PFG | Provident Financial Group

Provident Financial plc
Preliminary results for the year ended 31 December 2013

Provident Financial plc is the market-leading provider of credit cards to non-standard consumers in the UK and the market-leading provider of home credit in the UK and Ireland. The group serves over 2.6 million customers and its operations consist of Vanquis Bank and the Consumer Credit Division (CCD).

Highlights

Strong financial performance and dividend increase

- Profit before tax and exceptional items up 9.9% to £196.1m[1] (2012 restated[2]: £178.4m).
- Adjusted earnings per share up 11.6% to 112.0p[1] (2012 restated[2]: 100.4p).
- Total dividend per share up 10.1% to 85.0p (2012: 77.2p).

Very robust funding position

- Core bank facility of £382.5m renewed in January 2014 with lower all-in cost than previous facility.
- Gearing reduced to 3.0 times (2012: 3.2 times) through strong capital generation.
- Group fully funded to the seasonal peak in 2017.

Excellent growth and returns in Vanquis Bank

- UK profit before tax up by 59.5% to £113.7m (2012: £71.3m).
- Customer and average receivables growth of 22.2% and 37.5% respectively, reflecting strong momentum from addressing the under-served non-standard credit card market.
- Risk-adjusted margin[3] of 34.2% (2012: 34.8%), above minimum target of 30% with arrears remaining at record lows.
- Further development of pilot credit card operation in Poland at a cost of £7.6m in 2013 (2012: £3.3m).

Repositioning of CCD progressing well

- Development and roll-out of technology to support step-change in agent and branch productivity and reinforce compliance fully on track.
- Encouraging start to Satsuma online instalment lending following November 2013 launch.
- Profit before tax and exceptional items of £102.5m[1] (2012 restated[2]: £122.9m) reflecting reduction in customer numbers and receivables due to weak demand and tightened credit standards.
- Cost savings of £10m delivered in second half of 2013, with a further £26m secured for 2014, including the previously announced headcount reduction of 520, at a one-off cost of £13.7m.

Key financial results

	2013	2012 (restated[2])	Change
Profit before tax and exceptional items[1]	£196.1m	£178.4m	9.9%
Profit before tax	£182.4m	£194.0m	(6.0%)
Adjusted earnings per share[1]	112.0p	100.4p	11.6%
Basic earnings per share	104.2p	108.9p	(4.3%)
Final dividend per share	54.0p	48.4p	11.6%
Total dividend per share	85.0p	77.2p	10.1%

Peter Crook, Chief Executive, commented:

"I am very pleased to announce adjusted earnings per share growth of 11.6% in 2013 and a 10.1% increase in the dividend for the year which is fully supported by strong capital generation and a very robust funding and liquidity position.

Vanquis Bank has produced another excellent performance with UK profits up 60%. Credit standards have remained tight and the business continues to generate strong customer growth and margins through developing the under-served non-standard credit card market.

Good progress is being made in repositioning the home credit business as a leaner, better-quality, more modern, high-returns business whilst the Satsuma online instalment lending product has made an encouraging start following its launch in November 2013.

The group has made a good start in the first two months of 2014. Vanquis Bank has continued to trade strongly and the home credit business is seeing a consistent improvement in credit quality and collections performance."

Enquiries:	**Today**	**Thereafter**
Media		
David Stevenson, Provident Financial	020 7404 5959	01274 351351
Gill Ackers/Nick Cosgrove, Brunswick	020 7404 5959	020 7404 5959
Investor Relations		
Gary Thompson, Provident Financial	020 7404 5959	01274 351351
investors@providentfinancial.com		

[1] *Profit before tax in 2013 is stated before an exceptional item of £13.7m in respect of the cost of a business restructuring within CCD. Profit before tax in 2012 is stated before an exceptional credit of £15.6m comprising: (i) a £17.7m curtailment credit in respect of the defined benefit pension scheme; and (ii) a £2.1m charge relating to the impairment of goodwill in respect of Cheque Exchange Limited, a business originally acquired in 2001 and now subsumed within CCD.*

[2] *Profit before tax in 2012 has been restated from £181.1m to £178.4m following the mandatory adoption of the amended IAS 19, 'Employee Benefits' from 1 January 2013. The retrospective application has resulted in a £2.7m reduction in profit before tax in 2012 with a corresponding adjustment to the actuarial movement taken through the statement of comprehensive income. There has been no impact on the 2012 balance sheet.*

[3] *Revenue less impairment as a percentage of average receivables for the year ended 31 December.*

Group summary

The group has reported a strong set of results with profit before tax and exceptional items, up 9.9% to £196.1m (2012 restated: £178.4m). Vanquis Bank continues to experience strong growth and margins whilst CCD has experienced weak demand from the home credit customer base. Adjusted earnings per share of 112.0p (2012 restated: 100.4p) grew by 11.6%, a faster rate than pre-tax earnings primarily reflecting the reduction in the statutory rate of UK corporation tax from 24% to 23% on 1 April 2013. An exceptional cost of £13.7m has been recognised in 2013 relating to the repositioning of the CCD business, including the redundancy costs associated with a reduction in headcount of 520.

Vanquis Bank has delivered another excellent performance in 2013 with UK profit before tax up 59.5% to £113.7m (2012: £71.3m). Further investment in the customer acquisition programme delivered new customer bookings of 411,000 (2012: 375,000) and a year-end customer count of 1,099,000, a year-on-year increase of 22.2%. This growth, when combined with the credit line increase programme to established customers, produced average receivables growth of 37.5%. Credit standards were unchanged in 2013 and, as a result, delinquency levels have continued to run at record lows for the business against the backdrop of a stable employment market. This has allowed Vanquis Bank to deliver a risk-adjusted margin of 34.2% (2012: 34.8%), well ahead of its minimum target of 30%.

The pilot credit card operation in Poland has successfully developed the credit tools required to underwrite business consistent with achieving the group's target returns. The focus is now on developing the marketing and distribution of its credit card and, alongside, testing other products that deliver its revolving credit proposition and broaden its appeal to the target audience. As previously indicated, the cost of the pilot during 2013 was £7.6m (2012: £3.3m). The start-up losses associated with the pilot are expected to continue at a similar rate through the first half of 2014.

CCD's profit before tax and exceptional items in 2013 was £102.5m (2012 restated: £122.9m) reflecting difficult trading conditions. Demand for credit remains weak due to very low home credit customer confidence and the persistent pressure on household incomes from rising food, fuel and utility bills. In addition, as part of the focus on driving returns in the home credit business, significantly tighter credit standards are now being applied which, as expected, is reducing the flow of new customers into the business. As a result, customer numbers and year-end receivables showed year-on-year reductions of 17.3% and 14.9% respectively. The ratio of impairment to revenue increased from 33.0% in 2012 to 38.7% in 2013 of which 3% is attributable to the increase in the revenue yield from 89.0% to 96.0%, with the remainder reflecting the deterioration in the arrears profile during the first nine months of the year. This deterioration is predominantly a result of weak demand as those customers not wishing to take further credit have less incentive to bring their accounts up to date and, therefore, typically remain in mild arrears. It is, however, encouraging that the implementation of standardised arrears and collections processes combined with tighter credit standards saw the collections performance and the arrears profile stabilise during the fourth quarter and begin to improve through the first two months of 2014.

The repositioning of the home credit business as a leaner, better-quality, more modern, high returns business is progressing well. In particular, the development and roll-out of the smart phone and tablet apps that support the step-change in productivity and compliance across the agent and branch network are fully on track and expected to be substantially completed in 2014. The credit quality of the receivables book is also improving through a combination of tighter credit standards and early benefits from the standardisation of collections and arrears processes. These improvements form part of the broader 'One Best Way' programme which will embed tried and tested best practices across the business in 2014, supported by technology and investment in people. The first phase of the cost reduction programme implemented in July 2013 delivered savings of £10m in the second half of the year. The second phase was successfully completed in December 2013, taking the total headcount reduction in 2013 to 520 or 17% of the workforce, and securing further savings of £26m in 2014.

Early results following the launch of Satsuma, CCD's online direct repayment loan product, are encouraging and fully confirm the potential of a business capable of delivering the group's target returns. The capability is being built to support a faster roll-out from late 2014.

The group's funding and liquidity positions remain strong with gearing of 3.0 times (2012: 3.2 times). The group has recently entered into a new £382.5m syndicated facility maturing in May 2017 and cancelled all existing committed bank facilities. The all-in cost of the new facility is lower than the cancelled facility with consistent terms, conditions and financial covenant package. Headroom on the group's committed facilities at 31 December 2013 amounted to £235m and, including the additional capacity available for Vanquis Bank to take retail deposits, total funding capacity amounted to £527m. The group's committed debt facilities, together with the retail deposits programme at Vanquis

Bank, are now sufficient to fund contractual maturities and projected growth in the business until the seasonal peak in 2017.

The group generated capital of £139.2m (2012: £107.7m) exceeding dividends in respect of 2013 of £116.0m (2012: £104.9m).

The proposed final dividend has been increased by 11.6% to 54.0p (2012: 48.4p) which, together with the 7.6% increase in the interim dividend, represents a 10.1% increase in the total dividend per share to 85.0p (2012: 77.2p). Dividend cover for 2013, prior to exceptional items, is 1.32 times (2012 restated: 1.30 times) and is consistent with the group's stated target of maintaining annual dividend cover of at least 1.25 times. The increase in the full-year dividend is supported by the group's growth in earnings and strong capital generation.

Market conditions

Vanquis Bank continues to experience strong demand from developing the under-served non-standard UK credit card market. The business promotes financial inclusion by bringing the benefits of credit cards to consumers who are typically declined by mainstream lenders, helping people to establish or rebuild their credit profiles and enjoy the increasing utility of card-based credit, including online shopping. Vanquis Bank's 'low and grow' approach to extending credit and high levels of customer contact underpin a sustainable, responsible lending model.

The marketing activity of competitors has continued to increase but it has had no discernible impact on overall new account bookings as evidenced by the strong momentum from the customer acquisition programme. Effective marketing and the continued development of distribution channels generated record new account bookings of 411,000, up from 375,000 in 2012. Whilst Vanquis Bank customers are typically in more regular employment than home credit customers, the business has demonstrated that it is considerably less sensitive to changes in the employment market than mainstream card issuers. Whilst UK unemployment has shown a modest reduction in 2013, the business has continued to apply tight credit standards with the result being that delinquency levels have continued to run at record lows.

Within CCD, home credit customer confidence remains very low and household disposable incomes and living standards have suffered from the persistent rises in food, fuel and utility bills which have been particularly steep in the past two years. Home credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. Consequently, any recovery in income levels will typically lag the broader economy and is not yet evident. In addition, as part of the repositioning of the business, underwriting standards were tightened significantly during the final quarter of 2013 and contributed to an overall reduction in customer numbers of 17.3% during 2013.

The competitive landscape in the home credit market remains unchanged with around 500 active participants in the UK. Whilst home credit is the right product for the vast majority of existing customers, as demonstrated by very high customer satisfaction, better-quality customers have greater choice than in the past because of the growth in alternative formats, including short-term payday or instalment credit products accessible online and high street credit providers including rent to own. These dynamics underpin the new strategy for CCD which involves updating the home credit business and focussing on returns as opposed to growth whilst investing in broadening the customer and product proposition through Satsuma in the online instalment lending segment of the non-standard market.

Vanquis Bank

Business performance

Vanquis Bank generated profit before tax of £106.1m in 2013 (2012: £68.0m) analysed as follows:

	Year ended 31 December		
	2013	2012	Change
	£m	£m	%
Profit/(loss) before tax:			
- UK	113.7	71.3	59.5
- Poland	(7.6)	(3.3)	(130.3)
Total Vanquis Bank	106.1	68.0	56.0

Vanquis Bank - UK

	Year ended 31 December		
	2013	2012	Change
	£m	£m	%
Customer numbers ('000)	1,099	899	22.2
Year-end receivables	861.3	641.5	34.3
Average receivables	739.1	537.4	37.5
Revenue	378.8	283.0	33.9
Impairment	(126.3)	(95.9)	(31.7)
Revenue less impairment	252.5	187.1	35.0
Risk-adjusted margin[1]	*34.2%*	*34.8%*	
Costs	(104.3)	(87.4)	(19.3)
Interest	(34.5)	(28.4)	(21.5)
Profit before tax	113.7	71.3	59.5

[1] *Revenue less impairment as a percentage of average receivables for the year ended 31 December.*

Vanquis Bank performed very strongly in 2013, reporting UK profits ahead of management's internal plans and 59.5% higher than last year. Further strong growth in the receivables book together with delinquency running at record lows have enabled the UK business to deliver a post-tax return on equity well above its target rate of 30%. Surplus distributable capital generated in 2013 amounted to £53.0m, up from £26.1m in 2012, and the business has paid dividends of £30.0m to Provident Financial during the year.

The demand for non-standard credit cards has remained strong and the business generated a flow of 1.62 million (2012: 1.56 million) applications during 2013 as a result of continued investment in its customer acquisition programme. New customer bookings of 411,000 (2012: 375,000) were a record high and reflected an acceptance rate of 25% (2012: 24%) against unchanged underwriting standards.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, produced a 37.5% increase in average receivables and a 33.9% increase in revenue. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of around 75% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

The combination of a stable UK employment market and the application of consistently tight underwriting have resulted in delinquency levels continuing to run at record lows for the business. Accordingly, the increase in impairment of 31.7% was lower than the 37.5% increase in average receivables.

The favourable delinquency performance through the year has resulted in an annualised risk-adjusted margin of 34.2% compared with 34.8% in 2012. The risk-adjusted margin in 2012 benefited from a more significant fall in delinquency levels than that experienced in 2013.

As previously reported, during the second half of 2013 Vanquis Bank changed the timing of the sale of its Repayment Option Plan (ROP) product to customers from the welcome call to the activation call, which is approximately one week later. This has had a modest impact on the penetration of the product into the customer base. In addition, following feedback from a series of customer focus groups, the business has also taken the opportunity to make further enhancements to the product's features, including the addition of a waiver of one default fee per annum for all ROP customers.

Based on current delinquency trends and after taking into account the changes made to the ROP product, the risk-adjusted margin is expected to moderate to between 32% and 33% during 2014 and remain above the target level of 30% thereafter.

Cost growth of 19.3% was well below the 33.9% increase in revenue as the business continues to benefit from operational gearing. The business has outgrown its central London premises on which the lease is due to expire in 2014. New space has now been secured nearby which will accommodate future growth and result in an increase in property costs of £1.5m.

Interest costs of £34.5m (2012: £28.4m) increased by 21.5% during 2013 compared with the growth in average receivables of 37.5%. This reflects the reduction in Vanquis Bank's blended funding rate from 7.2% in 2012 to 6.4% in 2013 due to the progressive benefit from taking retail deposits. Assuming market rates remain stable, Vanquis Bank's overall funding rate is expected to reduce to just below 6% in 2014 as the proportion of funding provided by retail deposits increases.

Business development

The pilot credit card operation in Poland has successfully developed the credit tools required to underwrite new business capable of supporting Vanquis Bank's target returns. This follows the implementation of the second generation scorecards in October 2013 which draw on much broader data from multiple bureau sources.

The focus is now on developing the marketing and distribution of the credit card in order to lift new customer volumes which, to date, have been running at around 2,500 per month based on distribution through brokers, which are a traditional and still important sales channel in Poland, and to a lesser extent the emerging internet channel. The business is actively trialling telesales, direct mail and face-to-face sales, as well as testing television and radio advertising for the first time. Alongside the credit card, the business is starting to test other products that deliver its revolving credit proposition and broaden its appeal to the target audience.

Credit line utilisation is comparable to the UK, which is important to generating a healthy revenue stream whilst managing the risk associated with undrawn lines. At present, however, the Polish customer has a much greater propensity to use the card to access cash rather than at the point of sale. This is likely to change as online shopping develops and as recent EU legislation reduces the interchange fees payable by retailers on credit card transactions.

At the end of 2013, the Polish pilot operation had 25,000 customers (2012: 9,000) and a receivables book of £5.3m (2012: £1.8m). In line with expectations, the cost of the pilot in 2013 was £7.6m (2012: £3.3m). The start-up losses associated with the pilot are expected to continue at a similar rate through the first half of 2014.

The Ministry of Finance in Poland issued draft proposals containing amendments to Polish consumer law in August 2013. The draft proposals were updated in December 2013 and include introducing a further restriction on the cost of credit that limits non-interest charges to 50% of the credit granted. This is in addition to the existing limit on interest charges of four times the Lombard rate (currently 4%, giving a limit of 16%). The draft proposals may be subject to further amendment and require clarification in a number of areas. The final regulatory changes are expected to be published and incorporated in legislation over the coming months. Whilst the current draft proposals are not expected to have a material impact on Vanquis Bank, it is almost certain to have a significant impact on providers of high-cost short-term credit, including payday lenders, that have grown very rapidly in Poland in recent years. This may alter the competitive landscape for consumer credit in Poland and allow Vanquis Bank to position its credit card and possibly other revolving credit products to meet the opportunity this may present.

CCD

Business performance

CCD generated a profit before tax of £102.5m in 2013 (2012 restated: £122.9m) as set out below:

	Year ended 31 December		
	2013[1]	2012[2]	Change
	£m	£m	%
Customer numbers ('000)	1,511	1,827	(17.3)
Year-end receivables	740.0	869.6	(14.9)
Average receivables	725.8	782.7	(7.3)
Revenue	697.1	696.9	-
Impairment	(269.7)	(230.2)	(17.2)
Revenue less impairment	427.4	466.7	(8.4)
Revenue yield[3]	*96.0%*	*89.0%*	
Impairment % revenue[4]	*38.7%*	*33.0%*	
Risk-adjusted margin[5]	*58.9%*	*59.6%*	
Costs	(285.6)	(297.6)	4.0
Interest	(39.3)	(46.2)	14.9
Profit before tax	102.5	122.9	(16.6)

[1] *2013 profit before tax is stated before an exceptional item of £13.7m in respect of the cost of a business restructuring within CCD.*

[2] *Profit before tax in 2012 has been restated from £125.1m to £122.9m following the mandatory retrospective adoption of the amended IAS 19, 'Employee Benefits' from 1 January 2013.*

[3] *Revenue as a percentage of average receivables for the year ended 31 December.*

[4] *Impairment as a percentage of revenue for the year ended 31 December.*

[5] *Revenue less impairment as a percentage of average receivables for the year ended 31 December.*

CCD's performance during 2013 reflected difficult trading conditions. Demand for credit was weak with customer confidence at the lowest level recorded for many years. Customers' household incomes were little changed on the previous year but disposable incomes saw further erosion due to continued rises in food, fuel and utility bills. Weaker demand has been particularly apparent amongst better-quality existing customers who are typically served with high value, longer duration loans that tend to be used for more discretionary items of expenditure. In addition, as part of the focus on driving returns in the home credit business, significantly tighter credit standards have been implemented which reduced the flow of new customers into the business through the final quarter of the year and contributed to customer numbers ending the year 17.3% lower than 2012.

Receivables at the end of December were 14.9% lower than the previous year and average receivables showed a year-on-year reduction of 7.3% due to a combination of weaker demand, tighter credit standards and lower customer recruitment.

The annualised revenue yield has strengthened to 96.0% at the end of December, up significantly from 89.0% at the end of last year. This primarily reflects the shift in mix of loans resulting from the reduction in demand for longer duration loans which carry a lower yield than shorter term products.

The ratio of impairment to revenue increased from 33.0% at December 2012 to 38.7% at the end of 2013. Approximately 3% of the increase is attributable to the increase in the revenue yield. The other influence was the deterioration in the arrears profile that occurred during the first nine months of the year. This resulted from weaker demand as those existing customers not wishing to take further credit have less incentive to bring their accounts up to date and typically remained in mild arrears. Whilst demand through the last quarter of the year remained weak, it is encouraging that early benefits from the implementation of standardised arrears and collections processes coupled with tighter credit standards mitigated any further deterioration and has produced a consistent improvement in year-on-year collections performance and arrears through the first two months of 2014.

Costs remained under close scrutiny throughout 2013 and the first phase of the cost reduction programme was implemented in July 2013. This included a reduction in field headcount of approximately 180 which delivered second-half cost savings of £10m and a 4% reduction in the cost base for 2013 as a whole. In November, the business announced the second phase of the cost reduction programme including further field and head office headcount reductions totalling 340. The related consultation period was successfully concluded in December. The cost reduction programme has secured £26m of further year-on-year savings in 2014. The headcount reductions recalibrate the ratio of customer numbers to employees and operational spans of control back to 2007 levels based on planned business volumes in 2014.

An exceptional cost of £13.7m has been incurred in 2013 in respect of the restructuring costs within CCD.

Interest costs in 2013 were 14.9% lower than last year reflecting the 7.3% reduction in average receivables and a reduction in the funding rate for the business from 7.4% to 6.8%.

Business development

The strategic plan to reposition CCD over the next two years outlined at the Investor & Analyst Event in November 2013 is progressing well. The plan involves developing CCD into a broader based lending business. The home credit business is being repositioned as a leaner, better-quality, more modern business with an emphasis on driving returns rather than growth whilst investment is directed at broadening the customer and product proposition through developing online instalment lending under the Satsuma brand.

<u>Home credit</u>

Repositioning the home credit business to focus primarily on delivering returns as opposed to growth involves a stronger emphasis on serving good-quality customers drawn from the core home credit demographic.

It is important to recognise that home credit continues to fill an important need for consumers in the non-standard market, providing access to credit for those who might otherwise be financially excluded. Consumers on low incomes and tight budgets require affordable credit in order to manage the peaks and troughs in their household budgets or one-off items of expenditure that may arise. They value the simple, flexible and transparent nature of the home credit product with its fixed weekly repayments and no additional fees or charges whatsoever, even if a payment is missed, as well as the weekly relationship with their agent who typically lives in the same community and genuinely understands their needs. This is demonstrated by consistently high levels of customer satisfaction in excess of 90%. The high contact between agents and customers together with agents' commission being based on collections, rather than amounts lent, further reinforces Provident Financial's responsible lending approach.

The repositioning of the business requires investment in technology and people in order to: (i) update the customer proposition; (ii) standardise best practice; (iii) access significant cost savings through improved efficiency; and (iv) implement market-leading compliance as regulation migrates from the Office of Fair Trading (OFT) to the more exacting Financial Conduct Authority (FCA) regime. Progress to date is fully on track.

The development and roll-out of the smart phone collections app and related 'Chip and Pin' technology to allow customers to make electronic payments is well underway. The collections app has been readily accepted and is being used by almost all of the 2,500 agents that carry iPhones, resulting in cost savings and compliance improvements, as well as saving each agent an estimated two to three hours a week previously spent on administrative paperwork. The Android version of the collections app that runs on the smart phones carried by the majority of agents has now been released with strong early uptake.

The business is now trialling the use of tablet devices for field managers which effectively provides them with a mobile office. This will free up significant time currently spent on office-based administration as the technology is rolled-out during 2014, allowing managers to spend more time with agents and assisting with arrears cases. Work has begun on the development of an agent app to support electronic loans documentation which is scheduled to be available later in 2014. This will eliminate paper, saving a significant amount of agent and back office time. Equally importantly, it will allow the business to enforce and evidence compliance to a level that is virtually impossible to achieve in a paper-based environment. In the medium term, the home credit business may benefit from the inevitable shake-out from the 500 or so smaller operators in the UK who are likely to find the transition to the FCA regulatory regime from April 2014 a significant challenge.

To keep the home credit business relevant to customers in the digital age, the 24/7 prepaid reloadable MasterCard, together with an online customer portal which allows customers to top-up their card against agent pre-approved limits, was launched in September in one region and continues to progress well. Full roll-out will take place in the second half of 2014.

The credit quality of the receivables book has now begun to show consistent improvement. This results from a combination of much tighter underwriting standards being applied to new customers and some excellent early progress from the standardisation of collections and arrears processes which form an important element of the broader 'One Best Way' programme that will embed tried and tested best practice across the business in 2014. The people agenda is also beginning to yield benefits. The process for attracting and training agents and driving improved agency performance is now in place and has seen an improvement in agent turnover, in particular a significant reduction in the number of vacant agencies. Managers throughout the business are undergoing formal leadership training in 2014 based on analysis recently completed to clearly define success factors which are properly aligned with business performance and recognised through reward and recognition.

Satsuma

The online loans market, which is primarily served by payday at present, is estimated to be some four times the size of the home credit market and is growing as customer preferences change. With the backdrop of clearer, tighter regulation around payday lending, there is likely to be a shift in demand from payday loans to instalment loans as the restrictions on the use of rollovers and continuous payment authorities by payday lenders take effect. Accordingly, as part of the repositioning of CCD, Satsuma was launched in November after a trial period which proved that an online direct repayment product was capable of delivering the group's target returns.

Satsuma addresses those applicants of sufficient credit quality whose preference is to access small-sum credit online and make weekly repayments direct from their bank account without the need for an agent visit. It should also appeal to those existing home credit customers whose credit status has improved and supports an online lending relationship. More broadly, online credit of up to 12 months in duration is relevant to a proportion of applicants declined a Vanquis Bank credit card as well as the significant audience of non-standard consumers that occupy the segment of the market between Vanquis Bank and the home credit business.

In order to maintain the group's responsible approach to lending, the Satsuma product retains many of the features of the home credit product. There are no extra charges, weekly payments are fixed based on a pre-determined schedule, customers have regular contact with a telephone agent and there are a number of forbearance procedures in place for those who get into financial difficulty. In addition, the back office processes of Satsuma are utilising the highly effective distribution, underwriting and collections capabilities of both CCD and Vanquis Bank.

As at 31 December, Satsuma had 9,000 customers and a receivables book of £1.8m. It is expected to broadly breakeven in 2014 as the investment takes place to build scale.

Central costs

Central costs in 2013 were unchanged at £12.5m (2012 restated: £12.5m).

Exceptional items

An exceptional cost of £13.7m has been recognised in 2013 relating to the restructuring of the CCD business, including the redundancy costs associated with 520 employees.

An exceptional credit of £15.6m arose in 2012 in respect of a curtailment credit of £17.7m following the removal of the link to final salary at retirement from the group's defined benefit pension scheme and a £2.1m charge relating to the impairment of goodwill in respect of a small subsidiary within CCD.

Taxation

The tax charge for 2013 represents an effective rate of 22.7% (2012: 24.5%) on profit before tax and exceptional items, and is close to the UK corporation tax rate which reduced from 24% to 23% on 1 April 2013. The group is expected to benefit in future years from the rate reductions announced by the Government and enacted in the 2013 Finance Act.

Dividends

The proposed final dividend has been increased by 11.6% to 54.0p (2012: 48.4p) which, together with the 7.6% increase in the interim dividend, represents a 10.1% increase in the total dividend per share to 85.0p (2012: 77.2p). Dividend cover for 2013, prior to exceptional items, was 1.32 times (2012 restated: 1.30 times) and is consistent with the group's stated target of maintaining annual dividend cover of at least 1.25 times. The increase in the full-year dividend is supported by the group's growth in earnings and strong capital generation.

Funding and capital

The group's funding and liquidity positions are strong. The group's credit rating from Fitch Ratings was reviewed in June 2013 and remains unchanged at BBB with a stable outlook.

During 2013, the group continued to strengthen its funding base through the successful launch of its fourth retail bond in March raising £65m at a coupon of 6.0% and a duration of eight and a half years. As at 31 December 2013, Vanquis Bank had taken £435.1m of retail deposits, up from £327.4m at the end of 2012, which represents 51% (2012: 51%) of Vanquis Bank's UK receivables compared with the maximum level permitted by the Prudential Regulation Authority (PRA) of 90%. Due to the high level of committed debt funding and the contraction in the CCD receivables book, the flow of new funds from the retail deposits programme has been managed to relatively modest levels during 2013 through appropriate pricing.

Subsequent to the year end, the group entered into a new £382.5m syndicated bank facility maturing in May 2017 and cancelled the existing facility of £382.5m which was due to expire in May 2015. The syndicate continues to comprise the group's core relationship banks and the all-in cost of funds is lower than the previous facility with consistent terms, conditions and financial covenant package.

The group continues to be highly capital generative, consistent with its strategy of developing and growing businesses which generate high returns on capital to support the group's dividend policy. In 2013, capital generated amounted to £139.2m (2012: £107.7m) compared with dividends in respect of 2013 of £116.0m (2012: £104.9m). The strong capital generation of the group has resulted in gearing reducing to 3.0 times (2012: 3.2 times) against a banking covenant limit of 5.0 times.

Headroom on the group's committed debt facilities at 31 December 2013 amounted to £235m which, together with the recent renewal of bank facilities and the retail deposits programme at Vanquis Bank, is sufficient to fund contractual maturities and projected growth in the business until the seasonal peak in 2017.

The group's funding rate during 2013 was 6.8%, down from 7.5% in 2012 due to the benefit of the Vanquis Bank retail deposits programme. The group's funding rate is expected to moderate further to approximately 6.5% for 2014.

Regulation

The FCA consultation which set out the detailed proposals for the new regulatory regime for consumer credit closed in December 2013. The consultation covered key features of the authorisation, supervision and enforcement regimes, as well as conduct rules and guidance including a new draft rule book. The FCA is now considering the consultation responses and plans to issue final rules and guidance by the end of February or early March 2014, ready for the transfer in April 2014 when the FCA supersedes the OFT as the regulator for consumer credit.

Outlook

The group's funding and liquidity positions are strong, allowing it to meet contractual debt maturities and fund its internal growth plans through to the seasonal peak in 2017.

Vanquis Bank is continuing to deliver strong growth and financial returns, with the UK business making excellent progress in building towards its medium-term target of 1.3 to 1.5 million customers. The pilot credit card operation in Poland has developed an effective set of credit tools and the focus has now shifted to the development, marketing and distribution of its revolving credit proposition.

There is excellent momentum behind the programme that will be substantially completed in 2014 to reposition the home credit business and the Satsuma online instalment lending business has made an encouraging start following its launch in November 2013. The capability is being built to support a more rapid development of the Satsuma business from late 2014.

The group has made a good start in the first two months of 2014. Vanquis Bank has continued to trade strongly and the home credit business is seeing a consistent improvement in credit quality and collections performance.

Consolidated income statement for the year ended 31 December

	Note	2013	2012 (restated)
		£m	£m
Revenue	2	1,078.1	980.0
Finance costs		(74.2)	(74.7)
Operating costs		(559.5)	(478.8)
Administrative costs		(262.0)	(232.5)
Administrative costs before exceptional items		(248.3)	(248.1)
Exceptional items	2	(13.7)	15.6
Total costs		(895.7)	(786.0)
Profit before taxation	2	182.4	194.0
Profit before taxation and exceptional items	2	196.1	178.4
Exceptional items	2	(13.7)	15.6
Tax charge	3	(41.4)	(48.0)
Profit for the year attributable to equity shareholders		141.0	146.0

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2013	2012 (restated)
		£m	£m
Profit for the year attributable to equity shareholders		141.0	146.0
Other comprehensive income:			
– cash flow hedges		2.7	(0.6)
– actuarial movements on retirement benefit asset	7	(3.9)	(11.4)
– exchange differences on translation of foreign operations		(0.2)	-
– tax on items taken directly to other comprehensive income	3	0.3	2.8
– impact of change in UK tax rate	3	0.3	(0.1)
Other comprehensive income for the year		(0.8)	(9.3)
Total comprehensive income for the year		140.2	136.7

Earnings per share

	Note	2013	2012 (restated)
		pence	pence
Basic	4	104.2	108.9
Diluted	4	102.2	106.9

Dividends per share

	Note	2013	2012
		pence	pence
Proposed final dividend	5	54.0	48.4
Total dividend for the year	5	85.0	77.2
Paid in the year*	5	79.4	71.1

* The total cost of dividends paid in the year was £108.4m (2012: £96.1m).

Consolidated balance sheet as at 31 December

	Note	2013 £m	2012 £m
ASSETS			
Non-current assets			
Other intangible assets		8.1	9.5
Property, plant and equipment		22.8	23.9
Financial assets:			
– amounts receivable from customers	6	79.7	97.5
– derivative financial instruments		-	8.1
Retirement benefit asset	7	29.2	23.0
Deferred tax assets		3.5	6.1
		143.3	168.1
Current assets			
Financial assets:			
– amounts receivable from customers	6	1,526.9	1,416.3
– derivative financial instruments		5.5	-
– cash and cash equivalents		119.0	79.1
– trade and other receivables		15.5	23.0
		1,666.9	1,518.4
Total assets	2	1,810.2	1,686.5
LIABILITIES			
Current liabilities			
Financial liabilities:			
– bank and other borrowings		(121.2)	(169.8)
– derivative financial instruments		-	(2.0)
– trade and other payables		(65.8)	(60.6)
Current tax liabilities		(36.3)	(37.7)
		(223.3)	(270.1)
Non-current liabilities			
Financial liabilities:			
– bank and other borrowings		(1,163.4)	(1,031.6)
– derivative financial instruments		(6.7)	(9.4)
		(1,170.1)	(1,041.0)
Total liabilities		(1,393.4)	(1,311.1)
NET ASSETS	2	416.8	375.4
SHAREHOLDERS' EQUITY			
Share capital		28.9	28.7
Share premium		150.6	148.1
Other reserves		17.2	13.2
Retained earnings		220.1	185.4
TOTAL EQUITY		416.8	375.4

Consolidated statement of changes in shareholders' equity for the year ended 31 December

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings (restated) £m	Total (restated) £m
At 1 January 2012		28.5	146.0	9.4	142.3	326.2
Profit for the year		-	-	-	146.0	146.0
Other comprehensive income:						
– cash flow hedges		-	-	(0.6)	-	(0.6)
– actuarial movements on retirement benefit asset	7	-	-	-	(11.4)	(11.4)
– tax on items taken directly to other comprehensive income	3	-	-	0.1	2.7	2.8
– impact of change in UK tax rate	3	-	-	(0.1)	-	(0.1)
Other comprehensive income for the year		-	-	(0.6)	(8.7)	(9.3)
Total comprehensive income for the year		-	-	(0.6)	137.3	136.7
Transactions with owners:						
– issue of share capital		0.2	2.1	-	-	2.3
– purchase of own shares		-	-	(0.1)	-	(0.1)
– transfer of own shares on vesting of share awards		-	-	3.7	(3.7)	-
– share-based payment charge		-	-	6.4	-	6.4
– transfer of share-based payment reserve		-	-	(5.6)	5.6	-
– dividends	5	-	-	-	(96.1)	(96.1)
At 31 December 2012		28.7	148.1	13.2	185.4	375.4
At 1 January 2013		28.7	148.1	13.2	185.4	375.4
Profit for the year		-	-	-	141.0	141.0
Other comprehensive income:						
– cash flow hedges		-	-	2.7	-	2.7
– actuarial movements on retirement benefit asset	7	-	-	-	(3.9)	(3.9)
– exchange differences on translation of foreign operations		-	-	-	(0.2)	(0.2)
– tax on items taken directly to other comprehensive income	3	-	-	(0.6)	0.9	0.3
– impact of change in UK tax rate	3	-	-	(0.2)	0.5	0.3
Other comprehensive income for the year		-	-	1.9	(2.7)	(0.8)
Total comprehensive income for the year		-	-	1.9	138.3	140.2
Transactions with owners:						
– issue of share capital		0.2	2.5	-	-	2.7
– purchase of own shares		-	-	(0.5)	-	(0.5)
– transfer of own shares on vesting of share awards		-	-	0.6	(0.6)	-
– share-based payment charge		-	-	7.4	-	7.4
– transfer of share-based payment reserve		-	-	(5.4)	5.4	-
– dividends	5	-	-	-	(108.4)	(108.4)
At 31 December 2013		28.9	150.6	17.2	220.1	416.8

Consolidated statement of cash flows for the year ended 31 December

	Note	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	8	183.8	89.6
Finance costs paid		(70.0)	(73.1)
Tax paid		(39.6)	(46.3)
Net cash generated from/(used in) operating activities		74.2	(29.8)
Cash flows from investing activities			
Purchase of intangible assets		(3.0)	(1.6)
Purchase of property, plant and equipment		(7.3)	(7.1)
Proceeds from disposal of property, plant and equipment		1.5	1.3
Net cash used in investing activities		(8.8)	(7.4)
Cash flows from financing activities			
Proceeds from bank and other borrowings		287.6	531.8
Repayment of bank and other borrowings		(206.8)	(363.2)
Dividends paid to company shareholders	5	(108.4)	(96.1)
Proceeds from issue of share capital		2.7	2.3
Purchase of own shares		(0.5)	(0.1)
Net cash (used in)/generated from financing activities		(25.4)	74.7
Net increase in cash, cash equivalents and overdrafts		40.0	37.5
Cash, cash equivalents and overdrafts at beginning of year		69.7	32.2
Cash, cash equivalents and overdrafts at end of year		109.7	69.7
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		119.0	79.1
Overdrafts (held in bank and other borrowings)		(9.3)	(9.4)
Total cash, cash equivalents and overdrafts		109.7	69.7

Cash at bank and in hand includes £86.3m (2012: £52.3m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. This buffer is not available to finance the group's day-to-day operations.

Notes to the preliminary announcement

1. Basis of preparation

The preliminary announcement has been prepared in accordance with the Listing Rules of the FCA and is based on the 2013 financial statements which have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Except as described below, the accounting policies applied in preparing the preliminary announcement are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2012.

IAS 19, 'Employee Benefits' was amended in June 2011 and was applicable from 1 January 2013 with retrospective application required. The changes to the standard require the group to calculate its annual pension charge as the current service cost plus or minus the discount rate applied to the net pension asset. This replaces the previous calculation which was the current service cost plus the expected return on plan assets less the unwinding of the discount rate on liabilities. In effect, this requires the group to replace its long-term rate of return on assets assumption with its discount rate thereby reducing the assumed return on assets and increasing the pension charge. The retrospective application results in an increase in administrative costs and, therefore, a reduction in earnings with a corresponding adjustment to the actuarial movement on the retirement benefit asset taken through the consolidated statement of comprehensive income. The associated deferred tax charges/credits taken through the income statement and through the consolidated statement of comprehensive income have also been restated. There is, therefore, no balance sheet impact. The table below shows the impact of the restatement on 2012 profit before tax and exceptional items:

	Year ended 31 December 2012		
	Reported	Adjustment	Restated
	£m	£m	£m
Vanquis Bank	68.0	-	68.0
CCD	125.1	(2.2)	122.9
Central	(12.0)	(0.5)	(12.5)
Total group profit before tax and exceptional items	181.1	(2.7)	178.4
Actuarial movements on retirement benefit asset	(14.1)	2.7	(11.4)
Retirement benefit asset	23.0	-	23.0

The preliminary announcement does not constitute the statutory financial statements of the group within the meaning of Section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2012 have been filed with the Registrar of Companies. The auditor has reported on those financial statements and on the statutory financial statements for the year ended 31 December 2013, which will be filed with the Registrar of Companies following the annual general meeting. Both the audit reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under Section 498 of the Companies Act 2006.

The preliminary announcement has been agreed with the company's auditor for release.

2. Segment reporting

	Revenue		Profit/(loss) before taxation	
	2013	2012	2013	2012 (restated)
	£m	£m	£m	£m
Vanquis Bank	381.0	283.1	106.1	68.0
CCD	697.1	696.9	102.5	122.9
Central costs	-	-	(12.5)	(12.5)
Total group before exceptional items	1,078.1	980.0	196.1	178.4
Exceptional items	-	-	(13.7)	15.6
Total group	1,078.1	980.0	182.4	194.0

An exceptional item of £13.7m has been incurred in 2013 relating to the cost of a business restructuring within CCD, including the redundancy costs associated with a headcount reduction of 520 employees. The exceptional cost is stated net of an exceptional curtailment credit of £1.6m associated with those employees made redundant who were part of the group's defined benefit pension scheme (see note 7).

Exceptional items in 2012 comprised: (i) a curtailment credit of £17.7m following the removal of the link to final salary at retirement from the group's defined benefit pension scheme (see note 7); and (ii) a £2.1m charge relating to the impairment of goodwill in respect of Cheque Exchange Limited, a business originally acquired in 2001 and now subsumed within CCD.

All of the above activities relate to continuing operations. Revenue between business segments is not material.

	Segment assets		Net assets	
	2013	2012 (restated)	2013	2012 (restated)
	£m	£m	£m	£m
Vanquis Bank	969.8	716.1	216.5	152.0
CCD	783.8	930.0	171.3	205.5
Central	85.4	71.7	29.0	17.9
Total before intra-group elimination	1,839.0	1,717.8	416.8	375.4
Intra-group elimination	(28.8)	(31.3)	-	-
Total group	1,810.2	1,686.5	416.8	375.4

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing the borrowings of CCD to reflect a borrowings to receivables ratio of 80%. The impact of this is an increase in the notional allocation of group borrowings to CCD of £28.8m (2012: £31.3m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

The group's businesses operate principally in the UK and Republic of Ireland. Vanquis Bank established a branch in Poland as part of a pilot credit card operation during the first half of 2012. The revenue in respect of the branch in 2013 amounted to £2.2m (2012: £0.1m) and the loss amounted to £7.6m (2012: £3.3m). The net liabilities of the branch amounted to £9.5m at 31 December 2013 (2012: £1.2m), comprising assets of £16.0m (2012: £2.8m) and liabilities of £25.5m (2012: £4.0m). These figures are included within the Vanquis Bank figures in the tables above.

3. Tax charge

The tax charge in the income statement is as follows:

	2013 £m	2012 (restated) £m
Current tax:		
– UK	(37.7)	(43.0)
– overseas	(0.5)	(0.9)
Total current tax	(38.2)	(43.9)
Deferred tax	(2.5)	(3.7)
Impact of change in UK tax rate	(0.7)	(0.4)
Total tax charge	(41.4)	(48.0)

The tax credit in respect of exceptional items in 2013 amounted to £3.2m (2012: charge of £4.3m).

As a result of the changes in the UK corporation tax rate, deferred tax balances have been re-measured at 20% (2012: 23%) on the basis that the temporary differences on which the deferred tax balances have been calculated are expected to reverse after 1 April 2015 (2012: 1 April 2013). A tax charge of £0.7m in 2013 (2012: £0.4m) represents the income statement adjustment to deferred tax as a result of this change, which primarily arises as a result of revaluing the benefit of future tax deductions at the lower 20% tax rate. An additional deferred tax credit of £0.3m in 2013 (2012: charge of £0.1m) has been taken directly to other comprehensive income, reflecting the change in UK corporation tax rates on items previously reflected directly in other comprehensive income.

The tax credit on items taken directly to other comprehensive income as follows:

	2013 £m	2012 (restated) £m
Current tax (charge)/credit on cash flow hedges	(0.6)	0.1
Deferred tax credit on actuarial movements on retirement benefit asset	0.9	2.7
Tax credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	0.3	2.8
Impact of change in UK tax rate	0.3	(0.1)
Total tax credit on items taken directly to other comprehensive income	0.6	2.7

The movement in deferred tax assets during the year can be analysed as follows:

	2013 £m	2012 (restated) £m
At 1 January	6.1	7.5
Charge to the income statement	(2.5)	(3.7)
Credit on other comprehensive income prior to impact of change in UK tax rate	0.3	2.8
Impact of change in UK tax rate:		
– charge to the income statement	(0.7)	(0.4)
– credit/(charge) to other comprehensive income	0.3	(0.1)
At 31 December	3.5	6.1

3. Tax charge (continued)

The rate of tax charge on the profit before taxation for the year is lower than (2012: higher than) the average standard rate of corporation tax in the UK of 23.25% (2012: 24.50%). This can be reconciled as follows:

	2013	2012 (restated)
	£m	£m
Profit before taxation	182.4	194.0
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 23.25% (2012: 24.50%)	(42.4)	(47.5)
Effects of:		
– benefit of lower tax rates overseas	0.7	1.0
– impairment of goodwill not deductible for tax purposes	-	(0.5)
– adjustment in respect of prior years	1.3	(0.5)
– expenses not deductible for tax purposes, net of non-taxable income	(0.3)	(0.1)
– impact of change in UK tax rate	(0.7)	(0.4)
Total tax charge	(41.4)	(48.0)

4. Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares (own shares held). Diluted earnings per share calculates the effect on earnings per share assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

(i) For share awards outstanding under performance-related share incentive schemes such as the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS), the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met as at that date.

(ii) For share options outstanding under non-performance related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares.

Reconciliations of basic and diluted earnings per share are set out below:

	2013 Earnings	2013 Weighted average number of shares	2013 Per share amount	2012 Earnings (restated)	2012 Weighted average number of shares	2012 Per share amount (restated)
	£m	m	Pence	£m	m	pence
Earnings per share						
Shares in issue during the year		139.1			138.0	
Own shares held		(3.8)			(3.9)	
Basic earnings per share	141.0	135.3	104.2	146.0	134.1	108.9
Dilutive effect of share options and awards	-	2.7	(2.0)	-	2.5	(2.0)
Diluted earnings per share	141.0	138.0	102.2	146.0	136.6	106.9

4. Earnings per share (continued)

The directors have elected to show an adjusted earnings per share prior to exceptional items (see note 2). This is presented to show the earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted earnings per share to adjusted basic and diluted earnings per share is as follows:

	2013 Earnings	2013 Weighted average number of shares	2013 Per share amount	2012 Earnings (restated)	2012 Weighted average number of shares	2012 Per share amount (restated)
	£m	m	pence	£m	m	pence
Basic earnings per share	141.0	135.3	104.2	146.0	134.1	108.9
Exceptional items, net of tax	10.5	-	7.8	(11.3)	-	(8.5)
Adjusted basic earnings per share	151.5	135.3	112.0	134.7	134.1	100.4
Diluted earnings per share	141.0	138.0	102.2	146.0	136.6	106.9
Exceptional items, net of tax	10.5	-	7.6	(11.3)	-	(8.3)
Adjusted diluted earnings per share	151.5	138.0	109.8	134.7	136.6	98.6

5. Dividends

		2013	2012
		£m	£m
2011 final	- 42.3p per share	-	57.2
2012 interim	- 28.8p per share	-	38.9
2012 final	- 48.4p per share	66.0	-
2013 interim	- 31.0p per share	42.4	-
Dividends paid		108.4	96.1

The directors are recommending a final dividend in respect of the financial year ended 31 December 2013 of 54.0p per share (2012: 48.4p) which will amount to an estimated dividend payment of £73.6m (2012: £66.0m). If approved by the shareholders at the annual general meeting on 8 May 2014, this dividend will be paid on 20 June 2014 to shareholders who are on the register of members at 23 May 2014. This dividend is not reflected in the balance sheet as at 31 December 2013 as it is subject to shareholder approval.

6. Amounts receivable from customers

	2013 £m	2012 £m
Vanquis Bank	866.6	643.3
CCD	740.0	870.5
Total group	1,606.6	1,513.8
Analysed as:		
– due in more than one year	79.7	97.5
– due within one year	1,526.9	1,416.3
Total group	1,606.6	1,513.8

Vanquis Bank receivables comprise £861.3m (2012: £641.5m) in respect of the UK business and £5.3m (2012: £1.8m) in respect of the Polish pilot operation.

CCD receivables comprise £738.2m in respect of the home credit business (2012: £869.6m), £1.8m in respect of Satsuma (2012: £nil) and £nil in respect of the collect-out of Real Personal Finance (2012: £0.9m).

The impairment charge in respect of amounts receivable from customers reflected within operating costs can be analysed as follows:

	2013 £m	2012 £m
Vanquis Bank	129.4	95.9
CCD	269.7	230.2
Total group	399.1	326.1

The impairment charge in Vanquis Bank comprises £126.3m (2012: £95.9m) in respect of the UK business and £3.1m (2012: £nil) in respect of the Polish pilot operation.

Impairment in Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The Vanquis Bank allowance account as at 31 December 2013 amounted to £128.8m (2012: £91.4m). Within CCD, impairments are deducted directly from amounts receivable from customers without the use of an allowance account.

7. Retirement benefit asset

The group operates a defined benefit pension scheme: the Provident Financial Staff Pension Scheme. The scheme has been substantially closed to new members since 1 January 2003. The scheme covers 29% of employees with company-provided pension arrangements and is of the funded, defined benefit type.

All future benefits in the scheme are now provided on a ‘cash balance’ basis, with a defined amount being made available at retirement, based on a percentage of salary that is revalued up to retirement with reference to increases in price inflation. This retirement account is then used to purchase an annuity on the open market. The scheme also provides pension benefits that were accrued in the past on a final salary basis, but which are no longer linked to final salary.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out as at 1 June 2012 by a qualified independent actuary. The valuation used for the purposes of IAS 19 ‘Employee benefits’ has been based on the results of this valuation which has been updated to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value at the balance sheet date.

From 1 January 2013, the group has mandatorily adopted the revised IAS 19 ‘Employee Benefits’ which has resulted in a restatement of prior year comparatives (see note 1).

7. Retirement benefit asset (continued)

The net retirement benefit asset recognised in the balance sheet of the group is as follows:

	2013 £m	2012 £m
Equities	237.4	249.2
Corporate bonds	156.7	187.4
Index-linked gilts	145.2	103.9
Cash and money market funds	74.5	30.2
Fair value of scheme assets	613.8	570.7
Present value of defined benefit obligation	(584.6)	(547.7)
Net retirement benefit asset recognised in the balance sheet	29.2	23.0

The amounts recognised in the income statement were as follows:

	2013 £m	2012 (restated) £m
Current service cost	(7.1)	(7.6)
Interest on scheme liabilities	(24.5)	(24.9)
Interest on scheme assets	25.6	25.6
Net charge recognised in the income statement before exceptional curtailment credit	(6.0)	(6.9)
Exceptional curtailment credit	1.6	17.7
Net (charge)/credit recognised in the income statement	(4.4)	10.8

The exceptional curtailment credit in 2013 of £1.6m relates to the reduction in headcount of 520 following the business restructuring within CCD (see note 2). The exceptional curtailment credit in 2012 of £17.7m related to the change during the year to applying statutory revaluations to accrued final salary benefits rather than in line with future salary increases (see note 2).

The net (charge)/credit recognised in the income statement has been included within administrative costs.

Movements in the fair value of scheme assets were as follows:

	2013 £m	2012 (restated) £m
Fair value of scheme assets at 1 January	570.7	525.0
Interest on scheme assets	25.6	25.6
Actuarial movement on scheme assets	20.1	25.3
Contributions paid by the group	14.5	10.1
Net benefits paid out	(17.1)	(15.3)
Fair value of scheme assets at 31 December	613.8	570.7

7. Retirement benefit asset (continued)

Movements in the present value of the defined benefit obligation were as follows:

	2013 £m	2012 (restated) £m
Present value of defined benefit obligation at 1 January	(547.7)	(511.5)
Current service cost	(7.1)	(7.6)
Interest on scheme liabilities	(24.5)	(24.9)
Exceptional curtailment credit	1.6	17.7
Actuarial movement on scheme liabilities	(24.0)	(36.7)
Net benefits paid out	17.1	15.3
Present value of defined benefit obligation at 31 December	(584.6)	(547.7)

The principal actuarial assumptions used at the balance sheet date were as follows:

	2013 %	2012 %
Price inflation – RPI	3.40	3.00
Price inflation – CPI	2.40	2.25
Rate of increase to pensions in payment	3.10	2.80
Inflationary increases to pensions in deferment	2.40	2.25
Discount rate	4.40	4.50

The mortality assumptions used in the valuation of the group's defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy.

The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- Future mortality improvements are in line with the CMI 2013 projections with long-term trend improvements of 1.25% per annum.

In more simple terms, it is assumed that members who retire in the future at age 65 will live on average for a further 24 years if they are male (2012: 24 years) and for a further 25 years if they are female (2012: 26 years). If assumed life expectancies had been one year greater, the net retirement benefit asset would have been reduced by approximately £18m (2012: £20m).

An analysis of amounts recognised in the statement of comprehensive income is set out below:

	2013 £m	2012 (restated) £m
Actuarial movements on scheme assets	20.1	25.3
Actuarial movements on scheme liabilities	(24.0)	(36.7)
Actuarial movements recognised in the statement of comprehensive income in the year	(3.9)	(11.4)

8. Reconciliation of profit after taxation to cash generated from operations

	2013 £m	2012 (restated) £m
Profit after taxation	141.0	146.0
Adjusted for:		
– tax charge (note 3)	41.4	48.0
– finance costs	74.2	74.7
– share-based payment charge	7.4	6.4
– retirement benefit charge prior to exceptional curtailment credit (note 7)	6.0	6.9
– exceptional curtailment credit (note 7)	(1.6)	(17.7)
– amortisation of intangible assets	4.4	5.0
– exceptional impairment of goodwill (note 2)	-	2.1
– depreciation of property, plant and equipment	6.7	8.6
– loss on disposal of property, plant and equipment	0.2	0.1
Changes in operating assets and liabilities:		
– amounts receivable from customers	(92.3)	(181.1)
– trade and other receivables	7.3	(2.3)
– trade and other payables	3.6	3.0
– contributions into the retirement benefit scheme (note 7)	(14.5)	(10.1)
Cash generated from operations	183.8	89.6

Information for shareholders

1. The shares will be marked ex-dividend on 21 May 2014.

2. The final dividend will be paid on 20 June 2014 to shareholders on the register at the close of business on 23 May 2014. Dividend warrants/vouchers will be posted on 18 June 2014.

3. The 2013 annual report and financial statements together with the notice of the annual general meeting will be posted to shareholders on or around 1 April 2014.

4. The annual general meeting will be held on 8 May 2014 at the head office of Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.