Provident Financial plc
Preliminary results for the year ended 31 December 2014

Provident Financial plc is the leading non-standard lender in the UK. The group serves over 2.4 million customers and its operations consist of Vanquis Bank, the Consumer Credit Division (CCD) and Moneybarn.

Highlights

Strong financial performance and dividend increase

- Adjusted profit before tax[1] up 19.5% to £234.4m (2013: £196.1m) and adjusted earnings per share[1] up 18.4% to 132.6p (2013: 112.0p).
- Statutory profit before tax up 23.1% to £224.6m (2013: £182.4m) and basic earnings per share up 21.4% to 126.5p (2013: 104.2p).
- Return on assets[2] of 15.1%, with increase from 14.2% in 2013 attributable to CCD.
- Total dividend per share up 15.3% to 98.0p (2013: 85.0p).

Robust funding position

- Gearing reduced to 2.4 times (2013: 3.0 times) through equity raised to fund the acquisition of Moneybarn and strong capital generation.
- Group fully funded to May 2018 following extension of £382.5m core bank facility by a further year.

Excellent growth and greater potential in Vanquis Bank

- UK profit before tax up by 32.8% to £151.0m (2013: £113.7m).
- Customer and average receivables growth of 17.7% and 30.9% respectively, reflecting strong momentum from addressing the under-served non-standard credit card market.
- Year-end UK customer numbers of 1.3m and guidance for medium-term potential size of business increased to between 1.5 and 1.8 million customers with an average balance of approximately £1,000.
- Polish start-up loss of £10.6m (2013: £7.6m) and decision made to withdraw from pilot operation at no material cost in 2015.

Repositioning of CCD substantially complete

- Adjusted profit before tax[1] up 1.4% to £103.9m (2013: £102.5m).
- Customer numbers and receivables reduced by 29.1% and 20.5% respectively, through execution of plan to reposition the home credit business as a smaller, but leaner, better-quality business focused on returns.
- Significant improvements in credit quality and collections have lifted the risk-adjusted margin[3] sharply from 58.9% in 2013 to 69.1% in 2014.
- Satsuma's online instalment lending capability now well developed and customer demand strong.

Highly encouraging start from Moneybarn

- Adjusted profit before tax[1] of £5.8m in the four months post-acquisition, in line with expectations.
- Significant uplift in new business volumes as a result of access to the group's funding.

Key financial results

	2014	2013	Change
Adjusted profit before tax[1]	£234.4m	£196.1m	19.5%
Statutory profit before tax	£224.6m	£182.4m	23.1%
Adjusted earnings per share[1]	132.6p	112.0p	18.4%
Basic earnings per share	126.5p	104.2p	21.4%
Return on assets[2]	15.1%	14.2%	
Final dividend per share	63.9p	54.0p	18.3%
Total dividend per share	98.0p	85.0p	15.3%

Peter Crook, Chief Executive, commented:

"I am very pleased to announce adjusted earnings per share growth of 18.4% in 2014 and a 15.3% increase in the dividend for the year, supported by strong capital generation and the group's robust funding position.

Vanquis Bank has produced another excellent performance with UK profits up 32.8%. Against unchanged credit standards, the business has continued to generate strong customer growth and margins through developing the under-served non-standard credit card market.

CCD delivered on its plan to at least maintain profits at 2013 levels. The repositioning of the home credit business as a smaller but leaner, better-quality, more modern business focused on returns is substantially complete whilst the Satsuma online instalment lending business has made a very encouraging start following its launch in November 2013.

The integration of Moneybarn is going extremely well and access to the group's funding lines has assisted in a significant uplift in new business volumes.

I believe the more exacting FCA regulatory regime will raise the bar on conduct across the consumer finance industry and I am pleased to report that our businesses are at an advanced state of readiness for full authorisation.

The group has made a good start in the first two months of 2015. Vanquis Bank and Moneybarn continue to trade strongly and the home credit business has enjoyed a strong collections performance."

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[1] *Adjusted profit before tax is stated before: (i) £2.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn on 20 August 2014 (2013: £nil) – see note 7; and (ii) exceptional costs of £7.3m, comprising £3.4m in respect of restructuring costs in CCD (2013: £13.7m) and £3.9m of costs incurred in respect of the acquisition of Moneybarn – see note 2.*

[2] *Adjusted profit before interest after tax as a percentage of average receivables.*

[3] *Revenue less impairment as a percentage of average receivables.*

Group summary

The group has reported a strong set of results with profit before tax, amortisation of acquisition intangibles and exceptional costs up 19.5% to £234.4m (2013: £196.1m). Vanquis Bank continues to experience strong growth and margins. CCD has delivered a stable result as the benefits of an improved home credit impairment performance and cost reductions have offset the contraction in home credit customer numbers and receivables and funded the investment in Satsuma. Adjusted earnings per share of 132.6p (2013: 112.0p) grew by 18.4%, a lower rate than pre-tax earnings as a result of the impact of the 5.9m placement of shares for the acquisition of Moneybarn, partly offset by the reduction in the statutory rate of UK corporation tax from 23% to 21% on 1 April 2014.

Vanquis Bank has delivered another excellent performance in 2014 with UK profit before tax up 32.8% to £151.0m (2013: £113.7m). Further investment in the customer acquisition programme delivered record new customer bookings of 430,000 (2013: 411,000) and a year-end customer count of 1,293,000, a year-on-year increase of 17.7%. This growth, when combined with the credit line increase programme to established customers, produced average receivables growth of 30.9%. Credit standards were unchanged in 2014 and, as a result, delinquency levels have run at record lows for the business against the backdrop of an improving employment market. This has allowed Vanquis Bank to deliver a risk-adjusted margin of 33.2% (2013: 34.2%), well ahead of its minimum target of 30%.

Vanquis Bank continues to deliver strong growth and, against unchanged credit standards, its marketing programmes are successfully delivering an increased flow of new customers from its target audience. This has resulted in a reassessment of the medium-term potential for the UK customer base from between 1.3m and 1.5m customers to between 1.5m and 1.8m customers with an expected average customer balance of approximately £1,000.

A decision has been made to withdraw from the pilot credit card operation in Poland. This reflects a conclusion that the timeframe required to develop a business of sufficient scale to achieve the group's target returns is too long and therefore not the best use of the group's capital. The group has commenced the process of winding down the Polish operation which includes running off the receivables book in an orderly manner. The losses associated with the pilot in 2014 were £10.6m (2013: £7.6m). There is not expected to be a material cost from winding down the pilot operation in 2015.

CCD's profit before tax and exceptional costs in 2014 was £103.9m (2013: £102.5m) reflecting strong execution against the programme of work to transition the home credit business to a smaller but leaner, better-quality, more modern business focused on returns. As planned, the reduction in customer numbers and receivables of 29.1% and 20.5% respectively was fully mitigated by a significant strengthening in the risk-adjusted margin and cost reductions. The risk-adjusted margin has increased from 58.9% in 2013 to 69.1% in 2014 primarily as a result of a sharp improvement in collections performance supported by a higher quality customer base. A year-on-year reduction in the cost base of 3.4% was achieved after reinvesting approximately £17m of the previously announced gross cost savings of £28m in enhancing IT, business and people development processes to support the repositioned home credit business, embedding the governance and regulatory framework required to transition CCD to the Financial Conduct Authority (FCA) and funding the start-up of Satsuma.

Demand for Satsuma loans is proving to be strong, benefitting from a step-up in advertising towards the end of the year and an increase in lead conversion rates following the further development of the decision engine and scorecard. Good progress has been made during 2014 in building capability and the continued dislocation caused by the regulatory changes to the payday loans market provides an excellent opportunity to develop a sustainable business with a strong market position capable of delivering the group's target returns. The development of Satsuma will be supported by an increase in advertising spend through 2015.

Since its acquisition in August, Moneybarn has traded well, delivering a profit before tax, amortisation of acquisition intangibles and exceptional costs of £5.8m in the last four months of the year. Access to the group's funding lines has resulted in a significant increase in new business volumes and also reinforced the primacy of its proposition across the broker network.

Exceptional costs of £7.3m have been recognised in 2014 comprising £3.4m of costs associated with a reduction in headcount of 225 in CCD following a business restructuring (2013: £13.7m) and £3.9m of costs in relation to the acquisition of Moneybarn. The group's statutory profit before tax is also stated after a £2.5m charge (2013: £nil) in respect of the amortisation of an intangible asset attributed to Moneybarn's broker relationships which was recognised on acquisition.

The group's funding and liquidity positions remain strong with gearing reduced to 2.4 times (2013: 3.0 times), as a result of the equity raised to fund the acquisition of Moneybarn and the planned reduction in the home credit receivables book. The group has recently exercised its option to extend its £382.5m syndicated bank facility by a further 12 months to May 2018. Headroom on the group's committed facilities at 31 December 2014 amounted to £112m and, including the extension to the syndicated bank facility and the additional capacity available for Vanquis Bank to take further retail deposits, total funding capacity amounted to £454m. 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 May 2018.

The group generated capital of £175.5m (2013: £139.2m) exceeding dividends in respect of 2014 of £140.6m (2013: £116.8m).

The proposed final dividend has been increased by 18.3% to 63.9p (2013: 54.0p) which, together with the 10.0% increase in the interim dividend, represents a 15.3% increase in the total dividend per share to 98.0p (2013: 85.0p). Dividend cover for 2014, prior to the amortisation of acquisition intangibles and exceptional costs, is 1.35 times (2013: 1.32 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

Vanquis Bank 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 which produces consistently high levels of customer satisfaction approaching 90%.

The business continues to generate strong demand from developing the under-served, non-standard UK credit card market. Despite some increase in the marketing activity of competitors, Vanquis Bank's continued investment in its customer acquisition programme has generated record full-year bookings of 430,000 (2013: 411,000) against unchanged credit standards.

Despite Vanquis Bank customers typically being in more regular employment than home credit customers, the business has demonstrated that it is considerably less sensitive to adverse changes in the employment market than mainstream card issuers. Whilst UK unemployment continues to show further reductions, the business has maintained tight credit standards. As a result, delinquency levels have run at record lows for the business throughout 2014.

CCD

The home credit business 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 repayments and no additional fees or charges whatsoever, even if a payment is missed. Customers also value the relationship with their agent who typically lives in the same community and genuinely understands their needs. This is evidenced by consistently high levels of customer satisfaction in excess of 90%. The high frequency of contact between agents and customers together with agents' commission being based on collections, rather than amounts lent, further reinforces Provident's responsible lending approach.

Home credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. The disposable incomes of home credit customers have shown a marginal improvement during 2014 due to the moderation in the rate of inflation of household bills. However, measures of confidence across the customer base continue to run at relatively low levels.

The competitive landscape in the home credit market remains unchanged with up to 500 active participants. However, non-standard consumers have a greater choice than in the past because of the growth in alternative formats such as short-term payday or instalment credit products accessible online and high street credit providers including rent to own. The revised strategy for CCD introduced in the second half of 2013 is a response to these changing market dynamics. It involves updating the home credit business and focusing 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.

Satsuma addresses those applicants of adequate credit quality and whose preference is to access small-sum credit online and make repayments direct from their bank account without the need for an agent visit. It is relevant to 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 with fixed payments based on a predetermined schedule. Customers have regular contact with a telephone agent and there are a number of forbearance procedures in place for those customers who get into financial difficulty. In addition, Satsuma is utilising the highly effective distribution, underwriting and collections capabilities of both CCD and Vanquis Bank.

Customer demand in the online loans market, in which payday lending has been the most significant participant, is estimated to be more than four times the size of the home credit market and is growing as consumer preferences change. With the backdrop of clearer, tighter regulation around payday lending from 1 July 2014, including the introduction of a rate cap from 2 January 2015, there is an ongoing and significant shift in supply from payday loans to more affordable and responsible instalment lending products. Tighter regulation has meant that a number of smaller payday loan companies have already exited the market and larger operators are revising their business models and curtailing their payday lending activities.

Moneybarn

Moneybarn promotes financial inclusion by providing vehicle finance to those consumers who may be unable to obtain mainstream credit, enabling them to get to work and earn a living. The business shares many of the characteristics of the group's other businesses with a strong focus on delivering favourable customer outcomes. Responsible lending is reinforced through robust affordability checks, straightforward products which do not involve the sale of ancillary products such as PPI or GAP insurance, or hidden fees or charges. Moneybarn has well-developed forbearance measures for those customers who get into financial difficulty.

Moneybarn is the largest provider of non-standard vehicle finance in the UK, with an approximate market share of between 20% and 25% of the secured segment. Direct competition comes from around 10 other providers. The non-standard vehicle finance market shrank considerably as a result of the credit crunch, as mainstream and specialist participants reduced their lending, collapsed or exited the market. It has recovered in recent years but remains less than half of the size it was in 2007.

It is estimated that approximately half a million cars were purchased by non-standard borrowers in the UK in 2013, of which about 10% were funded through secured car finance products with the remainder being funded through cash, loans from friends and family or alternative forms of credit such as personal and guarantor loans. Growth in future demand is supported by a number of factors including customer needs, an overall under supply of non-standard car finance and the value for money provided by specialist car finance relative to many other non-standard funding options.

The profile of Moneybarn's customers is very similar to Vanquis Bank customers. They typically have a thin or past impaired credit history and find it difficult to access credit from more prime lenders. They have an average age of approximately 40, are employed or self-employed and have an income level around the national average of £25,000.

Vanquis Bank

Business performance

Vanquis Bank generated a profit before tax of £140.4m in 2014 (2013: £106.1m) analysed as follows:

	Year ended 31 December		
	2014	2013	Change
	£m	£m	%
Profit/(loss) before tax:			
- UK	151.0	113.7	32.8
- Poland	(10.6)	(7.6)	(39.5)
Total Vanquis Bank	140.4	106.1	32.3

UK

	Year ended 31 December		
	2014	2013	Change
	£m	£m	%
Customer numbers ('000)	1,293	1,099	17.7
Year-end receivables	1,093.9	861.3	27.0
Average receivables	967.2	739.1	30.9
Revenue	465.6	378.8	22.9
Impairment	(144.9)	(126.3)	(14.7)
Revenue less impairment	320.7	252.5	27.0
Risk-adjusted margin[1]	33.2%	34.2%	
Costs	(130.0)	(104.3)	(24.6)
Interest	(39.7)	(34.5)	(15.1)
Profit before tax	151.0	113.7	32.8
Return on assets[2]	15.5%	15.5%	

[1] *Revenue less impairment as a percentage of average receivables.*
[2] *Profit before interest after tax as a percentage of average receivables.*

Vanquis Bank has performed strongly in 2014, reporting UK profit before tax 32.8% higher than 2013. Further strong growth in the receivables book together with delinquency running at record lows have enabled the UK business to deliver a consistent return on assets of 15.5% (2013: 15.5%).

Demand for non-standard credit cards continues to be strong. Despite some increase in the marketing activity of competitors, further investment in the customer acquisition programme has allowed the business to deliver record new customer bookings of 430,000 (2013: 411,000), reflecting an acceptance rate of 25% (2013: 25%) against unchanged underwriting standards. As a result, customer numbers ended the year at nearly 1.3m, up 17.7% on the prior year.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 27.0% increase in year-end receivables to just under £1.1bn. The growth in receivables benefited from the introduction of upgraded credit line increase scorecards in March, following the decision to enhance the sourcing of credit bureau data. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of between 70% and 75% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk to the business from undrawn credit lines.

Against unchanged credit standards, Vanquis Bank's marketing programmes are successfully delivering an increased flow of new customers from its target audience. This has resulted in a reassessment of the medium-term potential for the UK customer base from between 1.3m and 1.5m customers to between 1.5m and 1.8m customers with an expected average customer balance of approximately £1,000.

The risk-adjusted margin has reduced by 1.0% to 33.2% over the past 12 months, comprising a 3.1% reduction in the revenue yield and a 2.1% reduction in the rate of impairment as explained below.

Although UK unemployment has shown a reduction over the last year, Vanquis Bank has, and will continue to, apply tight credit standards. The result is that the rate of delinquency has fallen to a new all time low for the business and produced a 2.1% reduction in the rate of impairment since the start of the year. Over the same period, the improving quality of the book has seen the revenue yield from interest and late and over limit fees reduce by a similar amount.

As previously reported, during the second half of 2013 Vanquis Bank changed the timing of the sale of its Repayment Option Plan (ROP) product from the customer welcome call to the activation call, which is approximately one week later, and also made a number of enhancements to the product's features. As expected, these two changes have resulted in a moderation in the revenue yield earned by the business, and is the primary reason for the reduction of 1.0% in the risk-adjusted margin since December 2013.

In February 2014, Visa reached an agreement with the European Commission to a phased approach to reduce the interchange fees charged by credit card companies to retailers, a programme concluding in March 2016. In parallel European Regulators are expected to pass legislation to regulate interchange fees, likely to come into effect in the last quarter of 2015, superseding the Visa changes. Interchange revenue is a less significant source of income for Vanquis Bank than for more mainstream credit card providers. The impact was not significant in 2014 but is expected to be £2m in 2015, increasing to a full year impact of around £9m by 2016, based on current volumes, as the reduced fees on domestic transactions take effect.

Based on current delinquency trends, the changes made to the ROP product and the recent changes to interchange fees, the risk-adjusted margin is expected to moderate to between 31% and 32% during 2015 and remain above the target of 30% thereafter.

Cost growth of 24.6% was well below receivables growth as the business continues to benefit from operational gearing. As previously reported, the business has relocated its central London premises to 20 Fenchurch Street in order to accommodate future growth. The lease on the new property commenced in April and the business incurred additional property costs of approximately £3m in 2014, of which approximately £2m was in respect of the new head office property.

Interest costs of £39.7m (2013: £34.5m) increased by 15.1% during 2014 compared with growth in average receivables of 30.9%. This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 6.4% in 2013 to 5.6% in 2014, due to the progressive benefit from taking retail deposits. Assuming market rates remain unchanged, Vanquis Bank's overall funding rate is expected to reduce further in 2015 as the proportion of funding provided by retail deposits increases.

Poland

A decision has been made to withdraw from the pilot credit card operation in Poland.

The pilot operation has vigorously tested the Polish market since May 2012. This has included deploying talent from the UK business, recruiting senior Polish management with extensive local knowledge of marketing and sales channels and testing multiple revolving credit products and distribution. However, the progress of the pilot in recruiting new customers has been slower than originally anticipated and has led to the conclusion that the timeframe required to develop a business of sufficient scale to achieve the group's target returns is too long and therefore not the best use of the group's capital. Accordingly, the group has commenced the process of winding down the Polish operation. This includes running off the receivables book in an orderly manner which is expected to be largely completed in 2015.

At the end of 2014, the Polish pilot operation had 59,000 customers (2013: 25,000) and a receivables book of £15.5m (2013: £5.3m). The cost of the pilot during 2014 amounted to £10.6m (2013: £7.6m). There is not expected to be a material cost from winding down the pilot operation in 2015.

CCD

Business performance

CCD generated a profit before tax and exceptional costs of £103.9m in 2014 (2013: £102.5m) as set out below:

	Year ended 31 December		
	2014	2013	Change
	£m	£m	%
Customer numbers ('000)	1,071	1,511	(29.1)
Year-end receivables	588.1	740.0	(20.5)
Average receivables	598.5	725.8	(17.5)
Revenue	591.1	697.1	(15.2)
Impairment	(177.5)	(269.7)	34.2
Revenue less impairment	413.6	427.4	(3.2)
Revenue yield[1]	98.8%	96.0%	
Impairment % revenue[2]	30.0%	38.7%	
Risk-adjusted margin[3]	69.1%	58.9%	
Costs	(275.8)	(285.6)	3.4
Interest	(33.9)	(39.3)	13.7
Profit before tax[4]	103.9	102.5	1.4
Return on assets[5]	18.1%	15.1%	

[1] *Revenue as a percentage of average receivables.*
[2] *Impairment as a percentage of revenue.*
[3] *Revenue less impairment as a percentage of average receivables.*
[4] *Profit before tax is stated before an exceptional cost of £3.4m (2013: £13.7m) in respect of business restructuring.*
[5] *Profit before interest and exceptional costs after tax as a percentage of average receivables.*

CCD delivered profit before tax and exceptional costs 1.4% up on last year. This reflects strong execution against a challenging programme of work to transition the home credit business to a smaller but leaner, better-quality, more modern business focused on returns, whilst investing in the Satsuma online loans proposition. The success in delivering the strategy has resulted in a significant increase in CCD's return on assets from 15.1% in 2013 to 18.1% in 2014.

Whilst the disposable incomes of home credit customers have increased modestly over the last year, customer confidence remains relatively low. Accordingly, the demand for credit from better-quality, existing customers has remained relatively subdued for the majority of the year. In addition, the tighter credit standards implemented during the final quarter of 2013 have continued to restrict the recruitment of more marginal customers into the business. Consequently, customer numbers reduced by 29.1% during 2014 but the quality of the receivables book improved materially. This resulted in sales levels running 19% lower than the previous year during the first 10 months of the year. As expected, the anniversary of tighter credit standards saw the year-on-year sales shortfall moderate to around 9% during the last two months of the year, with the business also benefitting from the rebranding of the home credit business to 'Provident' in November and the associated TV advertising campaign.

Receivables at the end of 2014 were 20.5% lower than the prior year, less marked than the reduction in customer numbers due to the shedding of marginal customers and the corresponding focus on better-quality established customers. The revenue yield remained robust at 98.8%, up from 96.0% in 2013, due to a modest shift in mix towards shorter-term, lower-risk, higher-yielding lending.

The implementation of standardised arrears and collections processes coupled with tighter credit standards produced a significant improvement in arrears during 2014 and resulted in the ratio of impairment to revenue reducing from 38.7% in 2013 to 30.0% in 2014.

The increase in revenue yield and reduction in impairment produced a significant strengthening in the risk-adjusted margin from 58.9% in 2013 to 69.1% in 2014.

Business performance is benefitting from the programme of cost savings implemented primarily during 2013 which secured a year-on-year reduction in the cost base of 3.4%. This was achieved after reinvesting approximately £17m of the previously announced gross cost savings of £28m in enhancing IT, business and people development processes to support the repositioned home credit business, embedding the governance and regulatory framework required to transition CCD to the FCA and funding the start-up of Satsuma.

The programme to deploy technology throughout the field operation to support an improvement in productivity and reinforce compliance continues to run well ahead of schedule. This allowed a reduction in the field administration workforce of 225 in 2014 and resulted in cost savings of £2m in the second half of the year, rising to £4m in 2015, with no impact on customer service levels. An exceptional restructuring cost of £3.4m has been incurred in 2014 in respect of associated redundancy costs (2013: £13.7m).

Interest costs in 2014 were 13.7% lower than last year reflecting the 17.5% reduction in average receivables which has been partly offset by an increase in the funding rate for the business from 6.8% to 7.1%. The increased funding rate reflects CCD absorbing a greater proportion of the higher-cost, fixed-rate, longer-duration borrowings as the average retail deposits held by Vanquis Bank have increased during the year.

Business development

CCD has continued to make excellent progress in executing its strategic plan to develop a broader-based lending business.

Home credit

The roll-out of the technology required to standardise best practice, access significant efficiency gains across the field operation and implement market-leading compliance as regulation migrates to the FCA regime, continues to run well ahead of plan.

Following completion of the pilot in 2013, over 95% of agents are now using smartphones or tablet technology to manage collections, up from around 30% at the start of the year, and well ahead of the original 80% target set by the business for the end of 2014. Full use of the collections app will be mandated by the end of the first quarter of 2015. A pilot of a lending app to support electronic loans documentation commenced in May and has now been extended to over 35% of agents. The app eliminates paper, saving a significant amount of agent and back office time, and allows the business to better enforce and evidence compliance. Full roll-out of the lending app will be completed during 2015.

In April, tablet devices were rolled out to field managers and received a very positive reception. These devices effectively provide managers with a 'mobile office' and are progressively freeing up time previously spent on office-based administration for supporting and motivating agents and assisting with customers in difficulties.

The people agenda includes implementing end-to-end enhancements to the process for attracting, training and supporting agents. These have resulted in a significant improvement in agent turnover and a halving in the number of vacant agencies. Formal leadership training for managers throughout the business is now well established and has been extremely well received.

Satsuma

Demand for online instalment loan products is strong and the continued dislocation caused by the regulatory changes to the payday loans market provides an excellent opportunity for the group to develop a business with a strong market position capable of delivering the group's target returns. Accordingly, the focus of Satsuma has been on building business capability and developing a sustainable business to capitalise on the market opportunity. Very good progress has been made over the last twelve months.

Significant investment has been made in Satsuma's back office processes during 2014, including the development of back-office IT and processes capable of supporting a sizeable business. The collections capability is now embedded within the scalable Vanquis Bank contact centre in Chatham and Satsuma's collections performance is running in line with internal plans. Robust governance procedures have been implemented and important appointments have been made to senior management positions.

A new decision engine and scorecard were launched in November which will allow the business to accommodate behavioural and social data for use in its credit decisioning. The business has already experienced an improvement in conversion rates which has, in turn, allowed a step-up in marketing. Consequently, weekly volumes in December increased by over 50% compared to previous months.

The product proposition continues to evolve. Maximum permitted issue values have recently been increased to £1,000 for new customers and £2,000 for existing customers, subject to individual affordability checks. In addition, a monthly product will shortly be launched to reflect that a number of customers are paid monthly and would therefore prefer to pay via a monthly instalment rather than a weekly one.

At 31 December 2014, Satsuma had 21,000 customers (2013: 9,000) and a receivables book of £5.0m (2013: £1.8m).

Guarantor loans

During 2014, CCD launched a pilot into the guarantor loans market in order to test whether a product could be established which is capable of delivering the group's target returns.

The guarantor loans proposition is distinct to home credit and Satsuma, comprising larger, longer loans of between £1,000 and £7,000 repayable over a period of between one and five years. The loan is guaranteed by a family member or friend with a good credit record who supports the customer if their circumstances change. CCD's proposition offers customers competitive pricing and a very customer-centric approach to forbearance, including the high levels of personal service that the group deploys in all its offerings.

Since its launch, the pilot has focused on developing the customer application, underwriting, customer service and forbearance processes to ensure a transparent and appropriate end-to-end customer journey. The product was initially launched under the brand name of 'Tandem', aimed only at the broker channel. A direct to consumer proposition was launched in November and the product was rebranded from 'Tandem' to 'glo'. This was supported by a modest investment in marketing spend, including a TV and radio campaign, to test the level of demand and the ability to access the market opportunity. The results of the pilot will be evaluated during the first half of 2015.

Moneybarn

Strategic rationale

The group completed the acquisition of Moneybarn, the UK's largest non-standard vehicle finance provider, on 20 August 2014. Founded in 1992, Moneybarn provides car finance to non-standard customers in the UK, operating mainly through brokers with additional distribution sourced through independent car dealers and direct to consumers through its website. The business offers secured car loans through conditional sale agreements to customers where the car is typically a necessity, such as for travel to work, rather than a luxury or discretionary purchase. It has a sustainable business model, with no reliance on ancillary products such as PPI or GAP. Moneybarn's characteristics reflect a strong cultural fit with the rest of the group.

The acquisition of Moneybarn broadens the product offering to the group's target customer base and creates a third leg of earnings that complements the group's organic growth opportunities. It is a highly scalable business with strong broker relationships, market leading credit decisioning and a highly regarded and experienced management team that has been retained post-acquisition.

Plans are also well advanced to capitalise on the synergies with other group businesses, including enhancements to underwriting and collections capabilities and the opportunity to extend car finance to Vanquis Bank customers.

Since acquisition, Moneybarn's product offering has been extended through underwriting loans up to the retail value of the car. Previously, the business was funding constrained and, accordingly, loans were only underwritten up to trade value. This has restored its competitiveness, its primacy with major brokers and has resulted in a strong lift in new business volumes. In early 2015, the business has also lowered the minimum threshold for loan amounts from £5,000 to £4,000.

Purchase consideration and goodwill

The consideration for Moneybarn of £120m was satisfied by the payment of cash on completion to the Moneybarn shareholders, funded through the proceeds of a placing of new ordinary shares in Provident Financial with institutional investors. Costs of £3.1m associated with the placing of shares have been deducted from the share premium account. Due diligence, legal, advisory and tax fees of £3.9m have been charged as an exceptional cost in 2014.

An acquisition intangible of £75.0m was established as part of the acquisition, representing the fair value attributable to Moneybarn's broker relationships under International Financial Reporting Standards (IFRS). The intangible asset has been calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. The amortisation charge to the income statement in respect of acquisition intangibles in the four months to 31 December 2014 was £2.5m. Goodwill arising on the acquisition amounted to £71.2m.

Business performance

Moneybarn has contributed a profit before tax, amortisation of acquisition intangibles and exceptional costs of £5.8m in the four months following its acquisition. The results for the four months, together with the pro forma results for the 2014 financial year restated to apply the group's lower cost of funding to pre-acquisition results, are set out below:

	Post-acquisition Four months ended 31 December 2014 £m	Pro forma[1] Year-ended 31 December 2014 £m
Customer numbers ('000)	22	22
Year-end receivables	151.7	151.7
Average receivables	143.4	135.1
Revenue	13.8	38.0
Impairment	(1.2)	(4.7)
Revenue less impairment	12.6	33.3
Risk-adjusted margin[2]		24.6%
Costs	(4.2)	(11.1)
Interest	(2.6)	(7.2)
Profit before tax[3]	5.8	15.0
Return on assets[4]		12.9%

1 *Restated to apply the group's lower cost of funding to pre-acquisition results.*
2 *Revenue less impairment as a percentage of average receivables.*
3 *Profit before tax for the four months ended 31 December 2014 is stated before the amortisation of acquisition intangibles of £2.5m and an exceptional cost of £3.9m in respect of acquisition related expenses.*
4 *Profit before interest, the amortisation of acquisition intangibles and exceptional costs, after tax as a percentage of average receivables.*

Moneybarn has performed well, delivering results in line with the internal plans established immediately on acquisition. New business volumes have picked up significantly as a result of access to the group's funding. This has allowed the extension of the product offering to lend up to the retail value of vehicles reinforcing Moneybarn's primacy across its broker network. Average monthly volumes in the last four months of the year were approximately 1,000 compared with around 730 in the first eight months of the year and around 670 in the corresponding four-month period last year.

Default rates have remained stable and are consistent with the levels incurred in the previous 18 months. This has enabled the business to deliver a risk-adjusted margin of 24.6% for 2014 as a whole, in line with the ratio of 25% communicated at the time of the acquisition.

The business is investing in additional headcount to support future growth, meet the higher regulatory standards under the FCA and to bring governance processes in line with those of the rest of the group. Headcount has increased from 90 at the end of August to 115 at the end of December and is expected to increase to approximately 150 by the end of 2015.

Moneybarn is a high returns business and generated a pro forma return on assets of 12.9% for 2014 as a whole.

Central costs

Central costs increased to £15.7m in 2014 (2013: £12.5m), reflecting increased share-based payment and pension charges together with the cost of group office accommodation within Vanquis Bank's new London head office at 20 Fenchurch Street.

Taxation

The tax charge for 2014 represents an effective rate of 21.5% (2013: 22.7%) on profit before tax, amortisation of acquired intangibles and exceptional costs. The reduction is consistent with the reduction in the UK corporation tax rate from 23% to 21% on 1 April 2014. The group is expected to benefit in future years from the further rate reduction to 20% on 1 April 2015 announced by the Government and enacted in the 2013 Finance Act.

Dividends

The proposed final dividend has been increased by 18.3% to 63.9p (2013: 54.0p) which, together with the 10.0% increase in the interim dividend, represents a 15.3% increase in the total dividend per share to 98.0p (2013: 85.0p). Dividend cover for 2014, prior to the amortisation of acquisition intangibles and exceptional costs, was 1.35 times (2013: 1.32 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 with the balance sheet reflecting gearing of 2.4 times (2013: 3.0 times) against a banking covenant limit of 5.0 times. The reduction over the last 12 months reflects two factors; firstly, the Moneybarn acquisition was almost wholly funded by an equity issue in order to preserve the group's regulatory capital; and secondly, the shrinkage of the home credit receivables book following the repositioning of the business.

As previously reported, in January 2014 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. In January 2015, the group then exercised its option to extend the £382.5m syndicated bank facility by 12 months to May 2018.

At 31 December 2014, Vanquis Bank had taken £580.3m of retail deposits, up from £435.1m at the end of 2013, with additional retail deposits capacity of £342m, representing the remaining outstanding balance on the intercompany loan with Provident Financial. 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 2014.

Headroom on the group's committed debt facilities at 31 December 2014 amounted to £112m which, together with the recent extension of bank facilities and the retail deposits programme at Vanquis Bank, is now sufficient to fund contractual maturities and projected growth in the business until May 2018.

The group's funding rate during 2014 was 6.5%, down from 6.8% in 2013 due to the benefit of the Vanquis Bank retail deposits programme. The group's funding rate is expected to moderate further to approximately 6% for 2015.

The group continues to be highly capital generative, reflecting its strategy of developing and growing businesses which generate high returns on capital to support the group's dividend policy. In 2014, capital generated amounted to £175.5m (2013: £139.2m) compared with dividends in respect of 2014 of £140.6m (2013: £116.8m).

The group's credit rating from Fitch Ratings was reviewed in June 2014 and remains unchanged at BBB (negative outlook).

The group maintains a strong capital position and, as at 31 December 2014, the common equity tier one ratio and leverage ratio of the group were 20% and 16% respectively.

Regulation

Transfer of regulation to the FCA

The FCA regulation of the consumer credit industry commenced on 1 April 2014. The regulator wrote to firms notifying them of their three-month application window during which each firm must submit their authorisation application, with the first entrants applying for full authorisation from October 2014. CCD and Moneybarn have obtained interim permissions under the new regime and are required to submit their application between 1 March 2015 and 31 May 2015. Both businesses continue to have a constructive dialogue with the FCA and have followed a detailed work programme to prepare for full authorisation.

Vanquis Bank is already an authorised firm but submitted its application for a variation of permissions in December 2014.

High-cost short-term credit price cap

The FCA's price cap for high-cost short-term credit came into force on 2 January 2015. This restricts the interest, fees and charges on a loan to a maximum of 0.8% per day of the amount borrowed. If borrowers default, lenders can charge additional default fees up to a limit of £15, and can continue to charge interest on all outstanding amounts up to the same 0.8% per day limit. In addition, the FCA has set a total cost cap of 100% of the amount initially borrowed, including all interest, fees and charges ultimately incurred by the borrower over the life of the loan.

The cap applies to all high-cost short-term credit products as currently defined in the FCA's Handbook of Rules and Guidance, which explicitly excludes home credit, secured loans, pawn broking, logbook loans and overdrafts, as well as products offered by community finance organisations such as credit unions. Satsuma's products fall within the scope of the cap but its pricing is, and has always been, well below the limit set by the FCA and the business does not charge any default fees.

FCA credit card review

On 25 November 2014 the FCA published the terms of reference for its credit card market study, originally announced in April 2014. The market study will enable the FCA to build a detailed understanding of the UK retail credit card market, covering credit card services offered to consumers by banks, mono-line issuers, and their affinity and co-brand partners.

The FCA have identified three main areas that they would like to explore as part of the market study: (i) the extent to which consumers drive effective competition through shopping around and switching products; (ii) how firms recover their costs across different cardholder groups and the impact of this on the market; and (iii) the extent of unaffordable credit card debt. Along with many other credit card providers, Vanquis Bank is currently responding to initial information requests from the FCA in its planning stage, and will continue to assist the FCA in its work. The FCA expects that it will take until towards the end of the year to reach their conclusions.

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 May 2018.

Vanquis Bank is continuing to deliver strong growth and financial returns which has resulted in a reassessment of the potential medium-term UK customer base from between 1.3m and 1.5m customers to between 1.5m and 1.8m customers with an average customer balance of approximately £1,000.

The repositioning of the home credit business as a smaller but leaner, better-quality, more modern business focused on returns is substantially complete. Demand for Satsuma loans is strong and the continued dislocation caused by the regulatory changes to the payday loans market provides an excellent opportunity to develop a sustainable business with a strong market position capable of delivering the group's target returns.

The lift in new business volumes at Moneybarn enabled by access to the group's funding line has reinforced its primacy across the broker network and, when combined with product development opportunities, leaves the business well-positioned to deliver strong medium-term growth and the group's target returns.

The group has made a good start in the first two months of 2015. Vanquis Bank and Moneybarn continue to trade strongly and the home credit business has enjoyed a strong collections performance.

Consolidated income statement for the year ended 31 December

	Note	2014 £m	2013 £m
Revenue	2	1,075.7	1,078.1
Finance costs		(77.5)	(74.2)
Operating costs		(491.6)	(559.5)
Administrative costs		(282.0)	(262.0)
Total costs		(851.1)	(895.7)
Profit before taxation	2	224.6	182.4
Profit before taxation, amortisation of acquisition intangibles and exceptional costs	2	234.4	196.1
Amortisation of acquisition intangibles	7	(2.5)	-
Exceptional costs	2	(7.3)	(13.7)
Tax charge	3	(49.0)	(41.4)
Profit for the year attributable to equity shareholders		175.6	141.0

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2014 £m	2013 £m
Profit for the year attributable to equity shareholders		175.6	141.0
Other comprehensive income:			
– cash flow hedges		2.2	2.7
– actuarial movements on retirement benefit asset	9	17.5	(3.9)
– exchange differences on translation of foreign operations		0.5	(0.2)
– tax on items taken directly to other comprehensive income	3	(4.2)	0.3
– impact of change in UK tax rate	3	0.3	0.3
Other comprehensive income for the year		16.3	(0.8)
Total comprehensive income for the year		191.9	140.2

Earnings per share

	Note	2014 pence	2013 pence
Basic	4	126.5	104.2
Diluted	4	124.5	102.2

Dividends per share

	Note	2014 pence	2013 pence
Proposed final dividend	5	63.9	54.0
Total dividend for the year	5	98.0	85.0
Paid in the year*	5	88.1	79.4

* The total cost of dividends paid in the year was £123.4m (2013: £108.4m).

Consolidated balance sheet as at 31 December

	Note	2014 £m	2013 £m
ASSETS			
Non-current assets			
Goodwill	6	71.2	-
Other intangible assets	7	84.3	8.1
Property, plant and equipment		27.4	22.8
Financial assets:			
– amounts receivable from customers	8	155.6	79.7
Retirement benefit asset	9	56.0	29.2
Deferred tax assets	3	-	3.5
		394.5	143.3
Current assets			
Financial assets:			
– amounts receivable from customers	8	1,693.6	1,526.9
– derivative financial instruments		0.2	5.5
– cash and cash equivalents		145.9	119.0
– trade and other receivables		24.5	15.5
		1,864.2	1,666.9
Total assets	2	2,258.7	1,810.2
LIABILITIES			
Current liabilities			
Financial liabilities:			
– bank and other borrowings		(135.3)	(121.2)
– trade and other payables		(94.3)	(65.8)
Current tax liabilities		(40.4)	(36.3)
		(270.0)	(223.3)
Non-current liabilities			
Financial liabilities:			
– bank and other borrowings		(1,357.7)	(1,163.4)
– derivative financial instruments		(4.4)	(6.7)
Deferred tax liabilities	3	(13.6)	-
		(1,375.7)	(1,170.1)
Total liabilities		(1,645.7)	(1,393.4)
NET ASSETS	2	613.0	416.8
SHAREHOLDERS' EQUITY			
Share capital		30.3	28.9
Share premium		268.3	150.6
Other reserves		19.0	17.2
Retained earnings		295.4	220.1
TOTAL EQUITY		613.0	416.8

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 £m	Total £m
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	9	-	-	-	(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
At 1 January 2014		28.9	150.6	17.2	220.1	416.8
Profit for the year		-	-	-	175.6	175.6
Other comprehensive income:						
– cash flow hedges		-	-	2.2	-	2.2
– actuarial movements on retirement benefit asset	9	-	-	-	17.5	17.5
– exchange differences on translation of foreign operations		-	-	-	0.5	0.5
– tax on items taken directly to other comprehensive income	3	-	-	(0.4)	(3.8)	(4.2)
– impact of change in UK tax rate		-	-	-	0.3	0.3
Other comprehensive income for the year		-	-	1.8	14.5	16.3
Total comprehensive income for the year		-	-	1.8	190.1	191.9
Transactions with owners:						
– issue of share capital		1.4	117.7	-	-	119.1
– purchase of own shares		-	-	(0.1)	-	(0.1)
– transfer of own shares on vesting of share awards		-	-	0.2	(0.2)	-
– share-based payment charge		-	-	8.7	-	8.7
– transfer of share-based payment reserve		-	-	(8.8)	8.8	-
– dividends	5	-	-	-	(123.4)	(123.4)
At 31 December 2014		30.3	268.3	19.0	295.4	613.0

Consolidated statement of cash flows for the year ended 31 December

	Note	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from operations	10	221.5	183.8
Finance costs paid		(72.3)	(70.0)
Tax paid		(44.9)	(39.6)
Net cash generated from operating activities		104.3	74.2
Cash flows from investing activities			
Purchase of intangible assets		(7.4)	(3.0)
Purchase of property, plant and equipment		(11.6)	(7.3)
Proceeds from disposal of property, plant and equipment		1.1	1.5
Acquisition of Moneybarn		(120.0)	-
Net cash used in investing activities		(137.9)	(8.8)
Cash flows from financing activities			
Proceeds from bank and other borrowings		341.0	287.6
Repayment of bank and other borrowings		(277.2)	(206.8)
Dividends paid to company shareholders	5	(123.4)	(108.4)
Proceeds from issue of share capital		119.1	2.7
Purchase of own shares		(0.1)	(0.5)
Net cash generated from/(used in) financing activities		59.4	(25.4)
Net increase in cash, cash equivalents and overdrafts		25.8	40.0
Cash, cash equivalents and overdrafts at beginning of year		109.7	69.7
Cash and cash equivalents acquired with Moneybarn	6	5.2	-
Cash, cash equivalents and overdrafts at end of year		140.7	109.7
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		145.9	119.0
Overdrafts (held in bank and other borrowings)		(5.2)	(9.3)
Total cash, cash equivalents and overdrafts		140.7	109.7

Cash at bank and in hand includes £121.4m (2013: £86.3m) 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 2014 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.

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 2013.

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 2013 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 2014, 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, without qualifying their report, and did not contain any statements under Section 498(2) or (3) 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	
	2014	2013	2014	2013
	£m	£m	£m	£m
Vanquis Bank	470.8	381.0	140.4	106.1
CCD	591.1	697.1	103.9	102.5
Moneybarn	13.8	-	5.8	-
Central costs	-	-	(15.7)	(12.5)
Total group before amortisation of acquisition intangibles and exceptional costs	1,075.7	1,078.1	234.4	196.1
Amortisation of acquisition intangibles (note 7)	-	-	(2.5)	-
Exceptional costs	-	-	(7.3)	(13.7)
Total group	1,075.7	1,078.1	224.6	182.4

Exceptional costs in 2014 of £7.3m comprise; (i) £3.4m of business restructuring costs in CCD which represents £4.0m of redundancy costs associated with 225 field administration employees following the ongoing deployment of technology in CCD, net of a £0.6m exceptional curtailment credit associated with those employees made redundant who were part of the group's defined benefit pension scheme (see note 9); and (ii) £3.9m of expenses incurred in relation to the acquisition of Moneybarn (see note 6). The exceptional cost in 2013 of £13.7m related to the cost of a business restructuring within CCD, including the redundancy costs associated with a headcount reduction of 520 employees. The exceptional cost was 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 9).

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

	Segment assets		Net assets	
	2014	2013	2014	2013
	£m	£m	£m	£m
Vanquis Bank	1,252.1	969.8	290.4	216.5
CCD	628.6	783.8	128.3	171.3
Moneybarn	166.7	-	3.0	-
Central	271.7	85.4	191.3	29.0
Total before intra-group elimination	2,319.1	1,839.0	613.0	416.8
Intra-group elimination	(60.4)	(28.8)	-	-
Total group	2,258.7	1,810.2	613.0	416.8

2. Segment reporting (continued)

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 £60.4m (2013: £28.8m) 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, other than a branch in Poland which was established as part of Vanquis Bank's pilot credit card operation in Poland. The revenue in respect of the branch in 2014 amounted to £5.2m (2013: £2.2m) and the loss amounted to £10.6m (2013: £7.6m). The net liabilities of the branch amounted to £18.7m at 31 December 2014 (2013: £9.5m), comprising assets of £22.3m (2013: £16.0m) and liabilities of £41.0m (2013: £25.5m). These figures are included within the Vanquis Bank figures in the tables above. Subsequent to the 2014 year end, a decision was made to withdraw from the Polish pilot credit card operation.

3. Tax charge

The tax charge in the income statement is as follows:

	2014 £m	2013 £m
Current tax:		
– UK	(46.6)	(37.7)
– overseas	(0.7)	(0.5)
Total current tax	(47.3)	(38.2)
Deferred tax	(3.0)	(2.5)
Impact of change in UK tax rate	1.3	(0.7)
Total tax charge	(49.0)	(41.4)

The tax credit in respect of exceptional costs in 2014 amounted to £0.8m (2013: credit of £3.2m) and represents tax relief in respect of the exceptional restructuring costs in CCD.

The effective tax rate for 2014, prior to the amortisation of acquisition intangibles and exceptional items, is 21.5% (2013: 22.7%), in line with the UK statutory corporation tax rate which reduced from 23% to 21% with effect from 1 April 2014. A further reduction in the UK statutory corporation tax rate will take place with effect from 1 April 2015 when the rate reduces from 21% to 20%. The group is expected to benefit from the rate reduction and the effective tax rates for future periods are expected to be similar to the UK statutory corporation tax rate.

As the changes to the UK statutory corporation tax rate were enacted in the 2013 Finance Act, deferred tax balances at 31 December 2013 were re-measured at 20% on the basis that that the temporary differences on which the deferred tax balances were calculated were expected to reverse after 1 April 2015. In 2014, movements in deferred tax balances have been measured at the statutory corporation tax rate for the year of 21.5% (2013: 23.25%). Deferred tax balances at 31 December 2014 have then been re-measured at 20% as the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2015. A tax credit of £1.3m in 2014 (2013: charge of £0.7m) represents the income statement adjustment as a result of this change and an additional deferred tax credit of £0.3m (2013: £0.3m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

The tax (charge)/credit on items taken directly to other comprehensive income as follows:

	2014 £m	2013 £m
Current tax charge on cash flow hedges	(0.4)	(0.6)
Deferred tax (charge)/credit on actuarial movements on retirement benefit asset	(3.8)	0.9
Tax (charge)/credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	(4.2)	0.3
Impact of change in UK tax rate	0.3	0.3
Total tax (charge)/credit on items taken directly to other comprehensive income	(3.9)	0.6

3. Tax charge (continued)

The movement in deferred tax assets/(liabilities) during the year can be analysed as follows:

	2014 £m	2013 £m
At 1 January	3.5	6.1
Charge to the income statement	(3.0)	(2.5)
Acquisition of Moneybarn (note 6)	(11.5)	-
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	(4.2)	0.3
Impact of change in UK tax rate:		
– credit/(charge) to the income statement	1.3	(0.7)
– credit to other comprehensive income	0.3	0.3
At 31 December	(13.6)	3.5

The rate of tax charge on the profit before taxation for the year is higher than (2013: lower than) the average standard rate of corporation tax in the UK of 21.50% (2013: 23.25%). This can be reconciled as follows:

	2014 £m	2013 £m
Profit before taxation	224.6	182.4
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)	(48.3)	(42.4)
Effects of:		
– benefit of lower tax rates overseas	0.6	0.7
– adjustment in respect of prior years	(1.4)	1.3
– non-deductible general expenses	(0.4)	(0.3)
– non-deductible expenses relating to the acquisition of Moneybarn	(0.8)	-
– impact of change in UK tax rate	1.3	(0.7)
Total tax charge	(49.0)	(41.4)

The profits of the home credit business in the Republic of Ireland have been taxed at the Republic of Ireland statutory tax rate of 12.5% (2013: 12.5%) rather than the UK statutory tax rate of 21.50% (2013: 23.25%) giving rise to a beneficial impact on the group tax charge of £0.6m (2013: £0.7m).

The £1.4m charge (2013: £1.3m credit) in respect of prior years represents an increase in the prior year tax charge in respect of historic tax liabilities net of the benefit of securing tax deductions for employee share awards which are higher than those originally anticipated.

During 2014, the group incurred £3.9m of expenses in relation to the acquisition of Moneybarn which have been included in exceptional costs. As tax deductions are unlikely to be available for such costs, these give rise to an increase in the tax charge of £0.8m (2013: £nil).

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:

	Earnings £m	2014 Weighted average number of shares m	Per share amount pence	Earnings £m	2013 Weighted average number of shares m	Per share amount pence
Earnings per share						
Shares in issue during the year		142.3			139.1	
Own shares held		(3.5)			(3.8)	
Basic earnings per share	175.6	138.8	126.5	141.0	135.3	104.2
Dilutive effect of share options and awards	-	2.2	(2.0)	-	2.7	(2.0)
Diluted earnings per share	175.6	141.0	124.5	141.0	138.0	102.2

The directors have elected to show an adjusted earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn on 20 August 2014 (see note 7) and prior to exceptional costs (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:

	Earnings £m	2014 Weighted average number of shares m	Per share amount pence	Earnings £m	2013 Weighted average number of shares m	Per share amount pence
Basic earnings per share	175.6	138.8	126.5	141.0	135.3	104.2
Amortisation of acquisition intangibles, net of tax	1.9	-	1.4	-	-	-
Exceptional costs, net of tax	6.5	-	4.7	10.5	-	7.8
Adjusted basic earnings per share	184.0	138.8	132.6	151.5	135.3	112.0
Diluted earnings per share	175.6	141.0	124.5	141.0	138.0	102.2
Amortisation of acquisition intangibles, net of tax	1.9	-	1.4	-	-	-
Exceptional costs, net of tax	6.5	-	4.6	10.5	-	7.6
Adjusted diluted earnings per share	184.0	141.0	130.5	151.5	138.0	109.8

5. Dividends

		2014 £m	2013 £m
2012 final	- 48.4p per share	-	66.0
2013 interim	- 31.0p per share	-	42.4
2013 final	- 54.0p per share	74.4	-
2014 interim	- 34.1p per share	49.0	-
Dividends paid		123.4	108.4

The directors are recommending a final dividend in respect of the financial year ended 31 December 2014 of 63.9p per share (2013: 54.0p) which will amount to an estimated dividend payment of £91.6m (2013: £74.4m). If approved by the shareholders at the annual general meeting on 7 May 2015, this dividend will be paid on 19 June 2015 to shareholders who are on the register of members at 22 May 2015. This dividend is not reflected in the balance sheet as at 31 December 2014 as it is subject to shareholder approval.

6. Acquisition of Moneybarn

The group completed the acquisition of the entire share capital of Duncton Group Limited, which trades as Moneybarn, the UK's largest non-standard vehicle finance business, on 20 August 2014 for consideration of £120m. The consideration was satisfied by the payment of £120m in cash on completion to Duncton Group Limited’s shareholders, funded through the proceeds of a placing of 5.9m new ordinary shares in Provident Financial plc with institutional investors. The acquisition of Moneybarn broadens the product offering to the group’s target customer base and creates a third leg of earnings that complements the group’s organic growth opportunities.

Costs of £3.9m associated with the acquisition including due diligence, legal, advisory and tax fees have been charged as an exceptional cost in 2014 (see note 2). Costs of £3.1m associated with the placing of shares have been deducted from the share premium account.

Prior to acquisition, Moneybarn reported under UK GAAP. A detailed conversion of Moneybarn’s financial statements to IFRS has been completed post acquisition which reduced Moneybarn’s net assets on acquisition by approximately £11m, principally in respect of: (i) higher impairment provisions due to the impact of discounting future expected cash flows at the effective interest rate; and (ii) a change in policy in respect of the deferral of the acquisition costs of new accounts.

The provisional fair values of the identifiable assets and liabilities of Moneybarn as at the acquisition date were as follows:

	Book value on acquisition £m	Fair value adjustments £m	Recognised on acquisition £m
Intangible assets (a)	1.0	75.0	76.0
Property, plant and equipment	0.9	-	0.9
Deferred tax assets/(liabilities) (c)	2.6	(14.1)	(11.5)
Amounts receivable from customers (b)	135.0	(3.8)	131.2
Cash and cash equivalents	5.2	-	5.2
Trade and other receivables	4.8	-	4.8
Trade and other payables (c)	(5.2)	(1.0)	(6.2)
Corporation tax liabilities	(1.7)	-	(1.7)
Bank and other borrowings (d)	(144.9)	(5.0)	(149.9)
Net identifiable (liabilities)/assets acquired	(2.3)	51.1	48.8
Goodwill			71.2
Cash consideration			120.0

6. Acquisition of Moneybarn (continued)

The fair value adjustments applied to Moneybarn's net liabilities comprise:

a) £75.0m has been attributed to the fair value of Moneybarn's existing broker relationships which are an important influence on the revenue-generating capacity of the business (see note 7).
b) An adjustment to receivables of £3.8m has been made to reflect the fair value of the receivables book at the acquisition date. This adjustment principally relates to the expected losses on those accounts which are not yet in arrears and therefore have not yet attracted an impairment provision under IAS 39 'Financial instruments: Recognition and measurement'. Expected losses are currently only taken account of as part of the calculation of fair value on the acquisition of a receivables book in accordance with IFRS 3 'Business combinations'. Expected loss provisions have not been established on new Moneybarn accounts originated post acquisition in line with both the group's accounting policies and IAS 39.
c) The tax effect of the other fair value adjustments of £14.1m together with £1.0m of additional potential tax-related liabilities which were not provided against at the acquisition date have been made.
d) The existing Moneybarn borrowings were refinanced shortly following acquisition, utilising the group's existing committed facilities at a substantially lower cost of funds. The fair value of debt on acquisition has been increased to include the break costs of £5.0m that were incurred in settling Moneybarn's existing debt.

The goodwill of £71.2m represents the benefit of the group's lower cost funding and synergies available from the acquisition in respect of underwriting, collections and distribution channels. In accordance with the group's accounting policies, goodwill is not amortised but is subject to an annual impairment review. None of the goodwill is expected to be deductible for corporation tax purposes.

Moneybarn generated revenue of £13.8m and a profit before tax, amortisation of acquired intangible assets and exceptional items of £5.8m in the four months following acquisition. In the eight months prior to acquisition, Moneybarn generated revenue of £24.2m and a profit before tax and exceptional costs of £4.6m. Had the acquisition completed on the first day of the financial year and Moneybarn had benefited from the group's lower cost of funding in the first eight months of the year, the group's revenue would have been £24.2m higher at £1,099.9m and group profit before tax, amortisation of acquisition intangibles and exceptional costs would have been £9.2m higher at £243.6m.

7. Other intangible assets

	2014			2013		
	Acquisition intangibles £m	Computer software £m	Total £m	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	-	39.7	39.7	-	36.8	36.8
Acquisition of Moneybarn (note 6)	75.0	1.6	76.6	-	-	-
Additions	-	7.4	7.4	-	3.0	3.0
Disposals	-	(4.2)	(4.2)	-	(0.1)	(0.1)
At 31 December	75.0	44.5	119.5	-	39.7	39.7
Accumulated amortisation						
At 1 January	-	31.6	31.6	-	27.3	27.3
Acquisition of Moneybarn (note 6)	-	0.6	0.6			
Charged to the income statement	2.5	4.7	7.2	-	4.4	4.4
Disposals	-	(4.2)	(4.2)	-	(0.1)	(0.1)
At 31 December	2.5	32.7	35.2	-	31.6	31.6
Net book value						
At 31 December	72.5	11.8	84.3	-	8.1	8.1
At 1 January	-	8.1	8.1	-	9.5	9.5

Acquisition intangibles represents the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014 (see note 6). The intangible asset has been calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years.

8. Amounts receivable from customers

	2014 £m	2013 £m
Vanquis Bank	1,109.4	866.6
CCD	588.1	740.0
Moneybarn	151.7	-
Total group	1,849.2	1,606.6
Analysed as:		
– due in more than one year	155.6	79.7
– due within one year	1,693.6	1,526.9
Total group	1,849.2	1,606.6

Vanquis Bank receivables comprise £1,093.9m (2013: £861.3m) in respect of the UK business and £15.5m (2013: £5.3m) in respect of the Polish pilot operation.

CCD receivables comprise £583.1m in respect of the home credit business and guarantor loans (2013: £738.2m) and £5.0m in respect of Satsuma (2013: £1.8m).

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

	2014 £m	2013 £m
Vanquis Bank	149.1	129.4
CCD	177.5	269.7
Moneybarn	1.2	-
Total group	327.8	399.1

The impairment charge in Vanquis Bank comprises £144.9m (2013: £126.3m) in respect of the UK business and £4.2m (2013: £3.1m) in respect of the Polish pilot operation.

Impairment in Vanquis Bank and Moneybarn 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 2014 amounted to £178.6m (2013: £128.8m) and the Moneybarn allowance account amounted to £27.1m (2013: £nil). Within CCD, impairments are deducted directly from amounts receivable from customers without the use of an allowance account.

9. 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 22% 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.

9. Retirement benefit asset (continued)

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

	2014 £m	2013 £m
Equities	249.2	237.4
Other diversified return seeking investments	65.5	-
Corporate bonds	137.8	156.7
Fixed interest gilts	80.6	-
Index-linked gilts	164.9	145.2
Cash and money market funds	2.1	74.5
Fair value of scheme assets	700.1	613.8
Present value of defined benefit obligation	(644.1)	(584.6)
Net retirement benefit asset recognised in the balance sheet	56.0	29.2

The amounts recognised in the income statement were as follows:

	2014 £m	2013 £m
Current service cost	(5.8)	(7.1)
Interest on scheme liabilities	(25.5)	(24.5)
Interest on scheme assets	26.9	25.6
Net charge recognised in the income statement before exceptional curtailment credit	(4.4)	(6.0)
Exceptional curtailment credit	0.6	1.6
Net charge recognised in the income statement	(3.8)	(4.4)

The exceptional curtailment credit of £0.6m (2013: £1.6m) relates to the reduction in headcount of 225 (2013: 520) following the business restructuring within CCD (see note 2).

The net charge recognised in the income statement has been included within administrative costs.

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

	2014 £m	2013 £m
Fair value of scheme assets at 1 January	613.8	570.7
Interest on scheme assets	26.9	25.6
Actuarial movement on scheme assets	77.9	20.1
Contributions paid by the group	13.1	14.5
Net benefits paid out	(31.6)	(17.1)
Fair value of scheme assets at 31 December	700.1	613.8

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

	2014 £m	2013 £m
Present value of defined benefit obligation at 1 January	(584.6)	(547.7)
Current service cost	(5.8)	(7.1)
Interest on scheme liabilities	(25.5)	(24.5)
Exceptional curtailment credit	0.6	1.6
Actuarial movement on scheme liabilities	(60.4)	(24.0)
Net benefits paid out	31.6	17.1
Present value of defined benefit obligation at 31 December	(644.1)	(584.6)

9. Retirement benefit asset (continued)

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

	2014 %	2013 %
Price inflation – RPI	3.1	3.4
Price inflation – CPI	2.1	2.4
Rate of increase to pensions in payment	2.9	3.1
Inflationary increases to pensions in deferment	2.1	2.4
Discount rate	3.7	4.4

A 0.1% change in the discount and inflation rates would change the present value of the defined benefit obligation by approximately £14m (2013: £12m) and £9m (2013: £8m) respectively.

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 (2013: 24 years) and for a further 25 years if they are female (2013: 25 years). If assumed life expectancies had been one year greater, the net retirement benefit asset would have been reduced by approximately £19m (2013: £18m).

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

	2014 £m	2013 £m
Actuarial movements on scheme assets	77.9	20.1
Actuarial movements on scheme liabilities	(60.4)	(24.0)
Actuarial movements recognised in the statement of comprehensive income in the year	17.5	(3.9)

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

	2014 £m	2013 £m
Profit after taxation	175.6	141.0
Adjusted for:		
– tax charge (note 3)	49.0	41.4
– finance costs	77.5	74.2
– share-based payment charge	8.7	7.4
– retirement benefit charge prior to exceptional curtailment credit (note 9)	4.4	6.0
– exceptional curtailment credit (note 9)	(0.6)	(1.6)
– amortisation of intangible assets (note 7)	7.2	4.4
– depreciation of property, plant and equipment	6.6	6.7
– loss on disposal of property, plant and equipment	0.2	0.2
Changes in operating assets and liabilities:		
– amounts receivable from customers	(111.4)	(92.3)
– trade and other receivables	(4.4)	7.3
– trade and other payables	21.8	3.6
– contributions into the retirement benefit scheme (note 9)	(13.1)	(14.5)
Cash generated from operations	221.5	183.8

Information for shareholders

1. The shares will be marked ex-dividend on 21 May 2015.

2. The final dividend will be paid on 19 June 2015 to shareholders on the register at the close of business on 22 May 2015. Dividend warrants/vouchers will be posted on 17 June 2015.

3. The 2014 annual report and financial statements together with the notice of the annual general meeting will be posted to shareholders on or around 1 April 2015.

4. The annual general meeting will be held on 7 May 2015 at the head office of Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.