Risks and Rewards in International sub-prime lending
Provident Financial

Group strategy

- UK home credit: good returns, strong cashflow but relatively mature
- Great potential from the export of home credit to new markets
- We target combined pre-tax profit of £75m p.a from our Polish and Czech businesses within 5 years
- We have recently expanded into Hungary and Slovakia and intend further countries for 2003 and beyond.
- International expansion is a key element of strategy for future growth.
Provident Financial

Vital statistics

- 2001 PBT: £170 million
- Market Capitalization: £1.7 billion
- Business sectors: Unsecured consumer lending, Motor insurance underwriting
- Customers: 3.5m customers
Provident Financial
International business
What is home credit?
What is home credit?

- Small unsecured, cash loans
- Delivered and collected in the home
- Service provided by self-employed agents
- Weekly repayment
- Woman to woman
- Fixed charges
- Simple and convenient
Provident Financial

Uses of home credit

- Balancing the household budget
- Holiday spending money
- Christmas presents
- School uniform for children
Provident Financial
How we operate

Customers

Agents

Agency development manager
UK home credit
Target market for UK home credit

- Average to below average income groups: C1, C2, D, E
- 26 million adults-75% of UK adults
- 3.3 million home credit users
- 52% of our lending to ‘middle market’
- 74% of our lending to employed
- 30% of our loans are to home owners
International home credit

- Poland
- Czech Republic
- Hungary
- Slovakia
How we develop a new market

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

International home credit
International home credit

Timeline of international development

- Poland
- Czech
- Hungary
- Slovakia

- 1995
- 1996
- 1997
- 1998
- 1999
- 2000
- 2001

- Market research
- Pilot operations
- Slow rollout
- Accelerated rollout
How we develop a new market

Pilot operation
- 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
International home credit

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

Developing a market
Rate of growth determined by ability to train and support new staff and agents
International home credit

Poland
Why Poland?

- Developed urban economy
- Large market - 38.6 million population
- Emerging market – independence 1989
- Aiming to join EU in 2004
- Excellent GDP growth
- Under-developed consumer credit market
- Positive market research findings
Poland

Development of the Polish market

- Poland has proved to be an excellent market

- Provident Polska has grown organically from a pilot operation in 1997 to become a substantial, profitable business serving over 540,000 customers in 2002
Poland

**Employees**

Employee growth supports agent growth

<table>
<thead>
<tr>
<th></th>
<th>Dec 97</th>
<th>June 98</th>
<th>Dec 98</th>
<th>June 99</th>
<th>Dec 99</th>
<th>June 00</th>
<th>Dec 00</th>
<th>June 01</th>
<th>Dec 01</th>
<th>April 02</th>
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Poland

Agent growth drives customer growth

- Dec 97: 50
- June 98: 70
- Dec 98: 263
- June 99: 900
- Dec 99: 1562
- June 00: 3220
- Dec 00: 5200
- June 01: 7000
- Dec 01: 8415
- April 02: 8428

Agents
Poland

Customers (000)

Agent growth drives customer growth

Dec 97 | June 98 | Dec 98 | June 99 | Dec 99 | June 00 | Dec 00 | June 01 | Dec 01 | April 02
---|---|---|---|---|---|---|---|---|---
0.4 | 3 | 10 | 32 | 72 | 164 | 305 | 416 | 504 | 540
How we attract customers

- High quality of service
- Well trained staff and agents
- Targeted advertising
Poland
Marketing materials
Poland

Polish TV campaign December 2001

0801 124 124
Polish coverage
All major cities and towns are served
Poland

Development of profit

£m

<table>
<thead>
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<th>Year</th>
<th>PBT</th>
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<td>1998</td>
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<tr>
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<tr>
<td>2000</td>
<td>-2.8</td>
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<td>2001</td>
<td>6.7</td>
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Poland

The potential of the Polish market

- Assume market segments as UK
- Home credit market c.2m customers
- Provident to have leading market position
- Issue per customer about 2/3rds of UK
- Underlying level of bad debt at 9% - 10%
- Profit per customer c. £60
Development of the Czech Republic has been similar to that of Poland.

From a cautious start up in 1997, we now have a business with national coverage and almost 200,000 customers.
Czech Republic

Employees

Employee growth supports agent growth
Czech Republic

Agents

Agent growth drives customer growth
Czech Republic

Customers (000)

Agent growth drives customer growth

Dec 97  June 98  Dec 98  June 99  Dec 99  June 00  Dec 00  June 01  Dec 01  April 02
0.4  2  6  24  66  98  161  184  189  198
Czech Republic
Development of profit
£m

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<tr>
<td>2001</td>
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</table>
Czech Republic

Market potential

- Assume market segments as UK
- Home credit market c.0.5m customers
- Issue per customer about 2/3rds of UK
- Underlying level of bad debt in range 11% - 12%
- Profit per customer expected to be c. £60
## International home credit

### Relative profit performance

**year ended 31.12. 2001**

<table>
<thead>
<tr>
<th>% of turnover</th>
<th>Poland</th>
<th>Czech</th>
<th>UK</th>
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<tr>
<td>Commission</td>
<td>13.2</td>
<td>13.0</td>
<td>23.2</td>
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<tr>
<td>Expenses</td>
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<td>Bad debt charge</td>
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<tr>
<td>Interest payable</td>
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<td>8.1</td>
<td>4.3</td>
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<tr>
<td>Pre tax profit</td>
<td>9.1</td>
<td>9.9</td>
<td>32.3</td>
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<tr>
<td>Interest adjustment</td>
<td>5.1</td>
<td>4.0</td>
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<tr>
<td>Adjusted pre tax profit</td>
<td>14.2</td>
<td>13.9</td>
<td>30.4</td>
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<tr>
<td>Post tax return on receivables</td>
<td>12.5%</td>
<td>10.6%</td>
<td>19.2%</td>
</tr>
</tbody>
</table>
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

Lessons learned

- New country development draws heavily on central resources
- Staged, low risk approach is best
- Early introduction of a full management team covering all functions aids development
- “In country” research is most valuable
- Pilot operation is best indicator of market dynamics
International home credit

Country selection - where next?

- Rule of law
- Relatively stable economy
- Safe to lend and collect
- Urbanised
- Can be funded in local currency
- Well educated workforce
- Sufficient potential
International home credit

Country selection - the future

- Eastern European countries not yet suitable
- Potential in Western Europe
- Potential further afield
- Low risk entry approach preferred
International home credit

The future

- Entered Hungary and Slovakia during 2001-progressing well.
- Outstanding opportunities for further expansion-2003 onwards
- We will maintain our risk controlled approach
- Excellent prospects for generating additional shareholder value