<u>Provident Financial plc</u>
<u>Interim Management Statement</u>
<u>4 May 2011</u>

Provident Financial plc, the leading UK non-standard lender, will make the following Interim Management Statement covering the period from 1 January to 3 May 2011 at its Annual General Meeting to be held at 10.30am (BST) today.

Commenting on the group's performance for the year to date, its Chairman, John van Kuffeler said:

"We have started 2011 well. Asset quality is under tight control as evidenced by the sound collections performance of the Home Credit business through the first four months of the year and the record low delinquency levels at Vanquis Bank. The group is on track to deliver good quality growth for 2011.

The group has now agreed with the FSA the capital requirements for Vanquis Bank to take retail deposits and expects to commence doing so later this year. This will further strengthen and diversify the group's sources of funding and establish stand-alone financing for Vanquis Bank."

Market conditions

Overall, market conditions are broadly in line with previous guidance and there has been no significant change in the employment market affecting the group's customers during the early part of 2011.

The competitive landscape for the Home Credit business remains unchanged. The household incomes of Home Credit customers, whilst remaining under pressure from under-employment characterised by a reduction in work available from hourly paid or casual employment, are relatively stable. However, disposable incomes continue to be affected by food, fuel and utility price inflation, leading to moderation in the amount of credit advanced by agents.

Vanquis Bank continues to experience strong demand as the most active participant in the non-standard credit card market. Its customers are typically in regular employment although the business is considerably less sensitive to changes in the employment market than mainstream card issuers. As a result, sound underwriting standards have delivered strong profits growth through the current cycle.

The group's plan to maintain tight underwriting standards in both businesses throughout 2011 will remain unchanged until there is clearer evidence of a sustained economic recovery.

Business performance

<u>Consumer Credit Division (CCD)</u>

Home Credit collections through the critical first quarter were in line with plan and the improvement in impairment rates experienced through the second half of 2010 has been maintained.

Year-on-year customer numbers were flat during the first quarter of 2011, reflecting the decision taken during the latter part of 2010 to place greater emphasis on serving good quality existing customers rather than recruiting new customers. First quarter year-on-year average receivables growth was around 2% against tight underwriting standards, with agents continuing to exercise caution due to the pressure on customers' disposable incomes.

As previously indicated, the yield on the receivables book has moderated due to the growth in credit over the past six months being focussed on existing good-quality customers who, compared to new customers, tend to be served with slightly longer-term products which carry a lower yield.

The business has now successfully rolled-out the changes required to implement the EU Consumer Credit Directive across the branch and agent network at a one-off cost of approximately £2m.

Excluding this one-off cost and the impact of the additional trading week in 2010, Home Credit's first quarter trading in 2011 was in line with last year.

Vanquis Bank

Vanquis Bank addresses an attractive segment of the non-standard lending market and has continued to generate a strong flow of new profitable business. Against unchanged underwriting standards which produced a booking rate of 19%, year-on-year customer numbers grew by 24% to 564,000 at the end of the first quarter of 2011 and supported year-on-year average receivables growth of approximately 35%.

Delinquency rates remained very favourable throughout the first quarter against the backdrop of a stable employment market. As a result, impairment and the annualised risk-adjusted margin of 34% were both better than plan.

Overall, Vanquis Bank's first quarter performance was ahead of plan and substantially ahead of the first quarter of 2010.

As indicated at the time of the 2010 full-year results, a number of options have been examined to secure the additional operational capacity required to accommodate the growth of Vanquis Bank from early 2012. The preferred option is to establish a second call centre using the capacity available within CCD's new Bradford facility, with its ready-made infrastructure and proximity to a deep labour pool.

Funding and capital

The first quarter has seen the group make significant progress in further strengthening and diversifying its funding. On 31 March 2011, the group successfully issued a second retail bond raising £50m at a coupon of 7.5% and a duration of five and half years. This took new funding raised in the first quarter of 2011 to £178m. After the scheduled expiry of bank facilities totalling £73m during March 2011, remaining contractual maturities over the next 12 months are £272m compared with headroom from committed facilities at the end of March 2011 of over £350m.

The group has now finalised with the FSA the capital requirements relating to Vanquis Bank taking retail deposits. These requirements can be readily accommodated within the existing capital structure of Vanquis Bank and the group. As a result, subject to finalising certain operational matters with the FSA, Vanquis Bank fully expects to commence taking retail deposits later this year. Establishing stand-alone funding for this fast growing business represents an important strategic milestone for the group.

Regulation

The group implemented relevant parts of the Irresponsible Lending Guidance to Creditors and the EU Directive on Consumer Credit by the February 2011 deadline.

The group contributed to the Call for Evidence in relation to the broad ranging review of UK consumer credit and insolvency by HM Treasury/BIS. The next steps arising from this consultation are expected to be published later this month.

FTSE4Good

The group is very proud to have received a maximum rating score of 100 and be ranked joint first globally amongst financial services companies in the recent FTSE4Good Index Series which measures the environmental, social and governance ratings of over 2,300 publicly listed companies worldwide. This achievement reflects the continued investment that the group and its employees have made in embedding its corporate responsibility programme across all areas of the business.

Outlook

The group's balance sheet and liquidity remain strong. The clear expectation that Vanquis Bank will commence deposit taking later this year will further strengthen and diversify the group's funding as well as establish stand-alone financing for Vanquis Bank.

The sound collections performance of the Home Credit business through the first four months of 2011 together with the strong growth and returns being delivered by Vanquis Bank leave the group on track to deliver good quality growth in 2011 whilst maintaining a tight approach to extending credit in the current economic environment.

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