PROVIDENT FINANCIAL

Specialist Lending Seminar

September 2003

HSBC

PROVIDENT FINANCIAL

Home Collected Credit in an International Environment

Provident Financial
Group composition

2002 pre-exceptional PBT	Market capitalisation	Customers
£182.1 million	£1.6 billion	3.4 million

UK Consumer Credit	International Home Credit		Motor Insurance
UK home credit	Poland	Czech Republic	Provident Insurance
Yes Car Credit	Hungary	Slovakia	
Credit cards (pilot)	Mexico (pilot)		

Provident Financial
Composition of profit before tax

PBT

Motor insurance **16%**

International **11%**

Yes Car Credit **5%**

UK home credit **68%**
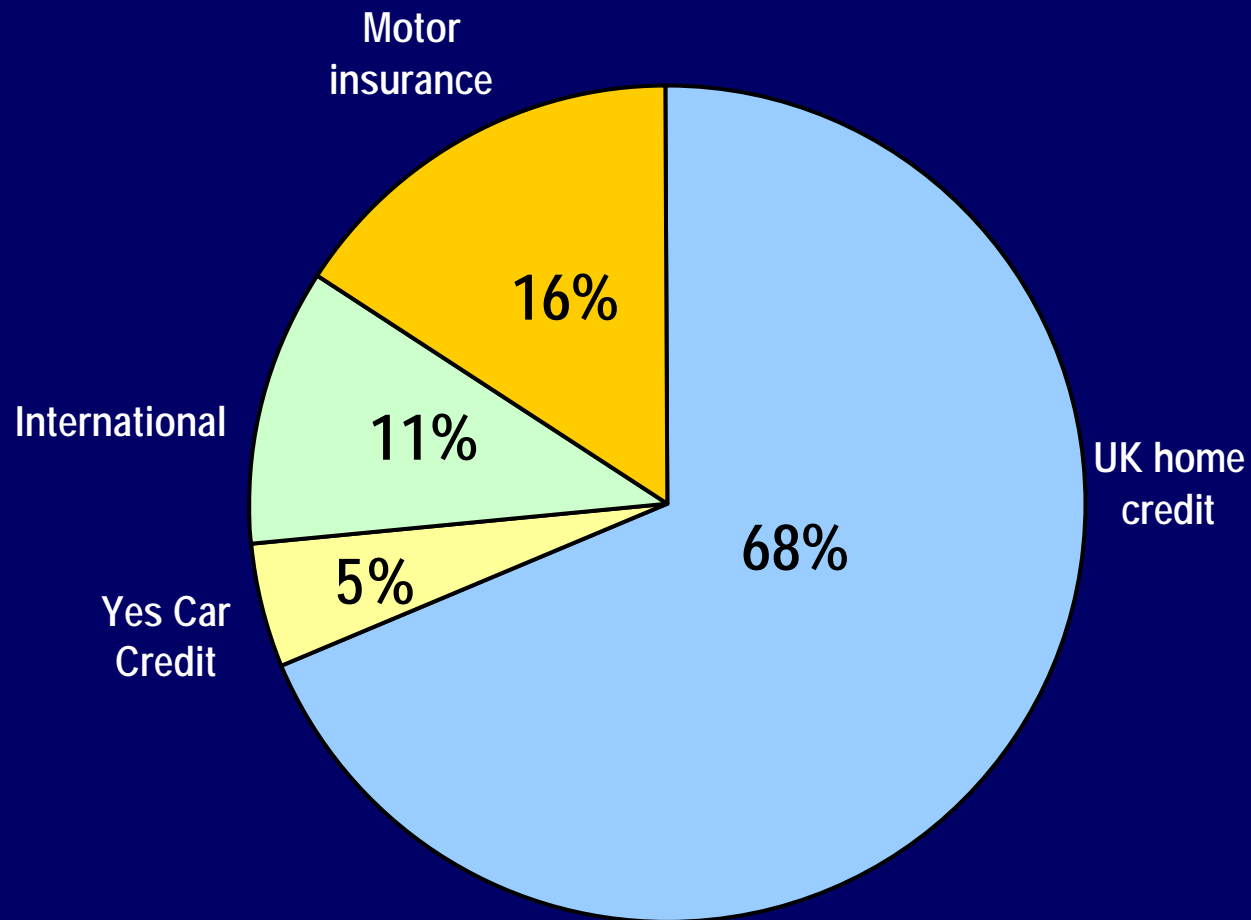
6 months to 30 June 2003

Provident Financial

Strategy

We aim to be a leading international provider of simple financial services

> Serving customers earning moderate incomes

> Growing by:

    – international expansion

    – broader range of credit products

> Focus is on delivering value from existing businesses and from initiatives already announced

Provident Financial

International home credit

Poland   Czech
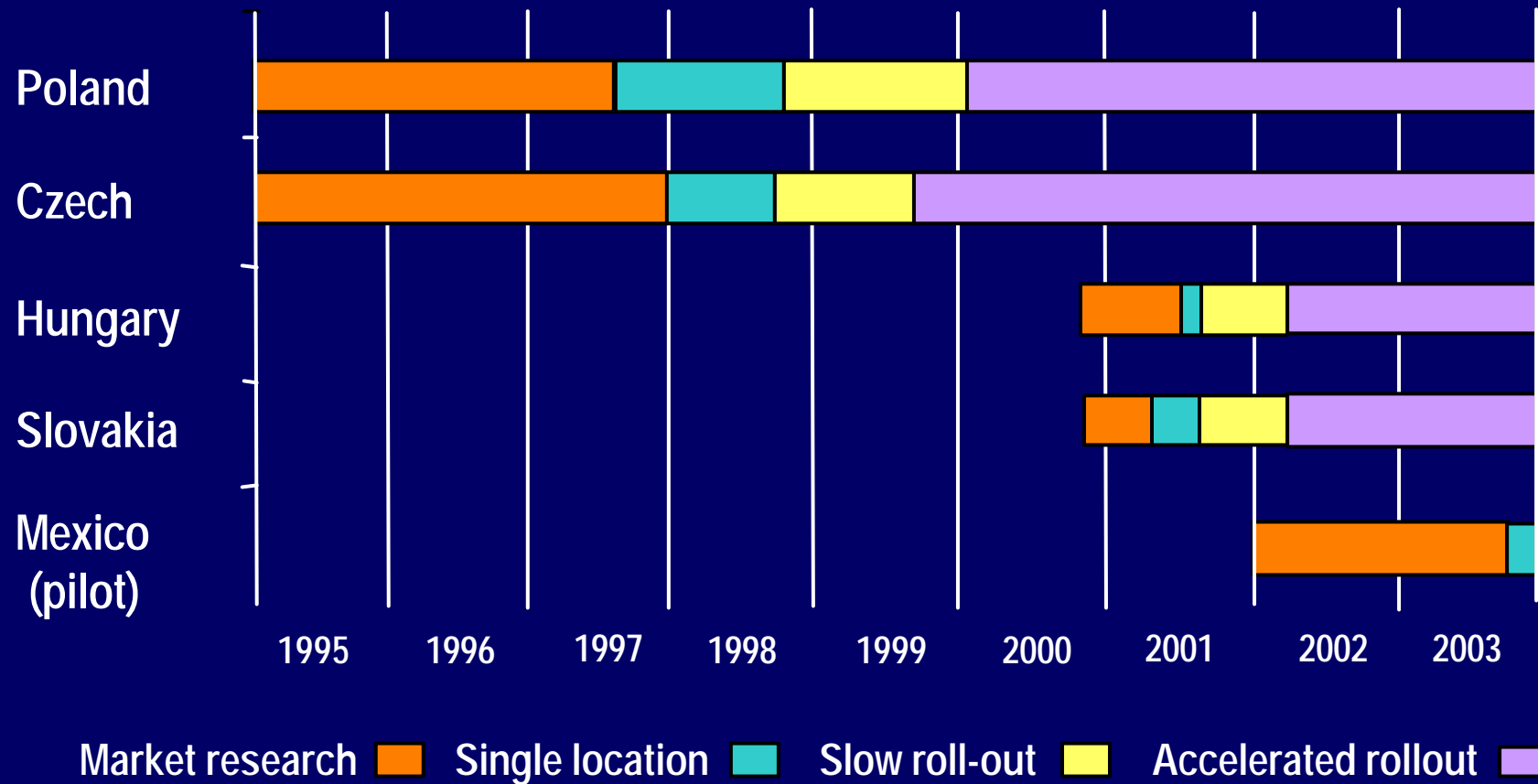   Republic   Slovakia   Hungary   Mexico

International home credit

How we choose and develop a new market

> Country selection

> Desk research

> Detailed in-country research

> Pilot operation

> Roll-out

International home credit

How we develop a new market: pilot operation

> Minimise financial risk

> Introduce core ex-pat team of 2-4 people

> Recruit and train future managers

> Create local training materials

> Design advertising materials

> Build administrative capability

> Recruit and train agents and customers

> Learn to operate in local culture

> Prove or amend business model
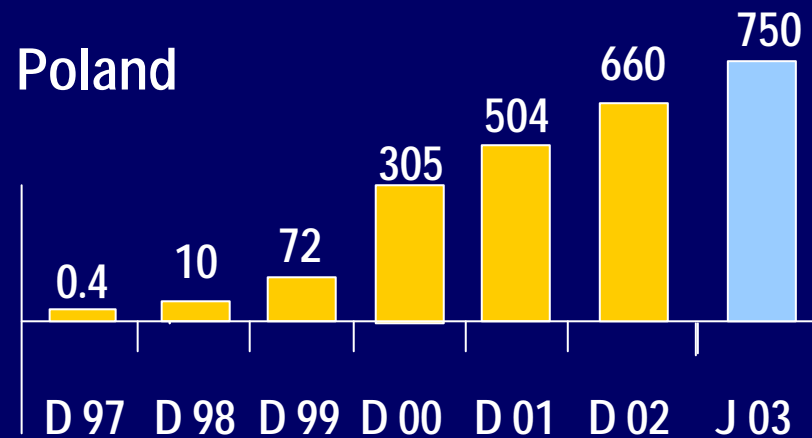
> Formal 'go' or 'no-go' decision at conclusion of pilot

International home credit
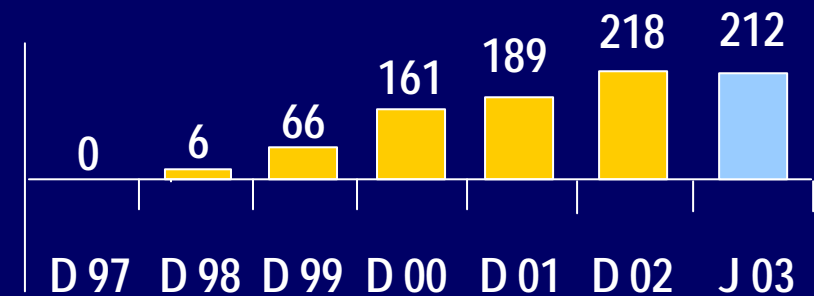
Developing a market: roll-out

- > Pilot offices divided into two. One team open a new location
- > Local advertising supports brand awareness and staff and agent recruitment
- > Train staff, then train agents
- > Advertise to recruit customers
- > Lend small amounts to customers at first and re-serve with larger loans
- > Build customer base
- > When ready, split team to open a new office
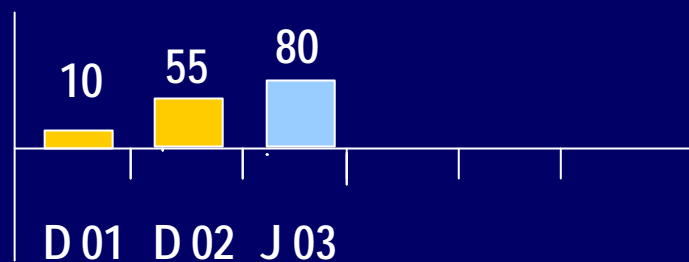
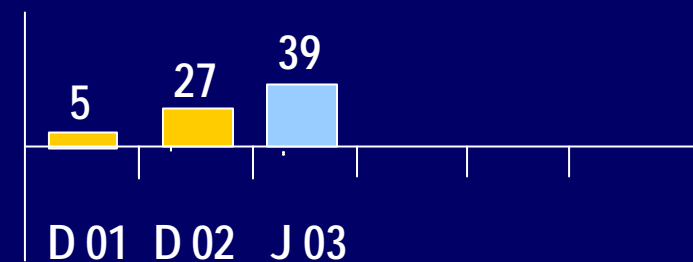# International home credit
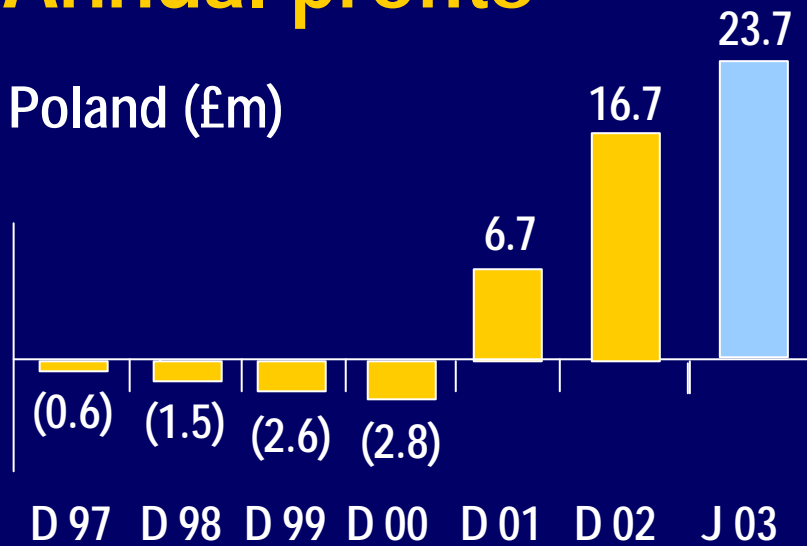# Central Europe: customer numbers (`000)

Poland

D 97	D 98	D 99	D 00	D 01	D 02	J 03
0.4	10	72	305	504	660	750

Czech Republic

D 97	D 98	D 99	D 00	D 01	D 02	J 03
0	6	66	161	189	218	212

Hungary

D 01	D 02	J 03
10	55	80

Slovakia

D 01	D 02	J 03
5	27	39

International home credit
Annual profits

Poland (£m)

23.7 — J 03
16.7 — D 02
6.7 — D 01
(0.6) — D 97
(1.5) — D 98
(2.6) — D 99
(2.8) — D 00

Czech Republic (£m)

7.2 — J 03
5.1 — D 02
2.5 — D 01
0.1 — D 00
(0.2) — D 97
(1.1) — D 98
(2.7) — D 99

Hungary (£m)

(2.3) — D 01
(3.1) — D 02
(3.1) — J 03

Slovakia (£m)

(1.3) — D 01
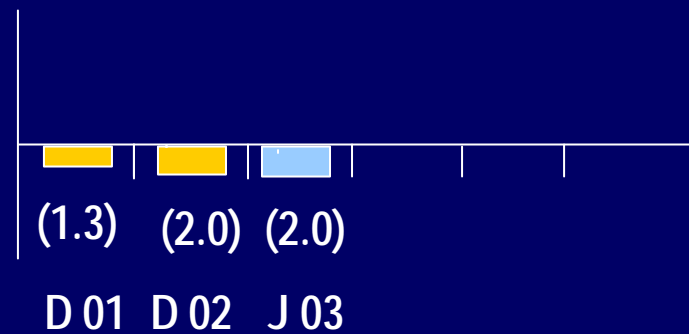(2.0) — D 02
(2.0) — J 03
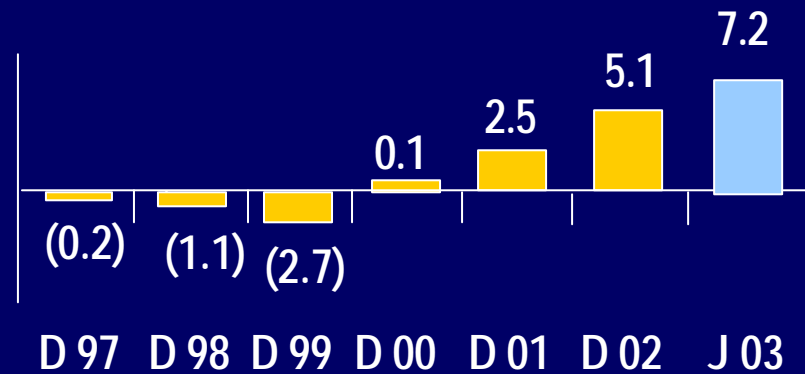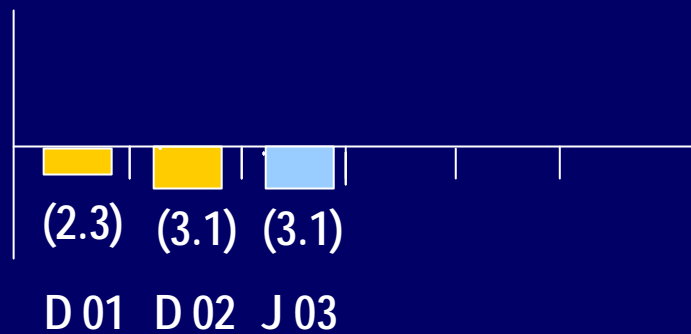
International home credit

Annual profits/(losses) since 1999 (£m)

Period	Value
Dec 99	(7.7)
June 00	(10.3)
Dec 00	(5.9)
June 01	(1.1)
Dec 01	0.8
June 02	3.5
Dec 02	10.6
June 03	19.4
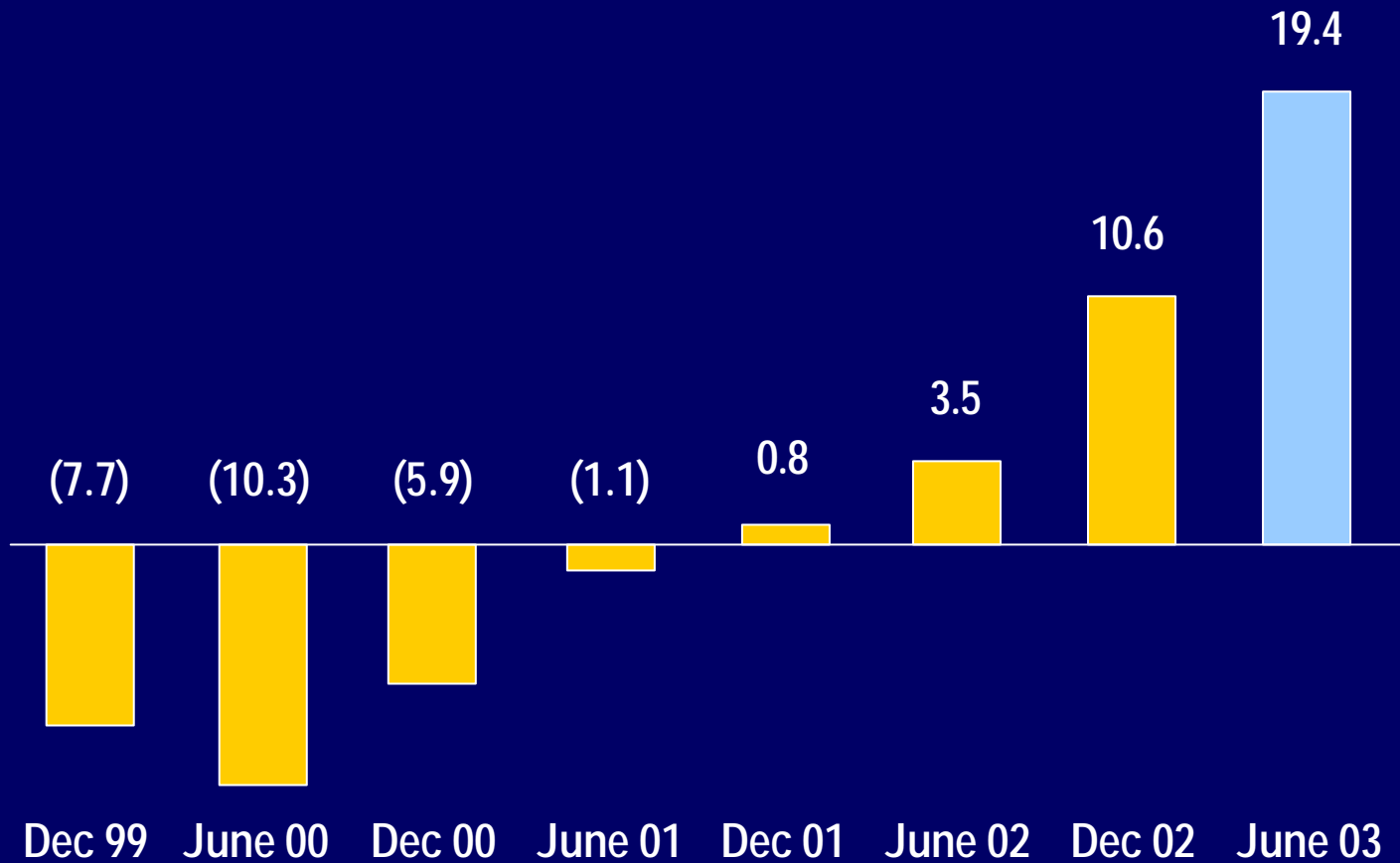
International home credit
Central European market potential

	Poland	Czech	Hungary	Slovakia	Total
Population (million)	39	10	10	5	64
Target customers (000)	1,000	250	250	125	1,625
Current customers (000)	750	212	80	39	1,081
Target annual credit issued per customer (£)	400	400	400	270	390
Target annual profit per customer (£)	60	60	60	40	58

International home credit
Poland: targets and progress to date

> Profit target: £60m p.a.

International home credit
Poland: targets

> Population   39 million

> Customers   1 million

> Annual credit issued per customer   £400

> Annual profit per customer   £60

> Annual profit   £60m

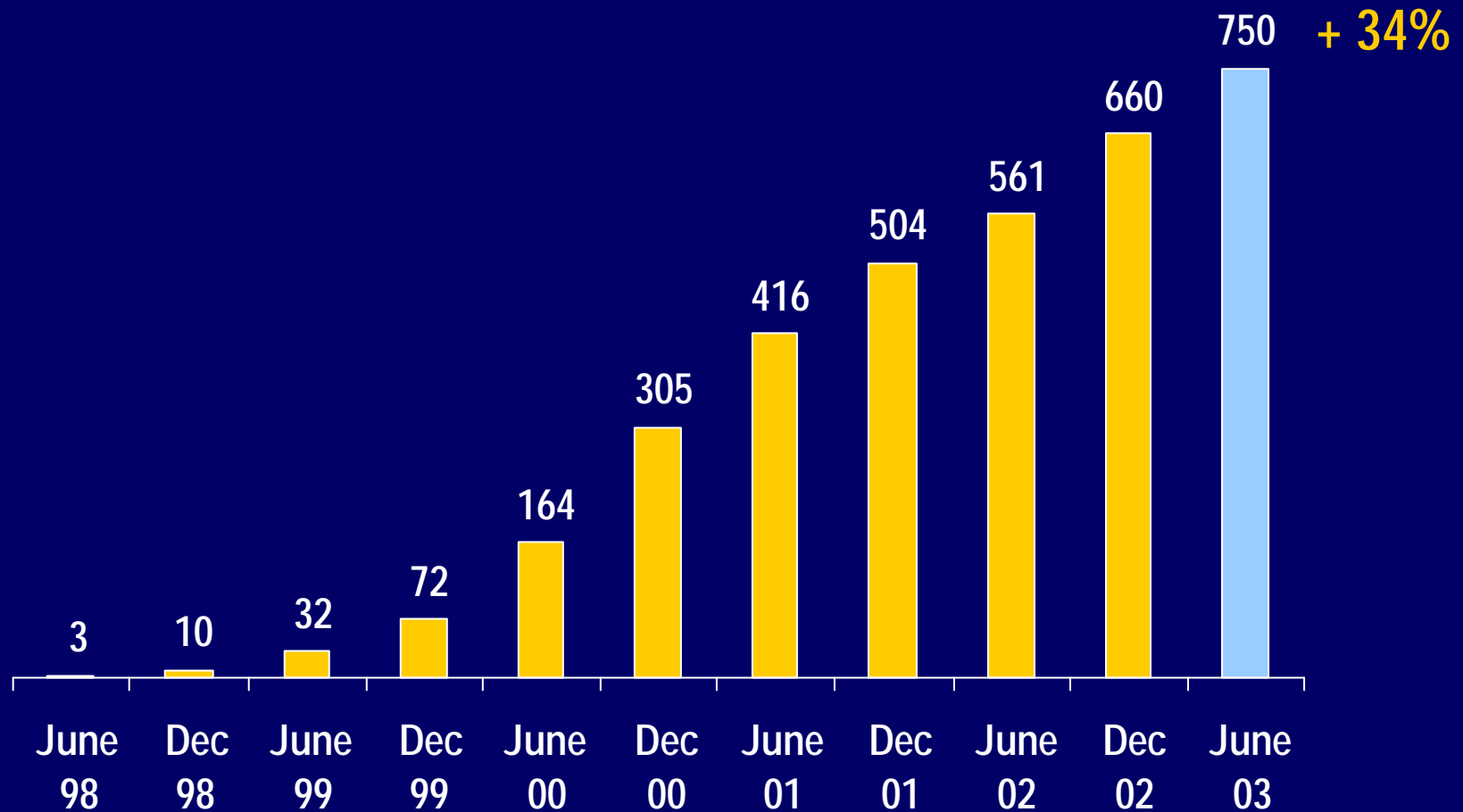## International home credit
Poland: key performance drivers

	12 months to 30 June 2003		Target
> Customer growth	750,000	⇨	1,000,000
> Issue per customer	£338	⇨	£400
> Gross revenue margin	54%	⇨	55%
> Costs as % of revenue	80%	⇨	73%
> Annual profit per customer	£37	⇨	£60
> Annual profit	£23.7m	⇨	£60m

International home credit
Poland: customers (`000)

Period	Customers
June 98	3
Dec 98	10
June 99	32
Dec 99	72
June 00	164
Dec 00	305
June 01	416
Dec 01	504
June 02	561
Dec 02	660
June 03	750

+ 34%

International home credit

Poland: credit issued per customer

> Target increase: £338 $\implies$ £400

> Loan sizes increase as customer base matures

> Confident of reaching target

International home credit
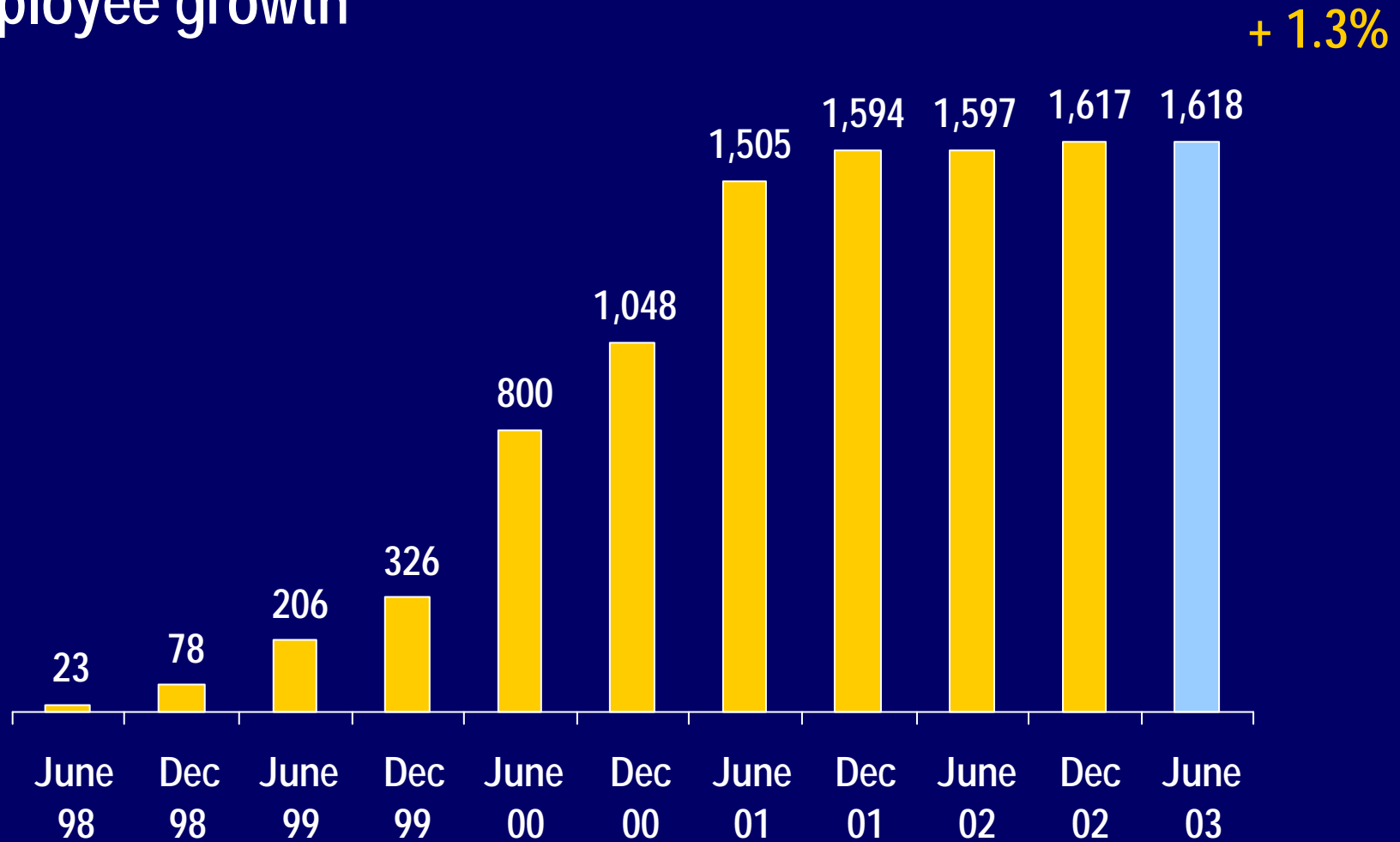
Poland: gross revenue margin

> Target: 55%

> Current: 54%

> Margin to rise as customer base matures

International home credit
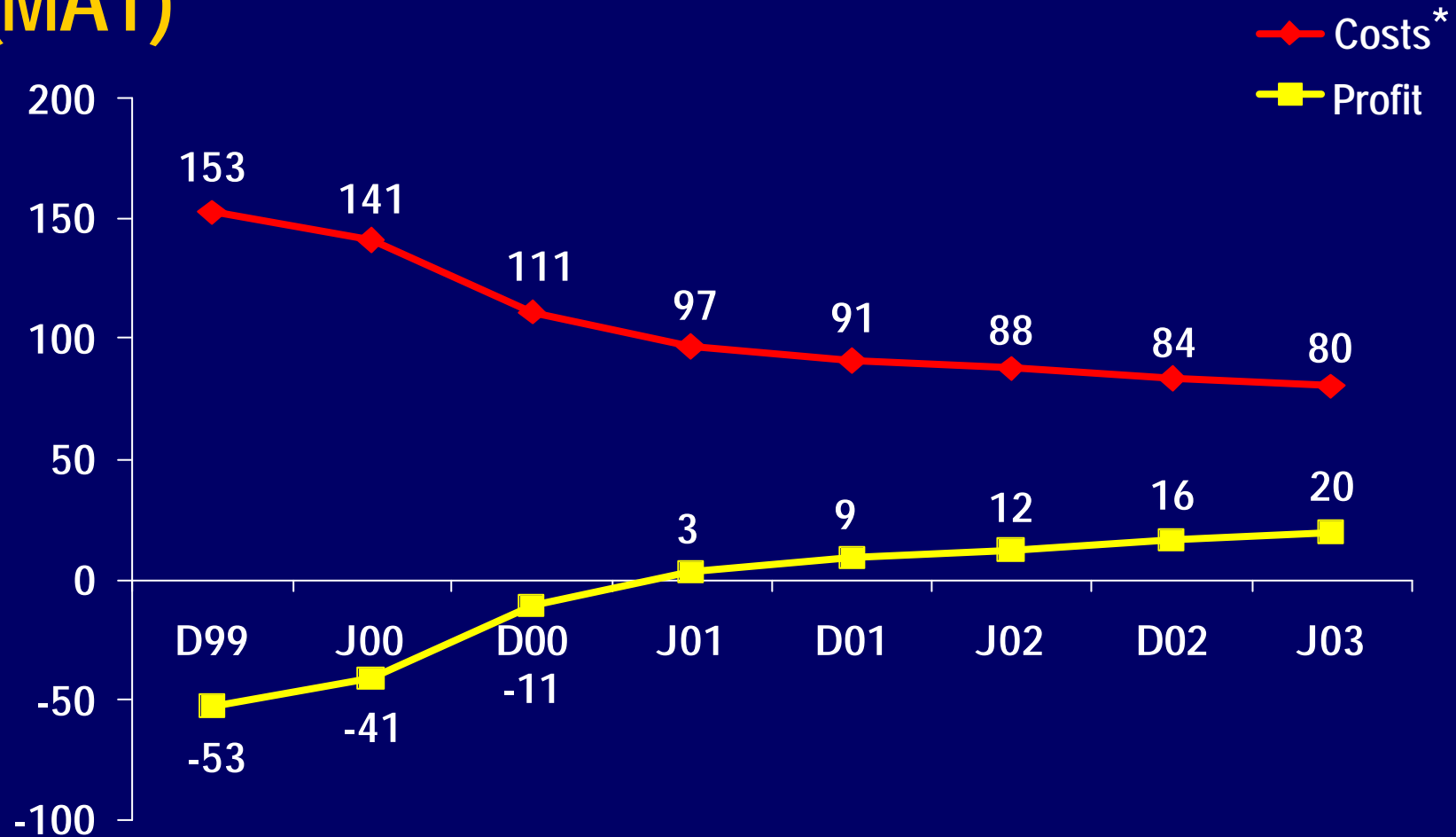
Poland: employee-related costs

Employee growth

+ 1.3%

| | | | | | | | 1,505 | 1,594 | 1,597 | 1,617 | 1,618 |

23 — June 98
78 — Dec 98
206 — June 99
326 — Dec 99
800 — June 00
1,048 — Dec 00
1,505 — June 01
1,594 — Dec 01
1,597 — June 02
1,617 — Dec 02
1,618 — June 03

International home credit
Poland: profits
(£m)

						16.7	
							11.4
					6.7		
(0.6)	(1.5)	(2.6)	(2.8)				

| 12 months to Dec 1997 | 12 months to Dec 1998 | 12 months to Dec 1999 | 12 months to Dec 2000 | 12 months to Dec 2001 | 12 months to Dec 2002 | 6 months to June 2003 |
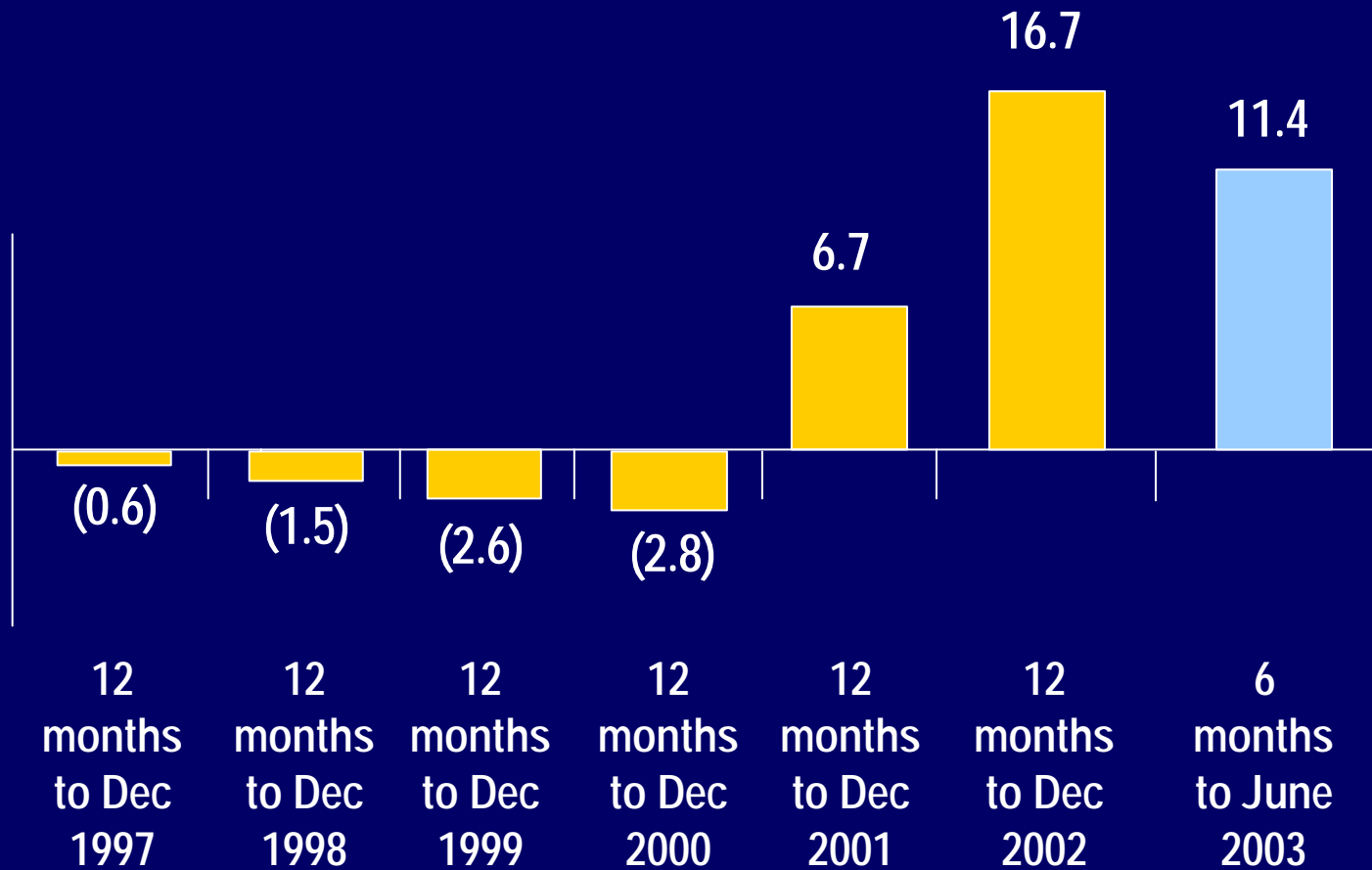
International home credit

Czech Republic: costs and profit as a % of revenue (MAT)

Costs*
Profit

	D99	J00	D00	J01	D01	J02	D02	J03
Costs	175	135	99	89	90	87	85	81
Profit	-75	-35	1	11	10	13	15	19
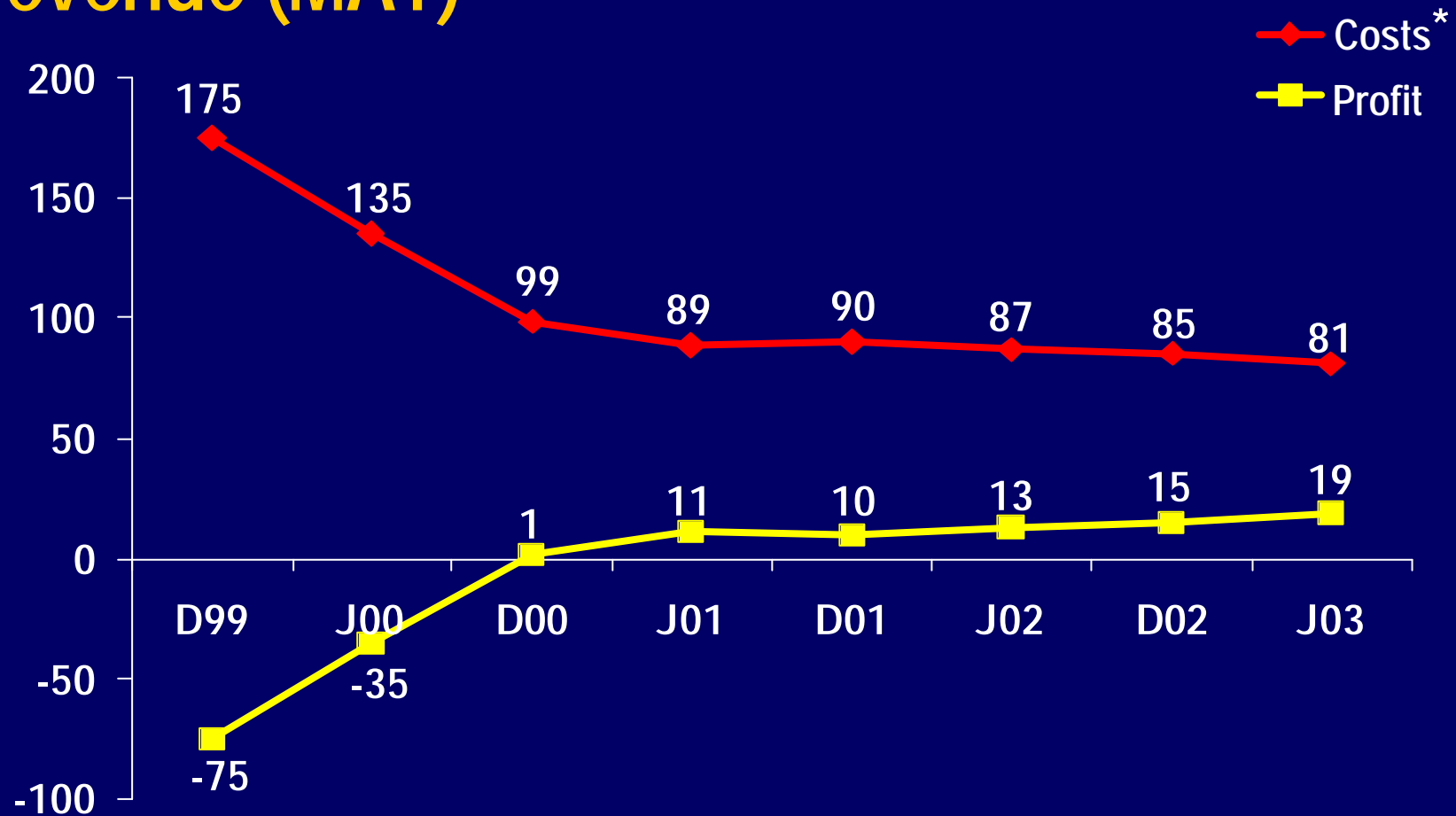
* Commission, bad debt, interest, expenses

International home credit

Czech Republic: profits

(£m)

	12 months to Dec 1997	12 months to Dec 1998	12 months to Dec 1999	12 months to Dec 2000	12 months to Dec 2001	12 months to Dec 2002	6 months to June 2003
	(0.2)	(1.1)	(2.7)	0.1	2.5	5.1	4.0
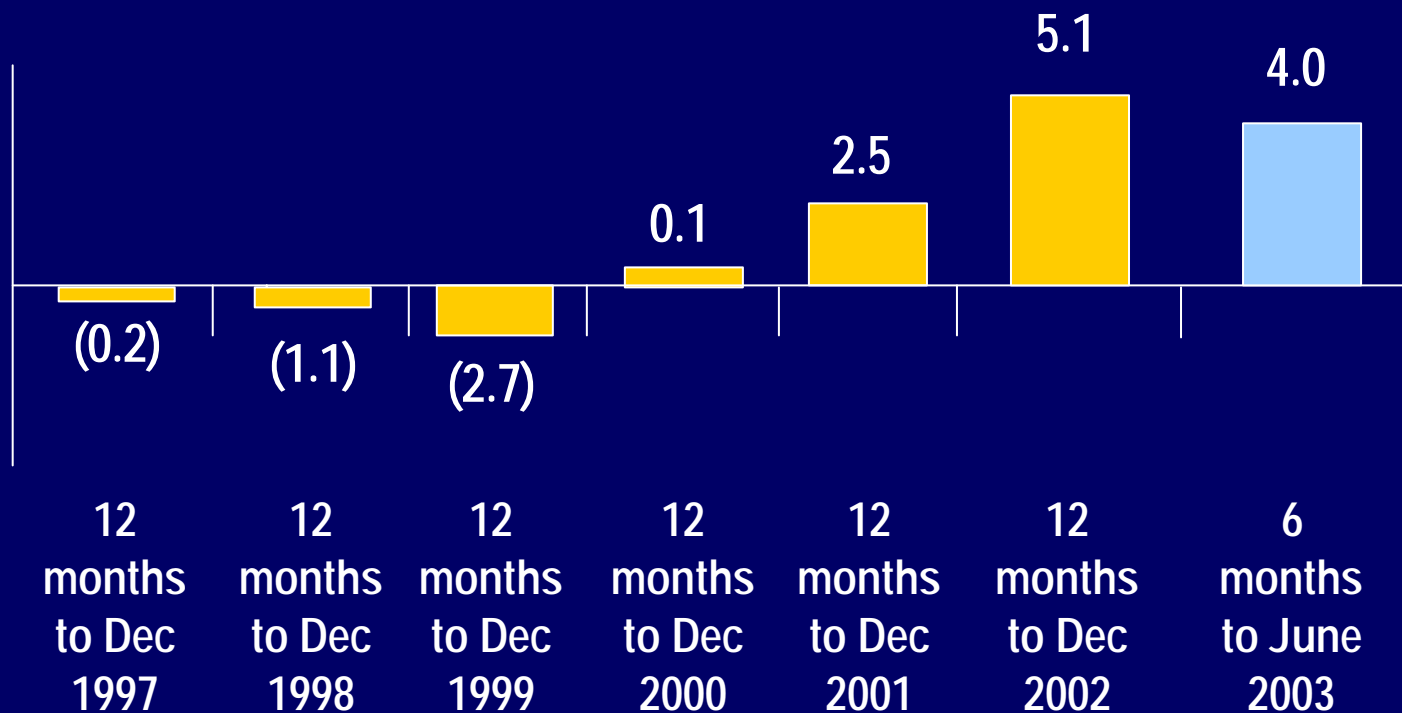
International home credit

Lessons learned

> UK home credit model can be successfully introduced overseas

> Customer and agent relationship similar in all countries

> Good quality, well educated workforce essential

> Key early skills: recruitment, training, advertising, brand building

> Simple, distributed IT systems a strength

> As arrears work builds, added support and training needed

> Need to balance growth, costs and bad debt

International home credit
Mexico: pilot commenced

> First loan made in August 2003

Mexico: country information

	Mexico	Poland
> Population	103 million	39 million
> % of cities with over 10,000 people	82%	62%
> Per capita annual income	$8,800	$9,000
> S&P country rating	A-	A-
> Economic growth rate (2003 est.)	3.5%	3.1%
> Inflation	5.1%	3.2%
> Interest rate	10.2%	6.5%

International home credit
Mexico: target market

C Demographic
26% of Population
Household income between US $1,000 and US $3,000 per month.

D+/D Demographic
52% of Population
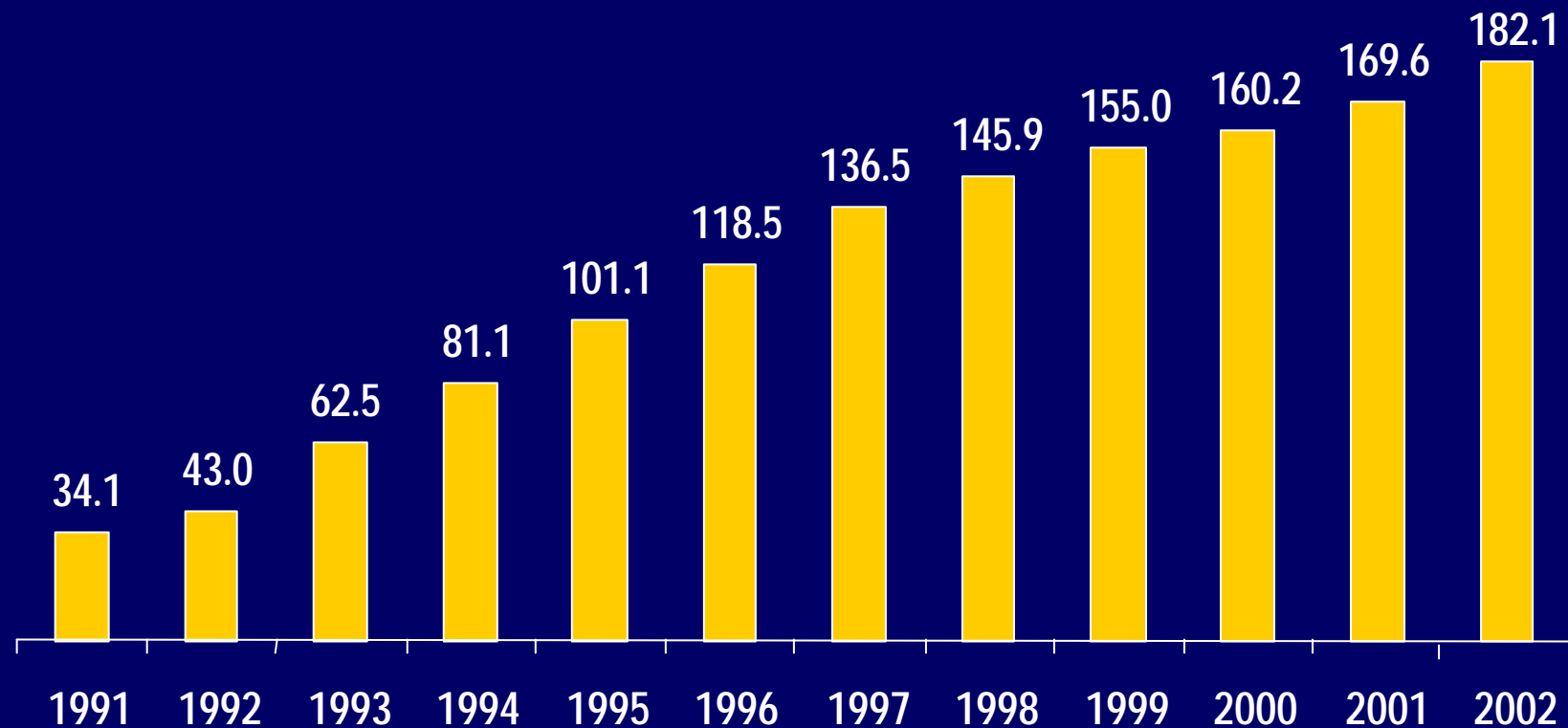Household income between US $200 and US $1,000 per month.

International home credit

Country selection: where next?

> No new countries before 2005

> Rule of law

> Relatively stable economy

> Safe to lend and collect

> Urbanised

> Can be funded in local currency
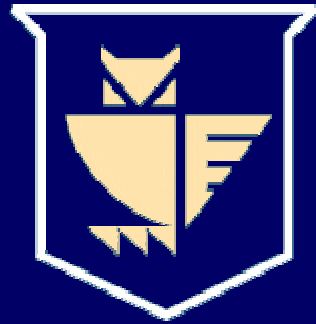
> Well educated workforce

> Sufficient potential