Provident Financial plc

Interim results announcement 2015

28 July 2015

Today's presentation

1. Highlights and business overview	› Peter Crook
2. Financial review	› Andrew Fisher
3. Regulation and outlook	› Peter Crook
4. Questions	

Highlights and business overview

Peter Crook – Chief Executive

Highlights

Group performance supports a 15.0% dividend increase

- Adjusted profit before tax up 34.5% to £126.6m[1] and adjusted EPS up 29.9% to 70.4p[1]
- Interim dividend per share up 15.0% to 39.2p supported by strong capital generation and earnings growth
- Strong growth and financial returns at Vanquis Bank
- Sale of Polish receivables book agreed in April with completion in early August
- Repositioning of home credit now complete
- Investment in Satsuma stepped-up to support development of substantial market opportunity
- Moneybarn trading ahead of plan with strong uplift in new business volumes
- Group fully funded through to May 2018

[1] *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £3.7m (2014: £nil) and exceptional costs of £11.8m (2014: £4.0m)*

Market conditions and business positioning

Vanquis Bank – UK

MARKET CONDITIONS

- Strong demand from developing underserved, non-standard credit card market
- Year on year increase in flow of applications
- Marketing activity of competitors remains consistent
- Continued improvement in UK employment market is assisting delinquency trends

BUSINESS POSITIONING

- Unchanged credit standards, supporting record low arrears and above target risk-adjusted margin
- Investment in customer acquisition programme has seen further increase in flow of new customers
- Current trends confirm medium-term target of between 1.5 and 1.8 million customers

Market conditions and business positioning
CCD

MARKET CONDITIONS

- No discernible change in competitive landscape in home credit although industry consolidation may materialise
- Household incomes and cost of living both stable
- Demand from home credit customers shown modest improvement and customer confidence lifted from historic lows
- Further confirmation that changing customer preferences and dislocation from payday regulation driving growth in online lending

BUSINESS POSITIONING

- Migration of home credit business to a smaller but leaner, better quality customer base now complete
- Higher margins from improvement in quality of book and success of standardised arrears processes
- Roll-out of field technology and related cost savings ahead of plan
- Significant investment in preparing for FCA regulation and application submitted
- Investment in Satsuma stepped-up to support rapid development of business

Market conditions and business positioning
Moneybarn

MARKET CONDITIONS

- Market supply less than half the size in 2007
- Growth supported by customer needs, under supply of non-standard finance and value for money product proposition
- Regulation may drive industry consolidation

BUSINESS POSITIONING

- Market leadership and primacy reinforced by access to group funding
- Investment in market leading platform and operational capacity to support significant growth potential
- Broadening of product range
- Cross selling into Vanquis Bank customer base being tested and trial of light commercial vehicles to commence shortly
- Application for full FCA authorisation submitted in May

Financial review

Andrew Fisher – Finance Director

Group
Profit before tax

Six months ended 30 June	2015 £m	2014 £m	Change %
Vanquis Bank:			
- UK	**88.5**	68.3	29.6%
- Poland	**(1.8)**	(4.6)	60.9%
Total Vanquis Bank	**86.7**	63.7	36.1%
CCD	**38.0**	37.0	2.7%
Moneybarn	**9.4**	-	n/a
Central costs	**(7.5)**	(6.6)	(13.6%)
Adjusted profit before tax[1]	**126.6**	94.1	34.5%
Effective tax rate	**20.25%**	21.50%	
Adjusted earnings per share[1]	**70.4p**	54.2p	29.9%
Annualised return on assets[2]	**15.6%**	14.9%	
Interim dividend per share	**39.2p**	34.1p	15.0%

[1] *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £3.7m (2014: £nil) and exceptional costs of £11.8m (2014: £4.0m)*

[2] *Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June*

Vanquis Bank – UK

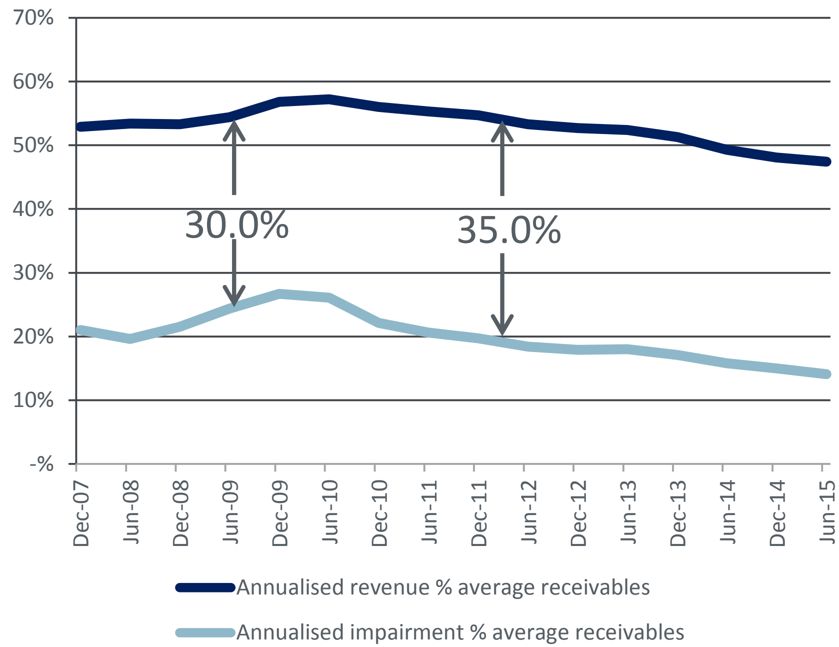
Income statement

Six months ended 30 June	2015 £m	2014 £m	Change %
Customer numbers ('000)	**1,359**	1,177	15.5%
Period-end receivables	**1,146.9**	954.0	20.2%
Average receivables	**1,115.1**	905.2	23.2%
Revenue	**261.1**	218.4	19.6%
Impairment	**(78.9)**	(72.3)	(9.1%)
Revenue less impairment	**182.2**	146.1	24.7%
Annualised risk-adjusted margin[1]	**33.3%**	33.6%	
Costs	**(72.5)**	(58.8)	(23.3%)
Interest	**(21.2)**	(19.0)	(11.6%)
Profit before tax	**88.5**	68.3	29.6%
Annualised return on assets[2]	**15.7%**	15.6%	

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

[2] *Profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June*

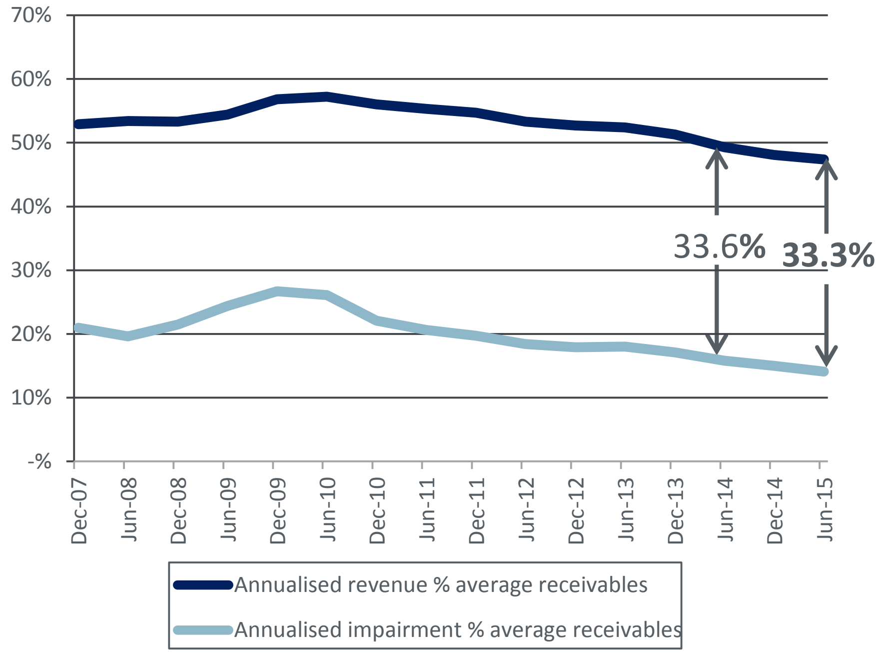
Vanquis Bank – UK
Risk-adjusted margin (RAM)



- 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 and now improving UK employment market

Vanquis Bank – UK

Risk-adjusted margin (RAM)



- RAM moderated from 33.6% to 33.3% over last 12 months:

Changes to ROP product and reduction in interchange fees	-0.6%
Record low delinquency	+0.3%
RAM	-0.3%

- Expected to remain above 30% target in medium term:
  - Based on current delinquency levels
  - After allowing for full impact of changes to ROP and interchange fees

Vanquis Bank – UK

IFRS 7 disclosures

At 30 June (% receivables)	2015 %	2014 %
In order	**92.8**	91.2
In arrears:		
- Past due but not impaired	**-**	-
- Impaired	**7.2**	8.8
Total	**100.0**	100.0

- Improved profile reflects arrears running 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	2015 £m	2014 £m	Change %
Customer numbers ('000)	**1,011**	1,252	(19.2%)
Period-end receivables	**497.9**	607.5	(18.0%)
Average receivables	**511.5**	632.6	(19.1%)
Revenue	**268.2**	313.6	(14.5%)
Impairment	**(72.1)**	(124.4)	42.0%
Revenue less impairment	**196.1**	189.2	3.6%
Annualised revenue yield[1]	**101.4%**	97.1%	
Annualised impairment % revenue[2]	**22.9%**	35.2%	
Annualised risk-adjusted margin[3]	**78.2%**	62.9%	
Costs	**(143.4)**	(133.1)	(7.7%)
Interest	**(14.7)**	(19.1)	23.0%
Adjusted profit before tax[4]	**38.0**	37.0	2.7%
Annualised return on assets[5] (%)	**19.7%**	16.5%	

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*

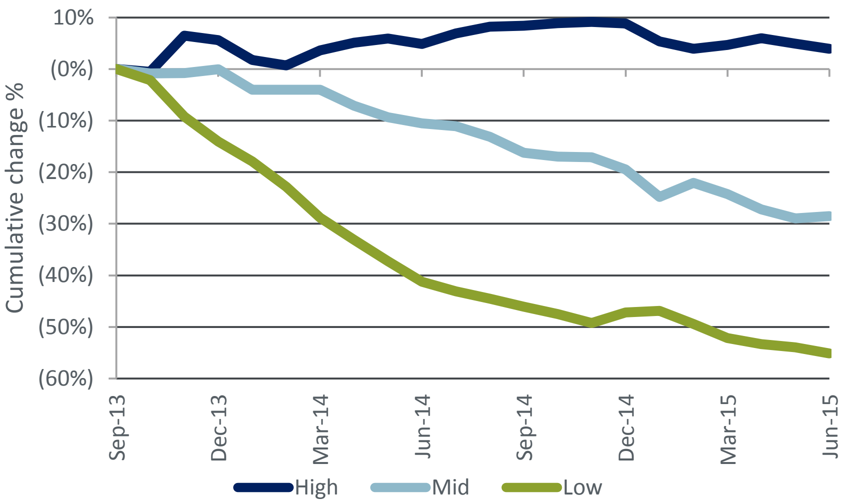
3 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June*

4 *Adjusted profit before tax is stated before exceptional costs of £11.8m (2014: £4.0m)*

5 *Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June*

CCD

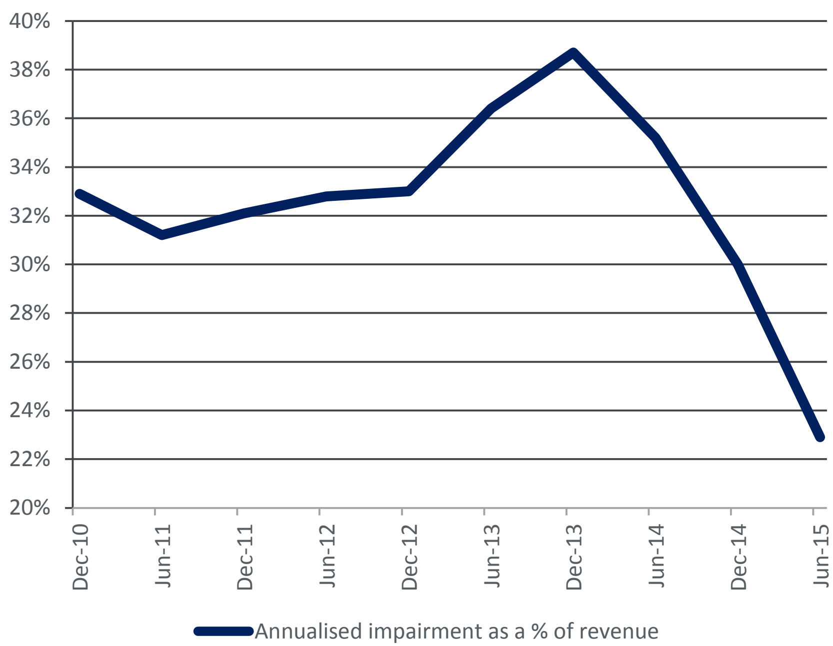
Customer numbers



- Total customer numbers reduced by 36% since September 2013:
  - 55% reduction in lower quality customers
  - Tighter underwriting applied to recruitment of new customers
  - Tighter credit standards applied to re-serving existing customers

CCD

Impairment % revenue



- Annualised impairment to revenue down sharply from 35.2% to 22.9% over last 12 months:
  - Tighter credit standards from September 2013 has driven up quality of book
  - Strong benefits from standardised arrears and collections processes

CCD

IFRS 7 disclosures

At 30 June (% receivables)	2015 %	2014 %
In order	**41.0**	31.8
In arrears:		
- Past due but not impaired	**9.9**	10.3
- Impaired	**49.1**	57.9
Total	**100.0**	100.0

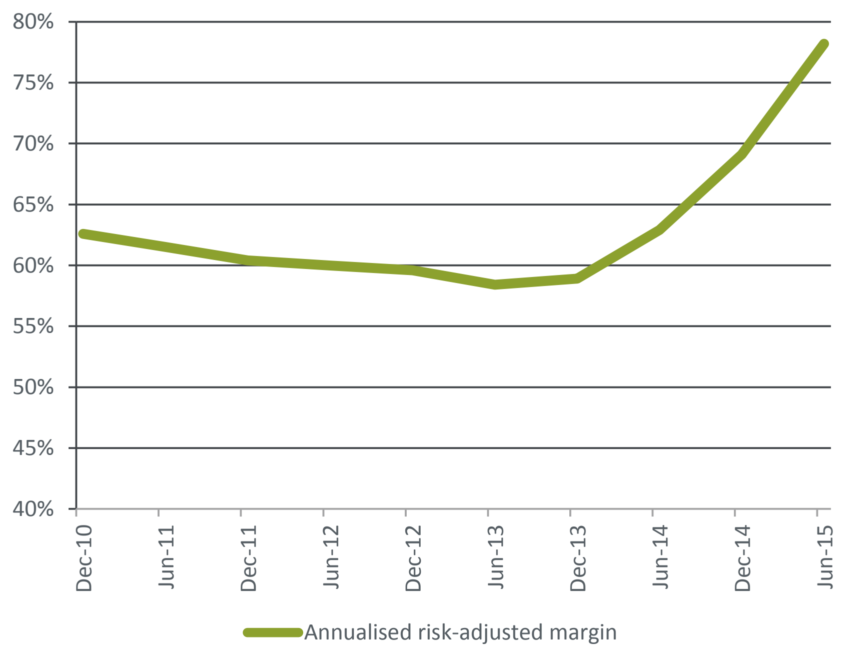
- Based on contractual arrears
- Past due but not impaired includes customers who have missed 1 payment in last 12 weeks
- IFRS 7 disclosures consistent with significant improvement in quality of receivables book

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***

CCD

Risk-adjusted margin (RAM)



- Marked improvement in annualised RAM from 62.9% at June 2014 to 78.2%:

Revenue yield	+4.3%
Impairment rate	+11.0%
RAM	+15.3%

- Revenue yield uplift reflects shorter duration of book
- Improved impairment reflects better credit quality and benefits of standardised arrears and collections processes
- Continuous cycle of credit quality being reinforced by improved collections performance

Moneybarn

Income statement

Six months ended 30 June	2015 £m	2014[1] £m	Change %
Customer numbers ('000)	**26**	18	44.4%
Period-end receivables	**186.5**	130.3	43.1%
Average receivables	**171.1**	126.3	35.5%
Revenue	**24.2**	18.0	34.4%
Impairment	**(3.4)**	(2.4)	(41.7%)
Revenue less impairment	**20.8**	15.6	33.3%
Annualised risk-adjusted margin[2]	**24.6%**	24.5%	
Costs	**(7.1)**	(5.3)	(34.0%)
Interest	**(4.3)**	(3.5)	(22.9%)
Profit before tax[3]	**9.4**	6.8	38.2%
Annualised return on assets[4]	**12.9%**		

1 *Adjusted to restate the pre-acquisition funding rate of 10% to the group's lower marginal cost of funding of 5%*

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

3 *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £3.7m (2014: £nil)*

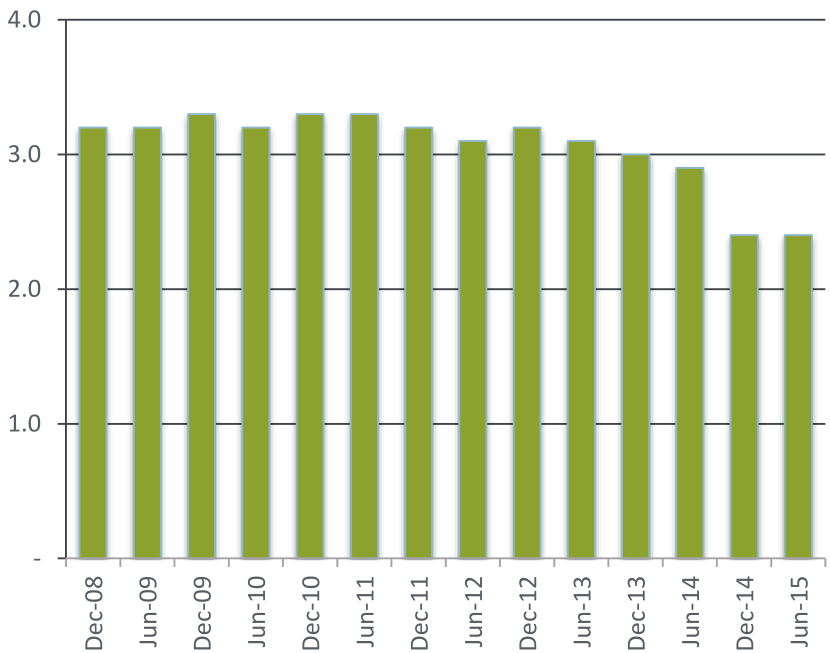
4 *Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June*

Group
Balance sheet

At 30 June	2015 £m	2014 £m
Goodwill	**71.2**	-
Acquisition intangibles	**68.8**	-
Receivables:		
- Vanquis Bank UK	**1,146.9**	954.0
- Vanquis Bank Poland	**-**	9.3
- Home credit (including glo)	**486.3**	605.1
- Satsuma	**11.6**	2.4
- Moneybarn	**186.5**	-
Total receivables	**1,831.3**	1,570.8
Pension asset	**17.5**	35.9
Liquid assets buffer	**118.0**	83.8
Bank and bond funding	**(853.3)**	(768.2)
Retail deposits	**(645.4)**	(474.7)
Other	**(26.0)**	(26.7)
Net assets	**582.1**	420.9
Gearing[1]	**2.4x**	2.9x

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

Group
Gearing



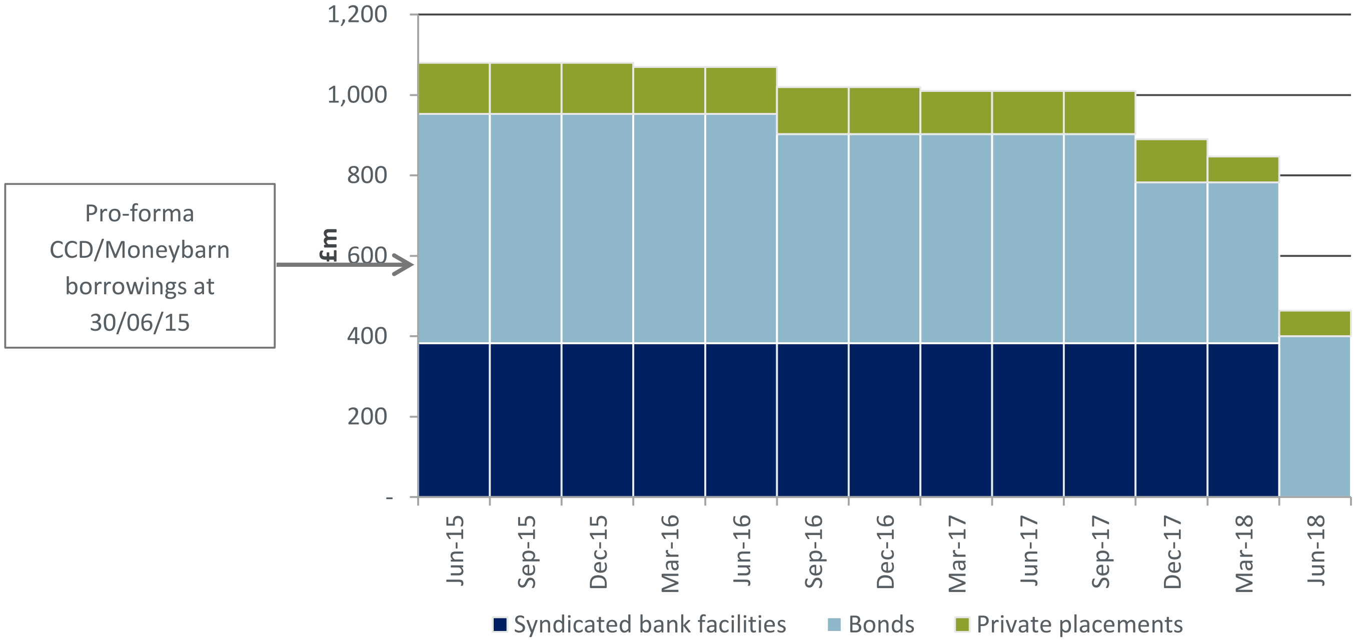
- Gearing at June 2015 of 2.4 times versus banking covenant of 5.0 times
- Strong capital generation has consistently funded dividends and growth and resulted in modest reduction in gearing
- Reduction in last 12 months reflects:
  - Equity raised to fund acquisition of Moneybarn in order to preserve regulatory capital levels
  - Capital release from shrinkage of home credit receivables

Group
Diversified funding base

At 30 June 2015	£m
Banks	**383**
Bonds and private placements:	
Senior public bond	250
M&G term loan	100
Other sterling/euro medium-term notes	27
Retail bonds	320
Total bonds and private placements	**697**
Vanquis Bank retail deposits	**645**
Total committed borrowing facilities	**1,725**
Borrowings under committed facilities	**(1,504)**
Headroom on committed borrowing facilities	**221**
Additional retail deposits capacity[1]	**263**
Funding capacity	**484**

[1] *Represents the Vanquis Bank intercompany loan from Provident Financial plc of £263m at 30 June 2015*

Group
Maturity profile of debt



- Low maturities over the next 2 years
- Headroom on committed facilities plus Vanquis Bank retail deposits programme provides funding through to May 2018

Group

Alignment of dividend policy, gearing and growth

High returns businesses

Dividend policy	**Gearing**	**Growth**
Cover ≥ 1.25x	≤ 3.5x versus covenant of 5.0x	Supports receivables growth of £260m+

Group
Strong capital generation

12 months ended 30 June	2015 £m	2014 £m
Vanquis Bank	**90.8**	65.3
CCD	**84.0**	100.3
Moneybarn	**-**	-
Central	**(5.0)**	(12.7)
Capital generated[1]	**169.8**	152.9
Dividends declared	**(148.9)**	(123.4)
Surplus capital retained	**20.9**	29.5

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*

- Strong capital generation includes the capital released from the shrinkage in the home credit receivables book over the last two years
- Group will invest capital in growing Satsuma during 2015 and 2016

Regulation and outlook

Peter Crook – Chief Executive

Regulatory update

Group

Transfer of regulation to the FCA

- CCD and Moneybarn submitted their applications for full authorisation prior to 31 May 2015 deadline
- Vanquis Bank is already an authorised firm but submitted its application for a variation of permissions in December 2014
- FCA has up to twelve months from date of submission to consider and conclude on variation of permissions and applications for full authorisation

High-cost short-term credit (HCSTC) price cap

- HCSTC price cap came into force on 2 January 2015 and applies to all HCSTC products but excludes home credit
- Satsuma products fall within the scope of the proposed cap but its pricing is below the limits

FCA credit card review

- Three main areas being explored:
  - The extent to which consumers drive effective competition through shopping around and switching
  - How firms recover their costs across different cardholder groups
  - The extent of unaffordable credit card debt
- FCA expects to reach its conclusions towards the end of 2015

Outlook

Group

- Vanquis Bank will continue to generate strong growth and margins through developing the under-served, non-standard UK credit market
- Repositioning of home credit as a smaller but leaner, better quality business focused on returns is now complete
- First half investment to support rapid development of Satsuma puts it on track to break even on a monthly basis by the end of the year and capture the significant medium-term opportunity
- Lift in new business volumes at Moneybarn has reinforced primacy which, together with product development opportunities, leaves the business well-positioned to deliver strong medium-term growth and the group's target returns
- Group is fully funded until May 2018

"The group has produced a strong set of interim results and credit quality in all three businesses is very sound as evidenced by the favourable impairment trends in the first half of the year. This provides the foundation for delivering quality growth for 2015 as a whole"

Questions

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