PFG | Provident Financial Group

Understanding the big picture and our customers' needs

2016 preliminary results

Today's presentation

> Highlights and business overview	**Peter Crook**
> Financial review	**Andrew Fisher**
> Concluding remarks	**Peter Crook**
> Questions	

Highlights and business overview

Peter Crook – Chief Executive

Highlights

Strong performance supports a 12.1% dividend increase

> Adjusted profit before tax[1] up 14.1% to £334.1m and adjusted basic EPS[1] up 9.2% to 177.5p

> Total dividend per share up 12.1% to 134.6p fully supported by capital generation and earnings growth

> Vanquis Bank profits up 11.3% with strong lift in fourth quarter new account bookings

> Testing of instalment loans to credit card customers launched in November with encouraging early results

> CCD returns to growth and profits up 9.3%

> Robust performance in home credit and programme launched to migrate the business to a more efficient and effective field structure during 2017

> Good progress in developing further lending and digital capability at Satsuma

> Moneybarn profits up 46.0% and continued strong growth in new business

> Group fully funded to October 2019 following recent extension of core banking facilities

[1] Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2015: £7.5m) and a net exceptional gain of £17.3m (2015: exceptional cost of £11.8m)

Market conditions and business positioning

Vanquis Bank

Market conditions	Business positioning
> Strong demand from developing the underserved, non-standard credit card market	> Initiatives in place to expand credit card distribution and proposition
> Marketing activity of competitors continues at similar levels	> Chrome branded card launched to address nearer prime segment of non-standard market
	> Pipeline of opportunities to partner with other lending institutions, brokers and providers of retail finance
> Benefit of favourable UK employment market on delinquency trends has run its course	> Unchanged credit standards supported improvement in arrears during first nine months of the year
> Strong demand for larger, longer duration loans from a heavily underserved area of the non-standard market	> Loans platform successfully developed and testing of instalment loans proposition to credit card customers commenced in November

Market conditions and business positioning

Home credit

Market conditions

- No discernible change in the competitive landscape in home credit although modest industry consolidation continues
- Core of between 2m and 3m non-standard consumers for whom face-to-face relationship is critical for assessing affordability and providing forbearance
- Household incomes and cost of living remain stable
- Demand from home credit customers and customer confidence remains robust

Business positioning

- Home credit business is continuing to evolve and delivering strong returns
- Receivables growth re-established from focus on serving good quality existing customers
- Profits delivered from improved credit quality, standardised arrears processes and significant cost savings
- Programme launched to migrate to a more efficient and effective field organisation structure during 2017 supported by deployment of further technology

Home credit

Proposed changes to the operating model

> Repositioning of home credit has been successful in maintaining profits and increasing returns in a mature market:

- Successful deployment of hand-held technology to the field force
- Reduction in the number of self-employed agents from over 10,000 to 4,500
- Reduction in the field headcount by over 1,000
- Development of sophisticated central underwriting and data analytics

> Self-employed model for agents has served us well over a long period of time

> BUT continually increasing customer expectations and the development of technology has led us to conclude that the current model needs to be updated to deliver a more efficient and effective business

> Proposal developed, subject to workforce consultation, to enhance the home credit model in three ways:

- Serving customers through 2,500 full time employed Customer Experience Managers
- Changing the field management structure in the UK
- Deploying further technology, including route planning and voice recording

> New model is proposed to be fully operational from July 2017

> The proposal represents a logical extension of the excellent progress made since the repositioning in 2013

Market conditions and business positioning

Satsuma

Market conditions

> Changing customer preferences and dislocation from payday regulation driving growth in online lending

> Online small-sum, short-term loans market has been relatively crowded as payday lenders have adapted their business models

> Competitors investing heavily in above the line advertising to attract customers and struggling to make positive returns

> Evidence that market consolidation is now beginning

Business positioning

> Drive to further develop underwriting, cost effective distribution channels and customer journey have been successful in driving down cost per account booked

> Small-sum, short-term weekly product augmented with the launch of a monthly product in November

> Further lending to established customers developing well

> Increase in business volumes in fourth quarter, with good trajectory as the business approaches break even

> Further important developments in 2017 including mobile app

Market conditions and business positioning

Moneybarn

Market conditions

- Market supply remains below levels in 2007
- Market is competitive with around 10 active competitors
- Demand for second hand cars in the non-standard market moderated during the fourth quarter but recovered strongly in early 2017
- Growth supported by customer needs, under supply of non-standard finance and value for money product proposition

Business positioning

- Market leadership and primacy reinforced by access to group funding and broadening of product range
- Investment in market leading platform and operational capacity to support significant growth potential
- Light commercial vehicles proposition through existing brokers progressing well
- Launch of new website to support B2C proposition

Brexit

PFG is well positioned to trade through any economic slowdown

Economic risk	PFG dynamic
Rising unemployment	• Vanquis Bank has not changed its credit standards since 2009 and maintains strict discipline over managing card utilisation • Moneybarn has relatively low default rates and recourse to the vehicle • Home credit is late cycle and impacted by under employment rather than unemployment
Inflation from weak exchange rate and more expensive imports	• Only material impact is on disposable income of home credit customers and credit quality has significantly improved since inflationary pressures between 2010 and 2012
Increased interest rates	• Customers typically not home owners or heavily indebted • Interest cost is a relatively small proportion of PFG's cost base
Fragile debt capital markets	• Headroom on committed facilities to fund growth and contractual maturities to October 2019 • Diverse funding sources, including retail deposits

> **PFG performed robustly through the 2008-2010 downturn and it has a strong, well diversified funding position**

> Addressable customer base may increase during a downturn due to reduced risk appetite or funding constraints of prime or other wholesale funded non-standard lenders

Financial review

Andrew Fisher – Finance Director

Group

Results summary

	Year ended 31 December		
	2016 £m	2015 £m	Change %
Vanquis Bank:			
- UK	**204.5**	185.5	10.2
- Poland[1]	**-**	(1.8)	100.0
Total Vanquis Bank	**204.5**	183.7	11.3
CCD	**115.2**	105.4	9.3
Moneybarn	**31.1**	21.3	46.0
Central costs	**(16.7)**	(17.5)	4.6
Adjusted profit before tax[2]	**334.1**	292.9	14.1
Effective tax rate (%)	**23.20**	20.25	
Adjusted basic earnings per share[2] (pence)	**177.5**	162.6	9.2
Return on assets[3] (%)	**15.3**	16.1	
Return on assets[3] excluding impact of bank corporation tax surcharge (%)	**16.2**	16.1	
Total dividend per share (pence)	**134.6**	120.1	12.1

1 Receivables book sold on 1 April 2015 and business now closed
2 Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2015: £7.5m) and a net exceptional gain of £17.3m (2015: exceptional cost of £11.8m)
3 Adjusted profit before interest after tax as a percentage of average receivables

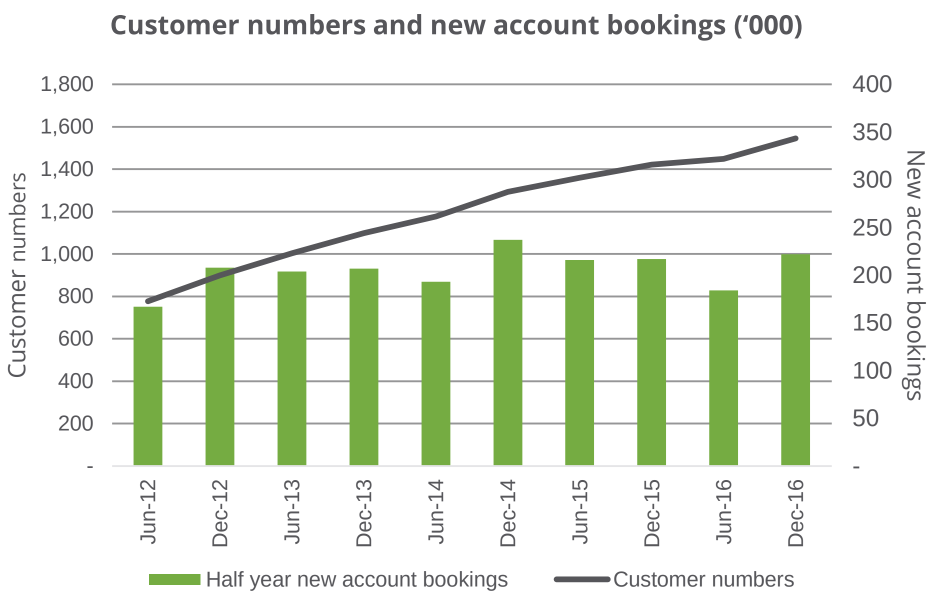
Vanquis Bank
Results

	Year ended 31 December		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**1,545**	1,421	8.7
Year-end receivables	**1,424.7**	1,252.0	13.8
Average receivables	**1,307.0**	1,157.1	13.0
Revenue	**583.7**	538.6	8.4
Impairment	**(162.4)**	(158.9)	(2.2)
Revenue less impairment	**421.3**	379.7	11.0
Risk-adjusted margin[1] (%)	**32.2**	32.8	
Costs	**(174.4)**	(151.1)	(15.4)
Interest	**(42.4)**	(43.1)	1.6
Adjusted profit before tax[2]	**204.5**	185.5	10.2
Return on assets[3] (%)	**13.8**	15.8	
Return on assets[3] excluding impact of bank corporation tax surcharge (%)	**15.1**	15.8	

1 Revenue less impairment as a percentage of average receivables
2 Adjusted profit before tax is stated before an exceptional gain of £20.2m (2015: £nil) in respect of Vanquis Bank's interest in Visa Europe following completion of Visa Inc.'s acquisition of Visa Europe on 21 June 2016
3 Adjusted profit before interest after tax as a percentage of average receivables

Vanquis Bank

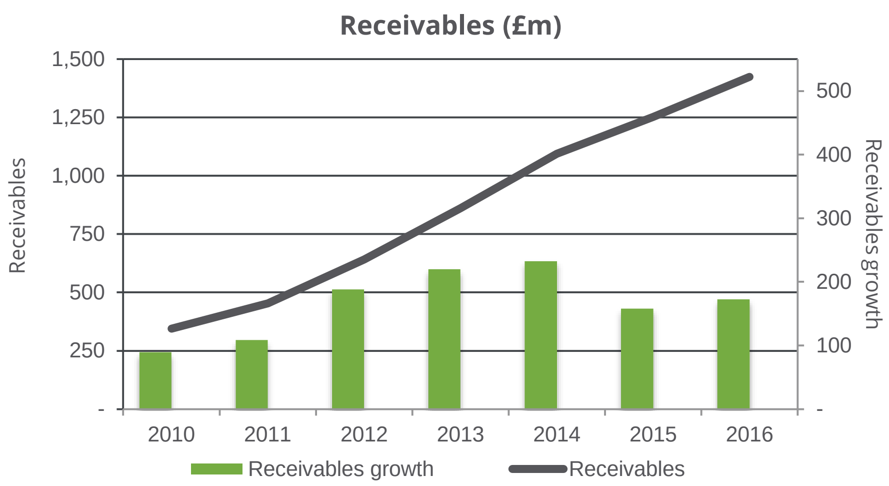
Customer numbers

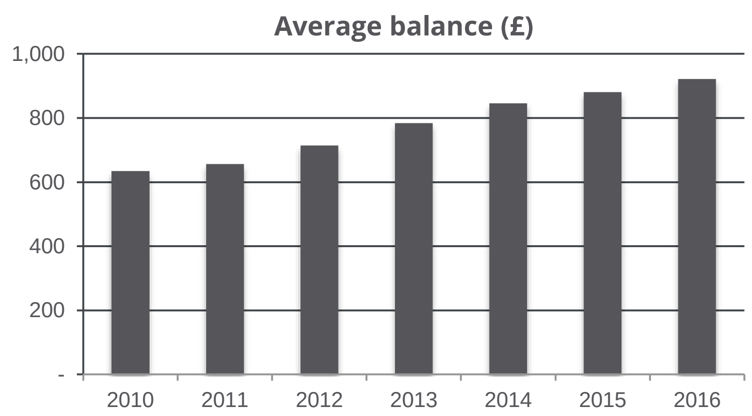


- New account bookings of 406k, 27k lower than 2015:
  - Reduction of 43k from face-to-face following decision to curtail this channel
- Second half bookings of 222k versus first half bookings of 184k:
  - Marketing weighted to the second half
  - Strong momentum from internet channel
  - Credit card proposition expanded into the nearer prime segment of the non-standard market (Chrome)
- Step-up in new account bookings expected in 2017:
  - Momentum from second half of 2016
  - Good pipeline of new initiatives to augment medium-term growth
  - Related increase in year 1 investment associated with all new vintages

Vanquis Bank

Receivables





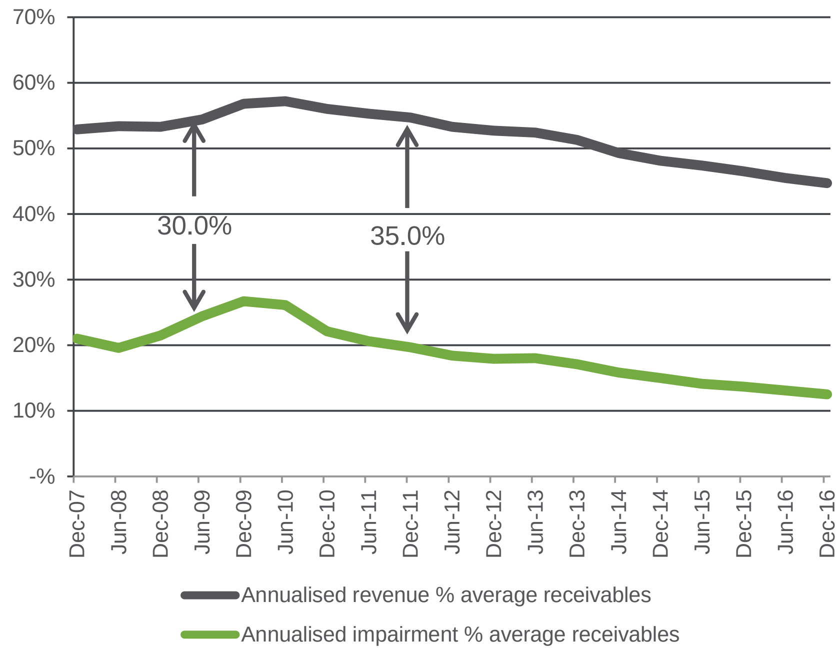
> Receivables growth of 13.8% during 2016:

- Growth in customer numbers of 8.7%
- Good performance from the credit line increase programme to established customers

> Average customer balance increased to £922 in 2016 and is progressing towards medium-term guidance of £1,000

Vanquis Bank

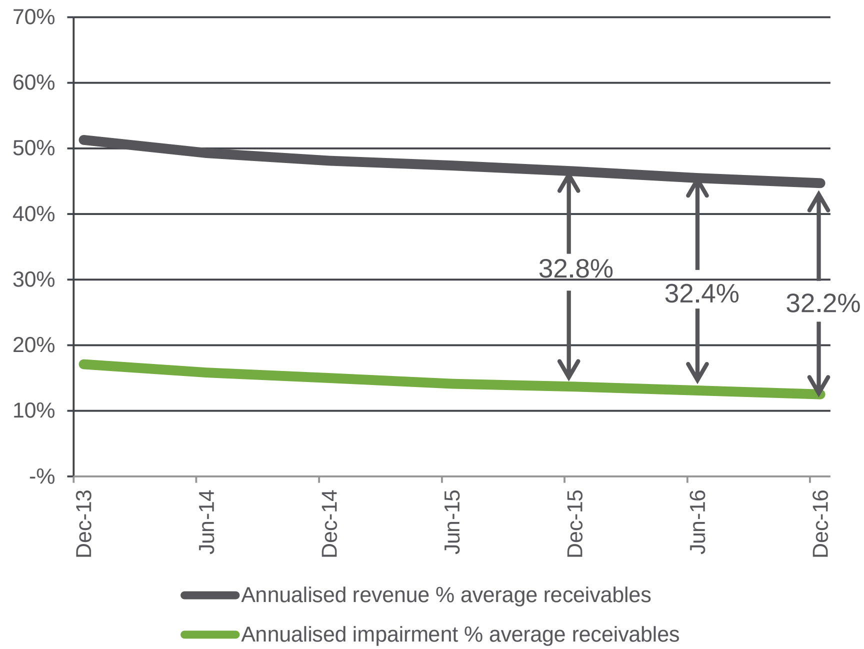
Risk-adjusted margin (RAM)



- Business model supports stability of RAM:
  - 'Low and grow' strategy
  - High credit line utilisation significantly reduces volatility of credit losses
- Vanquis Bank delivered a RAM above 30% during UK economic downturn between 2008 and 2010
- RAM expanded as UK employment market improved:
  - Consistently tight credit standards
  - New business is only booked which is expected to meet minimum threshold returns

Vanquis Bank

Risk-adjusted margin (RAM)



> RAM moderated from 32.8% to 32.2% over last 12 months:

Reduction in delinquency through to September 2016	+1.3%
Lower interest yield and default fees	-0.9%
Changes to ROP product and reduction in interchange fees	-1.0%
RAM	-0.6%

> RAM expected to be closer to 30% for 2017 based on stable delinquency levels

Vanquis Bank

Arrears profile

	At 31 December (% receivables)	
	2016	2015
In order	**94.0**	93.3
In arrears:		
- Past due but not impaired	**-**	-
- Impaired	**6.0**	6.7
Total	**100.0**	100.0

> Improved profile reflects arrears running at record lows for the business

Impairment policy:

> Loans deemed to be impaired as soon as 1 contractual monthly payment is missed

> Provision of over 80% made against accounts that are 90 days in arrears

> Realistic accounting policy applied consistently which is prudent when benchmarked against other card issuers

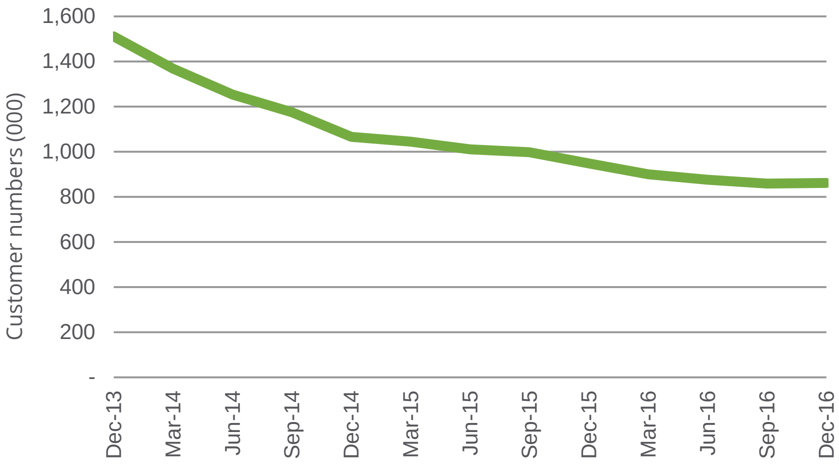
CCD
Results

	Year ended 31 December		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**862**	948	(9.1)
Year-end receivables	**584.8**	545.1	7.3
Average receivables	**508.7**	499.5	1.8
Revenue	**518.8**	517.4	0.3
Impairment	**(120.0)**	(106.6)	(12.6)
Revenue less impairment	**398.8**	410.8	(2.9)
Risk-adjusted margin[1] (%)	**78.4**	82.2	
Costs	**(257.0)**	(278.3)	7.7
Interest	**(26.6)**	(27.1)	1.8
Adjusted profit before tax[2]	**115.2**	105.4	9.3
Return on assets[3] (%)	**22.3**	21.2	

1 Revenue less impairment as a percentage of average receivables
2 Adjusted profit before tax is stated before exceptional costs of £2.9m in respect of the impairment of glo's IT platform within CCD following the decision to develop guarantor loans as part of the wider Vanquis Bank loans proposition on a separate IT platform (2015: exceptional cost of £11.8m in respect of a business restructuring)
3 Adjusted profit before interest after tax as a percentage of average receivables

CCD

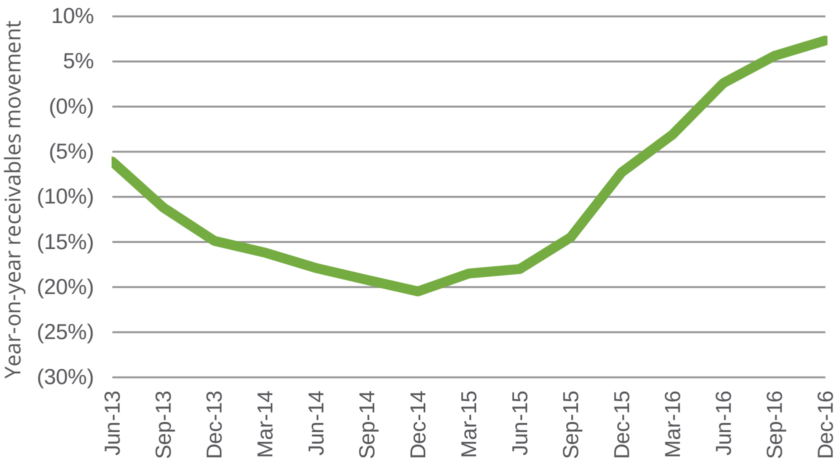
Customer numbers



- Repositioning of home credit as a smaller, better-quality business:
  - Tighter credit standards
  - Curtailed recruitment of more marginal customers
  - Improvement in overall credit quality
- Customer numbers now stabilised:
  - 9.1% year-on-year reduction in 2016 took place in first half
  - Stable customer numbers during second half

CCD

Receivables



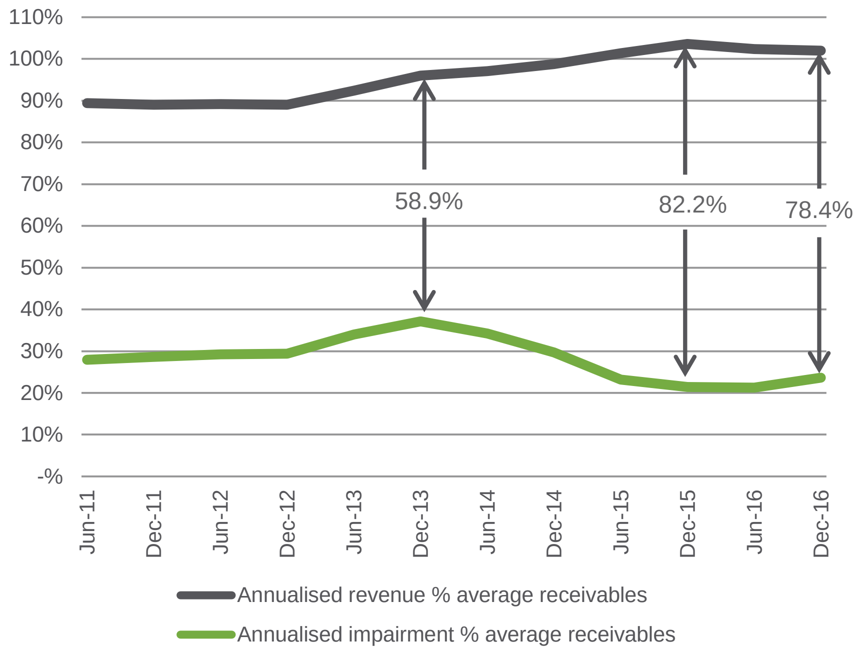
> Demand and customer confidence remain robust

> Year end receivables 7.3% higher than 2015:

- 9% increase in sales during 2016
- Focus on good quality existing customers
- Eligible for larger amounts of credit over a longer duration

CCD

Risk-adjusted margin (RAM)



- Significant expansion in RAM from repositioning of home credit since 2013
- RAM of 78.4% in 2016 versus 82.2% in 2015
- Modest reduction in the revenue yield from 103.6% in 2015 to 102.0% in 2016:
  - Increase in average loan size and duration
- Impairment ratio has increased from 21.4% in 2015 to 23.6% in 2016:
  - Stable arrears and collections performance in 2016
  - Compares with strong improvements in both these metrics during 2015 and associated impairment credits
- RAM expected to remain stable in 2017

CCD

Arrears profile

	At 31 December (% receivables)	
	2016	2015
In order	**55.3**	51.3
In arrears:		
- Past due but not impaired	**10.9**	10.7
- Impaired	**33.8**	38.0
Total	**100.0**	100.0

- > Based on contractual arrears
- > Past due but not impaired includes customers who have missed 1 payment in last 12 weeks
- > IFRS 7 disclosures consistent with improvement in quality of receivables book

Impairment policy:

- > Based on last 12 weeks payment performance
- > Loans deemed impaired if more than 1 contractual weekly payment missed in previous 12 weeks
- > 95%+ provision against loans for which no payment received in last 12 weeks
- > Timely, realistic provisioning which has been applied consistently and reinforces the right behaviour amongst agents and employees

Moneybarn

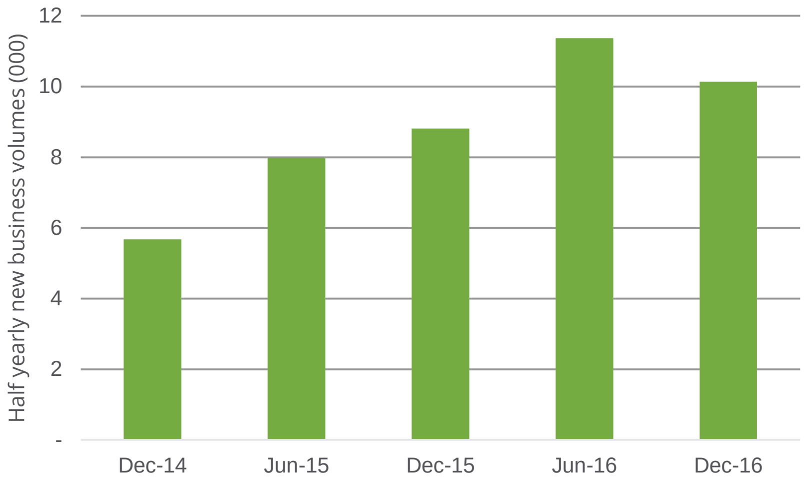
Results

	Year ended 31 December		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**41**	31	32.3
Year-end receivables	**297.3**	219.6	35.4
Average receivables	**266.6**	190.8	39.7
Revenue	**80.7**	55.3	45.9
Impairment	**(16.4)**	(8.9)	(84.3)
Revenue less impairment	**64.3**	46.4	38.6
Risk-adjusted margin[1] (%)	**24.1**	24.3	
Costs	**(20.5)**	(15.6)	(31.4)
Interest	**(12.7)**	(9.5)	(33.7)
Adjusted profit before tax[2]	**31.1**	21.3	46.0
Return on assets[3] (%)	**13.1**	12.9	

1 Revenue less impairment as a percentage of average receivables
2 Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2015: £7.5m)
3 Adjusted profit before interest after tax as a percentage of average receivables

Moneybarn

New business volumes

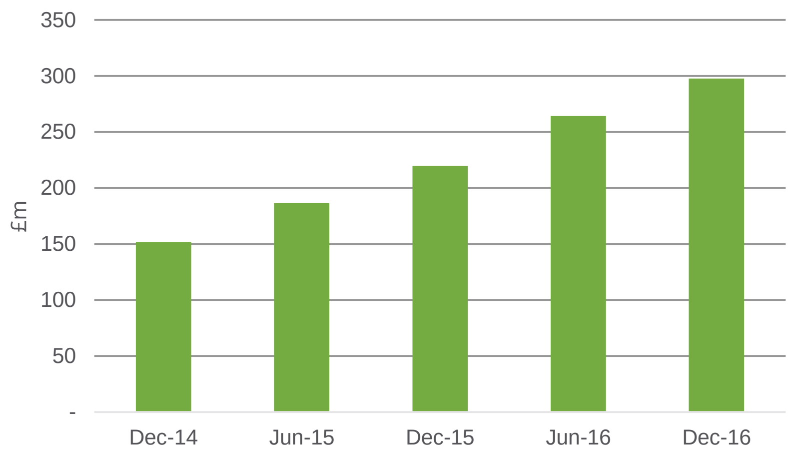


> 2016 new business volumes of 21,500 show year-on-year growth of 28.0%:

- Benefit of group funding and product development has reinforced primacy with broker network
- Investment in platform and people
- Moderation in new business volumes during the seasonally quieter fourth quarter
- Strong start to 2017

Moneybarn

Receivables



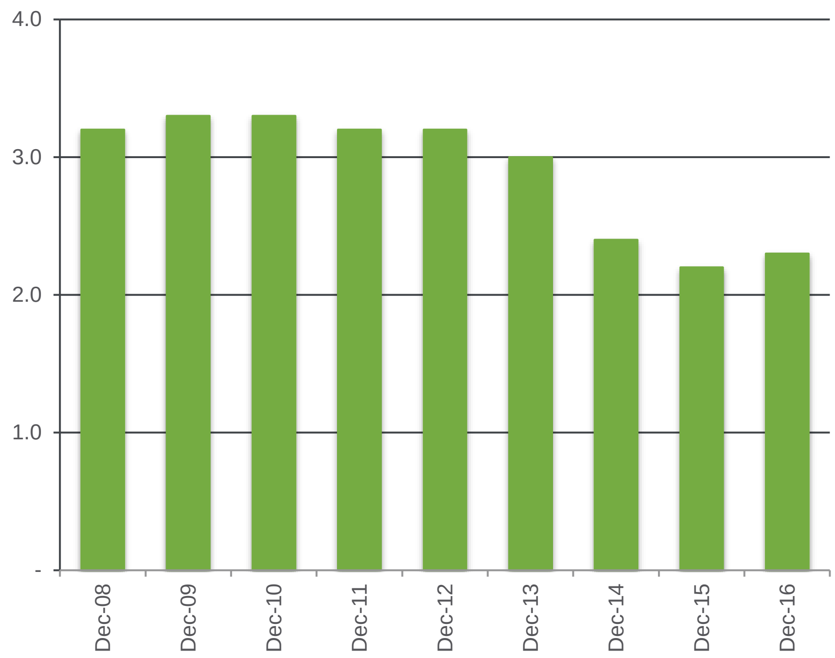
- Year-on-year receivables growth of 35.4%
- Average loan value reduced to £8,200 versus £8,900 in 2015 reflecting modest shift in mix to lower value, higher yielding vehicles
- Receivables book at £297.3m, up from £131.2m at acquisition (August 2014)

Group

Balance sheet

	At 31 December 2016 £m	2015 £m
Goodwill	**71.2**	71.2
Acquisition intangibles	**57.5**	65.0
Receivables:		
- Vanquis Bank	**1,424,7**	1,252.0
- Home credit	**560.0**	522.2
- Satsuma	**18.2**	12.1
- glo	**6.6**	10.8
- Moneybarn	**297.3**	219.6
Total receivables	**2,306.8**	2,016.7
Pension asset	**72.4**	62.3
Available for sale investment (Visa shares)	**8.0**	17.5
Liquid asset buffer	**168.9**	134.2
Bank and bond funding	**(913.9)**	(865.2)
Retail deposits	**(941.2)**	(731.0)
Other	**(39.6)**	(63.0)
Net assets	**790.1**	707.7
Gearing (times)	**2.3**	2.2

Group
Gearing



Gearing calculated as:

$$\frac{\text{(Total borrowings – liquid assets buffer)}}{\text{(Net assets – pension asset, net of deferred tax – fair value of derivatives)}}$$

- Strong capital generation has consistently funded dividends and growth
- Reduction during 2014 and 2015 reflected:
  - Equity raised to fund acquisition of Moneybarn in order to preserve regulatory capital levels
  - Capital release from shrinkage of home credit receivables
- Gearing of 2.3 times at December 2016 versus banking covenant of 5.0 times:
  - Uplift from 2.2 times at December 2015 reflects funding of growth
  - Strong receivables growth of £300m

Group

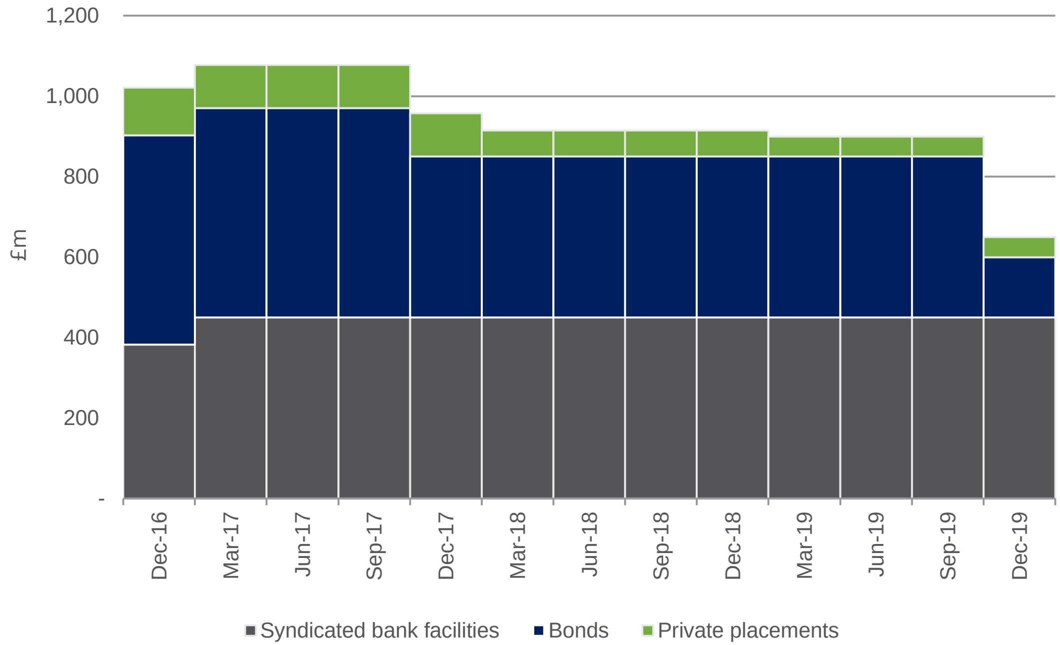
Diversified funding base

	At 31 December 2016	
	Pre renewal £m	**Post renewal[1] £m**
Banks	383	**450**
Bonds and private placements:		
- Senior public bond	250	**250**
- M&G term loan	90	**90**
- Other sterling/euro medium-term notes	28	**28**
- Retail bonds	270	**270**
Total bonds and private placements	638	**638**
Vanquis Bank retail deposits	941	**941**
Total committed facilities	1,962	**2,029**
Borrowings under committed facilities[2]	1,822	**1,822**
Headroom on committed borrowing facilities	140	**207**
Additional retail deposits capacity[3]	234	**234**
Funding capacity	374	**441**

1 Stated after the renewal of the syndicated bank facility on 31 January 2017
2 Borrowings under committed facilities are stated net of £30m of cash held on deposit which was used to repay the syndicated bank facility immediately after the year end
3 Represents the Vanquis Bank intercompany loan from Provident Financial plc of £234m at 31 December 2016

Group

Maturity profile of debt



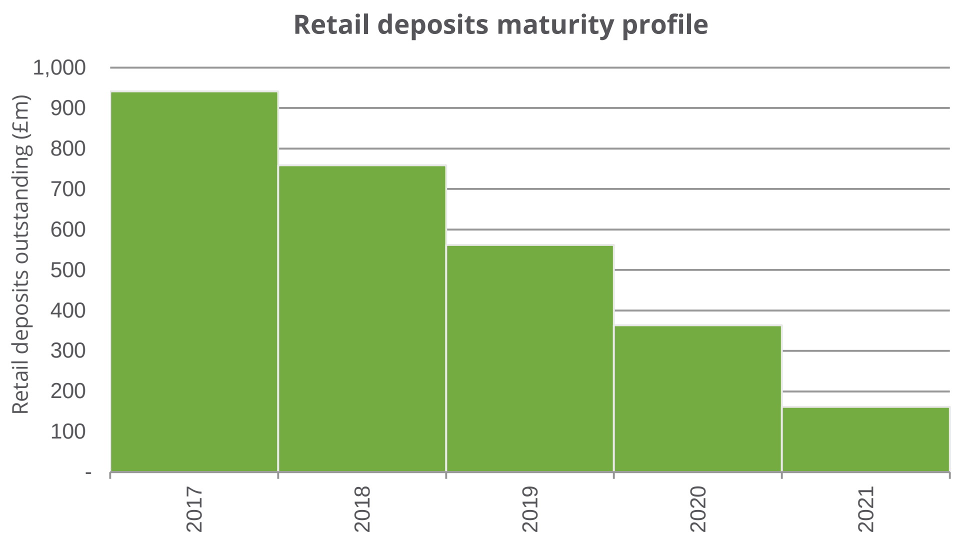
> Relatively low maturities over the next 30 months following renewal of syndicated bank facility

> Weighted average period to maturity of committed borrowings now 2.9 years

> Headroom on committed facilities plus Vanquis Bank retail deposits programme provides funding through to October 2019

Vanquis Bank

Retail deposits programme



> Retail deposits represent 66% of Vanquis Bank's receivables (2015: 58%):

- Funding growth
- Historically attractive rates

> Weighted average period to maturity on deposits of 2.6 years

> Blended deposits rate of 3.0%, after cost of holding liquid assets buffer

Group

Alignment of dividend policy, gearing and growth

High returns businesses

Dividend policy
Cover ≥ 1.25x

Gearing
≤ 3.5x versus covenant of 5.0x

Growth
Supports receivables growth of £300m+

Group

Strong capital generation

	Year ended 31 December	
	2016 £m	2015 £m
Vanquis Bank	**152.2**	143.5
CCD	**80.1**	65.1
Moneybarn	**7.2**	0.2
Central	**(6.3)**	(18.9)
Capital generated[1]	**233.2**	189.9
Dividends declared	**(195.7)**	(174.4)
Surplus capital generated	**37.5**	15.5

1 Capital generated is calculated as net cash generated from operating activities, after adding back 80% of the growth in customer receivables funded by borrowings, less net cash used in investing activities

- Capital generation from Vanquis Bank reflects one-off cash proceeds from sale of Visa shares (£12m) and higher tax payments primarily due to the bank tax surcharge (£15m)
- Improved capital generation in CCD reflects reduction in start-up losses in Satsuma and exceptional cost in 2015
- Moneybarn funding its own rapid growth and set to become increasingly capital generative

Concluding remarks

Peter Crook – Chief Executive

Regulation

Group

Transfer of regulation to the FCA

> Vanquis Bank and Moneybarn are fully authorised by the FCA

> CCD continues to operate under an interim permission, consistent with other sizeable firms in the home credit market

> The ongoing supervision under the FCA is more exacting than the previous OFT regime

FCA credit card review

> The FCA is continuing its review of persistent debt, early intervention and how credit limit increases are applied

> Further consultation is expected in the first quarter of 2017

FCA high-cost credit review

> The FCA are conducting a market-wide review of high-cost credit in 2017 which will include home credit, guarantor loans, rent-to-own and pawn broking

> Represents a natural extension to the FCA's reviews of: (i) the high-cost short-term credit remedies introduced in 2015; and (ii) overdrafts, which were already scheduled to take place in 2017

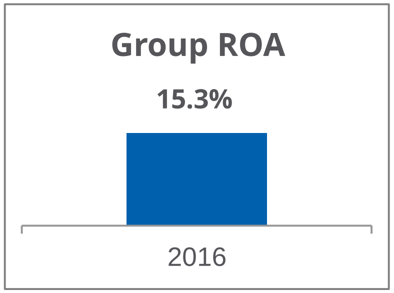
> Group will respond to information requests and maintain a constructive dialogue with the FCA to assist their review

Business case

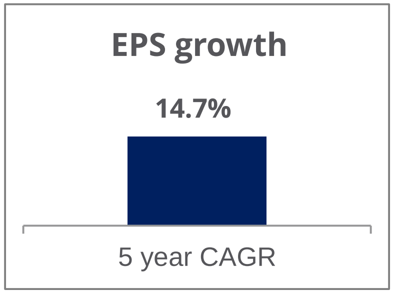
PFG is well placed to continue to deliver excellent returns to shareholders

PFG

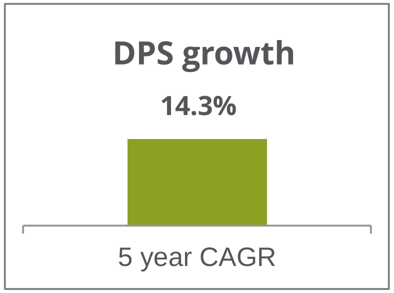
- Market leader in non-standard credit with sustainable business models
- Good mix of businesses with attractive growth and returns over medium term
- Proven low volatility through economic cycle
- Significant competitive advantage in technology, marketing, underwriting and collections
- Highly skilled and experienced management
- Robust balance sheet and prudent funding
- Strong capital generation supports growth and progressive dividend policy



High returns businesses



Continuing to deliver strong growth



Progressive dividends
Cover ≥ 1.25x

Capital Markets Day

Group

> Capital Markets Day being held on 4 April 2017

> Updates will be provided on all of the group's businesses

> Key areas of focus will be:

- The proposed enhancements to the home credit operating model
- Initiatives in place to expand Vanquis Bank's credit card distribution and proposition
- Development of the group's loans proposition in Vanquis Bank and Satsuma
- The group's progress in enhancing its digital capability

Outlook

Group

> Vanquis Bank continues to deliver a strong financial performance:

- Strong new account booking momentum and good pipeline of initiatives to further augment growth in 2017 and beyond
- Performance of the recently launched unsecured loans pilot is encouraging and represents a significant opportunity

> Re-positioned home credit business delivered a robust performance in 2016:

- Business is now actively pursuing its plans to secure significant financial benefits from migrating to a more efficient and effective field organisation supported by the deployment of further technology

> Satsuma has made good progress in 2016:

- On course to deliver profitable growth from the attractive market opportunity available to it

> Moneybarn has achieved another significant uplift in new business volumes in 2016:

- Leaves the business in excellent shape to deliver strong growth

> Group's funding capacity and liquidity positions are strong with headroom to meet contractual maturities and internal growth plans through to October 2019

> Group has made a good start to 2017

Questions

Peter Crook – Chief Executive

Andrew Fisher – Finance Director

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