Provident Financial plc

2017 Interim results

25 July 2017

Peter Crook, Group CEO

Thanks, okay. Well, good morning, everybody, welcome to the presentation for Provident Financials 2017 interim results. This is the running order this morning, so I'll talk to the results highlights and give an overview of each of our businesses and how they're traded. Andrew will then cover the customary financial review and I'll now make a few concluding remarks on regulation as well. So, let's move through to the highlights without further ado.

Adjusted PBT reduced by 22.6% to £115.3 million and adjusted EPS down by a similar amount to £60.3 million. Obviously, the key driver of the reduction in profits is a reduction in home credit profits, due to the disruption that we signalled in June from migration to the new operating model. When we look though in the round at the group's prospects and looking through that disruption through the transition, we're confident about the group's medium term prospects and therefore maintain the interim dividend, very pleased to maintain it at 43.2 pence and I should add it is covered by earnings, although not at the long term cover that we want to be at.

Vanquis Banks, strong lift in new account bookings, so had a very strong first half, originated 27% more new customers than H1 2016. Moneybarn continuing to deliver strong progress again in new business and excellent progress in further lending and digital capability at Satsuma. Satsuma now breaking even, on the cusp of moving into profit in the second half of the year on a run-rate basis. Vanquis Bank Loans, which is being piloted, is progressing well and, in terms of credit, there's a lot of noise in the market around consumer behaviour, whether the credit cycle is turning. I can say, whilst we are very vigilant and we're keeping a very strong discipline around credit, we aren't seeing any changes out there in terms of either demand for credit, utilisation of credit lines, nor credit quality. The impairment issues in CCD are purely operational related.

Headroom on our committed lines, including deposits capacity in our banks sufficient to fund growth through to the seasonal peak in 2018, so well ahead of our minimum policy of keeping 12 months' worth of headroom for funding growth and maturity.

Finally, another point to mention, it's not really a highlight of results, but I'd advise you that Mark Stevens, managing director of the CCD business, tendered his resignation after the profits warning that we had on 20th June and in the circumstances, I accepted it, so, Mark has left the business with immediate effect.

So, let's move onto Vanquis Bank. A strong lift in new account bookings is the main message. In terms of the marketplace demand, it continues to be strong. This market is still under-served. You'll all realise it's hard to live a modern life without a credit card, it's hard to travel, it's hard to live a digital life, so we are selling something that people really want and are denied access to, typically, by their own bank if they've got the sort of credit profile that we're focused on or indeed a thin credit file. The competitive landscape is pretty steady, no real change in the level of activity, so I'm very pleased with the 27% increase in new account bookings that we delivered through the first half of the year, which have been done both through enhancing distribution, a lot of the stuff we talked about, at the Capital Markets Day in this room in April, along with the development of Chrome and Chrome is now contributing pretty significantly to the new account bookings within Vanquis. And, these are all absent of any large partnerships with other lending institutions, brokers, providers of retail finance, we continue to work on those. They're making a small contribution today, but clearly landing a large one would make a material shift further upwards in the level of account bookings.

The UK labour market is stable, so through 2016 we've enjoyed some benefit from falling delinquency, given the employment market, people in work at all-time high, unemployment reasonably steady. I must say impairments in Vanquis have improved by about 60 basis points, if you look at the rate of impairment to receivables. So, again, a slight improvement in credit quality and really the main benefits of falling delinquency from the macroenvironment has gone.

Finally, we're obviously investing heavily in this business, not just in new account acquisition, but in infrastructure as well, particularly around customer analytics and value management we expect to drive further volume through and also, the PKU - or the Provident Knowledge Universe - which is a group-wide view of our customers and indeed more widely of the UK consumer that we're developing out of Vanquis.

Few words on the loans pilot, so, we're seeing good demand for longer, larger loans in the marketplace, it's highly underserved post the financial crash and the exit of a number of the institutions who used to write business in this type of size and duration. So, we're still in pilot mode, it's making good progress. Obviously the focus here is on building the tools and the credit scorecards, so we can then begin to roll out and develop this business, both within our existing established credit card customers and more broadly.

So, let's move onto home credit. Firstly, I thought we should cover the background to the changes in the operating model. So, as you know, we've done a lot of work on this business through 2013 and beyond, deploying handheld technology in the field force, moving to a smaller number of agents serving more customers and removing back office jobs, around 1,000 heads gone overall and, alongside that, developing pretty sophisticated central underwriting and data analytics in common with our other businesses. So, we've been on quite a journey, but, we've seen an opportunity to develop a more efficient and effective business model and also recognise that customer expectations are changing. So, in a world where our business was only open two and a half days a week, typically. It's hard to meet customer expectations who want to be served when they want to be seen, not when it suits the firm to go round and see them. So, we've moved from an agent-centric model, where the work is organised for the convenience of the agent to one where it's much more organised around convenience to our customers.

So, the progress, we went through was a period of workforce consultation, as required by employment legislation, so we've moved through to recruiting two and a half thousand full time customer experience managers to replace the four and a half thousand or so part time, self employed agents. So we now own and manage all aspects of the customer relationship, all centrally directed and controlled. With an employed workforce, you don't need the same spans of control and layers of management overheads.

The field management force has been streamlined from about 800 heads to 400 heads. We've also got 160 dedicated arrears managers in the business, all of whom were typically Development Managers in the previous world. And, obviously, to support all of that, we've deployed further technology, including routing and scheduling software and you can see the timeline along the bottom there.

So, the disruption we saw during transition to the new model, largely down to agent vacancy. So, we had a larger number of agents than we anticipated, around 12% by the end, walking off the case early, versus what we'd assumed, which would be a historical agency vacancy of sort of in the 4%, 5%, 6% type of territory. It's fair to say we've also seen a bit of reduced agent effectiveness across the piece as well. Obviously we've created uncertainty for quite a lot of people, in terms of whether they will be part of the new world or not. So, that's resulted in weaker collections and weaker sales performance than planned and Andrew will take you through the underlying analysis of that shortly.

We have now cut over to our new operating model, this was launched at the end of the first week in July. The technology has been deployed, the workforce is in place. Now, when we assumed, or when we analysed the shortfall in performance and reforecasted profits for the business of about £60m or so this year, our expectation was that it would take the course of Q3 for this new model to settle down and bed in, before performance normalised. So, we're now two weeks into that new world. What I would say is today we are reiterating and confirming the profit guidance that we gave previously of £60 million. Whilst it's very early days in terms of the new models, there are a few teething troubles, etc. in reaffirming the guidance, you should expect that we are on track to recover through the course of Q3, but obviously there are some key weeks and months ahead.

Finally, just to go back to the strategic rationale for the change in the model. It delivers an enhanced customer experience through owning and managing every aspect of the customer relationship. We're in quite a different place from our old model, where the agent really owned the customers, through to one where the company owns the customers and controls and directs how that entire relationship is managed. We'd expect improved sales conversion. Our business is now open six days a week. If you apply for a loan from us today and you want somebody to come round tomorrow, we can deliver that. We could not in the old world, because most of our agents didn't work on Wednesdays. So, I'd expect better conversion of new customers, better sales, ultimately improved collections and obviously a more cost efficient business than we've run in the the past. I think it's fair to say it does enhance regulatory standards. We have far more control over our workforce than we would have with a self employed workforce and that's important in a distributed environment where you've got people across the country working remotely. And, obviously, there's greater evidence of customer interactions through the voice recording technology that we're putting in place. It's fair to say, once this is all settled down, there are significant further benefits we can drive out of this, I've just flagged a few here. Our customer experience managers can be routed and scheduled to undertake collections of arrears for Satsuma, to undertake customer ID verification one of the main reasons of customers dropping out of the Satsuma application process is because we can't ID them properly at the credit bureau. Obviously with a field force at our disposal, we can send somebody around to their house to ID them, so quite significant wins and, going the other way equally, development of further digital interactions with our home credit customers, leveraging what we've built and learnt so far with Satsuma. At the end of the day, home credit, Satsuma, the Vanquis Loans pilot are all part of creating a continuum of product for non standard customers as they go on a journey to improve their circumstances.

So, let's just touch on Satsuma. We've made great progress here, obviously the business is still in its development phase, not yet a material business in terms of receivables or customers, but we have achieved a lot in the first half. In particular, the market remains dislocated, some evidence of market consolidation is happening, as we expect, so Satsuma really well placed from a market perspective. We've got a continued focus on cost effective channels, I think we're acquiring customers at a far lower rate than most of our major competitors. Our monthly product's doing well, it was launched towards the end of 2016. It's now taking the majority of our business. We also deployed a new, channel specific underwriting engine, so we can deploy different scorecards according to which source of business the volume is coming through.

Finally, most recently, we've launched our mobile app, which will further enhance the customer experience. The business broke even in June, it should start to contribute to profits from here on in, obviously on a run rate basis. But, finally, in the second half of the year, one thing to highlight is that we are piloting slightly longer, larger loans in Satsuma to established customers, so, think about these as amounts of over £1,000 and the duration beyond the year, so filling the gap really between where Satsuma's short-term offers are and where the Vanquis Loan pilot sits and, obviously, there are further benefits to come from the new home credit operating model as and when trading in that business has settled down.

Finally, our Moneybarn, we continue to get a strong growth here. Market unchanged, still highly under supplied. The supply of credit remains below sort of pre-crisis levels and demand for second hand cars in the non standard market has been strong. So, that's allowed us to uplift volumes by around 15%. Obviously, speed and quality of service to our brokers and dealers is very important in this business, so we continue to invest in the platform and operational capacity, to make sure we can maintain strong service levels and capture some of that growth that's out there. In particular, we've rebuilt and relaunched the customer facing website, so we're beginning to drive traffic to the Moneybarn website directly from consumers or via online intermediaries and the LCV, light commercial vehicles or white vans, proposition again is developing well. There are quite a few further opportunities to develop product distribution here, in particular through third party relationships, so that's similar to the lines we're pursuing within Vanquis, working with other lenders who don't have the risk appetite that we do.

I guess the final thing to say is there's a lot of noise in the market around car finance, particularly around personal contract purchase products, obviously where lenders are exposed to the residual value of potentially every vehicle because they might all come back. We've never written any PCP and we've no plans to do so. So, in terms of our exposure to the residual value of vehicles, it's only to those that come back, which is obviously a small proportion of the total loan book every year and, again, these are used cars, typical ticket £8,000 - £9,000, so they're not the sort of rapidly depreciating asset that a new motor vehicle is, in terms of that profile. So, again, very happy with the credit quality in Moneybarn and we continue to invest to capture the growth that's available.

So, that's all I want to say by way of opening remarks. Andrew will now take you through the financial review.

Andrew Fisher, Group CFO

Thank you, Peter. Good morning, everybody.

So, we've reported a reduction of 22.6% in profit, which reflects the trading disruption from the migration of the home credit business to a new operating model, as Peter explained earlier.
Vanquis Bank continues to perform very well. It delivered 27% uplift in new customer bookings, benefiting from the actions put in place last year to develop the credit card proposition and expand distribution. First half profits of just over £100 million are broadly flat on last year, reflecting the cost associated with the step-up in new customer books, additional year on year investment spend and initiatives to augment medium term growth and more modest gains from delinquency compared to last year.

CCD’s, adjusted profit before tax in the first half, it was down £37.2 million on the first half of 2016. As we reported with our trading update on the 20th June, this reflects the additional £40 million of impairment caused by agent attrition and reduced effectiveness during the migration to the new operating model.

Satsuma is making very pleasing progress and reduced its start up losses by around £2 million in the first half of the year and it posted its first break even result in the month of June.
Moneybarn again has delivered strong growth in new business volumes and a 24.3% increase in first half profits. So, the group's adjusted profit before tax of £115.3 million was down £33.6 million. The figures here are stated before the amortisation of Moneybarn's acquisition intangibles, they're also stated before the exceptional charge of £21.6 million in respect of redundancy retention and training costs associated with the migration to the new operating model in home credit. This is marginally higher than our original estimate provided at the Capital Markets Day in April, due to the average tenure of employees leaving the business being a little higher than we first estimated.

The group's annualised ROA, as at June 2017, is 13.1%, down from 15.7% a year earlier. The biggest influence here is clearly the reduction in profits in home credit. In addition, there's been a moderation in Vanquis returns, due to the factors, as I referred to a few moments ago, together with the comparative only including six months of the 8% corporation tax surcharge on banks that was introduced on 1st January 2016.

The interim dividend has been maintained at 43.2 pence, notwithstanding the reduction in group earnings during the first half. In proposing the interim dividend, as Peter mentioned, the board has looked through current trading to the group's medium term growth opportunities.

So turning now to the businesses. Vanquis has made excellent further progress during the first half of the year and delivered a significant step-up in new customer bookings. As a result, customer numbers ended the first half at 1.65m million, or up 13.6%. So, again, on unchanged credit standards. The business has delivered a 27% year on year increase in new account bookings to 234,000 and the business is firmly on track to deliver full year new customer bookings in excess of 450,000, as communicated at the Capital Markets Day on 4th April. The initiatives put in place during the second half of 2016 are proving successful. They include extending the reach of Vanquis within the non standard card market with the launch of the Chrome near-prime credit card. The express check service is also delivering strong volumes through price comparison websites. This service allows customers to check the likelihood of their application being accepted, without leaving a footprint at the credit bureau which might otherwise affect their credit score. The step-up in new customer bookings is being derived from online distribution, with year on year direct mail volumes relatively static.

Turning to receivables, up 15.3% to June 2017, this reflects not only the growth in customer numbers of 13.6%, but also a strong performance from the credit line increase programme to new customers as they establish a sound credit history. Returns from our ‘low and grow’ approach to extending credit remain consistently strong and are underpinned by an average credit line utilisation of between 65% and 70%.

We've guided to some moderation in the annualised risk adjusted margin and you can see a reduction from 32.4% to 31.4% over the last year. Before looking at this in detail, I'll just remind you of the relative stability of Vanquis Bank's risk adjusted margin through the cycle and two characteristics of the model underpin the stability. Firstly, the ‘low and grow’ strategy, which seeks only to extend further credit to customers who've established a sound track record with us and secondly, maintaining high levels of credit line utilisation, which controls the risk associated with undrawn credit lines, which can crystallise losses in a downturn and that's why we manage utilisation currently to around 65% to 70%. This chart is a reminder that the business delivered a risk adjusted margin of 30% during the downturn, in 2008 - 10. The risk adjusted margin then expanded to a peak of 35%, as the application of consistently tight credit standards and the backdrop of an improving UK employment market showed through. It's also worth observing from the chart that, all other things being equal, the business experiences increased impairments whilst unemployment is rising and once it stops rising, the rate of impairment settles down at the pre-existing level. So, it's not the absolute level of employment that's the main driver, it's the rate of change.

Over the last 12 months then, the annualised risk adjusted margin has moderated by 1%, this is entirely consistent with our internal plans and indeed with the guidance that we provided to those in this room. It reflects a 1.6% reduction in the revenue yield, partly offset by a further 0.6% improvement in delinquency. Taking the revenue yield first, the annualised revenue yield has moderated to 43.9% to June. There's been a reduction in the interest yield from a change in product mix, which is the result of the improvement in the underlying quality of the customer base, as well as the expansion of the product offering into the nearer prime segment of the market through Chrome, which we discussed at the Capital Markets Day. The yield also reflects some further reduction in the penetration of the repayment option plan product within the customer base, which has been a feature of recent years. Whilst the UK employment market has improved over recent years, Vanquis Bank has continued to apply tight credit standards put in place during the downturn of 2008 to 2010. The rate of delinquency progressively reduced to record lows through the first nine months of 2016 and has subsequently shown a more modest rate of improvement. So, whilst the annualised rate of impairment improved by a further 60 basis points versus the prior year, the income statement benefit in the first half of 2017 was some £5m lower than the first half of 2016. I should also point out that a part of the delinquency improvement can be attributed to the slightly better quality mix of business being written, including Chrome that I referred to a few moments ago.

Based on stable delinquency trends, together with the expected growth of Vanquis Bank’s presence in the nearer prime segment of the market and some further reduction of the penetration of the ROP product, the risk adjusted margin is expected to moderate towards 30% for 2017 as a whole, wholly in line with the guidance provided with the 2016 results earlier this year.

Vanquis Banks IFRS7 disclosures are here, consistent with what I've just talked about with an improvement in arrears. 93.6% of accounts fully up to date with their contractual payments, compared with 93.3% a year earlier and, for reference, I've set out the impairment policy that we use at Vanquis, which is realistic and prudent when benchmarked against others.

First half costs increased by 24.2%, higher than the 15.1% growth in average receivables. So, two factors to pull out here. Firstly, there has been an increase in expenditure to support the programme of initiatives to augment the medium term growth of the business, including loans, the launch of the new digital app and the group-wide Provident Knowledge Universe customer database that Peter referred to earlier. Last year, we spent very little in the first half of the year and around an additional £6m in the second half of 2016. In the first half of 2017, we've spent around an additional £10 million and we expect this rate of expenditure to continue into the second half of 2017. Secondly, the cost base in the first half includes about a £4 million increase in acquisition costs, supporting the 27% uplift in new customer volumes. This is a volume driven increase, as the average cost per new booked account has remained stable over the last 12 months.

Interest costs reduced by 6.4%, this is due to a reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid asset buffer, from 4.7% in the first half of 2016 to 3.7% in the first half of this year. And that's because a greater proportion of Vanquis Bank's funding is through retail deposits. Retail deposit funding has increased from around 56% of Vanquis Bank's receivables at June 2016 to 72% at June 2017.
And, the bottom line, the annualised ROA has reduced from 14.2% to 12.8%, reflecting the moderation in the annualised risk adjusted margin, together with the investment in growth initiatives. That 14.2% comparative has been adjusted to reflect a full year of the 8% corporation tax surcharge introduced on 1st January 2016.

So, now, turning to CCD, reported an adjusted profit before tax £6.3 million, £37.2 million lower than the first half of last year. This comprises a £40m reduction in home credit profits and a £2 million reduction in start up loss associated with Satsuma.

What I wanted to talk about now is that we reported on 20th June that the home credit business has experienced greater than expected disruption from the migration to the new operating model, with the first half carrying additional impairments of some £40 million versus the £15 million that we guided to.

So, I'll now share with you some of the analysis that builds on what Peter said. The top chart shows the weekly collections performance, relative to 2016 through the first half. The green line shows separately performance of vacant agencies, with the rest represented by the grey line. The lower chart shows the percentage of vacant agencies over the same 26 weeks. So, there are three dynamics that have combined to produce this adverse outcome. Firstly, the collections performance in vacant agencies being markedly worse than expected. Secondly, the number of vacant agencies is rising to a level significantly higher than expected, peaking at 12% of the estate, compared with an expectation through the transition of up to 8% and a normal run rate in the business of 4%. Thirdly, the relatively protracted period of disengagement and the associated deterioration in performance. So, let me now comment on the underlying causes and why the planning assumptions have proved inaccurate. As you might expect, vacant agencies do exhibit a collections performance that is weaker. Vacant agencies are covered for the necessary period by the development manager responsible for that round, who would typically also call on other agents or deputy agents from the same area to step in and assist. We would also often have taken the opportunity to consolidate the customers from a vacant agency into adjacent rounds, thereby increasing the earning capacity of those agents with the appetite for further hours of work. Through the period of transition to the new model, we absolutely expected a weaker performance from vacant agencies, particularly since we knew that agency consolidation was not available to us through this period. However, the extent of disengagement across the agents and development manager population became greater than we anticipated, which had a knock on impact into the performance of vacant agencies. The period from about week 20, which is around about the middle of May, is the point from which this underperformance became quite stark and you can read this quite clearly from the chart on collections performance. So, why didn't we anticipate a continued deterioration in performance through May and June? The answer is that our plans assumed that as the business exited the period of workforce consultation in April and began to appoint existing development managers and agents into the go forward full time roles, performance, in particular collections, would begin to stabilise. This proved inaccurate and an elevated level of disengagement continued. In addition, some of the measures put in place to help protect performance, in particular retention incentives, proved much less effective than expected. So, now looking at the number of vacant agencies. The planning assumption was for around 8% or double the normal rate and from week 17, which is around about early May, the rate rose to circa 10% and then continued to rise, peaking at 12% at the end of June. The causes of this are the same, namely greater disengagement than planned and retention incentives proving relatively ineffective. An important dynamic to bear in mind when looking at the financial impact through this period is the home credit impairment policy. As you know, impairment is based on collections on a rolling 12 week basis. The impairment curves used in the calculation are predictive of the probability of default, based on a deterioration in credit quality and were not designed with a period of operational disruption and the associated deterioration in customer service in mind. Those impairment curves reflect a significant uplift in the probability of default as customers move through the mid stage arrears, with full provision if a customer's not performed over the 12 week period. The protracted period of collections underperformance through May and June has therefore had a heavy impact on the impairment charge. In that respect, the financial impact reflected in the first half impairment charge should be prudent, subject to one important caveat, which is that we are successful in normalising collections performance through the third quarter.

I'll now walk through the half year income statement and add comments of what I've just described as necessary.

Customer numbers in CCD have shown a year on year reduction of 8.5% to 801,000. This is after an increase of 38% or 18,000 in Satsuma's customer numbers. This chart shows the progressive reduction since the initial repositioning of the home credit business, which began in September 2013 and concluded in early 2016. The customer base was stable through the second half of 2016 and it's then shown some further reduction through the period of transition to the new business model. This results from weakness in customer retention and the recruitment of new customers, which has been somewhat worse than expected, due to the reduction in effectiveness through the transition period that I've already described. So, home credit customers have shown a year on year reduction of 11%.

Now receivables, CCD period end receivables have reduced by 1.8% to £501 million, with home credit receivables down by 3.7%, or some £18 million. The reduction in receivables results from a 12% or £35m year on year reduction in home credit issued during the first half of 2017. This is a direct result of the reduction in customer numbers, together with the deterioration in sales penetration to the existing customer base, the extent of which goes back to the reduction in effectiveness. We expect sales to show some further softness through the seasonally quiet summer months, as the focus on the field organisation will be on collections. We therefore expect the year on year receivables gap to increase through the third quarter, before it starts to recover through the seasonal peak in trading during the fourth quarter. The rate at which the performance of the business normalises through the third quarter and particular collections is therefore important to sales, because that is the main determinant of the expected reduction in second half profits of £20 million.

CCD's risk adjusted margin was 69%, down from 81% a year earlier. And this chart shows the development of that margin over just over three years. You can see the significant expansion of the margin during the repositioning between 2013 and 2016. Over the last year, that annualised risk adjusted margin has had a reduction of 12.1%. This comprises a 1.5% reduction in the revenue yield, together with a 10.8% increase in the impairment ratio that reflects the collections performance through the transition to the new operating model. The movement in revenue yield reflects the focus through 2016 on serving good quality, existing customers who tend to be eligible for longer term, lower yielding products. An element is also down to lower new customer acquisition through the first half of this year. So, the reduction of 1.6% is purely a mix effect.

This slide shows the arrears profile under IFRS7 and you can see that the disclosures show a deterioration in the arrears profile, with 42.6% of accounts fully up to date with contractual payments, compared with 44.5% at this time last year as a direct result of the adverse collections performance.

Costs in the period were 1.6% or £2m lower than the prior year. The reduction principally reflects a reduction in agent commission costs, due to weaker collections, partly offset by additional investment in central resource, in respect of IT, risk compliance, credit and analytics. We don't expect to see any cost reductions from the new operating model during the second half of the year, as we invest in embedding the model, improving customer service and improving collections performance. Consistent with our guidance at the Capital Markets Day, we expect the new business model to deliver around £15m of annual savings from 2018 onwards, compared with the self employed model.

Interest costs 19.1% lower versus the 3.6% increase in average receivables. This is due to a reduction in the funding rate of the business from 7.1% in the first half of 2016 to 5.6% in the first half of this year, due to the overall reduction in group borrowing costs.

So, onto Moneybarn, so here is Moneybarn. The business has produced another good performance, delivering further strong growth in new business volumes. Customer numbers ended the year at 46,000, up 28% year on year. So, this chart shows the track record since acquisition of the business in August 2014. First half, new business volumes total 13,100 vehicles and showed year on year growth of 15%. Moneybarn's growth in volumes since acquisition reflects development of its product proposition, access to the group's funding lines and continued investment in its best in class customer platform, which most of you heard about in some detail at the Capital Markets Day. These combine to reinforce Moneybarn's primacy with brokers, which reinforces its access to the attractive market opportunity. The current pipeline at Moneybarn includes working on opportunities to partner with new intermediaries, further developing the digital proposition through the new website launched in the second half of last year and continuing to expand the used light commercial vehicle proposition beyond the existing broker network.

A strong growth in business volumes has resulted in a year on year receivables growth of 30%. Here's a chart showing the growth in receivables since acquisition - clearly very strong. The rate of growth of receivables of 30% over the last 12 months is higher than the 28% increase in customer numbers, due to the cumulative benefit of the rapid growth in new business over the last two years. The receivables book at the end of June was £344 million. As you can see, the business is well on track to deliver its medium term growth targets of a receivables book of between £400m - £500m.

Now, a look at Moneybarn's risk adjusted margin. The annualised revenue yield has increased from 29.6% at June 2016 to 30.8% at June 2017. You might remember that Moneybarn expanded its product proposition following the acquisition by reducing its minimum ticket size from £5,000 to £4,000. This also shows up in a further modest reduction in the average loan size from around £8,200 in the first half of 2016 to around £8,000 this year. The rate of impairment has increased from 5.5% to 7.4% over the last 12 months, leading to an overall reduction in the risk adjusted margin of 70 basis points. Default rates have seen some increase over the last 12 months, which is consistent with the mix of business being written. However, it's also worth pointing out that Moneybarn's peak in defaults is some 9 to 12 months into the contractual relationship with the customer, so the impairment charge reflects the particularly strong growth in the first half of 2016.

The first half has been a period of further investment in the resources necessary to support future growth, customer service and its platform development. There's also been some important senior hires into Shamus Hodgson's team across marketing, HR and IT. The average headcount has increased from 159 in the first half of 2016 to 198 in the first half of this year. This has contributed to a first half cost growth of 25.5% within the rate of growth in receivables and generating some modest operational leverage. Interest costs have shown a growth of 25.4% compared with an average receivables growth of 32.2%. The group's funding rate for Moneybarn hasn't changed and the lower rate of growth in interest costs reflects the retention of profits 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 ROA of 12.8%, which is very modestly down from 12.9% a year ago, due to that modest reduction in the risk adjusted margin resulting from the step-up in new business volumes.

Turning now to the balance sheet: goodwill £71.2 million, that arose on the acquisition of Moneybarn in August 2014 and, as you'd expect, it's remained unchanged. The intangible assets relates to the valuation of Moneybarn's broker relationships on acquisition, that's being amortised over ten years.

The group's receivables up 12.9% or approximately £265 million, strong growth to £2.3 billion and I've covered the moving parts on that.

The pension scheme accounting surplus of £85 million is up from £72m at the start of the year. This increase principally reflects a modest downward revision to mortality assumptions, based on latest mortality tables, together with the impact of an exceptional curtailment credit of £3.9 million, related to the employees made redundant as part of the change in the operating model within home credit.

The available for sale investment reflects Vanquis Bank's interest in Visa Inc, following Visa Inc's acquisition of Visa Europe in 2016. The movement in the fair value simply reflects Visa Inc's share price and movements in exchange rates. I'll return to debt and deposit funding shortly.

Net assets reduced to £731m due to the payment of the 2016 final dividend of around £133m and the impact of reduced profits in the first half. As a result the gearing ratio measured on the banking basis has increased from 2.3 times to 2.7 times and here is the gearing. You can see the historic stability of the group's gearing ratio. The result of consistently strong capital generation which funded the annual dividend and growth whilst operating within our target of 3.5 times. The increase from 2.3x to 2.7x through year on year in the first half reflects the combination of factors. Firstly, the organic receivables growth of £265m over the last twelve months has been funded at the group's target leverage ratio as you would expect of 3.5x. Secondly, capital generation has been adversely impacted by the reduction of home credit’s profits together with the exceptional cost of £22m. And then, thirdly capital generation at Vanquis has been held back in the short term by the investment in securing medium term growth. Nonetheless gearing remains very well within our established appetite of up to 3.5x.

This table shows the portfolio of committed facilities at the 30th June. At the end of January the group entered into a new syndicated bank facility of £450m maturing in May 2020 which cancelled the existing facility of £350m. The syndicate continues to comprise the group's core relationship banks and the all in cost of funds is some 25 basis points lower than previously. The new facility has consistent terms, conditions and financial covenants to the previous facility, other than the net worth covenants which have been recalibrated to reflect the increase in the group's net asset base over time.

Next segment is the heading covering medium term bonds, private placements totalling £620m. The reduction of £18m from the year end reflects the second instalment of £10m on the M&G term loan together with an £8m repayment of our Euro denominated loan notes. The third leg is retail deposits at Vanquis which provided £1.1bn of fixed term, fixed rate funding at the end of June which I'll come back to in a moment. So, following the renewal of the syndicated bank facility the group's total committed facilities at June 2017 were just over £2.1bn and headroom on these facilities was £204m. This headroom does not include the capacity to take additional retail deposits within Vanquis. If Vanquis were fully funded with retail deposits it would be in a position to repay the whole of its inter-company loan from Provident Financial which amounted to a £173m as at June 2017. That would augment the £204m of headroom available from committed facilities to provide aggregated funding capacity of £377m. That funding capacity together with the ability of Vanquis to take further deposits as it grows, as its receivables book grows is sufficient to meet contractual debt maturities and fund the expected growth of the business until the seasonal peak in trading at the end of 2018.

So, here's the maturity profile of debt. Maturities over the next two years include £120m in respect of the 2012 retail bond in October this year. Thereafter the most significant maturity is the £250m senior bond in the last quarter of 2019.

The average period to maturity of the group's bank and debt facilities is currently 2.7 years. I should point out, for those who haven't read it, that Fitch have confirmed no change to PFG's BBB stable investment grade rating following the trading update last month. Here's the profile of the Retail Deposits programme at Vanquis. Retail deposits of £1.1bn at the end of June representing 72% of the bank's receivables up from 56% a year earlier. Vanquis has been active in deposit taking through the first half of 2017 with inflows of £212m at very attractive rates. The maturity profile of inflows has been appropriately managed through pricing and our one year product is currently priced at 1.65% and the five year product at 2.5%.

The chart shows the analysis of the maturity profile of retail deposits and there are a couple of points to draw out here. First the average period to maturity of 2.3 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 from the receivables book. Secondly, the blended all in rate of 2.4% which includes the drag if you like, from the liquid asset buffer is highly attractive, reflecting the protracted period of low interest rates in the UK. Most of you are familiar with the relationship between dividend policy gearing and the group's growth plans.

Our dividend policy is to maintain cover at 1.25x over time and our gearing target ratio is around 3.5x against a covenant of 5. Based on our medium term growth plan to retention of profits consistent with our current dividend cover leveraged 3.5x supports receivables growth of approximately £300m. As I discussed earlier, the 2017 interim dividend has been maintained at prior levels and as a result the annualised dividend cover has fallen to below 1.25 x in the near term, although it is covered by earnings.

Capital generation: The group has absorbed capital of £50m in the twelve months to 30th June. The capital generation of Vanquis has reduced by £34m over that twelve month period. £12m of the reduction relates to the cash consideration from the sale of Visa shares that took place in the first half of 2016 and is clearly not repeated. The remainder reflects additional capital of £12m to support stronger receivables growth and reduce profitability due to the increase investment of some £10m to support medium term growth. CCD's capital generation has fallen by £61m due to the reduction in home credit first half profits of £40m together with those exceptional costs of £22m associated to the migration to the new operating model. Moneybarn is generating sufficient capital to fund its own quite rapid growth and produce surplus capital of some £8m over the last twelve months. Overall therefore, capital generated of £147m in the last twelve months is lower than dividends in respect of the same period, due primarily to the disruption of the home during the home credit migration.

Finally, I should just mention that we are now well progressed with our evaluation interpretation of the technical aspects of IFRS9 and Gary is the subject matter expert. We are planning to hold a dedicated session for those who are interested in late September or October on that topic. Thank you very much. I will hand you back to Peter.

Peter Crook, Group CEO

Thanks Andrew. So, some concluding remarks. Firstly, regulation. There's a few topics to talk about here: transfer regulation to the FCA, so as you know Vanquis bank and Moneybarn are fully authorised by the FCA. CCD continues to operate under an interim permission. It's fair to say the FCA are closely scrutinising the design and implementation of our new operating model, so that is still an ongoing process. A lot of work has been done. But, we're not quite over the line yet obviously.

Stating the obvious, the ongoing supervision regime from the FCA is a lot more exacting and intrusive than the old regime and that's true for everybody, not just for PFG.

The Credit Card Market Study, so this has been around for some time. We're down to really the final remedies where the FCA issued a consultation paper on proposals and guidance to address persistent credit card debt. That consultation closed on the 3rd July so we are waiting for the FCA's final proposals which are due in the second half of this year.

Moving on. There's also an FCA review of high cost credits. Now this is primarily focussed on the review of the interest rate cap that was applied to payday lending in January 2015, so the FCA has been due to review that cap after two years. It's also fair to say that they've picked up responsibility for unauthorised overdrafts. You will remember from the CMA's review of personal current accounts there were issues arising from the pricing on unauthorised overdrafts so that's been rolled into this review and quite naturally the scope of it has been broadened to look at other forms of higher cost credit. There's been nothing out of this review so far. We're expecting a statement of findings from the FCA some time during Q3 which we're obviously now some way into.

Finally, just worth mentioning there is an FCA consultation out on staff incentives, remuneration and performance management. This is consultation paper CP17/20. So, what they're saying here is they're seeking to put a requirement on firms to detect and manage risk. So they're not prescribing any particular approaches as required or equally as outlawed. They're placing the onus on firms very much to manage the risks arising. This is for consumer credit firms. So Vanquis is already subject to remuneration requirements as a PRA authorised and regulated bank. This really is about CCD and Moneybarn. It's quite an interesting paper if you read the appendices, there's lots of examples of good and bad practice in their eyes. So clearly if you're in a place with bad practice you're going to have to have some seriously good mitigation of the risks around that. It's well worth a read. You'll recognise some of the bad practice in there. I'm pleased to say the new home credit model has fundamentally changed the approach to incentives and remuneration and I think we're in a good place to comply with the requirements arising from that paper.

So, let's move onto the final slide, the outlook. So let's focus on three of our business: Vanquis Bank, Moneybarn and Satsuma, all continuing to experience strong demand from the combination of products innovation and enhanced distribution and against credit standards which are unchanged and remain very tight. So those three businesses very much trading in line with current market expectations and therefore well set to deliver profitable growth through the remainder of 2017.

In home credit we've cut over to the new operating model. That was launched at the end of the first week in July and obviously through Q3 there's a very strong focus on bedding down the new model and on getting collections activity back on track during the third quarter of the year. So it's early days yet. But, we anticipated it would take the duration of Q3 to bed things down when we produced our guidance for the year so we're into that process. If we take a step back, the strategic rationale for the new model in home credit remains very, very, strong and we expect to drive significant benefits out of this model once trading has normalised again. Just worth commenting on in that business, demand and customer confidence remain unchanged. And the business is very much resourced to get on with and normalise performance ahead of the peak training period through the latter part of November and December. So, with all that in mind full year guidance for CCD remains at £60m or so of PBT.

Just a final word on credit. A lot of noise out there around the credit cycle cracking or turning. I must say we've not observed any changes in customer behaviour in terms of demand for credit, utilisation of credit lines or credit quality in terms of performance - operational issues in home collected credit aside. But I would say we remain very vigilant as to the quality of our loan book and won't hesitate to tighten credit if we need to. We're keeping a very careful eye on what's happening out there, but for now things are reasonably stable. So that concludes today's presentation. I'm going to go and sit back down here so the camera can point at myself and Andrew. There will be a microphone coming round if you can put your hand up if you want to ask a question and say your name and your firm that would be appreciated. Thank you.

Toni Dang: Barclays

Hi, good morning, Toni Dang from Barclays. Three questions if I may: the first one is that you mentioned Chrome is making a significant contribution to new customer acquisition at Vanquis could you detail how much of the 243,000 it was? Second question is on home credit: what reassurance can you give that the collections performance bounces back to where it was before now that you have all of your CAMs and CEMs in place? Were all the full time agents that you've now employed, did they come from the pool of part-time agents and if not what jobs did they do before and how do you know that they will be as good as collections as the previous employees? My third question is on Moneybarn: could you give us just a description of the demand and supply and credit performance in the operating segment that you are in at the moment in the non-standard car finance. Also, on the increase default rate, what is your expectations for the second half? Thank you.

Peter Crook, Group CEO

OK I'll answer the home credit one first if that's alright, then perhaps Andrew will comment on Chrome and Moneybarn. So in home collected credit we are two weeks into our new operating model. We've had some teething troubles. I'll give you a bit of colour. So for some of our customers, the agent when they've been round and collected historically has not put the collections into their App when they've been on the doorstep, they've put them in afterwards when they may have been down at Starbucks or back home at the kitchen table. So, we've had a few customers where we've not had the right preferences in terms of customer calling time, etc, because the time and date stamp from the collections data over the last twelve months or so has not been accurate for everybody. But, that's the sort of glitches we're dealing with and sort of things you get over with a few weeks we've had a few people where the holidays haven't fed in from the HR system into the routine scheduling so we've scheduled work for some people who weren't at work that day. So it's the usual kind of teething troubles that you'd expect. Putting all that aside, we're fully resourced and we're well on track to make inroads into the collections shortfall that we've had and to normalize the performance. But after a couple of weeks in it's hard to give you a lot more colour than that, other than to say obviously we have reaffirmed the guidance on the profitability for this business. So, you should take comfort that we expect to fully recover during Q3 which was our plan and then serve customers with credit, obviously through the busy period.

In terms of the make-up of our workforce around two thirds or so are former agents. There's also some Development Managers within the CEM population. Their role is typically serving customer who are in order or in mild stages of arrears. We also have 160 Customer Account Managers who are almost all previous employees rather than agents, whose job is to manage mid and late stage arrears. So those are fully experienced and resourced. Where we've hired new people who have not worked for us previously, some are agents who've come from the competition. Some are customer facing people who've worked in businesses serving a similar demographic perhaps the rent to own sector, pawn broking, sort of things, some were out of retail. I'm very happy with the make-up of the new work force and with ability and skills to do the job. It's interesting actually if you look at the former agent reports again along with our sort of first few weeks of bedding down, we've had a few ex agents who have not realised that they’re employees and they have to download their work schedule. Their mind set is not quite adjusted yet. So, again, it's all part of bedding down the model through Q3, but we are well on the way to doing that and remain confident about the guidance that we've provided.

It was a fairly full answer but I appreciate you'd like as much colour as we can give. Andrew, do you want to talk about Chrome and Moneybarn?

Andrew Fisher, Group CFO

It will be a disappointingly short answer on Chrome: you will appreciate by extending into that near prime segment we are in a slightly more competitive segment of the market. Breaking down precisely what we're booking there is not something that we'd choose to disclose if that's okay with you. I mean what I would say is Chrome isn't the most significant contributor to the growth of the business you're seeing - it's across the board. The other thing to bear in mind about chrome is what you're really doing if you think from a marketing point of view you're extending the product proposition and therefore you're capturing a greater funnel of customers. Not all of those are eligible or have sufficient credit status to be served with a Chrome product. By extending the product range you can see we're developing opportunities to further develop sales of other cards in the adjacent risk segment as well. So there's a sort of halo effect from having Chrome out there as well. It's quite complex actually when you start to analyse it.

You asked the question about Moneybarn which I think was partly about default rates, partly about demand and supply. This is predominantly it's an underserved market currently. The Moneybarn product is an attractive product from a customer point of view when you set it against other forms of credit such as unsecured credit because it's cheaper, clearly because there's recourse to the vehicle, so it's a logical choice and one which is attractive to customers. It's a question of getting the product in front of those customers. Moneybarn is in a competitive market; it has nine or ten, reasonable competitors. And that's why primacy backed by the group's funding and investment in the platform, investment in people, investment in customer service is so important. It's grabbing a greater share of that market opportunity because of that primacy through the broker channel. And that's obviously before we start to talk about the medium term opportunities to develop the B to C business. In terms of the default rates – to reiterate what I said - it is up a little, but a lot of that is just down to mix. The fact that we're writing a mix of business where the average ticket sizes has come down a little bit, progressively over time. So that's nothing new. It's just a continuation of what we've seen since we extended the product range to down to a ticket size of £4,000. And then the other thing in there is the volume of new business that we wrote in 2016. You know when you get a step up in new volume, you see it in Vanquis, you see it in all of our businesses. You see it in other businesses, then clearly there is a period when you go through your experience in early default and if you're writing increasing volumes of business you'd expect quite naturally to see some increase in the default rate. So we've seen a bit of that through the first half of 2017. In terms of where all that's going, we'd expect to see no deterioration as we're moving it through that period where we've been feeling that impact of growth. And the mix of the business is pretty consistent.

Portia Patel: Liberum

Morning, Portia Patel from Liberum. I've got three questions please regarding home credit. The first is I understand that the focus will be on collections during Q3, but can you give us an idea about the quantum of credit issued during May, June and July and what you expect it to be during Q3? The second is how many agents and customers do you estimate you've lost to competitors? And the third is on your guidance you've reiterated £60m PBT for this year, but are you reiterating the £100m for next year? Thank you.

Peter Crook, Group CEO

OK, I'll let Andrew talk to the sales point.

Andrew Fisher, Group CFO

So we had about a 35% reduction in credit issued during the first half of the year, most of which occurred in back end of April through to the end of the half year. It was purely a function of the level of disengagement which went on for a relatively protracted period. And the reduction in sales penetration associated with that disengagement i.e. the average penetration per week of sales into the existing customer base. Through the Q3 the dynamics are completely different because clearly it's a question of where we choose to allocate our resource because that’s directly under our control now within the new model. I guess the message is that we're choosing quite, as you'd naturally expect, to focus that resource on arrears and collections.

Therefore hence the comment about there will be some further softness. It's through the seasonally quiet period. Anyhow the critical thing here is getting the business back to a normalised level of performance which we fully expect to do during the third quarter, so that we're in a position to re-serve customers during the busy period when our customers typically want credit in the run up to Christmas. The other thing just to emphasise again is that the £60m of guidance absolutely anticipated that the Q3 would be a period where we saw some further sales softness and we'd be focussing on collections because we're obviously very conscious of the need to do that work through the third quarter when we put out the trading update on the 20th June.

Peter Crook, Group CEO

In terms of competition I estimate we've lost somewhere between 200-250 agents to the competition. It's a difficult one to quantify precisely as we don't know where they've gone once they've left us, but that's about five percent so it's broadly what we expected. I would say also we've hired some agents from the competition. Don't forget there's been traffic the other way which I'm not going to quantify. Our employment proposition is very strong. If you come and work for us you have a good basic salary, you've got some variable pay on top, you've got sick pay, holiday pay, you've got all the rights of being an employee. Our experience is it pulls pretty strongly in the market actually versus working in the gig economy - self employed, no sick pay, no holiday pay. If you're not out there collecting then you don't earn. So I think our proposition is actually pretty strong. We're obviously in a slightly different world from our competition in that we've got far more sophisticated credit and analytics yet the agents judgement about making the credit decisions is largely about spotting when to say no. It's not really about saying yes anymore as our tools are better than we have historically seen with agents before. In terms of number of customers lost probably in proportion to the number of agents that we've lost, I must say there are rules in place around re-travelling as it's called. So, you're not allowed to poach customers within six months. We've seen one or two smaller instances of that and we've pursued the appropriate remedies. In terms of the guidance for 2018, we haven't issued any guidance for any of our other businesses today, but you should assume with 2017 remaining unchanged that £60m PBT that the £100m PBT for 2018 is still our best view.

Justin Bates, Liberum

Justin Bates at Liberum. Just a couple of questions if I may: First on CCD and then Vanquis. Can I just go back to Slide 20 on the collections and just cover off that point and just so I'm clear: are you saying your guidance is that you will get the collections in both agency not vacant and vacant back to zero year on year? And, if you could just clarify whether or not there have been a further deterioration in those two lines in July? Just onto changing tack onto Vanquis, could you just tell us what percentage of the customer base is just paying a minimum monthly repayment? Just remind me on the loan growth strategy, what qualifies a customer to receive an increase in their credit line? Thank you.

Andrew Fisher, Group CFO

I'll do the back to zero one. So, the plan through Q3 is really to restore the collections performance back to zero, back to parity if you like with the previous year and we expect to see benefits from the new business model from thereon in. That's the task and that's the reason for the focus on collections and the focus on arrears through Q3 and that's the task. I'm not going to comment on July, we're two weeks into a crossover into the new business model. It's not terribly relevant, but what is relevant is that we've crossed over successfully, we're fully resourced and we're on the case and expect to execute through Q3 as we indicated in a manner that's consistent with the guidance that we provided.

Peter Crook, Group CEO

Vanquis minimum payers, I don't have their numbers to hand but I expect it's somewhere round 15% mark, give or take. Probably fewer if you look at those who persistently haven't been paid over an eighteen month period or so. In terms of where we go with the persistent credit card debt and the FCA's thinking, we will be introducing a recommended repayment which we will nudge customers towards which is ahead of the minimum that we've set. We'd expect a number of customers to take up that option. We've got a great re-designed credit card statement in the pipeline which will give customers a lot more transparency around how quickly it takes to repay their debt at different rates of payment. I think we're well set up to deal with what the FCA's got in hand. In terms of the CLI criteria, I'm afraid there isn't a policy rule or any simple way to describe that. I mean it is a complicated, sophisticated model looking at all aspects of the customer behaviour, their usage of the credit line, how they're using it, whether they're using it as cash or purchases. So it re-scores customers with credit bureau data every month, so if we can see the customer’s credit standing changing externally, even though they're performing well with us that's an input as well. So, it's the fullest data set we have on our customers. Probably the single biggest variable in all of that is the customers propensity to use the credit line - so paramount we only give people credit firstly who are obviously good for it, but equally those who are going to use it because credit line sat out there which is unutilised is just really a contingent liability. If you give a customer a line which isn't used and it sits there unused then when it is drawn down, it tends to be because the customers perhaps feeling some stress. We only give lines to people who we predict who are going to use it and indeed we can take it away from those who aren't using it.

Peter Crook, Group CEO

Just looking for any more questions. I know we are about running to time. We're due to finish. One over here.

Mark Thomas: Harman & Co

Mark Thomas at Hardman: just in terms of having more of these opportunities to be able to test whether you can pass without affecting your credit score, how does that then impact on your assessment using monthly credit references agencies?

Peter Crook, Group CEO

Are you talking about the express credit check facility within Vanquis?

Mark Thomas: Harman & Co

I mean market wide. There seems to be more and more opportunities where you can test whether you're going to get a loan. And it says this isn't going to hit your credit score so does that not undermine your actual credit scoring?

Peter Crook, Group CEO

No, because we don't use that credit footprint of people who have applied for credit previously. We don't reference that within our decisioning. So that's a variable which has had declining value for that very reason. I do think it's the right thing to do from a customer standpoint though. The FCA believe that if you've applied for credit and you're turned down and your score is impacted. It's unfair and I have to say I agree with them. Because you never defaulted, you never went into arrears, you never actually got the product and your credit scores been damaged. That doesn't seem fair at all, so I think what we're doing is the right thing, certainly from a customers' standpoint and it's not a variable that we really reference. Historically if customers apply for a lot of credit and left a lot of footprints on their file you know it says that they're being turned down a lot. But, you know, that's par for the course for our customers, we know most of them have been declined by mainstream credit card issuers so it's not really an issue and I think it is doing the right thing for customers.

Mark Thomas: Harman & Co

One final question. I'm sure you're quite bored of it in terms of CCD guidance: it looks from that slide that the trend was deteriorating all the way through to June. You should get some recovery if you do focus on collections in terms of actual impairments. So for the £20m in the second half could you give an indication of what's gross new impairments and what recovery rate you would be assuming?

Andrew Fisher, Group CFO

So the £20m in the second half is largely down to the receivables gap. The fact that the sales penetration, you know, the amount of credit issued through the first half and some continuation of that through the Q4 the focus on collections, reduces the revenue earning capacity of the business and hence the profit opportunities. So the £20m is really around that. We made very prudent assumptions in relation to recovering past impairment which, I think is probably the right thing to do. Although, of course, it critically depends upon us not seeing any further deterioration which we won't see through the Q3 as we become more effective. It comes back to getting customers back in order. You know it's that 12 week view of a customer's performance. The way the product worked, the way the forbearance operates in home credit is if you miss some payments - and clearly customers have missed some payments because we haven't serviced them as opposed to them running into difficulties of their own - it's quite normal for customers to miss payments during the contractual term. Those payments get added to the end of the product as effectively as additional payments. So, the task really is just normalizing the payment pattern of customers through the Q3, just getting them paying regularly again which should be a significant opportunity when we re-connect as we as we are doing now with those customers and raise the service level.

Peter Crook, Group CEO

It's past quarter past ten, I know we're scheduled to finish at 10.15 so perhaps we can call a halt there. Thank you for coming today ladies and gentlemen. Thank you.