PFG | Provident Financial Group

2016 interim results

Providing credit to those who would otherwise be financially excluded

26.07.16

Today's presentation

1. Highlights and business overview — Peter Crook
2. Financial review — Andrew Fisher
3. Concluding remarks — Peter Crook
4. Questions

Highlights and business overview

Peter Crook – Chief Executive

PFG Provident Financial Group

Highlights

Strong group performance and dividend increase

- Adjusted profit before tax[1] up 17.6% to £148.9m and adjusted EPS[1] up 10.7% to 77.9p
- Interim dividend per share up 10.2% to 43.2p supported by capital generation and earnings growth
- Vanquis Bank profits and receivables up over 12%
- CCD returns to growth and first half profits up 14.5%
- Moneybarn profits up 45% and continued strong growth in new business
- Good progress in developing further lending and digital capability at Satsuma
- glo expected to be rolled-out towards end of 2016
- Robust funding and liquidity position with group fully funded through to May 2018

[1] Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £3.7m (2015: £3.7m) and an exceptional gain of £20.2m (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	› Unchanged credit standards, supporting record low arrears and above target risk-adjusted margin
› Marketing activity of competitors continues at similar levels	› Spend on direct mail programme weighted towards second half to take advantage of identified productivity gains
› Continued improvement in UK employment market is assisting delinquency trends	› Encouraging pipeline of opportunity is expected to add further growth momentum
› Opportunity to broaden business through partnering with other lending institutions, brokers or providers of retail finance	
› Strong demand for larger, longer duration loans from a heavily underserved area of the non-standard market	› glo expected to proceed to roll-out under responsibility of Vanquis management in late 2016

Market conditions and business positioning

Home credit

Market conditions

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

Business positioning

- Repositioned home credit business is delivering strong returns
- Receivables growth re-established from focus on serving good quality existing customers
- Profits supported by higher margins from improved credit quality, standardised arrears processes and significant cost savings
- Continuing investment in technology, data analysis and people will support further improvements in efficiency and effectiveness

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 is 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
- Market for loans of greater than 12 months in duration is growing and is underserved

Business positioning

- Focus to date has been on small-sum, short-term loans consistent with the group's 'low and grow' approach to lending
- Continuing to develop product proposition, distribution channels and IT platform
- Further lending developing well and capability boosted by implementation of customer login
- Mobile app to be launched in third quarter
- Monthly product to be launched in fourth quarter
- Foundations in place to establish a market leading position in online loans

Market conditions and business positioning

Moneybarn

Market conditions

- Market supply well below levels in 2007
- Market is competitive with around 10 competitors remaining active
- 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 building at a healthy rate
- Launch of new website to support B2C proposition
- Vanquis Bank's new digital platform will raise awareness of Moneybarn's car finance proposition

Financial review

Andrew Fisher – Finance Director

Group
Results summary

	Six months ended 30 June		
	2016 £m	2015 £m	Change %
Vanquis Bank:			
– UK	**99.8**	88.5	12.8
– Poland[1]	**-**	(1.8)	100.0
Total Vanquis Bank	**99.8**	86.7	15.1
CCD	**43.5**	38.0	14.5
Moneybarn	**13.6**	9.4	44.7
Central costs	**(8.0)**	(7.5)	(6.7)
Adjusted profit before tax[2]	**148.9**	126.6	17.6
Effective tax rate[1] (%)	**24.40**	20.25	
Adjusted earnings per share[2] (pence)	**77.9**	70.4	10.7
Annualised return on assets[3] (%)	**15.7**	15.6	
Interim dividend per share (pence)	**43.2**	39.2	10.2

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 £3.7m (2015: £3.7m) and an exceptional gain of £20.2m (2015: exceptional cost of £11.8m)

3 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June

Vanquis Bank
Results

	Six months ended 30 June		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**1,448**	1,359	6.5
Period-end receivables	**1,280.8**	1,146.9	11.7
Average receivables	**1,252.1**	1,115.1	12.3
Revenue	**280.1**	261.1	7.3
Impairment	**(80.4)**	(78.9)	(1.9)
Revenue less impairment	**199.7**	182.2	9.6
Annualised risk-adjusted margin[1] (%)	**32.4**	33.3	
Costs	**(79.6)**	(72.5)	(9.8)
Interest	**(20.3)**	(21.2)	4.2
Adjusted profit before tax[2]	**99.8**	88.5	12.8
Annualised return on assets[3] (%)	**14.9**	15.7	

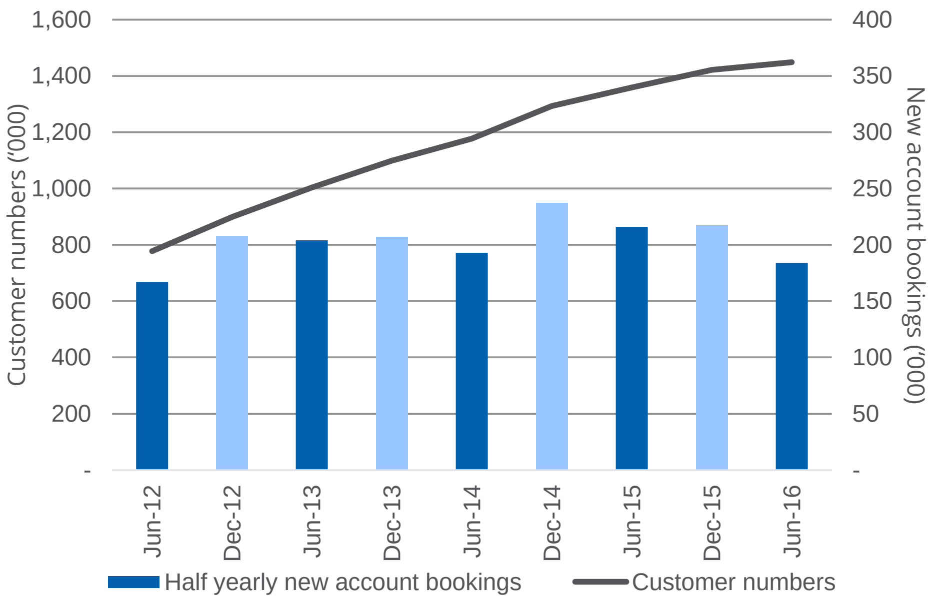
1 Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June

2 Adjusted profit before tax is stated before an exceptional gain of £20.2m (2015: £nil)

3 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June

Vanquis Bank

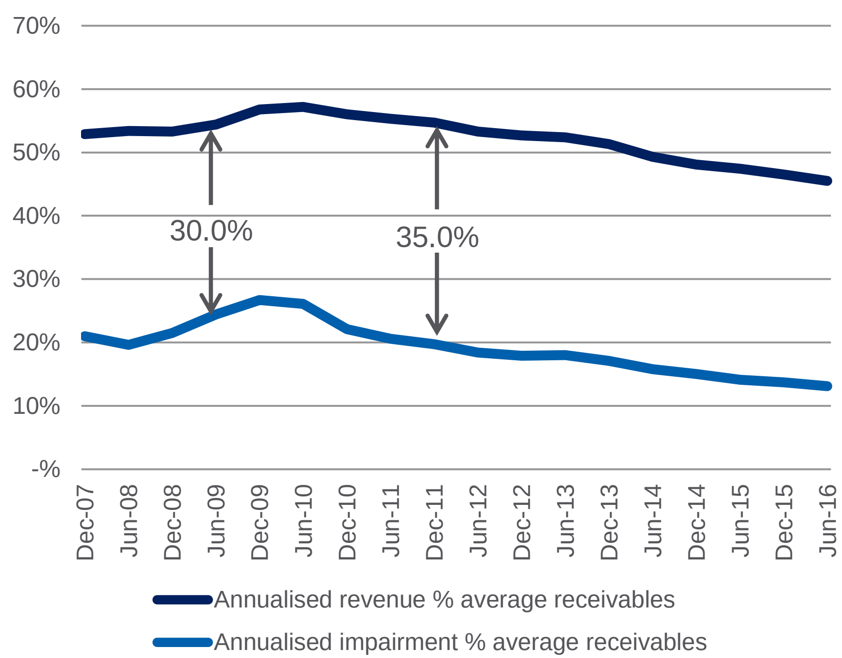
Customer numbers



- First half new account bookings of 184k, 32k lower than first half of 2015:
  - Internet remains strong
  - Direct mail volumes lower as spend weighted towards second half
  - Lower face-to-face bookings as customer acquisition process enhanced
- Refreshed direct mail programme launched in May has produced the expected pick-up:
  - Q2 bookings 9k lower than last year compared with shortfall of 23k in Q1
  - Carrying strong momentum into second half
- Encouraging pipeline of opportunities expected to add to growth momentum

Vanquis Bank

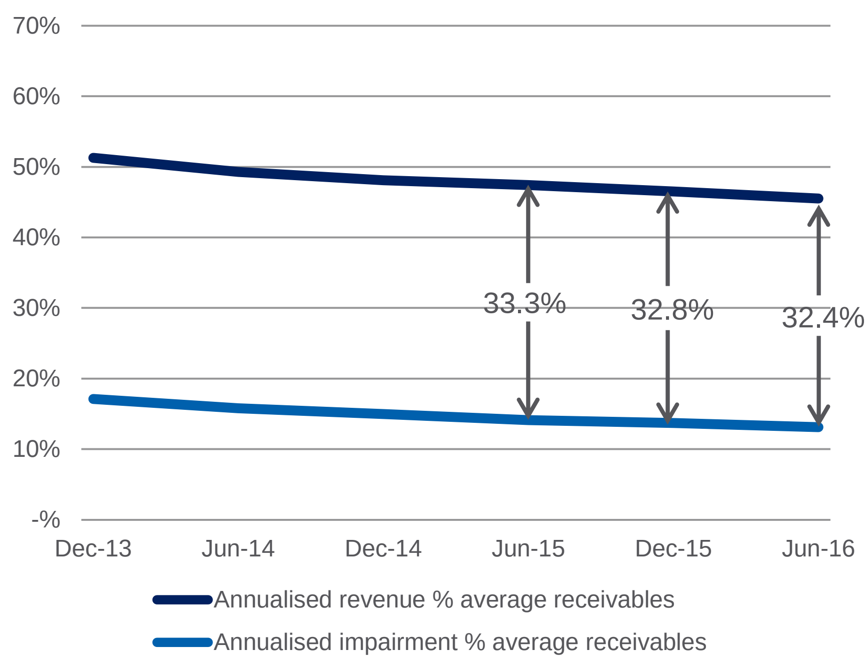
Risk-adjusted margin (RAM)



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

Vanquis Bank

Risk-adjusted margin (RAM)



- RAM moderated from 33.3% to 32.4% over last 12 months:

Changes to ROP product and reduction in interchange fees	-0.9%
Record low delinquency	+1.0%
Lower interest yield and default fees	-1.0%
RAM	-0.9%

- RAM expected to be around 32% for 2016 as a whole:
  - Based on current delinquency levels
  - After allowing for full impact of changes to ROP and interchange fees

Vanquis Bank
Arrears profile

	At 30 June (% receivables)	
	2016 %	2015 %
In order	**93.3**	92.8
In arrears:		
– Past due but not impaired	**-**	-
– Impaired	**6.7**	7.2
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

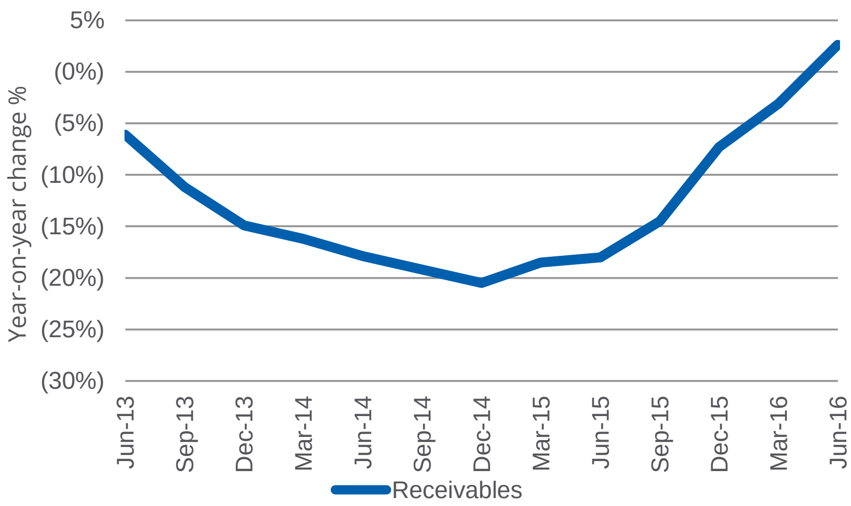
	Six months ended 30 June		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**875**	1,011	(13.5)
Period-end receivables	**510.6**	497.9	2.6
Average receivables	**497.9**	511.5	(2.7)
Revenue	**255.2**	268.2	(4.8)
Impairment	**(70.4)**	(72.1)	2.4
Revenue less impairment	**184.8**	196.1	(5.8)
Annualised risk-adjusted margin[1] (%)	**81.1**	78.2	
Costs	**(127.2)**	(143.4)	11.3
Interest	**(14.1)**	(14.7)	4.1
Adjusted profit before tax[2]	**43.5**	38.0	14.5
Annualised return on assets[3] (%)	**22.3**	19.7	

1 Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June

2 Adjusted profit before tax in the first half of 2015 is stated before exceptional costs of £11.8m

3 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June

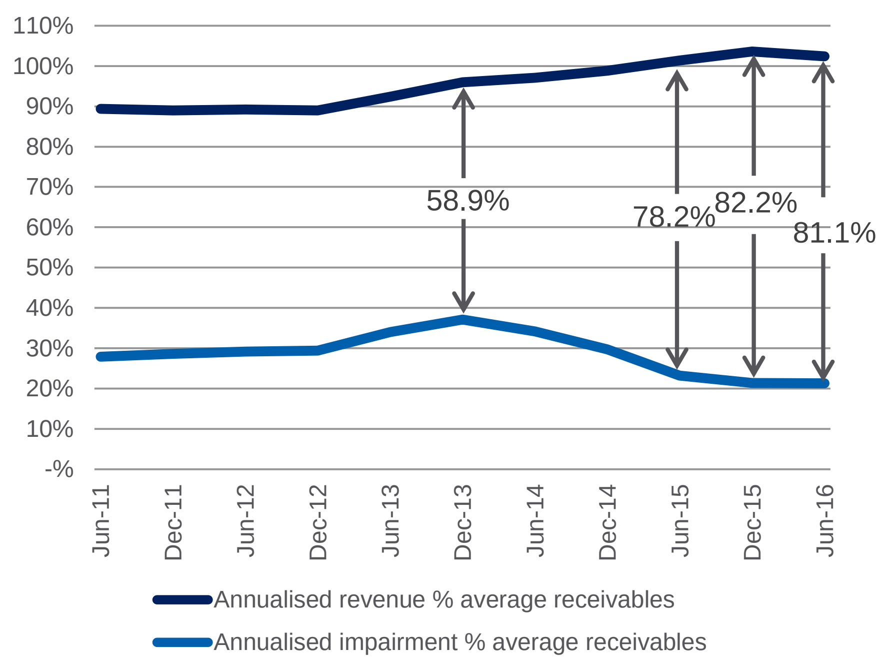
CCD
Receivables



- Demand and customer confidence remain robust
- Receivables 2.6% higher than June 2015:
  - Compared with reported reduction of 7.3% at December 2015
  - 6% increase in sales during first half

CCD

Risk-adjusted margin (RAM)



- Significant expansion in RAM from repositioning of home credit
- RAM of 81.1% at June 2016 compared with 82.2% at December 2015 and 78.2% at June 2015
- Revenue yield remains robust at 102.4%, marginally below 103.6% at December 2015:
  - Focus on serving good quality customers who are eligible for longer-term, lower yielding products
- Impairment ratio remains stable at 20.8%:
  - Improvement in credit quality
  - Standardised arrears and collections processes now embedded
- RAM expected to remain stable through the second half

CCD

Arrears profile

	At 30 June (% receivables)	
	2016 %	2015 %
In order	**44.5**	41.0
In arrears:		
– Past due but not impaired	**10.8**	9.9
– Impaired	**44.7**	49.1
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 significant 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

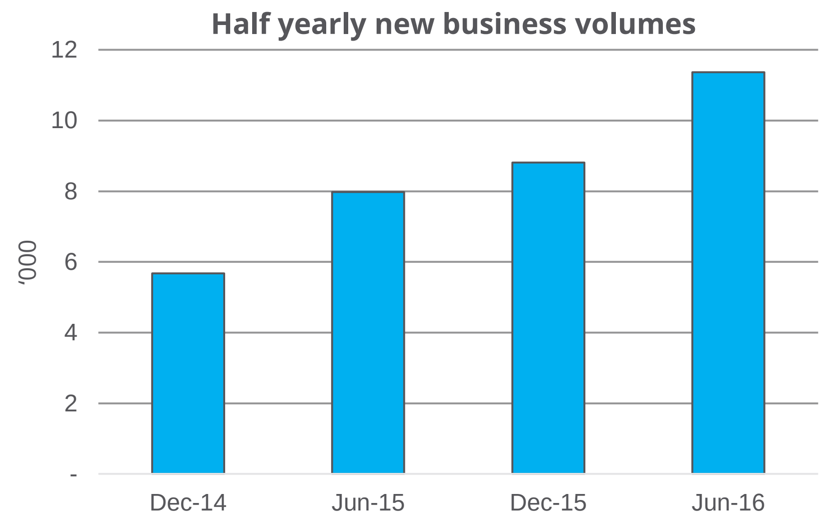
	Six months ended 30 June		
	2016 £m	2015 £m	Change %
Customer numbers ('000)	**36**	26	38.5
Period-end receivables	**264.4**	186.5	41.8
Average receivables	**245.9**	171.1	43.7
Revenue	**36.3**	24.2	50.0
Impairment	**(7.0)**	(3.4)	(105.9)
Revenue less impairment	**29.3**	20.8	40.9
Annualised risk-adjusted margin[1] (%)	**24.1**	24.6	
Costs	**(9.8)**	(7.1)	(38.0)
Interest	**(5.9)**	(4.3)	(37.2)
Adjusted profit before tax[2]	**13.6**	9.4	44.7
Annualised return on assets[3] (%)	**12.9**	12.9	

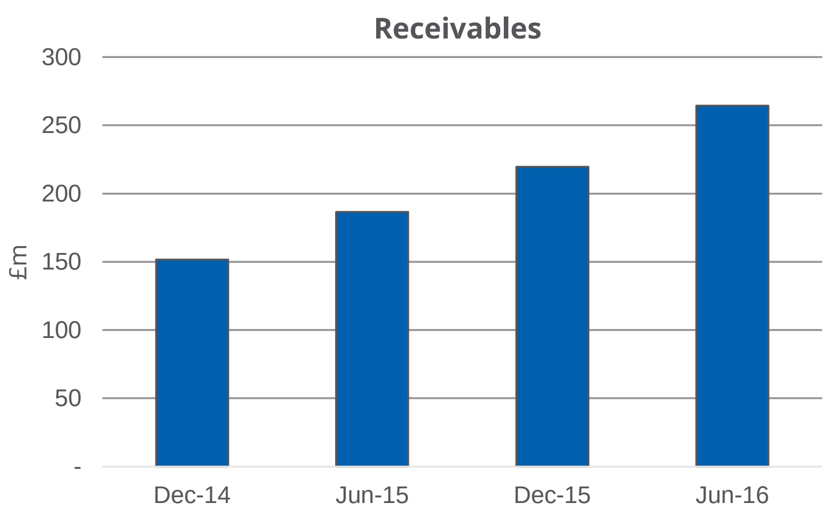
1 Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June

2 Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £3.7m (2015: £3.7m)

3 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June

Moneybarn
Receivables



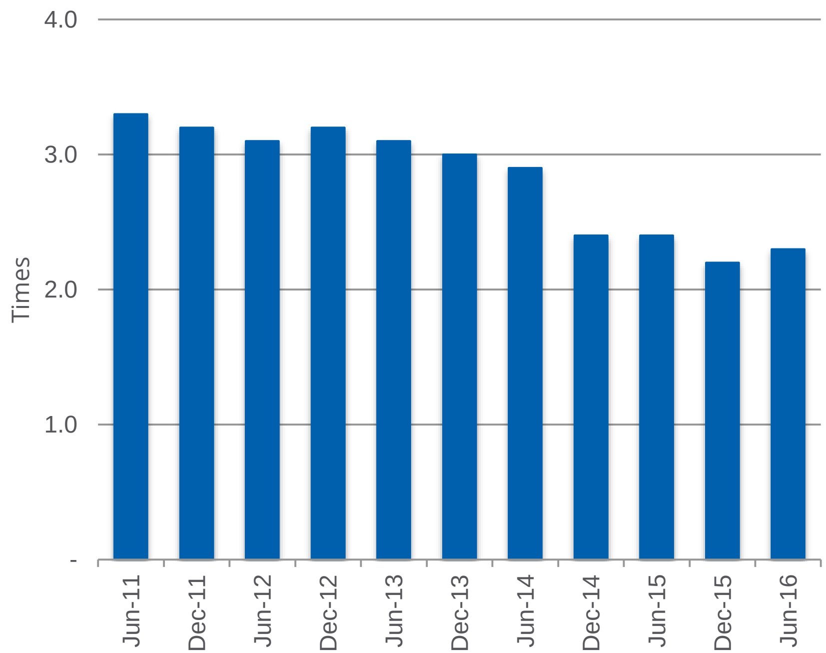


- New business volumes ahead of plan and showing year-on-year growth of 42.5%:
  - Benefit of group funding and product development has reinforced primacy with broker network
- Average loan value reduced to £8,200 versus £9,000 in 2015 reflecting modest shift in mix to lower value, higher yielding vehicles
- Year-on-year receivables growth of 41.8%
- Receivables book at £264.4m, up from £131.2m on date of acquisition

Group
Balance sheet

	At 30 June 2016 £m	At 30 June 2015 £m
Goodwill	**71.2**	71.2
Acquisition intangibles	**61.3**	68.8
Receivables:		
- Vanquis Bank	**1,280.8**	1,146.9
- Home credit	**490.0**	481.0
- Satsuma	**12.6**	11.6
- glo	**8.0**	5.3
- Moneybarn	**264.4**	186.5
Total receivables	**2,055.8**	1,831.3
Pension asset	**100.8**	17.5
Available for sale investment (Visa shares)	**7.0**	-
Liquid asset buffer	**141.1**	118.0
Bank and bond funding	**(908.1)**	(853.3)
Retail deposits	**(719.3)**	(645.4)
Other	**(75.4)**	(26.0)
Net assets	**734.4**	582.1
Gearing (times)	**2.3**	2.4

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 and resulted in modest reduction in gearing
- 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 at June 2016 of 2.3 times versus banking covenant of 5.0 times:
  - Modest uplift from 2.2 times at December 2015
  - Impact of cash cost of 2015 final dividend relative to first half profits

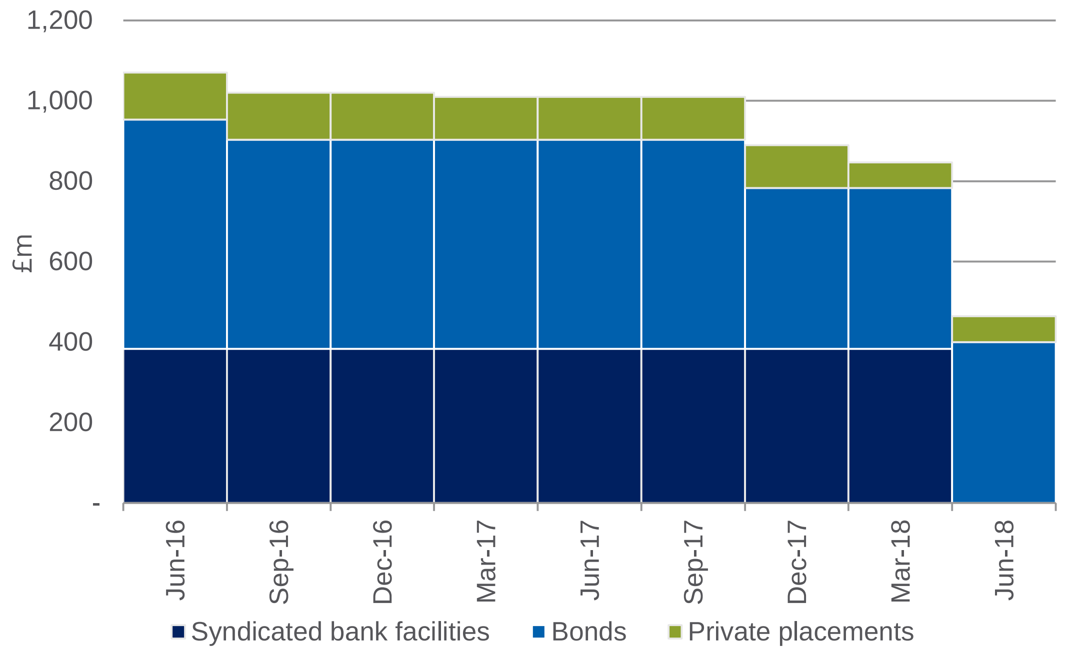
Group
Diversified funding base

	At 30 June 2016 £m
Banks	383
Bonds and private placements:	
- Senior public bond	250
- M&G term loan	90
- Other sterling/euro medium-term notes	28
- Retail bonds	320
Total bonds and private placements	688
Vanquis Bank retail deposits	719
Total committed borrowing facilities	1,790
Borrowings under committed facilities	1,628
Headroom on committed borrowing facilities	162
Additional retail deposits capacity[1]	296
Funding capacity	458

1 Represents the Vanquis Bank intercompany loan from Provident Financial plc of £296m at 30 June 2016

Group

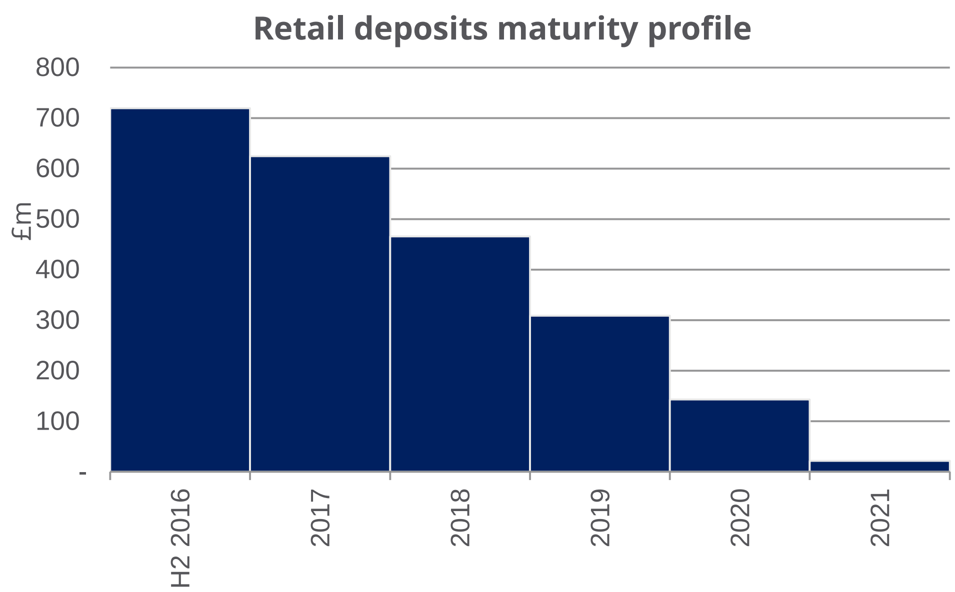
Maturity profile of debt



- Low maturities over next 15 months
- Headroom on committed facilities plus Vanquis Bank retail deposits programme provides funding through to May 2018
- Syndicated bank facility maturing in May 2018 will be renewed at least 12 months ahead of maturity date in line with Treasury Policy

Vanquis Bank

Retail deposits programme



- Retail deposits represent 56% of Vanquis Bank's receivables (2015: 56%):
  - Programme has been managed to relatively modest levels in first half
  - Volumes expected to increase during second half
- Weighted average period to maturity on deposits of 2.2 years
- Blended deposits rate of 3.1%, after cost of holding liquid assets buffer

Group

Alignment of dividend policy, gearing and growth

High returns businesses

Dividend policy	Gearing	Growth
Cover ≥ 1.25x	≤ 3.5x versus covenant of 5.0x	Supports receivables growth of £300m+

PFG Provident Financial Group

Group

Strong capital generation

	12 months ended 30 June	
	2016 £m	2015 £m
Vanquis Bank	**168.8**	90.8
CCD	**87.0**	84.0
Moneybarn	**(0.2)**	-
Central	**(6.8)**	(5.0)
Capital generated[1]	**248.8**	169.8
Dividends declared	**(180.7)**	(148.9)
Surplus capital generated	**68.1**	20.9

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

- Strong capital generation from Vanquis Bank reflects higher profits, reduced rate of investment in receivables cycle (£10m), cash proceeds from disposal of Polish receivables in second half of 2015 (£10m) and cash proceeds from sale of Visa shares (£12m)
- Stable capital generation in CCD
- Moneybarn funding its own rapid growth and set to become increasingly capital generative

Concluding remarks

Peter Crook – Chief Executive

Brexit

PFG is well positioned to trade through any economic slowdown

› PFG performed robustly through last downturn in UK economy between 2008 and 2010 and has a strong, well diversified funding position

Economic risk	PFG dynamic
Rising unemployment	• Business models tailored to the non-standard market • Vanquis Bank delivered its minimum 30% target RAM between 2008 and 2010 and has not changed underwriting • Strong RAM, recourse to vehicle and low default rates in Moneybarn
Inflation from weak exchange rate and more expensive imports	• Credit quality in repositioned home credit business 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 May 2018 • Diverse funding sources, including retail deposits

› 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

Regulation

Group

Transfer of regulation to the FCA

- Vanquis Bank's change of permission has been approved by the FCA and Moneybarn has received its full authorisation
- CCD continues to operate under an interim permission:
  - Consistent with other sizeable home credit firms
  - FCA review process is reaching its conclusion

FCA credit card review

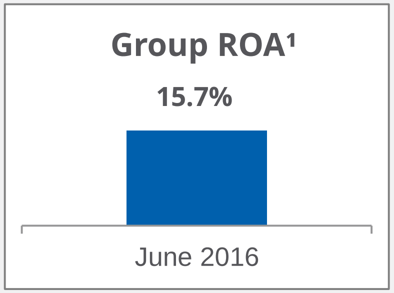
- Based on interim findings, the FCA is considering a number of remedies in relation to affordability:
  - Increased disclosures to promote faster repayment
  - Possible requirement for customers to opt in to credit line increases and overlimit transactions
  - Faster intervention of forbearance measures prior to default
- Potential remedies are not expected to have a material impact on Vanquis Bank
- Final report from the FCA is expected in the third quarter of 2016

Investment case

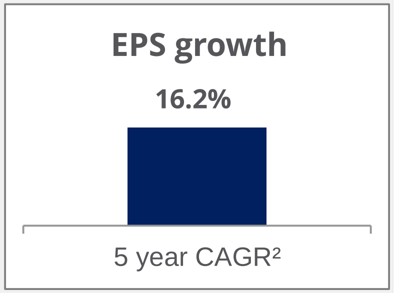
PFG is well placed to continue to deliver excellent returns to shareholders

PFG

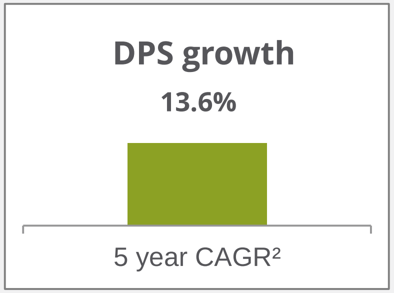
- Market leader in non-standard credit with sustainable business models
- Good mix of businesses with attractive growth and returns over medium term
- Proven low volatility through economic cycle
- Significant competitive advantage in technology, marketing, underwriting and collections
- Highly skilled 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

[1] At 30 June 2016
[2] To 31 December 2015

Outlook

Group

- Vanquis Bank will continue to deliver good growth and margins through 2016 and beyond by developing the excellent pipeline of opportunities to increase its reach in the underserved non-standard UK credit market
- Re-positioned home credit business now growing its receivables book
- Satsuma ready to move to next stage of its development, including broadening its product proposition in second half of 2016
- Moneybarn's growth running ahead of plan
- Group's funding capacity and liquidity positions are strong with headroom to meet contractual maturities and internal growth plans through to May 2018
- Group has produced a sound set of interim results:
  - Credit quality in all three businesses is good
  - All businesses have made a strong start to second half
- Provides basis for delivering good quality growth for 2016 as a whole

Questions

Peter Crook – Chief Executive

Andrew Fisher – Finance Director

Contact details

Group

Provident Financial plc
No. 1 Godwin Street
Bradford
BD1 2SU
United Kingdom

Contacts:

Gary Thompson – Group Financial Controller and Head of Investor Relations

Vicki Turner – Senior Group Finance and Investor Relations Manager

Telephone: +44 (0)1274 351351

E-mail: investors@providentfinancial.com

Website: www.providentfinancial.com