



**Provident Financial plc
Interim Management Statement
17 October 2014**

Provident Financial plc, the leading UK non-standard lender, makes the following Interim Management Statement today covering the period from 1 July 2014 to 16 October 2014.

Group

The group has performed well through the third quarter of the year. Credit quality in all three businesses is very sound and the group's funding position is strong, leaving it well positioned to deliver further good quality growth for 2014 as a whole.

Vanquis Bank

UK

Vanquis Bank has generated further strong growth and margins through the third quarter of the year. Continuing investment in the customer acquisition programme has generated year-on-year customer growth of 17% and average receivables growth of approximately 32%, against unchanged credit standards.

Delinquency levels have remained favourable through the third quarter, reflecting the sound quality of the receivables book and the backdrop of an improving employment market. This has allowed the business to continue to deliver an annualised risk-adjusted margin above 33% as at September 2014 (June 2014: 33.6%), well ahead of its minimum target of 30%.

Poland

The pilot credit card operation in Poland continues and the rate of investment in the third quarter has been consistent with that reported at the interim results and is expected to continue at a similar level through the remainder of the year.

As at September 2014, the Polish pilot operation had 50,000 customers (June 2014: 37,000) and a receivables book of £13.4m (June 2014: £9.3m).

Consumer Credit Division (CCD)

Excellent momentum has been maintained through the third quarter of the year in repositioning the home credit business as a leaner, better-quality business focused on returns and building the capability to support CCD's online direct repayment loan product, Satsuma. As a result, the business remains on track to deliver full-year trading results in line with internal plans as it enters the important fourth quarter trading period.

Demand from existing home credit customers remains relatively subdued as customer confidence has not yet shown any sign of improvement despite the improvement in the wider UK economy. The tighter credit standards introduced as part of the repositioning of the home credit business in September last year have continued to curtail significantly the recruitment of more marginal customers into the business. As a result, CCD customer numbers and period-end receivables showed year-on-year reductions of approximately 25% and 19% respectively.

The business has continued to experience a marked improvement in the quality of the receivables book from the tighter underwriting and the drive to implement standardised arrears and collections processes. Accordingly, the annualised ratio of impairment to revenue reduced further to around 33% at September 2014, from 35.2% at June 2014 and 38.7% at December 2013. This also supported a further increase in the annualised risk-adjusted margin to approximately 65% at September 2014, up from 62.9% at June 2014 and 58.9% at December 2013.

The rollout of technology required to standardise best practice, access significant efficiency gains across the field organisation and implement market-leading compliance continues to run ahead of plan. 97% of agents are now using the collections app and over 15% are already using the recently launched lending app.

Following the merger of the Greenwood Personal Credit brand into Provident Personal Credit earlier this year, the home credit business will be rebranded as 'Provident' in early November with TV advertising to support this refresh.

Satsuma

The programme of work to build the capability within Satsuma continues to make good progress. A new decision engine and scorecard will be launched later this month which will allow the business to accommodate behavioural and social data for use in its credit decisioning and improve conversion rates. The collections capability is now embedded within the scalable Vanquis Bank contact centre in Chatham and collections performance is in line with internal plans.

Demand for an online instalment loan product is strong and the continued dislocation caused by the regulatory changes to the payday loans market provides an excellent opportunity to develop a sustainable business with a strong market position capable of delivering the group's target returns. The development of the business will be supported by an increase in advertising spend through the final quarter of the year.

As at September 2014, Satsuma had 14,000 customers (June 2014: 11,000) and a receivables book of £3.2m (June 2014: £2.4m).

Moneybarn

Moneybarn, the UK's largest non-standard vehicle finance group, was acquired by the group on 20 August. Since its acquisition, trading has been in line with internal plans and good progress has been made in integrating the business within the group's financial reporting and governance procedures. The management team is actively engaged in piloting extensions to the product proposition and work has also commenced to assess the potential opportunities for synergies with the group's other businesses. These include enhancements to underwriting and collections capabilities, the development of a business-to-consumer proposition and leveraging the Vanquis Bank customer base.

Funding and capital

The group's funding and liquidity positions remain strong. Balance sheet gearing at the end of September was 2.2 times compared with a covenant limit of 5.0 times. The reduction from 2.9 times at June 2014 predominantly reflects the £120m of equity which was raised as part of the acquisition of Moneybarn.

Headroom on the group's committed debt facilities at September 2014 amounted to £220m, which, together with the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2017. The headroom is stated after refinancing Moneybarn's debt of approximately £150m from the group's syndicated bank facilities.

Regulation

There have been no significant changes to the regulatory framework since the interim results. Each of the group's businesses continue to have a constructive dialogue with the Financial Conduct Authority (FCA) and are following a detailed work programme in preparing for full authorisation following the transfer of consumer credit regulation from the Office of Fair Trading to the FCA earlier this year.

Outlook

Vanquis Bank continues to generate strong growth and margins through developing its presence in the underserved, non-standard UK credit card market whilst CCD continues to make excellent progress in repositioning the home credit business as a leaner, better quality business focused on returns.

The group has continued to perform well in the third quarter and credit quality in all businesses is very sound. This underpins confidence in delivering good quality growth for 2014 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. Credit quality in all of our businesses is good and the group is well positioned as it enters the important fourth quarter trading period.

The group's funding position remains strong and the recent acquisition of Moneybarn, together with our organic growth initiatives, represent exciting opportunities to augment the group's medium-term growth prospects."

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