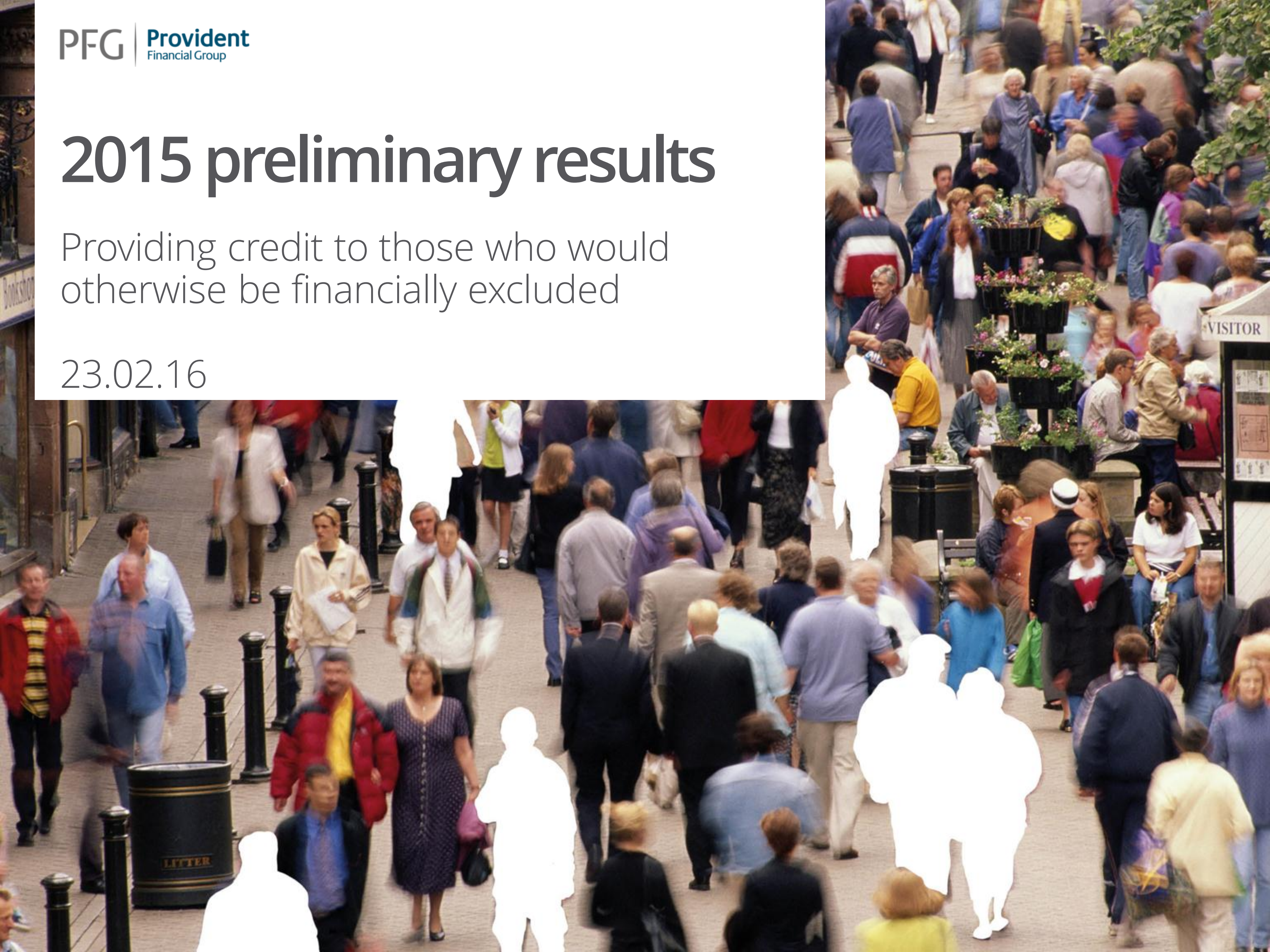
PFG | Provident Financial Group

2015 preliminary results

Providing credit to those who would otherwise be financially excluded

23.02.16



Today's presentation

1.	Highlights and business overview	Peter Crook
2.	Financial review	Andrew Fisher
3.	Regulation, business development and outlook	Peter Crook
4.	Questions	

Highlights and business overview

Peter Crook – Chief Executive

Highlights

Strong performance supports a 22.6% dividend increase

- Adjusted profit before tax up 25.0% to £292.9m[1] and adjusted EPS up 22.6% to 162.6p[1]
- Total dividend per share up 22.6% to 120.1p fully supported by capital generation and earnings growth
- Strong growth and financial returns at Vanquis Bank
- Repositioning of Provident home credit completed and business is now delivering year-on-year sales growth
- Continued investment in Satsuma to support development of substantial market opportunity
- glo to proceed to full roll-out during 2016
- Moneybarn performing very well with strong uplift in new business volumes
- Group fully funded through to May 2018

[1] Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2014: £2.5m) and exceptional costs of £11.8m (2014: £7.3m)

Market conditions and business positioning

Vanquis Bank

Market conditions

- Strong demand from developing the underserved, non-standard credit card market
- Consistent flow of applications
- Marketing activity of competitors continues at similar levels
- Continued improvement in UK employment market is assisting delinquency trends

Business positioning

- Unchanged credit standards, supporting record low arrears and above target risk-adjusted margin
- Further investment in customer acquisition programme has seen an increase in the flow of new customers
- Chris Sweeney has recently joined as Managing Director and will lead the next phase of Vanquis Bank's development
- Current trends confirm medium-term target of up to 1.8 million customers

Market conditions and business positioning

CCD

Market conditions

- No discernible change in the competitive landscape in home credit although industry consolidation is materialising
- Household incomes and cost of living have both shown a modest improvement
- Demand from home credit customers has improved and customer confidence has continued to rise from historic lows
- Changing customer preferences and dislocation from payday regulation driving growth in online lending
- Strong demand for larger, longer duration loans from a heavily underserved area of the non-standard market

Business positioning

- Migration of home credit to a smaller, better quality, more cost-efficient business is complete
- Higher margins derived from improvement in quality of book and standardised arrears processes
- Roll-out of field technology and related cost savings delivered in the summer
- Measured approach to growth in Satsuma which will see further significant development in 2016
- glo will proceed to full roll-out during 2016

Market conditions and business positioning

Moneybarn

Market conditions

- Market supply around half the size of 2007
- Market is competitive with around 10 competitors all remaining active
- Growth supported by customer needs, under supply of non-standard finance and value for money product proposition
- Regulation may drive industry consolidation

Business positioning

- Market leadership and primacy reinforced by access to group funding
- Investment in market leading platform and operational capacity to support significant growth potential
- Broadening of product range
- Marketing to Vanquis Bank customer base commenced in the first half and light commercial vehicles proposition launched more recently
- Well on-track to meet guidance of between £300m and £400m receivables in the medium term

Financial review

Andrew Fisher – Finance Director

Group
Results summary

	Year ended 31 December		
	2015 £m	2014 £m	Change %
Vanquis Bank:			
– UK	**185.5**	151.0	22.8
– Poland[1]	**(1.8)**	(10.6)	83.0
Total Vanquis Bank	**183.7**	140.4	30.8
CCD	**105.4**	103.9	1.4
Moneybarn[2]	**21.3**	5.8	267.2
Central costs	**(17.5)**	(15.7)	(11.5)
Adjusted profit before tax[3]	**292.9**	234.4	25.0
Effective tax rate (%)	**20.25**	21.50	
Adjusted earnings per share[3] (pence)	**162.6**	132.6	22.6
Return on assets[4] (%)	**16.1**	15.1	
Total dividend per share (pence)	**120.1**	98.0	22.6

1 Receivables book sold on 1 April 2015 and business now closed

2 Acquired in August 2014

3 Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2014: £2.5m) and exceptional costs of £11.8m (2014: £7.3m)

4 Adjusted profit before interest after tax as a percentage of average receivables

Vanquis Bank – UK

Results

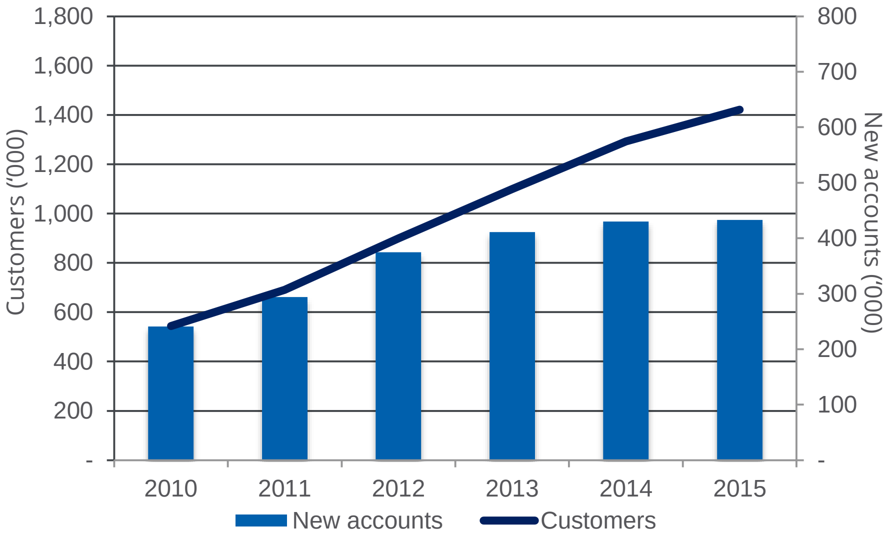
	Year ended 31 December		
	2015 £m	2014 £m	Change %
Customer numbers ('000)	**1,421**	1,293	9.9
Year-end receivables	**1,252.0**	1,093.9	14.5
Average receivables	**1,157.1**	967.2	19.6
Revenue	**538.6**	465.6	15.7
Impairment	**(158.9)**	(144.9)	(9.7)
Revenue less impairment	**379.7**	320.7	18.4
Risk-adjusted margin[1] (%)	**32.8**	33.2	
Costs	**(151.1)**	(130.0)	(16.2)
Interest	**(43.1)**	(39.7)	(8.6)
Profit before tax	**185.5**	151.0	22.8
Return on assets[2] (%)	**15.8**	15.5	

1 Revenue less impairment as a percentage of average receivables

2 Profit before interest after tax as a percentage of average receivables

Vanquis Bank – UK

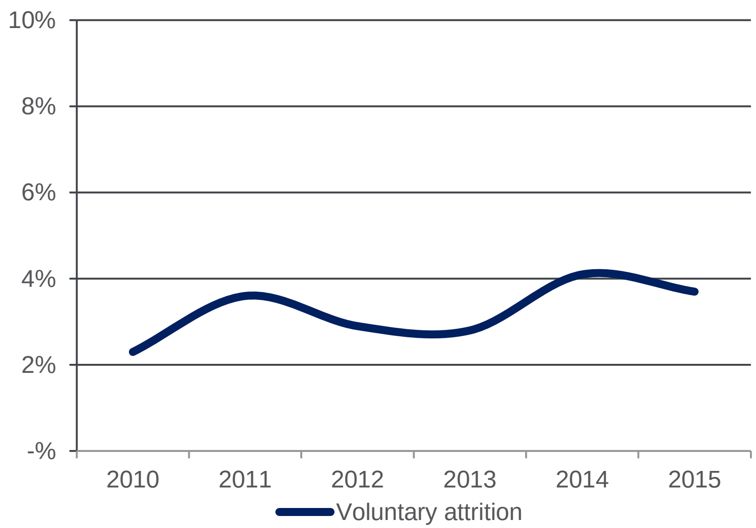
Customer numbers



- Demand for non-standard credit cards remains strong:
  - Further investment in the customer acquisition programme
  - Record new accounts bookings of 433,000 (2014: 430,000) against unchanged underwriting standards
- New business is only booked if it is expected to meet minimum threshold returns
- Growth of 9.9% in customer numbers to 1.42m:
  - Closure of 46,000 inactive accounts in summer 2015 to manage contingent risk
  - Underlying growth of 13.5%
- Firmly on-track to reach medium-term potential of up to 1.8m customers

Vanquis Bank – UK

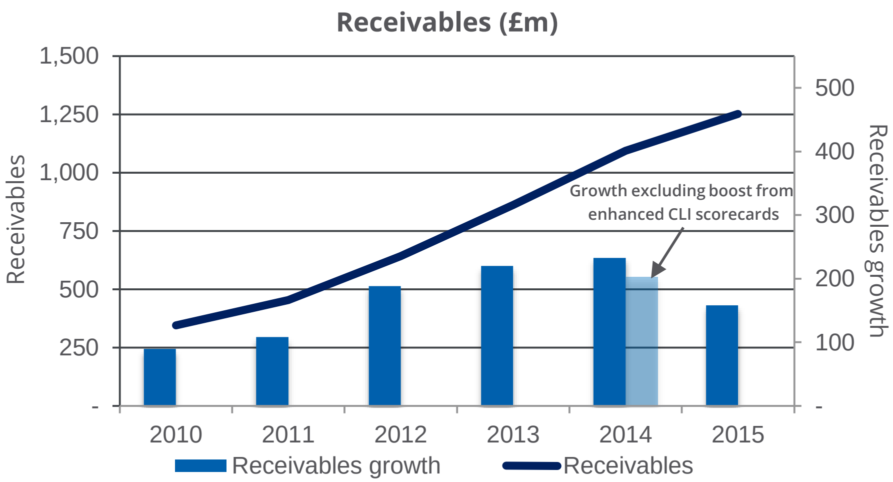
Voluntary attrition

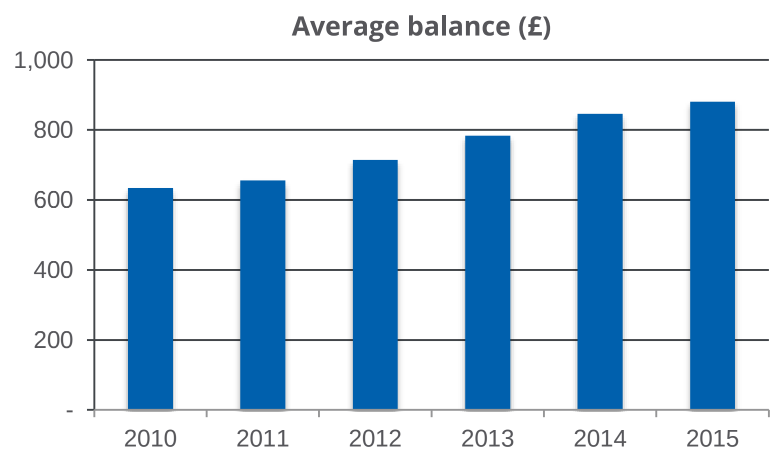


- Voluntary attrition is the rate at which customers choose to pay up and leave Vanquis Bank of their own accord
- Remains stable at low levels consistent with the competitive environment

Vanquis Bank – UK

Receivables

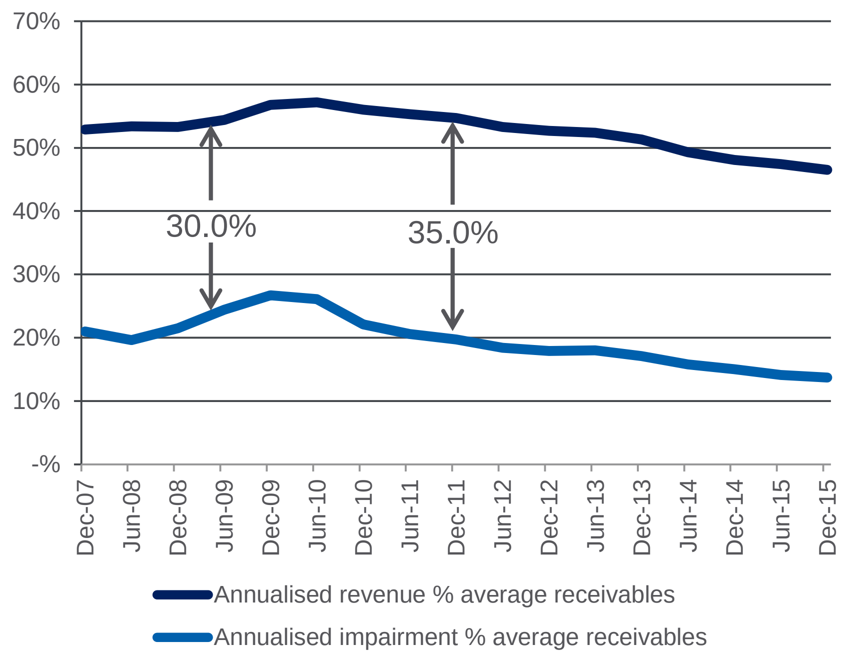




- Receivables growth of 14.5% during 2015:
  - Consistent credit line increase programme to established customers
  - Strong new account bookings
- Reported receivables growth of £158m in 2015 compared with £233m in 2014 and £220m in 2013
- 2014 growth was boosted by c.£30m from introduction of enhanced CLI scorecards
- Growth profile reflects consistent new account bookings over the last 3 years and the current maximum credit limit of £3,500
- Average customer balance increased to £881 in 2015 and progressing towards medium-term guidance of £1,000

Vanquis Bank – UK

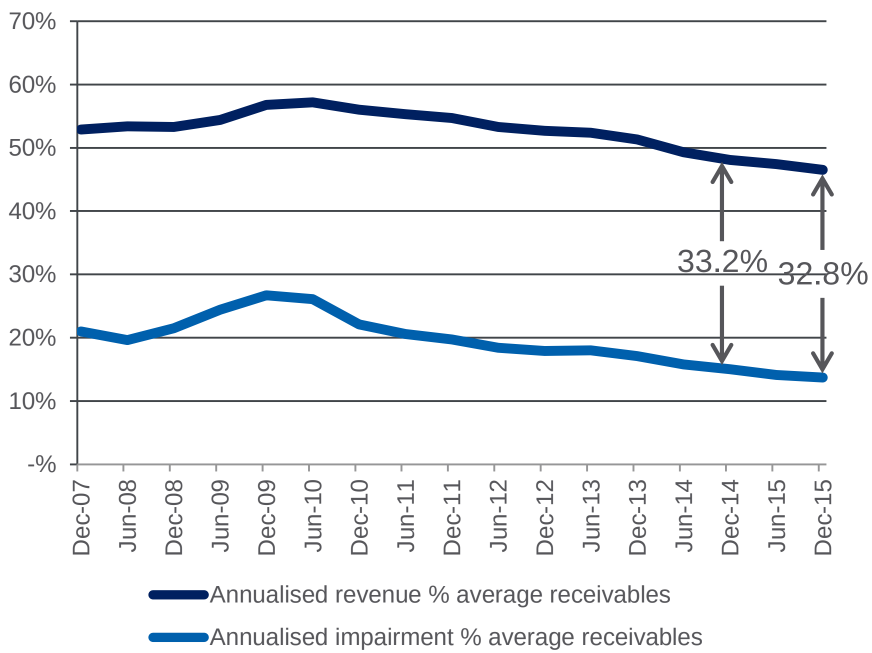
Risk-adjusted margin (RAM)



- Business model supports stability of RAM:
  - ‘Low and grow’ strategy
  - High credit line utilisation significantly reduces volatility of credit losses
- RAM above 30% minimum target:
  - Consistently tight credit standards
  - Stable and now improving UK employment market
- New business is only booked that is expected to meet minimum threshold returns

Vanquis Bank – UK

Risk-adjusted margin (RAM)



- RAM moderated from 33.2% to 32.8% over last 12 months:

Changes to ROP product and reduction in interchange fees	-0.6%
Record low delinquency	+0.2%
RAM	-0.4%

- Expected to remain above 30% target in the medium term:
  - Based on current delinquency levels
  - After allowing for full impact of changes to ROP and interchange fees

Vanquis Bank – UK

Arrears profile

	At 31 December (% receivables)	
	2015 %	2014 %
In order	**93.3**	92.1
In arrears:		
– Past due but not impaired	**-**	-
– Impaired	**6.7**	7.9
Total	**100.0**	100.0

- Improved profile reflects arrears running at record lows for the business

Impairment policy:

- Loans deemed to be impaired as soon as 1 contractual monthly payment is missed
- Provision of over 80% made against accounts that are 90 days in arrears
- Realistic accounting policy applied consistently which is prudent when benchmarked against other card issuers

CCD
Results

	Year ended 31 December		
	2015 £m	2014 £m	Change %
Customer numbers ('000)	**948**	1,071	(11.5)
Year-end receivables	**545.1**	588.1	(7.3)
Average receivables	**499.5**	598.5	(16.5)
Revenue	**517.4**	591.1	(12.5)
Impairment	**(106.6)**	(177.5)	39.9
Revenue less impairment	**410.8**	413.6	(0.7)
Risk-adjusted margin[1] (%)	**82.2**	69.1	
Costs	**(278.3)**	(275.8)	(0.9)
Interest	**(27.1)**	(33.9)	20.1
Adjusted profit before tax[2]	**105.4**	103.9	1.4
Return on assets[3] (%)	**21.2**	18.1	

1 Revenue less impairment as a percentage of average receivables
2 Adjusted profit before tax is stated before exceptional costs of £11.8m (2014: £3.4m)
3 Adjusted profit before interest after tax as a percentage of average receivables

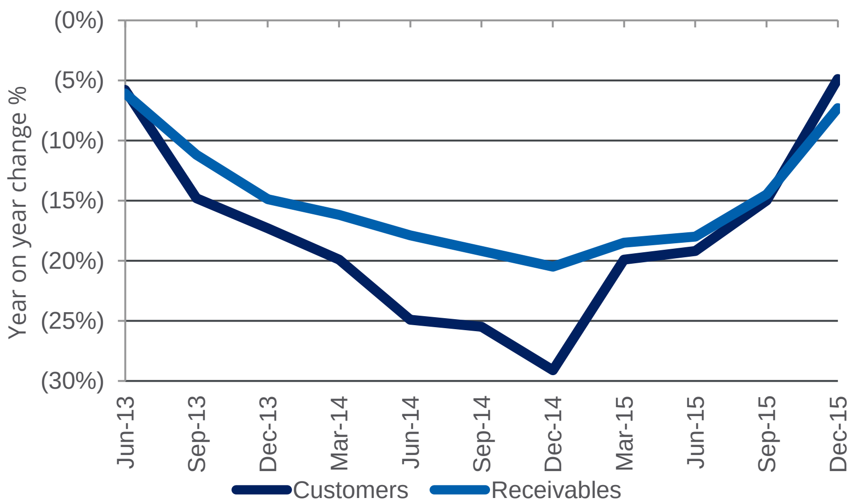
CCD

Results overview

- CCD profits have been maintained over the last two years
- Repositioning of the home credit business is now complete:
  - Tighter underwriting has resulted in a smaller, higher-quality customer base
  - Higher margins from improved quality of the receivables book and successful implementation of standardised arrears and collections processes
  - Reduced cost base from the successful deployment of technology
- Investment in in Satsuma increased by £5m in 2015 (first half) and the business is expected to produce a small contribution to CCD's profits in 2016
- glo will proceed to full roll-out during 2016

CCD

Customers and receivables

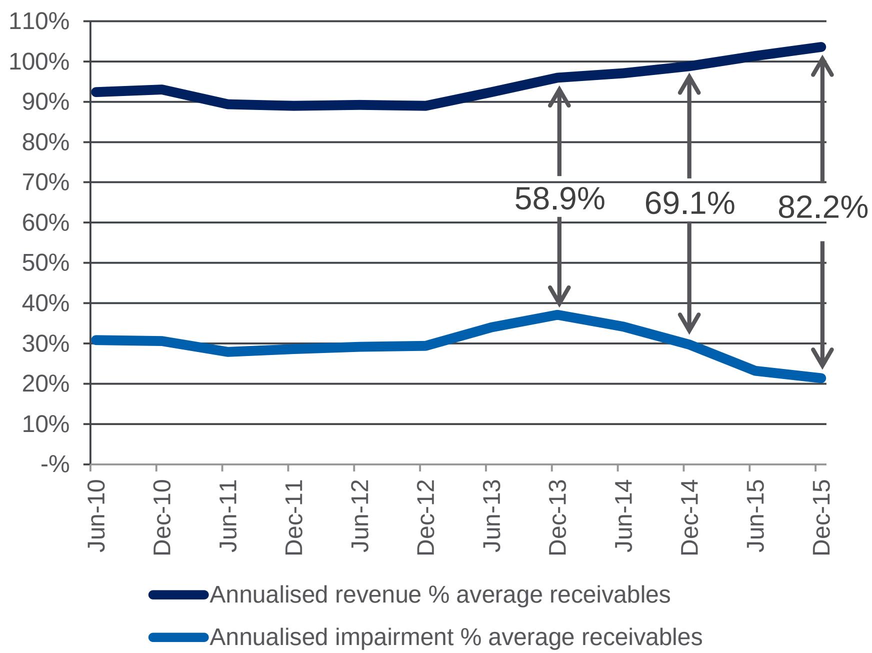


Note - Change in customers numbers at December 2015 excludes the impact of low value delinquent balances sold to third party debt purchasers

- Underlying customer numbers reduced by approximately 5% during 2015:
  - Reflects tighter credit standards which continue to curtail recruitment of marginal customers
  - Reported reduction of 11.5% includes the sale of low value delinquent balances to third party debt purchasers
- Rate of reduction in receivables is now moderating:
  - 7.3% reduction at December 2015 compares with 18.0% at June 2015 and 20.5% at December 2014
- Credit issued through the fourth quarter was ahead of corresponding period in 2014

CCD

Risk-adjusted margin (RAM)



- Significant expansion in RAM since the repositioning of home credit in 2013
- Revenue yield remains robust at 103.6%, up from 98.8% at December 2014:
  - Continued shift in mix towards shorter-term, higher yielding lending
- Marked improvement in impairment ratio from 29.7% to 21.4% at December 2015:
  - Improvement in credit quality
  - Embedding standardised arrears and collections processes
- RAM has expanded from 69.1% at December 2014 to 82.2% at December 2015

CCD

Arrears profile

	At 31 December (% receivables)	
	2015 %	2014 %
In order	**51.3**	43.9
In arrears:		
– Past due but not impaired	**10.7**	11.0
– Impaired	**38.0**	45.1
Total	**100.0**	100.0

- Based on contractual arrears
- Past due but not impaired includes customers who have missed 1 payment in last 12 weeks
- IFRS 7 disclosures consistent with significant improvement in quality of receivables book

Impairment policy:

- Based on last 12 weeks payment performance
- Loans deemed impaired if more than 1 contractual weekly payment missed in previous 12 weeks
- 95%+ provision against loans for which no payment received in last 12 weeks
- Timely, realistic provisioning which has been applied consistently and reinforces the right behaviour amongst agents and employees

Moneybarn

Results

	Year ended 31 December		
	2015 £m	2014[1] £m	Change %
Customer numbers ('000)	**31**	22	40.9
Year-end receivables	**219.6**	151.7	44.8
Average receivables	**190.8**	135.1	41.2
Revenue	**55.3**	38.0	45.5
Impairment	**(8.9)**	(4.7)	(89.4)
Revenue less impairment	**46.4**	33.3	39.3
Risk-adjusted margin[2] (%)	**24.3**	24.6	
Costs	**(15.6)**	(11.1)	(40.5)
Interest	**(9.5)**	(7.2)	(31.9)
Adjusted profit before tax[3]	**21.3**	15.0	42.0
Return on assets[4] (%)	**12.9**	12.9	

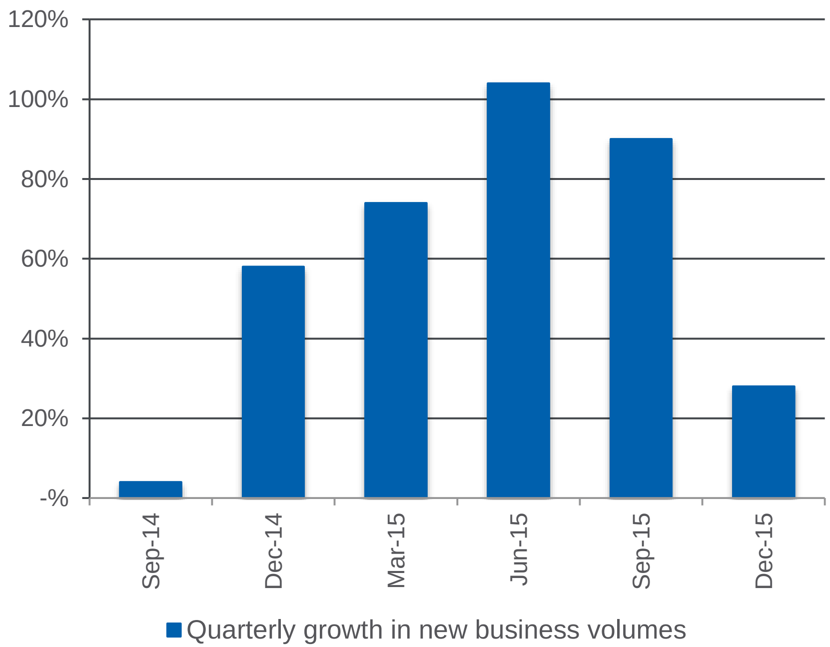
1 Restated to apply the group's lower cost of funding to pre-acquisition results

2 Revenue less impairment as a percentage of average receivables

3 Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2014: £2.5m). Adjusted profit before tax in 2014 is also stated before an exceptional cost of £3.9m in respect of acquisition related expenses

4 Adjusted profit before interest after tax as a percentage of average receivables

Moneybarn
New business volumes

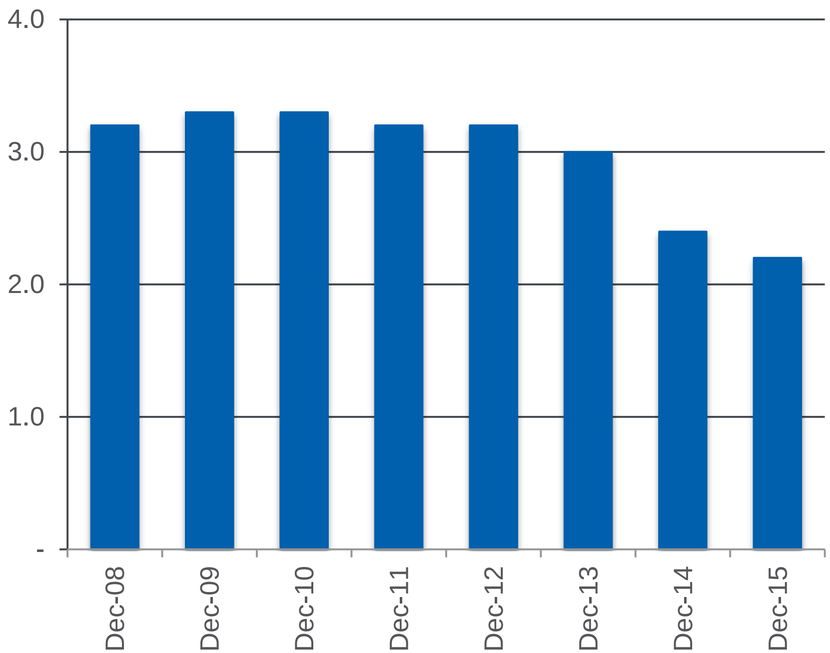


- Moneybarn acquired in August 2014
- Business had been funding constrained prior to acquisition
- Significant step-up in new business volumes post acquisition:
  - Access to the group's funding
  - Product extensions
- 69% growth in new business volumes in 2015
- Fourth quarter growth was 28% higher than comparative period in 2014 which was the first quarter under the group's ownership

Group
Balance sheet

	At 31 December	
	2015 £m	2014 £m
Goodwill	**71.2**	71.2
Acquisition intangibles	**65.0**	72.5
Receivables:		
- Vanquis Bank UK	**1,252.0**	1,093.9
- Vanquis Bank Poland	**-**	15.5
- CCD	**545.1**	588.1
- Moneybarn	**219.6**	151.7
Total receivables	**2,016.7**	1,849.2
Pension asset	**62.3**	56.0
Available for sale investment (Visa shares)	**17.5**	-
Liquid asset buffer	**134.2**	121.4
Bank and bond funding	**(865.2)**	(912.7)
Retail deposits	**(731.0)**	(580.3)
Other	**(63.0)**	(64.3)
Net assets	**707.7**	613.0
Gearing (times)	**2.2**	2.4

Group
Gearing



Gearing calculated as:

$$\frac{\text{(Total borrowings – liquid assets buffer)}}{\text{(Net assets – pension asset, net of deferred tax – fair value of derivatives)}}$$

- Gearing at December 2015 of 2.2 times versus banking covenant of 5.0 times
- Strong capital generation has consistently funded dividends and growth and resulted in modest reduction in gearing
- Reduction in last two years reflects:
  - Equity raised to fund acquisition of Moneybarn in order to preserve regulatory capital levels
  - Capital release from shrinkage of home credit receivables

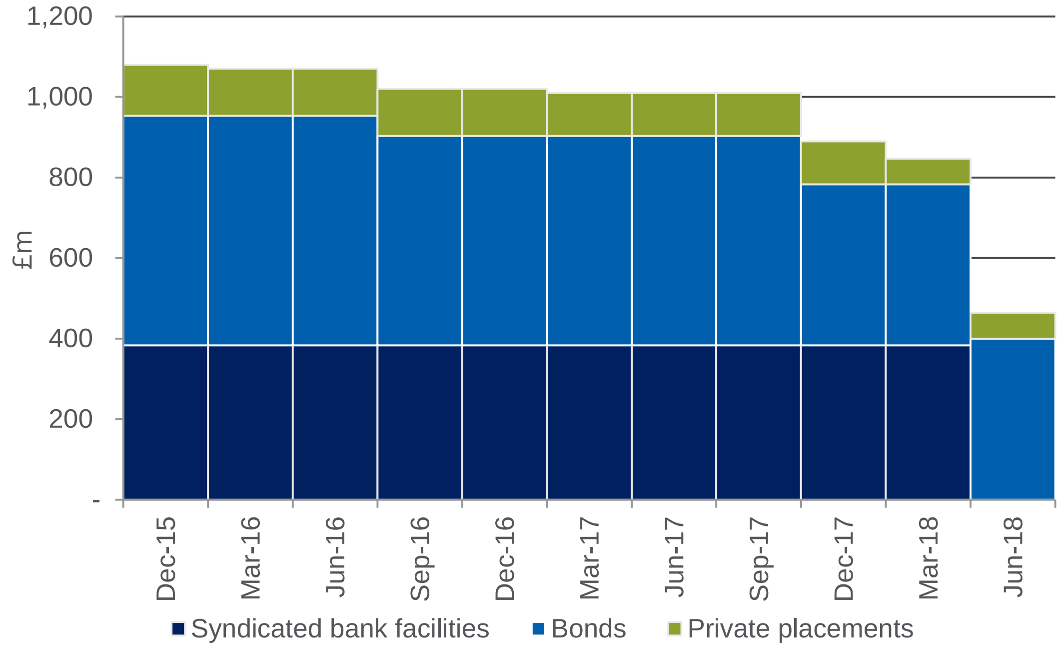
Group

Diversified funding base

	At 31 December 2015 £m
Banks	383
Bonds and private placements:	
- Senior public bond	250
- M&G term loan	100
- Other sterling/euro medium-term notes	27
- Retail bonds	320
Total bonds and private placements	697
Vanquis Bank retail deposits	731
Total committed borrowing facilities	1,811
Borrowings under committed facilities	(1,589)
Headroom on committed borrowing facilities	222
Additional retail deposits capacity[1]	283
Funding capacity	505

1 Represents the Vanquis Bank intercompany loan from Provident Financial plc of £283m at 31 December 2015

Group
Maturity profile of debt



- Low maturities over the next 18 months
- Headroom on committed facilities plus Vanquis Bank retail deposits programme provides funding through to May 2018

Group

Alignment of dividend policy, gearing and growth

High returns businesses

Dividend policy	Gearing	Growth
Cover ≥ 1.25x	≤ 3.5x versus covenant of 5.0x	Supports receivables growth of £275m+

Group

Strong capital generation

	Year ended 31 December	
	2015 £m	2014 £m
Vanquis Bank	**143.5**	70.2
CCD	**65.1**	115.0
Moneybarn	**0.2**	(1.3)
Central	**(18.9)**	(8.4)
Capital generated[1]	**189.9**	175.5
Dividends declared	**(173.6)**	(141.3)
Surplus capital generated	**16.3**	34.2

1 Capital generated is calculated as net cash generated from operating activities, after adding back 80% of the growth in customer receivables funded by borrowings, less net cash used in investing activities

- Strong capital generation from Vanquis Bank reflects higher profits and reduced rate of investment in the receivables cycle (£20m)
- Reduced capital generation in CCD reflects lower release of capital from receivables shrinkage (£24m), increased capital expenditure (£8m), timing of tax payments (£7m) and higher exceptional costs (£6m)
- Moneybarn funding its own rapid growth and set to become increasingly capital generative

Regulation, business development and outlook

Peter Crook – Chief Executive

Regulation, business development and outlook

Regulation
Group

Transfer of regulation to the FCA

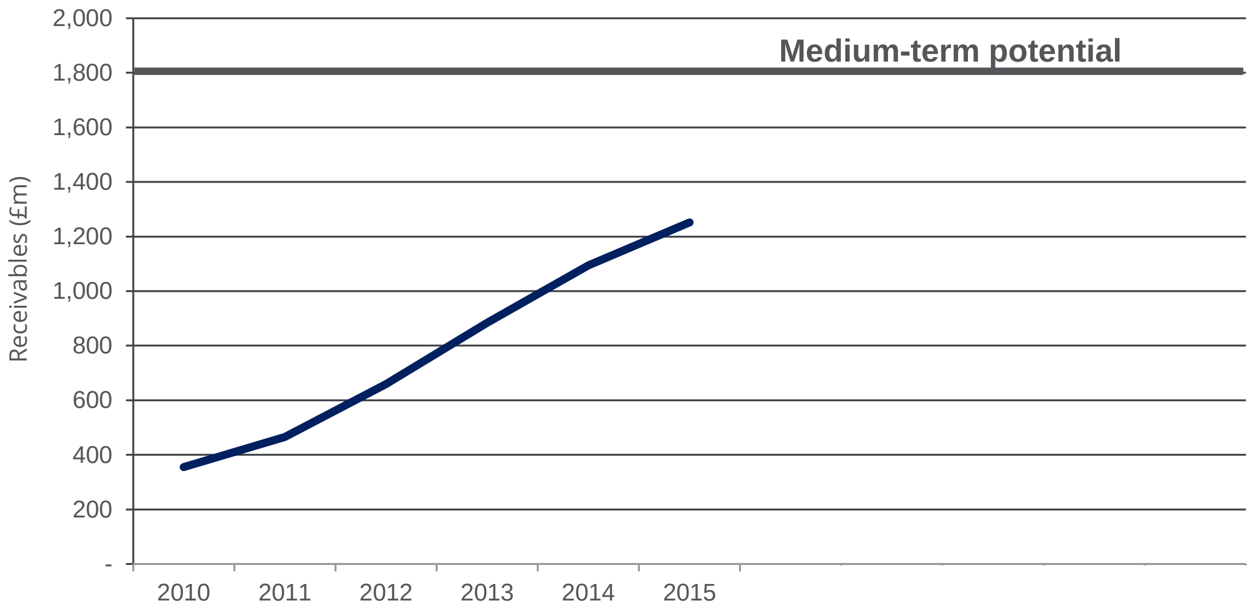
- CCD and Moneybarn submitted their applications for full authorisation in May 2015
- Vanquis Bank is operating under an interim Consumer Credit permission awaiting formal approval of its application for a variation of permissions
- Each business continues to have a constructive dialogue with the FCA, responding to questions and information requests whilst applications are being considered

FCA credit card review

- FCA interim findings concluded that competition is working fairly well and they were not minded to implement a price cap or increase minimum repayments
- Considering a number of remedies in relation to affordability:
  - Increased disclosures to promote faster repayment
  - Possible requirement for customers to opt in to credit line increases and overlimit transactions
  - Faster intervention of forbearance measures prior to default
- Potential remedies are not expected to have a material impact on Vanquis Bank
- Final report from the FCA is expected in spring 2016

Business development

Vanquis Bank



- Vanquis Bank is the group's most significant driver of growth
- Receivables firmly on track to reach guidance of up to £1.8bn from existing business positioning and product distribution, an uplift of up to 40% from today's levels
- Chris Sweeney recently joined as Managing Director to lead Vanquis Bank through the next stage of its development
- Work continues to examine additional distribution and product propositions

Business development
Satsuma

- Adopting a measured approach whilst maintaining a strong focus on developing distribution, underwriting, IT and governance
- Management team enhanced during 2015
- Multiple channels to market tested including TV, social and digital media and brokers:
  - Brand awareness now third highest in market segment
  - Loan volumes 150% higher than 2014
- Underwriting standards continue to be refined, typical of a nascent business of this nature:
  - Significant tightening of underwriting in October
  - Impacted growth in the fourth quarter but led to a step-change in credit quality
  - Good flow of further lending now being established
- Current proposition focused on weekly, short-term, small-sum lending:
  - Monthly instalment product will be introduced in 2016
  - Significant opportunity in lending over £1,000 and over a year in duration
- Substantial medium-term opportunity in online instalment loans

Business development

glo

- Pilot of glo has successfully demonstrated the strong demand for longer, larger loans in an underserved area of the market
- CCD has researched the market very thoroughly to define an effective and sustainable customer journey:
  - Customer receives the same high level of personal service as elsewhere in the group
  - Robust affordability checks on both the borrower and guarantor
  - Customer-centric approach to forbearance
- glo will proceed to full roll-out during 2016
- Michael Hutko (Vanquis Bank) will lead the business, alongside his responsibilities as Commercial Director for Vanquis Bank
- glo will utilise dedicated credit, marketing and collections resources, primarily drawn from Vanquis Bank
- 2016 will be a year of modest investment before reaching a break even position in 2017

Business development

High return businesses with attractive growth potential

Medium-term potential is to build group receivables up to £3.0bn generating an ROA of up to 15%

	Product	2015 ROA	Medium-term growth potential
VANQUIS BANK	Credit cards	15.8%	**Up to 1.8m customers with an average balance of £1,000**
Provident – The loan that comes to you	Home credit	21.2%[1]	**High returns business with large market share but modest growth potential**
Satsuma loans.co.uk	Online loans		**£300m+ receivables**
glo – The guarantor loan option	Guarantor loans		
	Other unsecured lending		
moneybarn – credit you can trust	Vehicle finance	12.9%	**£300m to £400m receivables**

1 Represents CCD's ROA as a whole

Outlook

Group

- Vanquis Bank continues to deliver strong growth and returns and remains firmly on track to achieve the medium-term potential of up to 1.8m customers with an average balance of £1,000
- CCD has delivered in full on its plans to maintain profits whilst repositioning the home credit business and funding the start-up of Satsuma online loans:
  - Home credit is delivering strong returns and is now delivering year-on-year sales growth
  - Medium-term potential for online loans is substantial and Satsuma is expected to make a small contribution to CCD's profits in 2016
  - Business plan to roll-out glo during 2016 is now in place
- Lift in new business volumes at Moneybarn has reinforced primacy which, together with product development opportunities, leaves the business well-positioned to deliver strong medium-term growth and the group's target returns
- The group's 2016 tax charge will reflect the bank tax surcharge of 8% on Vanquis Bank's profits
- Group is fully funded until May 2018

"The group has made a good start to 2016. Vanquis Bank and Moneybarn continue to trade strongly and the home credit business has enjoyed a very satisfactory collections performance."

Questions

Peter Crook – Chief Executive

Andrew Fisher – Finance Director

Contact details

Group

Provident Financial plc
No. 1 Godwin Street
Bradford
BD1 2SU
United Kingdom

Contacts:

Gary Thompson – Group Financial Controller and Head of Investor Relations

Vicki Turner – Group Finance and Investor Relations Manager

Telephone: +44 (0)1274 351351

E-mail: investors@providentfinancial.com

Website: www.providentfinancial.com