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7 March 2019

Letter from the FCA

Following the Group's announcement on 6 March 2019, the Group received a letter from the FCA, a copy of which is published below.

The Group wishes to reiterate that its transformation plan for Provident Financial plc as set out in its announcement issued on 22 February 2019, will be subject to the regulatory approval of the FCA and the PRA, as appropriate. Neither the FCA nor the PRA has expressed any opinion regarding the merits of our Offer.

6 March 2019

Dear Mr Van Kuffeler

Conduct Standards in the High Cost Lending

I write with reference to your offer document for Provident Financial Group (Provident) and our recent conversations in which you set out the proposals for the business if Non Standard Finance (NSF) were to takeover Provident. As we discussed, any changes to the business model of Provident will need to be consistent with our expectations of a firm satisfying FCA threshold conditions and our requirements relating to the provision of high-cost credit.

The offer document states NSF intends to capitalise on its operational and commercial success by acquiring and transforming Provident to unlock substantial value for all shareholders of, and stakeholders in, both Provident and NSF. Given the potential value that might be attributed to the transformation of Provident, we are writing to underline the regulatory position on standards in the market and the considerations we would apply to any transformation plans.

High-cost credit remains a priority for the FCA and protecting consumers, especially vulnerable consumers, is at the heart of everything we do as a regulator. We therefore consider the sector as presenting high risks of harm to consumers - particularly from unaffordable and repeat lending and poor treatment of customers in arrears.

As you are aware we have carried out substantial work in high cost lending sector to reduce potential harm to customers. This work included our High Cost Credit Review (CP18/12 and [CP18/43](#) (Chapter 2)) which included a review of the home-collected credit market. We published final rules and guidance in December 2018 in relation to home collected credit with the aim of ensuring that customers are properly protected from potentially poor practices.

It is important to note the changes made by Provident within its home-collected credit business to reduce the risks of unaffordable lending and poor treatment of customers in arrears. These changes include the change from self-employed agents to the introduction of employed Customer Experience Managers (CEM) together with the introduction of

recording interactions between the CEM and customer. Any changes that were to lead to a relaxation of controls, including changes to the incentives of the agents and how they are monitored, would require consideration by the FCA to ensure the changes would not lead to an increased risk of harm to consumers.

I also note that you have indicated you propose to reintroduce the Repayment Option Plan ('ROP'), a product which has caused harm to a significant number of consumers and resulted in a fine and redress exercise totalling over £170m. Any proposals for a reintroduction of a version of this product would require close engagement with the FCA to satisfy us that lessons have been learned and to ensure that costs and terms are made clear to customers and that customers are treated fairly.

I would also like to make clear that any change in controls or a shift in culture towards one that is driven by profits and incentives at the cost of good customer outcomes resulting in unaffordable lending will be something we act on immediately.

If you believe that anything in this letter may be inside information, you should consider and take advice on your disclosure obligations. You should also consider your obligations under the Takeover Code and whether you ought to consult the Takeover Panel in light of the matters raised in this letter.

Yours sincerely

Philip Salter

Director of Retail Lending

Supervision - Retail and Authorisations

Enquiries:

Non-Standard Finance plc

Peter Reynolds, Director, IR and Communications
3869 9020

T: +44 20

Ondra LLP (Financial Adviser to NSF)

Michael Tory
8750

T: +44 20 7082

Stewart Bennett
Oliver Ives
Gurnek Teja

Deutsche Bank, London Branch (Financial Adviser to NSF)

James Arculus
8000

T: +44 20 7545

Chris Raff
Nicholas Hunt
Neil Collingridge, Corporate Broking

Maitland/AMO (Public Relations Adviser to NSF)

Neil Bennett
5151

T: +44 20 7379

Andy Donald
Finlay Donaldson

Shore Capital (Corporate Broker to NSF)

Mark Percy
4090
Daniel Bush

T: +44 20 7408

Further Information

Capitalised terms used but not defined in this announcement have the meanings set out in the announcement of the Transaction on 22 February 2019.

This announcement is not intended to and does not constitute or form part of any offer to sell or subscribe for or any invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Transaction or otherwise. The Transaction will be made solely pursuant to the terms of the Offer Document, which will contain the full terms and conditions of the Transaction, including details of how to vote in respect of the Transaction. Any decision in respect of, or other response to, the Transaction should be made only on the basis of the information contained in the Offer Document.

The price and value of securities can go down as well as up. Past performance is not a guide to future performance. The contents of this announcement are not to be construed as legal, business, financial or tax advice.

This announcement does not constitute a prospectus or prospectus equivalent document.

Overseas Jurisdictions

The information contained herein is not for release, distribution or publication, directly or indirectly, in or into the United States, Canada, Australia, Japan, New Zealand, South Africa or any other Restricted Jurisdiction where applicable laws prohibit its release, distribution or publication. The release, publication or distribution of this announcement in jurisdictions other than the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe any applicable requirements. Any failure to comply with the applicable requirements may constitute a violation of the applicable securities laws. This announcement has been prepared for the purpose of complying with English law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

Copies of this announcement and any formal documentation relating to the Transaction are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send it in or into or from any Restricted Jurisdiction. Unless otherwise determined by NSF and permitted by applicable law and regulation, the Offer may not be made directly or indirectly, in or into, or by the use of mails or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Offer may not be capable of acceptance by any such use, means, instrumentality or facilities.

Notice to US investors in Provident: The Transaction relates to the shares of an English company and is being made by way of a takeover offer. If, in the future, NSF determines to extend the offer into the United States, the Transaction will be carried out in compliance with applicable United States laws and regulations. Financial information included in this announcement and the Offer Document has been or will have been prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

Important Notices relating to Financial Advisers

Ondra LLP, which is regulated in the United Kingdom by the FCA, is acting as financial adviser to NSF and no one else in connection with the matters set out in this announcement and will not regard any other person as its client in relation to the matters set out in this announcement and will not be responsible to anyone other than NSF for providing the protections afforded to clients of Ondra LLP nor for providing advice in relation to any matter referred to herein.

Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank) and, in the United Kingdom, by the PRA. It is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority, and is subject to limited regulation in the United Kingdom by the PRA and FCA. Neither Deutsche Bank nor any of its subsidiaries, branches or affiliates will be responsible to any person other than NSF for providing any of the protections afforded to clients of Deutsche Bank nor for providing advice in relation to any matters referred to in this announcement. Neither Deutsche Bank nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Deutsche Bank in connection with this announcement, any statement contained herein, or otherwise. Deutsche Bank is acting as financial adviser to NSF and no other person in connection with the contents of this announcement.

Shore Capital, which is authorised and regulated in the United Kingdom by the FCA, acts as broker to NSF and will not regard any other person as its client and will not be responsible to anyone other than NSF for providing the protections afforded to clients of Shore Capital nor for providing advice in relation to any matter referred to herein.

Dealing and Opening Position Disclosure Requirements

Under Rule 8.3(a) of the City Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the announcement in which any securities exchange offeror is first identified.

An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure. Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in one per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of

the relevant dealing. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4). Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the Offer Period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Publication on website

A copy of this announcement will be made available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on NSF's website at www.nsfgroupplc.com no later than 12 noon (London time) on the Business Day following this announcement. For the avoidance of doubt, the content of this website is not incorporated by reference into, and does not form part of, this announcement.

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