PFG Provident Financial Group

Provident Personal Credit Limited

Estimated insolvency outcome for creditors as an alternative to a Scheme – updated management forecasts

24 June 2021

1. Summary of the material changes to the previously forecasted PPC balance sheet as at 31 July 2021

The previous forecast was prepared for the first Court hearing on 22 April 2021, based on December 2020 actuals. The updated forecast utilises May 2021 actuals and the material changes are:

Customer receivables

- The net customer receivables balance has reduced from the previously estimated value at 31 July 2021 of £44.2m to a current estimate at 31 July 2021 of £33.4m. The reduction in the balance of £10.8m is due to a recalculation required by IFRS 9 following the announcement of PPC wind-down in May 2021, resulting in greater provisioning against the gross asset.
- This reduction is only a change to the accounting of the customer receivable. Management is comfortable that the assessment of future collections, and the estimated recoverable value of the asset based on the future collections curve, has not changed from the previous forecast. Although recent collections performance has improved, this is believed to be a temporary effect which will not impact future collections after an assumed 31 July 2021 insolvency. Therefore for the purposes of the EOS, the estimated realisable values in scenarios 1 and 2 have not changed.

Tax assets

- The forecast PPC tax asset balance at 31 July 2021 has reduced slightly since the last forecast (down £0.4m to £41.5m). However, management's forecast of how much loss arising in PPC could be utilised by other group companies has changed. There is now expected to be greater capacity for the surrender of PPC tax losses to VBL and Moneybarn. Therefore a greater value is now estimated to be realised for these losses in an insolvency.

Intercompany debtors and creditors

- The forecast intercompany debtor value has slightly reduced since the previous forecast, resulting in a lower recovery from PFMSL. As before, an insolvency of PPC would trigger a PFMSL insolvency with a dividend still significantly less than 1% able to be recovered by the PPC insolvency practitioner.
- Since the previous forecast, there has also been a reduction in forecast intercompany creditors at 31 July 2021. This is due to a reprofiling of some cost elements which are now expected to be incurred later in 2021.

1. Summary of the material changes to the previously forecasted PPC balance sheet as at 31 July 2021 (cont.)

Trade and other payables

- This forecast creditor balance has increased by £20.0m from £14.2m to £34.2m. This is primarily due to increased provisions arising following the announcement of PPC wind-down in May 2021. This has created increased payable balances, including in relation to anticipated redundancies and associated expected business exit costs, which would rank as unsecured creditor balances in an insolvency.

2. Updates to the forecast 31 July 2021 PPC balance sheet

This table shows the most material changes (as described on the previous slide) between the previous and most recent forecast PPC balance sheets, both as at 31 July 2021. The table also shows the revised impact on the estimated realised asset values and creditor balances, in comparison to the prior estimates made in April 2021, in the two insolvency EOS scenarios.

£'m	Forecast booked value at 31 July 2021		Estimated realisations/liabilities in an insolvency			
	PREVIOUS	**UPDATED**	**PREVIOUS Scenario 1**	**UPDATED Scenario 1**	**PREVIOUS Scenario 2**	**UPDATED Scenario 2**
Customer receivables	44.2	33.4	16.7	16.7	8.2	8.2
Tax assets	41.9	41.5	6.5	7.9	6.5	7.9
Intercompany debtors	131.1	127.6	0.0	0.0	0.5	0.2
Intercompany creditors	(303.0)	(278.2)	(303.0)	(278.2)	(303.0)	(278.2)
Trade and other payables	(14.2)	(34.2)	0.0	(20.0)	0.0	(34.2)

3. Updates to the EOS as at 31 July 2021

This table shows the impact on the EOS scenarios of the previously outlined updates to the forecast balance sheet.

	PREVIOUS Scenario 1	UPDATED Scenario 1	PREVIOUS Scenario 2	UPDATED Scenario 2
Booked asset value at insolvency	£219m	£205m	£219m	£205m
Active collections period	Long		Short	
Realised asset total	£24m	£26m	£16m	£17m
Collections and insolvency costs	(£19m)	(£19m)	(£10m)	(£10m)
Net funds available to secured and preferential creditors	**£5m**	**£7m**	**£6m**	**£7m**
Secured and preferential creditor liabilities	(£32m)	(£32m)	(£16m)	(£16m)
Shortfall for creditors payable in priority to unsecured non-preferential creditors	**(£27m)**	**(£25m)**	**(£10m)**	**(£9m)**
Unsecured non-preferential creditor liabilities	(£831m)	(£826m)	(£1,562m)	(£1,571m)
Recovery for unsecured non-preferential creditors	**0%**	**0%**	**0%**	**0%**

4. Conclusions

- The most notable change to the forecast PPC balance sheet as at 31 July 2021 is in the customer receivables balance. The reduction in the balance of £10.8m is due to a recalculation required by IFRS 9 resulting in greater provisioning against the loan book. As previously noted, management is comfortable that this is purely an accounting revision and that it has no bearing on the potential recoverable amount of the asset in an insolvency. For this reason, there is no change to the insolvency EOS with respect to the estimated realisable value of the customer receivables balance.

- There is a small change in the estimated realisable value of the tax assets due to a revised forecast of how much loss arising in PPC could be utilised by other group companies. This increases the net funds available to secured creditors in both EOS scenarios by £1.4m but has no bearing on funds available to other creditors which remain in a shortfall position.

- There are no other material changes in forecasts which lead management to believe that the EOS should be amended in either scenario.

- The estimated recovery for unsecured creditors in both scenarios remains 0% with significant cash shortfalls, even to creditors payable in priority to unsecured non-preferential creditors.