Home Collected Credit in an International Environment
## Provident Financial

### Group composition

<table>
<thead>
<tr>
<th>2002 pre-exceptional PBT</th>
<th>Market capitalisation</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>£182.1 million</td>
<td>£1.6 billion</td>
<td>3.4 million</td>
</tr>
</tbody>
</table>

- **UK Consumer Credit**
  - UK home credit
  - Yes Car Credit
  - Credit cards (pilot)

- **International Home Credit**
  - Poland
  - Czech Republic
  - Hungary
  - Slovakia
  - Mexico (pilot)

- **Motor Insurance**
  - Provident Insurance
Provident Financial

Composition of profit before tax

PBT

Motor insurance: 16%

International: 11%

Yes Car Credit: 5%

UK home credit: 68%

6 months to 30 June 2003
Provident Financial

**Strategy**

*We aim to be a leading international provider of simple financial services*

- Serving customers earning moderate incomes
- Growing by:
  - international expansion
  - broader range of credit products
- Focus is on delivering value from existing businesses and from initiatives already announced
Provident Financial

**International home credit**

Poland  
Czech Republic  
Slovakia  
Hungary  
Mexico
International home credit

**How we choose and develop a new market**

- Country selection
- Desk research
- Detailed in-country research
- Pilot operation
- Roll-out
International home credit

Timeline of international development

- Poland
- Czech
- Hungary
- Slovakia
- Mexico (pilot)

Market research, Single location, Slow roll-out, Accelerated rollout, Purple
International home credit

How we develop a new market: pilot operation

- Minimise financial risk
- Introduce core ex-pat team of 2-4 people
- Recruit and train future managers
- Create local training materials
- Design advertising materials
- 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 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 staff, then train agents
- Advertise to recruit customers
- Lend small amounts to customers at first and re-serve with larger loans
- Build customer base
- When ready, split team to open a new office
International home credit

Central Europe: customer numbers (´000)

Poland

<table>
<thead>
<tr>
<th>Year</th>
<th>0.4</th>
<th>10</th>
<th>72</th>
<th>305</th>
<th>504</th>
<th>660</th>
<th>750</th>
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</table>

Czech Republic

<table>
<thead>
<tr>
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<th>6</th>
<th>66</th>
<th>161</th>
<th>189</th>
<th>218</th>
<th>212</th>
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<tbody>
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<td>D 97</td>
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</tbody>
</table>

Hungary

<table>
<thead>
<tr>
<th>Year</th>
<th>10</th>
<th>55</th>
<th>80</th>
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</thead>
<tbody>
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<td>D 01</td>
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<td>J 03</td>
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</tbody>
</table>

Slovakia

<table>
<thead>
<tr>
<th>Year</th>
<th>5</th>
<th>27</th>
<th>39</th>
</tr>
</thead>
<tbody>
<tr>
<td>D 01</td>
<td></td>
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</tr>
<tr>
<td>D 02</td>
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<tr>
<td>J 03</td>
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</tr>
</tbody>
</table>
International home credit

Annual profits/(losses) since 1999 (£m)

- Dec 99: (7.7)
- June 00: (10.3)
- Dec 00: (5.9)
- June 01: (1.1)
- Dec 01: 0.8
- June 02: 3.5
- Dec 02: 10.6
- June 03: 19.4
## Central European market potential

<table>
<thead>
<tr>
<th></th>
<th>Poland</th>
<th>Czech</th>
<th>Hungary</th>
<th>Slovakia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>39</td>
<td>10</td>
<td>10</td>
<td>5</td>
<td>64</td>
</tr>
<tr>
<td>Target customers (000)</td>
<td>1,000</td>
<td>250</td>
<td>250</td>
<td>125</td>
<td>1,625</td>
</tr>
<tr>
<td>Current customers (000)</td>
<td>750</td>
<td>212</td>
<td>80</td>
<td>39</td>
<td>1,081</td>
</tr>
<tr>
<td>Target annual credit issued per customer (£)</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>270</td>
<td>390</td>
</tr>
<tr>
<td>Target annual profit per customer (£)</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>40</td>
<td>58</td>
</tr>
</tbody>
</table>
Poland: targets and progress to date

> Profit target: £60m p.a.
International home credit

Poland: targets

- Population: 39 million
- Customers: 1 million
- Annual credit issued per customer: £400
- Annual profit per customer: £60
- Annual profit: £60m
## International home credit

### Poland: key performance drivers

<table>
<thead>
<tr>
<th></th>
<th>12 months to 30 June 2003</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer growth</td>
<td>750,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Issue per customer</td>
<td>£338</td>
<td>£400</td>
</tr>
<tr>
<td>Gross revenue margin</td>
<td>54%</td>
<td>55%</td>
</tr>
<tr>
<td>Costs as % of revenue</td>
<td>80%</td>
<td>73%</td>
</tr>
<tr>
<td>Annual profit per customer</td>
<td>£37</td>
<td>£60</td>
</tr>
<tr>
<td>Annual profit</td>
<td>£23.7m</td>
<td>£60m</td>
</tr>
</tbody>
</table>
Poland: customers (`000)

International home credit

June 98: 3
Dec 98: 10
June 99: 32
Dec 99: 72
June 00: 164
Dec 00: 305
June 01: 416
Dec 01: 504
June 02: 561
Dec 02: 660
June 03: 750

+ 34%
International home credit

Poland: credit issued per customer

> Target increase: £338 → £400
> Loan sizes increase as customer base matures
> Confident of reaching target
International home credit

Poland: gross revenue margin

- Target: 55%
- Current: 54%
- Margin to rise as customer base matures
Poland: employee-related costs

International home credit

Employee growth

June 98: 23
Dec 98: 78
June 99: 206
Dec 99: 326
June 00: 800
Dec 00: 1,048
June 01: 1,505
Dec 01: 1,594
June 02: 1,597
Dec 02: 1,617
June 03: 1,618

+ 1.3%
International home credit

Poland: costs and profit as a % of revenue (MAT)

* Commission, bad debt, interest, expenses
Poland: profits

International home credit

<table>
<thead>
<tr>
<th>Period</th>
<th>Profits (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 months to Dec 1997</td>
<td>(0.6)</td>
</tr>
<tr>
<td>12 months to Dec 1998</td>
<td>(1.5)</td>
</tr>
<tr>
<td>12 months to Dec 1999</td>
<td>(2.6)</td>
</tr>
<tr>
<td>12 months to Dec 2000</td>
<td>(2.8)</td>
</tr>
<tr>
<td>12 months to Dec 2001</td>
<td>6.7</td>
</tr>
<tr>
<td>12 months to Dec 2002</td>
<td>16.7</td>
</tr>
<tr>
<td>6 months to June 2003</td>
<td>11.4</td>
</tr>
</tbody>
</table>
Czech Republic: costs and profit as a % of revenue (MAT)

International home credit

Costs* | Profit
---|---
81% | 135%
175% | 135%
99% | 11%
89% | 10%
90% | 13%
87% | 15%
85% | 19%
81% | -75%
-75% | -35%
-100% | -75%

* Commission, bad debt, interest, expenses
International home credit

Czech Republic: profits

(£m)

12 months to Dec 1997: (0.2)
12 months to Dec 1998: (1.1)
12 months to Dec 1999: (2.7)
12 months to Dec 2000: 0.1
12 months to Dec 2001: 2.5
12 months to Dec 2002: 5.1
6 months to June 2003: 4.0
International home credit

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 needed
> Need to balance growth, costs and bad debt
International home credit

Mexico: pilot commenced

> First loan made in August 2003
## Mexico: Country Information

<table>
<thead>
<tr>
<th>Category</th>
<th>Mexico</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>103 million</td>
<td>39 million</td>
</tr>
<tr>
<td>% of cities with over 10,000 people</td>
<td>82%</td>
<td>62%</td>
</tr>
<tr>
<td>Per capita annual income</td>
<td>$8,800</td>
<td>$9,000</td>
</tr>
<tr>
<td>S&amp;P country rating</td>
<td>A-</td>
<td>A-</td>
</tr>
<tr>
<td>Economic growth rate (2003 est.)</td>
<td>3.5%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Inflation</td>
<td>5.1%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Interest rate</td>
<td>10.2%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>
International home credit

Mexico: target market

C Demographic
26% of Population
Household income between US $1,000 and US $3,000 per month.

D+/D Demographic
52% of Population
Household income between US $200 and US $1,000 per month.
Country selection: where next?

> No new countries before 2005
> Rule of law
> Relatively stable economy
> Safe to lend and collect
> Urbanised
> Can be funded in local currency
> Well educated workforce
> Sufficient potential
Provident Financial

An impressive record of growth

Pre-exceptional profit before tax (£m)

Year ended 31 December

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>34.1</td>
</tr>
<tr>
<td>1992</td>
<td>43.0</td>
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<tr>
<td>1993</td>
<td>62.5</td>
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<tr>
<td>1994</td>
<td>81.1</td>
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<tr>
<td>1995</td>
<td>101.1</td>
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<td>1996</td>
<td>118.5</td>
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<td>1997</td>
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<td>1998</td>
<td>145.9</td>
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<td>1999</td>
<td>155.0</td>
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<tr>
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<tr>
<td>2001</td>
<td>169.6</td>
</tr>
<tr>
<td>2002</td>
<td>182.1</td>
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