



**Provident Financial plc  
Trading update  
22 August 2017**

**Disruption to home credit trading**

The new home credit operating model, which involves employing full-time Customer Experience Managers (CEMs) to serve customers rather than using self-employed agents, was deployed on 6 July 2017. This followed a period of higher operational disruption than planned between the announcement of the proposed structural changes on 31 January 2017 and deployment of the new operating model. The impact of higher than expected agent attrition and reduced agent effectiveness on collections performance and sales resulted in the announcement on 20 June 2017 that forecast pre-exceptional profits from CCD would be reduced to around £60m.

The primary objectives set for the third quarter of 2017 were to embed the new operating model and to progressively restore customer service and collections performance to acceptable levels in preparation for the seasonal peak in lending during the fourth quarter. The rate of progress being made is too weak and the business is now falling a long way short of achieving these objectives. Collections performance and sales are both showing substantial underperformance against the comparable period in 2016. The routing and scheduling software deployed to direct the daily activities of CEMs has presented some early issues, primarily relating to the integrity of data, and the prescriptive nature of the new operating model has not allowed sufficient local autonomy to prioritise resource allocation during this period of recovery.

Collections performance is currently running at 57% versus 90% in 2016 and sales at some £9m per week lower than the comparative weeks in 2016. The extent of this underperformance and the elongated period of time required to return the performance of the business to acceptable levels invalidates previous guidance. The pre-exceptional loss of the business is now likely to be in a range of between £80m and £120m.

In response, a thorough and rapid review of home credit's performance is underway to secure the turnaround of the business.

**Other businesses**

The trading performance of Vanquis Bank, Moneybarn and Satsuma remain in line with internal plans.

**Financial Conduct Authority (FCA) investigation into Vanquis Bank's Repayment Option Plan (ROP)**

Vanquis Bank is co-operating with an investigation by the FCA into the ROP ancillary product. ROP currently contributes gross revenues, before impairment and costs, of approximately £70m per annum.

The FCA indicated that it has concerns about the ROP product and is investigating the period from 1 April 2014 to 19 April 2016. Vanquis Bank agreed with the FCA to enter into a voluntary requirement to suspend all new sales of the ROP in April 2016 and to conduct a customer contact exercise, which has now been completed. Vanquis Bank has also agreed with the Prudential Regulation Authority (PRA), pending the outcome of the FCA investigation, 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.

**2017 dividend, capital and liquidity**

In view of the substantial deterioration in the trading performance of the home credit business, together with the uncertainty created by the FCA's investigation at Vanquis Bank, the Board has determined that the group

must protect its capital base and financial flexibility by withdrawing the interim dividend declared on 25 July 2017 and indicate that a full-year dividend is unlikely. Protecting the highly valuable franchises of Vanquis Bank, Moneybarn and Satsuma is the Board's first priority whilst the turnaround of the home credit business is secured and the FCA's investigation is concluded. The Board remains strongly committed to the payment of future dividends and delivering long-term value to shareholders.

### **Management changes**

In the circumstances, Peter Crook has decided to step down as Chief Executive with immediate effect. Manjit Wolstenholme will assume the role of Executive Chairman.

Manjit Wolstenholme, Executive Chairman, commented:

"I am very disappointed to have to announce the rapid deterioration in the outlook for the home credit business. Protecting the group's capital base through withdrawing the interim dividend and in all likelihood the full-year dividend is the appropriate response to maintain the highly valuable franchises of Vanquis Bank, Moneybarn and Satsuma. My immediate priority is to lead the turnaround of the home credit business."

This announcement includes inside information.

An analyst conference call will take place at 8.00am BST on 22 August 2017. UK number: 0844 8719470 / International number: +44 (0) 1452 588613 / Conference code: 6913751.

### **Enquiries:**

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