Provident Financial plc
Interim Management Statement
19 October 2012

Provident Financial plc, the leading UK non-standard lender, made the following Interim Management Statement today covering the period from 1 July 2012 to 18 October 2012.

Overview

The group continues to focus on maintaining high credit quality in both businesses and tight credit criteria remain in place. This approach is wholly appropriate during a period when consumers' real incomes are under further pressure from food and utility price inflation and there are risks surrounding the future direction of the labour market.

The Consumer Credit Division (CCD) has traded in line with last year and has maintained a sound collections performance through the third quarter which positions it with good credit quality as it enters the peak trading period.

Vanquis Bank is continuing to deliver both strong growth and strong margins and is trading ahead of internal plans.

The group's funding position remains very robust and the group's committed debt facilities, together with the retail deposits programme at Vanquis Bank, are sufficient to fund contractual maturities and projected growth in the business until May 2015.

Business performance

CCD

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. Customer behaviour remains cautious, especially the demand for credit for more discretionary items of expenditure. It is becoming apparent that the pressure on disposable incomes from continued increases in food and utility prices is not abating. As a result, against unchanged tight underwriting standards, sales to existing customers have been relatively subdued during the seasonally quieter third quarter trading period.

Receivable levels have continued to run at a similar level to last year and the revenue yield remains in line with that reported at the half year. Since late summer, weekly customer recruitment has benefitted from a number of initiatives running through the field organisation. These include the development of new branches and the launch of the pre-paid "One Card" and related television advertising.

Collections performance remains sound and the annualised ratio of impairment to revenue has remained at a level consistent with that reported at the half year.

The business has recently announced further enhancements to the agents' commission scheme which includes attaching a higher rate of commission on collections by agents who successfully deliver high-quality growth. This is expected to start benefiting the sales and collection performance of agents.

Overall, the trading result of CCD for the first nine months of the year is similar to last year and the good quality of the receivables book positions the business well as it approaches the peak trading period.

Vanquis Bank

Vanquis Bank has generated strong growth and margins through the third quarter of the year.

The business continues to experience strong demand in the under-served non-standard credit card market. Heavy investment in the customer acquisition programme, particularly in direct mail, has seen customer numbers rise to 834,000 at 30 September 2012, representing year-on-year growth of 26.6%. Whilst competitive activity is increasing, it has had only a modest impact on booking rates through certain internet channels. The business remains on-track to deliver new account bookings comfortably in excess of 300,000 for 2012 as a whole against unchanged underwriting standards.

The growth in customer numbers together with the credit line increase programme has supported average receivables growth of approximately 36% at 30 September 2012, slightly higher than reported at the half year.

Vanquis Bank customers are typically in more regular employment than home credit customers although the business has demonstrated that it is less sensitive to changes in the employment market than mainstream card issuers. UK unemployment has remained relatively stable through the first nine months of 2012 and, as a result, delinquency levels have remained stable at record lows for the business. Accordingly, the annualised risk-adjusted margin of close to 35% at the end of the third quarter is little changed from the half year and well ahead of the minimum target of 30%. Tight underwriting standards remain in place as a cautious positioning of the business against the risk of a deterioration in the UK employment market.

Overall, the UK business has continued to outperform its internal plan for 2012 through the third quarter of the year.

The platform in the Polish pilot operation is operating successfully and the early indications are that the product proposition is being well received by customers. The limited number of accounts written to date has been through a single regional broker. In recent weeks, the Polish website has gone live for applications and distribution is also due to commence through a nationwide broker. As previously indicated, the cost in 2012 in respect of the Polish pilot operation will be approximately £3m.

Funding and capital

The group’s funding and liquidity positions remain strong. Balance sheet gearing at the end of September was 2.8 times compared with a covenant limit of 5.0 times.

Headroom on the group’s committed debt facilities at 30 September 2012 amounted to £308m, which, together with the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2015.

As indicated at the interim results, the retail deposits programme at Vanquis Bank has been moderated following the successful launch of the third retail bond in March and the consequent increase in the group’s committed debt facilities. As at 30 September 2012, retail deposits amounted to £295m, funding approximately 50% of Vanquis Bank’s receivables versus a Financial Services Authority (FSA) permitted level of 80%.

Regulation

There have been no significant new regulatory developments during the third quarter.

The Bristol University Personal Finance Research Centre study into a variable cap on the total cost of credit and final guidance from the FSA and Office of Fair Trading in relation to payment protection products were expected to be announced in late summer. These are now expected to be published during the final quarter of the year.

Outlook

The group has a strong funding position that allows it to meet its contractual debt maturities and execute in full on its growth plans into 2015.

Credit quality in CCD remains good and the business is well positioned as it approaches the peak trading period. Whilst customers are continuing to exercise caution at a time when it has become apparent that customers' real incomes are likely to be under further pressure from food and utility price inflation, a number of initiatives are in place to support the development of the business during the final quarter. Current trading is in line with internal plans.

The high quality of the receivables book, strong margins and continued investment by Vanquis Bank in developing its customer base, have delivered a third quarter performance ahead of internal plans and leaves the business in a position to deliver strong results for the year as a whole.

Overall, the Board expects to report a good result for the year.

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

"I am pleased to report further strong growth and margins at Vanquis Bank, together with a continuing stable performance from the Consumer Credit Division at a time when the pressure on customers' disposable incomes from cost inflation is not abating.

Credit quality is being reinforced by tight underwriting criteria and, as it enters its peak trading period, the group is on track to deliver good quality growth for 2012."

Enquiries:
Media

David Stevenson, Provident Financial	01274 351351
Gill Ackers/Nick Cosgrove, Brunswick	0207 4045959

Investor Relations

Gary Thompson, Provident Financial	01274 351351