Provident satsuma.

Chris Gillespie
CCD Managing Director

CCD is the market leader in the UK and Republic of Ireland home credit markets and is now also a leading player in digital loans within the high-cost, short-term credit market through Satsuma.

2,800
Colleagues

522k
Customers

£20.8m
Adjusted loss before tax

£249.0m
Year-end receivables

Certain alternative performance measures (APMs) have been used in this report. See page 237 for an explanation of relevance as well as their definition.

Executive summary

Who we are
- Market leader in UK and ROI home credit and now a leading player in digital loans (high-cost, short-term credit market)

Current position
- Re-engineered operating model developed and implemented following disruption in 2017:
  - FCA authorised and at the forefront of regulatory direction of travel (e.g. recording all issues of credit)
- Significant turnaround progress, especially on reducing a largely fixed cost base

Growth ambitions
- Growth opportunities through evolution of product proposition in both home credit and Satsuma and market consolidation

Financial targets
- Clear path to breakeven for 2020
- IT investment will deliver sustainable operational efficiency and improved capability
- Targeting c.£300m receivables and c.10% ROA in the medium term

Satsuma lending volumes increased by approximately

10%

> CCD is now well placed to return the business to profitability and customer and receivables growth in the medium term.

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CCD – financial performance

CCD is the market leader in the UK and Republic of Ireland home credit markets and is now also a leading player in digital loans within the high-cost, short-term credit market through Satsuma. The ongoing turnaround of the home credit business has continued to progress well in 2019 and the business is now on a stable footing following the events of 2017. With an operating model which has fully embraced the direction of regulatory travel, the development of new product propositions and continuing market dislocation due to tougher regulation, CCD is now well-placed to return the business to profitability and customer and receivables growth in the medium term.

	Year ended 31 December		
	2019 £m	2018 £m	Change %
Customer numbers ('000)	**522**	560	(6.8)
Year-end receivables	**249.0**	292.5	(14.9)
Average receivables[1]	**247.3**	296.2	(16.5)
Revenue	**295.4**	342.2	(13.7)
Impairment	**(96.2)**	(120.8)	20.4
Revenue less impairment	**199.2**	221.4	(10.0)
Revenue yield[2]	**119.5%**	115.5%	
Impairment rate[3]	**39.0%**	40.8%	
Risk-adjusted margin[4]	**80.5%**	74.7%	
Costs	**(210.3)**	(244.7)	14.1
Interest	**(9.7)**	(15.4)	37.0
Adjusted loss before tax	**(20.8)**	(38.7)	46.3
Exceptional items[5]	**(14.4)**	(29.9)	51.8
Statutory loss before tax	**(35.2)**	(68.6)	48.7
Cost income ratio[6]	**71.2%**	71.5%	
Return on assets[7]	**(3.6%)**	(6.4%)	

1 Average of month end receivables for the 12 months ended 31 December.
2 Revenue as a percentage of average receivables for the 12 months ended 31 December.
3 Impairment as a percentage of average receivables for the 12 months ended 31 December.
4 Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.
5 Represents exceptional costs of £14.4m in relation to the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017 (2018: £29.9m).
6 Costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.
7 Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 31 December.

CCD – financial performance continued

CCD has reported a 46.3% reduction in adjusted loss before tax to £20.8m in 2019 (2018: loss before tax of £38.7m), in line with management's internal plan, as the business has continued to successfully adapt to the ongoing evolution in the regulatory environment. As a result of the actions taken by management, the business delivered a reduced adjusted loss of £5.7m (2018: £15.5m) in the second half of the year and the business is well-placed entering 2020. As previously communicated, the business is expecting to deliver a loss in the first half of 2020, consistent with the normal seasonality of the business, a profit in the second half of 2020 and a breakeven result for 2020 as a whole. CCD's statutory loss before tax reduced by 48.7% to £35.2m (2018: loss before tax of £68.6m), with exceptional restructuring costs reducing from £29.9m in 2018 to £14.4m in 2019.

CCD customer numbers ended the year at 522,000, 6.8% lower than 560,000 last year, which represents a significantly reduced rate of decline compared with 28.2% in 2018. The focus for 2019 has been on: (i) stabilising the rate of decline in the home credit customer base against the backdrop of increased regulation, the ongoing enhancement of business processes and increased efficiency to reduce the cost base; and (ii) continuing to grow Satsuma customer numbers in a responsible and sustainable manner.

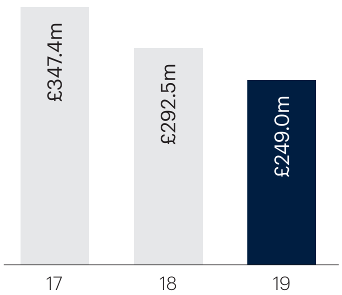
The improved momentum in new customer recruitment experienced in the fourth quarter of 2018 was maintained in home credit during 2019, despite the significant reduction in field resources. New and returning customer volumes were broadly in line with last year despite a 20% reduction in average CEM resources through the year. Home credit customer numbers ended the year at 386,000 (2018: 443,000), in line with the end of the third quarter. The customer base is now beginning to stabilise having previously shown reductions in the first three quarters of the year as the number of new customers recruited had not been at a level sufficient to stabilise the customer base. New and returning customers volumes were marginally ahead of plan in the fourth quarter and are expected to continue to improve during 2020, benefiting from the ongoing embedding of performance management and new ways of working in the UK, including the use of a balanced scorecard with an element of variable pay, and the roll-out of an enhancement to the home credit product, Provident Direct.

Satsuma continued to experience a good flow of lending volumes during 2019 and new business and further lending volumes increased by approximately 10% and customer numbers ended the year at 136,000, up 16.2% on last year (2018: 117,000). However, following a number of high-cost lenders exiting the market and discussions with the FCA, Satsuma took the decision to temporarily reduce lending volumes in early December. Accordingly, new business and further lending volumes in December and January were significantly lower than last year. Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020 and a lower proportion of Satsuma loan applications are processed wholly digitally. This reflects the decision to increase the level of interaction with customers during the application process, including, in some circumstances, the involvement of a field-based CEM. This puts CCD in a unique position to build a sustainable business based on a 'hybrid' operating model utilising the best of both digital and home credit capabilities.

Total CCD receivables were £249.0m at the end of 2019 (2018: £292.5m), 14.9% lower than the end of 2018, and comprised £205.8m in respect of the home credit business (2018: £253.0m) and £43.2m in respect of Satsuma (2018: £39.5m).

Year-end receivables

£249.0m



Home credit receivables have fallen by 18.7% in 2019 compared with the 12.9% reduction in customer numbers. This primarily reflects average issue values being approximately 9% lower in 2019 following the introduction of the new high-cost credit guidance issued by the FCA as part of its review of the high-cost credit sector which came into force between December 2018 and March 2019. The new guidance includes the requirement for CEMs to present customers with the cost of either taking out a concurrent loan or refinancing their existing loan when they require further credit. Experience to date shows that there has been a modest increase in the proportion of customers opting for concurrent loans, which are typically lower value and shorter in duration than refinanced loans.

Satsuma's receivables have shown 9.4% growth in 2019 compared with the 16.2% increase in customer numbers due to the significant reduction in lending volumes in December.

Revenue in CCD has fallen by 13.7% in 2019, a modestly lower rate than the 16.5% reduction in average receivables. The revenue yield of 119.5% in 2019 has increased from 115.5% in 2018, reflecting a modest shift in mix to shorter-term, higher-yielding products.

Impairment in CCD has reduced by 20.4%, better than the rate of reduction in average receivables. This reflects the improvement in collections performance due to the benefit from the ongoing improvement in business processes and the introduction of the enhanced performance management framework. As a result, the impairment rate of 39.0% in 2019 has reduced from 40.8% in 2018. The business has recently completed the roll-out of electronic card readers for CEMs to allow customers to make their repayments with debit cards as well as cash. This has been well received by both field employees and customers and is expected to support further improvement in collections performance during 2020.

CCD's target risk-adjusted margin is between 80% to 85%. The combined improvement in revenue yield and impairment rate during the year has resulted in the risk-adjusted margin increasing from 74.7% in 2018 to 80.5% in 2019, within the target range.

Costs have reduced by 14.1% to £210.3m in 2019 (2018: £244.7m). Despite cost headwinds from increased regulatory requirements, upgrading certain elements of the old IT infrastructure and higher complaints costs, CCD has continued to take the necessary actions to reduce headcount and tightly manage costs in response

to the reduction in customer numbers. As previously reported, in January 2019, CCD announced a voluntary redundancy programme in central support functions which reduced central headcount by approximately 200. There was also a further reduction of 50 head office roles during the year, mainly through non-replacement of leavers. In addition, approximately 600 CEMs and field managers left the business during 2019 either through natural attrition and non-replacement of roles or through redundancy. Overall, there has now been a reduction in roles within CCD of 1,500 since September 2017. Together with actions already taken and the ongoing tight control of costs, this has resulted in CCD's annual run rate cost base entering 2020 at around £200m as communicated at the CMD.

Despite some upgrades in the year, CCD's legacy IT systems are old, inflexible and expensive to maintain. Accordingly, the business is planning a programme of investment over the next two years to modernise and refresh the IT infrastructure and support both better customer service and the growth of the business going forward.

Interest costs in CCD have fallen by 37.0% to £9.7m in 2019 (2018: £15.4m). This is a larger reduction than the reduction in average receivables as CCD's funding rate has been reduced to reflect a more balanced allocation of funding costs between CCD and Moneybarn now that Vanquis Bank is fully funded with retail deposits.

CCD – growth initiatives

CCD's medium-term target is to grow the business to £300m receivables (currently £249m) whilst delivering an ROA of approximately 10%. CCD's focus is now on developing the customer proposition and growing the business. Accordingly, management has developed a number of strategic initiatives to support growth.

Provident Direct

Following discussions with the FCA in the second quarter of 2019, CCD commenced testing of Provident Direct in the Birmingham South area in the third quarter of the year. Provident Direct is relationship managed in the home by a CEM with payments collected remotely via CPA. The test has indicated that there is strong demand for the product from both customers and the field organisation and that collections performance is comparable to home collection. In addition, the test has allowed the business to refine the customer journey and supporting processes whilst avoiding disrupting the field organisation during the seasonal peak in trading in the run up to Christmas. Following the successful test, Provident Direct is now being rolled out progressively, firstly in Wales/West (c.15% of the business) in the first quarter of 2020, with a view to having national coverage across the UK by the end of the year. The product retains the essence of home credit but should enable CCD to attract new and former customers of suitable credit quality who value the relationship-based home credit proposition but do not wish to have a weekly collections visit by a CEM or for whom the home visit is inconvenient, such as shift workers. The CEM will maintain regular contact with the customer and will make home visits if the customer's circumstances change or if they are experiencing payment difficulties. Longer term, the business envisages 30% or more of business being transacted through Provident Direct.

Enhanced performance management

The FCA confirmed in early March 2019 that the business could implement enhanced performance management of CEMs based on a balanced scorecard supported by an element of variable performance-related pay. The implementation of this full suite of performance measures is essential in continuing to improve the efficiency and effectiveness of the field organisation whilst delivering consistently good customer outcomes. The balanced scorecard was tested for impact on customer outcomes in the Warrington area during May and was expanded to the North West region in June, including testing an element of variable pay. Following successful testing, the business completed full roll-out of the framework in the UK during the third quarter of the year as well as implementing new ways of working for field management to support and oversee CEMs. These measures have contributed to the ongoing improvement in CCD's performance in 2019. Management will continue to calibrate the balanced scorecard and the variable pay element to both enhance customer outcomes and improve performance.

Satsuma personal loans

Satsuma forms an important part of future strategy, particularly as Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020. Satsuma intends to test a product extension of a loan product priced between 79.9% and 99.9% APR under the Satsuma brand towards the end of 2020. This will further expand CCD's product range, addressable market and provide customers with a pathway to cheaper credit.