Provident Financial plc
Interim Management Statement
23 October 2009

Provident Financial plc, the leading UK non-standard lender, made the following Interim Management Statement today covering the period from 1 July to 22 October 2009.

Overview

The group's careful and effective management of growth, impairment and costs has continued through the third quarter. There is no doubt that this remains the correct approach until there is clear evidence that the rate of increase both in unemployment and under-employment has abated. The good performance of lending made through the downturn and the sound overall condition of the receivables portfolios leaves both businesses well positioned for the peak trading period and to deliver further profitable growth for the year.

Market conditions

Management has correctly held the view since the middle of 2007 that the UK economy would experience a marked deterioration, which has resulted in an increasingly cautious approach to lending and a heavy emphasis on maintaining an appropriate balance between growth, credit quality and collections capacity throughout the downturn.

The group has continued to see pressure on household incomes from the impact of both rising unemployment and under-employment, which has reduced consumer confidence and introduced a greater level of caution into agents' lending decisions.

At the same time, there continues to be a severe constraint on the flow of new loans to consumers in the UK non-standard lending market. Whilst the competitive conditions in the home-collected segment of this market have remained largely unchanged throughout the downturn, there is currently almost no new lending from active competitors in the direct repayment segment of the market in which Vanquis Bank and Real Personal Finance operate, due to the withdrawal or collapse of the main participants. This presents an enhanced medium-term opportunity for the group to execute its strategy of broadening its participation in this market.

The group remains focussed upon lending small sums of unsecured credit to non-standard consumers who typically do not carry significant amounts of other indebtedness. This makes the businesses inherently more resilient than many other lenders at a time of rising unemployment and under-employment. Within the home credit business, agents have a real-time understanding of their customers' circumstances through the 1.7 million collection visits made every week and also possess a high level of awareness of changes in local employment conditions, which they are able to factor into their lending decisions swiftly. In addition, the agents' commission structure, which is based solely upon collections rather than credit issued, encourages them to lend smaller amounts for shorter periods when local economic conditions present a risk to customers' circumstances. At Vanquis Bank, credit lines remain low and each customer's credit status is rechecked every month to identify signs of potential distress at an early stage, with close attention being paid to the level of undrawn credit lines to mitigate contingent risk.

Business performance

The Consumer Credit Division has deliberately slowed the rate of new customer growth during 2009 by being more selective in lending to new customers and by tightening the underwriting standards applied when re-serving existing customers. Customer numbers are currently around 4% higher than at the same point in 2008. In this face-to-face business, it is crucially important to maintain the balance between rates of customer growth, credit quality and the collections capacity. The close attention paid to this balance, particularly through the investment in some 120 new field-based management roles over the last year, has supported a strong collections performance during the first nine months of 2009. This leaves the business and its receivables portfolio well placed as it moves into the peak lending period at the end of the year.

The flow of new applications into Vanquis Bank remains strong, although tight underwriting standards have been maintained. As a result, only around 17% of card applications are currently being accepted. Customer numbers are approximately 5% higher than at the same point in 2008 after the closure of 21,000 inactive accounts during the summer to mitigate the contingent risk associated with undrawn lines. The performance of the credit line increase programme to existing customers, together with new account origination, remains very satisfactory with the arrears profile remaining stable throughout the third quarter.

The collect-out of the Yes Car Credit receivables portfolio has now been successfully completed. As planned, the collections facility and the remaining infrastructure will be closed during November.

Funding and capital

The group recently launched and priced a new £250m 10-year senior public bond with a semi-annual coupon of 8%. This maiden benchmark senior debt issue represents an important strategic diversification of the group’s funding base. At the same time, the group launched a tender auction process to redeem its £100m subordinated bonds ahead of their scheduled call date in June 2010. The group’s Individual Capital Guidance, set by the FSA in recent weeks, confirms that the group is able to operate with sufficient regulatory capital without requiring the Lower Tier 2 capital represented by these bonds, and they were therefore redeemed in order to rationalise the group’s funding base. Valid tenders were received from some £94m of the £100m outstanding subordinated bonds. The combined effect of the new senior bond and the tender offer has been to raise additional facilities of approximately £160m, which is sufficient to fund the group’s organic growth plans into 2011, and produces a revised blended rate of interest on the group's debt funding of approximately 7.4%.

The group also continues to hold a significant level of surplus equity capital which stood at around £60m at the end of September.

Regulation

The group is assisting with the Office of Fair Trading’s review of the £35bn high-cost consumer credit market which it announced in July 2009. The review, which covers a broad range of lending activities of which home credit is a relatively small element, is currently expected to publish its interim findings by the end of the year.

Outlook

The group’s current planning assumes that there will be no material improvement in the rate of increase in unemployment until next Spring, and that a cautious approach to new lending will remain in place until then. The good performance of lending made through the downturn and the sound overall condition of the receivables portfolios leaves both businesses well positioned for the peak trading period and to deliver further profitable growth for the year.

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

> “*We have maintained a consistently cautious approach to both new lending and balance sheet funding throughout the economic downturn. As we enter the peak trading period, we are well placed to deliver further profitable growth for 2009. Once conditions in the employment market stabilise, the group has an enhanced opportunity to generate value from its strategy to broaden its participation in the UK non-standard consumer lending market.*
>
> *I am delighted to report the success of the group’s maiden £250m senior public bond, which both increases and diversifies the group’s funding base.*”

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