PRIVATE & CONFIDENTIAL

Provident Personal Credit Limited and Greenwood Personal Credit Limited

Estimated insolvency outcome for creditors as an alternative to a Scheme

1. Scope and approach

- We have considered the likely alternative should the proposed Scheme of Arrangement (Scheme) not be approved by either the creditors' vote or the Court. In this case Provident Personal Credit Limited (PPC) and Greenwood Personal Credit Limited (Greenwood), entities within Provident Financial plc (the Group) will be placed into insolvency, likely to be either an administration or liquidation, with an insolvency practitioner ("IP") being appointed.
- This document summarises the PPC and Greenwood Estimated Outcome Statements (EOS). The focus of the document is on PPC as Greenwood is a dormant entity with few assets. An EOS is an analysis of the outcome for creditors, including customers due redress, in an insolvency. Full details of the Scheme are detailed in the Explanatory Statement and Scheme documents.
- The conclusion of the EOS is that in an insolvency there will be a shortfall of funds available to repay PPC's preferential creditors. Accordingly there will be no funds available for distribution to PPC's other unsecured non-preferential creditors, and no funds available for distribution to Greenwood's creditors, including to customers with claims for redress.
- This document has been prepared by PPC and Greenwood, having received advice from our professional advisers on relevant areas. This advice has included consideration of legal and insolvency matters.
- A range of possible insolvency outcomes have been analysed, varying the input assumptions to each. This document presents two plausible scenarios which detail estimates of the outcome in alternative insolvency scenarios.
- The starting point for the PPC EOS is the financial position as at 31 December 2020. We have updated the balance sheet for movements since that date and utilised our projections to reach a forecast PPC balance sheet as at 31 July 2021. This date has been chosen for the EOS as the closest month-end to a hypothetical insolvency date at which an IP would be appointed to manage the PPC insolvency. This is assumed to be shortly following an unsuccessful vote at the Scheme meeting.

2. Asset position

PPC has some assets which are expected to deliver value in an insolvency and some which are not expected to be cost-efficient for an IP to collect or will not realise any value. As at the date of the EOS, we have forecast that PPC will have net assets with a booked value of £219m.

£'m Asset	Forecast booked value at 31 July 2021	Estimated realisations	
		Scenario 1	Scenario 2
Intercompany debtor	131.1	0.0	0.5
Customer receivables	44.2	16.7	8.2
Tax assets	41.9	6.5	6.5
Other	2.2	0.9	0.9
Total	**219.4**	**24.1**	**16.1**

Intercompany debtor

- PPC has intercompany balances due from another Group company at the date of the insolvency:
    - There is a significant intercompany amount due from Provident Financial Management Services Ltd (PFMSL). This parent entity of PPC provides PPC with management and administrative functions. This asset is almost 60% of PPC's total net booked assets at the date of the assumed insolvency;

2. Asset position (continued)

Intercompany debtor (cont.)

- As PFMSL's major asset is its investment in PPC, it is expected that an insolvency of PPC would trigger a PFMSL insolvency. A separate outcome statement has been prepared for PFMSL in order to estimate the recovery for PPC. This separate statement estimates that, as PFMSL does not have significant realisable assets, the value able to be recovered by the PPC IP would be significantly less than 1% of the booked value at the date of the insolvency; and
- It is expected that the realisation from PFMSL would be paid to PPC within the same timeframe as the expected PPC insolvency. Therefore additional costs will not be incurred by the IP extending the PPC insolvency in anticipation of a recovery from PFMSL.

Customer receivables

- PPC reports the value of its customer receivables according to whether each loan is performing or not. The gross carrying amount of the asset is significantly greater than the net booked value of the £44m included within the EOS. Broadly, the net receivable is lower as it excludes future interest due on loans and estimated recovery provisions reflecting the expected collections strategy and performance. Despite this lower value, the future interest due on loans is still repayable by customers.
- PPC has implemented a mixed collection strategy including: (i) collections through Customer Experience Managers (CEMs), both in person and by card; (ii) central collections into the contact centre; and (iii) Continual Payment Authority (CPA) and outsourcing to realise the customer receivables asset. PPC has forecast the pattern of future collections based on its historical experience of the performance of the receivable.
- In the scenarios, we have assumed that an IP would continue to retain the outsource provider and maintain the CPA to actively collect the remaining customer receivables for a short period. However, the expectation is that an IP would not find it cost effective to retain a CEM function which may not be motivated to operate efficiently in an insolvency and where the IP would not be involved in making any new loans.

2. Asset position (continued)

Customer receivables (cont.)

- The forecast pattern of future collections has been used as the basis of the realised customer receivables in the EOS. It is expected that this pattern would experience a further amount of insolvency stress. It would also be reduced in value by set-off from customers with both outstanding loans and valid redress claims. The estimated value of this set-off varies in the modelled scenarios to reflect the uncertainty of the number of claims which would be received in an insolvency and uphold rates of these claims.
  - Once the IP determines that the overall costs of operating the collections programme outweigh the potential recoveries for the benefits of all creditors, or that continued collections will be uneconomical, it is assumed that a debt sale of the remaining asset would be sought and negotiated. In Scenario 2 it is assumed that insolvency stress and set-off is greater and, as a result, this determination is made earlier in the assumed insolvency than in Scenario 1.
  - In Scenario 1, due to the extended time associated with the IP collecting the remaining outstanding loans, it is not anticipated that such a sale would realise significant value for PPC. In Scenario 2 it is assumed that a debt sale would realise greater value for each £1 of loans sold. In both scenarios, the purchaser would face significant costs in making collections without the involvement of PPC e.g. establishing IT support systems. In Scenario 2, these broadly fixed costs are offset against a greater collectable customer receivables asset and therefore a purchaser is assumed to pay a greater proportion of the remaining receivable value.
  - In either scenario, the total value realised from the customer receivables asset is expected to be much less than the value PPC might otherwise expect to collect in a solvent, unstressed environment. Customers would still be required to meet their loan repayments, whether collections are made by a CEM, the outsourcer, or whether their loan is eventually transferred to a purchaser. However, collections are more difficult in an environment where there is no future lending.

2. Asset position (continued)

Tax assets

- PPC expects to have current tax assets. These relate to amounts potentially due from other Group companies in exchange for tax losses arising in PPC in 2020 and 2021. This amount is uncertain as the extent to which the rest of Group will have a need for such losses in 2021 is unclear at present, as is the value which an IP would be able to negotiate for the losses. A discount has accordingly been made.
- Whilst PPC has additional potential tax losses, represented as deferred tax assets, an insolvency would likely break the tax group such that these losses would not be able to be utilised by the rest of the group.

Tax asset	Forecast booked value at 31 July 2021 (£'m)	Estimated realisations (£'m)
Current tax asset (2020)	4.3	4.3
Current tax asset (2021)	4.4	2.2
Deferred tax assets	33.2	0.0
Total	**41.9**	**6.5**

Other assets

- This item includes some physical assets and trade receivables. In addition, there is a cash balance within PPC, However, this is expected to be very small at the date of the insolvency.

3. Costs

Insolvency professional costs

- Professionals' costs (covering both the IP and legal fees) are varied in the two scenarios modelled.
- An insolvency process is a complex procedure requiring the knowledge and experience of skilled professionals, including IPs and lawyers, who charge fees at their professional market rates. In the two scenarios, the different collections strategies are assumed to incur different IP and legal costs.
- There is an extensive PPC customer base and there will be significant costs associated with notifying customers and interacting with them during the insolvency as is required of an IP.

Other insolvency costs

- In addition to professionals' costs, the IP would incur further costs to continue to secure loan repayments and run the insolvency. Whilst the costs incurred in Scenario 2 are expected to be less than in Scenario 1, costs in both scenarios are expected to include:
    - *Staff costs* - the IP would require the cooperation of existing staff to support PPC continuing to secure outsourcer collections of loan repayments. There will likely also be a structure of retention and incentive payments to key staff to ensure motivation is maintained during the insolvency process;
    - *IT* - material expenditure on the IT infrastructure will be required in order to maintain collections, despite the outsource arrangement in place;
    - *Outsource commission* - this is the amount due to the retained outsourcer charged with securing ongoing loan repayments. This is a fixed percentage of the amounts collected, however it is anticipated that this cost would be significantly less than the cost of the IP trying to bring collections back in-house. The IP would need to design a completely new collections process and hire, train and support the collections agents in order to undertake the work currently performed by the outsourcer. This cost is expected to be greater than the cost of continuing the current arrangement; and
    - *Property and other* - there are other cost categories which are each less material than those specified above. Whilst these costs would be rationalised by an IP where possible, a number are retained at reduced value as they are required to support the ongoing operation of PPC in securing collection of the customer receivables.

4. Secured and preferential creditors

Secured creditors

- PPC has a single secured creditor, the Senior Executive Defined Benefit Pension Scheme.
- This particular pension scheme has a charge against customer receivables. However whilst it is included in the PPC EOS, the maximum exposure of this secured claim is estimated to be negligible in an insolvency.

Preferential creditors

- PPC is forecast to have over 650 direct employees at the date of an insolvency. Any of these individuals not retained at the start of the insolvency would have a preferential claim. This consists of any arrears of pay and any unpaid accrued holiday pay, up to a statutory maximum of £800 per person.
- HMRC is expected to have a secondary preferential claim in respect of any outstanding payroll taxes at the date of the insolvency. This has been assumed to relate only to the month immediately prior to the insolvency with an estimate included for this value.
- Additionally, as disclosed in the notes to PPC's latest filed statutory accounts, HMRC has a potential claim for some historic National Insurance Contributions (**NIC**) and Pay As You Earn (**PAYE**) balances. If this claim crystallises, a portion would rank as a secondary preferential claim in the insolvency. This matter is the subject of an ongoing HMRC review, which commenced in 2019, into the employment status of agents engaged by PPC's home credit business in the period from April 2014 to July 2017. Whilst the Group remains confident, based on legal advice received, that agents were self-employed as a matter of law throughout their engagement by the home credit business, it is recognised that the outcome of this review is uncertain. It is also expected that the review could continue for at least another year. As disclosed in PPC's latest filed accounts, if the outcome of the review is unfavourable to PPC, it would be required to pay additional taxes. These will include, employer's NIC, as well as PAYE and employees' NIC, on the c.£80m per annum commission PPC paid to agents in the UK for the years concerned.

4. Secured and preferential creditors (continued)

Preferential creditors (cont.)

- Discussions with HMRC remain in the preliminary stages. The Group does not know the amounts of tax and NIC paid by agents through self-assessment which are available for offset against any PAYE and employees' NIC liability. It is therefore difficult to calculate an accurate liability should the Group be unsuccessful in defending its position.
- HMRC has raised, or will shortly raise, protective assessments. These are a procedural matter to ensure that, in the event the review concludes that taxes are payable, HMRC can recover amounts that would otherwise drop out of time due to the lapse of statutory time limits. All of the protective assessments have been, or will be, appealed by PPC. Excluding interest on overdue tax and any penalties, the protective assessments are expected to total £50m, being the full amount of NIC and PAYE before any offset for tax or NIC paid by the agents through self-assessment. The preferential element of this amount is £31m.
- In an insolvency the IP would need to be put in funds by the unsecured non-preferential creditors in order to potentially defend this claim. Apart from legal advice and potentially legal support in proceedings, costs may be required for the factual research required to obtain a resolution. As creditors are facing a low value of realised assets, and the HMRC claim would need to be almost eliminated for there to be any return to the unsecured non-preferential creditors, it is highly unlikely that they would fund the IP to defend the HMRC claim.
- With the uncertainty surrounding the outcome of the review and the likelihood of an IP not being in a position to defend the claim, PPC has estimated a possible value for this element of the HMRC preferential claim. This is reflected in the two scenarios presented in this document. Scenario 1 assumes that the claim is valued at the expected total of the preferential element of the protective assessments, noting that this does not include offset for tax and NIC paid by agents through self-assessment. Scenario 2 assumes that there is an outcome to the claim which is 50% less than in Scenario 1. This 50% is not a recognition of any expected outcome of the claim and is only included to illustrate a potential range to this preferential liability. In reality the IP only needs to acknowledge a claim in excess of the assets available for the outcome to be the same.

6. Unsecured non-preferential creditors

- In an insolvency of PPC, there is expected to be a significant value of submitted unsecured non-preferential creditor claims. The EOS groups these claims into a number of cohorts:
    - *Redress claims* - this is the most material cohort by estimated value. These claims are expected to be received from customers seeking redress for alleged unaffordable lending claims. Any customers with a valid redress claim and who also have an outstanding loan balance will first receive insolvency set-off of their claim against their outstanding balance. Thereafter, any additional valid claim value will rank alongside all other unsecured non-preferential creditor claims, including those from customers who do not have an outstanding loan balance. To reflect the uncertainty in the value of received claims from this cohort in an insolvency, different assumptions have been made in each scenario;
    - *Intercompany* - PPC is expected to receive a significant unsecured non-preferential creditor claim from Provident Financial Holdings Ltd, another Group entity, in relation to intra-group lending arrangements;
    - *Pension scheme* - this is a claim from a different pension scheme to that with a secured claim referred to earlier. This claim would be against PPC as an employer, triggered by PPC's insolvency and would be made under section 75 of the Pensions Act 1995. The claim represents PPC's share of the shortfall in the pension scheme; and
    - *Other* - this cohort includes trade creditors, HMRC's non-preferential creditor claim for employer's NIC, and landlord positions. The aggregate claim for this cohort is significantly less than the value of the claims in each of the other cohorts.
- An estimate for the aggregate value of unsecured non-preferential claims has been included within the EOS. However, particularly in relation to the aggregate value of unsecured redress claims where there are multiple factors which will influence the number of claims which will be received, producing an accurate estimate is difficult. The values presented in the EOS for the aggregate value of unsecured non-preferential claims may differ markedly from those which may be actually received in an insolvency of PPC. Further work has not been undertaken as it is clear that there is no return to this class of creditor.

7. Summarised PPC EOS output

We have modelled two plausible and realistic EOS scenarios to estimate the outcome of the insolvency for the PPC creditors. These scenarios vary the assumptions underpinning (i) the possible realisations of assets by the IP; (ii) the value of secondary preferential claims; and (iii) the values of unsecured non-preferential claims received, primarily through claim response rates from customers in an insolvency. Each scenario also factors in a reduction in customer receivables asset value, via insolvency set-off, as a result of valid redress claims being received from customers with outstanding loan balances.

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

8. Summarised Greenwood EOS output

- Greenwood provided customer loans until it stopped trading in 2013. After Greenwood stopped trading, all of its business was transferred to PPC. This included Greenwood's responsibility to pay compensation to customers who were incorrectly issued a loan, although the liability legally remained with Greenwood. Greenwood has subsequently been broadly dormant.
- Currently, and as forecast at the insolvency date, Greenwood's only asset of value relates to an intercompany debtor balance due from Group. Greenwood also has an immaterial tax asset which consists of potential group relief recoveries arising from tax losses. However, an insolvency would break the tax group and these losses would not be able to be sold within the Group.
- The costs of an insolvency of Greenwood are expected to be significantly greater than the realisable value of the intercompany balance, even if that asset realises at full value from Group. This is because Greenwood has many tens of thousands of customers which would potentially be due redress.
- Therefore, in all scenarios, all classes of creditors in the Greenwood insolvency would receive a nil recovery. This includes any unsecured claims received from customers in relation to unaffordable lending redress.

9. Conclusions

- If an insolvency event occurs for PPC, the full booked net asset values will not be able to be fully realised by an IP. The major driver for this is that PPC’s most significant asset is an intercompany debtor balance due from PFMSL. In turn, PFMSL's major asset is its investment in PPC which would become worthless upon PPC's insolvency. Therefore an insolvency of PPC would trigger an insolvency for PFMSL in which there would be no material return to any of PFMSL's creditors, including for PPC’s intercompany debt.
- There is uncertainty over the ultimate position of a key claim which may be made by preferential creditors. As a result, a range of this claim has been estimated in the two EOS scenarios with the estimated value which is most favourable to unsecured creditors being applied to Scenario 2.
- In both modelled scenarios, there is a shortfall to the PPC creditors payable in priority to unsecured non-preferential creditors.
- Greenwood has negligible assets in comparison to the costs of an insolvency process. This therefore means that there would be no recovery for any class of creditor.
- It is therefore estimated that insolvencies of both PPC and Greenwood would result in no recovery for unsecured non-preferential creditors, including those customers seeking redress for unaffordable lending claims.