

Provident Financial plc

2009 Results Presentation

Maintaining the flow of credit through turbulent times

2 March 2010

PFG | **Provident**
Financial Group

Provident Financial plc

Today's presentation

- Strategy and approach Peter Crook
- Financial review Andrew Fisher
- Consumer Credit Division Chris Gillespie
- Vanquis Bank and Outlook Peter Crook

Highlights

Good performance in tough conditions

- Profit before tax and exceptional costs up £1.3m to £130.1m
- Sound credit quality in both divisions through effective management of the balance between growth, impairment and costs
- Growth in home credit customers of 5.1%
- Demand for home credit tempered by increasingly cautious customer behaviour evident in peak fourth quarter trading period exacerbated by December weather
- Vanquis profits up 76% and on track to achieve medium-term target
- RPF market test completed and in current market conditions direct repayment loans to be focused solely on prospects from home credit network
- Balance sheet strength and liquidity further enhanced through £250m bond issue and extension to bank facilities
- Year-end banking headroom of £331m and sufficient funding to end of 2011
- Full-year dividend maintained at 63.5p per share

Strategy

Addressing the UK non-standard lending market through responsible lending

- Our aim is to be the leading non-standard lender in the UK, acting responsibly in all our relationships and playing a positive role in the communities we serve
- The UK non-standard market will increasingly be the domain of specialist lenders
- High returns available from pursuing attractive organic growth opportunities, particularly in small-sum unsecured segment of the market
- Fall-out from market turmoil reinforces medium-term opportunity to build leading position in UK non-standard unsecured consumer lending market

Market conditions and management response

Sound management through tough conditions

- Severe reduction in flow of new lending into the UK non-standard market
- Competitive conditions in the home-collected segment are largely unchanged and the flow of credit has been maintained
- Vanquis Bank has been the only significant participant in the non-standard credit card segment for over two years
- Most participants in the direct repayment segments have failed, withdrawn or restructured over the last 18 months leading to the collapse of the broker channel
- Wider non-standard market characterised by consumers carrying far too much debt and/or displaying poor payment discipline
- CCD and Vanquis Bank have adhered to strict practice of only serving customers with limited indebtedness

Market conditions and management response

Sound management through tough conditions

- **Pressure on household budgets from unemployment and under-employment leading to increasingly cautious customer behaviour**
 - strong emphasis upon customer affordability and responsible lending reinforced by business model
 - credit standards tightened through first half of 2009 and maintained through second half
 - investment in collections and arrears management capacity
- **Planning assumption is that pressure on household incomes will persist and consumers are likely to remain cautious through 2010**
 - planning for relatively low receivables growth and no relaxation of credit standards
 - focus on cost efficiency whilst protecting collections and arrears management capacity
 - direct repayment loans to be issued to known customers only
- **Bank lending to UK companies remains constrained**
 - debut £250m 10 year senior public bonds issued to both increase and diversify funding
 - £380m forward starting facility to May 2013 with core members of banking syndicate
 - group funding and liquidity enhanced

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2009 Results Presentation

Financial review

Financial review

Profit before taxation

	2009 £m	2008 £m	Change £m
Home credit	128.9	128.8	0.1
Real Personal Finance (market test)	(7.7)	(2.7)	(5.0)
Vanquis Bank	14.1	8.0	6.1
Yes Car Credit (collect-out)	0.2	(2.9)	3.1
Central			
- Costs	(7.0)	(5.5)	(1.5)
- Interest receivable	1.6	3.1	(1.5)
Total central	(5.4)	(2.4)	(3.0)
Profit before tax and exceptional costs	130.1	128.8	1.3
Pre-exceptional earnings per share	71.4p	70.9p	

Home credit

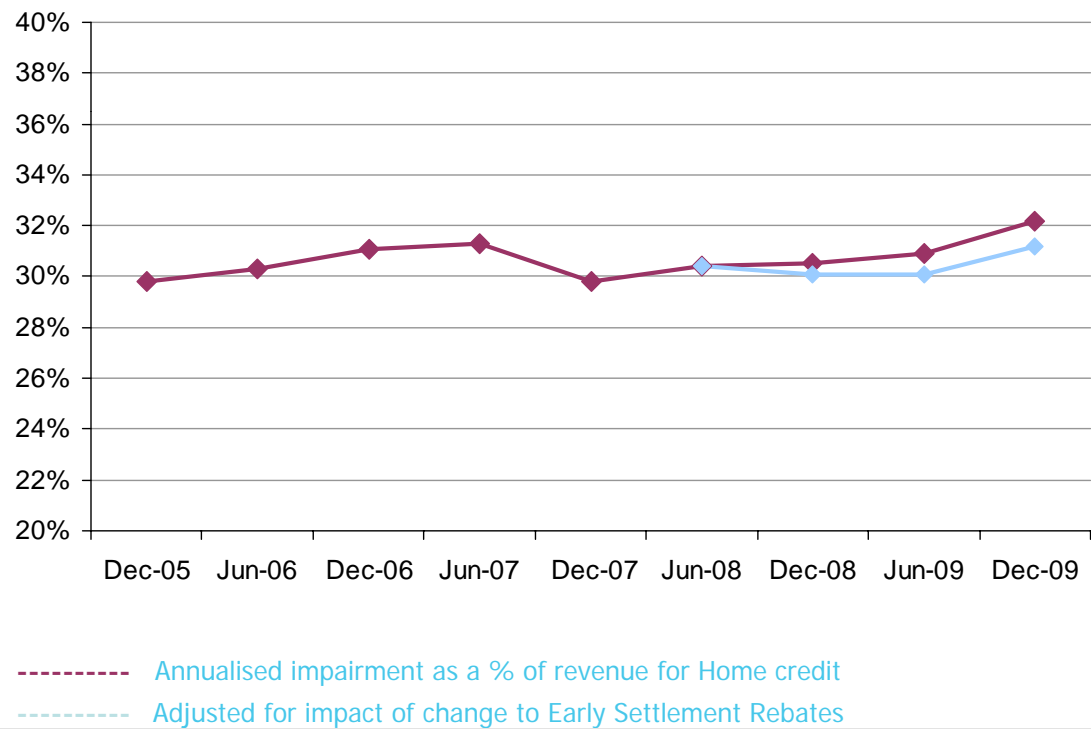
Income statement

Year ended 31 December	2009 £m	2008 £m	Change %
Customer numbers ('000)	1,842	1,753	5.1
Average customer receivables	759.2	704.8	7.7
Revenue	673.7	645.9	4.3
Impairment	(216.7)	(197.3)	(9.8)
Revenue less impairment	457.0	448.6	1.9
Costs	(288.4)	(283.6)	(1.7)
Interest	(39.7)	(36.2)	(9.7)
Profit before tax	128.9	128.8	0.1
<i>Revenue % average receivables*</i>	88.7%	91.6%	
<i>Impairment % average receivables*</i>	28.5%	28.0%	
<i>Impairment % revenue*</i>	32.3%	30.5%	

* Impairment, revenue and average receivables all for the 12 months ended 31 December as applicable

Home credit

Stable impairment as a % of revenue



Home credit

Impairment policy

- Based on last 12 weeks payment performance
- Loans deemed impaired if more than 1 contractual weekly payment missed in previous 12 weeks
- 95%+ provision against loans for which no payment received in last 90 days

Timely, realistic provisioning which has been applied consistently and reinforces the right behaviour amongst 11,600 agents and 3,000 employees

Home credit

IFRS 7 disclosures: % of closing receivables as at 31 December

	2009	2008
	%	%
In order	36.9	37.6
In arrears:		
- Past due but not impaired	15.0	13.6
- Impaired	48.1	48.8
TOTAL	100.0	100.0

Home credit

Income statement

Year ended 31 December	2009 £m	2008 £m	Change %
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Vanquis Bank

Income statement

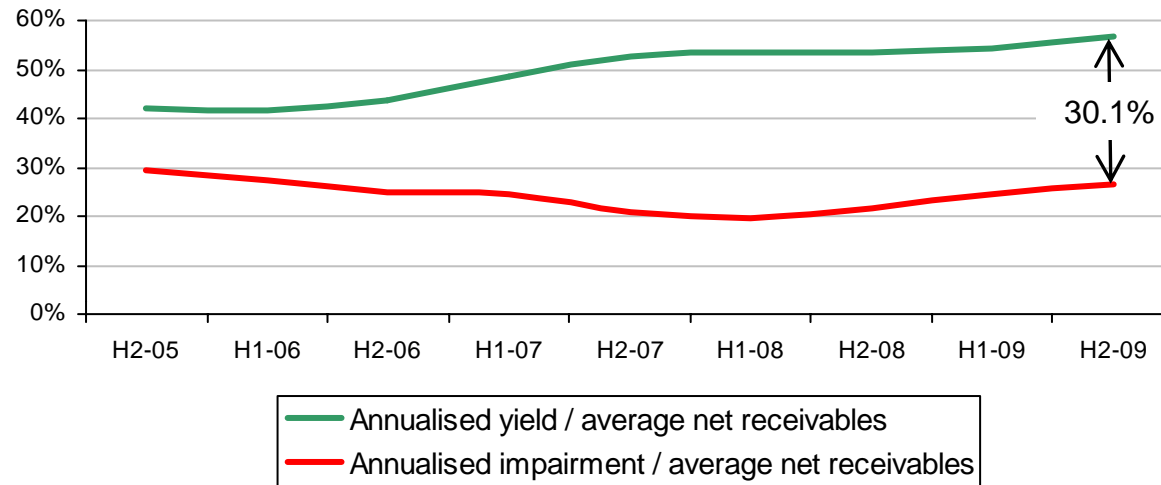
Year ended 31 December	2009 £m	2008 £m	Change %
Customer numbers ('000)	426	404	5.4
Average customer receivables	231.1	177.5	30.2
Revenue	131.3	94.6	38.8
Impairment	(61.7)	(38.2)	(61.5)
Revenue less impairment	69.6	56.4	23.4
<i>Risk-adjusted margin*</i>	30.1%	31.8%	
<i>Impairment % revenue**</i>	47.0%	40.4%	
Costs	(43.3)	(39.4)	(9.9)
Interest	(12.2)	(9.0)	(35.6)
Profit before tax	14.1	8.0	76.3

* Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December

** Impairment as a percentage of revenue for the 12 months ended 31 December

Vanquis Bank

Maintaining the risk-adjusted margin



- Risk-adjusted margin at target of 30%
- Active management of credit line utilisation and revenue yield to reflect underlying credit risk of each cohort of customers
 - provides a strong stream of interest income
 - minimises contingent undrawn exposure
- Increased credit losses predominantly from old book
- Consistent improvement in credit quality since 2007
- Customers carry relatively low balances (c.£625) and limited other indebtedness

Vanquis Bank

Impairment policy

- Loans deemed to be impaired as soon as 1 contractual monthly payment is missed
- Provision of over 80% made against accounts that are 90 days in arrears*

Realistic accounting policy applied consistently which is prudent when benchmarked against other card issuers

** subject to estimated realisations from central/third party debt recovery processes*

Vanquis Bank

IFRS 7 disclosures: % of closing receivables as at 31 December

	2009	2008
	%	%
In order	82.9	83.2
In arrears:		
- Past due but not impaired	-	-
- Impaired	17.1	16.8
TOTAL	100.0	100.0

Vanquis Bank

Income statement

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Financial review

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Pre-exceptional earnings per share	71.4p	70.9p	

Balance sheet

Strong balance sheet with modest gearing levels

	2009 £m	2008 £m
Receivables:		
- Consumer Credit Division	883.8	852.1
- Vanquis Bank	255.5	205.4
- Yes Car Credit	-	5.8
	1,139.3	1,063.3
Pension asset	19.9	50.9
Borrowings*	(883.4)	(803.9)
Other	(7.4)	(32.4)
Net assets	268.4	277.9
Equity(†) : Receivables	18.9%	19.1%
Gearing (†)	3.3x	3.2x

* including the fair value of derivatives used to hedge US\$ private placement notes

† equity excludes the net pension asset and the fair value of derivatives

Borrowings and committed facilities

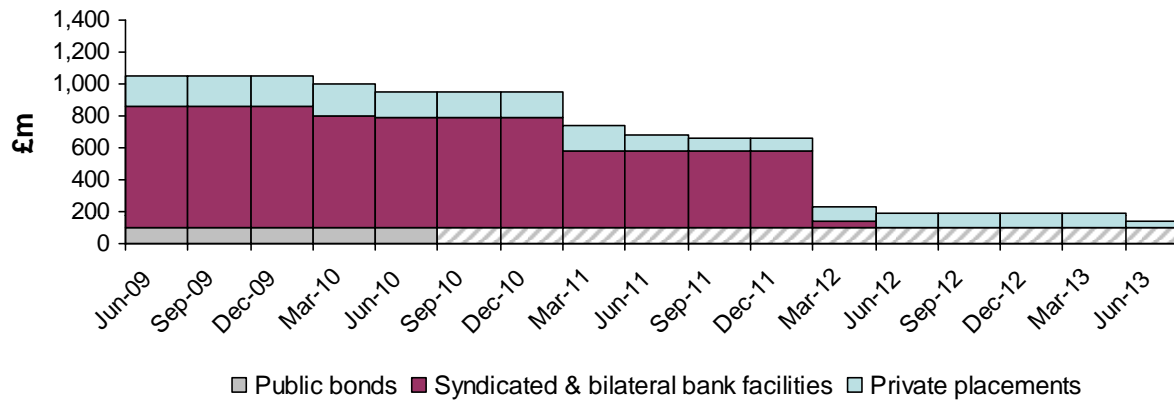
Borrowing long and lending short

	Current £m	March 2009 £m
Committed facilities:		
- syndicated bank facilities	707.5	707.5
- bilateral bank facilities	55.0	55.0
- private placement notes	190.1	190.1
- senior bonds	250.0	0.0
- subordinated bonds	6.0	100.0
Total committed facilities	1,208.6	1,052.6
 Borrowings on committed facilities as at 31 December 2009	 (877.6)	 (801.4)
 Committed headroom	 331.0	 251.2

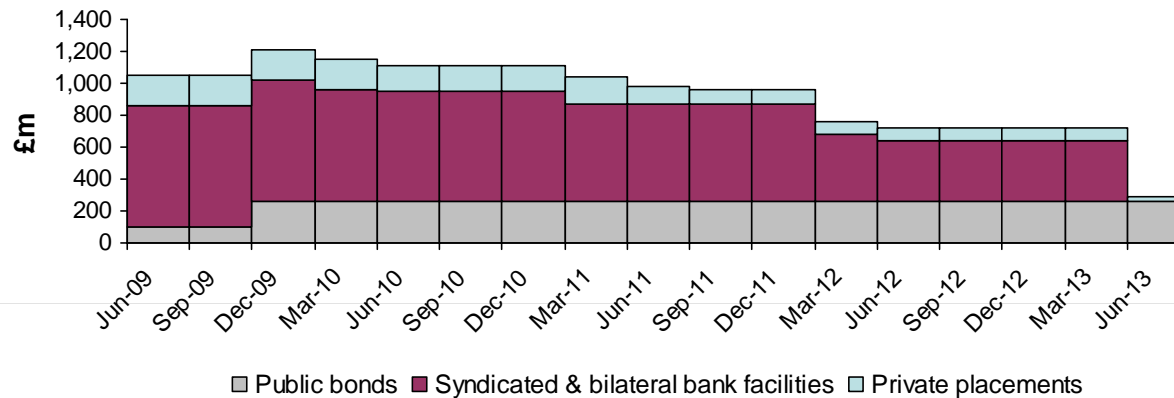
Maturity of committed borrowing facilities

Improving the duration and diversity of funding sources

Facilities as at March 2009

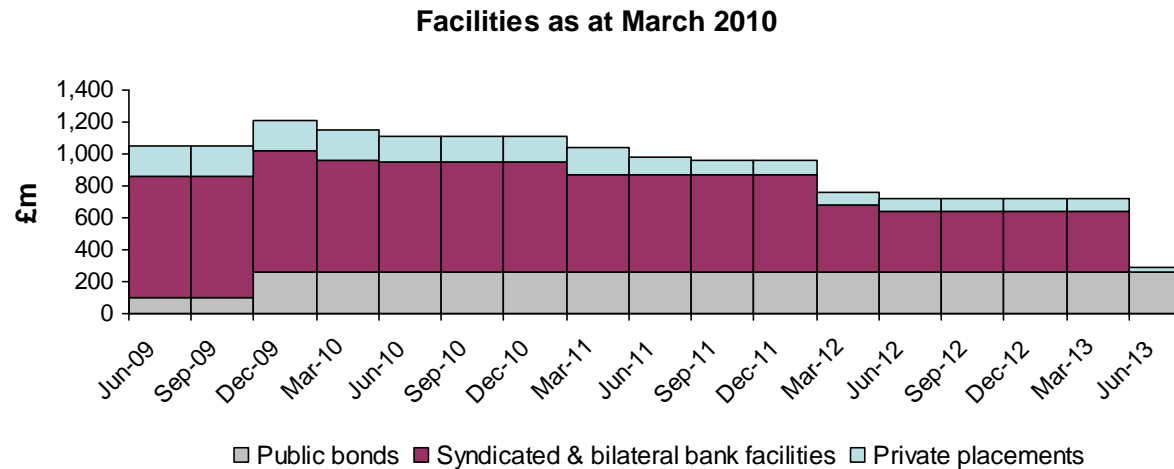


Facilities as at March 2010



Maturity of committed borrowing facilities

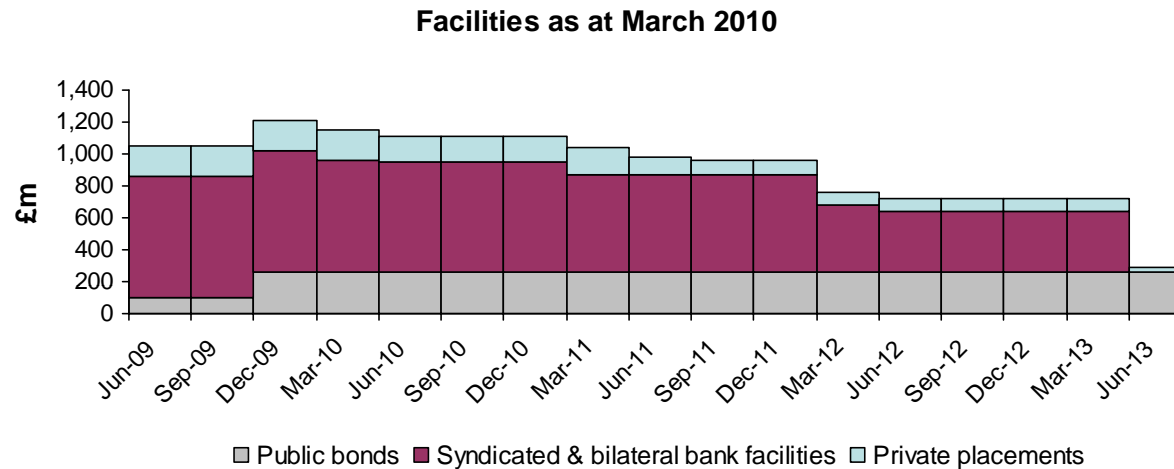
Enhanced duration and diversity of funding sources



- Funding diversified through successful debut issue of senior public bonds in October 2009: £250m 10-year bonds at a coupon of 8%
- Simultaneous early retirement of £94m of outstanding subordinated bonds (callable June 2010) following ICG determination in September 2009
- Forward-starting arrangements to extend £380m of syndicated facilities to May 2013

Maturity of committed borrowing facilities

Enhanced duration and diversity of funding sources



- Sufficient committed facilities now in place to meet contractual maturities and fund organic growth plans through to the seasonal peak at the end of 2011
- 2010 average interest rate 8.0% (2009: 7.0%)
- Exceptional item of £4.4m
 - fair value of out-of-the-money swaps deemed ineffective and moved from hedging reserve (equity) to income statement following the bond issue and repayment of variable-rate bank borrowings : £6.8m
 - surplus arising on repurchase of subordinated bonds : £2.4m
- Senior issuer default rating of BBB+ from Fitch Ratings affirmed in September 2009

Earnings, dividends and capital

Clear focus on prudent capital management

- Pre-exceptional earnings per share increased to 71.4p per share (2008: 70.9p)
- 2009 full-year dividend maintained at 63.5p per share
 - dividend cover being rebuilt following demerger in 2007
 - cover currently at 1.12x versus medium-term target of 1.25x
- Approximately £50m of surplus equity capital as at 31 December 2009 in line with internal plans
 - to fund growth opportunities and provide a sensible degree of strategic flexibility
 - to maintain liquidity and gearing at prudent levels
- Robust regulatory capital position
 - ICG set by FSA in September 2009
 - tender offer and repurchase of £94m of lower tier 2 bonds in October 2009
 - year-end regulatory capital of 295% of Pillar I minimum provides comfortable surplus

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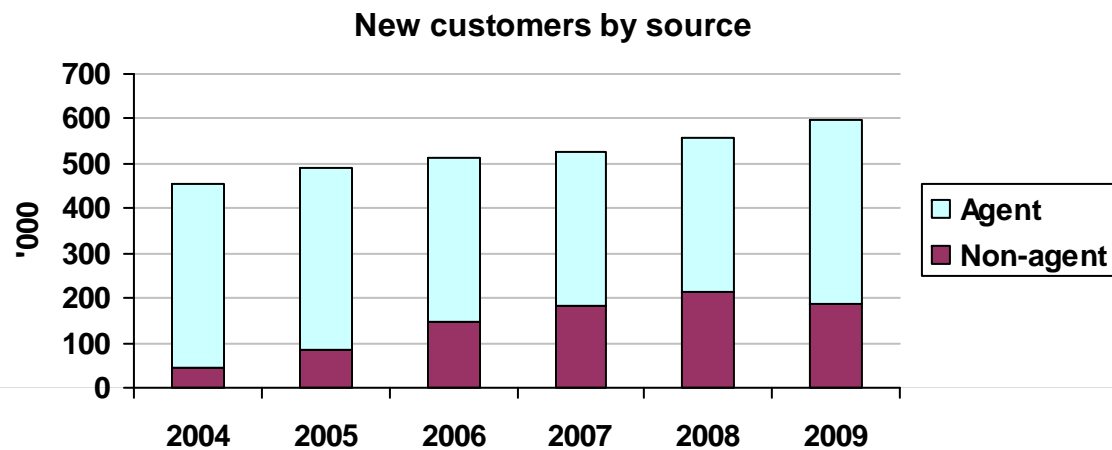
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Consumer Credit Division

Home credit

Delivering sustainable growth

- 596,000 new customers in 2009 (2008: 558,000)
- Growth rate slowed through first half to 3.3% to manage credit risk and focus upon collections
- Autumn marketing initiatives lifted growth rate to 5.1% at year end
- Significant contribution from non-agent channels including the internet and direct mail
- Heavier focus on agent-introduced business in 2009



Home credit

Managing credit quality and collections through the downturn

- **Credit standards tightened further**
 - application scoring of new customers and behavioural scoring of existing customers tightened in first half of 2009 and maintained during second half
 - focus on more defensive shorter-term lending
 - restriction of issue of longer larger loans from late 2008
 - greater use of shorter-term products for new customers
 - launch of core 50-week product in Summer 2009 to replace the 57-week product
- **Investment in collections and arrears management capacity**
 - spans of control reinforced through additional of 120 new field-based management roles and 30 new branches in early 2009
 - ratio of agents per Development Manager reduced from a peak of 12 to 9 today
 - improvement in agent tenure reflecting investment in field management and new commission scheme introduced during 2008
 - further investment in call-centre based central debt recovery function to support field operations

Home credit

Demand for credit in the current environment

- **Pressure on household incomes from unemployment and underemployment**
 - unemployment stands 448,000 higher than a year ago
 - part-time or temporary workers wanting to work full-time is 389,000 higher
- **Customers are concerned about their future prospects**
 - they see no let-up from pressure on income
 - many are apprehensive about employment prospects in 2010 and household budgets
- **The result is cautious customer behaviour and a slowdown in receivables growth due to reduced penetration of credit into existing re-servable customer base**
 - affected peak fourth quarter trading, exacerbated by adverse weather conditions
- **Cautious behaviour likely to persist through 2010**
 - home credit planning for relatively low growth in receivables
 - continued tight control of cost base including headcount reduction of 90 (£5m) in central support functions
 - growth is likely to pick up sharply when confidence returns

Direct repayment loans

Conclusions from market test

- Market test of Real Personal Finance from 50 locations completed
- Business case built around 50:50 split of business sourced from home credit network and customer database and broker-introduced leads respectively
- Major problem in sourcing adequate flow of good quality 3rd party leads
 - collapse or withdrawal of lenders to UK non-standard consumers during the market test
 - broker market dislocation
 - many non-standard consumers carrying far too much debt and/or exhibiting poor repayment discipline
 - lead conversion rate of 1% in 2009 too low to support related overhead
 - situation unlikely to change during 2010

Direct repayment loans

Focus upon known prospects

- Decision to focus solely on home credit sourced leads and, accordingly, releasing dedicated RPF salesforce and related central overhead
- Direct repayment product positioned as a product extension (Provident Direct, Greenwood Direct) as part of tried and tested “low and grow” approach to lending
 - product targeted only at highest quality paid-up or migrating home credit customers
 - face-to-face underwriting process approved by Development Managers
 - repayment by Direct Debt with local management of arrears utilising agent force where appropriate
- Start-up loss of £7.7m in 2009 will not continue through 2010

Home credit approach to lending

“Low and grow”

Typical duration, target customers and issue size of home credit products

Short-term	Core product	Longer larger loans	Direct repayment
<ul style="list-style-type: none">• 23 to 33 weeks• newer customers• typically less than £300	<ul style="list-style-type: none">• 50 to 57 weeks• established and re-servable customers• typically less than £800	<ul style="list-style-type: none">• 81 & 106 weeks• best 20% selectively• typically less than £1,500	<ul style="list-style-type: none">• up to 36 months• high quality paid-up or migrating customers• £1,000 - £4,000 (average £1,800)

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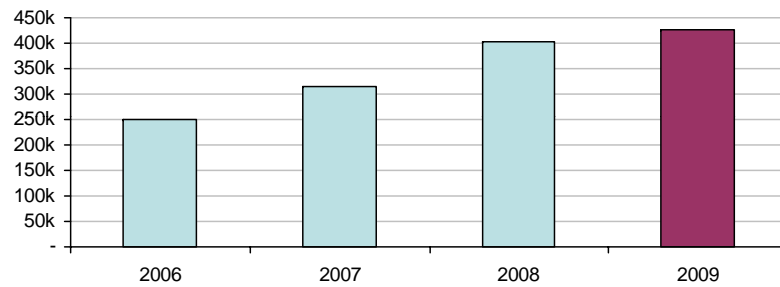
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Vanquis Bank

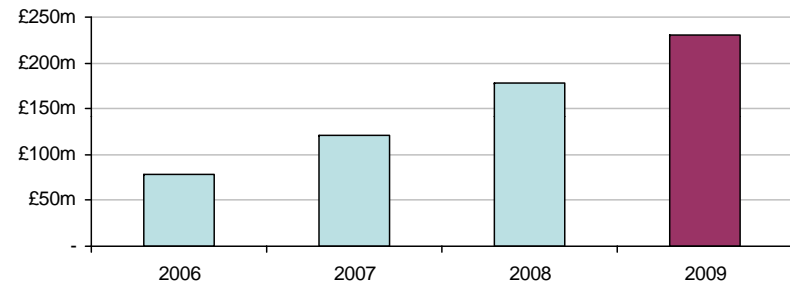
Vanquis Bank

Strong progress towards medium-term targets

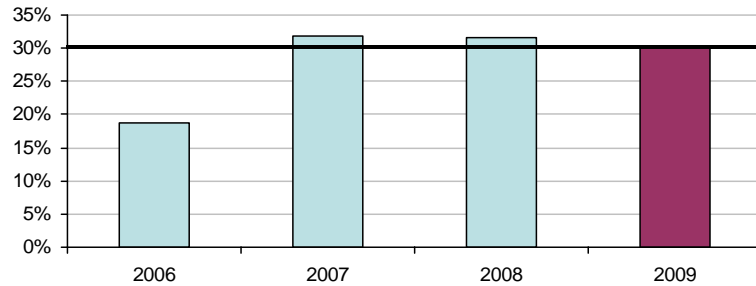
Customer numbers



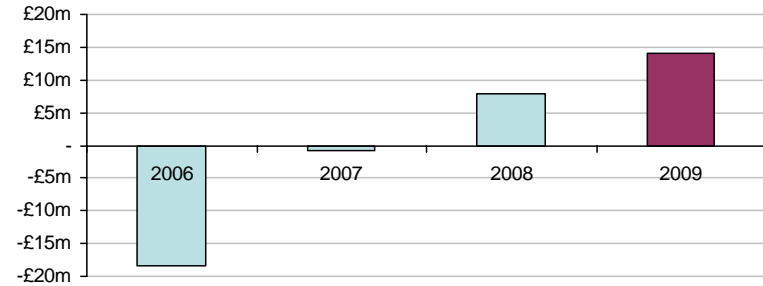
Average receivables



Risk-adjusted margin



Profit before tax



Vanquis Bank

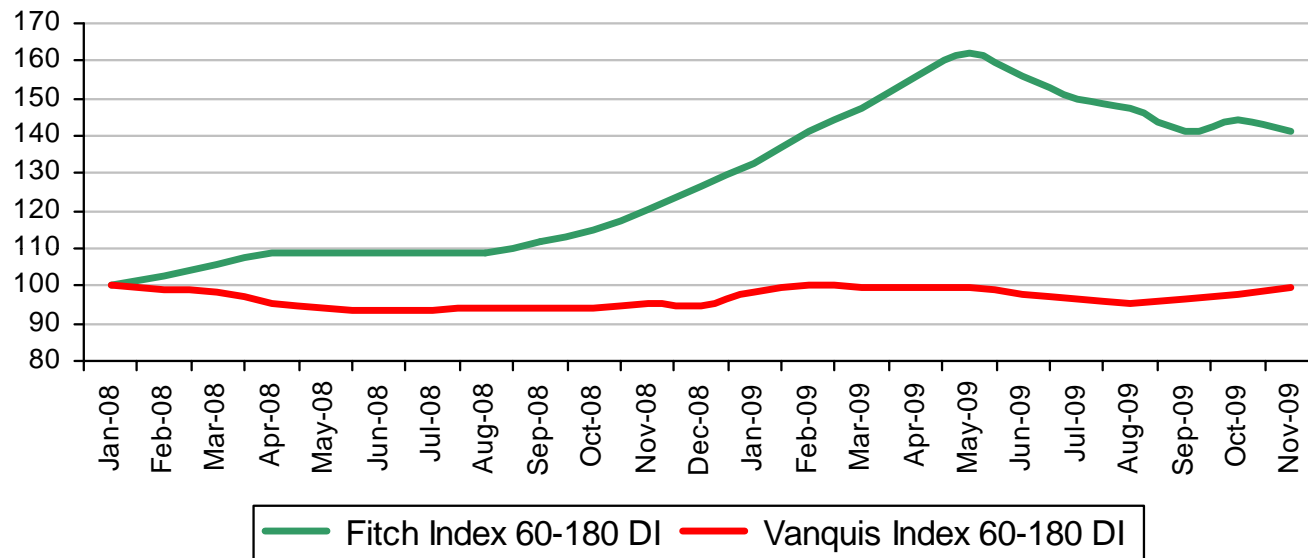
On track to deliver on the medium-term targets set in 2007

£m	2008	2009	Medium-term target
Profit before tax	8.0	14.1	25.0
Average receivables	177.5	231.1	300.0
Equity backing (20%)	35.5	46.2	60.0
Post-tax return on equity	16.1%	22.0%	30.0%

- 2009 performance reflects the benefit of constant tightening of underwriting and credit decisioning over past 2½ years together with strong management of revenue yield and credit line utilisation
- Vanquis is now generating sufficient post-tax profit to support its receivables growth
- Continued growth at a risk-adjusted margin of 30% should result in Vanquis achieving its medium-term target of a 30% post-tax return on equity by the end of 2010

Vanquis Bank

Performance in the current downturn



- Chart shows the relative growth in proportion of accounts which are 60-180 days in arrears for Vanquis Bank and Fitch Ratings' Index of securitised mainstream card portfolios
- Illustrates the relative stability of Vanquis Bank in the downturn underpinned by policy of only granting credit to consumers with limited indebtedness and the benefit of early and consistent tightening credit standards

Vanquis Bank

New medium-term targets

- **Market opportunity for Vanquis continues to look attractive**
 - competitive landscape benign due to retreat of mainstream competitors
 - strong demand for small-sum lines of revolving credit
 - non-standard card market likely to remain the domain of specialists
- **New target of growing receivables to around £450m by the end of 2012 whilst maintaining a post-tax return on equity of 30%**

Regulation

Current developments

- **OFT review of £35bn high-cost consumer credit market**
 - focussing on the impact of the downturn on competition, business models of lenders and consumer protection
 - Provident Financial is assisting the OFT with its review
 - interim findings in December 2009 with conclusion expected in April 2010
 - role of Home credit well understood
- **BIS consultation on further regulation of credit and store cards**
 - measures subject to consultation – revolve around transparency and putting the customer in control
 - Vanquis is working with the UK Cards Association which leads the industry's response
 - Proposals to be published by 20 April 2010

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2009 Results Presentation

Outlook

Outlook

- The group has reported a solid performance in 2009 against the backdrop of pressure on customers' household budgets from rising unemployment and reduced working hours. The group's plans assume that these conditions will continue during 2010 and credit standards will be maintained to underpin the quality of new lending.
- In 2010, the Consumer Credit Division is planning for relatively low receivables growth coupled with tight cost control. Accordingly, the business has recently implemented an efficiency programme across its central functions whilst leaving field collections and arrears management capacity unaffected. In addition, following the completion of the market test of Real Personal Finance, the decision to focus direct repayment lending solely on known prospects sourced through the home credit business. This will result in a significant overhead reduction and losses will not continue through 2010.
- Vanquis Bank is generating excellent growth and strong returns which leave it well placed to achieve its target of a 30% post-tax return on equity by the end of 2010.
- Overall, the group's balance sheet and liquidity are extremely sound and it has positioned itself for 2010 to deliver good quality growth in market conditions that are unlikely to improve in the near term.

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Questions

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