Provident Financial plc
Trading Statement
19 October 2018

Provident Financial plc, the leading provider of credit products to those consumers who are not well served by mainstream lenders, makes the following Trading Statement today covering the period from 1 July 2018 to 18 October 2018.

Highlights

- The group has continued to make sound progress during the third quarter on delivering its operational objectives for 2018. The credit quality of the new business being written by each business is good.

- Vanquis Bank has delivered good growth in the third quarter, notwithstanding that credit standards have been tightened over the last 18 months, and is on-track to deliver full-year profits in line with its internal plan. The customer refund programme affecting 1.2 million current and past Repayment Option Plan (ROP) customers is progressing well and is on-track to be substantially completed in early 2019.

- The home credit business has substantially completed the recovery plan, including the roll-out of the new operating model, and the Financial Conduct Authority (FCA) authorisation process is expected to be concluded during the fourth quarter. However, collections performance has remained approximately 10% below historic levels during the third quarter because performance management of the field force has continued to be restricted during the implementation phase of the recovery plan.

- Moneybarn has delivered strong new business volumes and a stable delinquency performance against underwriting standards that have been tightened significantly over the last 18 months.

- The group's capital position and liquidity both remain strong.

Malcolm Le May, Group Chief Executive, commented:

"I am pleased to report further good progress against the 2018 goals we set out at the start of the year. The implementation of the home credit operational recovery plan is substantially complete and the authorisation process close to conclusion. The ROP refund programme is progressing well and should be substantially completed in early 2019 and the dialogue with the FCA on their investigation at Moneybarn continues in a constructive manner.

The growth and operating performance of Vanquis Bank and Moneybarn are both good and in line with management's plans. The home credit business is still experiencing the drag on collections performance from those customers who were active during the poorly executed migration to the new operating model in the third quarter of 2017. Importantly, customers who have taken credit from us since then are performing in line with historic levels.

The group's funding and capital positions are strong and I believe the group is well placed to achieve its strategic aim of being the leading provider of credit to the underserved sector. I would like to thank all my colleagues for their continued hard work towards achieving this objective."

Vanquis Bank

Vanquis Bank has delivered a good performance in the third quarter of the year.

New customer bookings of 103,000 in the third quarter were broadly in line with last year, notwithstanding the tightening of underwriting over the last 18 months and the cessation of the Argos contract in early 2018. This reflects a number of factors including a major scorecard upgrade, the utilisation of richer data, an effective refresh of direct mail packs and a new TV advertising campaign from May. Customer numbers ended the third quarter at 1,795,000, 6.3% higher than last year.

Core delinquency and arrears metrics have been stable through the third quarter. There has been a modest increase in the use of payment arrangements, partly relating to enhanced forbearance procedures which is consistent with the credit card industry as a whole. As expected, the annualised risk-adjusted margin has shown a modest reduction during the third quarter and is tracking in line with internal plan and the guidance for the full year.

There are now 850,000 registered users to Vanquis Bank's new mobile app launched last year and the group-wide Provident Knowledge Universe (PKU) customer database is in the process of being rolled out. Both of these initiatives are enhancing customer outcomes across all stages of the customer journey. The level of spend on developing digital initiatives through the third quarter was consistent with last year. Together with cost efficiencies, this has allowed Vanquis Bank to continue to deliver operational leverage.

In response to the definition of persistent debt arising from the FCA's credit card market study, the business has increased its minimum payments and is rolling out the use of recommended payments and other communication strategies across its customer base to mitigate the risks that customers lose access to the benefits of owning a Vanquis Bank credit card. In addition, the business continues to be in active dialogue with the FCA regarding the full implementation of the necessary measures to meet the affordability principles arising from their review of creditworthiness in consumer credit which takes effect from 1 November 2018.

The Vanquis Bank refund programme to some 1.2 million current and past ROP customers is progressing well and is on-track to be substantially completed in early 2019. Following completion of a pilot into a small segment of customers in June, the refund programme is now in full roll-out and approximately 300,000 customers have so far been refunded. A significant step-up in the volume of refunds being processed is planned through the final quarter of the year and there has been no material change in the level of ROP related complaints following the announcement of the settlement on 27 February 2018.

The focus of the Vanquis Bank loans proposition remains on providing unsecured loans to existing credit card customers. Volumes and credit quality remain in line with management expectations.

Consumer Credit Division (CCD)

<u>Home credit</u>

The home credit recovery plan is substantially complete and the new operating model, which provides improved oversight and control over field activity and customer outcomes, has been successfully rolled out. The FCA authorisation process is expected to be concluded during the fourth quarter.

The business has continued to prioritise collections during the third quarter. The new field structure with better defined roles and responsibilities, improved spans of control, greater support for Customer Experience Managers (CEMs) in dealing with arrears and better structured training was successfully piloted through the early summer with a number of branches being visited by the FCA in July. Accordingly, the new structure has now been rolled-out across the field organisation. The investment in central support for collections and arrears management to assist the field organisation is also well underway.

As previously indicated, performance management of the field force has continued to be restricted during the implementation phase of the recovery plan. This has meant a focus solely on managing activity and customer outcomes with no use of performance related pay or financial objectives. As a result, collections performance during the third quarter remained around 10% lower than historical performance which was consistent with the second quarter of the year. The main characteristic of the shortfall continues to be lower than expected collections from customers who were active during the migration to the new operating model, particularly due to a higher number of customers making payments lower than their contracted rate. The CEM's collecting from these customers did not typically originate the loan and therefore the customer relationship is not as strong. Importantly, however, the collections performance of credit originated since the fourth quarter of 2017 has consistently remained in line with historic levels where the ownership of the customer relationship is much stronger.

Once the authorisation process is concluded, the business intends to progress discussions with the FCA regarding the implementation of enhanced performance management based on a balanced scorecard and some element of variable performance related pay. The implementation of enhanced performance management will be important in driving collections performance towards historical levels.

Active home credit customer numbers ended the third quarter at 449,000, down from 464,000 at June 2018, reflecting the continued focus on collections performance rather than new customer recruitment.

Action continues to be taken to align the cost base with the reduced size of the business. Whilst the business has invested in field management to improve oversight and control, the number of CEM's has reduced from around 2,400 at the end of June to around 2,300 at the end of September. Notwithstanding this reduction, the capacity of the field organisation still remains capable of supporting a greater number of customers than is currently being served. In addition, the central cost base and resources within central support functions continues to be carefully managed.

Provident remains the clear market leader in the home credit market with a strong franchise. The focus for the remainder of 2018 remains on securing full regulatory authorisation and improving collections performance.

<u>Satsuma</u>

Satsuma has continued to experience a good flow of volumes as a result of the investment made last year in developing product distribution, the digital platform and further lending capability. New business and further lending volumes have shown a year-on-year increase of approximately 43% and customer numbers ended the third quarter at 108,000, up by over 50% on September 2017 and up from 99,000 at June 2018. Delinquency performance is in line with internal plans and underwriting continues to be refined.

Moneybarn

Moneybarn continues to deliver strong growth. Third quarter new business volumes showed year-on-year growth of 16% and customer numbers at the end of September stood at 59,000, up 22% on September 2017, despite tighter underwriting standards.

As reported in July, default rates and arrears levels in Moneybarn have stabilised following the initial tightening of underwriting in the second quarter of 2017 on higher risk categories of business and the removal of a tier of lower value business in the second quarter of 2018. The credit quality of new business being written is materially better than 18 months ago. As a result, the annualised risk-adjusted margin has shown a further modest improvement from June 2018.

Moneybarn continues to work with the FCA in respect of the ongoing investigation into affordability, forbearance and termination options.

Funding and capital

The group's funding and capital positions are strong following completion of the rights issue in April 2018 and the re-financing of the £250m senior bonds in June 2018.

The group's CET 1 ratio on an accrued profits basis at 30 September 2018 was 30.4% compared with the group's revised minimum capital requirement of 25.5%, which includes fully loaded CRD IV capital buffers effective from

1 January 2019. On this basis, the surplus regulatory capital headroom was 4.9%, equivalent to just over £100m, which is consistent with historic levels. This is considered to be an appropriate level of regulatory capital to meet the group's current and future requirements.

Headroom on the group's committed debt facilities was £320m at 30 September 2018. Together with the ability of Vanquis Bank to take additional retail deposits and repay its current intercompany term loan with Provident Financial plc of £55m, this is sufficient to fund contractual debt maturities and projected growth in the group until May 2020, when the group's syndicated revolving bank facility matures.

Dividends

As previously communicated, the group expects to pay a nominal dividend in respect of the year as a whole before adopting a progressive dividend policy in line with a dividend cover of 1.4 times from the 2019 financial year.

Regulation

There have been no significant changes to the regulatory framework since the interim results announcement. However, the uncertainties and risks most relevant to the group's performance continue to be in respect of regulation, with a strong focus on affordability, persistent debt, forbearance and general customer outcomes.

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