This announcement contains inside information for the purposes of article 7 of the Market Abuse Regulation (EU) No 596/2014

Provident Financial plc
Trading update
16 January 2018

Provident Financial plc, the leading UK non-standard lender, makes the following update on trading for the financial year ended 31 December 2017, ahead of its final results for the year which will be announced on 27 February 2018.

Summary

- Vanquis Bank and Moneybarn have both traded satisfactorily through the final quarter of the year.

- The Consumer Credit Division (CCD) is expected to report a pre-exceptional loss of approximately £120m which is at the upper end of the guidance provided in August 2017. This reflects a lower than expected rate of reconnection through the fourth quarter with those home credit customers whose relationship had been adversely impacted following the poorly executed migration to the new operating model in July 2017.

- Home credit management has delivered substantial improvements in customer service and operational performance since August and the business enters 2018 with some 530,000 active customers, up from approximately 500,000 at September 2017.

- Vanquis Bank and Moneybarn have both commenced dialogue with the Financial Conduct Authority (FCA) with a view to reaching a resolution to their respective investigations.

Malcolm Le May, Interim Executive Chairman, commented:

“I am pleased to report that good progress has been made towards restoring customer service in the home credit business and that we are engaged in a dialogue with the FCA with a view to reaching a resolution of the regulatory investigations at Vanquis Bank and Moneybarn. In addition, we continue to make progress in the search for a new group Chief Executive.

All of our businesses have strong positions in their respective markets. Our priorities for 2018 are to rebuild trust with our customers, regulators, shareholders and employees. I would like to thank all our employees for their continuing hard work and dedication throughout a difficult period for the group.”

Vanquis Bank

Total new customer bookings for 2017 were 437,000, up from 406,000 in 2016, reflecting the benefit from the actions put in place in the second half of last year to develop the credit card proposition and enhance distribution, including the launch of the Chrome near prime credit card. Customer numbers ended the year at 1,710,000, representing year-on-year growth of 11%. The growth in customer numbers and credit line increases to established customers combined to produce receivables growth for the year of approximately 13%.

Fourth quarter new customer bookings of 93,000 showed a reduction of 20% from the same period in 2016. In the context of the heightened macroeconomic uncertainties, underwriting was tightened during the third quarter of the year and reduced new booking volumes by approximately 10%. In addition, volumes delivered by the Argos partnership during the seasonally busier fourth quarter were 1,000 in 2017 compared with 15,000 in 2016. Following its acquisition by Sainsbury's in September 2016, Argos has reviewed all its strategic financial services partnerships and in late December informed Vanquis Bank of its intention to exit the partnership arrangement when the contract expires in early 2018 and to take all of their card-issuing activities in-house.

Delinquency levels have remained broadly stable through the fourth quarter of the year reflecting the sound quality of the receivables book and the stable UK employment market. In line with previous guidance, the annualised risk-adjusted margin has moderated from 30.7% to September 2017 to just over 30% to December 2017 (December 2016: 32.2%), reflecting a reduction in the revenue yield from a further decline in the penetration of the Repayment Option Plan (ROP) within the customer base and some moderation in the interest yield from the changing product mix.

The Vanquis Bank loans pilot, currently focused on loans to existing credit card customers, continues to make steady progress. Customer numbers and receivables ended 2017 at 10,000 and £15m respectively and credit quality is in line with expectations.

CCD

The home credit business has made good progress in implementing the recovery plan outlined in the trading update on 13 October 2017. The actions taken by management are delivering a significant improvement in customer service and operational performance. Collections performance in December of 78% was up from 65% in September and 57% in August. However, following the disruption experienced on migration to the new operating model, the rate of reconnection with those customers whose relationship had been adversely impacted was at the lower end of expectations through the fourth quarter. As a result, the associated higher impairment charge is expected to result in the home credit business reporting a full-year pre-exceptional loss of approximately £115m.

Active home credit customer numbers ended the year at approximately 530,000, up from approximately 500,000 at September 2017 and home credit receivables ended December at approximately £350m, up from £316m at September 2017 (December 2016: £560.0m).

As part of an ongoing process of reviewing its cost base, the home credit business is announcing a proposed rationalisation of its central support functions which is subject to workforce consultation. This is a necessary step to align the cost base to the reduced size of the business. In addition, the business expects to secure improvements in the effectiveness and efficiency of the field organisation as the new business model continues to be embedded. Customer facing resource is being managed very carefully in order to ensure that further improvements in customer service are delivered.

Satsuma has continued to experience a step-up in volumes through the ongoing improvements in the customer journey and product distribution. New business volumes and further lending to established customers during the fourth quarter was approximately 40% higher than the same period in 2016. Accordingly, customer numbers have increased from 71,000 at September 2017 to 79,000 at December 2017 (December 2016: 55,000) and receivables increased from £32m to £35m over the same period (December 2016: £18.2m). Satsuma is expected to report a loss of approximately £5m in 2017, modestly lower than last year and adverse to its internal plan. The loss reflects the strong development of the monthly product during 2017, the underwriting of which has been tightened during the latter part of the year in response to higher than planned impairment.

Overall, CCD is expected to report a pre-exceptional loss of approximately £120m which is at the upper end of the guidance of a pre-exceptional loss of between £80m and £120m provided in August 2017.

Moneybarn

Moneybarn has continued to enjoy a good flow of new business volumes during the fourth quarter of the year, despite the tightening of underwriting on higher risk categories of business during the second quarter of the year as previously communicated. Extension of both the product offering and distribution channels and further service enhancements to intermediaries has generated new business volumes approximately 30% higher compared to the relatively weak fourth quarter of 2016. Customer numbers and receivables ended the year at 50,000 and £376m showing year-on-year growth of 22% and 26% respectively.

The annualised risk-adjusted margin has moderated from 22.7% to September 2017 to 21.8% to December 2017 (December 2016: 24.1%) reflecting additional impairment associated with the step-up in new business volumes over the last year and the flow through of impairment from higher risk categories of business prior to the tightening of underwriting in the second quarter.

Regulation

Vanquis Bank has commenced a dialogue with the FCA with a view to reaching a resolution of the investigation into ROP. More recently, Moneybarn has also engaged with the FCA in order to resolve the investigation in relation to customer affordability assessments and the treatment of customers in financial difficulties.

The voluntary requirement agreed between Vanquis Bank and the FCA to suspend all new sales of ROP in April 2016 remains in place and the agreement with the Prudential Regulation Authority (PRA) 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, also remains in place.

CCD continues to operate under an interim permission whilst the home credit business implements its recovery plan.

Funding

The group continues to actively monitor its capital and liquidity positions in the context of the uncertainties surrounding the home credit recovery plan and the ongoing FCA investigations into ROP and Moneybarn.

At 31 December 2017, the group had cash resources of £34m, excluding the liquid asset buffer held by Vanquis Bank, and headroom on the group’s committed debt facilities amounted to £66m. The flow of retail deposits within Vanquis Bank has continued in line with its internal funding plan and the additional capacity for Vanquis Bank to take retail deposits amounted to £77m at the end of 2017. Maturities in 2018 comprise the third instalment of the M&G term loan of £15m due in January 2018 and £20m of private placement loan notes due in March 2018.

Enquiries:
Media
Richard King/Jade Byrne, Provident Financial	01274 351900
Nick Cosgrove/Charlie Pretzlik, Brunswick	020 7404 5959

Investor Relations
Gary Thompson/Vicki Turner, Provident Financial	01274 351900

investors@providentfinancial.com