# Purpose & progress

Provident Financial plc
2019 preliminary results

# Today's presentation

## Highlights and operational progress
Malcolm Le May

## Financial review
Simon Thomas

## Strategy and outlook
Malcolm Le May

## Questions
Glossary of definitions

Contacts

Malcolm Le May - CEO

Simon Thomas - CFO

# Highlights and operational progress

Malcolm Le May
Chief Executive Officer

# Continued good operational and financial recovery of the group

- Group adjusted profit before tax up 1.6% to £162.6m
- Continued strengthening of regulatory relationships and positive progress on delivering cultural change
- FCA investigations at Vanquis Bank and Moneybarn both now complete
- Strategic initiatives well underway to deliver the group's 'Vision for the Future' and medium-term financial targets
- Agreement of a £275m bilateral securitisation facility in early January 2020 to fund Moneybarn's business flows
- Funding headroom to mid-2022
- Regulatory capital headroom of c.£90m at 1 January 2020
- Final dividend of 16p per share, up 60%
- Total dividend per share of 25p per share, up 150% and representing dividend cover of 1.9 times

Group adjusted profit before tax

**£162.6m (+1.6%)**

Final dividend per share

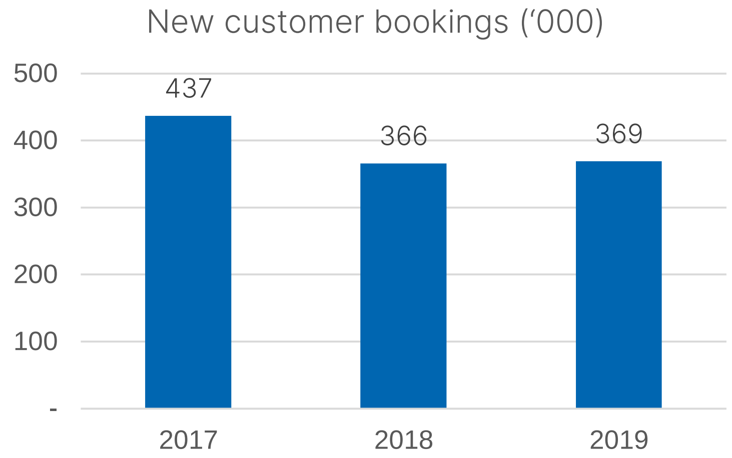
**16p (+60%)**

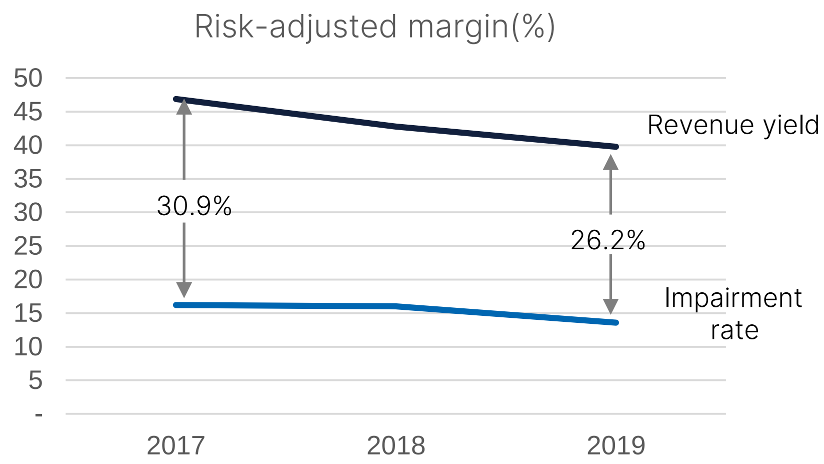
Total dividend per share

**25p (+150%)**

# Operational progress – Vanquis Bank

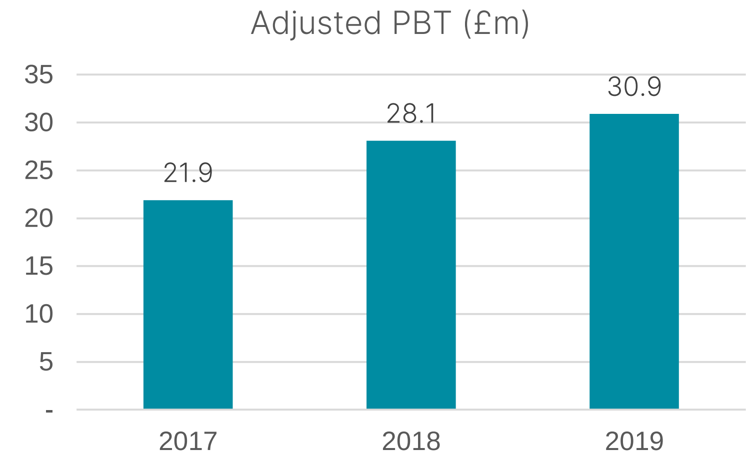
- Strengthened management team under the leadership of Neil Chandler
- Higher minimum payments and recommended payments in response to CCMS measures on persistent debt
- Continued development of distribution channels and data driven decisioning maintained volumes despite tighter underwriting
- Changes to interest and fee structures
- Successful introduction of chatbot to automate customer SMS conversations
- Increased focus on cost efficiency
- ROP refund programme completed and FCA has confirmed the programme is now closed



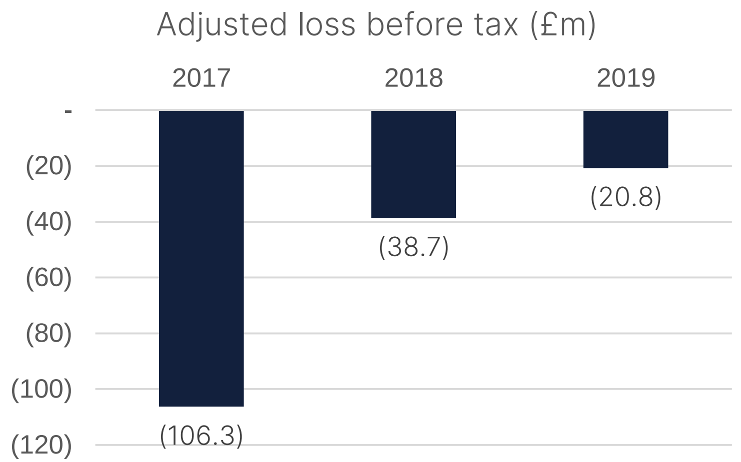
# Operational progress – Moneybarn

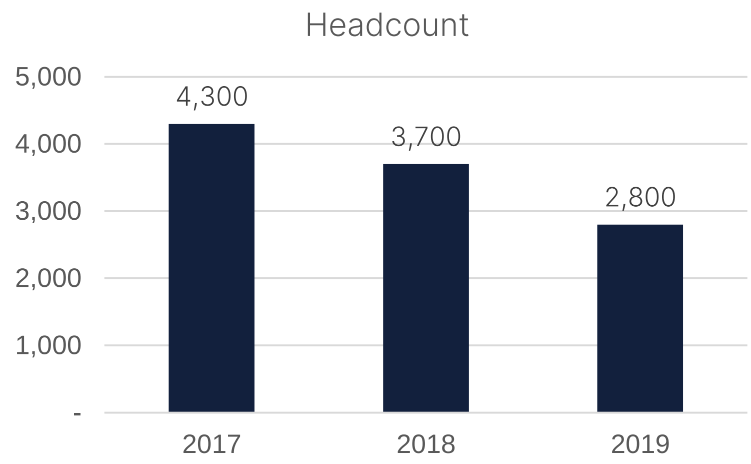
- Continued strong growth and development of the proposition
- Underwriting tightened in Q4 2019 and collections processes strengthened
- FCA investigation into affordability, forbearance and termination options completed
- Securitisation of receivables book
- Moved into new premises to support future growth

# Operational progress – CCD

- Revised sales processes following implementation of high-cost credit review
- Enhanced performance management and variable pay rolled out
- Successful test of Provident Direct
- Headcount reductions and ongoing cost reduction programme
- Introduction of card readers to enhance collections
- Satsuma customer onboarding processes being enhanced following dialogue with FCA
- Constructive dialogue with FOS in respect of irresponsible lending claims
- Working with HMRC on their industry review of self-employed status of agents



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# Financial review

Simon Thomas
Chief Financial Officer

# Group results

| Adjusted profit/(loss) before tax | Year ended 31 December 2019 £m | 2018 (restated[1]) £m | Change % |
|---|---|---|---|
| Vanquis Bank | 173.5 | 190.9 | (9.1) |
| Moneybarn | 30.9 | 28.1 | 10.0 |
| CCD | (20.8) | (38.7) | 46.3 |
| Central costs | (21.0) | (20.2) | (4.0) |
| **Adjusted profit before tax** | 162.6 | 160.1 | 1.6 |
| Amortisation of acquired intangibles | (7.5) | (7.5) | - |
| Exceptional items | (26.3) | (55.3) | 52.4 |
| **Statutory profit before tax** | 128.8 | 97.3 | 32.4 |
| *Cost income ratio* | *42.8%* | *42.3%* | |
| *Return on assets* | *7.9%* | *7.7%* | |
| *Return on equity* | *18.2%* | *19.1%* | |
| *Adjusted basic earnings per share* | *47.3p* | *48.7p* | *(2.9)* |
| *Dividend per share* | *25.0p* | *10.0p* | *150.0* |
| *Dividend cover* | *1.9x* | *4.9x* | |

- Restatement of 2018 comparatives for three changes in accounting treatment:
  - Directly attributable deferred acquisition costs in Vanquis Bank (increase in 2018 profits of £6.6m)
  - Recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn (no impact on profits)
- Significant reduction in net exceptional charges (see slide 9)
- Cost income ratio broadly flat despite 7.5% reduction in group costs – mainly reflects moderation in revenue yield at Vanquis Bank (target cost income ratio of 38% by 2022)
- Expected ROE reduction due to timing of dividend payments and progression to target dividend cover of 1.4x (ROE expected to be in target range of 20%-25% in 2021)
- Modest adjusted EPS reduction reflects impact of rights issue shares in April 2018

*[1] 2018 comparatives have been restated for: (i) the change in treatment of directly attributable acquisition costs in Vanquis Bank following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profit before tax compared with previous plans; and (ii) the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn which have resulted in a reduction in revenue, impairment and administration and operating costs but have had no impact on Moneybarn's profits*

# Exceptional items

| Charge/(credit) | Year ended 31 December 2019 £m | 2018 £m |
|---|---|---|
| Bid defence costs associated with NSF's unsolicited offer for the group | 23.8 | - |
| Restructuring costs, primarily in respect of the ongoing turnaround of CCD | 19.3 | 29.9 |
| Release of provisions in respect of ROP refund programme | (14.2) | - |
| Release of provisions in respect of Moneybarn FCA investigation | (2.6) | - |
| Premium and fees paid on the redemption of senior bonds | - | 18.5 |
| Pension charges in respect of the equalisation of Guaranteed Minimum Pensions | - | 6.9 |
| **Net exceptional charges** | 26.3 | 55.3 |

- Provision releases comprise:
  - £14.2m in respect of ROP following completion of the refund programme and a re-evaluation of the necessary provision (remaining provision of £11.7m at 31 December 2019)
  - £2.6m in respect of Moneybarn FCA investigation following receipt of the final notice (remaining provision of £2.8m at 31 December 2019 in respect of the fine)

# Vanquis Bank results

| | Year ended 31 December 2019 £m | 2018 (restated[1]) £m | Change % |
|---|---|---|---|
| Customer numbers ('000) | 1,720 | 1,773 | (3.0) |
| Year-end receivables | 1,461.5 | 1,495.1 | (2.2) |
| Average receivables | 1,459.9 | 1,507.4 | (3.2) |
| Revenue | 580.9 | 644.9 | (9.9) |
| Impairment | (198.9) | (241.6) | 17.7 |
| **Revenue less impairment** | 382.0 | 403.3 | (5.3) |
| *Revenue yield* | *39.8%* | *42.8%* | |
| *Impairment rate* | *13.6%* | *16.0%* | |
| *Risk-adjusted margin* | *26.2%* | *26.8%* | |
| Costs | (177.1) | (176.4) | (0.4) |
| Interest | (31.4) | (36.0) | 12.8 |
| **Adjusted profit before tax** | 173.5 | 190.9 | (9.1) |
| *Cost income ratio* | *30.5%* | *27.4%* | |
| *Return on assets* | *10.4%* | *11.1%* | |
| *Return on equity* | *32.4%* | *44.0%* | |

- Expected reduction in profits due to reduction in ROP income (£20m) and 2018 benefitting from accruals releases (£10m)
- New customer account bookings up 3k to 369k despite tighter underwriting and the impact of revised affordability processes
- Reduction in customers reflects closure of 65k inactive accounts and the sale of 56k customers on payment arrangements
- Receivables reduction consistent with the wider market, due to impact of adapting to regulation (affordability, persistent debt)
- Revenue yield reduction due to lower ROP income and a number of customer focused measures (downwards pricing, fee changes)
- Lower impairment rate reflects an improvement in delinquency trends due to tighter underwriting
- Strong focus on cost efficiency resulted in the cost base remaining flat
- Interest costs benefited from being fully funded with retail deposits
- ROE reduction reflects rebuilding of equity base following IFRS 9 and ROP provision

*[1] 2018 comparatives have been restated for the change in treatment of directly attributable acquisition costs following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profit before tax compared with previous plans*

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# Moneybarn results

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019<br>£m | 2018<br>(restated[1])<br>£m | Change<br>% |
| Customer numbers ('000) | 77 | 62 | 24.2 |
| Year-end receivables | 502.1 | 416.4 | 20.6 |
| Average receivables | 481.5 | 395.1 | 21.9 |
| Revenue | 122.0 | 104.3 | 17.0 |
| Impairment | (41.8) | (34.4) | (21.5) |
| **Revenue less impairment** | 80.2 | 69.9 | 14.7 |
| *Revenue yield* | *25.3%* | *26.4%* | |
| *Impairment rate* | *8.6%* | *8.7%* | |
| *Risk-adjusted margin* | *16.7%* | *17.7%* | |
| Costs | (20.9) | (19.9) | (5.0) |
| Interest | (28.4) | (21.9) | (29.7) |
| **Adjusted profit before tax** | 30.9 | 28.1 | 10.0 |
| *Cost income ratio* | *17.1%* | *19.1%* | |
| *Return on assets* | *10.0%* | *10.3%* | |

- Increase in adjusted profit reflects continued strong growth in customers and receivables
- Growth in new business volumes of 30% and receivables growth of 21%
- Impairment rate unchanged with underwriting tightened in response to a modest increase in the flow-through of defaults following the stronger than forecast growth during the year
- Underlying cost growth of 15%, after excluding the benefit of a VAT recovery of £2m
- Interest costs increase reflects higher cost of funding the non-bank segment of the group as Vanquis Bank is fully funded with retail deposits

[1] *2018 comparatives have been restated for the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs which have resulted in a reduction in revenue, impairment and administration and operating costs but have had no impact on Moneybarn's profits*

# CCD results

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 £m | 2018 £m | Change % |
| Customer numbers ('000) | 522 | 560 | (6.8) |
| Year-end receivables | 249.0 | 292.5 | (14.9) |
| Average receivables | 247.3 | 296.2 | (16.5) |
| Revenue | 295.4 | 342.2 | (13.7) |
| Impairment | (96.2) | (120.8) | 20.4 |
| **Revenue less impairment** | 199.2 | 221.4 | (10.0) |
| *Revenue yield* | *119.5%* | *115.5%* | |
| *Impairment rate* | *39.0%* | *40.8%* | |
| *Risk-adjusted margin* | *80.5%* | *74.7%* | |
| Costs | (210.3) | (244.7) | 14.1 |
| Interest | (9.7) | (15.4) | 37.0 |
| **Adjusted loss before tax** | (20.8) | (38.7) | 46.3 |
| *Cost income ratio* | *71.2%* | *71.5%* | |
| *Return on assets* | *(3.6%)* | *(6.4%)* | |

- Significant reduction in adjusted loss reflects continued improvement in new customer acquisition, collections performance and cost efficiency
- Reduction in customer numbers and receivables now beginning to stabilise
- Risk-adjusted margin of 80.5% within target range for CCD of 80% to 85%
- Reduction in the cost base due to headcount reductions and tight cost control which has resulted in the annualised cost run rate entering 2020 at around £200m
- Interest costs reduced due to a more balanced allocation of funding costs between CCD and Moneybarn now that Vanquis Bank is fully funded with retail deposits

# Diversifying and lowering the cost of funding

| | At 31 Dec 2019 actual £m | Proforma post-securitisation £m |
|---|---|---|
| Vanquis Bank: | | |
| Retail deposits | 1,345 | 1,345 |
| | | |
| Non-bank group: | | |
| Bank facility | 235 | 211 |
| Bonds and other borrowings: | | |
| - Senior 7.0% public bond maturing in 2023 | 250 | 250 |
| - M&G term loan | 50 | - |
| - Retail bonds | 150 | 150 |
| Moneybarn securitisation[1] | - | 275 |
| Total committed facilities available of the non-bank group | 685 | 886 |
| Non-bank group borrowings under committed facilities | 616 | 616 |
| Headroom on committed borrowing facilities of the non-bank group | 69 | 270 |

- Moneybarn securitisation signed in January 2020:
  - £100m initial funding growing to £275m over next 18 months
  - Bank facility reduced from £235m to £211m
  - M&G loan facility repaid
- Group has sufficient facilities to fund growth and contractual maturities until mid-2022
- Continuing to explore:
  - Retail deposits funding some element of Moneybarn
  - Securitisation of Vanquis Bank receivables
  - Diversifying funding within Vanquis Bank into instant access deposits
  - Other bonds, private placements and potentially a tier 2 instrument
  - Improved liquidity management of the liquid assets buffer

[1] *Current facility is £100m progressively increasing to £275m over the next 18 months*

# Robust regulatory capital base

Regulatory capital headroom reconciliation – 12 months ending 31 Dec 2019

| | £m |
|---|---|
| Regulatory capital headroom at 1 Jan 2019 | 96 |
| Year 2 IFRS 9 transitional impact | (18) |
| IFRS 16 implementation | (26) |
| Deferred acquisition costs prior year restatement | 15 |
| Adjusted PBT | 163 |
| Tax | (43) |
| Exceptional costs, net of tax | (29) |
| Share-based payments | 2 |
| Pension contributions | (3) |
| Capital released against receivables movement | 8 |
| Other (movements in deferred tax, intangible assets and leases) | 15 |
| **Headroom prior to dividends** | 180 |
| Dividends (accrued at 1.9x dividend cover) | (63) |
| **Regulatory capital headroom at 31 Dec 2019** | 117 |
| Year 3 IFRS 9 transitional impact | (28) |
| **Regulatory capital headroom at 1 Jan 2020** | 89 |

- CET 1 ratio of 30.7% compared with fully loaded TCR of 25.5%
- Regulatory capital headroom reduces to c.£90m after third year transitional impact of IFRS 9 on 1 January 2020
- Headroom consistent with the Board's risk appetite of maintaining headroom in excess of £50m whilst progressing towards the group's dividend cover target of at least 1.4 times in the medium term and absorbing the remaining 70% (£129m) transitional impact of IFRS 9
- C-SREP process to commence in March 2020 with result expected in the second quarter

# Strategy and outlook

Malcolm Le May
Chief Executive Officer

# Our purpose: We help put people on a path to a better everyday life


Our purpose is underpinned by four strategic drivers:

## Customer progression

We will build products, services and partnerships that change the game for our customers.

## Human experiences

We will build enduring relationships by delivering experiences that seamlessly integrate the latest technology with our brilliant people.

## Head AND heart decisions

We will deliver for our stakeholders by balancing: (i) data and insight; (ii) financial return and doing the right thing; and (iii) customer need and customer want, in order to build a long-term, sustainable business.

## Fighting fit

We will continuously challenge our cost base, efficiency and effectiveness, and change our capability to ensure we remain the most competitive player in the market.

We have created a set of behaviours we consider are needed to be successful:

**Be hungry for better**

**Put the customer on the team**

**Act like it's yours**

# Significant opportunities to take the group forward

## Market and product

| | | |
|---|---|---|
| 1 | Growing markets and / or growing market share | |
| 2 | Expanding product range, distribution and digital | |
| 3 | Moving into other non-mainstream markets | • Digital personal loans<br>• Near prime motor finance |

## Costs, funding and capital

| | | |
|---|---|---|
| 4 | Costs, funding and capital opportunities | |

# Clear 'Vision for the Future' underpinned by a number of growth and efficiency initiatives

Now → Medium term

**VANQUIS**

- Growth – core cards innovations, loans, partnerships, self-employed
- Cost and digital focus
- Evolving model to new regulation

**moneybarn Vehicle Finance**

- Continued core market growth
- Core market asset class, distribution and digital development
- Funding improvement – retail deposits
- Near prime market

**Provident satsuma.**

- Provident recovery to breakeven
- Provident efficiency / IT
- Digitising customer proposition
- Provident Direct
- Satsuma personal loan

**Provident Financial Group**

- Cost efficiency
- Capital efficiency
- Broader bank for the underserved/target operating model
- Organic growth / sector consolidation

# Sustainable, attractive shareholder returns based on medium term targets

## Provident Financial Group

**Receivables growth c.5-10% p.a.**
over next 5 years
(2019: £2.2bn)

**Cost income ratio 38%**
in 2022
(2019: 43%)

**ROE c.20-25%**
in 2021
(2019: 18%)

**Dividend cover ≥ 1.4x**
Evolving cover as CCD returns to profitability
(2019: 1.9x)

### VANQUIS

**Loan book c.£2bn**
(2019: £1.5bn)

**ROE c.20-25%**
(2019: 32.4%)

### moneybarn Vehicle Finance

**Loan book c.£750m**
(2019: £502m)

**ROA c.10%**
(2019: 10.0%)

### Provident satsuma.

**Loan book c.£300m**
(2019: £249m)

**ROA c.10%**
(2019: (3.6%))

We help put people on a path to a better everyday life

# Outlook

- Despite continuing regulatory headwinds, we are well-placed both operationally and financially as we enter 2020
- Collections performance and impairment trends have remained stable in the important post-Christmas period
- Focus in 2020 will be on progressing our strategic initiatives outlined in the CMD:
  - Rolling out Provident Direct
  - Developing Vanquis Bank loans
  - Delivering funding and capital opportunities
  - Continuing to improve our cost efficiency through digitisation
- We will maintain a relentless focus on adapting to evolving customer needs and working closely with the regulator
- The economic outlook post Brexit remains uncertain and we need to see the full impact of the persistent debt regulation on receivables growth and impairment in Vanquis Bank
- However, our actions in 2019, and our strong funding and capital positions, give confidence that we will continue to make good progress towards our medium-term financial targets in 2020

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# Questions

- Glossary of definitions
- Contacts

# Glossary of definitions

- **Adjusted profit before tax** - Profit before tax prior to the amortisation of acquisition intangibles and exceptional items
- **Average receivables** - Average of month end receivables for the 12 months ended 31 December
- **Revenue yield** - Revenue as a percentage of average receivables for the 12 months ended 31 December
- **Impairment rate** - Impairment as a percentage of average receivables for the 12 months ended 31 December
- **Risk-adjusted margin** - Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December
- **Cost income ratio** – Costs, prior to the amortisation of acquisition intangibles and exceptional items, as a percentage of revenue for the 12 months ended 31 December
- **Return on assets** - Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December
- **Return on equity** - Adjusted profit after tax as a percentage of average equity for the 12 months ended 31 December. 2018 average equity has been restated as though the rights issue proceeds had been received on 1 January 2018

# Contact details

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