Provident Financial plc

2015 Full-year preliminary results
23 February 2016

Peter Crook, Group CEO

Good morning, ladies and gentlemen. Welcome to the announcement and presentation of Provident Financial's results for 2015. This is the running order for today. I'll talk through the highlights of the results and an overview of each business and Andrew will then give you the customary financial review. We'll then move into some comments from me on regulation and the development of some of our businesses and the Outlook statement before we take questions at the end. So, without further ado, let's move into the highlights.

First of all, we've grown the dividend for the year as a whole by almost 23 percent and that involves an increase in the final dividend of almost 27 percent. So, we are delighted to be able to deliver that amount of income growth for our shareholders. The growth in the dividend is very much backed up by earnings, so you'll see PBT up 25 percent to £292.9 million and EPS, up by 22.6%. So, the dividend has grown very much in line with EPS, which came out at 162.6 pence per share. Obviously, the dividend's not just supported by growth in earnings but also by strong capital generation.

Vanquis Bank remains the star of the show, so we've got a great combination of very strong growth, equally low records of arrears which have led to strong returns. So, a great performance by Vanquis for the year and more of that later. In terms of our traditional home collected credit business, as you know, we've been on a journey to reposition that business and that journey's now complete and I'm pleased to say, we're also seeing a little bit of sales growth now starting to come through year-on-year in that business. We continue to invest in Satsuma and we continue to see a market opportunity there. Again, more of that later. And finally, during 2015 we trialled glo, which is our guarantor lending proposition. I'm pleased to say those trials have gone well. We've learnt a lot about the guarantor marketplace and so will be proceeding to roll out glo during the course of 2016. Finally, Moneybarn are performing really well with a very strong uplift in new business volumes up 69

percent year-on-year. So, very much available now to write the business that's in front of it with Provident Financial's balance sheet behind it. Finally, the group is fully funded through to May 2018.

Let's move into a quick look at each of our businesses. In Vanquis Bank I suppose the bottom line here is we are manufacturing something that people really, really want and are excluded from having from most mainstream credit card providers. You'll all know, it's hard to live a modern life without a credit card. It's hard to travel, hard to live a digital life, and we're one of the few banks willing to serve non-standard risks with a credit card product. We've seen a strong flow of new applications. There is some competition out there but it's very much at a similar level. We'll show you some charts which demonstrate what's going on underlying the headline numbers. And obviously, in terms of the Macro, losses in a business like this will often move around with unemployment. We've seen, certainly through the first half of last year, falling unemployment in the UK and a fairly stable picture since. So, the Macro has been kind to us and has very much supported the delinquency trends.

So, how have we run the business last year? Well, as you'd expect, we've not changed our credit standards. They've not moved for some time post-crash and that supported continued record low-level of arrears. The other side of that coin, is the risk adjusted margin is running somewhere ahead of our minimum or 30 percent. We originated a record number of new customers with 433,000 new accounts booked in the year. I'd say competition is having no effect on the flow of new business into Vanquis. At the margin it's probably meaning we're paying a little bit more for each new account, particularly for the last 15 or 20,000 through the door, but a record amount of new business booked in the year.

One of the other very important events for Vanquis last year was the recruitment of Chris Sweeney. Chris is in the audience, sat at the back. I know some of you have met him already. Chris has recently joined us as the new Managing Director of Vanquis. He's got loads of cards experience as well as a much broader retail banking background, so Chris is very well positioned to lead the next phase of Vanquis' development. Finally, just to say, we're very much on track to deliver the

medium term guidance that we provided a while ago. So, up to 1.8 million customers borrowing £1,000 each, so £1.8 billion of receivables.
Moving onto the Consumer Credit Division, in terms of competition here there's no real discernible change in the competitive landscape. One or two players have changed hands and one or two smaller players are being eaten up by one or two of the medium sized players. We can't participate in industry consolidation, in home credit we have a market share that's already quite large. In terms of the Macro, household incomes are showing some modest improvement, so the recovery is finally trickling down to lower income consumers in hourly paid work. Obviously, the cost of living's fallen right away and there's no inflation in the system, so conditions are slightly better for our customers in this division. You can see that reflected in demand, it's improved. Customer confidence has picked up a bit and continues to rise from historic lows. A few other things are happening in the market place. Customer preferences and behaviours are changing. There's a new regulator with a tough regime, particularly around payday lending, so that's driving some growth in online lending for formats like Satsuma in particular, which are well placed to benefit from that. We continue to see a big gap in the market really for the supply of larger longer loans. If you think back, this market was dominated by branch based lenders like Welcome, Household, City Financial, Black Horse, Beneficial. Most of those lenders disappeared; they failed or withdrew during the crash. There's a real lack of supply of longer, larger loans for the non-standard consumer today. What's out there is generally product with recourse, such as asset backed loans like our car finance offering, or guarantor loans where there's a prime credit guarantor who can step in and service the loan, should the borrower be unable to. But, there's a very big opportunity in that space that we continue to look at.

So, how have we positioned things? Well, the journey to repositioning Home Credit is now complete. We now have a smaller but better quality business, so the reduction in customers and receivables is very much paid back through better credit quality and lower costs. The profits in this business have grown nicely during the year, which has allowed us the headroom to invest in developing the Satsuma platform and business. Back on home credit, we rolled out the field technology during the year, so around 500 people left the business in the summer, following the completion of the roll-out of the Smart phone and tablet suite of apps. We've been

trialling glo through the course of the year and that will proceed to a full roll-out during 2016. I'll say a bit more about that later.

Finally, on Moneybarn, what characterizes the non-standard car finance market is still a real lack of supply of credit. The volume of lending going on is probably still around half the size it was pre-crash. That's not to say the market isn't competitive; there are a number of players in the space. In the near/sub-prime arena there's at least ten competitors who are all pretty active. Obviously here that under-supply of credit is characterised by stronger demand and a strong flow of new business into Moneybarn. It's also fair to say, there's quite a bit of other credit being used to finance vehicles. Some people are using unsecured credit, some people are using guarantor loans, etc. If you're able to access a car finance product, where the loan is secured on the vehicle, only the terms from a lender like Moneybarn are going to be better than those which are offered by lenders that don't have any security. So, that's the backdrop. In terms of how Moneybarn has done: well, new business volumes are up 69 percent so Moneybarn's market leadership is very much reinforced by having access to Provident Financial's funding line. We continue to invest in the Moneybarn platform. In particular we've added capacity obviously to cope with that significant step-up in growth. We've also been broadening the product range, so we've reduced the minimum lend below where it was previously, which is driving incremental business. We're lending up to retail value rather than trade, which helps the primacy with brokers. We've introduced lending on light commercial vehicles or white vans, which tend to be distributed through the same brokers that supply the car business that we write. We started promoting Moneybarn into the Vanquis customer base as well. So, the net of all of that is that we're very much on track to meet the guidance of up to 400 million of receivables in this business in the medium term. That concludes my opening remarks and I'll now hand you over to Andrew to step through the Financial Review.

Andrew Fisher, Group CFO

Thank you, Peter. Good morning, everybody. So, the group's produced a strong set of results. Adjusted profit before tax was up 25 percent and adjusted earnings per share up 22.6 percent. The main driver of the group's earnings was Vanquis. UK profits are up 22.8 percent, reflecting continued strong growth in receivables against

unchanged credit standards and a stronger than expected risk adjusted margin, due to delinquency running at record lows. The Polish loss remains unchanged from previous announcements following the sale of the receivables book in April last year. CCD's profits, before exceptional costs, were up 1.4 percent at £105.4 million, so this means CCD has delivered in full on its plans to maintain profits whilst repositioning the Provident home credit business and funding the start-up of Satsuma. Or, put another way, the stronger returns from running a better quality book together with significant cost reductions have fully mitigated the contraction of the customer base and afforded the investment in Satsuma. Moneybarn has traded at the top end of our expectations, delivering a profit before tax of £21.3 million, compared with pro-forma profits of £15 million in 2014 whilst investing for the future. Access to the group's funding has underpinned a 69 percent year-on-year increase in new business volumes. Central costs are at 1.8 million due to increased share based payment charges and higher legal professional and advisory fees. Earnings per share growth was slightly lower than profits growth as a result of the placement of 5.9 million shares, with the acquisition of Moneybarn in August 2014. Although, it did benefit from just over one percent from the reduction in the statutory rate of UK Corporation Tax from April 2015. The group's pre-tax profit and earnings shown here are stated before a £7.5 million charge in respect of amortization of acquisition intangibles arising on the acquisition of Moneybarn. They are also stated before exceptional redundancy costs of £1.8 million in CCD. The groups ROA has strengthened by 100 basis points to 16.1 percent, mainly from the improved returns being generated by CCD following the repositioning of the home credit business. The final dividend has been increased by 26.6 percent to 80.9 pence which, when taken with the 15 percent increase in the interim dividend, produces a 22.6 percent increase in the 2015 dividend per share to 120.1 pence. This is aligned with earnings' growth as well as the group's stated policy of maintaining annual dividend cover of at least 1.25 times. It also reflects strong capital generation and our robust funding position.

So, turning now to each business. Vanquis has again performed well. UK profits are up by 22.8 percent, which was ahead of our internal plans. Receivables' growth is very much on plan and the favourable performance was driven by wins on the margin that benefited from stable delinquency at record lows based on unchanged credit standards and favourable conditions in the UK employment market,

particularly during the first half of the year. The business continues to generate a strong flow of new business from developing what is still an under-served non-standard UK credit card market. Whilst competitor activity continues in both the internet and direct mail channels, consistent investment in the customer acquisition programme generated record full year new account bookings of 433,000 marginally up from 430,000 in 2014. The acceptance rate of around 25 percent was unchanged, reflecting the application of unchanged underwriting standards. It's very important to remember that Vanquis Bank only books new business that's expected to meet its minimum threshold returns consistent with delivering a risk adjusted margin of 30 percent. The business does not, and will not, chase volume at the expense of returns. The customer base grew by 9.9 percent, or 128,000 through 2015, and this increase is after the cancellation of 46,000 inactive accounts during the summer period to eliminate the contingent risk associated with undrawn lines. The underlying growth rate is therefore around 13.5 percent. Vanquis Bank's consistently strong booking volumes and track record of innovation in distributing its product means that the business is firmly on track to reach its medium term potential of up to 1.8 million customers.

I thought it might be informative to share with you Vanquis Bank's voluntary attrition rate over recent years. This is the first time we've shown this. Voluntary attrition is a good barometer of how the business looks after its customers as it measures the rate at which customers chose to pay up and leave Vanquis of their own accord. As you can see from the chart, voluntary attrition has remained stable at low levels, which is consistent with high levels of customer satisfaction as well as a stable competitive environment.

Turning to receivables, the credit line increases to sound established customers represents over two-thirds now of the credit that we issue and, when combined with the growth in new customers, produced a 14.5 per cent year-on-year increase in receivables. The blue bars here, against the right hand scale, show that the business added £158 million of receivables in 2015 compared with £233 million in 2014 and £220 million in 2013. As you may recall, 2014 was boosted by the introduction of enhanced CLI scorecards following the decision to augment the sourcing of Credit Bureau data. This boosted receivables' growth by around £30 million in 2014, a

proportion of which was at the expense of 2015. This light blue bar shows receivables growth in 2014, just simply excluding the boost from the enhanced CLI programme. So, the reduction in receivables growth is a lot gentler than the headline numbers suggest. In fact, on similar booking levels you should expect 2016 receivables' growth to show only a relatively modest reduction on 2015. The total receivables, the solid line against the left-hand scale has a profile which reflects consistent new account bookings of between 411 and 433,000 over the last three years, and the current maximum credit line to customers of £3,500.

This chart shows the development of the average customer balance. It has increased to £881 in 2015 as the proportion of new customers in the total population reduces. It's clearly on track towards our medium term guidance of £1,000.

We've guided some moderation in the annualised risk adjusted margin and you can see a reduction from 33.2 to 32.8 percent in 2015. Probably less than you were expecting. Before going into the detail, this chart is the important reminder that Vanquis has delivered consistently high returns at or above its target risk adjusted margin of 30 percent. Two characteristics of the business model underpin this stability. First the low and grow strategy which seeks only to extend further credit to customers who have established a sound track record with us and, secondly, maintaining high levels of credit line utilisation which controls the risk associated with undrawn credit lines which can crystallize losses in a downturn. That's why we manage utilisation down to around about 70 percent. This chart is also a reminder that the business protected its risk adjusted margin at 30 percent during the downturn in 2008 and 2009. So, over the last 12 months the risk adjusted margin has moderated by 0.4 percent from 33.2% to 32.8%. This actually comprises a 0.6 percent reduction due to a decline in the revenue yield on the changes made to the ROP product back in 2013 and the lower interchange income, partly offset by a 0.2 percent benefit from improved delinquency.

So, taking those bits in turn, the 0.6 percent reduction in the revenue yield first, most of you know that during 2013 Vanquis changed the timing of the sale of ROP and also made a number of enhancements to the product's features. These changes have progressively reduced the penetration of the product into the customer base

and increased its cost to Vanquis, thereby moderating, of course, the revenue yield. In addition, interchange income is being adversely impacted by the agreement between Visa and the European Commission to implement a phased reduction in the interchange fees charged by credit card companies to retailers. This programme concluded in December 2015, when domestic transactions came within its scope. The impact on Vanquis Bank was around £3 million in 2015 and it's expected to increase to around £11 million in 2016 as the reduced fees on domestic transactions fully take effect.

Now, impairment, the application of consistent credit standards and the improvement in the UK employment market saw very stable delinquency rates at record lows for the business during 2015. This produced a 1.2 percent reduction in the impairment rate in the year. Over the same period the credit quality of the book has improved and arrears have fallen, reducing the yield from interest and late and over limit fees by about one percent. So, taken together, these explain the net year-on-year benefit of 0.2 percent to the risk adjusted margin from improved delinquency. Looking forwards, based on stable delinquency rates, which we're now experiencing, and after taking into account the full impact of changes made to the ROP product and the changes to interchange fees the risk adjusted margin is expected to moderate to around 32 percent in 2016 and remain above the target level of 30 percent in the medium term.

These are the IFRS 7 disclosures for Vanquis. You can see the profile reflects a stable record of low arrears in the business with 93.3 percent of accounts fully up to date with their contractual payments at the end of 2015 up from 92.1 percent a year earlier. For reference I've set out the impairment policy at the foot of the slide.

Cost growth at 16.2 percent was below the 19.6 percent growth in average receivables, as the business continues to benefit from operational gearing. The cost base in 2015 includes a further uplift of £4 million in the spend on direct mail and marketing activities that have supported the increase in new account bookings in the year, and additional expenditure of approximately £3 million on risk, legal and compliance functions.

Interest costs have increased by just 8.6 percent, significantly lower than the growth in receivables of 19.6 percent, and this reflects the reduction in Vanquis Bank's funding rate from 5.6 percent in 2014 to 5.3 percent in 2015 due to the progressive benefit of taking retail deposits.

Finally, the bottom line, although the risk adjusted margin moderated a little, the benefit from operational gearing has enabled the UK business to deliver an increase in its ROA from 15.5 to 15.8 percent.

So, moving now to CCD. Profits of £105.4 million last year, 1.4 percent up, are consistent with our internal plans and, indeed, the guidance at the investor and analyst day that were held last April. CCD has delivered on its promise to maintain its profits over the last two years, whilst repositioning the Provident home credit business and funding the start-up of Satsuma. The repositioning of home credit is complete and has been extremely well executed, as summarised here.

Now, before going on to talk about the detailed numbers further, a few comments on Satsuma and the glo start-up. 2015 has seen a year-on-year increase on our investment in Satsuma of some £5 million, which fell in the first half of the year. You may recall that it was into the second half of 2014 before we really began to market the product, having spent the first half putting the infrastructure in place and developing the first generation credit tools. We describe our approach to growing Satsuma as measured. What this means is that we have a strong focus on developing the IT infrastructure, management capability and governance and control processes to support the medium term growth of the business. It also means taking the time required to develop the credit tools that provide us with confidence that we're writing business that hits our return thresholds. The development of Satsuma's underwriting saw us exercise greater discrimination over the business we were prepared to accept through the third quarter of last year. And, because we still weren't entirely comfortable with the risk we were on-boarding, we implemented a further tightening ahead of the peak trading period that occurs in November and December. It was the right thing to do at that stage and explains why the fourth quarter saw a pause in customers and receivables growth, which ended the year at 49,000 and £12.1 million respectively. The good news is that there's been a step

change in the credit quality of new business. That really matters, and it matters because the flow of further lending to meet the needs of established good quality customers is a critical driver of future profits. And, the further lending metrics right now are looking encouraging. It's important to remember that we're still at a very early stage, with just the weekly product out there and that the opportunity to develop the product proposition is significant. Peter will talk on that a little later. From a financial perspective, Satsuma's business plan shows that it should make a small contribution to CCD's profits in 2016.

The pilot of CCD's guarantor loans product, glo, has confirmed that there is strong demand for longer, larger loans in what is an under-served area of the non-standard market capable of delivering the group's target returns. Very importantly, the pilot together with extensive market research has defined a proposition that reflects a sustainable customer journey. As a result, glo will proceed from pilot to full roll-out during 2016. Peter will also elaborate on this a little later.

Turning now to customer numbers and receivables. The demand from home credit customers has improved during 2015. Household incomes, and in particular the cost of living for home credit customers, has developed favourably and customer confidence has lifted from those historic lows. Headline year-on-year customer numbers were down by 11.5 percent, however, over half of this reduction relates to the sale to third party debt purchase companies of delinquent low value customer balances residing in home credit's Central Collections Department. The underlying reduction is around 5 percent, reflecting the tighter credit standards that have been in place for two years now. With the repositioning of the home credit business complete, the rate of shrinkage in the CCD receivables book is moderating and showed a year-on-year decrease of 7.3 percent at December, compared with 18 percent at June and over 20 percent at December 2014. It is significant to observe the credit issued in the home credit business through the fourth quarter of the year was ahead of the fourth quarter of 2014, notwithstanding the contraction in the customer base.

There's been a significant increase in CCD's risk adjusted margin since 2013, and you can see that on this chart here, a very significant development. The revenue

yield has risen due to a shift, principally in the mix towards shorter term lower risk lending, which is consistent with the tightening of credit standards in September 2013. The yield increased by a further 4.8 percent during 2015. There's also been a further marked improvement in the impairment ratio from 29.7 percent to 21.4 percent during the course of 2015. This reflects two factors: first, of course, tighter credit standards, which have driven up the quality of the book and, secondly, substantial benefits from the roll out of standardized arrears and collection processes supported by technology. These measures have created the virtuous circle that we've talked about before. Tighter credit standards mean better quality customers and this means that agents spend less time on difficult collection visits, chasing arrears and can spend more time looking after good quality customers that in turn reinforces credit quality, which leads to further improvement in collections. It's this cycle that underpins the progressive improvement in the risk adjusted margin over the period of time shown here.

These are the IFRS 7 disclosures consistent with what I've been talking about. You can see, 51.3 percent of accounts are fully up to date, versus 43.9 a year earlier. Again, I've included the unchanged impairment policy at the foot of the slide for your reference.

As highlighted at the interims, the programme to deploy technology throughout the field operation supporting improvement in agent and branch productivity and implement market leading compliance was completed well ahead of schedule in 2015. As a result, there's a headcount reduction of 500 in the middle of the year, comprising both field managers and the remaining field administration workforce. The headcount reduction secured annualised savings of approximately £14 million with no impact on customer service levels. The related exceptional restructuring costs of £11.8 million was taken in the first half. Overall, CCD costs for the year were £2.5 million higher than 2014. It's best to look at the first and the second halves of the year separately. In the first half we saw a £10.3 million year-on-year increase in costs, which included a step-up in the investment in Satsuma of approximately £5 million and an increase of some £3 million in regulatory and compliance costs. The second half of the year saw a £7.8 million reduction in costs, which benefited from

the mid-year cost reductions I've just referred to. The underlying investment in Satsuma in the second half of 2015 was similar to the second half of 2014.

Interest costs are 20.1 percent lower than last year, versus a reduction of 16.5 percent in average receivables. This is due to reduction of the funding rate for the business from 7.1 percent to 6.8 percent, reflecting a lower margin on the group syndicate facility following the extension in January 2015 and the 5 and one-eighth coupon attached to the retail bond issued in April last year. The success in delivering on its strategy can be seen in the significant increase in CCD's return on assets from 18.1 percent at the start of the year to 21.2 percent for the year.

Now Moneybarn. We're very pleased with the performance of Moneybarn since purchasing the business in August 2014. 2015 profits were £21.3 million, up 42 percent over the pro-forma 2014 results. New business volumes have been very strong since we acquired the business and that's set out here. You're well aware that Moneybarn was funding constrained in its previous ownership, so access to the group's funding lines had a significant impact. The funding constraints also meant that Moneybarn was restricting its product proposition, specifically by restricting lending up to the trade value of the vehicle and restricting its minimum lend to £5,000 which put it at a competitive disadvantage. Moneybarn extended the product offering to lend up to retail value shortly after the acquisition and reduced the minimum lend to £4,000 in early 2015. Importantly, access to funding and a more competitive offering has reinforced Moneybarn's primacy across its broker network, and this combination of factors has produced an overall 69 percent growth in new volumes in 2015.

This chart breaks down the Moneybarn growth by a quarter. You can see the impact of Moneybarn's funding constraint from the muted growth in the third quarter of 2014. Access to PFG's funding lines lifted growth in the last quarter of 2014 to around 60 percent, and the first three quarters of 2015 showed an average year-on-year growth of 89 percent. As expected, the growth in the final quarter of 2015 moderated to 28 percent, reflecting the comparative period being the first under the group's ownership and is more representative of the underlying growth rate at this time.

Moneybarn continues to explore other opportunities to develop its product offering. The first half of 2015 saw the start of marketing programmes to raise awareness of its car finance proposition to Vanquis customers. The programme has demonstrated that an opportunity for incremental sales exists. The full benefit of the cross sale opportunity will, of course, take some time to develop as awareness continues to build and Vanquis Bank customers look to replace their existing vehicles. In the second half of the year Moneybarn began to test the opportunity to provide financing for used light commercial vehicles through its existing broker network and the initial results have been encouraging and this line of business will be developed further during 2016.

Customer numbers ended the year at 31,000 up from 22,000 at December 2014, representing growth of just over 40 percent. This was above our previous guidance of 30,000 customers by the end of the year. Year-on-year growth of nearly 45 percent saw December 2015 receivables at almost £220 million, with the business well on track to meet the medium-term receivables guidance of between £300 and £400 million. Average new loan sizes during 2015 have remained broadly comparable to prior years at around £9,000. Default rates have been pretty stable during 2015, which has allowed the business to deliver a risk adjusted margin of 24.3 percent; little changed from the previous year.

As I previously flagged, 2015 has been a year of investment at Moneybarn, principally in additional headcount to support growth to meet the higher regulatory standards under the FCA regime and to bring governance processes into line with those of the rest of the group. Headcount has increased from 90 at the date of acquisition to around about 150 at the end of 2015. What this means is that the cost base of the business has grown by just over 40 percent in line with average receivables growth of 41 percent.

Interest costs have grown by almost 32 percent during 2015, lower than the average receivables growth of 41 percent. This reflects the retention of profits within the business since acquisition as the capital base is built towards the group's target gearing ratio of three and a half times.

Moneybarn is a high returns business, as demonstrated by the annualized ROA of 12.9 percent in 2015, consistent with that delivered in 2014.

Turning now to the balance sheet. Goodwill is unchanged. That arose on the acquisition of Moneybarn. Acquisition intangibles were attributed to Moneybarn's broker relationships at the date of acquisition at £75 million, and that's being amortized over a ten year period or at £7.5 million per annum. I've already covered the component parts of the change in the receivables base.

The Pension Asset. The Pension scheme showed an accounting surplus of £62.3 million at the end of the year, having been subject to its formal tri-annual valuation during 2015.

The balance sheet reflects what is labelled as "available for sale investment" of £17.5 million for the first time and this represents Vanquis Bank's interest in Visa Europe Limited, which was previously valued at just 10 Euros. You may well have heard that last November Visa Inc announced the proposed acquisition of Visa Europe to create a single global payments business under the Visa brand. As a member and shareholder of Visa Europe, Vanquis Bank will receive upfront consideration in the form of cash and preferred stock on completion of the transaction valued at £17.5 million. The preferred stock is converted into Class A common stock and, Visa Inc at a future date, subject to certain conditions. The available for sale investment has been valued at fair value with the corresponding credit taken directly to equity through an available for sale reserve. Subject to regulatory approvals, the transaction is expected to complete in the second quarter of 2016 and, at that point, the gain that's been taken to equity will be recycled through the income statement as an exceptional item.

Vanquis Bank's liquid asset buffer, including other liquid resources held in satisfaction of our ILA requirements, under the PRA's liquidity regime, amounted to £134 million at December. The amount held is based on undrawn credit lines, which increase in line with receivables, and the maturity profile of retail deposits.

I'll return shortly to talk about the profile of debt and deposits. Net assets rose by over £90 million in 2015 to £707.7 million at the year end, and that includes the benefit of valuing the Visa Europe shares, of course.

The gearing ratio, measured on a banking basis, is reduced to 2.2 times which is the subject of this slide. Here you see the stability of the group's gearing ratio, which is the result, of course, of strong capital generation which has funded the annual dividend and, of course, funding the growth whilst operating within our target gearing ratio of three and a half times. The step down in gearing from around three times in 2013 to 2.2 times now reflects two factors. First of all, the acquisition of Moneybarn, which was satisfied almost wholly through an equity issue of £120 million in order to preserve the group's regulatory capital and, secondly, the shrinkage of the home credit receivables book, which has resulted in the release of approximately £40 million of capital over the last two years.

The funding base. Bank funding represents the group syndicated bank facility with its core relationship banks which was extended in January 2015 at a lower cost with a set of covenants which were entirely consistent with what had previously existed. The next leg of funding is a broad heading covering medium term bonds and private placements, totalling £697 million. The group successfully issued its fifth retail bond in April last year, raising £60 million and a coupon of five and one-eighth percent over a duration of eight and a half years. Of course, the retail bond market continues to be an excellent source of funds for PFG. The third leg of funding is retail deposits through Vanquis Bank. This provided £731 million of fixed term fixed rate funding as at the end of the year. The average period to maturity of retail deposits of 2.3 years is in our target range and reflects the issue of one to five year fixed term products. The blended rate and the cost of 3.1 percent, currently being enjoyed by Vanquis, continues to benefit from the very low rates being offered in the retail deposit market. So, the group's total committed facilities at the end of the year were just over £1.8 billion and headroom on those facilities was £222 million. That of course doesn't take account of the additional retail deposit capacity available to Vanquis. At December 2015 that additional capacity amounted to £283 million. Committed debt headroom plus retail deposit capacity totals £505 million, which together with the capacity of Vanquis to take further deposits as its receivable grows is sufficient to meet

contractual debt maturities and fund the expected growth in the business until May 2018, which is when the bank facility is due to mature.

Here is the profile of the debt. Maturities over the next two years are relatively light and a step-down of £10 million in January 2016 and January 2017 are the first instalments on the M&G term loan, whilst the £50 million step-down in September 2016 represents the maturity of the 2011 retail bond. As you can see, the most significant maturity is the expiry of the syndicated bank facility in May 2018. The average period to maturity of the group's bank and debt facilities is 2.8 years.

Most of you are very familiar with the alignment between our dividend policy, gearing and the group's growth plans. Our dividend policy is to maintain cover of at least 1.25 times, and our gearing target is around three and a half times against the covenant of five. Based on 2015 profits, the retention of profits consistent with our current dividend cover leveraged three and a half times supports receivables growth of approximately £275 million. That growth rate accommodates the medium term growth plans of the group.

Capital Generation. The group generated capital of £189.9 million in 2015. After funding its own growth, the capital generation of Vanquis grew strongly from just over £70 million in 2014 to £143.5 million in 2015, reflecting the strong growth in UK profits and elimination of the Polish start-up losses, and a £20 million reduction in the rate of investment required to support receivables growth. For your information, Vanquis has recently paid a £69 million dividend to Provident Financial, which means that business has now remitted £250 million in dividends since 2011. CCD generated capital of £65 million versus £115 million in 2014. The lower capital generation reflects a number of factors which are listed under the second bullet here and should be relatively self-explanatory. Moneybarn. The good news is it's funded its own rapid growth in 2015 and is now set to become increasingly capital generative. Over all, capital generated comfortably covers the cost of the dividend with a surplus of £16.3 million retained for the year. And, on that note, I will hand you back to Peter.

Peter Crook

Thanks, Andrew. We're getting into the home straight now, so a few remarks firstly on regulation. There are two main things going on here.

One is, obviously, the FCA have taken on responsibility for consumer credit and consumer credit businesses are going through an authorisation process. So, in terms of our businesses, CCD and Moneybarn, put their paperwork in, in May 2015. Vanquis Bank is obviously already a bank but, again, needs to adopt the appropriate consumer credit permission. So, all our businesses are still work in progress. We continue to have a constructive dialogue with the FCA responding to questions and information requests, etc., whilst those applications are considered. It's fair to say the FCA are dealing with authorisations on a sort of risk based approach, so it'll be no surprise that the businesses that put in their paperwork first or were required to put in their paperwork first were the Payday lenders and the fee paying debt management companies and, obviously, we are starting to see some of those businesses now come through in terms of full authorisation. We're still somewhere in a long list of about 45,000 businesses whose applicants are being considered. So, that's where we are in terms of authorisation.

Obviously, the other big thing going on has been the FCA's credit card market review. So, just to be clear about what this is, the FCA have competition objectives as well as consumer protection objectives. They're responsible for the effective workings and integrity of markets. So, when they look at something like the credit card market they're very much looking at the structure, operation and the bases of competition in the markets. Is the way it works producing good outcomes for customers? They're not looking at the conduct of individual firms, they're really looking at how the market itself operates. They've now published some findings towards the end of last year, which concludes that competition is working fairly well and any remedies, which could always be in the mix with these things, such as price controls or changes to minimum repayments, are not being contemplated. But there are some remedies. To a degree there's a level of some credit card indebtedness in certain parts of the market. Not particularly in our part of the market, to be honest, where the average balance on a Vanquis card's only £881, but you can see, there are some consumers out there who've loaded up with quite a lot of credit card debts. So, the sort of things the regulators are considering are things like increased

disclosures to promote faster repayments. If you make the minimum payments every month it can take quite a long time to pay off a credit card balance and, indeed, possibly requiring firms to offer different levels of payment by direct debit. Today, most credit card issuers allow you to make the minimum payment by direct debit or pay in full by direct debit, but not any other points in between. There may be a requirement for customers to opt in to credit line increases or over limit transactions. Now, on line increases, as you know, we operate a low and grow strategy. We start customers with very low credit lines. I think the vast majority of our customers would be delighted to opt in to receive a line increase in due course. Most of the complaints we receive around credit lines are about not giving out lines rather than offering unsolicited ones. So, I think, given the nature of our customers, we're not particularly concerned about the need to opt in, should that arise, and there may be some further measures around forbearance as well. But, in the round, we're pretty happy that these potential remedies don't have a material impact on Vanquis. Obviously, we need to wait and see the final report, which is due out fairly shortly actually. But, for now, it looks like the credit card market review is sort of focussed on some other issues.

So, let's move on and talk about the development of some of our businesses. Firstly, on Vanquis, Andrew's already described our progress towards the medium term potential of £1.8 billion or so of receivables. So, just to make a few points here. Firstly, you know how we've guided on Vanquis; we have put out guidance based on programmes and activities that are proven and being executed in the marketplace. There is no value pinned to new things and unproven things, or things we've not yet thought of. So, to the extent to which the business can create additional distribution, additional presentation and packaging and branding of the credit card product. That will all be additive to the guidance that we provided. But, for now, we're happy with the 1.8 million customers and £1,000 average balance. In due course I fully expect to be able to guide you to a bigger business, so that will require a little bit more progress on some of the new things that we're doing. Chris has joined the business recently as a new MD, and Chris' brief, besides building a larger credit card business, is to examine other products and services that we can provide to our Vanquis customers. What we do know today is that we're originating very strong volumes of new business but we have an online relationship with our customers. We

have 1.00 products per customer to be precise. So, we have been spending some time looking at the financial services wallet for our Vanquis customers, what are the products and services they consume, what consideration they give to taking other products and services potentially from Vanquis, and if they did so what would be important in terms of the features and benefits they'd look for. There are some interesting opportunities, both in terms of credit products. Obviously again, as Andrew described, the lowest hanging fruit are things we manufacture ourselves. So, the ability to finance the Vanquis customer's vehicle next time they're in the market for a new car and perhaps displace their existing provider is obviously attractive. But, there may be other non-credit products that we offer in due course as well. So, lots of exciting developments ahead for Vanquis. Chris has a very full agenda and I hope we make really good progress on that during the course of this year.

Moving onto Satsuma. Again, as you heard from Andrew, we've adopted a pretty 'steady as she goes' approach through 2015, building up the platform. I'm pleased to say, in the second half of 2015, Luke Enock joined us as our new Director of Online. Luke is sat there at the back. Luke has now got overall responsibility for Satsuma, reporting into Mark Stevens who runs the Consumer Credit Division. We did a lot during 2015, in particular tested multiple channels to market - TV, social media, digital media, B2B, i.e. brokers is an important channel for this business as well. Brand awareness on Satsuma is now sat at the third highest in the alternative lending market. There's only Wonga and Amigo who have slightly higher awareness levels than Satsuma, so really good progress in terms of the brand. Loan volumes are up 150 percent in 2015 on 2014. But, progress here is not a sort of straight linear line heading northeast and every business has its ups and downs and we need to constantly manage quantity and quality. You know the way we do things, the quality of credit is the foremost objective and the volume is something that follows on from getting the quality right. So we did reset the credit in October, a significant tightening of underwriting and that impacted the growth in the fourth quarter. But, I'm very pleased to say, there has been a step change in the credit quality of what's being written. So, if I look at the very latest vintages originated post that tightening of credit, they're performing really well. We've also got a very good flow of further lending established here. So, if you think about the economics of Satsuma they aren't dissimilar to home credit. You're really going to grow the scale in this business and

grow its profitability by repeat lending to existing customers, to proven credits who demonstrated they can repay well and obviously they're good for slightly larger tickets and loans with a slightly longer duration. We've got a very good flow of further lending now coming through. Just to give you a bit of colour, loan volumes in January 2016 were up over 50 percent on January 2015. So, post the tightening of credit we're making good progress on volume. We've been writing north of a thousand further loans a week through the month of February, so against our volume KPIs the start to the year is very strong and the step change in credit quality is beginning to come through. There's quite a bit more we need to get done though this year, so a monthly instalment product will be introduced. We're talking here about repayments, so Satsuma's products today have weekly instalments repaid by the customer. There will be a monthly repaid instalment product coming some time during the course of this year. Obviously, that opportunity I alluded to earlier in terms of slightly longer, larger loans, is a space we very much want to build into from Satsuma. So, the flow of further lending is very key to getting into that slightly bigger ticket opportunity.

Moving onto glo. This is another means of addressing that slightly bigger ticket opportunity, obviously with a construct here where there's recourse to a guarantor. We trialled glo on a modest level through the course of 2015 and we've learnt a lot about the guarantor product on the marketplace. It's also fair to say we've done a lot of work looking at the market and some of the other players in the market and we now have in our mind's eye the optimum product proposition and the optimum customer journey to address this opportunity. There's a number of key features within this market. The customer receives the same high level of personal service as elsewhere in the group, so this is a loan product which is underwritten partly with science but partly through a fairly thorough telephone interview, which covers both the borrower and the guarantor, as you'd expect. There's a customer centric approach to forbearance. It's very interesting, the FCA has published some fresh guidance on guarantor loan collection processes, literally in the last few days. We are very well set up to follow those new sets of guidance. It will mean some change for some other players in the marketplace. We intend to proceed to a full roll out of glo during 2016, but there is some work to do to put that optimum product proposition and customer journey onto the glo platform. I think it'll be the second half

of the year before pushing on with this a little bit harder as we do have some work to do. That work will be done with Michael Hutko and team. So, I've asked Michael to lead the development of glo alongside his responsibilities as Commercial Director for Vanquis. If we look at the sort of customers we're lending to and the amounts being lent in glo, and the credit tools and capabilities that we have, then locating the business so it can use the resource in credit marketing collections that Vanquis has is the best place to, in our view, develop the business. So Michael will be leading that business. We need to go through some regulatory approvals in order to switch the business from its current home in CCD. 2016 will be a year of modest investment. Think sort of mid-single digit millions in terms of what will go into this business, mostly in the second half, which should position us then to break even in 2017.

So, to summarise how we see the development of our businesses, to save you adding up all these different bits of guidance on receivables we just put a headline on here. So we now see the medium potential for Provident Financial is to build up the group balance sheet, the group receivables, up to around £3 billion, generating a return on assets of around 15 percent. We can go through the various component parts there which you're probably familiar with already. We've covered Vanquis. Provident home credit is around £500 million of receivables, give or take. Obviously that's a seasonal business which goes up and down. Then, across the online or unsecured formats, so Satsuma and other unsecured longer larger loans or guarantor loans, £300 million plus of receivables fairly comfortably there. Obviously, in due course, we'll be able to probably break that out and give a bit more guidance on guarantor, but for now certainly £300 million plus is a good number, and for Moneybarn then £300 to £400m. So, it gets you to around £3 billion or so as the group's medium term potential with a very healthy return on assets.

Let's wrap up. So, just to go to the Outlook statement. What we've said today is Vanquis continues to deliver strong growth and returns. It's firmly on track to get to that medium term potential of £1.8 billion or so of receivables. In CCD we've completed the journey to reposition the home credit business. It's now delivering strong returns and also with a bit of year-on-year growth in credit issued coming through. The medium term potential for online loans is substantial. Satsuma is on

track to make a small contribution to CCD's profits in 2016. The plan to roll out glo during 2016 is now in place and expect to see a bit more momentum on that in the second half of the year. Finally, on Moneybarn, obviously a very strong uplift in new business volumes, supported by the primacy that we have with most of our brokers, lined up with further product development opportunities which again leaves Moneybarn very well positioned to deliver strong medium term growth at the right rates of return.

Just to flag, in 2016 there's a bit of headwind. We have to bear an extra 8 percent corporation tax on Vanquis Bank's profits following the Chancellor's announcement last summer, so that's worth bearing that in mind. Obviously, we're fully funded to May 2018. So, in terms of the quote on the start to the year, we said the group's made a good start to 2016, Vanquis and Moneybarn continued to trade strongly and the home credit business, where it's really all about collections in January/February, has enjoyed a very satisfactory collections performance. That concludes the presentation and we're now going to go into questions.

Gary Greenwood

Hello, I'm Gary Greenwood at Shore Capital. I've just got three short ones. If you could just quantify the absolute investment in Satsuma in 2015, so we can get a feel for what the swing in profits would be to 2016 if you break even? On glo, is that going to continue to be reported in CCD or will you move it to Vanquis now, given the change of where that's being effectively managed from? Lastly, on the dividend, you are very clear on the long term policy. This year or last year the dividend grew very much in line with earnings. If you get that headwind to earnings this year from the tax increase should we just think about the dividend growing in line with the earnings again or do you try and smooth through lumpy things like that?

Peter Crook

I think those are all questions for the CFO.

Andrew Fisher

Okay. Satsuma is very much embedded within CCD so it shares an awful lot of back office, all the compliance, the risk structures, etc., so we'll talk about investment

rather than a separate P&L account, but the answer to your question is that investment was around about the £15 million mark, so £9/£10 million in 2014 stacking up to something closer to £15 million, an increment of five year-on-year. So, in terms of the delta to the profits going into 2016, that's the number. The second question was where will we report it? Well, it will transition to Vanquis during the course of the year. Just to be clear, at the moment there are some regulatory approvals required when we move activities from one place to another, so there is time required to effect that transfer from a regulatory point of view. On the dividend, it's a quite difficult question to answer. It depends on how things look at the end of next year, so how long will the eight percent tax last. You're well aware we've got cover and we've been running with a dividend cover of 1.35 times versus a minimum of 1.25. We retained a bit of surplus capital this year. But, that eight percent, if you saw it as being a permanent feature of the business, ongoing as a result of the Chancellor's direction, then clearly we need to factor it into our medium term thinking around the dividend. But the precise status of that eight percent isn't entirely clear and the visibility on that will evolve and we'll take a decision on the dividend at a future point in time.

Gary Greenwood

Okay. Thank you.

Rae Maile

Rae Maile, Cenkos. Coming back to the point about Vanquis and the competition you're seeing, are you actually seeing any genuinely new entrants or is it more noise from existing players, and are you still confident that the major high street banks really can't make a go in this kind of market?

Peter Crook

Yes, we've seen no new entrants in the non-standard credit card market post-crash, so the competitive landscape is completely unchanged. Now, we're making great rates of returns but we're not complacent, we may see a bit more competition. I think the fact that you see no new entrants says to me it's pretty difficult to get into this and to make it work. Running a non-standard card business is a real niche and very difficult for the high street banks to do. I used to run the largest high street bank

credit card business and I can tell you, Vanquis is a fundamentally different business in terms of credit, underwriting, credit line management and collections than the big high street guys. Obviously, like a lot of high street banks they are fairly constrained in terms of what they're willing to price for because they've got bigger brand and reputational considerations than a specialist lender like us has. So, the market's pretty steady from our perspective. As I said in my presentation, the impact of competition is more about bidding up the cost at the margin of the last new accounts through the door. You are seeing some changes in the distribution channels being used, so the competition is using a bit more TV, social media, online, etc., as are we as well. Vanquis is on TV in February. Part of the reason for that is the electoral roll refresh changes have resulted in fewer new names coming through, so everybody who's in the direct mail business is starting to see fewer names come through the electoral roll. So that's perhaps prompted some competitors to seek out different forms of distribution which is perhaps a bit more visible. But, underlying that, we don't see any real change in the nature of competition. If you look at the churn slide that Andrew put up it's absolutely rock steady. We're losing less than five percent of our customers a year to voluntary account closure, and that's unchanged for a long period of time.

Gurjit Kambo

Good morning. I'm Gurjit Kambo from J P Morgan. In terms of Satsuma the online market is relatively competitive, how are you differentiating Satsuma and how is the brand recognition improving?

Peter Crook

Yes, the market is competitive. Obviously, the product proposition in Satsuma is differentiated so, if we look out there there's still a lot of very short term one time payday loan products out there. There isn't that much instalment loan product out there online. There's very little revolving line of credit online, which is something that we will address in due course. The Satsuma proposition has no extra hidden fees or charges, late fees in particular, it's based on the same sort of pricing construct as home credit. So, we think the product proposition plays out very well and it's very much true to the Provident DNA in terms of what we've been known for in the home collected business for a long period of time. Brand awareness is important but it's fair

to say we have a number of other opportunities open to us. We have the B2B channel up and running, so we're taking leads from league generators and brokers. We've also got a very large number of declines in the Vanquis Bank business, so to originate our 433,000 new accounts we actually processed about 1.7 million applications. Now, some of those applications are not good for any further credit but, undoubtedly, there are some of them who are being turned down because they're not good enough for an open-ended revolving credit relationship with a line of £1,000 but they might well be good for a loan of a few hundred pounds over three or six months. So again, we've got some differentiation in the distribution that's available to us by virtue of Satsuma being part of the wider family and there's a lot of leads we can feed it that will come for free. Finally on Satsuma, there is now a down-flow of declines from Satsuma into home collected credit, so if you're in an online loans business you know that a lot of the customers who are declined are ones you just can't ID properly. You know, maybe their name or address isn't quite spelt right or there's multiple names at the credit bureau in that location, or maybe they've just moved house and the credit bureau hasn't kept up with all of that. Most online lenders can't address those customers but we can because we can pass them down to Andy Parkinson in the home collected credit business, so you can send somebody to come and call at their home and check their ID. There's a very nice opportunity actually for home collected, potentially, to live off some of the lead Satsuma accounts there. So, I think there's quite a bit of differentiation to our offer.

Gurjit Kambo
Thank you.

Portia Patel
I'm Portia Patel from RBC. In terms of the Vanquis impairments, which have been trending continuously lower, should we expect them to continue to go lower or have we reached the trough there? You touched on this briefly in terms of additional business development in Vanquis and I was just wondering if you could provide some more colour on the additional distribution and product propositions.

Peter Crook

Well, on the impairment point, no, we don't expect them to trend a lot lower. I mean, if you look at the IFRS 7 disclosures Vanquis is starting to look like a prime credit card issuer at 93 percent plus the book up to date. I think we've had the benefit from the Macro, and the unemployment situation is reasonably stable and I'm not sure we're expecting unemployment to fall a lot further. So, I think the outlook here is for reasonably stable impairments. Obviously, a bit of further moderation of the risk adjusted margin, given what's happening on the revenue line. In terms of further developments in the Vanquis business, in building a bigger credit card business, we're looking at additional distribution, including things such as the face-to-face channel. So, we are offering our products face-to-face in locations where our customers travel or where they have footfall. It's something we can do uniquely because we actually complete the sale of our products through what's called the welcome call. So, for every customer who applies to us, all those who get through the scorecard actually have a call with us. We go through and verify all their details, we have some further questions and we can check that the customer understands what the deal is that they're getting. That's something unique to Vanquis and we've done that right from the outset. The face-to-face channel, in effect, can generate leads which we can then qualify and properly execute on through our welcome call. So, face-to-face is interesting. We've hired a new business development team, so we're looking at further co-brands and partnerships. We have one or two already but, clearly, working with retailers or other organisations who serve the profile of customer that we're focussed on could be a further route to more volume. We're potentially in a position whereby we can buy some smaller tickets, written off debts from other lenders, and turn them into good credit card customers. If you think about what we do, we issue credit cards to people who've had credit problems in the past but are over them. So, we could find people just as they're getting over their credit problems and we don't need to hunt for them on the internet or through direct mail. We have started buying a little bit of charged off debt into Vanquis where it fits our profile. In terms of products and proposition, we work with multiple brands already, so there may be further packaging and presentation of the product in due course. Then obviously, beyond card products, about half our Vanquis customers have an instalment loan. It's from somebody else, it's not from us because we haven't offered any. A large number of our Vanquis customers run a car, typically on finance, again from somebody else, because we haven't offered it. So, certainly potential for more

credit products. Almost all our Vanquis customers buy insurance products and typically they're insuring contents in a rented home, possibly a vehicle, possibly a pet or gadgets or travel insurance and those sort of things. Those resonate quite strongly when we've tested how our customers think about those. We're not going to start manufacturing insurance, we don't have an insurance company in the group, but we could very much source products and distribute it for commission. So that's the sort of thinking that's going on. Chris is obviously new in the business and will be getting together his own thoughts around the priorities and the opportunities over the course of this year. Any more questions? No? Well, let's conclude things. Thank you very much for attending, ladies and gentlemen. Thank you.

Tel: 0800 0854418
+44 (0)1580 720923

www.take1.tv

PFG | Provident Financial Group