Provident Financial plc

Preliminary results announcement 2013

25 February 2014

TODAY'S PRESENTATION

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Highlights and business overview

Peter Crook – Chief Executive

HIGHLIGHTS

Group performance supports a 10.1% dividend increase

- Profit before tax up 9.9% to £196.1m[1] and adjusted EPS up 11.6% to 112.0p[1]
- Total dividend per share up 10.1% to 85.0p supported by strong capital generation and earnings growth
- Strong growth and financial returns at Vanquis Bank
- Polish credit card pilot now focussed on development, marketing and distribution of revolving credit proposition
- Excellent momentum behind programme to reposition home credit business
- Encouraging start to Satsuma online instalment lending following launch in November 2013
- Group fully funded through to seasonal peak in 2017 following recent renewal of core bank facility

Notes
[1] *2013 profit before tax is stated before an exceptional restructuring cost of £13.7m in respect of CCD. 2012 profit before tax has been restated by £2.7m from £181.1m to £178.4m following the mandatory adoption and retrospective application of the revised IAS 19 'Employee Benefits' from 1 January 2013*

MARKET CONDITIONS AND BUSINESS POSITIONING

Vanquis Bank

MARKET CONDITIONS

- Vanquis Bank is most active participant in underserved non-standard credit card market
- Modest competitive activity from adjacent non-standard card products
- Strong flow of applications from both direct mail and internet channels
- UK unemployment has shown a modest reduction in 2013

BUSINESS POSITIONING

- Tight underwriting and credit line increase criteria maintained, supporting record low arrears and above target risk-adjusted margin
- Continued investment in customer acquisition programme generating strong growth
- Fully on-track to reach medium-term target of 1.3 to 1.5 million customers
- Credit standards to remain unchanged

MARKET CONDITIONS AND BUSINESS POSITIONING

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MARKET CONDITIONS

- Competitive landscape in home credit unchanged
- Customer confidence remains at lowest level recorded
- Household disposable incomes have been under further pressure from cost of living increases
- Better quality customers have more credit choices than in the past
- Changing customer preferences driving strong growth in demand for online lending

BUSINESS POSITIONING

- Emphasis of home credit business on high, sustainable returns from serving core demographic
- Investment in technology and people to update customer proposition, standardise best practice and access significant savings
- Development and roll-out of technology on track, 2014 cost reductions secured and credit quality improving
- Product proposition extended through November 2013 launch of Satsuma online instalment loans with encouraging early results

Financial review

Andrew Fisher – Finance Director

GROUP

Profit before tax

Year ended 31 December	2013 £m	2012 (restated[2]) £m	Change %
Vanquis Bank:			
- UK	**113.7**	71.3	59.5
- Poland	**(7.6)**	(3.3)	(130.3)
Total Vanquis Bank	**106.1**	68.0	56.0
CCD	**102.5**	122.9	(16.6)
Central costs	**(12.5)**	(12.5)	-
Profit before tax and exceptional items[1]	**196.1**	178.4	9.9
Effective tax rate	**22.7%**	24.5%	
Adjusted earnings per share[1] (pence)	**112.0**	100.4	11.6
Total dividend per share (pence)	**85.0**	77.2	10.1

[1] *2013 profit before tax is stated before an exceptional restructuring cost of £13.7m in respect of CCD*

[2] *2012 profit before tax has been restated by £2.7m from £181.1m to £178.4m following the mandatory adoption and retrospective application of the revised IAS 19 'Employee Benefits' from 1 January 2013*

VANQUIS BANK – UK

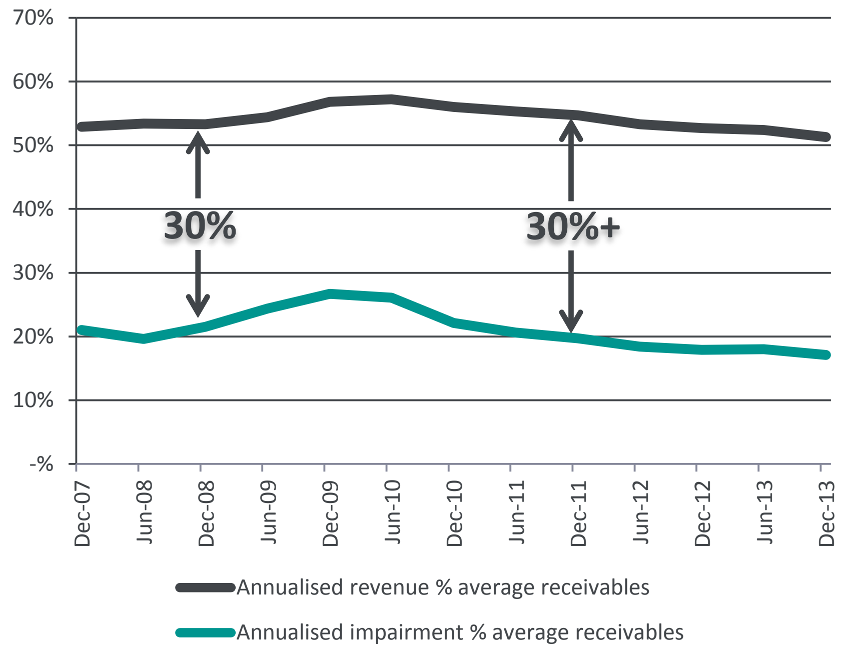
Income statement

Year ended 31 December	2013 £m	2012 £m	Change %
Customer numbers (‘000)	**1,099**	899	22.2
Year-end receivables	**861.3**	641.5	34.3
Average receivables	**739.1**	537.4	37.5
Revenue	**378.8**	283.0	33.9
Impairment	**(126.3)**	(95.9)	(31.7)
Revenue less impairment	**252.5**	187.1	35.0
Risk-adjusted margin[1]	***34.2%***	*34.8%*	
Costs	**(104.3)**	(87.4)	(19.3)
Interest	**(34.5)**	(28.4)	(21.5)
Profit before tax	**113.7**	71.3	59.5

[1] *Revenue less impairment as a percentage of average receivables for the year ended 31 December*

VANQUIS BANK – UK

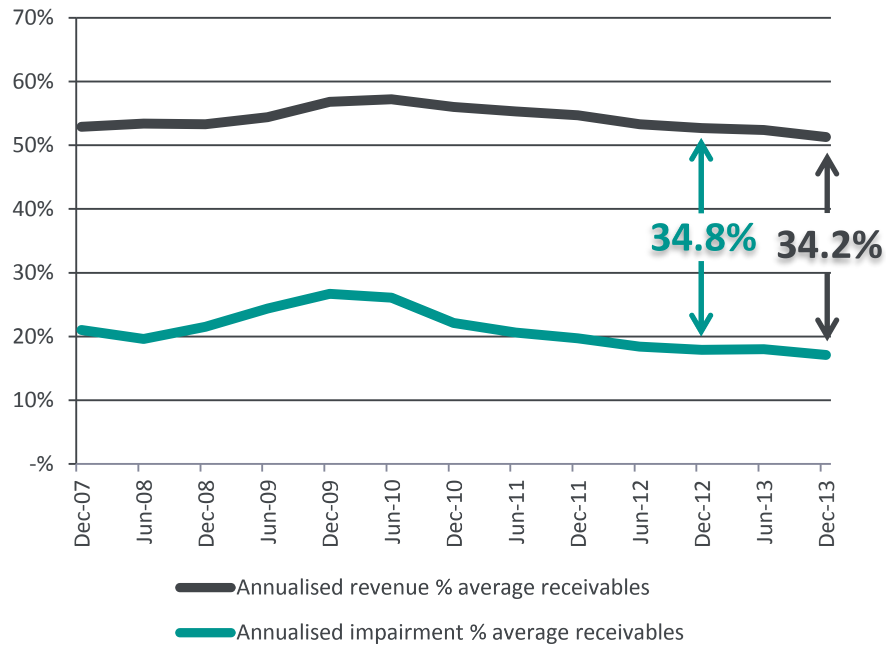
Risk-adjusted margin (RAM)



- Business model supports stability of RAM:
  - ‘Low and grow’ strategy
  - High credit line utilisation minimises volatility of credit losses
- RAM above 30% minimum target:
  - Consistently tight credit standards
  - Stable UK employment market

VANQUIS BANK – UK

Risk-adjusted margin (RAM)



- RAM moderated from 34.8% to 34.2% in 2013:
  - Delinquency stable at record low since autumn 2010
- RAM expected to be 32% to 33% in 2014:
  - Based on current delinquency levels
  - After allowing for changes to ROP product

VANQUIS BANK – UK

IFRS 7 disclosures

At 31 December % receivables	2013 %	2012 %
In order	**90.7**	90.3
In arrears:		
- past due but not impaired	**-**	-
- impaired	**9.3**	9.7
Total	**100.0**	100.0

- Stable profile reflects arrears continuing to run at record lows for the business

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***

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Income statement

Year ended 31 December	2013 £m	2012 (restated[4]) £m	Change %
Customer numbers ('000)	**1,511**	1,827	(17.3)
Year-end receivables	**740.0**	869.6	(14.9)
Average receivables	**725.8**	782.7	(7.3)
Revenue	**697.1**	696.9	-
Impairment	**(269.7)**	(230.2)	(17.2)
Revenue less impairment	**427.4**	466.7	(8.4)
Revenue yield[1]	***96.0%***	*89.0%*	
Impairment % revenue[2]	***38.7%***	*33.0%*	
Risk-adjusted margin[3]	***58.9%***	*59.6%*	
Costs	**(285.6)**	(297.6)	4.0
Interest	**(39.3)**	(46.2)	14.9
Profit before tax	**102.5**	122.9	(16.6)

[1] *Revenue as a percentage of average receivables for the year ended 31 December*

[2] *Impairment as a percentage of revenue for the year ended 31 December*

[3] *Revenue less impairment as a percentage of average receivables for the year ended 31 December*

[4] *2012 profit before tax restated by £2.2m from £125.1m to £122.9m following the mandatory adoption and retrospective application of the revised IAS 19 'Employee Benefits' from 1 January 2013*

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Customer numbers and receivables

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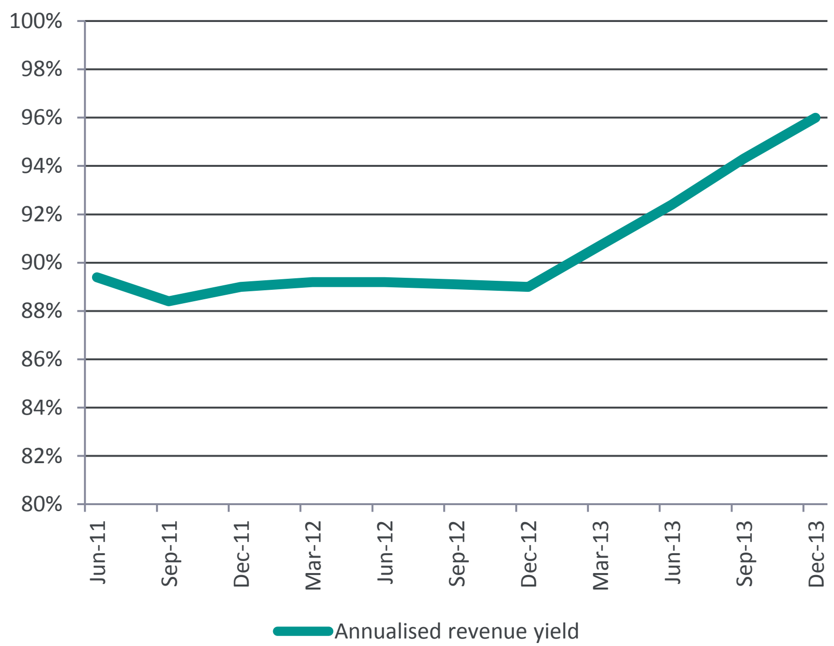
Revenue yield



- Receivables and product mix relatively stable through 2011 and 2012
- Annualised revenue yield strengthened from 89.0% to 96.0% in 2013 and includes impact of reduced demand for longer duration loans which carry lower yields

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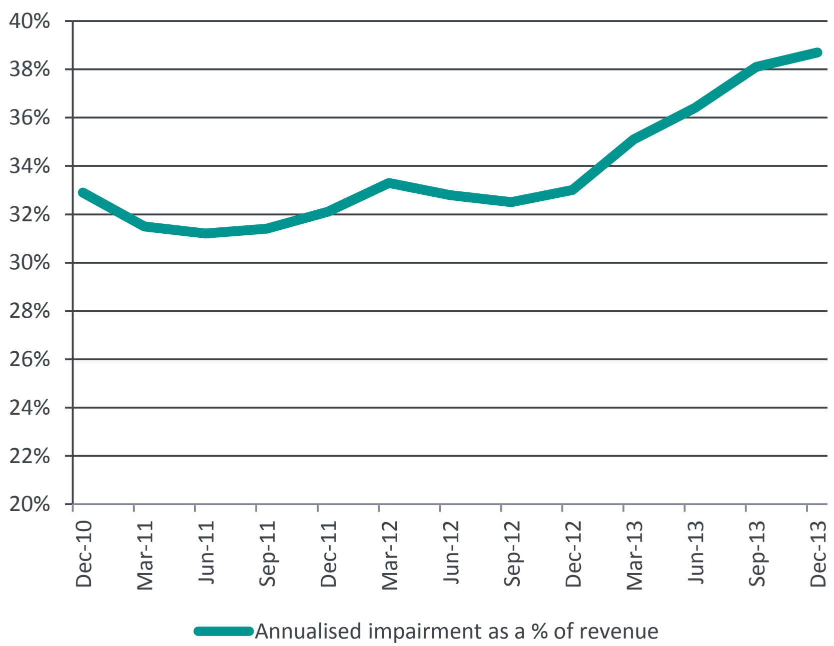
Impairment % revenue



- Annualised impairment ratio increased from 33.0% to 38.7% in 2013
- Approximately half due to increase in revenue yield and half due to deterioration in arrears linked to weaker demand:
  - Existing customers not taking further credit have less incentive to bring their account up to date
- Stable arrears profile through last quarter of 2013 and a year-on-year improvement during first two months of 2014:
  - Tighter credit standards from September 2013
  - Early benefits from standardised arrears and collections processes

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IFRS 7 disclosures

At 31 December % receivables	2013 %	2012 %
In order	**35.1**	34.0
In arrears:		
- past due but not impaired	**13.4**	15.9
- impaired	**51.5**	50.1
Total	**100.0**	100.0

- Based on contractual arrears
- Past due but not impaired includes customers who have missed 1 payment in last 12 weeks
- IFRS 7 disclosures consistent with stable arrears performance during the last quarter

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 12 weeks*
- ***Timely, realistic provisioning which has been applied consistently and reinforces the right behaviour amongst agents and employees***

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Cost reduction programme

- Phase 1 of the cost reduction programme announced in July 2013:
  - 180 field headcount reduction and other savings
  - £10m cost reduction in second half of 2013
  - Annualised saving of £18m
- Phase 2 successfully completed in December 2013:
  - 340 field and central headcount reduction
  - Secured further savings of £18m in 2014
- Total incremental savings in 2014 versus 2013 of £26m
- Phase 3 involves embedding technology during 2014 to deliver further efficiencies in early 2015

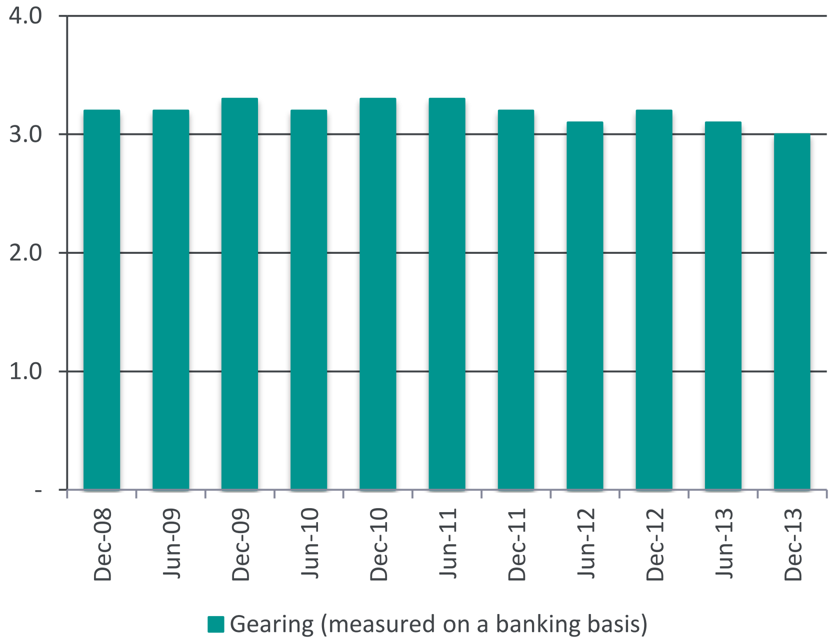
STRONG BALANCE SHEET

As at 31 December	2013 £m	2012 £m
Receivables:		
- Vanquis Bank UK	**861.3**	641.5
- Vanquis Bank Poland	**5.3**	1.8
- Home credit	**740.0**	869.6
- Real Personal Finance	**-**	0.9
Total receivables	**1,606.6**	1,513.8
Pension asset	**29.2**	23.0
Liquid assets buffer[1]	**86.3**	52.3
Debt funding	**(849.5)**	(874.0)
Retail deposits	**(435.1)**	(327.4)
Other	**(20.7)**	(12.3)
Net assets	**416.8**	375.4
Gearing[2] (times)	**3.0**	3.2

1 *Represents the liquid assets buffer and other liquid resources in accordance with the PRA liquidity regime.*

2 *(Total borrowings – liquid assets buffer) / (Net assets – pension asset, net of deferred tax – fair value of derivatives)*

MODEST GEARING LEVELS



- Gearing at December 2013 of 3.0 times versus banking covenant of 5.0 times
- Strong capital generation has consistently funded dividends and growth and resulted in stable gearing

DIVERSIFIED FUNDING BASE

	£m
Banks	**383**
Bonds and private placements:	
Senior public bond	250
M&G term loan	100
Other sterling/euro medium-term notes	41
Retail bonds	260
US private placements/residual subordinated loan notes	44
Total bonds and private placements	**695**
Vanquis Bank retail deposits	**435**
Total committed facilities	**1,513**
Headroom on committed borrowing facilities	**235**
Additional retail deposits capacity[1]	**292**
Funding capacity	**527**

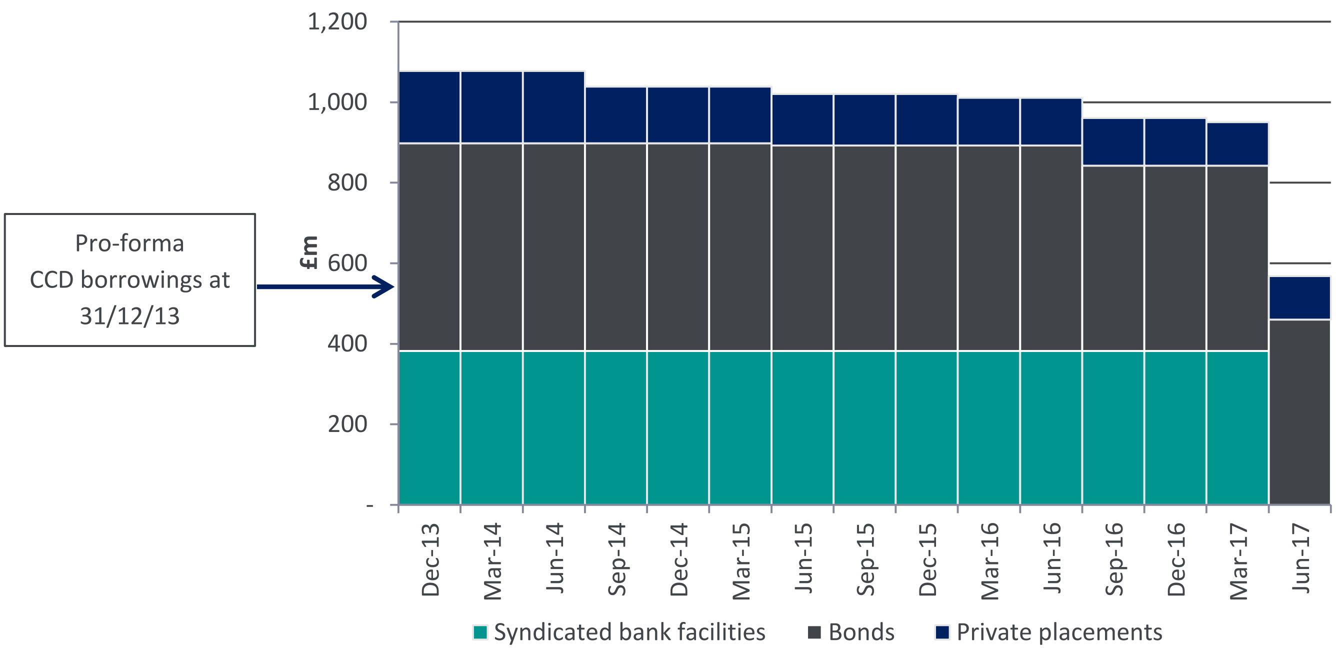
[1] *Based on the lower of: (i) 90% of Vanquis Bank's UK receivables of £861.3m at 31 December 2013 less retail deposits of £435.1m, after setting aside necessary liquid assets buffer; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £292.1m at 31 December 2013*

RETAIL DEPOSITS PROGRAMME

	2013 £m	2012 £m
At 1 January	**327.4**	139.7
New funds	**187.7**	202.4
Maturities	**(114.9)**	(33.5)
Retentions	**31.8**	16.4
Cancellations	**(3.2)**	(1.1)
Capitalised interest	**6.3**	3.5
At 31 December	**435.1**	327.4
Weighted average period to maturity (years)	**2.3**	2.3
Blended interest rate (including cost of liquid assets buffer)	**3.8%**	4.2%

- Retail deposits represent 51% of Vanquis Bank’s UK receivables, consistent with December 2012
- Flow of new funds moderated following £65m retail bond issue in March
- Not necessary for Vanquis Bank to move to full retail deposits funding until at least 2017

MATURITY PROFILE OF DEBT



- ‘Light’ maturities over the next 3 years
- Headroom on committed facilities plus Vanquis Bank retail deposits programme provides funding through to the seasonal peak in late 2017

ALIGNMENT OF DIVIDEND POLICY, GEARING AND GROWTH

High ROE businesses

Dividend policy	**Gearing**	**Growth**
Cover ≥ 1.25x	≤ 3.5x versus covenant of 5.0x	Supports receivables growth of £180m+

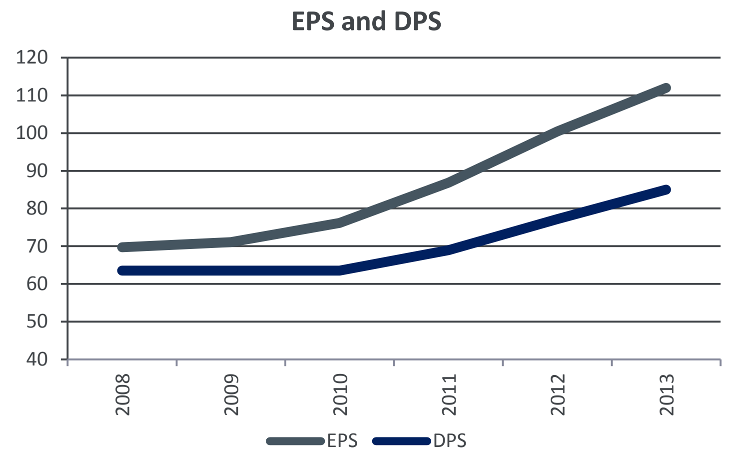
STRONG CAPITAL GENERATION

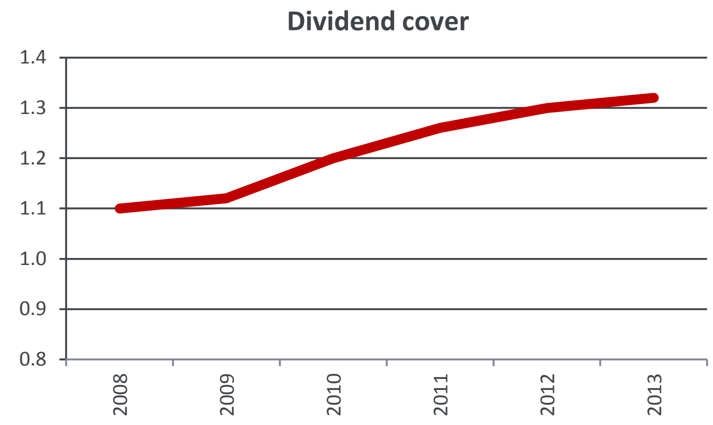
Year ended 31 December	2013 £m	2012 £m
Vanquis Bank	**53.0**	26.1
CCD	**98.5**	102.4
Central	**(12.3)**	(20.8)
Capital generated[1]	**139.2**	107.7
Dividends declared	**(116.0)**	(104.9)
Surplus capital retained	**23.2**	2.8
Gearing (times)	**3.0**	3.2

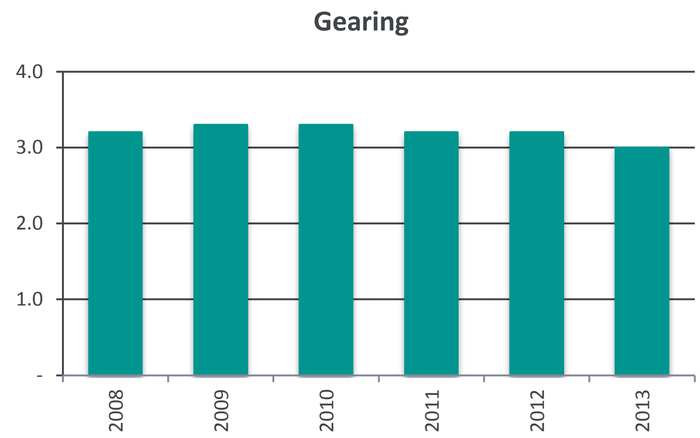
[1] *Capital generated is calculated as net cash generated from operating activities, after adding back 80% of the growth in customer receivables funded by borrowings, less net cash used in investing activities.*

- Capital generation funds dividend with gearing comfortably within appetite of 3.5x

SUSTAINABLE EARNINGS AND DIVIDENDS GROWTH







Regulation, business development and outlook

Peter Crook – Chief Executive

REGULATORY UPDATE

UK

- Transfer of responsibility for consumer credit regulation from OFT to FCA will take place in April 2014:
  - Consultation covering authorisation, supervision and enforcement regimes as well as conduct rules and guidance completed in December 2013
  - Final rules and guidance to be issued shortly

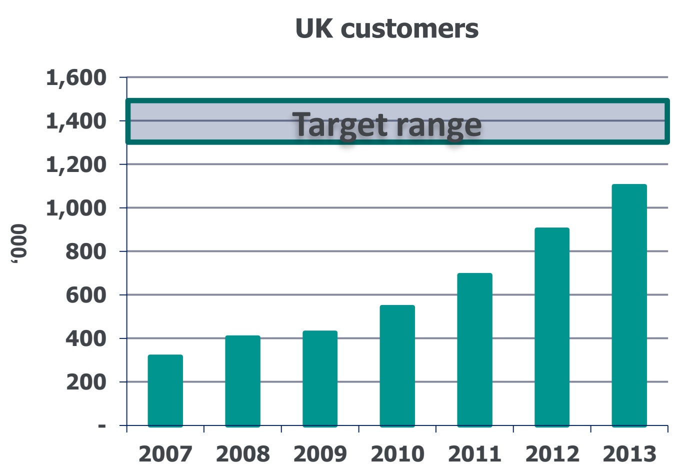
Poland

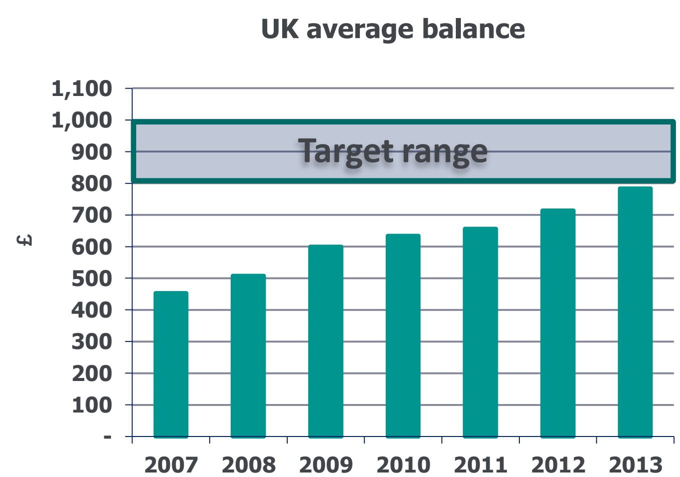
- Ministry of Finance draft proposals updated in December 2013 to restrict non-interest charges to 50% of credit granted:
  - In addition to existing interest rate cap of 4 times Lombard rate (currently 4%, giving a limit of 16%)
  - Final regulatory proposals expected to be published and come into effect in the coming months, subject to further amendment and clarification

VANQUIS BANK

Continued strong growth and returns in the UK

- Excellent progress being made towards latest medium-term targets:
  - Serving between 1.3m and 1.5m customers
  - With an average balance of between £800 and £1,000
- Strict discipline of maintaining a post-tax ROE of at least 30%





VANQUIS BANK

Business development – Polish credit card pilot

- Credit tools successfully developed following deployment of second generation scorecards in October 2013
- Booking volumes currently running at 2,500 per month through brokers and internet
- Focus now shifted to marketing and distribution of credit proposition
- Also testing other revolving credit products to broaden appeal to target audience
- Ministry of Finance draft proposals to introduce a further restriction on the cost of credit:
  - Likely to dislocate short-term, high-cost credit market, including payday
  - May change competitive landscape and positioning of Vanquis Bank credit proposition
- Development of online shopping and EU legislation to reduce interchange fees will drive up credit card usage in the medium term
- Pilot start-up losses expected to continue at a similar rate through first half of 2014

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Home credit in the future – A leaner, better-quality, more modern, high-return business

- Home credit is a sustainable business:
  - The right business model for the target demographic
  - High levels of customer satisfaction
  - Achieves high returns and strong capital generation
- Macro-economic recovery for home credit customers lags the mainstream
- Leading market position, management capability and investment in technology should allow the home credit business to benefit from expected consolidation following transition to the FCA
- New senior talent brought in to drive change
- Quality of business improved through standardisation of collections and arrears processes as well as implementation of tighter credit standards
- Cost base already right-sized to reflect leaner, better-quality business

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Strong momentum behind repositioning of the home credit business

Technology

- Development and roll-out of smart phone collections app on track:
  - Readily accepted by 2,500 agents carrying iPhones
  - Android version has now been released with strong early uptake
  - Reduces costs, improves compliance and saves agents 2 to 3 hours per week in administration
- Tablet devices for managers in development:
  - Roll-out and training from March
  - Provides managers with ‘mobile office’ freeing up time for arrears and agent development
- Agents lending app:
  - In development with pilot starting March and roll-out in second half of 2014
  - Significant reduction in clerical time and step-up in regulatory compliance

People

- Recruitment, training and performance management of agents completely refreshed:
  - Vacant agencies halved
- Leadership programme to be rolled out across the business in 2014:
  - Definition of competencies and behaviours to support business performance completed for all manager roles

Customer proposition

- 24/7 prepaid reloadable MasterCard and online customer portal:
  - Launched in September 2013 in one region with roll-out in second half of 2014
- Chip and Pin payments technology:
  - In field testing with roll-out from second quarter of 2014

‘One Best Way’

- Standardisation of collections and arrears processes being progressively rolled out
  - Excellent early momentum supporting consistent improvement in arrears

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Business development – Launch of Satsuma

- Online loans market estimated to be 4 times larger than home credit market
- Significant shift from payday loans to instalment loans taking place as tighter regulation of payday lending takes effect
- Satsuma launched with a leading customer proposition that is very different to payday lending:
  - Primary audience is non-standard consumers in the market segment between Vanquis Bank and the home credit business
  - Proposition may also appeal to home credit applicants of sufficient quality with a preference for direct repayments as well as being appropriate for some Vanquis Bank credit card declines
- Retains many features of the home credit business including fixed weekly repayments, no extra charges, regular customer contact and a range of forbearance measures consistent with group's responsible lending philosophy
- Being developed using highly effective distribution, underwriting and collections capabilities of both CCD and Vanquis Bank
- Broadly breakeven in 2014 as capabilities are built to support a more rapid development from late 2014
- Objective of top-3 market position in 3 to 5 years

OUTLOOK

- Group fully funded through to the seasonal peak in 2017 following renewal of core bank facility
- Vanquis Bank is continuing to deliver strong growth and financial returns whilst making excellent progress towards achieving its target of 1.3 to 1.5 million UK customers
- Excellent momentum behind programme of work to reposition the home credit business that will be substantially completed in 2014

"The group has made a good start in the first two months of 2014. Vanquis Bank has continued to trade strongly and the home credit business is seeing a consistent improvement in credit quality and collections performance."

Questions

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