Provident Financial plc
Interim Management Statement
21 October 2011

Provident Financial plc, the leading UK non-standard lender, made the following Interim Management Statement today covering the period from 1 July 2011 to 20 October 2011.

Overview

Cautious underwriting and a strong focus on collections and arrears management are maintaining high credit quality in both businesses. This is proving to be the right approach during a period when consumers' real incomes are under pressure from inflation and there are risks surrounding the future direction of the labour market.

Sound credit quality leaves the Consumer Credit Division (CCD) well positioned as it enters the peak trading period.

Vanquis Bank is continuing to deliver both strong growth and strong margins.

The group's funding position has been further strengthened by the activation in late July of deposit taking. As planned, Vanquis Bank has taken £50m of fixed-rate deposits to date and is on track to raise a total of between £100m and £125m by the end of 2011.

Market conditions

Market conditions for both businesses have remained stable through the third quarter of the year.

The competitive landscape for CCD remains unchanged. Home credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. Whilst household earnings are showing modest year-on-year growth of around 3%, disposable incomes are under pressure from rises in the cost of food and, in particular, further significant increases in utility prices. As a result, customer and agent behaviour is relatively cautious which is moderating the demand for credit. Tight underwriting standards remain in place and the business has continued to focus on serving good quality existing customers and reducing the proportion of credit being issued to new customers.

Vanquis Bank is the most active participant in the non-standard credit card market and continues to experience strong response rates to its marketing programmes. Whilst Vanquis Bank customers are typically in more regular employment than CCD customers, the business is significantly less sensitive to changes in the employment market than mainstream card issuers. This is as a result of its consistently tight underwriting, including the policy of only serving customers with limited indebtedness, together with its 'low and grow' approach to extending credit which produces high levels of credit line utilisation and minimises the contingent risk associated with undrawn credit lines. This approach to the non-standard credit card market continues to generate stable delinquency rates that are running at the lowest levels in the company's history.

The tight underwriting standards in place in both businesses will remain unchanged for the foreseeable future in view of inflationary pressures on customers' real incomes and the risks surrounding the direction of the employment market.

Business performance

CCD

The marked improvement in credit quality achieved through the first half of the year has been maintained. The current focus continues to be on serving good quality existing customers whilst the proportion of credit issued to new customers has been reduced through the tighter underwriting introduced at the start of 2011. Collections and the management of early stage arrears remain strong, reinforced by the enhancements made to the agents' commission scheme early in the year.

Strong credit quality supported average receivables growth of 3.7% in the nine months to 30 September 2011 whilst year-on-year customer numbers showed a 2.2% reduction. The annualised revenue yield generated from the receivables book and the annualised ratio of impairment to revenue have remained at levels consistent with those reported at the half year.

The sound quality of the receivables book positions the business well as it approaches the peak trading period. Nonetheless, the year-on-year rate of receivables growth is expected to moderate through the final quarter of the year due to the exceptionally strong growth experienced towards the end of 2010.

Vanquis Bank

Vanquis Bank has continued to generate strong growth and margins through the third quarter of the year.

Delinquency levels have been stable over the last six months at a level which represents a record low for the business against the backdrop of a relatively stable employment market and consistently tight underwriting. As a result, the annualised risk-adjusted margin of approximately 35% is little changed from the half year and well ahead of the minimum target of 30%.

Heavy investment in the customer acquisition programme against unchanged underwriting standards saw customer numbers rise to 659,000 at 30 September 2011, representing year-on-year growth of 31.5%. The growth in customer numbers together with the credit line increase programme supported average receivables growth of approximately 35% in the nine months to 30 September 2011.

The second call centre in Bradford is now operational and provides the additional operational capacity required to accommodate the future growth of Vanquis Bank.

Funding and capital

The group's funding and liquidity positions are strong with an average duration for its committed financing of 3.7 years. Balance sheet gearing at the end of September was 3.2 times compared with a covenant limit of 5.0 times.

The launch of retail deposits at the end of July proved very successful and the platform, website and product distribution are all working well. In line with our plans, approximately £50m of 1 and 2 year fixed-rate deposits have been taken by Vanquis Bank at interest rates of between 3.20% and 4.00%. These rates are consistent with building a deposit base with an average maturity of two years at an all-in cost, after taking account of associated administration costs and liquidity requirements, of less than 6%. As anticipated, the retail deposit market is primarily driven by the interest rate on offer. During a single week in

September, Vanquis Bank positioned its products at or towards the top of the best-buy tables and took applications of some £30m.

Vanquis Bank is managing the flow of deposits carefully and is on track to raise a total of between £100m and £125m of deposits by the end of 2011 and achieve the target of 80% of receivables by the end of 2012.

Headroom on the group's committed debt facilities at 30 September 2011 amounted to £315m, which, together with the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth into 2013.

Regulation

The Government has confirmed that its response to the HM Treasury/BIS review of consumer credit and personal insolvency will be published in November of this year.

A separate HM Treasury/BIS research project arising from the review of the impact of any cap on the total cost of credit that can be charged in the non-standard sector is in its early stages. An update on progress is expected in spring 2012 and the findings are due to be announced by summer 2012.

Corporate Governance

The Board has noted and supports the Davies Review 'Women on Boards' together with the Financial Reporting Council's statement on proposed changes to the Corporate Governance Code relating to gender diversity on boards. The Board recognises the benefits to the company of diversity in its workforce and in the composition of the Board itself.

The Board aims to have a broad range of skills, backgrounds and experience and will pursue a policy of appointing the best people for relevant roles whilst recognising the benefits of greater diversity when considering any particular appointment.

Whilst there is more than 20% representation of women in management positions, the Board recognises the need to increase the population of female employees' at the most senior levels in the company. The Board currently comprises 14% women and the aim is to ensure that a target of 25% is reached by 2015 as well as a target of 25% women within the wider senior management group.

Outlook

The strength of the group's balance sheet and liquidity have been further enhanced by the successful launch of the retail deposits programme at Vanquis Bank which is fully expected to build to 80% of its receivables book by the end of 2012.

Credit quality in CCD is very sound as the business approaches the peak trading period. Whilst agents and customers are showing a degree of caution at a time when customers' real incomes are under pressure from inflation, current trading is in line with plan.

The sound quality of the receivables book, strong margins and continued investment by Vanquis Bank in developing its customer base, leave the business well positioned to deliver excellent results for the year.

Overall, the Board anticipates a good result for the year.

Commenting on the group's performance, Peter Crook, Chief Executive, said:

"I am pleased to report that the credit quality in both businesses remains extremely sound, fully justifying the group's cautious approach to lending at a time when customers' real incomes are under pressure from inflation and there are risks surrounding the future direction of the employment market.

The deposit taking programme at Vanquis Bank has got off to an excellent start. Not only does this further diversify and strengthen the group's funding, but it provides the stand-alone financing required by Vanquis Bank in pursuing its attractive medium-term growth opportunity."

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