Malcolm

Good morning everybody, thank you very much indeed for coming. I think it was February that I was standing here setting out what our 2017 numbers were and explaining the outcome of the conversations we'd had with the FCA and indeed, announcing the rights issue. I think since then the group has made significant progress on many key fronts, and that's what I, together with Andrew are going to run through with you today. However of course, there's still a lot more to do to put the group back where we want it to be as the events of 2017 cannot be put right in just a matter of months. That said, the board and I feel that today's numbers, the actions that we've taken and will indeed continue to take, have cemented the group onto the road of recovery. I thought, as I've always said, that I saw 2018 as a year of getting our house in order and the priorities I set for the year clearly reflect that. Perhaps it would be worthwhile quickly to recap on what were the five clear objectives I set for the year. Firstly, we wanted to implement the home credit recovery plan with a view to obtaining full FCA authorisation during the course of 2018. Secondly, we wanted to progress the ROP Vanquis Bank refund programme, and adapting our business model to the changes that were being clearly highlighted by the Regulators. Thirdly, we wanted to strengthen the group's board, its governance structure, and refocus its culture. Fourthly, we wanted to make progress obviously resolving the ongoing investigation that the FCA had initiated into the historic affordability forbearance and determination practices at Moneybarn and finally, we wanted to recapitalise the group and re-access the debt markets. The next part of my presentation is going to update you on the progress we've made against these five objectives and then Andrew will take you through some of the numbers and then obviously I'll finish up with a view on strategy and outlook and then we'll open it up to Q&A. Turning firstly to our home credit division, I think we've made very good progress here implementing the operational recovery plan, thanks to the tremendous efforts and work done by Chris Gillespie and all of his team. And in fact all of the colleagues in that division, particularly the field force. Our aim for the business has always been to improve operational and financial performance of the group, and get the business authorised by the FCA during the course of this year. We've made progress on all of these objectives and importantly, I believe have significantly improved our relationship with the FCA and indeed with the PRA and in Ireland another important regulator, the CBI. For authorisation to happen, the new model we have needs to be implemented and also to be clearly shown to be working. I think Chris and his team have achieved this, though of course I'm not pre-judging what the FCA's decision will be, but I think we're very much moving in the right direction. On the slide, you can see many of the initiatives and actions that have already been delivered. I'm not going to call them out individually, but a new arrears strategy, enhanced activity management, and piloting the new field structure, are all helping to drive forward improved operational and financial performance across the business to the benefit of our customers and ultimately our shareholders. Improving collections remains a critical factor in our recovery, our analysis of collections shows

us that the shortfall in quarter two is primarily down to customers who were live during the poorly executed model migration last summer. We refer to these people as being on the back book. Interestingly, customers who took credit from us in the fourth quarter 2017 onwards, who we call the front book, are in fact showing collections performance at normal historic levels, indicating to me that the changes we are making to our model are clearly beginning to work. Therefore as we rolled out the new field structure with enhanced controls and processes, I believe we'll begin to address the shortfall in collections in this specific group of back book customers. Next, turning to Vanquis, who delivered an IFRS 9 adjusted profit before tax of £97.2 million, that's up 6.1 percent on the equivalent period last year. I think we've had a good performance from the bank, especially when you consider that this has been achieved alongside the huge operational exercise involved in working through the ROP refund. In February, as we know, the Vanquis Bank agreed to refund ROP to 1.2 million customers. This type of exercise on this scale, has never been done before in the United Kingdom, so the systems and capabilities had to be built from scratch, and the pilot was run in June. It was successful and so far around 200,000 customers have been put into the programme. I should point out here that since we announced the ROP settlement, there's been no material change in the level of complaints that we have received. As you can see, what looks simple on paper requires a lot of hard work and effort for it to be executed successfully. This is a critical and key project, as well as running the bank it's been driven by Chris Sweeney, and his team, and I'd like to thank all of them for their hard work and effort putting this effort on course, and of course it's going to continue for the rest of the year. Vanquis Bank, in line with its own customer agenda and regulatory initiatives from the FCA, has also enhanced the affordability assessments and introduced an increase in minimum payments and will shortly roll out a new higher recommended payment option. Recommended payment has not been done before in the UK but clearly shows our customers and the Regulator that we're putting our customers first, and delivering a better outcome for them. In our view, working with the regulatory direction of travel can only enhance the long term prospects for the group. As you will see, today we've announced a new chairman, Patrick Snowball, and three new non executive directors. They're all joining the board, non executive directors, with effect from today and Patrick in September. Angela Knight, Libby Chambers and Paul Hewitt will be chairing the audit risk and a new customer ethics committee that we've put in place and I think all four of these new members are excellent appointments.

They will add to the board's financial services experience, their consumer finance expertise, regulatory and non-executive director skillset. So, on behalf of the board, I'd like to welcome them. I look forward to working with them as I and the team drive the group forward to further recovery. The governance of the group and its leadership team has also been strengthened by setting up the new group executive committee in

2018, that makes decision for and across the group. We also have made appointments as you know of an interim CRO, Chief IT Officer and recently a new Head of Internal Audit, and a new Group HR Director all of whom will help me drive through the change that's necessary at the group. Significant activity is also underway to help realign the group's culture, focusing on our customers and our social purpose and getting people generally access to credit. The new customer culture and ethics committee is part of this new initiative, and the new behaviours and attitudes being driven through and embedded will improve the business across the board. Moneybarn in the first half delivered an IFRS 9 adjusted profit before tax of £10.6 million, up 2.9 percent on the previous half year. Sales volumes are up by 16 percent, notwithstanding the tighter credit standards, and I think the team under Shamus have worked with the FCA over the last six months in progressing the investigation into the historical affordability, forbearance and terminal option issues, and I think good progress is being made in this regard. We still expect the investigation to run for up to a further 18 months. We are working as quickly as we can, but we remain very confident that the estimated cost that we announced back with our preliminary announcement of our results of £20 million remains comfortably within the scope of the investigation. So for Moneybarn in the first half, we've seen profit up, sales up, progress being made on the FCA investigation. A good first half and I'd like to thank Shamus and the team for all of their hard work. The last objective to us to recapitalise the group and to re-access the debt markets, this objective has been completed, but only due to the support of our shareholders and bond holders. As you know, we completed the rights issue and raised a net £300 million, but we've also issued a £250 million five year fixed bond carrying a semi-annual coupon of seven percent - lower than the bond it redeemed. We redeemed the old bond through a tender, 89 percent of our existing bonds tendered into that and this was done in the first half of the year after the rights issue, and I'd like to thank Andrew and his team who led that effort. So these actions have left the group CET 1 ratio at 30th of June at around 30 percent, that compares with a fully loaded capital requirement of 25.5 percent, and this level at 30 percent is consistent with the board's risk appetite levels. So, thank you for listening to this update on the progress I think we've made against our key objectives. I'll now hand over to Andrew who will get into a little detail on the numbers, then I'll come back and wrap up on strategy and take some questions. Thanks.

Andrew

Good morning everybody. Thank you Malcolm. As you know, 2018 represents the first set of results under IFRS 9, following adoption on the 1st January. So here's a brief recap of what it means for us. IFRS 9 significantly changes the recognition of impairment on customer issues by introducing an expected loss model. Under this approach impairment provisions are recognised on inception of a loan, based on the probability of default, and the loss given default. This approach differs from the current incurred loss model under IAS 39 where impairment provisions are only reflected when there's an objective evidence of a credit affecting event, which is typically a missed payment. The result is that impairment under IFRS 9 is recognised earlier. This has resulted in a one-off adjustment to receivables and reserves on adoption, and delays the recognition of profits, having a more significant impact on growing businesses, like Vanquis Bank and Moneybarn. We've now finalised IFRS 9 accounting methodology in each of the divisions which has resulted in only modest changes to the provisional figures we provided with the year end results. Whilst we've made an opening balance sheet adjustment at 1 January to restate for IFRS 9, we have not restated our statutory comparatives and this is because IFRS does not permit full restatement on a like-for-like basis. We have however provided unaudited proforma 2017 income statements, and balance sheet comparatives on a full IFRS 9 basis, and that is what I am presenting here today. The shape of those numbers is that Vanquis Bank and Moneybarn's 2017 profits under IFRS 9 are lower than under IAS 39, due to the strong growth in both businesses during that year and CCD's loss is modestly lower due to the shrinkage in home credit business following the operational disruption. We've included a full comparison of the IFRS 9 and IAS 39 numbers for the 2017 half year and full year for the group and each of the businesses as an appendix to this presentation. It is of course important to note that IFRS only changes the timing of profits made on a loan. It does not change the cash flows or the economics of a loan. The calculation of the group's bank covenants are unaffected by IFRS 9 as they're based on accounting standards that were effectively frozen at the time the covenants were set. As regards to regulatory capital, there are transitional arrangements with the impact of IFRS 9 being phased in over a five year period and I'll return to this later. Here's a summary of the group's first half results with the 2017 comparatives on a full IFRS 9 basis to aid comparison. The group has reported profit before tax as £75 million which shows year on year reduction of 24 percent. This is broadly in line with our

internal plans, and the reduction is wholly attributable of course to the losses in CCD as the business continues to recover. Both Vanquis Bank and Moneybarn have reported an increase in profits. First half central costs have increased by nearly £2 million as greater group oversight across risk, IT, HR and regulation is established in the manner Malcolm described. As a result, central costs for the full year will reflect an uplift of some £5 million in expenditure associated with providing this oversight and are likely to total some £23 million for the full year. Adjusted EPS in the first half was reduced by 36 percent which exceeds the reduction in profits due to the impact of the rights issue in April. Within the EPS calculation, the weighted average number of shares in the period prior to the rights issue have been adjusted to take account of the bonus element of the rights issue, using a factor of 1.367. The group's annualised ROA to June was 5.3 percent. This annualised measure still reflects the significant home credit losses incurred in the second half of last year that will drop out of the calculation at the full year of course. Vanquis Bank and Moneybarn are delivering returns in excess of ten percent, and for the group as a whole, to do so requires CCD to return to an acceptable level of profitability. The results set out here are stated before the recurring charge of £3.7 million in respect of the amortisation of Moneybarn intangibles recognised on the acquisition of that business. In addition, they are stated before exceptional costs of £36.6 million. This includes £18.1 million in respect of the home credit recovery plan, and £18.5 million in respect of the premium of eight percent attached to the redemption of the 2019 senior bonds. The home credit exceptional costs comprise £11 million of IT asset write offs, following the decision to now permanently decommission the majority of the software built to support routing and scheduling and CRM, £4 million in respect of redundancies following the downsizing of the central support functions in the first quarter and £3 million in respect of ongoing consultancy, supporting the delivery of the recovery plan. Turning now to the businesses, Vanquis Bank delivered a 6.1 percent increase in adjusted profit before tax of £97.2 million. That is in line with its internal plan. The increase in profits reflects the beneficial profit effect under IFRS 9 of lower new account bookings which together with tight cost control, have more than compensated for the expected moderation in the risk adjusted margin. New customer bookings of 187,000 were in line with management's plans, and 47,000 lower than the very strong first half of last year. The year on year reduction reflects the timing of marketing spend, the impact of the tightening of underwriting during the third quarter of last year that curtailed booking

volume is by round about ten percent, and the cessation of the Argos contract at the start of 2018, that contributed something like 17,000 new accounts in the first half of 2017. That said, bookings through the second quarter showed strong momentum. A number of factors are at play here, including a major scorecard upgrade, the utilisation of richer data, which is benefiting in particular the booking of thin file customers. A very effective refresh of the direct mail packs, and the new TV advertising campaign launched in May. As a result, second quarter bookings of 100,000 were only 12,000 lower than the second quarter of last year, with most of that down to Argos. The growth in new customer numbers, together with the credit line increase programme to good quality established customers has delivered year on year customer growth of 7.2 percent, an average receivables growth of 12.5 percent. Those strong bookings in the first half of 2017 were of particular benefit to the CLI programme. Vanquis continues to adopt a low and grow approach to extending credit with returns underpinned by average credit line utilisation of 65 percent, which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines. Malcolm described the Vanquis Bank as being adapting to a number of regulatory changes during the first half. The FCA's policy rule on persistent debt says a customer mustn't repay as much in principal as they would in interest and fees over an 18 month period and affects around 15 percent or so of the Vanquis customer base. In response, Vanquis has increased minimum contractual payments and is in the process of rolling out recommended payments, and other communication strategies across the whole of its customer base. It is the combination of these measures that is designed to keep customers out of persistent debt. The business has also been working on enhanced affordability assessments in response to the FCA's proposed rules and guidance on creditworthiness. The impact on growth of these changes will be felt over the next 12 months or so, as their impact becomes fully embedded in the receivables book. This is already included within our guidance of relatively modest receivables growth for 2018. Revenue growth of four percent was behind the 12.5 percent increase in average receivables due to the moderation in the annualised revenue yield from 48.8 percent in June 17 to 45 percent at June 18. This is down to two factors. Firstly there's been a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales in April 2016. This has resulted in a year on year reduction in ROP income of approximately £7 million. Secondly, there's been some further moderation in the interest yield from the continued expansion of the product

offering into the near prime segment of the market, through the Chrome branded card. Delinquency and arrears trends through the first half have remained consistent with the first half of last year, and have benefited from the timing of underwriting in the third quarter of 2017 as well as the modest shift in receivables mix towards a Chrome nearer-prime product. The annualised impairment rate to June 18 of 15.7 percent of average receivables has improved from 17.1 percent in June 17. However, we should be clear that this reflects the benefit of a 20 percent year on year reduction in new customer bookings under IFRS 9, as opposed to any change in credit quality. The annualised risk adjusted margin is moderated from 31.7 percent to June 17 to 29.3 percent at June 18. The 2.4 percent reduction reflects the 3.8 percent reduction in the revenue yield, partly offset by the 1.4 percent reduction in the impairment rates, both of which I've just gone through. Costs: the Vanquis cost line has shown only modest year on year growth, 0.3 percent, and there are two main influences here. The first is that the level of investment spend on business development which includes building out our digital capability and loans, was unchanged on the first half of 2017. You might recall that we stepped up the investment in these areas by £12 million in 2017 so that is now embedded in the cost base, and benefits are beginning to be realised, with the Vanquis app now having round about 750,000 registered users, and the group wide Provident Knowledge Universe customer database now being rolled out. The second influence affecting the cost line was that 20 percent reduction in new customer bookings, and this resulted in a year on year reduction in acquisition costs of approximately £5 million. Interest costs benefits from a reduction in Vanquis Bank's blended funding rate after taking into account the cost of holding an increased liquid asset buffer from 3.7 percent in the first half of 17, to 3.5 percent in the first half of 18. This is due to a lower average interest rate on retail deposits and a higher proportion of the book being funded through retail deposits. The intercompany loan with PFG now stands at only £55 million compared with £173 million at June 17. Vanquis Bank's annualised ROA has reduced by 100 basis points to 11.2 percent which reflects the moderation in the risk adjusted margin partly offset by the cost benefits that I've just talked you through. So now onto CCD: CCD has reported a loss before tax of £23.2 million for the first half as the business continues to implement the recovery plan. This follows the losses of over £100 million resulting from the disruption to the business in the second half of 2017. Here's an analysis of CCD's customer numbers over the past year, splitting out active customers from non-paying customers. Home credit active

customers of 464,000 at June, show a year on year reduction of 34 percent and there's been a significant increase as you can see in non-payers. Both starkly reflect the impact from the severe operational disruption following the migration to the new operating model in July 17. The reduction in home credit active customers from 527,000 at the start of the year to 464,000 at June is due to two factors, both of which have a broadly equal weighting. Firstly, there's the normal seasonal reduction following the peak trading period in the fourth quarter. Secondly, the business has continued to heavily prioritise collections activity over sales during the implementation of the recovery plan. Consequently, new customer recruitment in the first half of 2018 was approximately 50 percent lower than the same period in 2017. The non-paying customers represent those customers who ceased paying - by definition - predominantly during the migration to the new operating model last year. These customers are either being retained in the field as the business attempts to reconnect with them, or otherwise within central collections. The business is currently investing in its central collections capability to better support the field organisation in its collections efforts, including utilising resource within Vanquis Bank. The Satsuma line is there and you can see Satsuma customer numbers have also shown strong year-on- year growth of 50 percent, despite further tightening of underwriting during the first quarter of 2018. This performance reflects continued improvements to the customer journey and development of product distribution. Home credit receivables are reduced by 38 percent to £260 million which is entirely consistent with the shrinkage in the active customer base. We expect home credit receivables to show only modest growth through the second half of the year. The positive effect of the seasonal peak in lending in the run up to Christmas is likely to be largely offset by the continued focus on improving collections performance, implementing the recovery plan and obtaining full FCA authorisation as opposed to sales. Satsuma's receivables show 77 percent year on growth to £31 million. This represents a combination of the 50 percent increase in customer numbers together with continued development of further lending to decent quality established customers. Further lending now represents around half of credit issued. If you work out the ratios here, you can see the ratio of revenue to average receivables is around about 58 percent. That ratio is little changed on the first half of 2017 and there have been no changes to product pricing. As a result, the reduction in revenue of 32 percent is in line with the contraction in average receivables. The 43 percent year on year reduction in impairment in the first half is greater than the

reduction in revenue. This is wholly due to the benefit from the sharp reduction in the number of new home credit customers recruited in the first half of 18, and not collections performance as we'll now discuss. So despite continued developments of field operations and ongoing improvements in customer service, the progressive improvement in the shortfall in underlying collections against the historical norm, did not continue as planned during the second quarter of the year and here's the relevant analysis. This chart shows the underlying collections performance of home credit in 2018, 17 and 16. Underlying collections performance excludes customers with more than 12 consecutive misses. It also excludes the collection of the outstanding balance on an existing loan when a customer is re-served with a new loan. It is therefore a purer measure of the underlying cash collections performance being delivered by the field organisation, and in particular irons out the seasonal impact of the re-serving of customers through the fourth quarter of the year. The green line on the chart shows the underlying collection performance in 2016. We use this as the best proxy for a normalised level of collections performance and the home credit recovery plan calls for the business to return to this level of performance by spring 2019. Looking through the time line on this chart, you can see the underlying collections performance start to deteriorate as the business approached the cutover to the new model, followed by the sharp deterioration in July 17 following the cutover. At this point, underlying collections performance was some 30 percent below the normalised level. As many of you know, Chris Gillespie took control of the business in September last year and began to implement the recovery plan. The performance gap narrowed to 12 percent by December 17, and showed a further reduction to ten percent by last March. However, you can see that the gap has remained at around ten percent through the second quarter of this year, versus an internal plan that assumed that the gap would narrow further. It is very clear that the lack of improvement is dominated by the under-performance of collections from those customers who were live during the period of severe disruption during the migration to the new operating model. In particular, the business is seeing a higher proportion of customers paying less than the contractual rate, that has historically been the case, together with a lower than expected reconnection rate with non-paying customers. There are two important drivers of this, firstly today's CEMs, who are collecting from their customers, did not typically originate those loans. Remember that 90 percent of customers experienced a change of relationship as a result of the migration. So the customer relationship is not as strong

as it has been historically, and the propensity of the customer to pay is lower. Secondly, the average experience and support for CEMs in dealing with arrears in customers not paying their contractual rate, has not been at historical standards. In contrast, and importantly, the collections performance of credit originated since the fourth quarter of 2017 by the existing CEMs is performing in line with historical levels and of course where the ownership of the customer relationship is much stronger. With this understanding, I hope you can see why the actions that Malcolm ran through should underpin improved performance, namely: rolling out the new field structure, better defined roles and responsibilities, improved spans of control, greater support for CEMs in dealing with arrears, further training and investment in central collections to assist the field organisation. There's no shortage of activity but right now, whilst the business is still working towards completion of the recovery plan shared with the FCA, performance management is heavily restricted. It focuses solely on managing activity as opposed to outcomes, and there is no performance related pay. Malcolm told you that discussions with the FCA are in progress, linked to authorisation about the introduction of an enhanced performance management system based on a balanced scorecard and some elements of variable performance related pay. These management tools are important to driving the necessary improvements in field performance. Moving on, as you know, we publish the annualised revenue yield and impairment rates as two key financial metrics. It is unfortunate that the implementation of IFRS 9 combined with the operational disruption in 2017 has resulted in a distortion in these metrics over the last 12 months. So let me explain that and then we can just move on. Under IFRS 9, revenue is recognised on the gross balance of a receivable unless a customer has defaulted. In which case, the revenue is recognised on the net balance after impairment provisions. However, IFRS 9 stipulates that accounts can only be reclassified for revenue recognition purposes in line with the group's external reporting periods which are the 30th June and the 31st of December. As a result, for the large number of accounts that defaulted in the third quarter of 2017, revenue continued to be recognised on the gross balance through to the 31st of December 17. That is what is prescribed. In contrast, impairment is assessed on a weekly basis which resulted in the net carrying value of average receivables reducing quickly through the second half of 2017 and when you combine these two factors, what you get is abnormally high annualised revenue yield of 116 percent at December 17, and 120 percent to June 18. This compares with a typical yield that you've been used to seeing

of around 100 percent which is consistent with the annualised revenue yield reported at June 17, and just to be really clear, there has been no change to the home credit pricing structure that has played into the revenue yield over the last year. The risk adjusted margins are not affected by the nuances of the revenue accounting I've just explained because the gross up of revenue results in a corresponding increase in impairment. As you'd expect, CCD's annualised risk adjusted margins are lower than June 17, due to the specific impairment in the second half of 2017. This will improve as the second half of 2017 falls out of the calculation and returning collections performance to historic norms would support an annualised risk adjusted margin of between 70 and 80 percent and a profitable business. As discussed, the most important enablers are the roll out of the new field structure that is underway, and the easing of the current constraints on performance management which requires a satisfactory conclusion to the dialogue with the FCA as the business progresses towards authorisation. Costs: as we reported in the Q1 trading update, the planned actions to align the cost base with the reduced size of the business were completed, in the first quarter of the year. The rationalisation of the home credit central support functions announced in January resulted in approximately 70 redundancies in the Bradford head office which in itself saves around £3 million per annum. Together with the natural attrition in vacancies not filled, this has resulted in the overall head count in the Bradford head office being some 200 lower than was originally planned when the business changed over to the new operating model. In addition, whilst the business has continued to invest in field management to bolster spans of control, the number of CEMs has reduced from around 2,700 at the start of the year to around 2,400 at the end of the first half, without any compromise to customer service. This saves up to £10 million per annum. You might remember that quite a significant amount of capacity was put into the field, in the latter part of 2017 in order to reconnect with as many customers as possible. Importantly, the capacity of the field organisation today remains capable of supporting a greater number of customers than currently being serviced. Despite the head count reduction, CCD's overall cost base of £124 million has remained broadly in line with the first half of last year. This is due to the higher fixed cost base and the investment in strengthening the control environment risk management and compliance as we implement the recovery plan. The cost base in the second half of the year will see some increase on the first half of the year, due to further investment in replacing the legacy IT estate with a third party hosted solution,

the rollout of the new field structure and a planned increase in marketing activity. The reduction in interest costs in the first half does not match the reduction in receivables and this is due to an increase in CCD's funding rate from 5.6 percent first half of 17 to 6.7 percent. The cost of funding in the non-bank segment of the group has increased now that Vanquis is substantially funded through retail deposits. As you know, Provident remains the clear market leader in the home credit market with a strong franchise, and the business is forecasting to return to profitability in 2019. This is directly dependent on the ability to restore collections performance back to the normalised levels by spring 19, and on completing the recovery plan to secure full authorisation from the FCA. Moneybarn: 2.9 percent increase in profits to £10.6 million in the first half of 2018. The benefit of improved credit quality has been broadly offset by investment in the cost base to support medium term growth. Customer numbers 57,000 at June show year on year growth of 24 percent. Whilst a non standard vehicle finance market remains competitive, there have been a number of competitors who have either withdrawn to focus on prime to more near-prime offerings or entirely exit the market over the last 18 months, and I guess STB's decision to run off their sub prime car finance book in 2017 is the most visible example of that. So notwithstanding the tighter underwriting standards implemented in the second quarter of last year, that reduced bookings by ten percent, new business volumes during the first half of 2018 were at record levels and showed year on year growth of 16 percent to 15,200 units. Continued development of the core broker introduced channel together with extension of the product offering, including increasing traction from light commercial vehicles, has reinforced Moneybarn's primacy amongst its broker network and assisted in delivering this strong growth. The growth in the customer book delivered corresponding receivables growth of 23 percent to 372 million now, and that's before the 12 million balance reduction reflected last year in respect of the FCA investigation. Similarly, revenue increased by 23 percent with the annualised revenue yield remaining broadly stable at 34.5 percent against the comparative of 34.7 percent. The tightening of underwriting which I'll talk about next, hasn't had a significant impact on the average revenue yield being generated by Moneybarn. The implementation of IFRS 9 has resulted in an earlier flow through of the impairment related to the growth of the business, as well as the increase in default rates experienced in 2016 and 2017. As you may recall, default rates through 16 and 17 increased due to the combination of two factors: firstly the change from lending up to the trade value of the vehicle to lending up to its retail value made shortly after the acquisition of the business. This reduced the average customer deposit and saw some increase in the propensity of customers to default, as well as increasing the loss given default. Secondly, the very strong growth in new business volumes has contributed to increased defaults which peak approximately 9 to 12 months following the inception of a loan. In response to

higher levels of default, underwriting was tightened in the second quarter of 2017 reducing business volumes by some ten percent. In addition, at the end of the first quarter of 2018, this year, a tier of higher risk, lower value business which contributed about five percent of new business, and was only marginally profitable, was also eliminated. Default rates and arrears levels have now stabilised and the credit quality of new business being written now is materially better than 18 months ago. This is directly evidenced by an improvement in the average Delphi score (Experian), the improvement in the average customer indebtedness index score, and the improvement in the customer debt to income profile of new business. And we measure these things monthly. As a result, the annualised IFRS 9 impairment rate has reduced, from 15.3 percent at June 17, to 14.1 percent at June 18. The annualised risk adjusted margin is strengthened by 100 basis points to 20.4 percent, due to the improvement in the impairment rate. We expect the risk adjusted margin to strengthen further during the second half of the year reflecting the better quality of new business now being written. Moneybarn continue to invest in the resources necessary to support future growth and enhance the customer experience. The executive team has been augmented including the appointments of a Chief Credit Officer, a Commercial Director, and an HR Director. The first tier of management has also been strengthened and the business has added more resource within customer service and collections. As a result, first half cost growth of 31 percent, is ahead of top line growth. Interest costs at Moneybarn reflect the increase in group funding rates similar to CCD, it reflects the increased cost of funding for the non-bank segment of the group now that Vanquis is substantially funded through retail deposits. Overall, Moneybarn has delivered an annualised ROA of 9.5 percent June 18 which is an increase from 8.9 percent at June 17 reflecting that strengthening of the risk of the annualised risk adjusted margin. So onto capital, you'll recall from the year end results announcement the group's capital base was significantly depleted by the provisions made in the 2017 accounts to cover the estimated costs of resolving ROP and Moneybarn investigations by £172 million and £20 million respectively. In addition, the group's regulatory capital requirement was increased by approximately £100 million, in respect of conduct risk and operational risk in credit, following the events in 2017. So the rights issue to raise £300 million and recapitalise the group balance sheet to deal with these requirements, was successfully completed and provides the necessary regulatory capital headroom for both the group and for Vanquis consistent with the board's risk appetite. The other important objective of the recapitalisation was to achieve leverage consistent with maintaining an investment grade credit rating and re-establishing normal access to funding from the bank and debt capital markets. It's important to recognise that it is now the group's regulatory capital requirement to maintain a fully loaded CET 1 ratio of 25.5 percent as opposed to financial gearing that is the main determinant of the group's capital structure. This table sets out the regulatory capital position at June. The key numbers to focus on here are the common equity tier one ratio and the group's capital requirements. The CET 1 ratio is the group's regulatory capital as a percentage

of risk weighted assets. The group's regulatory capital at June was £634 million as you can see. Regulatory capital is derived in the table as the group's reported IFRS 9 net assets, excluding the pension assets, goodwill and intangible assets totalling £219 million. In addition, the impact of IFRS 9 has been recognised over a five year period starting in 2018. The adjustment you see in the table of £175 million is an add back to the group's IFRS 9 net assets in order to recognise five percent of the full impact of IFRS 9 in year one of the transition. This will increase to 15 percent in 2019 and progressively thereafter to 100 percent at the start of 2023. Risk weighted assets are largely determined by the group's receivables which carry an average risk weighting of around 80 percent of the reported carrying value. The group's minimum capital requirement is now 25.5 percent, set out in the prospectus which supported the rights issue. This comprises the group's total capital requirements of 22 percent set by the PRA which includes the additional £100 million increase for conduct and operational risk I spoke about. Plus three and a half percent reflecting the fully loaded capital conservation buffer of two and a half percent and counter cyclical buffer of one percent, both of which come into full effect from the 1st January 19. So the group's total regulatory capital represents a CET 1 ratio of 30 percent, half year, after absorbing the year one impact of IFRS 9. Measured against a fully loaded capital requirement of 25.5 percent, the group is currently carrying regulatory capital headroom of around £90 million. This is consistent with the quantum of headroom held in the past and the board's risk appetite. Funding and liquidity: after recent events, there is in fact no major change to the group's funding strategy. We will continue to ensure the security of our funding through maintaining facilities to meet contractual maturities and growth over at least the next 12 months. As mentioned earlier, an important objective of the right's issue was to maintain an investment grade status and re-establish access to the bank and debt capital markets and support the group's funding strategy. In March, Fitch reaffirmed the group's BBB- credit rating with a negative outlook and removed the group from ratings watch negative. The group's leverage is strong, and the primary reason for the negative outlook revolves around the full turnaround of the home credit business. The group's funding will continue through three main sources: firstly through the syndicated revolving bank facilities with the lending banks, all of whom have continued to support us through the past year. Secondly, we'll continue to access market funding including retail bonds, institutional bonds, and private placements. And thirdly, Vanquis Bank has access to retail deposits which has remained undisturbed despite the events of last year. We also plan for the fully ring fenced Vanquis Bank to become fully funded with retail deposits in the short to medium term. We've made good progress with our funding strategy in the first half of the year. In May we launched and priced the £250 million five year fixed rate bond carrying a semi-annual coupon of seven percent. Following a roadshow, the announcements on the morning of 23rd of May saw the order book grow to around £500 million. By lunchtime the high quality order book allowed us to place the bonds with real money accounts. As a result, there's been minimal churn, and the bonds are trading at a sensible premium. The proceeds

of the bond issue were used to finance the tender offer for the £250 million October 2019 senior bonds which carry a coupon of eight percent. 89 percent of these listed bonds were tendered, and redeemed as an eight percent premium on the 30th May resulting in the exceptional cost of £18.5 million I mentioned earlier. So here's the funding position of the group. The support we've had from our banking group means the committed facilities have remained at £450 million. In the first half, we've repaid £15 million of the M&G term loan as well as 20 million of private placements on their contractual maturity dates and you can see the new £250 million senior bonds which we've just issued which mature in 2023 as well as the residual £27 million of the existing senior bonds which will mature on their original maturity date in October 2019. So, at June you can see the group had headroom on committed facilities of £331 million. In addition Vanquis Bank's capacity to take additional retail deposits and thereby repay its intercompany loan from PFG amounted to £55 million, so the group's total funding capacity was £386 million. This level of group headroom provides sufficient capacity to fund forecast growth and contractual maturities, to the maturity of the £450 million revolving syndicated bank facility in May 2020. The announcement of the ROP investigation in August last year has not had any discernible impact on the retail deposit programme. Deposits at the end of June were nearly £1.5 billion and Vanquis Bank is now substantially funded with retail deposits. The intercompany loan from PFG of £55 million is significantly down from £173 million a year earlier, and within the next 12 to 18 months we anticipate that the bank will be entirely funded by retail deposits. Vanquis Bank has continued to be active in the market through the first half of 2018 with inflows of some £286 million, at very attractive rates. The maturity profile of inflows has been appropriately managed through pricing in the usual way with our one year product currently priced at 1.5 percent and our five year product currently priced at 2.5 percent. The chart shows the analysis of the maturity profile of the retail deposit book. The relevant measures here are that the average periods of maturity of 2.3 years is in our target range and is supported by the mix of retail deposit of between one and five years in duration. The profile is appropriately matched to the cash flows from the receivables book. The blended all-in rate of 2.3 percent which is the headline rate excluding the drag from holding the liquid asset buffer, is highly attractive reflecting the protracted period of low interest rates in the UK. Here's the group's balance sheet on an IFRS 9 basis. I'm not going to go through all the detail here, but I will highlight three things. Firstly, in the comparatives for December 17, you can see the IFRS 9 opening balance sheet restatements of £184 million. This comprises a reduction in receivables of £238 million, net of a deferred and current tax adjustment of £54 million. Secondly, the liquid asset buffer of £532 million shows a significant increase and apart from growth in the business, includes increased liquidity in the context of Vanquis becoming fully ring fenced, together with pre-funding a proportion of the ROP refund programme. Thirdly, you can see that during the first half of 18 the provisions of £105 million established for the ROP and Moneybarn investigations at the 2017 year end have reduced by approximately £7 million. This

reflects the cost to date in relation to the ROP refund programme, including the operational costs associated with the programme. The Moneybarn element of the provision has not changed significantly during the first half and Malcolm covered where we are with the Regulator. You recognise the format of this slide, which sets out the congruence between our growth capital requirements and dividend policy. Our plans indicate that the group can deliver a target ROA of ten percent, once the home credit business has moved back into profitability. You've seen that Vanquis Bank and Moneybarn are already delivering returns of ten percent or more, or will do during this year. The group target of ten percent remains an attractive rate of return and with modest leverage will deliver a return on capital of around 25 percent. Each of our businesses are market leaders with strong franchises and the board believes that the group can therefore deliver sustainable receivables growth of up to ten percent per annum through the cycle. So combining our returns and growth plans with the requirement to maintain a CET 1 ratio of 25.5 percent is consistent with a distribution policy based on dividend cover of 1.4 times. Thanks very much, and I'll now hand you back to Malcolm.

Malcolm Le May

Thank you Andrew. Thanks very much for a very clear articulation of what is a complicated situation made all the more so this year by the introduction of IFRS 9. I'm going to talk a little bit now about our strategy and outlook. I think it's very important for everyone here to remember that in the UK there is a market of 10 to 12 million people who are not well served, if indeed they're served at all, by mainstream lenders. To put that into context, that's approximately 25 percent of the UK adult population and within this market, Provident Financial has some 2.5 million customers and these are obviously served by our market leading brands within Vanquis Bank, the Consumer Credit Division and Moneybarn. So without stating the blindingly obvious, there's plenty of room for growth. Credit is very much needed in this part of the market and I would argue perhaps more so than in the prime space and that demand, in my opinion will just increase as technology drives more change in how everyone lives. For example, take public transport. I imagine a number of you came here today by tube and here money and paper tickets are rapidly becoming something which is obsolete. People are using phones, bank cards and credit cards, and these will soon be the only way you can actually access travel, and to get all of those implements you need to have credit. So how do we develop the under-served part of the market, especially when I think that people within it are going to need our help more and more as we move into the future to live their daily lives. Put simply, we do it with scale businesses, with core skills in distribution, underwriting and collections, data and analytics and with recognisable brands offering accessible products that our customers need when and how they want it. And we do so in a responsible way with the customer at the centre of our strategy. This is a difficult market for other people to break into. As a group, we

believe that by greater collaboration using data analytics and technology in a smarter way, we can improve our products and services, help our customers more and grow our businesses. Through this outcome, we'll deliver sustainable returns as Andrew has outlined to all of our shareholders and under close collaboration with our Regulators, we'll also offer a better outcome for our customers. Why do we think this will work? Because we've started doing it already. It's bearing fruit and of course there is much more to do, but we're well on the way. Our data analytics team at Vanquis Bank are helping Moneybarn and CCD understand their customers better. Satsuma and Vanquis do collections together and soon will do certain central collections with home credit. Moneybarn car loans will soon be offered to Vanquis customers via the website and just think about that: at the moment Moneybarn has 57,000 customers. Vanquis has 1.7 million customers. To date I think Shamus has done some work and we've actually figured out I think in Moneybarn of their 57,000 customers, 21,000 already have a Vanquis credit card. They haven't got it through us. Our Vanquis customers have got car loans by going out into the market, spending £1,000 with a broker to come back and be reintroduced to one of our subsidiaries, Moneybarn, to get a loan. Forging a link between those two businesses is very exciting. Indeed we have an app within Vanquis which already has 750,000 people using it, and that was only started the year before last. So we have a tested model, it works and what we need to do now is to execute the successful strategy on a larger scale. Regulation: one of the aims I outlined earlier was to improve our relationship with the Regulators as part and parcel of the governance work and I think we're making good progress here. At the time of our difficulties, at the back end of last year and the beginning of this year, I was seeing them on a weekly basis. That's now moved to a monthly meeting, and I think that shows the line of travel that we're working on as a group. And as you can see from this slide, we have a good relationship with the Regulators, primarily the FCA and the PRA, but of course also in Ireland the CBI. This is key to us. The reality is that the FCA determine how we can conduct ourselves with our customers. The PRA determine how much capital we really have to put behind it, so it's actually critical going forward that for the benefit of everybody we maintain good relationships with it. Without a good relationship with the Regulator CCD won't get authorised. I'm confident it will. And indeed, I think the group will remain in enhanced supervision until we do that. I do believe that the high regulatory standards in our part of the market can only help us. Those that can't live with them will fall by the wayside and in relation to the recommendations of the high costs credit review which by the way we welcomed, we feel that to meet these new standards, companies will have to introduce things like voice recordings for visits, something which of course, we've already implemented so we're well placed. As highlighted earlier, Vanquis Bank have implemented the changes following the two FCA reviews, including the rollout of the new ground breaking recommended payments options which I mentioned earlier. And in relation to the FCA review of the motor finance sector, we look forward to hearing the outcome of this later this year. So, in conclusion, I think the group has made very good progress

in the first half of the year against the five objectives I set, namely as I said, the implementation of the home credit recovery plan, through that obtaining FCA authorisation, doing the ROP restitution programme, and adapting the business model to the future range and line of travel, strengthening our board, governance and culture and progressing the FCA Moneybarn investigation. And indeed, as Andrew has explained, recapitalising the group and re-accessing the debt markets through the investment grade issue. We've achieved all of this in the last six months, although I'm under no illusion there's still much more to do, so we're not complacent. The new recovery strategy is in its early days of implementation but the actions we've taken are already making us work better together. Going forward, we're going to use data analytics and technology in an ever increasingly smarter way. And through this, more benefits will flow to the group, its customers and shareholders. Finally, turning to the dividend, based on the good progress we've made in the first half, the board reconfirms its intention to restore the dividends with a nominal final dividend in 2018 before moving to a progressive dividend as Andrew's outlined in line with our stated dividend policy for the financial year 2019. We remain on track to deliver once the home credit plan has been fully implemented, and we'll aim to grow receivables as you've heard between five and ten percent per annum, and produce a return on assets of at least ten percent. So quickly summing up before turning to questions, a lot has been done, progress has been made but we recognise there's still a lot more to do. Thank you for listening to what I will freely admit has been a rather lengthy presentation, and very happy to open the floor to questions, thank you.

Ian White, Autonomous

Thanks, morning, it's Ian White from Autonomous. Thank you for the presentation, two questions from me please. The first one on home credit: you've talked about this front book versus back book dynamic being the sort of driver of the collections performance. If you were to do nothing on collections from here in terms of underlying improvement and just allowed that front book/back book dynamic to play out, how long would it take for the business as a whole to return to a normal level of collections and what sort of size would you expect the business to be in terms of active paying customers by that point please? That's question one and I've got a second one on capital.

Malcolm

Do you want a go at the first one first?

Andrew

Yes, OK, so we haven't thought about it in terms of doing nothing, but it would take through to the end of 2019 for the back book to work its way all the way through. Just exactly what the implication of that would be, would depend on the amount of effort we put into central collections and so on. It's not a scenario we've modelled, but it would take quite a while is the answer for the back book to run off and to be refreshed by new customers. What would the size of the book be at that point? It probably would have shrunk somewhat because a significant proportion of the business that Provident writes is repeat business, if you like, to customers who have a need at a particular point in time, the run up to Christmas or whatever, so you'd see some significant shrinkage in the book if that scenario was to play out. That's clearly not our central expectation at all because there's a lot of self help that we've talked about that we're undertaking at the moment and we're not operating with a full tool kit in terms of being able to performance manage the field.

Malcolm

I have to say I think that's an unlikely scenario. Speaking to the FCA they fully recognise the importance of home lending as a business and the importance of doing it properly. And I think one of the benefits of authorisation moving forward is to make sure that they can see that we have the right tools to do the job, so I think it's an unlikely scenario.

Ian White,

That's great, thank you, and the second please on capital. On slide 18, you gave us some details on IFRS 9. Could you just confirm my understanding please that the adjustment you're showing there on slide 18 is the full and only adjustment for IFRS 9, there's no benefit to RWAs for example on a fully loaded IFRS 9 basis to take account of the fact that you've got lower net receivables and therefore the fully phased IFRS 9 capital ratio would be about 21.7 percent I think on my maths, just working through the numbers you've given us there?

Andrew

Yeah, so the adjustments are £250 million backs out 95 percent of the impact from IFRS net assets - so you're right, I haven't done the maths, but it's something around

21, 22 percent would be the underlying number. It is actually a disclosure requirement and it's included in the statement. What's the figure Phil?

Ian White

So sorry, just to clarify there, there would be another benefit to the IFRS 9 fully loaded number over and above what you showed us on slide 18 for lower RWAs or there wouldn't be?

Phil Shepherd

There would be.

Ian White

And what sort of quantum is that please?

Andrew

The ratio is going to reduce and the number is in the announcement. We'll look that up for you and just come back to you in a second on what that net number is.

Ian White

OK thanks.

Malcolm

Yes, question here in the second row.

John Cronin, Goodbody

Thank you, it's John Cronin from Goodbody. Two questions, one on capital. So just following up on the question that had been asked previously in relation to the minimum regulatory capital requirement. Clearly your dialogue with the Regulator has been on an improving path, is there any more colour you can give in terms of the possible evolution of that minimum requirement and when it could come down?

Malcolm

I'll have a first stab, then I'll hand over to the capital expert here. I mean, basically the CET 1 ratio is set by the Regulator 25.5 percent and that reflects some general

changes that took place in the market place plus also at the time of the rights issue, the regulatory requirement they felt that we needed as a business reflecting some increased operational and conduct risks that they put onto us. In addition to that, the board has assumed that it would like to keep a buffer over and above that, because when you get into that territory, strange things start happening. You don't want to get into the 25.5 percent zone. So we've set it as a minimum level of £100 million about that, which is about where we are now, 30 percent. Andrew, do you want to add anything?

Andrew

If you're talking about how that might evolve, for us not surprisingly, credit risk is a significant element of the capital we need to hold. So that's clearly within our control. If you're referring to the add ons for conduct risk and operational risk, I think we'll need to make a lot more progress around the recovery plan of home collected credit before we get any relief, if any, for operational risk and in relation to conduct risk, I think we need to make a lot more progress and evidence to the satisfaction of the Regulator, so that's a backward looking view, that governance and processes, risk management etc are robust and that will take time. So, putting it another way, I wouldn't build any expectation of any relief in relation to the 25.5 into your thinking.

John Cronin

OK thank you and my other question is related to the strengthening of governance and processes that you are embarking on. You've clearly outlined the size of the addressable market from the home credit perspective. Interested to hear your thoughts in relation to how you may or may not make a strong push again for some of the agencies lost to competitors in time once the hard work has been done at your end, how should we think about the loan book evolution in that context?

Malcolm

I think where we've got to in terms of the field force at the moment, we've right-sized it for where we are at the moment. I think it'll be 2019 before we start putting our foot on the accelerator to go forward and add new customers in an aggressive way, but they are out there. If you think back to when we implemented the much publicised change of strategy, we had 800,000 customers, and obviously that shrunk

considerably. There are some 200,000 to 300,000 customers who are still out there who haven't been picked up, we believe, by the competition and in due course, we will begin to engage them. Chris, do you want to add anything to that?

Chris Gillespie

So the question you asked was around the size of the agency force and whether we needed to rebuild it. We've actually got capacity within the current size of that field force for quite significant additional customer numbers when we put our foot on that particular accelerator. So I'm not sure that we would need to significantly increase the size of the field force. I think there's capacity there.

Malcolm

Thanks. Next?

Gurjit Kambo, JP Morgan

Good morning, it's Gurjit Kambo, JP Morgan. First question on the collections versus historical track record. If you look at the back book and the new lending, how much of a benefit have you had from the new book that's been written, the ten percent? Is that broadly stable if you were to look at just the back book, Q1 and Q2? That's the first question, and secondly, just around the competitor environment in terms of Moneybarn, home credit and Vanquis, what's going on broadly in the competitive landscape?

Malcolm

OK, do you want to go to the first one, I'll do the second one?

Andrew

Yes, the ten percent as you can see from the charts, yes it's stable through the first quarter and the second quarter of the year.

Malcolm

In terms of the competitive environment, starting off with Moneybarn, I think if anything, people who would be in that market place certainly more towards the near-prime space, are pulling back from that marketplace, so it's opening up if you like for Moneybarn. Vanquis, if you look at its competitors, you've got to look at different segments of the rate environment: you’ve got NewDay who are doing well but obviously by all accounts but, preparing themselves for flotation. You've got Capital One and you've really got Barclays. I don't think we're aware of any penetration of increased penetration from them. Clearly we've got the Chrome product which operates in their space, but interestingly that's been growing well for us and we're attracting new customers into that business. But we haven't obviously seen anyone coming in at the upper end of the scale. In terms of CCD, it's principal competitors in the home lending business would be, in terms of scale, would be Morses and Non Standard Finance. There was a bit of noise around the time of the change of strategy that hordes of our customers were leaving as indeed were our former agents to go and join those businesses. I don't think we've seen a significant change in the marketplace from them, in fact if anything, and it's not for me to talk about their businesses, I'm not in the mode of observing, but I do think that the regulatory environment that we're all going to have to face going forward, is going to put increased pressure on people to do the sort of things that we have done. I wouldn't necessarily advocate they implement the way that we did it but they're going to have to move in that line of travel.

Any other questions? Well look, thank you very much for coming, as I say it was slightly longer than usual but it was a series of complicated messages to get across. Thanks for listening, we're always open to take enquiries and have a chat with you if you'd like, or think of any further questions, but thanks again for supporting us.