) is available on request from the Company Secretary at the address opposite. A PDF version of the full annual report and financial statements is available on our website.

## Advisors

### Independent auditor

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## Company number

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**ry.com**

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