**Provident Financial plc**
**Interim Management Statement**
**12 May 2017**

Provident Financial plc, the leading UK non-standard lender, makes the following Interim Management Statement today covering the period from 1 January 2017 to 11 May 2017.

**Group**

2017 is a year of significant investment within the Provident Financial group. Vanquis Bank is making very good progress in developing a range of initiatives to enhance its growth, as evidenced by a sustained uplift in new customer volumes since the third quarter of 2016. Within the Consumer Credit Division (CCD), the transition of the home credit business to a new operating model and the enhancement of Satsuma's digital capability is progressing in line with internal plans. Moneybarn continues to invest in its platform as well as developing its product offering and distribution, all of which are supporting strong growth.

Overall, the group's trading performance during the first quarter of 2017 has been consistent with the market consensus established following the group's Capital Markets Day in early April.

**Vanquis Bank**

Vanquis Bank has experienced a strong flow of new account bookings in the first quarter of 2017, benefiting from the initiatives put in place in the second half of 2016 to expand credit card distribution, together with the launch of the Chrome branded card to address the nearer prime segment of the non-standard market. First quarter new account bookings of 122,000 were up 45% versus the relatively weak first quarter of 2016. As a result, Vanquis Bank delivered year-on-year customer and receivables growth of 12% and 14% respectively.

Delinquency levels have remained stable during the first quarter of the year, compared with the improving trend experienced through the first nine months of 2016. Accordingly, the annualised risk-adjusted margin has moderated from 32.2% at December 2016 to just under 32% at March 2017.

The Vanquis Bank loans proposition, which was launched in the second half of 2016, continues to make good progress. The focus remains on providing unsecured loans to existing credit card customers during the pilot phase with an open market proposition expected to be developed towards the end of the year.

Overall, Vanquis Bank has delivered first quarter profits in line with its internal plans and in line with last year. This is consistent with previous guidance and reflects the costs associated with the uplift in new account bookings, the anticipated moderation in the risk-adjusted margin and the investment in the programme of initiatives to augment the medium-term growth of the business, including loans and digital.

**CCD**

Home credit

The migration to a more efficient and effective field organisation, which involves employing Customer Experience Managers to serve customers rather than using self-employed agents, as well as streamlining the field management structure, is progressing broadly in line with CCD's internal timetable. In particular, a substantial majority of roles within the new field structure will have been filled by the end of May and the deployment of further technology, including route planning and voice recording, is on track to be delivered in

July 2017 when the new model will be operational. As communicated at the Capital Markets Day in early April, the new model is expected to improve the medium-term profitability of the business through a combination of cost savings and sales and collections performance improvements.

Demand and customer confidence within the home credit customer base have remained stable during the first quarter of the year. The business has continued to focus on serving good-quality existing customers which has resulted in receivables ending the first quarter approximately 3% higher than March 2016. Customer numbers ended the first quarter at 755,000, some 6% lower than the start of the year, largely reflecting the normal seasonal reduction.

Collections performance since February has been impacted by uncertainty within the field organisation as it transitions to the new operating model. As indicated at the recent Capital Markets Day, the impact of this is expected to be a net short-term trading impact of up to £10m for 2017 as a whole, comprising a shortfall in contribution of approximately £15m in the first half of the year followed by the anticipated benefits of cost savings in the second half of the year of £5m.

A one-off exceptional charge of approximately £20m will be taken in the first half of 2017 in respect of redundancy, retention and training costs associated with the transition of the home credit business to the new operating model.

Satsuma

Satsuma's performance continues to benefit from the good progress made during 2016 in developing its distribution, digital platform and further lending capability. The business is generating a good flow of new business and further lending with customer numbers increasing from 55,000 at December 2016 to 60,000 at March 2017 and receivables increasing from £18m to £21m over the same period. The credit quality of lending continues to improve and will be assisted further by the deployment of a new channel-specific underwriting engine launched in March 2017. Further lending to good quality existing customers is expected to be boosted by the roll-out of the new mobile app during the second quarter of the year.

Satsuma remains on track to deliver a small profit contribution for 2017 as a whole.

**Moneybarn**

Moneybarn's new business volumes were strong during the first quarter of the year, showing year-on-year growth of approximately 20% and a significant increase from the growth rate of 7% in the fourth quarter of 2016. Accordingly, the end of March customer numbers were 43,000, showing year-on-year growth of 29%, and receivables were £322m, showing year-on-year growth of 33%. The annualised risk-adjusted margin has moderated from 24.1% at December 2016 to just below 24% reflecting additional impairment associated with the step-up in new business volumes.

**Funding and capital**

The group's funding and liquidity positions remain strong with balance sheet gearing at the end of March of 2.2 times (March 2016: 2.0 times) compared with a covenant limit of 5.0 times.

Headroom on the group's committed debt facilities at March 2017 amounted to £294m, which together with the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the group until October 2019.

**Regulation**

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

There have been no significant changes to the regulatory framework since the year-end results announcement. CCD continues to operate under an interim permission awaiting full authorisation.

On 3 April 2017, the FCA issued a consultation paper on proposals for new rules and guidance to address persistent credit card debt. These require firms to assess whether customers are at risk of developing financial difficulties and to intervene appropriately. The consultation runs until 3 July 2017 with finalisation of the proposals expected in the second half of 2017. These proposals are additive to the remedies announced in the FCA's credit card market study final findings report issued in July 2016.

**Outlook**

Vanquis Bank and Moneybarn have made a good start to the year, trading in line with internal plans and making excellent progress in delivering the initiatives to augment their medium-term growth. Within CCD, the transition of home credit's operating model and work to further enhance Satsuma's digital capability are progressing in line with plan. Overall, the group's trading performance during the first quarter of 2017 has been consistent with the market consensus established following the group's Capital Markets Day in early April.

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