Provident Financial plc
Interim Management Statement
16 October 2015

Provident Financial plc, the leading UK non-standard lender, makes the following Interim Management Statement today covering the period from 1 July 2015 to 15 October 2015.

Group

The group has performed well through the third quarter of the year. Vanquis Bank continues to outperform whilst the Consumer Credit Division (CCD) and Moneybarn are performing in line with internal plans.

Vanquis Bank

UK

Vanquis Bank has continued to deliver strong growth and margins through the third quarter of the year from continuing to develop the under-served, non-standard credit card market. The customer acquisition programme has delivered new account bookings at a similar level to last year through the third quarter. Against unchanged credit standards the business has generated year-on-year customer growth of 12%, which is stated after the cancellation of 46,000 accounts during June and July to eliminate the contingent risk associated with undrawn credit lines. The credit line increase programme to customers with a sound payment history together with the growth in new customers have generated year-on-year average receivables growth of approximately 21%.

Delinquency levels have remained favourable through the third quarter, reflecting the sound quality of the receivables book and an improving employment market. As expected, the annualised risk-adjusted margin has moderated to around 33%. This reflects the impact of the changes made to the Repayment Option Plan in the second half of 2013 and the more recent change to interchange income following the agreement between Visa and the European Commission to implement a phased reduction in the interchange fees charged by credit card companies to retailers.

Poland

The final consideration in respect of the sale of the Polish receivables book was received in August. As indicated at the half year results, there is not expected to be any further losses in respect of the Polish pilot operation in 2015 or thereafter and the full year loss for 2015 is expected to be £1.8m, consistent with the trading loss disclosed at the half year.

CCD

CCD continues to make good progress in executing on its strategic plan to develop a broader based lending business. The repositioning of home credit as a leaner, better-quality business focused on returns is complete and good progress continues to be made in developing CCD's online direct repayment loan product, Satsuma. The guarantor loan pilot, glo, has progressed well, confirming the market opportunity to develop a business capable of delivering the group's target returns. Accordingly, the decision has been made to proceed from pilot to a full roll out in 2016.

Demand and customer confidence within home credit continue to show modest improvement. Household incomes and the cost of living for home credit customers both remain stable. CCD customer numbers showed a year-on-year reduction of 15% to approximately 1 million with over half of the reduction due to the sale of delinquent low value customer balances to third party debt purchase companies. The remaining reduction relates to the tighter credit standards introduced as part of the repositioning of the business in September 2013 which has continued to curtail the recruitment of more marginal customers and drive up the quality of the receivables book. With the repositioning of the home credit business complete, the rate of shrinkage in the CCD receivables book is moderating and showed a year on year decrease of 14% at September versus 18.0% at the half year and 20.5% at the start of the year.

The revenue yield remains strong due to the shift in mix towards shorter term, lower-risk, higher-yielding lending. Together with 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, this has resulted in CCD's annualised risk-adjusted margin increasing to approximately 80% at September 2015, up from 65% at September 2014 and 78% at June 2015. As expected, the rate of improvement in the annualised risk-adjusted margin is now moderating as the benefits of the repositioning of the home credit business are now substantially embedded within the receivables book.

Satsuma

Satsuma has continued to make good progress during the third quarter of the year. 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 for Satsuma's weekly product proposition is strong and new business volumes during the third quarter were approximately three times higher than last year. The increase in volumes has been achieved despite a reduction in the conversion rate from around 20% in June to around 15% in September as the business continues to develop and refine its underwriting standards.

Management continues to adopt a measured approach to growth whilst maintaining a strong focus on developing the IT infrastructure, management team, and governance and control processes to support the medium-term growth of the business as well as underpinning high customer service levels and positive customer outcomes. The collections capability continues to be developed using Vanquis Bank's Centre of Excellence in Chatham.

As at 30 September 2015, Satsuma had 53,000 customers (June 2015: 45,000) and a receivables book of £13.8m (June 2015: £11.6m).

The level of investment in Satsuma for 2015 as a whole is expected to be at a similar level to 2014 and Satsuma is on track to break even on a monthly basis by the end of the year and produce a profit contribution in 2016.

Glo

Glo is CCD's guarantor loan product which was launched as a pilot in 2014 to test whether a proposition capable of delivering the group's target returns could be developed. The guarantor loans proposition is distinct from home credit and Satsuma, comprising longer, larger 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.

The pilot of glo has successfully demonstrated that there is strong demand for longer, larger loans in an underserved area of the non-standard market. More crucially, CCD has been able to develop an effective and sustainable customer journey to ensure that customers receive the same high level of personal service that the group deploys in all of its offerings. This includes robust affordability checks on both the borrower and the guarantor and a very customer-centric approach to forbearance should the borrower get into financial difficulty.

The pilot has produced a high degree of confidence that glo's guarantor loans proposition is matched to an attractive market opportunity capable of delivering the group's target returns. Accordingly, glo will now proceed from pilot to a full roll-out in 2016.

Moneybarn

Moneybarn has enjoyed strong new business volumes during the third quarter of the year. Access to the group's funding and extension of the product offering to lend up to retail value has enabled the business to generate new business volumes 89% higher than the third quarter of last year. Customer numbers ended September at nearly 29,000 (June 2015: 26,000) and receivables have grown to approximately £209m (June 2015: £186.5m).

Default rates through the third quarter trading period have remained stable and the returns being generated by the business are consistent with those reported at the half-year results.

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 51 since the acquisition of the business in August 2014 to 141 at September 2015.

Trials to test the appeal of the Moneybarn car finance proposition to Vanquis Bank customers and the financing of light commercial vehicles through its broker network have commenced.

Funding and capital

The group's funding and liquidity positions remain strong with balance sheet gearing at the end of September of 2.2 times (September 2014: 2.2 times) compared with a covenant limit of 5.0 times.

Headroom on the group's committed debt facilities at September 2015 amounted to £305m, 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 half-year results announcement. The group continues to have a constructive dialogue with regulators and respond to questions associated with the applications for full authorisation in respect of CCD and Moneybarn and in respect of the variation of permissions for Vanquis Bank. Vanquis Bank also continues to respond to information requests from the FCA as part of their review of the whole credit card industry.

Management

Michael Lenora, Managing Director of Vanquis Bank, has decided to retire in 2016. The Board wishes to thank Michael for his leadership of the Bank since 2007 and delivery of a sustained period of growth and profitability. The Board is pleased to announce the appointment of Chris Sweeney as the next Managing Director of Vanquis Bank, subject to regulatory approval. Chris brings a wealth of experience in credit cards and retail banking and is currently the Group Executive, Cards and Payment Solutions at Standard Bank operating in 18 countries. Chris also serves as Chairman of Standard Bank's offshore businesses. Chris will assume leadership of Vanquis Bank from 1 January 2016. Michael will retire on 30 June 2016.

Outlook

All of the group's businesses have performed well in the third quarter and the credit quality in all three businesses is good. This reinforces confidence in delivering good-quality growth for 2015 as a whole.

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

“I am pleased to report that the group has performed well through the third quarter of the year. Vanquis Bank continues to outperform and CCD and Moneybarn are both performing in line with internal plans.

Credit quality in all three businesses is sound which leaves the group in good shape to deliver further good-quality growth as it enters the important fourth quarter trading period.”

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