2019 interim results

30 July 2019

Today's presentation

• Highlights and operational progress	Malcolm Le May
• Financial review	Simon Thomas
• Vision for the future and outlook	Malcolm Le May
• Questions	

Highlights and operational progress

Malcolm Le May – Chief Executive Officer

First half performance in line with internal plans

- Group reported profit before tax and bid defence costs up 76.9% to £61.2m (2018: £34.6m)
- Group adjusted profit before tax[1] of £74.9m (2018: £74.9m), in line with internal plans
- All three divisions have delivered strong new business volumes with stable delinquency
- Vanquis Bank profits reduced to £85.0m (2018: £97.2m), primarily reflecting the expected reduction in ROP income
- Moneybarn increased profits by 46% to £15.5m (2018: £10.6m) with strong growth in customers and receivables
- Continued reduction in CCD losses to £15.1m (2018: loss of £23.2m), reflecting ongoing turnaround of the business
- Annualised ROA now 7.7% (2018: 5.3%), progressing towards the group's target of 10%
- Revolving credit facility recently refinanced
- Interim dividend reinstated at 9.0p per share (2018: nil)

[1] *Exceptional costs in the first half of 2019 comprise £23.6m of defence costs associated with Non-Standard Finance's (NSF's) unsolicited offer for the group and £10.0m in relation to the turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017. Exceptional costs in the first half of 2018 comprised £18.1m in respect of the turnaround of the home credit business and £18.5m in respect of the refinancing of the senior bonds maturing in October 2019*

Continued good operational momentum whilst adapting to the evolving regulatory landscape

	VANQUIS BANK	moneybarn credit you can trust	Provident The loan that comes to you / Satsuma loans.co.uk
Business model changes	• Revised affordability processes • Higher minimum payments and recommended payments • Changes to interest and fee structures • Focus on cost efficiency and digital • ROP refund programme completed	• Revised affordability processes • Customer termination options (H2-17) • Flat fee commission structures (unchanged) • FCA investigation near conclusion	• Revised sales processes following implementation of high-cost credit review • Recorded customer visits • Enhanced performance management and variable pay • Provident Direct • Headcount reductions of over 1,000 and ongoing cost reduction
Regulatory changes	• PS18/19 affordability guidance • CCMS remedies, including persistent debt	• PS18/19 affordability guidance • FCA review of motor finance market	• PS18/19 affordability guidance • High-cost credit review

Financial review

Simon Thomas – Chief Financial Officer

Group results

	Six months ended 30 June		
	2019 £m	2018 £m	Change %
Vanquis Bank	**85.0**	97.2	(12.6)
Moneybarn	**15.5**	10.6	46.2
CCD	**(15.1)**	(23.2)	34.9
Central costs	**(10.5)**	(9.7)	(8.2)
Adjusted profit before tax	**74.9**	74.9	-
Amortisation of acquired intangibles	**(3.7)**	(3.7)	-
Exceptional costs (excluding bid defence costs)[2]	**(10.0)**	(36.6)	72.7
Profit before tax and bid defence costs	**61.2**	34.6	76.9
Exceptional costs - bid defence costs[2]	**(23.6)**	-	n/a
Statutory profit before tax	**37.6**	34.6	8.8
Adjusted basic earnings per share (pence)	**21.8**	24.2	(9.9)
Annualised return on assets[1] (%)	**7.7%**	5.3%	n/a
Interim dividend per share (pence)	**9.0**	-	n/a

1 *Annualised return on assets is calculated as adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June*

2 *Exceptional costs in the first half of 2019 comprise £23.6m of defence costs associated with Non-Standard Finance's (NSF's) unsolicited offer for the group and £10.0m in relation to the turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017. Exceptional costs in the first half of 2018 comprised £18.1m in respect of the turnaround of the home credit business and £18.5m in respect of the refinancing of the senior bonds maturing in October 2019*

Vanquis Bank results

	Six months ended 30 June		
	2019 £m	2018 £m	Change %
Customer numbers ('000)[1]	**1,791**	1,747	2.5
Period-end receivables	**1,438.1**	1,432.4	0.4
Average receivables (prior to balance reduction provision)[2]	**1,440.9**	1,487.1	(3.1)
Revenue	**294.6**	331.9	(11.2)
Impairment	**(96.6)**	(117.3)	17.6
Revenue less impairment	**198.0**	214.6	(7.7)
Annualised revenue yield[3]	**41.9%**	45.0%	
Annualised impairment rate[4]	**15.1%**	15.7%	
Annualised risk-adjusted margin[5]	**26.8%**	29.3%	
Costs	**(97.1)**	(99.2)	2.1
Interest	**(15.9)**	(18.2)	12.6
Profit before tax	**85.0**	97.2	(12.6)
Annualised return on assets[6]	**10.4%**	11.2%	

1 *In order to adopt a more holistic 'single view of customer' approach, customer numbers now reflects Vanquis Bank customers who have a loan as well as a credit card as one customer. Accordingly, the June 2018 comparative has been restated onto a comparable basis resulting in a reduction in customer numbers from 1,764,000 to 1,747,000*
2 *Calculated as the average of month end receivables for the 6 months ended 30 June, prior to the balance reduction provision arising as a result of the resolution of the FCA investigation into ROP*
3 *Revenue as a percentage of average receivables for the 12 months ended 30 June*
4 *Impairment as a percentage of average receivables for the 12 months ended 30 June*
5 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June*
6 *Profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June*

Moneybarn results

	Six months ended 30 June		
	2019 £m	2018 £m	Change %
Customer numbers ('000)	**70**	57	22.8
Period-end receivables	**461.3**	360.0	28.1
Average receivables (prior to balance reduction provision)[1]	**436.6**	360.6	21.1
Revenue	**77.2**	61.2	26.1
Impairment	**(27.8)**	(24.7)	(12.6)
Revenue less impairment	**49.4**	36.5	35.3
Annualised revenue yield[2]	**35.6%**	34.5%	
Annualised impairment rate[3]	**12.3%**	14.1%	
Annualised risk-adjusted margin[4]	**23.3%**	20.4%	
Costs	**(20.2)**	(16.1)	(25.5)
Interest	**(13.7)**	(9.8)	(39.8)
Profit before tax	**15.5**	10.6	46.2
Annualised return on assets[5]	**11.5%**	9.5%	

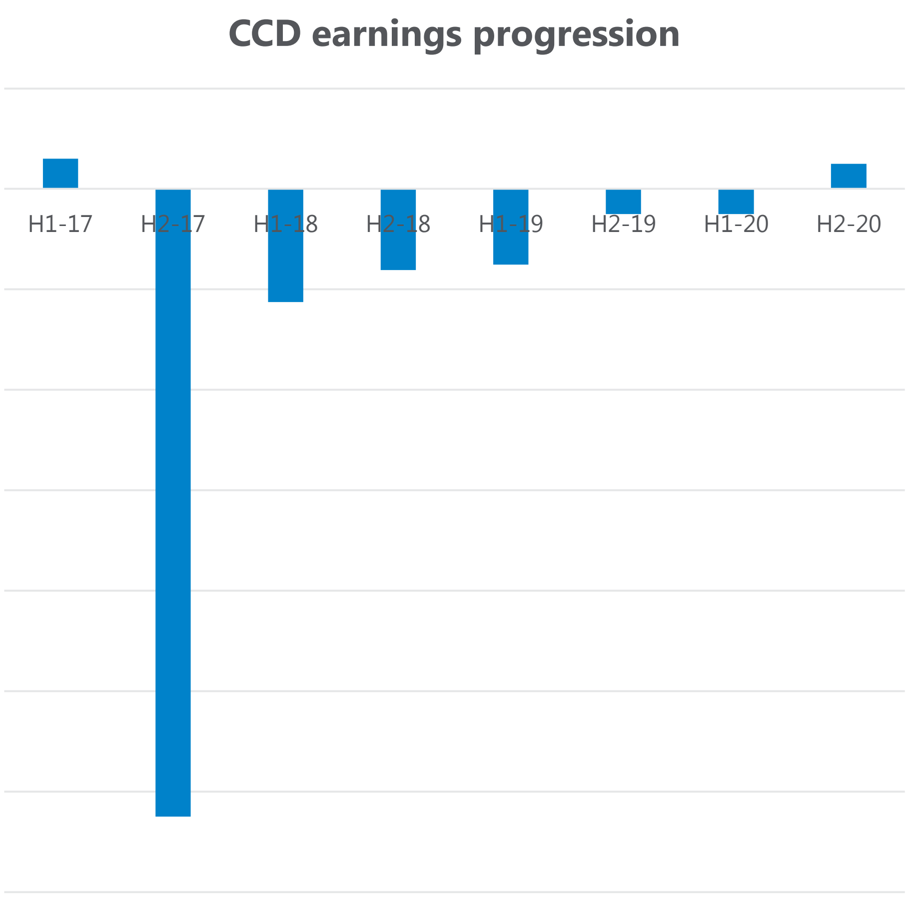
1 *Calculated as the average of month end receivables for the 6 months ended 30 June, prior to the balance reduction provision in respect of the FCA investigation into affordability, forbearance and termination options*
2 *Revenue as a percentage of average receivables for the 12 months ended 30 June*
3 *Impairment as a percentage of average receivables for the 12 months ended 30 June*
4 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June*
5 *Profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June*

CCD results

	Six months ended 30 June		
	2019 £m	2018 £m	Change %
Customer numbers ('000)	**531**	765	(30.6)
Period-end receivables	**245.4**	293.7	(16.4)
Average receivables[1]	**254.2**	309.7	(17.9)
Revenue	**152.1**	179.4	(15.2)
Impairment	**(51.8)**	(70.6)	26.6
Revenue less impairment	**100.3**	108.8	(7.8)
Annualised revenue yield[2]	**117.3%**	120.7%	
Annualised impairment rate[3]	**38.0%**	78.6%	
Annualised risk-adjusted margin[4]	**79.3%**	42.1%	
Costs	**(110.3)**	(124.0)	11.0
Interest	**(5.1)**	(8.0)	36.3
Adjusted loss before tax[5]	**(15.1)**	(23.2)	34.9
Annualised return on assets[6]	**(5.5%)**	(28.3%)	

1 *Calculated as the average of month end receivables for the 6 months ended 30 June*
2 *Revenue as a percentage of average receivables for the 12 months ended 30 June*
3 *Impairment as a percentage of average receivables for the 12 months ended 30 June*
4 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June*
5 *Stated before exceptional costs of £10.0m (2018: £18.1m) in respect of the turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017*
6 *Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 30 June*

CCD turnaround



Regulatory impact in 2019

- Introduction of new home credit guidance in the high-cost credit review
- Resulting in lower average issue values and lower average receivables than originally estimated

Management actions

- Ongoing cost reduction programme
- Agreed introduction of enhanced performance management and variable pay with the FCA
- Roll-out of enhanced performance management and variable pay in H2-19
- Trial of Provident Direct

Expected progression

- Reduced loss in H2-19
- Loss in H1-20 due to the normal seasonality of the business
- Return to profitability in H2-20
- Breakeven for 2020 as a whole

Regulatory capital

CET 1 ratio	At 30 June 2019 £m
Net assets	**678**
Regulatory capital adjustments[1]	**(196)**
IFRS 9 transitional adjustment (85%)[2]	**156**
Total regulatory capital[3]	**638**
Risk weighted assets	**2,262**
CET 1[3]	**28.2%**
TCR[4]	**25.5%**

Transitional impact of IFRS 9	£m
1 January 2018	**9**
1 January 2019	**18**
1 January 2020	**28**
1 January 2021	**37**
1 January 2022	**46**
1 January 2023	**46**
Total regulatory capital impact of IFRS 9	**184**

[1] *Reflects deductions for the pension asset (net of deferred tax), goodwill, other intangible assets (net of deferred tax) and any proposed dividend*
[2] *Reflects the year 2 transitional adjustment in respect of IFRS 9 – 85% of the opening IFRS 9 adjustment to net assets of £184.0m is added back for the purposes of calculating regulatory capital in 2019*
[3] *Calculated on an accrued profits basis*
[4] *Represents the group's minimum regulatory capital requirement as set by the PRA plus the fully loaded capital conservation buffer (2.5%) and counter cyclical buffer (1.0%)*

- Regulatory capital headroom of c.£60m in line with Board's risk appetite of maintaining a buffer in excess of £50m
- Headroom reduced from c.£100m at December 2018 due to:
  - Second year transitional impact of IFRS 9 (£18m)
  - Implementation of IFRS 16 'Leases' from 1 January 2019 (£26m)
  - NSF offer costs (£24m)
- The group continues to actively explore a number of options to improve capital efficiency (pensions, Pillar 2A add-ons)

Funding

	At 30 June 2019 £m
Vanquis Bank:	
Retail deposits[1]	**1,460**
Non-bank group:	
Bank facility (following refinancing on 24 July 2019)	**235**
Bonds and other borrowings:	
- Senior 8.0% public bond maturing in 2019	**27**
- Senior 7.0% public bond maturing in 2023	**250**
- M&G term loan	**50**
- Retail bonds	**150**
Total committed facilities available of the non-bank group	**712**
Non-bank group borrowings under committed facilities[1]	**608**
Headroom on committed borrowing facilities of the non-bank group	**104**

[1] *Excluding accrued interest of £12m in respect of retail deposits and £5m in respect of bank and other borrowings*

- Headroom on non-bank group facilities is sufficient to fund growth and contractual maturities to September 2020
- Group is actively exploring additional funding options including:
  - Funding Moneybarn through retail deposits or a securitisation
  - Issuing bonds, private placements or a tier 2 instrument

Vision for the future and outlook

Malcolm Le May – Chief Executive Officer

Responding to the changing environment to maintain PFG's leading sector position

- Good outcomes for customers combined with sustainable and attractive returns to shareholders, albeit not at the level historically experienced, is now the reality for the whole sector
- Our focus will be on providing customers with credit products appropriate to their circumstances, delivering good customer outcomes and through this, generating sustainable shareholder returns. To do this we will:
  - Deliver a broader product range, including:
    - Streamlining and building critical mass in our loan book by combining Satsuma and Vanquis Bank Loans capabilities
    - Discussions with the FCA regarding the potential introduction of an enhanced ROP product
    - Offering products that many of our 2.4 million customers have with other providers, including longer-term loans
  - Enhance our distribution capabilities across digital and face-to-face channels such as:
    - Developing and leveraging more fully our Vanquis Bank app, including providing access to Moneybarn and other group products
    - Trial of Provident Direct underway - a unique blend of human face-to-face customer relationship management with the efficiency of direct repayment that many customers increasingly prefer
  - Establish a single view of our customer including:
    - Leveraging the customer and capability synergies which exist across the group and which represent a significant competitive advantage
  - Grow responsibly, with a focus on sustainable shareholder returns, via:
    - Costs culture – leveraging capabilities and best practice in distribution, credit, collections and digital throughout the group to improve efficiency, as well as the migration of customers towards their preferred digital application
    - Funding efficiencies – in collaboration with the PRA, exploring options to fund the group's businesses with deposits and other short-term obligations to create specific funding-cost advantages and flexibility

Delivering sustainable and attractive returns for shareholders

- The customer must be at the heart of all we do; putting them on a path to a better everyday life will build the sustainable returns that shareholders will enjoy for many years to come
- Over the medium term we aim to:
  - Deliver a return on assets of approximately 10% for the group as a whole
  - Deliver a target return on equity of between 20% - 25% (consistent with the ROA)
  - Target of sustainable receivables growth through the cycle of between 5% and 10% per annum
  - Maintain dividend cover of at least 1.4 times, once the home credit business returns to profitability
  - Maintain a sensible buffer to the total capital requirement as prescribed by the PRA (currently £50m)
  - Target a 500 basis points reduction in the cost income ratio from 43% in 2018 to 38%

2019 is the final year of the turnaround of the group

- The first six months of 2019 has seen a renewed momentum in the delivery of the group's long-term strategic objective to deliver good outcomes for customers combined with sustainable and attractive returns to shareholders
- Despite the distraction of an unsolicited and hostile offer for the group, management has maintained its focus on maintaining financial performance and delivering on its strategic initiatives
- In the near term, it is a strategic imperative to return CCD to profitability as soon as possible and the Board is targeting the business returning to profitability in the second half of 2020
- Longer term, the group is confident that through our clear strategy and our complementary, synergistic and industry-leading businesses, we will deliver an attractive investment for shareholders
- The management team will present its views on the longer term outlook for the group at a Capital Markets Day on 7 November 2019
- The Board confirms that the group continues to trade in line with internal plans

Questions

Malcolm Le May – Chief Executive Officer
Simon Thomas – Chief Financial Officer

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