PFG | Provident Financial Group

11 November 2019

Dear Investor

Update statement in relation to 2019 Annual General Meeting (AGM) resolution vote on Directors' Remuneration Report

Prior to the Provident Financial plc (Company) 2019 AGM, held on 21 May 2019, I wrote to a number of our shareholders and key proxy advisory bodies to discuss concerns raised by ISS in their assessment of the Company's 2018 Directors' Remuneration Report (Report). My letter included further details and rationale in relation 2018 Executive Director bonus outcomes and Long Term Incentive Scheme target disclosure in view of ISS's recommendation to vote against the resolution to approve the Report.

At the conclusion of the 2019 AGM, whilst all resolutions were passed, in accordance with the requirements of Provision 4 of the 2018 UK Corporate Governance Code, the Company published a statement to acknowledge shareholder concern had been expressed in the Report recording an outcome of 79.58% in favour.

Following this acknowledgement, I led Remuneration Committee discussions to develop a series of changes to executive remuneration to directly respond to the concerns identified and expressed to date. In August 2019, I wrote again to the shareholder and key proxy advisory group to present these proposals which were designed to create clear, stretching but achievable, objectives that would motivate Executive Directors to drive and deliver outstanding performance for our shareholders.

I welcome the feedback from those shareholders and proxy advisers who provided their views during this consultation.

In receiving these responses, and following further individual dialogues, I am pleased to confirm that the changes proposed have been received positively. Our shareholders have confirmed that current year proposals to enhance the weighting of financial measures within the annual bonus scorecard, to convert the CET_1 metric from a performance measure to a performance hurdle, to better reflect share price movement in the grant of Long Term Incentive Scheme awards and to enhance risk adjustment governance, will simplify executive remuneration and achieve a greater degree of alignment between shareholders and executive management.

The executive remuneration changes developed by the Remuneration Committee and positively received by shareholders during consultation, are confirmed as follows for 2019 implementation and beyond where appropriate:

- a change in the split between financial and non-financial metrics for annual bonus, increasing the financial metrics from 50% to 60% and reducing the non-financial metrics from 50% to 40%;
- Company PBT will be the sole financial metric used for financial performance, accounting for 60% of annual bonus scorecard weighting;

- the CET1 metric will be removed as a financial metric for annual bonus, and will be repositioned as a threshold or 'gating' requirement (on the basis that the maintenance of capital is a core requirement for the business and not an objective), recognising however that the Remuneration Committee will have discretion to take into account factors impacting CET1 which are outside of management control (e.g. macroeconomic factors);
- non-financial objectives, accounting for 40% of annual bonus scorecard weighting, will be based-upon five qualitive categories; strategy, regulatory risk and conduct, investor relations, customers and employees.
- Within each non-financial category corporate (strategic) measures of success and KPIs will be clearly distinguished from personal objective measures of success and KPIs. The 2019 Annual Report and Accounts will present the weightings, assessments and outcomes of corporate (strategic) elements and personal objective elements separately. For clarity, considerations for stewardship of the Company during the hostile takeover bid will be reviewed within the non-financial part of the annual bonus scorecard, consistent with performance achieved in each category during the year;
- in addition to assessment of the regulatory risk and conduct category of the scorecard, the Remuneration Committee will consider overall risk adjustments for annual bonus outcomes, based on the Risk Committee overlay report, which gives further flexibility to reduce bonus in respect of materialised and non-materialised risks, deficiencies in risk culture and risk conduct behaviours as well as consideration of audit findings;
- the Remuneration Committee will also make an overall assessment of the underlying performance of the Company when determining annual bonus outcomes and Long Term Incentive Scheme vesting in respect of 2019 performance;
- in relation to the Long Term Incentive Scheme, when the Remuneration Committee considers the grant appropriate for 2020, it will take into consideration the impact on the share price arising from the trading statement issued in January 2019; and
- in respect of the Company's development of a post-employment minimum shareholding policy, the Remuneration Committee has confirmed the intent to adopt a two-year, contractual structure. Full policy details will be disclosed in the 2019 Annual Report and Accounts and proposed for adoption at the 2020 Annual General Meeting.

The Board and I appreciate the feedback we have received to date on the above matter and we will continue our policy of proactive engagement with our shareholders in support of our aim to secure support for the Directors Remuneration Report in 2020. A final update on this matter will be included in the Company's next Annual Report and Accounts for the year ended 31 December 2019.

Yours sincerely,

AMBL

Andrea Blance
Chair of the Remuneration Committee