

Provident Financial plc
Interim Management Statement
9 May 2013

Provident Financial plc, the leading UK non-standard lender, will make the following Interim Management Statement covering the period from 1 January to 8 May 2013 at its Annual General Meeting to be held at 11.30am (BST) today.

Commenting on the group's performance for the year to date, its Chairman, John van Kuffeler said:

"The group's overall performance is in line with its internal plan through the first quarter of the year. Vanquis Bank has continued to outperform, delivering strong growth and margins through its investment in developing the under-served UK non-standard credit card market, whilst the Consumer Credit Division has experienced weak demand from the home credit customer base through the early months of the year.

The group's funding position is strong, being sufficient to fund all contractual debt maturities and execute in full on its growth plans through to the end of 2015."

Business performance

Consumer Credit Division (CCD)

Household incomes continue to be adversely affected by the persistent rise in day-to-day living costs and, in particular, the higher winter utility charges billed during the first quarter. Adverse weather conditions also affected sales during the Easter trading weeks. The measures of confidence across the customer base continue to be at very low levels and, consequently, demand for credit has been weak during the first quarter of the year as both customers and agents have displayed increased caution. The reduction in demand has been most apparent from an increased reluctance by existing customers to commit to higher value, longer duration loans.

Consistently tight credit standards have remained in place throughout the first three months of the year and customer numbers at the end of March were approximately 2% down on the prior year. Receivables showed a year-on-year reduction of 3% reflecting the weaker demand and a shortening of the duration of the loan book. The annualised revenue yield was robust, increasing to approximately 90% at the end of the first quarter, compared with 89% in 2012, reflecting the shift in mix of loans away from longer duration loans which carry a lower yield than the core one-year product.

A consequence of the weaker demand through the first quarter is that those existing customers not wishing to take further credit have had less incentive to bring their accounts up to date. This has resulted in some deterioration in the early-stage arrears profile of receivables notwithstanding that credit standards remain unchanged. The annualised ratio of impairment to revenue increased to approximately 35% at the end of the first quarter, compared with 33% in 2012, primarily due to this deterioration in arrears and, to a lesser extent, the increase in revenue yield on the receivables book.

The first quarter trading result for CCD was weaker than plan and last year and the business is currently being tightly managed on the basis that the trading environment is unlikely to improve in the near term. These trading conditions dictate that the primary focus of the business is on field collections and arrears management and tight control of costs, so that it is well prepared for the peak trading period in the second half of the year. The second half will also see the launch of an online

customer portal together with a reloadable prepaid card as part of the ongoing medium-term business effectiveness programme.

Vanquis Bank

Vanquis Bank continues to experience strong demand from developing the under-served non-standard UK credit card market and has continued to generate strong growth and margins through the first quarter of the year.

The strong momentum from the customer acquisition programme has continued through the first quarter of the year. Against unchanged underwriting standards, the business grew its customer base to 952,000 at the end of March, up from 899,000 at the start of the year, maintaining year-on-year growth of a little over 30%. Growth in customer numbers combined with the credit line increase programme supported year-on-year first quarter receivables growth of 42%.

Vanquis Bank customers are typically in more regular employment than home credit customers although the business is considerably less sensitive to changes in the employment market than mainstream card issuers. UK unemployment has remained relatively stable through the first quarter of the year. The combination of stable market conditions and the application of consistently tight underwriting has resulted in delinquency levels returning to the record low for the business established in autumn 2012, following the normal post-Christmas seasonal increase.

As previously indicated, stable delinquency levels have resulted in the annualised risk-adjusted margin moderating since it is no longer benefitting from the progressive reduction in delinquency levels seen over the period from mid-2010 through to autumn 2012. Accordingly, the annualised risk-adjusted margin in the first quarter of the year was approximately 34% compared with 35% in 2012. It remains well ahead of the minimum target for the business of 30%.

Tight underwriting standards will remain in place as a cautious positioning of the business against the risk of any deterioration in the UK employment market.

Overall, Vanquis Bank's first quarter performance was ahead of plan and substantially ahead of the first quarter of 2012.

The Polish pilot operation is progressing in line with plan. The main focus continues to be on refining the underwriting and credit tools relevant to the target customer segments and distribution through its chosen broker and internet channels. A full report on the results of the pilot will be included with the half-year results. The pilot is expected to incur costs of between £3m and £4m through to the end of the first half of 2013.

Funding and capital

The group has further strengthened its funding and liquidity positions during the first quarter of the year through the issue of its fourth retail bond, raising £65m at a coupon of 6.0% and duration of eight and a half years.

The retail deposits programme at Vanquis Bank has increased from £327m at the start of the year to £379m at the end of the first quarter. This represents 56% of Vanquis Bank's receivables compared with the maximum FSA permitted level of up to 90%. The group's committed debt facilities at 31 March 2013 provided headroom of £319m. Including the additional retail deposits capacity available to Vanquis Bank, total funding capacity amounted to £493m. This is sufficient to fund maturities and the group's projected growth through to the end of 2015.

Regulation

The findings from the research by Bristol University's Personal Finance Research Centre on the impact of introducing a variable cap on the total cost of high cost credit was published on 6 March 2013. It represented a comprehensive study of the UK's short-term credit sector and its findings were consistent with numerous previous studies. It indicated that rate caps could reduce access to and supply of credit, weaken competition, result in charges shifting outside the cap leading to reduced price transparency and potentially promote the development of alternative legal or illegal forms of credit with greater detriment and less forbearance. The report also independently confirmed high customer satisfaction, good service levels and clear customer understanding of the straightforward products in the home credit market.

Board change

Provident Financial plc announces that in accordance with the terms of his letter of appointment, John van Kuffeler will be retiring from the board in January 2014 on his 65th birthday. John van Kuffeler joined the company in 1991 as Chief Executive and was appointed Chairman in 1997.

John van Kuffeler has overseen the growth and development of the company and the creation of value for shareholders for more than 20 years. Most recently, significant value has been delivered through the successful demerger of International Personal Finance in 2007 and the development of Vanquis Bank from start up to becoming a large and profitable player in the credit card industry.

The Board wishes to place on record its sincere thanks to John van Kuffeler for his many years of service to the company and wishes him well for the future.

Manjit Wolstenholme will succeed John van Kuffeler as Chairman of the company in January 2014 and in light of this, a new Senior Independent Director and Remuneration Committee Chairman will be appointed and announced in due course.

Outlook

The group's funding has been further strengthened during the first quarter of the year and is extremely robust, allowing the group to meet its contractual debt maturities and execute in full on its growth plans through to the end of 2015.

Whilst the home credit business is being tightly managed against the backdrop of weak trading conditions, Vanquis Bank has continued to deliver very strong growth through developing the under-served non-standard UK credit card market. As a result, the group as a whole is performing in line with its internal plan with the current trends in its two operating businesses likely to continue in the near term.

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