

## **Provident Financial plc**

**2015 interim results  
28 July 2015**

### **Peter Crook, Group CEO**

Good morning ladies and gentlemen, welcome to Provident Financial's interim results announcement for 2015. Here's the running order for today: I'm going to talk briefly to the highlights of the results and give you an overview of each of our businesses and how they traded through the first half; Andrew will then take you through the usual financial review and I'll then conclude with a few remarks on regulation and how we see the rest of 2015. Let's move into the highlights without further ado.

Adjusted profit before tax is up 34.5%, to £126.6 million, so that's struck before the exceptional item in CCD and before the amortisation of any intangibles in relation to the Moneybarn acquisition. On the same basis, EPS was up by 29.9%, to 70.4 pence. On the back of that very strong growth in earnings, we've raised the dividend by 15% to 39.2p.

Just a word about the dividend – obviously, Provident earns the majority of its profits in the second half of the year, so we try to think about the interim dividend as a placeholder, so we've given it a decent increase but obviously the final dividend for the year will largely square up the full dividend for the year to something in line with earnings growth and it's our policy to maintain that relationship, so 15% growth in the interim dividend, but obviously the final dividend is the main event here really.

Vanquis is the star of the show again, so a combination of very strong growth, acquiring more customers and growing the balances with those customers combined with a very strong income statement performance, so strong risk adjusted margin in particular, arrears in the business at an all time low.

In terms of Vanquis in Poland, I'm pleased to say we've sold the business now, so the economic interest in that business passed to the purchaser in April, legal completion is due in August and there are a number of different legal notices and procedures to be gone through before that deal actually closes, but the economic interest went at the start of April, so all you'll see in the income statement here is just the trading loss for the first three months.

In terms of home credit, the repositioning of that business is now complete. You'll know we set out some 18 months or so ago to move through to a smaller, leaner, better quality business, lower cost, lower impairment, slightly fewer customers and receivables as well. That journey is now complete as far as we're concerned. There's still a lot of work going on in that business, but that transition to a smaller but better quality business has been achieved.

Investment in Satsuma has been stepped up, so we spent a bit more money in the first half of this year relative to last time to support development of a substantial market opportunity here in online instalment lending – you'll be familiar with the dislocation in payday that's taken place. That opportunity still looks exactly as we thought it would, if not slightly better given the disruption that's happened in the payday market, so investment has been stepped up in Satsuma and it remains on track to break even on a run rate basis by the end of this year.

Moneybarn is trading somewhere ahead of plan and some of our own expectations, driven primarily by strong uplift in new business volumes – new business up 88% on the corresponding period last time.

Finally, in terms of the balance sheet, we're obviously well funded and current facilities take us through to May 2018. Let's just have a quick look at each of our businesses.

Vanquis – the backdrop here is very strong demand. You'll all know it's difficult to live a modern life without a credit card, certainly difficult to have an online life, difficult to travel, so we're tapping into a rich vein of demand from consumers who've been excluded from the credit card market by the high street banks and we're one of the few lenders who are willing to serve the higher risk part of the population. The backdrop here is very strong demand, the credit card's a product with great utility for consumers and we've continued to see a strong flow of applications. Indeed, the number of customers booked in the first half is an all time record, so we're slightly ahead of last year, which in itself was an extremely good year. There is some competition out there in the form of New Day and Capital One. Their activity is pretty steady, so I'm pleased that we've been able to grow volumes against that backdrop, but obviously in terms of arrears we probably have had a bit of help from the labour market. As we know, until the very latest set of numbers, unemployment's been falling steadily, employment's been rising, so that's obviously assisted the impairment line in the Vanquis business. We continue to run the business with unchanged credit standards, we're very happy at the margin, we're booking business up to the level that we should be. Obviously those credit standards have been in place for some time and they've helped deliver a very strong impairment performance over a number of years and now we sit here and arrears are at an all time record low again – 92.4% of the Vanquis book is up to date, which is the highest it's ever been. Obviously, that washes through into an above target risk adjusted margin – it's done slightly better than we... and Andrew will take you through that shortly. We've seen a further flow of new customers and obviously the business is making its way nicely towards the medium term goal of between 1.5 and 1.8 million customers that we talked about last time.

Moving on to CCD, in terms of the competitive landscape, no real change. Obviously one significant player has changed hands from one owner to a different owner but there hasn't been any consolidation as such yet, although that may well materialise. In terms of our customers, household incomes and cost of living are both stable and that's washed through into an increase in confidence, really. Confidence has been bumping along at the bottom for our customers. It has shown some improvement, albeit from historic lows, so demand from home credit customers has picked up a little bit. Then in terms of the online world and Satsuma, change in customer preferences and behaviours and the dislocation from payday lending are driving that opportunity to grow in the online instalment lending space. So we've largely completed that journey, then, to a smaller but leaner better quality business. You'll have seen that in the margins that we've reported today, so the risk adjusted margin or the ratio of impairment to revenue have both moved very sharply to a better position than they were 12 months ago. Obviously, supporting that there's been the rollout of One Best Way or our standardised working practices, particularly around arrears and collections which has helped drive that performance. The rollout of field technology and the cost savings are ahead of plan, so I'm pleased to say we are now paper free in terms of customer facing activity. All collections and agents round are being administered by a Smartphone app and literally, as of a week or two ago, all the paper loan agreements have now gone from the business, so all new business is being originated on Smartphone or tablet applications. We have invested a significant amount in getting ready for FCA regulation and we put our full authorisation submission in ahead of the

May deadline. Finally, investment in Satsuma has been stepped up. More of that from Andrew shortly, but it's well on track to break even on a run rate basis by the end of the year.

Finally, then, on Moneybarn, the backdrop here is that the market supply is less than half what it was pre-crisis, so a significant under supply of credit of car finance to non-standard consumers, so obviously a strong growth opportunity for us. It's fair to say that Moneybarn's proposition compares favourably to other forms of finance – there are a lot of vehicles being financed with unsecured loans, some with guarantor loans, some with friends and family or, indeed, some people are just having to save up until they've got sufficient funds available to buy a vehicle, so obviously Moneybarn's proposition, being a secured product in effect written through a conditional sale agreement, is pretty attractive versus other financing options. Again, obviously the car finance world is one that's going through full FCA regulation so, similar to home collected credit, there may well be some further industry consolidation to come through in due course. So where have we been? Obviously, Moneybarn is the market leader. Brokers are the primary channel to market here and we think about privacy with the brokers as being very important and that's in large part why we've seen a very significant uplift in the volume of new business, so Moneybarn under our ownership is getting far more first looks at businesses, really because it has the balance sheet capacity but also because it has the platform, the speed and the quality of service to be the preferred choice for many brokers in the marketplace. We continue to invest in the platform. Obviously, with new business volumes up 88%, this is a significant increase in capacity required to maintain the service quality and standards and serve that increased volume, so we've been investing quite heavily in head count in the Moneybarn operation and related support functions to support that growth. We've also been working on the product range and there are three things in particular that the team has done. Firstly, we're loaning to full retail value now where appropriate rather than just to trade. That's important in getting to primacy. Having said that, the majority of customers have a trade-in or a deposit, so it's not a matter of taking more risk, really, it's making sure that you get as many looks at new business as possible. We've also dropped the minimum lend to £4,000 – it was previously £5,000 – so that's taking us into a new segment of the market where we weren't competing previously. We're also on the cusp of trialling light commercial vehicles or white vans. The metal behaves very similar to the used cars that we're familiar with underwriting and, again, we're at the early stages of trialling the cross sale of car finance into the Vanquis Bank customer base. In common with CCD, Moneybarn also had a window for full authorisation with a deadline at the end of May and we've equally met that deadline, so Moneybarn's put its papers in to apply for full FCA authorisation, as per CCD.

Those are really the highlights. I'm now going to pass you on to Andrew to take you through the financial review. Thank you.

### **Andrew Fisher, Group Finance Director**

Thank you, Peter, and good morning everybody.

The group's produced a strong set of first half results. Adjusted profit before tax up 34½%, adjusted earnings per share up 29.9%. Vanquis has continued to perform strongly and CCD has delivered an improved profit performance reflecting the successful repositioning of the home credit business. Moneybarn performed ahead of plan and contributed £9.4 million in its first full half year since acquisition in August last year.

The main drive of the group's earnings growth was again Vanquis, which delivered UK profits up 29.6% upon further strong growth in receivables against unchanged credit standards. During

the first half, an agreement was reached to sell the Polish receivables book to a third party. The economic interest in the book passed to the purchaser from April 1<sup>st</sup> and the trading loss of £1.8 million here reflects a lot as incurred in the three months up to that date. Legal completion of the sale and receipt of final consideration will occur in early August and there's not expected to be any further loss beyond the 1.8 million that you see here.

CCD's profit before tax and exceptionals in the first half was up 2.7% to £28 million. The repositioning of the home credit business, as Peter mentioned, is complete and the business performed very well in the first half with a significant strengthening in the risk adjusted margin, which has more than offset a further reduction in the size of the receivables book. The result is also struck after a step up in the year on year investment in Satsuma of £5 million. This £5 million step up reflects advertising, advertising the Satsuma brand to build market presence as well as further enhancement of the platform to support the rapid development of the business. Demand for online instalment loans is strong and new business volume written is three times higher than in the first half of 2014. To date, the development of the business has been almost entirely restricted to the weekly instalment loan product. Satsuma ended the first half with 45,000 customers and a receivables book of £11.6 million. Everything we observe confirms that the disruption caused by tighter regulation and, in particular, the sharp contraction of the payday loans market provides an attractive opportunity to develop Satsuma into a sustainable business with a market year. This was ahead of our internal plans.

Access to the group's funding lines has assisted in a 88% year on year increase in new business volumes and bolstered the primacy of Moneybarn's proposition across its broker network.

Central costs are £7.9 million higher than last year due to increased share based payments and pension charges, together with the cost of the group office accommodation within Vanquis Bank's new London head office at 20 Fenchurch Street.

The group's adjusted profit before tax is £126.6 million, which is up 34½% and generated adjusted earnings per share of 70.4 pence, up 29.9%. Earnings per share growth was lower than profits growth as a result of the placement of 5.9 million shares for the acquisition of Moneybarn last August, although earnings per share benefits by just over 1% from the reduction in the statutory rate of UK corporation tax over the past year. The group's first half profit before tax and earnings shown here are stated before a £3.7 million charge in respect of the amortisation of acquisition intangibles associate with the acquisition of Moneybarn and they're also stated before exceptional costs of £11.8 million in respect of the CCD redundancy costs, which I'll return to shortly.

As I set out in the year end results, we now use return and assets as the preferred metric to measure returns. We assessed ROA as profit before interest, which is then taxed and expressed as a percentage of average receivables. You can see that the group's annualised ROA has strengthened from 14.9% in June 2014 to 15.6% in June 2015, driven up by the improved returns being generated by CCD following the repositioning of the home credit business.

The interim dividend, up 15% to 39.2 pence per share, which reflects the progress of earnings; strong capital generation and a robust funding position.

Turning now to the individual businesses, Vanquis Bank performed very well – UK profits up 29.6% to £88½ million as a result of strong receivables growth and margins supported by delinquency at new record lows, which in turn reflect unchanged credit standards and an improvement in the UK employment market. The business continues to generate strong demand from developing the under served non-standard UK credit market, as Peter described, and whilst the marking activity of competitors remains, Vanquis Bank's continued investment in its customer acquisition programme generated record first half new account bookings of 216,000, an 11.9% increase on the first half of last year. The acceptance rate, around 25%, was unchanged on 2014, reflecting the application of consistent underwriting standards. This saw the customer base grow by 66,000 through the first half and by 182,000, or 15.5%, over the last 12 months. This increases after the cancellation of 27,000 inactive accounts during the second quarter to eliminate the contingent risk associated with undrawn credit lines. The underlying growth rate is therefore around 18%, which is consistent with the rate quoted in our May IMS. The credit line increase programme for customers with a sound payment history represents over two thirds of the credit issued by Vanquis and, when combined with the growth in new customer numbers, has produced year on year average receivables growth of 23%.

The business added £53 million of receivables in the first half of the year compared with £93 million in the first half of 2014. As you may recall, the first half of last year was boosted by the introduction of upgraded credit line increase scorecards following the decision to augment the sourcing of credit bureau data. Most of you know that an important component of the Vanquis business model is maintaining high credit line utilisation to ensure that a strong stream of revenue is earned whilst maintaining a relatively low level of contingent risk from undrawn lines.

Average utilisation during the first half was around 70%, which is in line with our internal targets. We guided to some moderation in the analysed risk adjusted margin, and you can see a reduction from 33.6% last year to 33.3% at the half year, probably less than you were expecting. Just before going into the detail on that, this chart's a reminder of why Vanquis has delivered consistently high returns at or above the target risk adjusted margin of 30%. Two characteristics of the business underpin this stability – firstly, the low end growth strategy; and secondly, maintaining high levels of credit line utilisation which we've managed to around 70%. This chart's also a reminder that the business protected its risk adjusted margin at 30% during the period of rising unemployment in 2008-2009.

Onto the recent history, the last 12 months. The margins moderated by 0.3% from 33.6 to 33.3%. This actually comprises a 0.6% reduction due to a decline in the revenue yield from the changes made to the ROP product back in 2013 and lower interchange income, partly offset by a 0.3% benefit from improved delinquency. So taking the 0.6% reduction in revenue yield first, as previously reported during the second half of 2013, Vanquis changed the timing of the sale of ROP from the customer welcome call through to the activation call, which is about a week later, and also made a number of enhancements to the product's features. These changes have continued to reduce the penetration of the product into the customer base and increased its cost, thereby moderating the revenue yield earned from ROP. In addition, interchange income is now being adversely impacted by the agreement between Visa and the European Commission to implement a phase reduction in interchange fees charged by credit card companies to retailers. This programme will conclude in October this year; the impact on Vanquis is now expected to be around £5 million in 2015 and that will increase to around £9 million in 2016 based on current volumes as the reduced fees on domestic transactions fully take effect. It's important to recognise, of course, that interchange revenue is a less significant source of income for Vanquis than for mainstream card providers.

Now impairment. Consistent tight credit standards and an improving employment market have seen delinquency rate once again hit new record lows for the business over recent months. This has resulted in a 1.6% reduction in the impairment rate since June 2014. Over the same period, the credit quality of the book has improved. Arrears have fallen, reducing the yield from interest and late and over limit fees by 1.3%, so taking these together they explain the net benefit of 0.3% to the annualised risk adjusted margin from improved delinquency over the last year. Looking forward, based on a stable delinquency rate and after taking into account the full impact of changes made to ROP and to interchange fees, the risk adjusted margin is expected to moderate to closer to 32% for 2015 as a whole and will remain above the target level of 30% in the medium term.

Here are the IFRS 7 disclosures for Vanquis. You can see the profile reflects a stable record low arrears in the business, with 92.8% of accounts fully up to date with their contractual payments at the end of June, compared with 91.2% a year earlier. For reference, I've set out the impairment policy that we use at Vanquis, which is both realistic and, we believe, prudent when benchmarked against others.

First half costs were up 23.3%, in line with average receivables growth. It includes a further uplift of £3 million in the spend on direct mail and marketing activities that have supported the increase in new account bookings for the first half and additional expenditure of approximately £1 million on the risk, legal and compliance functions. Interest costs, up by 11.6% compared with receivables growth of 23. This reflects the reduction in Vanquis Bank's funding rate from 5.7% in the first half of 2014 to 5.5% in the first half of 2015, due to the progressive benefits of taking retail deposits. Assuming market rates remain stable, Vanquis Bank's overall funding rate for the year is expected to be around 5.3%. Finally, the bottom line – sound credit quality, favourable delinquency, assisted buying and an improving UK employment market has allowed Vanquis to deliver a marginal increase in its annualised return on assets, from 15.6% to 15.7%.

Turning now to CCD, profit of £38 million in the first half, up 2.7%, consistent with our internal plans and, indeed, the guidance communicated at the investor event in April this year. Demand from home credit customers has shown modest improvement during the first half of 2015 and customer confidence has lifted from historic lows. Household incomes and the cost of living for home credit customers are both stable.

Headline year on year customer numbers, we're down by 19.2%. However, over half of this reduction relates to the sale to a third party debt purchase company of delinquent, low value customer balances residing in home credit's central collections department. The underlying reduction is some 8% and reflects the tighter credit standards that have now been in place for nearly two years, which is illustrated on this next slide. So a significant tightening of underwriting in September 2013 really kick-started the repositioning of the home credit business and since then customer numbers have cumulatively reduced by 36%. What you see here in the chart is the changing customer numbers by credit quality and it illustrates the very marked uplift in the quality of the receivables book, so the green line shows there's been a progressive run off of the lower quality customers; the reduction of approximately 55% is the main driver of the overall reduction in customer numbers. Customers in the midrange quality grades have shown a decline of around 30% over the same period, reflecting tighter credit standards applied to reserving customers. Customer numbers in the best quality grades, shown here by the dark blue line, have increased by around 3%, reflecting the heavy emphasis on looking after these quality customers.

The year on year reduction receivables is 18% which reflects two influences, firstly the underlying reduction in customer numbers that I just referred to of 8%, and secondly and importantly the shortening of the book. The proportion of credit issued in the form of longer, larger loans has continued to decline since the tightening of credit standards back at the end of 2013.

The revenue line shows a first half reduction of 14½%, which is less than the 19.1% reduction in average receivables, due to an improvement in the revenue yield. The annualised revenue yield has increased by 4.3% to 101.4%, due to a shift in mix towards shorter term, lower risk lending, which is again consistent with the tighter credit standards being applied in the business today.

Impairment was 42% lower than the first half of 2014, with the annualised impairment to revenue ratio reducing from 35.2% in June 2014 to 22.9% in June 2015. This chart shows the annualised ratio of impairment to revenue over the last four to five years. After increasing from 33% to 38.7% during 2013, the ratio has seen a sharp improvement over the last 18 months, reducing to the 22.9% at June 2015, and this reflects two factors – firstly, tighter credit standards which are driving up the quality of the book; and secondly, and equally importantly, the substantial benefits from the rollout of standardised arrears and collections processes supported by technology. We expect the ratio of impairment to revenue to remain at a similar level for 2015 as a whole.

IFRS 7 for CCD, what you see is the disclosures are consistent with a very marked improvement in the quality of the book, with 41% of accounts fully up to date, compared with 31.8% this time last year, and for reference again I set out the impairment policy at the foot of the slide, which is unchanged.

So a rising yield and falling impairment have combined to produce a sharp improvement in the annualised risk adjusted margin. Here's a slide showing the development of that margin. After a steady decline during the previous three years, the annualised risk adjusted margin began to increase in 2014 and has strengthened from 62.9% at June 2014 to 78.2% at June 2014. I've analysed the increase of 15.3% in the column there between the improvement in revenue yield of 4.3% due to the shorter duration of the book and the significant improvement in the impairment rate. The actions taken in the second half of 2013 to improve credit quality, including the tightening of underwriting and implementation of standardised arrears and collections processes, together with the related technology, have resulted in an 11% reduction in the impairment rate over the last 12 months. These measures have created a virtuous circle. Tighter credit standards mean better quality customers. This means that agents spend less time on difficult collection visits, chasing arrears, and can spend more time looking after good quality customers. This in turn reinforces credit quality, which leads to a further improvement in collections. It's this cycle that underpins the month on month improvement in the annualised risk adjusted margin since the start of 2014.

Business performance is benefiting from the planned reduction in costs following the programme of cost savings implemented during the last two years. First half costs growth of 7.7% or £10.3 million resulted from a step up in the year on year investment in Satsuma of £5 million mentioned earlier and increased regulatory and compliance costs of approximately £3 million. As flagged in our IMS, the programme of work to deploy technology through the field operations to support an improvement in agent and branch productivity, as well as implement

market leading compliance, is running well ahead of schedule and is now substantially complete. In particular, all UK agents are now using both the collections and lending apps to conduct their rounds and, as a result, the business commence consultation in May 2015 on a proposed head count reduction of 500 people across field managers and the remaining field administration workforce. The head count reduction secured annualised savings of approximately £14 million with no impact on customer service levels. An exceptional restructuring cost of £11.8 million has been incurred in the first half in respect of the associated redundancy cost.

Interest costs, 23% lower in the first half of last year versus a reduction of 19% in average receivables. This is due to a reduction in the funding rate for the business from 7.5% in the first half of 2014 to 7.3% in the latest period, reflecting a lower margin on the group's indicated facility following the extension in January 2015 and the lower interest rate carried by the most recent bond issue earlier this year. Then finally, the returns. The success in delivering on the strategy to transition the home credit business to a smaller, but higher quality lower cost business can be seen in the significant increase in CCD's annualised return on assets, from 16.5% in June 2014 to 19.7% at June 2015.

So onto the new business, Moneybarn. We're really pleased with the performance of Moneybarn since purchasing the business last August – first half profits of £9.4 million are ahead of our internal expectations and 38.2% higher than the pro forma 2014 first half profits, which have been restated to reflect the group's lower funding cost. New business volumes during the first half of the year have been very strong and show growth of 88% on the first half of last year. There are three interrelated influences driving this performance. First, Moneybarn was increasingly funding constrained under its previous ownership, so access to the group's funding lines and removal of that constraint has had a significant impact. Secondly, the funding constraint meant that Moneybarn was restricting its product proposition, specifically by restricting lending up to trade value of the vehicle and restricting its minimum lend to £5,000, which began to put it at a competitive disadvantage. Moneybarn extended the product offering to lend up to retail value immediately following the acquisition and has reduced the minimum lend to £4,000 earlier this year, in January. Thirdly, access to funding and a more competitive offering has reinforced Moneybarn's primacy, as Peter described, across the broker network, meaning that it gets first look, which is very important since this is the dominant distribution channel for the product. Moneybarn's working on a number of other initiatives to develop both its product proposition and its product distribution, for example a trial to test the appeal of Moneybarn's car finance proposition to Vanquis Bank customers is currently in progress and the business will shortly commence a trial of financing light commercial vehicles through its existing broker network, as Peter described.

As a result of strong new business volumes, customer numbers ended June at 26,000, up from 22,000 at December 2014 and showing growth of 44% on June 2014. The business is comfortably on track to achieve the previously communicated target of 30,000 customers by the end of the year. The strong growth in new business volumes has resulted in period end receivables growth of 43.1% to 186½ million at June 2015. Average new loan sizes in the first half have remained broadly comparable to prior years, at around £9,000. The annualised risk adjusted margin has remained stable at 24.6%, in line with December 2015 and marginally up from the pro forma June 2014 number. The revenue yield remains unchanged at just over 28% and default rates through the first half have also remained stable, as they have been over the past two years. Based on the current delinquency trends and mix of business, the risk adjusted margin is expected to remain at a similar level during the second half of the year.



As I flagged in the year end results, 2015 is a year of investment at Moneybarn, principally in additional head count to support growth to meet the higher regulatory standards under the FCA regime and to bring governance processes into line with those of the rest of the group. The head count has increased from 90 at the acquisition date to 129 at the end of June and is expected to increase to approximately 150 by the end of 2015. What this means is the cost base of the business has grown by 34% in the first half of the year, which is in line with top line growth of 34.4%. We expect this to be the case for 2015 as a whole and for operational gearing to kick in from 2016. Interest costs have grown by 22.9% in the first half of 2015, lower than the average receivables growth of 35.5%, so what's happening here is that the business is retaining profits earned since the date of acquisition as the capital base of the business is built towards the group target gearing ratio of 3.5 times. Moneybarn is a high return business, as demonstrated by the annualised return on assets of 12.9% at June. This is consistent with December 2014 and is in line with our expectations for 2015 as a whole.

Turning now to the balance sheet, goodwill. That arose on the acquisition of Moneybarn last August and is unchanged. Also as part of the acquisition of Moneybarn, we had to value the broker relations and they were attributed a value of £75 million, using a discounted cash flow model. That intangible asset is being amortised over a ten year period, amortisation in the first half of £3.7 million resulting in a reduction in the asset from £72.5 at December 2014 to 68.8 at June. I've already covered the moving parts within receivables. You can see overall group receivables are up by 16.6%, or approximately 260 million, and that does include £187 million in respect of Moneybarn receivables. The pension scheme showed an accounting surplus of £17½ million, down from £56 at the start of the year. A £46 million reduction in asset values reflecting a fall in gilt yields and an increase in the inflation rate from 3.1% to 3.2% have been partly offset by an increase in the discount rate from 3.7% to 3.8%, as well as cash contributions of around about £6 million in the half year. Vanquis Bank's liquid asset buffer, including other liquid resources held in satisfaction of our ILA requirements under the PRA's liquidity regime amounted to £118 million at June. The amount held is based on undrawn credit lines, which increase in line with receivables and the maturity profile of retail deposits. I'll return shortly to debt and deposit funding. Net assets, 582 million, up from 421 a year earlier and include the equity issue of £120 million for the Moneybarn acquisition in August 2014.

The gearing ratio measured on a banking basis has reduced to 2.4 times, which is the subject of the next slide. This shows the stability of the gearing ratio from consistently strong capital generation which is funded, not just the annual dividend but also the growth of the business whilst operating within our target ratio of 3½ times. You can see the reduction in gearing from 2.9 times at June 2014 to 2.4 times at June 2015, which reflects two factors: firstly, the acquisition of Moneybarn that was almost wholly funded by equity in order to preserve the group's regulatory capital; secondly, the shrinkage in the home credit business receivables book resulted in the release of some £30 million of capital over the past year.

This table shows the group's portfolio of committed facilities, so bank funding represents a group syndicated bank facility with its core relationship banks. These amount to 382 million and were extended in January 2015 through to May 2018, kicked on a further 12 months. As part of this extension, the all-in cost of funds was reduced and there was no change to the terms and conditions and financial covenant package. The next leg of funding is the broad heading covering medium term bonds and private placements, totalling £697 million. The group successfully issued its fifth retail bond in April, raising £60 million at a coupon of 5.5% over a duration of 8½ years and the retail bond market remains an excellent source of funds for the

group. The third leg of funding is the retail deposit programme at Vanquis, which provided £645 million of fixed term, fixed rate funding as at the half year. The average period to maturity of retail deposits is 2.6 years and it's in our target range and reflects the issue of one through to five year fixed term products. The blended rate of 3% currently being enjoyed by Vanquis continues to benefit from the very low rates being offered in the retail deposit market. So the group's total committed facilities at June were just over £1.7 billion and head room on these facilities was £221 million. This doesn't take account of the additional funding available to Vanquis by increasing the retail deposit programme to the point where the whole of its funding is provided through that programme. At June, this additional capacity amounted to £263 million, representing the full amount of the intercompany loan between Vanquis and Provident Financial. Committed debt head room plus retail deposit capacity totals £484 million which, together with the capacity of Vanquis to take further deposits as its receivables book grows, is sufficient to meet contractual debt, maturities and fund the expected growth in the business until May 2018, when the syndicated bank facility is due to mature. In practice, the group routinely renews its syndicated bank facility at least 12 months in advance of that maturity.

Here's the maturity profile of the debt. Maturities over the next two years are relatively light. Step downs of ten million in January 2016 and January 2017 are the first instalments on the energy term loan, whilst a £50 million step down in September 2016 reflects the maturity of the first 2011 retail bond. As you can see, the most significant maturity is the expiry of the syndicated bank facility in May 2018 and the average period to maturity of the group's bank and debt facilities is 3.1 years. I've indicated here the pro forma level of CCD and Moneybarn's borrowings at June 2015 in the box on the left, after assuming that Vanquis has repaid in full its intercompany loan or, to put it another way, is fully funded with retail deposits. This amounts to around 600 million, compared with total committed debt facilities of nearly 1.1 billion today and illustrates the strength of the group's funding position.

You should be very familiar with the alignment between our dividend policy gearing and the group's growth plans. Our dividend policy is to maintain cover at at least 1.25 times and our gearing target is around 3.5 times against a current of 5. Based on consensus 2015 profitability, the retention of profits consistent with our current dividend leverage 3½ times support receivables growth of approximately £260 million. This rate of growth accommodates the medium term growth plans of the group at this time.

Capital generation – the group generated capital of just under 170 million in the 12 months to 30<sup>th</sup> June. After funding its own growth, Vanquis increased its capital generation from £65 million in the 12 months to June 2015 to just under £91 million in the 12 months to June 2015. CCD generated capital of 84 million versus just over £100m last year. The lower capital generation primarily reflects the lower level of capital released from the shrinkage of the receivables book, the increase in the year on year investment in Satsuma, as well as the impact of exceptional costs.

Moneybarn has been capital neutral since acquisition, reflecting the strong growth in receivables and the investment in head count. Capital generated comfortably covers the cost of the dividend with a surplus of 21.2 million retained in the 12 month period. This profile is changing as the contraction in home credit receivables dissipates and we invest in growing Satsuma. Thank you, I'll now hand you back to Peter.

**Peter Crook**

Thanks Andrew.

Right, just to wrap things up then, firstly a few remarks on regulation. Obviously, CCD and Moneybarn submitted their applications for full authorisation ahead of the 31 May deadline. Vanquish Bank, obviously as a full bank, is already an authorised firm which meets the threshold conditions, so for Vanquis the task was a little bit lighter and is really around applying for a variation of permissions, in effect to adopt the final consumer credit permissions in their various forms. Now, for all these things, the FCA has up to 12 months – that’s a statutory deadline – from the date of submission to consider and conclude on the variation of permissions for Vanquis and, indeed, for the applications for full authorisation for CCD and Moneybarn.

The next thing to comment on, and it does seem a long time ago, this one, was the price cap on high cost short term credit, but technically this did come into force right at the beginning of H1, on 2<sup>nd</sup> January, so it’s probably worth just recapping. This is a cap on the pricing of short term credit products, i.e. repaid or substantially repaid within a year with an APR of more than 99.9%. For what it’s worth, it does carve out and exclude home collected credit, so home collected is not subject to these controls. The cap was set at 0.8% per day. There’s a cap on default fees at £15 per instance and there’s a longstop cap of 100%, i.e. the fees, charges, interest of whatever sort cannot be more than the original amount borrowed in total. Satsuma does fall within the scope of this cap, but I’m pleased to say the pricing is somewhat below the limits that are set, so it’s not an issue for Satsuma and, for that matter, if home collected credit was included, then its pricing would equally fall within the cap.

So it’s just worth noting that that’s now in force; obviously, that’s having a significant impact on other short term lenders, particularly the payday lending sector where I think the CFA said that payday volumes are down 70% now amongst its members. The final thing to comment on, then, is the FCA’s review of the credit card market, just to recap. The terms of reference here identified three main areas which they wanted to examine: the extent to which consumers drive competition through shopping around and switching - I’d suggest that’s not particularly relevant to our business insofar as most Vanquis customers only have one credit card, which is ours, and obviously we don’t play the 0% teaser rate, balance transfer game that’s enacted in the prime market. The second issue was the extent to which firms recover their costs across different cardholder groups, so what they’re really driving at here is the difference between revolvers and transactors. As I’m sure many of you in the room probably pay your credit card bill in full, if you pay on time, you won’t pay any default fees, there’s typically an annual fee, so the credit card is potentially likely a free product for many of you in the room, but obviously it probably costs £40-50 a year to operate in terms of your plastic statement payment processing, transaction processing. That’s all being paid for by those customers who revolve their balance and pay interest, so clearly quite a big cross-subsidy. Again, not particularly an issue for us. We know Vanquis customers use our card to borrow money. We don’t have a large number of transactors within our portfolio who just use the card and pay it off every month, it’s not really the nature of the audience that we’re focused on. Finally, the extent of unaffordable credit card debt. Again, in a world where a Vanquis customer typically has just our card, an average balance of somewhere in the £800-900 range, this isn’t really a problem that’s characterised by Vanquis customers. I would suggest there is a slice of Middle England out there that has a wallet full of credit cards, maybe with £4,000-£5,000 on each card, just about keeping head above water, making the minimum payments on them all, probably going to take a very long time to pay them back. I think that’s where the FCA is focused. Anyway, in any event, they expect to reach their conclusions towards the end of this year. That’s it really in terms of regulation, so to wrap up let’s just go with the outlook.

Obviously, Vanquis will continue to generate strong growth and margins through developing the underserved, non standard UK credit market, the business making nice progress towards that goal of between 1.5 and 1.8 million customers borrowing £1,000 each. The repositioning of home credit is complete, it is now a smaller but leaner, better quality business focused on returns and you've seen, obviously we have got a smaller business but equally the progress that's been made, the risk adjusted margin or the ratio of impairment to revenue have both shown very material positive movements through the first half of this year, and perhaps we can get back a little bit more onto the front foot now in this market but certainly not at the expense of giving up the improvement in quality that we've worked very hard to achieve. First half investment to support the rapid growth of Satsuma puts it on track to break even on a runrate basis, so month by month by the end of this year. Obviously then that means it should create a contribution towards the group's earnings in 2016 and that medium term opportunity that we've seen for some time now from the dislocation in the payday sector and the onset of regulation is very much there and we believe we can capture that opportunity. On Moneybarn, the lift in new business volumes has reinforced Moneybarn's position and primacy with its brokers which, along with the product development opportunities that we have which I described earlier, leaves the business very well positioned to deliver strong growth through the medium term and hit the group's return targets. Finally, the group's fully funded into May 2018. I'll just read the quote that we put in today's announcement to wrap it up. The group has produced a strong set of interim results and credit quality in all three businesses. It's very sound, as evidenced by the favourable impairment trends in the first half of the year. This provides a foundation for delivering quality growth for 2015 as a whole. That concludes today's presentation.

I'm now very happy to take questions. There will be a microphone that comes round. If you could say your name and your firm, if you want to ask a question, that would be appreciated. Thank you. Question from Portia.

### **Portia Patel**

Hello, Portia Patel, RBC. I was wondering if you could comment on the tax charge on banking profits that was announced in the Budget and whether you think it will come in in its current form or whether you see any scope for amendments that benefit you?

### **Peter Crook**

Ok, yes, I think this change in tack caught many banks by surprise. This is an additional 8% corporation tax on the profits of banks, so this applies to Vanquis Bank within PFG – it doesn't apply to the rest of the group. Obviously, there's some offset from the reduction in corporation tax more broadly, which the whole group will benefit from, as that's on its way down over the next couple of years to 18% from 20%, but there will be some incremental tax within Vanquis. We're aware there is quite a bit of lobbying from some of the smaller banks via the BBA, but it's difficult to call whether it will change. I suspect it may well land in its final form and there's nothing we can do about that so life carries on, really.

Any more questions? Yes, Gurjit at the front.

### **Gurjit Kambo**

Hi, good morning, it's Gurjit from JP Morgan. In terms of Moneybarn, revenue growth and cost growth are running at similar levels this year. How should we look at that through next year as the operation gearing starts to come through?

**Andrew Fisher**

2015 is the year when the head count is increasing to support the growth and upgrade compliance risk functions etcetera across the group. That's what's driving cost growth, which happens to be in line with receivables growth of about 23%, so you'll see some jaws open up. You'll see cost growth next year will be lower than the rate of growth in average receivables. We haven't planned in detail next year so I can't give you the numbers on that, but there'll be some meaningful positive operational gearing kicking in from the start of next year.

**Gurjit Kambo**

And just one... in terms of glo, I know you said in Q3 you'll make a decision. Just any thoughts on how that's going?

**Peter Crook**

Yes, ok, we've not talked about glo explicitly today. glo is our guarantor lending trial, it is still a trial. We previously said at our investor day that we would make a call on glo as to whether to move from trial into full rollout during quarter three. We've not yet had that checkpoint, but I have to say glo is going very well and I'd be surprised and disappointed if we didn't take it forward.

**Gurjit Kambo**

Thank you.

**Peter Crook**

Any more questions? No? Ok, well thank you very much for your time, ladies and gentlemen. Thanks for coming.



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