Provident Financial plc

2009 Interim Results Presentation

A straightforward approach in turbulent times

28 July 2009

PFG | Provident Financial Group

Provident Financial plc

Today's presentation

• Strategy and approach	Peter Crook
• Financial review	Andrew Fisher
• Business update and Outlook	Peter Crook

Highlights

Continued delivery of quality growth

- Profit before tax up by 3.5% to £53.1m
- Careful management of the balance between growth, impairment and costs
- Pressure on households' disposable income from unemployment and under-employment
- Customer number growth slowed, as planned, reflecting greater selectivity and tighter underwriting standards for new lending
- Investment in field and call centre collections capacity underpinning profitable growth in both main businesses
- Strong committed debt funding and surplus equity capital maintained to provide a platform for future growth
- Interim dividend maintained at 25.4p per share

Strategy and approach

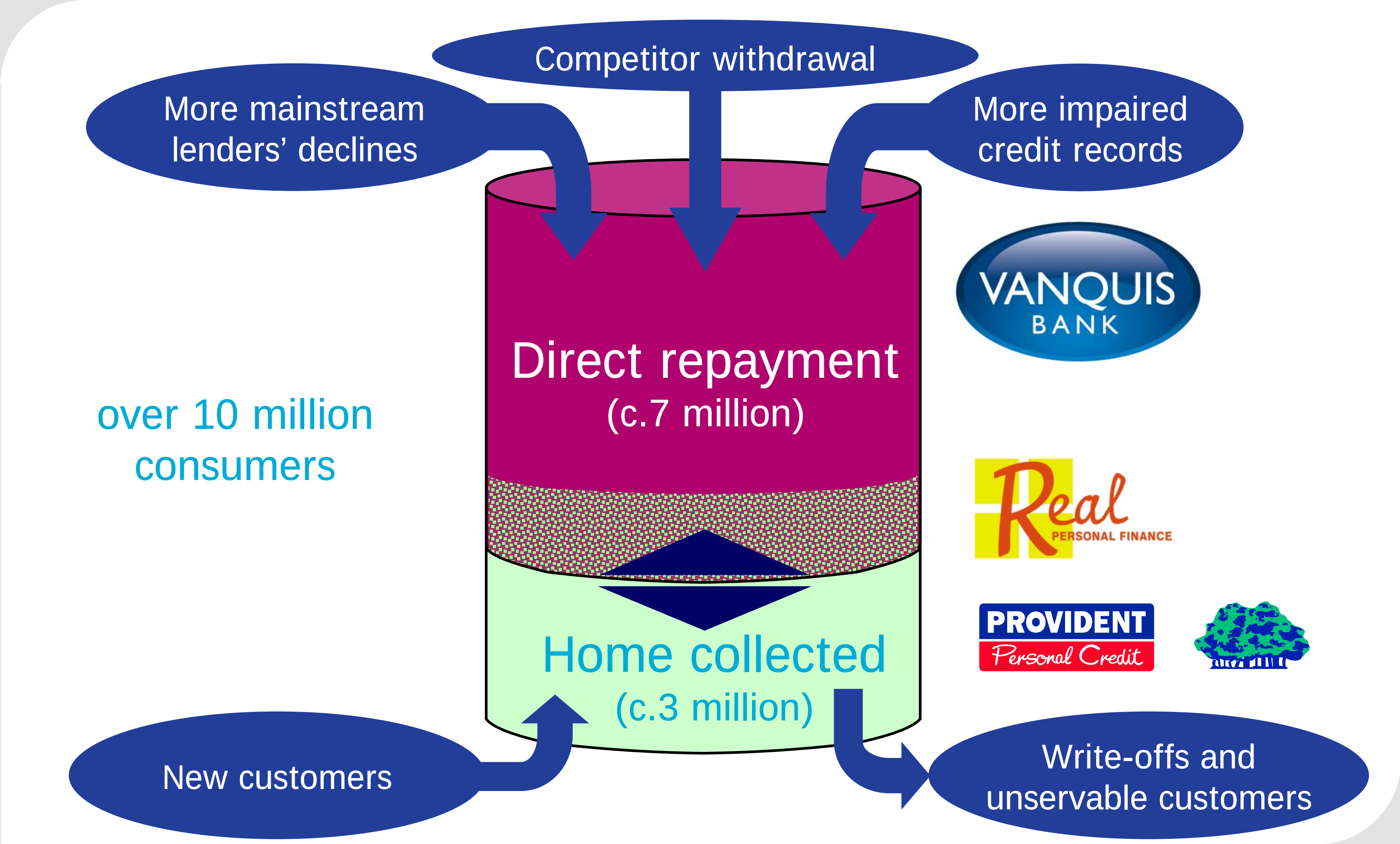
Strategy – addressing the UK non-standard lending market

Opportunity to expand in a growing and increasingly under-served market

- 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 organic growth opportunities

Strategy – addressing the UK non-standard lending market

Opportunity to expand in a growing and increasingly under-served market



Market conditions

Group’s business model well-suited to current market conditions

- Constraint on flow of new lending into the UK non-standard market as participants withdraw or restructure
- Competitive conditions in the home-collected segment are little changed
- Pressure on household budgets from unemployment and under-employment
  - strong emphasis upon customer affordability and responsible lending reinforced by business model
  - avoiding lending to over-indebted consumers
  - challenging conditions will remain for some time
- Strong funding and liquidity positions leave businesses well-placed to increase the flow of credit once the economy stabilises
- Significant medium-term opportunity to build leading position in the non-standard market

Management approach

Maintaining the balance between growth, credit quality and collections capacity

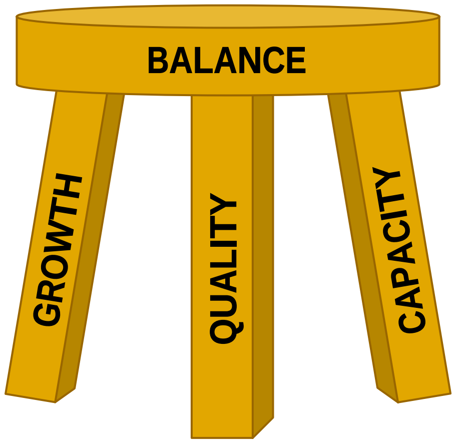
- Management has taken a cautious approach to lending for two years
  - marked deterioration in economy anticipated in middle of 2007
  - slower rates of customer growth in both businesses during first half of 2009
    - continued tightening of underwriting standards, particularly as applied to new applicants
    - reduction in new customer acquisition activities

- Credit decisioning
  - development and deployment of analytical tools in CCD for both new applicants and re-serving existing customers
  - continual tightening of scorecards for Vanquis Bank card applicants
  - proactive management of outstanding credit card lines, revenue yield and undrawn line exposures

Management approach

Maintaining the balance between growth, credit quality and collections capacity

- Collections and arrears management
  - recalibration of agents' commission scheme during 2008
    - key principle of commission based upon collections maintained
    - greater emphasis placed upon customers in arrears
    - lower levels of agent turnover
  - creation of some 120 new field-based management roles and 30 new branches
    - reinforces spans of control over collections and arrears management
  - major 2008 change programme deliverables were completed ahead of plan
    - allowed a strong emphasis on collections and arrears management in 2009



Financial review

Financial review

Profit before taxation

Six months ended 30 June	2009 £m	2008 £m	Change £m
Consumer Credit Division	52.0	50.2	1.8
Vanquis Bank	5.0	3.0	2.0
Yes Car Credit (collect-out)	(1.1)	(1.0)	(0.1)
Central			
- costs	(3.6)	(2.7)	(0.9)
- interest receivable	0.8	1.8	(1.0)
Total central	(2.8)	(0.9)	(1.9)
Group profit before tax	53.1	51.3	1.8
Earnings per share	29.3p	28.2p	

Consumer Credit Division

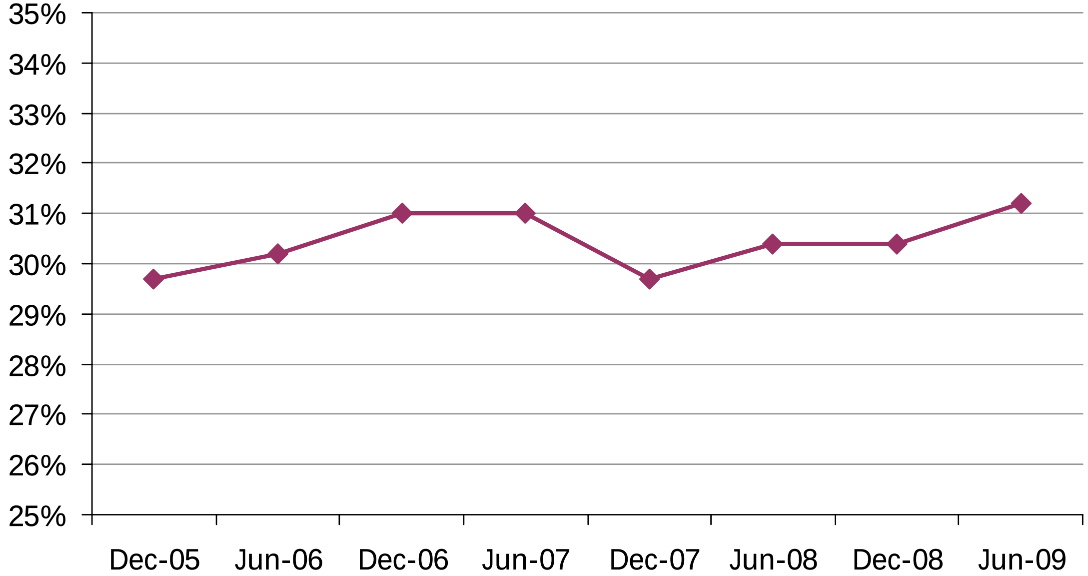
Income statement

Six months ended 30 June	2009 £m	2008 £m	Change %
Customer numbers (‘000)	1,726	1,661	3.9
Average customer receivables	773.4	689.5	12.2
Revenue	339.9	324.0	4.9
Impairment	(131.6)	(121.2)	(8.6)
Revenue less impairment	208.3	202.8	2.7
Costs	(137.2)	(134.3)	(2.2)
Interest	(19.1)	(18.3)	(4.4)
Profit before tax	52.0	50.2	3.6
Impairment as a % of revenue*	31.2%	30.4%	

* impairment as a % of revenue for the 12 months ended 30 June

Consumer Credit Division

Stable impairment as a % of revenue



Annualised impairment as a % of revenue

Consumer Credit Division

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
- 90%+ provision against loans for which no payment received in last 90 days

Timely, realistic provisioning which reinforces the right behaviour amongst 11,500 agents and 3,000 employees

Consumer Credit Division

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

	2009	2008
	%	%
In order	32.3	32.3
In arrears:		
- past due but not impaired	12.2	11.2
- impaired	55.5	56.5
Total	100.0	100.0

Consumer Credit Division

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Vanquis Bank

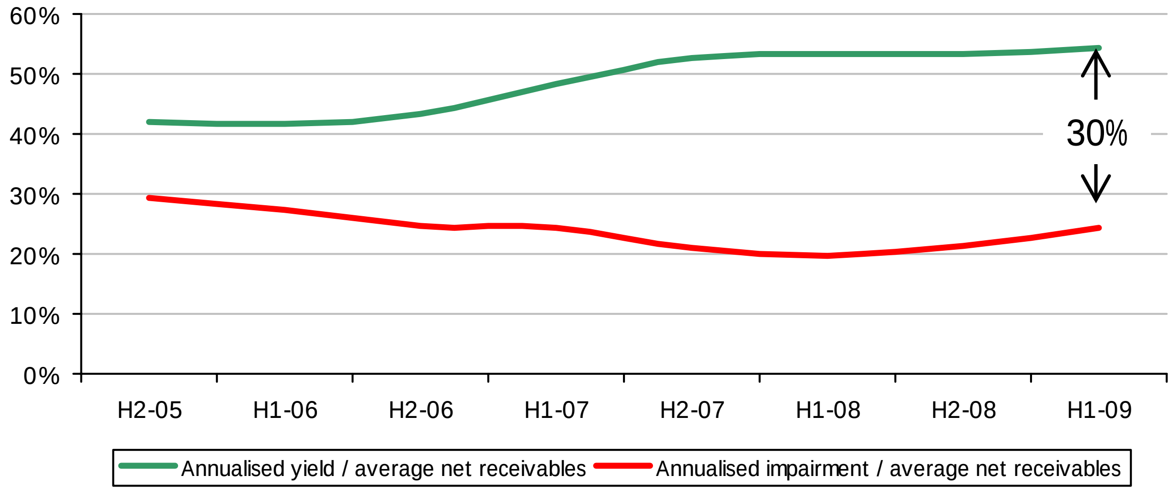
Income statement

Six months ended 30 June	2009 £m	2008 £m	Change %
Customer numbers ('000)	416	374	11.2
Average customer receivables	218.3	162.0	34.8
Revenue	60.1	42.9	40.1
Impairment	(28.4)	(16.5)	(72.1)
Revenue less impairment	31.7	26.4	20.1
*Risk-adjusted margin**	*30.0%*	*33.7%*	
*Impairment % revenue***	*44.8%*	*36.8%*	
Costs	(21.1)	(19.2)	(9.9)
Interest	(5.6)	(4.2)	(33.3)
Profit before tax	5.0	3.0	66.7

* Revenue less impairment as a proportion of average receivables for the 12 months ended 30 June
** Impairment as a % of revenue for the 12 months ended 30 June

Vanquis Bank

Maintaining the risk-adjusted margin



- Risk-adjusted margin at target of 30%
- Active management of credit line utilisation (≥70%) and revenue yield to reflect underlying credit risk of each cohort of customers
  - provides a strong stream of interest income
  - minimises contingent undrawn exposure
- Customers carry limited other indebtedness, with most living in rented accommodation
- Relatively low balances (c.£550) and minimum monthly repayment (c.£25)

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 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

	2009	2008
	%	%
In order	82.3	86.1
In arrears:		
- past due but not impaired	-	-
- impaired	17.7	13.9
Total	100.0	100.0

Vanquis Bank

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Balance sheet

Strong balance sheet with modest gearing levels

As at 30 June	2009 £m	2008 £m
Receivables:		
- Consumer Credit Division	781.5	701.7
- Vanquis Bank	229.7	177.5
- Yes Car Credit	0.3	16.3
	1,011.5	895.5
Pension asset	10.6	57.9
Borrowings*	(786.9)	(678.2)
Other	1.6	5.1
Net assets	236.8	280.3
Equity(†) : Receivables	20.8%	22.0%
Gearing(†)	3.2x	2.9x

* 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

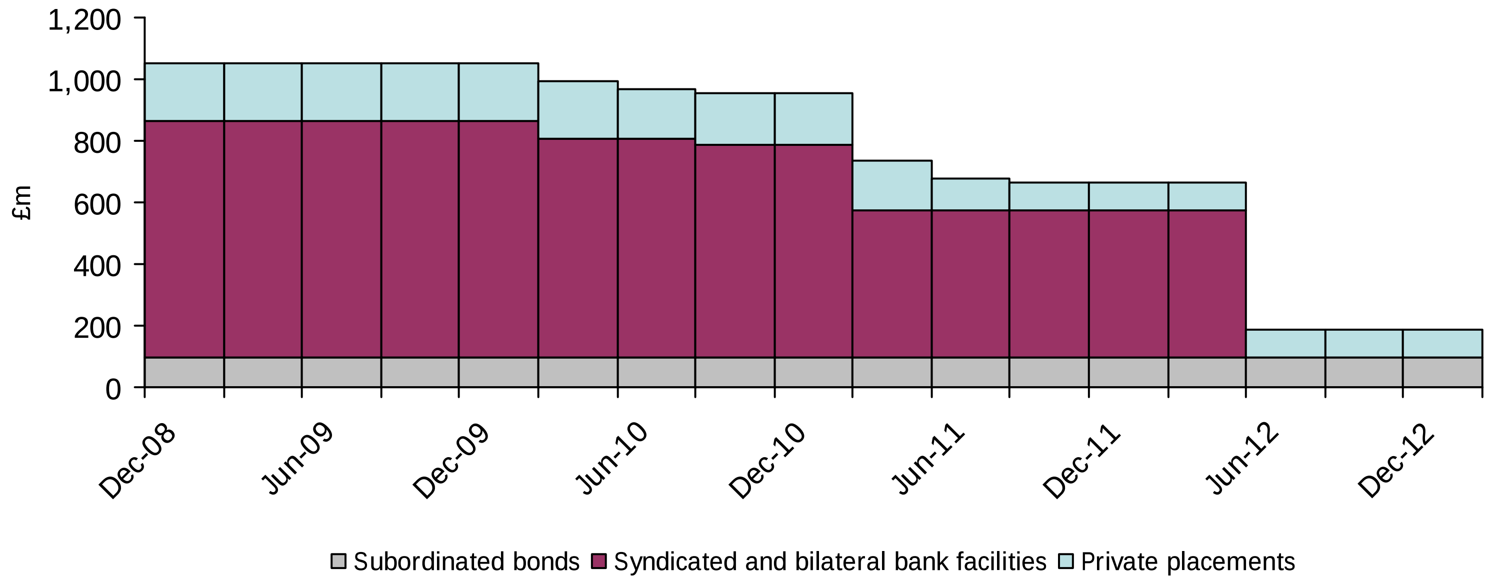
Borrowing long and lending short

	£m
Committed facilities:	
- syndicated bank facilities	707.5
- bilateral bank facilities	55.0
- private placement notes	190.1
- subordinated bonds	100.0
Total committed facilities	1,052.6
Borrowings on committed facilities as at 30 June 2009*	773.2
Committed headroom	279.4

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

Maturity of committed borrowing facilities

Borrowing long and lending short



- No maturities during 2009
- Interest charge for 2009 substantially fixed at 6.9% (2008: 6.5%)

Earnings and dividends

Moving towards medium-term targets

	per share
Interim dividend (to be paid in Nov-09)	25.4p
Basic earnings per share	29.3p
Annualised dividend cover* (target 1.25x)	1.14x

* Earnings per share and dividends paid over the 12 months to 30 June

Regulatory capital

Basel II as at 30 June 2009

	2009 £m
Risk weighted assets	868.5
Pillar I capital requirement	76.5
Tier 1 capital	227.3
Tier 2 capital	100.0
Total capital	327.3
Total capital as a % of Pillar I minimum capital requirement	428%

Surplus capital

In line with plan

- Approximately £60m of surplus capital as at 30 June 2009 in line with internal plans
- Plan to use up to a further £25m of surplus capital until group reaches target dividend cover
- The remaining surplus capital will be retained to fund growth opportunities and provide a sensible degree of strategic flexibility

Business update

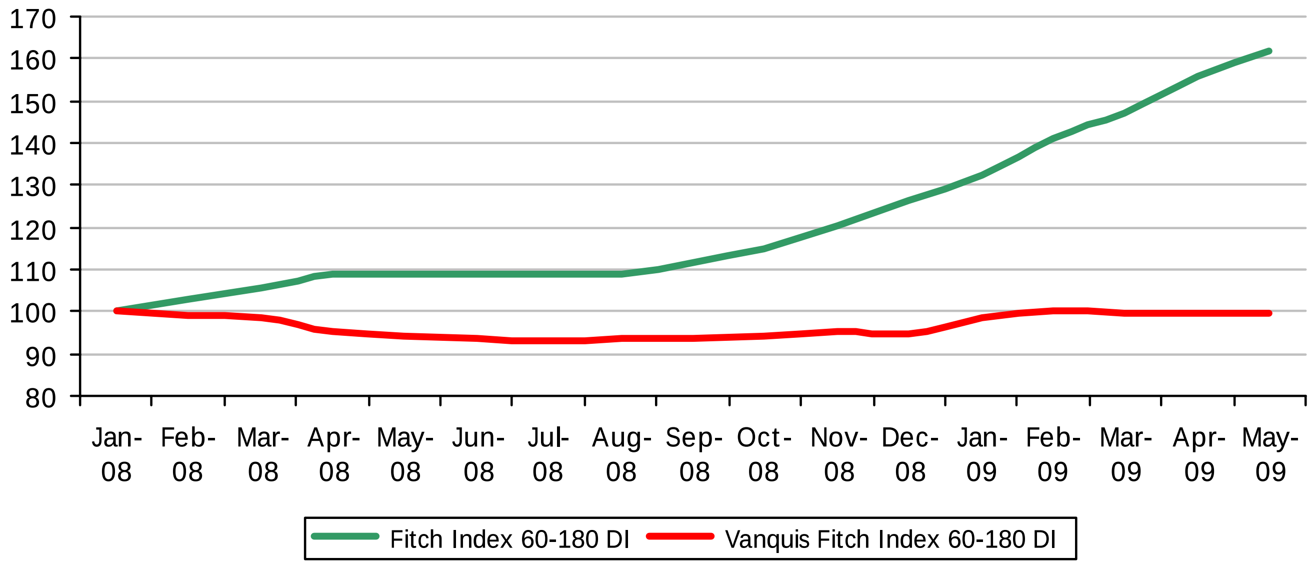
Real Personal Finance

Progress update

- Operating out of around 50 locations since June 2008 as a market test
  - outstanding receivables of around £20m and 13,000 customers
  - average loan advance of £1,800 repayable over 2-3 years
- National roll-out only once the economy / rate of increase in unemployment stabilises
- Structural changes in direct repayment market
  - withdrawal or restructuring of many participants
  - significant contraction of broker channel
  - direct channels will become more important
- Medium-term opportunity now looks greater than originally envisaged

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 resilience of Vanquis Bank in the downturn and the benefit of consistent tightening of underwriting and credit decisioning over the past two years

Regulatory update

Recent developments

- BIS White Paper – “A Better Deal for Consumers”
    - continuing access to credit for vulnerable consumers
    - promotion of more responsible borrowing and limiting over-indebtedness
    - increasing the transparency of consumer credit products
- Office of Fair Trading (“OFT”) review of high cost consumer credit sector
    - review addresses £35bn high cost consumer credit market
    - focus on the impact of economic downturn on competition, lenders’ business models and consumer protection
    - competitive landscape in the £3bn home credit segment little changed since CC review
    - home credit model has proven track record through the cycle
    - Provident Financial supports the broad aims of the White Paper and will actively assist the OFT’s review which is due to report in Spring 2010

Outlook

Outlook statement

- The group has reported half year results in line with its internal plans, against the backdrop of pressure on customers’ household budgets from rising unemployment and reduced working hours. This is not expected to abate in the second half of 2009.
- A cautious approach to new lending will continue and, when combined with the group's strong funding position, puts Provident Financial in a sound position to deliver continuing quality growth for the year.

Questions

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