2018 final results

13 March 2019

Today's presentation

• Highlights and operational progress	Malcolm Le May
• Financial review	Simon Thomas
• Strategy and outlook	Malcolm Le May
• Questions	

The nil premium offer presents significant value risk to PFG shareholders

- NSF's unsolicited offer for PFG has significant flaws and would have long-lasting detrimental consequences for the Group's shareholders and customers:
  - The Board notes the letter sent to NSF on 6 March 2019, which sets out the regulatory position on standards in the market and the considerations the FCA would apply to NSF's transformation plans, which it has not addressed in its offer document
  - The Group's largest single business, Vanquis Bank, is a regulated bank and the Board believes that NSF's management has limited banking and credit card experience to drive future value from this business
  - The Board believes that the sale of Moneybarn is strategically and financially flawed, including plans to distribute capital from any sale
  - The Board believes the existing CCD management has successfully stabilised the business, improved customer outcomes and has led the regulatory transformation of the business – this team is therefore better positioned to lead the business going forward than NSF
  - The Board has significant concerns regarding the proposed demerger of Loans at Home, its ability to operate on a standalone basis and the adequacy of the solution to satisfy any CMA concerns
- NSF has a track record of value destruction through M&A and has no experience of integrating an acquisition of this magnitude which further exacerbates the execution risks
- The Board's considered response to the offer will be published in due course and notes that shareholders have until 8 May 2019 to consider the arguments and to have made a decision on the offer

Highlights and operational progress

Malcolm Le May – Chief Executive Officer

A year of good progress

- Group adjusted profit before tax up 82.3% to £153.5m (2017: £84.2m[1])
- Adjusted EPS up 26.6% to 46.6p (2017: 36.8p[1,2])
- Excellent progress made against 2018 operational objectives
- Stable Vanquis Bank profits of £184.3m (2017: £181.4m[1]) whilst substantially completing the ROP refund programme and adapting to changes in regulation
- Significant reduction in CCD losses to £38.7m (2017: £106.3m[1]), reflecting implementation of the recovery plan
- Moneybarn increased profits by 28.3% to £28.1m (2017: £21.9m[1]) with strong growth in customers and receivables
- The Board proposes a final dividend in respect of 2018 of 10.0p per share (2017: nil)

[1] *The group has adopted IFRS 9 from 1 January 2018 and made an opening balance sheet adjustment to restate the IAS 39 balance sheet onto an IFRS 9 basis at that date. However, 2017 statutory prior year comparatives have not been restated due to the IFRS 9 requirement in respect of 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 distorts comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis, the group has also provided unaudited pro forma 2017 income statement and balance sheet comparatives as though IFRS 9 had been implemented from 1 January 2017*

[2] *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*

1. Deliver the home credit recovery plan and obtain FCA authorisation

- CCD was fully authorised by the FCA in November 2018
- Voice recording and a new field structure have been implemented and fully embedded during 2018
- Collections performance on credit originated since fourth quarter of 2017 is in line with historical levels
- Recently received agreement from the FCA for the the implementation of a full suite of performance management measures based upon a balanced scorecard approach and some element of variable pay
- Focus in 2019 will be on stabilising the customer base and reducing the cost base
- Good momentum on new customer growth through Q4-18 and in early 2019, in line with our plans
- Being at the forefront of adherence to regulatory measures to protect high-cost credit consumers means Provident is well-placed to deliver good customer outcomes and attractive returns for shareholders

2. Complete the ROP refund programme and adapt to regulation in Vanquis Bank

- 99% of the refund programme has now been completed with over 1.3m customers refunded
- No material change in the level of ROP complaints following the announcement of the settlement
- Remaining balance reductions and provisions expected to be a prudent estimate of completing the refund programme
- Vanquis Bank has recently increased minimum contractual payments and will shortly roll-out higher recommended payments to address customers defined as being in persistent debt
- Impact from regulatory measures is expected to moderate receivables growth in 2019
- New customer volumes are expected to be at a similar level in 2019 and a number of growth initiatives are underway to drive growth in 2020 and beyond

3. Progress the Moneybarn FCA investigation

- Very good progress has been made with the FCA into their investigation into affordability, forbearance and termination options
- Agreement in March 2019 with the FCA of the redress to be paid in respect of the investigation
- The final cost is expected to be within the original £20m provision established at the end of 2017
- New customer volumes in early 2019 have remained strong

4. Strengthen the Board, governance and culture

- The group Executive Committee, reconstituted in early 2018, is now driving delivery of the group's vision through greater collaboration
- Agreement reached for the appointment of a new Vanquis Bank Chairman and a new Managing Director, both with a wealth of banking and consumer lending experience, subject to approval by the FCA and PRA
- Patrick Snowball joined the Board as Chairman in September
- Angela Knight, Elizabeth Chambers and Paul Hewitt joined the Board as non-executive directors in July
- Appointment of Simon Thomas as Chief Financial Officer in December
- Further strengthening of the governance framework during the year
- Plans being finalised to establish a customer, culture and ethics committee
- Embedding a Blueprint to realign the group's culture more closely with the developing needs of the customer

5. Re-access debt markets

- Completion of the £300m rights issue re-capitalised the group
- Re-financing of £250m senior bonds in June
- CET 1 ratio of 29.7% provides headroom of c.£95m against a fully loaded regulatory capital requirement of 25.5%
- Vanquis Bank now full funded with retail deposits
- Vanquis Bank paid a dividend of £60m to Provident Financial plc in March 2019, following consent from the PRA

Financial review

Simon Thomas – Chief Financial Officer

Group results

	Year ended 31 December		
	2018 £m	2017[1] £m	Change %
Vanquis Bank	**184.3**	181.4	1.6
CCD	**(38.7)**	(106.3)	63.6
Moneybarn	**28.1**	21.9	28.3
Central costs	**(20.2)**	(12.8)	(57.8)
Adjusted profit before tax	**153.5**	84.2	82.3
Adjusted basic earnings per share[2] (pence)	**46.6**	36.8	26.6
Annualised return on assets (%)	**7.6%**	6.9%	n/a
Proposed final dividend per share (pence)	**10.0**	-	n/a

Amortisation of acquisition intangibles	**(7.5)**	(7.5)	
Exceptional items	**(55.3)**	(224.6)	

[1] The group has adopted IFRS 9 from 1 January 2018 and made an opening balance sheet adjustment to restate the IAS 39 balance sheet onto an IFRS 9 basis at that date. However, 2017 statutory prior year comparatives have not been restated due to the IFRS 9 requirement in respect of 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 distorts comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis, the group has also provided unaudited pro forma 2017 income statement and balance sheet comparatives as though IFRS 9 had been implemented retrospectively

[2] 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

Vanquis Bank results

	Year ended 31 December		
	2018 £m	2017[1] £m	Change %
Customer numbers ('000)	**1,773**	1,720	3.1
Year-end receivables prior to balance reduction[2]	**1,477.5**	1,480.6	(0.2)
Reported year-end receivables	**1,473.8**	1,405.2	4.9
Average receivables	**1,489.0**	1,366.8	8.9
Revenue	**650.3**	650.5	-
Impairment	**(241.6)**	(223.5)	(8.1)
Revenue less impairment	**408.7**	427.0	(4.3)
Annualised revenue yield	**43.7%**	47.6%	
Annualised impairment rate	**16.3%**	16.4%	
Annualised risk-adjusted margin	**27.4%**	31.2%	
Costs	**(188.4)**	(209.1)	9.9
Interest	**(36.0)**	(36.5)	1.4
Adjusted profit before tax	**184.3**	181.4	1.6
Annualised return on assets	**10.9%**	11.8%	

[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 adjustment in receivables of £3.7m (2017: £75.4m) arising as a result of the resolution of the FCA investigation into ROP reached on 27 February 2018*

CCD results

	Year ended 31 December		
	2018 £m	2017[1] £m	Change %
Customer numbers ('000)	**560**	780	(28.2)
Reported year-end receivables	**292.5**	347.4	(15.8)
Average receivables	**296.2**	406.0	(27.0)
Revenue	**342.2**	481.2	(28.9)
Impairment	**(120.8)**	(311.0)	61.2
Revenue less impairment	**221.4**	170.2	30.1
Annualised revenue yield	**115.5%**	118.5%	
Annualised impairment rate	**40.8%**	76.6%	
Annualised risk-adjusted margin	**74.7%**	41.9%	
Costs	**(244.7)**	(253.4)	3.4
Interest	**(15.4)**	(23.1)	33.3
Adjusted loss before tax[2]	**(38.7)**	(106.3)	63.6
Annualised return on assets	**(6.4%)**	(16.5%)	

[1] *Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017*
[2] *Adjusted loss before tax is stated before exceptional costs of £29.9m in respect of the implementation of the recovery plan following the poor execution of the migration to the new operating model in July 2017 (2017: £32.5m)*

Moneybarn results

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

1 Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017
2 Period-end receivables at 30 June 2018 are stated prior to the estimated balance reduction adjustment of £1.8m (2017: £12.1m) in respect of the FCA investigation into affordability, forbearance and termination options
3 Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2017: £7.5m)

Regulatory capital

CET 1 ratio	At 31 December 2018 £m
IFRS 9 net assets	**696.1**
Regulatory capital adjustments[1]	**(213.7)**
IFRS 9 transitional adjustment (95%)[2]	**174.8**
Total regulatory capital[3]	**657.2**
Risk weighted assets	**2,209.2**
CET 1[3]	**29.7%**
Capital requirement[4]	**25.5%**

Transitional impact of IFRS 9	£m
1 January 2018	**9**
1 January 2019	**18**
1 January 2020	**28**
1 January 2021	**37**
1 January 2022	**46**
1 January 2023	**46**
Total regulatory capital impact of IFRS 9	**184**

1 Reflects deductions for the pension asset (net of deferred tax), goodwill, other intangible assets (net of deferred tax) and any proposed dividend
2 Reflects the year 1 transitional adjustment in respect of IFRS 9 – 95% of the opening IFRS 9 adjustment to net assets of £184.0m is added back for the purposes of calculating regulatory capital in 2018
3 Calculated on an accrued profits basis
4 Represents the group's minimum regulatory capital requirement as set by the PRA following the rights issue plus the fully loaded capital conservation buffer (2.5%) and counter cyclical buffer (1.0%)

- Regulatory capital headroom of c.£100m in line with Board's risk appetite of maintaining a buffer in excess of £50m
- Impact of IFRS 9 of £184m is being recognised in regulatory capital over a 5 year period:
  - £9m absorbed into regulatory capital on 1 January 2018 with a further £18m reducing regulatory capital headroom on 1 January 2019
  - Remaining £157m impact of IFRS 9 will be recognised between 2020 and 2023
- Implementation of IFRS 16 'Leases' from 1 January 2019 has reduced regulatory capital headroom by a further £26m

Diversified funding base

	At 31 December 2018 £m
Vanquis Bank:	
Retail deposits	**1,431.7**
Non-bank group:	
Bank facility	**450**
Bonds and other borrowings:	
- Senior 8.0% public bond maturing in 2019	**27**
- Senior 7.0% public bond maturing in 2023	**250**
- M&G term loan	**65**
- Retail bonds	**150**
Total committed facilities available of the non-bank group	**942**
Non-bank group borrowings under committed facilities	**615**
Headroom on committed borrowing facilities of the non-bank group	**327**

- Vanquis Bank is now full funded with retail deposits following repayment of the PFG intercompany loan of £55m in November 2018
- Headroom on non-bank group facilities is sufficient to fund growth and contractual maturities to maturity of £450m revolving syndicated facility in May 2020

Target financial model

Invest in businesses with attractive ROAs of c.10%

Growth
Deliver receivables growth of between 5% and 10% per annum through the cycle

CET 1
≥ 25.5%

Dividend policy
Cover ≥ 1.4x

Alignment of growth, capital requirements and dividend policy

- Achieve target ROA of c.10% per annum, once the home credit business returns to profitability
- Deliver sustainable receivables growth of between 5% and 10% per annum through the cycle
- Dividend policy of maintaining a dividend cover of at least 1.4 times going forward will reflect:
  - The ongoing recovery of home credit
  - The remaining transitional impact of IFRS 9 of £157m on regulatory capital levels over the next 4 years
  - Maintaining a regulatory capital buffer in excess of £50m in line with the Board’s current risk appetite

Strategy and outlook

Malcolm Le May – Chief Executive Officer

PFG aims to operate at highest regulatory standards

Progress in regulatory relationships	• All material regulatory issues resolved with FCA • Continued constructive relationship with PRA
Adapted to changes in regulation and well-positioned for future developments	• FCA high cost credit review proposals • Credit Card Market Study • FCA review of 'Assessing creditworthiness in consumer credit' • FCA review of motor finance market

Focused on good customer outcomes by being at the forefront of adherence to highest regulatory standards whilst delivering attractive and sustainable value for shareholders

Our purpose

"We help people on the path to a better everyday life"

Our purpose is underpinned by a number of strategic drivers:

Customer progression
We will build products, service and partnerships that change the game for our customers

Human experiences
We will build enduring relationships by delivering experiences which seamlessly integrate the latest tech 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 capability to ensure we remain the most competitive player in the market

We have created a set of behaviours we consider are needed to be successful:

Put the customer on the team	**Be hungry for better**	**Act like it's (y)ours**

Investment case

Sustainable business and returns based on a customer-centric proposition and a constructive relationship with regulators

Addressable market of 10-12 million adults

Market-leading businesses serving 2.4m customers

VANQUIS BANK | Provident (EST. 1880, The loan that comes to you) | moneybarn (credit you can trust) | Satsuma loans.co.uk

Strong core capabilities in each business

- Strong funding and capital positions
- Scale operations with multiple products
- Resilient through the cycle
- Strong management teams

Opportunities to enhance the group's strengths through….

- Greater collaboration (Collections, credit, IT)
- Data & analytics (PKU)
- Digital enhancements (Apps, central co-ordination)
- Raising the bar on regulation & compliance
- New products (personal loans, Provident Direct)

Delivery of good customer outcomes, sustainable growth and returns for shareholders

Clear strategy underpinned by a number of growth and efficiency initiatives

VANQUIS BANK

- ✓ Enhancements to "low and grow" credit line increase strategy
- ✓ Improved targeting of "thin file" customers and "financial fitness" opportunities
- ✓ Increased affiliate opportunities via revised price points and balance transfers leading to greater penetration in near prime space

Provident (The loan that comes to you) / **Satsuma** (loans.co.uk)

- ✓ Planned introduction in Q2-19 of Provident Direct, leveraging combination of distribution strength and F2F relationship of home credit with digital collection process of Satsuma
- ✓ Planned trial in Q3-19 of personal loans with APRs <100%, which is an under-served segment of the market

moneybarn (credit you can trust)

- ✓ Expansion of asset classes that resonate with target customer base such as light commercial vehicles, motorbikes, touring caravans (ongoing)
- ✓ Re-solicitation programme to existing good-quality customers who settle early (H2-19)
- ✓ Expansion of relationships with lead generators and quotation search providers (Q1-19)

Group initiatives:

- ✓ Development of customer apps to improve customer experience and improve penetration
- ✓ Development of affiliate and co-branded relationships, including Moneybarn pre-approved offers

Well positioned to deliver attractive and sustainable shareholder returns through greater capture of synergies between our businesses

Long-term vision

VANQUIS BANK

- Credit cards
- Bank, serving majority of our customers
- >2m customers
- Core group profit engine

Customer overlap

moneybarn credit you can trust

- Motor finance market
- >100k customers
- Strong growth
- No.2 group profit engine

Customer overlap

Satsuma™ loans.co.uk

- Digital personal loans
- Strong growth as customer preferences are changing
- Multiple price points (HCSTC and APRs <100%)

Provident Direct

Provident EST. 1880 The loan that comes to you

- Home credit
- Mature market
- F2F model still important but customer preferences changing

Outlook

- 2018 was a successful year of recovery
- 2019 priorities:
  - Grow customer numbers in Vanquis Bank and Moneybarn
  - Stabilise the customer base and reduce the cost base in CCD to return the business to run rate profitability in due course
  - Implement our strategic growth initiatives
  - Drive synergies across the group, in particular via Moneybarn and CCD working more closely with Vanquis Bank
  - Refinance the group's syndicated bank facility
  - Embed the group's new blueprint
  - Restore attractive cash returns to shareholders
- The Board confirms that the group continues to trade in line with expectations

Questions

Malcolm Le May – Chief Executive Officer
Simon Thomas – Chief Financial Officer

Group

- **Adjusted basic earnings per share –** Profit before the amortisation of acquisition intangibles and exceptional items after tax divided by the weighted average number of share in issue
- **Adjusted profit before tax** – Profit before tax, the amortisation of acquisition intangibles and exceptional items
- **Annualised impairment rate** – Impairment as a percentage of average receivables for the 12 months ended 31 December
- **Annualised return on assets (ROA)** – Profit before interest and exceptional items after tax as a percentage of average receivables for the 12 months ended 31 December
- **Annualised revenue yield** – Revenue as a percentage of average receivables for the 12 months ended 31 December
- **Annualised risk-adjusted margin (RAM)** – Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December
- **Average receivables –** Average of month end receivables for the 12 months ended 31 December ending excluding the impact of the balance reduction adjustment in respect of Vanquis Bank and Moneybarn
- **CEM** – Customer Experience Manager
- **CLI** – Credit line increase
- **FCA** – Financial Conduct Authority
- **LCV** – Light commercial vehicle
- **LGD** – Loss given default
- **PD** – Probability of default
- **PRA** – Prudential Regulation Authority
- **ROP** – Repayment option plan

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