

Provident Financial plc

2016 Interim results

26 July 2016

Peter Crook, Group CEO

Good morning, ladies and gentlemen. Welcome to the presentation of our results for the first half of 2016. For those of you that don't know this is the former City of London School for Boys. And it does feel a bit like we're taking an assembly here, but hopefully the surroundings are good ones. This is the running order for today. I'll cover the highlights and overview of each of our businesses, as usual Andrew will then go through the financials and I'll finish off with a few concluding remarks. Let's move to the highlights without further ado.

So I'm very pleased with the performance PFG has delivered in the first six months of the year. Strong performance from each of our businesses and on the back of that hopefully a healthy increase in the dividends. Adjusted PBT was up 17.6%, just shy of £149 million. Adjusted EPS, up by 10.7% to 77.9 pence. Obviously that reflects the additional corporation tax being paid by Vanquis Bank, in terms of the delta between PBT and EPS. The interim dividend per share I'm delighted to announce has increased in line with earnings, so up by 10.2% to 43.2 pence and you will hear from Andrew that's supported by very strong capital generation as well as earnings growth. Vanquis Bank, really good first half. Profits and receivables up by over 12% and I will come on and make some further remarks about the momentum we are now seeing in terms of Vanquis growth towards the end of the first half, and indeed through the month of July to date. CCD, again, also had a great first half, so profits up by 14.5% in that division. Moneybarn similarly, profits up by 45% and continued strong growth in new business. In terms of Satsuma in particular, I'm really pleased with the progress that's been made in terms of developing the platform, the ability to do further lending, the digital capability, again I will come on and talk a bit more about that, but Satsuma is set for greater growth through the second half of the year. And glo, our fledging guarantor loans business we continue to develop the platform for that business. As you know, we are moving that business under the management of Vanquis and that's expected to take place in the second half and therefore this business will be rolled out towards the end of 2016. And finally, the balance sheet is in great shape. We are fully funded, right through to May 2018, so a great position to be in, in this post Brexit world. Let's move on to the businesses. I've said this many times but you all know it's hard to live a modern life without a credit card, hard to travel, hard to live

an online life, so we continue to see very strong demand for what we manufacture i.e. credit cards and obviously we are serving people who are unloved and unwanted by the high street banks. So, a market characterised by very strong demand. We've seen competition obviously at a similar level to previous periods - no real change in the competitive environment and then in terms of the macro, obviously we have been in a relatively benign environment with the labour market obviously very strong, which obviously works well for most lenders in terms of seeing fairly benign trends in arrears and losses. Now this is quite a bit happening in this market place so traditionally a lot of credit card origination has been through the direct mail and internet channels, but we are starting to see some newer things emerging. So, in particular the emergence of the kind of lead generators and brokers. You know, traditionally channels for distributing mortgages, secured loans and unsecured loans, but starting to see opportunities for cards in that space. And there's some interesting developments here, some businesses positioning themselves between retailers and lenders to broke leads and place them with panels of lenders. We're very actively involved in looking at that channel as a further source of distribution for Vanquis. That obviously sits alongside our existing efforts in terms of direct mail, internet, the face to face channel and also the potential for relationships directly with retailers or with other lenders, prime lenders who have applications that they can't serve because of their business model or risk appetite but perhaps they have the willingness to monetise them by passing them on to somebody like us. So, a lot happening actually in terms of the market place and the developments of distribution. In particular, I think we are well placed to capitalise on a lot of that. Final comment here on loans, this is really aimed at the glo business, but clearly post crisis there is a real lack of supply of slightly longer larger ticket lending. Pre crisis you had all the branch based lenders, the Welcomes, the Households, the Beneficials and so on, Black Horse, City Financial, lots of branch based lenders originating well north of £10 billion of gross lending. Very little supply in that slightly larger ticket world today and guarantor lending is obviously one way to meet some of that demand whilst controlling risks through having recourse to a prime credit. So, in terms of how we position things, just to flag our credit standards remain unchanged. The booking rate is steady at about 25%. And obviously that's supported the record low level of arrears in the business and a risk adjusted margin that's very much in line with our guidance. Now, on distribution, obviously at the IMS stage we talked about the phasing of the marketing spend for the year, particularly in terms of direct mail. So, I'm pleased to say our upgraded direct mail activity was back in the market during May. That's produced a response and account bookings during June which has shown a very material uplift, so I'm delighted with the results we are seeing from the early stages of our relaunched direct mail activity and indeed that booking rate has continued right through July as well to date. So, there is real momentum currently

in account bookings in the Vanquis business and that's just from the mail programme. Obviously we have plans to further roll out a face to face and also we have a lot of development work taking place on those new channels that I just referred to briefly. So, actually there's a very encouraging pipeline of opportunity in Vanquis which I'd expect to add further momentum into the Vanquis growth story. And finally, on glo, as mentioned upfront, I expect glo to proceed to roll out later this year under the responsibility of Vanquis management. So, lets move on to Home Credit.

So, no real change in the competitive landscape for Home Credit. There have been one or two transactions which you will have seen. So, the second largest lender Morses Club has IPO'd onto the AIM market. Loans at Home For You was acquired by Non-Standard Finance, but those are both longstanding businesses so some of them have changed hands, but no real change in the competitive landscape. We still have a core between two and three million consumers who dip in and out of this market from time to time and for whom the face to face relationship is very critical, both in terms of being able to assess affordability, also in terms of collecting cash. There's a lot of these customers whilst they are banked, their bank accounts isn't the hub for all their income and outgoings, so there's significant amounts of cash coming in and out of the household. And obviously the face to face approach allows a unique approach to forbearance. So, it's still a very strong business. It works really well for the audience that it's focused on. That audience has seen a reasonably benign environment as well, in terms of the macro, so incomes and cost of living remain relatively stable. As we've said at the final results earlier this year, we had seen some recovery in confidence amongst these customers and that remains reasonably robust. So, where we are, well the repositioning of the business was completed during the second half of the last year. The dust had settled on that now so we are in a position perhaps to focus a little bit more on developing customers and receivables and I'm pleased to say that receivables growth has now been reestablished. So, for the first time in a little while you've seen some year on year growth in the Home Credit loan book versus where it was 12 months ago. Obviously, the repositioning of the business, the introduction of One Best Way, the technology that supports all that has allowed further improvement in margins. So, you're seeing a very strong credit quality in this business and a risk adjusted margin that's developed again further during the first six months of the year. obviously, significant cost savings have been achieved in this business as well, and the final benefit from the back office jobs that fell away last summer has been seen in the first half of 2016 obviously. Now, it's not to say that the work in this business is over. So, we're continuing to look at investment in further technology, both in terms of new things, and also in terms of what we can derive further from what's already been deployed. There's a lot of work going into data analysis and

decision science, and the people associated with that, so there may well be further improvements in efficiency and effectiveness that we can drive out of this business. So, that's work in progress for now, so perhaps more of that next time round.

So, let's move on to Satsuma. Have to say I'm really pleased with the progress in Satsuma. So, in terms of the customer numbers and receivables at the halfway point, they are very similar to where they were six months ago, and that's just fine from my perspective. We have very much had the focus at the management team on this business in continuing to build out the capability and the platform, in particular for us to be able to undertake larger amounts of further lending. So, there's a lot of activity in this space. The online short sum, short term loans market is relatively crowded. Quite a few pay day lenders actually made the cut and got through the FCA authorisation process. So, there's quite a few players still out there. Some are trying to evolve their business models. I don't think there's a lot of money being made in the very short term end of the market right now. A lot of people investing heavily above the line advertising to try and attract customers, but struggling to make returns. So, from our perspective we have made great progress with our platform and the build of that, but where the real opportunity lies is in slightly larger longer lending. If you think about the home collector credit business, the vast majority of our loans are to established repeat customers where the ticket can be a bit larger, the duration can be more like 12 months rather than three months or six months, and that's where we need to get Satsuma to. And that's very much where the focus has been in the first half on building the capability to do that. So, what we have seen is further development on the technology platform, in particular we have gone live with a customer log in so that creates a secure area for customers to manage their account and also to apply for further lending. It only went live towards the end of Q2 and we are already seeing a healthy level of further lending coming through customers using the secure log in area which is very encouraging and the ticket size on that lending again is encouraging. The next steps: there's a number of things lined up through Q3 and Q4. So, on the back on the secure log in area, we plan to launch a mobile app. It will be cutting edge. I think it will be one of the best apps out there for this type of business. That's due in Q3. Satsuma today is obviously a weekly paid instalments suite of products and we plan a monthly version having tested that through the course of last year. We plan to introduce that fully in the fourth quarter of this year. So, the foundations are very much in place for this business to start to go faster and I expect to see similar to Vanquis, the material uplift in the volumes of business being written during the second half of the year, particularly in Q4 where the new things will be out there and we are obviously in the busy period pre Christmas.

So, finally to move on to Moneybarn. So, again, supply in the market continues well below the levels seen pre crisis. This market is similarly competitive, just like our other markets around ten active lenders that we are up against. But obviously there is a very significant under-supply of credit. There's also a range of products in this market, so our products are conditional sale agreements, lie. the secured on the vehicle, on the asset that it is fair to say there's quite a volume of unsecured lending, of guarantor lending, of friends and family borrowing or people just saving up and buying cars for cash. So, our product looks relatively attractive versus those other forms of borrowing as obviously the APRs can be lower on a secured product versus unsecured etc. So, what are we seeing? Well, Moneybarn's continued its market leadership. It's grown new business by 45%, so volumes are very healthy indeed. It's worth just pausing on the fact that the receivables book for Moneybarn has now doubled. That's in slightly less than two years, having acquired the business in August 2014. We are now at just around double the receivables book that we had then, so great growth and the other piece of news worth noting is that that's all really come from existing distribution, through brokers, and some dealer relationships and essentially through the same product range albeit with some tweaks to lend up to retail. So, the big opportunities here such as B2C not really driving the volumes just yet which is good, because that's obviously still to come. It's not really in the current volumes. We have launched a new website to support the B2C proposition. As you know, we have also been trialling light commercial vehicles. That's now rolled out and we are seeing the volumes of lending against that sort of asset growing at a healthy rate through the existing broker channel. Finally, obviously, there's the opportunity of cross-sell into the Vanquis customer base. That's really probably one of the start points for a lot of our B2C effort. Now customers will only change their car every three to four years, so you are never going to get a wall of sales as soon as you launch a marketing campaign. This is largely around building awareness of Vanquis' customers that we can finance the next car next time they are in the market. But again, I think the digital sales effort in Vanquis, the launch of a significantly improved Vanquis app for our customers which is in the pipeline, should allow a greater opportunity perhaps to monetise some of those cross-sell opportunities. So, that's all I wanted to say by way of opening remarks. So, I'll now hand you over to Andrew.

Andrew Fisher, Group CFO

Thanks, Peter. So, the Group's produced a good set of first half results. Adjusted profit before tax up 17.6% and all three businesses performing well. Vanquis Bank has delivered pre-exceptional profits, 12.8% from further growth in the receivables book with no change in credit standards and a stronger than expected risk adjusted margin due to delinquency running at record lows. CCD's

profit before tax and exceptional items, up 14.5% to £43.5 million. This reflects a really sound performance from Home Credit and a reduction of £5 million in start up losses associated with Satsuma and glo. Moneybarn has traded strongly: 43% year on year increase in new business volumes and profits up almost 45% to £13.6 million. And this was ahead of our internal plans. Central costs £8 million, half a million pounds higher than last year and that's mainly due to inflationary increases. So, the Group's adjusted profits before tax of £148.9 million was up 17.6%. The growth in earnings per share of 10.7% was lower reflecting the impact of the 8% bank surcharge on Vanquis profits in excess of £25 million, which was effective from the 1st January. The full year impact of the bank tax is an amount which is approaching £15 million. The group's first half profit before tax and earnings shown here as stated before a £3.7 million charge of our amortisation of acquisition intangibles on Moneybarn. As also stated before, an exception gain of £20.2 million on the sale of Vanquis Bank's interest in Visa Europe. The group's annualised ROA has remained broadly stable at 15.7% after absorbing the impact of the bank tax surcharge. This was achieved through higher turns being earned from the repositioned Home Credit business. The interim dividend has been increased by 10.2% to 43.2 pence. This reflects the progress of earnings as well as strong capital generation and a very robust funding position. The board's current intention is to increase the total dividend for 2016 at least in line with earnings. Turning now to each of the businesses. Vanquis has performed well. Profits increasing by 12.8% to £99.8 million from good receivables growth and favourable margins supported by delinquency at record lows. Whilst the market activity of competitors in both the direct mail and internet channels has continued, demand for non-standard credit cards continues to be strong, customer numbers ended the first half at 1.45 million, up 6.5% on last year versus an increase of 9.9% for 2015 as a whole. Again, so unchanged credit standards and a consistent acceptance rate of around 25% Vanquis Bank's first half bookings of 184,000 were 32,000 lower than the first half of last year. Internet bookings continue at a healthy rate and as we reported in our IMS in May, the shortfall on last year reflects lower bookings from the direct mail and face to face channels because of specific decisions made by us. On face to face we have enhanced the customer acquisition process which has reduced booking volumes but will produce a better performance from this channel as it develops. More importantly, for direct mail, the design of the 2016 programme is more heavily weighted towards the second half of the year. This is in order to capitalise on productivity improvements that were identified through the early part of this year. These productivity improvements were embedded into a refreshed direct mail programme from May and the step up in mailing volumes began to generate the expected increase in booking volumes towards the end of that month. As a result, second quarter bookings were just 9,000 lower than the second quarter of last year

compared with a 23,000 shortfall in the first quarter. Booking volumes through July have also been strong and the momentum we are carrying into the second half of the year is very encouraging. In addition, the pipeline of opportunities through partnering with other lending institutions, brokers, or providers of retail finance, that Peter spoke about, may also start to contribute to the flow of new customers towards the end of 2016.

Turning to receivables, the credit line increase programme for customers with sound payment records, represents over two thirds of the credit issues by Vanquis, and supported a year on year increase in the average customer balance of around about 4.8%, which when combined with a growth in new customers of 6.5% produced average receivables growth of 12.3%. We have guided to some moderation in the annualised risk adjusted margin and you can see a reduction from 33.3% to 32.4% over the last 12 months.

Before looking at the detail, it's probably topical to reflect on the relative stability of Vanquis Bank's risk adjusted margin through the cycle. Two characteristics of the business model underpin this stability. Firstly, the low and grow strategy, which seeks only to extend further credit to customers who have established a sound track record with us. And secondly, maintaining high levels of credit line utilisation which controls the risk associated with undrawn lines which can crystallise losses in a downturn. That's why we manage utilisation to around 70%. This chart is a reminder that the business protected its risk adjusted margin at 30% during the downturn between 2008 and 2010. The risk adjusted margin then expanded to a peak of around 35% as consistently tight credit standards remained in place, with the resulting underlying improvement in the quality of the loan book showing through in the form of falling delinquency against the backdrop of a stable and then improving UK employment market. The other points to bear in mind are that we have applied consistently tight credit standards in the business over the last six years and that we only book new business that meets our minimum threshold returns. And all of this means that if there is a change in the external economic environment our visibility on how the business will perform is pretty good.

The detail for the last 12 months shows the annualised risk adjusted margins as moderated by 0.9% This reflects a reduction in the revenue yield from the changes made to the ROP product back in 2013, together with lower interchange income both of which have been flagged in past announcements. You can also see that the benefit from lower delinquency has been directly offset by lower interest yields and lower default fees. Looking first at the reduction in revenue yield attributable to ROP and interchange fees. Most of you know that during 2013 Vanquis changed the

timing and sale of ROP and also made and continues to make enhancements to the product's features. These changes have progressively reduced the penetration of the product into the customer base and increased its cost to Vanquis thereby moderating the revenue yield. In relation to interchange income, the full impact of the agreement between VISA and the European Commission to implement a phase reduction in the fees charged by credit card companies to retailers has been in full force since December 2015. The impact on Vanquis Bank was around £3 million in 2015, and is expected to be around £11 million in 2016. And now impairment, consistently tight credit standards and improving employment market has seen delinquency rate once again hit a new record low for the business. This has resulted in a 1% reduction in the impairment rate since June 2015. Over the same period, the corresponding credit performance of the book has improved, and arrears have fallen, reducing the yield from interest and late and over limit fees by 1% which offsets the benefit on the impairment line. Looking forwards, we expect the risk adjusted margin to moderate to around 32% for 2016 as a whole.

This is the IFRS 7 analysis for Vanquis and the profile reflects the stable record low arrears in the business with 93.3% of accounts fully up to date, improving from 92.8 a year earlier, and for reference as the impairment policy of Vanquis at the foot of the chart. It's realistic and prudent we believe when benchmarked against others.

First half cost growth just 9.8%, lower than the rate of growth in the book as the business benefited from favourable operational leverage. However, for 2016 as a whole costs are likely to grow in line with receivables for two reasons. First, the facing of the market expenditure which we discussed earlier, and secondly, we have authorised additional expenditure of £5 million during the second half to support the programme of initiatives that will augment the medium term growth of the business. Interest costs increased by 4.2%, compared with receivables growth of 12.3%. This reflects the reduction in Vanquis Bank's funding rate from 5.5% in the first half of 2015 to 4.7% in the first half of 2016, down due to a lower blended rate on retail deposits and lower group funding rates on the inter company loan from PFG.

The bottom line, although the risk adjusted margin is moderated a little, the benefits of lower funding costs and some operational leverage has enabled the UK business to deliver a stable annualised return on assets of around 15.6% prior to the impact of the 8% bank tax surcharge. Including the surcharge the annualised return on assets has reduced to 14.9%.

Now, turning to CCD. The repositioned Provident Home Credit business is delivering strong returns and it's supported the continued investment in developing the Satsuma online loans proposition and the glo guarantor loans pilot. Profits in the first half of 16 have increased by 14.5% or £5.5 million reflecting a reduction of like amounts in the start up losses of Satsuma and glo. Customer numbers in CCD have shown year on year a reduction of 13.5% to 875,000. Approximately one third of the reduction relates to the sale to third party debt purchases of delinquent low value customer balances residing in Home Credit's central collections department. The remaining reduction reflects the tighter credit standards which have been in place for two and a half years and have continued to curtail the recruitment of more marginal customers and improve overall credit quality.

Customer recruitment in Home Credit has not been a priority through the period of repositioning although we are now shifting the emphasis a little. Credit quality has also been the primary focus of Satsuma over the past year and the significant tightening of credit standards implemented in the fourth quarter of 2015 in particular, meant customer numbers in June of 48,000 we're only up marginally from 45,000 a year earlier. However, the second half will see a more meaningful growth from the developments that Peter spoke to. Turning now to receivables, demand and customer confidence from Home Credit customers remains robust. Household incomes and in particular the cost of living for Home Credit customers have both shown a further modest improvement. In addition, the improvement in the credit quality of the Home Credit book has raised the population of customers eligible for larger amounts of credit over longer durations and supported a 6% increase in sales during the first half, notwithstanding the contraction of the customer base. This saw the reemergence of receivables growth. So, receivables were 2.6% higher than June 2015, compared with the reported year on year reduction of 7.3% at the end of the last year. Virtually all of this growth was generated by Home Credit with Satsuma's receivables ending the half year at £12.6 million, up only marginally from £11.6 million a year earlier.

CCD's annualised risk adjusted margin 81.1% at June 2016. And this chart shows the favourable developments of that margin over the last two and a half years which has resulted from the repositioning of the business as a smaller but higher quality entity. The annualised risk adjusted margin of 81.1% shows a slight reduction from 82.2% at December 2015. The annualised revenue yield remains robust at 102.4% but it was marginally down from 103.6% at December 2015. This reflects the focus on serving good quality customers who tend to be more eligible for longer term lower yielding products. The annualised impairment ratio of 20.8% is unchanged from December

2015. By way of reminder, the significant shift in this ratio from the peak of 37.1 at December 2013, reflects two factors. First, tighter credit standards which have driven up the quality of the book and secondly, substantial benefits from the roll out of standard arrears and collection processes supported by technology. These measures have created the virtuous circle that we have talked about before, 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 further improvements in collections and so on. It's this cycle that's underpinned the significant uplift in the annualised risk adjusted margin over the last two and a half years. Looking forwards, through the second half of 2016, we expect the risk adjusted margin to remain broadly stable.

CCD's IFRS 7 disclosures, what you would expect to see. Ongoing improvement in the quality of the book with 44.5% of accounts fully up to date, compared with 41% this time last year. And again as set out the impairment policy for your reference.

CCD continues to benefit from the successful completion of the programme to deploy technology throughout the field operation, which was completed in 2015 to support an improvement in productivity and implement market leading compliance. First half costs were 11.3% lower than the prior year with around half of the reduction resulting from the annualised savings of approximately £14 million secured in June 2015 within the field infrastructure. The remaining reduction reflects a reduction in agent commission costs primarily due to lower average receivables together with the lower costs in Satsuma from more cost effective marketing. CCD continues to actively pursue an agenda to identify further improvements in the efficiency and the effectiveness of the business including benefits from the further development of field based technology.

Interest costs were 4.1% lower than the first half of last year versus a reduction of 2.7% in average receivables reflecting a reduction in the funding rate for the business from 7.3 to 7.1%. The margin on the group syndicated bank facility was reduced following the extension in January 2015 and the lower interest coupon on the retail bond issued in April 2015 also reduced PFG's average cost of borrowing. And finally, returns: the repositioning of the Home Credit business and reduced start up losses have improved returns with the annualised return on assets increasing to 22.3% at June up from 19.7% a year ago and 21.2% at the start of the year.

Moneybarn has clearly performed well during the first half delivering an increase in profits of 44.7% ahead of our plans. Customer numbers ended the first half at 36,000, up from 31,000 at December 2015 and 26,000 at June 2015 as the business continues to benefit from strong new business volumes. This has produced receivables growth in excess of 40%. So, this chart shows the track record since the acquisition of the business in August 2014. New business volumes during the first half of the year have been very strong, totalling nearly 11,500 vehicles and showing year on year growth of 42.5%. There are three inter-related influences driving this performance. Firstly, Moneybarn was previously funding constrained and has therefore continued to progressively benefit from access to the Group's funding line since acquisition. Secondly, access to funding has allowed Moneybarn to develop its product proposition. In particular, since late 2014, the business has been lending up to retail value of the vehicle rather than just trade value and in early 2015 it also reduced the minimum lend from £5,000 to £4,000. Both of these changes have made Moneybarn more competitive in the market place. Thirdly, access to funding and the more competitive offering has reinforced Moneybarn's primacy across its broker network. Meaning that it gets first look which is very important since this is still the dominant distribution channel for this product. The average size of new loans has reduced from a previous average of around £9,000 to around about £8,200 during the first half and this is a direct result of a modest shift in the mix of business towards lower value vehicles which carry a higher yield.

The strong growth in new business volumes has resulted year on year receivables growth of 41.8% during the first half, higher than the 38.5% increase in customer numbers due to the cumulative benefit of rapid growth in new business over the last two years. As Peter described earlier, Moneybarn's working on a number of initiatives to develop both its product proposition and product distribution including light commercial vehicles, and a B2C proposition which will add to its medium term potential.

The annualised revenue yield has increased to 29.6% from 28.2% at June 2015, reflecting that shift in mix towards marginally lower value vehicles which typically carry a high yield. Default rates have also increased modestly over the last 12 months, consistent with the mix of business being written. As a result the annualised risk adjusted margins moderated a little to 24.1% at June 2016 down from 24.3% at December and 24.6% at June 2015. 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.

2016 is a further year of investment in Moneybarn, principally in additional headcount to support growth and meet the higher regulatory standards under the FCA regime. Headcount has increased from 151 to 166 during the first half and is expected to increase to approximately 200 by the end of the year. What this means is the cost base of the business has grown by 38% in the first half of the year, similar to the growth in average receivables. We also expect this to be the case for 2016 as a whole. Interest costs have grown by 37%, lower than the average receivables growth of 43.7%. This reflects the retention of profits since acquisition as the capital base is built towards the Group's target gearing ratio of 3.5 times.

Moneybarn is a high returns business as demonstrated by the annualised return on assets of 12.9%. This is consistent with December 2015 and in line with our expectations for 2016 as a whole.

Turning now to the balance sheet. Goodwill, rose on the acquisition of Moneybarn in August 2014 and as you would expect, it's remained unchanged since that date. You will also recall that part of the acquisition Moneybarn's broker relationships were attributed a value of £75 million using a discounted cash flow model. The intangible asset has been amortised over ten years and the amortization charge in the first half was £3.7 million resulting in a reduction in the asset's carrying value to £61.3 million at the half year.

I've talked about the moving parts within receivables, and as you can see overall receivables up by 12.3% or approximately £225 million to just over £2 billion. The Pension Scheme accounting surplus of just over £100 million is up from £62 million at the start of the year. The increase principally reflects the increased spread between gilts, which are the major asset class in the Pension Scheme, and corporate bond yields which are used for discounting purposes.

You may recall that following the announcement of the proposed acquisition of Visa Europe by Visa Inc., the group recognised an available for sale investment of £17.5 million at the 2015 year end, representing Vanquis Bank's interest in Visa Europe Limited, which was previously valued at just 10 Euros. The acquisition was completed on the 21st June and the final terms of the transaction was slightly more favourable producing an exceptional gain of £20.2 million. This has been recycled from equity through the income statement in the first half of 2016 and represents the fair value of the proceeds. I will return shortly to the debt and deposit funding. Net assets, £734 million up from £582 million a year earlier including the benefits of the gain on the Visa Europe

shares. The gearing ratio, measured on a banking basis, remains stable at 2.3 times which is the subject of the next slide. Here you see the stability of the group's gearing ratio, the result of consistently strong capital generation which has funded the annual dividend and growth whilst operating within our target of 3.5 times gearing. The step down in gearing in 2014 and 2015 reflected two factors. Firstly, the acquisition of Moneybarn was almost wholly funded through an equity issue of £120 million in order to preserve the group's regulatory capital. Secondly, the shrinkage of the Home Credit receivables book resulted in the release of around £40 million of capital over the past two years or so and this has now run its course.

This table shows the group's portfolio of committed facilities at the half year. Bank funding represents the group's syndicated bank facilities with its core relationship banks. The £382.5 million syndicated bank lines run to May 2018. Our syndicated bank facilities, I can remind you, have been successfully renewed five times since 2008 and will be renewed again at least 12 months ahead of the May 2018 maturity date in line with our Treasury policy.

The next leg of funding is the broad heading covering medium term bonds and private placements totalling £688 million. The Group's not issued a retail bond this year but that market continues to be an excellent source of funds for the group. The third leg of funding is the retail deposit programme at Vanquis which provided £719 million at fixed term, fixed rate funding, at the half year which I will come back to in more detail in a moment. So the Group's total committed facilities at the half year are nearly £1.8 billion and the head room on these facilities was £162 million. This head room does not include the additional funding available to Vanquis by increasing the retail deposits programme to the point where the whole of its funding is provided through retail deposits. At June 2016 this additional capacity amounted to £296 million representing the full amount of the inter-company loan with Provident Financial Group. Committed debt head room plus retail deposit capacity therefore totals £458 million which together with the capacity of Vanquis to take further deposits as its book grows, is sufficient to meet contractual debt maturities and fund the expected growth of the business until May 2018, being the contractual maturity date for the bank lines. Maturities over the next 15 months are relatively light. The step down of £10 million in January 2017 is the second instalment on the M&G term loan, whilst the £50 million step down in September 2016 reflects the maturity of the 2011 retail bond. As you can see, the most significant maturity is the expiry of the syndicated bank facility in May 2018. The average period to maturity of the group's bank and debt facilities is 2.7 years.

Here's the profile of the retail deposit programme at Vanquis. £719 million at the half year. The represented 56% of Vanquis Bank's receivables similar to a year earlier, and well below the maximum permitted level. The growth in retail deposit book has been managed to a relatively modest level through appropriate pricing, through the first half of 2016, due to the relatively high level of committed debt funding held at PFG level. However, we've recently adjusted pricing and expect volumes to increase during the second half of the year with a view to growing the book to between £900 million and a billion by the end of the year. And that will represent deposit funding equivalent to something around 70% of Vanquis Bank receivables.

The chart also shows the analysis of the maturity profile of the deposits and there are a couple of points to draw out here. First, the average period to maturity of 2.2 years is in our target range and is supported by the mix of retail deposits of between one and five years in duration. The profile is appropriately matched to the cash flows of the receivables book. Secondly, the blended rate of 3.1% is relatively low, reflecting the UK's low interest rate environment of recent times.

So, most of you are familiar with the relationship between our dividend policy gearing and the Group's growth plans. Our dividend policy is to maintain cover of at least 1.25 times and our gearing target is around 3.5 times against the covenants of five times. Based on consensus 2016 profitability, the retention of profits consistent with our current dividend cover leveraged 3.5. times supports annual receivables growth of approximately £300 million. And this rate of growth accommodates the medium term growth plans of the Group.

So, on to capital generated. The Group generated capital of £248.8 million in the 12th months to 30th June 2016. After funding its own growth, the capital generation of Vanquis grew very strongly to £168.8 million during the 12 months to June 2016. This reflects the strong growth in UK profits, £10 million reduction in the rate of investment required to support receivables growth, the proceeds from the sale of the Polish receivables book of £10 million in the second half of 2015 and the cash proceeds of £12 million from the sale of Visa shares, I discussed earlier. CCD's capital generation was stable at £87 million versus £84 million in the previous period. Moneybarn is generating sufficient capital to fund its own rapid growth and is now set to become capital generative as its profits grow. Overall, capital generated comfortably covers the cost of the dividend with a surplus of £68 million retained in the 12 month period here. Thank you. I will now hand you back to Peter.

Peter Crook, Group CEO

OK we're in the home straight now, so I've just got a few more slides to cover on the outlook and a few others issues. So, firstly I thought we should make some comment on Brexit. Obviously PFG has been around a long, long time. We are 136 years old. We have been through many cycles through that period. Indeed, all our businesses have been through the most recent cycle, through sort of 2008, 2009, 2010, when we obviously performed very robustly through the last downturn in the economy. So, perhaps unlike some of our competitors who have grown more recently, whose loan books are not seasoned, they haven't been through that sort of very tough period that we experienced through 2008, 2009, etc. I think we are in a very good place and our defensive qualities hopefully are very well demonstrated and understood. Obviously you combine that with the strength of our balance sheet, the fact that we are funded out to May 2018, then I think we are in a very good place, but let's just pause on some of the particular risks. So, obviously all lenders are exposed to higher losses through rising unemployment. I guess what I would comment there is that we have very much had a through the cycle approach to credit, particularly in Vanquis Bank, where credit policies have not changed since 2009, so we very much run with tight credit throughout the slightly more benign period that we have seen over the last two to three years, and that's served us very well. Obviously, going back to 2008, 2009, we continued to deliver our minimum 30% risk adjusted margin which is our target. And we have not changed anything since then, so I am pretty confident about the quality of our assets and our ability to manage through a period of potentially rising unemployment without any dramatic consequences. Obviously in the Moneybarn business that's a relatively new business inside the Group and enjoys a very strong risk adjusted margin. The loans are secured, there's recourse to the vehicle and we continue to see low default rates. So, I am confident that any slow down in the economy will not manifest itself in a material way in terms of the quality of our assets and our businesses. Obviously, inflation can be an issue for customers. Probably an issue that plays out more into our lower income consumers, managing on a low income and a tight household budget. We saw a bit of that through the sort of 2010, 2011, 2012 period, particularly in the Home Credit business. What I would say in respect of that business is that we fundamentally repositioned that business and the quality of the credit that is being originated in that business, and now in a very different place to where they were four or five years ago. Almost three, well over three quarters of our new lending now is going to the top two risk grades in our system, so again very happy that the quality of the assets in that business will make it pretty resilient should we see higher inflation from more expensive imports. In terms of interest rates, obviously base rates may well come down to nothing, but spreads may well increase so should that happen our customers are not typically home owners, they're not rate

sensitive, they live in rented or social housing by and large. Indeed, in terms of confidence, I think we have probably seen some dip in consumer confidence across the wider population.

I think particularly for home owners who may see the value of their property fall. It's not really an issue that affects our customers in terms of their housing circumstances. Obviously as far as PFG goes, interest costs is a relatively small proportion of our cost base. Labour costs and credit costs are far larger components and obviously a fair chunk of our borrowings are fixed, in particular all the retail deposits raised in Vanquis are all on fixed rate, fixed maturity. Should issues arise in the debt capital markets as Andrew has described, we are well funded right out to May 2018 and obviously Vanquis, our largest business as a deposit taker, so not an issue. And I guess the final point to make is there's probably some positive in this in terms of the competitive dynamic so it's too soon to say yet, but should we see the high street banks show any reduced appetite for consumer lending or credit card lending or indeed should those banks show a reduced appetite to fund some of our perhaps smaller non-standard competitors, we may well see a reduction in the level of supply and potentially some increase in demand from customers who are no longer served by the high street. So, I think we are very well positioned to deal with the consequences of Brexit and indeed, through the four or five weeks of trading post the referendum result, we have seen no change in trend. In fact, we have made a very good start to the second half. So, let's move on now to regulation. So, there's two main things to comment on. Firstly, the transfer of consumer credit regulation to the FCA. So during Q2, Vanquis Bank's variation of permission to adopt the final consumer credit permissions was approved by the FCA. Vanquis has obviously remained a fully authorised firm as it has been a bank all along, but it's now got its change of permission done. And Moneybarn also received its full authorisation. So, the outstanding point here is consumer credit division which continues to operate under an interim permission. That's in common with the other larger Home Credit firms but I expect that to review process by the regulator is heading towards a conclusion, so probably some more news flow on that at some time during the second half. Then the other thing that's been happening is the FCA's credit card review. So, some of you will have noticed that they published their final report this morning. It was out at 7am, so we've obviously not had a great deal of time to review the content of that report, but I guess the headlines would be there's no surprises. So, what they have appeared to have reported on in the final report seems on a first read pretty much consistent with the interim findings, although the devil's always in the detail on these things and we need to examine it some more. The remedies around open access, quotation searches, changes to minimum payments, price comparison websites, all appear very sensible, so pleased to see those have gone into place. There's a couple of areas where the

regulator has not yet decided what they want to do. So, those will be subject to further work and consultation which we welcome and will work with the regulator on and those are the possible requirement for customers to opt into credit line increases, and the issue of problematic debts. So, just a couple of comments on those. Obviously in terms of line increases, we have a low and grow strategy. I would fully expect almost all our customers to opt into line increases because they are under served and we only offer them very small amounts upfront as you know, typically £250. In terms of problematic debt, the FCA is talking about customers with balances of £5,000 and £10,000. So, again not something that I particularly recognise in respect of our business where the average balance is a little bit below £900. Obviously we have some accounts at slightly higher balances. What we don't tend to have is a lot of multiple card holding, so our customers by definition are under served, they don't have a wallet full of credit cards for the majority of our customers. The card they get from Vanquis is the only one they have. So, in terms of that problematic debt, obviously we will need to work with the regulator on with the rest of the industry to see where they get to, but not on the face of it an immediate issue for Vanquis. So, let's move on. I just thought I would say a few words on the investment case of holding our stock. Obviously, post the Brexit results, the shares in common with other financials fell very sharply. I think we were down about 27% in the low £21 at one point. We have since recovered back to somewhere in the 26s so I think we are down about 10% as we stand here this morning. So, I mean just to restate the case. Obviously PFG is a market leader in non-standard credit. I think we have a really good mix of businesses from the Home Credit business, mature business very steady, reliable, great producer of earnings, focused on those customers for whom remote credit is not particularly suitable and the face to face approach works well. Vanquis Bank obviously our largest business, we are aiming to build a larger credit card business and also introduce other credit products within Vanquis. Glo obviously sitting underneath the Vanquis management team going forward. And then some newer business, obviously Moneybarn growing very strongly, doubled its receivables book in less than two years. And then two new businesses in Satsuma and Glo, not yet contributing to earnings, but plenty of potential to come. Our businesses all exhibit proven low volatility through the cycle. That reflects the nature of the customers that we serve. They tend not to have a cycle from boom to bust like perhaps middle class home owning customers do. So, we are serving an audience that is intrinsically less volatile and I guess what we are really good at at the end of the day and what many of our competitors have struggled to replicate, is the advantage we have. What we are really good at is originating, underwriting, managing and collecting back on non-standard or non-prime credits. And the advantage we have through technology, marketing, underwriting, decision science analytics and particularly collections, obviously I think puts us in a very strong position. We have

got great management teams running each of our businesses. Our balance sheet is very robust. We make our returns through intrinsically writing profitable business, so we enjoy a strong return on assets rather than achieve our returns on equity through leverage. And obviously all that capital generation supports both growth and a very healthy dividend payout and you can just see some of the metrics here. So, over the last five years EPS growth at 16% compound, DPS growth at over 13.5% compound, underpinned by a ROA getting on for 16% and if you went back ten or 15 years you would see a similar kind of picture, particularly in terms of returns. So, let's just move through to the outlook. So, Vanquis Bank, obviously showing very strong momentum at the moment. Had a particularly strong June which has continued through July and then a pipeline of further distribution opportunities very much being worked on. So, feeling very confident about Vanquis' ability to continue to deliver good growth and margins through 2016 and increase its reach into the under served market potentially with further products. The Home Credit business in great shape.

The repositioning has finished. We are now seeing some loan book growth for the first time in a while in Home Credit, which is great to see and perhaps we can focus a little bit more on customers and credit through the second half of the year given that change program is now done. Satsuma I am particularly excited about, so a lot of hard work gone in and Mark and Luke and the team to get the business to where it is now. Just on the customer being able to write some higher volumes and see some greater levels of further lending and some exciting things scheduled for quarter three and four, particularly in terms of the launch of the Satsuma app and the introduction of the monthly product both planned for second half of this year. Moneybarn's growth running some way ahead of plan – around 45% in the first six months. Then obviously in terms of the balance sheet, the group's funding capacity and liquidity positions are very strong. We have got that head room to cover maturities and growth right out to May 2018. So, in summary credit quality in all three businesses is very good. All businesses have made a strong start to the second half and that provides the basis for delivering good quality growth for the year as a whole. So, that's the conclusion of our presentation. We are going to do some Q&A.

Gary Greenwood

Good morning. It's Gary at Shore Capital. I've just got a couple of questions. The first on Vanquis in terms of the new opportunities that you have identified. I don't know if you could just sort of give us a feel for the potential materiality of those and the time frame for them coming through?

Peter Crook

Well, it's a little too early to size them but I would expect they will become a material contributor to the volume of new business that we are writing. If you think what we do today, Internet and direct mail comprise the majority of what we do, so probably over three quarters of our new origination. I would expect the new channels to make a significant contribution. So it's not something at the margin that's incremental. There are bigger opportunities than that.

Gary Greenwood

The second question is just to clarify on the investment in glo and Satsuma in the first half. How significant that was?

Andrew Fisher

I don't think we would give the absolute numbers, but that investment was reduced by £5 million across those two businesses in the first half. The only other data point, I guess, is that Satsuma is close or at around break-even - whether it losses a bit of money or breaks even this year is slightly academic, lost in the roundings, but it will honour that promise.

Gurjit Kambo

Good morning, it's Gurjit Kambo, JP Morgan. Just on the Vanquis initiatives, I think there's sort of three things you have identified in the statement. How far are you in terms of actually discussions you have had with partners, or cross selling on the insurance side?

Peter Crook

So, in terms of the distribution initiatives, we are making really good progress. I mean I can't name names or give you anything concrete today, but I would expect some of those things to contribute volume during the second half of the year, so they are not just generally ideas that are being worked on. They are things which are much more solid and well developed than that, so without naming names I would expect some of those things to contribute volume particularly in quarter four. In terms of the trial of general insurance products in Vanquis. That has been something that we were looking at and we have done quite a bit of work on that and I think we are ready to probably put something into the market on a test basis during the second half of this year. Again it's not something that will move the needle. In the first instance, it's a test but the market research we have done and the customer focus group show a reasonably strong appetite to consider general insurance products sourced by us and that's what we will looking to trial.

Gurjit Kambo

Just one quick one on Satsuma. The initial strategy is obviously low and grow strategy, short term loans and relatively low loans and I think you were saying you want to move to slightly larger loans. In terms of the underwriting or the credit assessment on that, has that been done already? Was that something that you are going to look at?

Peter Crook

Well, when I say longer larger loans, those will be follow on loans to established customers. I think the task with Satsuma in terms of lending is twofold. Clearly if we want to generate a high level of repeat business we need firstly a stock of customers, so we have to originate new customers, probably on smaller ticket shorter duration loans. And then the ones that come through that process and pass affordability etc. can be served with slightly larger amounts. If you think about the dynamic in the Home Credit business, the vast majority of loans we write are to existing established repeat customers. There's probably ten loans go through existing customers for every one brand new customer in that business. In Satsuma the dynamic is probably closer to one to one now, so for every one repeat loan we are writing one brand new loan to repeat customers. There's a factor of ten difference between where those businesses are and obviously one of the key objectives for the Satsuma team is to drive up the level of repeat lending so that it becomes the majority of what we do. As that will allow greater progress in terms of receivables and ultimately in terms of earnings - so we are not talking about making longer larger loans to brand new customers. The strategy will be to re-serve repeat customers who are good for further credit and obviously that's about credit assessment, but it's also about making the customer journey as slick and as frictionless as possible, so it's very easy for customers who are good for further credit to apply for it and receive it. And obviously the secure log in area, followed by the app will be particularly important in enabling that to happen.

Gurjit Kambo

Thank you.

Ray Maile

Ray Maile at Cenkos. Obviously at Q1 stage there was some concerns expressed about the rate of growth in customer numbers at Vanquis. You haven't re-stated today your targets for what you think that size of the business can be. Before anyone mistakenly walks away thinking there has

been a change, can you confirm that you still are just as confident about the size Vanquis can get to in due course.

Peter Crook

Yes, I mean we have given that guidance out on the last few occasions. It's not been repeated today but it absolutely still holds good. So, we see clear potential to get to 1.8 million customers. We see the average balance rising up to £1,000 over the next few years, so still very confident in that guidance. In due course I would hope to be able to upgrade that guidance to a larger business but it's premature to do that today. Perhaps we need to see some fruits from some of the new things that are going on under Chris Sweeney's leadership in the bank.

Toni Dang

Hi, Toni Dang from Barclays. I have two quick questions, please. My first one is now that CCD has resumed the growth in receivables, what would you expect this low single digit growth to be sustainable? And my second question is if a more challenging environment leads to some consolidation in the smaller players in your industry, would small bolt-on M&As be something that you would be interested in?

Andrew Fisher

So we have got a smaller customer base, a higher quality base and the ticket size to those customers is reflective of the quality improvement and we see stability in the business going forward. So, there may be a little bit of modest growth but we are not changing our approach to that business or our expectations in relation to growth. So steady as you go.

Peter Crook

In relation to non-organic growth, I guess the way we look at things is there are opportunities in two categories potentially, so there are some parts of the market where we don't participate today, where we could do where we could enter organically as we are doing with guarantor loans or we could potentially acquire a business in that space. No immediate plans there, but we do follow developments in the market regularly. There are some parts of the market which could be potentially attractive. Then I guess the other category of things that we could consider is things to bolt-on to our existing businesses if there is some consolidation. I think for the Home Credit business in particular, that would be difficult due to competition issues. As you know, there's been historically a Competition Commission enquiry around Home Credit. It was about 12 years ago

now, but I think that's still seen as a distinct segment of the market and obviously we have a large market share, so I would not anticipate any activity there. In the credit card world then there are three competitors that we are up against all of whom are reasonably large.

So I am not sure there's any consolidation to take place there. In the car finance market, that is a bit more fragmented - there's ten competitors, some of whom are in our space, some overlap with the upper or lower ends of where we trade, so I wouldn't rule anything in or out in terms of bolting things on, but our strategy in the way we see it primarily is an organic one.

Peter Crook

Any more questions? No? Well, OK let's close the meeting. Thank you for coming today, ladies and gentlemen. Thank you.

As provided by h2glenfern Limited