2013 INTERIM RESULTS ANNOUNCEMENT

23 JULY 2013

TODAY'S PRESENTATION

• HIGHLIGHTS AND BUSINESS OVERVIEW	PETER CROOK
• FINANCIAL REVIEW	ANDREW FISHER
• REGULATION AND OUTLOOK	PETER CROOK
• QUESTIONS	

HIGHLIGHTS AND BUSINESS OVERVIEW

PETER CROOK – CHIEF EXECUTIVE

HIGHLIGHTS

GROUP PERFORMANCE SUPPORTS FURTHER DIVIDEND INCREASE

- Profit before tax up 7.0% to £76.5m[1] and adjusted EPS up 7.9% to 43.5p[1]
- Interim dividend per share up 7.6% to 31.0p supported by strong capital generation
- Strong growth and financial returns at Vanquis Bank
- Consumer Credit Division (CCD) experiencing weaker demand with cost savings secured to benefit second half
- Polish credit card pilot developing well and firm business plan to be established by year end
- Gearing stable at 3.1 times and group now fully funded into 2016

[1] *Stated before an exceptional restructuring cost of £4.5m in respect of CCD*

MARKET CONDITIONS AND BUSINESS POSITIONING

CCD

MARKET CONDITIONS

- Competitive landscape in home credit unchanged
- Household disposable incomes under persistent pressure from increases in day-to-day living costs
- Customer confidence at lowest level for many years
- Particularly weak demand from better quality customers eligible for higher value, longer duration loans

BUSINESS POSITIONING

- Tight credit standards have remained in place with weak demand main driver of arrears slippage
- Restructuring completed to downsize field management by 10% whilst not compromising on spans of control
- Gross cost savings of £10m secured for second half of 2013, rising to £18m in 2014
- Expenditure on important business development initiatives protected

MARKET CONDITIONS AND BUSINESS POSITIONING
VANQUIS BANK

MARKET CONDITIONS

- Vanquis Bank is most active participant in underserved non-standard credit card market
- Little change in competitive activity from adjacent non-standard card products
- Strong flow of applications from both direct mail and internet channels
- UK employment market remains stable

BUSINESS POSITIONING

- No change to tight underwriting and credit line increase criteria, supporting stable, record low arrears
- Investment in customer acquisition programme maintained to deliver further strong growth
- Credit standards will remain unchanged to protect against any adverse change in UK employment market

FINANCIAL REVIEW

ANDREW FISHER – FINANCE DIRECTOR

PROFIT BEFORE TAX

GROUP

Six months ended 30 June	2013 £m	2012 (restated[2]) £m	Change %
CCD	**36.1**	49.3	(26.8)
Vanquis Bank:			
- UK	**50.2**	29.4	70.7
- Poland	**(3.6)**	(1.2)	(200.0)
Total Vanquis Bank	**46.6**	28.2	65.2
Central:			
- costs	**(6.3)**	(5.8)	(8.6)
- interest receivable/(payable)	**0.1**	(0.2)	150.0
Total central	**(6.2)**	(6.0)	(3.3)
Profit before tax and exceptional items[1]	**76.5**	71.5	7.0
Tax rate	**23.25%**	24.50%	
Adjusted earnings per share[1] (pence)	**43.5**	40.3	7.9
Interim dividend per share (pence)	**31.0**	28.8	7.6

[1] 2013 first half profit before tax stated before an exceptional restructuring cost of £4.5m in respect of CCD

[2] 2012 first half profit before tax restated by £1.4m from £72.9m to £71.5m following the adoption of the revised IAS 19 'Employee Benefits' from 1 January 2013

INCOME STATEMENT

CCD

Six months ended 30 June	2013 £m	2012 (restated[3]) £m	Change %
Customer numbers ('000)	**1,668**	1,771	(5.8)
Period-end receivables	**739.6**	787.8	(6.1)
Average receivables	**755.2**	783.5	(3.6)
Revenue	**365.6**	351.8	3.9
Impairment	**(167.0)**	(135.4)	(23.3)
Revenue less impairment	**198.6**	216.4	(8.2)
Annualised revenue yield[1]	***92.4%***	*89.2%*	
Annualised impairment % revenue[2]	***36.8%***	*32.8%*	
Costs	**(141.5)**	(144.4)	2.0
Interest	**(21.0)**	(22.7)	7.5
Profit before tax	**36.1**	49.3	(26.8)

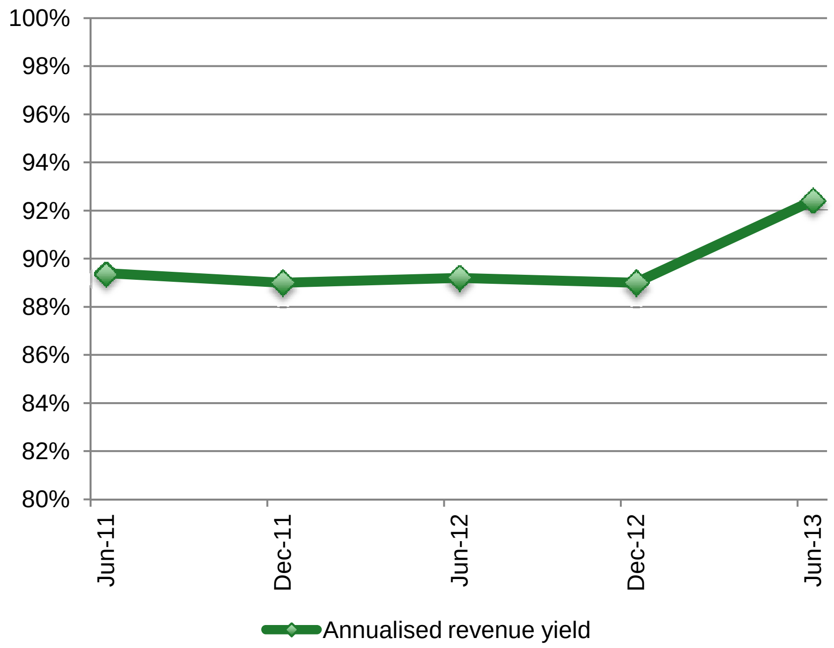
[1] *Revenue as a percentage of average receivables for the 12 months ended 30 June*

[2] *Impairment as a percentage of revenue for the 12 months ended 30 June*

[3] *2012 first half profit before tax restated by £1.1m from £50.4m to £49.3m following the adoption of the revised IAS 19 'Employee Benefits' from 1 January 2013*

REVENUE YIELD

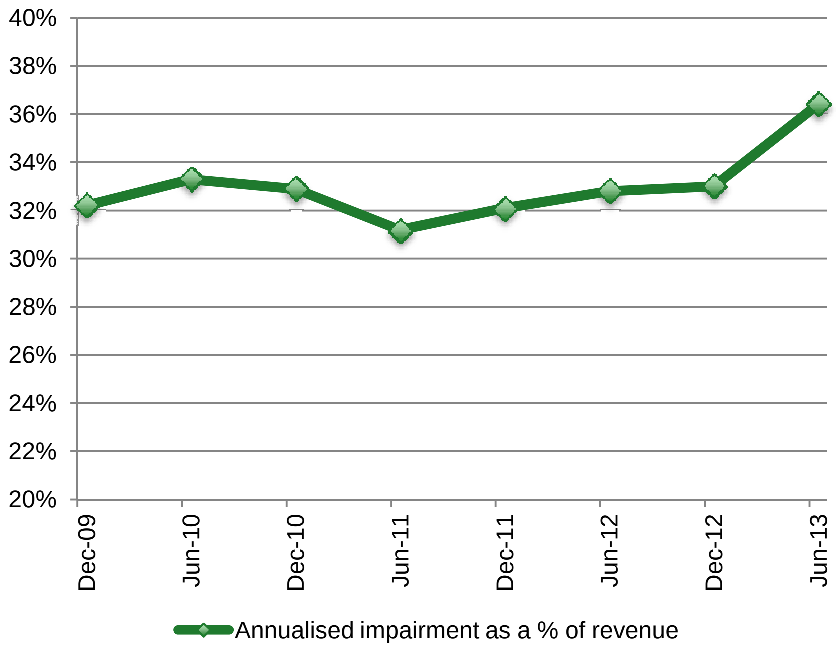
CCD



- Receivables and product mix relatively stable through 2011 and 2012
- Strengthening of annualised revenue yield from 89.0% at December 2012 to 92.4% at June 2013
- Includes impact of reduction in demand for longer duration loans carrying lower yields

IMPAIRMENT % REVENUE

CCD



- Annualised ratio increased from 33.0% at December 2012 to 36.8% at June 2013
- Approximately 1.5% due to increase in revenue yield
- Most significant influence is deterioration in arrears linked directly to weaker demand:
  - Existing customers not taking further credit have less incentive to bring their account up to date
- Management's forecast for second half is for demand and rate of impairment to stabilise as business enters its peak trading period

IMPAIRMENT POLICY

CCD

- 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**

IFRS 7 DISCLOSURES

CCD

At 30 June % receivables	**2013** **%**	**2012** **%**
In order	**29.6**	31.6
In arrears:		
- past due but not impaired	**11.4**	12.5
- impaired	**59.0**	55.9
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 increase in impairment charge

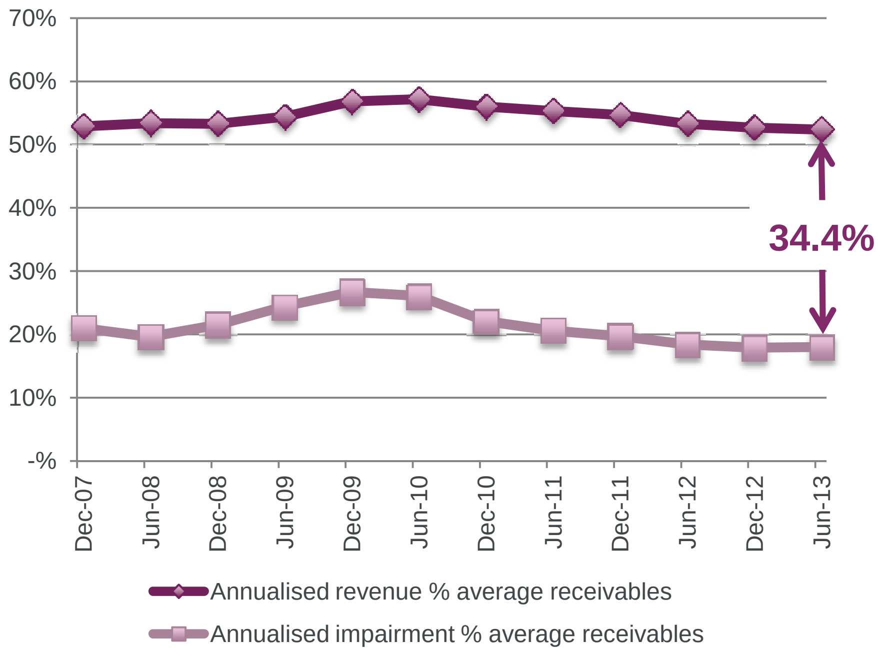
INCOME STATEMENT
VANQUIS BANK - UK

Six months ended 30 June	2013 £m	2012 £m	Change %
Customer numbers ('000)	**1,003**	777	29.1
Period-end receivables	**723.6**	525.1	37.8
Average receivables	**683.8**	487.5	40.3
Revenue	**178.0**	127.7	39.4
Impairment	**(64.6)**	(45.6)	(41.7)
Revenue less impairment	**113.4**	82.1	38.1
Annualised risk-adjusted margin[1]	***34.4%***	*34.9%*	
Costs	**(47.8)**	(40.5)	(18.0)
Interest	**(15.4)**	(12.2)	(26.2)
Profit before tax	**50.2**	29.4	70.7

[1] *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June*

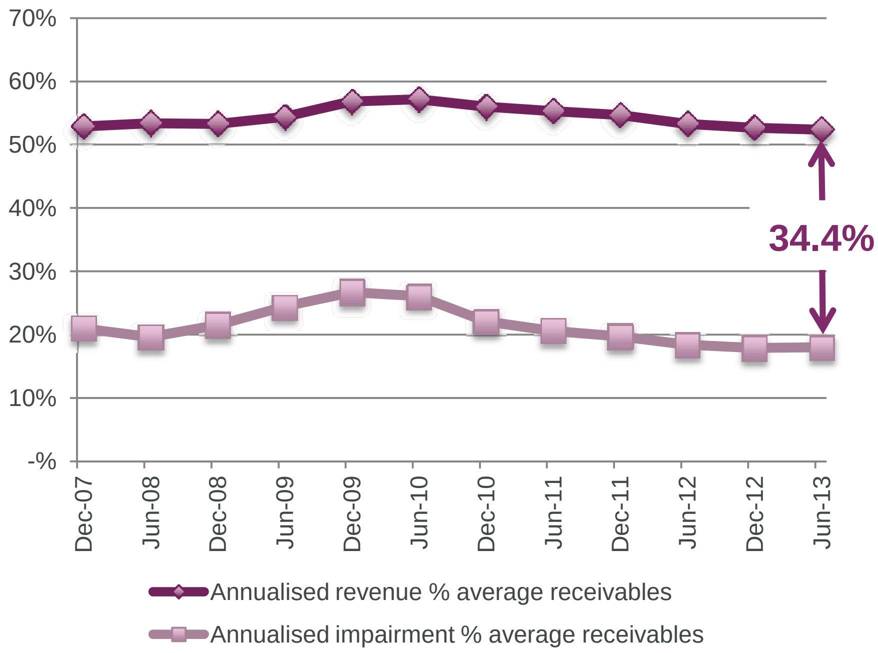
RISK-ADJUSTED MARGIN (RAM)

VANQUIS BANK - UK



- Business model supports stability of RAM:
  - ‘Low and grow’ strategy
  - High credit line utilisation minimises volatility of credit losses from undrawn exposures
  - Pricing for risk
- RAM has run ahead of 30% minimum target since 2010:
  - Consistently tight credit standards driving up quality of receivables book and reducing delinquency
  - Stable UK employment market

RISK-ADJUSTED MARGIN (RAM)
VANQUIS BANK - UK



- RAM moderated from 34.8% at December 2012 to 34.4% at June 2013:
  - Delinquency stable at record low since autumn 2010
- RAM expected to moderate to between 32% and 33% for 2013 as a whole:
  - Based on current delinquency trends
  - After allowing for changes to ROP product

IMPAIRMENT POLICY
VANQUIS BANK - UK

- 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**

* *Subject to estimated realisations from central/third party recovery processes*

IFRS 7 DISCLOSURES

VANQUIS BANK - UK

At 30 June % receivables	2013 %	2012 %
In order	**90.8**	88.6
In arrears:		
- past due but not impaired	**-**	-
- impaired	**9.2**	11.4
Total	**100.0**	100.0

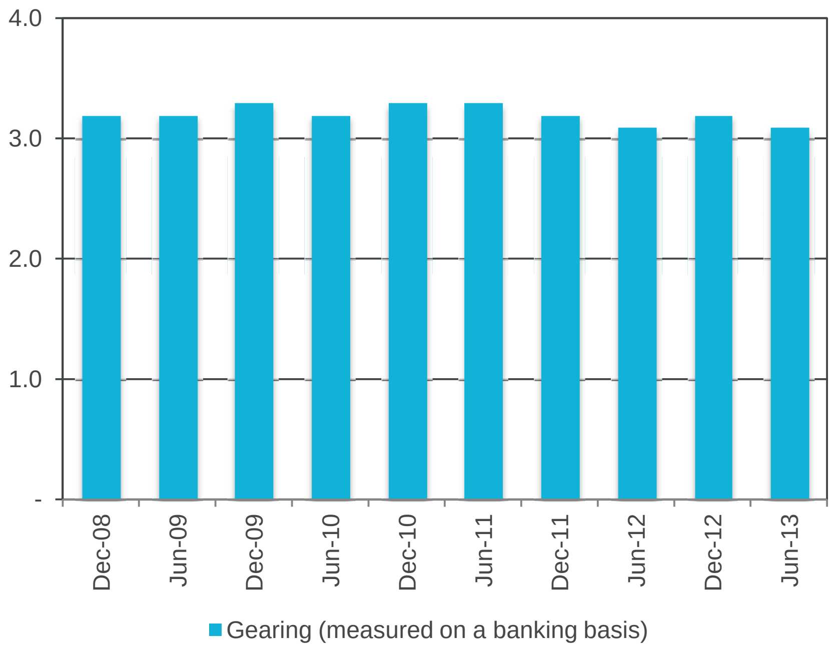
- Favourable change in profile reflects stable record low arrears since autumn 2012

STRONG BALANCE SHEET

As at 30 June	2013 £m	2012 £m
Receivables:		
- Home credit	**739.6**	787.8
- Real Personal Finance	**-**	1.7
- Vanquis Bank UK	**723.6**	525.1
- Vanquis Bank Poland	**3.0**	-
Total receivables	**1,466.2**	1,314.6
Pension asset	**22.7**	24.6
Liquid assets buffer	**67.3**	45.5
Debt funding	**(743.1)**	(767.3)
Retail deposits	**(438.6)**	(275.2)
Other	**(7.0)**	(10.0)
Net assets	**367.5**	332.2
Gearing* (times)	**3.1**	3.1

* *(Total borrowings – liquid assets buffer) / (Net assets – pension asset, net of deferred tax – fair value of derivatives)*

MODEST GEARING LEVELS



- Gearing at June 2013 of 3.1 times versus banking covenant of 5.0 times
- Strong capital generation has funded dividends and growth and resulted in stable gearing

DIVERSIFIED FUNDING BASE

At 30 June	2013 £m
Banks	**383**
Bonds and private placements:	
Senior public bond	250
M&G term loan	100
Other sterling/euro medium term notes	41
Retail bonds	260
US private placements/residual subordinated loan notes	44
Total bonds and private placements	**695**
Vanquis Bank retail deposits	**439**
Total committed facilities	**1,517**
Headroom on committed borrowing facilities	**346**
Additional retail deposits capacity*	**168**
Funding capacity	**514**

* *Based on the lower of: (i) 90% of Vanquis Bank's UK receivables of £723.6m at 30 June 2013 less retail deposits of £438.6m after setting aside necessary liquid assets buffer; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £167.9m at 30 June 2013*

RETAIL DEPOSITS PROGRAMME

	2013 £m	2012 £m
At 1 January	**327.4**	139.7
New funds	**120.5**	134.3
Maturities	**(18.4)**	-
Retentions	**7.0**	-
Interest	**2.1**	1.2
At 30 June	**438.6**	275.2

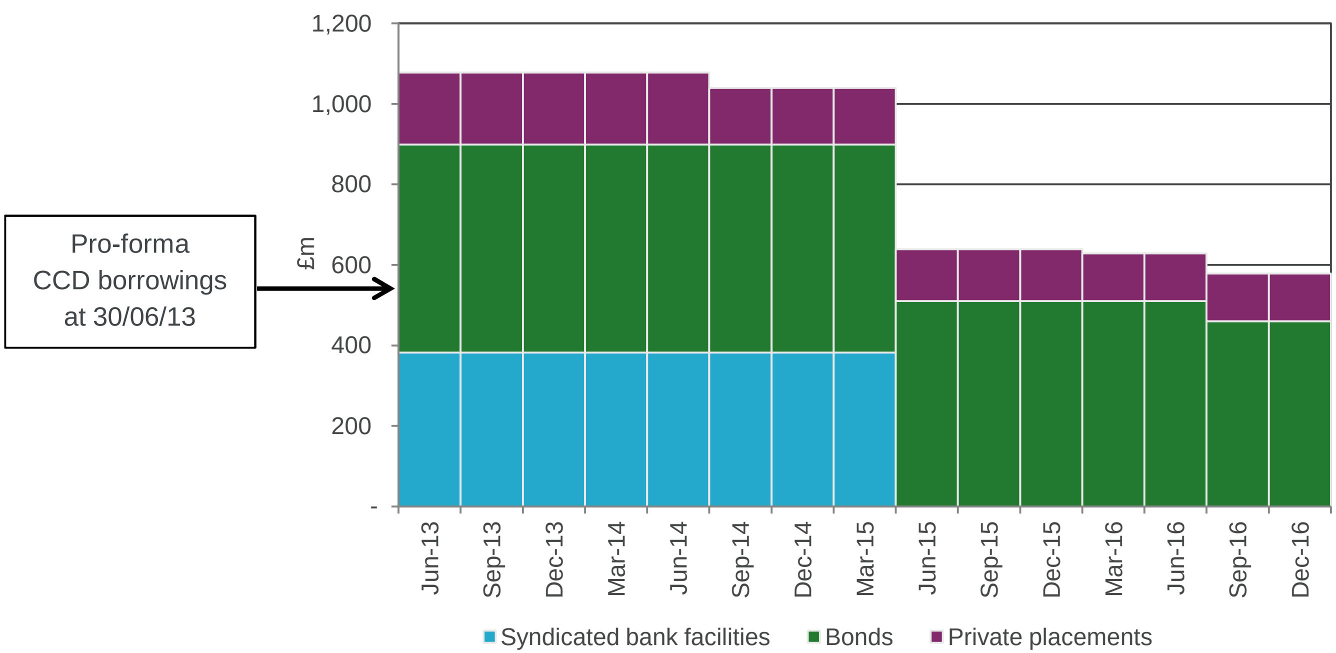
- Retail deposits represent 61% of Vanquis Bank’s UK receivables, up from 52% at June 2012
- Flow of new funds moderated following £65m retail bond issue in March
- Not necessary for Vanquis Bank to move to full retail deposits funding until at least 2016

MATURITY PROFILE OF RETAIL DEPOSITS

Product	30 June 2013 £m	Maturing in H2 2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
1-year	28.3	19.1	9.2	-	-	-	-
2-year	143.6	76.6	32.5	34.5	-	-	-
3-year	149.3	-	18.7	66.3	64.3	-	-
5-year	117.4	-	-	-	14.5	82.9	20.0
Total	438.6	95.7	60.4	100.8	78.8	82.9	20.0

- Weighted average period to maturity on deposits of 2.1 years
- Interest rates of between 1.66% and 3.01% on new funds issued in 2013
- Blended deposits rate of 3.9%, after cost of holding liquid assets buffer

MATURITY PROFILE OF DEBT



- Maturities restricted to £38m of private placements up to the end of 2014
- Headroom on committed facilities together with Vanquis Bank retail deposits programme provides funding into 2016

ALIGNMENT OF DIVIDEND POLICY, GEARING AND GROWTH

High ROE businesses

Dividend policy	**Gearing**	**Growth**
Cover ≥ 1.25x	≤ 3.5x versus covenant of 5.0x	Supports c.£160m receivables growth p.a

STRONG CAPITAL GENERATION

12 months ended 30 June	2013 £m
CCD	**91.1**
Vanquis Bank	**39.2**
Central	**(13.6)**
Capital generated*	**116.7**
Dividends payable	**(108.3)**
Surplus capital retained	**8.4**
Gearing (times)	**3.1**

* *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.*

- Capital generation funds cost of dividend whilst maintaining stable gearing comfortably within appetite of 3.5x

REGULATION AND OUTLOOK

PETER CROOK – CHIEF EXECUTIVE

REGULATORY UPDATE

- Findings from University of Bristol's Personal Finance Research Centre study into a variable cap on total cost of credit published in March:
  - Consistent with numerous previous studies
  - Concluded that rate caps would reduce supply of and access to credit, result in less competition and transparency and promote development of illegal lending
  - Confirmed high customer satisfaction and good service levels in home credit
- Transfer of responsibility for consumer credit regulation from OFT to FCA will take place in April 2014:
  - Number of important issues to be resolved, including how CCA regime will be transformed to a rules-based environment
  - Further consultation on detailed conduct rules will be held in autumn 2013

CCD

BUSINESS DEVELOPMENT

- Expenditure on business development programme has been fully protected:
  - Broadening customer and product proposition remains important to medium-term growth prospects
- Trials commenced on two new products to complement existing home credit offering:
  - Prepaid reloadable MasterCard – ‘24/7’ card
  - Online product – ‘Provident Online’
- Investment in IT remains central to many initiatives:
  - Online customer portal
  - Development of a smart phone collections app
- Programme to consolidate smaller, less profitable agencies has now been completed

VANQUIS BANK
POLAND

- Objective of pilot is to develop a customer proposition and business model capable of growing a sizeable business delivering group's target returns
- Pilot needs to demonstrate that key elements of UK business model can be adapted to address Polish target audience:
  1. Sufficient demand for product and it can be distributed at an acceptable cost
  2. Business can generate an adequate revenue yield
  3. Credit losses can be effectively managed both in underwriting new customers and granting credit through CLI programme
- Pilot has demonstrated that demand is strong and customers can be reached through internet and broker channels at an acceptable cost
- Remaining focus is on refining credit tools:
  - First generation internal scorecards address around one third of target audience
  - Further development through second half to address wider target audience
- Progress to date provides foundation for developing a Polish credit card business
- Full business case based on a firm assessment of addressable audience to be developed in second half

OUTLOOK

- Group's funding and liquidity position is strong, allowing it to meet contractual debt maturities and accommodate in full its growth plans into 2016
- Vanquis Bank is continuing to deliver strong growth and financial returns
- CCD is experiencing weaker demand from its home credit customer base and action has been taken to reduce its cost base that will benefit second half of 2013 and full year in 2014
- Pilot credit card operation in Poland is developing well and a firm business plan will be established in second half of year
- Group overall has performed in line with its internal plan in first half of 2013 and expects to do so for year as a whole

QUESTIONS?

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