Provident Financial plc
Interim Management Statement
5 May 2016

Provident Financial plc, the leading UK non-standard lender, makes the following Interim Management Statement today covering the period from 1 January 2016 to 4 May 2016.

Group

The group has made a good start to the year with the profit performance of all businesses in line with or above internal plans for the first quarter.

Vanquis Bank

Vanquis Bank delivered year-on-year average receivables growth of 13% in the first quarter and profit growth modestly ahead of that supported by robust margins, operational gearing and lower funding costs.

Vanquis Bank's internet bookings remained strong whilst first quarter year-on-year direct mail bookings were lower because the spend on the 2016 programme is more heavily weighted towards the second half of the year in order to capitalise on a number of identified productivity gains. The face-to-face channel also contributed lower volumes as a result of enhancements to the customer acquisition process which will produce higher returns as this distribution channel is expanded. As a result, total account bookings were 23,000 lower than the first quarter of 2015 and the year-on-year growth in customer numbers at the end of March was 6.2% versus growth of 9.9% for 2015 as a whole.

Delinquency levels have remained favourable through the first quarter of 2016, reflecting the sound quality of the receivables book and the stable UK employment market. As a result, the annualised risk-adjusted margin at the end of March remains little changed from the run rate of 32.8% reported for 2015.

Consumer Credit Division (CCD)

<u>Home credit</u>

Home credit performed well through the first quarter of the year with continued strong margins and lower costs more than offsetting the impact of lower year-on-year receivables.

Demand and customer confidence have continued to improve gradually and the focus on serving good-quality existing customers has resulted in a modest year-on-year improvement in sales during the first quarter of the year. As a result, receivables ended the first quarter 5% lower than March 2015, narrowing the 10% year-on-year reduction reported at December 2015. Customer numbers ended the first quarter at 850,000, some 5% lower than the start of the year which is consistent with the expected seasonal reduction.

Collections performance during the important first quarter trading period was robust and contributed to the further favourable development of the annualised risk-adjusted margin to around 85%. Credit quality is excellent and the business is well positioned to achieve its objective of at least maintaining profits for the year as a whole.

Satsuma

Satsuma's performance continues to benefit from the significant tightening of credit standards implemented in the fourth quarter of last year. The credit quality of recent cohorts of lending are developing satisfactorily and, very importantly, the business is now generating a strong flow of further lending to established, good-quality customers. Customer numbers and receivables ended the quarter little changed from December 2015, reflecting the seasonally quiet first quarter, whilst showing year-on-year growth rates of approximately 60% and 65% respectively.

A number of business and product development initiatives are on-track to be delivered in 2016, including the launch of a mobile app and a monthly product. There is no change to the guidance for the business to be at around break-even for the year as a whole.

glo

Good progress has been made in developing the underwriting, marketing and customer journey at glo in advance of the transfer of the operation to Vanquis Bank and full roll-out of the business during the second half of the year.

Moneybarn

Moneybarn has enjoyed a strong flow of new business volumes during the first quarter of the year. Customer numbers and receivables ended March at 33,000 and £243m respectively, representing year-on-year growth of approximately 40%. The returns being generated by the business are consistent with 2015 and the business continues to explore further opportunities to develop its product offering.

Funding and capital

The group's funding and liquidity positions remain strong with balance sheet gearing at the end of March of 2.0 times (March 2015: 2.1 times) compared with a covenant limit of 5.0 times.

Headroom on the group's committed debt facilities at March 2016 amounted to £289m, 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. Vanquis Bank continues to operate under an interim Consumer Credit permission awaiting formal approval of its application for a variation of permissions and 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.

Outlook

All of the group's businesses have made a good start to the year, trading in line with or above internal plans and the sound credit quality across all three divisions provides the foundation for another good performance in 2016.

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