Provident Financial plc

Interim results announcement 2014

23 July 2014

TODAY'S PRESENTATION

1. Highlights and business overview	Peter Crook
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3. Regulation, business development and outlook	Peter Crook
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Highlights and business overview

Peter Crook – Chief Executive

HIGHLIGHTS

Group performance supports a 10.0% dividend increase

- Profit before tax up 23.0% to £94.1m[1] and adjusted EPS up 24.6% to 54.2p[1]
- Interim dividend per share up 10.0% to 34.1p supported by strong capital generation and earnings
- Strong growth and financial returns at Vanquis Bank
- Polish pilot operation showing encouraging momentum
- Repositioning and financial performance of home credit on track
- Build-out of Satsuma's online instalment lending capability progressing well
- Group fully funded through to seasonal peak in 2017

Notes
[1] *Profit before tax stated before an exceptional restructuring cost of £4.0m in respect of CCD (2013: £4.5m)*

MARKET CONDITIONS AND BUSINESS POSITIONING

Vanquis Bank – UK

MARKET CONDITIONS

- Further development of presence in underserved, non-standard credit card market
- Strong flow of applications from both direct mail and internet channels
- Moderate increase in marketing activity of competitors
- UK unemployment has shown further reductions over the past year

BUSINESS POSITIONING

- Tight credit standards, supporting record low arrears and above target risk-adjusted margin
- Continued investment in customer acquisition programme has maintained strong flow of new customers
- Progressing towards medium-term target of 1.3 to 1.5 million customers
- Credit standards to remain unchanged

MARKET CONDITIONS AND BUSINESS POSITIONING

CCD

MARKET CONDITIONS

- Competitive landscape in home credit unchanged
- Marginal improvement in household disposable incomes as inflation of household bills has abated
- Home credit customer confidence still remains fragile
- Better quality customers have more credit choices than in the past
- Changing customer preferences driving strong growth in demand for online lending
- Dislocation of payday from regulation becoming visible

BUSINESS POSITIONING

- Migration of home credit business to a leaner, better quality customer base on track
- Significant benefits from improvement in quality of book and success of standardised arrears processes
- Roll-out of field technology and related cost savings ahead of plan
- Capability to support rapid development of Satsuma will be completed by end of the year

Financial review

Andrew Fisher – Finance Director

GROUP

Profit before tax

Six months ended 30 June	2014 £m	2013 £m	Change %
Vanquis Bank:			
- UK	**68.3**	50.2	36.1
- Poland	**(4.6)**	(3.6)	(27.8)
Total Vanquis Bank	**63.7**	46.6	36.7
CCD	**37.0**	36.1	2.5
Central costs	**(6.6)**	(6.2)	(6.5)
Profit before tax and exceptional items[1]	**94.1**	76.5	23.0
Effective tax rate	**21.50%**	23.25%	
Adjusted earnings per share[1] (pence)	**54.2**	43.5	24.6
Interim dividend per share (pence)	**34.1**	31.0	10.0

[1] *Profit before tax stated before an exceptional restructuring cost of £4.0m in respect of CCD (2013: £4.5m)*

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Business repositioning

ACTIONS	OUTCOME
Tighter credit standards	**Contraction in receivables**
	+
Enhanced arrears and collections processes	**Sharp improvement in margins**
	+
Roll-out of technology	**Reduction in cost base**
	–
Cost reduction programme	**Investment in business development**
	=
	PROFIT LEVELS MAINTAINED

VANQUIS BANK – UK

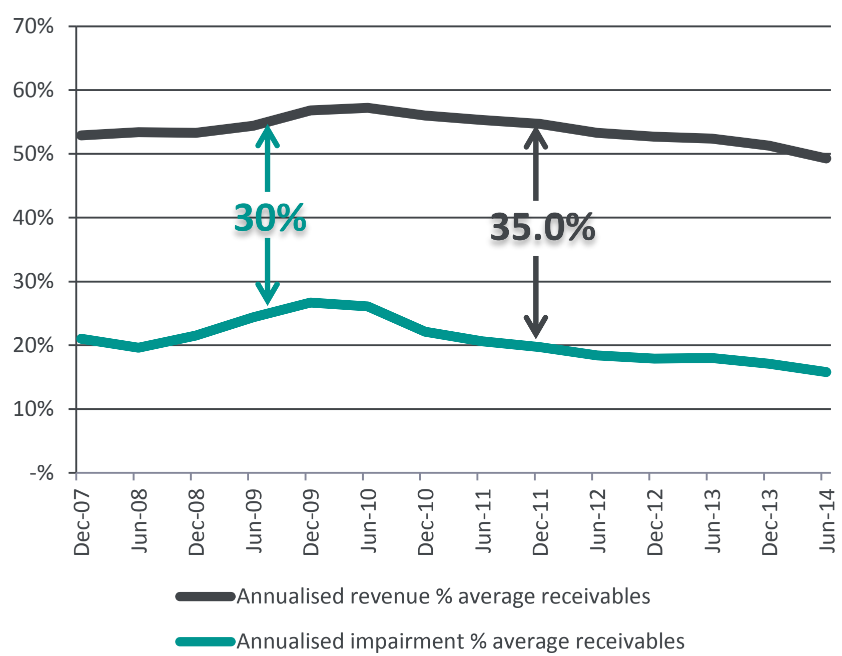
Income statement

Six months ended 30 June	2014 £m	2013 £m	Change %
Customer numbers ('000)	**1,177**	1,003	17.3
Period-end receivables	**954.0**	723.6	31.8
Average receivables	**905.2**	683.8	32.4
Revenue	**218.4**	178.0	22.7
Impairment	**(72.3)**	(64.6)	(11.9)
Revenue less impairment	**146.1**	113.4	28.8
Risk-adjusted margin[1]	***33.6%***	*34.4%*	
Costs	**(58.8)**	(47.8)	(23.0)
Interest	**(19.0)**	(15.4)	(23.4)
Profit before tax	**68.3**	50.2	36.1

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

VANQUIS BANK – UK

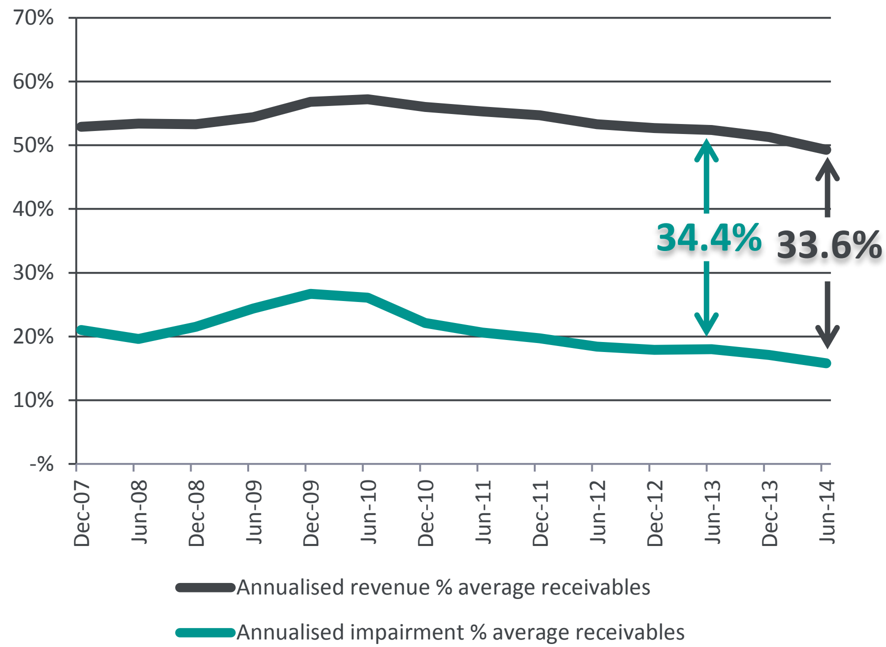
Risk-adjusted margin (RAM)



- Business model supports stability of RAM:
  - ‘Low and grow’ strategy
  - High credit line utilisation minimises volatility of credit losses
- RAM above 30% minimum target:
  - Consistently tight credit standards
  - Stable UK employment market

VANQUIS BANK – UK

Risk-adjusted margin (RAM)



- RAM moderated from 34.4% to 33.6% over the last 12 months:
  - Delinquency at record low
  - Changes to ROP product in mid-2013 primary reason for 0.8% reduction
- Estimated to be around 33% at 2014 year end
- Expected to remain above 30% target in medium term:
  - Based on current delinquency levels
  - After allowing for full impact of changes to ROP
  - After changes to interchange fees following Visa agreement with EU commission

VANQUIS BANK – UK

IFRS 7 disclosures

At 30 June % receivables	2014 %	2013 %
In order	**91.2**	90.8
In arrears:		
- past due but not impaired	**-**	-
- impaired	**8.8**	9.2
Total	**100.0**	100.0

- Stable profile reflects arrears continuing to run at record lows for the business

Impairment policy

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

CCD

Income statement

Six months ended 30 June	2014 £m	2013 £m	Change %
Customer numbers ('000)	**1,252**	1,668	(24.9)
Period-end receivables	**607.5**	739.6	(17.9)
Average receivables	**632.6**	755.2	(16.2)
Revenue	**313.6**	365.6	(14.2)
Impairment	**(124.4)**	(167.0)	25.5
Revenue less impairment	**189.2**	198.6	(4.7)
Revenue yield[1]	***97.1%***	*92.4%*	
Impairment % revenue[2]	***35.2%***	*36.8%*	
Risk-adjusted margin[3]	***62.9%***	*58.4%*	
Costs	**(133.1)**	(141.5)	5.9
Interest	**(19.1)**	(21.0)	9.0
Profit before tax	**37.0**	36.1	2.5

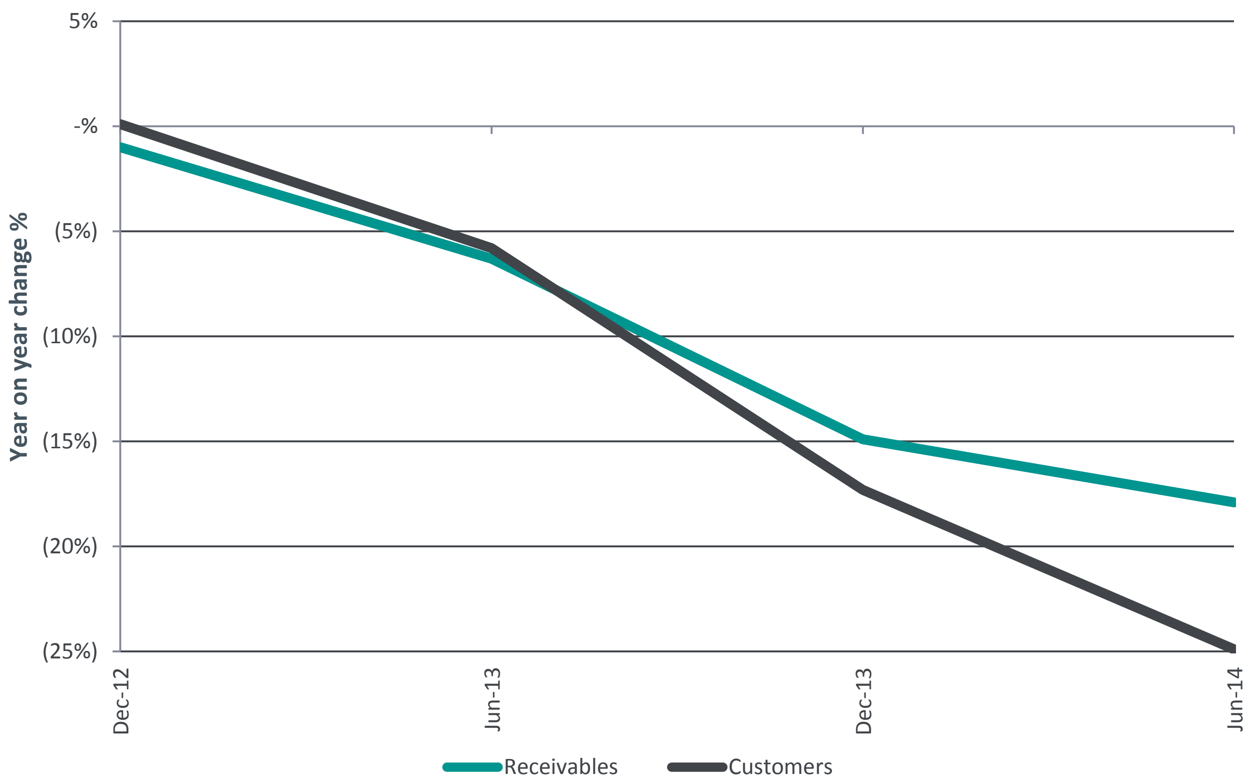
[1] *Revenue as a percentage of average receivables for the 12 months ended 30 June*

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

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

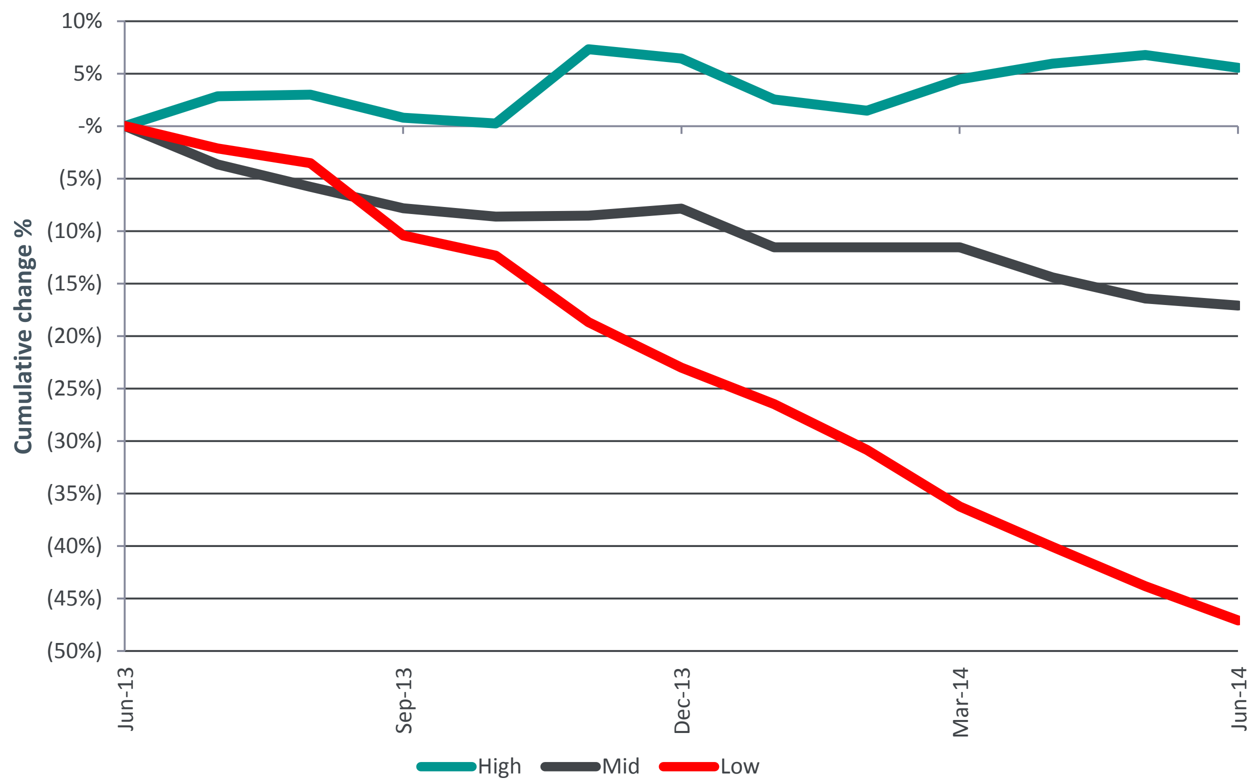
CCD

Customer numbers and receivables



CCD

Change in customer numbers by credit quality



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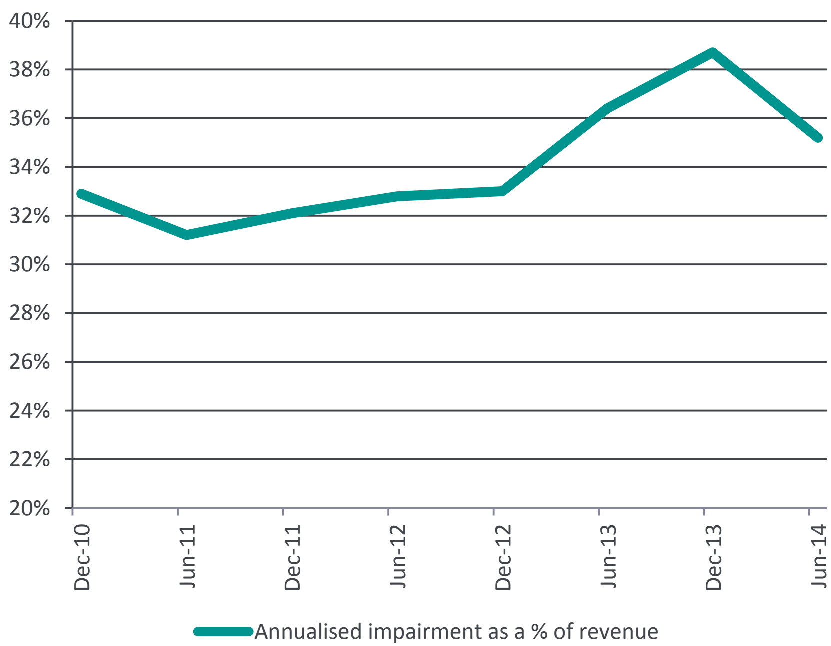
Impairment % revenue



- Significant reduction in annualised impairment to 35.2% from 38.7% at December 2013:
  - Tighter credit standards from September 2013 driving up quality of book
  - Strong benefits from standardised arrears and collections processes
- Further improvement to around 34% for 2014 as a whole

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IFRS 7 disclosures

At 30 June % receivables	2014 %	2013 %
In order	**31.8**	29.6
In arrears:		
- past due but not impaired	**10.3**	11.4
- impaired	**57.9**	59.0
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 the improved quality of the receivables book

Impairment policy

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

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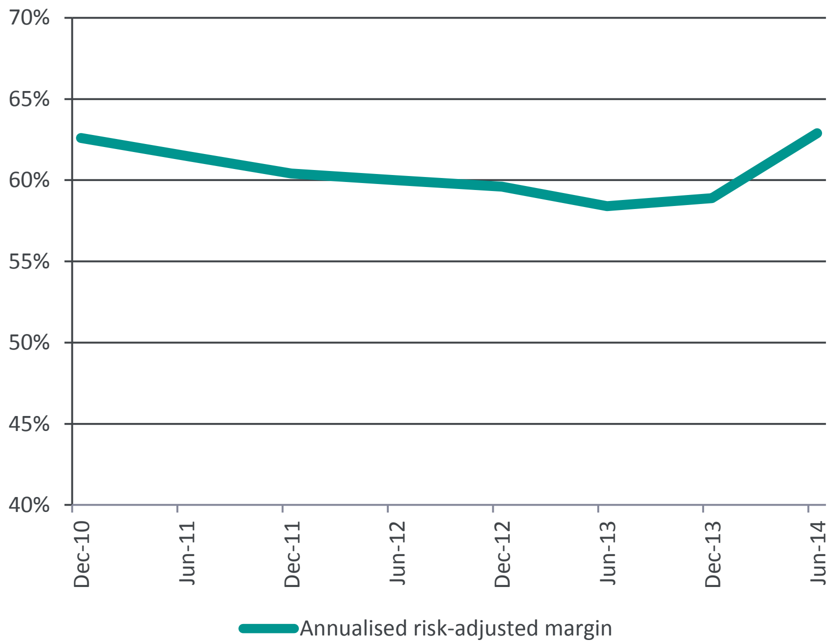
Risk-adjusted margin (RAM)



- Marked improvement in RAM to 62.9% from 58.9% at December 2013:
  - Robust revenue yield at 97.1%
  - Significant reduction in impairment

CCD

Cost bridge

	6 months ended 30 Jun Actual £m	12 months ended 31 Dec Estimate £m
2013	141	286
Phase 1 (July 2013)	(8)	(8)
Phase 2 (December 2013)	(6)	(18)
Phase 3 (June 2014)	-	(2)
Volume related[1]	(4)	(14)
Business development[2]	10	16
2014	133	260

£26m

[1] *Full-year estimated costs are based on forecast receivables which may vary depending on the actual level of credit issued and collections performance*

[2] *Comprises expenditure on Satsuma, Guarantor Loans, technology, leadership programme, standardisation of best practice and regulatory & compliance*

- 2014 cost base in line with November 2013 Investor & Analyst Event guidance

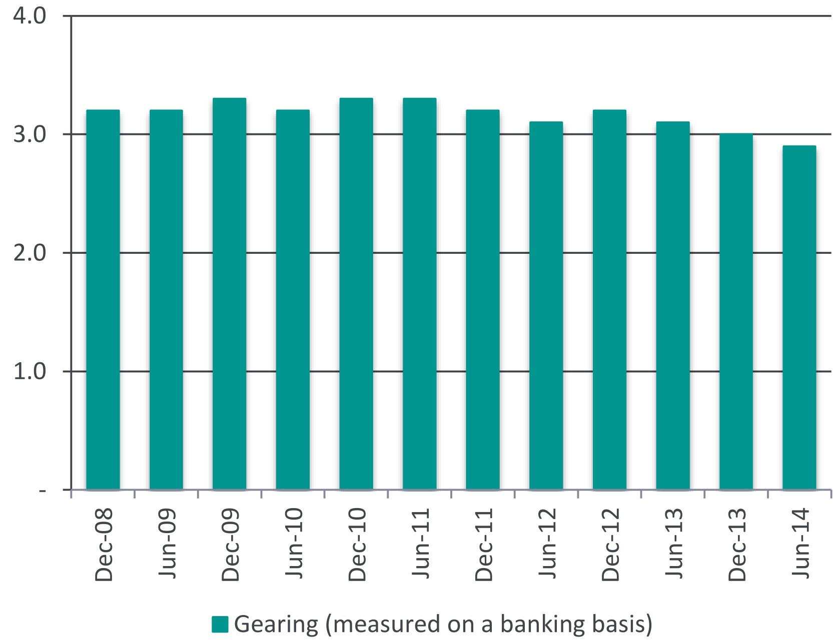
STRONG BALANCE SHEET

At 30 June	2014 £m	2013 £m
Receivables:		
- Vanquis Bank UK	**954.0**	723.6
- Vanquis Bank Poland	**9.3**	3.0
- Home credit	**605.1**	739.6
- Satsuma	**2.4**	-
Total receivables	**1,570.8**	1,466.2
Pension asset	**35.9**	22.7
Liquid assets buffer[1]	**83.8**	67.3
Debt funding	**(768.2)**	(743.1)
Retail deposits	**(474.7)**	(438.6)
Other	**(26.7)**	(7.0)
Net assets	**420.9**	367.5
Gearing[2] (times)	**2.9**	3.1

[1] *Represents the liquid assets buffer and other liquid resources in accordance with the PRA liquidity regime.*

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

MODEST GEARING LEVELS



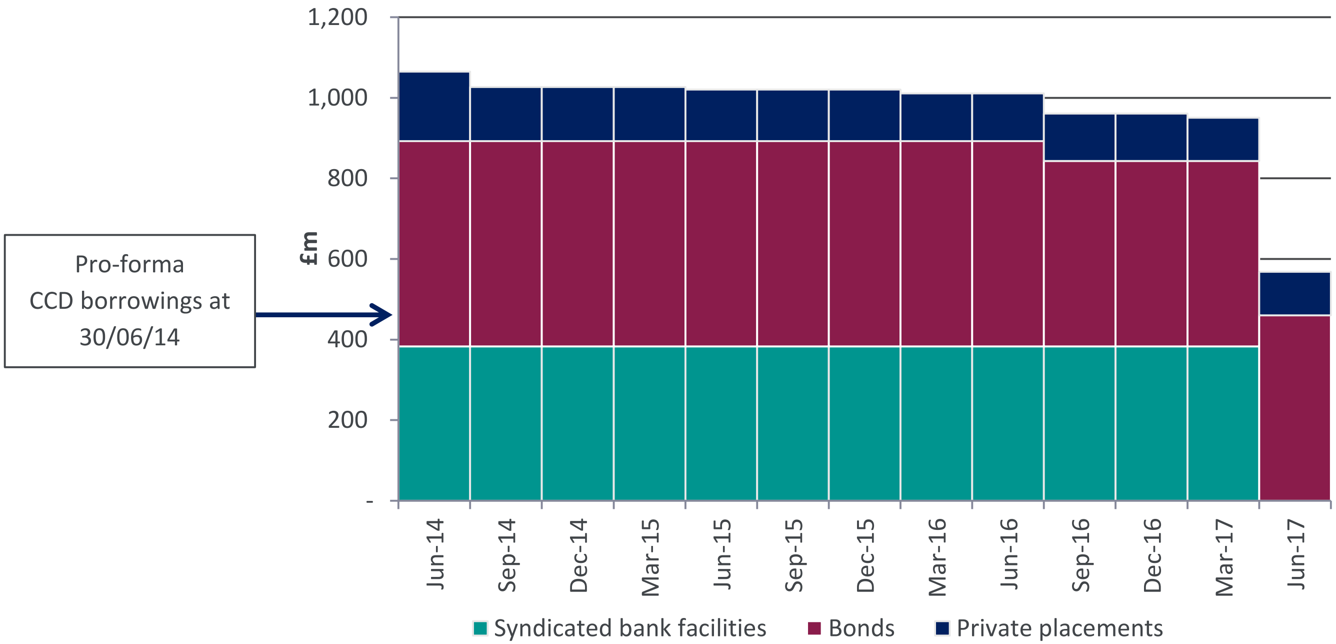
- Gearing at June 2014 of 2.9 times versus banking covenant of 5.0 times
- Strong capital generation has consistently funded dividends and growth and resulted in modest reduction in gearing
- Reduction in last 12 months reflects shrinkage of home credit receivables resulting from repositioning of the business

DIVERSIFIED FUNDING BASE

At 30 June 2014	£m
Banks	**383**
Bonds and private placements:	
Senior public bond	250
M&G term loan	100
Other sterling/euro medium-term notes	28
Retail bonds	260
US private placements/residual subordinated loan notes	44
Total bonds and private placements	**682**
Vanquis Bank retail deposits	**475**
Total committed facilities	**1,540**
Headroom on committed borrowing facilities	**307**
Additional retail deposits capacity[1]	**322**
Funding capacity	**629**

[1] *Based on the lower of: (i) 100% of Vanquis Bank's UK receivables of £954m at 30 June 2014 less retail deposits of £475m, after setting aside necessary liquid assets buffer; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £322m at 30 June 2014*

MATURITY PROFILE OF DEBT



- ‘Light’ maturities over the next 2 years
- Headroom on committed facilities plus Vanquis Bank retail deposits programme provides funding through to the seasonal peak in late 2017

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 receivables growth of £190m+

STRONG CAPITAL GENERATION

12 months ended 30 June	2014 £m	2013 £m
Vanquis Bank	**65.3**	39.2
CCD	**100.3**	91.1
Central	**(12.7)**	(13.6)
Capital generated[1]	**152.9**	116.7
Dividends declared	**(121.7)**	(108.4)
Surplus capital retained	**31.2**	8.3
Gearing (times)	**2.9**	3.1

[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 dividend with gearing comfortably within appetite of 3.5x

Regulation, business development and outlook

Peter Crook – Chief Executive

UK REGULATORY UPDATE

FCA

- Transfer of responsibility for consumer credit regulation from OFT to FCA on 1 April 2014:
  – Currently operating under interim permissions
  – Vanquis Bank's window for applying for full authorisation is between 1 December 2014 and 28 February 2015 and CCD's window is between 1 March 2015 and 31 May 2015
  – Both businesses continue to have a constructive dialogue with the FCA and have followed a detailed work programme to prepare for full authorisation

Payday rate cap

- FCA published its consultation on proposals for a price cap on payday lenders on 15 July 2014:
  – Cap of 0.8% per day of the amount borrowed on all interest, fees and charges
  – For instalment loans, daily rate cap relates to the balance outstanding on each day
  – Default fees limited to £15 and can continue to charge interest on all outstanding amounts up to the 0.8% cap per day
  – Total cost cap of 100% of the amount initially borrowed, including all fees and charges
- Cap applies to all high-cost short-term credit products as defined in the FCA's Handbook of Rules and Guidance and therefore excludes home credit
- Current Satsuma products fall within the scope of the proposed cap and its pricing is below the limits proposed by the FCA
- Consultation open until 1 September 2014 with final version published in early November 2014 for implementation on 2 January 2015

VANQUIS BANK

Business development – Polish credit card pilot

- Making good progress in developing marketing and distribution:
  - New account volumes of 4,500 in June were double earlier in the year
  - Flexible credit line and flexible loan products launched in April to sit alongside core credit card
  - Above-the-line advertising commenced in June, including the use of TV for the first time
- New country manager with extensive local marketing experience joined at the start of July
- Credit quality remains satisfactory following deployment of second generation scorecards in November last year
- Ministry of Finance draft proposals updated in March 2014 to limit non-interest charges:
  - In addition to existing interest rate cap of 4 times Lombard rate (currently 4%, giving a limit of 16%)
  - Current proposal allows for 25% upfront, followed by 30% per annum up to total for non-interest charges of 100%
  - Draft proposals maybe subject to further amendment and require clarification including on how they apply to revolving credit products
  - Final regulation expected to be drafted into legislation later in 2014 or in early 2015

CCD

Business development – Satsuma

- Online loans market estimated to be 4 times larger than home credit market
- Significant shift from payday loans to instalment loans taking place as tighter regulation of payday lending takes effect
- Development of Satsuma as CCD's online instalment loan business continues to progress well:
  - Quantity of new leads demonstrated that there is strong demand
  - Recently switched to using proven and highly scalable collections capabilities of Vanquis Bank
  - Delivery of new flexible IT platform remains on track to support scalable growth
  - Remaining focus is on refining underwriting and customer application process, both of which continue to progress satisfactorily
- Build-out of capability to support a scalable business will be completed by the end of the year
- A more rapid development of the business will then take place through a step-up in marketing, including more intensive TV advertising
- Confident business capable of achieving the group's target returns

OUTLOOK

- Vanquis Bank continues to generate strong growth and margins through developing its presence in the under-served, non-standard UK credit card market
- CCD is making excellent progress in repositioning the home credit business as leaner, better quality business focused on returns rather than growth
- The build out of capability to support the rapid development of Satsuma will be completed by the end of the year
- Positive momentum from evolving the marketing and distribution of Vanquis Bank's credit proposition in Poland is encouraging
- Group is fully funded until the seasonal peak in 2017

"The group has produced a very good set of interim results and credit quality in both businesses is very sound as evidenced by the favourable impairment trends in the first half of the year. This provides the foundation for delivering good quality growth for 2014 as a whole."

Questions

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