Provident Financial plc
Interim Management Statement
8 May 2014

Provident Financial plc, the leading UK non-standard lender, will make the following Interim Management Statement covering the period from 1 January to 7 May 2014 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:

"The group has made a very good start to 2014. Vanquis Bank has continued to generate strong customer growth and margins through developing its presence in the under-served, non-standard credit card market and CCD is making excellent progress in repositioning the home credit business as a leaner, better-quality business focussed on returns rather than growth, whilst building the capability for the more rapid development of the Satsuma online instalment lending business from later this year. Credit quality in both businesses is good and the group's funding position is strong, providing confidence that the group is on track to deliver good quality growth in 2014."

Vanquis Bank

UK

Vanquis Bank UK has made an excellent start to the year, generating further good growth and strong margins through the first quarter of the year.

The business continues to generate strong demand from developing the under-served, non-standard UK credit card market. The marketing activity of competitors remains at a relatively modest level and new account bookings in the first quarter have been at a similar level to last year against unchanged credit standards. As a result, the business grew its customer base to 1,136,000 at the end of March, representing year-on-year growth of just under 20%. The combination of growth in customer numbers and credit line increases to customers that have established a sound payment history supported year-on-year receivables growth of 33%.

Although UK unemployment has shown a modest reduction over recent months, Vanquis Bank has and will continue to apply tight credit standards. As a result, the rate of delinquency has continued to run at an all-time low level and the stable delinquency performance through the first quarter of the year has produced an annualised risk-adjusted margin of around 34% at the end of March, little changed from 2013.

Poland

The primary focus of the Polish pilot operation is the development, marketing and distribution of its credit proposition in order to lift new customer volumes. During April, the business launched a flexible credit line and flexible loan product to sit alongside the core credit card product. Both of these additional revolving credit products deliver cash into the customer's bank account, broadening Vanquis Bank's appeal to the target audience. In addition, the business is to test television and radio advertising in selected regions during June.

Credit quality remains satisfactory and, consistent with previous guidance, the start-up losses associated with the pilot have continued to run at a similar rate to 2013.

Consumer Credit Division

CCD is making excellent progress in executing against its strategic plan to develop a broader based lending business over the next two years.

<u>Home credit</u>

The repositioning of the home credit business as a leaner, better-quality, more modern business with an emphasis on driving returns rather than growth is well on track and has underpinned a sound trading performance through the first quarter of the year.

The disposable incomes of home credit customers have shown a marginal improvement in recent months due to the moderation in the rate of inflation of household bills. However, measures of confidence across the customer base continue to run at very low levels as the broader UK economic recovery has not yet fed through to home credit customers in the form of increased working hours.

The tighter credit standards implemented during the final quarter of 2013 have continued to restrict the recruitment of more marginal customers into the business and, as a result, home credit customer numbers at the end of March showed a year-on-year reduction of approximately 20%. Receivables ended the first quarter 17% lower than the prior year, less marked than the reduction in customer numbers due to the focus on serving better-quality established customers. The annualised revenue yield remained robust and was little changed from December 2013 at around 96%.

The implementation of standardised arrears and collections processes coupled with tighter credit standards is generating significant benefits. Collections performance has now shown a year-on-year improvement for eight consecutive months and resulted in the annualised ratio of impairment to revenue reducing from 38.7% at December 2013 to 36.5% at March 2014. Similarly, the annualised risk-adjusted margin for the business has strengthened to 60.7% at March 2014, up from 58.9% at December 2013.

As expected, business performance is benefitting from a year-on-year reduction in costs following the programme of cost savings implemented during the second half of 2013 and, overall, profitability is running at a similar level to last year.

The roll-out of the technology required to standardise best practice, access significant efficiency gains across the field organisation and implement market-leading compliance as regulation migrates to the Financial Conduct Authority (FCA) regime is running ahead of plan.

Following release of the Android version of the collections app earlier this year, approximately 75% of agents are now using their smartphones to conduct their agent round, saving time and improving compliance. In the last month, tablet devices have been rolled-out to field managers and have received a very positive reception. These devices effectively provide managers with a 'mobile office' and will free up significant time, currently spent on office-based administration, for supporting and motivating agents as well as assisting with arrears cases. A pilot of a lending app to support electronic loans documentation has commenced very recently with a small number of agents. The app will eliminate paper, saving a significant amount of agent and back office time, and allow the business to better enforce and evidence compliance. Roll-out is expected to take place from the third quarter of the year.

Under the people agenda, the end-to-end enhancements to the process for attracting and training agents and driving improved agency performance put in place last year have resulted in a significant improvement in agent turnover and a halving in the number of vacant agencies. The first phase of the formal leadership training for managers throughout the business is now well underway.

Satsuma

The development of Satsuma as CCD's online instalment loan business for the sizeable non-standard consumer market is progressing well.

The volume of new loans issued has been deliberately moderated through the first quarter of the year whilst the business builds the capability to support more rapid development from later this year. The delivery of a new flexible IT platform is on track to support scalable growth and, very recently, the business switched over to using the proven and highly scalable collections capabilities of the Vanquis Bank contact centre in Chatham. The remaining focus is on optimising underwriting, lead generation and customer application processes. Credit quality remains satisfactory and is consistent with the business achieving the group's target returns.

Guarantor loans

In early May, CCD launched a pilot into the guarantor loans market which should be capable of delivering the group's target returns. This proposition is additional and complementary to 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 customer is supported by a family member or friend with a good credit record who is prepared to guarantee the loan if the customer's circumstances change. The proposition is being trialed initially using the broker channel only. It offers customers market-leading pricing and a very customer-centric approach to forbearance, including the high levels of personal service that CCD deploys in all its offerings.

Funding

The group's funding and liquidity positions are strong.

As previously reported, in January 2014 the group entered into a new £382.5m syndicated bank facility maturing in May 2017, replacing the previous facility that was due to expire in 2015.

The group's committed debt facilities at 31 March 2014 provided headroom of £326m. Including the additional retail deposits capacity available to Vanquis Bank, total funding capacity amounted to £608m. This is sufficient to fund maturities and the group's projected growth through to the seasonal peak in 2017.

Regulation

The FCA regulation of the consumer credit industry commenced on 1 April 2014. Both Vanquis Bank and CCD have obtained written interim permissions under the new regime. The regulator will be writing to firms during May 2014, notifying them of their three-month application window during which each firm must submit their authorisation application, with the first entrants applying for full authorisation from October 2014. Vanquis Bank has recently been notified that it will be required to submit its application between 1 December 2014 and 28 February 2015 and CCD's window for application will be between 1 March 2015 and 31 May 2015. Both Vanquis Bank and CCD have followed a detailed work programme to prepare for full authorisation.

Outlook

Vanquis Bank continues to generate strong demand from developing the under-served, non-standard UK credit card market and CCD is making excellent progress in repositioning the home credit business as a leaner, better-quality business focussed on returns rather than growth, whilst building the capability for the more rapid development of the Satsuma online instalment lending product from later this year. Credit quality in both businesses is good and the group's funding position is strong, providing confidence that the group is on track to deliver good quality growth in 2014.

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