Provident Financial plc
Preliminary results for the year ended 31 December 2015

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

Highlights

Strong financial performance and dividend increase

- Adjusted profit before tax[1] up 25.0% to £292.9m (2014: £234.4m) and adjusted earnings per share[1] up 22.6% to 162.6p (2014: 132.6p).
- Statutory profit before tax up 21.8% to £273.6m (2014: £224.6m) and basic earnings per share up 20.0% to 151.8p (2014: 126.5p).
- Return on assets[2] of 16.1%, an increase from 15.1% in 2014 mainly attributable to CCD.
- Total dividend per share up 22.6% to 120.1p (2014: 98.0p).

Strong growth and returns in Vanquis Bank

- UK profit before tax up by 22.8% to £185.5m (2014: £151.0m).
- UK customer and average receivables growth of 9.9% and 19.6% respectively, reflecting strong momentum from addressing the underserved non-standard credit card market.
- UK risk-adjusted margin[3] of 32.8% (2014: 33.2%), ahead of minimum target of 30%, with arrears at record lows.
- Chris Sweeney appointed as Managing Director following the retirement of Michael Lenora.

Successful repositioning of CCD

- Adjusted profit before tax[1] up 1.4% to £105.4m (2014: £103.9m).
- Successful repositioning of the Provident home credit business as a smaller, better-quality, more cost-efficient business focused on returns.
- Year-on-year reduction in receivables of 7.3% due to tighter credit standards and shorter duration of the book, with reduction narrowing from 18.0% at June 2015.
- Marked improvement in the risk-adjusted margin[3] to 82.2% (2014: 69.1%) due to significant improvement in credit quality.
- Continued investment in Satsuma to support the development of the substantial online market opportunity.
- Business plan to roll out the glo guarantor loans proposition during 2016 is now in place.

Sharp increase in new business at Moneybarn

- Adjusted profit before tax[1] of £21.3m in 2015, 42.0% higher than pro forma[4] 2014 profits of £15.0m.
- Significant year-on-year growth in new business volumes of 69%, reflecting access to the group's funding and product extensions.
- Default rates in line with plan and stable risk-adjusted margin of 24.3% (2014: 24.6%).

Robust funding position and strong capital generation

- Gearing reduced to 2.2 times (2014: 2.4 times) through strong capital generation.
- Group fully funded to May 2018.
- Capital generated of £189.9m (2014: £175.5m), more than covering dividends in respect of 2015 of £173.6m (2014: £141.3m).

Key financial results

	2015	2014	Change
Adjusted profit before tax[1]	£292.9m	£234.4m	25.0%
Statutory profit before tax	£273.6m	£224.6m	21.8%
Adjusted earnings per share[1]	162.6p	132.6p	22.6%
Basic earnings per share	151.8p	126.5p	20.0%
Return on assets[2]	16.1%	15.1%	
Final dividend per share	80.9p	63.9p	26.6%
Total dividend per share	120.1p	98.0p	22.6%

Peter Crook, Chief Executive, commented:

"I am delighted to announce adjusted earnings per share growth of 22.6% in 2015 and a 22.6% increase in the dividend for the year, reflecting strong capital generation and a very robust funding position.

Vanquis Bank produced another excellent set of results which saw UK profits up 22.8%. With credit standards unchanged, the business has continued to generate strong growth and margins through developing the underserved non-standard credit card market.

CCD's profits increased by 1.4%, delivering on its plans to maintain profits whilst repositioning the Provident home credit business and funding the start-up of its Satsuma online instalment lending business which represents a substantial market opportunity and will be developed further in 2016.

Moneybarn has performed extremely well in its first full year of ownership, with access to the group's funding lines supporting a 69% increase in new business volumes and 42% increase in profits.

The group has made a good start to 2016. Vanquis Bank and Moneybarn have continued to trade strongly and the home credit business has enjoyed a very satisfactory collections performance."

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

1 *Adjusted profit before tax is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2014: £2.5m) – see note 6; and (ii) exceptional costs of £11.8m in respect of business restructuring in CCD (2014: £3.4m) – see note 2. Adjusted profit before tax in 2014 was also stated prior to £3.9m of costs incurred in respect of the acquisition of Moneybarn.*

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

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

4 *Restated to apply the group's lower cost of funding to pre-acquisition results.*

Group summary

The group has reported a very strong set of results with profit before tax, amortisation of acquisition intangibles and exceptional costs up 25.0% to £292.9m (2014: £234.4m) reflecting strong growth and margins in Vanquis Bank and a full-year contribution from Moneybarn which was acquired in August 2014. As planned, CCD has delivered a modest increase in profits. The benefits from an improved impairment performance and cost reductions within the Provident home credit business have offset the contraction in its customer numbers and receivables and also funded the investment in Satsuma. Adjusted earnings per share of 162.6p (2014: 132.6p) grew by 22.6%, a lower rate than adjusted pre-tax profits due to the placing of shares to acquire Moneybarn in August 2014 partly offset by the benefit from the reduction in the statutory rate of UK corporation tax from 21% to 20% on 1 April 2015.

Vanquis Bank delivered another strong performance in 2015 with UK profit before tax up 22.8% to £185.5m (2014: £151.0m). The customer acquisition programme delivered record new customer bookings of 433,000 (2014: 430,000) and a year-end customer count of 1,421,000 (2014: 1,293,000), a year-on-year increase of 9.9%. The credit line increase programme to established customers is the most important driver of growth and, when combined with the increase in customer numbers, produced average receivables growth of 19.6%. Credit standards were unchanged in 2015 and delinquency levels have remained favourable throughout the year, reflecting the sound quality of the receivables book and an improving UK employment market. This has enabled Vanquis Bank to deliver a risk-adjusted margin of 32.8% (2014: 33.2%), well ahead of its minimum target of 30%.

Following the decision to withdraw from the Polish pilot operation in February 2015, the Polish receivables book was sold to a third party. The residual trading loss of £1.8m reflects the losses incurred in the first quarter of the year (2014: loss of £10.6m).

CCD's profit before tax and exceptional costs in 2015 was up 1.4% to £105.4m (2014: £103.9m).

The repositioning of the Provident home credit business has been successfully completed in 2015. Demand from home credit customers has gradually improved during the year and customer confidence has lifted from historic lows. Household incomes and the cost of living for home credit customers have both shown an improvement. The tighter credit standards introduced as part of the repositioning of the business in September 2013 have continued to curtail the recruitment of more marginal customers, increased the focus of the agent and field organisation on core customers and driven up the quality of the receivables book. As a result, CCD customer numbers showed a year-on-year reduction of approximately 11.5% over half of which reflected the sale of lower value delinquent balances to third party debt purchase companies. Year-on-year receivables were 7.3% lower reflecting the reduction in customer numbers, tighter credit standards and a shorter average duration of the book. The marked improvement in the quality of the receivables book and the successful implementation of standardised arrears and collections processes assisted by the roll-out of technology have combined to produce a significant strengthening in the risk-adjusted margin. This stood at 82.2% at December 2015, up from 69.1% at December 2014.

Alongside the strong performance of Provident, CCD has continued to invest in developing its market presence and further enhancing its capability in its online direct repayment loan product, Satsuma. At this stage, Satsuma's product proposition is restricted to a weekly instalment loan of up to 12 months in duration for which demand is strong. A measured approach to growth is being adopted with a strong focus on developing the IT infrastructure, management team and governance and control processes to support medium-term growth and reinforce positive customer outcomes. Satsuma has continued to develop its underwriting in a manner typical of a nascent business of this nature and implemented a significant tightening of credit standards in October which impacted new business volumes and growth through the fourth quarter. The expected step-change in credit quality of new business has materialised and the business is also generating a good flow of further lending to established customers which is an important driver of future profits. Satsuma is on track to produce a small contribution to CCD's profits in 2016.

The pilot of CCD's guarantor loans product, glo, has successfully demonstrated that there is strong demand for longer, larger loans in an underserved area of the non-standard market. Very importantly, the pilot has defined a proposition that incorporates a sustainable customer journey and is matched to an attractive market opportunity capable of delivering the group's target returns. Accordingly, glo will now proceed from pilot to a full roll-out during 2016.

Moneybarn has performed very well during 2015 delivering adjusted profits of £21.3m, up 42.0% on pro forma 2014 profits. Access to the group's funding and extension of the product offering to lend up to retail value has enabled the business to generate new business volumes 69% higher than last year whilst maintaining the risk-adjusted margin at a stable level.

Exceptional costs of £11.8m (2014: £7.3m) have been recognised in 2015 comprising costs associated with the reduction in headcount of 500 in CCD following a business restructuring. The group's statutory profit before tax is also stated after a £7.5m charge (2014: £2.5m) in respect of the amortisation of an intangible asset attributed to Moneybarn's broker relationships which was recognised on acquisition in August 2014.

The group's funding and liquidity positions remain strong with gearing of 2.2 times (2014: 2.4 times). As at 31 December 2015, headroom on the group's committed facilities amounted to £222m and, including the additional capacity available for Vanquis Bank to take retail deposits, total funding capacity amounted to £505m. The group's committed debt facilities, together with the retail deposits programme at Vanquis Bank, are sufficient to fund contractual maturities and projected growth in the business until May 2018.

The proposed final dividend has been increased by 26.6% to 80.9p (2014: 63.9p) which, together with the 15.0% increase in the interim dividend, represents a 22.6% increase in the total dividend per share to 120.1p (2014: 98.0p). Dividend cover for 2015, prior to the amortisation of acquisition intangibles and exceptional costs, is 1.35 times (2014: 1.35 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.

The group generated capital of £189.9m (2014: £175.5m) which more than covers dividends in respect of 2015 of £173.6m (2014: £141.3m).

Market conditions

Vanquis Bank

Vanquis Bank promotes financial inclusion by bringing the benefits of credit cards to consumers who are typically excluded 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 underserved, non-standard UK credit card market. Competitors continue to be active in both the direct mail and internet distribution channels. However, Vanquis Bank's continued investment in its customer acquisition programme generated full-year new account bookings ahead of last year against unchanged credit standards.

Vanquis Bank has demonstrated that it is considerably less sensitive to changes in the employment market than mainstream card issuers. Although the UK employment market continues to improve, Vanquis Bank has maintained tight credit standards and has continued to only book those new customers that are expected to deliver its minimum threshold returns. As a result, delinquency levels have continued to be favourable and have run at record lows for the business during 2015.

CCD

The Provident 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 payments are missed. Customers also value the face-to-face 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. Demand from home credit customers has improved during 2015 and customer confidence has lifted from historic lows. Household incomes and the cost of living have both shown a modest improvement.

There continues to be a stable core of between 2 and 3 million non-standard UK consumers for whom home credit is the right solution because the agent relationship is critical to the assessment of affordability and forbearance measures that cannot be replicated through a remote lending relationship.

Although the competitive landscape in the home credit market remains largely unchanged, there is evidence of some industry consolidation materialising as a result of more exacting regulation under the Financial Conduct Authority (FCA). 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 strategic repositioning of CCD implemented from the second half of 2013 was a response to these changing market dynamics. It has involved 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 between Vanquis Bank and the Provident 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 can have regular contact with a contact centre operative and there are a number of forbearance measures 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 unsecured loans market, in which payday lending was previously the most significant participant, is strong. Against the backdrop of clearer, tighter regulation around payday lending implemented 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 significantly 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, and 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.

The profile of Moneybarn's customers is very similar to Vanquis Bank customers. They typically have a thin or impaired credit history and find it difficult to access credit from 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.

Moneybarn is one of the largest providers 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 ten 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 around half of the size it was in 2007. 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.

Vanquis Bank

Vanquis Bank generated a profit before tax of £183.7m in 2015 (2014: £140.4m) analysed as follows:

	Year ended 31 December 2015 £m	2014 £m	Change %
Profit/(loss) before tax:			
- UK	185.5	151.0	22.8
- Poland	(1.8)	(10.6)	83.0
Total Vanquis Bank	183.7	140.4	30.8

UK

	Year ended 31 December 2015 £m	2014 £m	Change %
Customer numbers ('000)	1,421	1,293	9.9
Year-end receivables	1,252.0	1,093.9	14.5
Average receivables	1,157.1	967.2	19.6
Revenue	538.6	465.6	15.7
Impairment	(158.9)	(144.9)	(9.7)
Revenue less impairment	379.7	320.7	18.4
Risk-adjusted margin[1]	32.8%	33.2%	
Costs	(151.1)	(130.0)	(16.2)
Interest	(43.1)	(39.7)	(8.6)
Profit before tax	185.5	151.0	22.8
Return on assets[2]	15.8%	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 delivered another excellent performance in 2015, reporting UK profits 22.8% higher than 2014. Sound credit quality and favourable delinquency assisted by an improving UK employment market have enabled the UK business to deliver an improvement in return on assets from 15.5% in 2014 to 15.8% in 2015.

Demand for non-standard credit cards continues to be strong and, whilst the marketing activity of competitors in both the direct mail and internet channels has continued, further investment in the customer acquisition programme has allowed the business to deliver record new account bookings of 433,000 (2014: 430,000). This reflects a stable acceptance rate of around 25% against unchanged underwriting standards with the business only booking new business that is expected to meet its minimum threshold returns. Customer numbers ended 2015 at 1,421,000, up 9.9% on last year, which is stated after the cancellation of 46,000 dormant accounts during June and July to eliminate the contingent risk associated with undrawn credit lines.

The credit line increase programme to customers who have established a sound payment history is the most important driver of credit issued and, when combined with growth in customer numbers, generated a 19.6% increase in average receivables. Returns from the ‘low and grow’ approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of around 70% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

The risk-adjusted margin for 2015 was 32.8%, a modest reduction from 33.2% in 2014. The reduction in the risk-adjusted margin comprises a 0.6% decline in the revenue yield derived from the Repayment Option Plan (ROP) product following the changes to the sales process and product features in 2013 and interchange income, partly offset by a 0.2% benefit from improved delinquency.

Interchange income is being adversely impacted by the agreement between Visa and the European Commission to implement a phased reduction in the interchange fees charged by credit card companies to retailers. This programme was fully implemented from December 2015 when domestic transactions were subject to lower fees. The impact on Vanquis Bank was a reduction in income of approximately £3m in 2015 which is estimated to increase to around £11m in 2016, based on current volumes, as the reduced fees on domestic transactions fully take effect. Interchange revenue is a less significant source of income for Vanquis Bank than for mainstream credit card providers.

Although the UK employment market has continued to improve, Vanquis Bank has, and will continue to, apply consistently tight credit standards. This explains the further reduction in the rate of delinquency to a new all-time low for the business and the corresponding 1.2% year-on-year reduction in the rate of impairment. 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 around 1.0%. Taken together, these explain the net benefit of 0.2% to the risk-adjusted margin from improved delinquency over the last year.

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 around 32% during 2016 and remain above the target of 30% thereafter.

Costs increased by 16.2%, below the 19.6% growth in average receivables as the business continues to benefit from operational gearing. The cost base in 2015 includes a further uplift of £4m in the spend on direct mail and marketing activities that has supported the increase in new account bookings in 2015 and additional expenditure of approximately £3m on the risk, legal and compliance functions.

Interest costs increased by 8.6% during 2015, significantly lower than the growth in average receivables. This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 5.6% in 2014 to 5.3% in 2015 due to the progressive benefit from taking retail deposits.

Vanquis Bank remains firmly on track to achieve the medium-term potential of up to 1.8 million customers with an expected average balance of approximately £1,000, as communicated at the start of 2015.

Poland

Following the decision to withdraw from the Polish pilot operation in February 2015, the receivables book was sold to a third party. The economic interest passed from Vanquis Bank to the purchaser on 1 April 2015 with legal completion and the payment of final consideration occurring in August 2015.

The residual loss of £1.8m in 2015 reflects the trading losses in the first quarter of the year (2014: loss of £10.6m).

Management

As previously announced, Michael Lenora, Managing Director of Vanquis Bank, will retire on 30 June 2016.

Chris Sweeney joined the group on 1 January 2016 as the new Managing Director of Vanquis Bank having received the appropriate regulatory approvals. He was previously the Group Executive, Cards and Payment Solutions at Standard Bank operating in 18 countries and served as Chairman of Standard Bank's offshore businesses. Chris brings a wealth of experience in credit cards and retail banking and is an excellent appointment to lead Vanquis Bank through its next stage of development.

CCD

Business performance

CCD generated a profit before tax and exceptional costs of £105.4m in 2015 (2014: £103.9m) as set out below:

	Year ended 31 December		
	2015	2014	Change
	£m	£m	%
Customer numbers ('000)	948	1,071	(11.5)
Year-end receivables	545.1	588.1	(7.3)
Average receivables	499.5	598.5	(16.5)
Revenue	517.4	591.1	(12.5)
Impairment	(106.6)	(177.5)	39.9
Revenue less impairment	410.8	413.6	(0.7)
Revenue yield[1]	103.6%	98.8%	
Impairment % revenue[2]	20.6%	30.0%	
Risk-adjusted margin[3]	82.2%	69.1%	
Costs	(278.3)	(275.8)	(0.9)
Interest	(27.1)	(33.9)	20.1
Adjusted profit before tax[4]	105.4	103.9	1.4
Return on assets[5]	21.2%	18.1%	

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 *Adjusted profit before tax is stated before an exceptional cost of £11.8m (2014: £3.4m) in respect of business restructuring.*
5 *Adjusted profit before interest after tax as a percentage of average receivables.*

CCD is making good progress in executing on its strategic plan to develop a broader based lending business. The repositioning of the Provident home credit business as a smaller, better-quality, more cost-efficient business is complete and delivering strong returns. This success has supported CCD's continued investment in developing the Satsuma online loans proposition and the glo guarantor loans pilot whilst delivering a 1.4% increase in profits. The strategic development of CCD over the last two years has resulted in a significant increase in its return on assets from 15.1% in 2013 to 21.2% in 2015.

It is very encouraging to report that credit issued in the home credit business through the fourth quarter of the year was ahead of the fourth quarter of 2014, notwithstanding the planned contraction in the customer base. This has been achieved through a marked improvement in the quality of the book and improved demand supported by the favourable development of household incomes and the cost of living for home credit customers during 2015.

Overall customer numbers in CCD have shown a year on year reduction of 11.5% to 948,000 (2014: 1,071,000). Over half of the reduction relates to the sale of delinquent low value customer balances to third party debt purchasers. The remaining reduction reflects the tighter credit standards introduced as part of the repositioning of the business in September 2013 which have continued to curtail the recruitment of more marginal customers, improve overall credit quality and shorten the duration of the book.

With the repositioning of the home credit business complete, the rate of shrinkage in the CCD receivables book is moderating and showed a year on year decrease of 7.3% at December compared with 18.0% at June. The revenue yield remained robust at 103.6%, up from 98.8% in 2014, due to a modest shift in mix towards shorter-term, higher-yielding lending.

The implementation of standardised arrears and collections processes together with a continued marked improvement in credit quality have combined to produce a further significant improvement in arrears, with the ratio of impairment to revenue reducing from 30.0% at December 2014 to 20.6% at December 2015.

The increase in revenue yield and reduction in impairment has produced a significant strengthening in the risk-adjusted margin to 82.2% at December 2015, up from 69.1% at December 2014.

The programme to deploy technology throughout the field operation to support an improvement in productivity and implement market-leading compliance was completed well ahead of schedule in 2015. In particular, all UK agents are now using both the collections and lending apps which resulted in a mid-year headcount reduction of 500 comprising field managers and the remaining field administration workforce. The headcount reductions secured annualised savings of approximately £14m with no impact on customer service levels. An exceptional restructuring cost of £11.8m has been incurred in 2015 in respect of associated redundancy costs (2014: £3.4m).

Overall, CCD costs for the year were £2.5m higher than in 2014. This comprised a £10.3m year-on-year increase in costs in the first half of the year, including a step-up in the investment in Satsuma of approximately £5m and an increase of some £3m in regulatory and compliance overheads, and a £7.8m reduction in the second half which benefited from the mid-year cost reductions referred to above.

Interest costs were 20.1% lower than 2014 compared with a reduction of 16.5% in average receivables. This reflects a reduction in CCD's funding rate from 7.1% in 2014 to 6.8% in 2015 due to a lower margin on the group's syndicated bank facility following the extension in January 2015 and the lower interest rate on the March 2015 retail bond.

Business development

<u>Satsuma</u>

Management continue to adopt a measured approach to growth in Satsuma whilst maintaining a strong focus on developing the distribution channels, the underwriting approach, the IT infrastructure and the management, governance and control processes necessary to support the medium-term growth of the business as well as underpin high customer service levels and positive customer outcomes. The collections capability has continued to be developed during 2015 using Vanquis Bank's centre of excellence in Chatham.

During 2015, the business has tested multiple channels to market including TV advertising, social and digital media and the broker channel. Satsuma's brand recognition has increased considerably and it is now ranked third in the non-standard market for online loans. The decision to invest in the skills and infrastructure required to develop the broker channel is delivering good results. Overall, 2015 loan volumes were approximately 150% higher than 2014.

As is typical for a nascent business, Satsuma has continued to develop and refine its underwriting standards. As previously reported, the evolution of its underwriting resulted in a significant tightening of credit from October which reduced the conversion rate to around 10% from closer to 20% in the middle of the year. These changes necessarily impacted growth in the important fourth quarter trading period. Most importantly, the expected step-change in credit quality has materialised and the business is also seeing a good flow of further lending to established customers which is fundamental to its future profitability. Customer numbers and receivables ended 2015 at 49,000 and £12.1m respectively, up from 21,000 and £5.0m at December 2014.

To date, Satsuma's product proposition has been focused on weekly, short-term, small-sum lending. However, the business continues to consider and test alternative product propositions alongside the development of its underwriting and collections processes. There remains strong demand for a monthly instalment product from customers who are paid, and manage their budget, on a monthly basis. This product will be introduced in 2016. In addition, there continues to be an undersupply of larger sum, longer duration loans of over £1,000 and a year in duration which represents a further significant opportunity.

In summary, the market dislocation caused by the impact of regulation on payday lenders, together with the more exacting standards required of consumer credit firms as they transition to the FCA, provides an attractive opportunity to develop Satsuma as a sustainable business with a leading market position capable of delivering the group's target returns. The business remains on track to produce a small contribution to CCD's profits in 2016.

glo

glo is CCD's guarantor loan product which has been piloted to test whether a proposition capable of delivering the group's target returns can be developed. The guarantor loans proposition is distinct from Provident and Satsuma, comprising longer, larger loans of between £1,000 and £7,000 repayable over a period of between one and five years. The loan is typically guaranteed by a family member or friend with a sound credit record who supports the customer if their circumstances change.

The pilot has successfully demonstrated the strong demand for longer, larger loans from an underserved area of the non-standard market. More crucially, CCD has been able to develop an effective and sustainable customer journey to ensure that customers receive the same high level of personal service that the group deploys in all of its offerings. This includes robust affordability checks on both the borrower and the guarantor and a very customer-centric approach to forbearance should the borrower get into financial difficulty.

glo will proceed to full roll-out during 2016. It is planned to move glo from CCD to Vanquis Bank and for Michael Hutko to lead the business, alongside his responsibilities as Vanquis Bank's Commercial Director, utilising dedicated credit, marketing and collections resources primarily drawn from Vanquis Bank that are well matched to taking glo forward. 2016 will be a year of modest investment before reaching a break even position in 2017.

Moneybarn

Moneybarn generated a profit before tax, amortisation of acquisition intangibles and exceptional costs of £21.3m in 2015 (2014: £5.8m for the four months post acquisition; £15.0m for the full year on a pro forma basis restated to apply the group's lower cost of funding to pre-acquisition results):

	Year ended 31 December			Post-acquisition Four months ended 31 December
	2015 £m	Pro forma 2014[1] £m	Change %	2014 £m
Customer numbers ('000)	31	22	40.9	22
Year-end receivables	219.6	151.7	44.8	151.7
Average receivables	190.8	135.1	41.2	143.4
Revenue	55.3	38.0	45.5	13.8
Impairment	(8.9)	(4.7)	(89.4)	(1.2)
Revenue less impairment	46.4	33.3	39.3	12.6
Risk-adjusted margin[2]	24.3%	24.6%		
Costs	(15.6)	(11.1)	(40.5)	(4.2)
Interest	(9.5)	(7.2)	(31.9)	(2.6)
Adjusted profit before tax[3]	21.3	15.0	42.0	5.8
Return on assets[4]	12.9%	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 *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2014: £2.5m). Adjusted profit before tax in 2014 is also stated before an exceptional cost of £3.9m in respect of acquisition related expenses.*
4 *Adjusted profit before interest after tax as a percentage of average receivables.*

Moneybarn has performed very well during its first full year of ownership, delivering an increase in adjusted profits of 42.0% against pro forma 2014 profits. Strong growth in the receivables book together with stable delinquency have enabled the business to invest in headcount to support growth whilst delivering a stable return on assets of 12.9% (2014: 12.9%).

New business volumes in 2015 have been strong as the business continues to benefit from the group's funding since acquisition in August 2014. The extension of the product offering to lend up to retail value and the reduction in the minimum lend from £5,000 to £4,000 has reinforced primacy amongst Moneybarn's broker network. Accordingly, new business volumes in 2015 were 69% higher than 2014. Fourth quarter growth was 28% higher than the comparative period in 2014 which was the first quarter under the group's ownership. Customer numbers ended December at 31,000 (2014: 22,000).

Moneybarn continues to explore other opportunities to develop and extend its product offering. In the first half of 2015 it commenced a marketing programme to raise the awareness of its car finance proposition to Vanquis Bank customers. This programme has demonstrated that an opportunity for incremental sales is present. The full benefit from the cross-sell opportunity will take some time to develop as awareness continues to build and Vanquis Bank customers look to replace their existing vehicles. During the second half of the year, Moneybarn began to test the opportunity to provide financing for used light commercial vehicles through its existing broker network. The initial results are encouraging and this line of business will be developed through 2016.

The strong growth in new business volumes has resulted in receivables growth of 44.8% to £219.6m at December 2015. Average new loan sizes have remained broadly comparable to last year at around £9,000.

Default rates through 2015 have remained broadly stable and have enabled the business to generate a risk-adjusted margin of 24.3% at December 2015, little changed from 24.6% at December 2014.

The business has continued to invest in the resources necessary to support future growth, meet higher regulatory standards under the FCA and bring governance processes into line with the rest of the group. Accordingly, headcount has increased by 61 to 151 since the acquisition of the business in August 2014. This has resulted in 2015 cost growth of 40.5%, which is similar to average receivables growth of 41.2%.

Interest costs have shown growth of 31.9% during 2015 compared with average receivables growth of 41.2%. The lower rate of growth in interest costs reflects the retention of profits since acquisition as the capital base is increased towards the group's target gearing ratio of 3.5 times.

Central costs

Central costs increased to £17.5m in 2015 (2014: £15.7m), reflecting increased share-based payment charges and higher legal, professional and advisory fees.

Share in Visa Europe

On 2 November 2015, Visa Inc. announced the proposed acquisition of Visa Europe Limited to create a single global payments business under the VISA brand. Vanquis Bank is a member and shareholder of Visa Europe and in exchange for its one redeemable ordinary share (previously held at cost of €10) will receive up front consideration in the form of cash (approximately €14.7m) and preferred stock (approximately €10.1m) on completion of the transaction. The preferred stock is convertible into Class A common stock of Visa Inc, at a future date, subject to certain conditions. In addition, Vanquis Bank may receive deferred cash consideration in 2020 which is contingent on certain performance thresholds being met.

Following announcement of the proposed transaction, Vanquis Bank's interest in Visa Europe has been valued at fair value which reflects the expected upfront cash proceeds and a number of factors and uncertainties relating to the other consideration. The 2015 year-end balance sheet therefore reflects an available for sale investment of £17.5m (2014: £nil) with the corresponding credit taken to equity. Subject to regulatory approvals, the transaction is expected to complete in the second quarter of 2016. Following completion, the gain taken through equity in 2015 will be recycled through the income statement as an exceptional gain in 2016.

Taxation

The tax charge for 2015 represents an effective rate of 20.25% (2014: 21.50%) on profit before tax, amortisation of acquisition intangibles and exceptional costs. The reduction is consistent with the reduction in the UK corporation tax rate from 21% to 20% on 1 April 2015. The group is expected to benefit in future years from the further rate reductions to 19% on 1 April 2017 and to 18% on 1 April 2020 announced by the Government and enacted in the 2015 Finance Act.

The 2015 Finance Act also incorporated a bank corporation tax surcharge which imposes an additional corporation tax of 8% on banking companies. The surcharge came into force on 1 January 2016 and applies to the profits in excess of £25m attributable to Vanquis Bank only.

Dividends

The proposed final dividend has been increased by 26.6% to 80.9p (2014: 63.9p) which, together with the 15.0% increase in the interim dividend, represents a 22.6% increase in the total dividend per share to 120.1p (2014: 98.0p). Dividend cover for 2015, prior to the amortisation of acquisition intangibles and exceptional costs, was 1.35 times (2014: 1.35 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 2.2 times (2014: 2.4 times) against a banking covenant limit of 5.0 times.

The group continued to strengthen its funding base during 2015. As previously reported, in January the group exercised its option to extend its £382.5m syndicated bank facility by 12 months to May 2018. The group also issued its fifth retail bond in April, raising £60m at a coupon of 5.125% and a duration of eight and a half years. As at 31 December 2015, Vanquis Bank had taken £731.0m of retail deposits (58% of Vanquis Bank's UK receivables), up from £580.3m at 31 December 2014 (53% of Vanquis Bank's UK receivables), with additional retail deposits capacity of £283.0m, 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 appropriately managed during 2015 through pricing.

Headroom on the group's committed debt facilities at 31 December 2015 amounted to £222.3m which, together with the retail deposits programme at Vanquis Bank, is sufficient to fund contractual maturities and projected growth in the business until May 2018.

The group's funding rate during 2015 was 5.9%, down from 6.5% in 2014 due to the benefit of the Vanquis Bank retail deposits programme. The group's funding rate is expected to moderate by a small amount in 2016.

The group continues to be highly capital generative, reflecting its strategy of developing and growing businesses which generate a high return on capital to support the group's dividend policy. In 2015, capital generated amounted to £189.9m (2014: £175.5m) compared with dividends in respect of 2015 of £173.6m (2014: £141.3m).

The group's credit rating from Fitch Ratings was reviewed in June 2015 and remains unchanged at BBB. The outlook was upgraded from negative to stable.

The group maintains a strong capital position and, as at 31 December 2015, the common equity tier one ratio and leverage ratio of the group were 21.7% (2014: 20.0%) and 16.6% (2014: 15.5%) respectively.

Regulation

Transfer of regulation to the FCA

The FCA regulation of the consumer credit industry commenced on 1 April 2014. CCD and Moneybarn obtained interim permissions under the new regime and submitted their applications for full authorisation prior to the 31 May 2015 deadline.

Vanquis Bank continues to operate under an interim Consumer Credit permission awaiting formal approval of its application for a variation of permissions.

Whilst the outcome of the regulator's process of reviewing applications carries some inherent uncertainties, the group's businesses continue to have a constructive dialogue with the FCA, responding to questions and information requests relevant to obtaining the necessary authorisations and change of permission.

FCA credit card review

On 3 November 2015, the FCA published interim findings from its market-wide study of the UK credit card industry. The study primarily focused on: (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.

Overall, the FCA found that competition is working fairly well for consumers in the credit card market and that they were not minded to impose a cap on the total cost of credit or increase minimum repayments. They are, however, considering a number of remedies to promote shopping around and switching and to address affordability. In respect of affordability, the FCA are considering increased disclosures to promote the faster repayment of debt, the requirement for customers to opt in to credit line increases and overlimit transactions and the faster intervention of forbearance measures prior to default. Based on the interim findings, there is not currently expected to be a material impact to Vanquis Bank from any of the proposed measures. The final report from the FCA is due in spring 2016.

Outlook

Vanquis Bank continues to deliver strong growth and financial returns and remains firmly on track to achieve the medium-term potential of up to 1.8 million customers with an expected average balance of approximately £1,000.

CCD has delivered in full on its plans to maintain profits whilst repositioning the Provident home credit business and funding the start-up of its Satsuma online business. The repositioning of Provident as a smaller, better-quality, more cost-efficient business focused on returns is complete. It is delivering strong returns and the business is now generating year-on-year growth in sales. Demand for online direct repayment products is strong and the medium-term growth opportunity is substantial. 2016 will see Satsuma expand its product proposition beyond its short-term weekly instalment product and it is expected to make a small contribution to CCD's profits. The pilot of the glo guarantor loans product has defined a sustainable proposition that is matched to an attractive market opportunity capable of delivering the group's target returns. The business plan to roll-out glo during 2016 is now in place.

Moneybarn has achieved a very significant uplift in new business volumes, supported by access to the group's funding lines. This has reinforced its primacy across the broker network which, when combined with product development opportunities, leaves the business well-positioned to deliver strong medium-term growth at the group's target returns.

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.

From 1 January 2016, the group's tax charge will reflect the bank corporation tax surcharge of 8% on Vanquis Bank profits in excess of £25m.

The group has made a good start to 2016. Vanquis Bank and Moneybarn have continued to trade strongly and the home credit business has enjoyed a very satisfactory collections performance.

Consolidated income statement for the year ended 31 December

	Note	2015 £m	2014 £m
Revenue	2	1,113.1	1,075.7
Finance costs		(80.0)	(77.5)
Operating costs		(436.9)	(491.6)
Administrative costs		(322.6)	(282.0)
Total costs		(839.5)	(851.1)
Profit before taxation	2	273.6	224.6
Profit before taxation, amortisation of acquisition intangibles and exceptional costs	2	292.9	234.4
Amortisation of acquisition intangibles	6	(7.5)	(2.5)
Exceptional costs	2	(11.8)	(7.3)
Tax charge	3	(55.4)	(49.0)
Profit for the year attributable to equity shareholders		218.2	175.6

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2015 £m	2014 £m
Profit for the year attributable to equity shareholders		218.2	175.6
Other comprehensive income:			
– fair value movements on available for sale investment	9	17.5	-
– fair value movements on cash flow hedges		3.6	2.2
– actuarial movements on retirement benefit asset	8	(5.7)	17.5
– exchange differences on translation of foreign operations		0.7	0.5
– tax on items taken directly to other comprehensive income	3	(3.3)	(4.2)
– impact of change in UK tax rate	3	(0.2)	0.3
Other comprehensive income for the year		12.6	16.3
Total comprehensive income for the year		230.8	191.9

Earnings per share

	Note	2015 pence	2014 pence
Basic	4	151.8	126.5
Diluted	4	149.8	124.5

Dividends per share

	Note	2015 pence	2014 pence
Proposed final dividend	5	80.9	63.9
Total dividend for the year	5	120.1	98.0
Paid in the year*	5	103.1	88.1

* The total cost of dividends paid in the year was £148.9m (2014: £123.4m).

Consolidated balance sheet as at 31 December

	Note	2015 £m	2014 £m
ASSETS			
Non-current assets			
Goodwill		71.2	71.2
Other intangible assets	6	85.2	84.3
Property, plant and equipment		29.5	27.4
Financial assets:			
– amounts receivable from customers	7	218.0	155.6
Retirement benefit asset	8	62.3	56.0
		466.2	394.5
Current assets			
Financial assets:			
– available for sale investment	9	17.5	-
– amounts receivable from customers	7	1,798.7	1,693.6
– derivative financial instruments		-	0.2
– cash and cash equivalents		153.4	145.9
– trade and other receivables		32.4	24.5
		2,002.0	1,864.2
Total assets	2	2,468.2	2,258.7
LIABILITIES			
Current liabilities			
Financial liabilities:			
– bank and other borrowings		(253.4)	(135.3)
– trade and other payables		(98.3)	(94.3)
Current tax liabilities		(50.5)	(40.4)
		(402.2)	(270.0)
Non-current liabilities			
Financial liabilities:			
– bank and other borrowings		(1,342.8)	(1,357.7)
– derivative financial instruments		(0.6)	(4.4)
Deferred tax liabilities	3	(14.9)	(13.6)
		(1,358.3)	(1,375.7)
Total liabilities		(1,760.5)	(1,645.7)
NET ASSETS	2	707.7	613.0
SHAREHOLDERS' EQUITY			
Share capital		30.5	30.3
Share premium		270.7	268.3
Other reserves		35.6	19.0
Retained earnings		370.9	295.4
TOTAL EQUITY		707.7	613.0

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 2014		28.9	150.6	17.2	220.1	416.8
Profit for the year		-	-	-	175.6	175.6
Other comprehensive income:						
– fair value movements on cash flow hedges		-	-	2.2	-	2.2
– actuarial movements on retirement benefit asset	8	-	-	-	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	3	-	-	-	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 on vesting of share awards		-	-	(8.8)	8.8	-
– dividends	5	-	-	-	(123.4)	(123.4)
At 31 December 2014		30.3	268.3	19.0	295.4	613.0
At 1 January 2015		30.3	268.3	19.0	295.4	613.0
Profit for the year		-	-	-	218.2	218.2
Other comprehensive income:						
– fair value movements on available for sale investment	9	-	-	17.5	-	17.5
– fair value movements on cash flow hedges		-	-	3.6	-	3.6
– actuarial movements on retirement benefit asset	8	-	-	-	(5.7)	(5.7)
– exchange differences on translation of foreign operations		-	-	-	0.7	0.7
– tax on items taken directly to other comprehensive income	3	-	-	(4.5)	1.2	(3.3)
– impact of change in UK tax rate	3	-	-	(1.1)	0.9	(0.2)
Other comprehensive income for the year		-	-	15.5	(2.9)	12.6
Total comprehensive income for the year		-	-	15.5	215.3	230.8
Transactions with owners:						
– issue of share capital		0.2	2.4	-	-	2.6
– purchase of own shares		-	-	(0.3)	-	(0.3)
– transfer of own shares on vesting of share awards		-	-	0.1	(0.1)	-
– share-based payment charge		-	-	10.5	-	10.5
– transfer of share-based payment reserve on vesting of share awards		-	-	(9.2)	9.2	-
– dividends	5	-	-	-	(148.9)	(148.9)
At 31 December 2015		30.5	270.7	35.6	370.9	707.7

Consolidated statement of cash flows for the year ended 31 December

	Note	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	10	202.0	221.5
Finance costs paid		(73.0)	(72.3)
Tax paid		(47.5)	(44.9)
Net cash generated from operating activities		81.5	104.3
Cash flows from investing activities			
Purchase of intangible assets		(15.8)	(7.4)
Purchase of property, plant and equipment		(11.2)	(11.6)
Proceeds from disposal of property, plant and equipment		1.4	1.1
Acquisition of Moneybarn		-	(120.0)
Net cash used in investing activities		(25.6)	(137.9)
Cash flows from financing activities			
Proceeds from bank and other borrowings		344.2	341.0
Repayment of bank and other borrowings		(254.9)	(277.2)
Dividends paid to company shareholders	5	(148.9)	(123.4)
Proceeds from issue of share capital		2.6	119.1
Purchase of own shares		(0.3)	(0.1)
Net cash (used in)/generated from financing activities		(57.3)	59.4
Net (decrease)/increase in cash, cash equivalents and overdrafts		(1.4)	25.8
Cash, cash equivalents and overdrafts at beginning of year		140.7	109.7
Cash and cash equivalents acquired with Moneybarn		-	5.2
Cash, cash equivalents and overdrafts at end of year		139.3	140.7
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		153.4	145.9
Overdrafts (held in bank and other borrowings)		(14.1)	(5.2)
Total cash, cash equivalents and overdrafts		139.3	140.7

Cash at bank and in hand includes £134.2m (2014: £121.4m) in respect of the liquid assets buffer, including other liquid 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 2015 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 2014.

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 2014 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 2015, 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	
	2015	2014	2015	2014
	£m	£m	£m	£m
Vanquis Bank	540.4	470.8	183.7	140.4
CCD	517.4	591.1	105.4	103.9
Moneybarn	55.3	13.8	21.3	5.8
Central costs	-	-	(17.5)	(15.7)
Total group before amortisation of acquisition intangibles and exceptional costs	1,113.1	1,075.7	292.9	234.4
Amortisation of acquisition intangibles (note 6)	-	-	(7.5)	(2.5)
Exceptional costs	-	-	(11.8)	(7.3)
Total group	1,113.1	1,075.7	273.6	224.6

Exceptional costs in 2015 represent £11.8m of business restructuring costs in CCD comprising £14.4m of redundancy costs associated with approximately 500 field managers and field administration employees as a result of the ongoing deployment of technology within CCD, net of a £2.6m exceptional curtailment credit associated with those employees made redundant who were part of the group's defined benefit pension scheme (see note 8).

Exceptional costs in 2014 of £7.3m comprised; (i) £3.4m of business restructuring costs in CCD representing £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 8); and (ii) £3.9m of expenses incurred in relation to the acquisition of Moneybarn.

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

	Segment assets		Net assets	
	2015	2014	2015	2014
	£m	£m	£m	£m
Vanquis Bank	1,423.0	1,252.1	355.1	290.4
CCD	597.9	628.6	134.6	128.3
Moneybarn	237.4	166.7	16.3	3.0
Central	286.1	271.7	201.7	191.3
Total before intra-group elimination	2,544.4	2,319.1	707.7	613.0
Intra-group elimination	(76.2)	(60.4)	-	-
Total group	2,468.2	2,258.7	707.7	613.0

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 £76.2m (2014: £60.4m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

The group's businesses operate principally in the UK and Republic of Ireland. Vanquis Bank established a branch in Poland as part of a pilot credit card operation during the first half of 2012. A decision was taken to withdraw from the pilot operation in early 2015 and the receivables book was sold to a third party with the economic interest transferring from 1 April 2015. The revenue in respect of the branch in 2015 up until the point at which the economic interest was transferred amounted to £1.8m (2014: £5.2m) and the loss amounted to £1.8m (2014: £10.6m). The net liabilities of the branch amounted to £nil at 31 December 2015 (2014: £18.7m), comprising assets of £nil (2014: £22.3m) and liabilities of £nil (2014: £41.0m). These figures are included within the Vanquis Bank figures in the tables above.

3. Tax charge

The tax charge in the income statement is as follows:

	2015 £m	2014 £m
Current tax:		
– UK	(56.9)	(46.6)
– overseas	(0.7)	(0.7)
Total current tax	(57.6)	(47.3)
Deferred tax	(0.2)	(3.0)
Impact of change in UK tax rate	2.4	1.3
Total tax charge	(55.4)	(49.0)

The tax credit in respect of exceptional costs in 2015 amounted to £2.4m (2014: credit of £0.8m) and represents tax relief in respect of the exceptional restructuring costs in CCD. The tax credit in respect of the amortisation of acquisition intangibles amounted to £1.5m (2014: £0.6m).

The effective tax rate for 2015, prior to the amortisation of acquisition intangibles and exceptional costs, is 20.25% (2014: 21.5%), in line with the UK statutory corporation tax rate which reduced from 21% to 20% with effect from 1 April 2015.

During 2015, further reductions to statutory corporation tax rates were enacted, reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In addition, the Government introduced a bank corporation tax surcharge, enacted in the 2015 Finance Act, which imposes, with effect from 1 January 2016, an additional 8% corporation tax on profits of banking companies over £25m. Vanquis Bank is a banking company for these purposes. As the temporary differences on which deferred tax is calculated are expected to largely reverse after 1 April 2020 (2014: 1 April 2015), deferred tax at 31 December 2015 has been re-measured at 18% (2014: 20%) and, in the case of Vanquis Bank, at the combined mainstream corporation tax and bank surcharge rate of 26% (2014: 20%). In 2015, movements in the deferred tax balances have been measured at the mainstream corporation tax rate for the year of 20.25% (2014: 21.5%). A tax credit in 2015 of £2.4m (2014: £1.3m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.2m (2014: credit of £0.3m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

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

	2015 £m	2014 £m
Deferred tax charge on fair value movements in available for sale investment	(3.5)	-
Deferred tax charge on fair value movements in cash flow hedges	(1.0)	(0.4)
Deferred tax credit/(charge) on actuarial movements on retirement benefit asset	1.2	(3.8)
Tax charge on items taken directly to other comprehensive income prior to impact of change in UK tax rate	(3.3)	(4.2)
Impact of change in UK tax rate	(0.2)	0.3
Total tax charge on items taken directly to other comprehensive income	(3.5)	(3.9)

3. Tax charge (continued)

The deferred tax charge of £3.5m on the available for sale investment in 2015 represents the deferred tax on the valuation of the group's interest in Visa Europe Limited of £17.5m which has been taken directly to other comprehensive income in the year (see note 8). Subject to regulatory approvals, the group expects to sell its shareholding in Visa Europe Limited to Visa Inc. in exchange for upfront cash proceeds, deferred cash consideration contingent on performance and preferred stock. Deferred tax has been measured initially at the statutory rate for the year of 20.25%. Deferred tax has then been re-measured at the combined mainstream corporation tax and bank surcharge rates of 28% on that element of the profit attributed to the upfront cash consideration which will be taxed in 2016. Deferred tax on the profit attributable to the preferred stock has been re-measured at 26% as this is not expected to be taxed until the preferred stock or the shares into which they convert are sold.

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

	2015 £m	2014 £m
At 1 January	(13.6)	3.5
Charge to the income statement	(0.2)	(3.0)
Acquisition of Moneybarn	-	(11.5)
Charge on other comprehensive income prior to impact of change in UK tax rate	(3.3)	(4.2)
Impact of change in UK tax rate:		
– credit to the income statement	2.4	1.3
– (charge)/credit to other comprehensive income	(0.2)	0.3
At 31 December	(14.9)	(13.6)

The rate of tax charge on the profit before taxation for the year is in line with (2014: higher than) the average standard rate of corporation tax in the UK of 20.25% (2014: 21.50%). This can be reconciled as follows:

	2015 £m	2014 £m
Profit before taxation	273.6	224.6
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 20.25% (2014: 21.50%)	(55.4)	(48.3)
Effects of:		
– benefit of lower tax rates overseas	0.5	0.6
– adjustment in respect of prior years	(2.6)	(1.4)
– non-deductible general expenses	(0.3)	(0.4)
– non-deductible expenses relating to the acquisition of Moneybarn	-	(0.8)
– impact of change in UK tax rate	2.4	1.3
Total tax charge	(55.4)	(49.0)

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% (2014: 12.5%) rather than the UK statutory tax rate of 20.25% (2014: 21.50%) giving rise to a beneficial impact on the group tax charge of £0.5m (2014: £0.6m).

The £2.6m charge (2014: £1.4m charge) 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 were included in exceptional costs. As it was considered tax deductions may not be available for such costs, these gave rise to an increase in the tax charge of £0.8m in 2014.

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:

	2015 Earnings £m	2015 Weighted average number of shares m	2015 Per share amount pence	2014 Earnings £m	2014 Weighted average number of shares m	2014 Per share amount pence
Earnings per share						
Shares in issue during the year		146.9			142.3	
Own shares held		(3.2)			(3.5)	
Basic earnings per share	218.2	143.7	151.8	175.6	138.8	126.5
Dilutive effect of share options and awards	-	2.0	(2.0)	-	2.2	(2.0)
Diluted earnings per share	218.2	145.7	149.8	175.6	141.0	124.5

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 6) 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:

	2015 Earnings £m	2015 Weighted average number of shares m	2015 Per share amount pence	2014 Earnings £m	2014 Weighted average number of shares m	2014 Per share amount pence
Basic earnings per share	218.2	143.7	151.8	175.6	138.8	126.5
Amortisation of acquisition intangibles, net of tax	6.0	-	4.2	1.9	-	1.4
Exceptional costs, net of tax	9.4	-	6.6	6.5	-	4.7
Adjusted basic earnings per share	233.6	143.7	162.6	184.0	138.8	132.6
Diluted earnings per share	218.2	145.7	149.8	175.6	141.0	124.5
Amortisation of acquisition intangibles, net of tax	6.0	-	4.1	1.9	-	1.4
Exceptional costs, net of tax	9.4	-	6.4	6.5	-	4.6
Adjusted diluted earnings per share	233.6	145.7	160.3	184.0	141.0	130.5

5. Dividends

		2015 £m	2014 £m
2013 final	- 54.0p per share	-	74.4
2014 interim	- 34.1p per share	-	49.0
2014 final	- 63.9p per share	92.3	-
2015 interim	- 39.2p per share	56.6	-
Dividends paid		148.9	123.4

The directors are recommending a final dividend in respect of the financial year ended 31 December 2015 of 80.9p per share (2014: 63.9p) which will amount to an estimated dividend payment of £117.0m (2014: £92.3m). If approved by the shareholders at the annual general meeting on 5 May 2016, this dividend will be paid on 24 June 2016 to shareholders who are on the register of members at 20 May 2016. This dividend is not reflected in the balance sheet as at 31 December 2015 as it is subject to shareholder approval.

6. Other intangible assets

	2015			2014		
	Acquisition intangibles £m	Computer software £m	Total £m	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	75.0	44.5	119.5	-	39.7	39.7
Acquisition of Moneybarn	-	-	-	75.0	1.6	76.6
Additions	-	15.8	15.8	-	7.4	7.4
Disposals	-	(0.7)	(0.7)	-	(4.2)	(4.2)
At 31 December	75.0	59.6	134.6	75.0	44.5	119.5
Accumulated amortisation						
At 1 January	2.5	32.7	35.2	-	31.6	31.6
Acquisition of Moneybarn	-	-	-	-	0.6	0.6
Charged to the income statement	7.5	7.4	14.9	2.5	4.7	7.2
Disposals	-	(0.7)	(0.7)	-	(4.2)	(4.2)
At 31 December	10.0	39.4	49.4	2.5	32.7	35.2
Net book value						
At 31 December	65.0	20.2	85.2	72.5	11.8	84.3
At 1 January	72.5	11.8	84.3	-	8.1	8.1

Acquisition intangibles represents the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014. 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.

7. Amounts receivable from customers

	2015 £m	2014 £m
Vanquis Bank	1,252.0	1,109.4
CCD	545.1	588.1
Moneybarn	219.6	151.7
Total group	2,016.7	1,849.2
Analysed as:		
– due in more than one year	218.0	155.6
– due within one year	1,798.7	1,693.6
Total group	2,016.7	1,849.2

Vanquis Bank receivables comprise £1,252.0m (2014: £1,093.9m) in respect of the UK business and £nil (2014: £15.5m) in respect of the Polish pilot operation. The receivables in respect of the Polish pilot operation were derecognised on 1 April 2015 following the sale and transfer of the economic interest to a third party.

CCD receivables comprise £522.2m in respect of the Provident home credit business (2014: £582.5m), £12.1m in respect of Satsuma (2014: £5.0m) and £10.8m in respect of glo (2014: £0.6m).

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

	2015 £m	2014 £m
Vanquis Bank	160.5	149.1
CCD	106.6	177.5
Moneybarn	8.9	1.2
Total group	276.0	327.8

The impairment charge in Vanquis Bank comprises £158.9m (2014: £144.9m) in respect of the UK business and £1.6m in respect of the Polish pilot operation prior to the transfer of the economic interest to a third party on 1 April 2015 (2014: £4.2m).

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 2015 amounted to £225.0m (2014: £178.6m) and the Moneybarn allowance account amounted to £18.5m (2014: £27.1m). Within CCD, impairment is deducted directly from amounts receivable from customers without the use of an allowance account.

8. 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 16% 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 2015 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the 2015 valuation updated by the actuary 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.

8. Retirement benefit asset (continued)

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

	2015	2014
	£m	£m
Equities	74.7	249.2
Other diversified return seeking investments	67.5	65.5
Corporate bonds	133.0	137.8
Fixed interest gilts	208.3	80.6
Index-linked gilts	181.7	164.9
Cash and money market funds	1.2	2.1
Fair value of scheme assets	666.4	700.1
Present value of defined benefit obligation	(604.1)	(644.1)
Net retirement benefit asset recognised in the balance sheet	62.3	56.0

As part of a de-risking strategy agreed between the company and the pension trustees to hedge the inflation and interest rate risks associated with the liabilities of the pension scheme, a substantial amount of more volatile growth funds (equities) were reinvested in liability protection assets (fixed interest and index-linked gilts) in January 2015.

The amounts recognised in the income statement were as follows:

	2015	2014
	£m	£m
Current service cost	(5.0)	(5.8)
Interest on scheme liabilities	(23.5)	(25.5)
Interest on scheme assets	25.7	26.9
Net charge recognised in the income statement before exceptional curtailment credit	(2.8)	(4.4)
Exceptional curtailment credit	2.6	0.6
Net charge recognised in the income statement	(0.2)	(3.8)

The exceptional curtailment credit of £2.6m (2014: £0.6m) relates to the reduction in headcount of 500 (2014: 225) 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:

	2015	2014
	£m	£m
Fair value of scheme assets at 1 January	700.1	613.8
Interest on scheme assets	25.7	26.9
Actuarial movement on scheme assets	(52.4)	77.9
Contributions paid by the group	12.2	13.1
Net benefits paid out	(19.2)	(31.6)
Fair value of scheme assets at 31 December	666.4	700.1

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

	2015	2014
	£m	£m
Present value of defined benefit obligation at 1 January	(644.1)	(584.6)
Current service cost	(5.0)	(5.8)
Interest on scheme liabilities	(23.5)	(25.5)
Exceptional curtailment credit	2.6	0.6
Actuarial movement on scheme liabilities	46.7	(60.4)
Net benefits paid out	19.2	31.6
Present value of defined benefit obligation at 31 December	(604.1)	(644.1)

8. **Retirement benefit asset (continued)**

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

	2015	2014
	%	%
Price inflation – RPI	3.00	3.10
Price inflation – CPI	2.00	2.10
Rate of increase to pensions in payment	2.80	2.90
Inflationary increases to pensions in deferment	2.00	2.10
Discount rate	3.75	3.70

A 0.1% change in the discount and inflation rates would change the present value of the defined benefit obligation by approximately £11m (2014: £14m) and £5m (2014: £9m) respectively.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 1 tables, with multipliers of 105% and 115% respectively for males and females. The 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females reflects the lower life expectancies within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2015 model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
	2015	2014	2015	2014
	years	years	years	years
Current pensioner aged 65	21.7	22.0	23.3	23.5
Current member aged 45 from age 65	23.4	23.7	25.1	25.4

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £18m (2014: £19m).

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

	2015	2014
	£m	£m
Actuarial movements on scheme assets	(52.4)	77.9
Actuarial movements on scheme liabilities	46.7	(60.4)
Actuarial movements recognised in the statement of comprehensive income in the year	(5.7)	17.5

9. **Available for sale investment**

On 2 November 2015, Visa Inc. announced the proposed acquisition of Visa Europe Limited to create a single global payments business under the VISA brand. Vanquis Bank is a member and shareholder of Visa Europe and in exchange for its one redeemable ordinary share (previously held at cost of €10) will receive up front consideration in the form of cash (approximately €14.7m) and preferred stock (approximately €10.1m) on completion of the transaction. The preferred stock is convertible into Class A common stock of Visa Inc, at a future date, subject to certain conditions. In addition, Vanquis Bank may receive deferred cash consideration in 2020 which is contingent on certain performance thresholds being met.

Following announcement of the proposed transaction, Vanquis Bank's interest in Visa Europe has been valued at fair value which reflects the expected upfront cash proceeds and a number of factors and uncertainties relating to the other consideration. The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity, as the preferred stock is not tradeable on an open market and can only be transferred to other VISA members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion. No valuation has been placed on the deferred element of the consideration due to its inherent uncertainty. Accordingly, the 2015 balance sheet reflects an available for sale investment of £17.5m with the corresponding credit taken to equity within an available for sale reserve. Subject to regulatory approvals, the transaction is expected to complete in the second quarter of 2016. Following completion, the gain taken through equity in 2015 will be recycled through the income statement as an exceptional gain in 2016.

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

	2015 £m	2014 £m
Profit after taxation	218.2	175.6
Adjusted for:		
– tax charge (note 3)	55.4	49.0
– finance costs	80.0	77.5
– share-based payment charge	10.5	8.7
– retirement benefit charge prior to exceptional curtailment credit (note 8)	2.8	4.4
– exceptional curtailment credit (note 8)	(2.6)	(0.6)
– amortisation of intangible assets (note 6)	14.9	7.2
– depreciation of property, plant and equipment	7.7	6.6
– loss on disposal of property, plant and equipment	-	0.2
Changes in operating assets and liabilities:		
– amounts receivable from customers	(167.5)	(111.4)
– trade and other receivables	(8.1)	(4.4)
– trade and other payables	2.9	21.8
– contributions into the retirement benefit scheme (note 8)	(12.2)	(13.1)
Cash generated from operations	202.0	221.5

Information for shareholders

1. The shares will be marked ex-dividend on 19 May 2016.

2. The final dividend will be paid on 24 June 2016 to shareholders on the register at the close of business on 20 May 2016. Dividend warrants/vouchers will be posted on 22 June 2016.

3. The 2015 annual report and financial statements together with the notice of the annual general meeting will be posted to shareholders on or around 4 April 2016.

4. The annual general meeting will be held on 5 May 2016 at the head office of Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.