<u>Provident Financial plc</u>

2018 full year results

13 March 2019

Malcolm Le May, Group CEO

Good morning everybody and thank you for coming. It doesn't seem like a year ago that I was standing here with our 2017 results and announcing the rights issue. Obviously, a lot has happened since then. I hope whilst you were outside you had a chance to look at the short film that was running prior to this formal presentation. If you missed it or if you're watching or listening to this presentation over the web, it's on our website. It highlights how Provident helps put people on the path to a better, everyday life, which is our purpose and why we exist. It can, in our complicated world, sometimes get lost or, indeed, perhaps in the recent past, get overlooked, which is unfortunate as it's very important to our customers and it's a theme I'll return to during the course of this presentation.

For those who have not yet met him yet I'm delighted to introduce Simon Thomas, our new Group CFO. He'll be taking you through the numbers today and will of course be happy to stay and say hello afterwards. We also have many of our board members and colleagues here, and please feel free to chat to them at the end of the presentation today.

Either side of the numbers, I'll be reporting on the operational progress strategy and outlook before hosting questions and answers at the end. Now, importantly, given that we are in an offer period you will appreciate there are limits to what we can say, and today is about our results, so, if it's okay with everyone I'm going to focus on the results primarily. But I will say, before I start, a few words about NSF's offer. This offer is opportunistic, it undervalues this company and it fails to recognise the significant value creation opportunity inherent in this integrated group. It also fails to recognise that Vanquis is now the largest part of the Provident Financial Group and we believe it's the single largest driver of growth and value going forward, and therefore needs an experienced management team to run it as a regulated bank, which is something I believe that NSF does not have. I would also note that the regulatory environment has changed significantly over the last five years and, as with all of our businesses, at Home Credit we are at the forefront of this regulatory adherence setting a benchmark for the industry. The NSF offer does not reflect this new regulatory environment and that's perhaps best illustrated by the letter sent to NSF by the regulator, by the FCA, on the 6th March. I'm sure you'll have read copies of this.

We are proud of our business, and, as you'll hear today, having substantially resolved all significant regulatory and legacy issues over the last 12 months we're now confident of our outlook to deliver enhanced and sustainable returns to shareholders, alongside good customer outcomes for our customers. Now, this may sound like groundhog day because I'm telling you what we have done, which is exactly the same as I said we would do a year ago, as repeated in our interims, I always saw 2018 as a year of getting our house in order, rebuilding the confidence in our businesses with the regulator, and we have achieved a lot in relation to the group's operation and financial performance and on the governance front. The aim of this was to strike a sensible balance between good customer outcomes and sensible returns for our shareholders, which I believe we have done. And we stand by our predictions at the time of the rights issue, namely, once we have returned to normality this group will make approximately a 10% return on its assets. Group adjusted profits before tax is up 82.3% to £153 million, with adjusted earnings per share up 26.6% to 46.6p. Progress? Yes, but only the first stage of our recovery journey, we're excited though about our future as we implement our strategy, embed our new strategic culture and roll out the new products for our customers.

Turning to the divisions, Vanquis Bank's profits are marginally up at £184.3 million, the consumer credit division has significantly reduced its losses to £38.7 million - that's down almost two thirds, and Moneybarn profits are up 28.3% to £28.1 million. The board, reflecting on the good progress we've made this year, have recommended a final dividend of 10p, again, as promised in our rights issue, and reflecting our confidence on the future. Again, a step in the right direction, but one we expect to build upon going forward.

Now, turning to the operational objectives that I set Provident Financial in 2018, these were, firstly, to implement the Home Credit recovery plan with a view to obtaining full FCA authorisation during the course of the year, secondly, progressing the ROP Vanquis Bank refund programme and adapting its business model to the changes in regulation that we are seeing, thirdly, making progress resolving the FCA investigation into the historic affordability, forbearance and termination practices at Moneybarn, fourthly, strengthening the Group's board, its governance structure and refocusing its culture, and finally, recapitalising the group and re-accessing the debt markets.

And I'll now go through how I feel we've done against these individual objectives and the outcomes that we've achieved. Firstly, the consumer credit division was fully authorised at the beginning of November, just seven months after the rights issue, which was the result of Home Credit successfully implementing its new operating model. It has also started 2019 in line with expectations, and new customer numbers are materially up in CCD on the equivalent period of last year. The Home Credit field structure is now all employed, lending visits are now all voice recorded with collection visits soon to be as well. A new field structure was implemented to reduce the conduct spans of control, and we believe our new structure is fully compliant with the FCA's high cost, short term credit review and think it has a first mover advantage here with our model as others could potentially be playing catch up to our high regulatory standards, and I think this leaves us well placed to deliver good outcomes for customers and enhance and sustain returns for our shareholders. We have also recognised the undeniable fact that the Home Credit market is evolving and have positioned CCD accordingly, as traditional borrowers migrate more towards digital solutions. This is a huge opportunity for us, and one which CCD is embracing under the leadership of Chris Gillespie, who we think is the best guy in the market, and who has delivered a successful model change already at CCD. In 2018, Home Credit focused on getting authorised in collections, in 2019 its focus will be on embedding the full suite of performance management measures approved by the FCA only last week, stabilising customer numbers and reducing the cost base.

Turning to Vanquis, at our interims, the ROP refund programme, following a successful pilot scheme in June, had hit 200,000, I'm pleased to announce we're now well over one and a quarter million customers in terms of having had a refund, and the programme is now 99% complete, in fact, we have 1,244 customers still to contact and I'm confident that will be done by Friday. This has been done within the provisions that we established last year following our conversations with the FCA and the PRA, and there's also been no material change in the level of ROP complaints or CMC activity. Importantly, the bank's second objective was to adapt to the ever-evolving regulatory environment, again, recognising how regulators will increasingly shape ours and our customer's futures. New regulation can and will increase operating costs and moderate growth, the credit card market survey has in fairness already done a bit of both, our innovative response to it though will help move more customers that fall into persistent debt move out of it more quickly, which is good for them and it's good for us; once they leave persistent debt they can start to reuse their credit cards. In terms of new regulation, the bank implemented changes to meet the new affordability principles in November last year and is fully compliant, and has also introduced a new minimum payment for persistent debt cards following the credit card market study in 2018. Soon the bank will be rolling out a recommended payment for persistent debt, which has not yet been done before in the UK and is another example of us putting good customer outcomes at the heart of everything that we do. So, looking at the numbers and to give you some colour on what we're trying to achieve with persistent debt, approximately 15% of our receivables book would ordinarily have been deemed to be in persistent debt, through the changes in the minimum payment this reduces to approximately 9% of our customers, and if 50% adopt our recommended payment schemes that will be down to 6% of our customers being left in persistent debt, and this is a good outcome for our customers. These changes will continue to bed down throughout the year, and the small proportion of remaining customers who will be in persistent debt we are prepared to help with remedies at 36 months which come into effect in 2020. So, overall, I think, a solid trading performance for the bank in the teeth of quite strong regulatory headwinds. Trading for the first couple of months, I'm pleased to say, is in line with expectations and customer numbers are slightly ahead of plan.

Turning to Moneybarn, in Moneybarn we've made significant progress with the FCA in reaching an agreed resolution to the investigation and are working towards concluding the matter in the coming weeks. The FCA will be issuing its final notice in due course and the combined cost of the agreement reached is expected to be well within the financial provision we've already announced. In relation to its business performance, Moneybarn had an excellent year and continues to grow under Provident's leadership. With adjusted pre-tax profits up 28.3% to £38.7 million, its strong performance has continued into 2019 and I'm pleased to see that we had a record monthly new customer growth in both January and February of this year.

Turning to governance, the governance of the Group and its leadership was strengthened by the setting up, for the first time, of a new group executive committee in early 2018. It makes decisions for and across the group, initially some of its members were interims but these are now being replaced with permanent employees, the committee provides better group governance and enhanced collaboration across the businesses for the benefit of customers and shareholders alike. In relations to new appointments, our new managing director of Vanquis Bank will join in April and we also expect to announce the name of a new Chairman shortly, subject to regulatory approval. Both have significant retail banking and consumer finance experience. A significantly strengthened and changed board met for the first time in September, following Patrick Snowball joining the group as Group Chairman, Angela Knight, Libby Chambers and Paul Hewitt are all experienced non-executives and were appointed to the board in July, and all of the new board members have significant retail banking experience. Simon Thomas, who I introduced earlier, joined the board as Group Chief Financial Officer in December, adding further to the new board's skill set. Also, in relation to strengthening the governance and culture the board is finalising plans, again mentioned at the time of the rights issue, to establish a new board committee in the second quarter of this year to be chaired by Libby Chambers, to focus on customer, culture and ethics. The committee, amongst other objectives, will ensure we operate to the highest regulatory standards, which I believe will be very important, especially as the sector will continue to be at the forefront of the Regulator's mind as so many of our customers are seen by them to be vulnerable. Finally, but importantly, we have just launched what we call our blueprint, which is our new cultural statement, to the top 150 members of our leadership team across Provident Financial Group, and this will help drive improved customer outcomes and culture, and hopefully you saw the film outside earlier, but I'll talk a little bit more about that after Simon's spoken.

The last objective I set this time last year was to recapitalise the group, and to re-access the debt markets. In the first half we successfully completed the £300 million rights issue, and then off the back of this we issued a £250 million bond, a fixed rate bond with a five-year term, carrying a semi-annual coupon of 7%, a lower coupon than the bond that we retired. And obviously this was achieved with the support of our shareholders and our bond holders. The group's CET1 ratio, as at the 31st December 2018, stands at around 30%, compared with our fully loaded, regulatory capital requirement of 25.5%, and this surplus remains consistent with the group's historic risk appetite levels. As you will see, and obviously earlier in the week in the press, the PRA are increasingly focused on making sure our bank is well capitalised and we endorse this and feel we're well positioned as our objective now. The other thing that's happened at Vanquis rather is that we are fully funded by our retail deposits, which I think was a stated objective at the time of the rights issue and also the PRA have just agreed for the bank to pay Provident Financial a £60 million dividend. I think this is a clear indication of how much the financial performance of the group has improved during the course of the last year. Thank you for listening as I outlined our highlights and talked you through what we have achieved in the last 12 months, which I think has been a significant journey and culminated in CCD getting back on track and being authorised, and also, Provident Financial's overall profitability being substantially up. Later I'll talk to you about why I'm so excited about the outlook for the group, but I'll hand over to Simon now who will run you through some of the numbers in more detail. Thank you.

Simon Thomas, Group CFO

Thank you Malcolm, and good morning everybody. As you know, the Group adopted IFRS 9 from the 1st January 2018, we haven't restated our statutory comparisons, but we have provided unaudited pro forma 2017 income statement and balance sheet comparatives on a full IFRS 9 basis, and that is what's presented within this presentation.

The group has reported an adjusted profit before tax of £153.5 million, 82.3% higher than 2017, mainly driven by the reduction in losses in CCD as the business continues its turnaround. Moneybarn and Vanquis Bank have also both reported an increase in profits.

Central costs have increased by nearly £8 million in 2018, however, it should be noted that costs in 2017 were artificially low due to the release of share-based payments and other bonus charges. The historical norm was a central cost base of around £17 million, so underlying central costs have increased by about £3 million in 2018 due to the investment across Risk, IT, HR and Regulation, as Malcolm's already described. We'd expect central costs to be broadly stable in 2019.

Adjusted earnings per share has increased by 26.6%, a lower rate than the increase in the 82.3% increase in profits, and that was due to the shares issued as part of the rights issue in April and the release of prior tax credits in 2017 of approximately £20 million. The group's annualised return on assets to December 2018 was 7.6%, up from 6.9% in December 17. This reflects the increase in adjusted profits, partly offset by that higher tax rate. Vanquis Bank and Moneybarn are delivering returns in excess of 10%.

So, now turning to each of the businesses. Vanquis Bank has delivered a 1.6% increase in adjusted profits to £184.3 million. New customer bookings of 366,000 were 71,000 lower than last year, the year-on-year reduction is mainly due to the impact of tighter underwriting and the cessation of the Argos contract in early 2018. In addition, there was a temporary reduction in the marketing programme in the fourth quarter as the business focused on implementation of a new underwriting platform which went live in November. As a result, customer numbers ended the year at 1.78 million, still representing a year on year growth of just over 3%. The growth in new customer numbers together with the credit line increase programme to good quality established customers, has delivered year on year receivables growth of just under 5%.

In response to the FCA's persistent debt rules, Vanquis has increased minimal contractual payments and is in the process of rolling out recommended payments across the customer base. In addition, the business has also implemented enhanced affordability assessments in response to the FCA's proposed rules and guidance on creditworthiness. The impact of these changes on growth will be felt across the next 12 months as their effect becomes fully embedded in the receivables book. As a result, although we expect a similar level of new account bookings, we'd expect to see a moderation in receivables growth in 2019.

Vanquis Bank's revenue yield has fallen from 47.6% in 2017 to 43.7% in 2018, 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 £15 million. Secondly, there has been further moderation in the interest yield from the continued expansion of the product offering into the near prime segment of the market through our Chrome branded card. The annualised impairment rate in 2018 has remained broadly stable at 16.3% of average receivables compared with 16.4% in 2017. As I'm sure you're aware, we've progressively tightened underwriting within Vanquis over the last two years. This approach has served us well and was taken as a precautionary measure, given our relatively cautious view on the UK economic outlook, and the flattening out of arrears and delinquency trends towards the end of 2016, and that was following a number of years of successive improvement. With tighter underwriting standards, lower new customer bookings and the increased mix of better quality Chrome customers within the customer base, we would have expected to see a more significant improvement in the impairment rate than the ten basis points which we saw. The reason why the improvement didn't materialise is primarily due to the increase in the use of payment arrangements during the second half of the year. As a bit of background, a customer is placed into a payment arrangement when there is some form of financial difficult. The use of payment arrangements has been increasing due to a number of factors including the general need for enhanced forbearance under the FCA regulation, which all lenders are seeing, particularly in credit cards, and represents and industry trend. More specifically to Vanquis, the recent increase in minimum payments to address the FCA's definition of persistent debt, as well as the significantly reduced penetration of the ROP product have also been contributory factors. Payment arrangements are subject to high impairment charges in excess of 80%, this is based on historical evidence together with the significant impact of discounting expected cash flows at Vanquis's effective interest rate of around 40%. As payment arrangements are only used for customers in financial difficulty, the increased use of them has brought forward impairment, which may have historically materialised over say four to five months as customers proceeded through the normal arrears stages. Once payment arrangements have settled at a new normal level, the pressure on impairment should subside, absent any deterioration in the UK macro-economic situation. Now, encouragingly, the rate of increase in payment arrangements has moderated in January and February 2019.

The annualised risk adjusted margin has reduced from 31.2% in 2017 to 27.4% in 2018, the 3.8% reduction reflects the 3.9% reduction in the revenue yield, partly offset by the 0.1% reduction in the impairment rate, both of which I've just explained.

Costs have reduced by just shy of 10% in 2018. Costs benefited by approximately £10 million from the release of incentive and share-based payments as a result of the performance being below expectations through 2017 and 2018. We'd expect a more normalised charge in 2019 so you would expect to see a year on year increase in costs as a result. Cost efficiency remains a key focus for Vanquis in 2019 in light of the continued expected reduction in revenue yield.

Interest costs benefited from a reduction in Vanquis Bank's blended funding rate which, after taking into account the cost of holding the liquid assets buffer, reduced from 3.7% in 2017 to 3.5% in 2018. Vanquis fully repaid its intercompany loan to PFG in November 2018 and importantly is now fully funded by retail deposits.

Vanquis Bank's annualised return on assets has reduced from 11.8% to 10.9% which reflects the moderation in the risk-adjusted margin, partly offset by the cost benefits I've just talked you through.

Now onto CCD. CCD has reported an adjusted loss before tax of £38.7 million in 2018, a significant reduction from £106 million of losses in 2017 as the business completed the required recovery plan which resulted in the full FCA authorisation of the business in November 2018.

CCD customer numbers ended 2018 at 560,000, 28.2% lower than 2017. Home Credit customer numbers have reduced from 697,000 to 440,000 during 2018. The business has not managed to reconnect with around 200,000 customers, who ceased paying in the second half of 2017 following the poorly executed migration to the new Home Credit operating model in July 2017. In addition, the focus of the business during the implementation of the Home Credit recovery plan has primarily been on collections performance as opposed to customer recruitment. As a result, the number of new customers recruited in 2018 was approximately 50,000 lower than in 2017. As Malcolm mentioned earlier, new customer recruitment picked up in the fourth quarter of 2018 and that has continued in early 2019.

Satsuma customer numbers has shown strong year-on-year growth of 48%, despite further tightening of underwriting during 2018. This performance reflects continued improvements to the customer journey and the development of product distribution. Home Credit receivables have reduced by 21% to 261 million, which is a lower rate of reduction than the 37% reduction in customer numbers. This is due to the large impairment charge taken in 2017 on the receivables balance relating to the 200,000 non-paying customers that the business has not managed to reconnect with. Satsuma's receivables showed a 56% year-on-year growth to £40 million, this reflects a combination of the 48% increase in customer numbers together with the continued development of further lending to good quality established customers.

The annualised revenue yield of 116% in 2018 is little changed from the 119% in 2017, with no real change to product pricing in either Home Credit or Satsuma. The impairment rate, however, in 2018, of 40.8% is significantly lower than the rate of 76.6% in 2017. Collections performance of credit, originated since the fourth quarter of 2017, is broadly in line with the levels achieved prior to the change of operating model in July 2017. Here, the CEM has typically issued the credit and the ownership of the customer relationship is strong. In contrast, the collections performance on credit originated prior to the fourth quarter of 2017, where the CEM typically did not originate the credit, remains significantly lower than historic levels. However, importantly, these balances now represent less than 10% of the carrying value of receivables at approximately £20 million. The annualised risk adjusted margin has therefore shown a substantial improvement from 41.9% to 74.7% in 2018, and is due to the significant improvement in impairment which I've just explained.

Aligning the cost base with the reduced size of the business remains a key priority for CCD. Headcount in the Bradford Head Office was reduced by around 200 in early 2018, 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 2,100 at the end of 2018, reflecting the reduced number of customers. However, despite headcount reductions, CCD's costs of 2018 of £245m have shown a modest reduction of 3.4% on 2017. This is mainly due to the higher fixed cost base and the investment in strengthening the control environment, risk management and compliance as the recovery plan was implemented. In addition, the business has also had to invest in replacing part of the legacy IT estate, rolling out the new field structure and increasing local marketing activity to support new customer recruitment in the fourth quarter of the year. CCD recently announced a voluntary redundancy programme in the Bradford Head Office with the aim of reducing central headcount by up to a further 200. With cost reduction actions already taken and the ongoing tight control of costs, this is expected to result in CCD's cost base reducing in 2019. For a bit of context, headcount in CCD has now reduced by around 1,000 over the last 12 months.

The reduction in interest costs in 2018 is broadly in line with the reduction in average receivables, with CCD's funding rate remaining stable at 6.5%.

Finally, Provident remains the market leader in the Home Credit market with a strong franchise. The business has two main objectives in 2019: stabilizing the customer base and reducing costs further. Both of these objectives will be necessary to return the business to run-rate profitability in due course and then deliver the group's target ROA of approximately 10% in the medium term.

So, now turning to Moneybarn. Moneybarn has delivered a strong 28.3% increase in adjusted profit before tax to £28.1 million in 2018. Customer numbers of 62,000 at the end of 2018 show year-on-year growth of 24%. Notwithstanding the tighter underwriting standards implemented over the last two years, new business volumes during 2018 were at record levels and showed year on year growth of 18%. New business volumes have continued to be strong in early 2019. The growth in customers corresponded to receivables and revenue growth of 24%, with the revenue yield remaining stable at 35%. Following the tightening of underwriting in the second quarter of 2017, and then again in the second quarter of 2018, default rates and arrears levels have now been stable for over six months, and the credit quality of new business being written is now materially better than two years ago. As a result, the annualised impairment rate has reduced from 14.3% at the end of 2017 to 12.8% at the end of 2018. The annualised risk-adjusted margin has therefore strengthened by 150 basis points to 22.2% due to the improvement in the impairment rate.

Moneybarn has continued to invest in the resources necessary to support future growth and enhance the customer experience. The executive team and first tier of management has been strengthened and more resource has been added within the customer service and the collections area.

In terms of interest costs, these reflect an increase in Moneybarn's group funding rate from 5% in 2017 to 5.9% in 2018. This reflects the increased cost of funding for the non-bank segment of the group, now that Vanquis is fully funded through retail deposits. We'd expect Moneybarn's funding rate to be similar to CCD at around 6.5% in 2019.

Overall, Moneybarn has delivered an annualised return on assets of 10.7% in 2018, up from 10% in 2017, reflecting the strengthening of the annualised risk-adjusted margin.

Now turning to capital. The Group's regulatory capital requirement to maintain a fully loaded CET1 ratio of 25.5% is the main determinant of the Group's capital structure. The Group's regulatory capital in December was £657 million, the Group's total regulatory capital represents a CET1 ratio of 29.7%, which provides regulatory capital headroom of around 95 million. This is consistent with the Board's current risk appetite of maintaining headroom in excess of £50 million. In quantifying regulatory capital, the impact of IFRS 9 is being recognised over a five-year period, starting in 2018. The adjustment you'll see in the table on the left of £175 million is an add back to the group's IFRS 9 net assets in order to recognise 5% of the full impact of IFRS 9 for year one. In the table on the right I've set out how the impact of IFRS 9 is absorbed into regulatory capital over the transitional period to 2023. The group's regulatory capital headroom has immediately reduced by a further £18 million on the 1st January 2019, being the second year impact of the transitional rules which requires that 15% of the IFRS 9 adjustment is absorbed at this date. The remaining £157 million impact of IFRS 9 will be absorbed between 2020 and 2023.

In addition, following the implementation of IFRS 16 ‘Leases’ from the 1st January 2019, the Group's regulatory capital headroom has reduced by a further £26 million.

Now looking at funding and liquidity. There's no change to the Group's funding strategy as we explained at the interim results. The announcement of the ROP investigation in August 2017 has not had any discernible impact on the retail deposits programme. Deposits at the end of December were £1.4 billion, and Vanquis is now fully funded with retail deposits following the repayment of the intercompany loan from PFG of £55 million in November 2018.

Our syndicated revolving bank facility is currently £450 million. In line with our Treasury Policy, we are in initial discussions with our lending banks with a view to refinancing the facility 12 months in advance of its maturity in May 2020. During 2018, we repaid £15 million of the M&G term loan as well as £20 million of private placements on their contractual maturity dates. As you can see in the table the new £250 million senior bonds we've just issued, which mature in 2023, as well as the residual £27 million of our existing senior bonds, which will mature on their original maturity date in October 2019.
At the end of 2018 the Group had headroom on committed facilities of £327 million, this provides sufficient capacity to fund forecast growth and contractual maturities until May 2020, when the £450 million revolving syndicated bank facility matures.

And finally for me, onto the target financial model. As was indicated at the time of the rights issue, our plans indicate that the Group can deliver a target ROA of around 10% once the Home Credit business has moved back into profitability. As I mentioned earlier, Vanquis and Moneybarn are already delivering the Group's targeted returns. We believe that the group can deliver sustainable receivables growth of between 5-10% per annum throughout the cycle. Our dividend policy is a function of our returns, growth plans and the requirement to maintain a suitable level of headroom above our total capital requirement. As you're aware, our total capital requirement is currently 25.5%, although we're actively exploring a number of areas where we believe our capital requirement could reduce in the future. Our dividend policy is unchanged and it's to maintain the dividend cover of at least 1.4 times which will take into account the ongoing recovery of the Home Credit and the business returning into profitability. In addition, it will also take into account the remaining transitional impact of IFRS 9 of £157 million on regulatory capital levels over the next four years, and, the group's current risk appetite of maintaining regulatory capital headroom above £50 million. With that I'll now hand back to Malcolm.

Malcolm Le May, Group CEO

Thank you, Simon.

Regulation. I outlined how we performed against my 2018 objectives earlier and all were predicated on us rebuilding our relationship with the regulator, both the FCA and the PRA. Shareholders must draw their own conclusions, but I think we've made substantial progress in this area, in fact, all of our material regulatory issues with the FCA have now been substantially resolved. CCD has been authorised, and, only last week, we were given approval to implement enhanced performance management for our customer engagement managers. We've made significant progress in reaching an agreed resolution in the Moneybarn investigation with the FCA and, as I said, I expect their final notice to come out in the coming weeks. Again, it's been settled within the provision we set last year. The ROP restitution programme is actually 99.9% complete and a dividend was paid by Vanquis Bank to Provident Financial in respect of 2018. I believe none of this would have been possible if our regulatory relationships had been poor and obviously my aim, for this year, is to exit enhanced supervision and lift Vanquis's VREC on capital movements and I hope to do that in the next 12 months. However, I want you all to be under no illusion that the regulatory scene has changed dramatically in the last five years, it is better and is stronger and it's producing better customer outcomes. Now, some people may feel this is detrimental to the shareholder, as set out a year ago it has ameliorated returns to a degree, but these returns are now much more sustainable, and with our size and importance, we lead the market in these products, and we are best placed to serve the customers with them. As you might have heard me say in the past, I'm passionate about this business, I believe high regulatory standards in our part of the market will help us, and those who can't reach them will fall by the wayside. I do believe in relation to the high cost short term credit review, our competitors will have to move towards our model as it's difficult to see how they can achieve high standards required if they don't. Why does this matter? Because it means over the longer term, we are well placed to optimise shareholder value delivery from this business in the context of what is achievable within the regulatory framework. As discussed earlier, Vanquis bank has implemented changes resulting from various FCA reviews and their embedding continues in 2019 and 2020. The recent FCA review into motor finance is also expected to be completed by the end of September, and an update was published at the start of March. As we've been helping the FCA with the review, as we do not pay variable commissions, which was the area the report focused on, we believe we're well positioned when the FCA publish their final recommendations. Overall, operating to these high standards is so important, not only for our relationship with the regulators, not only for our customers, but also for our shareholders, as it will enable us to continue to adapt as regulations evolve and ensure the group business model is optimised to ensure we maximise returns for shareholders. As I touched on in my opening remarks we have been looking at our purpose, what we do for our customers, indeed, why we need to exist, I believe, as do our regulators, that a strong purpose running through an organisation improves its culture and helps deliver the right outcome for customers, culture and diversity are also the two big themes that the FCA are pursuing this year, and I should add that I have taken the FCA through our recently announced blueprint on culture. We have, though, taken it a stage further and we've created business strategic drivers and behaviours that help to deliver our purpose, create the right culture and deliver a business advantage for Provident Financial. As you can see from this slide, our purpose is that we help put customers on the path to a better everyday life, the purposes are pole star: it's our guiding principle in everything that we do, which, throughout 2019, is being embedded from the call centre to the boardroom, alongside the strategic drivers and behaviours you'll see on this slide. The embedding process has already started, only last month we got together with the wider leadership team and took them through what we call our blueprint, our cultural statement, the first time that anyone can remember this company having done that in its long history. It resonated strongly with our people and now the senior leadership teams across Provident Financial are taking it out to their teams and using it to deliver competitive advantage and good customer outcomes. In the UK there are some 10-12 million people who are not well served by the mainstream vendors, that's about 25% of the adult population, that is a staggering statistic ladies and gentlemen. Provident Financial, through its leading brands of Vanquis Bank, Provident Home Credit, Satsuma and Moneybarn serve about 2.4 million of these customers, we have started to expand our product set with a plan of giving our customers the full suite of products that they need through one portal, this will allow our customers to move between brands or hold more than one product as their credit needs change and evolve as they live their lives. Technology is critical to this and all of this, of course, is also done while we continue to raise the bar on regulation and compliance. We've started already, Satsuma will trial longer, larger duration loans at rates below 100% APR, Home Credit will test a hybrid product which will be underwritten in the home but collected remotely, both of these projects have been discussed with the FCA. On the Vanquis app we now have over one million customers, we have customers who can buy through that, a new car using Moneybarn, and some indeed have. It's early days for these initiatives, but they show the direction of travel at Provident Financial, a consumer centric offering covering the credit needs of the under-served, accessed digitally or through specific distribution channels. We are able to do this and plan to do more because our businesses are scalable, increasingly coordinated and have the core skills of distribution, underwriting, collections, data analytics which is embedded into our DNA. Soon our customers will be able to move up and down the credit spectrum, from one product to another depending on their credit needs, from Home Credit to Provident Direct to Satsuma to Vanquis Bank to Moneybarn, this will clearly enhance customer retention and ensure they have the right product to meet their needs. Underpinning all of this is our focus on finding a balance for all stakeholders which will be crucial to the success of the industry going forward, and we believe we are ahead of many others in striking this balance. As you know, Provident Financial as a group is in the earlier stages of greater collaboration, our customers and shareholders will benefit from this as we use data, analytics, technology and distribution better across our businesses. I've already flagged Moneybarn being in the Vanquis app, and the financial fitness initiative is another great example of how we're doing this and how doing this will enhance our customer proposition by helping customers understand better how they can access credit across Provident and improve their credit score. On the slide there are many more examples of our growth and efficiency initiatives, some within the businesses, others across the group, they will all help our customers, make us more efficient and help us deliver sustainable returns for our shareholders. One I'm excited about is improved targeting of potential thin file customers in Vanquis, these could be new people in the country or joining the workforce, those that have limited credit files. Helping these people access credit will be beneficial to them and to our shareholders. Here I should probably just make it clear that in case there is any uncertainty, all of the investment initiatives outlined on this slide are captured within our existing plans plus the growth that they will deliver. Going forward we'll be delivering many more smart initiatives across the group which will benefit the customers and shareholders alike and play their part in helping Provident Financial to grow, to become the leading player in the non-standard sector.

Finally, before concluding, I want to share with you my long-term vision for Provident Financial. We are at an inflection point for the group as customer needs are changing, digital is challenging old operating models and the regulatory environment is one of constant focus and change. Against this backdrop we have a clear strategy, a plan and vision as to how our group is evolving over the next two to three years. Vanquis Bank will be the biggest part of the group/ As it is now it'll have over two million customers, it'll be the core profit engine of the group, with its banking app we'll also be able to introduce chat-bots and artificial intelligence to enhance the customer proposition. We are implementing the plan to deliver this now and we have the right board and governance in place to achieve it. Moneybarn is changing and developing rapidly, as a group we will bring capital expertise and new channels of distribution to drive Moneybarn's growth. I see it almost doubling its customer numbers to 100,000 as we help customers get to work or take their kids to school, it will deliver strong, profitable growth and will be the second largest part of the group and the profit driver. CCD and its market is evolving rapidly driven by regulation and customer dynamics. To be clear, Home Credit is still needed by many of our customers, but, how they want to be served is changing, this channel will continue to shrink due to the change in customer demands, it will shift more towards our other businesses focused on more digital distribution. Let me give you some more colour. Of course we will still have customer engagement managers visiting our customers in the home, but that will not be the only way that that part of the market is served and there will be fewer CEMs than we have now, customers will want a digital payment card, they will want digital collection, and, as the customer base migrates a generation, which it's already doing, they will want to have digital underwriting as well. You cannot roll back the clock for Home Credit, the world is changed, and CCD is planning for that and for that future with Provident Direct and Satsuma, both being key attributes to that model. I should be clear though that CCD will be the smallest part of the group serving its important purpose, but it will not be a significant profit driver for the group. This is not Provident specific- it's the nature of the market. That said, I appreciate the importance of making CCD profitable again, and as soon as possible, as I believe it will have a material factor on the group's overall valuation. So, in conclusion, 2018 has been a year of recovery and stability. The five objectives I set out for the year have been met- implementation of the Home Credit recovery plan and obtaining FCA authorisation, successful delivery of the ROP refund programme and the business model adaptation, significant progress with the FCA in Moneybarn, and strengthening our group board governance and culture, and recapitalising the group and re-accessing the debt markets. This, of course, does not mean everything is done, but it does mean we're in a good position to move forward and to deliver more for our customers and our shareholders. After all, we are the biggest player in the market, we serve 2.4 million customers, and we have market leading positions with optionality to grow. That said, to achieve what we have done in the last year is an incredible effort and, for one, I would like to thank everyone at Provident Financial for their contribution to that. It would be remiss of me not to flag that this was all being done against the backdrop of heightened political and economic uncertainty, more importantly though, the fog of uncertainty doesn't seem to be clearing, and as such we have been cautious in our underwriting to ensure that we're as best placed as we can be to meet the future. That said, the group is very much on track with the guidance we gave at our quarter four trading statement.

Turning to my priorities for 2019, we aim to grow customer numbers in Vanquis Bank and Moneybarn, we aim to stabilise the CCD customer base, and reduce its cost base, and achieve a run rate profitability, as we say, in due course. We aim to implement our strategic growth initiatives that I've outlined today, drive synergies across the group, especially between Moneybarn and with CCD working more closely with the bank, refinance the group's syndicate and embed the group's new cultural blueprint. Last but not least, we aim to restore attractive cash returns to shareholders, and I have confidence that I have the right leadership to achieve this during the course of 2019. We stick by our statements of a year ago, 10% sustainable return on assets, receivables growth at between 5-10% per annum, and once we get back to normal, a dividend policy of at least 1.4 times.

Thank you for listening and coming along today. Simon and I will host Q&As, but I just want to finish with a quick summary saying a lot has been done, progress has been made, but we've still got a lot more to do to make Provident Financial a company its customers and regulators, shareholders and colleagues, know it can be. I'm very confident we now have the right management team and the board to be able to deliver this for all of our stakeholders. So, I'll now open it over to questions, but please bear in mind when you're asking that we are under the control of the Takeover code in the context of where we are. Thank you. Simon do you want to come up?

Ian White, Autonomous

Morning, it's Ian White from Autonomous Research. Three questions from me please. First of all, could you give us some guidance for CCD costs in FY19 and FY20, please? So, in particular I guess we should be aiming below the H2 18 run rate for costs in CCD given the headcount reductions that you've made over the period, but how are you thinking about the size of the cost base versus the opportunity to grow the customer base at this stage? That's question one. And I can pause there or go ahead with two and three, whichever you prefer?

Simon Thomas, Group CFO

Ian, unfortunately, because of the Takeover Panel rules I can't actually give you a forward forecast, which you probably understand. What I would say, however, is, directionally, you can understand that with the levels of headcount reduction that we've been putting through, together with the recent reduction that's just happened in February, Chris and the team have been taking real action on the cost base, and therefore you could probably work out yourself in terms of the sizes there by looking at the headcount changes together with some other pieces as well, so, directionally you can see where it's going but I can't actually give you a figure as such yet, I'm sorry.

Ian White, Autonomous

Okay. And then on capital, I know that you're still carrying the 6.8 percentage points of conduct and op-risk add-ons that were applied at FY17, I wondered if you were prepared to share with us your expectation as to the timing of the next PRA review of your ICAAP and Pillar Two capital requirements please? So not what you expect the outcome to be, but just when the next review is expected?

Simon Thomas, Group CFO

Well, I think the next C-SREP will probably be towards the autumn of this year, around that sort of time, and let me be very clear, I think undoubtedly at 25.5% that is a very, very high capital level, total capital requirement that we have in the business itself. And you quite rightly point out that at the moment we're carrying £50 million for conduct and £50 million for operational risk as well, so, I mean, these are two substantial add- ons. And on top of that, obviously, we've got the kind of cyclical buffers, you know, the buffers we have to carry, that every bank has to carry itself, but 25.5% is high. I did mention in my speech about the fact that we'll be looking at some items this year, I've just got to be clear though, that having dealt with the PRA for many, many years, let's put it this way, they're cautious people, quite rightly, you know, and they're there to protect customers. But, you know, therefore you have to be able to convince them that you can really expect some form of release of some of those capital items. But what I would say to you is we have a list of things that we're looking at, and obviously we're going to progress those, and some of those may well come as part of the C-SREP that we talked about that will be coming up in the autumn of this year.

Ian White, Autonomous

Understood. And just lastly, please, what's the size of the unutilised ROP provision versus the £30.7 million, I think it was, that you took for forward complaints last year? And have you seen a material change in the unutilised portion of that in the early part of this year as the redress programme has drawn to a close?

Malcolm Le May, Group CEO

As I said in my speech, we haven't gone into the details of what has been utilised and what hasn't been utilised, but we have not seen a material uptake in any CMC activity or any other complaints around the project.

Ian White

Thank you.

John Cronin, Goodbody

Thank you. It's John Cronin at Goodbody. A few questions, not looking for explicit guidance, clearly, but, in terms of impairments to revenues at a Vanquis Bank level, look, we noted your comment this morning that January and February has seen some moderation, which is encouraging. If we look back at the Q3 update, you did call out at that point an increased use of forbearance arrangements, but no associated uplift in provisioning at that juncture, then, in Q4 we received the same message in terms of the trend, but there was an increase in your provisioning. What I'm trying to understand is, how we should think about the evolution in terms of the read across from your comment this morning around forbearance arrangements and how that may or may not translate into an impact from an impairments perspective, all else being equal? That would be my first question.

Simon Thomas, Group CFO

I think, John, you're quite right, that in the final quarter, probably September, October, November and December, we saw a pick up in payment arrangements coming through Vanquis Bank, and those were to do with obviously the forbearance pieces that we talked about, plus also the minimum paid dues as well, where, you know, we were asking clients to actually move onto a minimum payment, and that in certain cases, was absolutely fine, in other cases actually it pushed them into asking to go into a payment arrangement. Now, we flagged that that was picking up and that picked up quite substantially in the final quarter, what we're also saying today though is that naturally, as you go through that sort of process, you're in a position whereby the provision associated with the payment arrangement is far higher, it's about 80% of the total provision. So, basically, you're essentially probably bringing forward that provision that typically might have taken four, five or six months to go through in a more normal process. However, the critical point is that in January and February we've seen the payment arrangements, actually the level and the increase in payment arrangements starting to level off. Now look, one swallow doesn't make a summer, but let's be clear, that's what we would have expected because of that process that's been working through our book, and therefore, John, thinking about impairments for next year, I guess that we're in a position whereby we should see a little bit more positive news coming through there.

John Cronin, Goodbody

Thank you. I have a couple of others. One is on the, again, not looking for any specific guidance, but any colour you could give us in terms of how you're thinking about your funding structure in terms of the medium-term evolution of that. I guess what I'm trying to understand is are there substantive opportunities on a medium-term basis to perhaps execute securitisations, do another tender for the bonds in due course. How should we think about that?

Simon Thomas, Group CFO

Well certainly from the bond perspective, obviously we only took the £250 million out last year, so, you know, I don't think we'll be in a position whereby we'll be wanting to do anything to those, that money has been lent to us for a five year period, I think you're aware of the fact that we are looking at the RCF, our revolving credit facility, and typically our policy is that we'll do that 12 months in advance of the normal maturity, which would be May 2020. What I can say to you, John, is that we are already engaging with the banks, we're making good progress with them, clearly the size of the ask this time will probably be a bit lower and that's because, of course, the CCD receivables has shrunk over the last 18 months, and therefore the size of the ask from an RCF perspective is going to be lower. But the initial indications from our banks is that they're very supportive of the business going forward and I'd hope to give you more details when we see you later this year.

Malcolm Le May, Group CEO

And just to add to that, obviously the bank is now fully ring-fenced, and it's funded by its retail deposits, I mean, that's the biggest part of the group.

John Cronin, Goodbody

Absolutely. And one final one, we've seen some of the proposals coming from Non-Standard Finance refuted by you and clearly this morning's statement calls out some very interesting progress from Satsuma and the Moneybarn perspective, but can you make any comment around the view that Non-Standard Finance is expressed in relation to leveraging the Vanquis Bank customer base to target, or the synergies I guess, between the Vanquis Bank customer base and its own everyday loans and guarantor lending initiatives? Like, philosophically could you make any comment in terms of your views on that specifically? And maybe in an interrelated vein do you have any specific plans, or, how should we think about the potential for Vanquis Bank to launch term loan products in its own right?

Malcolm Le May, Group CEO

Well, the bank itself has got a loan product which it has out there. I see considerable synergies, as I said in my speech, between Moneybarn and the bank, I don't know enough about NSF's businesses to opinion that, but, what I would say is, clearly the ability or otherwise to put any loans onto the bank's balance sheet would require extensive discussions with the PRA before they allow you to do that, and so I think it would probably be inappropriate to comment beyond that at this stage.

John Cronin, Goodbody

Understood, thank you.

Malcolm Le May, Group CEO

Any other questions?

Justin Bates, Cannacord Genuity

Justin Bates, Cannacord. Just on the slide that you have up there, the long term vision, I was quite surprised to hear you say that the home collect credit division is going to be the smallest part of the group in the long term, and I just wondered what's feeding into your thinking there in terms of a change of the dynamics over the long term?

Malcolm Le May, Group CEO

Well if you look at the shape of the group at the moment it is already the smallest part of the group. Obviously in part because of the recovery programme it's on anyway. I think if you look at the absolute size of lending to the high cost short term credit market I don't think will necessarily change, but I do think the distribution channels within it is going to shift much more, over time, to a digitally driven process. I mean, if you think about your own lifestyle, nowadays I'm sure you do much more using your mobile phone, and I think society will evolve such that people won't necessarily want to stay at home to wait for someone to come and collect whatever the amount is each week, so I think there's going to be a natural evolution, and that will mean that the channels of distribution, what we call Home Credit at the moment, will shift much more in the direction of the digital marketplace. And that's why I say I think it will be a smaller part of the group longer term. We'll have things to replace it, like digital loans, we talked about the loans in Vanquis, we talked about Satsuma, we talk about the growth of the asset-backed financing business, which is basically probably the most significant thing our customer base will buy during their lives is likely to be a car, I imagine, and that's why Moneybarn's such an integral part of the Group. But I think the way we have done home lending in the past will just evolve more to being digitally linked.

Justin Bates, Cannacord Genuity

Thank you.

Malcolm Le May, Group CEO

Okay, well thank you very much for coming everybody. Just to draw it to a close, obviously we are in a takeover situation so I've been restricted as to what I've been able to say today, we will obviously keep you updated with our progress over the course of the next few weeks and months and I hope you found today helpful. Thank you.

Simon Thomas, Group CFO

Thank you.