Provident Financial plc

2017 full year results

27 February 2018

Malcolm Le May

I should start by introducing myself. I'm Malcolm Le May, Chief Executive of Provident but also by saying well done for getting here. I hope our home collection agents have as much success getting out to see our customers today as some of you must have done getting here in the inclement weather. My plan today, together with Andrew, is to go through our 2017 results. But more importantly, I think to talk about the progress we've made in stabilising the group, starting with the turnaround of our home credit business, resolving the investigation into ROP in our Vanquis banking division and ring fencing the enquiry that we've got into the business's third arm, Moneybarn.

First of all a few words about 2017. Probably the worst year in our 140 year history but thankfully now behind us. I think these results mark a turning point for the group as we're well on our way with our CCD restructuring plan and have satisfactorily resolved the major regulatory and capital uncertainties of the group, which have beleaguered it for the last six months. As previously announced in January, in home credit the disruption created by the poor implementation of the revised operating model, compounded by the restitution of ROP sales has led, in 2017, to a reduced operating profit of 109 million, which is a 67.3% decrease on the prior year. We also had a reduction in earnings per share to 62.5p, which is a 64.8% reduction on the prior year and, as you all know, as a consequence we had to remove the dividend.

We've made changes to senior management and I believe today's announcement marks the turning point in the group's fortunes. In our home credit business we're seeing a significant improvement in both our customer service KPIs and our underlying operational performance. It is, and will be, a smaller business in the foreseeable future but its operating ratios of collections, sales and defaults are returning to seasonally adjusted normal levels. It's important to remember that the home credit business remains more than twice the size of our nearest competitor. It's a national business and it's a market leader. We enter 2018 with a very healthy receivables book of some £325 million and 527,000 customers. As a smaller business we're obviously scaling our cost base and we're confident that on an annualised run rate basis will return to a breakeven level in the second half of the current year. the new business model is being embedded in close consultation with the regulator and we're working hard to obtain full authorisation for the business in late 2018.

Turning to our regulatory difficulties, I'm pleased to announce that we've reached agreement with the FCA in respect of their enquiry into ROP and drawn a clear line in the sand in that regard. I'll go into more detail about this in a second but, in summary, the settlement has led us to provide £172 million which covers restitution for past sales, a conservative estimate for any future claims, some operational costs in implementing the restitution and a small fine payable to the FCA. Importantly, this cost covers the period from 2003, when the product was launched, up until late 2016, when the FCA acknowledges that made the description of interest accrual to ROP clear to all of our customers. Equally importantly is that we've not been asked to withdraw the product and management will evaluate how it might be introduced with FCA blessing in due course. Turning to Moneybarn, we've agreed the parameters of the investigation and we've conservatively provided £20 million to cover what we believe will be all eventualities as this investigation takes its course over the next two years. As a consequence of this, to fund the cost of the settlement of ROP, the provision of any further exposure to Moneybarn in its investigation and to ensure that going forward the group has sufficient capital to meet its current and future needs for both the additional conduct and operational risk and also to maintain the fact that we want to keep our investment grade rating we have today announced a fully underwritten rights issue of £300 million net of expenses. I think it's important to consider two factors in connection with this.

Firstly, the PRA is familiar with the detailed capital position and proposed capital plan, including the rights issue. This has been fully reflected in the board's decision to set the rights issue at a net £300 million level.

Secondly, it's important to note that our leading shareholders, representing well in excess of 50% of our register, have indicated their strong support for this issue.

In addition to resolving the immediate regulatory issues and focusing on resolving our operational challenges of the home credit business we've made a number of significant steps in other areas in recent months. We have strengthened our governance model and I'll go into more detail about this shortly. We've placed much greater emphasis on putting our customer first, which is something I feel we perhaps lost sight of in recent times and, most importantly, we're focused at senior levels of this organisation in fundamentally improving our relationship with the FCA, the PRA and, in Ireland, with the CBI. I believe this is critical to the future welfare of our customers and our businesses in the longer term. We've strengthened the executive leadership of the team. We have a new impetus driven by myself and I'm delighted to say that Chris Gillespie, who we brought back last year on an interim basis, has accepted a full time role as head of the CCD Division. We've appointed an interim CRO, as we previously announced and, more recently, appointed an interim group IT Strategy Director as well as a Head of Communications who will focus our internal and external messaging. Through these changes we are strengthening the governance and controls of the Group and, simultaneously, enhancing inter Group initiatives and synergies. I think the strength of our franchise has shone through what was a difficult last year. Going forward we aim to place the regulatory agenda firmly at the forefront of our thinking and behaviour. We believe that our businesses will continue to deliver excellent receivables growth of between 5% and 10% per annum and should produce a return on assets of approximately 10% each year in due course. We have the firm intention in 2019 to adopt a progressive dividend policy, maintaining dividend cover of at least 1.4 times and in 2018 we'll be paying a nominal dividend in the second half of the year. I thought it would be worth spending some time going through, in a little more detail, the regulatory position.

First of all talking about ROP. We've reached an agreed resolution with FCA which we believe draws a clear line in the sand. Their concern centred on the fact that Vanquis did not adequately disclose the potential interest charge when it sold our product ROP. As a result of this we'll adopt a refund programme of sales going back to the product's launch in 2003 and culminating in late 2016 when we wrote to all of our customers. The refund itself will be a combination of a balance adjustment to those customers who we still have, reducing our outstanding receivables and also a cash payment to those, who for various reasons, no longer bank with the Group. We've also set aside a sum in our provision, conservatively to provide for any further claims we may face as a result of increased awareness of our settlement with the FCA. Very importantly, the FCA have not said we must withdraw the product and, as I mentioned earlier, in due course we will review its reintroduction once it's been through our own and indeed the FCA's respective approval processes. I set out on this slide how the provision of £172m has been provided in our accounts and you'll see that in addition to the amounts I've already mentioned the programme to repay customers will cost some 12 million to organise and there is a small fine payable to the FCA of £2 million.

Turning Moneybarn, we have now identified a number of areas where we and the FCA will discuss where the detriment to our customers has occurred in the past. It's very important to stress that these enquires solely relate to past practices and there is no suggestion that, looking forward, these concerns continue to exist. It's equally important to stress that we and the FCA have worked hard to identify what we both believe to be the worst case scenario that may result from the investigation and, as a consequence of that, we have made a provision in our accounts for £20 million. This number was included in the capital plan that we submitted to the PRA and I'm afraid, as the way of these things, it will probably take another 24 months for this investigation to run its course. However, we will work collaboratively with the FCA to resolve matters as quickly as possible and also to demonstrate how we should behave with our regulator. Turning briefly now to our broader relationship with the regulator. Since becoming CEO it's been very clear to me that the Group's relationship with the FCA in particular and, to some extent, the PRA has needed improvement. I think this is both necessary and sensible if we're going to provide the best outcomes for our customers and indeed our investors. It's unwise to behave otherwise.

Since my appointment I've been holding weekly calls with the FCA and these conversations have been both constructive and helpful and, indeed, I think the speed of the resolution of the ROP enquiry and the Moneybarn book-ending bears testament to this. However, building a relationship is not a quick fix and I think because of the nature of our customer base across all of our divisions it's imperative that we build on our relationship both to ensure that we lift the enhanced supervision that the group is naturally under but also to move forward to obtain full authorisation in our CCD division.

Furthermore, we and others in our segment in the financial services industry will be addressing a number of FCA led reviews around affordability and persistent debt, something I might add which is just not restricted to the sub prime sector and I firmly believe that, as market leader in our segment, it's only right that we set an example to others in the sector and lead from the front. I'll now hand over to Andrew, who'll put some flesh on the bones around the results, talk a bit about the rights issue and also about the Group's result and capital position. Thanks Andrew.

Andrew Fisher, CFO

Morning everybody. So, here's a summary of the Group results. For Vanquis Bank and Moneybarn the reported profits are consistent with consensus and that's a consensus that hasn't changed very much over the past year. in fact both businesses have booked record volumes of new business, notwithstanding that we've tightened underwriting a little through the second half of 2017 and the most important message to take away is that the franchises of these businesses have been protected through a very difficult period and that is testament to the quality of the leadership in those businesses. As we said, in January CCD has come in towards the top end of the guidance provided in August, the loss of £119 million comprises £114 for the home credit business and £5 million for Satsuma. The adjusted Group profit before tax of £119 million is stated before an exceptional charge of £225 million, which I'll step through now before providing more commentary on the trading and the home credit turnaround.

As Malcolm explained, the ROP settlement relates to interest and ROP applied to customers' accounts from the start of the business in 2003 through to December 2016 when we wrote to all ROP customers, setting out in detail the costs and the benefits of the product. It's very important to understand that this is a proactive remediation of all affected customers on a basis agreed with the FCA and the Vanquis Bank has the necessary customer records to allow it to remediate in this way. The total estimated cost of the settlement amounts to £172 million and has been booked as a post balance sheet adjustment vent in the 2017 financial statements. The settlement includes net balance reductions to existing customers of £75.4 million, which comprises a gross balance reduction of just over £90 million, which is applied to customers' accounts less related impairment provisions of £14.7 million held by Vanquis against those balances. The settlement also includes provisions of £96.7 million in total. This includes cash settlements of £51.7 million to past or current ROP customers whose accounts have no outstanding balance or would be in credit as a result of the refund. You can see that a provision of £31 million has been made for the potential forward flow of ROP related complaints. Let's be very clear that we believe this to be a very prudent estimate of the elevated flow of ROP related complaints that might arise from the adverse publicity surrounding the settlement and the customer contact programme associated with refunding interest to customers. It's also the amount included in the Group's capital plan with which the PRA are familiar.

What it is not is an amount set aside for any other systemic issues since there are none that have arisen from this investigation. To let you frame this provision let me give you a couple of data points. The first is that the level of ROP related complaints ran at a monthly cost of around £200,000 per month through the first half of 2017. In our August announcement the ROP investigation became public and since that time the monthly cost has risen to £500,000 per month or £6 million per annum. So you can see that the provision we have made is based on a much higher propensity of customers to complain than we have experienced. It also assumes a much higher upheld rate. The cost of administering the redressed programme to a population of over a million customers is estimated at £12.3 million and will take several months to execute and the fine levied by the FCA is just under £2 million. The scope of the FCA investigation into Moneybarn is defined, which means that we're in a position to make a prudent estimate of the potential redress amount to £20 million. This amount has also been captured in the Group's capital plan, with which the PRA are familiar. It comprises £12.1 million of balance reductions reflected against receivables and £7.9 million of provisions mainly for cash redress. It's also important to note that the investigation is mainly backwards looking into redress that may arise in relation to specific affordability, forbearance and termination practices that Moneybarn has adjusted over the last 12 to 18 months. CCD has incurred exceptional costs of £32.5 million in 2017 in respect of the migration to the new home credit operating model. It comprises redundancy, retention, training and consultancy costs. The costs have increased from £21.6 million at the half year due to further redundancies and other costs associated with the implementation of the recovery plan in the second half of the year. I've set out the tax impact of the exceptional items in the far right column on this slide. You will see there's actually a tax charge of £5.9 million in respect of the costs of the ROP settlement. This is because tax relief is not available in respect of the ROP redressed costs paid by Vanquis Bank and the fines payable by both Vanquis Bank and Moneybarn are not tax allowable either. In addition, 10% of Vanquis Bank's ROP redress costs are treated as taxable income and subject to tax.

So turning now to the businesses. Vanquis Banks delivered and adjusted profit before tax of 206 million, up about a percent or so on 2016. The modest increase in profits reflects three factors, which we've previously flagged. First, the impact of a more stable delinquency performance compared with the improving profile in the first nine months of 2016. Secondly, the reduction in ROP income following the voluntary suspension of sales in April 2016 and thirdly, an additional year on year investment of approximately £12 million to support business development in the medium term growth potential of the business. New credit card bookings of 437,000 were up 7.6% last year, benefiting from the actions put in place during the second half of 2016 to develop the credit card proposition and enhance distribution. In particular, the Chrome near prime credit card continues to gain good traction. As we reported in the trading update in January, fourth quarter new customer bookings of 93,000 were weaker than the same period in 2016. This resulted from the tighter underwriting implemented in the third quarter of the year, reducing new booking volumes by something like 10% and the reduction in the volumes delivered by the Argos partnership due to their decision, under Sainsbury's ownership, to exit the partnership arrangement in early 2018 and to take all of their card issuing activities in-house. The tightening of underwriting, to remind you, in the third quarter was a prudent measure against the backdrop of a potential weakening in the macro picture in the UK rather than a direct response to anything observable in our own delinquency data. The growth in new customer numbers together with a credit line increase programme to good quality established customers has delivered year on year customer growth of 11.3% and receivables growth of 14.6%. The annualised risk adjusted margin has moderated from 32.2 to 30.2% during 2017. This reflects a reduction in the revenue yield due to some further decline in the penetration of ROP and some moderation in the interest yield from the changing mix of business and specifically the success of the Chrome near prime card. We'd expect the same influences to result in some further moderation in the risk adjusted margin in 2018. Now 2018 will see Vanquis adapting to the changes in regulation arising from the FCA's credit card market study and, specifically, the new rules on persistent debt and also their proposals arising from their review of credit worthiness in consumer credit, which will call for more exacting affordability checking for higher risk customers. The impact of these changes, together with the tightening of the underwriting I've already mentioned, is to dampen down to a degree the on-boarding of new customers and the CLI programme. So the receivables growth of at least 10% or so that you have expected from new customer volumes and the momentum from the CLI programme to customers booked in 2017 and in earlier years will be largely flattened.

CCD has reported an adjusted loss of £119 million comprising that £114 loss in home credit and £5m in Satsuma. The loss in Satsuma was higher than our original internal plan, reflecting the very strong growth of the monthly product during 2017, which you might recall was introduced towards the end of 2016. As a result, we did pick up modestly higher rate of impairment before tightening underwriting in the fourth quarter. Customer numbers and receivables in Satsuma show growth of 44% and 97% respectively and the strong momentum has continued into early 2018, not withstanding the tightening of underwriting. I'll now update you on the progress of the home credit recovery plan. The drive of the home credit business under Chris Gillespie's leadership to reconnect with as many customers as possible following the very poorly executed transition to the new operating model resulted in a good performance through the critical fourth quarter. As a result the business ended the year with an active customer base of 527,000 and receivables of £352 million, which is entirely consistent with the recovery plan drawn up by Chris. The progress is illustrated by the upper chart that you can see here. The blue bars show the progressive improvement in the collections' performance of the home credit business. The measures implemented by Chris to put spans of control back to where they were historically, deploy the technology based tools to allow CEMS and local management the flexibility to manage activity and allocate resources to meet customer needs have all contributed to this success.

Collections performance does display seasonality and strengthens in November and December, so what matters is relative performance. Where we got to by December was that the gap had narrowed to about 12% versus the collections performance of around 90% in December 2016. This has narrowed further in early 2018 and the recovery plan calls for more of the same through 2018 with full normalisation in early 2019. The grey bar on the chart shows the receivables trend. You can see the very sharp reduction from July through September, largely related to the impairment of customer balances where we failed to reconnect. Very importantly, the books show growth from 320 million at the end of October to 352 million at the year end, which is the reemergence of the seasonality we would expect to see and is consistent with the stabilisation of the business. Similarly, the customer count increased from around 500,000 coming into the fourth quarter to 527,000 at the year end. Now the accounting policy of fully impairing loans if no payment has been made over a 12 week period is illustrated, very starkly, in the quarterly profits profile set out in the lower chart. The switch to the new operating model was in early July and the impairment of customers with whom we failed to reconnect was taken in the third quarter and is behind us. The other really important point to note about the customer base and the receivables being in line with the recovery plan coming into 2018 is that the measures required to right-size the cost base and, in due course, return the business to profitability were based on hitting that plan. In other words, the cost reduction plan announced in January is fit for purpose. The plan involves a rationalisation of the central support functions which is subject to workforce consultation and is expected to result in approximately 90 redundancies. In addition, the business expects to secure significant improvements in the effectiveness and efficiency of the field organisation as the new business model continues to be embedded. At the same time, customer facing resources being managed very carefully in order to ensure that further improvements in customer service are delivered. The measures taken on cost, which will run into the second quarter, together with the ongoing improvement in collections performance are expected to result in the home credit business moving to a breakeven position on an annualised run rate basis during the second half of 2018.

It is encouraging to report that the collections performance through the early weeks of 2018 up to today's snow, at least, is very satisfactory and firmly in line with the recovery plan. One very important conclusion to draw from this is that it confirms that the quality of lending in the busy fourth quarter of last year was sound and when you stand back from all of this, the progress Chris has made is beginning to prove that whilst there is still some way to go the new operating model is capable of delivering good customer outcomes in a manner appropriate to the current regulatory backdrop as well as satisfactory performance metrics. There is no structural block to it doing so.

The other observation is that Provident Home Credit, as Malcolm mentioned, remains the largest player in the market, with a national footprint and a strong franchise. Moneybarn results: Moneybarn delivered a 9.6% increase in adjusted profits to 34.1 million in 2017. Extensions of both the product offering and distribution channels together with the further service enhancements to intermediaries has generated growth in new business volumes of approximately 17%. As a result, customer numbers were 50,000 at the end of the year, showing year on year growth of 22% and receivables of 376 million, showing year on year growth of 26.5%. The annualised risk adjusted margin is moderated from 24.1% to 21.8% during 2017, reflecting additional impairment associated with a step up in new business volumes and the flow through of impairment from higher risk categories of business prior to the tightening of the underwriting in the second quarter, which will have dealt with that issue.

Let's move to the rights issue.

The Group's capital position at the 31st December 2017 has been significantly depleted as a result of booking the provisions to cover the estimated cost of resolving the ROP and Moneybarn investigations. As a result, the Group requires a rights issue of £300 million net of expenses to ensure that Vanquis Bank and the Group have sufficient regulatory capital. This includes what I've described as balance sheet strengthening of £108 million, the main component of which is the additional capital requirement of £96 million in respect of conduct and operational risks. These capital allocations are included in the capital plan, with which the the PRA are familiar. At the same time we fully expect to achieve the other key objective of the capital raised, which is to reestablish normal access to bank and debt capital markets and to seek to maintain the Group's investment grade rating from Fitch in due course. I'm very pleased to report that all of the Group's lending banks have been supportive through this difficult period, as well as M&G who've been long standing lenders to Provident Financial. Accordingly, the Group has obtained amendments to certain financial covenants from the lending banks and M&G to provide appropriate headroom. Specifically, the net worth covenant has been temporarily reduced from £400 million to £375 million at the 31st December 2017 and 31st March 2018. The net worth excluding Vanquis covenant has been temporarily reduced from 155 million to £100 million at 31st December 2017 and 31st March 2018. These relaxations accommodate the provisions booked in the 31st December 2017 balance sheet through to the receipt of the right proceeds anticipated in April. The interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31st March and the 30th June 2018. This accommodates the heavy loss incurred by CCD in the third quarter of 2017.

Here are the terms of the rights issue. This was updated overnight as you might well imagine. It illustrates the impact of earnings per share and also sets out the timetable through to settlement. I'll leave you to work through the maths, which is relatively straightforward and make just two observations. First of all the discount of 33.7% to the theoretical ex rights price is consistent with the better end of the range of discounts on recent rights issues. Secondly, the rights issue, as you might expect, is fully underwritten by Barclays and JP Morgan Cazenove. Now a more detailed look at regulatory capital. This table sets out the Group's rate cap position prior to the estimated costs of the FCA settlements, after the FCA settlements and, on a proforma basis, following the rights issue. Now the reason I'm going to step you through this is because regulatory capital, as opposed to financial gearing, is now the main detriment of the group's capital structure. The key numbers to focus on are the common equity tier one ratio and the Group's capital requirement.

The CET1 ratio is the Group's regulatory capital as a percentage of risk weighted assets. Regulatory capital is derived in the table as the Group's reported net assets excluding the pension asset, goodwill and intangible assets. Risk weighted assets are largely determined by the Group's receivables, which carry an average risk weighting of around 80% of the carrying value. You can see that following the rights issue proforma regulatory capital is £608 million, representing a CET1 ratio of 28.7%. The Group's minimum capital requirement is 25.5%. This comprises the Group's total capital requirement of 22%, as expected to be set by the PRA plus 3.5%, reflecting the fully loaded capital conservation buffer of 2.5% and a counter cyclical buffer of 1% that will be required with effect from 1st January 2019, so this is the forward looking measure. The Group's proforma CET1 ratio of 28.7% exceeds the fully loaded capital requirement by 3.2% of risk weighted assets, which means the Group will be carrying surplus regulatory capital of around £70 million. This is expected to increase to just over £100 million by the end of 2018 and that's due to capital generation exceeding the nominal dividend payable in respect of 2018. This would then be in line with the quantum of surplus capital held in the past.

Now there's clearly been a significant increase in the group's capital requirement. Previously our capital requirement was 17.1% and our CET ratio was around 22%, reflecting surplus capital of 5% of risk weighted assets or a little over £100 million. The capital requirement 17.1% has now risen to a fully loaded ratio of 25.5% or by 8.4%. Of that increase 1.6% is the known increase in the CRD four buffers and 6.8% is largely attributable to that increase in the amount of capital allocated to conduct and operational risk of £96 million. On to funding and liquidity. So following the proposed rights issue you won't see any major changes to the Group's funding strategy. We'll continue to ensure the security of our funding through maintaining facilities to meet contractual maturities and growth over at least the next 12 month period and following the rights issue the group will be funded through to May 2020, when the £450 million syndicated revolving credit facility matures. As I mentioned earlier, an important objective of the rights issue is to re-establish access to the bank and debt capital markets, which we are confident we will and to secure investment grade status in due course.

Funding will continue to be provided through the three main sources with which you've been familiar in the past. Firstly, we'll maintain the syndicated revolving bank facilities with the lending banks who've continued to support us. Secondly, we'll re-access market funding, including retail bonds, institutional bonds and private placements and, thirdly, Vanquis Bank has access to retail deposits, which has remained undisturbed over recent months. Furthermore, we plan to fully ring fence Vanquis Bank to become fully funded with retail deposits in the short to medium term. In that context we hae arranged a bridge facility of £85 million with Barclays Bank and JP Morgan Securities. The purpose of the funds is to enable PFG to replace the £85 million of undrawn inter-company facility available to Vanquis Bank with a term loan. Accordingly, Vanquis Bank will hold £85 million of additional liquid resources. The term loan will in due course be repaid, thereby ring fencing Vanquis Bank's funding. This accelerates the course we were on anyhow. It's important to both the PRA who want to see a ring fenced Vanquis Bank eliminate reliance on Provident Financial Group and also the PFG's lending banks, who do not benefit from an upstream guarantee from Vanquis Bank. Finally, we do have a firm intention to actively consider funding options following the completion of the proposed rights issue. As you know, our next major maturity is the £250 million senior bond in October 2019. So, here's the proforma funding position of the Group. At 31 December 2017 the Group had headroom on committed facilities of £66 million, cash deposits of £34 million. So a total of £100 million. Vanquis Bank had capacity to take retail deposits and thereby repay its inter company loan at that point from PFG, amounting to £77 million. So the Group's total funding capacity was £177 million. You can see that the bridge facility of £85 million increases borrowings in PFG and once advanced to Vanquis Bank to satisfy the undrawn element of the inter company facility increases the inter company loan on a proforma basis to £162 million, which it plans to repay in due course.

Of the net rights proceeds of £300 million, £50 million is required as an equity injection into Vanquis Bank to restore its regulatory capital headroom. £85 million will be applied to repay the bridge facility with the remaining £165 million adding to PFG's funding headroom. So, as a result, the headroom on committed facilities increases to £231 million and the Group's overall funding capacity increases to £427 million. Mathematically of course this would be sufficient to fund growth and meet contractual debt maturities right through to May 2020. This is the Group's balance sheet at the end of 2017 on an IFRS 39 basis.

In the table you can see the estimated costs of the FCA settlements. Customer redresses through the balance reductions of £87.5 has been shown as an adjustment against receivables of course with the remaining estimated costs of the investigations of £104.6 million booked as a provision. As a result of these adjustments the Group's gearing ratio would increase from 3.0 times to 4.3 times. On a proforma basis the rights issue proceeds of 300 million will be applied to reduce the Group's borrowings by £165 million, as I described, with the remaining £135 million being added Vanquis Bank's liquid resources, being the £85 million increase in the term long from PFG and the £50 million equity injection into Vanquis Bank from the rights proceeds. This reduces proforma gearing to 2.2 times.

The target financial model most of you will recognise at least the shape of this slide, which sets out the congruence between our growth, capital requirements and dividend policy. Our plans indicate that the Group can deliver a target ROA of around 10% once the home credit business has moved back to profitability.

Of course you've seen that Vanquis Bank and Moneybarn delivered ROAs of between 11% and 12% in 2017. This remains an attractive rate of return and, with modest leverage, would deliver a return on capital of around 25%. Each of our businesses are market leaders with strong franchises. We believe the Group can therefore deliver sustainable receivables growth of up to 10% through the cycle. So, combining our returns and growth plans with the requirement to maintain a CET1 ratio of at least 25.5% dictates dividend cover of 1.4 times once the home credit business returns to profitability. We aim to pay a notional dividend for the 2018 financial year before adopting a progressive dividend in line with this policy from the 2019 financial year. thank you very much. I'll hand you back to Malcolm.

Thanks Andrew. So I hope we've demonstrated that 2017, is now behind us and we start 2018 well capitalised but with more work to do in CCD but, more fundamentally, with three very strong market leading businesses. I wanted to say a few more words, if I may, about our governance and culture. As you know, I was appointed CEO in February this year after an extensive search. I'd previously assumed the role of Executive Chairman, following the tragic death of my predecessor, Manjit Wolstenholme, and I hope you'll take time to read the fitting tribute we've written to her in the Annual Report. We're actively pursuing a search to appoint a new external Chairman and this will be announced in due course.

Since my appointment we've already held a meeting of all the divisional senior managers to reconfirm what we see as our clear purpose, vision, mission and values. This is firmly centred on putting our customers first and helping them on a financial journey to a better place. This is perhaps something, as I mentioned earlier, we've lost sight of in recent years. I have established a wider Group Executive Committee. Historically the group interface was conducted through a series of bilateral conversations with divisional heads and I think that was suboptimal and not particularly well controlled. The new Group Executive Committee will focus on achieving the best customer outcomes, sharing common challenges, reacting to regulatory developments over all of our businesses and overall providing a better control environment. This process is well underway and will involve the creation of new more centralised group oversight in a number of areas, such as finance, risk, IT, procurement, HR and communications. I believe this is being welcomed by our regulators.

In addition to the new central functions we'll be appointing, as I've mentioned, a new external Chairman and two new Non Executive Directors as existing members of the board roll off, having served their time under the combined code. It's likely that in addition to being first rate Non Executive Directors we'll focus on skills in consumer finance, credit and understanding our customer base. The latter NED is likely to chair a new Board committee that I've agreed to establish, focusing on the customer, our culture and ethics.

Our Group strategy is all about maintaining and expanding our leading market position in the sector. As I've said, all of our businesses are already market leaders in this market, which covers some 10 to 12 million people in the United Kingdom and Ireland. This represents approximately 25% of the adult population and we already have something of the order of 2.7 million customers. All of our customers need credit, both doorstep lending, digital payment capability and sensibly structured loans. Our Group strategy is predicated simply on serving these customers. Vanquis Bank will continue to maintain its leading position in credit cards. Under Chris Sweeney our head, it's already expanding our offering through the credit spectrum and making good progress both with its traditional credit card offering and the more recently introduced Chrome product. It will roll out its instalment loan business to existing customers and also, under Chris Sweeney's leadership, be implementing the refund programme following the ROP settlement we've talked to you about.

CCD remains, by some margin, the largest player in the home credit market. It's more than twice the size of its nearest competitor. It's suffered the pain but it's now well placed to continue its recovery and will stand as an example as to how business should be done in the sector. We'll work collaboratively with the FCA to continue the division's corporate recovery programme and will move, as previously mentioned, to an annualised breakeven point in the second half of 2018 and clearly our goal is to secure authorisation during the course of the year. Satsuma will aim to move towards profitability in due course. We must continue to ensure we achieve greater alignment I believe with Vanquis and Satsuma over the coming months as there's a great degree of correlation between Vanquis's 1.7 million customers and the typical Satsuma borrower, more so than the typical home credit borrower. It's already a valuable brand and its weekly volume in new loans in early 2018 is very encouraging.

Moneybarn, run by Shamus, will continue to build on its strength as a leading non standard car finance house. It's expanding and moving offices. Scope I believe exists for a much greater cross selling into the Vanquis customer base, many of whom share a similar credit profile to those of Moneybarn's existing customers. Group synergies will be explored also in collection efficiencies and other areas where cross business collaboration can add value. Moneybarn will widen its channel and product range, for example expanding into motorbike finance and increasingly into light commercial vehicles and aims to build a much larger direct presence, diversifying away from its traditional reliance on its broker-ship relationship.

As mentioned before, we are and we will continue to build upon our leading market positions in our chosen sector. We will focus on the customer and provide them with the credit that they need. We have a good mix of businesses covering home credit, lending, credit card, secured and unsecured short term loans. These products have collectively produced a business which has demonstrated low volatility and good returns throughout the economic cycle. We've invested and will continue to invest in technology and our new digitally led applications will place us at the forefront of technology by offering customers financial health checks and access to credit. Our underwriting and collections capabilities will, through a combination of the skills of our people, deliver returns our shareholders expect. We've demonstrated today prudent capital management and our diversified funding base combining the capital markets, our lending banks and, of course, our important depositors in Vanquis Bank. We've strengthened and will continue to strengthen our risk and governance model and ensure that the home credit recovery continues to progress. In conclusion, this is a strong business which slipped up. However, we've steadied the ship and resolved the major uncertainties phased by the Group. There remains a lot of work to do but we're committed and determined to place the customer at the centre of our business plans and, through this, to deliver responsible growth to our shareholders. With our renewed and refreshed strong balance sheet and our investment grade rating we are well set for the future to deliver the receivables growth of between 5% and 10% that we've already talked to you about and a return on assets of approximately 10% and, as I've said, in 2019 we intend to return to full dividend strength. Whilst it's early in the year, all of our businesses have started very well and we'll update you further on the first quarter results on the 9th May. Thanks for listening. Very happy to take any questions but before you ask them can we hand you a microphone.

Good morning, it's Ian White from Autonomous Research. I just have one on capital please. You mentioned the 6.8% add on for conduct and operational risk to the extent that you're putting those issues behind you. Do you expect that to kind of fade away over time and are there any milestones you've agreed with the regulator to actually reduce that going forward?

Your analysis is correct. First of all, you know, why have those add ons been made? It's because of the crystallisation of a very serious operational risk and, through the eyes of the regulator, conduct issue in relation to the way we've treated customers on ROP interest. First of all there are no specific milestones that are agreed with the regulator to naturally see those capital allocations mitigated in a sort of structured way. However, I do think, and it's not going to be in 2018 but when you look forward, beyond 2018, as Chris is successfully moving the home credit business forward to profitability and proving to the satisfaction of the regulator, when there's been a sufficient period of observation really, that the controls and the conduct of the business and the way it's been run is delivering positive customer outcomes, which it is but needs to continue to do so, under a model which is new in the market, the employed model, that will just take a little bit of time and I think it will take a little bit of time to get the business authorized as well. I think it's more likely to be in the second half of the year when that observable evidence is in front of the Regulator. That's a long answer to say I think there's an opportunity for us to reassess. Our internal assessment of capita is what matters at the end of the day, which we put to the PRA and I think we will be a position to take some moderation at the appropriate pointing in time in the way I've described. Conduct risk is a little bit more difficult I think. A lot of the work that Malcolm's heading up in terms of putting better risk management framework into the Group and improving governance and so on are clearly very positive moves in terms of improving governance and will be recognised as such by the regulator, as Malcolm described. So again, I think there'll be some opportunity to, negotiate is obviously the wrong word, but to have a conversation with the Regulator about the allocation for conduct risk but, again, I think that's down the road when they can see the benefits of the work that needs to be done over the coming months.

Thanks ..., if I could just press you slightly on the extent to which the reduction might come in. What do you think we should be looking at as a sort of medium term sort of CET1 requirement for the business?

You should be looking at us allocating capital at the rate of 25.5% of our risk weighted assets as we grow our receivables book. I think it would just be unwise or imprudent to make any other assumption and that is the assumption we have made and that is the assumption that sits behind the dividend policy that was explained on my last slide and Malcolm's reference as well.

Thanks, that's clear.

Hi good morning. It's Gurjit Kambo, JP Morgan Cazenove. I've got three questions for each of the divisions. Firstly, on Vanquis: what's the competitive landscape like within the Chrome business relative to perhaps the other credit cards that you have out there? Second one, just in home credit. In terms of agent numbers, have you seen some stability there and also are most of the vacancies that you want to be filled filled now. Finally, just on Moneybarn. In terms of risk adjusted margin, obviously ... were what drove that down last year and your tightening Q2, do we expect more stability for our RAM in 2018?

So on competitive landscape it's not changed too much. Clearly, Chrome competes head on with Capital One and Barclaycard, a little bit with NewDay but we're not seeing any sort of shift in that landscape and interestingly we've not seen any change in their strategy in dealing with our card either. Then Chris will answer the question on home credit.

In terms of agent numbers – and people still refer to them as agents actually. They're now called Customer Experience Managers. The answer is yes, we have the number that we plan to have, the vacancies that we've got are being filled as they come around, although the rate of attrition is reduced. We're actually reducing the absolute number a little bit because there's less customers for them to look after and the model is settling down. So, that reduction is coming through sort of natural means but we've got a full complement of people now, yes.

And finally, thank you, Shamus?

As you're aware we took some action during 2017 and we're expecting risk adjustment margins to stabilise throughout 2018.

Thank you.

Hi, it's Gary Greenwood at Shore Capital. I just wanted to ask about the ROP product and just to clarify, in terms of numbers, the contribution to profit that it made in 2017 and then how we should think about that going forward given the impact of the redress, the potential reintroduction of the product and the run off of the existing book. So we'll continue to build the back book in the usual way. We continually review the products and the benefits and so on. As we explained during the presentation, I think we need to go through a product governance process internally, as you would in relation to any re-introduction of product that hasn't effectively been presented to customers over the last 20 months or so and that will also involve a dialogue with the Regulator. You'll understand that has not been our priority. Up to today our priority has been getting resolutions. So that will take a period of time and on that basis we haven't guesstimated precisely what the revenue stream will be from presenting ROP in due course to new customers. The income in 2017 was circa £65 million and you can expect that to reduce again in 2018. I'm thinking of a number of between £10 and £15 million through natural run off on the assumption that we're not presenting the product to new customers for a period of time.

And the margin on that?

We don't give the margin numbers on that. It depends how you cost it against the overhead in business. It's a contribution that's made as a result of an existing relationship with a customer and I'm avoiding answering the question.

Fair enough.

I mean the utility of the product and the value that the product provides to customers can be valued and fully supported, just to be clear, from an economic point of view.

Any other questions? Two over here.

Thank you. Following up on the impact of ROP on the risk adjusted margin in Vanquis, has there been any impact on the impairments? Like have you seen that the customers who did have ROP had lower impairments than the other customers?

Yes indeed. That is the dynamic and the main feature of the product is that it if a customer gets into difficulties, such as losing income, for example, or illness or whatever, it freezes a customer's account for up to two years and that gives the customer the opportunity to get back on their feet and that's a positive experience for the customer and obviously mitigates against the impairment that would otherwise have arisen. Don't get me wrong, we impair the customer regardless of whether they have the ROP product, so it's not a positive event from an accounting point of view but from the customer's point of view the ability to freeze the account, get back on their feet and then hopefully recommence a well serviced relationship with Vanquis is a real benefit.

But then as the ROP's being phased out should we expect any impact on the impairments?

It's not being phased out.

Or as it naturally runs off? I mean you said that there's an impact...

If we weren't going to introduce the sale of the product naturally, and what we've seen since April 2016, when we voluntarily took the product out of the market whilst we went through a discussion with the FCA, it would naturally run off over a four or five year period, if that helps you?

Right but I'm trying to ascertain whether it's going to have any impact on the impairments?

No.

OK, thank you. Another question on the maturity, assuming that the rights issue is a success. What are your thoughts about addressing your capital structure?

We have addressed the capital structure. It is where it is right now. I mean the main change, which is just a continuation of the direction we were going in is really to ring fence the funding within Vanquis Bank, retail deposits, and then to reestablish access to banking and capital debt markets in the non bank entity. I don't think you'll see any other change to the capital structure.

Thank you.

Morning. It's Justin Bates from Liberum. Could you just clarify your target of 10% return on asset. Does that include or exclude the reintroduction of ROP?

We've set that on a relatively prudent basis. We haven't worked through the reintroduction of ROP and therefore we're being cautious both in terms of the profitability of Vanquis and in terms of the rate of recovery within home collecting credit in pitching at ten. So we can clearly update those targets as we make progress on both those fronts.

OK thank you.

Morning. Portia Patel from Liberum. Just a question on Vanquis. If I can ask you to just elaborate on your comment Andrew about the CLI programme and new customer on-boarding being flattened. So how should we think about receivables growth for Vanquis both in 2018 and 2019 on that basis?

In 2018 you should think of it as being flattened, you should think about the momentum, the natural momentum we get from having added customers progressively in recent years who then, effectively, benefit from the credit line increase programme that we put them through. Just that momentum would naturally add something like 10% or so to receivables, something of that order if you do the maths. So the impact in 2018 will be that the persistent debt policy published, given it is pretty well finalised now, ultimately resulting from the credit card market study by the FCA, will probably reduce growth by about 5%. So of that 10% roughly 5% is our estimate as to what the impact of applying those new policies will be and we can talk in more detail about that if you wish. In relation to more exacting affordability checking, where we're at a stage where we're still in dialogue with the FCA around how we, as Vanquis Bank, apply the principles. We think that'll probably knock a couple, maybe 3% or so off the growth rate and then there's a little bit of growth that's given up to the fact that we tightened our underwriting in the second half of last year and there's also a little bit of impact from the fact that some of the redress is applied to customers' account, which naturally reduces the revenue that's generated from those accounts for a period of time. So, you take that package of influences on the growth that would otherwise come through I think you'll see a relatively flat picture in 2018. Beyond 2018, clearly, there'll the annualisation of some of that impact in 2019 but growth will start to reemerge during 2019 and into 2020.

Thank you.

Any other questions?

Hi, it's Ian from Autonomous again. Just a couple of follow-up questions on the ROP please. What was the uphold rate for complaints you received during 2H 17 please and just kind of looking at this sort of residual risk that you flagged with your £30 million provision. What kind of time barring is there regarding sort of historic complaints going forward? The Ombudsman I understand has a six year rule? So, for example, customers who bought this product before 2012 perhaps their claims would be sort of null and void. How will you apply that going forward in terms of looking at the residual risk?

So I'll comment on that risk and maybe ask Chris to comment on the earlier part of your question. Just to be clear, in relation to the redress in relation to interest, what's actually happened here is that the FCA, who took over as you know in April 2014, have used their powers to impose on Vanquis a redress programme forward to the end of 2016 when we circularised our customers with full details of how the product worked and its costs including interest. Vanquis Bank, clearly in discussion with the regulator, has then applied the same view looking back to 2003 because frankly, that's the right thing to do and that was the result of the conversation that we had with the FCA. So static baring and stuff is not a principle that we've applied in dealing with that redress programme all the way back to 2003.

Chris, do you want to talk?

Yes, so on the refund programme, as Andrew said, we'll go back to 2003, normal rules apply for BAU complaint levels beyond the refund exercise. So, from memory, we can confirm it was about 36%.

Any other questions? Thank you very much for coming everybody and I hope we see you again on 9th May and good luck struggling home against this rather inclement weather.