<u>Provident Financial plc</u>

2016 Full-year preliminary results
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Peter Crook, Group CEO

Good morning everybody, welcome to today's presentation of our 2016 preliminary results. Here's the running order for this morning, so, as usual, I'll make some comments on the results highlights, and an overview of how each business has traded. Andrew will then take you through the usual financial review, then I'll make a few concluding remarks at the end. So, without further ado let's get into the highlights.

So, adjusted PBT up 14% to £334.1 million, EPS up by less, up by 9.2% to 177 and a half pence. So, just to pause on that. The delta between those two growth rates is down to the extra corporation tax in Vanquis, so the PBT level profits at 14%, but, obviously Vanquis is subject, like all other banks, to the extra 8% corporation tax, so that's why there's a slightly lower rate of growth at the EPS, obviously that's now in the run rate.

So, moving to the dividend, we've increased the dividend by 12.1% to 134.6 pence. Fully supported by capital generation and earnings growth. So, to actually unpick what's happening here, EPS up by 9%, absent the extra bank tax EPS would have been up about 15%, so it's cost us around 20 million more in taxation, I mean, if we have a 20 million credit or so on the sale of our shareholding in Visa EU, which was sold to Visa Incorporated in the US, so I guess we try to pick a line through that with the dividend and we've grown it by 12%, so, somewhere between the 9% reported EPS and the 15% underlying. I have to say, we're very happy with the level of dividend cover and I'd expect we'll be able to grow the dividend ahead of earnings should things go according to plan in 2017 too.

So, moving onto the divisions: Vanquis Bank profits up by 11%, particularly pleasing to see very good momentum in new account volumes in Q4, as a lot of the hard work being done by the team at Vanquis through the course of 2016 really beginning to pay off now and kick in, in terms of new account volumes. We're also testing instalment loans within Vanquis to our existing credit card customers, that was started in November, early results look really good. Our Vanquis customers have at least a billion pounds of outstandings with the lenders, on an instalment basis, so we think we ought to have our natural share of that business and I'm pleased to say it's off to a good start. CCD, returned to growth as we shall see 7% receivables growth and profits up by 9.3%. And we are talking today about the next evolution of the home credit operating model, we are currently in consultation with our workforce about migrating the business to more a efficient and effective structure through the course of this year, and I'll come back to that shortly. Finally, we've made good progress in developing further lending and digital capability at Satsuma and Moneybarn's grown its profits by 46%, so still leading the market in a highly under-served segment within the total non-standard universe. And finally, on the balance sheet, we're fully funded now out to October 2019, we recently renewed and extended our core bank facilities and also increased the size of the facility up to £450 million. So those are the headlines, let's dip into each business.

So, briefly on Vanquis Bank, we continue to see strong demand from consumers for what we offer, you all know it's hard to live a modern life without a credit card, hard to live a digital life, hard to live an online life at all, hard to travel, so, we're manufacturing something that people really want. There's still competition out there albeit it continues at similar levels, it's worth noting as well, our competitors are primarily focused on the near-prime segments. So, not exactly head to head with us, some overlap.

So, what have we done then? Well, we've been working hard on distribution initiatives and on further developing the product proposition, there's a pipeline of opportunities in particular to work with other third parties, which could be other lenders in the prime space who have declined applications, intermediaries such as brokers, or, indeed, providers of retail finance. And we also put our own near-prime offer into the market, so this is branded separately to Vanquis, it's at a lower price point, obviously being offered to slightly better credits, that's branded as Chrome. So that's been launched into the near prime segment of the market during the fourth quarter, and I have to say it's doing pretty well, so it's starting to originate some decent volume behind it.

Moving onto the credit side of things and the macro environment, so, the favourable UK employment market's really run its course, as you know, so the growth in employment has topped out, unemployment is stable, has stopped reducing, so hand in hand with that, really, the benefits from that macro environment that we saw through the first three quarters of the year in terms of arrears levels just edging down slowly, that's run its course in our view, so, we're looking at stable arrears position through the fourth quarter, and obviously against that we've left our credit standards unchanged. I think we must be one of the very few, if not the only bank, that's left its credit standards unchanged since 2009. Certainly from my perspective a lot of the growth that you've seen in consumer credit is due to looser credit being applied, particularly in the main-stream market, and obviously that's raised some concerns with the Bank of England. I don't think the same applies in our neck of the woods.

So, finally on loans, there is a strong demand for longer, larger loans, and we're not talking sort of small tickets that Satsuma's writing here, our Vanquis customers, you know, on decent incomes, are fully capable, in some cases, of borrowing several thousand pounds over two to three years, we've not sought to meet that demand so far but we can see a very good opportunity with customers, obviously with whom we have an intimate relationship, a high touch relationship and a lot of credit data, so, that loans platform has been successfully developed. We've decided to prioritise cross-selling instalment loans through our better quality, existing customers ahead of open market activity or, indeed, guarantor lending for the time being as we think this is in the near term the most attractive opportunity in terms of deploying the loans capability in VB.

So, let's move onto home collected credit: So, no real change in the competitive landscape here, some consolidation taking place, some of the larger players have obviously changed structure or ownership, but essentially it's the same marketplace, and you've still got somewhere between two and three million consumers using this type of credit, where the face to face relationship is pretty important for providing service etc. Household incomes, cost of living, reasonably stable for the time being, incomes probably rising slightly ahead of inflation to be honest with the chancellor's living wage increase from £7.20 to £7.50 during the latter part of last year, it provided a shot in the arm for some of our customers' incomes. So, demand remains strong, customer confidence is holding up well, so the business is trading well, it's obviously delivered strong returns in 2016, you know, via growing receivables, and you have a virtuous circle here, the better quality that your loan book is the more customers within that loan book are eligible for reserving, for further credit, so, even though the business is a smaller business than it was a few years ago it's a somewhat cleaner business, and therefore its growth potential, because there are more customers up to date, it's very good. So, the profits have really come from improving credit quality, that's allowed receivables to grow, and been driven very much from standardised arrears processes and also significant cost savings.

So, we are talking today about a further evolution of the home credit business model, so if you think about where we've been over the last two to three years, we've successfully deployed hand-held technology into our field workforce, so customers are being served by agents who have a suite of apps to manage their round, their collections, issuing new credits, following new customer leads, logging complaints etc. We've obviously reduced our field workforce, so our agents have fallen from around 10,000 to currently around 4,500 and about 1,000 roles have gone out of our employed workforce. Obviously alongside all of that there's been huge progress, I have to say, in the development of the credit science and analytics that sits behind this business, it's no longer one where the agents are making the credit decisions, our science and technology deployment has come on leaps and bounds in this business in terms of the credit capability. Obviously the model of having self employed agents has served us well over a period of time, but there is more than one way to run this type of business, and I have to say, customer expectations are increasing and the development of technology has allowed us to conclude that we can actually run this business in a more efficient and a more effective way. So, we've developed a proposal, which we're currently in consultation with our workforce around, so this will involve eliminating the self employed agent force, migrating the business to one which is served by 2,500 full time customer experience managers, so full time employees on our payroll who will earn a salary rather than be commission only, there's far more central control in the new model, so obviously we've got a fully employed workforce, everything they do is through the technology - the mobile technology that they use - so we don't need anything like the same management layers, the same sort of spans of control that we previous had in a more dispersed, self employed model service, significant changes to the field management structure and a reduction over overhead, and then, to make all that work, we're deploying some further technology in terms of routing and scheduling, a bit like the courier companies we use and in terms of voice recording as well. So, if we look at our business today we've got 19 different customer touch points where we interact with our customers, 11 of them are through agents and 8 of them are centrally, so 11 of them today are not monitored or fully controlled in a way that the other 8 are, because the 8 are centrally through the call centre or other head office functions where calls are recorded and the interaction is monitored. So, we're really putting the customer at the heart of this business, all 19 interactions will be fully owned and controlled by the company, using a fully employed workforce where everything is recorded.

So we think this will give a very significant improvement in customer experience and customer service, so if a customer applies for a new loan and wants somebody to come at two o'clock on a Wednesday, that's what will happen because it will be routed and scheduled so that somebody calls. In today's world that may or may not happen because the agent who serves that patch may or may not work on a Wednesday, as obviously most of them continue to be part time. The biggest complaint we have in this business is, any ideas? It's the agent didn't call. Again because the agents manage their own work, it might suit the agent but it doesn't particularly suit our customers all the time. Again, that will disappear in the brave new world. So, finally, there's also some significant financial benefits attached to this programme, I can't really say any more today because we're in the middle of a consultation with our workforce, so we need to get the other side of that consultation, but I'm expecting that the new model will be fully operational by July, we'll be able to say more about it at our Capital Markets day.

So, moving onto some more. So, Satsuma, again, the market's held up pretty well, partly to our surprise I guess that there are still quite a large number of online, short term lenders in the market, the FCA didn't actually dislocate them all so there's still a significant, relatively crowded market as payday lenders look to either eke out their model or to evolve their model into instalment lending, competitors are still spending quite heavily to clear both the line in advertising to attract new customers, but they're all struggling to make money, and there's evidence that the market is now beginning to consolidate, you've probably seen DFC's UK business currently up for sale. So, in terms of what we've been doing, obviously we've been looking at driving further volume through developing the underwriting, developing cost effective distribution, developing the customer journey, so we've now got the cost of a new account bbooked into the mid double digits, which I think is way better than most of our competition. We've augmented the small ticket weekly products with the monthly products, that's now taking about 80% of the volume in the business, so proving very popular. We've got very healthy rates of further lending now beginning to develop, we've got a mobile app in the pipeline, as you know we've been testing that through the second half of last year, that will be rolled out through the first part of this year, and we've seen a healthy increase in new business volumes, particularly in the fourth quarter. And again, volumes trading really well through Q1 to date.

So, moving on finally to Moneybarn, obviously this market remains highly under-served, the supply of credit still well below the levels seen in 2007, so for those of you who followed the space for a while if you remember Cattles business, they had at least a billion pounds of sub prime finance receivables when they failed, Moneybarn is now the market leader with 300 million or so of receivables on its books, so, that's just to put a kind of perspective on the under-supply of credit that exists in this market. It is actively competed for though, there's around ten or so players that Moneybarn is up against. Demand's holding up pretty well, it was slightly slower in the fourth quarter, particularly at the sort of bigger ticket end of the range, but I have to say January has bounced back very strongly, and we wrote an all time record volume of business in what traditionally is a quiet month, so a very good start to 2017 after a slightly slower Q4. So, obviously we've been working hard with our intermediaries, most of the business here is obviously through brokers to maintain primacy with those brokers, and a lot of that's about service, so continuing to invest in the platform in a capacity to make sure that we're well placed to meet the demand that's there. Light commercial vehicles is something we started earlier on in 2016, it's going really well, volumes are building nicely and the credit quality is particularly good. We've also just started motorcycle lending as another asset class where we have our toe in the water. And finally, we've rebuilt and relaunched the Moneybarn website: it's one of the steps on the journey towards building a stronger B2C proposition.

So, last slide from my opening remarks, just on Brexit. So, obviously some uncertainty out there in terms of various macro economic risk, so I thought it was just worth stepping through those to tell you how we see them. So, rising unemployment, clearly a potential risk to the economy, so I come back to the fact that our growth has not been via loosening credit standards, Vanquis has the same credit standards in place that it did through the financial crisis, and obviously for those of you who've followed the company for a while you remember the company traded very well through that crisis and sort of met its targets and in particular its risk margin through that period. Serving certainly a similar profile of customer, doing steady work, it's got relatively low defaults rates and obviously the loans are secured with recourse to the vehicle. Home credit is sort of late cycle and I guess a lot less volatile, so the customers here in and out of work regularly, part time, temporary, casual employment, the delta between peak and trough for these customers is a lot less than it is in the sort of Vanquis, Moneybarn type population. If we move onto inflation, obviously with a weak exchange rate and potentially more expensive imports we may see higher rates of inflation, historically we've only really seen any impact on our home collected customers, those on really low incomes, and I guess what's different from the last bout of inflation that we saw through 2010, 11, 12 is that the quality of the book is much better as evidenced by the improvements in impairments to revenue and the other ratios that we're showing, you can see the quality of the book is in quite a different place than it used to be.

Rising interest rates, well maybe a concern if you're running a building society or a secured lender, our customers are not rate sensitive, they're not homeowners so they don't need to worry about their mortgage payments doubling or trebling when rates eventually normalise, neither are they heavily indebted by definition, they're under-served, under supplied with credit, so our customers are not typically rate sensitive, and as far as the company goes their interest cost is a relatively small proportion of our income statement.

Finally, in terms of debt capital markets, obviously we have a very well diversified set of funding sources, we're fully funded out for two and a half years or so to October 2019 right now, and clearly we have a bank within our group, so our largest business is fully funded through retail deposits. So, I guess the summary here is, we performed very well through the 2008, 9, 10, down to then we haven't changed credit standards since that time, in fact we arguably are somewhat a better quality book as we go forward into the post Brexit environment.

Finally to the positive, we may well just see the high street banks rein things in a little bit because they have loosened things quite a lot through the last few years, so the extent to which our market size is defined by where the banks choose to draw the line, if they draw the line more tightly then it expands our universe. You may well see some of our smaller competitors struggle to raise funds for growth, again in an environment where the main sources of funds, i.e. the high street banks, maybe have a low risk appetite to fund the non-standard lending industry as well as the non-standard consumer. So, I'm now going to hand you over to Andrew to take me through the financial review.

Andrew Fisher, Group CFO

Thanks Peter, good morning everybody. So, here are the group results, strong results, adjusted profit before tax up 14.1%, earning per share up 9.2%. Vanquis, as you can see, has delivered pre-exceptional profits at 11.3%. From further growth in the receivables book against continued tight credit standards and a stronger than expected risk adjusted margin due to delinquency gently improving through the first nine months of the year before stabilising through the final quarter.

CCD's profit before tax was up 9.3% to £115.2 million, this reflects a robust profit performance from home credit which produced a similar profit performance to 2015, and a reduction of around £12 million in the start up losses associated with Satsuma.

Moneybarn's traded strongly, as you heard, with a 28% year on year increase in new business and profits up 46% to £31.1 million, which was a little ahead of our internal plans for the business. Central costs, £16.7 million, were a little lower than last year, mainly due to lower legal and professional costs.

So, the group's adjusted profit before tax of £334.1 million, that was up 14.1%, the growth in adjusted earnings per share of 9.2% was lower, reflecting the impact of the 8% banks surcharge on Vanquis profits in excess of £25 million, and that was effective, of course, from the beginning of 2016. The full year impact of the bank tax is an amount approaching £15 million.

The group profit before tax and earnings shown here are stated before a £7.5 million amortisation of acquisition intangibles on Moneybarn, they're also stated before an exceptional gain of £20.2 million on the sale of Vanquis Banks interest in Visa Europe, which you will recall we explained at the interim results, and a £2.9 million impairment charge in respect of glo's IT platform following the decision to develop guarantor loans using the Vanquis platform.

The groups ROA, reduced from 16.1% to 15.3% in 2016, due to the impact of that bank tax surcharge. If you exclude that impact the group's ROA has shown a marginal up tick to 16.2%, the numbers there, due to stronger returns at CCD and Moneybarn.

The final dividend, Peter's commented on this, increased by 13% to 91.4p, which when taken with the 10.2% increase in the interim dividend produces a 12.1% growth in the full year of 2016 dividend per share to 134.6 pence. It's, as you'll see shortly, it's supported by strong capital generation and a pretty robust funding position, and reflects cover, still nicely ahead, 1.32 times, nicely ahead of our policy minimum of 1.25 times. So, turning now to the businesses. Vanquis, good performance, UK profits up by 10.2%, £204.5 million from strong receivables growth and favourable margins.

The demand for non-standard credit cards continues to be strong, the marketing activity of competitors in both direct mail and the internet channels have continued to broadly similar levels. Customer numbers ended 2016 at 1.55 million, up 8.7% on last year. Against continued type credit standards and a consistent acceptance rate, which runs at around 25%, Vanquis Bank's full year bookings of 406,000 were 27,000 lower than 2015, the shortfall in bookings can be attributed to a reduction of 43,000 to just 10,000 bookings through the face- to-face channel. A management decision was taken to fairly heavily curtail volumes due to the relatively low quality and relatively weak activation levels experienced on business written through this channel during 2015.

Taking a look at the half year splits, first half bookings were 184,000 customers were 32,000 lower than the previous year, followed by a strong resurgence to 222,000 bookings in the second half which was 5,000 higher than 2015. We explained at the interims that in 2016 the marketing programme was more heavily weighted to the second half, this allowed the incoming managing director, Chris Sweeney, the time to review the existing programme, develop a series of actions to expand both distribution and the credit card proposition. This refresh included a wide range of initiatives and an example of which is that it includes the new express check service which allows customers to check the likelihood of being accepted without affecting their credit score. The result is that we've seen the emergence of strong momentum and in particular bookings through the internet channel. Vanquis also launched the Chrome credit card during the second half, as Peter referenced, this expands the business into the nearer prime segment of the non-standard market, it's a completely natural extension and the early volumes being delivered by Chrome are encouraging. For obvious reasons we are not going to give specific numbers. It's important to point out that this momentum has been established without any significant contribution from the pipeline of opportunities, through partnering with third parties, other lending institutions, brokers, providers of retail, finance that Peter referenced, and we'll expand upon that opportunity at the Capital Markets Day. However, at this stage, what is clear is that the momentum behind new bookings being carried into 2017, and in the pipeline of further opportunities is expected to lead to a material step up in 2017 bookings. Now, as many of you are aware, Vanquis has been booking around 400,000 or a little over 400,000 new accounts in each of the last three years, with an annual investment in each vintage of new lending of between £50-60 million. This is followed by a strong payback in subsequent years. The J curve reflects the cost of acquisition and early impairments versus the progressive build in revenues from Vanquis Banks low and grow approach to lending. It follows that if the expected year on year step up in booking volumes in 2017 materialises, which is highly likely, it will result in a proportional increase in the year one investment before then producing a strong payback from 2018 onwards.

Finally, as Peter mentioned on Vanquis, it successfully developed its loans platform, and November commenced testing instalment loans to its existing credit card customer base with encouraging early results. In reviewing 2016, the numbers associated with that activity are a rounding difference and we will be communicating our plans for this business at our upcoming Capital Markets Day.

So, turning to receivables. The credit line increase programme to customers with a sound payment record represents over two thirds of the credit issued by Vanquis, and together with the growth in new customers produced a receivables growth of 13.8%. The chart at the bottom of this slide shows the development of the average customer balance, it increased to £922 in 2016, as a proportion of new customers and the total population has been reducing. It's clearly on track towards our medium term guidance of £1,000. We've guided to some moderation in the analysed risk adjusted margin and you can see a reduction from 32.8% to 32.2% over the last year.

Before looking at the detail it's important to recap on the relative stability of Vanquis Bank's risk adjusted margin through the cycle. Two characteristics of the business model underpin this stability, first the loan growth 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 credits lines which can crystallise as losses in a downturn, and that's why we manage utilisation to around 70%. This charge is a reminder that the business delivered a risk adjusted margin of 30% during the downturn between 2008 and 2010. The risk adjusted margin then expanded to a peak of around 35% as consistently tight standards remained in place, with a resulting underlying improvement in the quality of the loan book showing through in the form of falling delinquency against that backdrop of a stable and then improving UK employment market. We've applied consistently tight credit standards in the business over the last seven years and we only book new business that meets our minimum thresholds. This means that if there's a change in the external economic environment, which impacts the UK employment market, our visibility on how the business will perform is good. It's also worth observing from the chart that, all other things being equal, the business experiences increased impairment when unemployment is rising, and once it stops rising the rate of impairment settles down close to the preexisting level. So it's not the absolute level of unemployment that matters: it's the rate of change.

The detail for the last 12 months shows the analysed risk adjusted margins moderated by point six of a percent, this reflects the benefits from improved delinquency of point four percent, and a one percent reduction in the revenue yield. Taking a closer look at delinquency trends and their financial impact, it's apparent that tight credit standards and an improving employment market, saw delinquency rates progressively improve and reach record lows for the business by the end of the third quarter. Since September delinquency rates have remained stable. The improving delinquency during the first nine months of the year resulted in a 1.3% reduction in the impairment rate during 2016. 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 point nine of one percent. Taking these together, they explained the net year on year benefit of point four percent to the risk adjusted margin from improved delinquency.

There's also, as you can see, a 1% reduction in the revenue yield from the full impact of the reduction in interchange fees which came into force at the beginning of 2016 together with some further reduction in the penetration of the ROP product into to the customer base. The stable delinquency trends experienced, during the fourth quarter, are expected to continue through 2017. Vanquis also expects to build its presence in the nearer prime segment of the market as we described. These factors, together with some further reduction in the yield from the ROP product, will see the risk adjusted margin moderate towards 30% in 2017.

Here are the Vanquis Bank IFRS 7 disclosures: the profile reflects a stable low arrears in the business with 94% of accounts fully up to date with their contractual payments compared with 93.3% at the end of 2015, for reference, as usual, I've included the impairment policy we use at Vanquis which is unchanged. Cost growth, 15.4%, was higher than the 13% growth in average receivables this year, and this is because, as flagged at the interims, we authorised a step-up in expenditure to support the programme of initiatives that are augmenting the medium growth credentials of the credit card business. This added some six million or so to the cost base in the second half of 2016 and that will continue at a similar rate in 2017. Interest costs, actually reduced by 1.6%, notwithstanding the growth in receivables, this reflects, of course, the marked reduction in Vanquis Bank's funding rate from 5.3% in 2015 to 4.6% in 2016 due to a lower blended rate on retail deposits and a lower funding, group funding rate, on the inter-company loan from PFG. And the bottom line, the return on assets has reduced from 15.8% to 13.8% in 2016, mainly due to the impact of the bank tax surcharge, excluding that surcharge the return on assets would remain above 15% as you can see from the numbers at the foot of the slide.

So, moving onto CCD. The repositioned Provident home credit business is delivering strong returns and has supported the continued investment in developing Satsuma. Profits in 2016 have increased by 9.3% due to a reduction of around £12 million in start up losses at Satsuma. Customer numbers in CCD have shown a year on year reduction of 9.1% to 862,000. Here it is, this chart shows the progressive reduction in customer numbers since the repositioning of the home credit business over the last three years, you can see that tighter credit standards, which have been in place for three years, have continued to curtail the recruitment of all marginal customers, you can also see that customer numbers have now stabilised pretty well and the majority of the 9.1% year on year reduction in 2016 took place in the first half of the year. customer numbers during the second half of the year were therefore relatively stable.

So, turning now to receivables in the business. Demand and customer confidence from home credit customers remains robust, household incomes and the cost of living for these customers, which we measure on a quarterly basis, have both shown a further, modest improvement during 2016. In addition, the improvement in the credit quality of the book has raised the population of customers eligible for larger amounts of credit, over a longer duration, and supported a 9% increase in sales, notwithstanding the contraction in the customer base. This has resulted in the re-emergence of receivables growth with 2016 receivables showing a year on year growth of £40 million or 7.3% up from the 2.6% growth that we reported at the half year at June.

CCD's risk adjusted margin at 78.4% in the year, and this chart shows the progress of that over the last three years, resulting from the repositioning of the business of course. Over the last year the risk adjusted margin has shown a modest reduction of 3.8%, to 78.4%, comprising a 1.6% reduction in the revenue yield and a 2.2% increase in the impairment ratio, both of which were consistent with our internal plan, so, just to explain that, the movement in the revenue yield reflects the focus on serving good quality customers who tend to be more eligible for longer term loans which carry a slightly lower yield, so the reduction of 1.6% is purely a mix effect. Strong adherence to standardised arrears and collections processes and consistently tight credit standards have resulted in a stable collections performance and stable arrears during 2016, this compares with a strong improvement in both of these metrics in 2015 which resulted in impairment credits in that year, as a result, the impairment ratio of 23.6% is 2.2% higher than it was in 2015. Looking forward into 2017 we expect the risk adjusted margin to remain stable.

So, this slide is the IFRS 7 numbers for CCD, and again, a consistency with what I've just been talking about in terms of improvement in the book with 55.3% of the book fully up to date versus 51.3% a year earlier, and again, the unchanged impairment policies at the foot of the slide for your reference. Costs were 7.7% or £21 million lower in CCD. Around £7 million of the reduction results from the annualised savings of £14 million secured in June 2015 from the head count reduction associated with completing the roll out of technology across the field operation. The remaining reduction reflects a reduction in agent commission costs consistent with a review of rate thresholds together with lower costs in Satsuma from much more cost effective marketing. Interest costs were

1.8% lower than last year versus the 1.8% increase in average receivables, and again, that reflects the reduction in the group funding rate for the business from 6.8% to 6.6%.

And finally, returns: the repositioning of the business and reduced start up losses in Satsuma have improved returns here with ROA increasing to 22.3% in 2016 from 21.2% a year earlier. And now onto the understated Moneybarn. The business has performed well during 2016, again, delivering an increase in profits of 46%, slightly ahead of our internal plans. Our customer numbers ended the year at 41,000, up 32.3% from 31,000 at the start of the year as the business continues to benefit from strong, new business volumes.

This chart shows the track record since acquisition of the business, which was in August 2014. 2016 new business volumes totalled 21,500 vehicles and showed a year on year growth of 28%, volumes during the first half of the year were very strong, totalling nearly 11,500 new vehicles and moderated to 10,000 or so vehicles in the second half, reflecting the seasonally quieter fourth quarter. Early 2017 has seen strong demand and record volumes of new business, as Peter mentioned. The significant step up in volume since acquisition reflects the development of the proposition which by early 2015 included lending up to retail value and reducing the minimum then from £5,000 to £4,000. These changes have made the business more competitive and reinforced Moneybarn's primacy across its broker network which remains, of course, the dominant distribution channel for the product right now. And it's important not to lose sight of the importance of Moneybarn's investment in its platform and its people to reinforce leading customer service whilst handling much higher volumes of business.

The strong growth in new business volumes has resulted in year on year receivables growth of 35.4%. The rate of growth in receivables is higher than the 32.3% increase in customer numbers due to the cumulative benefit of the rapid growth in new business over the last two years. The average size of new loans has reduced from a previous average of around £8,900 to around £8,200 in 2016 as a direct result of the modest shift in mix of business towards lower value vehicles, which carry a higher yield. And the receivables book of £297 million has now more than doubled from £130 million at the date of acquisition. The revenue yield increased to 30.3% from 29% in 2015 reflecting that shift in mix towards margin lower value vehicles which tip it to carry a higher yield. Default rates have also increased over the last 12 months consistent with the mix of business being written. As a result, the risk adjusted margin has moderated slightly to 24.1% in 2016 down from 24.3% in 2015, but unchanged from June 2016. Based on the current delinquency trends and mix of business the risk adjusted margin is expected to remain at a similar level during 2017.

As already mentioned, 2016 was another year further investment at Moneybarn, principally in the additional head count and its platform to support growth and to meet, of course, the more exacting regulatory standards under the FCA regime. As a result, head count has increased from 151 to 195 during the year, this has resulted in the cost base growing by 31.4% in the year, although this is within the 39.7% growth in average receivables as the business has benefited from some modest operational gearing. Interest costs have grown by 33.7%, lower than the growth in average receivables, this primarily reflects the retention of profits since acquisition as the capital base of the business is towards the group's target gearing ratio of three and a half times. Moneybarn is a high returns business, as demonstrated by the ROA of 13.1% in 2016, up marginally from 12.9% in 2015 due to the modest operational leverage I just mentioned.

So, onto the balance sheet: Goodwill, £71.2 million arose on the acquisition Moneybarn in August 2014 and as you'd expect this remained unchanged. We also have to value the broker relationships, they were attributed a value of £75 million using a discounted cashflow model, this intangible asset is then amortised over ten years and the amortisation charge in 2016 was £7.5 million, resulting in a reduction in the assets to £57.5m at the end of the year. Overall group receivables up 14.4% or by approximately £290 million to £2.3 billion, and I've covered the moving parts within that.

I thought I'd just say a word or two about IFRS 9 which comes into force in 2018, IFRS 9 changes the impairment methodology on receivables from the current incurred loss approach where provision is made when an account goes into arrears in simple terms, to an expected loss approach where provisions are made for expected losses on day one, so, when implemented, IFRS 9 will result in a reduction in receivables and net assets for all lending institutions. The technical interpretation of the standard, frustratingly, an industry practice is still evolving, but we're well progressed with our evaluation and expect to provide an impact analysis with our 2017 interim results.

The two main impacts of adopting IFRS 9 will be a reduction in distributable reserves and regulatory capital. You should be reassured that Provident Financial plc has over £200 million of distributable reserves at the end of 2016 which can more than accommodate the impact of IFRS 9.

The group also has a healthy surplus of regulatory capital, that not withstanding that we've now had confirmed that there will be transitional rules which allow the impact of IFRS 9 to be phased in over a five year period. I should also emphasise – for the avoidance of doubt – that the impact of IFRS 9 does not impact the ultimate profitability of a loan, the group's cashflows and capital generation, or our banking covenants which are based on frozen GAP prior to the impact of IFRS 9.

The pension asset showed a surplus, £72.4 million up from £62.3m on an accounting basis at the start of the year, the increase principally reflects the increased spread between gilts, which is the major asset class held in the pension scheme and the yield on corporate bonds which is used for discounting purposes. You may recall the following announcement to the proposed acquisition of Visa Europe by Visa Inc., the group recognising available for sale investments of £17.5 million at the end of 2015, representing the fair value of Vanquis Bank's interest in Visa Europe and as we outlined at the interim the acquisition was completed on the 21st June last year and the final terms of the transaction were slightly more favourable producing an exceptional gain of £20.2 million which has been recycled from equity, through the income statements in 2016. I'll return shortly to funding.

Net assets £790 million up from £707 million a year earlier, and the gearing ratio measured on a banking basis remains stable at 2.3 times. And here you see the stability of the group's gearing ratio as a result of consistently strong capital generation which has funded the annual dividend and growth whilst operating within our gearing target of 3.5 times. That's step down in gearing from 2014 to 2015 and reflected two factors, first the acquisition of Moneybarn which 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 a release of around of around £40 million of capital over that period fo time. The modest up ticking gearing from 2.3 to 2.4 times during 2016 reflects the leverage of 3.5 times that sits behind the funding of receivables growth of nearly £300 million.

Here's the funding base. So this is the group's portfolio of committed facilities at the end of the year, there are two columns here showing both the committed facilities before and after the recent renewal of the group's syndicated bank facility. So there you have the change. At the end of January, 31st January, we successfully entered into a new, syndicated bank facility of £450 million, maturing in May 2020 and cancelling the existing facility of £382.5 million which was due to expire in May 2018. The syndicate continues to comprise the group's core relationship banks and the all-in cost of funds is 25 basis points lower than the previous facility. The new facility has consistent terms, conditions and financial convenant package to the previous facility, other than the net worth covenant which has been recalibrated to reflect the increase in the group's net asset base.

Next segment of funding is the broad heading covering medium term bonds and private placements, a total of £638 million, the reduction of £50 million from the interim which reflects the repayments of the 2011 retail bond that matured in September last year. The third leg is the retail deposit programme at Vanquis which provided £941 million at fixed term, fixed rate funding at the end of the year, and I'll come back to that in a little bit more detail in a moment.

So, following the renewal of the syndicated bank lines, the group's total committed facilities at December 2016 were just over two billion, and the headroom on those facilities was £207 million. That headroom does not include the additional funding available to Vanquis Bank increasing the retail deposit programme to the point where the whole of its funding, the whole of Vanquis's funding, is provided through retail deposits. At the end of 2016 this additional capacity amounted to £234 million, representing the full amount of the inter company lending from Provident Financial Group. Committed debt headroom plus retail deposit capacity therefore totals £441 million which, together with the capacity of Vanquis to take further deposits as its receivables book grows, is sufficient to meet contractual debt maturities and fund the expected growth of the business until October 2019 when the £250 million senior bond matures.

And there's the maturity profile of the debt. Maturities over the next 30 months or so are relatively light, the step down of £10 million in the first quarter of 2017 is the second instalment on the M&G term loan, whilst the £120 million step down in the last quarter of 2017 is the maturity of the 2012 retail bond. As you can see, the most significant maturity is the senior bond in the last quarter of 2019, and the average period to maturity of the group's bank and debt facilities is now 2.9 years.

Here's the profile of the retail deposit programme at Vanquis, a very attractive profile. Retail deposits of £941 million at the end of 2016, represents about 66% of Vanquis's receivables, up from 58% at the end of 2015, but well below the maximum permitted level of 100%. During the first half of 2016 the growth in the retail deposit book was managed at just £74 million through appropriate pricing. This reflected the relatively high level of committed debt funding held at PFG level as well as a seasonally lower receivables growth profile. The second half has seen faster receivables growth as well as the repayments of the 2011 retail bond, this has allowed Vanquis to dial up deposit taking at very attractive rates resulting in inflows of £320 million in the second half. Five year fixed rate deposits have represented the majority of the flow at a headline rate of around 2%. This chart shows the analysis of the maturity profile and there are just a couple of points to draw out, first, the average period to maturity of 2.6 years, is in our target range and supported by a mix of retail deposits inbetween one and five years in duration, the profiles appropriately match the cashflows of the receivables book of course. Secondly, the blended all in rate of 3%, which includes the drag from the liquid asset buffer, is relatively low, reflecting the low interest rate environment we've had in the UK in recent times, and which appears to be continuing.

Most of you are very familiar with the relationship between our dividend policy gearing and the group's growth plans, and here it is, our dividend policy is to maintain cover at at least 1.25 times and our gearing target is around 3.5 times against a convenant of 5. Based on 2016 profitability, the retention of profits consistent with our current dividend cover, leverage three and a half times, supports annual receivables growth of approximately £300 million, and this rate of growth is consistent with the medium term growth plans of the group.

So, finally onto cap gen. The group generated capital of £233 million, the composition is shown there, and it's up from £190m or so in the previous year. after funding its own growth the cap gen at Vanquis grew by around £9 million to £152 million during 2016. This includes the benefit of the one off cash proceeds of £12 million from the sale of Visa shares, but has suffered by £15 million from the higher tax payments due to the surcharge. CCD’s, cap gen was some £15 million stronger in 2016 due to the reduction in start-up losses in Satsuma primarily, and the one-off impact of the exceptional business restructuring costs incurred in 2015 that didn't repeat in 2016. Moneybarn, you see here, is generating capital sufficient to fund its own rapid growth and is set to become increasingly capital generative as its profits grow. So overall, capital generated comfortably covers the 2016 dividend with a surplus of £37 million retained in the year. It's a strong position, and on that note I'll hand you back to Peter.

Peter Crook, Group CEO

Right, we're now in the home straight, so, without further ado just a few closing remarks.

So, firstly, regulation, there are three things to comment on here, so transfer of regulation to the FCA, Vanquis and Moneybarn were fully authorised by the FCA during 2016. CCD's continuing to operate on an interim permission, no different to the other major home credit lenders, while the FCA completes their work on that sector of the market. And obviously it goes without saying that the ongoing supervision of the group is somewhat more intrusive and exacting than it used to be under the old OFT regime.

The FCA looked at the credit card market, they published their final report I think on the day we announced our interim results in 2016, in July, but they have still got a couple of issues where they're thinking about further work which are around persistent debt, early intervention on arrears cases and how credit line increases are granted, whether customers opt out or opt in. So we're expecting some further consultation to take place this quarter, so I guess that means in March.

Then finally, the FCA's review of high cost credit, now this has been in the pipeline for a while as the price controls and related rule book changes that were implemented in January 2015 around high cost short term credit, or payday lending, were always coming up for review in the first half of 2017. Now, what's happened since then is obviously the CMA have looked at current accounts and overdrafts in particular, the FCA have now picked up the baton on unauthorised overdrafts, well, overdrafts more broadly, and they're combining the review of overdrafts along with high cost short term credit, so it's perfectly natural in our view that they will also look at other adjacent high cost products such as home credit, guarantor lending, rent to own offerings and pawn broking. So this is going to take place through the course of this year, obviously we're engaged in this review, we've responded to the consultation which closed in the middle of February around the scope, and we'll continue to contribute to it as required.

So, moving on, I just thought I'd finally restate the investment case for Provident, so, we are the market leader in non-standard credit, we have a good mix of businesses with attractive growth and returns through the medium term, we've got proven low volatility through the cycle, I think we've demonstrated very consistently, particularly through the financial crisis and aftermath. I believe we've got significant competitive advantage in technology, in marketing, in credit and underwriting and in collections, we've got great management teams running each of our business, as you've heard from Andrew we've got a very robust balance sheet and a very prudent and well diversified set of funding sources.

And finally, we're generating a lot of capital which is sufficient to both support growth and a progressive dividend policy. So, I won't dwell on the charts here, but you can see our five year metrics in terms of EPS growth, DPS growth and our current ROA are very strong. I might add, it's not on the chart but our five year TSR is 35% per anum, delivered over the last five years. So, moving on, just a few words about the Capital Market Day, you may have noticed today's presentation is a bit light on new news, new guidance updates, that's because we can't really do it justice in a short meeting like this so we are running a Capital Markets Day on the 4th April, in particular you'll see presentations from the management teams of each of our businesses, the key areas we'll be looking at will be taking a deep dive into the changes to the home collected operating model, looking at the initiatives in Vanquis bank in terms of the credit card product, its distribution and new propositions, a look at the group's loans businesses, the new businesses, so I'm talking here Vanquis Bank's loans proposition and the Satsuma loans proposition, and then finally an update in terms of the group's progress in digital. So, hopefully it's a good day ahead, five weeks away, I hope most of you will be there and you can expect some new newsflow at that time.

So, last slide from me then, the outlook statement, so, Vanquis continues to deliver a strong, financial performance, strong new account booking momentum and a good pipeline of initiatives to further augment the growth in 2017 and beyond. As you heard from Andrew, we expect a step up in new account volumes to be delivered through this year. and the recently launched unsecured loans pilot is encouraging, it's progressing well, it represents, in our view, a significant opportunity. Home credit business had a really strong year in 2016, which has allowed us to press the button on our further evolution of the model. I should add, we expect the changes to deliver significant financial benefits. We're not in a position to quantify those today as obviously we're still going through consultation with our workforce, I expect that consultation will be complete by the time of the Capital Markets Day, so we'll be able to expand more on what we're doing and also the financial benefits from moving towards a more efficient and effective field organisation supported by further technology. Satsuma's made good progress in 2016, it's on course to move into profit through the course of 2017, the market opportunity still looks highly attractive, we expect some consolidation within the industry now and Satsuma's well placed to benefit from all of that. And, finally, Moneybarn, another great year, significant uplift in new business, receivables now past £300 million, leaves the business in excellent shape to continue further growth, and, obviously, its made a very good start, in fact, the group as a whole has made a good start to 2017. So that concludes today's presentation, I'm now happy to take questions.

Gary Greenwood: Shore Capital

Morning, this is Gary at Shore Capital, I've got three questions, one on each division. First of all on Vanquis, if delinquencies were to rise and the risk adjusted margin dip below 30%, what would be your response? That's the first one. The second one on Moneybarn, do you think there's going to be any implications for customer behaviour from the changes to the Ogden discount rate which could push up insurance premiums? And then lastly, I appreciate you can't say too much about the home credit changes, I'm just interested in the sort of analysis you've already done to give you , reducing, effectively, the agent numbers so significantly, you can still maintain market share even though you've got a couple of smaller operators snapping at your heels?

Peter Crook, Group CEO

Okay, well I'll take the last two questions, maybe Andrew will comment on the Vanquis RAM.

Andrew Fisher, Group CFO

What happens if delinquency increases in a downturn sufficiently to take the RAM below 30% in the event that that hypothesis played out. Which, you know, as I said through the presentation, delinquency rises whilst unemployment is rising, so whether unemployment is at 5% or 7%, in a steady state, the risk adjusted margin, all other things being equal, will be unaffected by the absolute level of unemployment. The pool to shop in might be a bit smaller, but the level of delinquency won't be impacted and the RAM won't be impacted by that. So it's all about what happens as customers are losing their job, as unemployment rises, so we wouldn't knee jerk, there would be no knee jerk reaction if there was some sort of sharp event out there that resulted in a significant and rapid increase in employment because it doesn't actually undermine the underlying margin in the business, it all settles down to the preexisting level after you've been through that period of turbulence.

Peter Crook, Group CEO

On Moneybarn, I mean, we notice the change in the discount rate, obviously it hits insurer shares yesterday I think I saw a figure of £75 quoted as the typical increase in premium. And to put that in perspective, obviously our customers are borrowing money to fund a used car, you know, with a relatively low value versus the cost of a new car, the average ticket to Moneybarn is in the low £8,000s today, so typical loan repayments on a Moneybarn loan, probably £300 a month, so I don't see an extra fiver for insurance being a significant deal to be honest - not in our part of the market.

Finally, on home collected credit, I think what you've got to remember is we've got around 4,500 agents today but a lot of them are part time, I couldn't give you the FTE figure off the top of my head, but it’s nothing like 4,500 - it is somewhat lower. So there's still the same amount of work to get done in each location in which we operate, we can do it more efficiently and more effectively and provide a far better service to customers with the routing and scheduling software and a full time workforce, but I wouldn't get carried away with the reduction in the numbers because it's actually partly about moving from part time to full time, which obviously gives customers a much better service as they can choose to be collected from or to talk about a new loan at any time of the week they want.

Peter Crook, Group CEO

Any more questions?

Gurjit Kambo: JP Morgan

Good morning, it's Gurjit Kambo of JP Morgan. Just in terms of the risk adjusted margin on Vanquis, within the new products, such as Chrome, could we expect a similar profile? I.e. similar 30% on that product?

Andrew Fisher, Group CFO

On Chrome itself the risk adjusted margin would be lower, but the ROA is attractive, and I'll just remind you that an ROA of 12% translates into a return on equity somewhere in the mid 30's. So, the shareholder value maximising thing to do, if you've got those sort of opportunities, is to go after them and grow the business.

Gurjit Kambo: JP Morgan

Thank you.

Alejandro Velez: Close Brothers Asset Management

Hi, this is Alejandro Velez from Close Brothers. Just on inflation, I mean, what rate of inflation would be concerning to you in the home credit business? And then, to what extent is the proposed change in the full time employment in the home credit division a result of FCA undergoing reviews and your conversation with them?

Peter Crook, Group CEO

Okay, so, inflation in the home collected business, I think for it to be a big deal it's would be in double digits, I'm not concerned about the relatively modest levels in inflation that we're seeing, I mean, we're going from a zero or deflation environment back to something more normal, and obviously in terms of top line growth in the living wage etc, you know, is compensating for that, so, you know, not overly concerned about the outlook in that business. And remember, the loan duration is pretty short, so if we need to reset the lending and lend a bit less and lower the ticket because the customer's disposable income is a bit less than it used to be then that's obviously a big strong point for that business, we're not putting exposures out there for long periods of time, it's a relatively short duration loan book, so we can adapt to a changing world.

In terms of the changing operating model in the home collector business, we've been looking at this for some time to be honest, so, the FCA has regulated our industry since April 2014, we've been on at this for some time, we're really coming at it from a customer centric point of view, so taking those 19 touch points, 11 of which are with self employed agents, so over whom we don't have full control and we don't record everything, so it's moving the customer right to the centre of our operating model where all 19 points of interaction are all controlled by the company and everything is recorded. So, I think it certainly ticks the regulatory boxes, so it's not the primary reason why we're doing it, we're doing it to provide a better service to our customers and in doing so we think we'll make more money.

Peter Crook, Group CEO
Any more questions?

Mark Thomas: Hardman & Co
Mark Thomas at Hardman. Just following up a little bit more about the receivables and the home credit change. Presumably the first 5,000 odd agents that you would use were the lower performing ones, yet you'd now been at the stage when perhaps you're reducing better performing agents, what are the risks they they actually take business with them by going to competitors?

Peter Crook, Group CEO
I think they're relatively low, if I look at where we are today the consultation with our employees is going well, we've got a high level of morale, we've got a lot of people very keen to carry on working for us, and obviously we're going to have state of the art technology supporting our business, I think some way ahead of the competition. So not concerned about losing any of our better quality agents, obviously we've got fewer roles available and the roles are full time rather than part time, that won't suit everybody, but I'm very confident that the model we're putting in place will perform really well, particularly for customers.

Peter Crook, Group CEO

I think we'll draw a close there. Thank you for coming today, if you have any further questions you know where to find us, thank you.