Provident Financial plc
Trading Statement and Vision for the Future
3 May 2019

Provident Financial plc ('PFG' or '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 provides Provident shareholders with:

- An update on the Group's trading highlights for the first three months of the year (1 January 2019 to 31 March 2019) demonstrating continuing progress in rebuilding the Group and in delivering a clear vision for the future; and

- A progress update on the strategic initiatives already underway at PFG to deliver attractive and sustainable returns with clear targets for the medium term.

A. Q1 trading highlights

- **The group has delivered results in line with its internal plans** with each of the Group's four distribution channels delivering strong new business volumes and stable impairment trends:

    - Vanquis Bank new customer growth was 13% higher than the equivalent period last year.

    - Moneybarn has delivered record new business volumes representing growth of approximately 40% on the first quarter of last year.

    - Home credit's recovery continues with new and returning UK home credit customer growth 27% higher than the first quarter of last year.

    - Satsuma has delivered new business and further lending volumes 16% higher than the equivalent period last year.

- **The Group has made good progress on its historical regulatory issues:**

    - The Repayment Option Plan (ROP) refund programme in Vanquis Bank is now complete.

    - The Financial Conduct Authority (FCA) investigation at Moneybarn is close to being concluded with the financial impact within the previously announced financial provisions.

- **The Group's investment grade credit rating was reaffirmed by Fitch on 5 April 2019.**

- **Further strengthening of the Board and senior management team** has progressed, and as previously announced, Neil Chandler has joined the Group as Managing Director of Vanquis Bank and, subject to regulatory approval, will become a member of the Vanquis Bank board. Charley Davies has joined as General Counsel and Company Secretary of both the Group and Vanquis Bank. Robert East will also join the Group Board as well as becoming Chairman of Vanquis Bank, subject to regulatory approval.

Further commentary on first quarter trading is provided in the Appendix to this statement.

Malcolm Le May, Group Chief Executive, commented:

"I am pleased with the Group's performance during the first three months of the year. We have diligently built on the stronger foundations established over the past 18 months and have delivered strong customer growth and new business volumes, with stable delinquency trends and overall results in line with management's plans for 2019.

The completion of the ROP refund programme, the expected settlement of the Moneybarn FCA investigation in the near future and the recent agreement with the FCA to bring back enhanced performance management disciplines in our home credit business, demonstrate unequivocally that we are responding positively to regulatory change. We have put the Group's legacy issues behind us.

We have a clear strategy to deliver attractive and sustainable shareholder returns and good customer outcomes in an evolving industry and regulatory environment. Our goal is to achieve sustainable receivables growth of between 5% - 10% per annum and a return on equity in the range of 20% - 25%. In addition, we are focused on maintaining a dividend cover of at least 1.4 times as well as a prudent regulatory capital buffer against the total capital requirement prescribed by the PRA."

B. A vision and team for the future

What has changed?

PFG has a long history of serving the underserved in our communities. Our business, and other competitors in our category, provide vital credit to this customer segment which is estimated at 12 million adults, some 20% of the UK adult population. We are the leaders in the sector.

Good outcomes for customers combined with sustainable and attractive returns to shareholders, albeit not at the level historically experienced, is now the reality for the whole sector. We have had to make changes to our business practices which are well documented, and we expect all participants whose sales and collection practices are monitored and regulated by the FCA to have to adopt an operating model that evidences their control over each of the important stages in the customer experience. We remain of the view that, whilst badly executed, our decision in 2017 to migrate to an employed model in the UK has enabled us to take greater control over our home credit field force and anticipates the UK tax and employment law proposals, contained in the Government's Good Work Plan, which may make it more difficult for businesses to engage self-employed workforces in the future.

How are we responding?

The Board's vision is to be the best and most trusted provider of credit to the underserved, delivered across a broader range of products and distribution channels, in order to help our customers on the path to a better everyday life.

Our focus will be on providing customers with credit products appropriate for their circumstances, delivering good customer outcomes and, through this, generating sustainable shareholder returns. To do this we will:

- Deliver a broader product range;
- Enhance our distribution capabilities;
- Establish a single view of our customer; and
- Grow responsibly, delivering sustainable shareholder returns.

Having Vanquis Bank as an anchor to our strategy also gives us the opportunity to explore funding efficiencies across the Group.

We continue to deliver and develop a number of initiatives across each of these areas of focus:

1. **Broader product range**

   With our existing customer base of some 2.4 million customers, our leading multi-channel distribution capabilities and the excellent recognition enjoyed by our brands, we are uniquely positioned to reach those who require finance and to provide credit products appropriate for them. We will be building on our multi-channel distribution capabilities to meet a broader set of credit needs, developing a full product suite to support the aim of full financial inclusion in our increasingly digital world. We have traditionally focused on offering credit cards as the primary product for customers of Vanquis Bank. In the future, we plan to offer them online instalment loans and vehicle finance through digital channels, with a focus on offering the most suitable product for their borrowing needs.

   We have the following product developments underway:

   - Streamlining and building critical mass in online loans by combining Satsuma and Vanquis Bank loan capabilities. We are trialling a new term loan at rates below 100% APR in the second half of the year to ensure we offer a full range of online unsecured lending products at various price points, terms and issue values to meet customer needs.

   - Working with the FCA to offer an enhanced ROP product, responsive to customers who value its features, providing them with additional forbearance measures beyond those prescribed by regulation. We are working towards the launch of an enhanced product by the end of 2019.

   - Offering products that many of our 2.4 million customers have with other providers, including longer-term loans. We are growing our combined instalment lending operations in response to strong demand. Due to increased data enrichment and analysis enabled by our new Provident Knowledge Universe (PKU), we know that approximately 550,000 existing Vanquis Bank customers already have term loans with third parties. We utilise this data in assessing affordability, in granting them credit cards, and in granting credit line increases. Offering our own loan products to our existing customer base, whose credit profile we know, will offer both shareholder value growth and better customer outcomes.

2. **Enhanced distribution capability across digital and face-to-face channels**

   Through the combination of technology and human interface, we can help customers access a growing range of products that includes credit cards, term loans and vehicle financing, offered at rates commensurate with customers' credit standing, which we know changes over time. We will support customers with in-person, traditional and digital payment options, and work more closely with them to ensure we provide them with the best product for their specific circumstances and that we sustain the trusted relationships we are known for.

   - We are developing and leveraging more fully our Vanquis Bank app which has now surpassed over 1 million registered users. We are integrating into this app access to our Moneybarn and Satsuma products. Moneybarn is already accessible to Vanquis Bank customers and we aim to link Satsuma to them by the end of the year. The PKU has shown that of nearly 40% of Vanquis Bank customers that have a loan, less than 2% are currently Satsuma customers and similarly of the nearly 13% that have motor finance, less than 1% are with Moneybarn.

   - For our typical customer, the largest single asset purchase they are likely to make is a vehicle. This is why Moneybarn is an integral part of our future plans.

   - We are trialling Provident Direct from the end of the second quarter which is a unique blend of the very human face-to-face customer relationship management that is so effective in home credit with the ease and efficiency of direct repayment that many customers increasingly prefer.

3. **Establish a single view of our customer**

   Historically, the Group has been organised in relatively distinct product-specific silos with little collaboration or cross-group cohesion, and limited focus on realising synergies across our customer base, or development of shared capabilities. This is now changing. Our strategy is to leverage the customer and capability synergies which exist across our businesses and which represent a significant competitive advantage for PFG. In this context, we see significant value creation opportunities for customers in our Moneybarn and Satsuma businesses who also have credit cards (either with us or with other providers) offering a great potential opportunity for Vanquis Bank. We know that of the around 60% of Satsuma customers with a credit card, only around 25% are with Vanquis Bank, and similarly of the over 50% of Moneybarn customers with a credit card, only just over 20% are with Vanquis Bank.

   We know our brand and channels will serve us well in extending to these new areas, and our management team has the relevant expertise to deliver these growth opportunities. Realising this synergy potential, whilst also continuing to drive attractive and sustainable returns across our sector leading businesses, is a key part of our strategy and vision for the Group.

4. **Responsible growth with a focus on sustainable shareholder returns**

   At PFG, we are clear that we must focus on responsible growth, supported by cost control and efficiency and on delivering products from the most efficient capital structure. In short, a strategy that delivers good customer outcomes and sustainable and attractive returns to shareholders.

   There are two pillars to this:

   - **Costs culture**: In addition to capturing potential product revenue upsides, we are focused on realising synergies that arise from common processes across the Group. This includes leveraging:

     - Capabilities and best practice in distribution, credit, collections and digital throughout the Group to improve efficiency; and
     - The migration of customers towards their preferred digital application and servicing channels, such as the Vanquis Bank app, to reduce the need for capacity in high cost human contact centres.

   - **Funding efficiencies:** As Vanquis Bank is a fully licensed bank, we will explore with the PRA the options to fund the Group's businesses with deposits and other short-term obligations. This offers our businesses specific funding cost advantages and flexibility. We must operate to the highest standard of prudential capital management, control and governance, with clear implications for the experience, quality and accountability of the management team we have in place.

What this means for shareholders?

The customer has to be at the heart of all we do; putting them on the path to a better everyday life will build the sustainable returns that shareholders will enjoy for many years to come.

We are confident that, through our clear strategy and our complementary, synergistic and industry-leading businesses, we will deliver an attractive investment for shareholders. As we transition to a model in which Vanquis Bank is the greatest driver of growth, it is appropriate that our return metrics are fully reflective of this. Accordingly, our target is to deliver a return on assets[1] of approximately 10% for the Group as a whole which is consistent with a target return on equity[2] of between 20% - 25%, by 2021 and beyond. We will also target sustainable receivables growth of between 5% and 10% per annum which we expect to achieve over the medium term, maintaining dividend cover of at least 1.4 times and a sensible buffer over the total capital requirement as prescribed by the PRA.*

In addition to these long-term objectives, over the next three years we will also target a 500 basis points reduction in the cost income ratio[3] from 43% in 2018 to approximately 38%, leveraging some of the customer acquisition and servicing cost synergies that the actions described above may offer.

[*] Represents the paragraph as clarified by the statement issued on 7 May 2019 (RNS Number: 1186Y).

[1] *Return on assets is calculated as profit before interest, amortisation of intangible assets and exceptional items after tax as a percentage of average receivables (calculation set out on page 66 of the 2018 Annual Report and Financial Statements).*

[2] *Return on equity is calculated as profit after tax, prior to the amortisation of acquisition intangibles and exceptional items, divided by average equity. Average equity is calculated after deducting the pension asset net of deferred tax and the fair value of derivative financial instruments (calculation set out on page 67 of the 2018 Annual Report and Financial Statements). Pro forma return on equity for 2018, assuming the rights issue net proceeds of £300m were received on 1 January 2018, was 18.7%.*

[3] *Cost income ratio is calculated as administrative and operating costs, prior to the amortisation of acquisition intangibles and exceptional items, divided by revenue.*

APPENDIX – DETAILED TRADING UPDATE COMMENTARY

Vanquis Bank

Vanquis Bank has delivered results in line with the Group's internal plans as well as delivering strong new customer volumes during the first quarter of the year.

Despite tighter underwriting standards, new customer bookings of 98,000 were 11,000 higher than last year and ahead of management's plans, reflecting the benefit from the implementation of the new underwriting engine towards the end of 2018 which has enabled Vanquis Bank to significantly enhance the customer onboarding journey. This includes the full roll-out of soft search pre-application for all channels and the pre-approval and pre-population for all affiliate channels, both of which have resulted in an improvement in application completion rates. Customer numbers ended the first quarter at 1,794,000, 4% higher than last year.

Having increased minimum due payments in the last quarter of 2018, Vanquis Bank has commenced testing of communication strategies in respect of higher recommended payments during March 2019. Both measures are in response to the FCA's definition of persistent debt within the Credit Card Market Study and are expected to moderate receivables growth in 2019 as previously reported.

The rate of increase in delinquency has remained consistent with the first quarter of 2018 and the rate of increase in payment arrangements experienced in the second half of last year due to enhanced forbearance and the increase in minimum due payments has moderated through the first quarter of 2019.

The ROP refund programme was completed during March within the previously announced financial provision for refunds and balance reductions and agreed timetable with the FCA. There has been no material change in the level of complaints arising in relation to ROP following the announcement of the settlement in February 2018. Discussions are in progress with the FCA regarding an enhancement of the ROP product and a return to new sales in due course.

Consumer Credit Division (CCD)

The ongoing turnaround of the home credit business has continued to progress well in the first quarter, with positive momentum on new and returning customer recruitment, the implementation of further actions to right-size the cost base and support from the FCA in respect of the introduction of enhanced performance management of the field force. Overall, CCD has performed in line with the Group's internal plan during the first quarter of the year.

The improved momentum in new customer recruitment experienced in the fourth quarter of 2018 has continued in home credit during the first quarter of the year. The number of new and returning UK home credit customers was approximately 27% higher than the first quarter of 2018. As a result, home credit customer numbers ended the first quarter at 419,000, a reduction from 440,000 at December 2018 and in line with the normal seasonal reduction experienced prior to the change in operating model in July 2017.

Satsuma continues to experience a good flow of lending volumes despite further refinements in underwriting. New business and further lending volumes increased by approximately 16% and customer numbers ended the first quarter at 122,000, up 34% on March 2018. Satsuma continues to trade in line with the Board's expectations and its continued momentum reinforces the strategic importance of the business as an important part of the Group's product range.

During the important first quarter collections period, the 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 of operating model in July 2017.

As previously reported, the FCA confirmed in early March 2019 that the business can implement enhanced performance management of Customer Experience Managers (CEMs) based on a balanced scorecard supported by an element of variable performance-related pay. The scorecard is currently being tested for impact on customer outcomes in a small area with a larger, regional test being planned through May which will also include the variable pay element. Subject to the satisfactory outcome of the tests, full roll-out is expected to begin at the end of the second quarter. The implementation of this full suite of performance measures is essential to improving the efficiency and effectiveness of the field organisation, both in terms of delivering consistently good customer outcomes and returning the business to run-rate profitability in due course through growing the customer base and improving collections performance.

Following agreement with the FCA, the plans to introduce an enhancement to the home credit product offering during the second quarter of 2019, are now well progressed. The product enhancement will leverage the capabilities in both home credit and Satsuma, with the relationship managed in the home by a CEM and payments collected remotely via Continuous Payment Authority. We anticipate that this will allow us to attract new and former customers who do not wish to have a weekly collections visit by a CEM and are of suitable credit quality. In addition, the trial of larger, longer duration personal loans in Satsuma at rates below 100% APR is scheduled for the third quarter of 2019.

As previously reported, in January 2019, CCD announced a voluntary redundancy programme in central support functions with the aim of reducing central headcount by over 200. Together with actions already taken and the ongoing tight control of costs, this is expected to result in CCD's cost base reducing in 2019. Overall, there has been a reduction in roles within CCD approaching 1,000 over the last 12 months.

CCD remains on track to deliver its 2019 objective of stabilising the customer base and reducing the cost base in order to return the business to run rate profitability in due course.

Moneybarn

Moneybarn has delivered record new business volumes and further strong receivables growth during the first quarter. New business volumes were ahead of management's plans and showed year-on-year growth of approximately 40%. As a result, customer numbers at the end of March 2019 stood at 65,000, up 23% on March 2018. Default rates and arrears levels remain stable and profits were in line with the Group's internal plans, despite the adverse impact of stronger than forecast growth under IFRS 9.

Significant progress has been made with the FCA regarding the redress to be paid to resolve the issues arising in respect of the investigation into affordability, forbearance and termination options. The settlement is expected to be agreed shortly within the previously announced financial provision of £20m.

Moneybarn remains well positioned with respect to the FCA review of the motor finance market given the business has flat fee commission structures and has never given discretion to brokers in setting the interest or commission levels.

Exceptional items

Exceptional items in 2019 are currently expected to comprise: (i) approximately £10m in relation to the voluntary redundancy programme in CCD; and (ii) costs of between £17m and £22m associated with Non-Standard Finance plc's (NSF's) unsolicited offer for the Group.

Funding and capital

The Group's Common Equity Tier 1 ratio on an accrued profits basis and prior to the consideration of any exceptional costs associated with NSF's unsolicited offer for the Group, was 27.9% at 31 March 2019 compared with the Group's total capital requirement of 25.5%. Regulatory capital headroom on this basis was approximately £60m compared with the Board's risk appetite of maintaining a buffer of at least £50m. The reduction in headroom from 31 December 2018 reflects: (i) the anticipated second year transitional impact of IFRS 9 of £18m; (ii) the impact of the implementation of IFRS 16 'Leases' from 1 January 2019 of £26m; and (iii) the exceptional costs of £10m arising in respect of redundancies in CCD.

On 5 April 2019, Fitch Ratings reaffirmed the Group's investment grade credit rating at BBB- with a negative outlook.

The Group is in discussions with its lending banks with a view to refinancing the current syndicated bank facility.

Headroom on the Group's committed debt facilities was £367m at 31 March 2019. Together with the ongoing retail deposits programme, this is sufficient to fund contractual debt maturities and projected growth in the Group until May 2020.

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Forward looking statements:

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