Provident Financial plc ("Provident Financial") is the market-leading provider of home credit in the UK and Ireland, with a successful, developing credit card business. Its operations consist of the Consumer Credit Division and Vanquis Bank.

Key financial results

	2010	2009	Change
Customer numbers	2.41m	2.28m	5.7%
Average customer receivables[1]	£1,053.8m	£1,009.8m	4.4%
Profit before tax and exceptional costs	£144.5m	£130.1m	11.1%
Basic earnings per share before exceptional costs	78.6p	71.4p	10.1%
Profit before tax	£142.0m	£125.7m	13.0%
Basic earnings per share	76.7p	67.5p	13.6%
Final dividend per share	38.1p	38.1p	-%
Total dividend per share	63.5p	63.5p	-%

Highlights

Group

- Profit before tax and exceptional costs up 11.1% to £144.5m (2009: £130.1m), well ahead of receivables growth due to strong management of yield, impairment and costs.
- Strong balance sheet and liquidity:
  - Year-end gearing ratio of 3.3 times (2009: 3.3 times) against a bank covenant of 5.0 times.
  - Banking headroom of £370m at end of February 2011 following additional funding of £128.5m raised from private placements since year end, including £100m provided by M&G Investments.
  - Roadshow underway to promote a second retail bond.
- Full-year dividend of 63.5p per share, with dividend cover before exceptional costs increased to 1.24 times.

Consumer Credit Division

- Home Credit profit before tax of £129.1m[2] (2009: £128.9m) benefiting from early actions taken to manage margins and reduce costs.
- Sound collections performance with a strong performance in the final quarter.
- Strong pick-up in fourth quarter growth rate from sales to good quality existing customers.

Vanquis Bank

- Profit before tax up by 89.4% to £26.7m (2009: £14.1m) with customer growth of 27.7% and average receivables[1] growth of 25.1%.
- Increase in risk-adjusted margin[3] to 33.9% (2009: 30.1%) reflecting strong revenue yield and sustained reduction in delinquency during the year.
- Business achieved its target post-tax return on equity of 30% and is now generating surplus capital.
- Tight credit standards to remain in place until there is greater clarity over direction of employment market.

[1] *Based on an average of month-end receivables throughout the year.*
[2] *In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks compared with 52 weeks in 2009.*
[3] *Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.*

Peter Crook, Chief Executive of Provident Financial, commented:

"I am pleased with the strong performance we delivered in 2010. Through continuing to focus on the needs of our customers, we have been able to expand the flow of credit to consumers whilst continuing to lend responsibly. By careful management of yield, impairment and costs, we have delivered earnings growth well ahead of receivables growth. We have also made excellent progress in further diversifying our funding base and now have banking headroom of £370m following additional funding raised through private placements since the year end.

Both Home Credit and Vanquis Bank have made a good start to 2011. Combined with our strong funding and liquidity position, we are well placed to continue to deliver good quality growth through this year. When the UK economy begins to recover, we see an enhanced opportunity to build on our leading position in the UK non-standard consumer lending market."

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Chairman's statement

Group results

The group has reported a strong set of results for the year with profit before tax and exceptional costs up 11.1% to £144.5m (2009: £130.1m) and basic earnings per share before exceptional costs up 10.1% to 78.6p (2009: 71.4p). The growth in earnings was well ahead of receivables growth due to the strong management of yield, impairment and costs. The group incurred an exceptional charge of £2.5m in 2010 relating to the write-down of residual fixed assets following consolidation of the Consumer Credit Division's head office into a single purpose-built facility.

Home Credit delivered profits of £129.1m (2009: £128.9m), up £0.2m on last year. As anticipated, the demand for credit was subdued in the first nine months of the year due to pressure on household incomes from rising under-employment, characterised by reduced working hours, as well as the rising cost of food, fuel and utility bills. Against this backdrop, a strong focus on collections and the early actions taken to manage margins and reduce costs underpinned profitability. The last quarter of 2010 saw an improvement in the demand for credit as customers' visibility of their future earnings improved and details of the Government's Spending Review were announced. At the same time, the collections performance remained very sound. The good finish to the year leaves Home Credit well positioned to deliver profitable growth in 2011.

Vanquis Bank achieved an excellent result in 2010, with profits up 89.4% to £26.7m (2009: £14.1m). The business delivered growth of over 25% in customer numbers and average receivables against tight underwriting standards. Delinquency trends have been very favourable since the second quarter of the year enabling the business to deliver a post-tax return on equity in excess of its target of 30% for the year as a whole. Vanquis Bank is very well positioned to continue further strong growth in 2011 and deliver on its receivables target of £450m by the end of 2012 whilst continuing to earn a post-tax return on equity of 30%.

The group's funding and liquidity positions remain strong with the balance sheet showing modest gearing of 3.3 times (2009: 3.3 times) against a bank covenant of 5.0 times. In the first two months of 2011, the group has made excellent progress in increasing and further diversifying its funding base by arranging private placements totalling £128.5m, including the 10-year £100m facility with M&G Investments announced on 13 January 2011. The headroom on committed facilities at the end of February 2011 is approximately £370m. This is predominantly earmarked to meet contractual debt maturities between now and the end of the first quarter of 2012 of £345m which include the final tranche relating to those banks who did not participate in the three-year extension to the group's syndicated bank facilities in February 2010. In line with the continuing strategy of diversifying its funding base, the group has commenced a roadshow to promote a second retail bond issue following the success of its inaugural issue in April 2010. The group has made good progress in its dialogue with the FSA concerning Vanquis Bank using its banking licence to take retail deposits and expects to conclude this dialogue in the second quarter of 2011.

The proposed final dividend is maintained at 38.1p per share (2009: 38.1p) reflecting the company's policy set out at the time of the demerger to at least maintain a full-year payment of 63.5p per share whilst moving to a target payout ratio of 80% of post-tax profit in the medium term. Dividend cover before exceptional costs for 2010 increased to 1.24 times (2009: 1.12 times).

Market conditions

The group's businesses focus on lending responsibly to consumers in the non-standard segment of the market who are less able to access credit in the mainstream market and may otherwise face financial exclusion. It has built up a deep understanding of this specialist market over many years, attracting high levels of customer satisfaction through delivering a range of credit products specifically tailored to the needs of people on modest incomes.

Household incomes for many families in the home credit market remained under pressure during 2010 because of the rise in under-employment from restrictions on working hours and wage rates, coupled with rising food, fuel and utility bills. Customers' reduced visibility of their future incomes, together with the uncertainty surrounding the potential impact of public sector cuts and changes to welfare benefits, resulted in cautious customer behaviour which tempered the demand for credit through the first nine months of the year. Anticipating these market conditions, management planned for modest receivables growth during 2010 and placed a strong emphasis on managing revenue yields, maintaining credit standards and driving through cost efficiency measures whilst protecting collections and arrears management. Market conditions improved in the final quarter of the year as customers' visibility over their future incomes improved in a more stable employment market and details of the Government's Spending Review became known. These more favourable conditions have continued in the early part of 2011.

The overall competitive landscape for Home Credit remained unchanged throughout the year with around 500 active participants in the UK.

Vanquis Bank remains the most active participant within the non-standard credit card market which continued to experience strong demand. As a result, the business has generated a strong flow of applications and strong utilisation of credit lines. Other issuers remain relatively inactive and the business has a significant medium-term growth opportunity.

Vanquis Bank's customers are typically in regular employment and the business is more sensitive than Home Credit to changes in unemployment rates which have been steady since mid-2009. This stability coupled with consistently tight underwriting has contributed to a favourable trend in delinquency during 2010.

At present, there is uncertainty about the future direction of the employment market which is likely to remain until the impact of the Government's Spending Review on UK economic growth is clearer. Consequently, tight underwriting standards will remain in place in both businesses.

Government's Spending Review

Based on its detailed understanding of the Home Credit customer base, the group has assessed the potential impact of the changes to welfare benefits to be phased in over the next four years which were included in the Government's October 2010 Spending Review and June 2010 Budget. The conclusion is that the changes will have limited impact on the predominantly working households served by Home Credit and that the short-term nature of the loan book means that any impact on individual households will be factored into agents' lending decisions in the normal course of business. Impairment typically arises in Home Credit due to unexpected rather than expected changes to customers' circumstances.

Regulation

The group has now implemented those parts of the Irresponsible Lending Guidance to Creditors and the EU Directive on Consumer Credit which were required to be implemented by February 2011. In conjunction with the UK Cards Association, Vanquis Bank has also implemented the necessary systems and other procedural changes during 2010 and early 2011 to ensure compliance with the Department for Business Innovation and Skills (BIS) consultation on credit and store card regulation.

In October 2010, HM Treasury (HMT)/BIS issued a call for evidence in connection with a review of consumer credit and insolvency. The review is wide-ranging and covers issues arising at each stage of the life of a credit agreement. HMT/BIS is now in the process of considering the responses and, at a date still to be determined, will publish the results of the consultation. The group welcomes the Government's evidence-based approach to the review.

In December 2010, a joint HMT/BIS consultation was launched setting out the Government's proposal to transfer responsibility for consumer credit from the OFT to a new Financial Conduct Authority (formerly called the Consumer Protection and Market Authority) and signalling the Government's preference to bring the regulation of all retail financial products under one regulatory regime. The Consultation closes on 22 March 2011 and the group's businesses have contributed to the submissions through their respective trade bodies.

Outlook

After a strong final quarter in 2010, both Home Credit and Vanquis Bank have made a good start to 2011. The first quarter is the peak collections period in the Home Credit business and it is encouraging to report sound collections and a continuation of year-on-year sales growth. Vanquis Bank entered 2011 with a high-quality receivables book, 35.0% up on a year earlier, and has experienced strong growth and stable delinquency during the first two months of 2011.

In view of the uncertainty over the future direction of the UK employment market, the tight underwriting standards which have been in place for a considerable period of time will continue to be applied in both businesses.

The good start to 2011 and the group's strong funding and liquidity positions with current headroom against committed facilities of £370m, leaves the business well placed to deliver good quality growth in 2011.

John van Kuffeler
Chairman
1 March 2011

Financial results

Consumer Credit Division

The Consumer Credit Division generated a profit before tax of £127.3m in 2010 (2009: £121.2m) analysed as follows:

	Year ended 31 December		
	2010 (53 weeks) £m	2009 (52 weeks) £m	Change %
Profit/(loss) before tax:			
Home Credit	129.1	128.9	0.2
Real Personal Finance	(1.8)	(7.7)	76.6
Consumer Credit Division	127.3	121.2	5.0

Home Credit

The Home Credit business generated a profit before tax of £129.1m (2009: £128.9m).

	Year ended 31 December		
	2010 (53 weeks) £m	2009 (52 weeks) £m	Change %
Customer numbers ('000)	1,861	1,842	1.0
Year-end customer receivables	867.2	866.0	0.1
Average customer receivables*	753.6	759.2	(0.7)
Revenue	701.1	673.7	4.1
Impairment	(230.6)	(216.7)	(6.4)
Revenue less impairment	470.5	457.0	3.0
*Revenue yield***	*93.0%*	*88.7%*	
*Impairment % revenue****	*32.9%*	*32.2%*	
Costs	(292.3)	(288.4)	(1.4)
Profit before interest and tax	178.2	168.6	5.7
Interest	(49.1)	(39.7)	(23.7)
Profit before tax	129.1	128.9	0.2

* *Based on an average of month-end receivables throughout the year.*
** *Revenue as a percentage of average receivables for the 12 months ended 31 December.*
*** *Impairment as a percentage of revenue for the 12 months ended 31 December.*

The group's planning assumption at the start of the year was that Home Credit customers would continue to experience pressure on their household incomes and consumers would remain cautious. Accordingly, the business planned for relatively low receivables growth with no relaxation of credit standards and implemented a cost reduction programme whilst protecting collections and arrears management capacity in the field. This approach, combined with the introduction of a revised core product in late 2009 to shorten the book and increase the revenue yield, has ensured that Home Credit has delivered a 5.7% increase in profit before interest and tax to £178.2m against a broadly flat receivables profile. After absorbing a £9.4m increase in interest costs, £8.8m of which reflects an uplift in the group's average funding rate from 7.0% in 2009 to 8.5% in 2010, Home Credit's profit before tax increased marginally to £129.1m (2009: £128.9m).

The year-on-year growth in customer numbers was 1.0%. The growth rate moderated towards the end of the year from the annual growth of approximately 6% achieved since the start of 2007 because of management's decision to focus field resources on serving credit to the existing pool of good quality customers. During the first nine months of the year, some customers were cautious in requesting new credit. They were concerned about their future prospects because of the pressure on household incomes from increasing under-employment, characterised by reduced working hours and having to accept part-time or temporary work, together with rising food, fuel and utility bills. The last quarter of the year saw a pick-up in demand for credit as customers' visibility on their household incomes improved in a more stable employment market and details of the Government's Spending Review were announced. Whilst year-on-year sales growth for 2010 as a whole was just 1.2%, growth in the fourth quarter was 9% reflecting strong sales to existing customers against unchanged tight credit standards.

Average receivables were 0.7% lower than last year, reflecting relatively low sales growth for the year together with some shortening of the duration of the loan book to help mitigate risk in a difficult environment. Year-end receivables of £867.2m (2009: £866.0m) were marginally higher than last year, benefiting from the strong pick-up in sales activity in the last quarter of the year, and in line with management's planning assumptions for 2011.

The revenue yield increased from 88.7% in 2009 to 93.0% in 2010. The core 50-week product introduced in late 2009 to replace the old 57-week product contributed approximately half of the growth in the revenue yield. The new product is better suited to customers' needs for a loan of a year in duration and allows more effective management of risk. The yield on the book will moderate in 2011 due to the strong fourth quarter growth in credit issued to existing good quality customers who, compared to new customers, tend to be served with slightly longer term products which carry a lower yield.

The collections performance remained sound throughout 2010. A relatively strong collections performance in the final quarter resulted in the rate of annualised impairment to revenue reducing from 33.3% at June 2010 to 32.9% at December 2010. This performance reflects the natural resilience of the Home Credit business model, continued tight underwriting and the investment in front-line collections and arrears management capacity through the difficult trading environment of the last two years. In the absence of any significant change in the external environment, collections performance and the rate of impairment in 2011 are expected to remain at similar levels to 2010.

Anticipating a lower growth environment in 2010, the business implemented a cost reduction programme at the start of the year which included removing 90 positions from the Home Credit head office support functions during February. Field collections and arrears management capacity were unaffected by these changes. After allowing for the additional trading week in 2010, costs during 2010 were broadly flat. Annual pay awards to staff of between 1.0% and 1.5% together with the additional cost of the new head office in Bradford have been largely offset by the savings generated by the cost reduction programme. Costs through the first half of 2011 will reflect an uplift in agents' commission following the strong sales in the final quarter of 2010 together with additional training and administrative costs associated with the implementation of the EU Consumer Credit Directive across the organisation.

In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks compared with 52 weeks in 2009. Overall, the additional week has added approximately 2% to revenue, costs and profit in 2010.

Real Personal Finance

Following the decision to focus direct repayment lending on known prospects generated through the Home Credit branch network, the re-focussing of the business and associated cost reductions made in February resulted in Real Personal Finance incurring a loss of £1.8m in 2010 (2009: loss of £7.7m), all of which arose in the first half of the year. The collect-out of the receivables book has progressed satisfactorily and receivables stood at £7.1m at the end of 2010, down from £17.8m at the end of 2009. Direct repayment loan products branded Provident Direct and Greenwood Direct were introduced in August as part of the Home Credit business and initial volumes have been modest.

Vanquis Bank

Vanquis Bank generated a profit before tax of £26.7m in 2010 (2009: £14.1m).

	Year ended 31 December		
	2010	2009	Change
	£m	£m	%
Customer numbers ('000)	544	426	27.7
Year-end customer receivables	345.0	255.5	35.0
Average customer receivables*	289.2	231.1	25.1
Revenue	162.0	131.3	23.4
Impairment	(63.9)	(61.7)	(3.6)
Revenue less impairment	98.1	69.6	40.9
*Risk-adjusted margin***	*33.9%*	*30.1%*	
*Impairment % revenue****	*39.4%*	*47.0%*	
Costs	(52.9)	(43.3)	(22.2)
Profit before interest and tax	45.2	26.3	71.9
Interest	(18.5)	(12.2)	(51.6)
Profit before tax	26.7	14.1	89.4

* *Based on an average of month-end receivables throughout the year.*
** *Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.*
*** *Impairment as a percentage of revenue for the 12 months ended 31 December.*

Vanquis Bank performed strongly during 2010, delivering profits up 89.4% on 2009. The business met its target post-tax return on equity of 30% in 2010 and is now generating sufficient capital to fund its own growth and start contributing to the group's dividends.

Demand for non-standard credit cards has remained strong and Vanquis Bank has experienced a flow of over 1,300,000 applications during 2010. Customer growth was 27.7%, up significantly on 2009 as a result of a more active customer acquisition programme which was assisted by securing a reduction in the average acquisition cost per account. The 241,000 (2009: 167,000) new customers in the year have been booked against tight underwriting standards that have remained consistent with those applied throughout 2009, resulting in a similar acceptance rate of 18%.

The growth in customer numbers together with the credit line increase programme to customers who have established a sound payment history, have led to a 25.1% increase in average receivables and a 23.4% increase in revenue. Returns from this 'low and grow' approach to extending credit remain strong. Vanquis Bank has also continued to be extremely active in managing the level of credit line utilisation and revenue yield to reflect underlying risk. Average utilisation during 2010 was 79% ensuring that a strong stream of revenue is earned whilst maintaining a relatively low level of contingent undrawn exposure.

Impairment showed a modest increase of just 3.6% during 2010 compared with growth of 35.0% in year-end receivables. Delinquency rates improved consistently from the second quarter of the year against the backdrop of stable unemployment. This reflects the improvement in the underlying quality of the loan book as a direct result of the progressive tightening of underwriting from 2007 to 2009 and demonstrates the effectiveness of Vanquis Bank's credit decisioning. The impairment charge benefitted by approximately £5m from the reduction in delinquency during the year which will not recur as delinquency levels stabilise.

Notwithstanding the improvement in delinquency during 2010, management is mindful of the potential for unemployment to rise as a result of the Government's austerity measures. Accordingly, the tight underwriting and credit line increase criteria applied in 2010 will remain in place for the foreseeable future.

During 2010, Vanquis Bank generated an annualised risk-adjusted margin of 33.9% (2009: 30.1%), above its target of 30.0%. This reflects the strong revenue yield on the receivables book and the benefit of the improvement in delinquency levels during the year. The risk-adjusted margin is expected to moderate towards the target level in 2011 as delinquency stabilises.

Cost growth of 22.2% in 2010 trailed the levels of revenue and receivables growth as the business continues to benefit from increased scale. Direct mail and internet marketing activities were increased to support higher customer growth, increasing customer acquisition costs by over £3m.

Interest costs increased by 51.6% during 2010. This reflects both the increase in average receivables levels together with a £3.2m impact from the increase in the average group funding rate for the year from 7.0% in 2009 to 8.5% in 2010.

The competitive landscape for Vanquis Bank continues to remain favourable and the business model has performed well during the economic downturn. In line with the guidance at the start of the year, the business is firmly on track to grow its receivables book from its current level of £345.0m to its target of £450m by the end of 2012, whilst maintaining a post-tax return on equity of 30%.

Vanquis Bank is on schedule to upgrade its core customer IT platform during 2011 at a capital cost of £2m. In addition, the business will need to bring on stream additional call centre capacity in 2012 and several options are in the process of being evaluated.

Central costs

Central costs in 2010 were £8.1m (2009: £7.0m), up by £1.1m on 2009, due to a budgeted increase in the level of expenditure on the group's community programme and increased costs associated with the group's share incentive schemes.

Exceptional costs

The year-end financial statements reflect an exceptional write down of residual fixed assets of £2.5m relating to the consolidation of the Consumer Credit Division's head office operations into a new single purpose-built facility in October 2010.

Taxation

The tax charge for 2010 represents an effective rate of 28.0% (2009: 28.0%) on profit before tax and exceptional costs, in line with the UK corporation tax rate. The group is expected to benefit in future years from the progressive rate reductions announced by the Government in June 2010.

Dividends

The proposed final dividend is maintained at 38.1p per share (2009: 38.1p) reflecting the company's policy set out at the time of the demerger to at least maintain a full-year payment of 63.5p per share whilst moving to a target payout ratio of 80% of post-tax profit in the medium term. Dividend cover before exceptional costs for 2010 increased to 1.24 times (2009: 1.12 times).

Funding and capital

The group's funding and liquidity positions remain strong with the balance sheet showing modest gearing of 3.3 times at 31 December 2010 (2009: 3.3 times) against a covenant limit of 5.0 times, together with a significant surplus of regulatory capital.

The group has continued to increase and diversify its funding base. In addition to the £250m senior bond issue in October 2009, the group became one of the first to issue a retail bond in April 2010. The retail bond is quoted on the new ORB platform established by the London Stock Exchange and raised £25.2m through an issue of 10-year bonds at an all-in cost to the group of 7.5%. On 13 January 2011, the group entered into a committed £100m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years 5 and 10. Subsequently, a further £28.5m has been raised through private placements on similar terms. These new issues, together with the extension to the group's syndicated bank facilities in February 2010, provide the group with headroom on committed debt facilities of approximately £370m at the end of February 2011. This is predominantly earmarked to meet the contractual debt maturities between now and the end of the first quarter of 2012 totalling £345m which include the final tranche relating to those banks who did not participate in the three-year extension to the group's syndicated bank facilities in February 2010. The additional funding has also extended the maturity profile of the group's funding which at the end of February 2011 stood at an average of 3.8 years.

As part of its ongoing programme to diversify its funding, the group continues to explore a number of funding opportunities. The group has commenced a roadshow to promote the issue of a second retail bond following the success of the retail bond issue in April 2010. In addition, the group has made good progress in its dialogue with the FSA concerning Vanquis Bank using its banking licence to take retail deposits and expects to conclude this dialogue in the second quarter of 2011.

The group's overall funding rate for 2010 was 8.5%, up from 7.0% in 2009 as a result of the new longer term facilities secured since October 2009 and the prudent approach to carrying a high level of headroom to meet future bank maturities. The group's interest cost for 2010 of £69.7m (2009: £53.8m) showed an increase of £15.9m, of which £12.5m was attributable to the increase in the group's funding rate and the remainder reflected the growth in Vanquis Bank's receivables. Based on the group's current funding structure, the group's average cost of funding in 2011 is expected to be around 8%.

The group's strategy is to develop businesses which generate high returns on capital to support the group's dividend policy. The Home Credit business continues to be highly capital generative and, as expected, Vanquis Bank is now generating sufficient capital to fund its own growth and contribute to the group's dividends. In the year to 31 December 2010, the group generated capital of £80.4m, after incurring one-off capital expenditure of £9.1m on fitting out the new head office of the Consumer Credit Division, compared to the annual dividend cost of £85.6m.

Government's Spending Review

On 20 October 2010, the Government announced details of its Spending Review, including cuts to public spending and reforms to welfare benefits, which added to the measures included in the June Budget. The welfare savings included in the Government's announcements are to be phased in over the next four years, rising from £2.3bn in 2011/12 to £18.1bn by 2014/15 in the context of a total welfare budget of some £200bn. The headline savings of £18.1bn in 2014/15 include £6.2bn from switching the indexation of benefits from RPI to CPI which serves to moderate the rate of future increases rather than reduce benefits. A further £2.5bn relates to the cutting of child benefit to better off families which will not affect Home Credit customers.

The group has a deep understanding of its Home Credit customer base and has assessed that the changes to welfare benefits are not expected to have a significant direct impact on its customers. This is for two primary reasons. Firstly, the business will not serve those who cannot afford to borrow and is selective about who it is prepared to serve with credit, only accepting around a quarter of lending opportunities seen by agents or from direct sources. The typical customer is a working household, with non-universal benefits forming one component of household income for less than half those households. Secondly, the short-term nature of the Home Credit loan book and the phased introduction of the changes to welfare benefits mean there is no increase in exposure to credit risk. Any impact of the change on individual households will be factored into agents' lending decisions in the normal course of business. Impairment typically arises in Home Credit due to unexpected rather than expected changes to customers' circumstances.

For similar reasons, the Government's intention to complete the transition from the current welfare benefits system to the Universal Credit by 2017 does not present increased credit exposures. Indeed, the Government has stated that it will financially protect claimants through the transition period and that in due course up to 2.5m claimants could be in receipt of higher entitlements.

The Office of Budget Responsibility originally estimated that the measures included in the Spending Review and June Budget would reduce public sector employment by 490,000 over four years. The reductions are focussed mainly on administrative roles and are not expected to have a significant impact on Home Credit customers who typically derive their income from hourly-paid, part-time or casual work and are not employed in administrative roles within Local or Central Government. Vanquis Bank customers are typically in more regular employment and will have some representation in administrative roles in the public sector. However, it is estimated that the direct impact of the reduction in public sector employment will affect around 1% of Vanquis Bank's customer base.

The Government's intention to increase the income tax threshold to £10,000 over the life of this parliament will benefit approximately one-third of Home Credit customers and the vast majority of Vanquis Bank customers.

Consolidated income statement for the year ended 31 December

	Note	2010 £m	2009 £m
Revenue	2	866.4	815.6
Finance costs		(69.7)	(58.2)
Finance costs before exceptional costs		(69.7)	(53.8)
Exceptional costs	2	-	(4.4)
Operating costs		(440.6)	(425.3)
Administrative costs		(214.1)	(206.4)
Administrative costs before exceptional costs		(211.6)	(206.4)
Exceptional costs	2	(2.5)	-
Total costs		(724.4)	(689.9)
Profit before taxation	2	142.0	125.7
Profit before taxation and exceptional costs	2	144.5	130.1
Exceptional costs	2	(2.5)	(4.4)
Tax charge	3	(40.5)	(37.1)
Profit for the year attributable to equity shareholders		101.5	88.6

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2010 £m	2009 £m
Profit for the year attributable to equity shareholders		101.5	88.6
Other comprehensive income:			
– cash flow hedges		7.6	(0.8)
– actuarial movements on retirement benefit asset	7	14.9	(37.3)
– tax on other comprehensive income	3	(6.3)	10.6
– impact of change in UK tax rate	3	0.2	-
Other comprehensive income for the year		16.4	(27.5)
Total comprehensive income for the year		117.9	61.1

Earnings per share and dividends

	Note	2010 pence	2009 pence
Earnings per share			
Basic	4	76.7	67.5
Diluted	4	76.6	67.3
Dividends per share			
Proposed final dividend	5	38.1	38.1
Total dividend for the year	5	63.5	63.5
Paid in the year*	5	63.5	63.5

* The total cost of dividends paid in the year was £84.9m (2009: £84.1m).

Consolidated balance sheet as at 31 December

	Note	2010 £m	2009 £m
ASSETS			
Non-current assets			
Goodwill		2.1	2.1
Other intangible assets		17.4	19.5
Property, plant and equipment		29.9	26.3
Financial assets:			
– amounts receivable from customers	6	97.4	86.9
– derivative financial instruments		12.4	12.5
Retirement benefit asset	7	41.0	19.9
Deferred tax assets		2.8	7.7
		203.0	174.9
Current assets			
Financial assets:			
– amounts receivable from customers	6	1,121.9	1,052.4
– derivative financial instruments		3.5	-
– cash and cash equivalents		29.0	20.3
– trade and other receivables		23.6	28.2
		1,178.0	1,100.9
Total assets	2	1,381.0	1,275.8
LIABILITIES			
Current liabilities			
Financial liabilities:			
– bank and other borrowings		(147.7)	(72.7)
– derivative financial instruments		(13.4)	(18.4)
– trade and other payables		(46.0)	(48.0)
Current tax liabilities		(44.4)	(39.2)
Provisions		-	(0.8)
		(251.5)	(179.1)
Non-current liabilities			
Financial liabilities:			
– bank and other borrowings		(817.2)	(817.6)
– derivative financial instruments		(2.9)	(10.7)
		(820.1)	(828.3)
Total liabilities		(1,071.6)	(1,007.4)
NET ASSETS	2	309.4	268.4
SHAREHOLDERS' EQUITY			
Called-up share capital		28.1	27.9
Share premium account		144.0	142.4
Other reserves		0.9	(13.0)
Retained earnings		136.4	111.1
TOTAL EQUITY		309.4	268.4

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

	Note	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2009		27.3	134.6	(16.3)	132.3	277.9
Profit for the year		-	-	-	88.6	88.6
Other comprehensive income:						
– cash flow hedges		-	-	(0.8)	-	(0.8)
– actuarial movements on retirement benefit asset	7	-	-	-	(37.3)	(37.3)
– tax on other comprehensive income	3	-	-	0.2	10.4	10.6
Other comprehensive income for the year		-	-	(0.6)	(26.9)	(27.5)
Total comprehensive income for the year		-	-	(0.6)	61.7	61.1
Transactions with owners:						
– issue of share capital		0.6	7.8	-	-	8.4
– purchase of own shares		-	-	(0.9)	-	(0.9)
– share-based payment charge		-	-	6.1	-	6.1
– transfer of share-based payment reserve		-	-	(1.3)	1.3	-
– deferred tax on share-based payment reserve transfer		-	-	-	(0.1)	(0.1)
– dividends	5	-	-	-	(84.1)	(84.1)
At 31 December 2009		27.9	142.4	(13.0)	111.1	268.4
At 1 January 2010		27.9	142.4	(13.0)	111.1	268.4
Profit for the year		-	-	-	101.5	101.5
Other comprehensive income:						
– cash flow hedges		-	-	7.6	-	7.6
– actuarial movements on retirement benefit asset	7	-	-	-	14.9	14.9
– tax on other comprehensive income	3	-	-	(2.1)	(4.2)	(6.3)
– impact of change in UK tax rate	3			(0.1)	0.3	0.2
Other comprehensive income for the year		-	-	5.4	11.0	16.4
Total comprehensive income for the year		-	-	5.4	112.5	117.9
Transactions with owners:						
– issue of share capital		0.2	1.6	-	-	1.8
– purchase of own shares		-	-	(0.2)	-	(0.2)
– disposal of own shares on vesting of share options/awards		-	-	6.5	(6.5)	-
– share-based payment charge		-	-	6.4	-	6.4
– transfer of share-based payment reserve		-	-	(4.2)	4.2	-
– dividends	5	-	-	-	(84.9)	(84.9)
At 31 December 2010		28.1	144.0	0.9	136.4	309.4

Consolidated statement of cash flows for the year ended 31 December

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	8	150.5	92.7
Finance costs paid		(80.0)	(57.0)
Tax paid		(36.5)	(28.4)
Net cash generated from operating activities		34.0	7.3
Cash flows from investing activities			
Purchase of intangible assets		(4.4)	(6.2)
Purchase of property, plant and equipment		(14.8)	(7.2)
Proceeds from disposal of property, plant and equipment		1.6	0.9
Proceeds from disposal of subsidiary undertaking		-	0.7
Net cash used in investing activities		(17.6)	(11.8)
Cash flows from financing activities			
Proceeds from borrowings		99.0	250.0
Repayment of borrowings		(28.2)	(171.3)
Dividends paid to company shareholders	5	(84.9)	(84.1)
Proceeds from issue of share capital		1.8	8.4
Purchase of own shares		(0.2)	(0.9)
Net cash (used in)/generated from financing activities		(12.5)	2.1
Net increase/(decrease) in cash, cash equivalents and overdrafts		3.9	(2.4)
Cash, cash equivalents and overdrafts at beginning of year		14.5	16.9
Cash, cash equivalents and overdrafts at end of year		18.4	14.5
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		29.0	20.3
Overdrafts (held in bank and other borrowings)		(10.6)	(5.8)
Total cash, cash equivalents and overdrafts		18.4	14.5

Notes to the preliminary announcement

1. Basis of preparation

The preliminary announcement has been prepared in accordance with the Listing Rules of the Financial Services Authority and is based on the 2010 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 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 2009 have been filed with the Registrar of Companies. The auditors have reported on those financial statements and on the statutory financial statements for the year ended 31 December 2010, 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 sections 498 of the Companies Act 2006.

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

2. Segment reporting

IFRS 8 'Operating segments' requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The group's chief operating decision maker is deemed to be the Executive Committee comprising Peter Crook (Chief Executive), Andrew Fisher (Finance Director) and Chris Gillespie (Managing Director, Consumer Credit Division) whose primary responsibility it is to manage the group's day-to-day operations and analyse trading performance. The group's segments comprise the Consumer Credit Division, Vanquis Bank and Central which are those segments reported in the group's management accounts used by the Executive Committee as the primary means for analysing trading performance. The Executive Committee assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the group financial statements.

	Revenue		Profit/(loss) before taxation	
	2010 £m	2009 £m	2010 £m	2009 £m
Consumer Credit Division	704.4	681.6	127.3	121.2
Vanquis Bank	162.0	131.3	26.7	14.1
Yes Car Credit	-	2.7	-	0.2
	866.4	815.6	154.0	135.5
Central – costs	-	-	(8.1)	(7.0)
– interest (payable)/receivable	-	-	(1.4)	1.6
Total central	-	-	(9.5)	(5.4)
Total group before exceptional costs	866.4	815.6	144.5	130.1
Exceptional costs	-	-	(2.5)	(4.4)
Total group	866.4	815.6	142.0	125.7

The Consumer Credit Division profit of £127.3m in 2010 (2009: £121.2m) comprises a profit of £129.1m in respect of the Home Credit business (2009: £128.9m) and a loss of £1.8m in respect of Real Personal Finance (2009: loss of £7.7m). In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year includes 53 weeks compared with 52 weeks in 2009.

2. Segment reporting (continued)

The exceptional cost in 2010 of £2.5m represents the write down of residual fixed assets following the Consumer Credit Division's move into a new head office building in October 2010.

The exceptional cost in 2009 of £4.4m comprised:

- a £6.8m charge in respect of the fair value movements on interest rate swaps which were previously deferred in equity as cash flow hedges but which became ineffective following the issue of the group's fixed rate £250m senior public bonds on 23 October 2009 and the consequent repayments on the group's revolving floating rate bank facilities; and
- a £2.4m credit reflecting the 2.5% discount in respect of the repurchase of £94.0m of the group's subordinated loan notes on 23 October 2009.

Revenue between business segments is not material. All of the group's operations operate in the UK and Republic of Ireland.

	Total assets		Net assets/(liabilities)	
	2010	2009	2010	2009
	£m	£m	£m	£m
Consumer Credit Division	963.9	967.9	247.3	233.6
Vanquis Bank	369.4	269.5	70.5	51.7
Central	219.3	167.5	(8.4)	(16.9)
	1,552.6	1,404.9	309.4	268.4
Intra-group elimination	(171.6)	(129.1)	-	-
Total group	1,381.0	1,275.8	309.4	268.4

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 the Consumer Credit Division to reflect a borrowings to receivables ratio of 80%. The impact of this is an increase in the notional allocation of group borrowings to the Consumer Credit Division of £171.6m (2009: £129.1m) 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.

3. Tax charge

The tax (charge)/credit in the income statement is as follows:

	2010 £m	2009 £m
Current tax	(41.7)	(34.8)
Deferred tax	1.4	(2.3)
Impact of change in UK tax rate	(0.2)	-
Total tax charge	(40.5)	(37.1)

The tax charge includes a charge of £nil (2009: £0.7m) in respect of exceptional costs (see note 2).

During the year, as a result of the change in UK corporation tax rates which will be effective from 1 April 2011, deferred tax balances have been re-measured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2011 is measured at a tax rate of 28% and deferred tax relating to temporary differences expected to reverse after 1 April 2011 is measured at a tax rate of 27%, as these are the tax rates which will apply on reversal. A tax charge of £0.2m in 2010 (2009: £nil) represents the income statement adjustment to deferred tax as a result of this change. An additional deferred tax credit of £0.2m in 2010 (2009: £nil) has been taken directly to equity, reflecting the impact of the change in UK corporation tax rates on items previously reflected directly in equity.

The tax (charge)/credit on items taken directly to equity is as follows:

	2010 £m	2009 £m
Current tax (charge)/credit on cash flow hedges	(2.1)	0.2
Deferred tax (charge)/credit on actuarial movements on retirement benefit asset	(4.2)	10.4
Tax (charge)/credit on other comprehensive income	(6.3)	10.6
Impact of change in UK tax rate	0.2	-
Total tax (charge)/credit on items taken directly to equity	(6.1)	10.6

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

	2010 £m	2009 £m
At 1 January	7.7	(0.5)
Credit/(charge) to the income statement	1.4	(2.3)
(Charge)/credit on items taken directly to equity prior to impact of change in UK tax rate	(6.3)	10.6
Transfer to retained earnings	-	(0.1)
Impact of change in UK tax rate:		
– charge to the income statement	(0.2)	-
– credit to equity	0.2	-
At 31 December	2.8	7.7

The rate of tax charge on the profit before taxation for the year is higher than (2009: higher than) the average standard rate of corporation tax in the UK of 28.0% (2009: 28.0%). This can be reconciled as follows:

	2010 £m	2009 £m
Profit before taxation	142.0	125.7
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 28.0% (2009: 28.0%)	(39.8)	(35.2)
Effects of:		
– adjustment in respect of prior years	(1.0)	0.1
– expenses not deductible for tax purposes net of non-taxable income	0.5	(2.0)
– impact of change in UK tax rate	(0.2)	-
Total tax charge	(40.5)	(37.1)

4. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding own shares held, which are treated, for this purpose, as being cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For share options and awards, 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 and awards. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and awards.

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

		2010			2009	
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Earnings per share						
Shares in issue during the year		135.1			133.1	
Own shares held		(2.8)			(1.9)	
Basic earnings per share	101.5	132.3	76.7	88.6	131.2	67.5
Dilutive effect of share options and awards	-	0.2	(0.1)	-	0.4	(0.2)
Diluted earnings per share	101.5	132.5	76.6	88.6	131.6	67.3

The directors have elected to show an adjusted earnings per share 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:

		2010			2009	
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	101.5	132.3	76.7	88.6	131.2	67.5
Exceptional cost after tax	2.5	-	1.9	5.1	-	3.9
Adjusted basic earnings per share	104.0	132.3	78.6	93.7	131.2	71.4
Diluted earnings per share	101.5	132.5	76.6	88.6	131.6	67.3
Exceptional cost after tax	2.5	-	1.9	5.1	-	3.9
Adjusted diluted earnings per share	104.0	132.5	78.5	93.7	131.6	71.2

5. Dividends

		2010 £m	2009 £m
2008 final	- 38.1p per share	-	50.6
2009 interim	- 25.4p per share	-	33.5
2009 final	- 38.1p per share	51.0	-
2010 interim	- 25.4p per share	33.9	-
Dividends paid		84.9	84.1

The directors are recommending a final dividend in respect of the financial year ended 31 December 2010 of 38.1p per share (2009: 38.1p) which will amount to a dividend payment of £51.7m (2009: £51.0m). If approved by the shareholders at the annual general meeting on 4 May 2011, this dividend will be paid on 21 June 2011 to shareholders who are on the register of members at 13 May 2011. This dividend is not reflected in the balance sheet as at 31 December 2010 as it is subject to shareholder approval.

6. Amounts receivable from customers

	2010 £m	2009 £m
Consumer Credit Division	874.3	883.8
Vanquis Bank	345.0	255.5
Total group	1,219.3	1,139.3
Analysed as:		
– due within one year	1,121.9	1,052.4
– due in more than one year	97.4	86.9
Total group	1,219.3	1,139.3

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

	2010 £m	2009 £m
Consumer Credit Division	232.7	223.4
Vanquis Bank	63.9	61.7
Yes Car Credit	-	(1.7)
Total group	296.6	283.4

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 2010 amounted to £45.9m (2009: £40.0m). Within the Consumer Credit Division, 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 scheme: the Provident Financial Staff Pension Scheme. The scheme covers 62% of employees with company-provided pension arrangements and is of the funded, defined benefit type providing retirement benefits based on final salary. Following a full group review of pension scheme arrangements, from 1 April 2006 members were provided with a choice of paying higher member contributions to continue accruing benefits based on final salary or paying a lower member contribution and accruing benefits based on a percentage of salary which would be revalued each year.

The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation was carried out as at 1 June 2009 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on this valuation updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

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

	2010 £m	2009 £m
Equities	248.0	217.4
Corporate bonds	165.9	154.3
Fixed interest gilts	39.7	37.3
Index-linked gilts	60.2	55.0
Cash and money market funds	0.3	0.6
Fair value of scheme assets	514.1	464.6
Present value of funded defined benefit obligations	(473.1)	(444.7)
Net retirement benefit asset recognised in the balance sheet	41.0	19.9

The amounts recognised in the income statement are as follows:

	2010 £m	2009 £m
Current service cost	(7.7)	(5.1)
Past service cost	-	(0.1)
Interest cost	(24.8)	(22.4)
Expected return on scheme assets	29.1	24.9
Net charge recognised in the income statement	(3.4)	(2.7)

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:

	2010 £m	2009 £m
Fair value of scheme assets at 1 January	464.6	410.7
Expected return on scheme assets	29.1	24.9
Actuarial movement on scheme assets	22.9	29.9
Contributions paid by the group	9.6	8.4
Section 75 contribution on disposal of subsidiary undertaking	-	0.6
Contributions paid by scheme participants	0.1	0.6
Net benefits paid out	(12.2)	(10.5)
Fair value of scheme assets at 31 December	514.1	464.6

7. Retirement benefit asset (continued)

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

	2010 £m	2009 £m
Defined benefit obligation at 1 January	(444.7)	(359.8)
Current service cost	(7.7)	(5.1)
Past service cost	-	(0.1)
Interest cost	(24.8)	(22.4)
Contributions paid by scheme participants	(0.1)	(0.6)
Actuarial movement on scheme liabilities	(8.0)	(67.2)
Net benefits paid out	12.2	10.5
Defined benefit obligation at 31 December	(473.1)	(444.7)

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

		2010 %	2009 %
Price inflation		3.50	3.60
Rate of increase in pensionable salaries		4.50	4.60
Inflationary increases to pensions in deferment		2.80	3.60
Discount rate		5.40	5.60
Long term rate of return	– equities	8.00	8.05
	– bonds	5.40	5.60
	– fixed interest gilts	4.00	4.40
	– index-linked gilts	4.00	4.40
	– cash and money market funds	4.00	4.50
	– overall (weighted average)	6.40	6.50

The mortality assumptions used in the valuation of the group's defined benefit pension scheme as at 31 December 2010 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
- The projections are combined with the medium cohort improvement factors in order to predict future improvements in life expectancy, subject to an annual minimum rate of improvement of 1%.

In more simple terms, it is assumed that members who retire in the future at age 65 will live on average for a further 23 years if they are male (2009: 23 years) and for a further 25 years if they are female (2009: 25 years). If assumed life expectancies had been one year greater, the net retirement benefit asset would have been reduced by approximately £16m (2009: £14m).

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

	2010 £m	2009 £m
Actuarial movements on scheme assets	22.9	29.9
Actuarial movements on scheme liabilities	(8.0)	(67.2)
Actuarial movements recognised in the statement of comprehensive income in the year	14.9	(37.3)

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

	2010 £m	2009 £m
Profit after taxation	101.5	88.6
Adjusted for:		
– tax charge (note 3)	40.5	37.1
– finance costs	69.7	58.2
– share-based payment charge	6.4	6.1
– retirement benefit charge (note 7)	3.4	2.7
– amortisation of intangible assets	6.5	3.8
– depreciation of property, plant and equipment	7.0	8.2
– exceptional impairment of property, plant and equipment (note 2)	2.5	-
– loss on disposal of property, plant and equipment	0.1	0.3
Changes in operating assets and liabilities:		
– amounts receivable from customers	(80.0)	(76.0)
– trade and other receivables	3.1	(10.1)
– trade and other payables	0.3	(17.0)
– retirement benefit asset (note 7)	(9.6)	(8.4)
– derivative financial instruments	(0.1)	0.4
– provisions	(0.8)	(1.2)
Cash generated from operations	150.5	92.7

Information for shareholders

1. The shares will be marked ex-dividend on 11 May 2011.

2. The final dividend will be paid on 21 June 2011 to shareholders on the register at the close of business on 13 May 2011. Dividend warrants/vouchers will be posted on 20 June 2011.

3. The 2010 annual report and financial statements together with the notice of the annual general meeting will be posted to shareholders on or around 25 March 2011.

4. The annual general meeting will be held on 4 May 2011 at the head office of Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.