Provident Financial plc
Preliminary results for the year ended 31 December 2011

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

Highlights

Strong group performance

- Pre-tax profit up 12.2% to £162.1m (2010: £144.5m[1]).
- Earnings per share up 14.0% to 89.6p (2010: 78.6p[1]).
- Total dividend per share up 8.7% to 69.0p.
- Capital generated[2] of £110.1m, well in excess of dividends in respect of 2011 of £93.2m.

Very robust group funding position

- Renewal of core bank facilities to 2015.
- Vanquis Bank retail deposits programme running ahead of plan.
- Group fully funded into 2015.
- Gearing stable at 3.2 times (2010: 3.3 times).

Sound Consumer Credit Division result underpinned by improved credit quality

- Pre-tax profit of £127.5m (2010: 53 weeks, £127.3m).
- Credit standards tightened and growth moderated due to pressure on customers' disposable incomes.
- Reduction in Home Credit rate of impairment to 32.1% of revenue (2010: 32.9%) resulting from continued focus on existing good-quality customers and a strong collections performance.

Strong profitable growth in Vanquis Bank assisted by favourable delinquency trends

- Pre-tax profit up by 65.5% to £44.2m (2010: £26.7m).
- Customer and average receivables growth of 27.0% and 35.3% respectively from continuing investment in customer acquisition programme.
- Risk-adjusted margin[3] of 35.0% (2010: 33.9%) versus minimum target of 30% with delinquency at an all-time low.
- Generated surplus distributable capital[2] of £14.8m.

Key financial results

	2011	2010	Change
Customer numbers	2.52m	2.41m	+4.4%
Average receivables	£1,178.9m	£1,053.8m	+11.9%
Profit before tax[1]	£162.1m	£144.5m	+12.2%
Earnings per share[1]	89.6p	78.6p	+14.0%
Final dividend per share	42.3p	38.1p	+11.0%
Total dividend per share	69.0p	63.5p	+8.7%
Capital generated[2]	£110.1m	£80.4m	+36.9%
Dividends in respect of financial year	£93.2m	£84.9m	+9.8%

Peter Crook, Chief Executive of Provident Financial, commented:

"I am delighted to report earnings per share up by 14.0% and announce an 8.7% increase in the dividend for the year supported by strong capital generation. The close attention to credit quality in both businesses has been the foundation of the group's good performance in a year that has seen pressure on customers' disposable incomes. Whilst this pressure continues in an employment market that is displaying some weakness, tight credit standards will remain in place.

The group's funding position has been strengthened further and is extremely robust. The group's core syndicated bank facility has recently been renewed, some 15 months ahead of its maturity date, and the retail deposits programme at Vanquis Bank is now fully established and is running ahead of plan. This means that the group is now fully funded into 2015.

As well as diversifying the group's funding base, the retail deposits programme has established stand-alone funding for Vanquis Bank as it continues to invest in developing the medium-term growth opportunity available in the non-standard credit card market.

The group has started 2012 with the benefit of very sound credit quality in both businesses. Accordingly, the Consumer Credit Division has seen a robust collections performance through the first two months of the year and Vanquis Bank has made a strong start to 2012. The group is in a position to make further good progress in 2012."

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[1] *2010 earnings stated before an exceptional cost of £2.5m.*
[2] *Capital generated is calculated as net cash generated from operating activities, after adding back 80% of the growth in customer receivables funded by borrowings, less net cash used in investing activities.*
[3] *Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.*

Group results

The group has reported a good set of results with pre-tax profit up 12.2% to £162.1m (2010: £144.5m[1]), reflecting a sound performance in the Consumer Credit Division and continued strong growth in Vanquis Bank. Earnings per share of 89.6p (2010: 78.6p[1]) grew by 14.0%, a marginally faster rate than pre-tax earnings reflecting the fall in the UK corporation tax rate from 28% to 26% on 1 April 2011.

Home Credit delivered profits of £127.5m, which is stated after the one-off cost of £2m from implementing the requirements of the EU Consumer Credit Directive (2010: £129.1m, which included a £2m benefit from an extra trading week). Throughout 2011, management's focus has remained on serving good-quality existing customers as a response to the continuing pressure on household incomes from under-employment and the rising cost of food, fuel and utility bills. The proportion of credit issued to new customers was reduced through tighter underwriting introduced at the start of 2011. As a result, customer numbers declined by 1.9% in the year whilst strong credit quality supported average receivables growth of 4.0%. A strong collections performance assisted by enhancements made to the agents' commission scheme earlier in the year produced a reduction in the ratio of impairment to revenue from 32.9% at December 2010 to 32.1% at December 2011.

Vanquis Bank has delivered an excellent performance in 2011 with profits up 65.5% to £44.2m (2010: £26.7m). This was ahead of management's internal plans due to the strength of the delinquency performance. The step-up in the growth rate from the second half of 2010 has been maintained throughout 2011, supported by heavy investment in the customer acquisition programme. As a result, year-on-year customer growth of 27.0% and average receivables growth of 35.3% was achieved against unchanged underwriting standards. Delinquency levels have remained stable at record lows for the business due to the strong underlying quality of the receivables book. This has allowed Vanquis Bank to deliver a risk-adjusted margin of 35.0% in 2011 (2010: 33.9%), as well as a post-tax return on equity in excess of the threshold set for the business of 30%.

The group's funding and liquidity position is extremely robust, with the balance sheet reflecting stable gearing of 3.2 times (2010: 3.3 times) and a significant surplus of regulatory capital. The retail deposits programme at Vanquis Bank is now fully established and running ahead of plan. As at 31 December 2011, £140m of fixed-rate deposits had been taken at rates of between 3.15% and 4.65%. Vanquis Bank's retail deposit programme is well on track to achieve its target of funding 80% of its receivables book with deposits by the end of 2012. The group has recently entered into a new £382.5m syndicated bank facility maturing in May 2015 and cancelled all existing committed bank facilities. The new facility carries a very similar all-in cost of funds to the previous facility. Headroom on the group's committed debt facilities at 31 December 2011 amounted to £288m which, together with the recent renewal of bank facilities and the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2015.

The group generated capital of £110.1m in 2011, significantly exceeding dividends in respect of 2011 of £93.2m.

Vanquis Bank is now generating surplus capital over and above that required to fund its own growth and maintain its regulatory capital base. This surplus is available for distribution to Provident Financial plc and amounted to £14.8m in 2011. Accordingly, Vanquis Bank paid its first dividend of £5.0m to Provident Financial plc in July and is due to pay a further dividend in respect of 2011 of £5.0m in March 2012.

The proposed final dividend has been increased by 11.0% to 42.3p (2010: 38.1p) which, together with the 5.1% increase in the interim dividend, represents an 8.7% increase in the total dividend per share to 69.0p (2010: 63.5p). Dividend cover for 2011 increased to 1.30 times (2010: 1.24 times) which is consistent with the group's target of maintaining annual dividend cover of at least 1.25 times. The increase in the full-year dividend is supported by the growth in earnings and strong capital generation.

Market conditions

The competitive landscape for the Home Credit business remains unchanged with around 500 active participants in the UK home credit market. Home Credit customers tend to be hourly-paid with a bias towards more casual, temporary and part-time employment. Whilst household incomes of Home Credit customers have shown modest growth over the past year, disposable incomes remain under pressure from food, fuel and utility price increases. As a result, customer and agent behaviour is relatively cautious, which is moderating the demand for credit. Tight underwriting standards remain in place and the focus of the business has continued to be on lending to good-quality existing customers and moderating the amount of credit advanced to new customers.

[1] *2010 earnings stated before an exceptional cost of £2.5m.*

Vanquis Bank continues to be the most active participant in the under-served, non-standard credit card market and is experiencing strong response rates to its marketing programmes. Whilst its customers are typically in more regular employment than Home Credit customers, the business is significantly less sensitive to changes in the employment market than mainstream card issuers. This is a result of only serving customers with limited indebtedness together with its 'low and grow' approach to extending credit which produces high levels of credit line utilisation and minimises the contingent risk associated with undrawn credit lines. The relative stability of the employment market since mid-2009, coupled with consistently tight underwriting, has contributed to the favourable delinquency trends in Vanquis Bank over the last two years. During the second half of 2011, delinquency rates stabilised at an all-time low for the business. To date, there has been no discernible pressure on delinquency rates from the rise in UK unemployment over recent months. Nonetheless, the business plan for 2012 assumes that unemployment will rise to around 3 million and that this will feed through into a modest rise in delinquency and some moderation in Vanquis Bank's risk-adjusted margin.

Pressure on customers' real incomes and a weak employment market dictate that tight underwriting standards should remain in place in both businesses for the foreseeable future.

Business performance

Consumer Credit Division

The Consumer Credit Division generated a profit before tax of £127.5m in 2011 (2010: £127.3m) analysed as follows:

	Year ended 31 December 2011 (52 weeks) £m	Year ended 31 December 2010 (53 weeks) £m	Change %
Profit/(loss) before tax:			
Home Credit	127.5	129.1	(1.2)
Real Personal Finance	-	(1.8)	100.0
Consumer Credit Division	127.5	127.3	0.2

Home Credit

	Year ended 31 December 2011 (52 weeks) £m	Year ended 31 December 2010 (53 weeks) £m	Change %
Customer numbers ('000)	1,825	1,861	(1.9)
Year-end receivables	876.7	867.2	1.1
Average receivables	783.4	753.6	4.0
Revenue	697.1	701.1	(0.6)
Impairment	(223.8)	(230.6)	2.9
Revenue less impairment	473.3	470.5	0.6
*Revenue yield**	*89.0%*	*93.0%*	
*Impairment % revenue***	*32.1%*	*32.9%*	
Costs	(298.8)	(292.3)	(2.2)
Interest	(47.0)	(49.1)	4.3
Profit before tax	127.5	129.1	(1.2)

* *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.*

Home Credit delivered profits of £127.5m in 2011 (2010: £129.1m). This profit is after absorbing £2m of one-off costs associated with implementing the EU Consumer Credit Directive in early 2011. The prior year profit of £129.1m included a benefit of approximately £2m from the inclusion of an additional trading week.

Customer numbers reduced by 1.9% during the year, reflecting the decision taken during the latter part of 2010 to place greater emphasis on serving good-quality existing customers than on recruiting new customers. New customer underwriting was tightened further during the early part of 2011. In addition, the criteria applied to re-serving existing customers have remained consistently tight, and agents have continued to exercise caution because of the pressure on customers' disposable incomes from food, fuel and utility price inflation. This focus has resulted in a sustained improvement in credit quality and supported growth in average receivables of 4.0% for the year. The rate of receivables growth moderated in the fourth quarter, reflecting the exceptionally strong growth seen towards the end of 2010 and, consequently, receivables ended the year marginally up on the prior year.

As previously indicated, the yield on the receivables book has moderated from 93.0% in 2010 to 89.0% in 2011 due to the growth in credit over the last 15 months being focussed on existing good-quality customers who, compared with new customers, tend to be served with slightly longer-term products which carry a lower yield. The yield on the book is not expected to change significantly during 2012.

Collections performance during 2011 was strong, reflecting an improvement in credit quality and the success of the enhancements made in April to the agents' commission scheme that provide greater focus on early stage arrears. As a result, the ratio of impairment to revenue improved from 32.9% at December 2010 to 32.1% at December 2011. In the absence of any significant change in the external environment, collections performance and impairment rates are expected to remain stable.

Headline cost growth was 2.2% during 2011 and, after excluding the additional trading week in 2010, like-for-like cost growth was 4.2%. This increase includes the roll-out of the changes required to implement the EU Consumer Credit Directive across the branch network at a one-off cost of £2m, together with additional costs of approximately £3m in relation to the new head office facility in Bradford into which the business relocated during the fourth quarter of 2010. In 2012, cost growth is expected to be held within the average rate of inflation.

Interest costs fell by 4.3% as the business benefitted from an average group funding rate of 7.6% compared with 8.5% in 2010.

Despite tight underwriting standards, developing opportunities for growth and greater operational effectiveness are important management priorities. In 2011, the business opened six branches in secondary towns such as Stafford and Kidderminster in which Home Credit appeared significantly under-represented. They are also locations where Home Credit had closed the branch a number of years ago and moved management responsibility to an adjacent, more remote branch. These branches are proving successful and will break even after approximately 12 months. A number of further opportunities have been identified for 2012. The business is also pursuing a programme of consolidating smaller, less profitable agencies into larger agencies which will help attract more highly motivated agents who have more time to spend on their agencies and who tend to be breadwinners. To date, these initiatives have allowed a reduction in agency numbers of 8% to 10,500 whilst increasing capacity and improving collections performance.

Real Personal Finance

The collect-out of the Real Personal Finance receivables book has continued to progress satisfactorily with the receivables book reducing from £7.1m at December 2010 to £2.6m at December 2011. There was no gain or loss in the year in respect of Real Personal Finance (2010: loss of £1.8m).

Vanquis Bank

Vanquis Bank generated a profit before tax of £44.2m in 2011 (2010: £26.7m).

	Year ended 31 December		
	2011	2010	Change
	£m	£m	%
Customer numbers ('000)	691	544	27.0
Year-end receivables	453.4	345.0	31.4
Average receivables	391.2	289.2	35.3
Revenue	213.7	162.0	31.9
Impairment	(76.9)	(63.9)	(20.3)
Revenue less impairment	136.8	98.1	39.4
*Risk-adjusted margin**	*35.0%*	*33.9%*	
*Impairment % revenue***	*36.0%*	*39.4%*	
Costs	(69.4)	(52.9)	(31.2)
Interest	(23.2)	(18.5)	(25.4)
Profit before tax	44.2	26.7	65.5

* *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 extremely well during 2011, reporting a result ahead of management's internal plans. Strong growth in the receivables book, together with favourable delinquency levels, enabled the business to deliver profits of £44.2m (2010: £26.7m), up 65.5% on 2010. The business is generating more than sufficient capital to fund its own growth and maintain its regulatory capital base. Surplus distributable capital generated in 2011 amounted to £14.8m, of which Vanquis Bank remitted its first dividend of £5.0m to Provident Financial plc in July and is due to pay a further dividend of £5.0m in respect of 2011 in March 2012. The business continued to generate a post-tax return on equity above the threshold set for the business of 30%.

The demand for non-standard credit cards remains strong and Vanquis Bank received approximately 1.5m applications during 2011. Year-on-year growth in the customer base was 27.0%, similar to the rate of growth in 2010, reflecting the step-up in the intensity of the customer acquisition programme since mid-2010. New customer bookings of 294,000 (2010: 241,000) were made against tight underwriting standards that remained consistent with those applied in 2010. The acceptance rate of 20% increased from 18% in 2010, wholly due to a shift in mix towards the direct mail channel which carries a higher booking rate than the internet channel.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 35.3% increase in average receivables and a 31.9% increase in revenue. Returns from the 'low and grow' approach to extending credit remain consistently good. Vanquis Bank remains extremely active in managing utilisation and yield to reflect underlying risk. Average utilisation was 76% during 2011 (2010: 75%), ensuring a strong stream of revenue is earned whilst maintaining a low level of contingent undrawn exposure.

Delinquency levels improved during the first half of the year and have remained stable at the record low for the business during the second half of the year against the backdrop of a relatively stable employment market. Accordingly, impairment showed a year-on-year increase of just 20.3% versus a 35.3% increase in average receivables. This strong performance reflects the continued improvement in the underlying quality of the book, resulting from the progressive tightening of underwriting between 2007 and 2009 and the success of the credit line increase programme. This is the clearest demonstration of the effectiveness of Vanquis Bank's credit decisioning.

The risk-adjusted margin for 2011 of 35.0% reflects the sound revenue yield from the receivables book, combined with the favourable delinquency performance. It includes the benefit of the reduction in delinquency rates over the last year of some £7m which is unlikely to recur. To date there has been no discernible pressure on delinquency from the rise in UK unemployment in recent months. However, the business plan for 2012 has been drawn up on the basis of unemployment reaching 3 million in 2012, which would result in a modest deterioration in delinquency rates and some moderation in the risk-adjusted margin. The tight underwriting and credit line increase criteria applied over the last two years will remain in place for the foreseeable future.

Growth in the cost base of 31.2% includes a year-on-year uplift of £4m in the spend on direct mail and marketing activities to support the more intensive customer acquisition programme. Vanquis Bank has also incurred costs of approximately £1m in respect of upgrading its IT platform and establishing the retail deposits programme during the year.

The migration of the customer processing platform to First Data's First Vision IT platform during the first half of 2011 was a major project that was executed without interruption to customer service levels or business efficiency. During the second half of the year, Vanquis Bank opened a second contact centre operation within CCD's head office in Bradford in order to provide the business with capacity for future growth. The new contact centre operates as a satellite link to the main operational centre in Chatham. As the contact centre is housed in an existing fully-serviced facility, there is minimal additional fixed cost associated with this expansion.

Interest costs of £23.2m (2010: £18.5m) increased by 25.4% during 2011. This reflects the increase in average receivables partly offset by the benefit from a reduction in the group's average funding rate from 8.5% to 7.6%. Vanquis Bank's funding cost will reduce to an average of around 7% in 2012 as retail deposit funding becomes more significant.

Central costs

Central costs in 2011 were £10.2m (2010: £8.1m), up by £2.1m on 2010 due to a higher accrual for share-based performance incentives, additional costs in respect of regulatory matters and a budgeted increase in the level of expenditure on the group's community programme.

Exceptional costs

Exceptional costs of £2.5m in 2010 represented an exceptional write down of residual fixed assets 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 2011 represents an effective rate of 26.1% (2010: 28.0%) on profit before tax and is consistent with the UK corporation tax rate which reduced from 28% to 26% on 1 April 2011. The group is expected to benefit in future years from the progressive rate reductions in the 2011 Finance Act or announced in recent budgets.

Dividends

The proposed final dividend has been increased by 11.0% to 42.3p (2010: 38.1p) which, together with the 5.1% increase in the interim dividend, represents an 8.7% increase in the total dividend per share to 69.0p (2010: 63.5p). Dividend cover for 2011 increased to 1.30 times (2010: 1.24 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 extremely robust with the balance sheet reflecting a stable gearing ratio of 3.2 times (2010: 3.3 times) against a banking covenant limit of 5.0 times and a comfortable surplus of regulatory capital. The group's senior issuer default rating from Fitch Ratings remains unchanged at BBB with a stable outlook.

The group has made significant progress in further diversifying and strengthening its funding base during 2011. Following the issue of private placements totalling £140m and the successful issue of a second retail bond of £50m, Vanquis Bank commenced retail deposit taking in July 2011. The platform, website and product distribution are all working well and the programme is running ahead of plan. Approximately £140m of 1, 2, 3 and 5 year fixed-rate deposits had been taken by 31 December 2011, rising to over £200m during February 2012. The deposits have been issued at rates of between 3.15% and 4.65% which remain consistent with previous guidance of an all-in average cost of less than 6%. Vanquis Bank's retail deposits programme is well on-track to achieve its target of funding up to 80% of its receivables book with deposits by the end of 2012.

Subsequent to the year end, the group has entered into a new £382.5m syndicated bank facility maturing in May 2015 and cancelled all existing committed bank facilities. The syndicate is comprised of the group's core relationship banks. The all-in cost of funds is very similar and the terms, conditions and covenant package are consistent with the previous facility. Headroom on the group's committed debt facilities at 31 December 2011 amounted to £288m which, together with the recent renewal of bank facilities and the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2015.

The group's blended funding rate was 7.6% in 2011 down from 8.5% in 2010, reflecting the cost of carrying an exceptionally high level of headroom in 2010. The funding rate for 2012 is expected to be similar to 2011. The group continues with its programme to consider opportunities to further diversify its funding base as well as extend the maturity profile of its debt.

The group continues to be strongly capital generative, which is consistent with its strategy of developing businesses which generate high returns on capital to support the group's dividend policy. In 2011, capital generated amounted to £110.1m (2010: £80.4m) compared with dividends in respect of 2011 of £93.2m (2010: £84.9m).

The group's strong capital generation, planned levels of asset growth and dividend policy remain consistent with maintaining the target gearing level of around 3.5 times.

Regulation

The group implemented relevant parts of the Irresponsible Lending Guidance for Creditors and the EU Directive on Consumer Credit by the February 2011 deadline and a number of other pieces of new Office of Fair Trading (OFT) Guidance during 2011.

On 1 November 2011, the Financial Services Authority (FSA) and OFT issued a joint consultation document on proposed guidance to firms in relation to payment protection products. The document builds on existing high-level guidance from the FSA and reaffirms previous OFT guidance. The consultation is wide-ranging and covers both insurance products (regulated by the FSA) and non-insurance products (generally regulated by the OFT) such as the Repayment Option Plan made available to Vanquis Bank customers. Final guidance is expected to be published by summer 2012.

On 21 November 2011, the Government published its response to the HM Treasury/BIS review of consumer credit and personal insolvency. As part of its response, the Government announced that Bristol University's Personal Finance Research Centre (PFRC) had been appointed to carry out research into the impact of introducing a variable cap on the total cost of high cost credit. An update on progress is expected in spring 2012 and the findings are due to be announced by summer 2012.

On 27 January 2012, the Government published the draft Financial Services Bill. The Bill enables the creation of a new regulatory architecture for financial services and the transfer of responsibility for regulating consumer credit from the OFT to the Financial Conduct Authority. The Government has stated that the exercise of this power is subject to identifying the appropriate model for consumer credit regulation.

Outlook

Both businesses enter 2012 with the benefit of very sound credit quality resulting from the application of tight credit standards and a strong operational performance in 2011. Credit standards will remain unchanged whilst pressure on customers' disposable incomes continues in an employment market that is displaying some weakness.

The group's funding position is extremely robust. New medium-term debt funding totalling £190m was arranged in 2011, Vanquis Bank established its retail deposits programme which raised £140m during 2011 and the group recently renewed early its core bank facility of £382.5m through to May 2015. The group has funding to meet all contractual debt maturities and execute in full on its growth plan into 2015. Importantly, the retail deposits programme has established stand-alone funding to allow Vanquis Bank to continue to invest in developing the growth opportunity available in the non-standard credit card market.

The focus in 2012 is to maintain tight credit standards whilst developing opportunities for growth and greater operational effectiveness in the Consumer Credit Division and continuing to invest heavily in the customer acquisition programme at Vanquis Bank.

In the first two months of 2012, the Consumer Credit Division has seen a robust collections performance and Vanquis Bank has continued to trade strongly. The group is in a position to make further good progress in 2012.

Consolidated income statement for the year ended 31 December

	Note	2011 £m	2010 £m
Revenue	2	910.8	866.4
Finance costs		(69.6)	(69.7)
Operating costs		(450.1)	(440.6)
Administrative costs		(229.0)	(214.1)
Administrative costs before exceptional costs		(229.0)	(211.6)
Exceptional costs	2	-	(2.5)
Total costs		(748.7)	(724.4)
Profit before taxation	2	162.1	142.0
Profit before taxation and exceptional costs	2	162.1	144.5
Exceptional costs	2	-	(2.5)
Tax charge	3	(42.3)	(40.5)
Profit for the year attributable to equity shareholders		119.8	101.5

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2011 £m	2010 £m
Profit for the year attributable to equity shareholders		119.8	101.5
Other comprehensive income:			
– cashflow hedges		1.4	7.6
– actuarial movements on retirement benefit asset	7	(37.1)	14.9
– tax on other comprehensive income	3	9.4	(6.3)
– impact of change in UK tax rate	3	(0.1)	0.2
Other comprehensive income for the year		(26.4)	16.4
Total comprehensive income for the year		93.4	117.9

Earnings per share and dividends

	Note	2011 pence	2010 pence
Earnings per share			
Basic	4	89.6	76.7
Diluted	4	89.4	76.6
Dividends per share			
Proposed final dividend	5	42.3	38.1
Total dividend for the year	5	69.0	63.5
Paid in the year*	5	64.8	63.5

* The total cost of dividends paid in the year was £86.8m (2010: £84.9m).

Consolidated balance sheet as at 31 December

	Note	2011 £m	2010 £m
ASSETS			
Non-current assets			
Goodwill		2.1	2.1
Other intangible assets		12.9	17.4
Property, plant and equipment		26.8	29.9
Financial assets:			
– amounts receivable from customers	6	88.0	97.4
– derivative financial instruments		11.9	12.4
Retirement benefit asset	7	13.5	41.0
Deferred tax assets		7.5	2.8
		162.7	203.0
Current assets			
Financial assets:			
– amounts receivable from customers	6	1,244.7	1,121.9
– derivative financial instruments		0.3	3.5
– cash and cash equivalents		49.6	29.0
– trade and other receivables		21.1	23.6
		1,315.7	1,178.0
Total assets	2	1,478.4	1,381.0
LIABILITIES			
Current liabilities			
Financial liabilities:			
– bank and other borrowings		(50.5)	(147.7)
– derivative financial instruments		-	(13.4)
– trade and other payables		(53.0)	(46.0)
Current tax liabilities		(40.1)	(44.4)
		(143.6)	(251.5)
Non-current liabilities			
Financial liabilities:			
– bank and other borrowings		(999.1)	(817.2)
– derivative financial instruments		(9.5)	(2.9)
		(1,008.6)	(820.1)
Total liabilities		(1,152.2)	(1,071.6)
NET ASSETS	2	326.2	309.4
SHAREHOLDERS' EQUITY			
Called-up share capital		28.5	28.1
Share premium account		146.0	144.0
Other reserves		9.4	0.9
Retained earnings		142.3	136.4
TOTAL EQUITY		326.2	309.4

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 2010		27.9	142.4	(13.0)	111.1	268.4
Profit for the year		-	-	-	101.5	101.5
Other comprehensive income:						
– cashflow 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)
– transfer of own shares on vesting of share 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
At 1 January 2011		28.1	144.0	0.9	136.4	309.4
Profit for the year		-	-	-	119.8	119.8
Other comprehensive income:						
– cashflow hedges		-	-	1.4	-	1.4
– actuarial movements on retirement benefit asset	7	-	-	-	(37.1)	(37.1)
– tax on other comprehensive income	3	-	-	(0.5)	9.9	9.4
– impact of change in UK tax rate	3	-	-	(0.1)	-	(0.1)
Other comprehensive income for the year		-	-	0.8	(27.2)	(26.4)
Total comprehensive income for the year		-	-	0.8	92.6	93.4
Transactions with owners:						
– issue of share capital		0.4	2.0	-	-	2.4
– purchase of own shares		-	-	(0.2)	-	(0.2)
– transfer of own shares on vesting of share awards		-	-	6.2	(6.2)	-
– share-based payment charge		-	-	8.0	-	8.0
– transfer of share-based payment reserve		-	-	(6.3)	6.3	-
– dividends	5	-	-	-	(86.8)	(86.8)
At 31 December 2011		28.5	146.0	9.4	142.3	326.2

Consolidated statement of cashflows for the year ended 31 December

	Note	2011 £m	2010 £m
Cashflows from operating activities			
Cash generated from operations	8	138.7	150.5
Finance costs paid		(69.9)	(80.0)
Tax paid		(42.0)	(36.5)
Net cash generated from operating activities		26.8	34.0
Cashflows from investing activities			
Purchase of intangible assets		(3.0)	(4.4)
Purchase of property, plant and equipment		(6.0)	(14.8)
Proceeds from disposal of property, plant and equipment		1.6	1.6
Net cash used in investing activities		(7.4)	(17.6)
Cashflows from financing activities			
Proceeds from bank and other borrowings		330.1	99.0
Repayment of bank and other borrowings		(251.1)	(28.2)
Dividends paid to company shareholders	5	(86.8)	(84.9)
Proceeds from issue of share capital		2.4	1.8
Purchase of own shares		(0.2)	(0.2)
Net cash used in financing activities		(5.6)	(12.5)
Net increase in cash, cash equivalents and overdrafts		13.8	3.9
Cash, cash equivalents and overdrafts at beginning of year		18.4	14.5
Cash, cash equivalents and overdrafts at end of year		32.2	18.4
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		49.6	29.0
Overdrafts (held in bank and other borrowings)		(17.4)	(10.6)
Total cash, cash equivalents and overdrafts		32.2	18.4

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 2011 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 2010 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 2011, 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

	Revenue		Profit/(loss) before taxation	
	2011	2010	2011	2010
	£m	£m	£m	£m
Consumer Credit Division	697.1	704.4	127.5	127.3
Vanquis Bank	213.7	162.0	44.2	26.7
	910.8	866.4	171.7	154.0
Central:				
– costs	-	-	(10.2)	(8.1)
– interest receivable/(payable)	-	-	0.6	(1.4)
Total central	-	-	(9.6)	(9.5)
Total group before exceptional costs	910.8	866.4	162.1	144.5
Exceptional costs	-	-	-	(2.5)
Total group	910.8	866.4	162.1	142.0

The Consumer Credit Division profit of £127.5m in 2011 (2010: £127.3m) comprises a profit of £127.5m in respect of the Home Credit business (2010: £129.1m) and a loss of £nil in respect of Real Personal Finance (2010: loss of £1.8m). In order to align the weekly Home Credit business with the group's financial year, Home Credit's 2010 financial year included 53 weeks whilst its 2011 financial year includes 52 weeks.

The exceptional cost in 2010 of £2.5m represented the write down of residual property, plant and equipment following the Consumer Credit Division's move into a new head office building in October 2010.

All of the above activities relate to continuing operations as defined in IFRS 5 'Non-current assets held for sale and discontinued operations'. 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)	
	2011	2010	2011	2010
	£m	£m	£m	£m
Consumer Credit Division	962.0	963.9	224.8	247.3
Vanquis Bank	487.0	369.4	101.5	70.5
Central	52.4	54.9	(0.1)	(8.4)
	1,501.4	1,388.2	326.2	309.4
Intra-group elimination	(23.0)	(7.2)	-	-
Total group	1,478.4	1,381.0	326.2	309.4

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 £23.0m (2010: £7.2m) 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:

	2011 £m	2010 £m
Current tax	(37.7)	(41.7)
Deferred tax	(4.3)	1.4
Impact of change in UK tax rate	(0.3)	(0.2)
Tax charge	(42.3)	(40.5)

There was no tax charge in respect of exceptional costs in 2010 (see note 2).

As a result of the change in the UK corporation tax rate which is effective from 1 April 2012 (2010: 1 April 2011), deferred tax balances have been re-measured. The temporary differences on which deferred tax balances have been calculated are expected to reverse after 1 April 2012 (2010: after 1 April 2011). Accordingly, the balances have been calculated using a tax rate of 25% (2010: 27%). A tax charge in 2011 of £0.3m (2010: £0.2m) represents the income statement adjustment to deferred tax as a result of this change. An additional deferred tax charge of £0.1m (2010: credit of £0.2m) has been taken directly to other comprehensive income, reflecting the impact of the change in UK corporation tax rates on items previously reflected directly in other comprehensive income.

The tax credit/(charge) on other comprehensive income as follows:

	2011 £m	2010 £m
Current tax charge on cashflow hedges	(0.5)	(2.1)
Deferred tax credit/(charge) on actuarial movements on retirement benefit asset	9.9	(4.2)
Tax credit/(charge) on other comprehensive income prior to impact of change in UK tax rate	9.4	(6.3)
Impact of change in UK tax rate	(0.1)	0.2
Tax credit/(charge) on other comprehensive income	9.3	(6.1)

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

	2011 £m	2010 £m
At 1 January	2.8	7.7
(Charge)/credit to the income statement	(4.3)	1.4
Credit/(charge) on other comprehensive income prior to impact of change in UK tax rate	9.4	(6.3)
Impact of change in UK tax rate:		
– charge to the income statement	(0.3)	(0.2)
– (charge)/credit to other comprehensive income	(0.1)	0.2
At 31 December	7.5	2.8

The rate of tax charge on the profit before taxation for the year is lower than (2010: higher than) the average standard rate of corporation tax in the UK of 26.5% (2010: 28.0%). This can be reconciled as follows:

	2011 £m	2010 £m
Profit before taxation	162.1	142.0
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 26.5% (2010: 28.0%)	(43.0)	(39.8)
Effects of:		
– adjustment in respect of prior years	1.2	(1.0)
– expenses not deductible for tax purposes net of non-taxable income	(0.2)	0.5
– impact of change in UK tax rate	(0.3)	(0.2)
Tax charge	(42.3)	(40.5)

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:

	2011			2010		
	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		136.8			135.1	
Own shares held		(3.1)			(2.8)	
Basic earnings per share	119.8	133.7	89.6	101.5	132.3	76.7
Dilutive effect of share options and awards	-	0.3	(0.2)	-	0.2	(0.1)
Diluted earnings per share	119.8	134.0	89.4	101.5	132.5	76.6

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:

	2011			2010		
	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	119.8	133.7	89.6	101.5	132.3	76.7
Exceptional cost after tax	-	-	-	2.5	-	1.9
Adjusted basic earnings per share	119.8	133.7	89.6	104.0	132.3	78.6
Diluted earnings per share	119.8	134.0	89.4	101.5	132.5	76.6
Exceptional cost after tax	-	-	-	2.5	-	1.9
Adjusted diluted earnings per share	119.8	134.0	89.4	104.0	132.5	78.5

5. Dividends

		2011 £m	2010 £m
2009 final	- 38.1p per share	-	51.0
2010 interim	- 25.4p per share	-	33.9
2010 final	- 38.1p per share	51.0	-
2011 interim	- 26.7p per share	35.8	-
Dividends paid		86.8	84.9

The directors are recommending a final dividend in respect of the financial year ended 31 December 2011 of 42.3p per share (2010: 38.1p) which will amount to a dividend payment of £57.4m (2010: £51.0m). If approved by the shareholders at the annual general meeting on 2 May 2012, this dividend will be paid on 21 June 2012 to shareholders who are on the register of members at 18 May 2012. This dividend is not reflected in the balance sheet as at 31 December 2011 as it is subject to shareholder approval.

6. Amounts receivable from customers

	2011 £m	2010 £m
Consumer Credit Division	879.3	874.3
Vanquis Bank	453.4	345.0
Total group	1,332.7	1,219.3
Analysed as:		
– due within one year	1,244.7	1,121.9
– due in more than one year	88.0	97.4
Total group	1,332.7	1,219.3

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

	2011 £m	2010 £m
Consumer Credit Division	223.8	232.7
Vanquis Bank	76.9	63.9
Total group	300.7	296.6

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 2011 amounted to £62.4m (2010: £45.9m). 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 has been substantially closed to new members since 1 January 2003. The scheme covers 61% 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:

	2011 £m	2010 £m
Equities	218.4	248.0
Corporate bonds	173.9	165.9
Fixed interest gilts	28.4	39.7
Index-linked gilts	103.2	60.2
Cash and money market funds	1.1	0.3
Fair value of scheme assets	525.0	514.1
Present value of defined benefit obligation	(511.5)	(473.1)
Net retirement benefit asset recognised in the balance sheet	13.5	41.0

The amounts recognised in the income statement were as follows:

	2011 £m	2010 £m
Current service cost	(7.0)	(7.7)
Interest cost	(25.4)	(24.8)
Expected return on scheme assets	32.0	29.1
Net charge recognised in the income statement	(0.4)	(3.4)

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:

	2011 £m	2010 £m
Fair value of scheme assets at 1 January	514.1	464.6
Expected return on scheme assets	32.0	29.1
Actuarial movement on scheme assets	(18.4)	22.9
Contributions paid by the group	10.0	9.6
Contributions paid by scheme participants	-	0.1
Net benefits paid out	(12.7)	(12.2)
Fair value of scheme assets at 31 December	525.0	514.1

7. Retirement benefit asset (continued)

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

	2011 £m	2010 £m
Present value of defined benefit obligation at 1 January	(473.1)	(444.7)
Current service cost	(7.0)	(7.7)
Interest cost	(25.4)	(24.8)
Contributions paid by scheme participants	-	(0.1)
Actuarial movement on scheme liabilities	(18.7)	(8.0)
Net benefits paid out	12.7	12.2
Present value of defined benefit obligation at 31 December	(511.5)	(473.1)

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

		2011 %	2010 %
Price inflation		3.00	3.50
Rate of increase in pensionable salaries		4.00	4.50
Rate of increase to pensions in payment		3.00	3.50
Inflationary increases to pensions in deferment		2.00	2.80
Discount rate		4.90	5.40
Long term rate of return	– equities	7.50	8.00
	– bonds	4.90	5.40
	– fixed interest gilts	2.50	4.00
	– index-linked gilts	2.50	4.00
	– cash and money market funds	2.50	4.00
	– overall (weighted average)	5.40	6.40

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

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

- A 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- 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 (2010: 23 years) and for a further 25 years if they are female (2010: 25 years). If assumed life expectancies had been one year greater, the net retirement benefit asset would have been reduced by approximately £20m (2010: £16m).

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

	2011 £m	2010 £m
Actuarial movements on scheme assets	(18.4)	22.9
Actuarial movements on scheme liabilities	(18.7)	(8.0)
Actuarial movements recognised in the statement of comprehensive income in the year	(37.1)	14.9

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

	2011 £m	2010 £m
Profit after taxation	119.8	101.5
Adjusted for:		
– tax charge (note 3)	42.3	40.5
– finance costs	69.6	69.7
– share-based payment charge	8.0	6.4
– retirement benefit charge (note 7)	0.4	3.4
– amortisation of intangible assets	7.5	6.5
– depreciation of property, plant and equipment	7.3	7.0
– exceptional impairment of property, plant and equipment (note 2)	-	2.5
– loss on disposal of property, plant and equipment	0.2	0.1
Changes in operating assets and liabilities:		
– amounts receivable from customers	(113.4)	(80.0)
– trade and other receivables	0.9	3.1
– trade and other payables	8.2	0.3
– contributions into the retirement benefit scheme (note 7)	(10.0)	(9.6)
– derivative financial instruments	(2.1)	(0.1)
– provisions	-	(0.8)
Cash generated from operations	138.7	150.5

Information for shareholders

1. The shares will be marked ex-dividend on 16 May 2012.

2. The final dividend will be paid on 21 June 2012 to shareholders on the register at the close of business on 18 May 2012. Dividend warrants/vouchers will be posted on 19 June 2012.

3. The 2011 annual report and financial statements together with the notice of the annual general meeting will be posted to shareholders on or around 23 March 2012.

4. The annual general meeting will be held on 2 May 2012 at the head office of Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.