Provident Financial plc

2019 interim results

30 July 2019

Malcolm Le May, Group CEO

Good morning everybody and thank you very much for coming. It's been an eventful six months at Provident Financial but that said the group's operational and financial performance has been very strong. I think we've made significant progress in transforming the group against a changing regulatory environment and the home credit turnaround remains on track. I'm not going to dwell on the distraction of the unsolicited bid we faced but feel the strong performance of the group has only been achieved by the immense hard work of everyone at Provident Financial and I'd like to thank them for all of their endeavours and in their ability to stay focused on delivering for our customers and shareholders over the last six months despite all the distraction. Indeed, in the audience today several of our colleagues are here and I'm sure you can have a chat with them at the end of the presentation. In relation to today's presentation Simon will be presenting the half year numbers and I'll be reporting on the operational progress strategy and the outlook before we host questions and answers.

Provident Financial in 2018 was all about getting its house in order which I feel we achieved. This gave the group a strong platform, with the right board and a senior leadership team in place, to drive forward the momentum and to continue its evolutionary journey throughout 2019 of striking the right balance between good customer outcomes and sustainable shareholder returns.

As you can see from the numbers, they show we're making good progress with group adjusted profit before tax of £74.9 million, and importantly the resumption of our interim dividend - the first interim dividend since 2016 of nine pence per share. Vanquis' profits were a little lower at £85 million due to the expected impact of the ROP attrition and the planned operational changes to adapt to further regulatory change. Moneybarn significantly increased its profits by 46% to £15.5 million and the Consumer Credit Division reduced its losses by over 50% to £15.1 million. To achieve these numbers all the divisions delivered strong new business numbers with stable delinquency, which meant as a group we've made good progress to achieving our key annualised return on assets target of 10%, which as you know equates to a return on equity in the order of 20% to 25%. Vanquis and Moneybarn are both delivering our target returns, and ROA for the overall group is now standing at 7.7% which roughly equates to an 18% return on equity. We expect to see this continuing to improve as CCD moves to break even in 2020 and then begins to generate a profit.

The group, since I became CEO, has also sought to drive down costs and is committed to further reducing the cost to income ratio from 43% to 38% over the next three years. In fact, we've already achieved a run rate annual saving of £90 million per annum, predominantly from CCD where we've taken out a little over a thousand in headcount. As flagged in our quarter one trading statement, we've now successfully refinanced our revolving credit facility at a planned level of £235 million which reflects the lower refunding requirement due to our smaller home credit business, and importantly the fact that Vanquis Bank, which is obviously the fulcrum of the group, is ring-fenced and now fully funded by retail deposits. The board, therefore reflecting on the good operational and financial performance of the group and the confidence it has in the ongoing recovery, as well as our robust capital position, has recommended a re-instated interim dividend, as I said, of nine pence per share as we move towards a coverage ratio of at least 1.4 times as the home credit business recovers and moves into profitability. As I said this is the first interim dividend since 2016, and obviously builds on the final dividend we paid last year of 10p per share earlier this year.

As you can see from the slide, over the last couple of years the regulatory change in the sub and near-prime space has been substantial. In this period, we strive to get ahead of it, or to ensure that our divisions are well prepared for the impacts on our business model and customers going forward. So, Vanquis Bank has adapted its business model to the FCA's enhanced affordability guidance and persistent debt measures by making changes in its interest and fee structure by raising monthly minimum payments and introducing recommended payments. It’s begun reducing APRs for customers where appropriate, implementing revised affordability for new customers and credit line increases for existing customers. New customer origination is skewed towards lower price point mix and we have ceased, for new customers, the 69.9% APR. And it's putting in place solutions for customers who reach persistent debt at 36 months in 2020. This has been done against the backdrop of delivering a large customer refund programme, which as you know was successfully completed in March this year. The outcome of all this change is that customer numbers are up though profit is slightly down, primarily as I said driven by the expected reduction in ROP. We believe we're adapting the bank's business model well to the new regulatory environment and we are already achieving our target return of 10%, and the bank, as a result of this, the bank's model is much more sustainable and resilient.

Turning to Moneybarn, the FCA review into motor finance is expected to be completed at the end of September, and an update was already published as you know in March. We've been helping the FCA with this review, and as we do to pay variable commission, we believe we're well positioned when the FCA publish their final recommendations. Just a brief word on the investigation into Moneybarn. It is close to being concluded in the near future and all within the previously announced provisions that you know about.

The changes home credit implemented post-2017 meant it was well placed for the introduction for the new FCA's high-cost short-term credit review recommendations, and indeed their enhanced affordability guidance measures. The introduction of voice recording means that the home credit division can evidence compliance to these new rules, and new customer numbers are up since the guidance came into effect in the first quarter of this year. The new rules mean that customers must specifically ask for a new loan and must be shown the cost of a concurrent loan versus a refinancing. This change has so far meant customers are borrowing slightly lower numbers in loan sizes. Voice recording is also an important enabler in the trial for our new Provident Direct product which is now well underway. Provident Direct is a hybrid home credit product which combines face-to-face origination with digital collections via the use of continuous payment authority, and we believe that Provident Direct will prove to be an attractive proposition for both new and existing customers. The testing of our enhanced performance management in home credit is going well, having been initially piloted earlier this year in a small area, and then rolled out towards the end of the first half in a region. It's now being rolled out nationally and what we're seeing, from this trial, is performance improving in the areas where it's being rolled out. This initial outcome is clearly promising and is good for both customers and home credit alike. Satsuma has had a very good six months. It’s delivered good growth, and its produced a break-even result in the first half of the year. So the outcome of all these model changes in CCD is that losses are down around 50% from half one last year. Seasonality, as you know, plays a part in home credit, and we expect the division to perform better in the second half of this year. Clearly a division making a loss is not a good thing, but we've got a clear plan to return it to profitability while at the same time executing against the changing regulatory backdrop.

In the first half of the year the group has continued to attract talented people and we've strengthened our Governance and Senior Management team. Graham Lindsey and Robert East have both joined the main Group board. Robert also has become Chairman of Vanquis Bank. Neil Chandler, who you'll chat to later, in this period became Managing Director of the Bank and we recruited a new General Counsel and Company Secretary, and actually we've combined the group function with the Bank function to bring the group closer together and start knitting out some efficiencies.

In our results in March this year you'll have heard me talk about the work we've also been doing on culture and purpose, what we do for our customers and indeed why we exist. The FCA, and we, believe that a strong culture and purpose helps companies deliver the right outcomes for our customers. Since then we've rolled out the new culture to all of our colleagues in Vanquis and Moneybarn. The CCD roll out will be completed by the end of August. We call this our blueprint. It's a significant piece of work which has resonated really well with our colleagues throughout all of the divisions, and which I believe will help us to deliver a competitive advantage and the right outcomes for our customers.

Well, thank you for listening while I've outlined the financial and operational highlights, our achievements and the operational momentum accomplished over the last six months. I'll now hand over to Simon, and he'll run you through the half year numbers in more details. I'll then come back and wrap up on strategy, and then we can have some questions and answers. Thanks. Simon.

Simon Thomas, Group CFO

Thank you Malcolm, and good morning everybody.

The group has reported an adjusted profit before tax of £74.9 million in the first half, in line with last year and in line with our internal plans. As expected, Vanquis Bank's profits have reduced due to the lower ROP income, CCD has reduced its losses and Moneybarn continues to show strong profits growth.

Central costs have increased by a modest £0.8million in the first half, mainly due to unallocated interest costs taken centrally. Despite the additional interest costs, we'd expect to maintain full year central costs at a similar level to 2018 as we've previously communicated.

Exceptional costs in the first half comprised £23.6 million in defending NSF's unsolicited offer for the group and £10 million mainly in respect of the ongoing turnaround in home credit. As a result, our statutory profit before tax was up 8.8% to £37.6 million. If the bid defence costs are excluded, our reported profit before tax show growth of 76.9% to £61.2 million.

Adjusted earnings per share has reduced by 9.9%, reflecting the impact of the 105 million shares issued as part of the rights issue in April 2018 and the group's annualised return on assets was 7.7%, up from 5.3% last year mainly due to the reduced losses in CCD. Vanquis and Moneybarn are both delivering returns in excess of 10%.

As a result of the group's first half financial and operational performance, the Board has declared an interim dividend of nine pence per share. As previously communicated, the interim dividend will be paid in late September rather than late November, as was historically the case. Now turning to each of the businesses.

Vanquis, in line with our plans, delivered first half adjusted profits which reduced by 12.6% to £85 million. This reduction primarily reflects the continued moderation in revenue yield resulting from reduced ROP income and a shift in mix of business towards nearer prime. It is important to note that profits in 2018 were more weighted towards the first half of the year, as the second half of the year was adversely impacted by an increase in impairment, as a result of increased forbearance and the introduction of higher minimum payments, which both led to an increase in payment arrangements. We'd expect profits to be more evenly spread in 2019.

The new underwriting engine introduced towards the end of 2018 has enabled Vanquis Bank to enhance the customer onboarding process. As a result, new customer bookings of 190,000 were 3,000 thousand higher than the first half of last year. This performance is particularly impressive given our tighter underwriting, the withdrawal of the 69.9% APR product and the implementation of revised affordability processes, which has reduced new booking volumes by approximately 25%.

Customer numbers ended the first half up 2.5% at 1.79 million. It's worth flagging that Vanquis Bank is planning to undertake a re-activation campaign on approximately 250,000 inactive customers in the second half of this year. Accounts which do not reactivate will be closed down to manage contingent risk, so you may see a modest drop in customer numbers in the second half. In line with our guidance at the 2018 year end results, receivables have shown modest growth of 0.4% in the first half. This reflects the impact of two changes in regulation, both of which Malcolm mentioned earlier. Firstly, in response to the FCA's definition of persistent debt within the Credit Card Market Study, Vanquis has increased its minimum payment due and introduced higher recommended payments. Approximately 15% of Vanquis customers currently meet the definition of being in persistent debt and the business is actively working with these customers in an attempt to remove them from this position in advance of March 2020. This date is the first 36 month checkpoint, after which, customers who still meet the definition of being in persistent debt may be suspended and placed into pay down if they can't increase their payments. Secondly, revised affordability processes introduced in November 2018, together with the impact of not extending credit to those customers meeting the definition of persistent debt, has resulted in a reduction in the level of further credit extended to existing customers under the credit line increase programme. Credit line increases in the first half were approximately 50% lower than in the first half of last year. We'd expect to see continued modest receivables growth in the second half of 2019.

Revenue has shown a year-on-year reduction of 11.2% in the first half, compared with a 3.1% reduction in average receivables. The revenue yield has fallen from 45% to 41.9% due to two main factors. Firstly, a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales in April 2016. This has resulted in a year on year reduction in ROP income of approximately £10m. Secondly, there has been some further moderation in the interest yield from a group of smaller factors, including the continued increase in the mix of near prime customers, downwards re-pricing of higher APR accounts where the customer has improved their credit standing, and balance reductions applied to accounts as part of the ROP refund programme which were typically at the higher APRs.

Impairment has shown a 17.6% reduction in the first half with annualised impairment rates improving from 15.7% to 15.1% of average receivables. Delinquency trends showed a favourable movement compared to the first half of last year, benefiting from the progressive tightening of underwriting over the last two years. In addition, the rate of increase in payment arrangements experienced in the second half of 2018, due to the enhanced forbearance and increase in minimum due payments has moderated through the first half of 2019. Vanquis Bank's annualised risk-adjusted margin has reduced from 29.3% to 26.8%. The 2.5% reduction reflects the 3.1% reduction in the revenue yield, partly offset by the 0.6% reduction in the impairment rate, both of which I've just explained.

Costs have reduced by just over 2% in the first half. Despite stronger new account bookings, Vanquis has been able to access operational leverage reflecting tight cost control. Cost efficiency remains a key focus for Vanquis in light of the reduction in revenue yield.

Interest costs benefited from a reduction in Vanquis Bank's blended funding rate, which after taking account of the cost of holding a liquid assets buffer, reduced from 3.5% in the first half of 2018 to 3.0% in this half year. As you're aware, Vanquis fully repaid its intercompany loan to PFG in November 2018 and, importantly, is now fully funded with retail deposits.

Vanquis Bank's annualised return on assets has reduced from 11.2% to 10.4%, which reflects the moderation in the risk-adjusted margin, partly offset by the cost benefits that I've just talked you through.

Now moving onto Moneybarn. Moneybarn has delivered a strong 46% increase in adjusted profit before tax to £15.5 million in the first half. Customer numbers of 70,000 at the end of June show year-on-year growth of 23%. Notwithstanding the tighter underwriting standards implemented over the last two years, new business volumes during the first half have been at record levels and showed year-on year growth of 34%. Against a tougher comparative, we'd expect a lower level of year-on-year growth in the second half of the year.

The growth in customers corresponded to average receivables growth of 21% and revenue growth of 26%. The revenue yield has increased from 34.5% to 35.6%, reflecting a lower mix of near prime business mainly due to increased competition in that segment of the market.

Following the progressive tightening of underwriting through 2017 and 2018, default rates and arrears levels have now been stable for 12 months, compared with the modestly deteriorating profile prior to that. As a result, the annualised impairment rate has reduced from 14.1% to 12.3%. The annualised risk-adjusted margin has therefore strengthened, by nearly 300 basis points to 23.3%, due to the combined improvement in the revenue yield and the impairment rate.

Cost growth was 26% compared with average receivables growth of 21%. Headcount increases in the first half of 2019 have been relatively modest, so this increase is mainly due to the flow through of the investment made last year in the executive team and the customer service and collections teams.

Interest costs have shown growth of 40%. As I mentioned at the year end results, this reflects the increased cost of funding for the non-bank segment of the group now that Vanquis is fully funded through retail deposits.

Overall, Moneybarn has delivered an annualised return on assets of 11.5%, up from 9.5% last year, as a result of the strengthening of the annualised risk-adjusted margin.

So turning to CCD. CCD has reported an adjusted lost before tax of £15.1 million in the first half, some 35% lower than the £23.2 million of losses in the first half of last year, as the business continues its turnaround. CCD customer numbers ended the first half at 531,000, 31% lower than June 2018. It is worth remembering, however, that customer numbers last year included approximately 200,000 home credit customers who ceased paying in the second half of 2017 following the change in the operating model and who have now been removed from the customer numbers. Home credit customer numbers ended the first half at 403,000, reducing from 440,000 at December 2018 and a restated 482,000 at June 18. Despite year-on-year UK home credit new customer growth of 15%, the number of new customers recruited was not at a level to stabilise the customer base during the seasonally quieter first half. However, we'd expect new customer recruitment to continue its upwards trajectory during the busier second half of the year.

Satsuma customer numbers have shown strong year-on-year growth of 30% to 128,000, despite further refinements to underwriting, and Satsuma has delivered a breakeven result in the first half of the year.

Home credit receivables have reduced by 23% to £203m which is a higher rate of reduction than the 16% reduction in customer numbers. Average issue values were approximately 14% lower in the first half of 2019 following the introduction of the new Home Credit guidance Malcolm mentioned earlier. This has been caused by a modest shift in the mix of customers choosing concurrent loans, which are typically of a lower amount and duration, rather than refinancing their existing loan, which is typically of a larger value and a longer duration. Satsuma’s receivables showed a 37% year-on-year growth to £43 million. This reflects a combination of the 30% increase in customer numbers, together with the continued development of further lending to good-quality customers.

The annualised revenue yield of 117% is little changed with no real change to product pricing in either home credit or Satsuma. Impairment however has fallen by nearly 27% in the first half. The annualised impairment rate of 38% is significantly lower than the rate of 78.6% last year. This reflects the improvement in collections performance, despite the higher new customer volumes, and is a result of improved field efficiency and the focus on collections. The collections performance of credit originated since the fourth quarter of 2017 remains broadly in line with the levels achieved prior to the change of operational model in July 2017. Credit issued prior to July 2017 continues to perform much worse than historic levels. Importantly, however, these balances now represent less than £11 million of receivables.

CCD's annualised risk-adjusted margin has shown a substantial improvement from 42.1% to 79.3%, due to the significant improvement and impairment which I've just explained. This level of margin is now only marginally below the levels of just over 80% historically enjoyed.

As previously reported, CCD undertook a voluntary redundancy programme in central support functions which was completed in March 2019 and has reduced central headcount by over 200. Together with actions already taken and the ongoing tight control of costs, this has resulted in an 11% reduction in the cost base. There has now been a reduction in roles within CCD of 1,000 over the last 18 months and cost efficiency remains a key priority for the business going forward.

Interest costs have fallen by 36%, a greater reduction than the fall in average receivables. 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.

Before I conclude on CCD, it's worth taking stock of the turnaround and our expectations for the future. The chart on the left clearly highlights the huge loss incurred in the second half of 2017 and the reduction in losses in each half year since. As I've already discussed, CCD's results in the first half of 2019 have been impacted by the new home credit guidance in the high cost credit review. This has reduced average issues values and resulted in our receivables book being lower than originally envisaged. As Malcolm discussed earlier, the business has implemented a number of actions to return the business to profitability. These include the ongoing cost reduction programme which has already delivered a reduction in headcount of 1,000 over the last 18 months. The agreement with the FCA to introduce enhanced performance management and variable pay. This has now been successfully tested and will be rolled out in the second half of the year. And finally the recent trial of Provident Direct which will be tested further in the second half of the year. As a result of these actions, we'd expect the second half of 2019 to show a further reduction in losses from the first half. If you've followed the group for some time, you'll be aware that the first half is always seasonably quieter than the second half, so you should therefore also expect a small loss in the first half of 2020. However we then expect the momentum from our actions to deliver a profit in the second half of 2020. Overall, we therefore expect 2020 to be break-even for the year as a whole.

Now turning to capital. The group’s regulatory capital requirement, to maintain a fully loaded CET1 ration of 25.5%, is the main determinant of the group’s capital structure. The group’s regulatory capital at June was £638 million which represents a CET1 ratio of 28.2% and provides regulatory capital headroom of around £60 million. This is consistent with the Board’s current risk appetite of maintaining headroom in excess of £50 million. The reduction in headroom from £100 million at the end of 2018 reflects the impact of three factors which have more than offset the retention of profits. Firstly, the anticipated second year transitional impact of IFRS9 was £18 million. You might remember that in quantifying regulatory capital, the impact of IFRS9 is being recognised over a five-year period which started in 2018. The adjustment you see on the table on the left of £156 million is an add back to the group's net assets in order to recognise both the 5% impact of IFRS9 taken in 2018, which was £9 million, and the 10% impact amounting to £18 million taken in 2019. The second influence on the reduction in headroom is the impact from the implementation of IFRS16 leases from the first of January 2019. This has reduced regulatory capital headroom by £26 million, despite no increase in the risk profile of the group. And finally, exceptional costs of some £34 million have been incurred in the first half of the year, £24 million of which were not budgeted. The group's regulatory capital review with the PRA is scheduled for the first quarter of 2020. We're actively exploring a number of options to improve capital efficiency. These include potential reductions in capital requirements for pensions, IFRS9 and IFRS16. We will also continue to monitor our risk appetite in respect of the appropriate level of regulatory capital headroom in light of the group's ongoing recovery.

Now moving onto funding and liquidity. Retail deposits of nearly £1.5 billion fully fund Vanquis Bank. The inflow of deposits has been deliberately moderated in the first half, given the modest level of Vanquis Bank receivables growth. We successfully refinanced the revolving syndicated bank facility on the 24th July 2019 with four leading UK banks. The facility has reduced from £450 million to £235 million, mainly due to a reduced requirement as Vanquis Bank is now fully funded with retail deposits and the home credit business is significantly smaller than when the previous facility was established. The group's other sources of funds comprise senior and retail bonds and private placements. In early 2019, we repaid £15 million of the M&G term loan, which is the only movement in these sources of funds since the 2018 year end. At the end of June, after adjusting for the new revolving bank facility, the group had headroom on committed facilities of £104 million. Together with the ongoing retail deposits programme, this provides sufficient capacity to fund forecast growth and contractual maturities until September 2020. The group is actively exploring a number of additional funding options. These include discussing with the PRA the potential to fund the group's other businesses with retail deposits, funding Moneybarn through securitisation and issuing further bonds, private placements or a tier 2 instrument. With that I'll now hand you back to Malcolm.

Malcolm Le May, Group CEO

Thank you Simon. Just a few comments on our vision and the outlook for the future. I think, in May, at our quarter one trading statement we set out what we call our vision for the future for Provident Financial, and the aim behind this really was to deliver good customer outcomes combined with sustainable attractive returns for shareholders. To achieve this, we said we would firstly deliver a broader product range, secondly, we would enhance our distribution capabilities, thirdly establish single view of the customer which I think is going to become increasingly important in our marketplace, and fourthly, grow responsibility, and importantly deliver sustainable shareholder returns. Now there's a lot of detail in today's announcement, updating the market on the progress we've made so far, so I won't go through each of the strategic initiatives individually, but suffice to say I think we've made very good progress since May which we will aim to build on through the rest of this year. We are bringing together the Satsuma and Vanquis loan capabilities in order to provide a joined up online loans offering for the group. The Vanquis Bank app now has well over a million active users, and it's now being expanded with Moneybarn products already being placed on it and other group products to follow. In home credit, as Simon and I both highlighted earlier, the trial of Provident Direct has now started, we believe this will be very attractive to both new and existing customers, and indeed, the enhanced performance management framework for home credit has been successfully trialled and is now being rolled out nationally. This is a key initiative for returning CCD to profitability in the second half of 2020. As flagged earlier, the group has continued to focus on driving down costs, and has achieved, as I said annualised savings of £90 million per year since I became CEO in 2018, and we're committed to carry on reducing this and the cost income ratio will reduce from 43% to 38% over the next three years. At the same time, we will obviously be accommodating investment for growth in that number. As Simon has just outlined on funding, we have successfully renewed the revolving credit facility, and have begun the process of assessing the use of retail deposits to fund Moneybarn, and started the preparations to engage with the PRA on the regulatory review of the Group's capital requirements which will take place in Spring 2020. Provident Financial reinstated its interim dividend at 9p per share, I think this is an important step for the Group and our shareholders, who we recognise have been very patient since 2016. The Group has evolved significantly since that time, and the regulatory environment now is very different, and the business models have changed to reflect that. Vanquis Bank is the biggest and the most important part of the group and will be the principle engine of growth going forward. To that end, it is important that our financial and shareholder return matrix reflects what the group has become, which in reality is a bank, and therefore over the medium term we'll aim to deliver a return on assets of 10% for the group as a whole, and deliver a return on, a targeted return on equity of between 20% and 25%. We'll target sustainable receivables growth throughout the cycle of between 5 and 10% per annum, and as I've said, a target cost income ratio of approximately 38% while maintaining a dividend cover of 1.4 times in due course. These metrics are aligned with what we set out at the time of the rights issue and we're making very good progress, I think, towards achieving them as indeed today's numbers show. 2018 was about recovery and stability. I think 2019 is about delivering momentum and the group's turnaround. Here we are making good progress, delivering on the group's long-term strategic goals despite the distraction of the hostile bid. That said, we appreciate that the short-term imperative of returning CCD to profitability as soon as possible, and we're on track, as I've said, to achieving profitability in the second half of 2020. As Simon has shown in the graph, he showed you earlier, and I think when this is accomplished it will have a material impact on the perception of the group’s valuation. I think it would also be amiss of me not to flag that we've achieved all this against a background of heightened political and economic uncertainty. More importantly though this fog of uncertainty does not appear to be clearing and as such we've been very cautious in our underwriting to ensure that we're best placed as we can be for whatever comes in the future. The Board has also confirmed that the group is trading in line with its internal plans today, and indeed on the 7th of November, we're going to have a team leadership and have a capital markets day, which obviously you'll all be invited to in due course.

Thank you for listening. Before we move to Q&A, I'll just sum up by saying a lot done, good progress I think is being made across the group, but also a lot more wood still to chop, and I believe in doing that, we're going to make Provident Financial the company that its shareholders, its customers, the regulators and colleagues know it really can be. And again, just before going to Q&A, you may have seen in the RNS today, that we've announced that Simon is going to be retiring at next year's results and nine months hence. It's very sad for us but we wish him very well. He and I will work over the next nine months to ensure there is an orderly handover to his successor. I think, with that, I'll open the floor to questions.

Shailesh Raikundlia, Panmure Gordon

Morning, it's Shailesh from Panmure Gordon. Just two questions, but the first one on Vanquis Bank. I mean there is a lot of moving parts to Vanquis Bank at this moment in time, obviously revenue as well as impairments. You went through a lot of detail in there, but I was just wondering whether, sort of briefly, you could talk about for the second half of this year where the revenue yield is going, sort of receivables growth as well which is pretty flat at this moment in time, and the impairment rate, obviously it has come down quite a bit, but is that expected to continue as well? And secondly just on the CCD business, briefly on the lending that you did prior to 2017 you do talk about the fact that impairments have remained high. I was just wondering whether you have now provisioned for all that or are expecting some further increases coming through at some stage this year? Thanks.

Malcolm, Group CEO

Well on the last part of the question first, and I'll let Simon answer the first part about Vanquis. CCD is fully provisioned, it's now a very small part of the book. I mean, I think of the lending prior to 2017 there's only £11 million left on the book which is less than 5% of the book now. Do you want to talk about Vanquis?

Simon Thomas, Group CFO

Yes, in terms of the receivables growth that we expect to see going forward, I think we'd expect it to be relatively flat for the remainder of this year and into next year, and obviously that's part of the regulatory changes that have been taking place. So it will be generally muted, I would say, for the next 18 months. After that though, I think we would then expect to see it start to pick up again, and you remember that we were talking about the longer term of sort of 5% to 10% revenue growth, receivables growth going forward. On impairment rates, clearly we have, you know, benefited in this half compared to the second half of last year. If anything, actually I'd expect the impairment rate to be slightly better in the second half of this year because you effectively lose the last second half year, which if you remember we had those payment arrangements spike up in that period of time. So if anything those two will go down. In terms of the overall risk adjusted margin though, I think you can see obviously we have got a situation whereby obviously the revenues are muted, impairments have improved, but I think we'd expect to see the returns there to be more around the mid-twenties as an ongoing expectation, but we may get there through a different methodology. Clearly cost control is another area that we're looking at, and there are certain things that we need to do from a cost perspective, but we believe the returns are still going to be sustainable there going in the future.

Gary Greenwood, Shore Capital

It's Gary Greenwood from Shore Capital. I was just interested in the financing plans that you'd got with regards to expanding use of deposits, and I was wondering whether you saw any tax implications from that? I think at the moment the bank levy only applies to the Vanquis Bank, so if you started to fund other parts of the business, whether those would then be captured by a levy as well?

Simon Thomas, Group CFO

Yeah, I think Gary that, it's early days on this. We have opened up the initial discussions with the PRA, and it is very much initial discussions, but logically it's something we must explore because we have a substantial advantage by the fact that, you know, obviously Vanquis Bank can raise funding at a substantially lower rate. I'm not saying it's going to happen, but we've opened up those negotiations. You're right, you need to take account of the tax implications associated with that, but actually with the benefit in terms of the actual yield changes it may well still be worth looking at. The other thing I'd say though is, of course I did mention as well, from a Moneybarn perspective we might be looking there to some form of securitisation, and again that's something that, you know, over the next sort of 12, 18 months we'll be looking at further. I hope we'll be able to give you a bit more detail on that in the Capital Markets day in November.

John Cronin, Goodbody

Hi there, it's John Cronin from Goodbody. Thanks for taking my questions. My first one is on, look a lot has been said about your travails in recent years, not only with respect to ROP products, but also in Moneybarn, and also with respect to the measures that have been initiated to improve the CCD business. How likely do you think it is that the regulator will look at some of those, I suppose for want of a better description, best practice measures you've brought in, and try to apply them across the wider industry in home credit? Then my second question is looking again at your CET1 capital ratio requirement, stripping out the CCB and CCYB, it's pretty elevated at 21.5%, what do you think there is scope for that to come down on a 12 month view, particularly following your discussions with the regulator through the next ICAAP, and how does that make you think about wider strategic optionality from a group perspective, noting previously your comments around some of the difficulties there would be in, to merging Moneybarn, for example? So anything you could say around how you might think in response to that would be helpful. And then look, finally one further on, Vanquis Bank, sorry on CCD, in terms of getting back to that profitability in the second half of next year, what kind of level of average receivables growth do we need to be pencilling in from here to get to that, to get to that, number? Thank you.

Malcolm Le May, Group CEO

We'll try and run though those and if we miss any of them between us you can surely raise them again. On the first one, on a level playing field, I think clearly, it's something that attention was drawn to during the course of the bid. We believe we were the most recently regulated, in terms of being authorised, by the FCA and we believe they've authorised us to the standard that they see should be adopted across the industry. We're the biggest, and I think the philosophy must be that people should rise to our standard. I can't dictate what the FCA may or may not say to others, but I think the line of travel will be more in terms of people coming to our standards than us being allowed to move away from that. I think that was made quite clear during the course of the bid. Certainly, speaking to some people in government, they recognise the need across the industry to have a level playing field if we're going to adopt a common standard to servicing the under-served, otherwise it just, it breeds people doing bad practice basically. So I think that will definitely be the line of travel.

Simon Thomas, Group CFO

John, on the CET1 ratio, I mean let's face it, I think we recognise that 25.5% is a high TCR, it really is and I think that, you know, clearly part of that was reflective of the events of 2017, so from an operational risk and a conduct risk perspective, you know, things were pushed up in part of that process but, you know, from our perspective we have discussions that are coming up as part of our normal regular engagement with the PRA though the C-SREP, and that's going to happen in the first quarter of 2020 and I think there are a number of areas that we want to look at, and I think we did talk about one or two of these last time. So the IFRS16 one, you know, the fact there's been no change to the balance sheet, yet we get hit for that £26 million, you know, we're certainly going to be talking about that. IFRS9 as well. But also things like the pension fund, the pension fund has an effect of something, even though it's in surplus, it has an effect of a hit of about £20 odd million. That, bearing in mind was done in 2015, the pension fund since then has been de-risked from an investment perspective. So I would hope that a discussion could take place with the PRA to say, hang on a minute, isn't that a little bit heavy? However, quite rightly, the PRA are cautious people and getting capital back from the PRA is always a difficult thing to do, but we are going to engage with them and obviously that will be in the first quarter of next year.

Malcolm Le May, Group CEO

I think, just to add to that, when we had to do the rights issue, and it was the last time we submitted an ICAAP, the PRA requested a £100 million of add-ons for operational conduct risk. Now they're not about to say fine, you know, you've turned the corner, we'll take all of that away, but I think when they do recognise that they did put that add on, and actually at the time of submitting that ICAAP we were aware of the pension point that Simon has just mentioned and indeed we told the PRA, but I'm afraid it was just they didn't have enough time to go through it. So it's the first time they've addressed it so I would hope for some relief there. Yes, and I think also, as you know our capital is a bit like an accordion, you know, at the beginning of each year, as we know for the next few years we're going to have a squeeze from the IFRS9 coming off. IFRS16 was a one-off but then the profitability will move it back out. And I think the more that we go through this next Spring with the regulator they'll see that. But as Simon says, you know, they do tend to move quite slowly so I'm not expecting anything instantaneously.

Simon Thomas, Group CFO

I mean, I'm not going to give you an exact figure, John. I won't do that as you can imagine, but I think one thing clearly, we're all focused on this point, we've got to get this company to a break-even position and, you know, we've said certainly in this division this year we've got probably two key strategic themes. The first one is growing the receivables, you know, and stopping that reduction that we've seen coming through and levelling it out, and the removal of costs. The removal of costs you've already seen, we've talked about the 1000 redundancies that have been put through, and I think, it's fair to say, Chris and the team have made real strides in terms of addressing the cost base. That will continue in the next 12 to 18 months through different mechanisms. The other thing though, on the receivables side though, and the performance of the CEM side, is the fact that, you know, this new FCA, the enhanced performance management that we've got, certainly gives us a far far better tool to manage the business going forward. It's been trialled, it was trialled in an office to start off with, and then went to an area, and has now moved to a region. Now anecdotally that region has actually become outperforming since that was put in place. So we're going to be rolling that out in the remaining six months of this year, and that should then give us a better push in terms of overall performance generically, whether it be collections or whether it be potentially sales side.

Malcolm Le May, Group CEO

I think the region we selected was the worst performing region originally and basically, they've now come to the top of the table.

Simon, Group CFO

And then the third thing I would say is Provident Direct. Now Provident Direct has only been going 20 odd days - Chris, I think it's something like that? It's one branch so far. Initial results, green shoots etc, but it's been a good take up by the CEMs. The CEMs seem to like it, they understand the difference it will make, and we've had the first payment run come back with a 100% compliance, in other words people have paid properly through that process. So it's only green shoots, but again, I think is positive from an anecdotal perspective and fundamentally, if you think about it, if you're in a position whereby you can go to a client and go through the normal introduction process for a loan but then you can get yourself into a situation whereby they pay through a CPA, it means that you are far more efficient from a CEM process in focusing on those clients that you need to focus on, and the ones that are paying regularly, you can frankly go and see once a month or whatever. But also it allows you to generate new business more effectively as well. So it makes the process far far more efficient from a CEM perspective. If it's, I mean I really do believe this is an important part of the future because I think from our perspective it makes the cost of collection fundamentally cheaper. I mean if you're, take our Inverness area for example, if you've got to go out as the CEM does there and drive miles and miles each week to get the physical cash collection, that's just not efficient. Actually us, I think, as a demographic of our home customers evolves more and more people have got a digital payment capability and they don't want to have to necessarily wait in every week to pay the cash. And then on top of that there's obviously a benefit from a health and safety perspective as you're not handling that much cash. So I think it's a very important step forward.

Ian White, Autonomous

Hi, Ian White from Autonomous. Two questions from my side please. First, on the FCA's persistent debt measures, you've previously given us a bit of help in terms of the proportion of the customer base that currently meets the FCA's definition of persistent debt. Where do you see that ending up by the time you get to the 36 month intervention stage please, and what are the implications if a customer is placed into pay down. Are we talking there about a restructuring of the debt into a term loan that would bear interest, or something slightly more generous like outright forbearance on interest expense for example? If you could give us some help with that please, that would be appreciated. And then, just secondly, on Vanquis, how are you thinking at the moment about both the timing of the reintroduction and the size of the contribution from ROP sales going forwards please? Thanks.

Malcolm Le May, Group CEO

OK to the first point I think, and Neil or Simon do jump in if I get this wrong, roughly 15% of our customer base we anticipate if we have taken no action at all would be susceptible to persistent debt. By doing the increased minimum pay we've reduced that down to roughly 9%, and assuming I think it's 50% of the people we suggest do a recommended pay we can get that down to 6 or 7%, which wouldn't be far away from our normal sort of level of delinquency with that if you look across the whole customer base. In terms of the ROP2, and I'll let the others go into more detail in terms of the precise forbearance treatment of people in persistent debt, we are in discussions with the FCA. I think we've always said it's never going to be a complete replacement of the ROP that we had, it will be smaller. Those discussions are ongoing. I don't think they're going to be concluded anytime soon and so I don't think we're factoring into our thinking it's going to be contributing to the group profits going forward to a material amount in the future. Do you want to add a little bit about the forbearance terms on...

Neil Chandler, Managing Director of Vanquis

Hi it's Neil Chandler. So we'll get down to something between 5% to 10% of the customer base by May next year, in terms of people still within PD, and we're trialling a whole series of contacts with customers right now. As an example, we've just done a trial to a few thousand customers to see how we can best help those people manage them. We are seeing customers respond to those messages to increase the level they're paying to get themselves out of PD. So I think there are positive, there's positive shoots there. I think from a forbearance perspective or a treatment perspective for the balances, if they are still in PD at PD36, in essence we're designing, you know, a number of options to work out what is the right answer for the customer. Undoubtedly there will be, you know, a significant reduction in yield on those balance as a consequence of that and that's dictated by the CCMS.

Portia Patel, Cannacord Genuity

Thank you, Portia Patel from Canaccord. I've got three please. One on Vanquis with regard to the reactivation programme you mentioned for H2, and in the case of no responses, those accounts would be shut down. What impact, if any would that have on the impairment rate? And turning to CCD, I was wondering firstly, with regard to the regulatory changes and the impact on the receivables book that's had, has that changed your outlook for what level of profitability CCD might reach on a medium-term basis? And secondly if you could explain what the incentives for CEMs are actually linked to that would be helpful. Thank you.

Malcolm Le May, Group CEO

In terms of reactivation on the, I don't think we see a material change in impairment on the..

Simon Thomas, Group CFO

Clearly these are 250,000 customers who have actually got a zero balance at the moment. From managing the contingent risk on this, Portia, going through and actually talking to these people to say do you really need this card going forward? I think is obviously a good thing from managing the balance sheet. IFRS9, actually if we remove those people it, will be slightly beneficial because of course you're removing that potential risk that you've got on your balance sheet, but we would expect therefore the customer numbers to come off modestly after that process has been completed. What was the next one?

Malcolm Le May, Group CEO

The CCD in terms of our outlook: Is the regulatory change going to materially change our perception on the profitability of the business? The answer is no. I mean what we are assuming for the profitability of the business in the future is what we factored into our plans and that reflects the regulatory changes we're making. The size of the business as we always said will be smaller than it was historically.

Portia Patel, Cannacord Genuity

About the variable pay for the agents within home credit. What those incentives are actually linked to? But just to actually follow up on your point about the size of CCD, I seem to remember in the past you talking about £30 to £40 million being a ballpark figure for CCD profitability. Is that still your expectation?

Malcolm Le May, Group CEO

In the future, when it's recovered, that's the sort of size we're talking about. Chris, do you want to talk about how the scorecard is linked to the variable pay? I think it will be quite interesting.

Chris Gillespie, CCD Managing Director

Good morning, it's Chris Gillespie. So the scorecard is a suite of measures, some of which are qualitative and some of which are quantitative, so it's a mixture of the sort of traditional targets that people would have had plus a range of sort of measures based on outcomes, and how they do the job rather than just what's been delivered. What we've found, and it's worth remembering that we've been operating the business since the end of 2017 without targets or variable pay linked to performance in the business and this is just if you like a step back in that direction, a significant proportion of our people were not here, under the previous model so we're going to have to learn our way into managing the business against targets and with incentives. What we've found is the fact that someone now is clearer as to what's expected of them, that leads to better quality conversations about performance, and about how, you know, coaching for how well the job is being done, but it's a suite of measures on a balanced scorecard, it's not just two or three traditional targets.

Malcolm Le May, Group CEO

Okay, any other questions? Well look, thanks for coming along and listening.