# H1'20 Results

26 August 2020

# Today's presentation

## Highlights and overview
Malcolm Le May

## Financial review
Neeraj Kapur

## Strategy and outlook
Malcolm Le May

## Questions
Appendix

Contacts

Malcolm Le May, CEO

Neeraj Kapur, CFO

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# Highlights and overview

Malcolm Le May
Chief Executive Officer

# Robust balance sheet underpins our response to Covid-19

- All three divisions operating ahead of initial Covid-19 plans having adapted swiftly and effectively to the early stages of lockdown
- Continued to support our customers by focusing on their immediate needs
- Group adjusted profit before tax and impairment of £207.7m, down 16% vs H1'19, driven by reduction in receivables
- Group adjusted loss before tax of £32.6m, ahead of internal plans, impacted by higher impairment charges
- Strong and diversified balance sheet with surplus capital of £215m and total liquidity of £1.2bn
- Removal of the VREQ on Vanquis Bank illustrates our continued constructive relationship with our regulators
- Successful tender offer for £75m of the 2023 senior bonds
- Interest cover covenant waiver signed with our RCF lending banks until 2021
- The Group intends to repay HMRC all money received in respect of furlough and tax deferral schemes and to not benefit from this in the future

Surplus capital over the regulatory minimum

**£215m**

CET1 Ratio

**35.4%**

Total liquidity at the Group

**£1.2bn**

# Divisional snapshot

| Brands | Products | Est. market size 2019 | H1'20 Loan book | H1'20 Customer numbers | H1'20 Revenue yield | H1'20 Cost of funds | H1'20 Net interest margin | H1'20 ROE/ROA |
|---|---|---|---|---|---|---|---|---|
| VANQUIS | Sub/Near Prime Credit cards | £6.2bn (Debt outstanding) | £1.2bn (H1'19: £1.5bn) | 1,694k (H1'19: 1,791k) | 39.4% (H1'19: 40.9%) | 2.3% (H1'19: 2.3%) | 37.1% (H1'19: 38.6%) | ROE 19.3% (H1'19: 36.9%) |
| | Sub/Near Prime Loans | £1.6bn (Credit issued) | | | | | | |
| moneybarn Vehicle Finance | Sub/Near Prime Motor Finance | £3.9bn (Credit issued) | £529m (H1'19: £485m) | 81.7k (H1'19: 70.0k) | 25.2% (H1'19: 24.7%) | 5.4% (H1'19: 5.6%) | 19.8% (H1'19: 19.1%) | ROA 8.9% (H1'19: 10.9%) |
| Provident | Home Credit | £0.7bn (Credit issued) | £147m (H1'19: £245m) | 379k (H1'19: 531k) | 121.2% (H1'19: 117.3%) | 4.3% (H1'19: 4.6%) | 117.0% (H1'19: 112.7%) | ROA (15.8%) (H1'19: (5.5%) |
| | High-Cost Short-Term Credit | £0.9bn (Credit issued) | | | | | | |

# Covid-19 response: Vanquis Bank

- 100% of head office staff working remotely
- 80% of Vanquis Bank contact centre staff working remotely by mid-April
- SMS and dialler technology allowed customer contact levels to be maintained
- Tighter underwriting standards rolled out and changes made to score card cut-offs
- Customer loans proposition and Credit Line Increases ('CLIs') were paused temporarily
- No Credit Line Decreases ('CLDs') applied as a result of Covid-19

Head office colleagues working remotely

**100%**

Contact centre colleagues working remotely

**80%**

Payment holiday take-up of customers in July

**c.1.2%**

# Covid-19 response: Moneybarn

- Remained open to new business throughout to keep supporting our customers and our broking relationships
- Contact centre staff working remotely initially with some moving back to the office from late April
- Underwriting standards tightened and top tier of risk lending reduced from c.17% to c.2% as a result
- c.50% of customer facing colleagues retrained in order to help with customer queries
- Offered to support our customers with payment holiday arrangements prior to FCA guidance

Customer facing colleagues retrained

**150**

Highest risk category lending after underwriting tightened

**17%→2%**

Payment holiday take-up of customers in July

**c.3.5%**

# Covid-19 response: Consumer Credit Division

Provident

- Lending and collections carried out on a fully remote basis, including:
  - Customer loan repayments taken over the phone by field teams
  - Processing of loan applications remotely by field managers
  - Provident Direct rolled out nationally by the end of Q1
- Resilience demonstrated by customers and field teams has supported business performance
- Satsuma lending remains paused, collections robust
- UK operations currently under consultation for a proposed reduction of c.300 customer facing roles and higher element of variable pay

Collections performance in home credit vs pre-Covid

**>80%**

Collections performed remotely in April and May

**c.95%**

Payment holiday take-up of customers in July

**c.2.7%**

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# Summary

- Operational resilience in H1'20 has been strong despite Covid-19 challenges
- Focus on our customers and colleagues means we are well positioned for H2'20
- Our balance sheet provides a real competitive advantage vs others in the sector
- However, three macroeconomic variables still remain and they will be critical to H2'20 and 2021:
  - A material deterioration in the outlook for the UK economy
  - The effect of furlough schemes being withdrawn on our customers
  - A rise in unemployment over and above current economic forecasts

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# Financial review

Neeraj Kapur
Chief Financial Officer

# Summary financials

- Sector leading capital and liquidity position
- Continuing focus on Capital Markets Day objectives
- Pre-impairment adjusted PBT in H1’20 of £207.7m (H1’19: £246.3m) down 16%
- Adjusted loss in H1’20 of £32.6m (H1’19: PBT of £80.4m) down 141%
- Receivables in H1’20 of £1.9bn (H1’19: £2.2bn) down 14%
- Impairment charge driven by significant macroeconomic outlook downgrade:
  - Impairments H1’20 of £240m (H1’19: £166m) up 45%
  - Coverage ratio at 33% of receivables (H1’19: 28%)
- Costs controlled with continued investment in customers’ digital journey
- Focus on capital and funding efficiency
- Customer behavior trends:
  - Payment holiday take up now <5% in each business
  - New business credit quality enhanced materially since lockdown

# Group results

| | Six months to 30 June | | |
|---|---|---|---|
| | 2020 £m | 2019[1] £m | Change % |
| **Adjusted profit before tax and impairment[2]** | 207.7 | 246.3 | (15.7%) |
| Vanquis Bank | 11.8 | 90.5 | (87.0%) |
| Moneybarn | 2.4 | 15.5 | (84.5%) |
| CCD | (37.6) | (15.1) | (149.0%) |
| Central costs | (9.2) | (10.5) | 12.4% |
| **Adjusted (loss)/profit before tax[3]** | (32.6) | 80.4 | (140.5%) |
| Amortisation of acquired intangibles | (3.7) | (3.7) | – |
| Exceptional items | 8.3 | (33.6) | 124.7% |
| **(Loss)/profit before tax** | (28.0) | 43.1 | (165.0%) |
| Adjusted basic earnings per share (pence) | (10.1) | 23.4 | (143.2%) |
| Annualised RORE[4] | 6.4 | 22.9 | (72.1%) |

1 *The 2019 June comparatives have been restated to incorporate two changes in accounting policies reflected in the 2019 financial statements: (i) change in treatment of directly attributable deferred acquisition costs in Vanquis Bank; and (ii) changes in the recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn.*

2 *Adjusted profit before tax and impairment is shown before exceptional items (detailed below) and impairment charges of £240.3m (H1'19: £165.9m)*

3 *Adjusted (Loss)/profit before tax is stated before: (i) £3.7m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2019: £3.7m); and (ii) an exceptional credit of £8.3m (2019: exceptional cost of £33.6m) following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims that may arise in respect of ROP in future.*

4 *Return on average required regulatory capital (RORE) reflects annualised statutory profit after tax divided by the annualised average monthly regulatory capital requirement.*

# Divisional snapshot

| | | Average receivables (£m) | Net interest margin (£m) | Impairment (£m) | Risk-adjusted net interest margin (£m) | Adjusted PBT pre-impairment (£m) | Adjusted PBT/(loss) (£m) |
|---|---|---|---|---|---|---|---|
| VANQUIS | H1’20 | 1,341 | 244.8 | (149.9) | 94.9 | 161.7 | **11.8** |
| | H1’19 | 1,465 | 275.2 | (96.6) | 178.6 | 187.1 | **90.5** |
| moneybarn Vehicle Finance | H1’20 | 520.6 | 52.8 | (37.5) | 15.3 | 39.9 | **2.4** |
| | H1’19 | 436.2 | 44.6 | (17.5) | 27.1 | 33 | **15.5** |
| Provident | H1’20 | 191.2 | 113.8 | (52.9) | 60.9 | 15.3 | **(37.6)** |
| | H1’19 | 254.2 | 147 | (51.8) | 95.2 | 36.7 | **(15.1)** |

# Key Performance Indicators ('KPIs')

| Shareholder KPIs | H1'20 | H1'19 |
|---|---|---|
| EPS (basic) | (9.1) | 9.7 |
| EPS (adjusted) | (10.1) | 23.4 |
| Annualised RORE | 6.4% | 22.9% |
| Annualised ROA | 4.2% | 8.0% |

| Cost KPIs | H1'20 | H1'19 |
|---|---|---|
| Cost of risk | 19.3% | 16.4% |
| Interest margin | 3.4% | 3.4% |
| Cost to income ratio | 43.5% | 42.9% |

| Revenue KPIs | H1'20 | H1'19 |
|---|---|---|
| Revenue yield | 44.3% | 47.7% |
| Net-interest margin | 40.9% | 44.3% |
| Risk-adjusted net-interest margin | 21.6% | 27.9% |

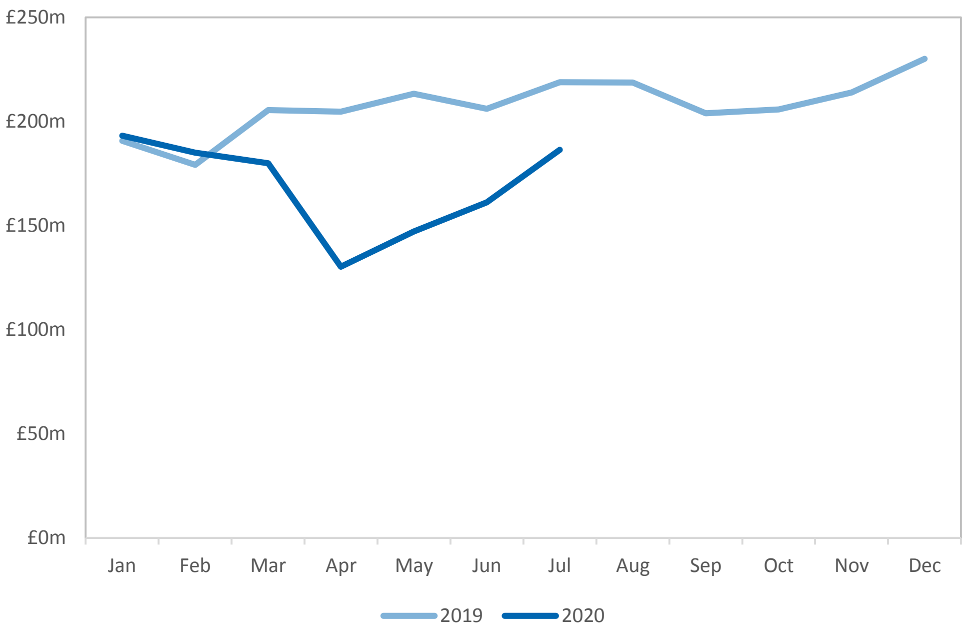
| Capital & Liquidity KPIs | H1'20 | H1'19 |
|---|---|---|
| Common equity tier 1 ratio | 35.4% | 28.2% |
| Leverage ratio | 20.5% | 20.3% |
| Liquidity headroom (£m) | 1,021 | 258 |
| Total liquidity (£m) | 1,210 | 532 |

# Group results

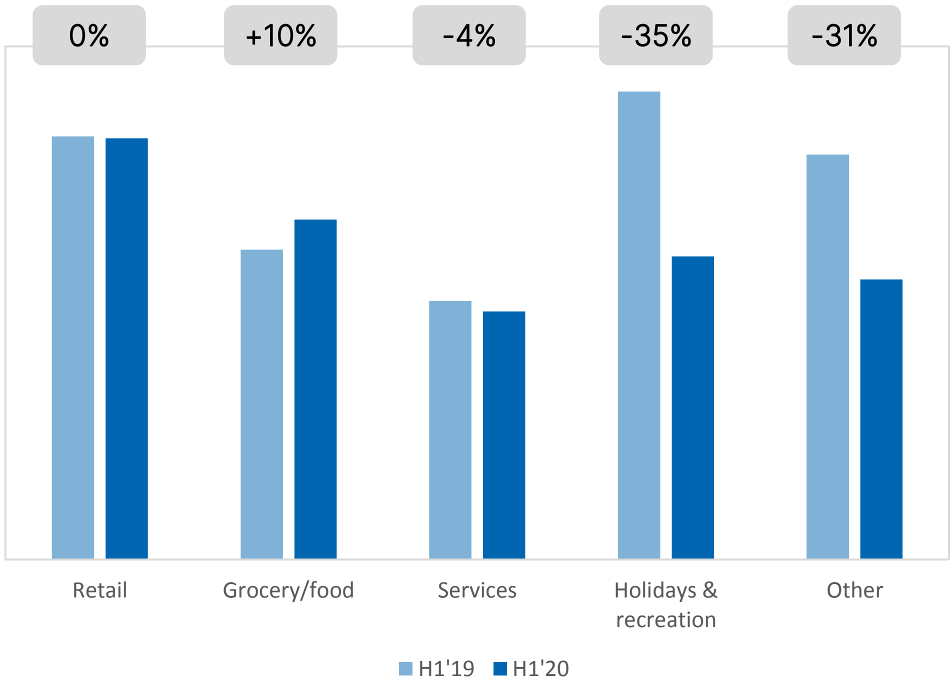
| | Six months to 30 June 2020 £m | 2019 £m | Change % |
|---|---|---|---|
| Customer numbers ('000) | 2,154 | 2,392 | (9.9%) |
| Period end receivables | 1,878 | 2,195 | (14.4%) |
| Average receivables | 2,053 | 2,192 | (6.4%) |
| Revenue | 445.6 | 501.5 | (11.1%) |
| Interest | (36.0) | (36.5) | 1.4% |
| **Net interest margin** | 409.6 | 465.0 | (11.9%) |
| Impairment | (240.3) | (165.9) | (44.8%) |
| **Risk-adjusted net interest margin** | 169.3 | 299.1 | (43.4%) |
| Costs | (201.9) | (218.7) | 7.7% |
| **Adjusted profit before tax and impairment** | 207.7 | 246.3 | (15.7%) |
| **Adjusted (loss)/profit before tax** | (32.6) | 80.4 | (140.5%) |
| *Revenue yield* | *44.3%* | *47.7%* | *(3.4%)* |
| *Cost of funding* | *(3.4%)* | *(3.4%)* | – |
| *Net interest margin* | *40.9%* | *44.3%* | *(3.4%)* |
| *Cost income ratio* | *43.5%* | *42.9%* | *(0.6%)* |
| *Return on assets* | *4.2%* | *8.0%* | *(3.8%)* |
| *Return on required equity* | *6.4%* | *22.9%* | *(72.1%)* |

# Customer spend data: Vanquis Bank

## Vanquis monthly spend

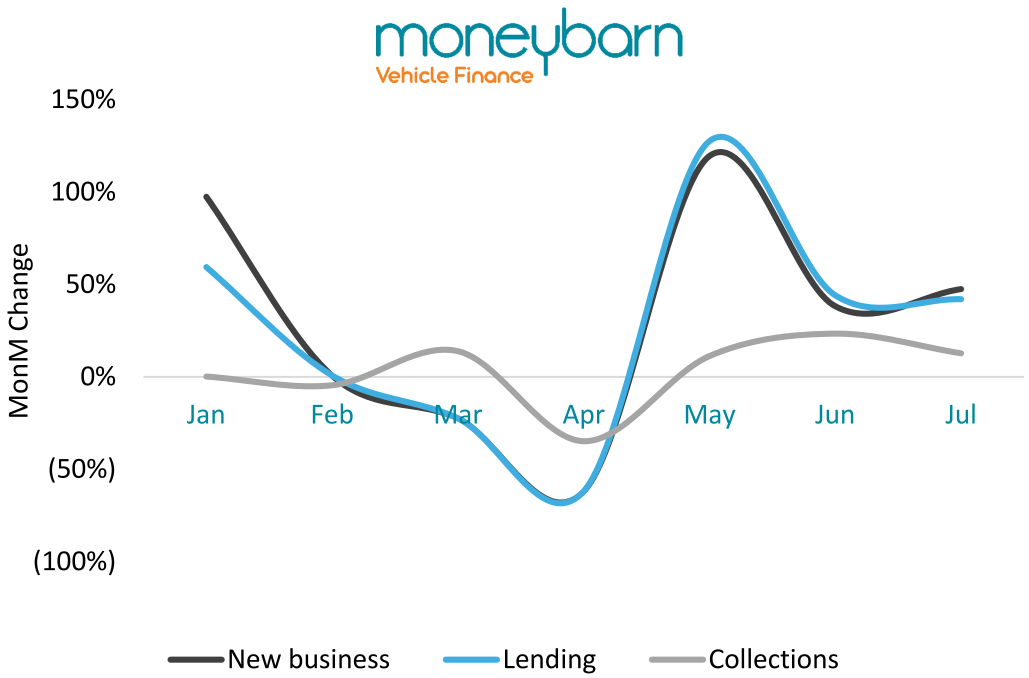


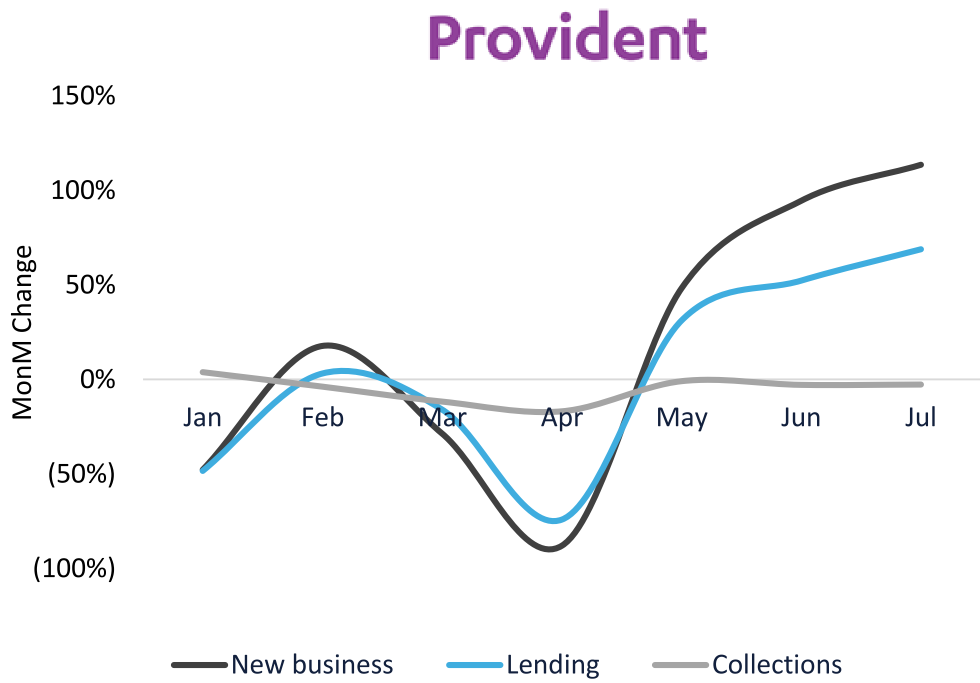

## Vanquis spend by category




- Vanquis customer spending on credit cards fell initially, before starting to recover from April onwards
- Total spend lower by 15% year-on-year at the end of July

# Lending and collections: Moneybarn and CCD

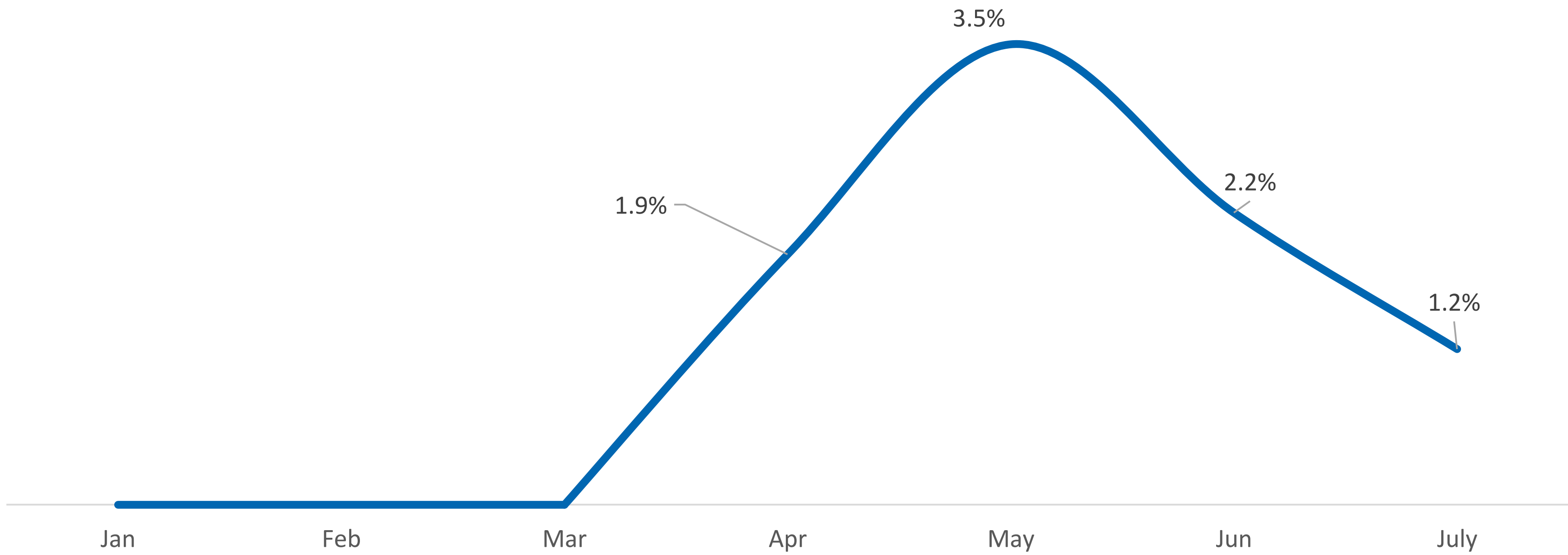



- Moneybarn new business volumes returned to 2019 levels in June
- Collections have performed strongly

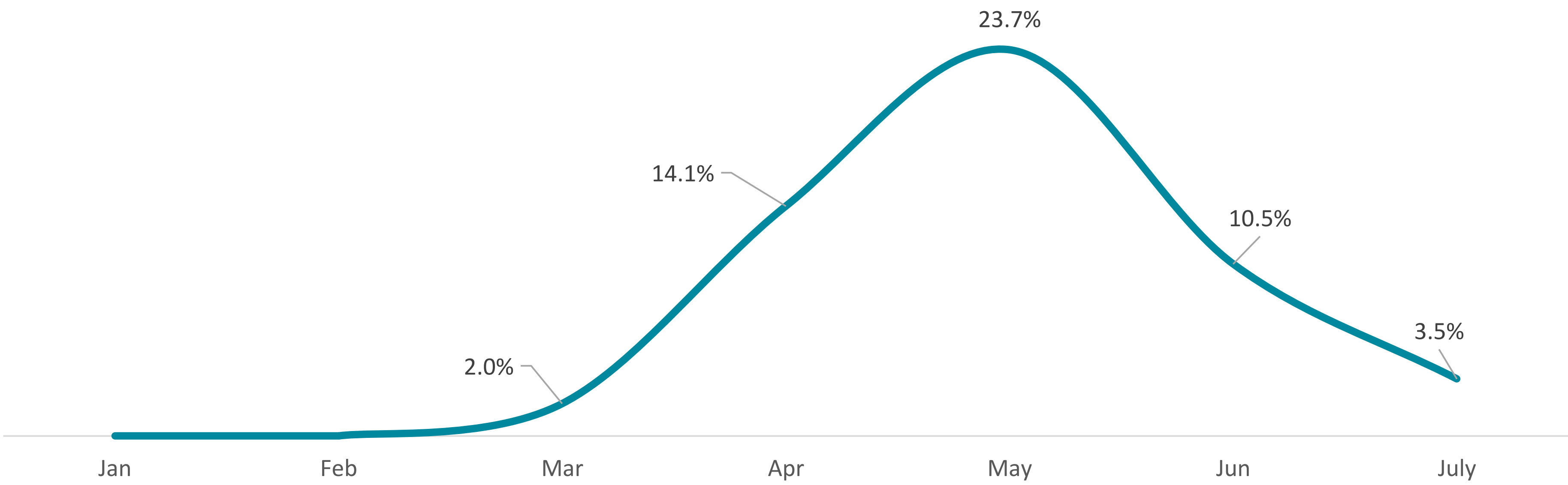
- CCD collections remained relatively stable with the UK-wide introduction of Provident Direct
- New business volumes were down relative to 2019 levels

# Payment holidays: Vanquis Bank




- Payment holiday take-up has as a percentage of customers has been modest to date
- Customer behaviour profiles at expiry in line with expectations
- Payment holiday extensions and current applications continue to be low

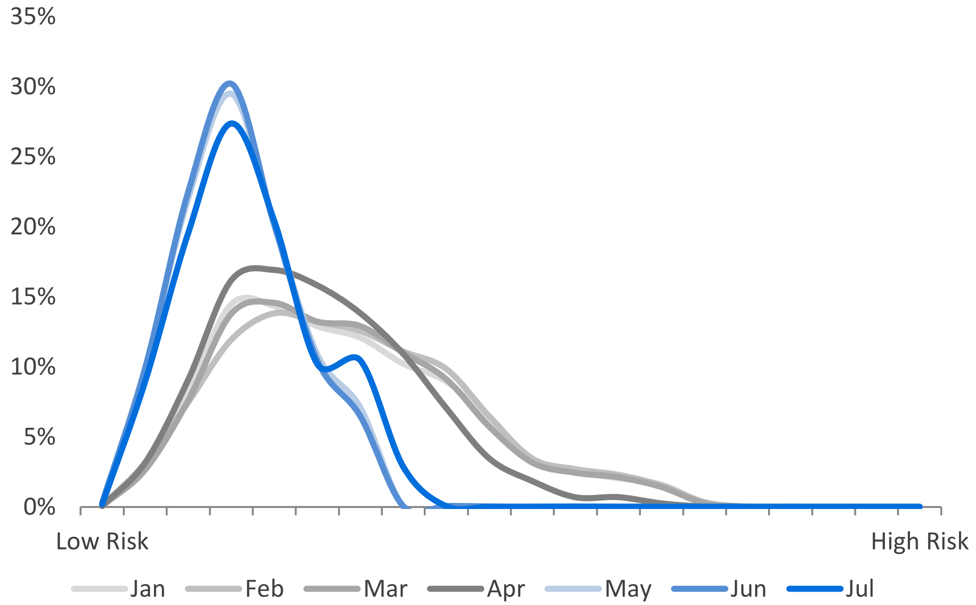
# Payment holidays: Moneybarn



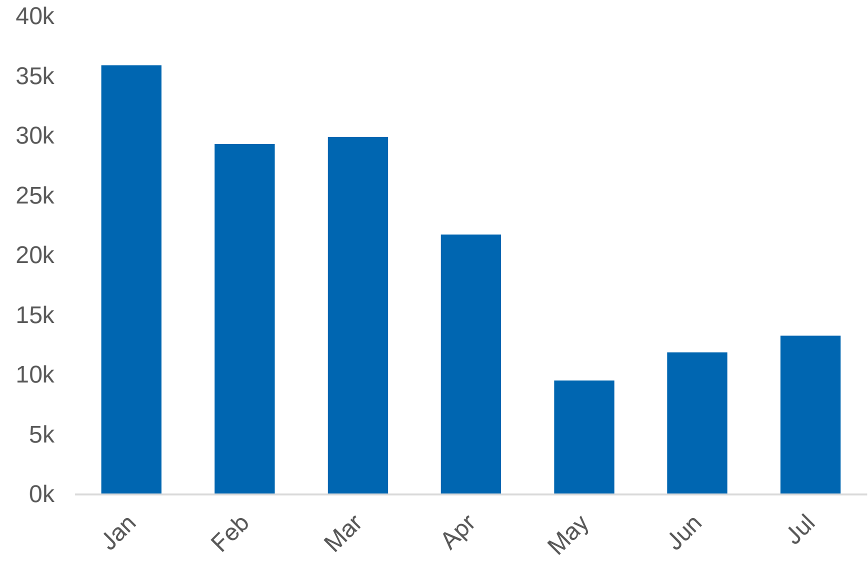

- Payment holiday take-up higher initially as Moneybarn proactively sought to support its customers
- As arrangement have expired, the level of outstanding payment holidays has fallen to c3.5% in July
- Second half take-up rates have been modest to date

# Risk reductions: Vanquis Bank

Booked applications by internal risk score

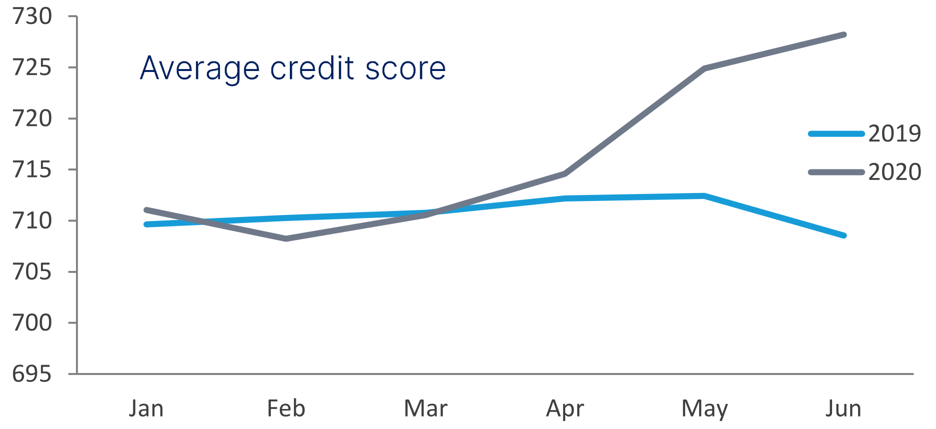


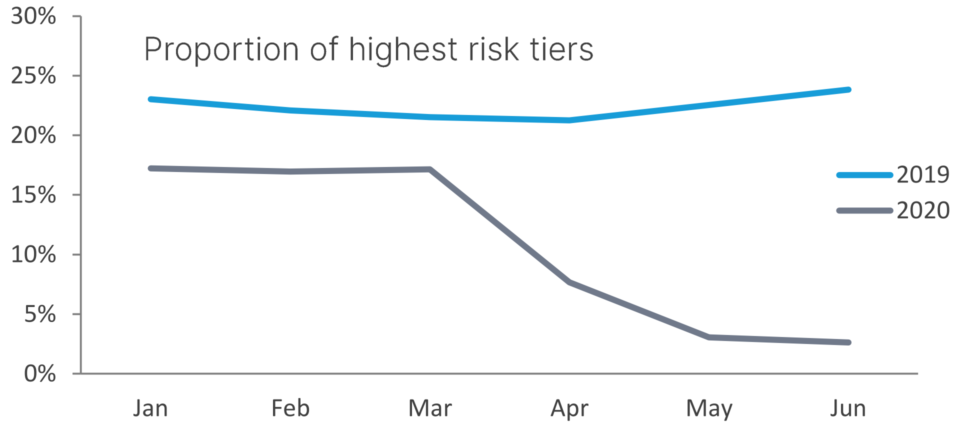

New bookings by month

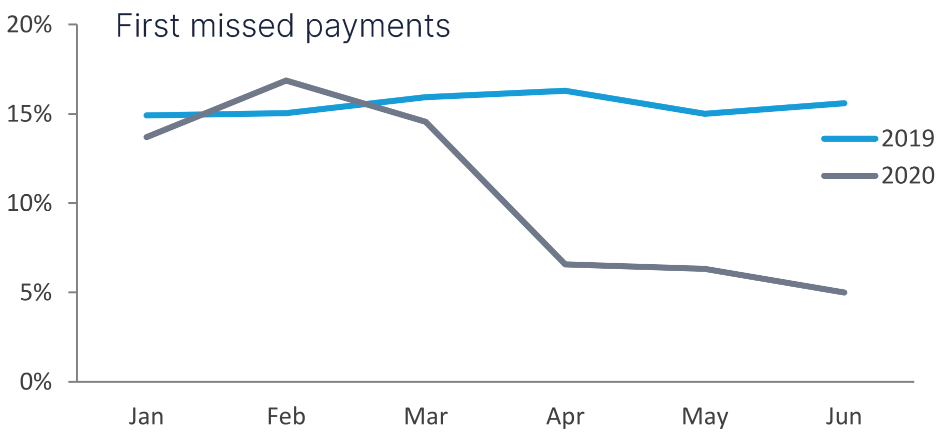


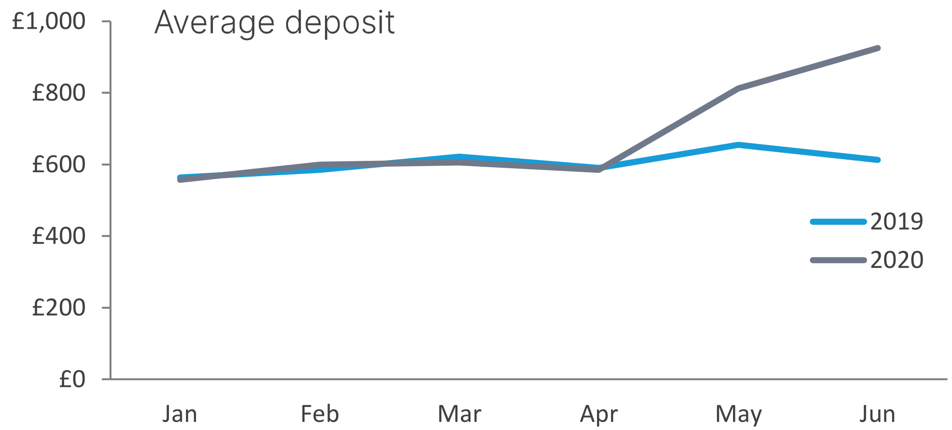

- Active decision to move new bookings to lower risk scores
- New customer bookings for Vanquis credit cards fell as expected in April and May as underwriting standards were tightened

# Risk reductions: Moneybarn

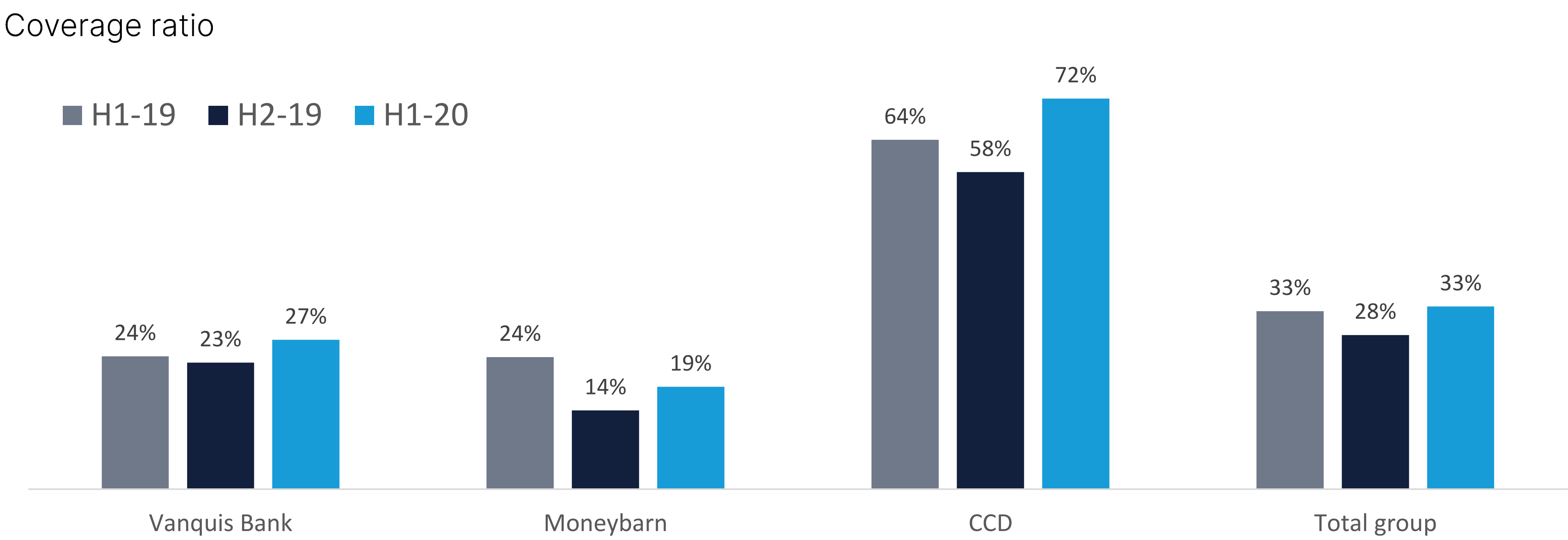


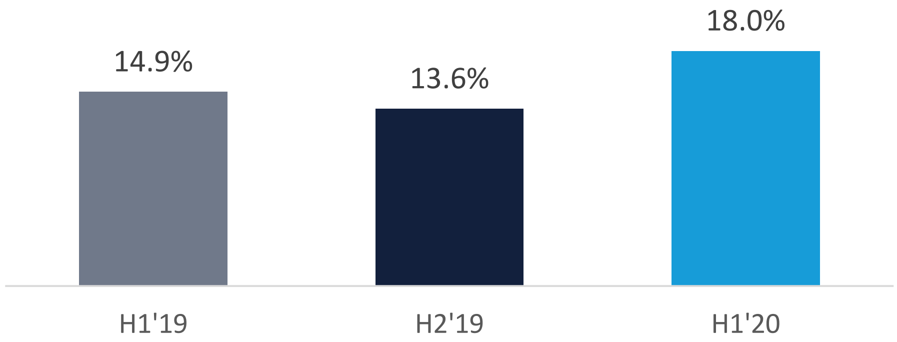
# Coverage ratios robust



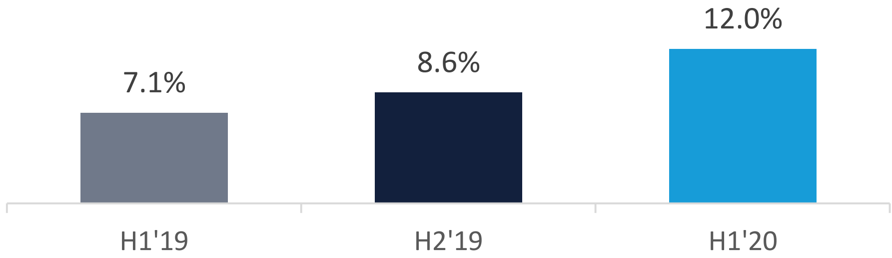

- We started 2020 with strong coverage ratios which have been enhanced during H1'20
- Increases in H1'20 vs H2'19 reflect significant deteriorations in macroeconomic forecasts driven by Covid-19

# Impairment increased in H1'20 due to Covid-19 & macroeconomic outlook

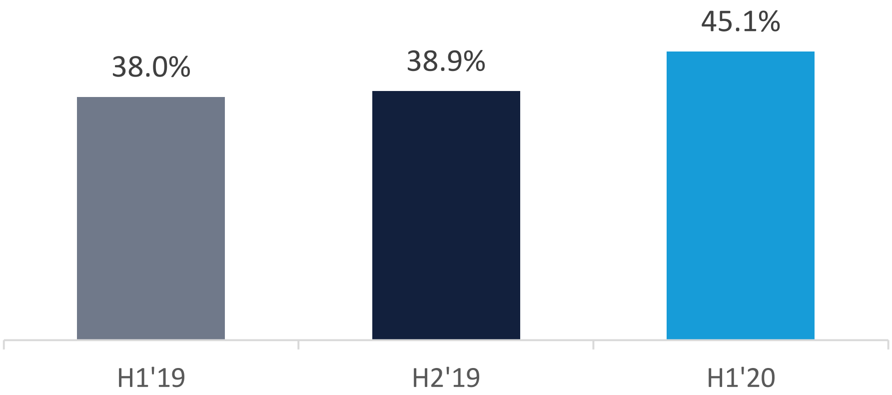
Vanquis' impairment rate increased 32.4% from H2'19



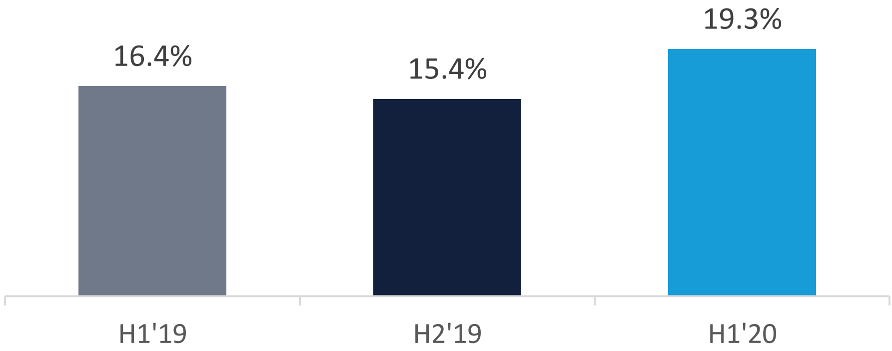

Moneybarn's impairment rate increased 39.5% from H2'19




CCD's impairment rate increased 15.9% from H2'19

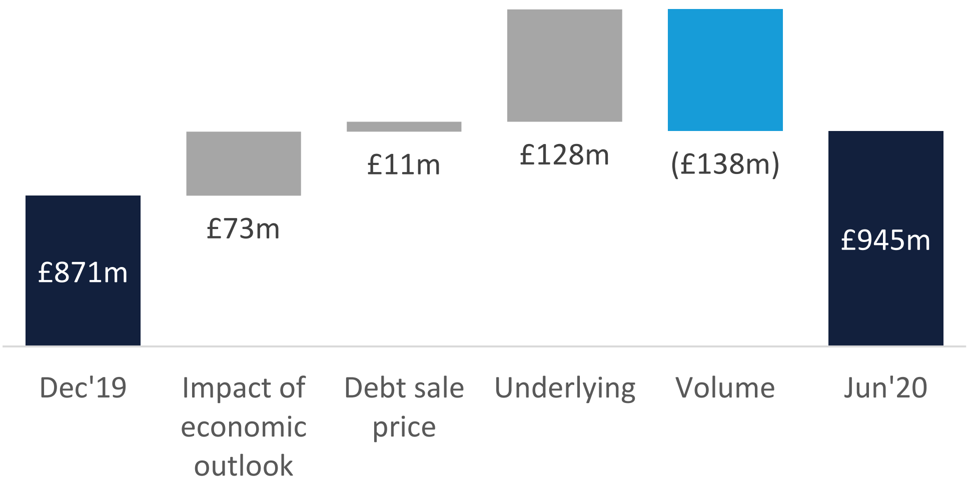



Group's impairment rate increased 25.3% from H2'19



# ECL driven by significant deterioration in the macroeconomic outlook

Expected credit losses have risen by £74m




| | Assumed UK unemployment | |
|---|---|---|
| | 2020 | 2021 |
| Peak Upside | 6.3 | 5.7 |
| Peak Base Case | 8.0 | 7.4 |
| Peak Downside | 10.0 | 10.2 |
| Peak Severe | 13.5 | 14.1 |

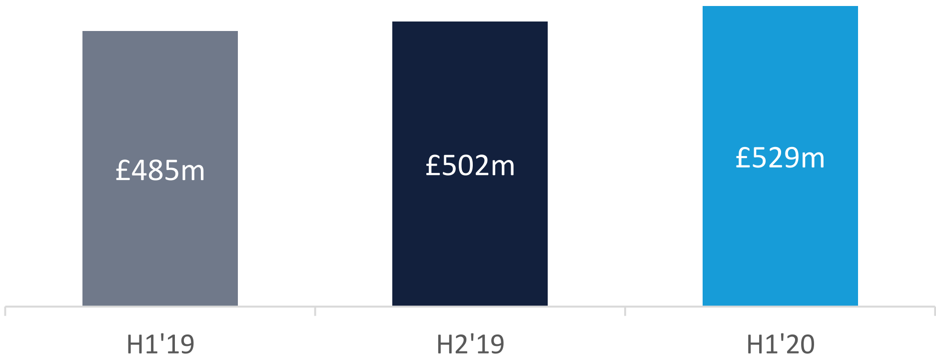
- The Group's coverage ratio has risen to 33% in H1'20 from 28% at FY'19

- The significant deterioration in the macroeconomic outlook has resulted in an uplift in ECL of £74m versus FY'19

# Receivables have declined due to Covid-19 lockdown

18% decrease in Vanquis' loan book since H2'19


5% increase in Moneybarn's loan book since H2'19




41% decrease in CCD's loan book since H2'19


15% decrease in Group's loan book since H2'19

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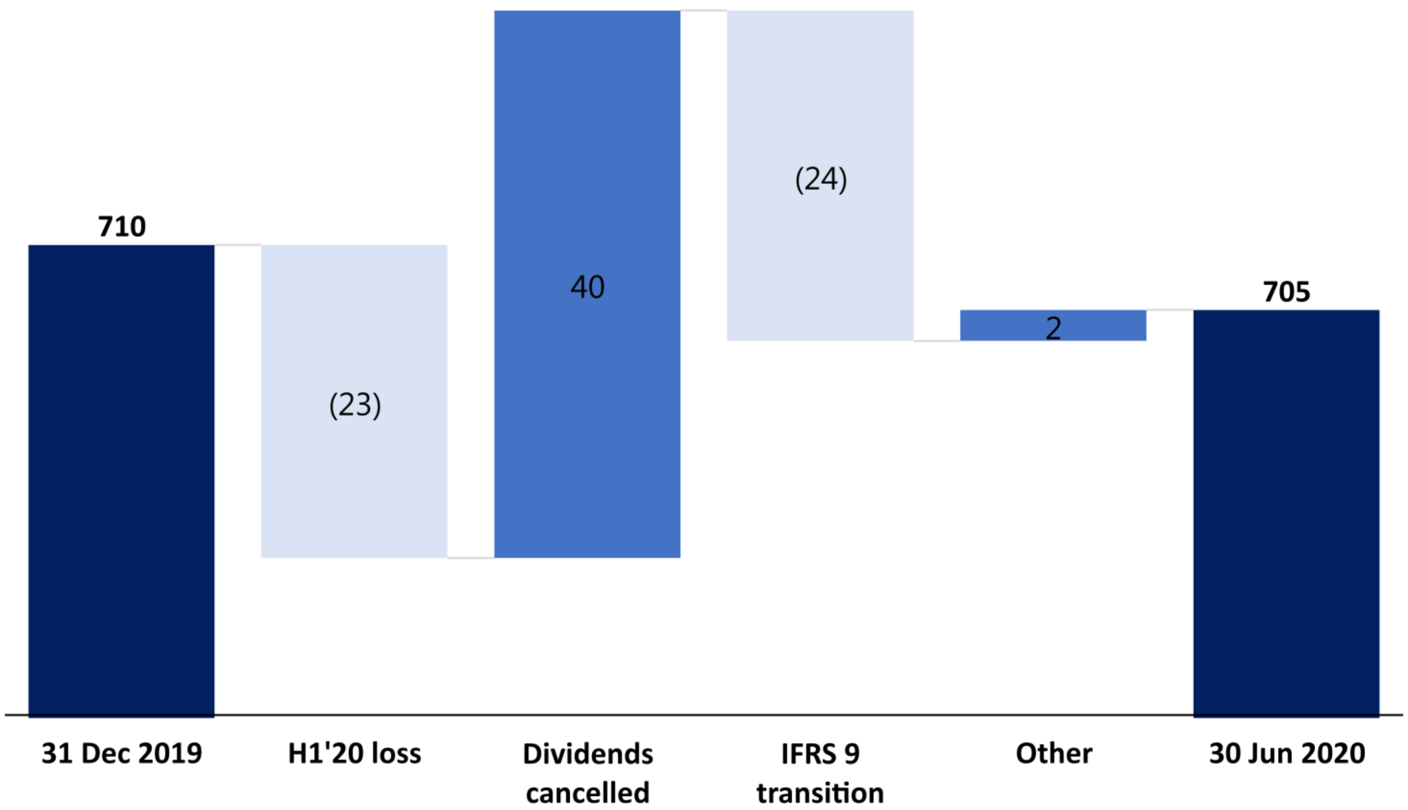
# Significant regulatory capital buffer above requirement

Regulatory capital (£m)

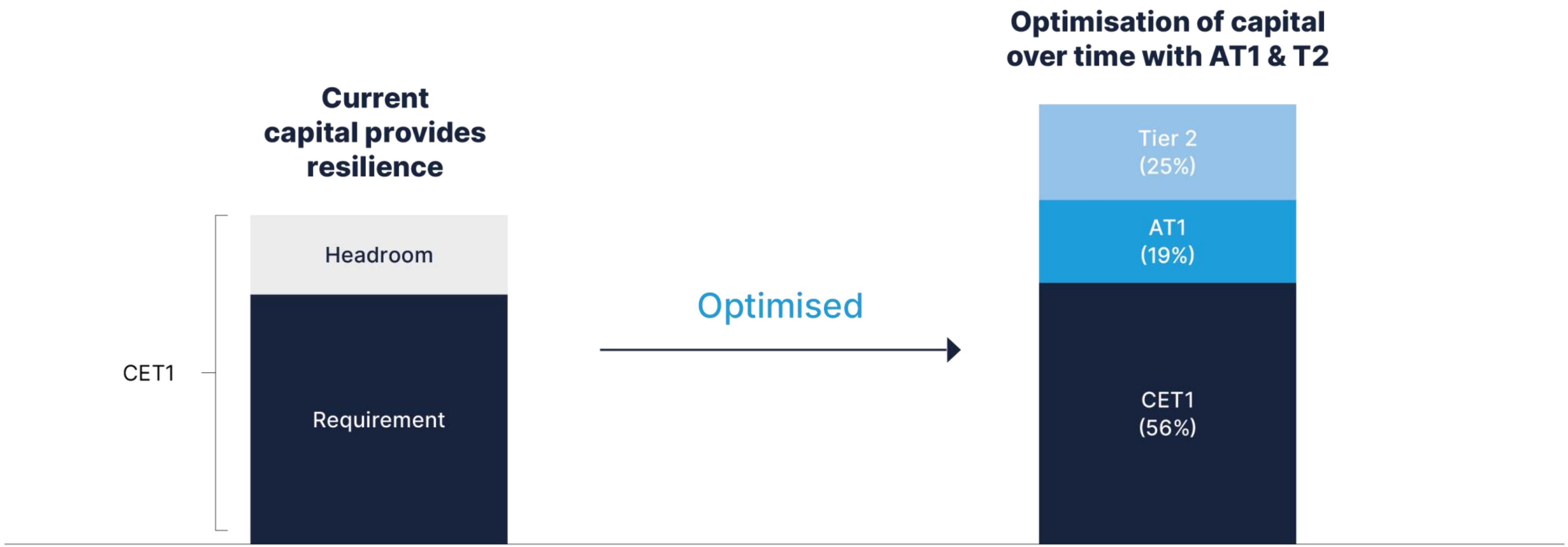



## Total capital ratio

**CET1 35.4%**

- CET1 ratio of 35.4%
- Strong Regulatory Capital resource maintained
- Headroom capacity increased from December 2019 driven by:
  - Preserving capital through cancellation of the 2019 dividend
  - Lower RWE in respect of customer receivables
  - Relief from Covid-19 measures in respect of IFRS 9 transition
  - Relief from counter cyclical buffer

# Strong capital base provides resilience and has capacity to drive growth

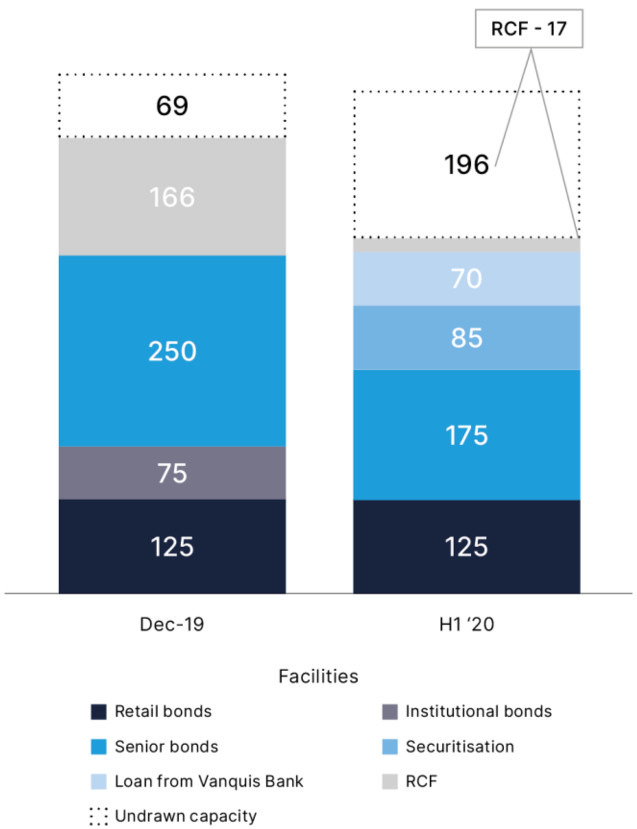



- Capital stack is currently held entirely in CET1 capital; all growth currently funded by CET1
- There is an opportunity to support growth through a more cost effective and efficient capital stack
- To lower the overall cost of capital, Tier 2 issuance would be our initial focus and this provides additional capacity for growth and an improved ROE

# Funding: focus on balance sheet management

| | |
|---|---|
| **Our commitment** | Capital markets day set out our funding principles, to drive more cost effective liabilities management |
| **Delivered in 2020** | • Moneybarn securitisation signed in January 2020<br>• Early repaid M&G facility (£25m)<br>• In line with contractual maturity, repaid a £25m bond in April<br>• Successful tender for £75m of senior bonds<br>• Intragroup funding from Vanquis Bank<br>• Increased undrawn capacity |
| **Further scope** | • Changing the funding mix to be more effective<br>• Securitisation of Vanquis Bank receivables<br>• Optimising the mix of debt capital and senior debt in the liability stack |

PFG non-bank funding (excluding retail deposits) (£m)



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# Strategy and outlook

- Malcolm Le May
- Chief Executive Officer

# Our purpose: 'We help put people on a path to a better everyday life'

## Blueprint – embedded across the Group


- **Purpose:** refreshed to unify and give long term direction
- **Strategic drivers:** critical pillars
- **Behaviours:** embedding an improved culture

**Supported by:**

- Training and development
- Performance management
- KPI measurement

**Increased focus on more sustainable models**

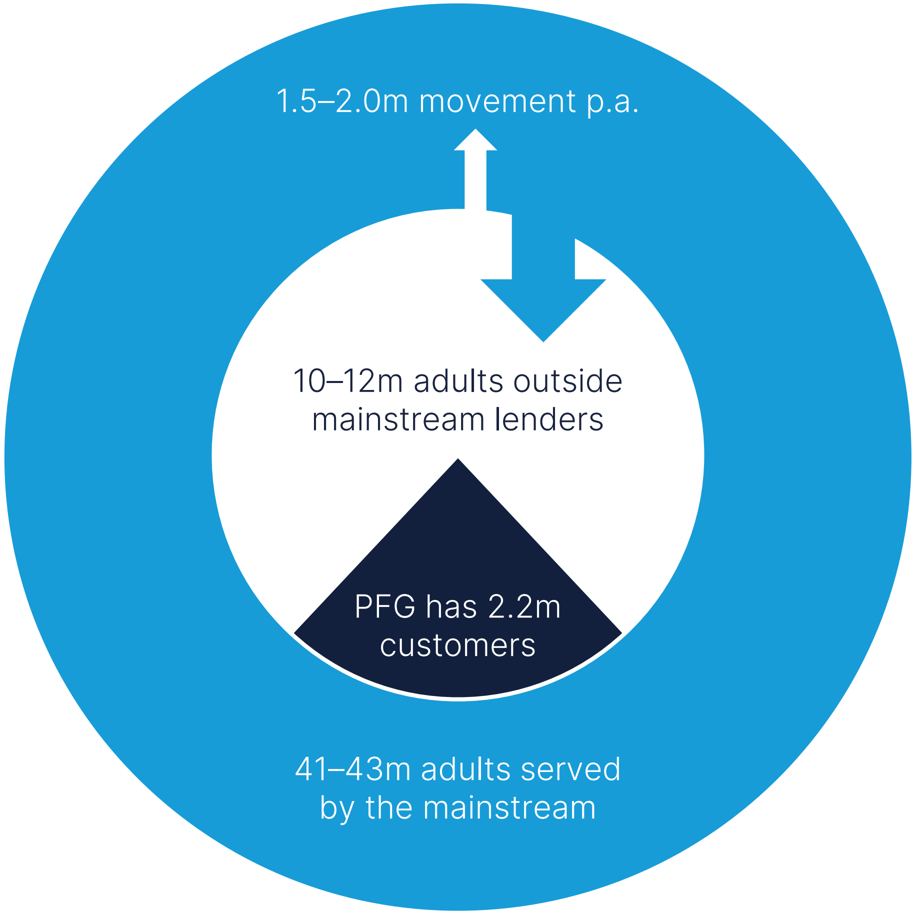
**Increased customer centricity**

**Unifying colleagues**

**Ensuring sustainable leadership in our sector**

# Non-standard market likely to grow as a result of Covid-19

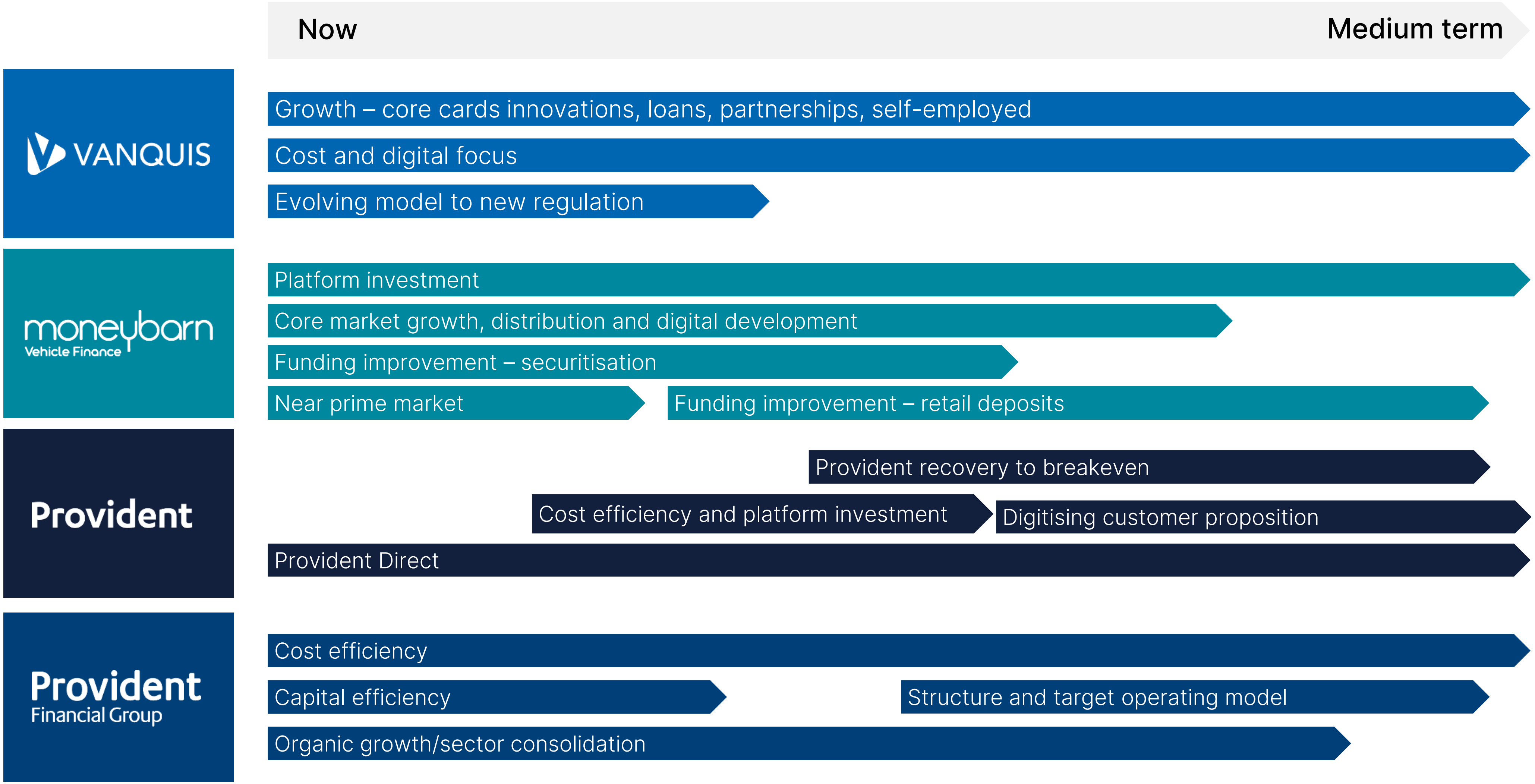
## Significant opportunity to grow remains




## Consumers not well served by mainstream lenders for a number of reasons

- Experienced a **significant life event** e.g. divorce, loss of a job, etc.
- **New to credit** in the UK and therefore have little or no credit history
- Looking to **build or rebuild their credit rating**
- Managing everyday life on **low, irregular or average incomes** with no savings
- Have **variable incomes** e.g. self-employed, a number of part time jobs
- **Value a more tailored product and service**

# Vision for the future



# Summary and outlook

- Resilient performance across the Group in H1, despite challenges of Covid-19
  - Improving trends across customer demand and collections for June and July are encouraging, including a record new business month for Moneybarn in July
  - Continued execution against longer term strategic objectives and proactive decisions taken to improve credit quality
- Our focus for H2'20 remains rebuilding the Group's receivables balances (IFRS 9 drag) and improving our customer's digital journey
- Expected increase in non-prime customer numbers with simultaneous reduction in the supply of credit into the market
- However, the near-term outlook remains uncertain:
  - A significant deterioration in the outlook for the UK economy
  - The effect of furlough schemes being withdrawn on our customers
  - A rise in unemployment over and above current economic forecasts
- Longer-term strategic ambitions remain to deliver sustainable returns to shareholders including a ROE of 20-25% and receivables growth through the cycle

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# Questions

- Appendix
- Contacts

# Appendix

# Vanquis Bank results

| | Six months to 30 June | | |
|---|---|---|---|
| | 2020 £m | 2019 £m | Change % |
| Customer numbers ('000) | 1,694 | 1,791 | (5.4%) |
| Period end receivables | 1,202 | 1,465 | (18.0%) |
| Average receivables | 1,341 | 1,465 | (8.5%) |
| Revenue | 261.1 | 291.1 | (10.3%) |
| Interest | (16.3) | (15.9) | (2.5%) |
| **Net interest margin** | 244.8 | 275.2 | (11.0%) |
| *Revenue yield* | *39.4%* | *40.9%* | *(3.7%)* |
| *Cost of funding* | *(2.3%)* | *(2.3%)* | *(1.1%)* |
| *Net interest margin* | *37.1%* | *38.6%* | *(3.8%)* |
| Impairment | (149.9) | (96.6) | (55.2%) |
| **Risk-adjusted net interest margin** | 94.9 | 178.6 | (46.9%) |
| Costs | (83.1) | (88.1) | 5.7% |
| **Adjusted profit before tax** | 11.8 | 90.5 | (87.0%) |
| *Cost income ratio* | *31.2%* | *28.2%* | *(10.6%)* |
| *Return on assets* | *7.1%* | *10.8%* | *(34.3%)* |
| *Return on required equity* | *19.3%* | *36.9%* | *(47.7%)* |

# Moneybarn results

| | Six months to 30 June | | |
|---|---|---|---|
| | 2020 £m | 2019 £m | Change % |
| Customer numbers ('000) | 82 | 70 | 17.1% |
| Period end receivables | 529.4 | 484.7 | 9.2% |
| Average receivables | 520.6 | 436.2 | 19.3% |
| Revenue | 66.1 | 58.3 | 13.4% |
| Interest | (13.3) | (13.7) | 2.9% |
| **Net interest margin** | 52.8 | 44.6 | 18.4% |
| *Revenue yield* | *25.2%* | *24.7%* | *2.0%* |
| *Cost of funding* | *(5.4%)* | *(5.6%)* | *(3.6%)* |
| *Net interest margin* | *19.8%* | *19.1%* | *3.7%* |
| Impairment | (37.5) | (17.5) | (114.3%) |
| **Risk-adjusted net interest margin** | 15.3 | 27.1 | (43.5%) |
| Costs | (12.9) | (11.6) | (11.2%) |
| **Adjusted profit before tax** | 2.4 | 15.5 | (84.5%) |
| *Cost income ratio* | *17.1%* | *19.4%* | *11.9%* |
| *Return on assets* | *8.9%* | *10.9%* | *(18.3%)* |

# CCD results

| | Six months to 30 June | | |
|---|---|---|---|
| | 2020 £m | 2019 £m | Change % |
| Customer numbers ('000) | 379 | 531 | (28.6%) |
| Period end receivables | 146.9 | 245.4 | (40.1%) |
| Average receivables | 191.2 | 254.2 | (24.8%) |
| Revenue | 118.4 | 152.1 | (22.2%) |
| Interest | (4.6) | (5.1) | 9.8% |
| Net interest margin | 113.8 | 147.0 | (22.6%) |
| *Revenue yield* | *121.2%* | *117.3%* | *3.3%* |
| *Cost of funding* | *(4.3)%* | *(4.6%)* | *(8.5%)* |
| *Net interest margin* | *116.9%* | *112.7%* | *4.2%* |
| Impairment | (52.9) | (51.8) | (2.1%) |
| Risk-adjusted net interest margin | 60.9 | 95.2 | (36.0%) |
| Costs | (98.5) | (110.3) | 10.7% |
| Adjusted loss before tax | (37.6) | (15.1) | (149.0%) |
| *Cost income ratio* | *75.9%* | *73.4%* | *(3.4%)* |
| *Return on assets* | *(15.8%)* | *(5.5%)* | *(172.4%)* |

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