



PRESS RELEASE

Provident Financial plc Interim Management Statement 22 October 2008

Provident Financial plc, the leading UK non-standard lender, made the following Interim Management Statement today covering the period from 1 July to 21 October 2008.

Overview

During the third quarter, the group's businesses have continued to maintain the good progress seen during the first half of the year, and our market guidance for the full year remains unchanged.

Market conditions

For well over a year, the group has maintained a consistently cautious view on the UK economy. The third quarter of 2008 has seen further pressure on customers' disposable incomes, which remains the most important influence on lending decisions. Whilst demand for Provident Financial's products is as strong as it has been for several years reflecting the tightening of lending criteria and, in many cases, withdrawal from the non-standard market by mainstream and near-prime credit providers, the criteria for extending credit in each of the group's businesses have been tightened progressively since the middle of 2007.

Each of the group's businesses have a number of characteristics that make them more resilient than other lenders through difficult economic conditions. These include maintaining a uniquely up-to-date view of customers' circumstances, which is fundamental to assessing affordability and to responsible lending. Furthermore, the group's customers have limited access to other forms of credit, which means that they have not typically developed high levels of personal indebtedness.

In the Consumer Credit Division, all loans are underwritten face-to-face in the home, which provides a sharp assessment of each customer's character and current circumstances. Home credit loans are for small sums repayable over a short period of typically a year and agents visit each customer on a weekly basis to collect the repayments, thereby continually updating their view of customers' circumstances. Not only are customers and their circumstances well understood, but since agents are paid commissions based upon collections rather than on the credit issued, there is no incentive to extend credit that the customer is unable to afford.

At Vanquis Bank, the highly bespoke underwriting of credit card applications is supplemented with a telephone interview and there is a high frequency of customer contact throughout the relationship. Again, individual customer balances are low. Customers are actively re-scored each month and credit lines may be decreased to ensure lending remains appropriate and to manage the risk inherent in undrawn credit lines.

Current trading

Customer growth in the home credit business continues to reflect the increased selectivity to accepting new customers and a cautious approach to re-serving existing customers. In particular, we have seen a continued shift away from longer-term lending, which has allowed agents to reassess affordability more regularly. The rate of growth in customer numbers seen in the first half of 2008 has been maintained throughout the third quarter. As the external environment gets tougher, there is a heavy emphasis on ensuring that both the rate and quality of customer growth is balanced with the field collections capacity. As a result, customer arrears and impairment levels remain in line with plan.

The national roll-out of the new core accounting platform, known as Focus, was successfully completed three months ahead of plan. The roll-out of the improved agent commission scheme will be completed within the next 2-3 weeks, again ahead of plan and in advance of the peak trading period.

Real Personal Finance, the market test of direct repayment loans, is progressing in line with expectations. The receivables book currently stands at approximately £11m, with the productivity of the Personal Finance Managers at target levels and the early read of the credit quality of the book being as expected. Receivables will now be grown from the existing 50 locations until the middle of 2009. This will allow the receivables portfolio to season and ensure that the business is achieving the returns consistent with a national roll-out.

Vanquis Bank has continued to grow its receivables book in a cautious manner despite operating in an increasingly underserved segment of the non-standard lending market. Credit criteria have been tightened four times since the middle of 2007 resulting in a stricter underwriting of new customer applications and a greater selectivity of credit line increases to existing customers. Approximately 80% of all new customer applications are being declined at present, with a decline rate of over 85% for applications received via the internet. Notwithstanding this tightening, the growth in customer numbers and receivables continues to be in line with plan. The profile of customer arrears has remained stable during the third quarter of the year despite the deterioration in the economic climate.

The move to a larger contact centre for Vanquis Bank was successfully completed during the summer with no disruption to the business. This investment provides the business with a robust and scalable platform from which to deliver its medium-term growth targets.

Funding and capital

The group remains strongly funded with over £70m of surplus equity capital and, at the end of September 2008, over £385m of headroom available on its committed debt facilities, with no scheduled maturities until March 2010. The group's interest costs have been substantially fixed at approximately 6.50% for the remainder of 2008 and the early part of 2009.

Commenting on the company's performance, its Chief Executive Peter Crook said,

“We have maintained a cautious outlook on the prospects for the UK economy for well over a year and have actively managed credit quality. Our conservative approach to lending, combined with the group's strong balance sheet and funding profile, means the group is well placed to continue to generate high quality customer and profits growth.”

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