Provident Financial plc

Preliminary results announcement 2014

24 February 2015

Today's presentation

1. Highlights and business overview › Peter Crook
2. Financial review › Andrew Fisher
3. Regulation, business development and outlook › Peter Crook
4. Questions

Highlights and business overview

Peter Crook – Chief Executive

Highlights

Group performance supports a 15.3% dividend increase

- Adjusted profit before tax up 19.5% to £234.4m[1] and adjusted EPS up 18.4% to 132.6p[1]
- Total dividend per share up 15.3% to 98.0p supported by strong capital generation and earnings
- Strong growth and financial returns at Vanquis Bank
- Decision made to withdraw from Polish pilot
- Repositioning of home credit substantially complete
- Satsuma's online instalment lending capability in place and demand strong
- Encouraging start by Moneybarn assisted by access to group funding
- Group fully funded through to May 2018

[1] *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £2.5m (2013: £nil) and exceptional costs of £7.3m (2013: £13.7m)*

Market conditions and business positioning

Vanquis Bank – UK

MARKET CONDITIONS

- High demand from underserved, non-standard consumers for credit cards
- Strong flow of applications from both direct mail and internet channels
- Some increase in marketing activity of competitors
- Reduction in UK unemployment is assisting delinquency trends

BUSINESS POSITIONING

- Unchanged credit standards, supporting record low arrears and above target risk-adjusted margin
- Investment in customer acquisition programme has seen further increase in flow of new customers
- Medium-term target upgraded to between 1.5 and 1.8 million customers with credit standards remaining unchanged

Vanquis Bank

Upgrade to UK medium-term potential

- Revised assessment of UK medium-term potential:
  - Serving between 1.5m and 1.8m customers, up from previous assessment of between 1.3m and 1.5m customers
  - Average balance of £1,000, being top end of previous range of between £800 and £1,000

- Medium-term potential based on:
  - Unchanged credit standards
  - Maintaining minimum target returns
  - No significant change in the competitive or macroeconomic environment
  - Current product proposition
  - Distribution through existing channels

Market conditions and business positioning
CCD

MARKET CONDITIONS

- Competitive landscape in home credit unchanged
- Stable incomes and reduction in inflation supporting modest increase in household disposable incomes
- Home credit customer confidence remains relatively low
- Better quality customers have more credit choices than in the past
- Changing customer preferences and dislocation from payday regulation driving growth in online lending

BUSINESS POSITIONING

- Migration of home credit business to a smaller but leaner, better quality customer base substantially complete
- Higher margins from improvement in quality of book and success of standardised arrears processes
- Roll-out of field technology and related cost savings ahead of plan
- Significant investment in preparing for FCA regulation
- Capability in place to support more rapid development of Satsuma

Market conditions and business positioning

Moneybarn

MARKET CONDITIONS

- Market supply less than half the size in 2007
- Growth supported by customer needs, under supply of non-standard finance and value for money product proposition
- Regulation may drive industry consolidation

BUSINESS POSITIONING

- Market leadership and primacy reinforced by access to group funding
- Investment in market leading platform and operational capacity to support significant growth potential
- Broadening of product range
- Cross selling into Vanquis Bank customer base to be tested shortly
- Advanced state of readiness for FCA regulation

Financial review

Andrew Fisher – Finance Director

Group
Profit before tax

Year ended 31 December	2014 £m	2013 £m	Change %
Vanquis Bank:			
- UK	**151.0**	113.7	32.8
- Poland	**(10.6)**	(7.6)	(39.5)
Total Vanquis Bank	**140.4**	106.1	32.3
CCD	**103.9**	102.5	1.4
Moneybarn	**5.8**	-	n/a
Central costs	**(15.7)**	(12.5)	(25.6)
Adjusted profit before tax[1]	**234.4**	196.1	19.5
Effective tax rate	**21.5%**	22.7%	
Adjusted earnings per share[1] (pence)	**132.6**	112.0	18.4
Return on assets[2]	**15.1%**	14.2%	
Total dividend per share (pence)	**98.0**	85.0	15.3

[1] *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £2.5m (2013: £nil) and exceptional costs of £7.3m (2013: £13.7m)*

[2] *Adjusted profit before interest after tax as a percentage of average receivables*

Vanquis Bank – UK

Income statement

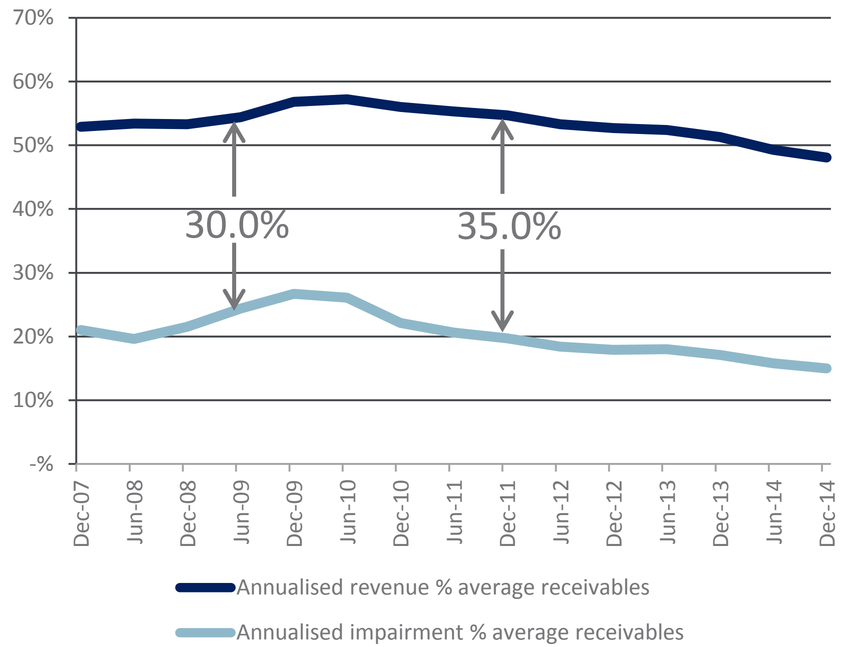
Year ended 31 December	2014 £m	2013 £m	Change %
Customer numbers ('000)	**1,293**	1,099	17.7
Year-end receivables	**1,093.9**	861.3	27.0
Average receivables	**967.2**	739.1	30.9
Revenue	**465.6**	378.8	22.9
Impairment	**(144.9)**	(126.3)	(14.7)
Revenue less impairment	**320.7**	252.5	27.0
Risk-adjusted margin[1]	**33.2%**	34.2%	
Costs	**(130.0)**	(104.3)	(24.6)
Interest	**(39.7)**	(34.5)	(15.1)
Profit before tax	**151.0**	113.7	32.8
Return on assets[2]	**15.5%**	15.5%	

[1] *Revenue less impairment as a percentage of average receivables*

[2] *Profit before interest after tax as a percentage of average receivables*

Vanquis Bank – UK

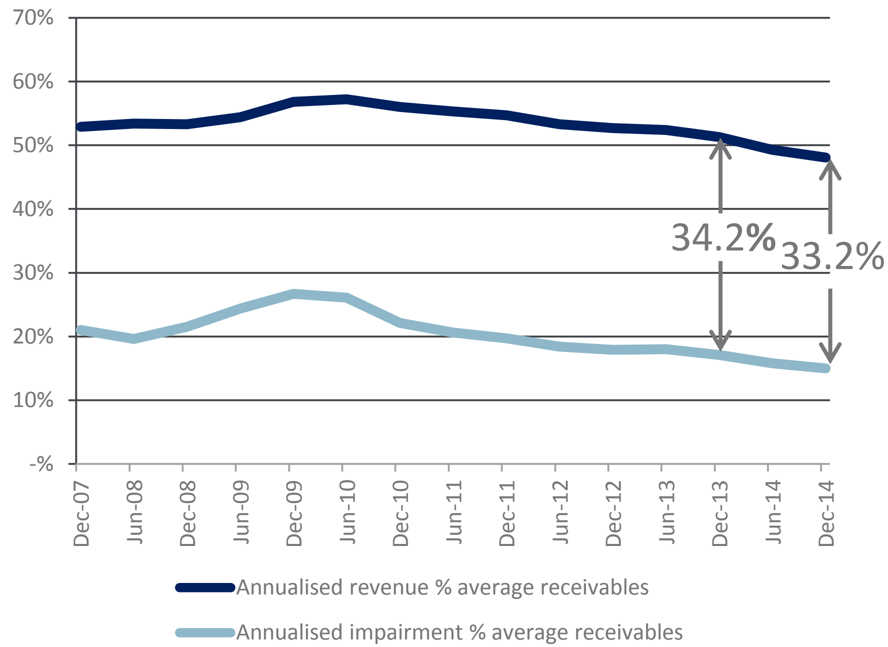
Risk-adjusted margin (RAM)



- Business model supports stability of RAM:
  - ‘Low and grow’ strategy
  - High credit line utilisation minimises volatility of credit losses
- RAM above 30% minimum target:
  - Consistently tight credit standards
  - Stable UK, and more recently improving, employment market

Vanquis Bank – UK

Risk-adjusted margin (RAM)



- RAM moderated from 34.2% to 33.2% over last 12 months:
  - Delinquency at record low
  - Changes to ROP product in mid-2013 explains 1.0% reduction
- Expected to remain above 30% target in medium term:
  - Based on current delinquency levels
  - After allowing for full impact of changes to ROP
  - After changes to interchange fees following Visa agreement with European Commission

Vanquis Bank – UK
IFRS 7 disclosures

At 31 December (% receivables)	2014 %	2013 %
In order	**92.1**	90.7
In arrears:		
- Past due but not impaired	**-**	-
- Impaired	**7.9**	9.3
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

Business repositioning

ACTIONS	OUTCOME
Tighter credit standards	**Contraction in receivables from eliminating more marginal customers**
	+
Standardisation of arrears and collections processes	**Sharp improvement in margins**
	+
Roll-out of mobile and tablet technology	**Reduction in cost base**
	–
Cost reduction programme from improved process and technology	**Investment in business development and regulatory agenda**
	=
	PROFIT LEVELS MAINTAINED

CCD
Income statement

Year ended 31 December	2014 £m	2013 £m	Change %
Customer numbers ('000)	**1,071**	1,511	(29.1)
Year-end receivables	**588.1**	740.0	(20.5)
Average receivables	**598.5**	725.8	(17.5)
Revenue	**591.1**	697.1	(15.2)
Impairment	**(177.5)**	(269.7)	34.2
Revenue less impairment	**413.6**	427.4	(3.2)
Revenue yield[1]	**98.8%**	96.0%	
Impairment % revenue[2]	**30.0%**	38.7%	
Risk-adjusted margin[3]	**69.1%**	58.9%	
Costs	**(275.8)**	(285.6)	3.4
Interest	**(33.9)**	(39.3)	13.7
Adjusted profit before tax[4]	**103.9**	102.5	1.4
Return on assets[5] (%)	**18.1%**	15.1%	

1 *Revenue as a percentage of average receivables*

2 *Impairment as a percentage of revenue*

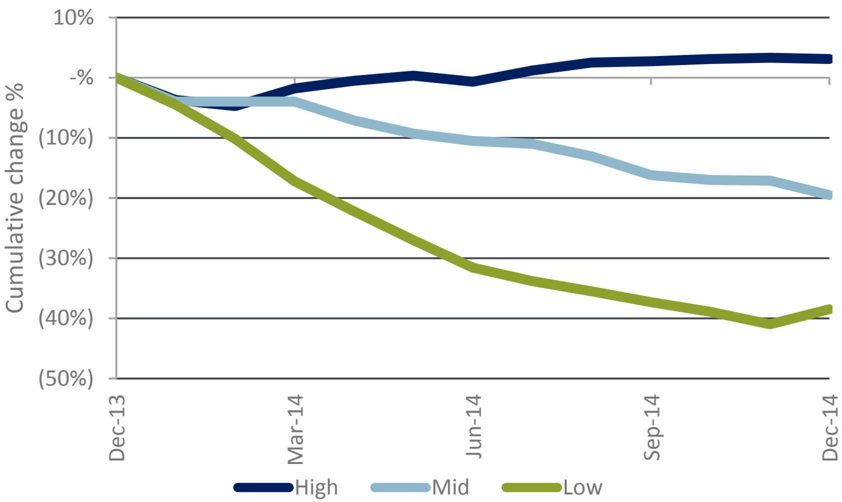
3 *Revenue less impairment as a percentage of average receivables*

4 *Adjusted profit before tax is stated before exceptional costs of £3.4m (2013: £13.7m)*

5 *Adjusted profit before interest after tax as a percentage of average receivables*

CCD

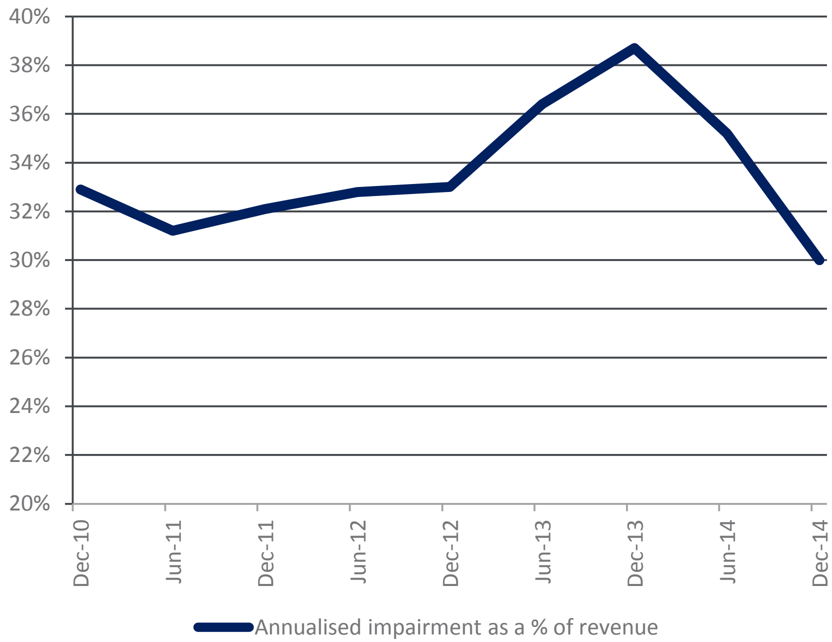
Customer numbers



- Total customer numbers reduced by 29% during 2014:
  - 40% reduction in lower quality customers
  - Tighter underwriting applied to recruitment of new customers
  - Tighter credit standards applied to re-serving existing customers

CCD

Impairment % revenue



- Annualised impairment to revenue down sharply from 38.7% to 30.0% during 2014:
  - Tighter credit standards from September 2013 has driven up quality of book
  - Strong benefits from standardised arrears and collections processes

CCD
IFRS 7 disclosures

At 31 December (% receivables)	2014 %	2013 %
In order	**43.9**	35.1
In arrears:		
- Past due but not impaired	**11.0**	13.4
- Impaired	**45.1**	51.5
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***

CCD

Risk-adjusted margin (RAM)

- Marked improvement in annualised RAM from 58.9% to 69.1% during 2014:

Revenue yield	+2.8%
Impairment % receivables	+7.4%
RAM	+10.2%

- Revenue yield uplift reflects shorter duration of book
- Improvement in impairment reflects improved quality and benefits of standardised arrears and collections processes

CCD
Cost bridge

	£m
2013	286
Phase 1 – July 2013	(8)
Phase 2 – December 2013	(18)
Phase 3 – June 2014	(2)
Agents' commission – volume related	(14)
Agents' commission – improvement in collections performance	10
Business development and regulatory agenda[1]	17
Other[2]	5
2014	**276**

£26m

[1] *Comprises expenditure on Satsuma, glo, technology, leadership programme, standardisation of best practice and regulation and compliance*

[2] *Principally relates to bonus costs and share-based payment charges linked to the improved trading performance*

Moneybarn

Income statement

	Post-acquisition[1] 2014 £m	Full-year pro forma[2] 2014 £m
Customer numbers ('000)	**22**	22
Year-end receivables	**151.7**	151.7
Average receivables	**143.4**	135.1
Revenue	**13.8**	38.0
Impairment	**(1.2)**	(4.7)
Revenue less impairment	**12.6**	33.3
Risk-adjusted margin[3]		24.6%
Costs	**(4.2)**	(11.1)
Interest	**(2.6)**	(7.2)
Adjusted profit before tax[4]	**5.8**	15.0
Return on assets[5]		12.9%

1 *Post-acquisition results for the four months ended 31 December 2014*

2 *Restated to apply the group's lower cost of funding to pre-acquisition results*

3 *Revenue less impairment as a percentage of average receivables*

4 *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £2.5m and exceptional costs of £3.9m*

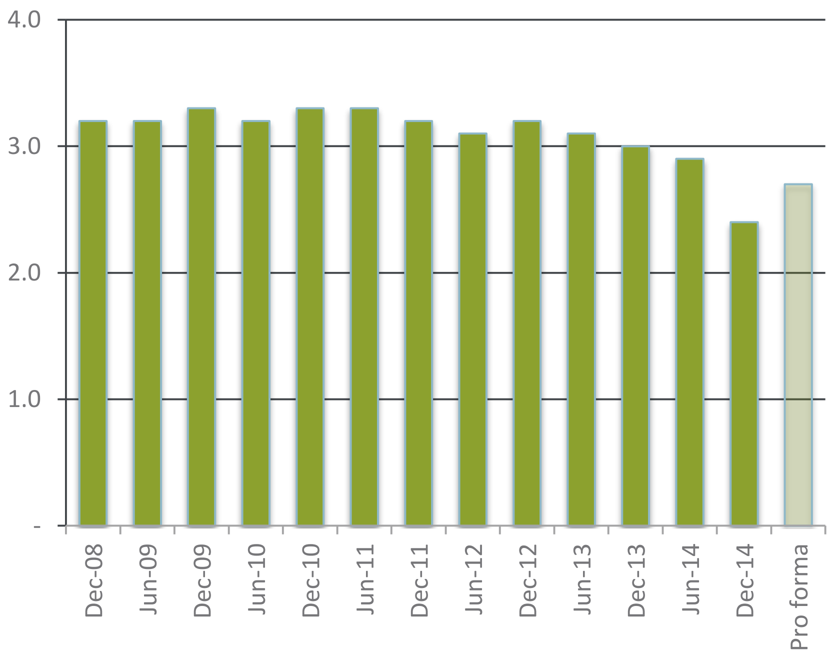
5 *Adjusted profit before interest after tax as a percentage of average receivables*

Group
Balance sheet

At 31 December	2014 £m	2013 £m
Goodwill	**71.2**	-
Acquisition intangibles	**72.5**	-
Receivables:		
- Vanquis Bank UK	**1,093.9**	861.3
- Vanquis Bank Poland	**15.5**	5.3
- Home credit	**583.1**	738.2
- Satsuma	**5.0**	1.8
- Moneybarn	**151.7**	-
Total receivables	**1,849.2**	1,606.6
Pension asset	**56.0**	29.2
Liquid assets buffer	**121.4**	86.3
Bank and bond funding	**(912.7)**	(849.5)
Retail deposits	**(580.3)**	(435.1)
Other	**(64.3)**	(20.7)
Net assets	**613.0**	416.8
Gearing[1] (times)	**2.4**	3.0

[1] *(Total borrowings – liquid assets buffer) / (Net assets – pension asset, net of deferred tax – fair value of derivatives)*

Group
Gearing



- Gearing at December 2014 of 2.4 times versus banking covenant of 5.0 times
- Strong capital generation has consistently funded dividends and growth and resulted in modest reduction in gearing
- Reduction in last 12 months reflects:
  - Equity raised to fund acquisition of Moneybarn in order to preserve regulatory capital levels
  - Shrinkage of home credit receivables resulting from repositioning of the business
- Pro forma gearing, excluding the impact of Moneybarn, of 2.7 times down from 3.0 times at December 2013

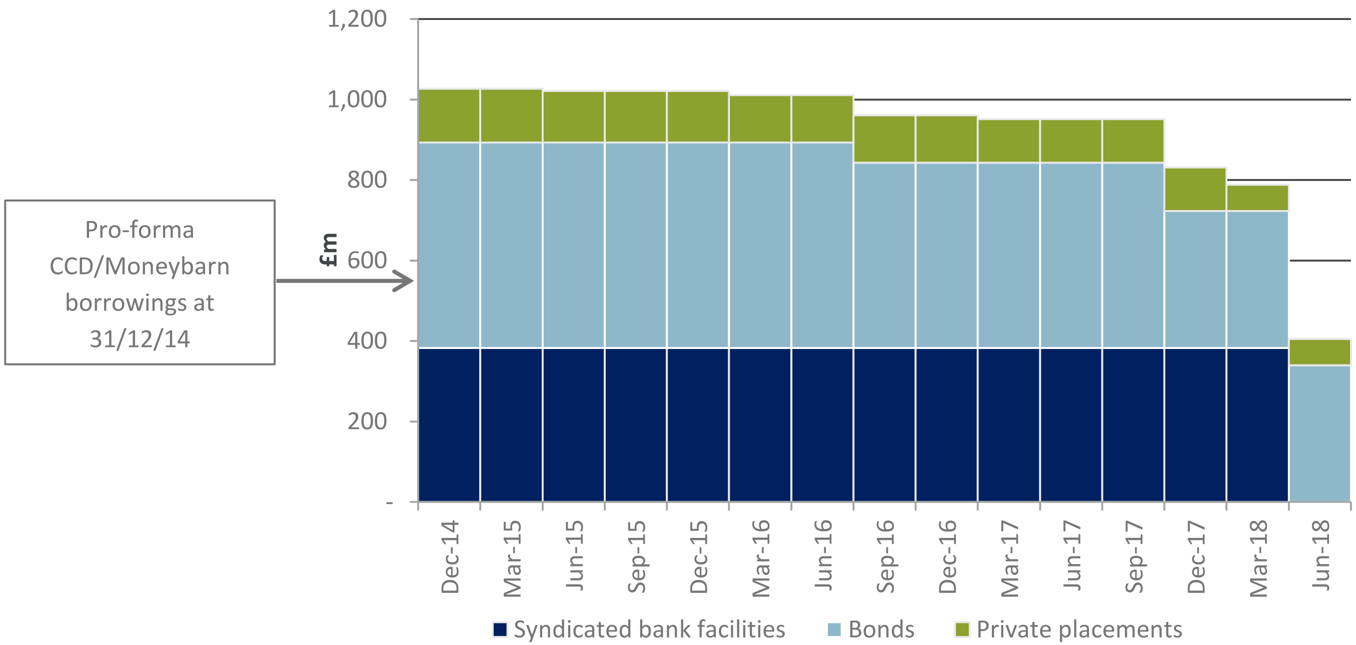
Group
Diversified funding base

At 31 December 2014	£m
Banks	**383**
Bonds and private placements:	
Senior public bond	250
M&G term loan	100
Other sterling/euro medium-term notes	28
Retail bonds	260
Residual subordinated loan notes	6
Total bonds and private placements	**644**
Vanquis Bank retail deposits	**580**
Total committed borrowing facilities	**1,607**
Borrowings under committed facilities	**(1,495)**
Headroom on committed borrowing facilities	**112**
Additional retail deposits capacity[1]	**342**
Funding capacity	**454**

[1] *Represents the Vanquis Bank intercompany loan from Provident Financial plc of £342m at 31 December 2014*

Group

Maturity profile of debt



- Low maturities over the next 2 years
- Headroom on committed facilities plus Vanquis Bank retail deposits programme provides funding through to May 2018

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 £230m+

Group
Strong capital generation

Year ended 31 December	2014 £m	2013 £m
Vanquis Bank	**70.2**	53.0
CCD	**115.0**	98.5
Moneybarn	**(1.3)**	-
Central	**(8.4)**	(12.3)
Capital generated[1]	**175.5**	139.2
Dividends declared	**(140.6)**	(116.8)
Surplus capital retained	**34.9**	22.4

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 includes the capital released from the shrinkage in the home credit receivables book of £30m (2013: £26m)
- Group will invest capital in growing Satsuma during 2015

Regulation, business development and outlook

Peter Crook – Chief Executive

Regulatory update

Group

Transfer of regulation to the FCA

- CCD and Moneybarn currently operating under interim permissions with window to apply for full authorisation between 1 March 2015 and 31 May 2015
- Both businesses continue to have a constructive dialogue with the FCA and have followed a detailed work programme to prepare for full authorisation
- Vanquis Bank is already an authorised firm but submitted its application for a variation of permissions in December 2014

High-cost short-term credit (HCSTC) price cap

- HCSTC price cap came into force on 2 January 2015 and applies to all HCSTC products but excludes home credit
- Satsuma products fall within the scope of the proposed cap but its pricing is well below the limits

FCA credit card review

- Three main areas being explored:
  - The extent to which consumers drive effective competition through shopping around and switching
  - How firms recover their costs across different cardholder groups
  - The extent of unaffordable credit card debt
- FCA expects to reach its conclusions towards the end of 2015

Business development

Moneybarn

- Moneybarn meets the group's exacting standards used to assess acquisitions:

1. **High returns** ✓
2. **Sustainable business** ✓
3. **Growth potential** ✓
4. **Strong market position** ✓
5. **Good management and cultural fit** ✓

- Significant step-up in new business volumes from access to group funding
- Further opportunities from product development and cross selling to Vanquis Bank customers

Business development

Satsuma

- Strong business rationale:
  - Changing customer preferences to access credit on line
  - Dislocation of payday due to regulatory changes
  - Sustainable proposition – 'online home credit'
  - Market estimated to be up to four times the size of home credit
- 2014 has been a year of building capability, leveraging the group's existing capabilities:
  - Developing IT systems and back-office processes
  - Establishing the senior management team
  - Embedding Vanquis Bank collections capability
  - Evolving the decision engine and scorecards which are now beginning to draw on behavioural and social data
  - Promoting brand awareness and developing online and broker channels
  - Evolving the proposition, including increasing loan sizes and introducing a monthly product
- Significant step-up in marketing in the fourth quarter and 50% increase in weekly volumes in December compared with previous months
- Confident business is capable of achieving the group's target returns

Outlook
Group

- Vanquis Bank continues to deliver strong growth and financial returns resulting in an upgrade to its medium-term potential of between 1.5m and 1.8m customers
- Repositioning of home credit as a smaller but leaner, better quality, more modern business focused on returns is substantially complete
- Demand for Satsuma loans is strong and continued payday dislocation provides an excellent opportunity to develop a sustainable business capable of delivering group's target returns
- Lift in new business volumes at Moneybarn has reinforced primacy and, together with product development opportunities, leaves the business well-positioned for strong growth
- Group is fully funded until May 2018

"The group has made a good start in the first two months of 2015. Vanquis Bank and Moneybarn continue to trade strongly and the home credit business has enjoyed a strong collections performance"

Questions

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