Provident Financial plc

2010 Preliminary Results Announcement

1 March 2011

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2010 Preliminary Results Announcement

Today's presentation

• Strategy and approach	Peter Crook
• Financial review	Andrew Fisher
• Regulatory update and outlook	Peter Crook
• Questions	

Strategy and approach

Peter Crook – Chief Executive

Highlights

Continued good progress

- Profit before tax and exceptional costs up 11.1% to £144.5m
- Sound credit quality and collections performance in both businesses
- Home Credit performance underpinned by strong management of yield and costs
- Strong growth and favourable delinquency trends at Vanquis Bank produced 30% post-tax return on equity for 2010
- Additional post year-end funding of £128m with headroom currently £370m
- Dividend cover very close to target of 1.25 times
- Fourth quarter pick-up in Home Credit sales and continued investment in growth at Vanquis Bank position the group well for 2011

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Strategy

Addressing 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
- 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

Market conditions and business positioning

Home Credit

Market conditions

- Competitive landscape little changed
- Pressure on household incomes from under-employment and inflation
- Cautious customer behaviour tempered demand for credit through most of 2010
- More stable employment market and announcement of Government Spending Review improved visibility of future incomes and demand for credit from September
- Welfare changes will have limited impact on customer base with changes to individual customer circumstances factored into agents' normal lending decisions

Business positioning

- Business plan for 2010 based on lower growth
- Tight stance on underwriting new risks and re-serving existing customers remains in place
- Yield and duration of book actively managed to protect returns and manage risk
- Central costs reduced at start of 2010 whilst collections and arrears management capacity fully protected
- Deliberate focus on serving credit to good quality existing customers as demand improved

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Market conditions and business positioning

Vanquis Bank

<u>Market conditions</u>

- Vanquis Bank remains the most active participant in the non-standard credit card market
- Strong flow of applications from both direct mail and internet channels
- Unemployment relatively stable since mid-2009
- Consumers in the wider non-standard market still carrying too much debt

<u>Business positioning</u>

- No change to tight underwriting and credit line increase criteria in place 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
- Re-investment of some of delinquency gains in accelerating growth in customer base
- 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 has proved to be appropriate to current market conditions
- No change to current positioning of both businesses due to potential uncertainty stemming from future direction of employment market
- Both businesses enter 2011 with good quality receivables books and capacity to continue to deliver profitable growth

Financial review

Andrew Fisher – Finance Director

Financial review

Profit before taxation

Year ended 31 December	2010 £m	2009 £m	Change £m
Home Credit	129.1	128.9	0.2
Real Personal Finance	(1.8)	(7.7)	5.9
Vanquis Bank	26.7	14.1	12.6
Yes Car Credit	-	0.2	(0.2)
Central:			
- Costs	(8.1)	(7.0)	(1.1)
- Interest (payable)/receivable	(1.4)	1.6	(3.0)
Total central	(9.5)	(5.4)	(4.1)
Profit before tax and exceptional costs	144.5	130.1	14.4
Adjusted earnings per share	78.6p	71.4p	

Home Credit

Income statement

Year ended 31 December	2010 (53 weeks) £m	2009 (52 weeks) £m	Change %
Customer numbers (‘000)	1,861	1,842	1.0%
Year-end customer receivables	867.2	866.0	0.1%
Average customer receivables	753.6	759.2	(0.7%)
Revenue	701.1	673.7	4.1%
Impairment	(230.6)	(216.7)	(6.4%)
Revenue less impairment	470.5	457.0	3.0%
*Revenue yield**	*93.0%*	*88.7%*	
*Impairment % revenue***	*32.9%*	*32.2%*	
Costs	(292.3)	(288.4)	(1.4%)
Profit before interest and tax	178.2	168.6	5.7%
Interest	(49.1)	(39.7)	(23.7%)
Profit before tax	129.1	128.9	0.2%

* Revenue as a percentage of average receivables for the year ended 31 December
** Impairment as a percentage of revenue for the year ended 31 December

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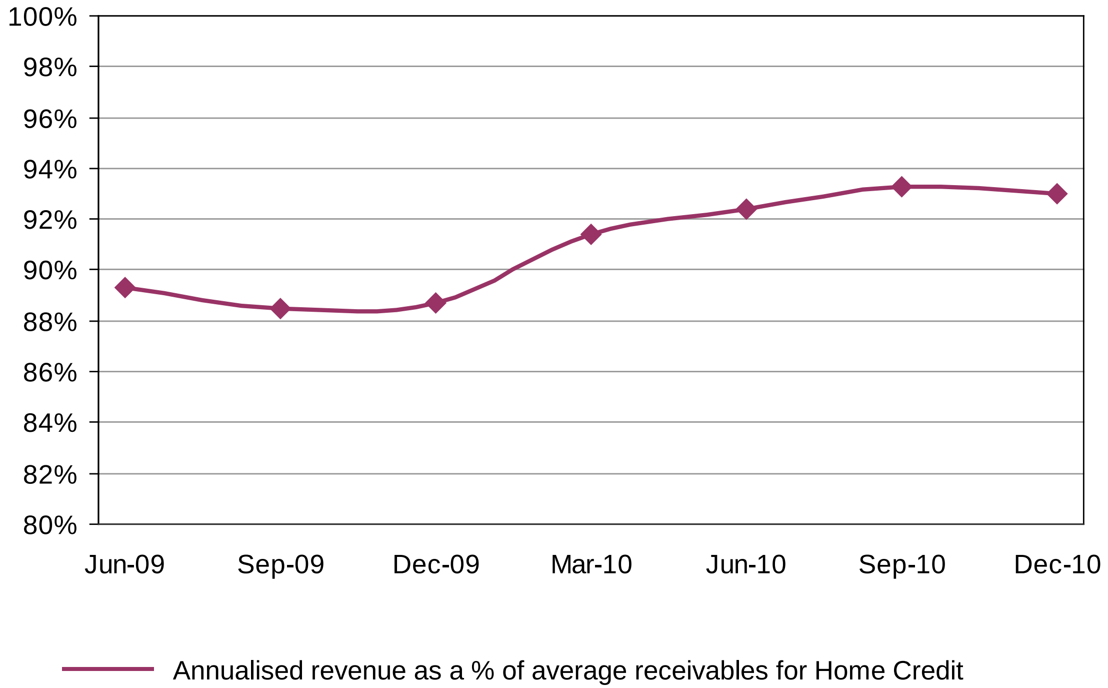
Home Credit

Uplift in revenue yield



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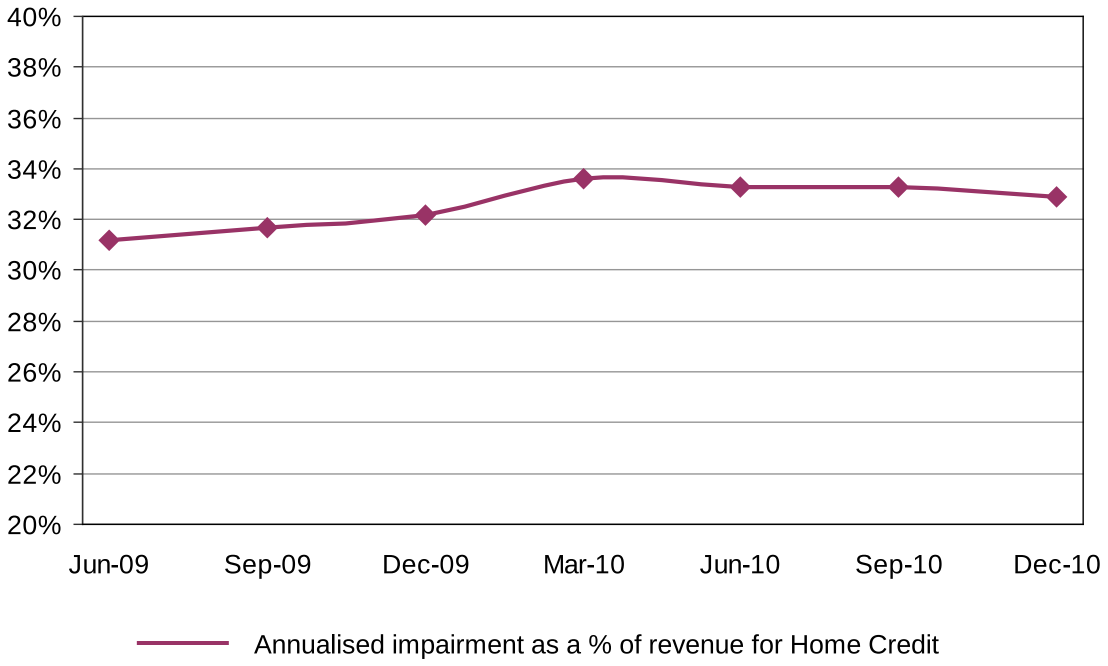
Home Credit

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 11,400 agents and 3,150 employees

Home Credit

IFRS 7 disclosures - % of year-end receivables

	2010 %	2009 %
In order	36.1	36.9
In arrears:		
- Past due but not impaired	16.1	15.0
- Impaired	47.8	48.1
Total	100.0	100.0

Home Credit

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Vanquis Bank

Income statement

Year ended 31 December	2010 £m	2009 £m	Change %
Customer numbers (‘000)	544	426	27.7%
Year-end customer receivables	345.0	255.5	35.0%
Average customer receivables	289.2	231.1	25.1%
Revenue	162.0	131.3	23.4%
Impairment	(63.9)	(61.7)	(3.6%)
Revenue less impairment	98.1	69.6	40.9%
*Risk-adjusted margin**	*33.9%*	*30.1%*	
*Impairment % revenue***	*39.4%*	*47.0%*	
Costs	(52.9)	(43.3)	(22.2%)
Profit before interest and tax	45.2	26.3	71.9%
Interest	(18.5)	(12.2)	(51.6%)
Profit before tax	26.7	14.1	89.4%

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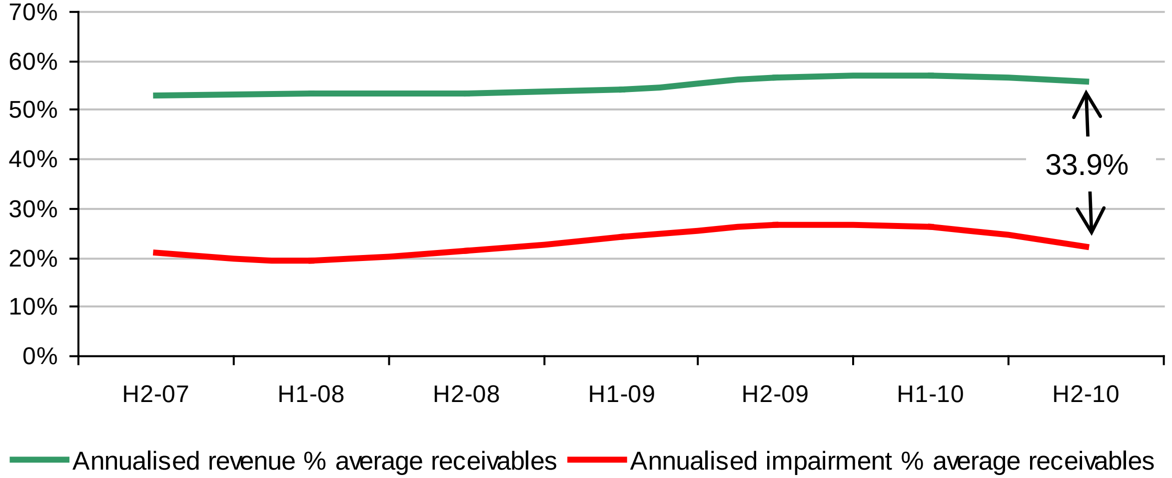
Vanquis Bank

Maintaining the risk-adjusted margin



- Risk-adjusted margin of 33.9% above target level of 30%
- Stability of risk-adjusted margin results from active management of:
  - Credit line utilisation to minimise contingent undrawn exposure
  - Revenue yield through appropriate pricing for risk
- Expansion of risk-adjusted margin in 2010 reflects favourable delinquency trends

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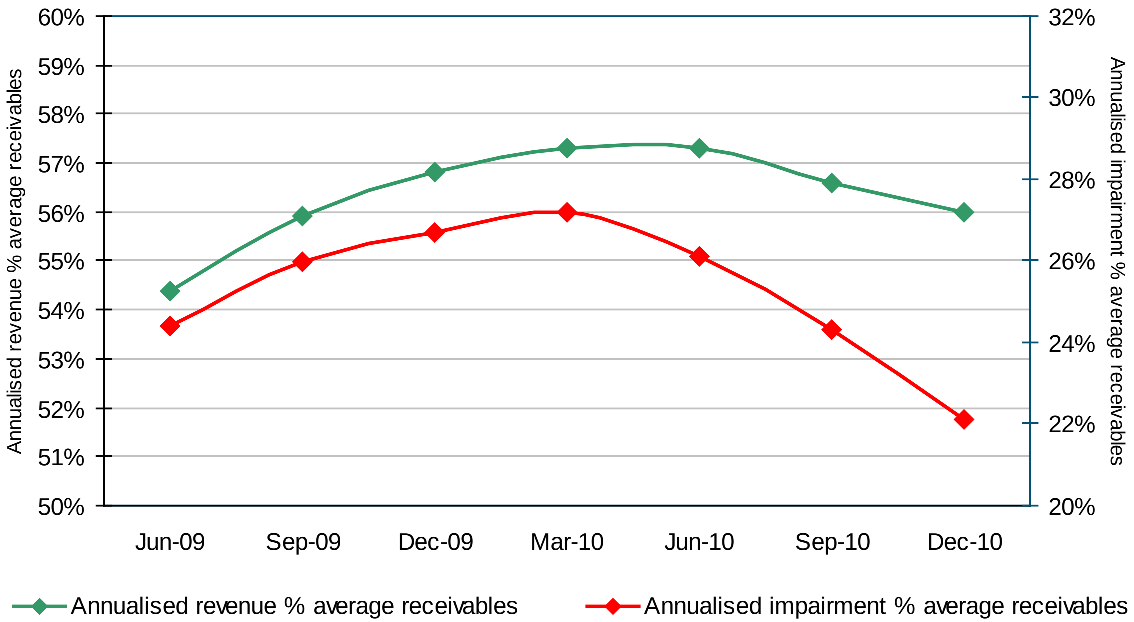
Vanquis Bank

Expansion of risk-adjusted margin



- Risk-adjusted margin has been expanding for 18 months
- Main driver is improvement in underlying quality of receivables book
  - Tightening of underwriting from 2007 to mid-2009
  - 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 year-end receivables

	2010 %	2009 %
In order	86.5	82.9
In arrears:		
- Past due but not impaired	-	-
- Impaired	13.5	17.1
Total	100.0	100.0

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Financial review

EPS and dividends

Year ended 31 December	2010	2009	Change
Profit before tax and exceptional costs (£m)	144.5	130.1	11.1%
Tax rate	28%	28%	
Adjusted earnings per share	78.6p	71.4p	10.1%
Dividend per share	63.5p	63.5p	
Dividend cover (before exceptional costs)	1.24x	1.12x	

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Balance sheet

Strong balance sheet with modest gearing levels

As at 31 December	2010 £m	2009 £m
Receivables:		
- Consumer Credit Division	874.3	883.8
- Vanquis Bank	345.0	255.5
	1,219.3	1,139.3
Pension asset	41.0	19.9
Liquid assets buffer	10.0	-
Borrowings*	(959.0)	(883.4)
Other	(1.9)	(7.4)
Net assets	309.4	268.4
Equity** : Receivables	19.3%	18.9%
Gearing**	3.3x	3.3x

* 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

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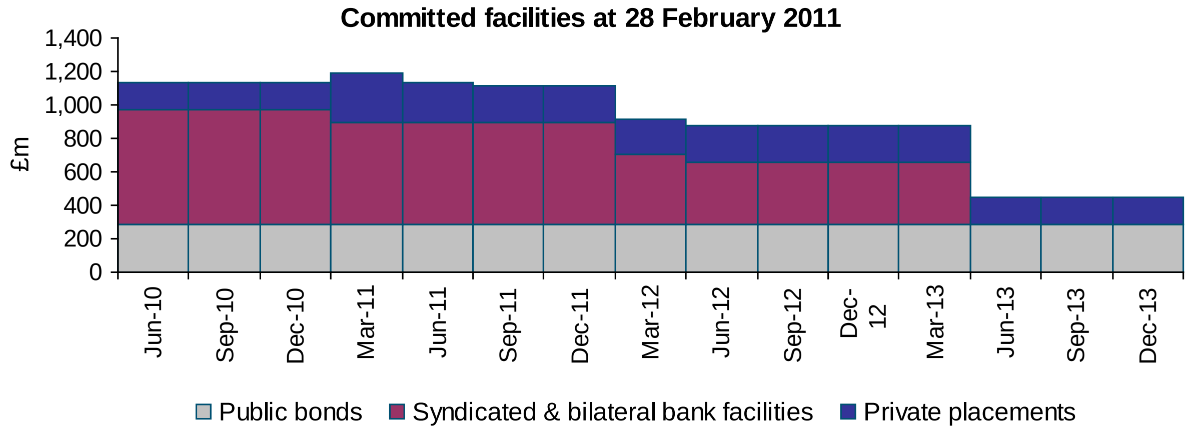
Borrowings and committed facilities

Increasing diversification and headroom

	£m
Committed facilities:	
- Bank facilities	690.0
- Private placement notes	161.9
- Senior bonds	250.0
- Retail bonds	25.2
- Subordinated bonds	6.0
Year-end committed facilities	1,133.1
- M&G facility	100.0
- Other private placement funds	28.5
Committed facilities at 28 February 2011	1,261.6
Year-end headroom	184.7
Headroom at 28 February 2011	370.0

Maturity of committed borrowing facilities

Borrowing long and lending short



- Contractual maturities of £148m in 2011 and £197m in March 2012
- Current committed headroom of £370m and average maturity of 3.8 years
- Continued strategy of diversifying funding
  - Second retail bond roadshow underway
  - Good progress made with FSA regarding deposit taking at Vanquis Bank
- 2010 average interest rate of 8.5% (2009: 7.0%)
  - Reflects cost of carrying excess headroom
  - Average rate for 2011 around 8% based on current funding profile

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Capital and dividend strategy

Strong capital generation

- Group generated £80m of capital in 2010 versus dividend cost of £85m
  - Modest growth in receivables in Home Credit
  - Vanquis Bank now generating surplus capital
  - After one-off expenditure of £9.1m to fit-out new Consumer Credit Division head office
- Regulatory capital remains comfortably in excess of ICG set by the FSA in September 2009

Capital and dividend strategy

Alignment of dividend policy, gearing and growth

ALIGNMENT

DISTRIBUTION POLICY	GEARING	GROWTH
80% of earnings	3.5x versus covenant of 5x	Supports £100m+ receivables growth p.a

- Current dividend of c.£85m 1.25x covered at pre-tax profits of £148m
- 20% retention (£22m) supports receivables growth of £100m at 3.5x gearing
- Current gearing of 3.3x within target

Regulatory update

Peter Crook – Chief Executive

Regulation

Recent developments

- Relevant provisions of Irresponsible Lending Guidance to Creditors and EU Directive on Consumer Credit implemented by February 2011 as required
- Work with UK Cards Association to implement BIS findings completed during 2010 and early 2011
- Responded to BIS call for evidence issued in October 2010 in connection with wide-ranging review of Consumer Credit and insolvency
- Contributed through trade bodies to consultation on transfer of responsibility for consumer credit to new Financial Conduct Authority

Outlook

Peter Crook – Chief Executive

Outlook

- Both Home Credit and Vanquis Bank have made a good start to 2011
- Home Credit has delivered a sound collections performance together with year-on-year sales growth in first two months of 2011
- Vanquis Bank has entered 2011 with a high quality receivables book and experienced strong growth and stable delinquency in early part of 2011
- Tight underwriting standards will remain in place in view of uncertainty over future direction of UK employment market
- Strong funding and liquidity positions with headroom on committed facilities of £370m at end of February 2011

Investment case

- Non-standard credit market will remain the domain of specialists
- An attractive business model
  - Fully invested and modernised Home Credit business poised for growth
  - Strong, profitable and now capital generative growth in Vanquis Bank
- Minimal impact from austerity measures
- Resilient to current market conditions and regulatory environment
- High ROE businesses which are very capital generative
  - Supports a high and sustainable distribution policy
- Strong balance sheet and prudent funding

Questions

Provident Financial plc

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