Provident Financial plc

Investor & Analyst Event

24 November 2010

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Agenda

Time	Subject	Presenter	Section
10.45am	Registration and coffee		
11.00 – 11.30	Introduction and strategy overview	Peter Crook (Chief Executive)	1
11.30 – 12.00	The structure and dynamics of the non-standard market	David Merrett (Director of Corporate Strategy)	2
12.00 – 13.00	Consumer Credit Division – Understanding 1.8 million customers and how we serve them	Chris Gillespie (Managing Director – Consumer Credit Division)	3
13.00 – 13.45	Lunch		
13.45 – 14.45	Vanquis Bank – Capturing and managing the growth opportunity	Michael Lenora (Managing Director – Vanquis Bank)	4
14.45 – 15.15	Regulatory affairs – Managing the politics of non-standard credit	John Moulding (Director of Corporate Affairs)	5
15.15 – 15.45	Funding and capital update	Andrew Fisher (Finance Director)	6
15.45 – 16.00	Closing Comments and General Q&A	Peter Crook (Chief Executive)	7

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Introduction and strategy overview

Peter Crook – Chief Executive

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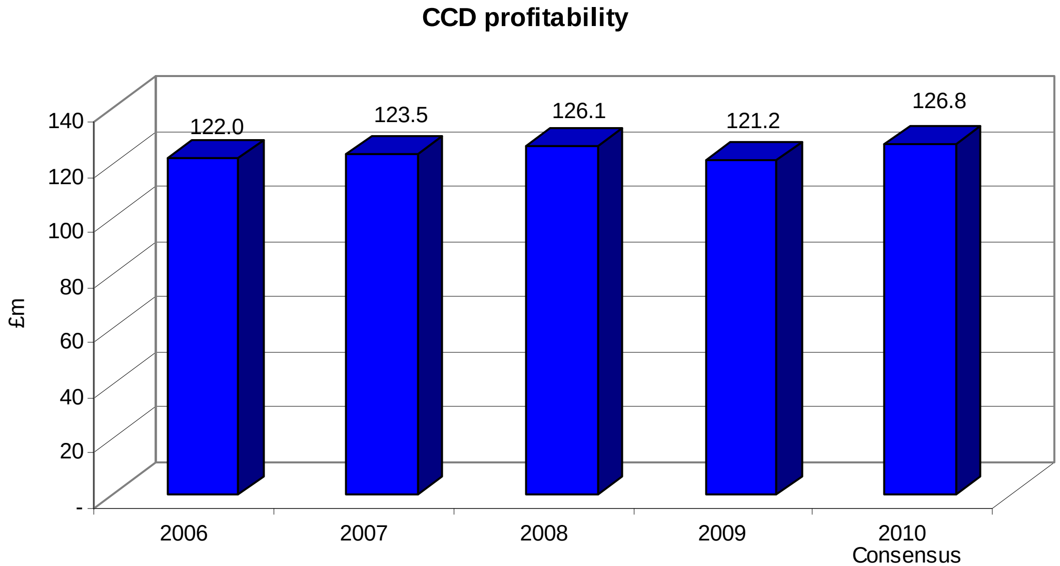
Overview of strategy

- Our objective is to be the leading non-standard lender in the UK and Ireland, acting responsibly in all our relationships and playing a positive role in the communities we serve
- The UK non-standard market is increasingly becoming the domain of specialist lenders with high returns available in the small-sum unsecured segment of the market
- We aim to deliver organic growth of high ROE return businesses through
  - Steady profitable growth in the Home Credit business following completion of the modernisation programme
  - Growing Vanquis Bank to its medium-term objective of £450m receivables by the end of 2012 whilst maintaining a post-tax ROE of 30%
- Leading positions in Home Credit and the non-standard credit card market segments will provide strong and enhanced performance as the economy recovers

CCD – Resilient performance



- Resilient performance through the downturn
  - Investment in the infrastructure of the business and customer acquisition after years of under-investment
  - Trial and closure of RPF
  - Impact of early settlement rebates

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Home Credit – Development from 2007 to 2009

	Year ended 31 December		
	2009 £m	2008 £m	2007 £m
Customers (000)	1,842	1,753	1,650
Average receivables	759.2	704.8	636.1
Revenue	673.7	645.9	590.5
Impairment	(216.7)	(197.3)	(175.3)
RLI	457.0	448.6	415.2
Costs	(288.4)	(283.6)	(256.7)
Interest	(39.7)	(36.2)	(35.0)
PBT	128.9	128.8	123.5
Revenue yield	88.7%	91.6%	92.8%
Impairment % revenue	32.2%	30.5%	29.7%

Strong customer and receivables growth to provide a platform for future profitable growth

Significant investment in IT infrastructure, channels to market and credit science in 2008 following years of under-investment

Costs in 2009 remained broadly flat, despite additional £5m investment in field capacity to support collections

£10m impact on revenue and profits from the changes to early settlement rebates from the Competition Commission remedy in 2008 and a further £10m impact on 2009

Moderate pressure on impairment from downturn, particularly from weak labour market

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The Home Credit product (simple example)

- Core 50-week loan: £100 repaying £175 in equal instalments over 50 weeks

Week	B/F £	Revenue @ 2.463% p.w £	Collections £	C/F £
1	100.00	2.46	(3.50)	98.96
2	98.96	2.44	(3.50)	97.90
3	97.90	2.41	(3.50)	96.81
49	6.75	0.17	(3.50)	3.42
50	3.42	0.08	(3.50)	-
Total	100.00	75.00	(175.00)	-

- Effective interest rate of 2.463% per week = APR of 254.5% ($1.02463^{52} – 1$)
- Yield on average receivables is 123.2% (£75.00/£60.89)
- Principal AND revenue (net of impairment) repaid within a year

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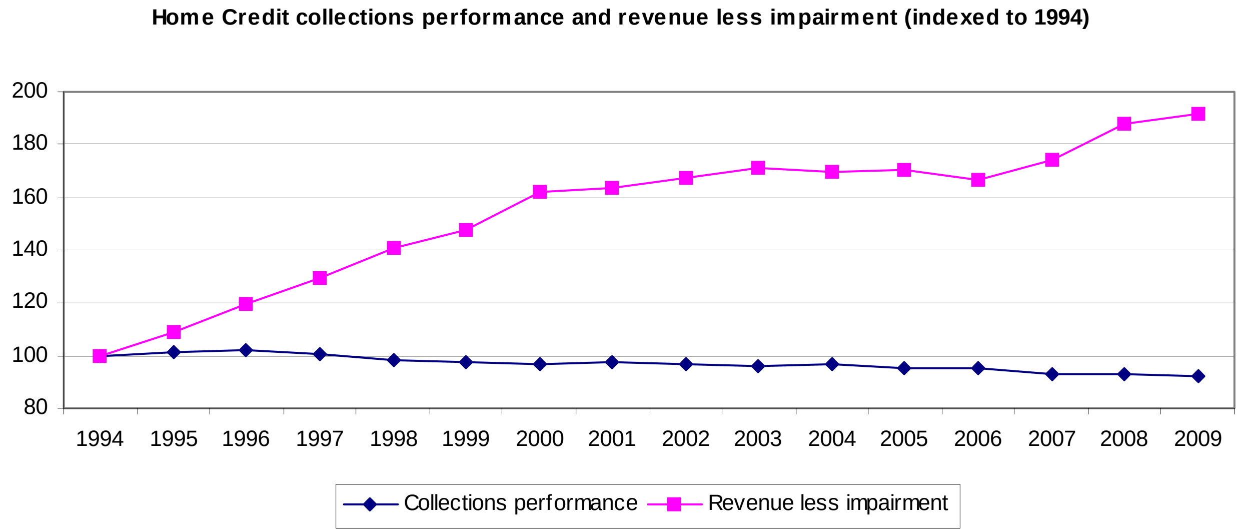
Home Credit – Credit issued and collections

Year	Collections £m	Credit issued £m	Collections % credit issued %
2007	1,322	960	138
2008	1,428	1,064	134
2009	1,517	1,092	139

Home Credit – Impairment policy

- Impairment based on last 12 weeks performance
  - Begin to impair if more than 1 weekly payment missed in previous 12 weeks
  - Impairment increases progressively
  - 95% provision if no payments made in last 12 weeks
  - Any loan that has ever missed more than one payment in any 12-week period is disclosed as impaired in the IFRS 7 disclosures
- Impairments are deducted directly from receivables without the use of an allowance account
  - Portfolio accounting
  - Based on expected cashflows
  - Aligns with cash-based systems used in the field

Home Credit – Stable collections performance



- During the 1990's, growth was achieved by increasing risk appetite consistent with maximising profits
- 2004 to 2007 saw an increase in the proportion of longer larger loans provided to the top 2 deciles of customers – these loans carry a significantly larger service charge but a lower collections performance
- Collections performance between 2007 and 2009 has remained relatively stable through the downturn and the issue of longer larger loans has been curtailed
- The receivables book and revenue less impairment have grown significantly during the whole of this period

Summary of austerity measures

	2010 -11 £m	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m
Switching of benefits from RPI to CPI	-	1,170	2,620	4,285	6,230
Removing child benefit from higher rate tax payers	-	-	590	2,420	2,500
Other measures	385	1,160	4,055	7,435	9,350
Total Budget and Spending Review savings	385	2,330	7,265	14,140	18,080

- Switching of benefits indexation from RPI to CPI is a reduction in the growth of future benefits not a benefit cut
- Removing child benefit from higher rate tax payers does not impact our customers
- The remaining £9.4 billion of measures by 2014-15 are phased in over 4 years

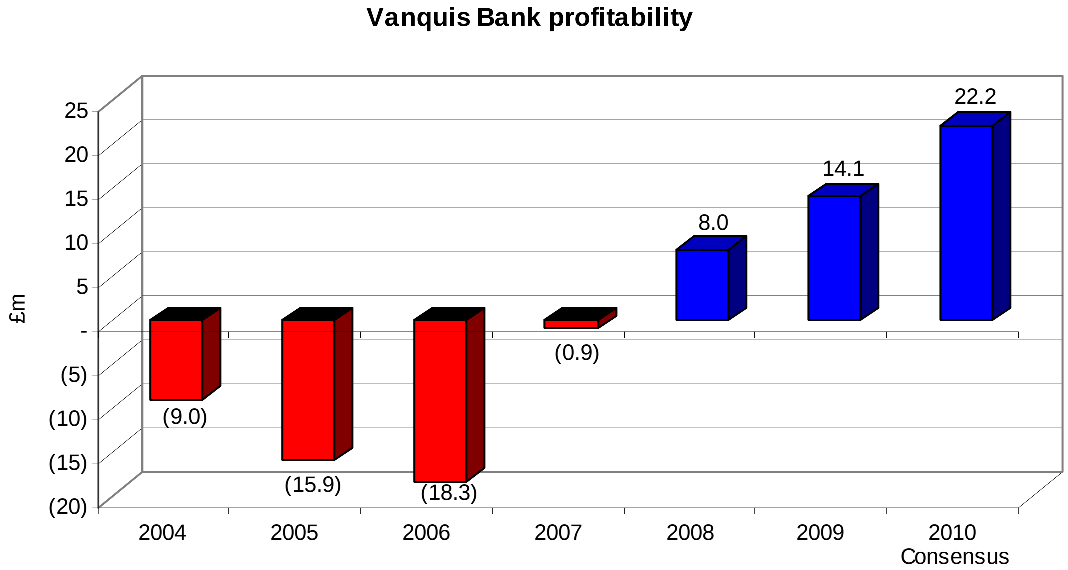
Impact of austerity measures

- Less than half of Home Credit households receive some form of benefits in addition to their income from employment
- Measures are phased in over 4 years – impairment arises in Home Credit due to **unexpected** rather than expected changes to customers' circumstances
- Minimal overall impact on Home Credit based on very detailed understanding of customer base
- 490,000 reduction in public sector employment over four years
  - Reductions focussed on administrative roles
  - Minimal impact on Home Credit customers
    - Typically derive their income from hourly paid, part time or casual work and are not employed in administrative roles within Local or Central Government
  - Vanquis Bank customers are typically in more regular employment
    - Some representation in administrative roles in the public sector
    - Likely to affect less than 1% of customers
- Benefits from the tax-free income tax threshold being raised to £10,000

CCD – Poised for good quality growth

- CCD is poised to take advantage of a recovery in economic conditions
- Modernisation complete and business is fully invested
  - Improved IT systems
  - Better credit science (SEL/SVC)
  - More channels to market (direct mail/internet)
- 20% growth in customer numbers over the last 5 years
- Existing good quality customers have significant headroom to borrow
- Target market increasing as the temporary, part-time and casual labour market growing and banks continue to restrict credit
- Capability to increase market share
- Minimal impact from austerity measures

Vanquis Bank – Strong profits growth through the downturn



- Strong profits growth from 2007
  - Re-pricing of the receivables book to appropriately reflect risk
  - Improvement in the quality of the loan book following progressive tightening of underwriting from 2007 to mid-2009
  - Increasing scale of the business

Vanquis Bank – On track to meet new targets

- Recently passed original objective set on demerger of 500,000 customers, receivables of £300m and a post-tax ROE of 30%
- On track to achieve new target of £450m receivables generating a post-tax ROE of 30% by the end of 2012
- New targets assume
  - Similar receivables growth to that achieved over the last 2 years
  - No changes in underwriting
  - Prudent view of the economic outlook
- The non-standard credit card market remains significantly under-served with Vanquis as the only active participant
- Significant opportunity for Vanquis to grow beyond its new target
  - Potential for 1 million customers
  - With average balances of £XXX
  - By 201X

Trading update

- Since the company's interim management statement on 22 October 2010, it is pleasing to report that the pick-up in Home Credit loan sales has continued. In the twelve weeks since the beginning of September, sales are running approximately 7% ahead of the corresponding period last year. This reflects an increased focus of field resources on serving credit to existing good quality customers against the tight credit standards that have been in place for some considerable time at a time when we believe customers have increased visibility on their household incomes. The collections performance continues to be stable.
- Vanquis Bank continues to receive a strong flow of new business. Underwriting standards remain unchanged and its performance continues to benefit from the favourable delinquency trends experienced since the second quarter of the year.

PFG – 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
  - Fully funded for 2011

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The structure and dynamics of the non-standard market

David Merrett – Director of Corporate Strategy

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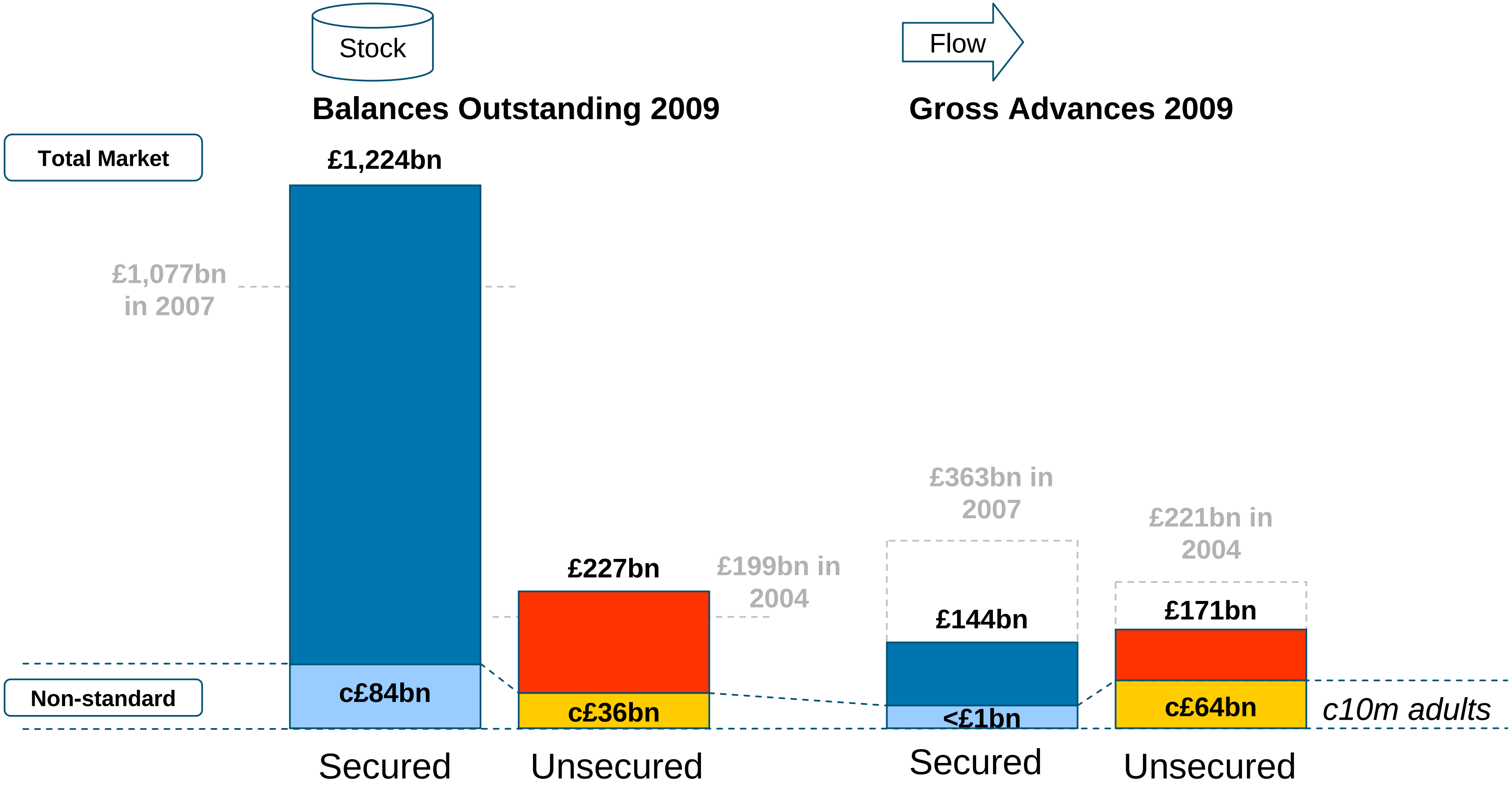
How large is the UK non-standard credit market?



Source: Bank of England, ONS, PFG analysis
Note: Non-standard not drawn to scale, all references to secured refer to loans secured on dwellings

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Who is a non-standard credit consumer?

- Reverse engineer lender scorecards approach (Datamonitor)
  - CCJs, self-employed for less than 3 years, unemployed, unbanked, mortgage arrears or benefits claimants

6.9m adults
(8.3m by 2012)

- Household income driven approach
  - Bottom 4,5,6..deciles

c.10-12m households

- Survey driven approach
  - Perceived poor credit file rating, declined in last 12m, socio-economic group E (state benefits) or past/present home credit user

c.12m adults
(c.11m in 2009)

- Product use/outcome approach
  - Non-standard forms of credit and their suppliers

c.10m adults
c.£64bn lent in 2009

Source: Datamonitor, TNS, PFG analysis, ONS

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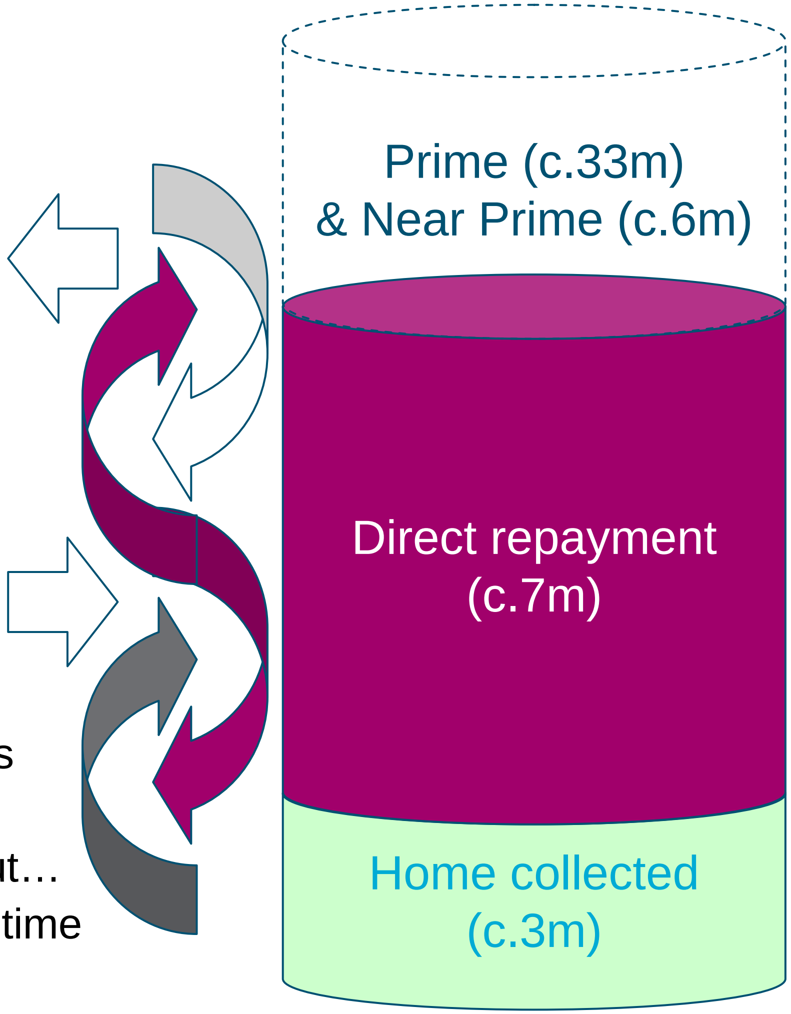
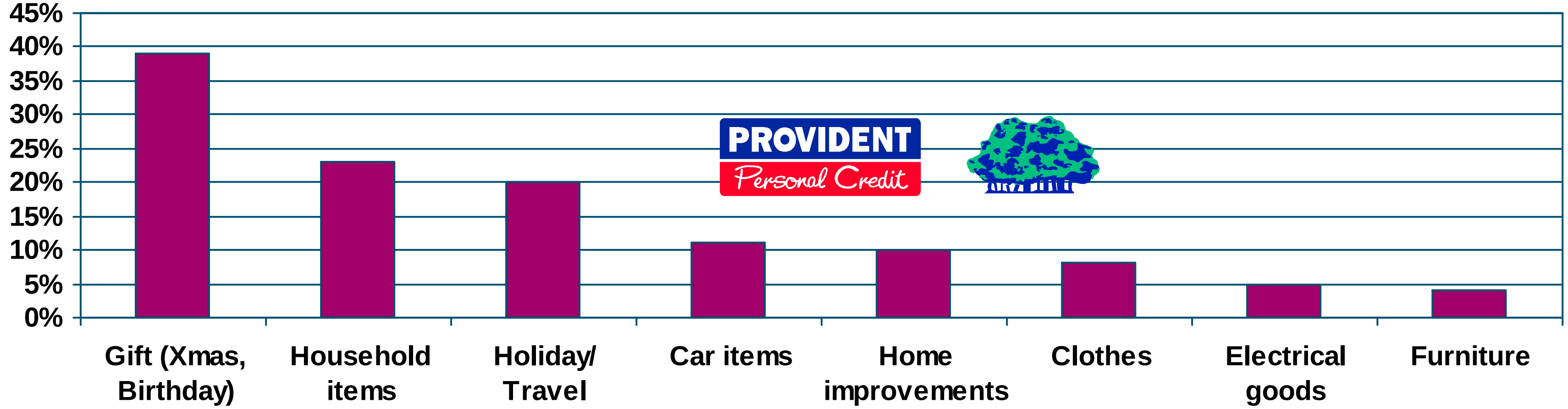
Who is a non-standard credit consumer? …at the moment?

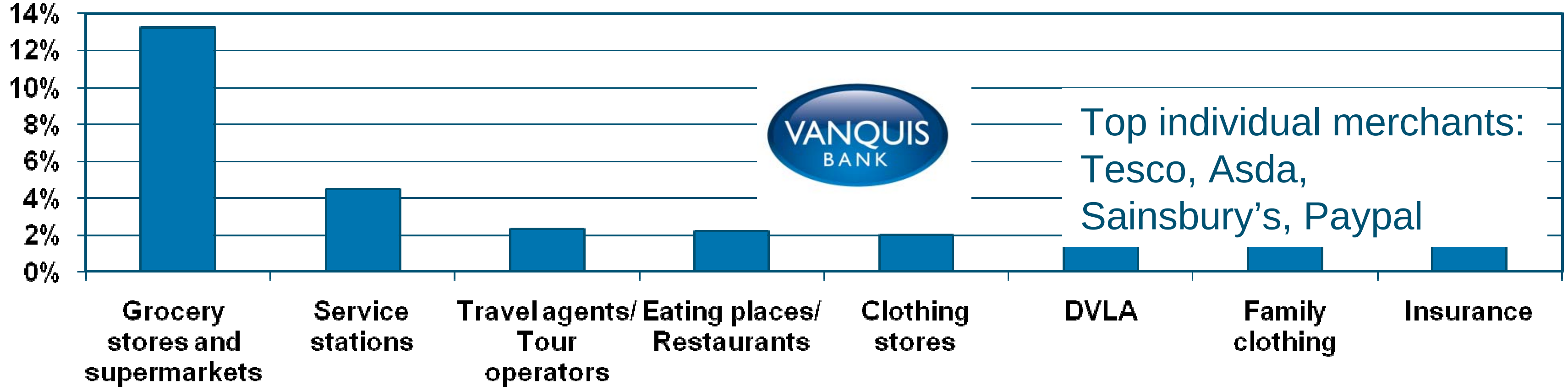
- c.50m UK potential credit consumers in c.25m households experience changes in:
  - Income/outgoings
  - Unemployment/under-employment
  - Benefit entitlement
  - Age/births/deaths
  - Marriage/divorce
  - Household formation
  - Repayment record
  - Immigration/emigration
  - Experience with financial services providers
  - Preferences/needs/situation/outlook
- Non-standard markets relatively stable in size, but…
- …Not the same individuals and households over time



Source: PFG analysis, ONS

What do non-standard customers use credit for?



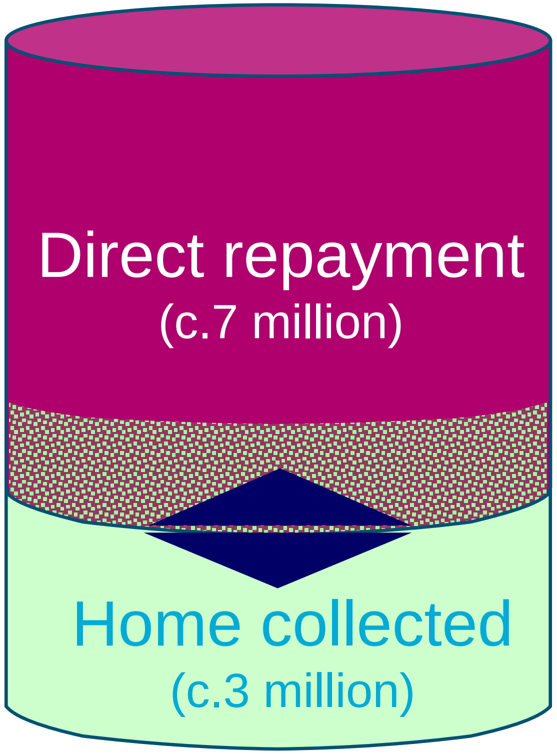


Top individual merchants: Tesco, Asda, Sainsbury's, Paypal

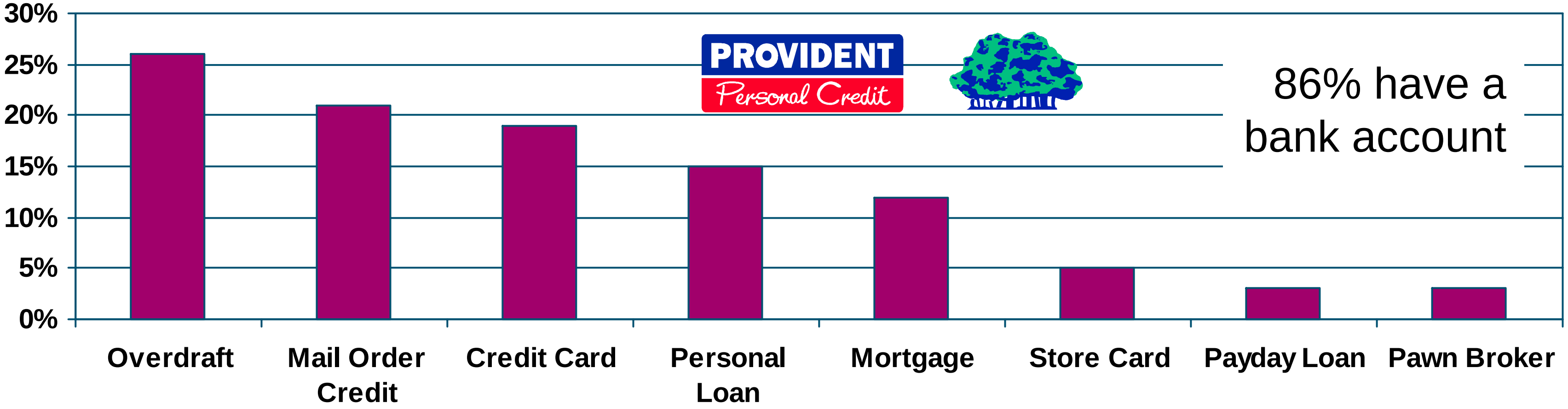
Source: PFG HC Customer Tracker June 2010 MAA, VB transaction values 12 months to May 2010

What works in non-standard?

Over 10 million consumers



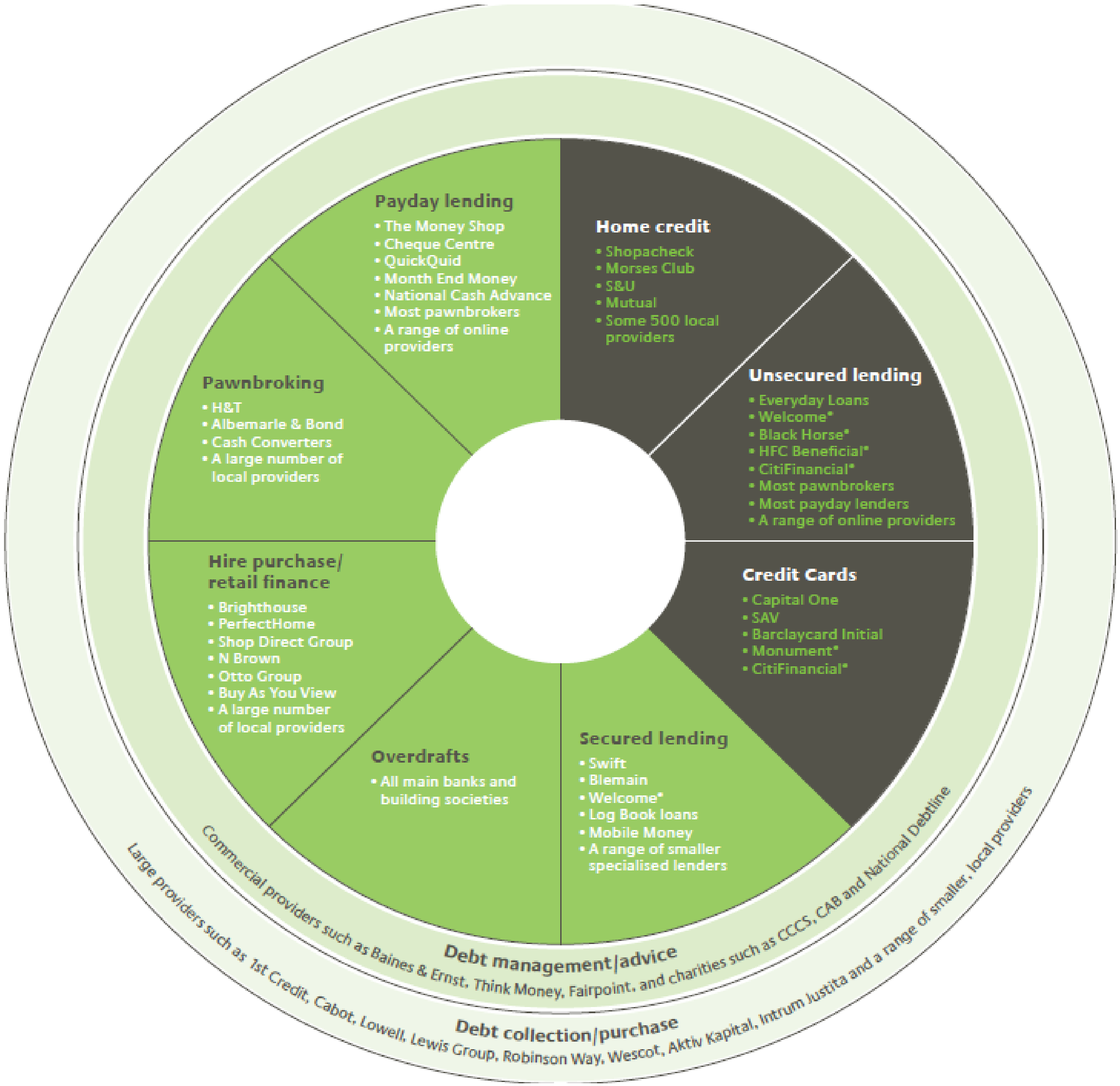
What credit products do non-standard consumers use?



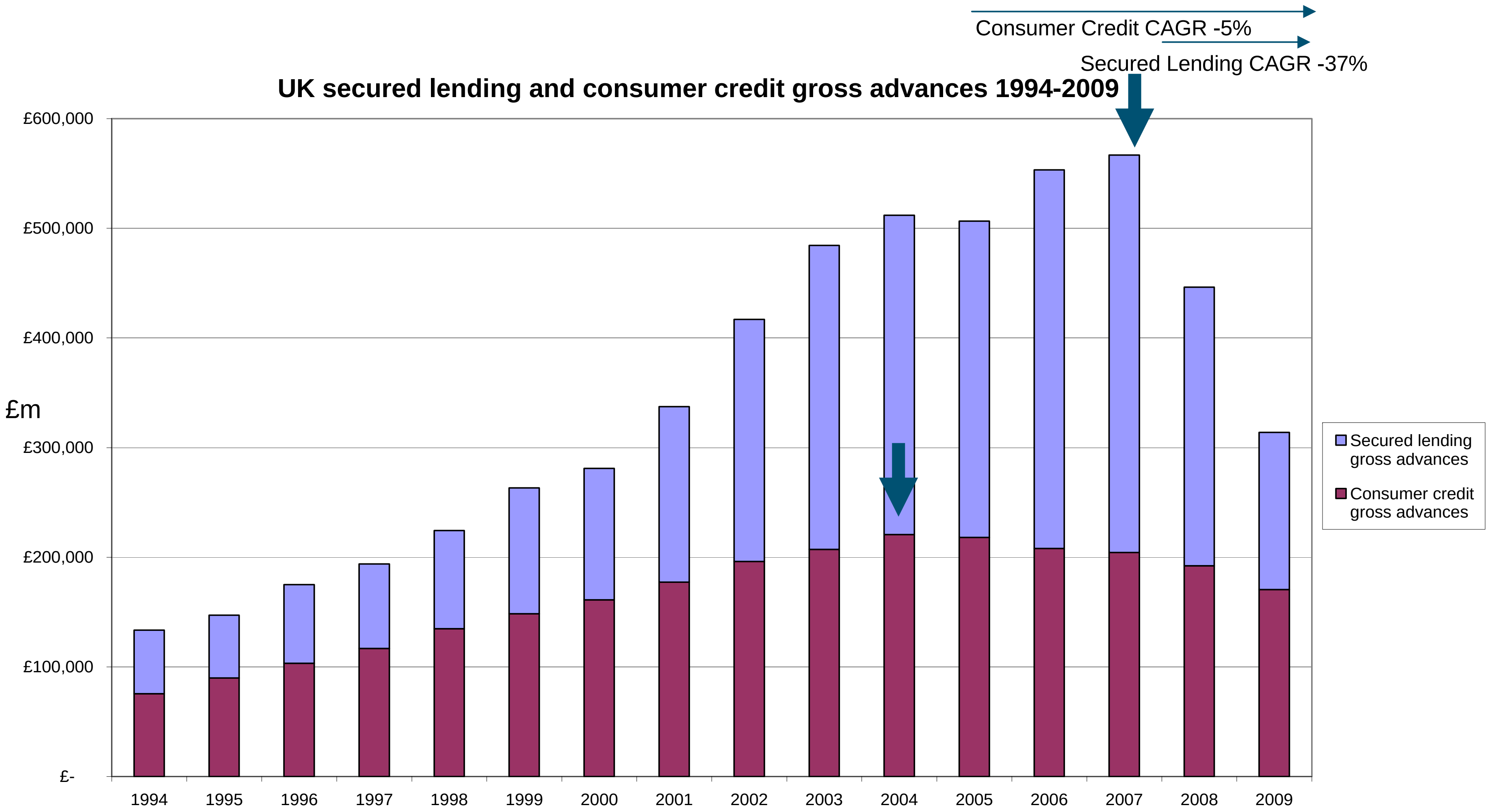
- Vanquis customers
  - All have bank accounts (direct debit repayment)
  - Less likely than UK average to have an existing credit card or a mortgage

Source: PFG HC Customer Tracker June 2010 MAA, VB application data, UK Cards Association, CML

What credit do non-standard consumers use?



What happened overall?



Source: Bank of England

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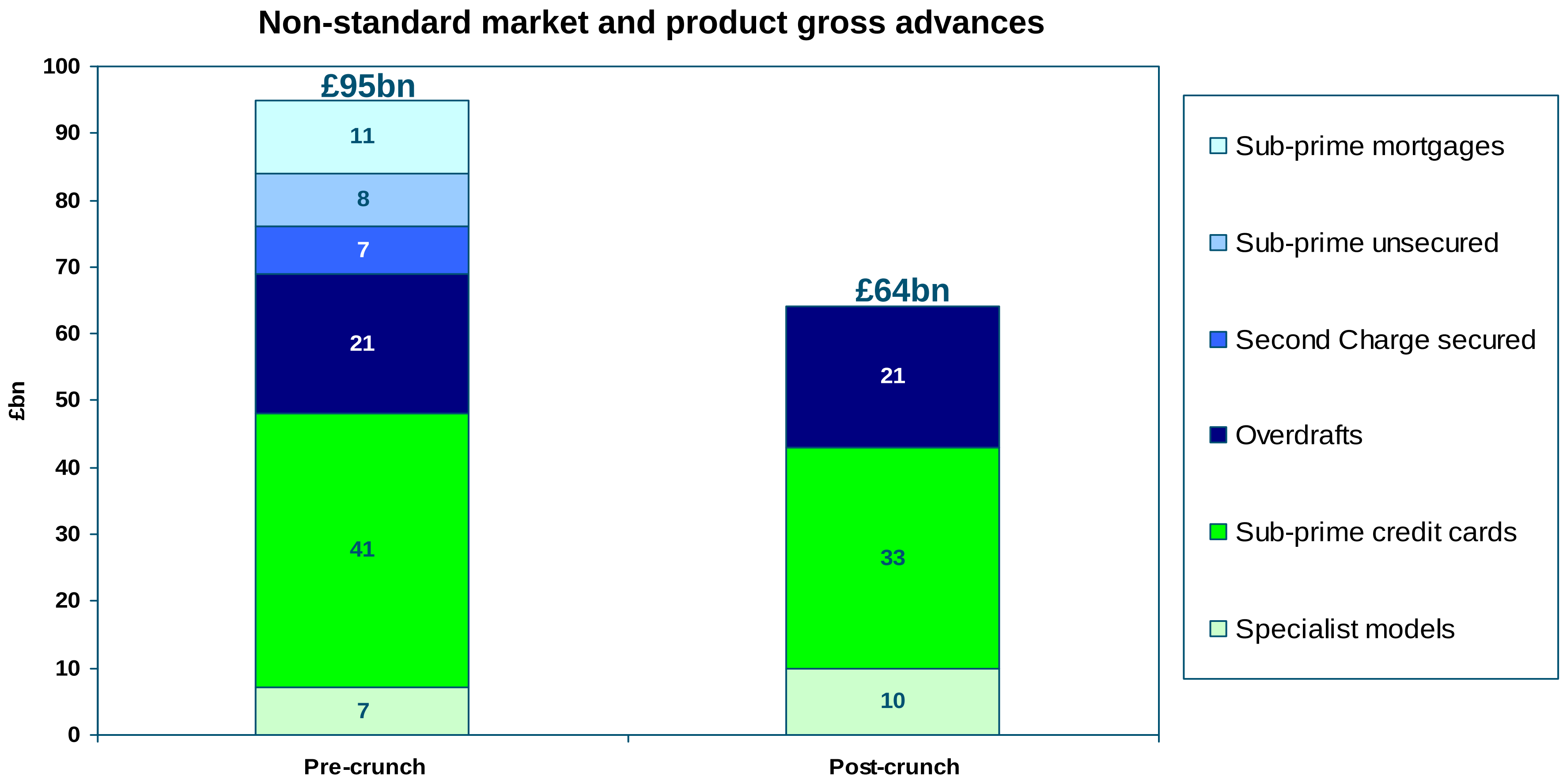
What happened in non-standard credit?



Source: PFG market estimates rounded

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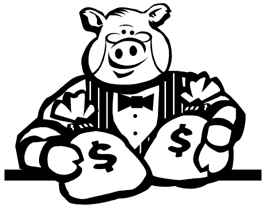
How is the structure of non-standard changing?

- **Channels and distribution**
  - Replacement of traditional branches with multi-product branches
  - Move from mail order credit agency model and 'big book' to online
  - Disappearance of brokers, especially at the specialist end
  - Growth of online price comparison/aggregators
  - Direct mail focus switching to internet
- **Products**
  - Growth in payday (in-store and online)
  - Growth of attractive retail credit offers such as Brighthouse
  - Hibernation of specialist secured lenders
  - Uncertain future for log book/Bill of Sale lending
- **Competitors**
  - US specialist entrants (pay day and multi-product stores)
  - Reorganisation of mail order moving back into profit
  - Resurgence of pawn brokers driven by gold prices
  - Smaller home credit lenders vs Morses and Shopacheck

Where might the UK non-standard credit market go?

- Outcome 1: Everything returns to normal, no major structural changes
  - As you were, ‘*Mainstream returns*’



- Outcome 2: Small changes to the structure of channels and product mix but essentially the same market returns
  - Adjust a bit, ‘*Battle over share*’

- Outcome 3: Large and permanent structural changes to product mix and channels
  - Game has changed, ‘*Domain of the specialists*’

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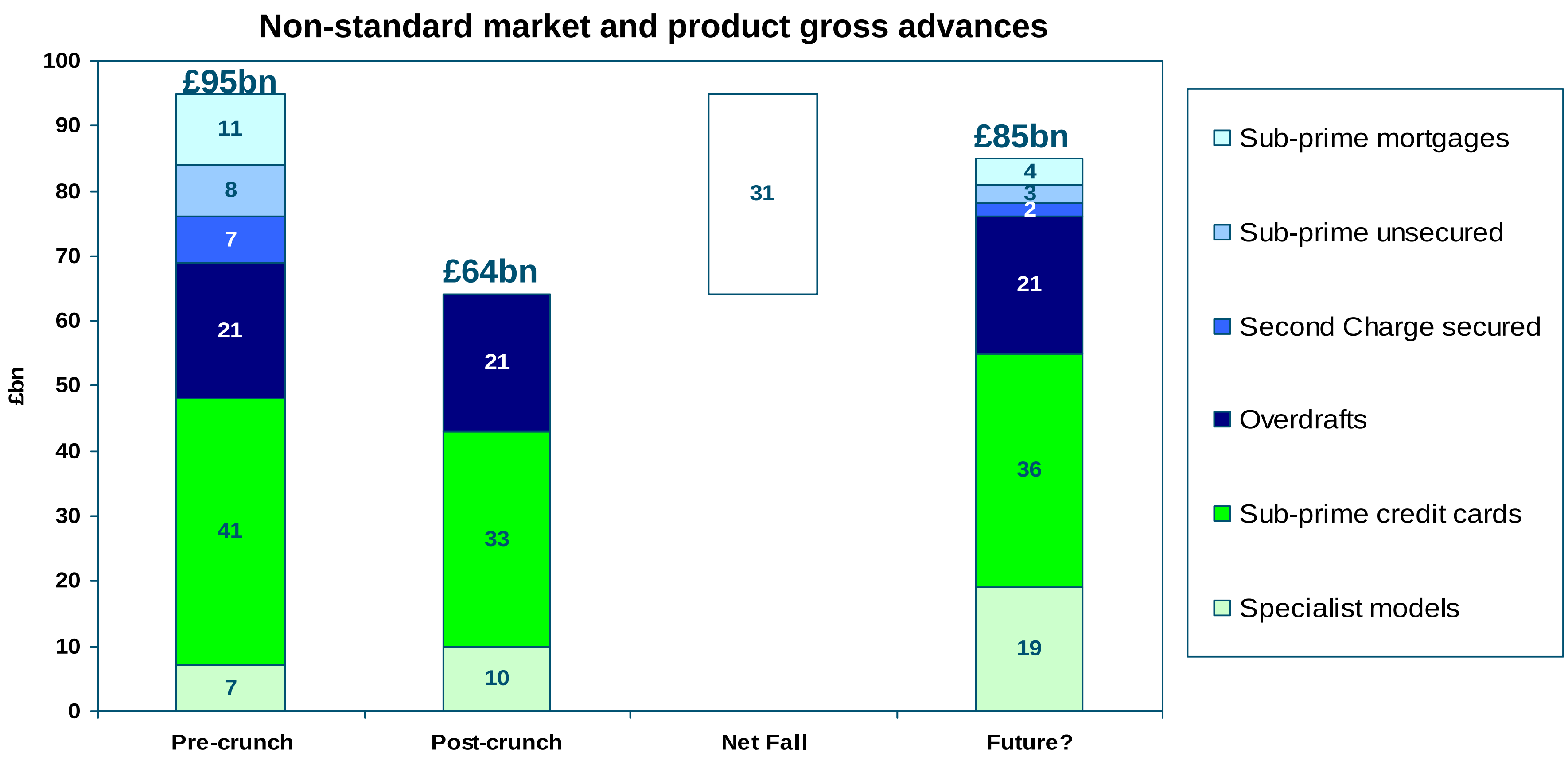
Where might the UK non-standard credit market go?



Source: PFG market estimates rounded

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Summary

- Large and continually refreshing UK non-standard credit market
- Range of specialist and more mainstream credit products used
- Dramatic reduction in non-standard credit supply
- Changing structure of channels, products and competitors
- Future likely to be the domain of the specialist
- Non-standard credit supply likely to grow

Questions?

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Consumer Credit Division – Understanding 1.8 million customers and how we serve them

Chris Gillespie – Managing Director – Consumer Credit Division

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Agenda

- We lend to customers who have more limited credit alternatives
  - We are cautious about taking on new customers
  - We utilise a great deal of information about our existing customers in our decision making
- Some further insights into our customer base and how it has changed over time
- Why the Home Credit proposition fits our customers "…like a glove."
- The business has growth potential – where and how?

Source: Deirdre Hutton, National Consumer Council chair, 14 June 2004

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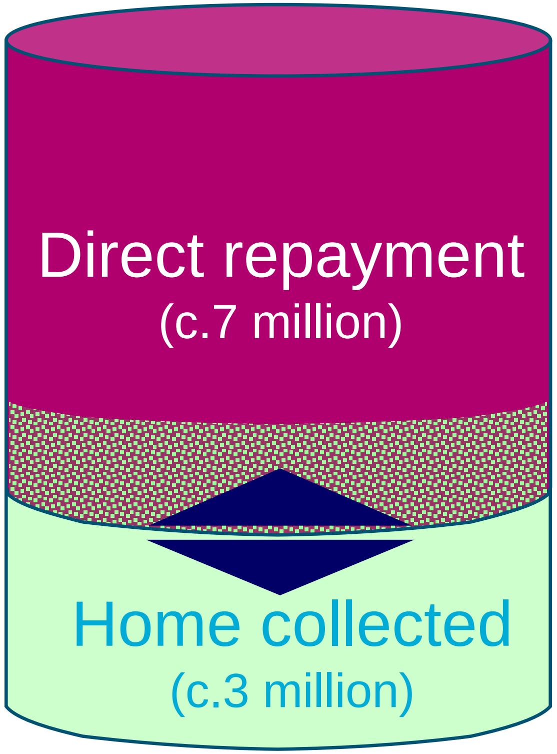
Source: Deirdre Hutton, National Consumer Council chair, 14 June 2004

Home Credit serves customers who tend to have fewer borrowing alternatives



We have a c.60% share of the Home Credit (HC) market

PROVIDENT Personal Credit

Greenwood Personal Credit

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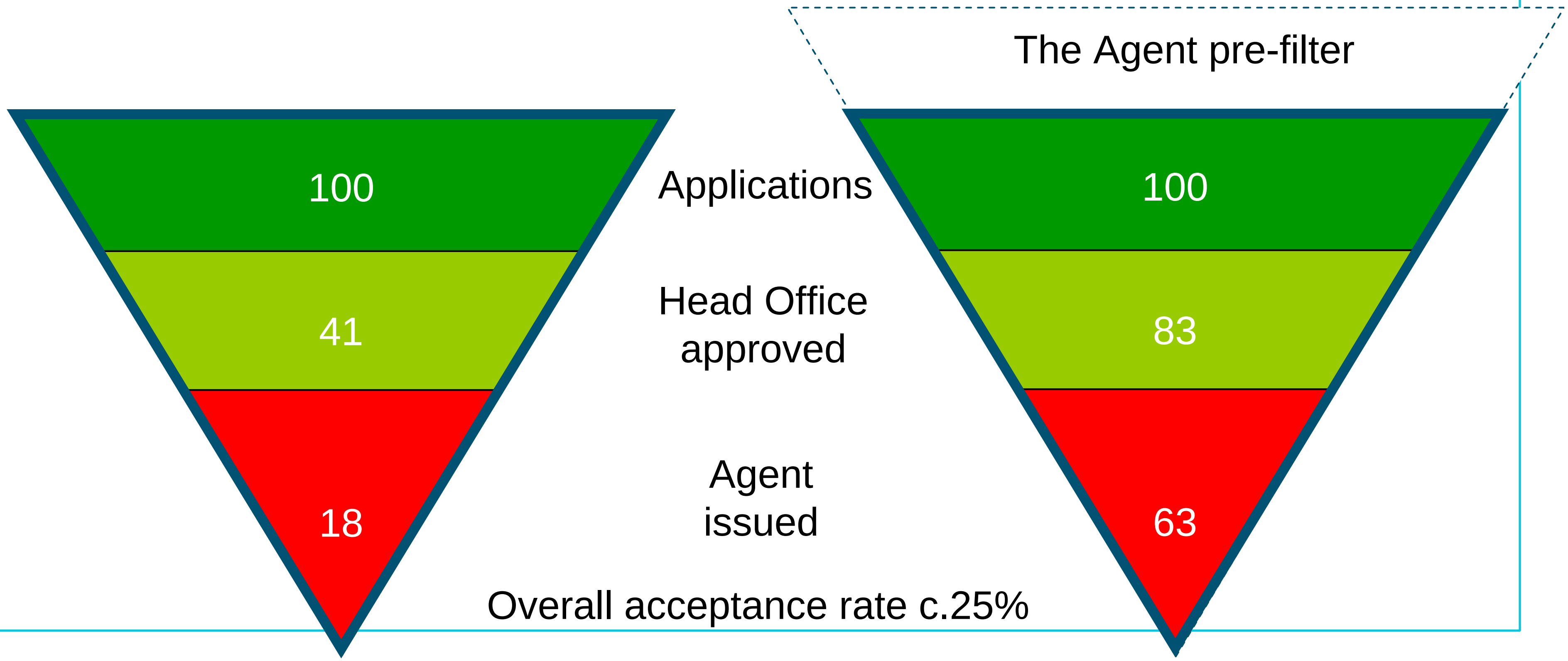
Provident makes cautious lending decisions on prospective customers

Direct source applications | **Agent recommend applications**



New customer lending decisions

Agent activity

- An ‘in the home’ understanding of the customer attitude to credit, affordability and stability – “3 Cs”
  - *Character (Intent)*
  - *Capacity (Affordability)*
  - *Condition (Circumstance)*
- For new customers, *Character* is the most important consideration
  - *i.e. it is intent to repay the loan that the Agent is looking for*
- Recommendation is the largest source of Agent-introduced business
  - *A character reference from an existing customer or Agent*

Decision support tools

- *Decision support tools enforce a “no”*
- *Agent has the final say on a “yes”*
- *Decision support tools weight against*
  - *Young*
  - *Single*
  - *Unemployed*
  - *Poor previous relationship*
- *Consideration given to the broader economic unit*

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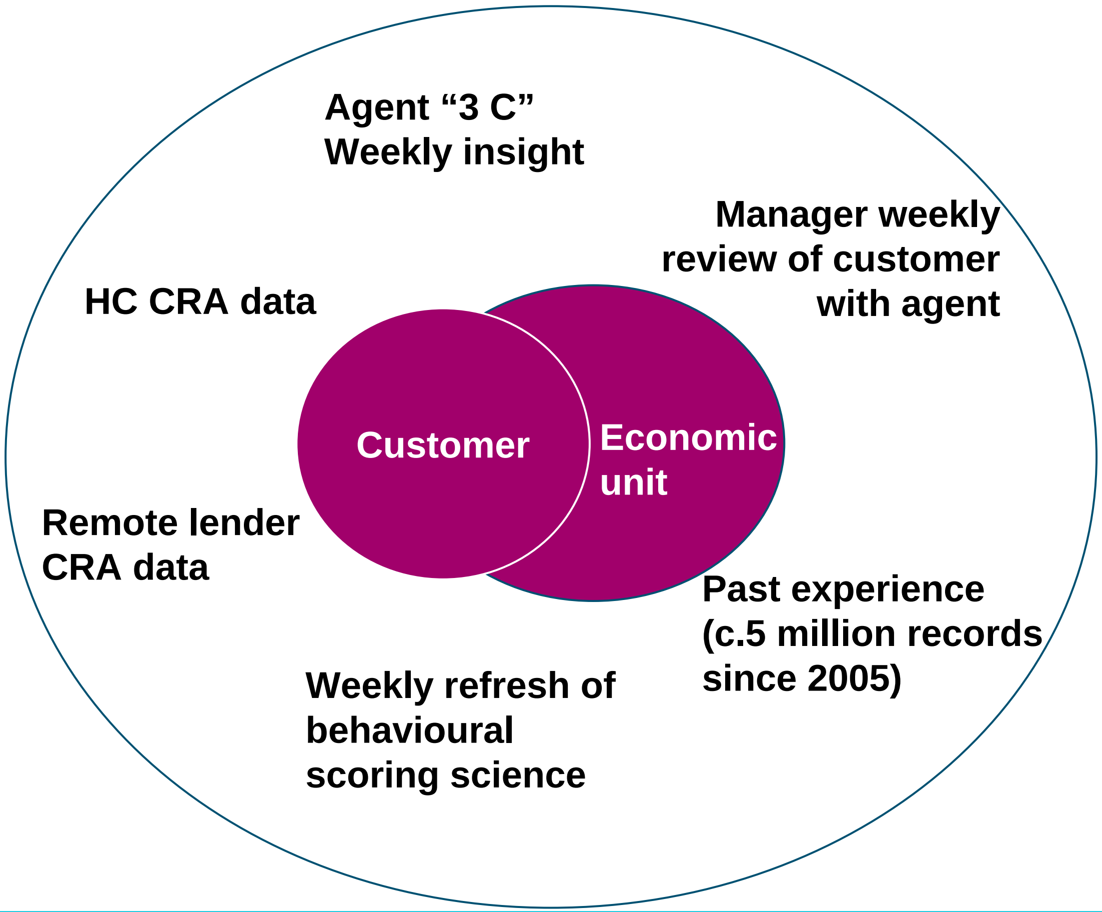
We know a lot about our existing customers and their economic units



- We recognise the importance of the economic unit…
- We understand our customers within the context of
  - *Their household – often our customers are not the main income earner*
  - *Their family and friends support network*
- Economic unit insight forms an integral part of our lending decision

Systematic and continuous process of data capture

- Application form assessing the customers' circumstances at the point of original loan application, revisited and augmented as deemed necessary
- Weekly
  - Agent insight
  - All behavioural score data and our appetite for further credit updated and refreshed for every customer
- Monthly
  - Agents formally update, providing an overlay to our behavioural scoring data
  - Full bureau data refresh on every customer
- Quarterly
  - Quantitative survey by external research agency covering a broad and thorough range of demographic and attitudinal factors to a very high degree of statistical confidence

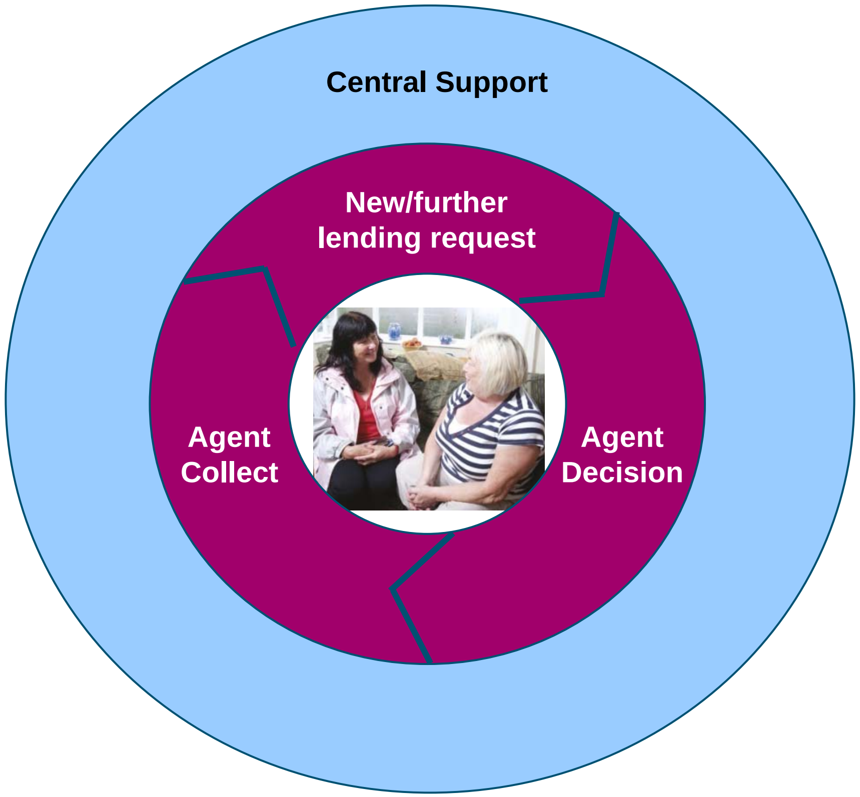
‘Low and Grow’ lending principle

- **Low:**
  - A cautious approach to new lending is not just reflected in our low acceptance rates

	New customer issue	Existing customer issue
Average loan	Less than £250	c.£500
% on short term (<33 week) product	c.60%	c.20%

- **Grow:**
  - This is followed by rapid learning
    - *Intent is established by payment behaviour*
    - *Agent weekly visit forms a view on Affordability and Circumstance*
    - *Manager weekly review with the Agent reinforces the learning*
    - *Weekly Behavioural Scoring science wraps it all together*
  - The ‘maximum amount, rate, and term’ which dictates to the Agent the company’s appetite for further lending to each and every customer is updated and enforced **weekly**

Central decision/customer contact support



- Many of our customers have excellent payment relationships with us but struggle with remote repayment models
- Decision support tools are an overlay for Agent decisions
  - They dictate maximum amounts, weekly rate and term of further credit availability, based primarily on our relationship with the customer
  - And enforce a “no” but not a “yes” decision
- Agents are further constrained by Credit and Compliance Policies
- Based on the above the Agent makes a lending decision, taking into account individual customer circumstances and the Agent’s knowledge, understanding and track record with the wider economic unit of which the customer forms a part
- Customer Contact Strategy – blending Agent/Manager insight with behavioural scoring

Agenda

- We lend to customers who have more limited credit alternatives
  - We are cautious about taking on new customers
  - We utilise a great deal of information about our existing customers in our decision making
- Some further insights into our customer base and how it has changed over time
- Why the Home Credit proposition fits our customers "…like a glove."
- The business has growth potential – where and how?

Source: Deirdre Hutton, National Consumer Council chair, 14 June 2004

Implications of the Govt's Spending Review & June 2010 Budget on some of our customers

- The effect of specific measures relating to welfare benefits included in the Spending Review and the June Budget which are most relevant to Home Credit customers are set out below:
  - The headline benefit savings of £18.1bn in 2014/2015 include £6.2bn in relation to switching indexation of benefits from RPI to CPI. This does not reduce the level of benefits but serves to moderate the rate of future increases.
  - It is estimated that the capping of benefits that family households can receive at around £500 a week from 2013, equivalent to £26,000 a year, will affect under 1% of households served by Home Credit. The average household income of a Home Credit customer is approximately £12,000 a year and typically includes income from employment. Furthermore, less than half of Home Credit customers are in receipt of any benefits (other than child benefit and pensions).
  - The cutting of child benefits to families where at least one parent earns more than approximately £44,000 a year will not affect Home Credit customers.
  - The capping of the Local Housing Allowance used to determine Housing Benefit due to take effect from April 2011 will not have a significant impact on the Home Credit customer base.

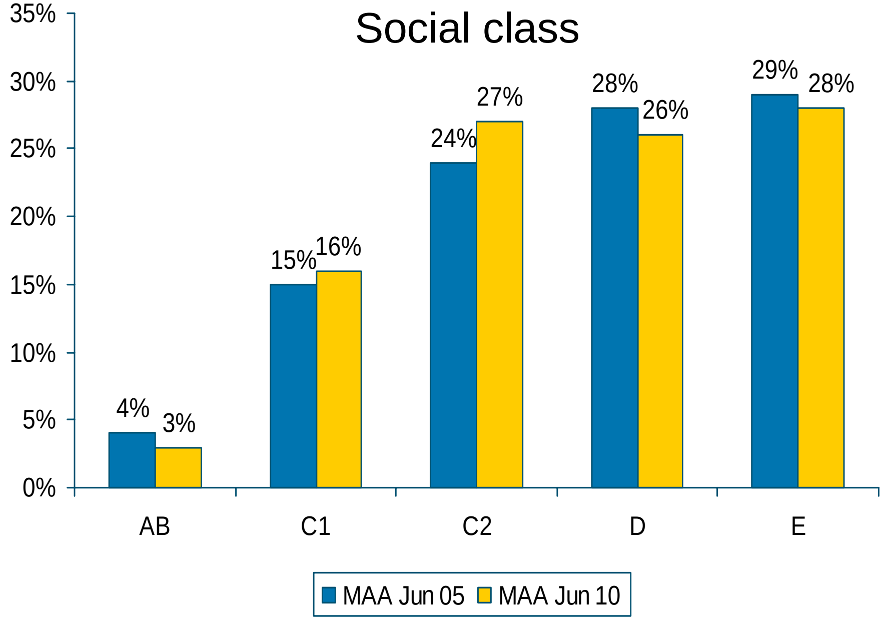
Positive impacts of the Govt's Spending Review & June 2010 Budget on many of our customers

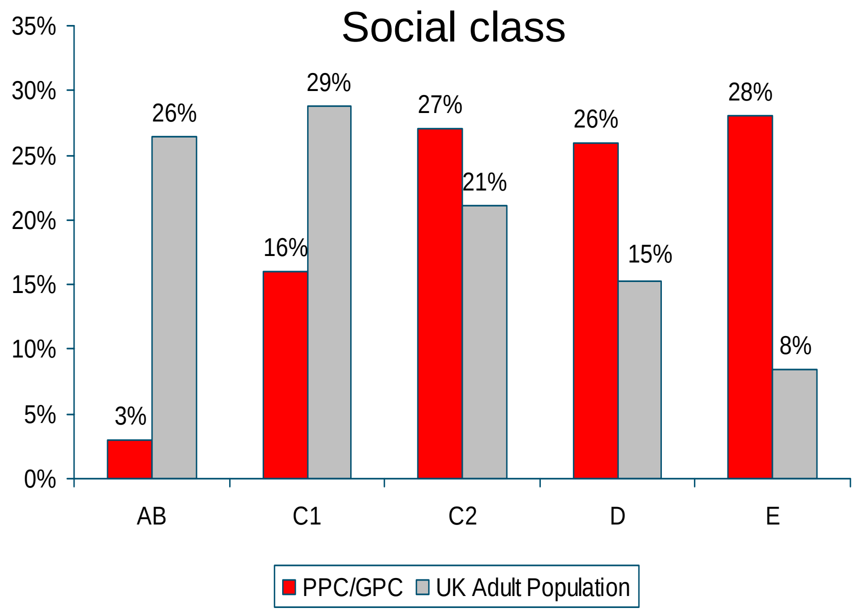
- Launching the Universal Credit in early November, Iain Duncan Smith said:
  - *"We will financially protect those who move to the Universal Credit System. **There will be no losers**"*
  - *"2.5 million households will get higher entitlements as a result of the move to Universal Credit"*
  - *"700,000 lower earning workers will be able to keep more of their earnings as they increase their hours"*
  - *"The reforms could reduce the number of workless households by around 300,000"*

- The effect of specific taxation measures included in the June Budget which are most relevant to Home Credit customers are set out below:
  - The tax free allowance for income tax will increase from £6,475 per year to £7,475 per year from April 2011, with a long term aim to see it rise to £10,000
    - *We expect 36% of our customers to be better off by £4 per week or circa £200 per year from April 2011*
    - *At £10,000, the same customers would be better off on average by £12 a week or circa £650 per year*
    - *If there is more than one taxpayer in the household / economic unit these figures double up*

Our typical customer profile has not changed a great deal in the last few years

Our customers remain predominantly Blue Collar (C2DE)





Social Classifications (ABC1 = White Collar; C2DE = Blue Collar)

A: Senior Managers in business or commerce

B: Middle Managers in large organisations

C1: Junior Managers, owners of small establishments, clerical workers and students

C2: Skilled manual workers and manual workers responsible for other workers

D: Semi-skilled or unskilled manual workers and Apprentices

E: Includes casual workers and those dependent the state long-term e.g. due to ill-health or unemployment

Source: PFG HC Customer Tracker June 2010 MAA

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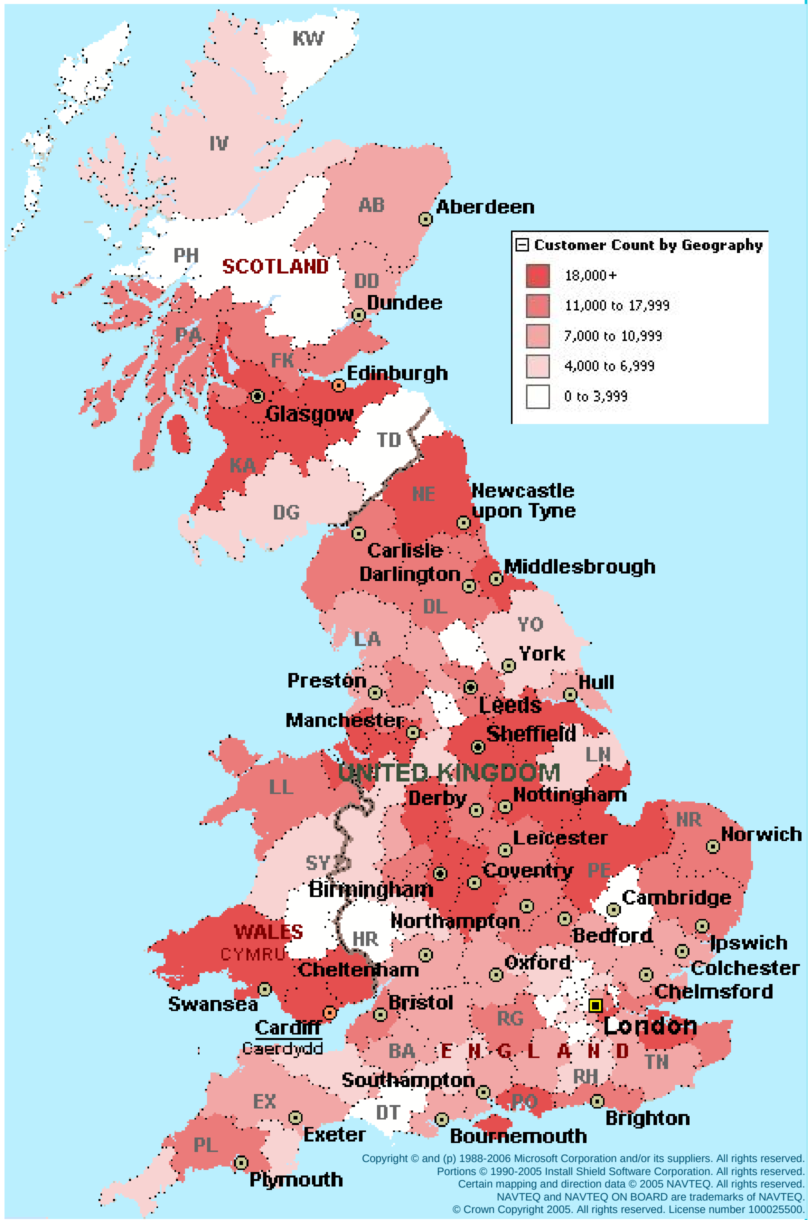
Where our customers live

- We are a UK wide business, reflecting our …
  - *Historical brand footprint*
  - *Proposition - and therefore the geography of the social-class it fits…*
  - *…only 4.6% of customers living in Greater London*

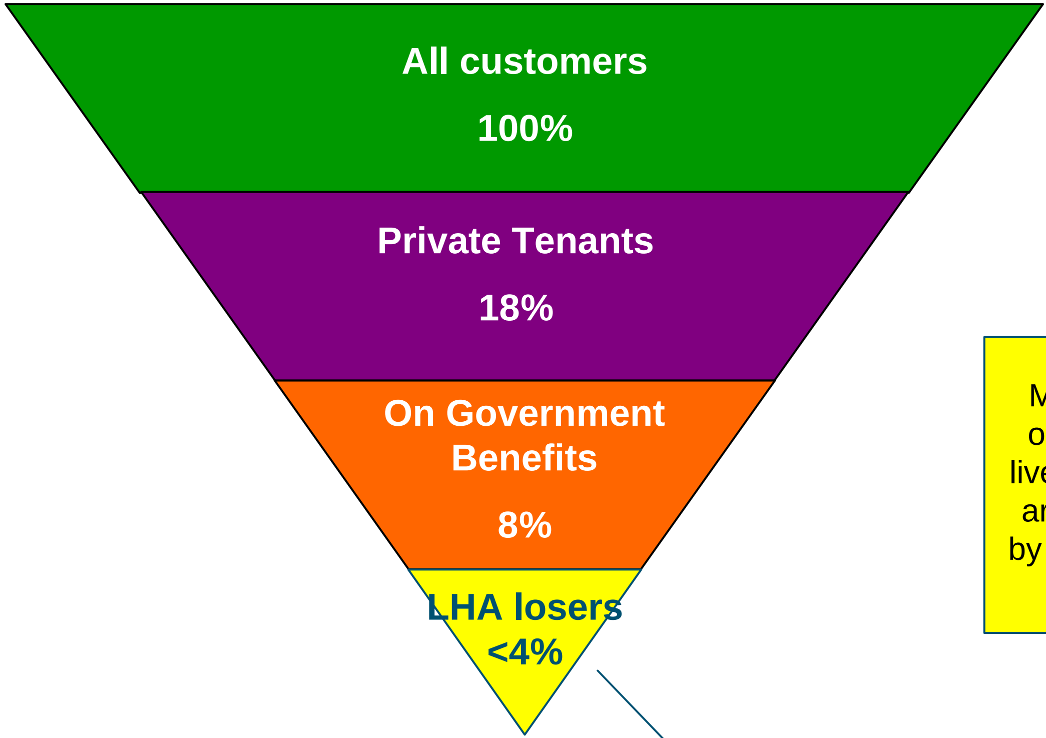


Note: this map details our mainland UK footprint (we also operate in Northern Ireland and ROI)

Changes to the Local Housing Allowance

- **What is the Local Housing Allowance (LHA)?**
  - For tenants renting a property or room from a *private landlord*, the LHA is used to work out how much Housing Benefit they are entitled to
  - Payments are credited to tenants' bank or building society accounts or by cheque
    - *Payments are not made to their landlords*
- **Changes to the LHA, which will start to come into effect in April 2011, include:**
  - The maximum entitlement being capped at the 4-bedroom rate
  - Capping of the LHA rates for:
    - *Shared room & 1-bedroom at £250 per week*
    - *2-bedroom at £290 per week*
    - *3-bedroom at £340 per week*
    - *4-bedroom at £400 per week*
  - Removal of 'excess payments' (currently up to a maximum of £15 per week)

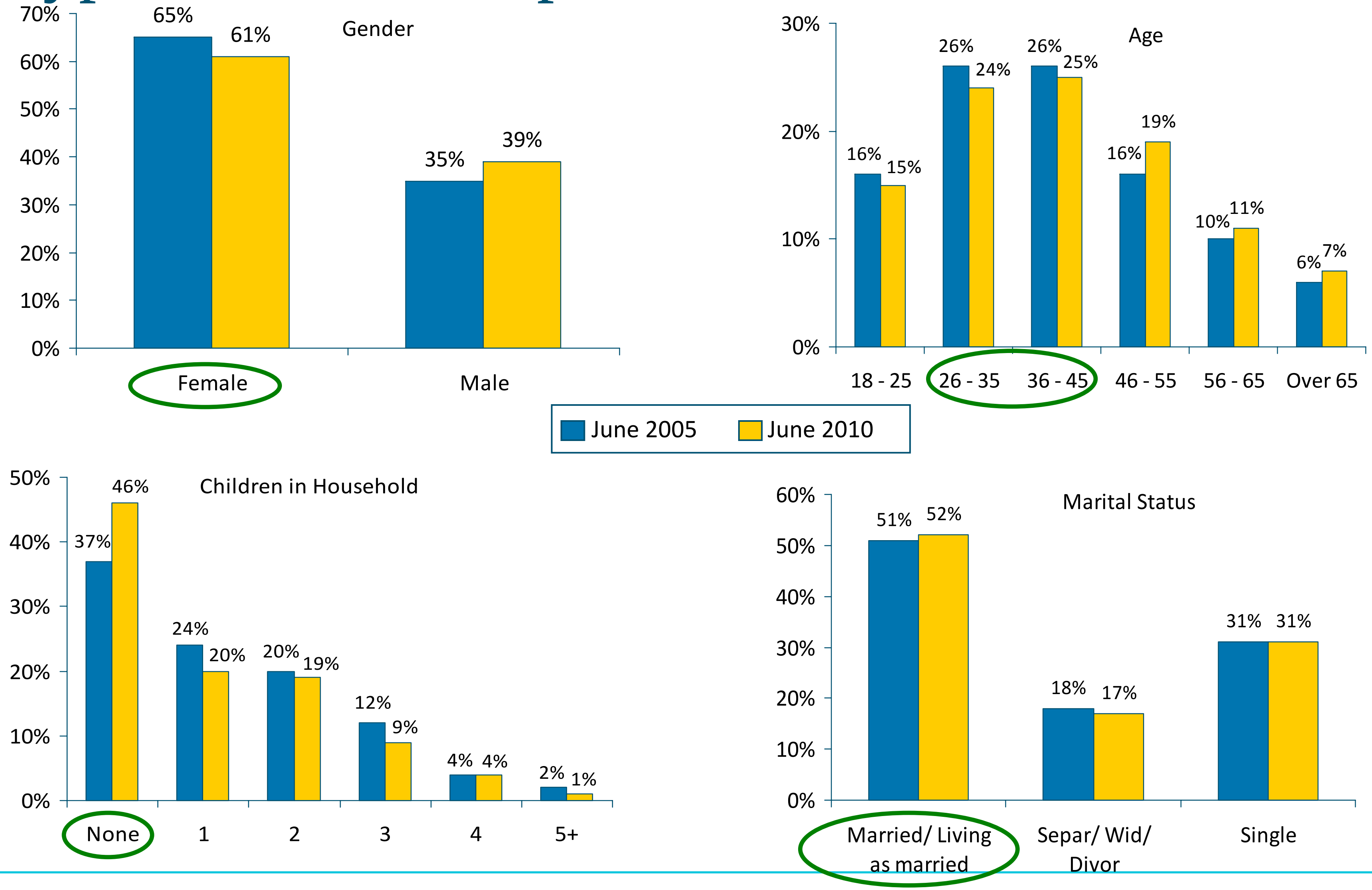
How many of our customers may be impacted by these measures?



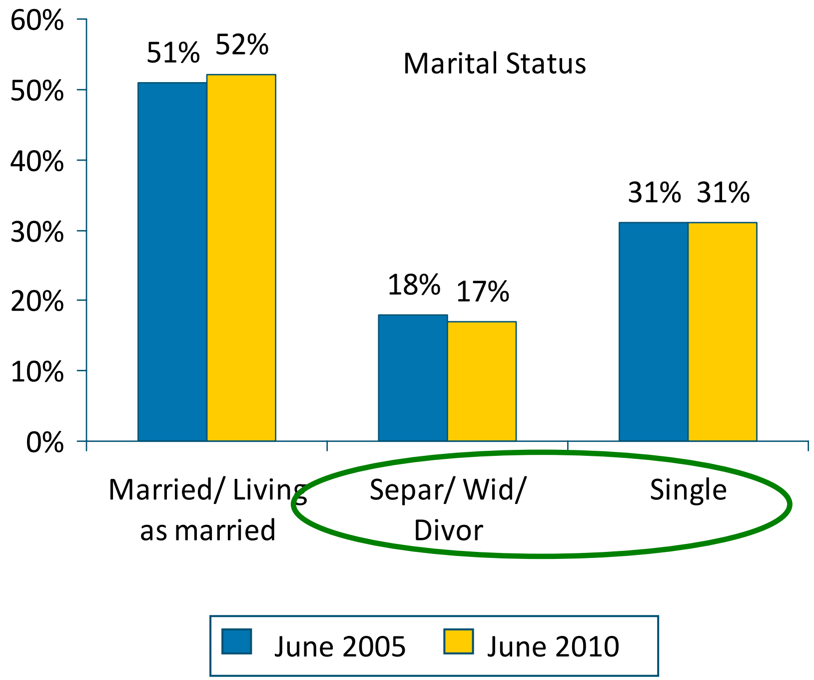
More than two-thirds of our customers that rent live in Social Housing and are therefore unaffected by any change to the LHA

- The DWP estimate that those affected will lose on average £11 per week

Typical customer profiles – 2005 vs. 2010



Our customer base reflects the impact of our cautious approach

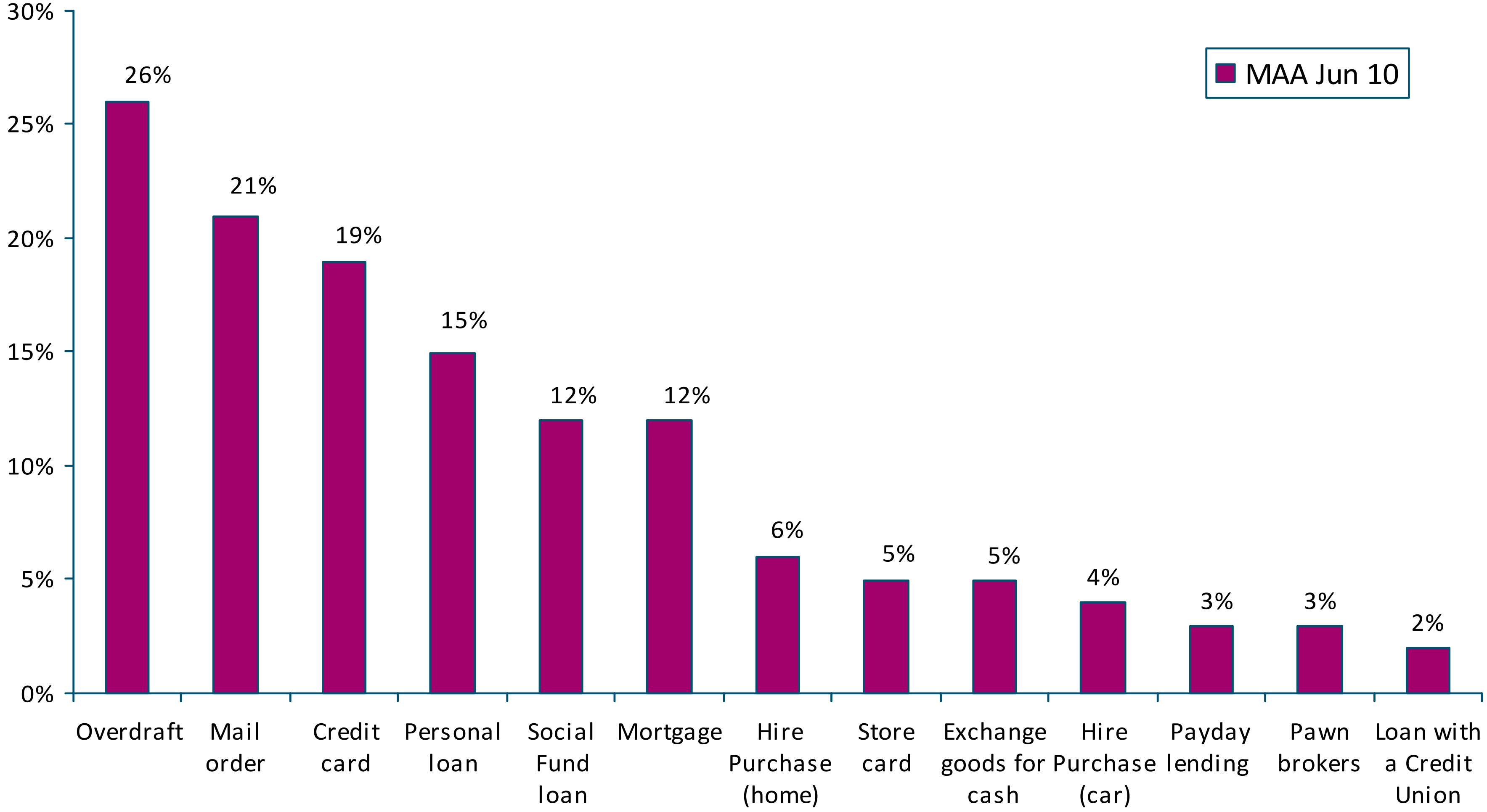


- Our vetting procedures for new customers minimise the proportion of "riskier" segments in this population
- Less than 5% of customers fall into the following type:
  - Young (< 35) and single
  - No other adult living in the household
  - With one child or more aged under 18 living in the house
  - Claiming Government Benefits
- This figure drops to 3% for 2 or more children aged under 18 living in the house

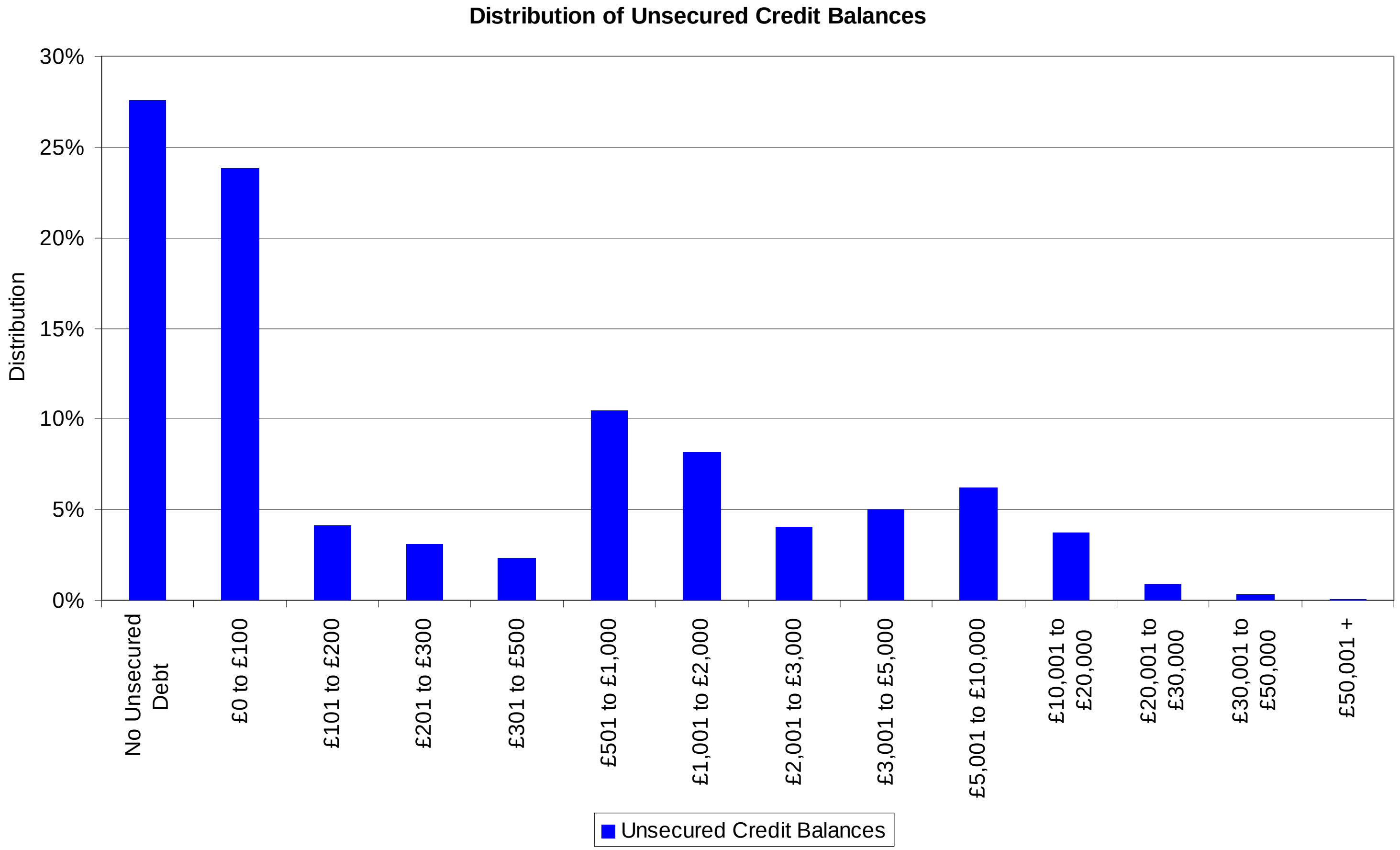
- Many of these customers are part of wider economic units and not "lone"
- Our customer circumstances are inherently fluid but the power of the economic unit largely overcomes this

Typical customer profiles – 2005 vs. 2010

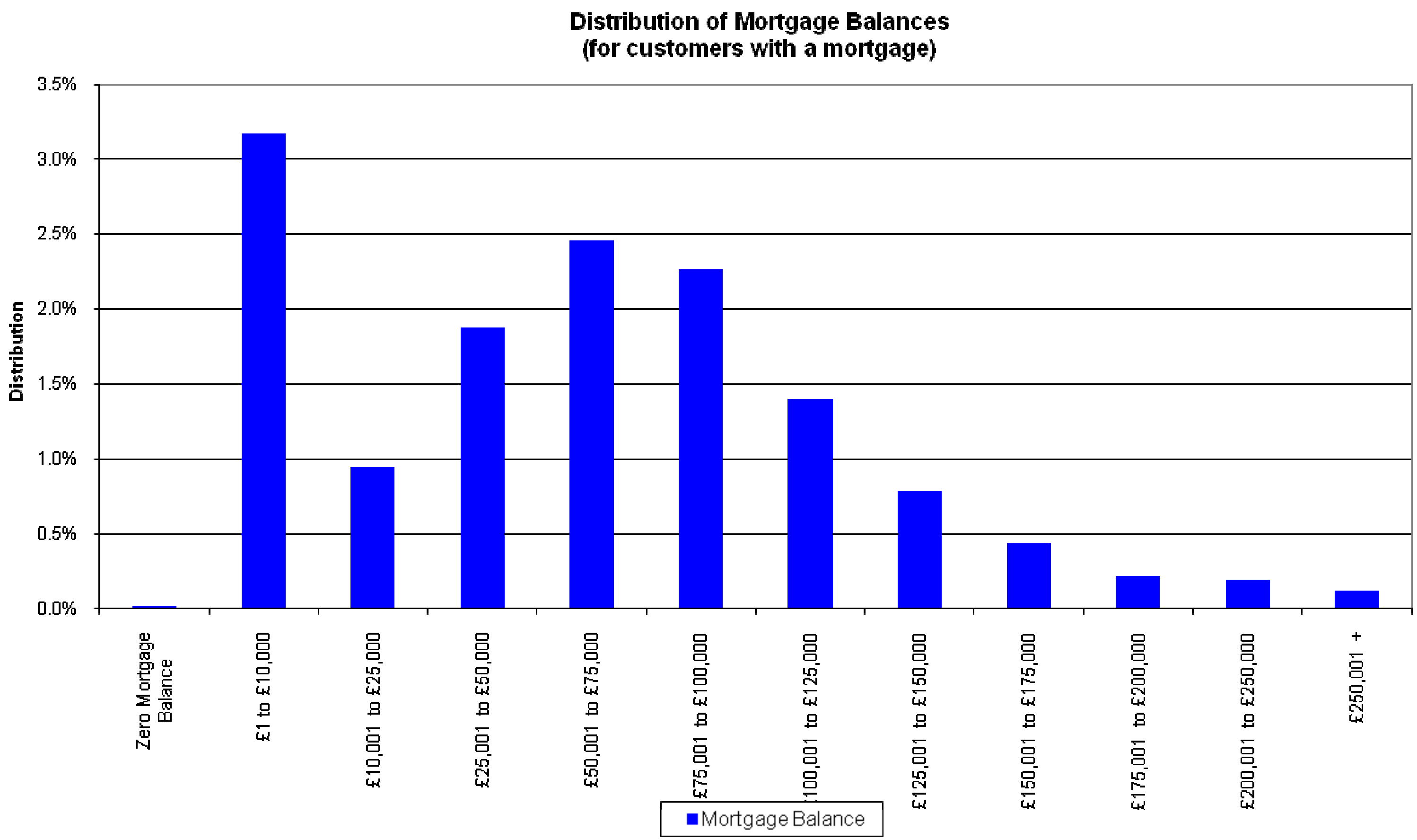
Our customers make use of a wide range of credit options



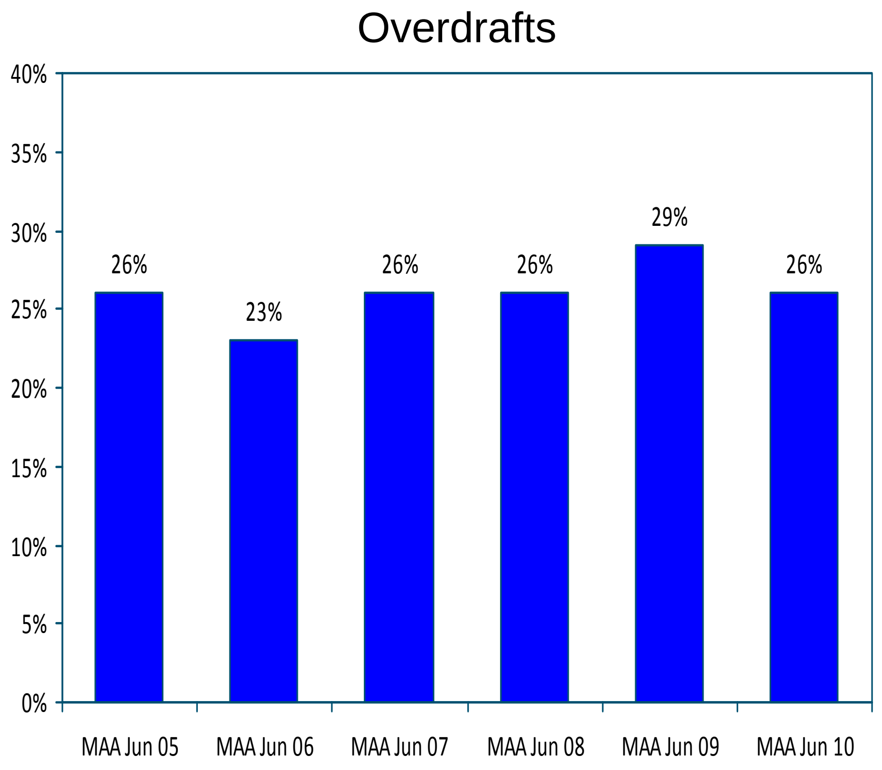
Less than 50% of our customers have unsecured debt elsewhere >£100

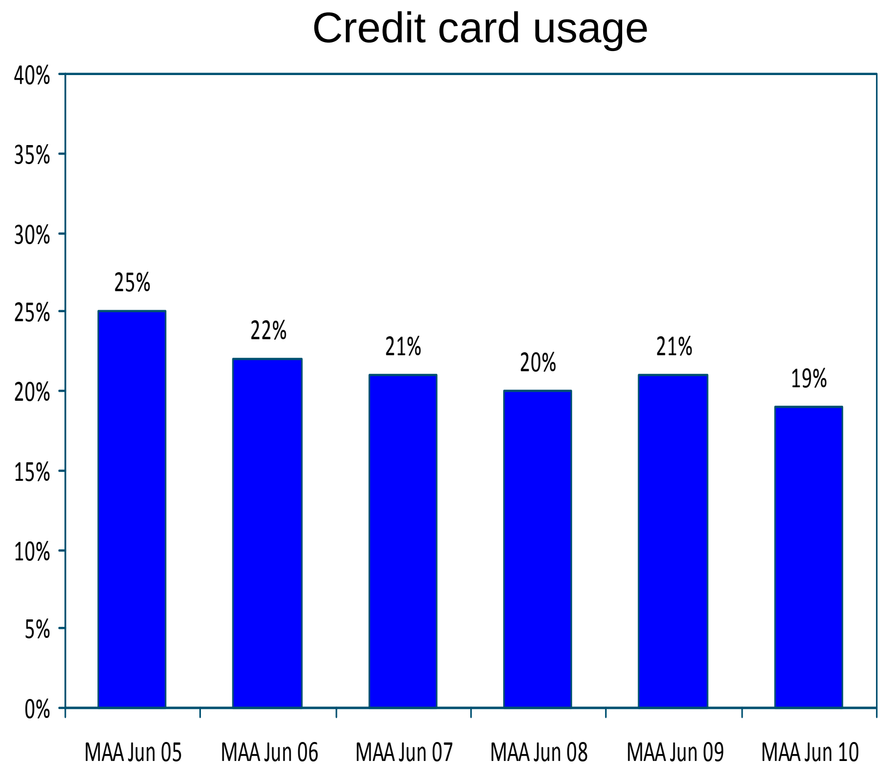


Of our customers with a mortgage, the typical outstanding balance is <£10k

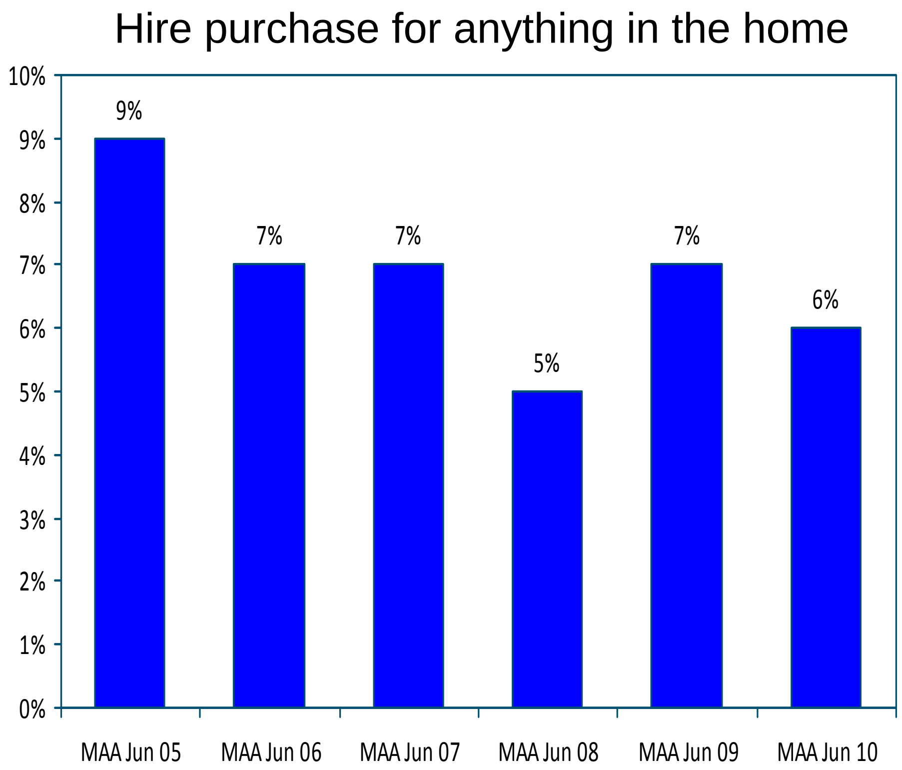


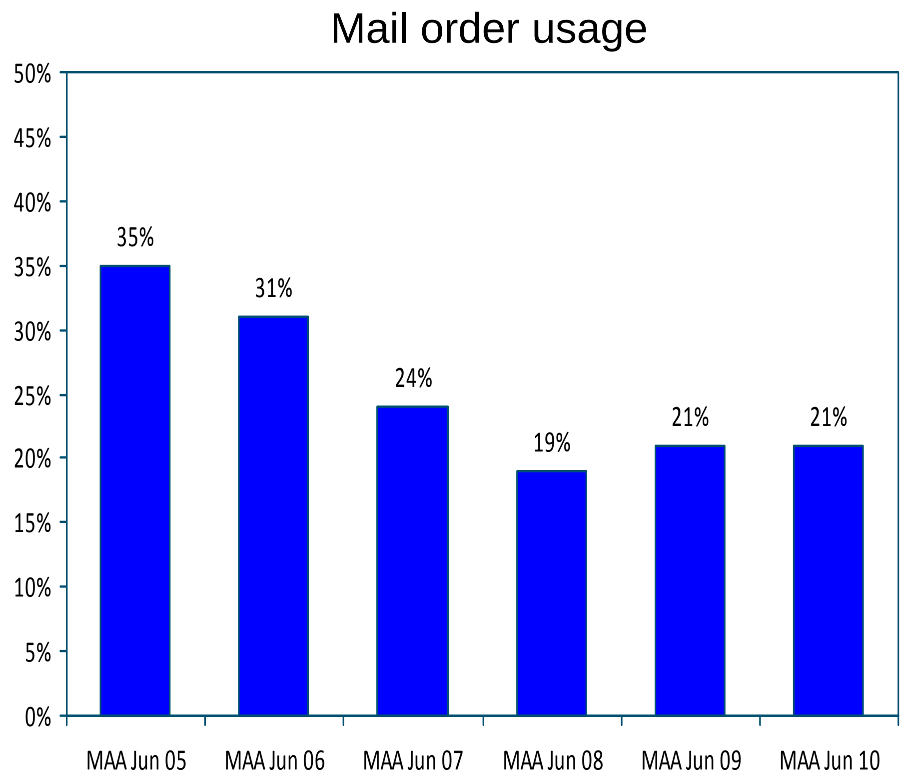
Usage of revolving credit products has remained fairly consistent in recent years





Usage of mail order and hire purchase had fallen but there is recent evidence of demand returning





Accessibility is a bigger issue than ever

	June 2005	June 2010
• *'I have more options available to me than ever before'*	69%	56%
• *'It's easier to get a loan from a Bank or Building Society than it used to be'*	32%	18%
• *'My application for a credit card would be accepted if I ever wanted one'*	46%	39%

Agenda

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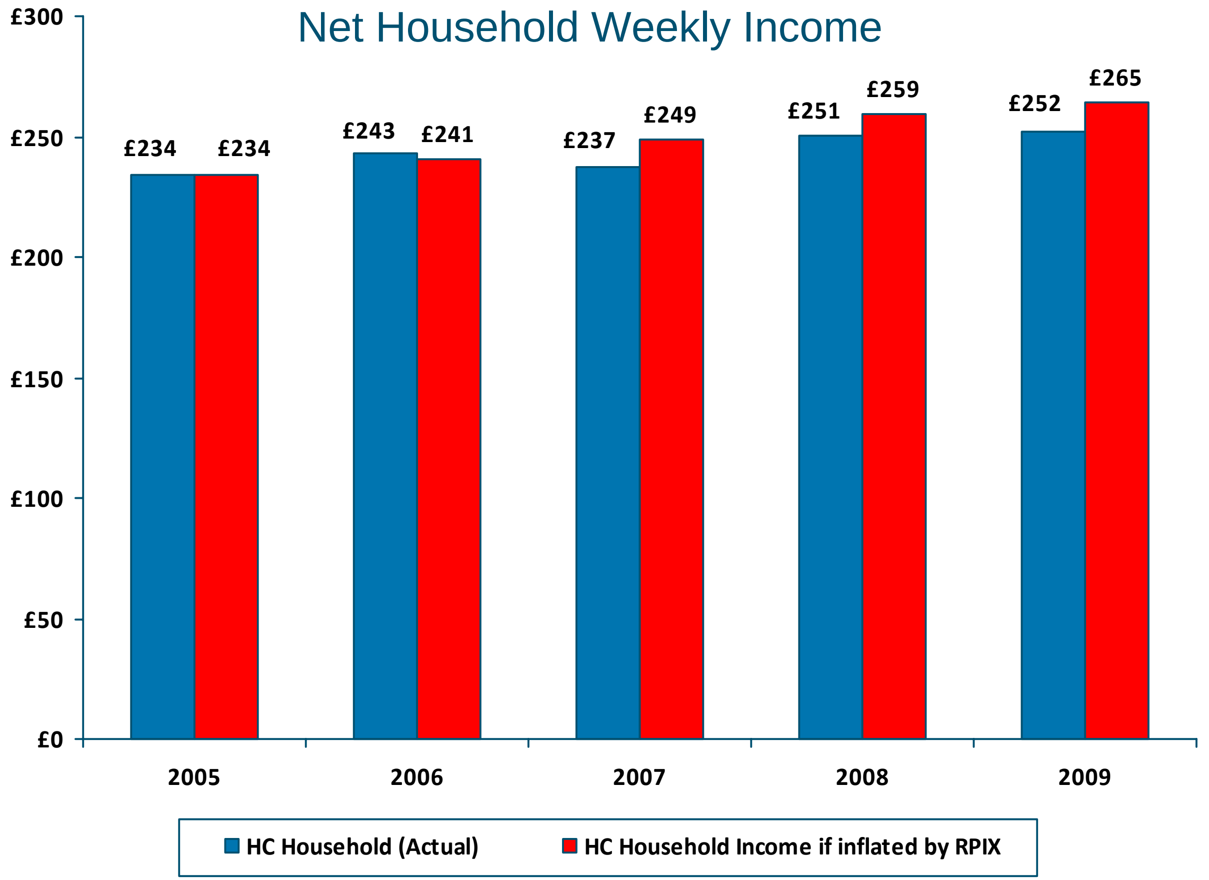
Source: Deirdre Hutton, National Consumer Council chair, 14 June 2004

Our customers are typically in receipt of modest income levels - this is not a new phenomenon



Source: ONS

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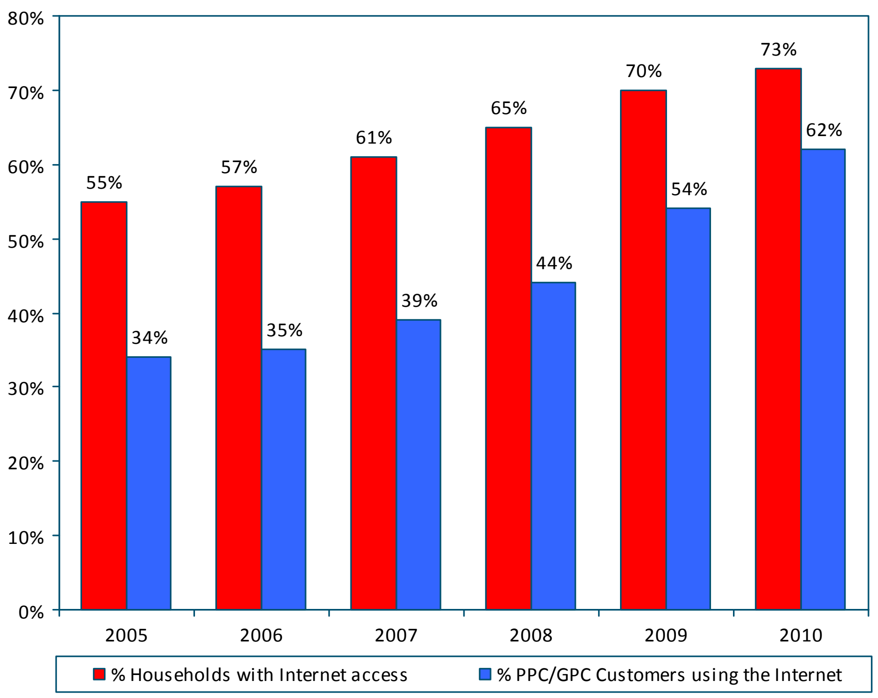
With little leeway in income, customers have well established coping mechanisms

- Making do
  - Not updating household goods
  - Going without luxuries

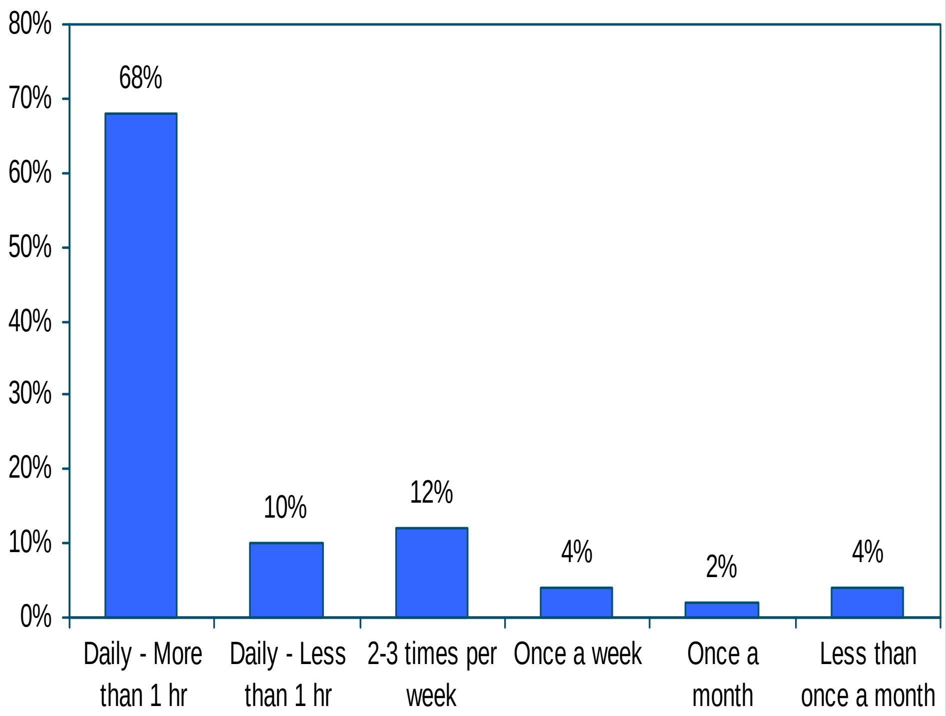
- Utilising the Internet to seek the best value deals

Internet usage has been an area of significant increase for our customers

% Households with internet access (June MAA)



Frequency of usage (Q3 2010)

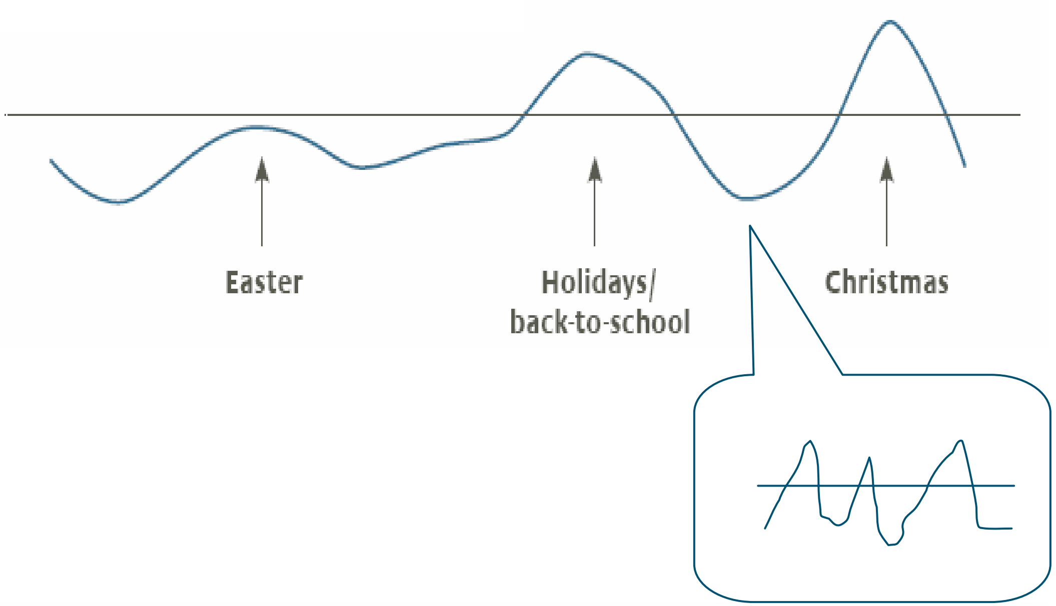


With little leeway in income, customers have well established coping mechanisms

- Making do
  - Not updating household goods
  - Going without luxuries
- Utilising the Internet to seek the best value deals
- 'No frills' supermarkets have become increasingly popular
  - *Highlighting the importance of the personal touch and making customers feel valued as individuals*
- Reducing spend on non-essential items
- Seeking last-minute bargains
- Buying 'own brand' and value-label products
- Charity shops

Provident helps smooth household spending peaks and troughs

- Customers tend to use their HC Loans to supplement their income as part of a routine in order to meet cyclical or seasonal needs e.g. Christmas, household bills or holidays



When household budgets are under pressure it is about being supported with credit but it may also be about being flexible with repayments

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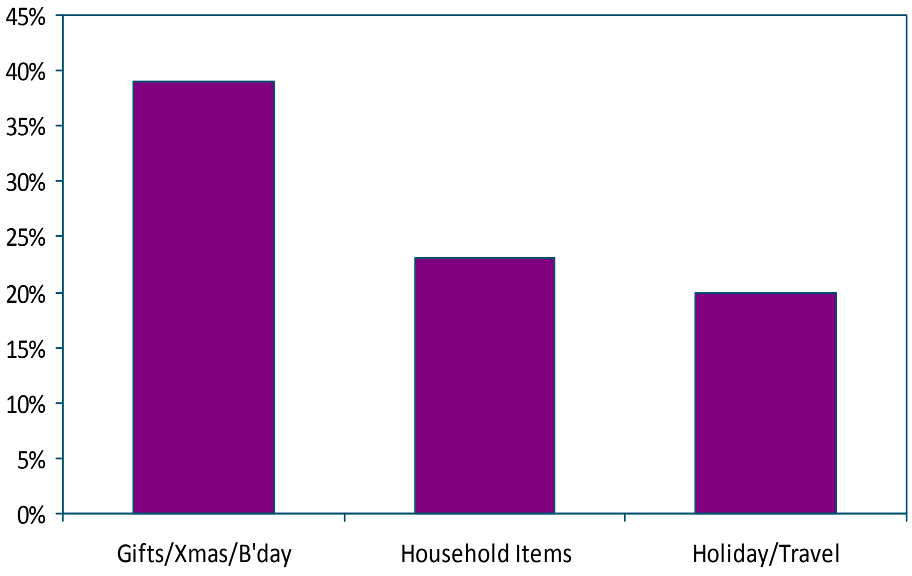
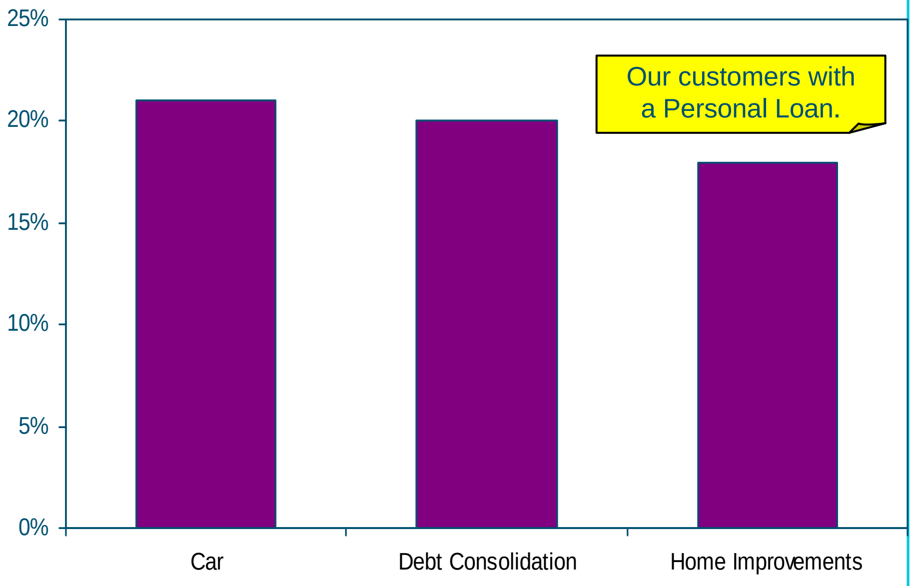
The differences in loan purposes: Home Credit loans vs. Personal loans

HC loan purpose (Top 3)



Personal loan purpose (Top 3)



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With little leeway in income, it is not just about supplying credit to customers. They say that they...

- want things to be clear cut and certain
- value a high degree of flexibility in repayment
- are careful and want to be in control
- are well informed about credit options and the cost of credit
- have a ‘not for me’ attitude (based on past experience) towards mainstream banks
- have mini-crises more often than mainstream customers

81% of customers believe Provident offers good value for money

This is where our high touch/highly personalised business model comes to the fore

- Disciplined and convenient repayments
- Flexible repayments

- 'Low and Grow' lending
- Highly personal assessment of creditworthiness

"…customers generally saw their relationship with Agents as good but professional…"

Source: CC Home Credit Market Investigation - Final Report 30 November 2006

Supported by a relevant choice of products

2010 sales mix

80% | 20%

Budget Loan	Short-term	Core product	Longer larger loans	Direct repayment
• 14 weeks • New and existing customers • Up to £300	• 23 to 33 weeks • newer customers • typically less than £300	• 50 to 57 weeks • established and re-servable customers • typically less than £800	• 81 & 106 weeks • best 20% selectively • typically less than £1,500	• up to 36 months • high quality paid-up or migrating customers • £1,000 - £4,000 (average £1,800)

Recently launched Budget Loan - reflecting our increased caution but also reflecting that some customer borrowing expectations have gravitated to shorter term products in the past 2 years

Provident is an integral part of our customers' coping mechanisms

- *'I prefer Provident over other credit because I am more disciplined with my money when someone comes to the door every week and I've got to pay them.'*

- *'I don't like direct debit (as) I forget when it's going to come out of the bank and if you know the money is not going to be in the bank it's a problem'*

  – *'…whereas when you've got someone coming to your door to collect that money from you it's so much more of a disciplined way of doing it.'*

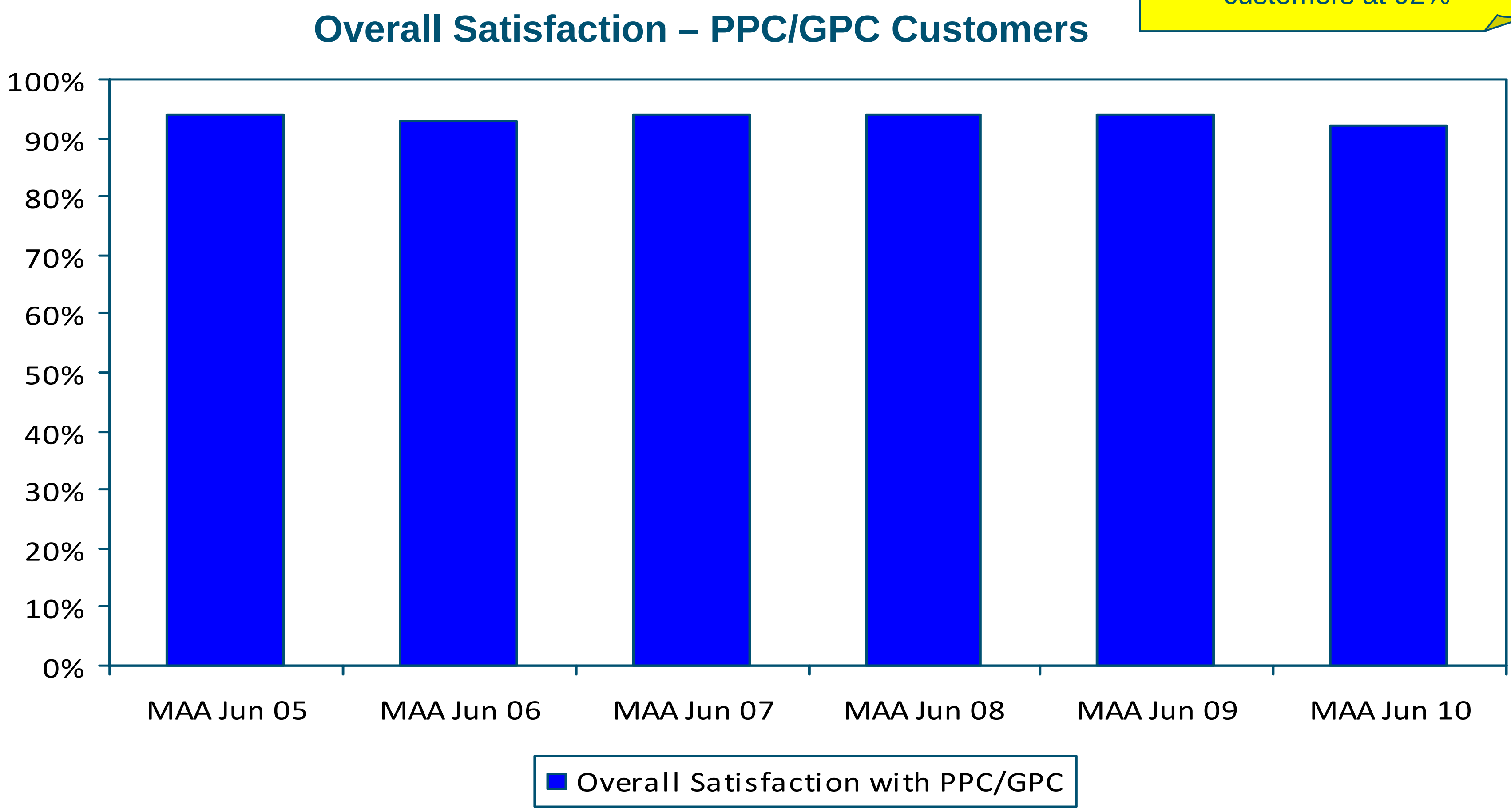
- *'Provident is there for you and you just don't go above what you know you can afford.'*

- *'…at least the interest is honest and it's not going up all the time.'*

- *'I lost my job and I was paying £30 every couple of months until I got on my feet.'*

Our customers remain resolutely fond of what we do…

Overall Satisfaction remains very high amongst our customers at 92%



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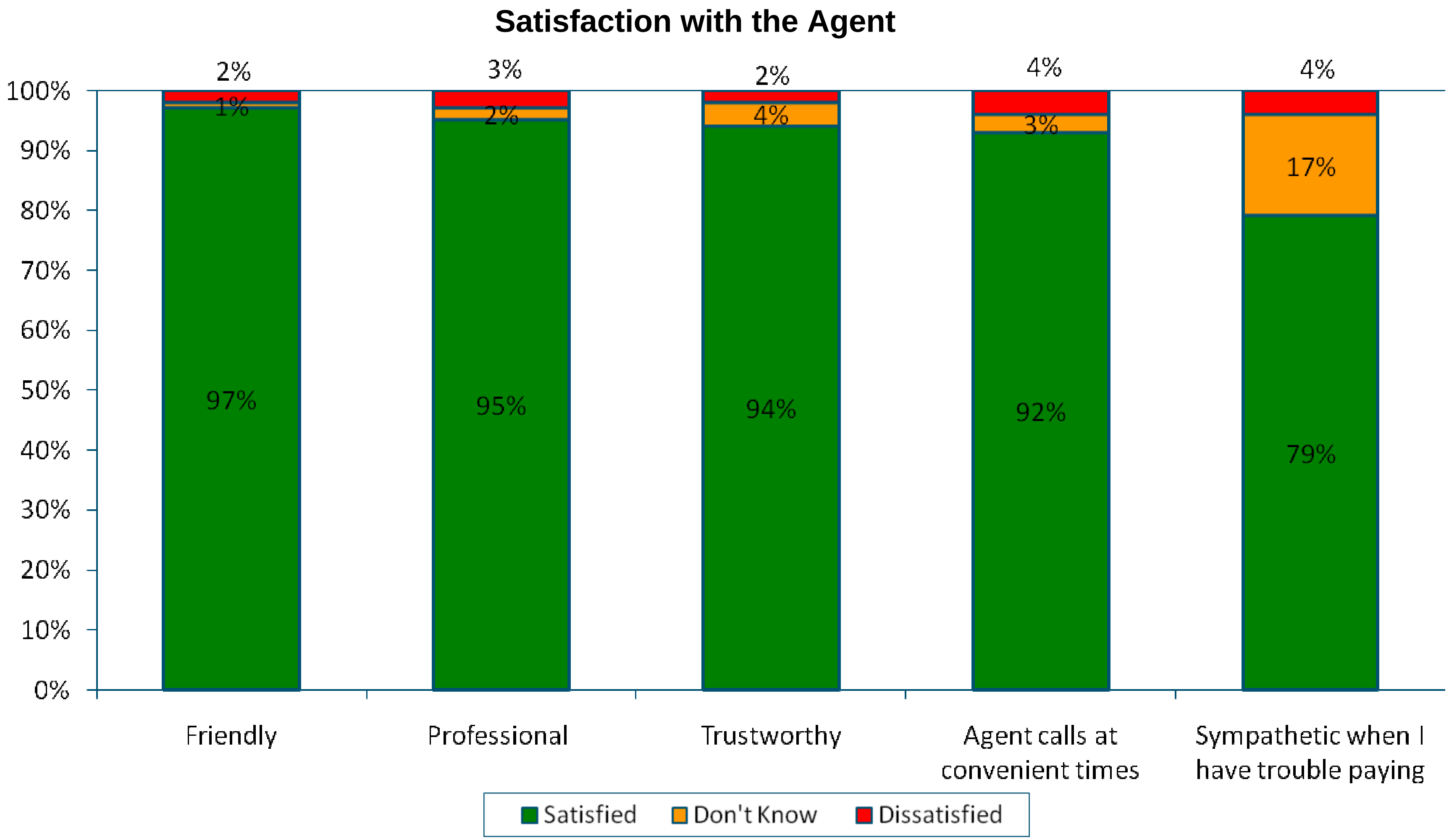
… and fond of the way we do it



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Delivering the proposition – our field focused operating model

- Harnessing the Agent and organisational knowledge to help deliver…
  - Further lending decisions
  - Customer Contact Strategy
    - Sales opportunities
    - Arrears activity
    - Do nothing at the moment
    - Customer retention

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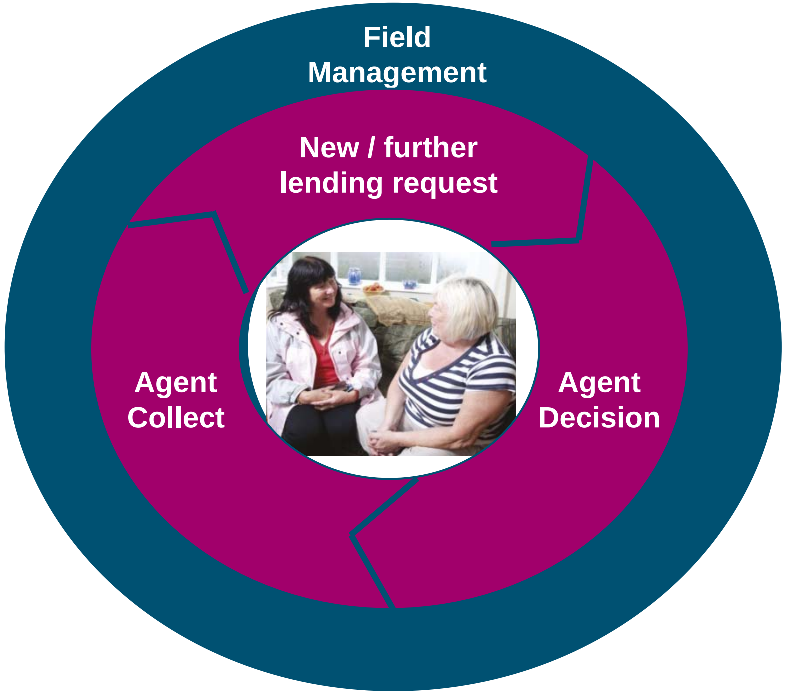
Who are our Agents?

- Self-employed
- 70% female
- Average length of service 8 years
- Live in the communities they serve
- 75% >1 yr service
  - *Has increased in past 2 years due to economic conditions and the recently introduced commission scheme*
  - *Agents have mandates based on experience and the manager's assessment of their capability*
- Typically have 142 customers and earn £160+ per week
- Commission based on what they collect, not what they lend
- Commission structure encourages and incentivises making the right decision
  - *Simple and transparent*
  - *Earn more for good quality customers*
  - *More for improving customers, less for deteriorating customers*
  - *Nothing for non-payment*
  - *Commission deducted if the customer is written off*

Our Field Management structure exists to support our Agents



- Responsible for
  - *Business development / credit issue / arrears management / compliance*
- Through a branch based management structure
  - *Network of c.11.5k self employed agents*
- Average Senior Manager service of 20 years
- Average service of Area/Development Manager of 7 years
- Separate administration function in the field
  - *Ensuring Agents and Managers keep their focus on delivering the KPIs*

What is the Field Management structure?

- Managing Director
- Head of Field Performance

Head Office based

- Divisional Managers 8
- Regional Managers 44
- Area Managers 284
- Development Managers 1,287
- Agents 11,842

Field based

What is the “Weekly Routine”?

- Agents typically collect 2 to 4 days per week
  - *Friday and Monday main days*
- Agents “pay-in” on Tuesday or Wednesday
  - *Reconciliation*
  - *Compliance*
  - *Customer level payment data collected*
- Wednesday is processing day. <u>All</u> behavioural score data updated and refreshed and forms the basis of the…
- Weekly Agent interview with Development Manager on Thursday to plan the ensuing week’s activity
- Managers support agents Monday to Friday through coaching/outside visitation
  - *Arrears activity*
  - *Business Development*
  - *Compliance*
- Intra week, the business is managed via daily performance data
  - *Daily data on KPIs available at every level from individual agency to whole business by 11am each day*

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- The business has growth potential – where and how?

Source: Deirdre Hutton, National Consumer Council chair, 14 June 2004

We have invested in this business and are poised for growth as economic conditions improve and sentiment returns

- As the employment market improves and a more positive sentiment returns, pent up demand for credit will be released
- We anticipate 2-3% annual growth in overall customer demand for Home Credit
- We believe we are well placed to meet this demand
- Investment in decision support technology and customer insight will continue to enable the business to identify appropriate new customer prospects and make the right decisions to lend more to existing customers, at the right time
- As a result we anticipate our annual growth will be a little ahead of the market, at circa 3-5%
- We therefore anticipate we will be able to grow receivables in a controlled manner, slightly ahead of customer growth
- We have managed cost and yield well in difficult economic conditions and therefore anticipate we should see earnings growth moving slightly ahead of receivables growth

Share of Wallet opportunities will create additional lending growth

- Our customers have borrowing needs that are being met by other forms of credit
  - *Our core proposition resonates with our customers and therefore provides opportunities to win a greater share of their wallet*

- Recent new propositions have generated incremental value e.g. Love2shop vouchers, mobile phones, hampers,
  - *Customers are interested in using Provident beyond the core cash loan*
  - *We have the capability and understanding to give customers what they need*

- And we have identified that further opportunities exist to 'revitalise' our proposition

Always underpinned by the discipline/flexibility of our core proposition

Growth will also come from beyond our current customer 'footprint'

- Customers can simultaneously be a poor remote payer and a good Provident payer
  - *We will build on our 'Fresh Start' capability*

- Our customers, are very fond of us – and a 'recommendation' is a good character reference for a new customer
  - *Further field and marketing opportunities as customer sentiment returns*

- Developing/implementing our internet strategy for new and existing customers
  - *Responding to insight about our customers who use the internet*
  - *Further developing our knowledge and capabilities*

Always underpinned by the discipline/flexibility of our core proposition

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Questions?

Investor & Analyst Event – 24 November 2010

Vanquis Bank – Capturing and managing the growth opportunity

Michael Lenora – Managing Director – Vanquis Bank

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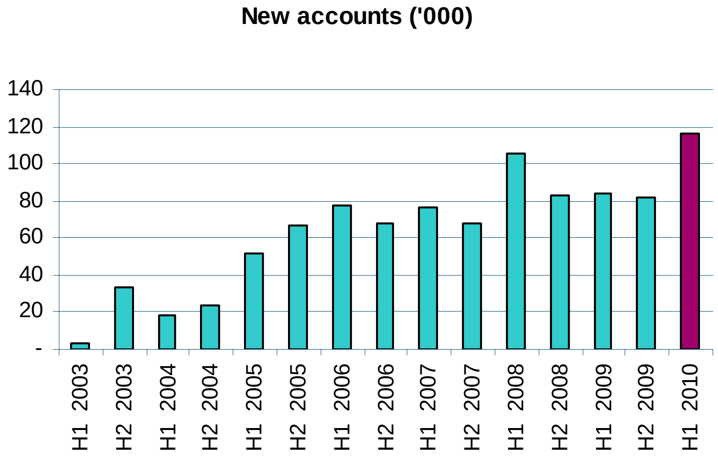
Agenda

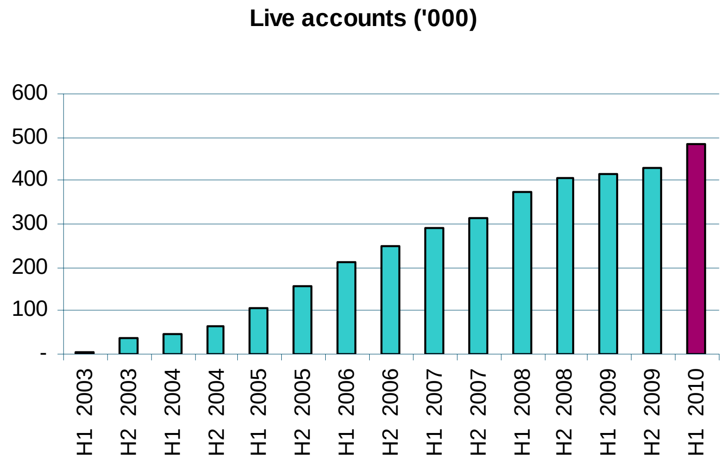
- **Background**
- Getting the model right
  - People
  - Infrastructure
  - Product and channels
  - Underwriting and collections
  - Margin and returns
- Economic threats and competition
- Growth opportunity
- Summary

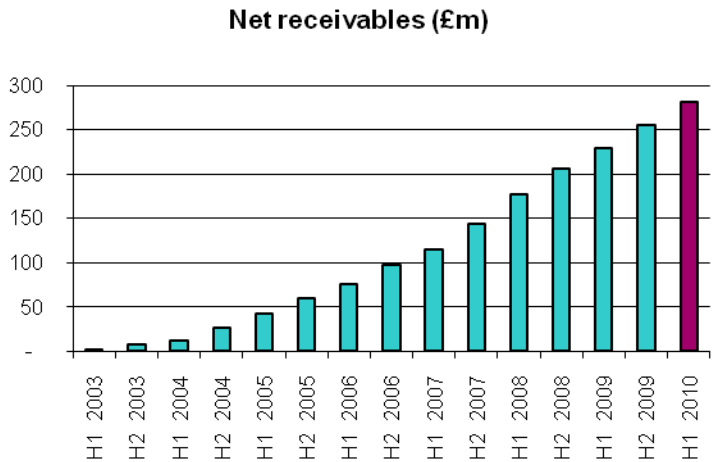
Background – History

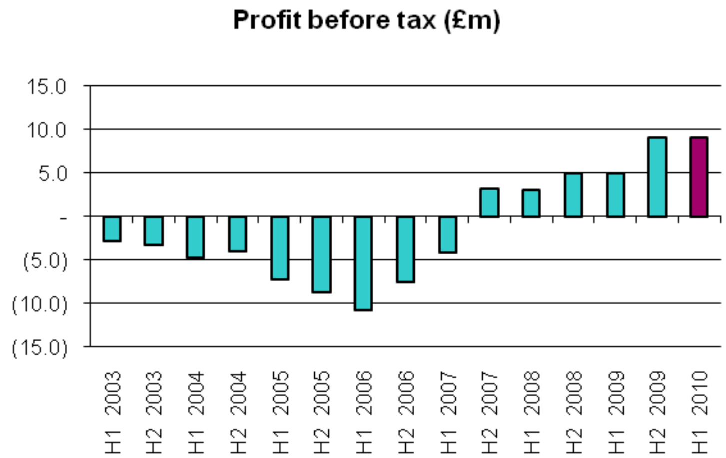
- First issued cards in 2003 aimed at under-served market
- Banking licence and FSA regulated
- Formally launched in 2005 following test period
- Broke even in 2007
- Now passed 500,000 accounts and £300m net receivables
- Passed 30% post-tax ROE objective in H2 2010

Background – Key metrics









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Getting the model right – People

- Experienced team of credit card and retail banking professionals
- Previous credit card and financial services experience includes Barclaycard, Citi, Lloyds TSB, NatWest, RBS and Providian
- 151 year's experience in financial services and 83 years in credit cards
- High degree of analytical capability is our key business competence

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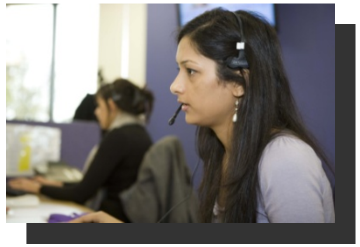
Getting the model right – Infrastructure

London office	Chatham call centre
c.70 people	c.400 people (FTEs)
Executive Finance Legal Marketing Credit 	New business Customer contact Collections IT Department   

- Recent investments have been made in operational infrastructure
  - New call centre facility – October 2008
  - Upgraded underwriting engine capability (Experian) – June 2009
  - IT refresh – October 2009
  - First Data platform - Scalability

Getting the model right – Target customer

- 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 (75%)
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+	£800
Line utilisation	25%	80%
Typical APR	15-20%	39.9%
Primary purpose of card	Transactor/revolver	Revolver

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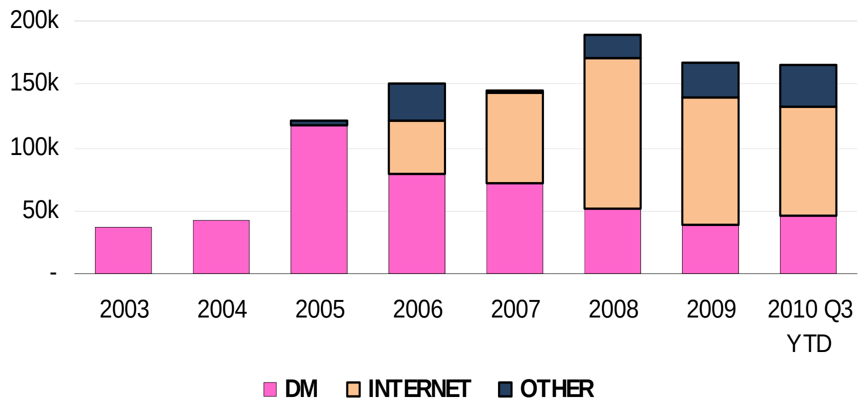
Getting the model right – Product offering

- VISA branded traditional credit card functionality and worldwide network
- Low initial credit lines, typically £250
- Basic offering 39.9% APR
  - No annual fee
  - 56 days interest free period
  - Minimum payment - 5%/£5
  - Cash advances - 3%/£3
  - Late/overlimit fee - £12

Getting the model right – Channels

- Initially focused on direct mail
- Internet an increasingly important channel
  - Direct website
  - Key word search
  - Routing via affiliates and aggregators
  - Decline referrals via internet

Booked accounts by channel



Getting the model right – Online

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Getting the model right – Direct Mail

Getting the model right – Initial underwriting

- 8 years of investment in scorecard development
- Standard industry techniques are supplemented by bespoke scorecards and techniques
- Multiple scorecard applications including channel and affiliate level underwriting
- Significant investment has been made in experienced staff and bureau software (Experian Transact 5)
- Unique levels of customer contact via a welcome call provide competitive advantage

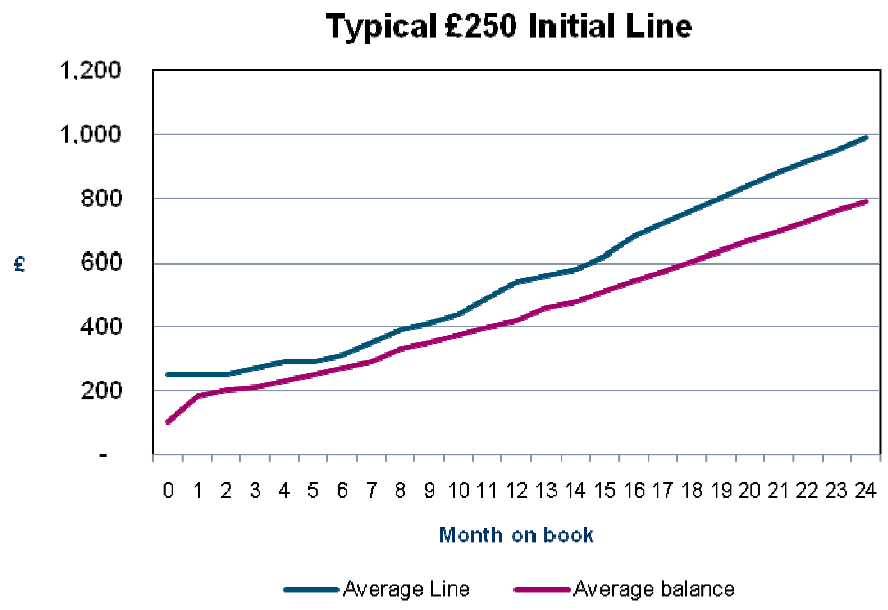
Getting the model right – Initial underwriting

- Significant tightening of underwriting standards since second half of 2007
  - Pre-2007 acceptance rate = 30%+
  - 2010 acceptance rate = c.18%
- Most new customers get a £250 credit line

Initial credit line	%
£150	1.1%
£250	58.5%
£500	35.7%
£1,000	4.6%
Average	£373

Getting the model right – CLI underwriting

- “Low and grow” approach to credit risk mitigates initial write off risk and ongoing risk of undrawn lines
- Subsequent line increase decision using:
  - Further external bureau
  - Internal behavioural data
  - Credit and utilisation parameters

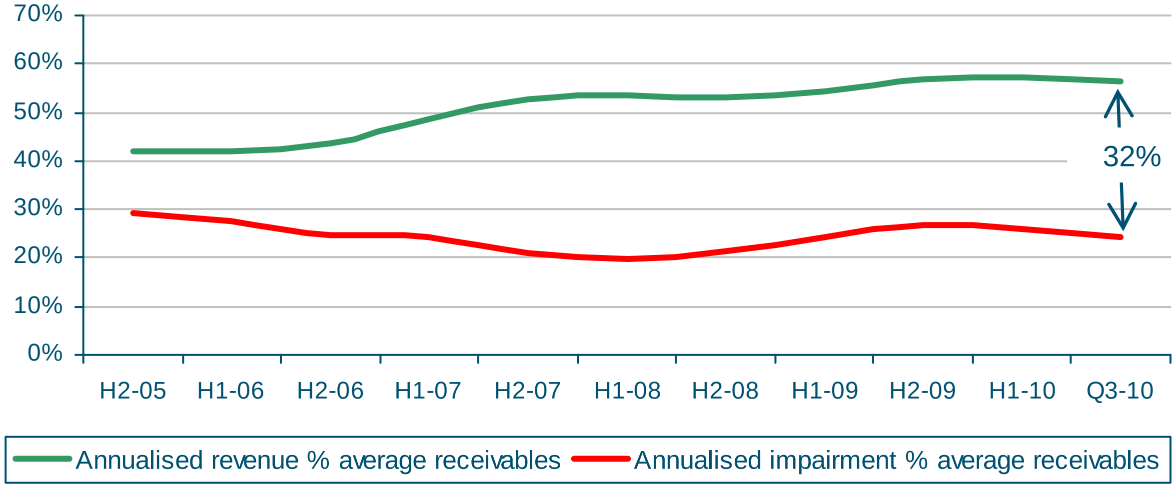


Getting the model right – Collections strategy

- A high contact approach is employed which works well with target customer group
- Rapid recycling through internal and external debt collection agency (DCA)

Months past due	Action
Pre delinquency	Calls, SMS
1 down	Intensive automated dialler and letter strategies
2-4 down	Specialist agents and internally branded DCA
5-6 down	First outsourced DCA
7 down	Accounting charge off
8-9 down	Second outsourced DCA
c. 12 down	If not paying, debt sold

Getting the model right – Risk-adjusted margin



- Risk-adjusted margin at minimum target 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

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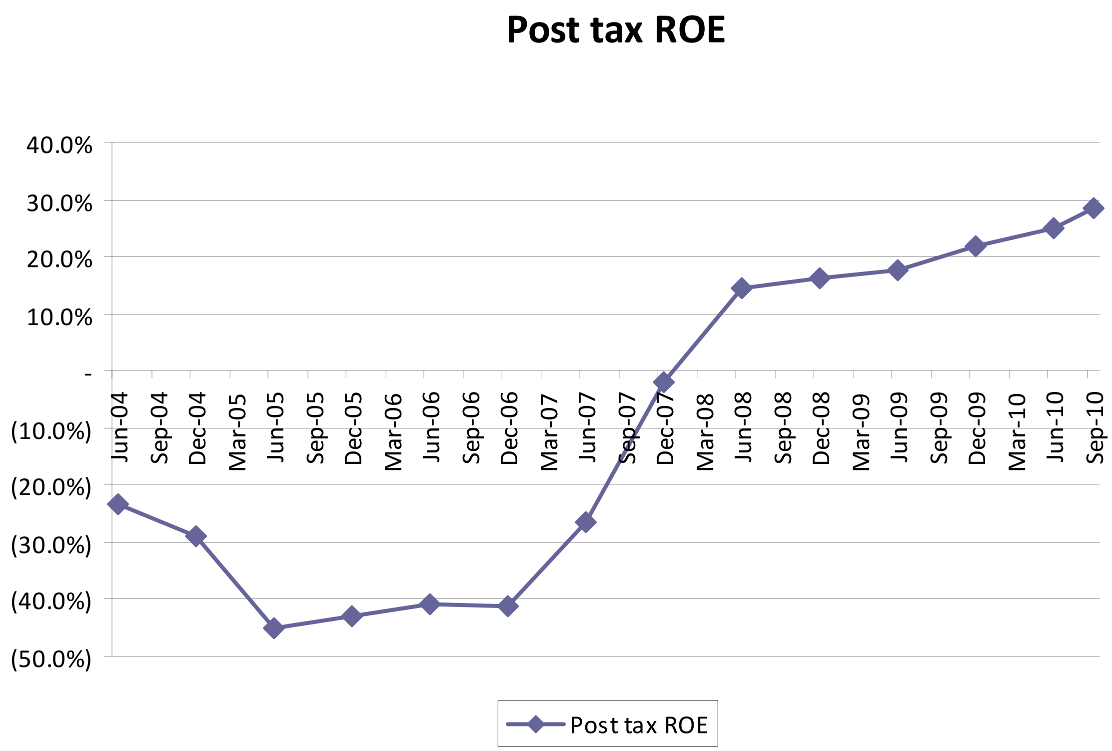
Getting the model right – ROE

- Returns have grown strongly and target 30% ROE has been achieved as planned in H2 2010



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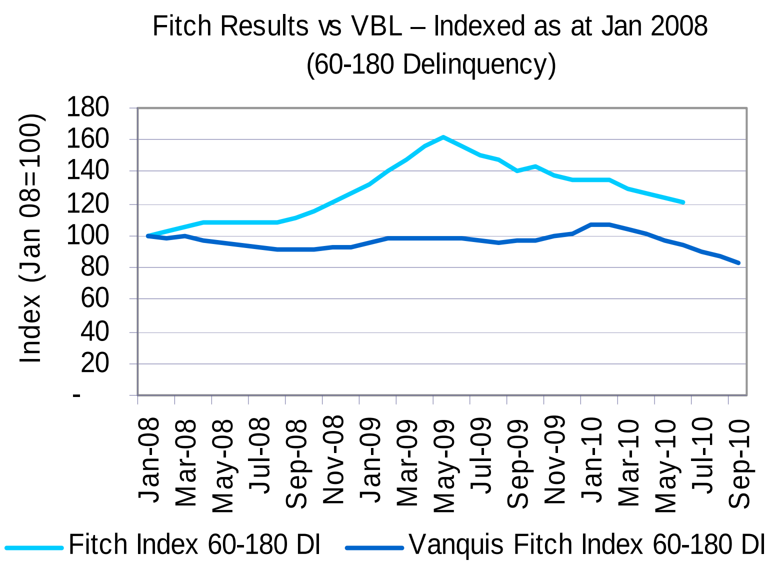
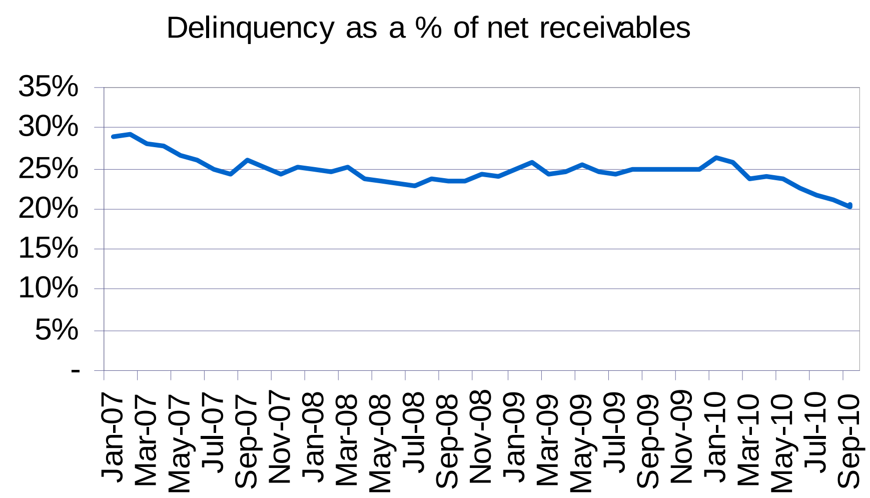
Economic threats and competition – Economic threats

- Low volatility relative to benchmark is a function of high limit utilisation which restricts £ loss in stressed conditions
- Low balance (average £650) and minimum payment (c.£30) means greater likelihood of account staying in order, even after an income shock
- Continuous underwriting improvements also offset impact of economic environment





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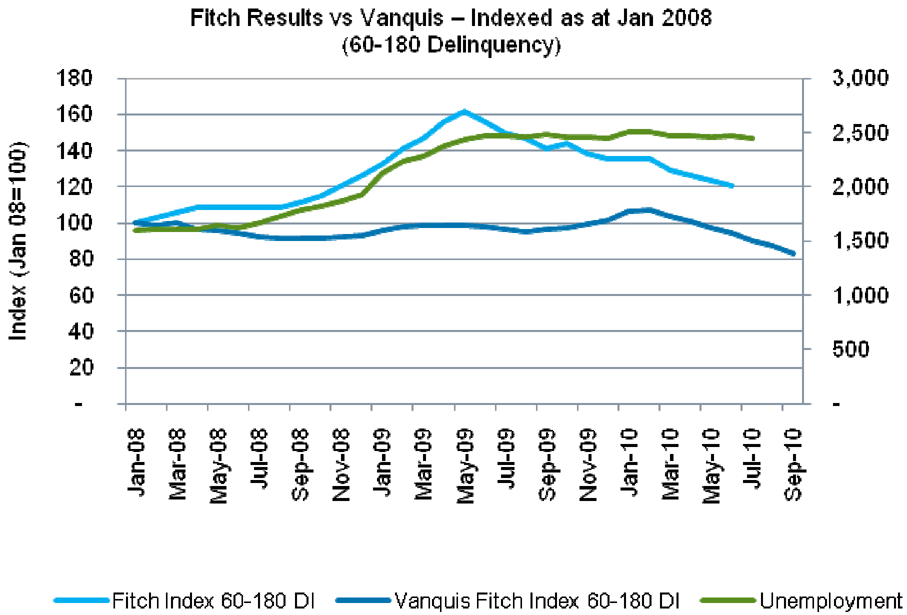
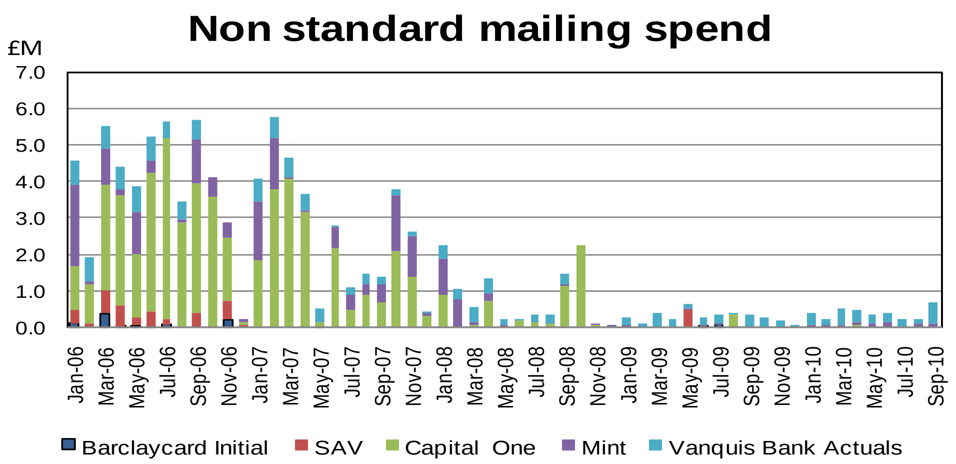
Economic threats and competition – Economic threats

- Business has demonstrated its ability to manage through the downturn



Economic threats and competition – Competition

- Low level of activity
- Major banks have withdrawn from our market space
- Barriers to entry are high
  - Length of time for scorecard development
  - Expertise scarce
  - Pricing



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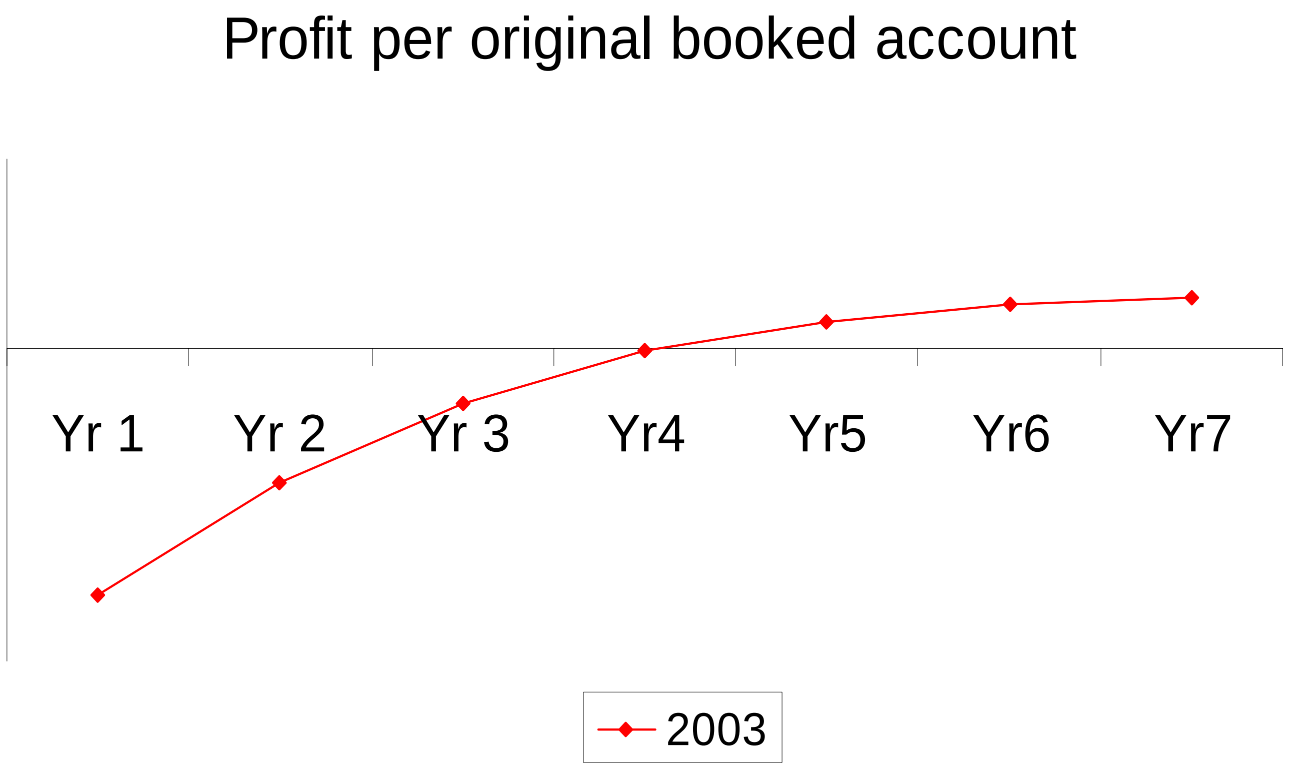
- Economic threats and competition
- **Growth opportunity**
- Summary

Growth opportunity

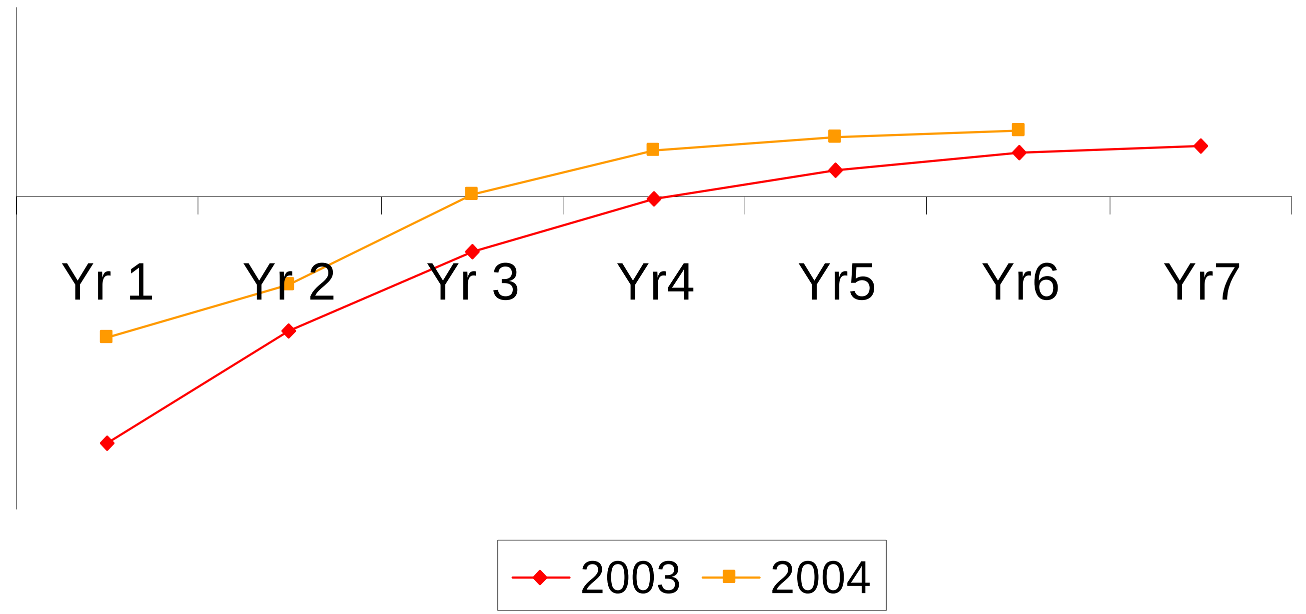
- We manage account level and cohort profitability closely
- High initial acquisition J curve is paid back as average balances grow under the low and grow strategy
- With scale cohorts of accounts are now paying back quicker and overall profitability is increasing due to:
  - The run-off of older test accounts
  - Fixed cost leverage
  - Continual underwriting improvements
- Steady state profits have not yet been reached

Growth opportunity



Growth opportunity

Profit per original booked account



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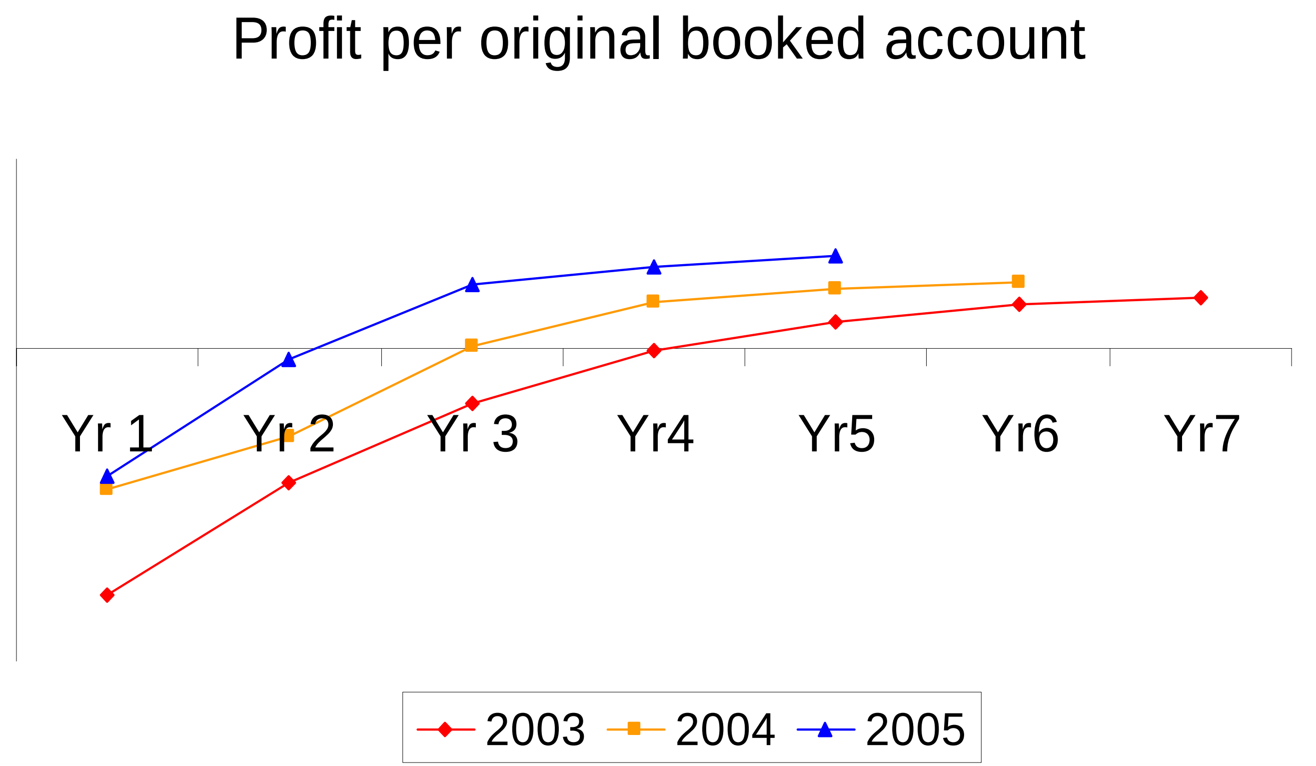
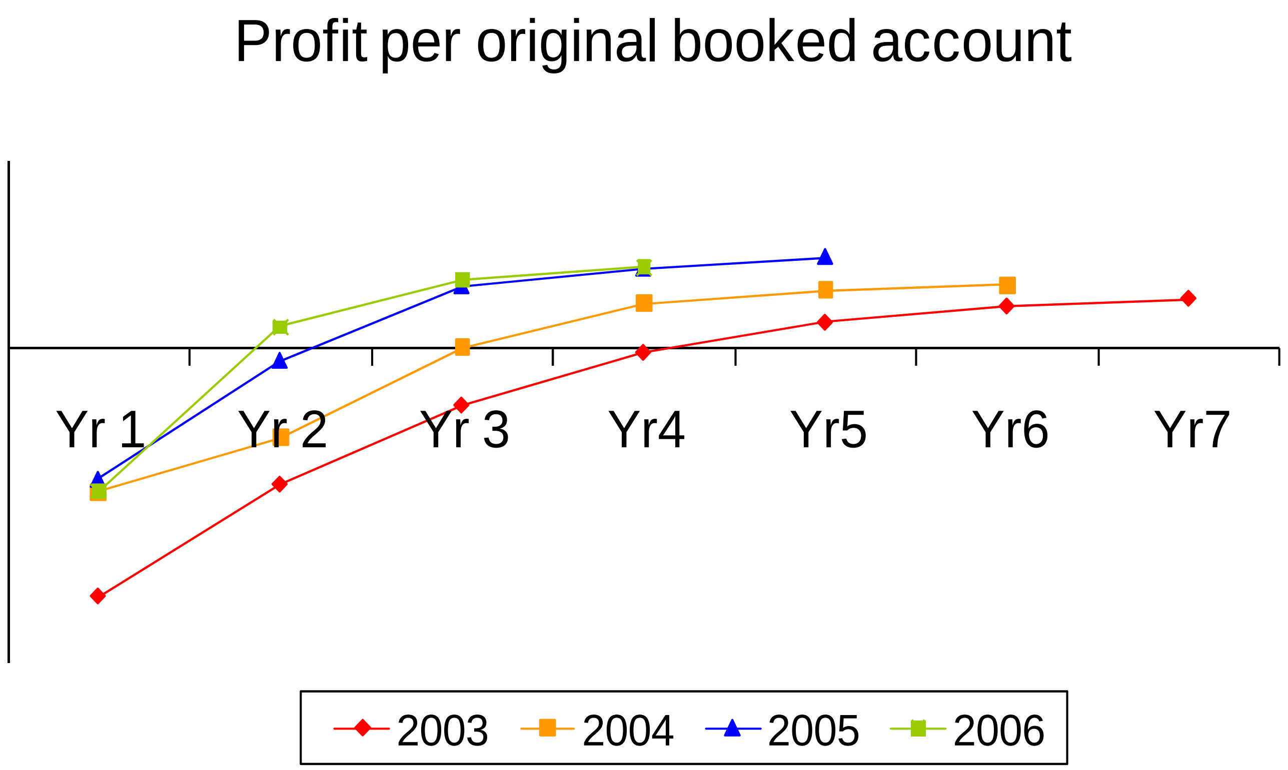
Growth opportunity



Growth opportunity



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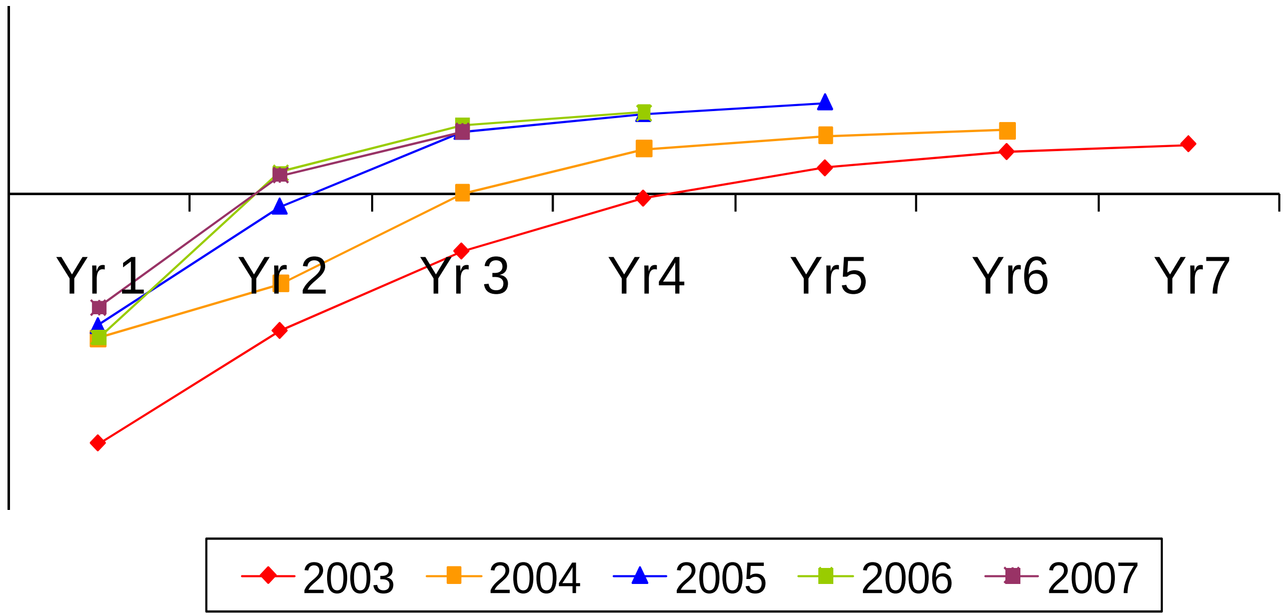
Growth opportunity

Profit per original booked account



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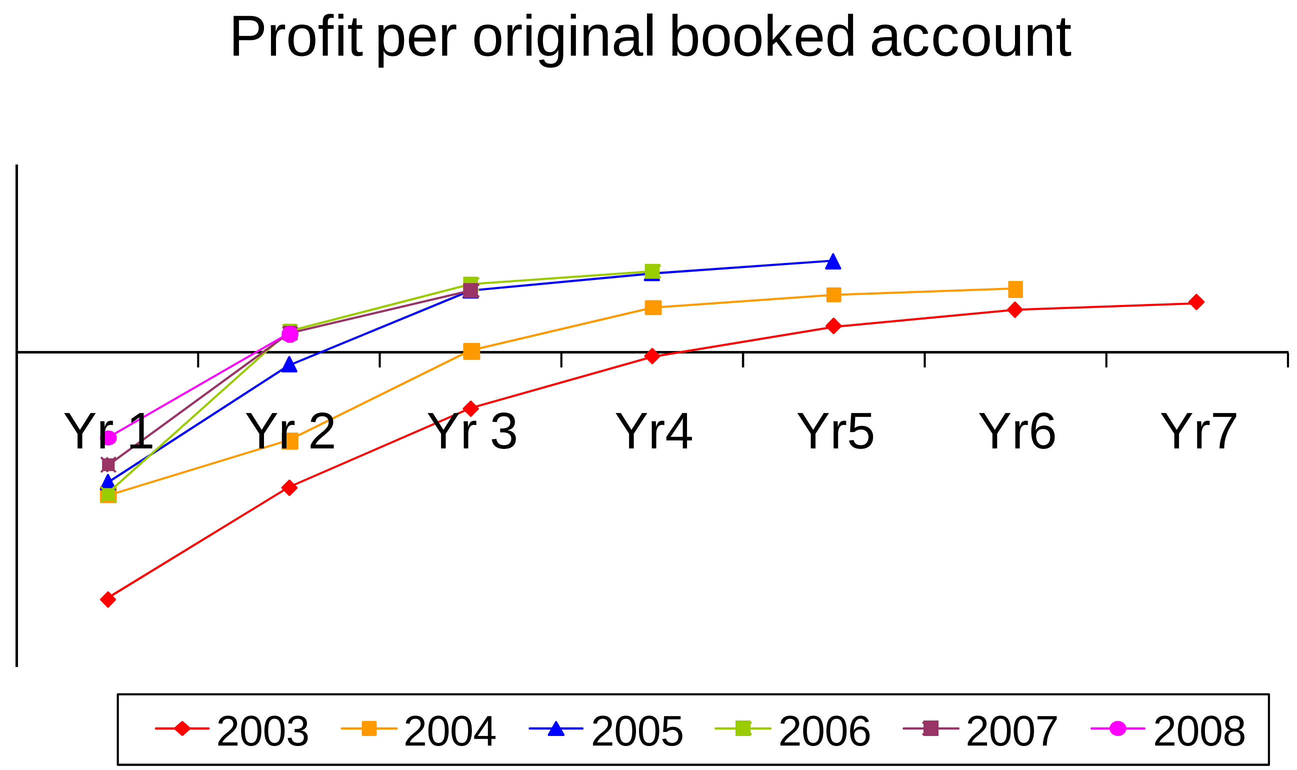
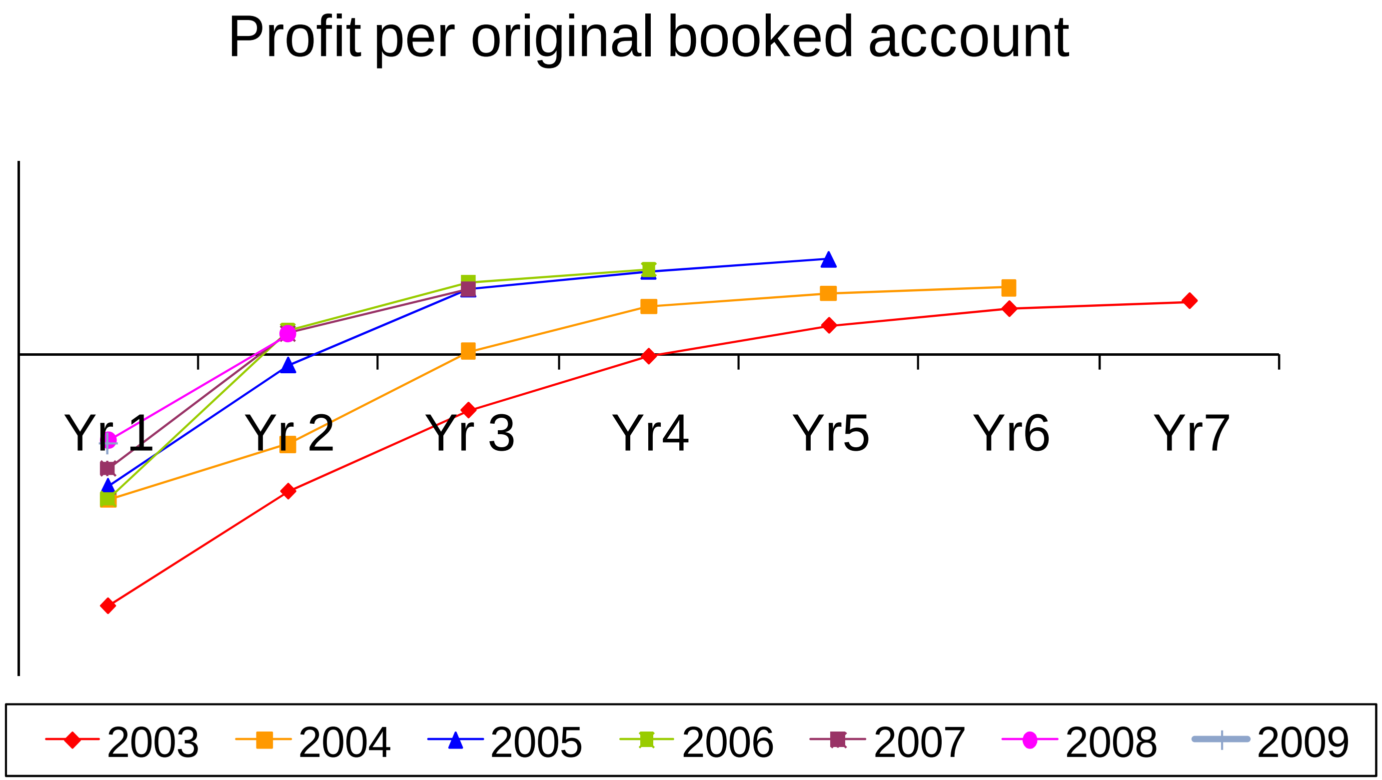
Growth opportunity



Growth opportunity



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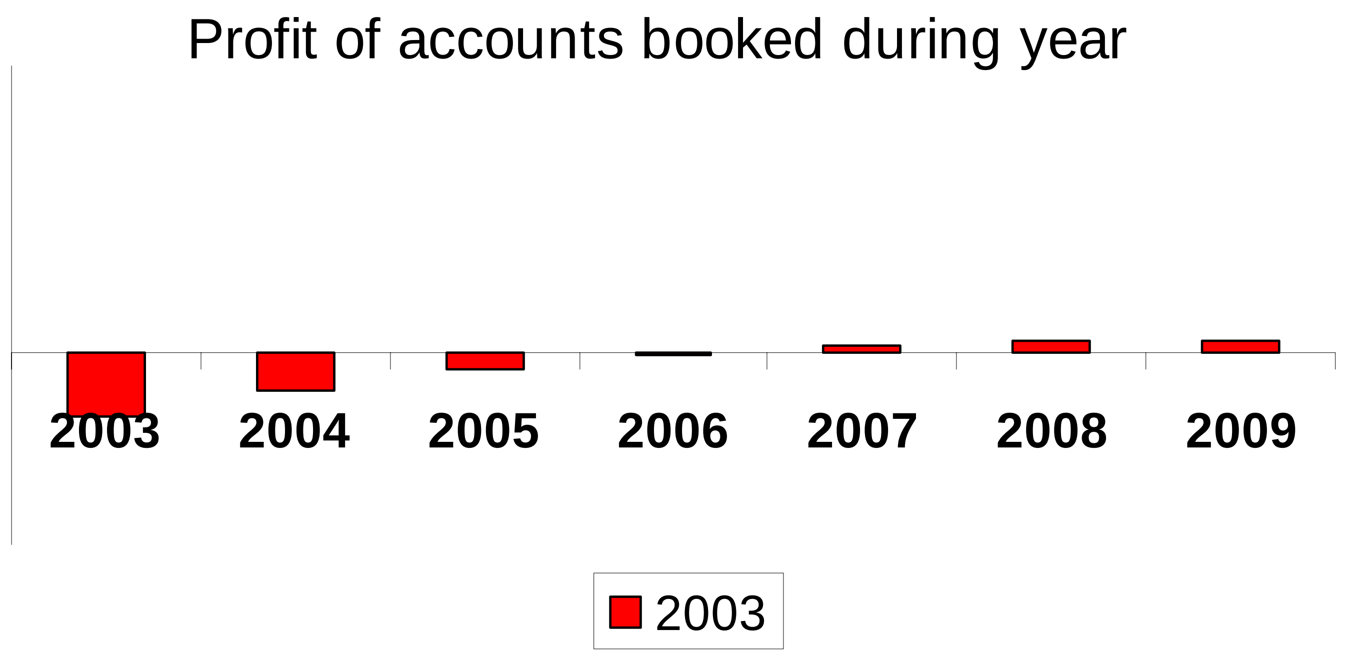

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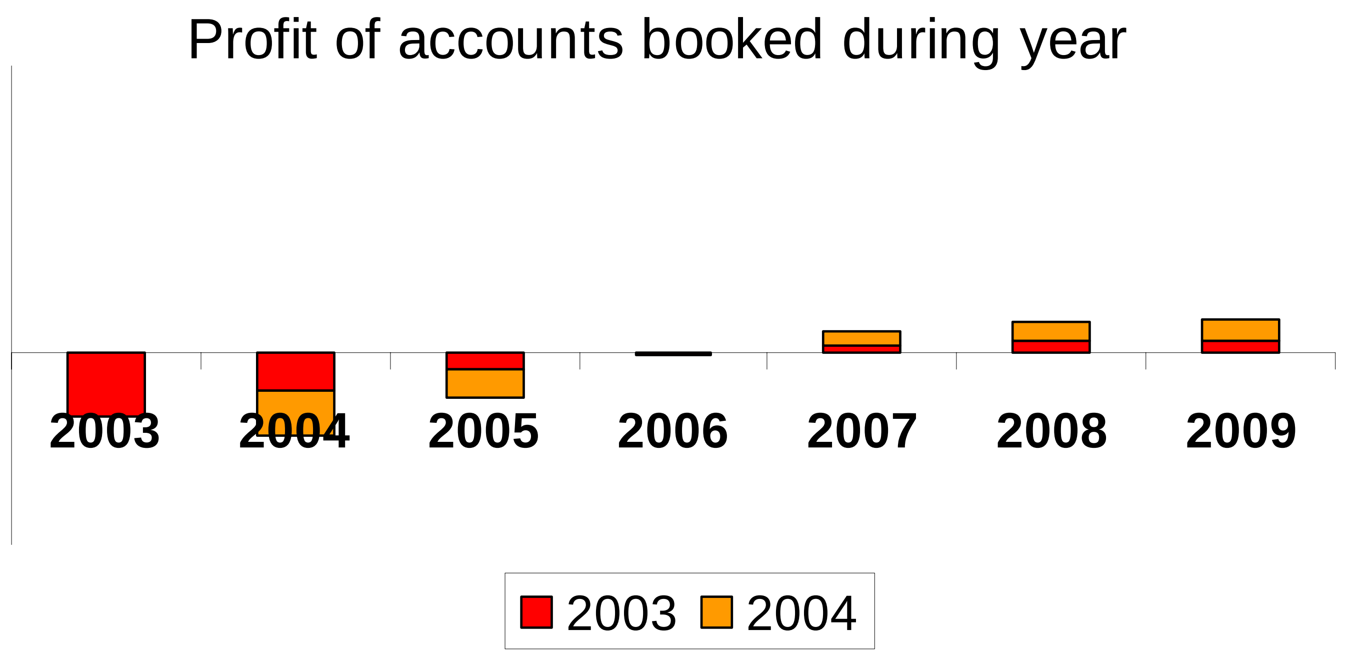
Growth opportunity



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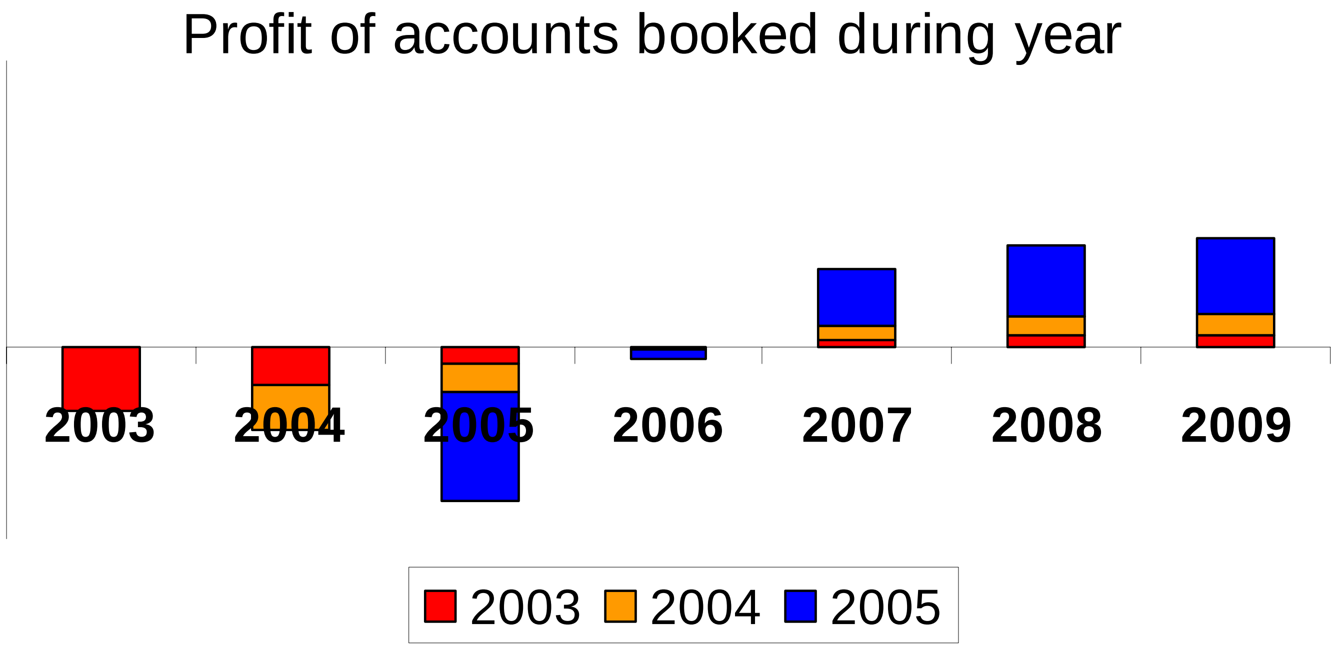
Growth opportunity



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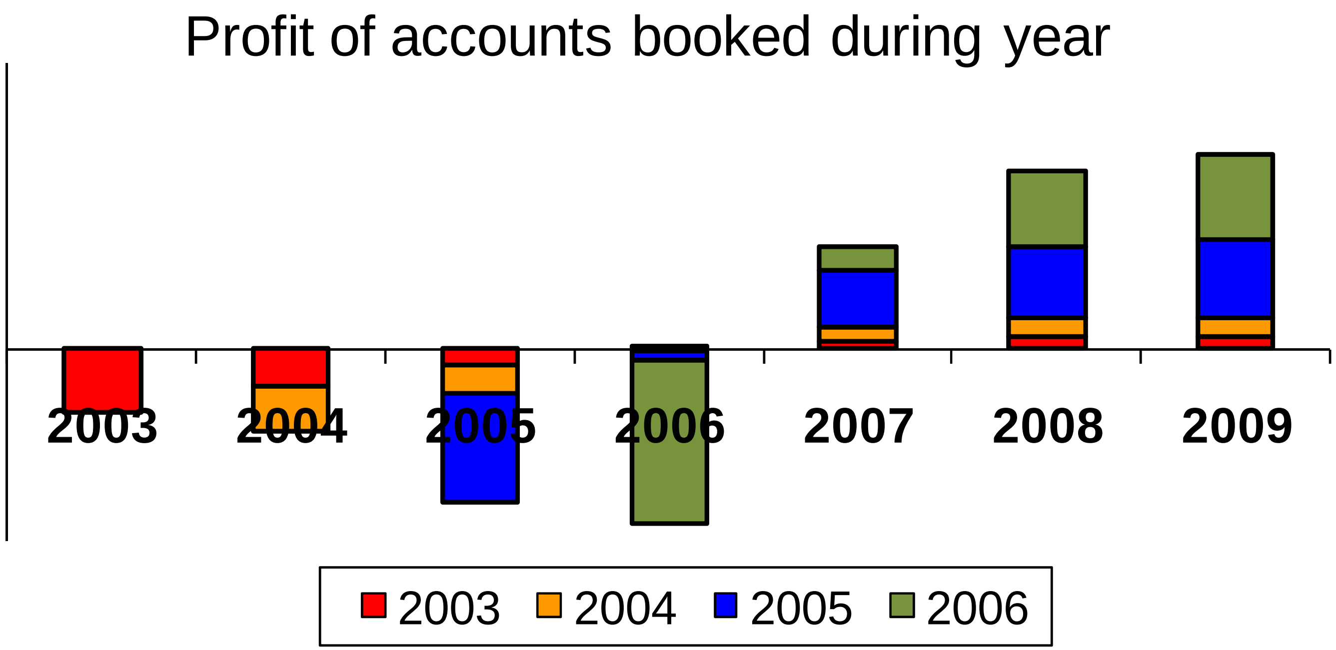
Growth opportunity



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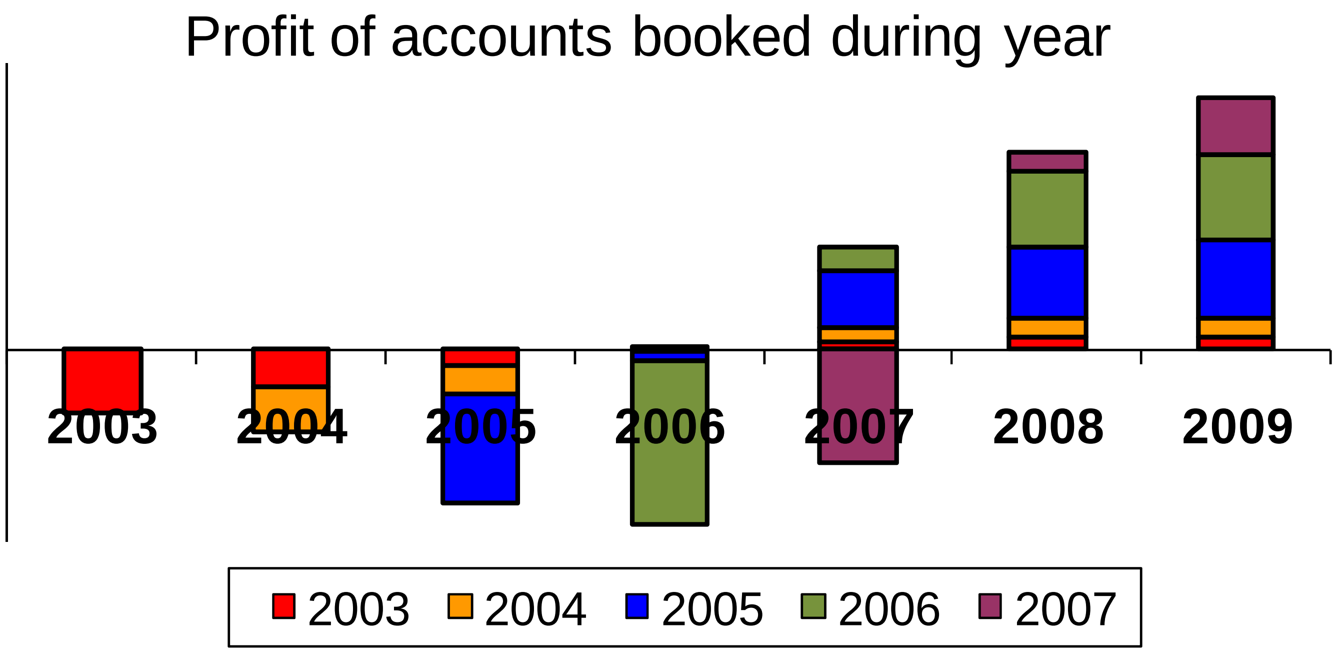
Growth opportunity



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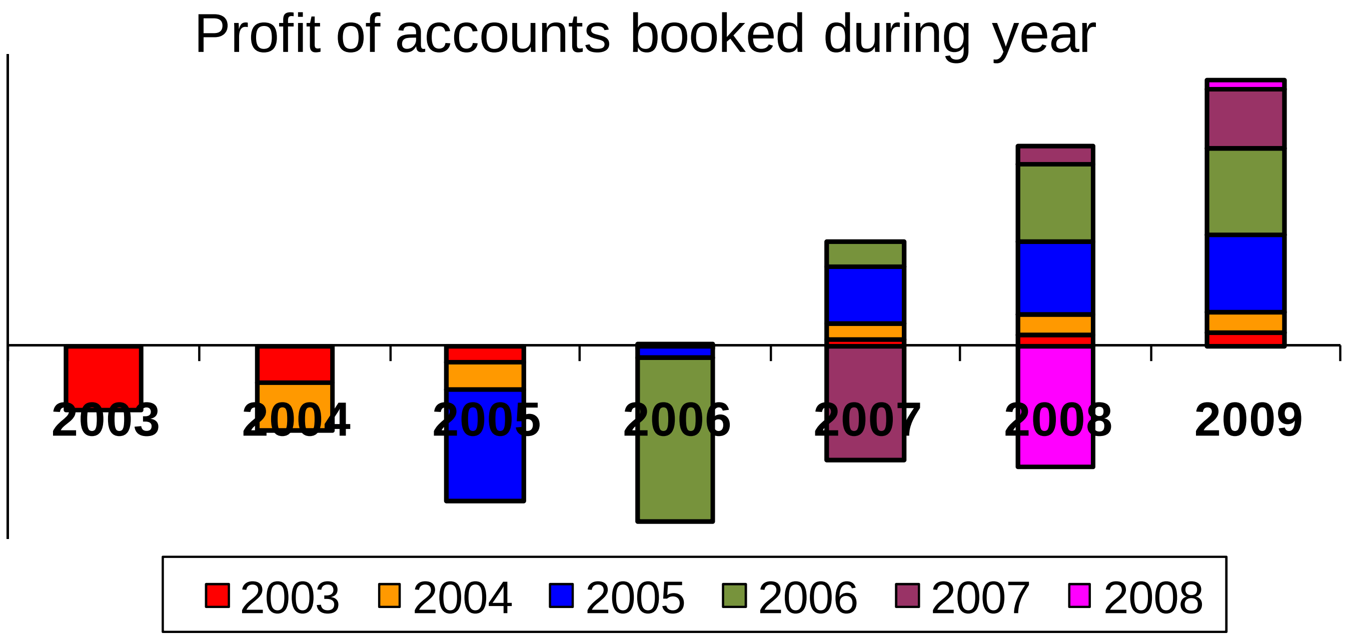
Growth opportunity



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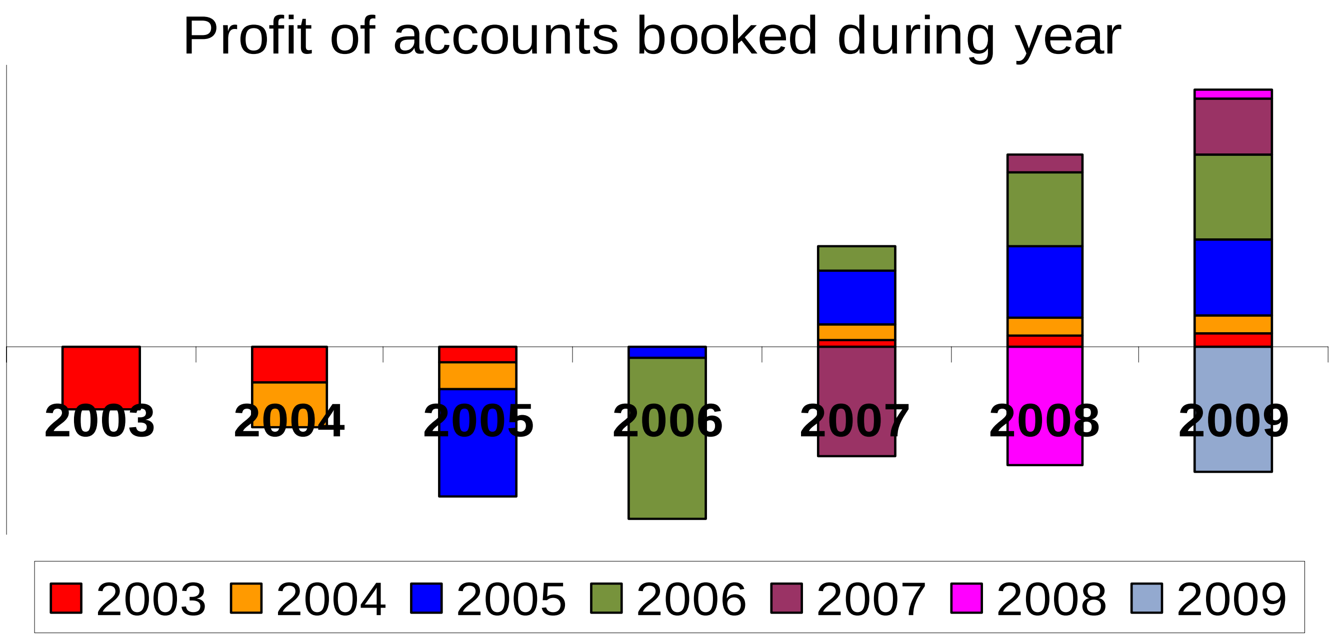
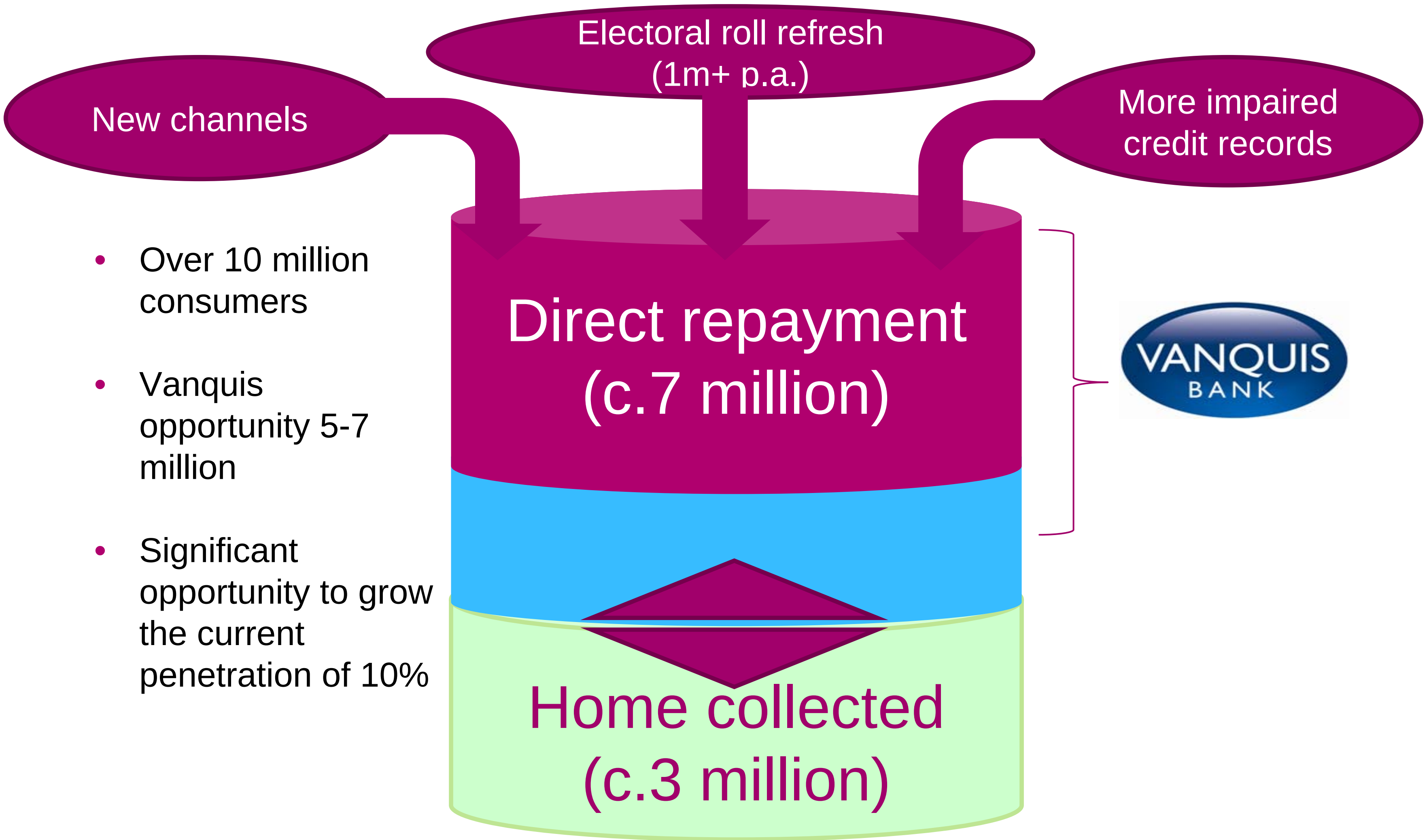
Growth opportunity



Growth – Market potential



- Over 10 million consumers
- Vanquis opportunity 5-7 million
- Significant opportunity to grow the current penetration of 10%

Growth – Targets

- £450m receivables by 2012 generating a 30% post-tax ROE
- Target based on:
  - Current growth plans
  - No changes to underwriting
  - Prudent assumptions on economic environment
- Significant opportunity for Vanquis to grow beyond its new target
  - Potential for 1 million customers
  - With average balances of £XXX
  - By 201X

Agenda

- Background
- Getting the model right
  - People
  - Infrastructure
  - Product and channels
  - Underwriting and collections
  - Margin and returns
- Competition and economic threats
- Growth opportunity
- **Summary**

Summary

- The model is right
  - We have the people and infrastructure
  - Well established using industry leading underwriting techniques specialised for non standard market
  - The 'low and grow' strategy and high utilisation creates inherent impairment stability
  - We are further able to actively manage our revenue margins to maintain stable profits
  - Returns on assets and equity are already at strategic targets
- Barriers to entry are high and competitive threats are low
- Economic threats are mitigated by the inherent stability of the business model
- We are well placed to grow
  - Steady state profits have not yet been reached
  - Product and channel development provide additional opportunity

Questions?

Investor & Analyst Event – 24 November 2010

Regulatory affairs – Managing the politics of non-standard credit

John Moulding – Director of Corporate Affairs

PFG | Provident Financial Group

Agenda

- Home Credit needs explaining
- Consumer Credit reviews
- Provident's approach to public policy

Home Credit needs explaining

- Policy-makers are seldom our customers
- Generally…
  - They don't live on council estates
  - They lack experience of sub-prime markets
  - They don't understand APR
  - They do want to do the right thing

Consumer Credit Reviews

- 15 reviews in the last few years, notably:
  - Competition Commission Inquiry 2004/6
  - Consumer Credit Act 2006
  - BIS Review of credit and store cards 2009
  - Consumer Credit Directive 2010
  - OFT High Cost Credit Review 2010
  - BIS Consumer Credit and Insolvency call for evidence 2010/11

Competition Commission

- Data sharing with credit reference agencies
- Lenderscompared prices website
- Statements on request for customers
- Enhanced early settlement rebates
- Acceptance that APR is ineffective
- Rejection of rate caps

Consumer Credit Act 2006

- Increased transparency on contracts and advertising
- More post-contract information
- Greater rigour by OFT on licensing
- Court challenge on unfair relationships
- Financial Ombudsman for consumer credit
- Irresponsible Lending Guidance
- Rejection of rate caps

BIS Review of credit and store cards 2009

- Highest interest rate paid off first
- Choose not to receive credit limit increases
- More time to reject rate increases and pay off card
- More information on minimum payments, interest rate and credit limit increases
- Annual electronic statement
- Proposals to deal with customers at risk of financial difficulties

Consumer Credit Directive 2010

- Duty to provide adequate explanations
- Obligation to check creditworthiness
- More onerous advertising requirements
- Right to withdraw within 14 days
- Need to inform when debts are sold on
- Rejection of rate caps

OFT High Cost Credit Review 2010

- Financial literacy programmes
- Price comparison websites
- ‘Wealth warning' statements on advertisements?
- Further behavioural research
- Markets work ‘reasonably well’
- Codes of practice
- Insistence that broader society should change
- Many consumers find APRs a confusing measure of cost
- Rejection of rate caps

BIS Consumer Credit and Insolvency call for evidence

- Consumers and lenders making better decisions
  - Consumers well informed
  - Responsible borrowing
  - Lenders understand their customers
- Consumers and lenders manage borrowing in consumer's long term interest
  - Consumers proactive in borrowing and prepared for life's uncertainties
  - No barriers to switching
  - Lenders customer focused and freed of unnecessary regulatory burdens
- People in difficulty should be able to access the most appropriate debt remedy
  - People signposted to debt advice
  - Creditors have viable court-based remedies for recovery and enforcement
  - Early debt remedies fair for borrower and creditor

Provident's approach to public policy

- Investment over long period
  - Programme began in 1990s
  - Multiple departments
  - Civil Servants
  - Special Advisors
  - MPs
  - Ministers
  - Influential third parties

Provident's approach to public policy

- External support
  - Bell Pottinger Public Affairs (Westminster)
  - Fleishman Hillard (Scotland)
  - Weber Shandwick (Brussels)
  - Heneghans/Fleishman Hillard (Ireland)
  - Trade Associations (CBI, CCA and UK Cards Association)

Provident's approach to public policy

- Contact programme
  - Monitoring
  - Think tanks
  - Party conferences
  - Third sector engagement
  - Responses to consultations
  - Evidence-based policy making

Provident's approach to public policy

- Research programme
  - Nottingham University
  - Joseph Rowntree Foundation
  - Friends Provident Foundation
  - Bristol University Personal Finance Research Centre
  - Money Advice Trust

Summary

- Mission to explain non-standard credit
- Successive reviews and high scrutiny
- Long-standing public affairs programmes
- High levels of engagement
- Evidence beats assertion

Questions?

Investor & Analyst Event – 24 November 2010

Funding and capital update

Andrew Fisher – Finance Director

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Committed facilities and headroom

	30 Sept 2010 £m	30 June 2010 £m
Committed facilities:		
- bank facilities	690.0	690.0
- private placement notes	161.9	161.9
- senior bonds	250.0	250.0
- retail bonds	25.2	25.2
- subordinated bonds	6.0	6.0
Total committed facilities	1,133.1	1,133.1
Borrowings on committed facilities*	(808.2)	(804.9)
Committed headroom	324.9	328.2

* excludes short term facilities and arrangement fees

Funding of debt maturities

		Maturities	
		2011	2012
	£m	£m	£m
Bank facilities	690		
Core facilities with UK-centric banks extended to May 2013 in Q1 2010	380		
Bank maturities	310	73	237
Private placement maturities		75	
Total contractual maturities		148	237

- 2011 private placement and bank maturities of £148m were pre-funded in Q1 2010
- March 2012 bank facilities of £237m to be pre-funded in Q1 2011

Funding options

- Euro bond issue
- UK/US private placement market
- Fund Vanquis Bank through retail deposits
- Further retail bond
- International banks

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 less than 3.5x
- 2010 receivables growth below trend
- Expected benefits from reducing UK corporation tax rate (24% by 2014)

Alignment of dividend policy, gearing and growth

- Dividend maintained at 63.5p per share as target dividend cover of 1.25x is approached
- Gearing has remained flat and capital generation has been strong over the past year as growth in Home Credit has slowed and the yield on the receivables book has risen

	Dec-08	Jun-09	Dec-09	Jun-10
Receivables (£m)	1,063.3	1,011.5	1,139.3	1,039.7
Equity* (£m)	203.2	210.4	215.5	221.3
Equity* to receivables	19.1%	20.8%	18.9%	21.3%
Gearing	3.2	3.2	3.3	3.2

** Equity is stated after deducting the net pension asset, hedging reserve and proposed dividend*

- Gearing ratio remains less than 3.5x

Vanquis capital generation

	2009 £m	2010 £m	2011 £m	2012 £m	Dividends £m	2012 £m
Consensus PBT*		22.2	29.6	37.8		37.8
Tax		(6.2)	(8.1)	(9.9)		(9.9)
PAT		16.0	21.5	27.9		27.9
Share capital	74.2	74.2	74.2	74.2		74.2
Retained profits	(15.5)	0.5	22.0	49.9	(22.0)	27.9
Total equity	58.7	74.7	96.2	124.1	(22.0)	102.1
Receivables	255.5	320.3	385.1	450.0		450.0
Equity to receivables	23%	23%	25%	28%		23%
ROE**						30%
Gearing						3.5x

** Analysts' consensus (19 November 2010) which is consistent with company guidance of a 30% post-tax ROE and receivables book of £450m at 31 December 2012 (Source – 2010 Annual Report and Financial Statements)*
*** Based on average equity after distributing £22m of dividends across 2011 and 2012*

- Vanquis could distribute at least £20m across 2011 and 2012 to PFG whilst maintaining a strong capital base, modest gearing and its target 30% post-tax ROE

Questions?

Investor & Analyst Event – 24 November 2010

Closing comments and General Q&A

Peter Crook – Chief Executive

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PFG – 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

Outlook

- Commenting on current trading, Peter Crook, Chief Executive, said:

  “I am pleased to report continuing favourable trends in both businesses which reinforces management’s confidence of delivering a good result for the year.”