Provident Financial plc

Debt Investor Update

October 2009

Overview

Provident Financial plc

Overview

- UK's leading community lender – small value, short-term loans
- Established in 1880 – profitable through many cycles
- Market leader with over 2.1m customers & growing
- Market capitalisation of c.£1.2bn
- 2009 first-half profits up 3.5%
- Highly cash & capital generative business model
- Prudent capital structure and conservative approach to liquidity
- Focused and experienced management team
- Carefully managing growth, reflecting strong demand, but greater selectivity and tight underwriting standards

Management team

Established team, with broad experience of the non-standard lending market

Peter Crook – Chief Executive

- joined Provident in September 2005
- appointed to the Board in March 2006
- previously UK Managing Director of Barclaycard 2000-2005 & Managing Director of UK Consumer Finance for Barclays
- earlier experience within Halifax plc
- Chartered Accountant

Andrew Fisher – Finance Director

- joined Provident and appointed to the Board in May 2006
- previously CFO of Premier Farnell plc for 12 years
- former partner in Price Waterhouse
- Chartered Accountant

Chris Gillespie – MD, Consumer Credit Division

- joined Provident and appointed to the Board in July 2007
- previously Sales Director at Bradford & Bingley
- managed the UK branch lending businesses of HFC
- earlier experience with Barclays' consumer lending division

Michael Lenora – MD, Vanquis Bank

- joined Provident in June 2007
- 25 years experience in non-standard credit cards with the Associates First Capital Corp. in the US & UK
- also held senior positions with Barclaycard and Goldman Sachs

Strategy

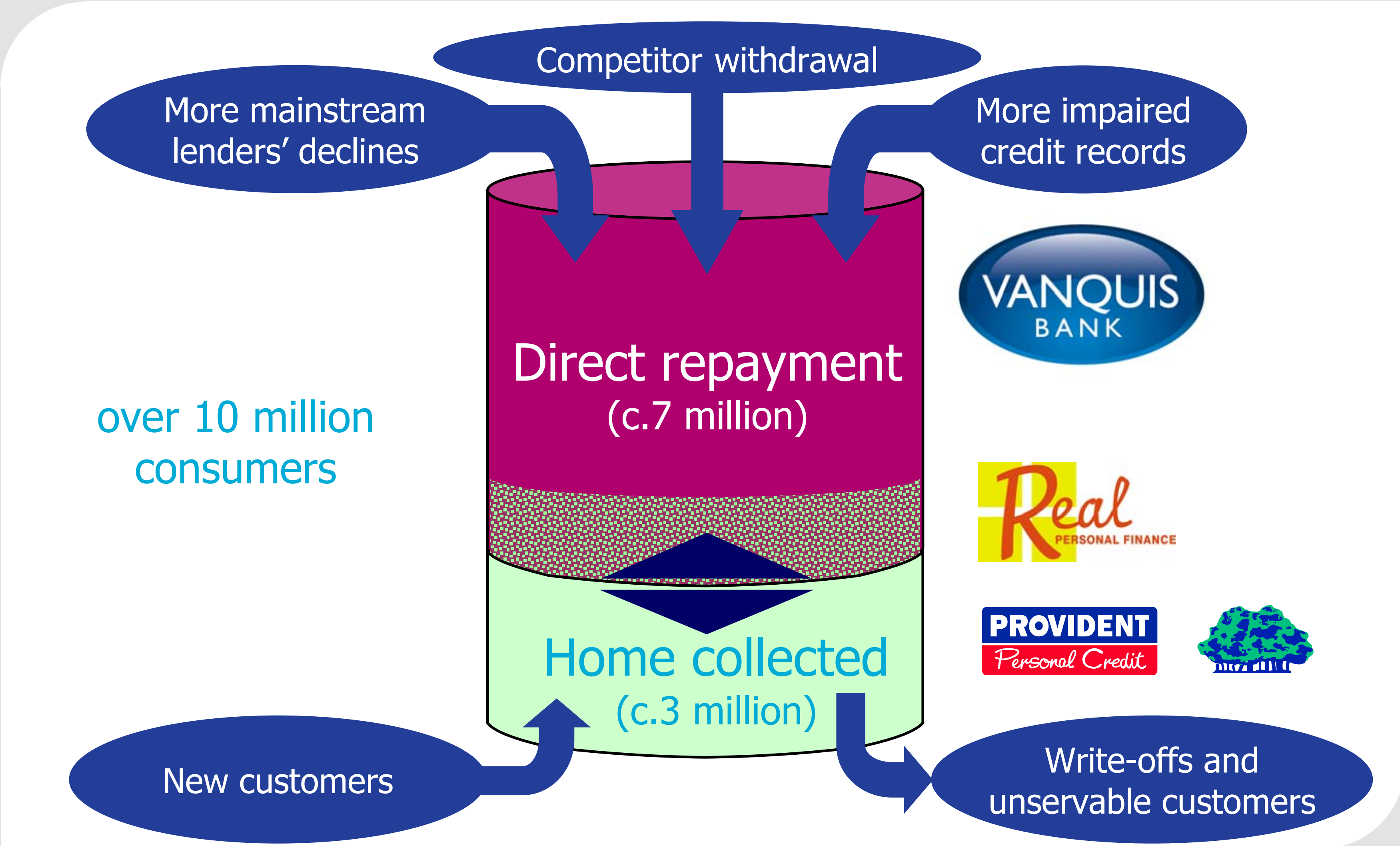
Strategy – addressing the UK non-standard lending market

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

Market dynamics

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

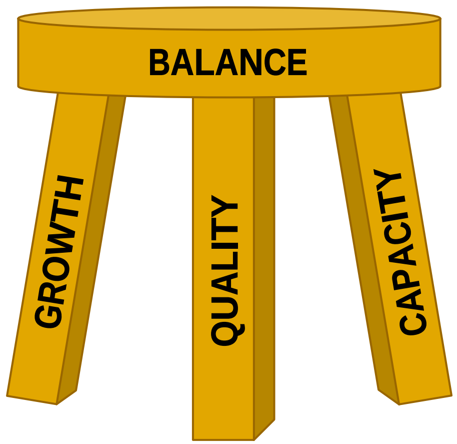
- Management has taken a cautious approach to lending for two years
  - marked deterioration in economy anticipated in middle of 2007
  - slower rates of customer growth in both businesses during first half of 2009
    - continued tightening of underwriting standards, particularly as applied to new applicants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



Business structure

Business structure

Complementary business structure sharply focused on core market

Consumer Credit Division		Vanquis Bank
Home collected credit	Direct repayment loans	Credit cards with lower card limits
Brands Provident Personal Credit Greenwood Personal Credit	Brands Real Personal Finance	
Products Small cash loans Larger loans Pre-loaded Visa card Shopping vouchers	Product Direct repayment loans	Product Visa credit card
Regulation Consumer Credit Act Office of Fair Trading	Regulation Consumer Credit Act Office of Fair Trading	Regulation FSA licensed bank

Summary financial information

High returns from strong balance sheet

Year ended 31 December 2008	PBT £m	Receivables £m
Consumer Credit Division	126.1	852.1
Vanquis Bank	8.0	205.4
Central & YCC (collect-out)	(5.3)	5.8
Group profit before tax	128.8	1,063.3
Net assets as at 31 December 2008*	203.2	
Post tax return on equity	45%	
Gearing	3.2x	

* stated after deduction of the final dividend of £50.1m, the pension scheme asset (net of tax) of £36.6m, and derivative hedging reserve of £12.0m

Home collected credit

Providing a valued community service

- Community based model – 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 by smoothing the cost of seasonal or one-off items of expenditure typically over a year
- Endorsement from key regulatory bodies, including the Office of Fair Trading, which is the primary regulator under the Consumer Credit Act
- **95%** of customers are satisfied or very satisfied with Provident's home collected credit service*

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

* Source : Provident Financial Quarterly Tracker Survey

Home collected credit

Community based lending model: resilient through the economic cycle

- Customer profile
  - limited access to other forms of credit, so not highly indebted
  - diversity of sources of household income
  - average weekly household income of c.£250
- Agents are naturally cautious
  - commissions based on collections, not credit issued
  - no incentive to over-lend to customers
  - lend shorter when risk is higher

Home collected credit

All loans are underwritten face-to-face in the customers' home

- Regular face-to-face contact with our customers…
  - our home credit customers are visited by our agents every week
  - this means that we make nearly <u>90 million</u> visits each year
- …allows us to routinely manage changes to their personal circumstances…
  - national network of 11,500 agents and 300 branches to react quickly and manage changes in local economic circumstances
  - loans remain short-term (typically 1 year), small value (typically £400) and affordable (typically £12 per week)
  - agents routinely deal with changes to customers' circumstances
- …making us uniquely placed to manage any changes in economic conditions effectively
  - we respond to warning signs of early strain, often before the event happens
  - we respond to signs of recovery and resume profitable lending quickly, whilst other remote lenders can only see impaired historic credit records

Home collected credit

Leading market share in our attractive core market

- Over 1.7m customers at June 2009, reflecting a c.60% market share
- Substantial modernisation programme undertaken over last 3 years, now largely completed
  - development of new recruitment channels for sourcing leads
  - deployment of credit analytic tools to assist agents' decision making
  - greater customer segmentation to aid customer retention
  - upgraded core customer accounting platform to enhance data analysis and improve system flexibility
  - refined agent commission scheme rolled out
- Pre-tax profit of £126.1m in 2008, generating free capital of £72.0m and post-tax ROE of over 50%

Consumer Credit Division

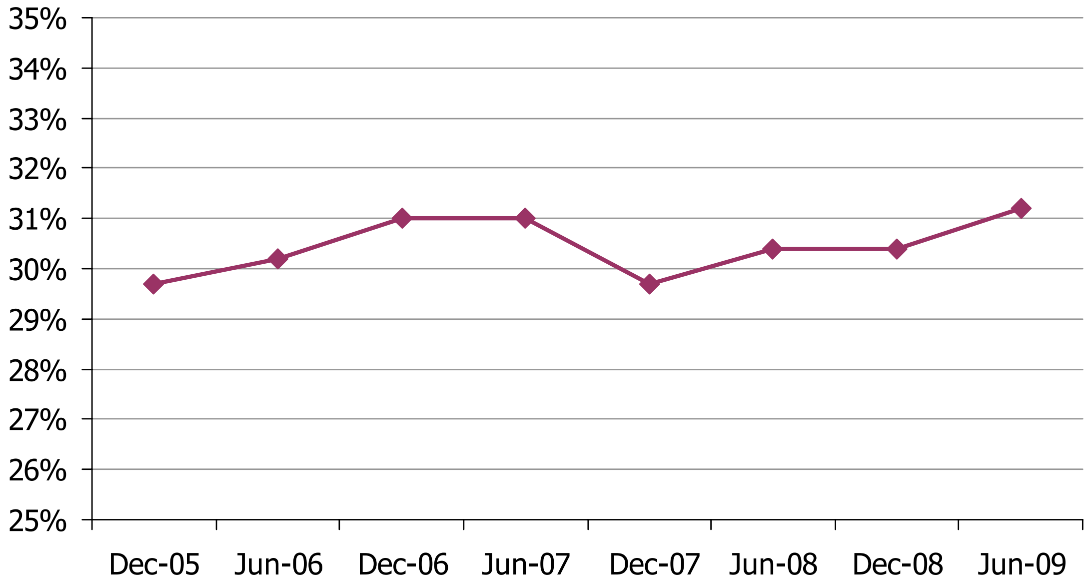
Income statement

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
- 95%+ 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

Direct repayment loans

Monthly home credit seizing a major opportunity in our core market

- Targeting the 200k home credit customers who climb up the credit ladder each year, augmented progressively by direct business via the internet
- Customer base is immediately adjacent to the home collected segment
- Underwritten face-to-face in the home; increasingly cautious approach to underwriting given economic conditions
- Average unsecured loan advance is £1,800, repayable monthly by direct debit over 2-3 years
- Leverages off the existing home collected credit branch infrastructure & customer database, so high return opportunity
- Market test is progressing well operating from 50 locations with around 13,000 customers and £20m of receivables
- National roll-out only once the economy / rate of increase in unemployment stabilises

Vanquis Bank

Revolving, Visa-branded credit card building value, leveraging management skill set and core market opportunity

VANQUIS BANK

- Developed organically, rolled out in 2005
- Over 416,000 UK customers
- Small credit lines with high levels of credit utilisation – average balance is c.£550 on an average credit line of c.£700
- Typical APR 39.9%
- Yield on receivables book >50%
- Fully-licensed bank regulated by the Financial Services Authority

Vanquis Bank

Strong progress towards medium term growth prospects

- Further withdrawal of mainstream issuers and direct competitors in 2008
- Consistent tightening of criteria applied to underwriting applications and to credit line increases to existing customers
  - 83% of credit applications currently being declined, up from c.70% in mid-2007
  - proactive management of outstanding credit card lines, revenue yield and undrawn line exposures
- Contact centre capacity doubled and IT systems refreshed in 2008
- On track to meet medium term profit targets
  - 500,000 customers, £300m of receivables, earning 30% post-tax ROE

Vanquis Bank

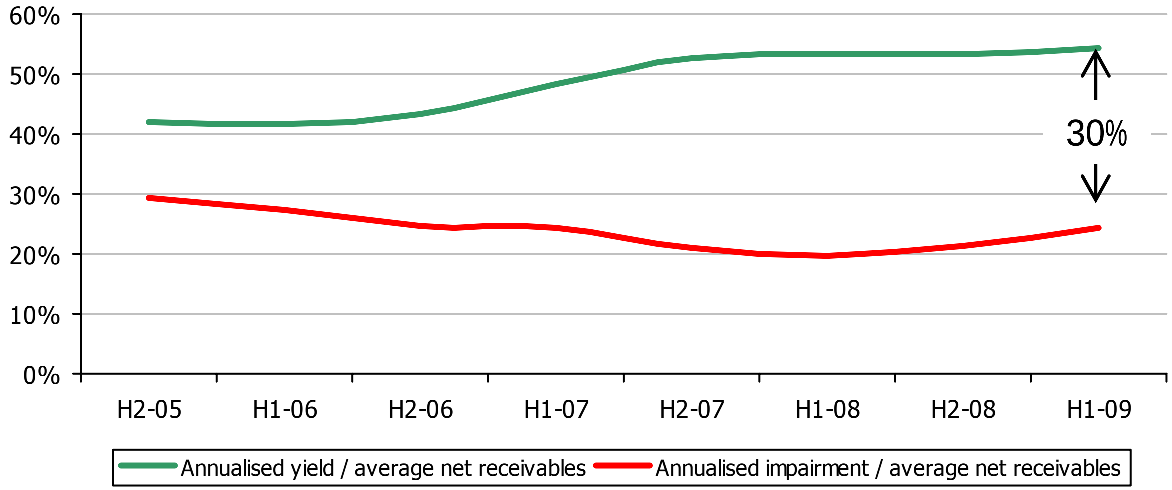
Income statement

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

Comparison of card issuers

Vanquis Bank is very different to a prime card issuer

- Customer status

	Prime issuer	Vanquis Bank
Employment status	Employed	Employed
Annual income	£25k+ p.a.	£12-25k p.a.
Residential status	House-owner / mortgaged	Tenant
Use of other credit cards	High	Low
Use of secured / unsecured loans	Medium	Very low

- Card features

	Prime issuer	Vanquis Bank
Credit line	£5,000+	£700
Line utilisation	25%	70%
APR	15-20%	40%
Primary purpose of card	Transactor / revolver	Revolver

Comparison of card issuers - continued

Vanquis Bank is very different to a prime card issuer

• Competitive features

	Prime issuer	Vanquis Bank
Competition	Strong	Very limited
Customer motive	Price - adverse selection	Service
Customer loyalty	Lower	Higher

• Operational features

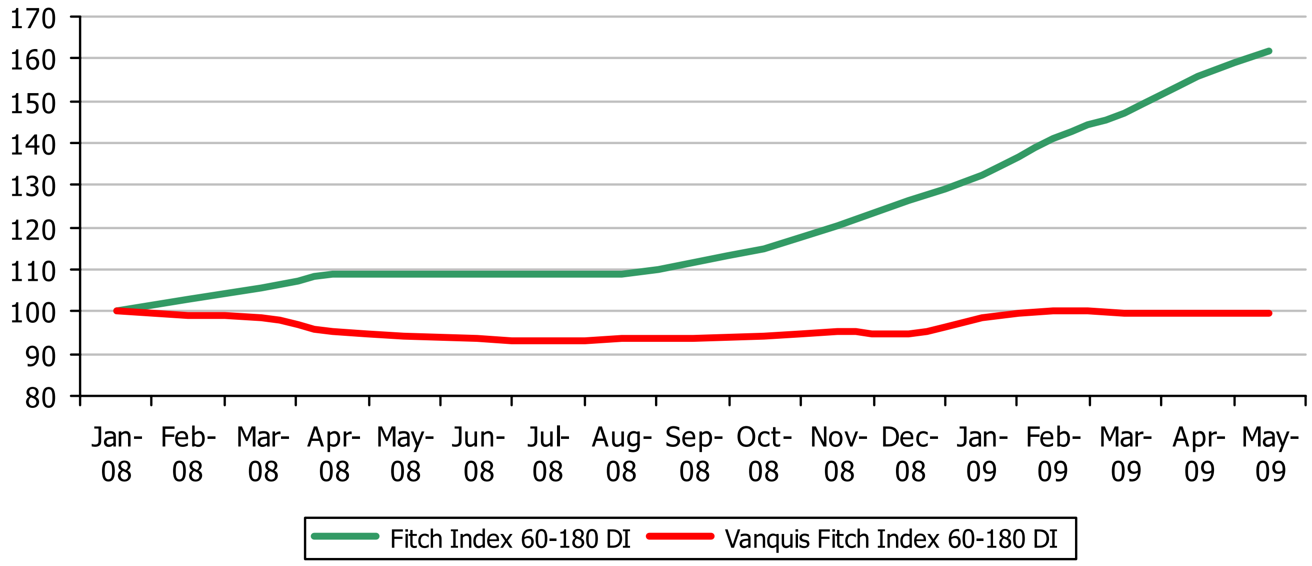
	Prime issuer	Vanquis Bank
Collections	Low investment	High investment
Arrears management	Light touch until 2-down	Intensive at point of 1st miss

• Returns

	Prime issuer	Vanquis Bank
Yield	c.20%	50%+
Average credit losses	c.7%	c.20%

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

Capital structure

Balance Sheet

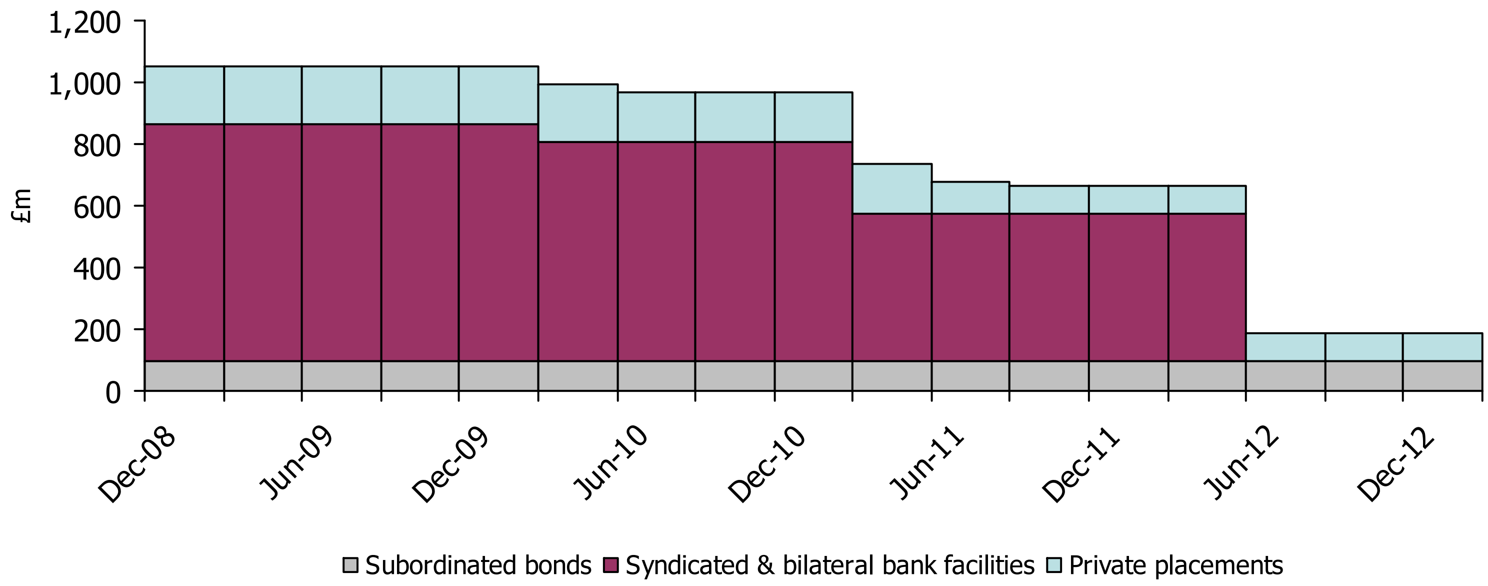
Strong balance sheet with modest gearing levels

As at 30 June	2009 £m	2008 £m
Receivables	1,011.5	895.5
Borrowings on committed facilities*	786.9	678.2
Pension asset	10.6	57.9
Net assets	236.8	280.3
Gearing (†)	3.2x	2.9x
Total committed facilities	1,052.6	
Headroom on committed facilities	279.4m	

* 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

Maturity of committed borrowing facilities

Borrowing long & lending short



- Extended £213m of syndicated bank facilities maturing in March 2010 by twelve months in February 2009
- Interest charge for 2009 substantially fixed at 6.9% (2008: 6.5%)
- Senior issuer default rating of BBB+ from Fitch Ratings recently affirmed with a stable outlook

Funding strategy

Clear focus on prudent capital management

- Treasury policy to have at least 12 months committed funding in place at all times
- Currently funded until seasonal peak towards the end of 2010
- Fully committed to maintaining existing funding sources
  - bank syndicate
  - private placement market
  - public debt market
- Capability to fund Vanquis through retail deposits
- Continuing to actively monitor the markets with the focus on growing the wholesale funding profile

Dividend and surplus capital

Clear focus on prudent capital management

- 2008 full-year dividend maintained at 63.5p per share, and an unchanged interim dividend of 25.4p declared in June 2009
  - dividend cover being rebuilt following demerger in 2007
  - medium-term target cover ratio of 1.25x
  - cover stood at 1.14x at middle of 2009
- Approximately £60m of surplus equity capital as at 30 June 2009 in line with internal plans, which will reduce by up to a further £25m
- The remaining surplus capital will be retained:
  - to fund growth opportunities and provide a sensible degree of strategic flexibility; and
  - to maintain liquidity and gearing at prudent levels

Provident Financial plc

Summary

- Prudent capital management
    - strong balance sheet position
    - strong funding and liquidity in place
    - focus on high-return operations to support organic growth
- Focused management team in place, with broad experience in UK non-standard lending market, capable of delivering this growth
- Potential for growth
    - restoration of profit growth in home credit
    - Vanquis Bank to deliver a growing profit stream
    - potential for further significant growth from Real Personal Finance

Provident Financial plc

Contact details

Provident Financial plc
Colonnade
Sunbridge Road
Bradford
West Yorkshire
BD1 2LQ

Contact: Stuart Caldwell – Group Treasurer & Head of Investor Relations

Telephone: (+44) 1274 377941

E-mail: stuart.caldwell@providentfinancial.com

www.providentfinancial.com

Appendix

Income Statement

Profit before taxation from continuing operations

	2008 £m	2007 £m	Change £m
Consumer Credit Division	126.1	123.5	2.6
Vanquis Bank	8.0	(0.9)	8.9
Yes Car Credit (collect-out)	(2.9)	(2.9)	-
Central			
- Costs	(5.5)	(6.5)	1.0
- Interest receivable	3.1	2.0	1.1
Total central	(2.4)	(4.5)	2.1
Group profit before tax	128.8	115.2	13.6
Earnings per share	70.9p	63.5p*	

* adjusted, as set out in note 5 of the preliminary announcement

Balance Sheet

Strong balance sheet with modest gearing levels

	2008 £m	2007 £m
Receivables:		
- Consumer Credit Division	852.1	749.0
- Vanquis Bank	205.4	143.1
- Yes Car Credit	5.8	33.3
	1,063.3	925.4
Pension asset	50.9	61.5
Borrowings*	(803.9)	(670.9)
Other	(32.4)	(20.1)
Net assets	277.9	295.9
Equity(†) : Receivables	19.1%	
Gearing (†)	3.2x	

* 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