



**Provident Financial plc
Interim Management Statement
7 May 2015**

Provident Financial plc, the leading UK non-standard lender, makes the following Interim Management Statement today covering the period from 1 January 2015 to 6 May 2015 at its Annual General Meeting to be held at 10.00am (BST) today.

Commenting on the group's performance for the year to date, Chairman, Manjit Wolstenholme, said:

"All group businesses have made a strong start to 2015. Collections performance in the important first quarter trading period has been strong and credit quality in all three divisions is very sound, providing the foundation for another year of good-quality growth in 2015."

Vanquis Bank

UK

Vanquis Bank has continued to deliver strong growth and margins through the first quarter of the year from continuing to develop its presence in the under-served, non-standard credit card market. The competitive environment is little changed and continuing investment in the customer acquisition programme has delivered new account bookings at a similar level to last year. The result is that against unchanged credit standards the business has generated year-on-year customer growth of 18% and average receivables growth of approximately 25%.

Delinquency levels have remained favourable through the first quarter, reflecting the sound quality of the receivables book and the backdrop of an improving employment market. As expected, the annualised risk-adjusted margin has moderated to between 32% and 33% (December 2014: 33.2%) reflecting the impact of the changes made to the Repayment Option Plan (ROP) in the second half of 2013. It remains well ahead of the minimum target of 30%.

Poland

Following the decision to withdraw from the Polish pilot operation, the run-off of the receivables book is progressing satisfactorily. As previously indicated, there is not expected to be a material cost from exiting the Polish pilot operation in 2015.

Consumer Credit Division (CCD)

CCD has made good progress in executing on its strategic plan to develop a broader based lending business. The repositioning of the home credit business over the last 18 months as a leaner, better-quality business focused on returns is now substantially complete. As a result, the home credit business entered 2015 with a smaller but higher quality customer base and receivables book, sharply improved margins and a reduced cost base. Demand for CCD's online direct repayment loan product, Satsuma, is strong and the development of capability to support its growth is now at an advanced stage. As expected, the market dislocation caused by the impact of regulation on payday lenders together with the more exacting standards required of consumer credit firms as they transition to the Financial Conduct Authority (FCA) provides an attractive opportunity to develop Satsuma as a sustainable business with a leading market position capable of delivering the group's target returns.

Demand from home credit customers has shown modest improvement and customer confidence has lifted from historic lows. Household incomes and the cost of living for home credit customers are both stable. The tighter credit standards introduced as part of the repositioning of the business in September 2013 have continued to curtail the recruitment of more marginal customers and drive up the quality of the receivables book. As a result, CCD customer numbers showed a year-on-year reduction of approximately 20% to approximately 1 million and receivables ended the first quarter 18% lower than March 2014.

The marked improvement in the quality of the home credit receivables book and the successful implementation of standardised arrears and collections processes assisted by the roll-out of technology has seen CCD's annualised risk-adjusted margin increase to approximately 75% at March 2015, up from 69% at December 2014 and 61% at March 2014.

The rollout of technology has also allowed the home credit business to access significant efficiency gains across the field organisation and implement market-leading compliance. The programme is running well ahead of plan. In particular, all agents are now using the collections app and over 90% have started to use the lending app with full adoption expected by the end of the third quarter. This rapid progress means the business is currently in consultation in relation to a proposed reduction in field administration and management roles of approximately 500. This is expected to deliver annualised savings of approximately £10m per annum with an associated one-off redundancy cost of a similar amount.

Satsuma

Satsuma has made good progress during the first quarter of the year. As at 31 March 2015, Satsuma had 31,000 customers (December 2014: 21,000) and a receivables book of £6.9m (December 2014: £5.0m).

Demand for online instalment loan products is strong. Development of Satsuma's B2C marketing strategies together with the benefits of the new decision engine and scorecard introduced in November 2014 are resulting in a progressive increase in conversion rates. The product proposition also continues to evolve with monthly instalment loans having been added recently to the suite of weekly products. Consequently, new business volumes in the first quarter of the year were approximately three times higher than the first quarter of 2014.

Satsuma's collections performance is in line with plan and continues to benefit from the highly effective and scalable collections capability of Vanquis Bank's contact centre in Chatham.

Satsuma is on track to break even on a monthly basis by the end of the year.

Glo

Glo is CCD's pilot guarantor loan product introduced to test whether a proposition capable of delivering the group's target returns can be developed.

The guarantor loans proposition is distinct from home credit and Satsuma, comprising larger, longer loans of between £1,000 and £7,000 repayable over a period of between one and five years. The loan is typically guaranteed by a family member or friend with a sound credit record who supports the customer if their circumstances change. CCD's proposition offers customers competitive pricing and a very customer-centric approach to forbearance, including the high levels of personal service that the group deploys in all of its offerings.

Glo is showing encouraging progress and a formal decision on whether to proceed to full roll-out will be made during the third quarter of the year.

Moneybarn

Moneybarn has enjoyed strong new business volumes during the first quarter of the year as it continues to benefit from the group's funding. The extension of the product offering to lend up to retail value and the

reduction in the minimum lend from £5,000 to £4,000 has reinforced primacy amongst its broker network. Customer numbers ended March at 24,000 (December 2014: 22,000) and receivables have grown to approximately £170m (December 2014: £151.7m). A trial to test the appeal of the Moneybarn car finance proposition to Vanquis Bank customers is about to commence.

The business has continued to invest in the resources necessary to support future growth, meet higher regulatory standards under the FCA and bring governance processes into line with the rest of the group. Accordingly, headcount has increased by 34 since the acquisition of the business in August 2014 to 124 at March 2015.

Default rates through the important first quarter trading period have remained stable and the returns being generated by the business are consistent with those reported at the year end.

Funding and capital

The group's funding and liquidity positions remain strong with balance sheet gearing at the end of March of 2.1 times compared with a covenant limit of 5.0 times. The group issued its fifth retail bond in April, raising £60m at a coupon of 5.125% and a duration of eight and a half years.

Headroom on the group's committed debt facilities at March 2015 amounted to £247m, which, together with the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2018.

Regulation

There have been no significant changes to the regulatory framework since the year-end results announcement. CCD and Moneybarn are both on track to submit their application for full authorisation to the FCA by the end of May and Vanquis Bank continues to respond to information requests from the FCA as part of their industry wide review of the credit card industry. The group continues to have a constructive dialogue with the regulator.

Outlook

All of the group's businesses have made a strong start to the year and the sound credit quality across the three divisions provides the foundation for another year of good-quality growth in 2015.

The group's medium-term growth prospects are firmly underpinned by the strength of the group's funding position, the further growth available to Vanquis Bank in the UK and the market opportunities available to Moneybarn and Satsuma.

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