

Provident Financial (PFG LN)

Underweight

Target price (GBPp)	860
Share price (GBPp)	891
Potential total return (%)	-3.5

Dec	2009a	2010e	2011e
HSBC EPS	71.18	80.59	87.62
HSBC PE	12.5	11.1	10.2
Performance	1M	3M	12M
Absolute (%)	3.4	-3.3	9.7
Relative ^A (%)	-1.0	-9.7	-25.3

Note: (V) = volatile (please see disclosure appendix)

Downgrade to UW: Credit card risks outweigh growth potential

- **Provident Financial is a leading player in the high-margin GBP35bn UK non-standard lending market**
- **Restricted supply and pent-up demand bode well for loan growth, although credit quality, funding and regulation remain key risks**
- **We downgrade our rating to Underweight from Overweight (V) and lower our target price to 860p from 950p**

Credit cards bring growth and risk: A reduction in the supply of longer-term unsecured loan products in the UK consumer credit market, largely due to wholesale funding constraints, has shifted demand towards shorter-term, smaller loan size, revolving credit products. This should favour Provident's home credit and Vanquis Bank's credit card offerings. Our forecasts assume profits from Vanquis increase from last year's GBP14m to over GBP34m in 2012, broadly in line with management's targets. Forecast growth at Vanquis accounts for some two-thirds of our forecast for underlying group earnings growth over the next three years; this increases the group's risk profile, in our view.

Dividend yield exposed to earnings miss: The shares currently yield 7.1%, only 60bp lower than the interest yield (7.7%) on the group's recently issued 8% fixed rate bonds. The bond yield spread over the equity narrowed considerably following the announcement of the 2009 results in early March, a reaction to the closure of the Real Personal Finance direct repayment business, in our view, since this was seen as a key driver of future revenue growth. This reflects the fragility of the dividend, maintained at 63.5p since the de-merger of the international business in 2007. Although surplus capital supported the dividend in 2009, low cover leaves little room for error: management has stated it will retain the end-December 2009 surplus capital as a buffer, which leaves the dividend potentially exposed to an earnings shortfall.

Fully valued: The shares currently trade on 11.1x and 10.2x 2010e and 2011e earnings respectively, a premium of around 3% to a basket of US consumer finance peers. Based on the average of our fundamental DCF, sum-of-the-parts and relative valuation methodologies, we downgrade to Underweight from Overweight (V) with a target price of 860p (from 950p), which implies a potential return of -4%.

With this report, Tony Cummings assumes coverage of Provident Financial

Index ^A	FTSE ALL-SHARE	Enterprise value (GBPm)	2079
Index level	2,989	Free float (%)	99
RIC	PFG.L	Market cap (USDm)	1,856
Bloomberg	PFG LN	Market cap (GBPm)	1,198

Source: HSBC

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19 April 2010

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Financials & valuation

Financial statements

Year to	12/2009a	12/2010e	12/2011e	12/2012e
Profit & loss summary (GBPm)				
Revenue	816	863	917	977
EBITDA	128	146	159	170
Depreciation & amortisation	0	0	0	0
Operating profit/EBIT	128	146	159	170
Net interest	2	1	1	1
PBT	130	147	160	171
HSBC PBT	130	147	160	171
Taxation	-37	-41	-45	-48
Net profit	93	106	115	123
HSBC net profit	94	106	115	123

Cash flow summary (GBPm)

Cash flow from operations	82	94	99	102
Capex	0	0	0	0
Cash flow from investment	0	0	0	0
Dividends	-84	-85	-89	-97
Change in net debt	61	32	55	81
FCF equity	82	94	99	102

Balance sheet summary (GBPm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	75	75	75	75
Current assets	1,160	1,219	1,300	1,407
Cash & others	20	20	20	20
Total assets	1,256	1,315	1,397	1,504
Operating liabilities	117	124	124	124
Gross debt	890	922	977	1,058
Net debt	870	902	957	1,037
Shareholders funds	268	289	316	342
Invested capital	1,097	1,149	1,231	1,338

Ratio, growth and per share analysis

Year to	12/2009a	12/2010e	12/2011e	12/2012e
Y-o-y % change				
Revenue	8.6	5.8	6.2	6.6
EBITDA	2.2	13.5	8.9	6.8
Operating profit	2.2	13.5	8.9	6.8
PBT	1.0	13.2	8.7	6.6
HSBC EPS	0.9	13.2	8.7	6.6

Ratios (%)

Revenue/IC (x)	0.8	0.8	0.8	0.8
ROIC	8.7	9.3	9.6	9.5
ROE	34.3	38.0	38.1	37.4
ROA	7.6	8.2	8.5	8.5
EBITDA margin	15.8	16.9	17.3	17.4
Operating profit margin	15.8	16.9	17.3	17.4
EBITDA/net interest (x)				
Net debt/equity	324.1	311.9	303.2	303.5
Net debt/EBITDA (x)	6.8	6.2	6.0	6.1
CF from operations/net debt	9.4	10.4	10.4	9.8

Per share data (GBPp)

EPS reported (fully diluted)	70.65	80.59	87.62	93.44
HSBC EPS (fully diluted)	71.18	80.59	87.62	93.44
DPS	63.50	63.50	70.10	74.75
Book value	199.70	215.11	234.77	254.30

Key forecast drivers

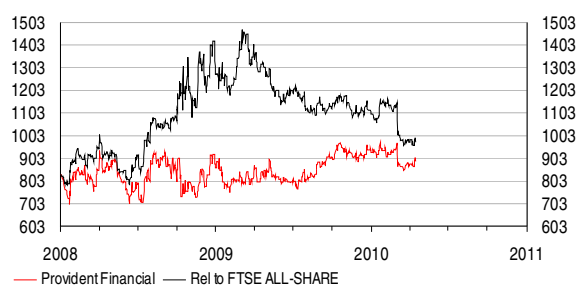
Year to	12/2009a	12/2010e	12/2011e	12/2012e
Average receivables (£m)	1,011	1,169	1,239	1,333
Revenue/avg receivables (%)	81	74	74	73
Interest/avg receivables (%)	-11	-11	-11	-12
Costs/net income (%)	-45	-44	-43	-43
Impairments/avg receivables (%)	-56	-50	-51	-50
Impairments/pre-imp profit (%)	-68	-66	-65	-65

Valuation data

Year to	12/2009a	12/2010e	12/2011e	12/2012e
EV/sales	2.5	2.4	2.3	2.3
EV/EBITDA	15.9	14.3	13.4	13.1
EV/IC	1.9	1.8	1.7	1.7
PE*	12.5	11.1	10.2	9.5
P/Book value	4.5	4.1	3.8	3.5
FCF yield (%)	6.9	8.0	8.4	8.6
Dividend yield (%)	7.1	7.1	7.9	8.4

Note: * = Based on HSBC EPS (fully diluted)

Price relative

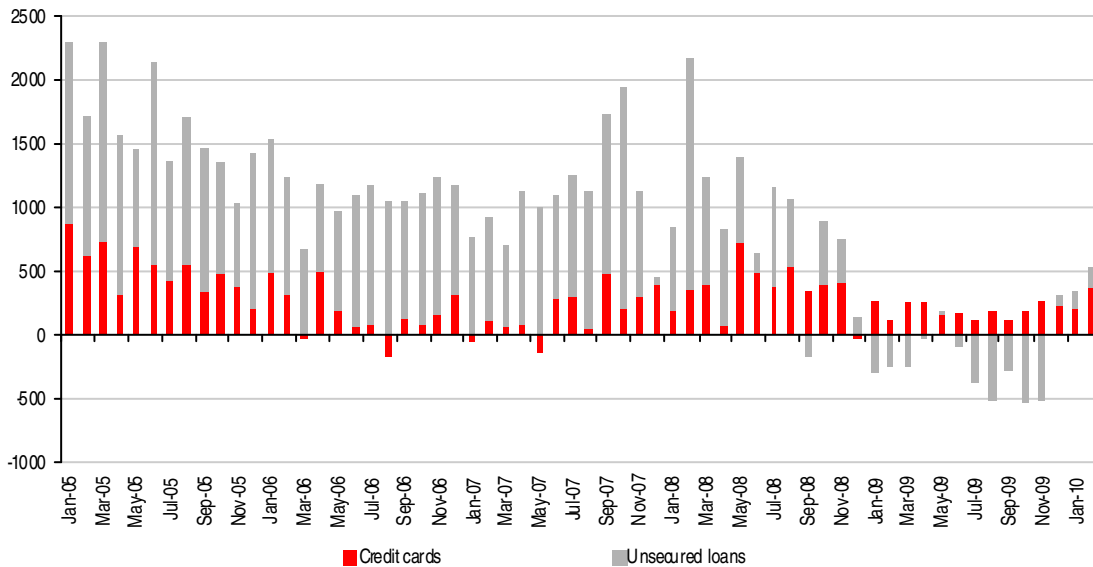


Source: HSBC

Note: price at close of 15 Apr 2010

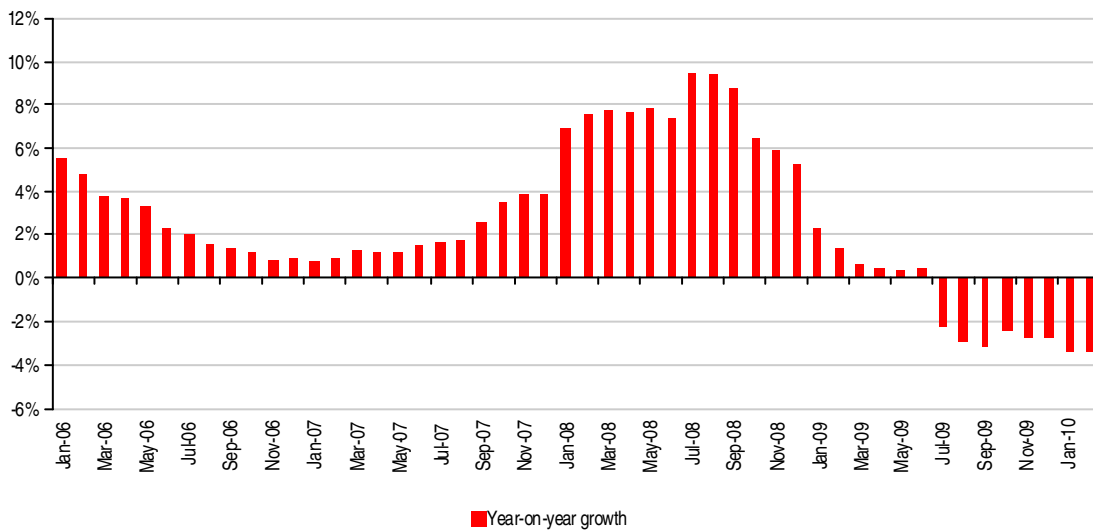
UK consumer credit market

UK net unsecured lending flows (seasonally adjusted, GBPM)



Source: Bank of England statistics

UK unsecured consumer credit balances outstanding – year-on-year growth rates



Source: Bank of England statistics

Investment summary

- ▶ Provident Financial is a leading player in the high-margin GBP35bn UK non-standard lending markets
- ▶ Restricted supply and pent-up demand bode well for loan growth, although credit quality, funding and regulation remain key risks
- ▶ Downgrade to Underweight from Overweight (V), target price 860p vs 950p

Introduction

Provident Financial is often perceived as being recession-proof since its customers are essentially always in recession, and hence investors should not be overly concerned about credit quality if the UK economy falters. Although we think there is merit in this argument for the home-collected credit business, and that to a degree loan repayments are underwritten by the UK benefits system, it is a less convincing argument for the group's sub-prime credit card business Vanquis.

A reduction in the supply of longer-term unsecured loan products in the UK consumer credit market, largely due to wholesale funding constraints, has shifted demand towards shorter-term, smaller loan size, revolving credit products. This should favour Provident's home credit and Vanquis Bank's credit card offerings. Our forecasts assume profits from Vanquis increase from last year's GBP14m to over GBP34m in 2012, broadly in line with management's targets.

Forecast growth at Vanquis accounts for some two-thirds of our forecast for underlying group earnings growth over the next three years; this increases the group's risk profile, in our view.

Investment positives

Underserved non-standard credit markets

Provident is well placed to benefit from the withdrawal of mainstream lenders and some specialist competitors from the non-standard markets; reduced supply has created pent-up demand.

Credit cards the medium-term growth vector

Wholesale funding constraints have contributed to a sharp reduction in longer-term unsecured loan volumes and channelled demand into shorter-term revolving credit products such as home credit and credit cards. This bodes well for Vanquis Bank.

Direct repayment loans for the future

Although Provident essentially withdrew from the wider direct repayment loan market with the closure of its Real Personal Finance pilot earlier this year, this remains a strategic option for when credit market conditions improve.

High returns and strong cash generation

Provident's Home Credit business is highly profitable and cash generative, and with Vanquis now able to self-finance its receivables growth, this cash flow supports the group's generous payout ratio. Although the dividend is currently

pegged at 63.5p, management's intention to adopt an 80% payout ratio when earnings permit should see a return to dividend growth in 2011.

Investment concerns

Credit quality

Continued pressure on UK household budgets from rising unemployment and reduced working hours will be reflected in rising impairments and/or restricted loan growth as the group continues to tighten credit criteria. With Home Credit and Vanquis impairments equal to 63% and 81% of pre-impairment operating profit respectively in 2009, a relatively small deterioration in credit quality can have a substantial impact on profit.

Funding

Although management has successfully extended the duration of the group's funding lines through new institutional and retail-oriented bond offerings and renegotiated banking facilities, uncertainty as to the future availability and to a lesser extent the cost of funding continues to cloud the group's longer-term growth prospects.

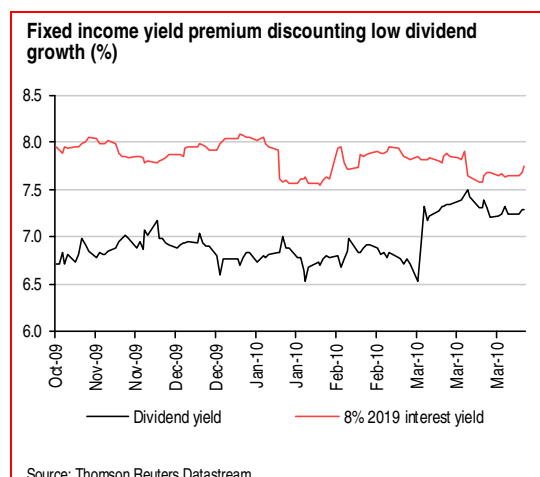
Regulation

New consumer credit regulatory initiatives are likely to reduce Provident's profitability over time, if only through increased administrative burden and compliance costs. More stringent measures such as interest rate ceilings currently seem unlikely but cannot be ruled out in advance of the outcome of various studies and the publication (by The Department for Business, Innovation and Skills (BIS)) of final form regulation.

Dividend growth

The shares currently yield 7.1%, only 60bp lower than the interest yield (7.7%) on the group's recently issued 8% fixed rate bonds. As shown in the chart below, the bond yield spread over the equity narrowed considerably following the announcement of the 2009 results in early March.

In our view, this was a reaction to the closure of the Real Personal Finance direct repayment lending business, which was viewed by many as a key driver of future revenue growth.



This has re-emphasised the fragility of the group's dividend, maintained at 63.5p since the de-merger of the international business in 2007. Management has stated that it will retain surplus capital of GBP50m as at end-December 2009 – the 2009 dividend was partially paid out of surplus capital – which leaves the dividend potentially exposed to an earnings shortfall.

Fully valued

The shares currently trade on 11.1x and 10.2x 2010e and 2011e earnings, respectively, a premium of around 3% to a basket of US consumer finance companies present in the small-loan, pawnbroker and/or payday lending markets.

Based on the average of our fundamental (891p), sum-of-the-parts (835p), and relative valuation (854p) estimates, we set our target price at 860p (previously 950p), which is broadly in line with the current market price. As this implies a potential total return of -4%, we assume coverage with an Underweight rating (previously Overweight (V)).

Activities

Headquartered in Bradford, and with offices in every major town and city in the UK, Provident provides small-sum, unsecured credit to some 2.3m non-standard customers. The group's Consumer Credit Division offers home credit loans through a network of local agents and larger loans paid by direct debit and services almost 1.9m customers. Vanquis Bank, the group's credit card business, services a further 426,000 customers.

Business structure

Consumer Credit Division		Vanquis Bank
Home collected credit	Direct repayment loans	Credit cards
Brands: Provident Personal Credit Greenwood Personal Credit	Brands: Provident Direct Greenwood Direct	
Products: Small cash loans Larger loans Pre-loaded Visa cards Shopping vouchers	Products: Direct repayment loans	Products: Visa credit card
Regulation: Consumer Credit Act Office of Fair Trading	Regulation: Consumer Credit Act Office of Fair Trading	Regulation: FSA licensed bank

Source: Company data

between 23 and 33 weeks. More established customers are offered loans of up to GBP800 – typically between GBP300 and GBP500 – repayable over 50 to 57 weeks. Top-tier customers – those with an established payment record – are offered loans of up to GBP1,500 repayable over 81 and 106 weeks. The average home credit loan size in 2009 was GBP390. The APR on the most popular loans is currently either 255% or 273%.

The Home Credit business model requires a large agency force, currently made up of approximately 11,500 self-employed individuals, of whom approximately 70% are female. The agency force is supported by a network of more than 300 branches throughout the UK and Ireland. Loans are underwritten and delivered in cash to the customer's home by an agent who then calls weekly to collect the repayments. Agents are paid commission on collections rather than credit issued, to motivate them to lend only what the customer can afford to pay back.

Consumer Credit Division

Home Credit

Provident is the leading supplier of home collected credit in the UK and Republic of Ireland, serving approximately 1.8m customers from a total market estimated at around 3m (a c60% market share).

The business provides services to customers on average or below-average incomes, and those who are unable to access mainstream credit products. Customers are fairly evenly split between the C2, D and E socio-economic groups.

Home Credit operates under two brand names, Provident Personal Credit and Greenwood Personal Credit, and offers small unsecured cash loans on a "low and grow" basis. Newer customers are offered short-term loans, typically less than GBP300, and repayable over a period of

Home Credit also offers pre-loaded Visa cards where a Home Credit loan is loaded onto a plastic card and prepaid shopping vouchers that can be redeemed at certain high street retail outlets.

Customer recruitment is primarily through agents (69% of new customers), although the internet (18%) is an increasingly important channel. Direct mail accounts for the majority of the remaining new customers. Vanquis customer numbers as at 31 December 2009 were 1.8m.

Direct repayment loans

The Consumer Credit Division also provides direct repayment loans to existing and previous paid up customers with whom Home Credit already had a good relationship. These customers are offered loans of between GBP1,000 and GBP4,000 (on average around GBP1,800) repayable over periods of up to 36 months. These

loans are an extension of the weekly collected home credit model and involve an initial assessment interview in the customer's home, with payments collected through monthly direct debit, and are marketed under the brands "Provident Direct" and "Greenwood Direct".

Real Personal Finance

In 2008 and 2009, Provident tested a direct repayment loans offering under the Real Personal Finance brand. The business operated out of 50 locations using dedicated field managers to underwrite loans following a meeting in the customer's home. The market test assumed that around half the new business flow would be sourced from the wider non-standard credit market serviced by credit brokers, with the other half resulting from direct referrals from home credit branches and/or the group's existing home credit customer base.

However, the strategic withdrawal or failure of a number of lenders in the direct repayment market in 2009 led to the withdrawal of some major participants in the credit broker channel, and a reduction in the flow of new customer loan application. Moreover, the quality of broker-introduced applicants was so low that only 1% of these leads were converted in 2009.

Management's view was that the situation was unlikely to improve in 2010.

As a result, Provident announced the effective closure of Real Personal Finance in March 2010, resulting in the loss of 95 employees. Start-up losses at Real were GBP2.7m in 2008 and GBP7.7m in 2009. No further losses are expected.

Direct distribution into the broader UK non-standard credit market remains as a strategic option, although management has stated that it will only pursue this opportunity when more stable credit market conditions return.

Vanquis Bank

Vanquis Bank was established as a pilot credit card operation in 2003 prior to advancing into full roll-out during 2004. Vanquis operates in the non-standard segment of the UK credit market, offering credit cards to customers on average to below-average incomes – typically between GBP12,000 and GBP25,000 pa with limited or impaired credit histories. Credit limits are low, with half of all new customers starting with a credit limit of GBP250, while the maximum initial credit line is currently GBP1,000. Credit utilisation is high at around 80%, and the current average balance is around GBP640. Vanquis cards have a minimum repayment amount (c5%) and two-thirds of customers are taken on at the typical initial APR of 39.9%. Customer recruitment is primarily carried out through the internet (61%), direct mailing (23%) and from referrals from other card providers (16%). Vanquis customer numbers as at 31 December 2009 were 426,000.

Market opportunity

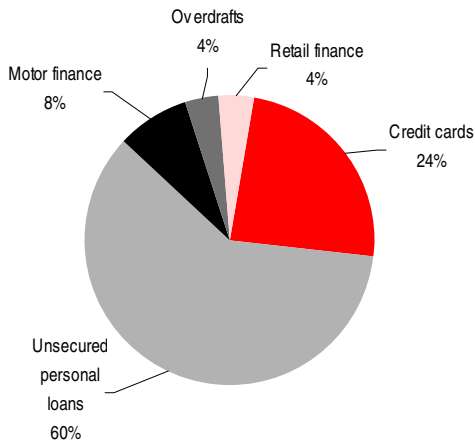
UK consumer credit market

Bank of England data shows that at end-December 2009, total lending to UK individuals amounted to some GBP1,462bn, including GBP1,235bn secured on housing and GBP227bn of unsecured consumer credit, further divided into GBP55bn of credit card loans (24% of consumer credit balances) and GBP172bn of other unsecured loans (76%).

Gross advances of consumer credit in 2009 amounted to GBP171bn, down 11% on 2008. Within this, credit card advances were GBP123bn (72% of total advances), down 7%, while other unsecured advances were GBP48bn (28% of the total), down 23%.

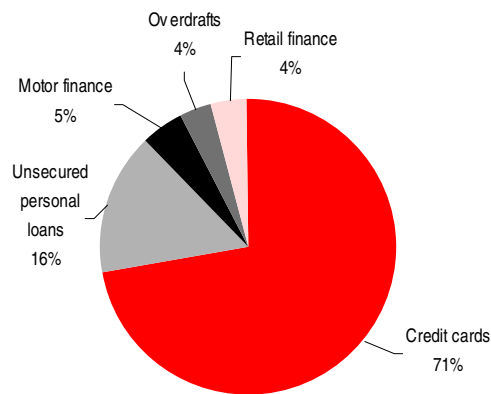
Based on Bank of England statistics and data from the Office of Fair Trading (OFT), we have estimated the breakdown of other unsecured

UK unsecured personal lending: estimated mix of end-2009 balances



Source: Bank of England statistics, HSBC estimates

UK unsecured personal lending: estimated mix of advances in 2009



Source: Bank of England statistics, HSBC estimates

advances and balances between personal loans, motor finance, overdrafts and retail finance. These estimates are set out in the charts below. Our estimates suggest that gross unsecured personal loan advances amounted to around GBP27bn in 2009, down from around GBP40bn in 2008.

Target markets: non-standard unsecured lending

Provident competes in the non-standard segment of the UK consumer credit market. This market comprises the 10m or so adults unable to obtain credit from mainstream providers. In its December 2009 Review of High Cost Credit report, the OFT estimated this segment of the market to be worth around GBP35bn annually.

The home credit industry is estimated to serve around 3m of the non-standard population, while direct repayment loans and credit card products are offered to the remaining 7m.

With 1.8m home credit customers, Provident's share of the home credit market amounts to some 60%, with the remainder split between a handful of other large credit companies and some 500 local providers.

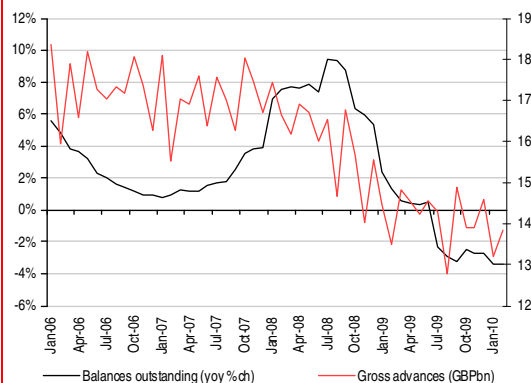
Management estimates that between 4m and 5m of the non-standard population are suited to the Vanquis credit card product. With 426,000 customers, that suggests market penetration of around 10%.

Competitive landscape

Mainstream lenders withdraw

Mainstream lenders have substantially reduced their exposure to unsecured consumer credit, reflecting a reduction in lending generally and a reduced risk appetite.

Growth of mainstream unsecured credit



Source: Bank of England statistics

The withdrawal of mainstream lenders from the riskier end of the mainstream market has

effectively increased the size of the non-standard market, as more consumers are faced with financial exclusion.

Wholesale funding constraint for specialist lenders

Despite potentially increased demand for non-standard lending, supply has been substantially reduced. This has followed some high-profile business failures and some withdrawals from the marketplace, but more fundamentally as a result of the reduced availability (and to a lesser degree, the increased cost) of wholesale funding.

Non-standard lending specialists typically rely on internal finance and wholesale funding lines to finance their loan portfolios, and the withdrawal of funding lines has placed severe constraints on loan growth.

Provident's positioning

The table below segments the UK non-standard lending market into a number of sub-categories. At present, Provident is active in the first three categories only – home credit, direct repayment unsecured lending and credit cards. In its December 2009 review of the high-cost credit industry, the OFT reported that wholesale funding constraints had shifted the availability of credit towards smaller, shorter-term lending, where lenders were less dependent upon wholesale market funding. This has benefited the payday lenders, home credit and credit card specialists, and disadvantaged the longer-term unsecured lenders

Pent-up demand for small-sum, revolving credit products bodes well for Provident's home credit and credit card businesses, and market-wide funding constraints support the group's decision to downscale its lower-margin, longer-term unsecured lending ambitions, at least in the near term. Given the group's dominant position in the home credit market, and the market share opportunity in the non-standard credit card

market, Vanquis appears to offer the greater growth potential.

UK non-standard lending market – competitive landscape

Segment	Market participants
Home Credit:	Provident Personal Credit Greenwood Personal Credit Shopacheck Morses S&U Mutual Local providers
Unsecured Lending:	Provident Direct Greenwood Direct Everyday Loans Welcome* Black Horse* HFC Beneficial* CitiFinancial* Pawnbrokers/Payday lenders
Credit Cards:	Vanquis Bank Capital One SAV Barclaycard Initial Monument* CitiFinancial*
Secured Lending:	Swift Blemain Welcome* Log Book Loans Mobile Money Small specialists
HP / Retail Finance:	Brighthouse PerfectHome Shop Direct Group N Brown Otto Group Buy As You View Local providers
Pawnbroking:	H&T Albermarle & Bond Cash Converters Local providers
Payday Lending:	The Money Shop Cheque Centre QuickQuid Month End Money National Cash Advance Pawnbrokers/online lenders
Overdrafts	All main banks/building societies

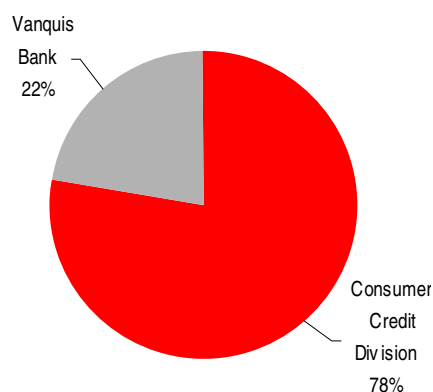
*These competitors are currently no longer extending credit, but continue to collect repayments from existing customers
Source: Company data

Business model

Receivables

Net receivables totalled GBP1,139m as at end-December 2009, split GBP884m in the Consumer Credit Division, and GBP226m in Vanquis Bank.

End-2009 receivables (GBP1,139m) by division



Source: Company data

Income and expenses

Gross revenues in 2009 amounted to GBP816m and included GBP770m of interest income and GBP45m of fee income, the latter all attributable to Vanquis Bank. Consumer Credit Division revenues totalled GBP682m (84% of total revenues), and Vanquis Bank revenues were GBP131m (16%).

The group revenue return on average receivables in 2009 was 81%, blending returns of 88% and 57% on average Consumer Credit and Vanquis receivables, respectively.

The table below shows the group's major expense items charged to revenue in generating operating profit.

Profit margin analysis

	2008	2009
Revenues	100.0%	100.0%
Impairments	31.6%	34.7%
Operating expenses	29.4%	27.0%
Staff costs	15.2%	15.0%
Interest cost	6.2%	6.6%
Operating profit	17.5%	16.6%

Source: Company data

In addition, the group incurs central costs and earns interest on group cash balances. In 2009, these items amounted to GBP5.4m or an additional 0.7% charge to revenues, reducing the

2009 operating profit margin from 16.6% to a pre-tax margin of 15.9%.

Cash flows and capital generation

Gross cash flows in 2009 amounted to GBP109m, and after paying out GBP84m in dividends and GBP28m in tax, the group's internal capital consumption amounted to GBP4m. Including the marginal capital requirement to fund receivables growth (at the group's target equity to receivables ratio of 15%) and surplus capital consumption during 2009 totalled GBP15m.

Internal capital generation

GBPm	2008	2009
Profit before tax	128.8	125.7
Net capex/working capital	-10.2	-16.7
Tax paid	-29.7	-28.4
Dividends paid	-83.4	-84.1
Internal capital generation	5.5	-3.5
Loan growth funding*	-20.7	-11.4
Surplus capital generation	-15.2	-14.9

*15% of the annual increase in net receivables
Source: Company data

Provident calculates its equity to receivables ratio after excluding the group's pension asset, the fair value of derivatives and dividends declared. As at end-December 2009 the adjusted equity to receivables ratio was 18.9%. The 3.9% premium to the group's target of 15% equates to surplus capital of approximately GBP50m.

Dividend policy

Although surplus capital has been used to part-finance the group's dividend since the demerger of the UK and international businesses in 2007, when management committed to maintaining the dividend at 63.5p per annum, the group will move to a target payout ratio of 80% of post-tax profit in the medium term. In view of the current high payout ratio, management has stated that the end-2009 GBP50m surplus will be retained to fund further growth opportunities and to provide strategic flexibility (management has indicated it will consider credit card portfolio purchases).

Balance sheet and funding

The group's summary balance sheet is set out below.

Summary balance sheet

GBPm	2008	2009
Receivables	1,063.3	1,139.3
Pension asset	50.9	19.9
Borrowings*	-803.9	-883.4
Other net liabilities	-32.4	-7.4
Net assets	277.9	268.4

*Borrowings are presented at hedged exchange rate
Source: Company data

Net assets at end-December 2009 were GBP268m (GBP215m when adjusted for the pension asset, derivatives and dividends). With end-2009 borrowings of GBP883m, this gives a gearing ratio of 3.3x net assets.

As part of the strategy to diversify its funding sources, Provident issued its first senior bonds to wholesale investors for a principal amount of GBP250m on 23 October 2009. The bonds are repayable in 2019 and pay a coupon of 8.0%. At the same time as that issue, Provident repurchased GBP94m of its GBP100m subordinated loan notes prior to their call date on 15 June 2010 at a price of GBP0.975 per GBP1.0 face value following a tender offer.

Total committed debt facilities available as at 31 December 2009 were GBP1,209m compared with committed borrowings of GBP878m, giving undrawn headroom of GBP331m. The maturity profile of the group's debt facilities are set out in the table below.

Maturity profile of facilities and borrowings*

GBPm	Facilities	Borrowings
Less than 1 year	144.8	72.7
Between 1 and 2 years	272.3	166.3
Between 2 and 5 years	570.3	395.3
More than 5 years	256.0	256.0
Total	1,243.4	890.3

* Unhedged amounts
Source: Company data.

On 26 January 2010, Provident entered into forward-starting arrangements that extend

syndicated bank facilities totalling GBP380m to May 2013. This provides sufficient committed facilities to fund planned growth through to end-2011. After taking into account the extension of the GBP380m of facilities to May 2013, the weighted average period to maturity of the group's borrowing facilities was 4.0 years.

On 23 March, Provident published an offering circular for up to GBP75m 7.0% Guaranteed Bonds due 2020. The offering is aimed primarily at retail investors and application has been made for the bonds to be admitted to the LSE's electronic order book for retail bonds.

Return on equity

Provident calculates its return on equity (ROE) as pre-exceptional profits after tax as a percentage of net assets, adjusted for the pension asset and the fair value of derivatives. On this basis, the group's ROE in 2009 was 45%.

Forecasts and valuation

Recent trading

The 2009 results were announced on 2 March and reported pre-exceptional profit before tax and adjusted diluted EPS up 1% to GBP130.1m and 71.2p, respectively. The final and full-year dividends were maintained at 38.1p and 63.5p. The key figures are summarised in the table below.

2009 results summary

Year to December (GBPm)	2008	2009	Ch %
Home Credit	128.8	128.9	0%
Real Personal Finance	-2.7	-7.7	185%
Vanquis Bank	8.0	14.1	76%
Yes Car Credit	-2.9	0.2	-107%
Operating profit	131.2	135.5	3%
Central costs	-5.5	-7.0	27%
Interest receivable	3.1	1.6	-48%
Profit before tax	128.8	130.1	1%
Adjusted diluted EPS (p)	70.5	71.2	1%

Source: Company data

- Flat Home Credit profits reflected 5% growth in customer numbers and 8% growth in average receivables, offset by a 3% reduction in the

revenue margin (from 92% to 89%) and a 10% increase in credit impairments. Home Credit operating expense growth was limited to 2%, despite the addition of 120 new field-based management roles and 30 new branches.

- ▶ The near 40% increase in revenues at Vanquis reflected 5% growth in customer numbers, a 30% increase in average receivables (due to an increase in average card balances) and a 7% increase in revenue margin (from 53% to 57%). Impairments grew by 62%, from 40% of revenue to 47% of revenue, reducing the risk-adjusted revenue margin at Vanquis from 32% to 30%. Expenses grew by 10%.
- ▶ The increase in losses from the Real Personal Finance pilot reflected disappointing new customer acquisition and revenue growth; the pilot has been terminated and no further losses will be incurred in 2010.
- ▶ The collect-out of the closed Yes Car Credit loan portfolio was completed in 2009 and generated a small profit.

Earnings outlook

The termination of the Real Personal Finance pilot and the absence of losses from this business will provide a one-off boost to profit growth in 2010. In addition, the introduction of a new core Home Credit product – based on 50 weekly repayments rather than 57, and with a higher fee rate – will help restore the Home Credit revenue margin lost in 2009. Vanquis should continue to show strong receivables and revenue growth.

Offsetting these positives, management has guided that interest costs are likely to rise by around a percentage point in 2010, from approximately 7% to 8%, and that a further tightening of credit standards was likely to result in relatively low growth in Home Credit receivables in 2010.

Key to Provident's medium-term growth prospects will be the revenue growth implicit in management's expectations for Vanquis, and the impact of new regulations on profitability.

Vanquis targets

In 2007, management set medium-term targets for receivables growth and return on capital at Vanquis. The 2007 targets were for average receivables of GBP300m and a post-tax return of 30%. With a 20% equity to average receivables ratio, this implied profit before tax of cGBP25m.

Vanquis looks set to achieve the original target before the end of 2011 – we forecast average receivables of GBP281m this year and GBP339m in 2011, and pre-tax profits of GBP22m this year, rising to GBP27m in 2011.

New guidance is for (i) Vanquis to achieve a 30% ROE by end-2010, and (ii) for receivables to have grown to GBP450m by end-2012, whilst maintaining an ROE of 30%. In the table below, we have interpreted this guidance as inferring PBT from Vanquis of around GBP35m in 2012.

Vanquis – management's medium-term targets

GBPm	2008	2009	2007 target	New guidance
Profit before tax	8.0	14.1	25.0	35.0
Average receivables	177.5	231.1	300.0	420.0
Equity backing (20%)	35.5	46.2	60.0	84.0
Post-tax ROE	16%	22%	30%	30%

Source: Company data, HSBC estimates

Our forecasts are for slightly less than this interpretation of new guidance – we forecast average receivables of GBP410m and PBT of GBP34.2m in 2012.

Regulation

Provident is regulated by the Office of Fair Trading (OFT) and by rules set out in the Consumer Credit Act 2006. The group is also subject to consolidated supervision by the Financial Services Association (FSA). Areas of

regulation that are likely to affect Provident are summarised below.

The European Consumer Credit Directive

The European Consumer Credit Directive was adopted by the European Parliament in January 2008 and must be implemented in the UK by June 2010, with a transitional period for businesses to comply with the new rules by 31 January 2011.

Areas where there will be changes from the current law include pre-contract information, requests to provide adequate explanations and to assess creditworthiness, right of withdrawal and rebates on partial early repayment. Following consultation on draft regulations, The Department for Business, Innovation and Skills (BIS) will publish final form regulations in due course.

Irresponsible Lending Guidance

In March 2010, the OFT published guidance setting out practices it considered to involve irresponsible lending. The aims of the guidance are to ensure adequate explanations of credit products are given, that appropriate assessment of creditworthiness and affordability are conducted, and that borrowers are made aware of the consequences of failing to make payments. The OFT also expects creditors to take reasonable steps to ensure compliance (through training, auditing, disciplinary procedures, etc) and to maintain appropriate documentation.

OFT review of high-cost credit market

In July 2009, the OFT announced its review of the high-cost consumer credit market, which focuses on the impact of the economic downturn on competition, the business models of lenders and consumer protection. Interim findings were published in December 2009 and it is expected that the review will be concluded in April 2010.

Credit and Store Card Regulation

In response to the recent BIS consultation on the future regulation of credit and store cards, government and industry groups have agreed to introduce new rights for credit and store card users. These rights focus on transparency and putting the consumer in control and include allocating payments against the highest rate debt first, defining minimum payments for new accounts and giving consumers more time to reject interest rate increases. The changes are to come into effect by the end of 2010.

Forecasts

Our forecasts are summarised in the table on the next page and set out in more detail at the end of this report.

HSBC and consensus earnings estimates for the years 2010-12 are set out below.

HSBC EPS estimates versus consensus (p)			
	2010e	2011e11	2012e
HSBC	80.6	87.6	93.4
Consensus	79.0	87.8	96.1
Difference	2%	0%	-3%

Source: HSBC estimates, IBES

Provident Financial Group: Forecast summary

Year to December (GBPm)	2008	2009	2010e	2011e	2012e
UK Consumer Credit	651.8	681.6	702.9	723.8	743.5
Vanquis Bank	94.6	131.3	160.2	192.9	233.8
Yes Car Credit	4.8	2.7	0.0	0.0	0.0
Revenues	751.2	815.6	863.1	916.8	977.3
UK Consumer Credit	126.1	121.2	131.2	139.2	143.3
Vanquis Bank	8.0	14.1	22.0	27.3	34.2
Yes Car Credit	-2.9	0.2	0.0	0.0	0.0
Operating profit	131.2	135.5	153.1	166.4	177.5
Central costs	-5.5	-7.0	-7.3	-7.6	-7.9
Interest receivable	3.1	1.6	1.4	1.3	1.2
Pre-exceptional PBT	128.8	130.1	147.3	160.1	170.8
Adjusted diluted EPS(GBP)	70.5	71.2	80.6	87.6	93.4
DPS (GBP)	63.5	63.5	63.5	70.1	74.7

Source: Company data, HSBC estimates

Valuation

Our 860p target price is derived from the average of our fundamental DCF fair value, our sum-of-the-parts and relative valuation estimates.

Fundamental DCF valuation

Our fundamental DCF valuation approach is summarised in the table on the right.

There are three parts to this estimate: (i) the expected dividend flow to 2013e; (ii) surplus equity capital present on the balance sheet at end-2013e, and (iii) the terminal price/book value of normalised equity capital at end-2013e based on sustainable return on equity, cost of equity and long-term growth assumptions.

All three components are discounted to NPV using estimated cost of equity as the discount rate.

The sum of these three items produces our estimate of a fair market value for the group of GBP1,201m, which equates to 891p per share.

Fundamental DCF fair value estimates

Year to December (GBPm)	2010e	2011e	2012e	2013e
Receivables	1,198.7	1,280.0	1,386.9	1,482.5
Equity/receivables	20.0%	20.0%	20.0%	20.0%
Normalised equity	239.7	256.0	277.4	296.5
Equity (ex PF asset)	269.2	295.6	321.9	349.2
Surplus capital	29.5	39.6	44.5	52.7
Attributable profit	106.1	115.3	123.0	130.2
Return on surplus capital	-1.5	-2.0	-2.2	-2.6
Normalised return	104.6	113.3	120.7	127.5
Normalised ROE	43.6%	44.3%	43.5%	43.0%
Dividends	85.3	88.9	96.7	102.8
Discount factor	1.106	1.223	1.353	1.496
PV dividends	77.2	72.7	71.5	68.7
Sustainable ROE	40.0%			
L/t growth assumption	2.0%			
Cost of equity	10.6%			
Fair value P/B	4.4			
2013 terminal value	1310.1			
2013 surplus capital	52.7			
NPV terminal value	875.6			
NPV dividends	290.0			
NPV surplus capital	35.2			
Fair value	1,200.8			
Shares in issue (m)	134.8			
Fair value per share (p)	891			

Source: HSBC estimates

Sum-of-the-parts

As an alternative to the whole company DCF approach, we also consider a sum-of-the-parts methodology, as shown in the table below.

Sum-of-the-parts valuation

Year to December 2010e (GBPm)	PBT	Tax	PAT	NAV	ROE	COE	g	P/B	Implied PE	Value	Value (p)
Consumer Credit Division	131.2	-36.7	94.4	178.4	52.9%	10.6%	1.0%	5.4	10.2	965	716
Vanquis Bank	22.0	-6.2	15.8	61.3	25.8%	10.6%	4.0%	3.3	12.8	203	150
Central	-5.8	1.6	-4.2	49.4					10.0	-42	-31
Group	147.3	-41.2	106.1	289.1	36.7%	10.6%	0.9%	3.9	10.6	1,126	835

Source: HSBC estimates

- ▶ We value the Home Credit activities based on the division's estimated 2010e ROE and an assumed long-term growth rate to derive a fair value price/book multiple.
- ▶ We similarly value the Vanquis Bank credit card operations, using its ROW and a higher long-term growth rate assumption.
- ▶ From the sum of these two parts we deduct Central items valued at 10x our 2010 estimate.

Our SOTP suggests fair value for the group of GBP1,126m (835p per share), comprising GBP965m for Home Credit (716p per share), GBP203m for Vanquis Bank (150p per share), less GBP42m (31p per share) for Central.

Relative valuation

The shares currently trade on 11.1x and 10.2x 2010e and 2011e earnings, respectively.

There are few UK-listed stocks that are comparable with Provident Financial. S&U Plc (SUS.L, NR) is probably the closest in terms of its business activities, as it operates in the UK home credit and non-standard motor finance markets. However, with a market value of only around GBP65m and with the Coombs family controlling 51% of the shares (and another institutional shareholder owning 21%), S&U is not a particularly appropriate peer for valuation purposes.

We prefer to compare Provident with a basket of US consumer finance companies present in the small-loan, pawnbroker and/or payday lending markets. We list four such companies in the table below: First Cash Financial (FCFS.O, NR), Cash America International (CSH.N, NR), Dollar Financial Corporation (DLLR.O, NR) and World Acceptance Corporation (WRLD.O).

US peer group valuation analysis

	Reuters RIC	Stock price (USD)	Market value (USDm)	2010e EPS (USD)	2010e PER (x)
First Cash Financial	FCFS.O	21.61	647	1.68	12.9
Cash America	CSH.N	40.27	1,192	3.78	10.7
Dollar Financial	DLLR.O	24.48	592	2.15	11.4
World Acceptance	WRLD.O	37.19	596	4.87	7.6
Average			3,027		10.6

Source: Thomson Reuters Datastream, IBES

The average calendarised 2010e PE ratio being afforded to these US peers is 10.6x using consensus estimates, which if applied to our 2010 EPS estimate for Provident of 80.6p suggests a fair relative value of 854p per share.

Valuation summary

Our fundamental price/book methodology, which uses a relative volatility-based equity risk premium factor of 1.75, produces a fair fundamental value estimate of 891p. The key assumptions in our model are: risk-free rate 4.5%, equity risk premium 6.1% (beta 1.75), weighted average cost of capital 10.6%.

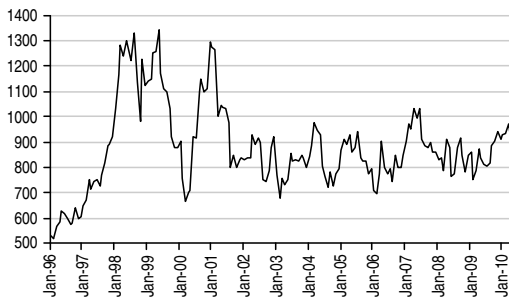
We have averaged our fundamental fair value with our sum-of-the-parts and relative valuation estimates to derive a blended fair value estimate of 860p, which we use as our target price.

Under HSBC's research model, the Neutral range for non-volatile UK stocks is 5ppt above and below the hurdle rate of 8%, or 3% to 13% around the current share price. Given that our 860p target price implies a potential total return of -4%, which is below this range, we assume coverage of Provident Financial with an Underweight (V) rating.

Price performance

The shares have traded in a fairly narrow range broadly between 750p and 950p for the best part of the last 10 years, briefly exceeding 1,000p on market expectations that value would be released following the demerger of the international business in 2007.

Range bound share price: 750p-950p



Source: Thomson Reuters Datastream.

Risk factors

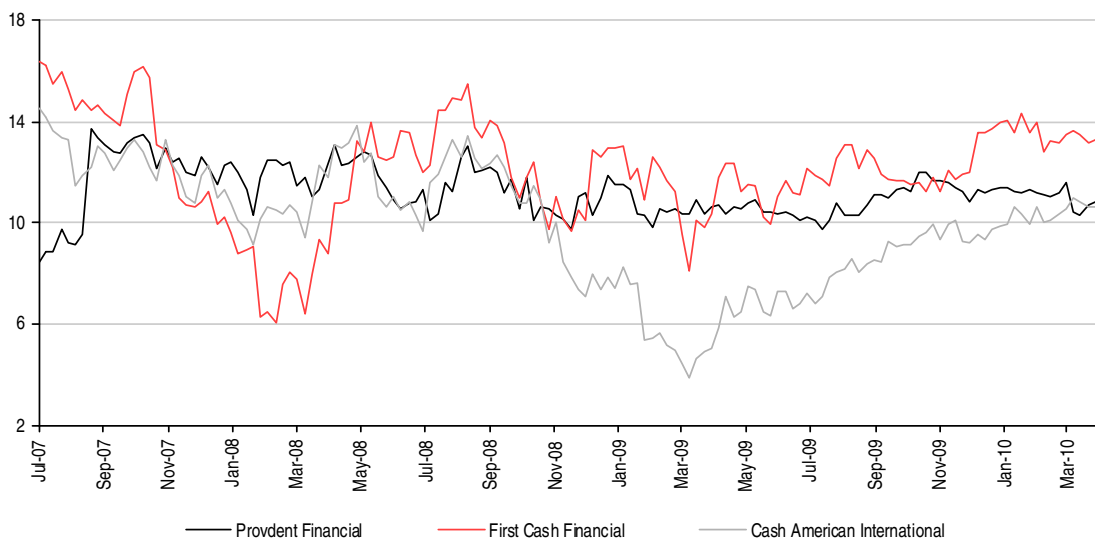
As a focused UK non-prime consumer finance business, the primary risk is credit quality. Although finance costs are a small proportion of revenues and hence earnings exposure to changes in interest rates is low, the availability of wholesale funding is potentially a risk factor. Regulatory risk remains, with the European Consumer Credit Directive being implemented in full in the UK by January 2011, the OFT review of the high-cost credit markets due in April 2010, and new credit and store card regulations due to come into effect by the end of 2010.

Upside risks to our Underweight rating include:

- ▶ Stronger-than-forecast loan growth due to increased consumer demand for credit generally;
- ▶ Additional market share gains by Provident due to competitor withdrawal;
- ▶ A sooner-than-forecast return to the wider direct repayment lending market.

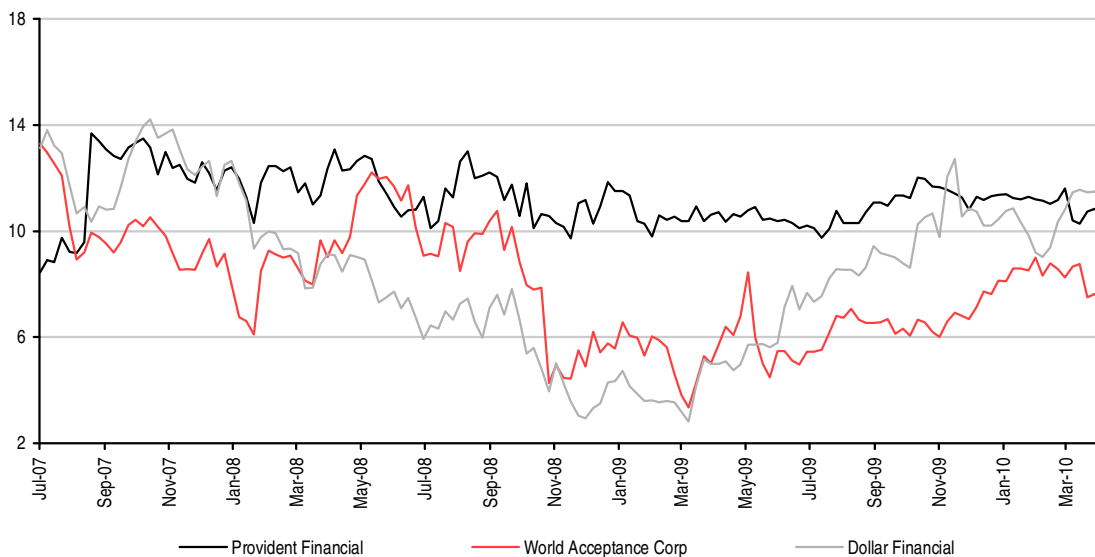
PFG PE versus US credit companies

Prospective PE ratios – Provident Financial (PFG.L), First Cash Financial (FCFS.O) and Cash American International (CSH.N)



Source: Thomson Reuters Datastream

Prospective PE ratios – Provident Financial (PFG.L), World Acceptance Corp (WRLD.O) and Dollar Financial (DLLR.O)



Source: Thomson Reuters Datastream

Provident Financial: Forecast summary

Year to December (GBPm)	2008a	2009a	2010e	2011e	2012e	2013e
Income & Expenses						
Revenues	751.2	815.6	863.1	916.8	977.3	1041.5
Interest	-46.8	-53.8	-66.9	-71.2	-76.8	-82.9
Net income	704.4	761.8	796.2	845.6	900.5	958.6
Operating costs	-335.5	-342.9	-348.0	-365.9	-386.4	-408.6
Pre-impairment profit	368.9	418.9	448.1	479.7	514.2	550.0
Impairment charge	-237.7	-283.4	-295.0	-313.3	-336.7	-362.1
Operating profit	131.2	135.5	153.1	166.4	177.5	187.9
Central costs	-5.5	-7.0	-7.3	-7.6	-7.9	-8.2
Interest receivable	3.1	1.6	1.4	1.3	1.2	1.0
Pre-exceptional PBT	128.8	130.1	147.3	160.1	170.8	180.8
Exceptional items	0.0	-4.4	0.0	0.0	0.0	0.0
Profit before tax	128.8	125.7	147.3	160.1	170.8	180.8
Tax	-36.7	-37.1	-41.2	-44.8	-47.8	-50.6
Profit after tax	92.1	88.6	106.1	115.3	123.0	130.2
Dividends	-83.4	-84.1	-85.3	-88.9	-96.7	-102.8
Retained profit	8.7	4.5	20.7	26.4	26.3	27.3
Balance sheets						
Consumer Credit Division	852.1	883.8	892.1	909.6	936.9	965.0
Vanquis	205.4	255.5	306.6	370.4	450.0	517.5
Yes Car Credit	5.8	0.0	0.0	0.0	0.0	0.0
Closing receivables	1,063.3	1,139.3	1,198.7	1,280.0	1,386.9	1,482.5
Borrowings	-828.5	-890.3	-922.1	-977.0	-1057.6	-1125.9
Other net assets/liabilities	43.1	19.4	12.5	12.5	12.5	12.5
Net assets	277.9	268.4	289.1	315.5	341.8	369.1
Ratios						
Net income/avg receivables	77%	75%	68%	68%	68%	67%
Operating costs/avg receivables	-37%	-34%	-30%	-30%	-29%	-28%
Impairments/avg receivables	-26%	-28%	-25%	-25%	-25%	-25%
Expense ratio	-48%	-46%	-45%	-44%	-44%	-43%
Equity/receivables	26.1%	23.6%	24.1%	24.7%	24.6%	24.9%
ROA	9.9%	8.7%	8.8%	9.0%	9.0%	8.8%
ROE	31.4%	32.4%	38.0%	38.1%	37.4%	36.6%
Tax rate	-28.5%	-29.5%	-28.0%	-28.0%	-28.0%	-28.0%
Per share data (p)						
EPS	70.9	67.5	80.8	87.9	93.7	99.2
Adjusted diluted EPS	70.5	71.2	80.6	87.6	93.4	98.9
DPS	63.5	63.5	63.5	70.1	74.7	79.1
NAV	212	200	215	235	254	275

Source: Company data, HSBC estimates

Provident Financial: Forecasts by division

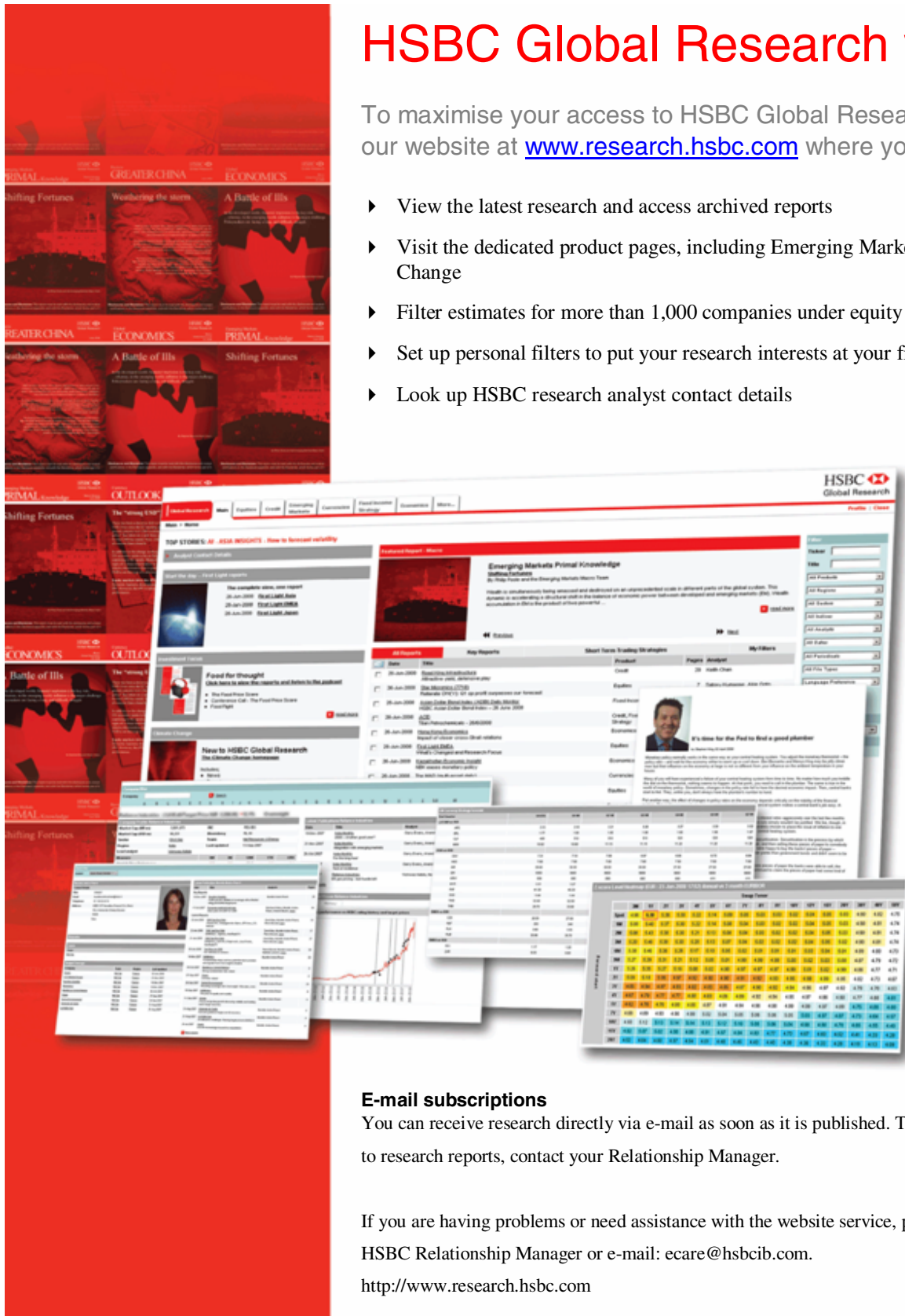
Year to December (GBPm)	2008a	2009a	2010e	2011e	2012e	2013e
Consumer Credit						
Revenue	651.8	681.6	702.9	723.8	743.5	765.8
Interest	-36.6	-38.0	-49.2	-49.9	-50.9	-52.5
Net income	615.2	643.6	653.7	674.0	692.6	713.3
Costs	-291.2	-295.6	-297.8	-306.1	-315.1	-324.6
Pre-impairment profit	324.0	344.6	355.9	367.8	377.4	388.8
Impairment charge	-197.9	-223.4	-224.7	-228.7	-234.1	-241.2
Operating profit	126.1	121.2	131.2	139.2	143.3	147.6
Closing receivables (GBPm)	852.1	883.8	892.1	909.6	936.9	965.0
Average receivables (GBPm)	712.7	777.2	888.0	900.9	923.3	951.0
Revenue/avg receivables	91%	88%	79%	80%	81%	81%
Interest/avg receivables	-5%	-5%	-6%	-6%	-6%	-6%
Costs/net income	-47%	-46%	-46%	-45%	-46%	-46%
Impairments/avg receivables	-28%	-29%	-25%	-25%	-25%	-25%
Impairments/pre-imp profit	-61%	-65%	-63%	-62%	-62%	-62%
Vanquis Bank						
Revenue	94.6	131.3	160.2	192.9	233.8	275.7
Interest	-9.0	-12.2	-17.7	-21.3	-25.8	-30.5
Net income	85.6	119.1	142.5	171.6	208.0	245.3
Costs	-39.4	-43.3	-50.3	-59.7	-71.2	-84.0
Pre-impairment profit	46.2	75.8	92.2	111.9	136.7	161.3
Impairment charge	-38.2	-61.7	-70.3	-84.6	-102.5	-120.9
Operating profit	8.0	14.1	22.0	27.3	34.2	40.3
Closing receivables (GBPm)	205.4	255.5	306.6	370.4	450.0	517.5
Average receivables (GBPm)	177.5	231.1	281.1	338.5	410.2	483.8
Revenue/avg receivables	53%	57%	57%	57%	57%	57%
Interest/avg receivables	-5%	-5%	-6%	-6%	-6%	-6%
Costs/net income	-46%	-36%	-35%	-35%	-34%	-34%
Impairments/avg receivables	-22%	-27%	-25%	-25%	-25%	-25%
Impairments/pre-imp profit	-83%	-81%	-76%	-76%	-75%	-75%
Yes Car Credit						
Revenue	4.8	2.7				
Interest	-1.2	-0.2				
Net income	3.6	2.5				
Costs	-4.9	-4.0				
Pre-impairment profit	-1.3	-1.5				
Impairment charge	-1.6	1.7				
Operating profit	-2.9	0.2				
Closing receivables (GBPm)	5.8					
Average receivables (GBPm)	19.6	2.9				
Revenue/avg receivables	25%	93%				
Interest/avg receivables	-6%	-6%				
Costs/net income	-136%	-159%				
Impairments/avg receivables	-8%	59%				
Impairments/pre-imp profit	123%	-113%				
Divisional Total						
Revenue	751.2	815.6	863.1	916.8	977.3	1041.5
Interest	-46.8	-53.8	-66.9	-71.2	-76.8	-82.9
Net income	704.4	761.8	796.2	845.6	900.5	958.6
Costs	-335.5	-342.9	-348.0	-365.9	-386.4	-408.6
Pre-impairment profit	368.9	418.9	448.1	479.7	514.2	550.0
Impairment charge	-237.7	-283.4	-295.0	-313.3	-336.7	-362.1
Operating profit	131.2	135.5	153.1	166.4	177.5	187.9
Closing receivables (GBPm)	1,063.3	1,139.3	1,198.7	1,280.0	1,386.9	1,482.5
Average receivables (GBPm)	909.8	1,011.2	1,169.0	1,239.3	1,333.4	1,434.7
Revenue/avg receivables	83%	81%	74%	74%	73%	73%
Interest/avg receivables	-10%	-11%	-11%	-11%	-12%	-12%
Costs/net income	-48%	-45%	-44%	-43%	-43%	-43%
Impairments/avg receivables	-52%	-56%	-50%	-51%	-50%	-50%
Impairments/pre-imp profit	-64%	-68%	-66%	-65%	-65%	-66%

Source: Company information, HSBC estimates

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For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However,

stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

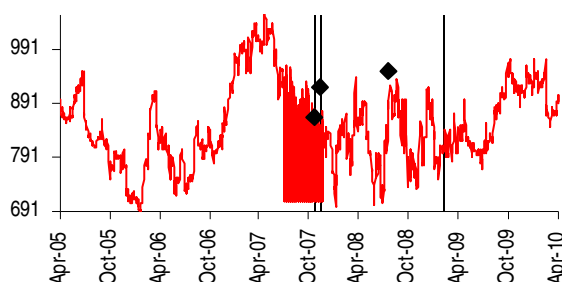
Rating distribution for long-term investment opportunities

As of 16 April 2010, the distribution of all ratings published is as follows:

Overweight (Buy)	48%	(12% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(11% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(10% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Provident Financial (PFG.L) Share Price performance GBP Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/R	Neutral	06 November 2007
Neutral	Overweight	29 November 2007
Overweight	Overweight (V)	12 February 2009
Target Price	Value	Date
Price 1	865	06 November 2007
Price 2	920	29 November 2007
Price 3	950	01 August 2008

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
PROVIDENT FINL	PFG.L	8.92	15-Apr-2010	6, 7

Source: HSBC

- 1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
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