**Provident Financial plc**
**Trading Update, CCD Scheme of Arrangement and FCA Investigation into CCD**

**This statement contains inside information**

Provident Financial plc ('the Group' or 'PFG') is the leading provider of credit products to consumers who are underserved by mainstream lenders. Today's update covers the Group's trading for its financial year to 31 December 2020, unless otherwise stated.

**Malcolm Le May, Provident Financial Group, CEO, commented:**

"I am pleased to report that the Group performed slightly better than management's expectations during the fourth quarter and, as a result, for the year as a whole.

There is no doubt that 2020 was a tremendously difficult year for our customers. My colleagues across the Group worked tirelessly to ensure the continued support our customers needed during these challenging circumstances and, for that, I would like to extend my most sincere gratitude to everyone at PFG.

Vanquis Bank, with its banking licence and ability to take retail deposits, and Moneybarn, which was able to grow its market share during 2020, remained profitable throughout 2020 and are both well positioned to take advantage of growth opportunities over the medium-term. However, the operating environment for CCD has evolved materially during the second half of 2020. Therefore, we have concluded that a Scheme of Arrangement is necessary in order to address the issue of rising customer complaints as we work to position CCD for the future. We will update the market on our progress with the Scheme in due course.

Whilst the latest Government lockdown has reduced the demand for unsecured credit in our markets so far this year, we continue to see scope for growth opportunities, post-Covid, over the medium-term. The Group, supported by its robust capital and liquidity positions, will continue to focus on many of the objectives we set out at our Capital Markets Day in 2019, which includes expanding our digital footprint, investing in new products, focusing on funding efficiencies and becoming a broader banking group for the financially underserved customer. I look forward to updating the market at our 2020 results presentation in May."

**<u>Trading update</u>**

The Group performed ahead of management's expectations during the fourth quarter and, as a consequence, the underlying results for 2020 are anticipated to be slightly better than current market expectations.

Performance by division:

- For Vanquis Bank, the lockdown led to lower customer spending in Q4'20, consistent with the wider market. Impairment trends remained favourable for the period and the take-up of payments holidays remained below expectations. At the end of February 2021, receivables were lower by c.28% year-on-year driven by reduced customer spend year to date and lower customer bookings during 2020. However, Vanquis Bank profitability has been impacted positively by reduced impairments, under IFRS 9 accounting, as a consequence of receivables balances falling.

- Moneybarn continued to see good levels of demand during Q4'20 and the tighter underwriting criteria introduced in March led to a significant improvement in the credit quality of its average customer throughout 2020. Payment holiday take-up continued to be relatively modest. Demand for used-vehicles across the market has reduced during Q1'21, as a response to lockdown restrictions. However, at the end of February, Moneybarn receivables had increased by c.2% since December 2020 and by c.13% year-on-year with impairment trends in-line with management expectations.

- The Consumer Credit Division (CCD) saw reduced lending activity year-on-year during Q4'20 but the collections performance remained strong at approximately 90% of maturities. At the end of December, customer receivables stood at £139m (Q3'20: £140m) and reduced further to £118m at the end of February in-line with management expectations. As previously announced, CCD continued to see increased volumes of customer complaints during Q4'20. As a result, and as part of the ongoing operational review, PFG has decided to pursue a Scheme of Arrangement (the 'Scheme') to protect the interests of all its stakeholders. Separately, CCD has been informed recently by the FCA that it has opened an investigation into certain conduct issues, specifically between February 2020 and February 2021.

- At the end of December 2020, the Group's capital and liquidity positions remained robust. Regulatory capital was £685m and the Group's CET1 ratio stood at 35.0%. Headroom on committed facilities amounted to approximately £145m which is in addition to approximately £830m of liquid resource held by Vanquis Bank.

**Operational Review of CCD**

In its third quarter trading update, published in November 2020, the Group informed the market that it had initiated an operational review of CCD, to be carried out by Hamish Paton (Managing Director). It was launched in the context of the Group's capital allocation framework with the objective of positioning the Group as a whole to deliver long-term, sustainable returns to shareholders through its range of offerings, whilst continuing to focus on good customer outcomes.

As announced in December, and as part of the operational review, PFG has created a new intermediate holding company to streamline the structure of its operating subsidiaries and ensure that the Group is well-positioned going forward.

Whilst the review is ongoing, it has made it clear that CCD needs to address the issue of rising customer complaint volumes. As previously communicated, CCD was on track to breakeven on a monthly basis during 2020, prior to Covid-19, and prior to customer complaint volumes from Claims Management Companies being driven significantly higher across the high-cost credit market during H2'20. For context, the number of complaints to the Financial Ombudsman Service (FOS) across the home credit market increased by c.200% in H2'20 vs. H1'20. For PFG, this has resulted in payments to customers of c.£25m in H2'20 (H2'19: c.£2.5m) including first response and FOS redress payments. In addition, CCD has processed balance reductions for home credit customers of c.£11m during the same period (H2'19: c.£1.0m).

As part of the operational review, the Group is working on a new customer proposition, which will allow it to serve a broader cohort of customers. It will take into account the most recent sector regulation, as well as the recently published Woolard Review, and will reflect the Group's purpose and commitment to sustainable lending. Further details of this, as well as the conclusions of the operational review, will be provided with the Group's 2020 results in May.

**Scheme of Arrangement**

The industry dynamics set out above have changed the operating environment materially for CCD during the second half of 2020. When combined with the impact of Covid-19 on its profitability, customer complaints can no longer be treated as part of operating costs. As a result, PFG has decided to pursue a Scheme of Arrangement, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from customer credit-worthiness complaints based on historic lending at CCD prior to 17 December 2020 ('relevant claims') and has engaged in dialogue with the FCA to get to this point.

If approved, a Scheme will bring certainty for stakeholders and ensure that customers with a legitimate claim get fair access to redress payments. The Group will fund legitimate Scheme claims with £50m and will cover further Scheme related costs estimated at approximately £15m. The total commitment would be met out of PFG's existing resources.

The Group plans to process all outstanding relevant claims, as well as new relevant claims received before the proposed Scheme is sanctioned, under the Scheme, rather than on an ordinary course of business basis. For customers who have not received a Final Response Letter as of today's date, the relevant claims will be processed under the Scheme. For any customer who took out a loan after 17 December 2020 any claims in respect of such a loan will be processed outside of the Scheme. PFG believes that handling all outstanding and new relevant claims pursuant to the proposed Scheme in this manner would ensure a fairer and more equitable outcome for all customers, although redress payments ultimately determined may be significantly less than the amount claimed. The successful implementation of a Scheme is subject to the approval of the requisite majority of customers with redress claims and the sanction of the Court.

If the Scheme is not approved, it is likely that CCD will be placed into administration or liquidation. If this were to happen, CCD customers would not be expected to receive any redress payment. Whilst the financial repercussions for CCD would be expected to be substantial, the direct financial or operational repercussions for Vanquis Bank and Moneybarn of an administration or liquidation of CCD would not be significant. However, aside from the financial repercussions, the materiality of the wider repercussions of an administration or liquidation of CCD on the relationships of the rest of the Group's divisions with customers, regulators and suppliers would be uncertain. Therefore, the proposed Scheme is considered by the PFG Board to be in the best interests of CCD, the Group and its stakeholders.

CCD has been engaging with the FCA with a view to ensuring that the Scheme does not raise any regulatory concerns. While the FCA has informed CCD of a number of concerns it has with aspects of the Scheme, it has not yet completed its assessment. CCD proposes to use the time prior to the first court hearing (to be held on 22 April 2021) to work constructively with the FCA to resolve its concerns. In any event, the FCA has made it clear that it will not support the Scheme for a number of reasons including, in this specific case, because redress creditors will receive less than the full value of their claims.

CCD believes it will be able to resolve the FCA's concerns (apart from their concern as regards redress creditors receiving less than full value) prior to the first court hearing but, if any remain unresolved, CCD expects the FCA to set them out for the court in writing. However, such concerns (if any) are not expected to be of a nature that would prevent customers being given the opportunity to decide for themselves whether or not to support the Scheme, or to oppose it in favour of the alternative, i.e. insolvency proceedings for CCD, notwithstanding any concerns the FCA may have.

**FCA investigation of CCD**

Separately, CCD was recently informed that the FCA has opened an enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process, in the period between February 2020 and February 2021. The start of the investigation period relates to the FOS decision which was taken in February of last year. The appointment of investigators does not mean that the FCA has determined that rule breaches or any other contraventions have occurred. The FCA also continues to assess whether CCD is complying, and is likely to comply, with the standards it is expected to meet and the Group's proposed approach to future lending as and when further details of such proposal are made available. CCD intends to work closely with the FCA in the coming months, including in relation to the investigation, which is unlikely to conclude until 2022.

**Outlook**

Vanquis Bank and Moneybarn are both well positioned to take advantage of growth opportunities over the medium-term. The Group continues to work towards many of its CMD objectives including to become a broader bank for the financially underserved customer. The Group anticipates publishing its results for 2020, and the conclusions of the CCD operational review, in May.

**Analyst and shareholder briefing call**

PFG will be holding a briefing call for analysts and shareholders today at 8am.

**Enquiries:**

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