

# US INVESTOR ROADSHOW

**NOVEMBER 2013**

**PFG** | **Provident**  
Financial Group

# GROUP OVERVIEW

- FTSE 250 plc with a market capitalisation of c.£2.3bn
- Leading non-standard lender providing access to credit for those who might otherwise be financially excluded
- Operates through two divisions:
  - Consumer Credit Division (CCD) provides small-sum, short term loans through its established home-collected credit business and is expanding its customer and product proposition into adjacent online market
  - Vanquis Bank is FSA regulated issuing Visa branded credit cards in the UK with relatively small credit limits and is expanding its operations into Poland
- 2.7m customers with receivables of £1.5bn at June 2013
- Profitable growth through the cycle:
  - Profit before tax of £181.1m (+11.7%) for 2012
  - First half profits in 2013 of £76.5m (+7.0%)
- High levels of customer satisfaction (CCD = 92%, Vanquis Bank = 89%)
- Received maximum rating score of 100 and ranked joint first globally amongst financial services companies in the FTSE4Good Index Series for two consecutive years

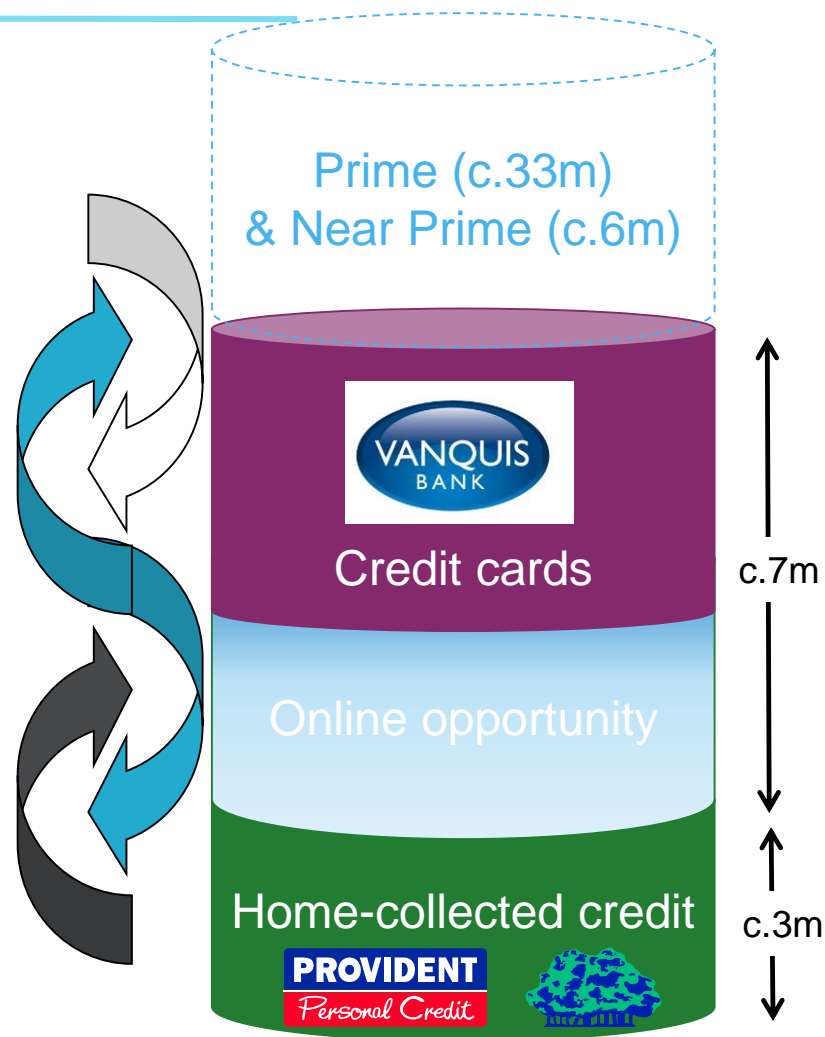
# GROUP STRATEGY

1. We focus on small-sum unsecured credit
  - High margins and therefore a high return on equity (ROE) is available to companies with a sustainable business model
2. Our risks are well spread
  - We lend small amounts to 2.7m customers who do not have much indebtedness elsewhere
3. We make our returns from a modest balance sheet (£1.5bn receivables)
  - We have short duration assets funded by longer duration liabilities with low gearing
  - We have not had the funding strain or capital strain that has affected other lenders through the crisis
4. We are very close to our customers
  - We see every customer every week in home-collected credit and have much higher levels of contact than mainstream issuers in Vanquis Bank (e.g. welcome call)

# GROUP

## UK NON-STANDARD MARKET

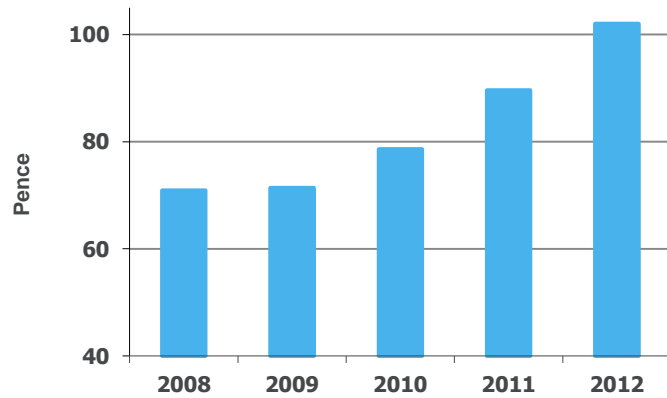
- UK non-standard market comprises c.10 million and is growing due to increase in temporary, part time and casual labour and retrenchment of prime lenders
- Home-collected credit market comprises c.3 million:
  - Customers at the bottom end of the servable market
  - Mature market never previously served by banks or prime lenders
  - Macro conditions, particularly inflation and under-employment are the main impacts on performance
- Vanquis Bank's target market is the top half of the c.7 million direct repayment market:
  - Benefitting from withdrawal of mainstream lenders
  - Benign competitive environment and stable economic conditions, particularly unemployment, has led to strong growth and returns
- Opportunity for expansion into the segment between Vanquis Bank and home credit through short-term online loans



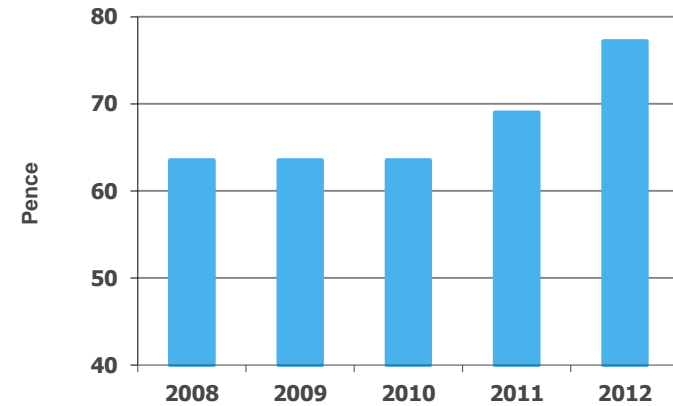
# GROUP

## KPIs

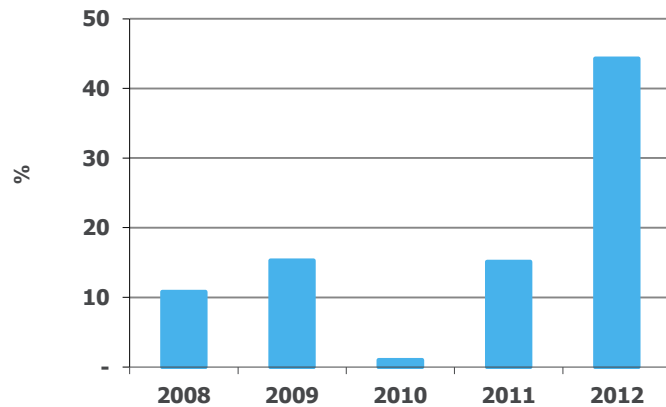
### Earnings per share



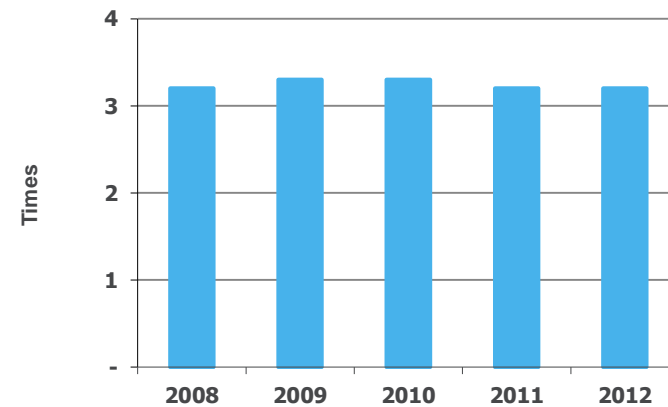
### Dividends per share



### Total shareholder return



### Gearing



# GROUP PROFIT BEFORE TAX

Six months ended 30 June	2013 £m	2012 (restated <sup>2</sup> ) £m	Change %
CCD	36.1	49.3	(26.8)
Vanquis Bank:			
- UK	50.2	29.4	70.7
- Poland	(3.6)	(1.2)	(200.0)
Total Vanquis Bank	46.6	28.2	65.2
Central:			
- costs	(6.3)	(5.8)	(8.6)
- interest receivable/(payable)	0.1	(0.2)	150.0
Total central	(6.2)	(6.0)	(3.3)
Profit before tax and exceptional items <sup>1</sup>	76.5	71.5	7.0
Tax rate	23.25%	24.50%	
Adjusted earnings per share <sup>1</sup> (pence)	43.5	40.3	7.9
Interim dividend per share (pence)	31.0	28.8	7.6

<sup>1</sup> 2013 first half profit before tax stated before an exceptional restructuring cost of £4.5m in respect of CCD

<sup>2</sup> 2012 first half profit before tax restated by £1.4m from £72.9m to £71.5m following the adoption of the revised IAS 19 'Employee Benefits' from 1 January 2013

# CCD

## PROVIDING A VALUED

## COMMUNITY SERVICE

- Community based model – home-collected credit business conducted face-to-face by agents who typically live in the communities they serve
- Provides access to credit for those who might otherwise be financially excluded
- Endorsement from key regulatory bodies
- 92% of customers are satisfied or very satisfied with Provident's home credit service
- Member of the Dow Jones Sustainability World Index, the Dow Jones STOXX Sustainability Index and the FTSE4Good Index
- Received maximum rating score of 100 and ranked joint first globally amongst financial services companies in the FTSE4Good Index Series for two consecutive years

Meeting the needs of the community with exceptionally high levels of customer satisfaction



FTSE4Good



# CCD

## BUSINESS DYNAMICS

<b>Simple, transparent financial products</b>	<ul style="list-style-type: none"> <li>• Small (typically £500), short-term (typically 1 year) and affordable (typically £17 per week) unsecured loans</li> <li>• Fixed weekly repayments that do not change, even if payments are missed. No hidden charges, arrangement fees or penalties</li> <li>• Products are priced appropriately to reflect in particular the size of the loans, the method of collection and the risk of default</li> </ul>
<b>Strong customer relationships</b>	<ul style="list-style-type: none"> <li>• Weekly face-to-face visits between agent and customer build strong and trusted relationships, which drives robust underwriting, customer satisfaction and collections performance</li> </ul>
<b>Market-leading position</b>	<ul style="list-style-type: none"> <li>• c.60% market share allows our 9,500 agents to have enormous knowledge of the local environment, but also with a national support and credit systems framework</li> </ul>
<b>Operational structure</b>	<ul style="list-style-type: none"> <li>• Hierarchical field structure provides a robust framework to control and manage the network of agents with weekly review meetings</li> <li>• Important to ensure sufficient operational resource to manage collections, through the cycle, for lending made</li> <li>• Extremely responsive to changes in local economic environment</li> </ul>
<b>Strong control environment</b>	<ul style="list-style-type: none"> <li>• Agent commission almost entirely based on collections and not lending</li> <li>• Managed and operated as a cash-based business</li> <li>• Extensive independent audit checks on agents and field network</li> </ul>



# CCD

## MARKET CONDITIONS AND

## BUSINESS POSITIONING

### MARKET CONDITIONS

- Competitive landscape in home-collected credit unchanged
- Household disposable incomes under persistent pressure from increases in day-to-day living costs
- Customer confidence at lowest level for many years
- Particularly weak demand from better quality customers eligible for higher value, longer duration loans
- Trading conditions unlikely to improve significantly in near term

### BUSINESS POSITIONING

- Tight credit standards have remained in place with weak demand main driver of arrears slippage
- Restructuring completed to downsize field management by 10% whilst not compromising on spans of control
- Gross cost savings of £10m secured for second half of 2013, rising to £18m in 2014
- Expenditure on important business development initiatives (online loans) protected

# CCD

## INCOME STATEMENT

Six months ended 30 June	2013	2012	Change
	£m	(restated <sup>3</sup> ) £m	
Customer numbers ('000)	1,668	1,771	(5.8)
Period-end receivables	739.6	787.8	(6.1)
Average receivables	755.2	783.5	(3.6)
Revenue	365.6	351.8	3.9
Impairment	(167.0)	(135.4)	(23.3)
Revenue less impairment	198.6	216.4	(8.2)
<i>Annualised revenue yield<sup>1</sup></i>	<b>92.4%</b>	89.2%	
<i>Annualised impairment % revenue<sup>2</sup></i>	<b>36.8%</b>	32.8%	
Costs	(141.5)	(144.4)	2.0
Interest	(21.0)	(22.7)	7.5
Profit before tax	36.1	49.3	(26.8)

<sup>1</sup> Revenue as a percentage of average receivables for the 12 months ended 30 June

<sup>2</sup> Impairment as a percentage of revenue for the 12 months ended 30 June

<sup>3</sup> 2012 first half profit before tax restated by £1.1m from £50.4m to £49.3m following the adoption of the revised IAS 19 'Employee Benefits' from 1 January 2013

# CCD

## BUSINESS DEVELOPMENT

- Management team, now led by Mark Stevens, has experience and skills to deliver medium term repositioning of business
- Focus on returns within the traditional home-collected credit business:
  - Driving greater operational effectiveness, cost efficiency and compliance agenda:
    - Process standardisation
    - Significant cost and efficiency gains
    - Greater evidence of compliance under FCA regime
    - Underpinned by smart phone/tablet application
  - Continuing to modernise proposition:
    - Online, self-service customer portal
    - Prepaid reloadable MasterCard – ‘24/7’ card
    - Electronic collections
- Accessing growth through broadening customer and product proposition in space between home credit and Vanquis Bank:
  - Capturing a greater share of non-standard market
  - Online loans (Satsuma)

# VANQUIS BANK REVOLVING, VISA-BRANDED CREDIT CARD

## **Background**

- Developed organically, rolled-out in 2005
- Holds a banking licence and regulated by the FSA
- Broke even in 2007 prior to strong profits growth through the economic downturn
- Over 1 million UK customers

## **Business model**

- Small credit lines focussed upon customers with limited over indebtedness
- High levels of credit utilisation
- Typical APR 39.9%
- Yield on receivables book >50%
- High customer satisfaction of 89%

## **Recent developments**

- Commenced retail deposit taking in July 2011
- Geographic expansion through a Polish pilot operation

# VANQUIS BANK

## BUSINESS DYNAMICS

<b>'Low and grow' strategy</b>	<ul style="list-style-type: none"> <li>• Customers are introduced with a small credit limit (typically £250)</li> <li>• Growth in balance, dependent upon performance, to average credit line of c.£1,000</li> </ul>
<b>Targeted customer profile</b>	<ul style="list-style-type: none"> <li>• Typical customers are non-homeowners with an annual income of £20k to £30k with low levels of other indebtedness</li> <li>• Customer segment is well understood and the risk is priced accordingly (typical APR 39.9%)</li> </ul>
<b>Sophisticated underwriting techniques and high-quality MI</b>	<ul style="list-style-type: none"> <li>• Balanced scorecard with credit reference information for all applications</li> <li>• Low and grow strategy means that behavioural scorecard is used for large portion of the exposure</li> </ul>
<b>Conservative approach to risk</b>	<ul style="list-style-type: none"> <li>• c.75%-80% decline rate reflects the desire to maintain quality and specific target market</li> <li>• Relatively low average balances (c.£750) and minimum monthly repayment (c.£40)</li> <li>• Proactive management of card utilisation (c.75%) and undrawn line exposure</li> </ul>
<b>Competitive position</b>	<ul style="list-style-type: none"> <li>• Mainstream competitors have exited the market and, therefore, customers typically have limited other sources of credit available</li> </ul>

# VANQUIS BANK

## MARKET CONDITIONS AND

## BUSINESS POSITIONING

### MARKET CONDITIONS

- Vanquis Bank is most active participant in underserved non-standard credit card market
- Little change in competitive activity from adjacent non-standard card products
- Strong flow of applications from both direct mail and internet channels
- UK employment market remains stable

### BUSINESS POSITIONING

- No change to tight underwriting and credit line increase criteria, supporting stable, record low arrears
- Investment in customer acquisition programme maintained to deliver further strong growth
- Credit standards will remain unchanged to protect against any adverse change in UK employment market

# VANQUIS BANK

## UK INCOME STATEMENT

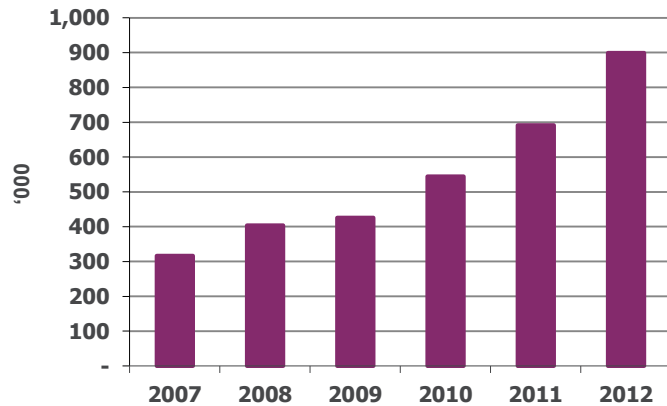
Six months ended 30 June	2013 £m	2012 £m	Change %
Customer numbers ('000)	<b>1,003</b>	777	29.1
Period-end receivables	<b>723.6</b>	525.1	37.8
Average receivables	<b>683.8</b>	487.5	40.3
Revenue	<b>178.0</b>	127.7	39.4
Impairment	<b>(64.6)</b>	(45.6)	(41.7)
Revenue less impairment	<b>113.4</b>	82.1	38.1
<i>Annualised risk-adjusted margin<sup>1</sup></i>	<b>34.4%</b>	34.9%	
Costs	<b>(47.8)</b>	(40.5)	(18.0)
Interest	<b>(15.4)</b>	(12.2)	(26.2)
Profit before tax	<b>50.2</b>	29.4	70.7

<sup>1</sup> Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June

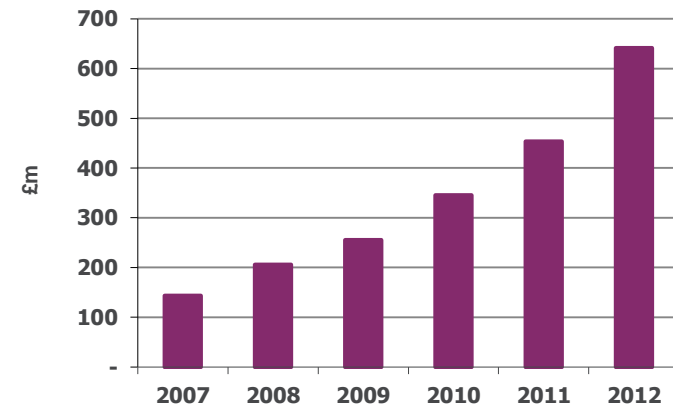
# VANQUIS BANK

## STRONG GROWTH BUSINESS

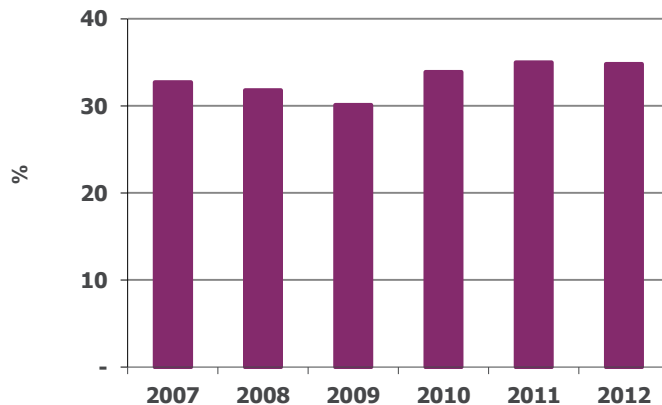
UK customers



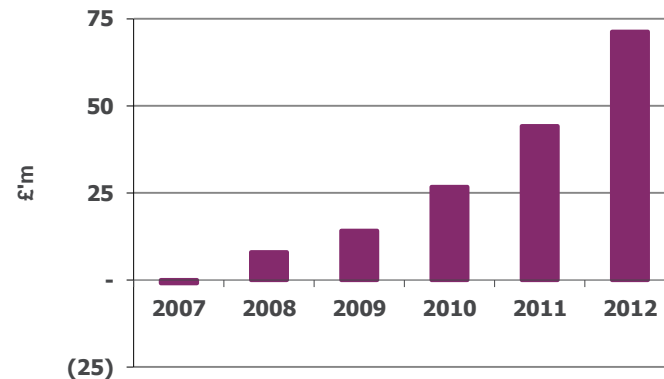
UK receivables



UK risk-adjusted margin\*



UK profit before tax



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



# VANQUIS BANK

## UK MEDIUM-TERM POTENTIAL

- Growth in Vanquis Bank over last two years has exceeded plan
- Greater penetration of target market due to enhanced marketing
- Demand for non-standard credit cards expected to remain strong
- Revised assessment of medium-term potential:
  - Serving between 1.3m and 1.5m customers
  - Up from previous assessment of between 1.0m and 1.2m
  - No change to assessment of average balance of between £800 and £1,000
- Medium-term rate of growth will be dictated by:
  - Economic conditions
  - Emergence of competition
  - Continued strict financial objective of maintaining a post-tax ROE of 30%
- Vanquis Bank also continues to explore product extension in the UK

# VANQUIS BANK

## POLAND

- Objective of pilot is to develop a customer proposition and business model capable of growing a sizeable business delivering group's target returns
- Pilot needs to demonstrate that key elements of UK business model can be adapted to address Polish target audience:
  1. Sufficient demand for product and it can be distributed at an acceptable cost
  2. Business can generate an adequate revenue yield
  3. Credit losses can be effectively managed both in underwriting new customers and granting credit through CLI programme
- Pilot has demonstrated that demand is strong and customers can be reached through internet and broker channels at an acceptable cost
- Remaining focus is on refining credit tools:
  - First generation internal scorecards address around one third of target audience
  - Further development through second half to address wider target audience
- Progress to date provides foundation for developing a Polish credit card business
- Full business case based on a firm assessment of addressable audience to be developed in second half

# GROUP

## DIVERSIFIED FUNDING BASE

At 30 June	2013 £m
<b>Banks</b>	<b>383</b>
<b>Bonds and private placements:</b>	
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
<b>Total bonds and private placements</b>	<b>695</b>
<b>Vanquis Bank retail deposits</b>	<b>439</b>
<b>Total committed facilities</b>	<b>1,517</b>
<b>Headroom on committed borrowing facilities</b>	<b>346</b>
<b>Additional retail deposits capacity*</b>	<b>168</b>
<b>Funding capacity</b>	<b>514</b>

\* Based on the lower of: (i) 90% of Vanquis Bank's UK receivables of £723.6m at 30 June 2013 less retail deposits of £438.6m after setting aside necessary liquid assets buffer; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £167.9m at 30 June 2013

# GROUP

## ALIGNMENT OF DIVIDEND POLICY,

## GEARING AND GROWTH

### High ROE businesses

**Dividend  
policy**  
Cover  $\geq 1.25x$

**Gearing**  
 $\leq 3.5x$  versus covenant  
of  $5.0x$

**Growth**  
Supports c.£160m  
receivables growth p.a

# GROUP

## Q3 IMS

- Group has overall performed in line with its internal plan in first nine months of the year
- Vanquis Bank has continued to trade ahead of its internal plan:
  - Delivered strong growth and robust margins, supported by stable record low delinquency
  - Pilot credit card operation in Poland continues to support the potential for developing a business capable of delivering the group's target returns:
    - Further sound progress made in refining the credit tools relevant to target customer segments
    - Firm business plan for Poland to be established during first quarter of 2014
- CCD has seen no change to weak pattern of demand reported in first half of the year:
  - Whilst trading result for third quarter was behind last year, benefit of cost savings implemented in July and some improvement in collections performance narrowed shortfall in the quarter
  - Strategic plans to reposition the business over the next 18 months are well advanced:
    - Focus on driving returns in core home-collected credit business
    - Investing in broadening customer and product proposition through roll-out of online direct repayment lending
- Group's funding position remains very robust:
  - Committed debt facilities, together with retail deposits programme at Vanquis Bank, are sufficient to fund contractual maturities and projected growth in the business until seasonal peak in 2016

# GROUP INVESTMENT CASE

- Non-standard credit market will remain domain of specialists
- Attractive business model:
  - Cash generative home-collected credit business with a focus on returns
    - Opportunities for growth from adjacent online products
  - Strong, profitable and capital generative growth in Vanquis Bank
    - Excellent UK credit card platform, channels to market and credit expertise capable of being exported into other territories
- Resilient to current market conditions and regulatory environment
- Highly skilled and experienced management teams
- High ROE businesses which are very capital generative
  - Supports a high and sustainable distribution policy
- Robust balance sheet and prudent funding

# CONTACT DETAILS

Provident Financial plc  
No. 1 Godwin Street  
Bradford  
BD1 2SU  
United Kingdom

**Contact:** Gary Thompson – Group Financial Controller and Head of Investor Relations

**Telephone:** +44 (0) 1274 351019

**E-mail:** [gary.thompson@providentfinancial.com](mailto:gary.thompson@providentfinancial.com)

**Website:** [www.providentfinancial.com](http://www.providentfinancial.com)