**Provident Financial plc**
**Trading Statement**
**9 May 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 January 2018 to 8 May 2018.

**Highlights**

- Each of the group's three businesses have started 2018 with positive momentum which provides a strong foundation for delivering the group's plan for 2018 as a whole.
- Vanquis Bank has delivered profits ahead of plan in the first quarter as a result of robust margins and operational leverage.
- The recovery plan is on track and the home credit business has delivered a good collections performance during the critical first quarter trading period.
- Moneybarn has delivered strong new business volumes and, although impairment has continued to track modestly above expectations, lead indicators show that delinquency trends are now improving.
- Following the rights issue the group's capital position and liquidity are both strong.
- The process to recruit a new Chairman and additional non-executive directors is well underway.

Malcolm Le May, Group Chief Executive, commented:

"I am very pleased with the operational and financial performance of the group during the first quarter of the year and we are on-track to deliver results for 2018 in line with internal plans. I would like to thank all our employees for their hard work and efforts in delivering our continued recovery.

The successful completion of the rights issue provides a strong capital base and ensures access to the funding that will allow the group's businesses to further develop their market-leading positions.

We are making good progress in strengthening the group's governance framework, improving the relationship with our regulators and implementing the changes necessary to our culture to place the customer firmly at the heart of our strategy. This will provide the basis for delivering attractive and sustainable returns to shareholders."

**Vanquis Bank**

Vanquis Bank has delivered a good financial and operational performance in the first quarter of the year. First quarter profits were ahead of internal plan as a result of robust margins and operational leverage.

New customer bookings of 87,000 were in line with management's plans and reflect the impact of the tightening of underwriting during the third quarter of last year and the cessation of the Argos contract in early 2018. Bookings were 35,000 lower than the very strong first quarter in 2017 which benefited from the marketing programme being more heavily weighted towards the first half of the year. Customer numbers ended the first quarter at 1,723,000, 7.8% higher than last year.

Delinquency levels have remained stable during the first quarter of the year and the annualised risk-adjusted margin is tracking marginally ahead of internal plan and the guidance for the full year.

There are now 660,000 registered users to Vanquis Bank's new mobile app launched last year and the group-wide Provident Knowledge Universe (PKU) customer database is being rolled out during 2018. Both of these initiatives will enhance customer outcomes across all stages of the customer journey. The level of investment spend on developing digital initiatives through the first quarter was consistent with last year. Together with cost efficiencies, this has allowed Vanquis Bank to deliver good operational leverage.

In response to the definition of persistent debt arising from the FCA's credit card market study, the business is in the process of 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 is working to apply enhanced affordability assessments following the principles established during the FCA's wide ranging review into creditworthiness in consumer credit. The financial impact from both of these changes has already been included in the guidance for 2018.

Good progress is being made in building the capability to refund some 1.2 million ROP customers on a timely basis. A pilot into a small segment of customers has successfully been completed and the roll-out of the full refund programme will commence from June 2018. To date, there has been no material change in the level of ROP 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, with volumes and credit quality in line with expectations.

**CCD**

Home credit

The Provident home credit business has made good progress in delivering the recovery plan established in September 2017 and has performed in line with internal plans during the first quarter.

Collections performance during the important first quarter of the year continued its progressive improvement, supported by further significant improvements in customer service and operational effectiveness. The shortfall in underlying performance against historic levels narrowed from 12% at December 2017 to 10% at March 2018 and collections performance is expected to return to historic levels during the first half of 2019.

The headline collections performance through the first quarter was 70%, down from 78% reported for the month of December 2017, purely reflecting the normal seasonal reduction that follows the peak trading period in the run-up to Christmas.

The recovery plan is on-track, customer satisfaction measures have seen a substantial rebound and management is heavily focused on continuing a constructive relationship with the regulator, including in respect of the FCA's wider review of the home credit market. The actions required to fully implement the recovery plan are expected to be in place during the summer and the business is aiming to obtain full authorisation by the end of the year.

Active customer numbers ended the first quarter at 491,000, down from 527,000 at December 2017, reflecting the typical seasonal reduction.

The necessary actions to align the cost base with the reduced size of the business have been a priority through the early months of the year. The rationalisation of the home credit central support functions announced on 16 January 2018 has been completed and improvements in the effectiveness and efficiency of the field organisation are being delivered without any compromise to customer service.

Provident remains the clear market leader in the home credit market with a strong franchise. As previously communicated, the business is expected to return to breakeven on an annualised run rate basis during the second half of 2018 and move into profitability in 2019. The focus in 2018 will remain on completion of the recovery plan and securing full regulatory authorisation.

Satsuma

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 increased by approximately 70% and customer numbers ended the first quarter at 91k, up 50% on March 2017. Underwriting standards have been further tightened during the first quarter.

**Moneybarn**

Moneybarn has delivered further strong growth. First quarter new business volumes showed year-on-year growth of over 10% and customer numbers at the end of March stood at 53,000, up 24% on March 2017. The annualised risk-adjusted margin has continued to reflect the higher impairment from the step-up in new business volumes and the increased flow of defaults from business written prior to the tightening of underwriting in the second quarter of 2017. Additional investment has been made in the collections and recoveries teams and a decision has recently been made to curtail a tier of lower value business which was only marginally profitable. Lead indicators show that delinquency trends are improving and the risk-adjusted margin is expected to stabilise in the second half of the year.

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

**Central services**

The group has invested further in strengthening its governance framework during the first quarter including the recruitment of a central risk team to work under the interim Chief Risk Officer and the group co-ordination of IT and procurement under the interim IT Strategy & Procurement Executive. Plans for the recruitment of a Group HR Executive and a Head of Regulation are also well advanced. Central costs in 2018 will reflect an uplift of some £5m in providing greater co-ordination, oversight and collaboration of divisional activities to increase the efficiency and effectiveness of the group's operations.

**Funding and capital**

Following completion of the rights issue on 10 April 2018, the group's funding and capital positions are strong.

The group's CET 1 ratio on an accrued profits basis at 31 March 2018, after assuming receipt of the £300m net proceeds from the rights issue, was 29.8% 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 4.3%, equivalent to approximately £120m, 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.

Cash on deposit, excluding liquid resources held by Vanquis Bank in satisfaction of Prudential Regulation Authority (PRA) requirements, and headroom on the group's committed debt facilities is currently approximately £345m. 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 revolving syndicated bank facility matures.

On 1 March 2018, Fitch Ratings reaffirmed the group's credit rating at BBB- with a negative outlook and at the same time removed the group from ratings watch negative.

**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**

The uncertainties and risks most relevant to the group's performance continue to be in respect of regulation in the UK and Republic of Ireland.

There have been no significant changes to the regulatory framework since the year-end results announcement.

**Enquiries:**


<u>Media</u>

| | |
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| Richard King, Provident Financial | 07919 866876 |
| Jade Byrne, Provident Financial | 01274 351900 |
| Nick Cosgrove/Simone Selzer, Brunswick | 0207 4045959 |
| providentfinancial@brunswickgroup.com | |

<u>Investor relations</u>

| | |
|---|---|
| Gary Thompson/Vicki Turner, Provident Financial | 01274 351900 |
| investors@providentfinancial.com | |