Investing for international growth
## Provident Financial

### Vital Statistics

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 IFRS PBT</td>
<td>£205.5 million</td>
</tr>
<tr>
<td>2004 Revenue</td>
<td>£1.26 billion</td>
</tr>
<tr>
<td>Market capitalisation</td>
<td>£1.6 billion</td>
</tr>
<tr>
<td>Established</td>
<td>1880</td>
</tr>
<tr>
<td>Customers*</td>
<td>3.8 million</td>
</tr>
<tr>
<td>Employees*</td>
<td>8,400</td>
</tr>
</tbody>
</table>

*As at 30 June 2005*
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Strategy

> More products

Home credit
UK & Ireland
Credit cards
Car finance
Motor insurance

> More places

Poland
Czech Republic
Hungary
Slovakia
Mexico
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Developing the business

Profit before tax

1996*

UK home credit: 91%
Motor insurance: 9%

2004*

UK home credit: 63%
Motor insurance: 14%
International: 21%
Yes Car Credit: 2%

*UK GAAP
Developing the business

International growth
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**Investment in international markets**

- **Initial market entry:**
  - Poland – 1997
  - Czech Republic – 1998

- **Second phase:**
  - Slovakia – 2001
  - Hungary – 2001

- **Third phase:**
  - Mexico – 2003
Why invest internationally?

- UK generates good returns, strong cash flow but mature market
- Strategic move mid-1990’s to develop home credit overseas
- Opportunity for diversification
- Home credit suited to emerging markets
- International expansion key element for future growth
International success

- A significant and profitable business established
- International customers in excess of 1.6 million
- International profit before tax of nearly £40 million in 2004
- Results from Mexico positive
Criteria for overseas expansion

> Large population
> Potential market size
> Economic performance
> Political environment
> Funding
Developing a new market

Initial steps following country selection

- Desk research
- Detailed in-country research
- Pilot operation
- Roll-out
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Developing a new market

Pilot operation

> Minimise financial risk
> Introduce core ex-pat team of two to four people
> Recruit and train future managers
> Create local training materials
> Design and test advertising materials
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Developing a new market

Pilot operation

- Build administrative capability
- Recruit and train agents and customers
- Learn to operate in local culture
- Prove or amend business model
- Formal ‘go’ or ‘no-go’ decision at conclusion of pilot
Developing a new market

**Roll-out**

> Pilot offices divided into two - one team open a new location
> Local advertising supports brand awareness and staff and agent recruitment
> Train employees, then train agents
> Advertise to recruit customers
> Lend small amounts at first and re-serve with larger loans
> Build customer base
> When ready, split team to open a new office
Benefits of emerging markets

- Consumer markets have grown rapidly in recent years
- Demand for credit
- Underdeveloped supply of consumer credit
- Influx of inward investments
- Strong economic growth
> Most consumer lenders require customers to provide:
  > security and / or guarantor
  > history of formal employment
  > payment via local offices or at a bank
  > time to process application

> Provident customers value:
  > simple, transparent products
  > fast, personal application process
  > weekly visit from a representative
  > supportive approach
Central Europe: metrics

- Population: 64.1 million
- GDP per capita: $10,356
- Economic growth rate (GDP): 4.3%
- Inflation: 2.4%
- Interest rate: 3.9%
- Consumer spending growth: 4.1%
- Moodys aggregate rating: A

Source: Global Insights - World markets economic forecasting 2005 estimates
Central Europe: the market

Attitudes to credit

> Demand for loans has increased by 50%* in the last three years
> 90%* of consumers find borrowing acceptable
> Growth in consumer confidence
> Growth in consumer spending
> Fast growth economy
> Lenders now more active in upper segments of the market

Sources: *Internal market research commissioned 2005,
## Central Europe: growth

<table>
<thead>
<tr>
<th>Results</th>
<th>12 months to Dec 2004</th>
<th>12 months to Dec 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (000)</td>
<td>1,524</td>
<td>16</td>
</tr>
<tr>
<td>Representatives</td>
<td>19,367</td>
<td>419</td>
</tr>
<tr>
<td>Employees</td>
<td>3,205</td>
<td>126</td>
</tr>
<tr>
<td>Credit issued £m</td>
<td>432.9</td>
<td>2.6*</td>
</tr>
<tr>
<td>Profit £m</td>
<td>52.6</td>
<td>(2.6)*</td>
</tr>
</tbody>
</table>

*UK GAAP
**Central Europe: growth**

<table>
<thead>
<tr>
<th>Targets on course</th>
<th>12 months to Dec 2004</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (000)</td>
<td>1,524</td>
<td>1,625</td>
</tr>
<tr>
<td>Annual credit issued per customer (£)</td>
<td>284</td>
<td>390</td>
</tr>
<tr>
<td>Annual profit per customer (£)</td>
<td>44</td>
<td>58</td>
</tr>
<tr>
<td>Annual profit (£m)</td>
<td>52.6</td>
<td>95</td>
</tr>
</tbody>
</table>

IFRS basis
Product expansion

- Large and underserved market
- Product development options currently being explored
- Leverage from Vanquis Bank operations
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Mexico: metrics

- Population: 106 million
- GDP per capita: $6,974
- Economic growth rate (GDP): 4.2%
- Inflation: 4.6%
- Consumer spending growth: 3.7%
- Moodys country rating: BBB+

Source: Global Insights - world markets economic forecasting: 2005 estimates
Mexico: the market

Attitudes to credit

> Demand for loans has increased by 51%* in the last three years
> 47%* of consumers find borrowing acceptable
> Growth in the Mexican Consumer Confidence Index**
> Growth in retail sales***
> Improved economic situation
> Increase in consumer lending
> Lenders now more active in upper segments of the market

Sources: *Internal market research commissioned 2005, **Business Monitor International 2005 *** ANTAD - Mexico’s largest retailer association
Current locations
## Results

<table>
<thead>
<tr>
<th></th>
<th>6 months to June 2005</th>
<th>12 months to Dec 2004</th>
<th>12 months to Dec 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (000)</td>
<td>63</td>
<td>35</td>
<td>3</td>
</tr>
<tr>
<td>Representatives</td>
<td>1,192</td>
<td>624</td>
<td>116</td>
</tr>
<tr>
<td>Employees</td>
<td>275</td>
<td>163</td>
<td>40</td>
</tr>
<tr>
<td>Credit issued £m</td>
<td>6.2</td>
<td>3.9</td>
<td>0.2</td>
</tr>
</tbody>
</table>
Lessons learned

> UK home credit model can be successfully introduced overseas
> Customer and agent relationship similar in all countries
> Good quality, well educated workforce essential
> Key early skills - recruitment, training, advertising, brand building
> Simple, distributed IT systems a strength
> As arrears work builds, added support and training required
> Need to balance growth, costs and bad debt
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Summary

> Excellent prospects for growth international markets
> Reach customer targets in existing markets
> Deliver operational efficiencies and profit targets
> Maintain brand strength and market position
> Possible selective product additions where market is right
> Controlled expansion in Mexico
> New countries