

Provident Financial plc
Interim Management Statement
2 May 2012

Provident Financial plc, the leading UK non-standard lender, will make the following Interim Management Statement covering the period from 1 January to 1 May 2012 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 has started 2012 well. Credit quality in both businesses remains good and the Home Credit business has delivered a sound collections performance through the first four months of the year. Delinquency levels at Vanquis Bank remain at record lows and the business continues to generate strong growth and margins. The group is on track to deliver good quality growth for 2012.

The group's funding position is extremely robust, allowing the group to execute in full on its growth plans into 2015."

Market conditions

The competitive landscape for the Home Credit business remains unchanged. Home Credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. Whilst household incomes of Home Credit customers have shown some modest growth over last year, disposable incomes continue to be adversely affected by the food, fuel and utility price inflation experienced in the UK over the last year. In particular, the higher winter utility bills during the first quarter of the year have stretched household budgets resulting in relatively cautious customer and agent behaviour which is moderating the demand for credit. In this environment, tight credit standards remain in place and the business has continued to focus on serving good quality existing customers.

Vanquis Bank continues to experience strong demand as the most active participant in the under-served non-standard credit card market. Its 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. To date, there has been no discernible pressure on delinquency rates from the modest rise in UK unemployment over the last six months. Nonetheless, tight underwriting standards will remain in place throughout 2012 as a cautious positioning of the business against the risk of further deterioration in the UK employment market.

Business performance

Consumer Credit Division (CCD)

Demand from Home Credit customers has been relatively subdued during the first quarter of the year and customers have had to cope with the impact of higher winter utility bills. Accordingly, the field and agent force have focussed heavily on collections and, as a result, both collections performance and impairment levels during the critical first quarter have remained satisfactory.

Consistently tight credit standards have remained in place throughout the first three months of the year as the business has continued to focus on good quality existing customers. Consequently, customer numbers continued to run approximately 2% down on the prior year

during the first quarter and receivables remained flat on the prior year. Overall, the first quarter trading result for the Home Credit business was similar to last year.

Vanquis Bank

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

Investment in the customer acquisition programme has continued at a similar level to 2011 and, against unchanged underwriting standards, the business grew its customer base from 691,000 to 725,000 during the first quarter, representing year-on-year growth of 29%. Growth in customer numbers combined with the credit line increase programme supported first quarter receivables growth of 34%.

The post-Christmas seasonal rise in delinquency was mild and the level quickly returned to a record low for the business. To date, there has been no discernible impact from the relatively modest rise in unemployment over the last six months. As a result, the business has continued to generate a risk-adjusted margin of 35% compared to its minimum target of 30%.

Overall, Vanquis Bank's first quarter performance was substantially ahead of the first quarter of 2011.

Over the past year, Vanquis Bank has been exploring new medium-term growth opportunities. This work has included a review of EU territories which have a critical mass of under-served non-standard consumers and into which the business can passport its banking licence. Against these criteria, Poland has emerged as the most attractive opportunity. Vanquis Bank has recently received the approvals it requires from the UK and Polish regulators to passport its banking licence for the purpose of issuing credit cards in Poland. Accordingly, the business has commenced piloting a credit card targeted at the non-standard segment of the Polish market with the objective of developing and testing a customer proposition capable of delivering the group's target returns. The pilot is likely to run for a year and cost approximately £3m in 2012.

Funding and capital

The group's funding and liquidity positions have been further strengthened during the first quarter of the year. As previously reported, the group renewed its core syndicated bank facility of £382.5m in February through to May 2015 and cancelled all existing facilities. In addition, the group launched a third retail bond in March raising £120m at a coupon of 7.0% and a duration of five and half years.

The retail deposits programme at Vanquis Bank continued to run ahead of plan during the first quarter, with deposits taken increasing from £140m to £241m during the period. Headroom on the group's committed debt facilities at 31 March 2012 amounted to £337m which, together with the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2015.

Due to the increased level of committed debt funding following the retail bond issue, the flow of new funds from the retail deposits programme at Vanquis Bank has recently been moderated since it will not be necessary to reach the target of funding 80% of its receivables with retail deposits any earlier than December 2013.

Regulation

There have been no significant developments in the regulatory environment during the first quarter of the year.

Final guidance on the joint consultation document published by the Financial Services Authority and the Office of Fair Trading on proposed guidance to firms in relation to payment protection products is expected to be published by the summer.

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 is also expected to be announced by the summer.

FTSE4Good

For the second consecutive year the group has received a maximum rating score of 100 and has been ranked joint first globally amongst financial services companies in the recent FTSE4Good Index Series which measures the environmental, social and governance ratings of around 2,400 publicly listed companies worldwide. This achievement reflects the continued investment made by the group and its employees in embedding the corporate responsibility programme across all areas of the business.

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 into 2015.

The sound collections performance of the Home Credit business through the first four months of 2012 together with the strong growth and returns being delivered by Vanquis Bank leave the group on track to deliver good quality growth in 2012 whilst maintaining a tight approach to extending credit in the current economic environment.

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