

2012 INTERIM RESULTS

INTERIM RESULTS PRESENTATION

24 July 2012

TODAY'S PRESENTATION

- Highlights and business overview
- Financial review
- Regulation and outlook
- Questions

Peter Crook

Andrew Fisher

Peter Crook

HIGHLIGHTS AND BUSINESS OVERVIEW

Peter Crook – Chief Executive

Highlights

STRONG FIRST HALF PERFORMANCE

- Profit before tax up 17.0% to £72.9m and EPS up 19.8% to 41.1p
- Interim dividend per share up 7.9% to 28.8p
- Stable Consumer Credit Division performance in challenging market conditions
- Further strong growth and returns at Vanquis Bank from investment in customer acquisition programme
- Modest reduction in gearing to 3.1 times and group fully funded into 2015

Market conditions and business positioning – CCD

MARKET CONDITIONS

- Competitive landscape unchanged
- Modest increase in household average weekly earnings
- Household disposable incomes under pressure from price inflation, particularly winter utility bills
- Relatively cautious agent and customer behaviour is moderating the demand for credit
- Continuing rise in casual, temporary and part-time employment

BUSINESS POSITIONING

- Continuing tight credit standards have reinforced credit quality and moderated growth
- Heavy focus of field capacity on collections through early months of 2012
- Strong emphasis on operational and cost efficiency
- Modest uplift in sales and marketing spend from June
- Further progress in enhancing geographic footprint of the business

Market conditions and business positioning – Vanquis Bank

MARKET CONDITIONS

- Vanquis Bank remains the most active participant in the underserved non-standard credit card market
- Some increased activity from SAV and CapitalOne in non-standard segment
- Strong flow of applications from both direct mail and internet channels
- Backdrop of stable UK employment market

BUSINESS POSITIONING

- No change to tight underwriting and credit line increase criteria which are supporting record low delinquency and above target returns
- Higher growth from increased investment in direct mail programme
- Credit standards will remain unchanged due to uncertain outlook for employment market

FINANCIAL REVIEW

Andrew Fisher – Finance Director

Group – Profit before tax

6 months ended 30 June	2012 £m	2011 £m	Change £m
CCD	50.4	50.2	0.2
Vanquis Bank			
- UK	29.4	17.6	11.8
- Poland	(1.2)	-	(1.2)
Total Vanquis Bank	28.2	17.6	10.6
Central:			
- costs	(5.5)	(4.9)	(0.6)
- interest payable	(0.2)	(0.6)	0.4
Total central	(5.7)	(5.5)	(0.2)
Profit before tax	72.9	62.3	10.6
Basic earnings per share	41.1p	34.3p	+19.8%
Interim dividend per share	28.8p	26.7p	+7.9%

Home Credit – Income statement

6 months ended 30 June	2012 £m	2011 £m	Change %
Customer numbers ('000)	1,771	1,803	(1.8%)
Period-end receivables	787.8	785.5	0.3%
Average receivables	783.5	784.3	(0.1%)
Revenue	351.8	350.2	0.5%
Impairment	(135.4)	(130.1)	(4.1%)
Revenue less impairment	216.4	220.1	(1.7%)
<i>Annualised revenue yield*</i>	89.2%	89.4%	
<i>Annualised impairment % revenue**</i>	32.8%	31.2%	
Costs	(143.3)	(146.7)	2.3%
Interest	(22.7)	(23.2)	2.2%
Profit before tax	50.4	50.2	0.4%

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

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

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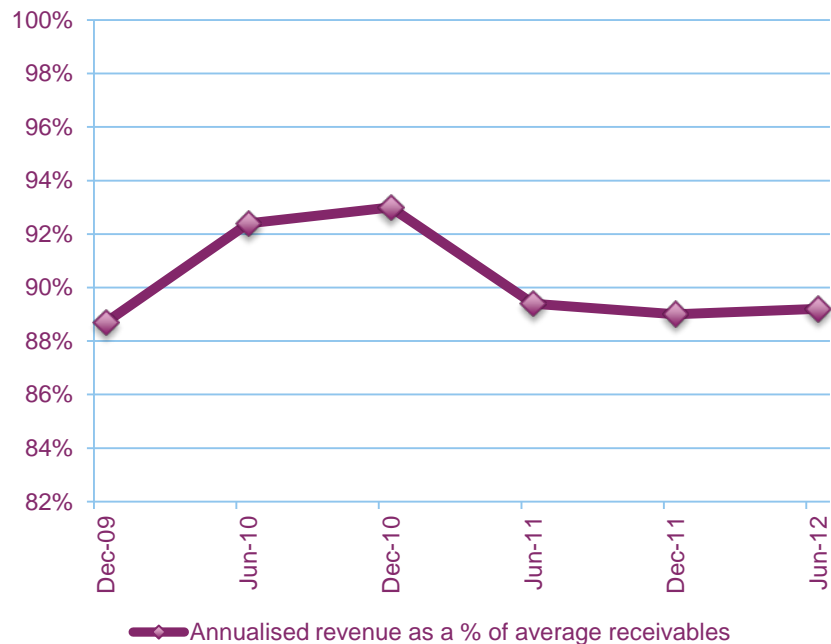
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Home Credit – Revenue yield



- Revenue yield moderated during first half of 2011 reflecting increased focus on serving good-quality existing customers who tend to be served with slightly longer term products
- Consistent mix of business over last 18 months has resulted in a stable yield
- Yield not expected to change significantly through second half of 2012

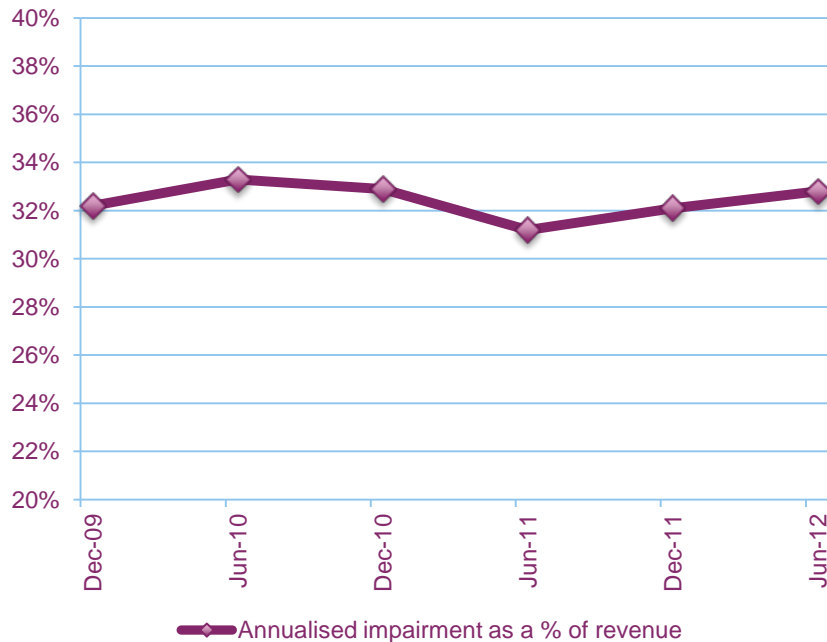
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Home Credit – Impairment % revenue



- Second quarter of 2011 benefited from improvement to arrears following enhancement to agent's commission scheme in April
- Consistent collections performance over past 12 months
- Collections performance and impairment rates are expected to remain stable through second half of 2012

Home Credit – 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**

Home Credit – IFRS 7 disclosures

As at 30 June % of receivables	2012 %	2011 %
In order	31.6	31.6
In arrears:		
- past due but not impaired	12.5	11.8
- impaired	55.9	56.6
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
- Stable year-on-year profile

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Vanquis Bank (UK) – Income statement

6 months ended 30 June	2012 £m	2011 £m	Change %
Customer numbers ('000)	777	610	27.4%
Period-end receivables	525.1	380.1	38.1%
Average receivables	487.5	361.6	34.8%
Revenue	127.7	99.3	28.6%
Impairment	(45.6)	(38.9)	(17.2%)
Revenue less impairment	82.1	60.4	35.9%
<i>Annualised risk-adjusted margin*</i>	34.9%	34.7%	
<i>Annualised impairment % revenue**</i>	34.5%	37.2%	
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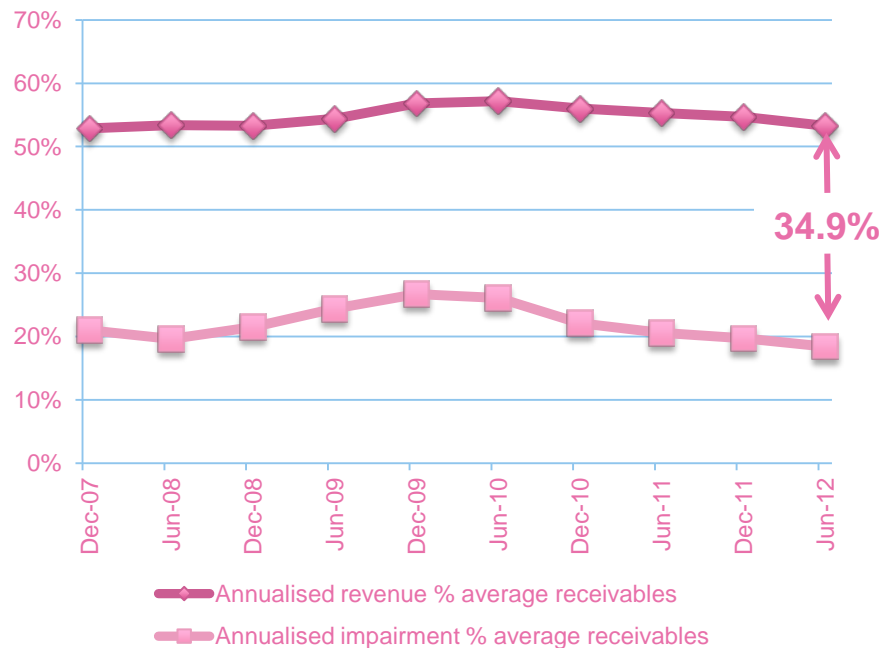
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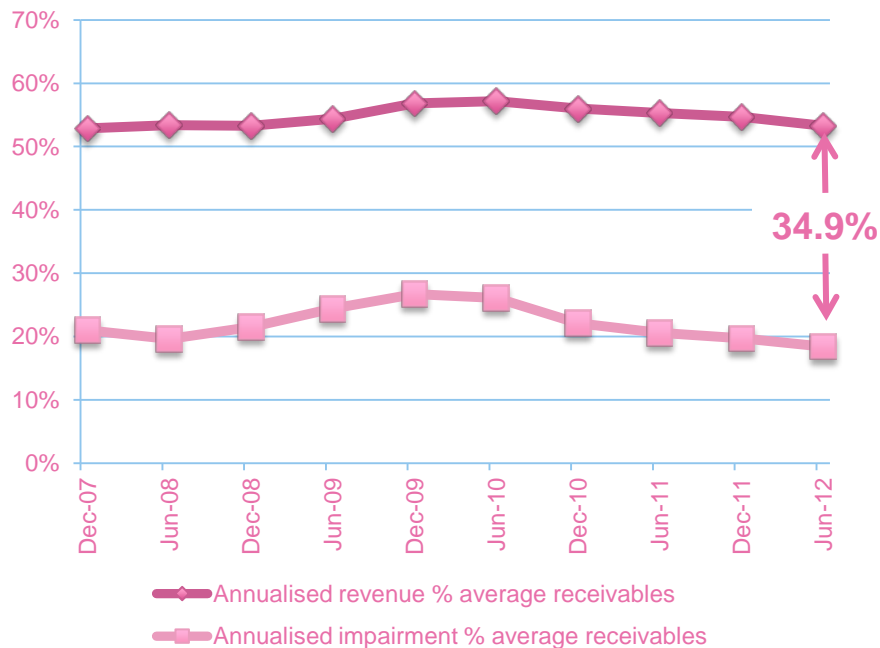
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Vanquis Bank (UK) – Above target risk-adjusted margin



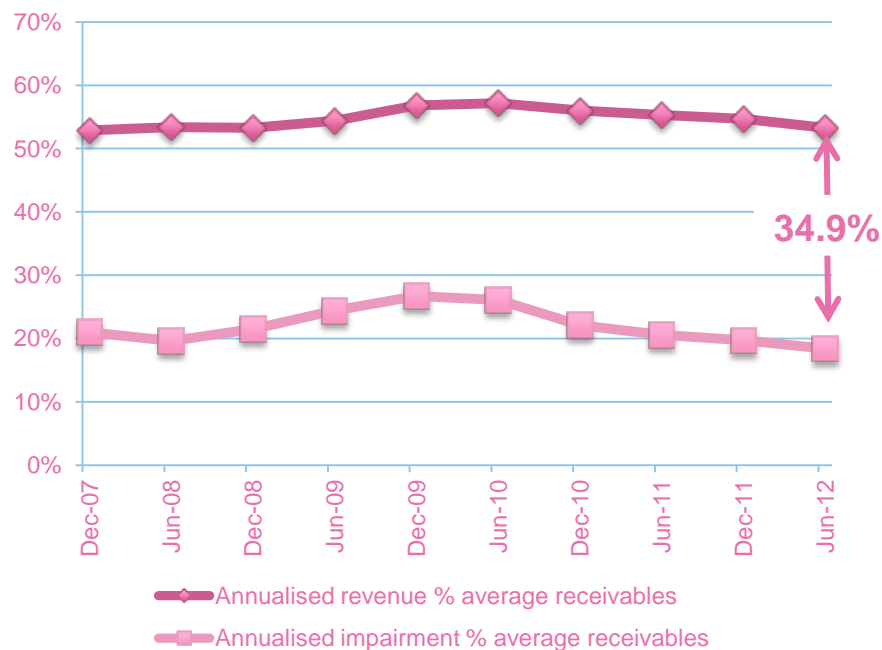
- Risk-adjusted margin inherently stable due to active management of:
 - Credit line utilisation to minimise contingent undrawn exposure (‘low and grow’)
 - Revenue yield through appropriate pricing for risk
- Risk-adjusted margin of 34.9% significantly above 30% minimum target due to:
 - Consistent application of tight credit standards which has driven up quality of receivables book
 - Stable UK employment market
- Underlying risk-adjusted margin approximately 33%

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Vanquis Bank – 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**

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

Vanquis Bank – IFRS 7 disclosures

As at 30 June % of receivables	2012 %	2011 %
In order	88.6	87.9
In arrears:		
- past due but not impaired	-	-
- impaired	11.4	12.1
Total	100.0	100.0

- Favourable change in profile reflects record low delinquency for the business

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Strong balance sheet

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- Vanquis Bank	525.1	380.1
Total receivables	1,314.6	1,169.5
Pension asset	24.6	58.9
Liquid assets buffer	45.5	10.8
Debt funding*	(771.5)	(930.6)
Retail deposits	(275.2)	-
Other	(5.8)	9.9
Net assets	332.2	318.5
Gearing** (times)	3.1	3.3

* Excludes deferred fees and the fair value of derivatives

** On a banking basis – Debt funding plus retail deposits, net of the liquid assets buffer divided by adjusted equity (excluding the pension asset and the fair value of derivatives both net of deferred tax)

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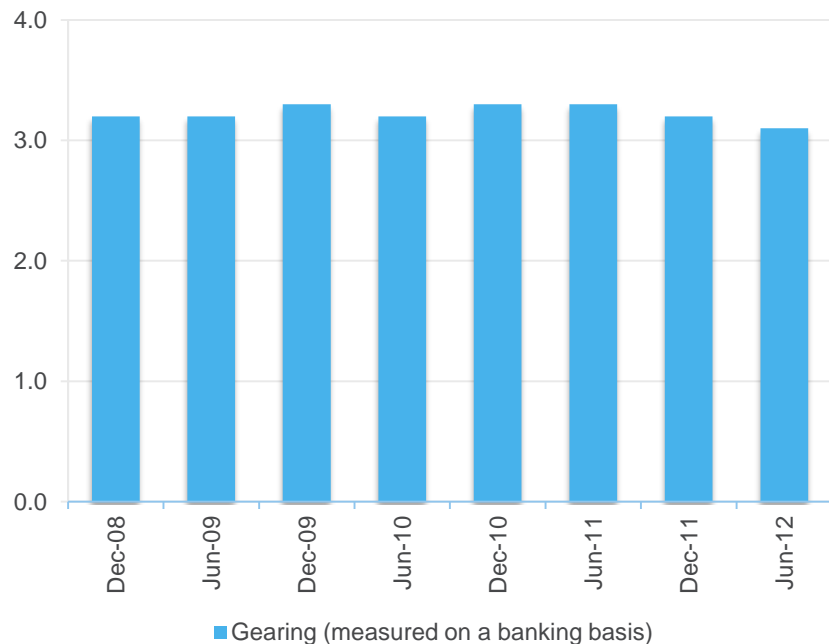
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Modest gearing levels



- Gearing at June 2012 of 3.1 times versus a banking covenant of 5.0 times
- Strong capital generation has funded dividends and growth as well as producing a modest reduction in gearing

Diversified funding base

As at 30 June 2012	Facilities £m
Banks	
Core bank group	383
Bonds and private placements	
Senior public bond	250
M&G term loan	100
Other sterling/euro medium term notes	40
Retail bonds	195
US private placements/residual subordinated loan notes	93
	678
Vanquis Bank retail deposits	275
Total committed facilities	1,336
Headroom on committed facilities	308
Additional retail deposits capacity*	145
Total funding capacity	1,481
Headroom plus retail deposits capacity**	442

* Additional capacity to take retail deposits based on 80% of Vanquis Bank receivables of £525.1m at 30 June 2012

** After setting aside the liquid asset buffer - calculated as 15% of the additional deposits capacity multiplied by the current FSA transitional rate of 50%

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** After setting aside the liquid asset buffer - calculated as 15% of the additional deposits capacity multiplied by the current FSA transitional rate of 50%

Diversified funding base

As at 30 June 2012	Facilities £m
Banks	
Core bank group	383
Bonds and private placements	
Senior public bond	250
M&G term loan	100
Other sterling/euro medium term notes	40
Retail bonds	195
US private placements/residual subordinated loan notes	93
	678
Vanquis Bank retail deposits	275
Total committed facilities	1,336
Headroom on committed facilities	308
Additional retail deposits capacity*	145
Total funding capacity	1,481
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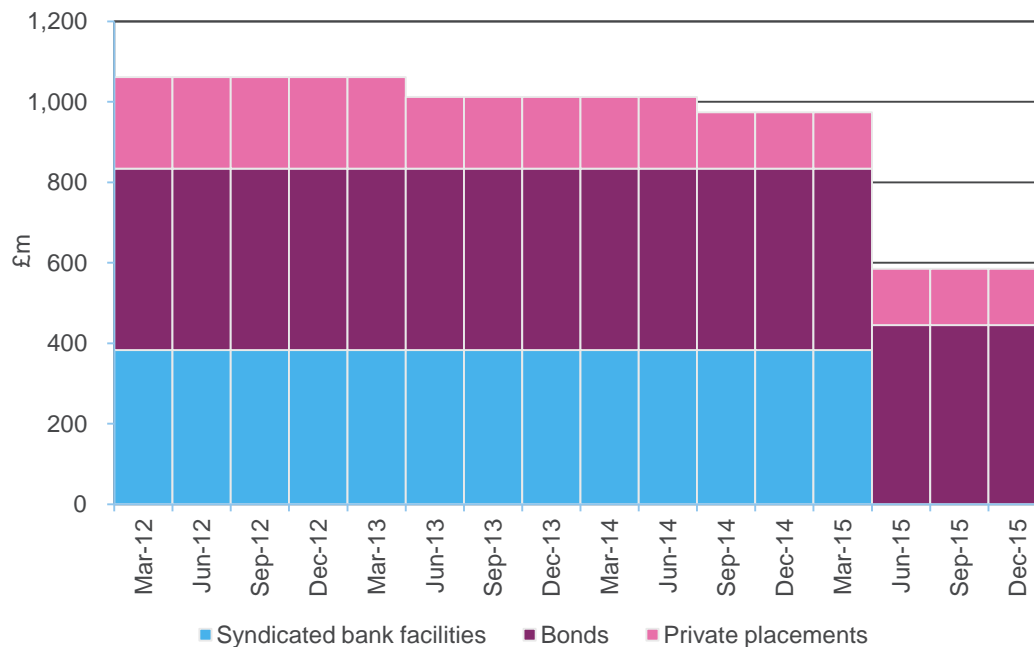
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Maturity profile of debt



- No further maturities in 2012
- 2013 and 2014 maturities restricted to £87m of private placements
- Headroom on committed facilities together with Vanquis Bank retail deposits programme provides funding into 2015

Profile and maturity of retail deposits

	Cumulative Dec-11 £m	Jan-12 £m	Feb-12 £m	Mar-12 £m	Apr-12 £m	May-12 £m	Jun-12 £m	Total £m	Annual rates %
Product									
1 year	32.6	5.3	4.1	5.8	0.8	0.6	0.4	49.6	3.20-3.55
2 year	74.5	11.6	6.9	2.9	0.4	1.9	0.7	98.9	3.51-4.05
3 year	18.3	12.8	15.9	6.5	3.2	3.0	0.2	59.9	3.61-4.15
5 year	14.3	11.1	9.8	6.8	12.1	10.7	2.0	66.8	4.06-4.65
Total	139.7	40.8	36.7	22.0	16.5	16.2	3.3	275.2	
Cumulative	139.7	180.5	217.2	239.2	255.7	271.9	275.2	275.2	

- Flow of deposits curtailed from April following £120m retail bond in March
- Weighted average period to maturity of 27 months at June 2012
- Average interest rate payable on deposits of 4.0% producing cost of 4.15% after including drag from holding liquid assets buffer
- Target of £300m deposits by December 2012
- No requirement to fund up to permitted 80% of receivables until latter part of 2013

Alignment of dividend policy, gearing and growth

High ROE businesses

**Dividend
Policy**
Cover $\geq 1.25x$

Gearing
3.5x versus covenant
of 5.0x

Growth
Supports c.£140m
receivables growth p.a

Strong capital generation

12 months ended	30 June 2012 £m	31 December 2011 £m
Consumer Credit Division	115.4	107.3
Vanquis Bank	28.1	14.8
Central	(20.0)	(12.0)
Capital generated	123.5	110.1
Dividends payable	(96.9)	(93.0)
Capital retained	26.6	17.1
Gearing (times)	3.1	3.3

- Strength of capital generation reflects:
 - Increase in return on capital at Vanquis Bank
 - Stable, high return on capital in Consumer Credit Division
- Capital generation comfortably funds the cost of the dividend
 - Modest reduction in gearing

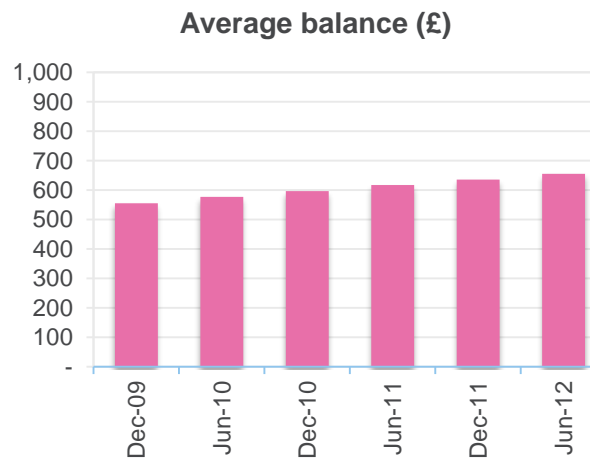
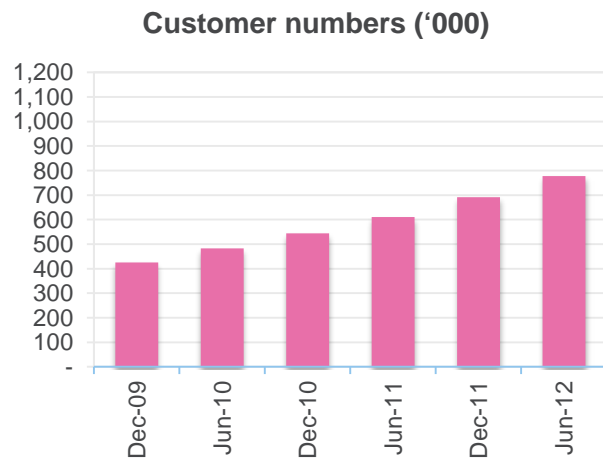
REGULATION AND OUTLOOK

Peter Crook– Chief Executive

Regulatory update

- Draft Financial Services Bill published in January 2012
 - Bill framed to enable a ‘lift and shift’ approach to credit regulation
 - Consumer Credit Act regime retained but OFT replaced with Financial Conduct Authority
 - Government committed to securing passage by end of 2012 with change to credit regulation implemented by 2014
- Bristol University Personal Finance Research Centre study into a variable cap on the total cost of credit is continuing
 - Progress update published on 24 May dealt largely with methodology and approach adopted
 - Final report due at end of summer
- Final guidance on joint consultation document published by FSA and OFT in relation to payment protection products is expected to be published by end of summer
- Received maximum rating score of 100 and ranked joint first globally amongst financial services companies in the FTSE4Good Index Series for second consecutive year

Vanquis Bank - UK



- Vanquis Bank has the potential for:
 - 1.0 to 1.2 million customers with
 - An average balance of between £800-£1,000
 - Generating approximately £1bn of receivables
 - Maintaining a minimum return on equity of at least 30%

Vanquis Bank - Poland

- Market opportunity:
 - 38 million population with under-served non-standard market of up to 15 million
 - Stable economy and regulatory environment
 - Very good feedback from customer forums on card proposition
 - Strong leverage off UK systems platform, processes and intellectual property
 - Passporting of UK banking licence would allow funding through local currency deposit taking in due course
- Progress to date:
 - UK and Polish regulatory approvals in place
 - Infrastructure established and successfully tested
 - Dedicated resource in place including experienced Polish marketing team and call centre staff (Chatham)
 - First cards issued in June
 - Polish website development close to completion
 - Quality of Polish credit bureau (BIK) data appears fit for purpose
- Pilot will run for 12 months and comprise c.10,000-15,000 accounts, £2m-£3m of receivables and an investment in 2012 of c.£3m

Consumer Credit Division

- The business is continuing its programme of initiatives to deliver sustainable growth, including:
 - Expanding the geographic footprint through the creation of more branches
 - Ongoing product innovation, including the imminent launch of the One Card
 - Upgrading the profile and improving the retention of agents
 - Enhancing processes across the branch and agent network whilst accommodating increased regulatory requirements
 - A modest increase in sales and marketing activity from June

Outlook

- Stable performance of Consumer Credit Division and strong growth and returns being delivered by Vanquis Bank provide sound basis for delivering good quality growth for 2012 as a whole
- Strong, diversified funding base that allows the group to meet contractual debt maturities and execute in full on growth plans into 2015
- No change to the group's cautious stance on extending credit in current economic environment

QUESTIONS

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