Provident Financial plc

2010 Interim Results Presentation

Maintaining the flow of credit through turbulent times

27 July 2010

Provident Financial plc

Today's presentation

• Overview and strategy	Peter Crook
• Financial review	Andrew Fisher
• Regulatory update and Outlook	Peter Crook

Highlights

Good progress in a lower growth environment

- Profit before tax up £0.9m to £54.0m after absorbing £7.0m attributable to higher funding rates
- Sound credit quality and collections performance in both businesses
- Granting of credit in home credit continues to be tempered by cautious customer behaviour and tight underwriting standards
- Performance benefiting from early action to manage margins and costs
- Vanquis Bank profits up 82% and on track to achieve target post-tax return on equity run rate of 30% before the end of 2010
- Committed banking headroom of £328m and sufficient funding to end of 2011
- Interim dividend maintained at 25.4p per share supported by strong capital generation

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 with high returns available in the small-sum unsecured segment of the market
- Leading positions in home credit and non-standard credit card market segments will provide strong performance when economy recovers

Market conditions and business positioning

Home credit

Current market conditions

- Competitive landscape little changed
- Unemployment and particularly under-employment putting pressure on household incomes
- Demand for credit tempered by caution amongst those customers concerned about their future prospects
- Good flow of new prospects
- Welfare and tax changes in the emergency budget a much less significant influence

Business positioning

- Business plan for 2010 based on lower growth
- Tight stance on underwriting new risks and re-serving existing customers remains in place
- Importance of agents' visibility of local employment market
- Duration of book being actively managed to reduce risk
- Margin enhanced through re-alignment of core product
- Central costs reduced whilst collections and arrears management capacity fully protected

Market conditions and business positioning

Vanquis Bank

Current market conditions

- Vanquis Bank remains the only significant active participant in the non-standard credit card market
- Strong flow of applications
- Unemployment relatively stable since mid-2009, under-employment less of an influence
- Consumers in the wider non-standard market carrying too much debt

Business positioning

- Tight and consistent underwriting and credit line increase criteria maintained since mid-2009
- Strict adherence to only serving customers with limited indebtedness
- Improving underlying quality of the book now showing through in favourable delinquency trends and rising risk-adjusted margin
- No near term relaxation of credit standards due to uncertainty over direction of employment market

Market conditions and business positioning

Summary

- Approach in both businesses proving to be appropriate in current market conditions
- No change to cautious positioning of both businesses due to management's view of the risks stemming from the future direction of the employment market
- Growth in customer numbers and management attention to margins and costs leave the group with a strong opportunity when economic conditions improve

Financial review

Financial review

Profit before taxation

Six months ended 30 June	2010 £m	2009 £m	Change £m	*Funding rate* £m*
Home credit	51.1	54.1	(3.0)	*5.2*
Real Personal Finance	(1.8)	(2.1)	0.3	*0.2*
Vanquis Bank	9.1	5.0	4.1	*1.6*
Yes Car Credit	-	(1.1)	1.1	-
Central:				
- costs	(4.1)	(3.6)	(0.5)	-
- interest (payable)/receivable	(0.3)	0.8	(1.1)	-
Total central	(4.4)	(2.8)	(1.6)	-
Profit before tax	54.0	53.1	0.9	*7.0*
Earnings per share	29.5p	29.3p		

* Impact of the increase in the funding rate from 6.7% in the first half of 2009 to 8.4% in the first half of 2010

Home credit

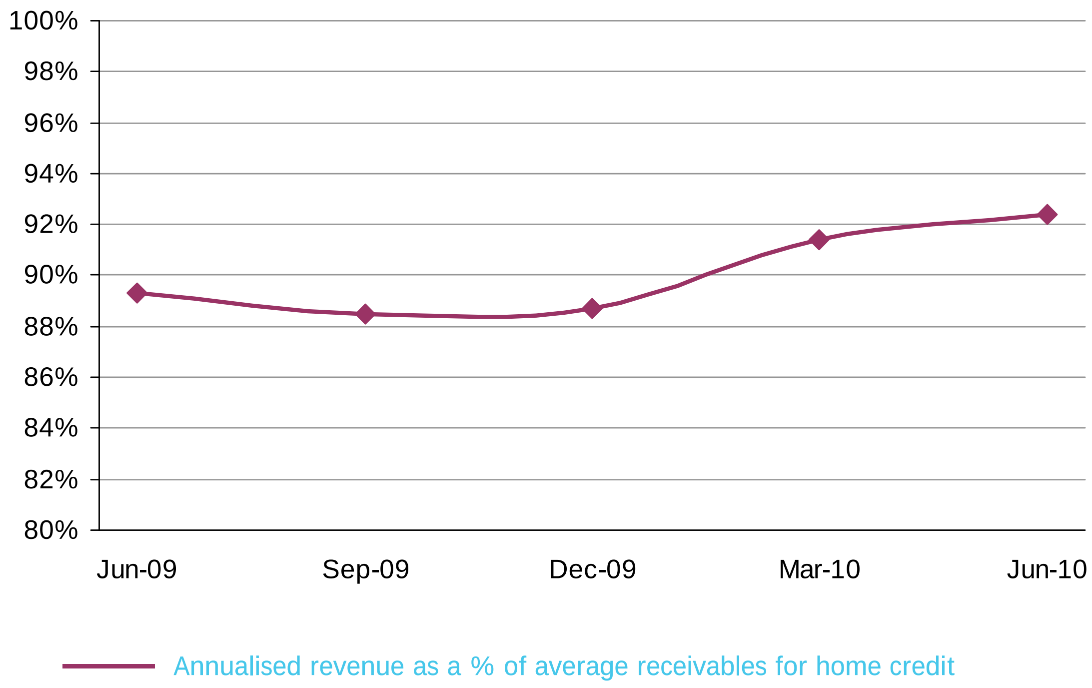
Income statement

Six months ended 30 June	2010 £m	2009 £m	Change %
Customer numbers ('000)	1,805	1,713	5.4%
Average customer receivables	749.5	753.2	(0.5%)
Revenue	362.3	335.9	7.9%
Impairment	(145.8)	(129.2)	(12.8%)
Revenue less impairment	216.5	206.7	4.7%
*Annualised revenue yield**	*92.4%*	*89.3%*	
*Annualised impairment % revenue***	*33.3%*	*31.2%*	
Costs	(140.8)	(134.0)	(5.1%)
Profit before interest and tax	75.7	72.7	4.1%
Interest	(24.6)	(18.6)	(32.3%)
Profit before tax	51.1	54.1	(5.5%)

* Revenue as a percentage of average receivables for the 12 months ended 30 June
** Impairment as a percentage of revenue for the 12 months ended 30 June

Home credit

Uplift in revenue yield



Home credit

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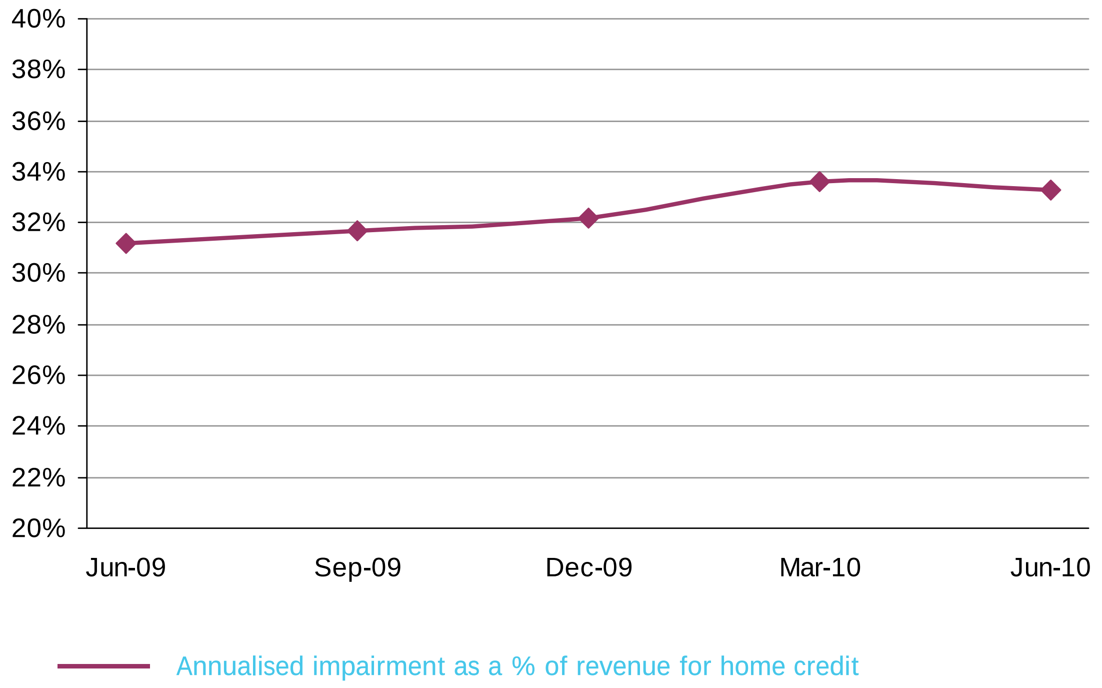
Home credit

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 12 weeks

Timely, realistic provisioning which has been applied consistently and reinforces the right behaviour amongst 11,700 agents and 2,900 employees

Home credit

IFRS 7 disclosures: % of closing receivables as at 30 June

	2010	2009
	%	%
In order	30.4	32.3
In arrears:		
- past due but not impaired	12.6	12.2
- impaired	57.0	55.5
Total	100.0	100.0

Home credit

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* Revenue as a percentage of average receivables for the 12 months ended 30 June
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Vanquis Bank

Income statement

Six months ended 30 June	2010 £m	2009 £m	Change %
Customer numbers ('000)	483	416	16.1%
Average customer receivables	265.3	218.3	21.5%
Revenue	74.7	60.1	24.3%
Impairment	(33.3)	(28.4)	(17.3%)
Revenue less impairment	41.4	31.7	30.6%
*Annualised risk-adjusted margin**	*31.1%*	*30.0%*	
*Annualised impairment % revenue***	*45.6%*	*44.8%*	
Costs	(23.9)	(21.1)	(13.3%)
Profit before interest and tax	17.5	10.6	65.1%
Interest	(8.4)	(5.6)	(50.0%)
Profit before tax	9.1	5.0	82.0%

* Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June
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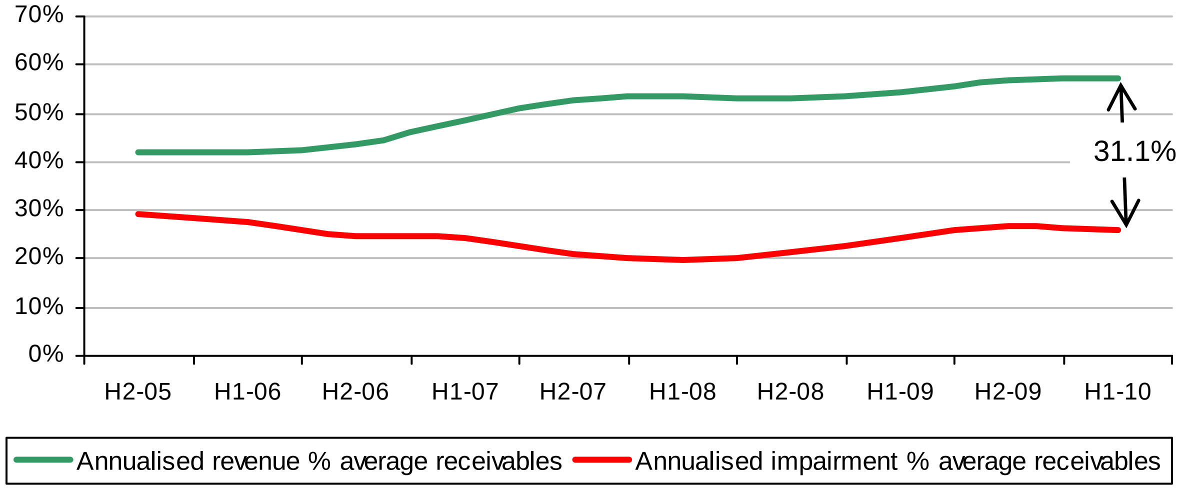
Vanquis Bank

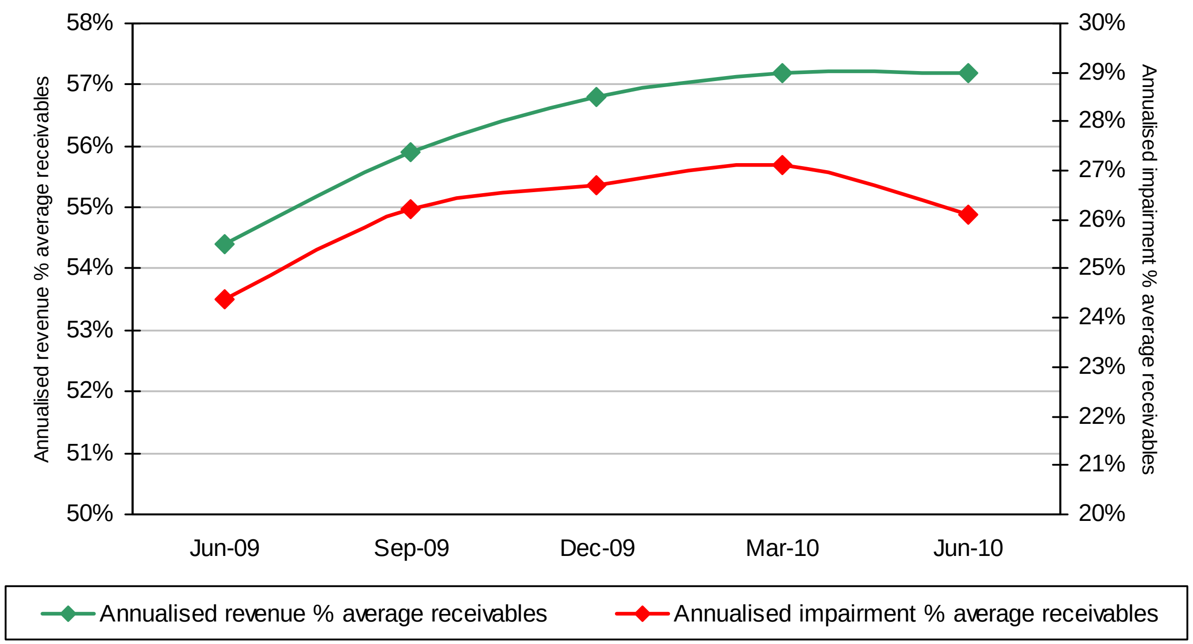
Maintaining the risk-adjusted margin



- Risk-adjusted margin of 31.1% above target level 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
- Progressive tightening of underwriting from 2007 to mid-2009

Vanquis Bank

Expansion of risk-adjusted margin



- Improving quality of underlying book
- Consistent application of tight underwriting since mid-2009
- Stable employment market since mid-2009

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 30 June

	2010	2009
	%	%
In order	83.7	82.3
In arrears:		
- past due but not impaired	-	-
- impaired	16.3	17.7
Total	100.0	100.0

Vanquis Bank

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- interest (payable)/receivable	(0.3)	0.8	(1.1)
Total central	(4.4)	(2.8)	(1.6)
Profit before tax	54.0	53.1	0.9
Earnings per share	29.5p	29.3p	

Balance sheet

Strong balance sheet with modest gearing levels

As at 30 June	2010 £m	2009 £m
Receivables:		
- Consumer Credit Division	758.5	781.5
- Vanquis Bank	281.2	229.7
- Yes Car Credit	-	0.3
	1,039.7	1,011.5
Pension asset	1.0	10.6
Borrowings*	(818.5)	(786.9)
Other	22.1	1.6
Net assets	244.3	236.8
Equity† : Receivables	21.3%	20.8%
Gearing†	3.2x	3.2x

* after adjusting for the fair value of derivatives used to hedge US$ private placement notes and arrangement fees
† equity excludes the net pension asset and the fair value of derivatives

Borrowings and committed facilities

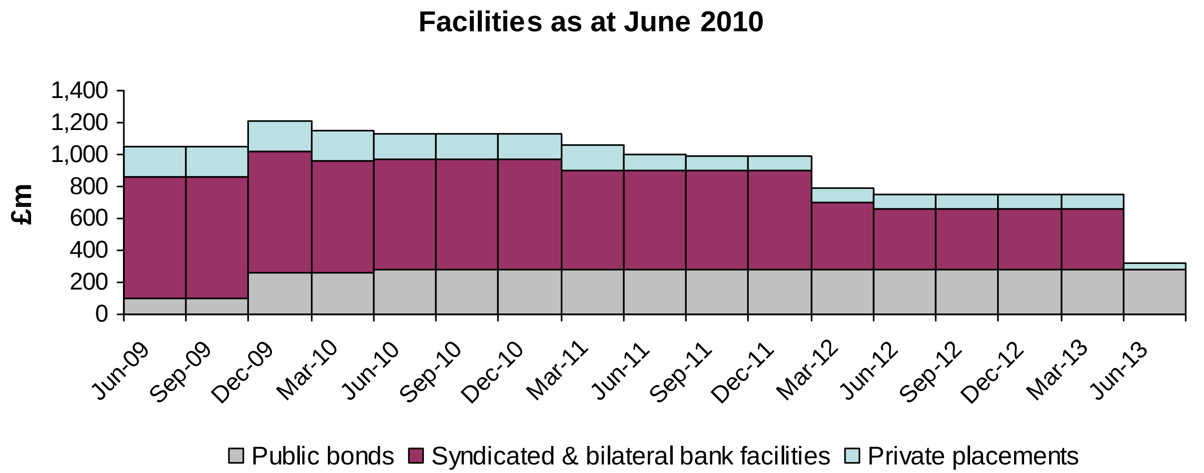
Increasing diversity and significant headroom

As at 30 June	2010 £m	2009 £m
Committed facilities:		
- bank facilities	690.0	762.5
- private placement notes	161.9	190.1
- senior bonds	250.0	-
- retail bonds	25.2	-
- subordinated bonds	6.0	100.0
Total committed facilities	1,133.1	1,052.6
Borrowings on committed facilities as at 30 June*	(804.9)	(773.2)
Committed headroom	328.2	279.4

* excludes short term facilities and arrangement fees

Maturity of committed borrowing facilities

Borrowing long and lending short



- Sufficient committed facilities 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 around 8.2% (2009: 7.0%)
  - H1 2010 rate of 8.4% (2009: 6.7%)
  - H2 2010 rate of 8.0% (2009: 7.2%)
- Senior issuer default rating of BBB+ from Fitch Ratings re-affirmed in September 2009

Capital and dividend strategy

Strong capital generation and modest gearing

- Group generated £82m of capital in the 12 months to June 2010
  - slower growth in receivables generating a higher yield
  - Vanquis Bank now generating surplus capital
- Internal capital generation and modest use of equity to support growth in receivables as dividend cover builds to 1.25x
- Medium-term plans show
  - dividend cover of 1.25x
  - 20% retention of profits sufficient to fund planned receivables growth
  - stable gearing ratio around 3.5x versus 3.2x at end of June 2010 and covenant of 5.0x
- Entirely consistent with 2007 demerger plan and highly sustainable in the current environment
- Regulatory capital remains comfortably in excess of the ICG set by the FSA in September 2009

Regulatory update

Regulation

Recent developments

- OFT review of £35bn high-cost consumer credit market concluded in June 2010
  - recognises the valuable contribution made by home credit in maintaining the flow of credit to non-standard consumers
    - low levels of customer complaints
    - serving customers not catered for by mainstream lenders
    - many products don't levy charges on customers who miss payments
  - price controls rejected on the grounds that they are both impractical and ineffective and would increase the potential for financial exclusion
  - recommended the introduction of best practice for each part of the industry and greater availability of price comparison information for customers
- OFT Irresponsible Lending Guidelines introduced in March 2010
  - group working with the rest of the industry to implement this in line with the EU Directive on Consumer Credit by February 2011
- BIS consultation on regulation of credit and store cards ended in March 2010
  - measures revolve around transparency and putting the customer in control
  - Vanquis Bank is working with the UK Cards Association to implement the findings by the end of the year

Outlook

Outlook

- The group has reported half-year results ahead of the prior year and in line with internal plans
- As anticipated, demand for home credit continues to reflect cautious behaviour from some customers in the context of an employment market which is unlikely to change in the near future. The group is also mindful of the potential for unemployment to increase as a result of the government's fiscal austerity programme. Accordingly, the strong focus on asset quality and careful management of margins and costs is proving to be the right approach
- Vanquis Bank is generating growth and returns which are consistent with achieving its target of a 30% post-tax return on equity run rate by the end of 2010
- The group's balance sheet and liquidity are strong and the plans to deliver good quality growth for the full year remain on track

Questions

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