Provident Financial plc
Trading update and Capital Markets Day
7 November 2019

Provident Financial plc ('the group' or 'Provident') is the leading provider of credit products which provide financial inclusion for those consumers who are not well served by mainstream lenders. This statement covers the group's trading highlights for the third quarter and details of the Capital Markets Day being hosted later today.

Summary

- The group has continued to deliver results in line with internal plans during the third quarter, with all three divisions producing good business volumes and a stable impairment performance.

- Today's Capital Markets Day will outline the group's clear vision for the future, including growth initiatives and medium term financial commitments.

Malcolm Le May, Group Chief Executive Officer, commented:

"I am pleased to report third quarter performance in line with internal plans, with continuing good momentum in new customer volumes and stable delinquency. The ongoing improvement in performance leaves the group well placed as we enter the important fourth quarter trading period.

I am also delighted that we will be presenting our medium-term strategic vision for Provident at today's Capital Markets Day. We believe our plans will ensure that the group continues to be the market leader in the provision of credit products to the under-served.

We are well placed to meet changing customer needs, respond to the evolving regulatory environment whilst at the same time delivering attractive and sustainable returns for shareholders."

2019 third quarter trading

<u>Vanquis Bank</u>

Vanquis Bank has delivered stable delinquency and results in line with internal plans during the third quarter of the year.

New customer bookings continue to benefit from the implementation of the new underwriting platform in late 2018 which has enabled Vanquis Bank to enhance the customer onboarding journey. Third quarter new customer bookings of 90,000 were consistent with the second quarter of the year. Whilst this was 13,000 lower than the third quarter of last year, it reflects tighter underwriting standards, including the withdrawal of the 69.9% APR product in the first half of the year and the implementation of revised affordability processes in November 2018. In addition, the phasing of the marketing programme in 2019 has been weighted more evenly though the year compared with 2018 whereby expenditure was more weighted to the second and third quarters in advance of the change to the new underwriting platform. Customer numbers ended the third quarter at 1,811,000, 2% higher than last year. Vanquis Bank will be undertaking a re-activation campaign during the fourth quarter on approximately 100,000 customers who are currently not active and will close down those customer accounts that do not re-activate in order to manage contingent risk if there were to be any deterioration in the economic environment. Accordingly, customer numbers are expected to reduce in the fourth quarter but this is not expected to have an impact on Vanquis Bank's result for the year.

Receivables ended the third quarter at a similar level to last year, consistent with previous guidance. This reflects the impact of the implementation of revised affordability processes and the measures taken to reduce the number of customers meeting the FCA's definition of persistent debt, including the introduction of higher minimum payments and recommended payments, restrictions in the credit line increase programme and a number of communication strategies. At September 2018, approximately 11% of active Vanquis Bank customers were up to date but met the definition of being in persistent debt (including customers in arrears and in payment arrangements this increases to 15% of active customers). The business has been actively working with these customers with a view to removing them from this position in advance of March 2020, which is the first 36-month checkpoint after which customers who still meet the definition of being in persistent debt will be offered a way to repay their balance in a reasonable period of no more than four years. Approximately two thirds of customers from that cohort no longer meet the definition of persistent debt and Vanquis Bank continues to proactively work with the remaining customers in advance of March 2020 as well as those customers who have met the definition after September 2018.

Delinquency trends showed a favourable movement compared with the third quarter of last year due to two factors. Firstly, a shift in business mix towards better quality, nearer prime customers reflecting the tightening of underwriting over the last 18 months. Secondly, the third quarter of last year experienced an increase in payment arrangements due to enhanced forbearance and the introduction of higher minimum payments in preparation for the advent of the persistent debt rules in March 2020.

Costs remain tightly controlled and are running at a similar level to last year.

Moneybarn

Moneybarn has again delivered strong new customer volumes and receivables growth during the third quarter.

New business volumes showed year-on-year growth of approximately 36%, ahead of management's plans. As a result, customer numbers at the end of September 2019 stood at 73,000, up 24% on September 2018.

Default rates and arrears trends remain consistent with the third quarter of last year and profits were broadly in line with the group's internal plans, despite the adverse impact of stronger than forecast growth under IFRS 9 and a modest reduction in used car values. Underwriting has recently been tightened further to remove the bottom tier of higher risk customers which was less profitable.

The redress required to resolve the issues arising in respect of the investigation into affordability, forbearance and termination options has now been completed and Moneybarn awaits final notice from the FCA. The total settlement is expected to be within the previously announced financial provision of £20m.

On 15 October 2019, the FCA issued CP19/28 'Motor finance discretionary commission models and consumer credit commission disclosure' which sets out plans to prevent motor finance brokers receiving commissions linked to the interest rate that customers pay. Moneybarn is not affected by the proposals in CP19/28 as it uses flat fee commission structures and has never given discretion to brokers in setting the interest or commission levels.

Consumer Credit Division (CCD)

CCD, which comprises the group's home credit business, Provident, and the digital loans business, Satsuma, has delivered results broadly in line with internal plans during the third quarter. The ongoing turnaround of the home credit business continues to progress well.

The improved momentum in business volumes has continued with the number of new and returning home credit customers being 6% higher than the third quarter of 2018. Home credit customer numbers ended the third quarter at 388,000, a reduction from 403,000 at June 2019 as the number of new customers recruited is not yet at a level sufficient to stabilise the customer base. However, the rate of reduction was approximately half of that experienced in the third quarter of last year. New customer recruitment is expected to continue its upward trajectory during the seasonal peak in trading in the fourth quarter of the year. Average issue values have now stabilised following the reductions experienced during the first half of the year as a result of the introduction of the FCA's high cost credit guidance.

Following successful testing, performance management based on a balanced scorecard supported by an element of variable performance-related pay was rolled out in the UK to Customer Experience Managers (CEMs) and field managers during the third quarter of the year. The implementation of this full suite of performance measures is essential in continuing to improve the efficiency and effectiveness of the field organisation whilst delivering consistently good customer outcomes.

Early in the third quarter, CCD commenced testing of an enhancement to the home credit product, Provident Direct, in the Birmingham South area. Provident Direct is relationship managed in the home by a CEM with payments collected remotely via Continuous Payment Authority. Early feedback indicates that there is strong demand for the product from both customers and the field organisation. Provident Direct will be rolled-out progressively from early 2020 in order to allow the business to refine the customer journey and avoid disrupting the field organisation during the seasonal peak in trading. The product should allow CCD to attract new and former customers of suitable credit quality who do not wish to have a weekly collections visit by a CEM and should also support improved efficiency in the field force.

Collections performance of credit originated since the fourth quarter of 2017 has continued to remain broadly in line with the levels achieved prior to the change in the UK home credit operating model in July 2017.

Satsuma continues to experience a good flow of lending volumes notwithstanding the progressive refinement in underwriting. New business and further lending volumes increased by approximately 10% and customer numbers ended the third quarter at 134,000, up 24% on September 2018.

CCD has continued to take the necessary actions to reduce headcount in response to the reduction in customer numbers. As a result, a further 400 CEMs and field managers have either left or are expected to leave the business by the end of 2019. Together with actions already taken and the ongoing tight control of costs, this is expected to result in CCD's cost base reducing to below £200m in 2020 compared with an annual run rate of approximately £260m in September 2017. Overall, there has been a reduction in roles within CCD of 1,400 over the same time period. Exceptional costs are expected to increase by approximately £5m from the interim results, primarily in respect of restructuring and redundancies in CCD.

CCD remains on track to deliver its 2019 objective of stabilising the customer base and reducing the cost base in order to deliver a break even result in 2020. The continued improvement in trading performance during the critical fourth quarter trading period is essential in delivering this objective.

Funding and capital

Consistent with the group's strategy to diversify its funding base and lower the overall cost of funding, the group is in advanced dialogue with a counterparty to fund Moneybarn new business flows through a bilateral securitisation facility. The facility is anticipated to commence in the first quarter of 2020 and would provide a comparable funding rate to the revolving credit facility which reduced from £450m to £235m in July 2019. Headroom on the group's committed debt facilities was £139m at 30 September 2019. Together with the ongoing retail deposits programme and the proposed bilateral securitisation facility, this would be sufficient to fund contractual debt maturities and projected growth in the group until June 2022.

Regulatory capital headroom against the group's Total Capital Requirement of 25.5% was approximately £60m at 30 September 2019. This compares with the Board's risk appetite of maintaining headroom of at least £50m. As previously reported, the group's next capital review (C-SREP) with the PRA is scheduled for the first quarter of 2020 with the result expected in the second quarter. The group continues to actively explore a number of options to improve capital efficiency.

Capital Markets Day

The group is later today hosting a Capital Markets Day which will include presentations from group and divisional management including:

- The group's marketplace, strategy and customer base by Malcolm Le May (Group Chief Executive Officer);
- The changes Vanquis Bank has made to adapt to regulation and the future growth opportunities by Neil Chandler (Vanquis Bank, Managing Director);
- The ongoing growth potential of Moneybarn by Shamus Hodgson (Moneybarn, Managing Director);
- The plan to breakeven in CCD in 2020 and the future growth prospects of the business by Chris Gillespie (CCD, Managing Director); and
- The group's funding and capital strategy by Simon Thomas (Group Chief Financial Officer).

The group will also reiterate the following medium-term financial commitments:

- Receivables growth of between 5% and 10% per annum over a 5-year timeframe to deliver group receivables of c.£3bn (currently: £2.1bn), comprising c.£2bn in Vanquis Bank (currently: £1.4bn), c.£750m in Moneybarn (currently: £490m) and c.£300m in CCD (currently: £235m).
- Delivery of a cost/income ratio[1] of 38% by 2022 (2018: 43%).
- Generating a return on equity (ROE[2]) of between 20% and 25% (broadly equating to a return on assets (ROA[3]) of approximately 10%). Based on planned receivables growth and the guidance in respect of the cost/income ratio, the group expects to deliver an ROE within the target range of 20% and 25% by 2021.
- Evolving dividend cover to at least 1.4 times as the home credit business recovers and returns to profitability.

The event starts at 1.30pm and concludes at approximately 4.30pm. A live audio webcast of the event will be available on the group's website (www.providentfinancial.com). In addition, an on demand audio webcast of the event will be available later in the day, also on the group's website.

1 *Cost/income ratio is calculated as administrative and operating costs, prior to the amortisation of acquisition intangibles and exceptional items divided by revenue.*
2 *ROE is calculated as adjusted profit after tax as a percentage of average equity (average equity is stated after deducting the pension asset and the fair value of derivatives).*
3 *ROA is calculated as adjusted profit before interest after tax divided by average receivables.*

Forward looking statements

This announcement may contain certain "forward looking statements" regarding the financial position, business strategy or plans for future operations of Provident. All statements other than statements of historical fact included in this document may be forward looking statements. Forward looking statements also often use words such as "believe", "expect", "estimate", "intend", "anticipate" and words of a similar meaning. By their nature, forward looking statements involve risk and uncertainty that could cause actual results to differ from those suggested by them. Much of the risk and uncertainty relates to factors that are beyond Provident's ability to control or estimate precisely, such as future market conditions and the behaviours of other market participants, and therefore undue reliance should not be placed on such statements which speak only as at the date of this document. Provident does not assume any obligation to, and does not intend to, revise or update these forward looking statements, except as required pursuant to applicable law or regulation.

No statement in this announcement is intended as a profit forecast or estimate for any period. No statement in this announcement should be interpreted to indicate a particular level of profit and, as a consequence, it should not be possible to derive a profit figure for any future period from this announcement.

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