



**We do things differently
because not everybody's
needs are the same**

**Provident Financial plc
INTERIM REPORT 2005**



Provident Financial

At a glance



UK and Republic of Ireland:

2.1m

CUSTOMERS

Central Europe:

1.6m

CUSTOMERS

Mexico:

63k

CUSTOMERS

Key interim results 2005



Contents

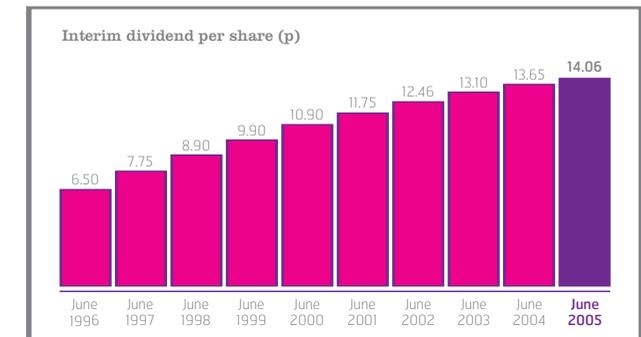
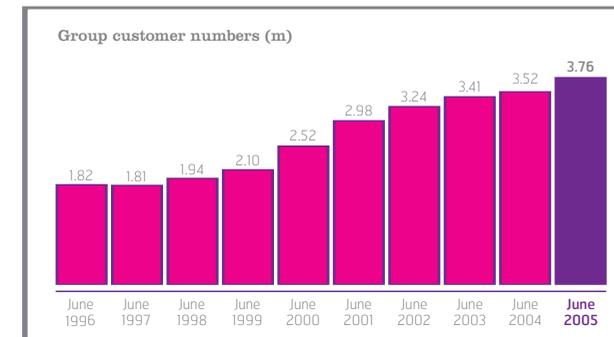
- 01** Key interim results 2005
- 02** Chairman's statement
- 06** Interim accounts
- 10** Notes to the interim financial information
- 30** Independent review report
- 31** Information for shareholders



“An otherwise strong group performance for the first six months of 2005 has been offset by trading losses at Yes Car Credit. Group profit before tax has fallen by 1.3% to £82.9 million (June 2004 £84.0 million) and earnings per share decreased by 1.1% from 23.32p to 23.07p. An interim dividend of 14.06p per share (June 2004 13.65p) has been declared, an increase of 3.0%.”

John van Kuffeler,
Chairman

Chairman's statement



Adoption of International Financial Reporting Standards

Up to 31 December 2004 the group prepared its financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). On 1 January 2005 the group implemented International Financial Reporting Standards (IFRS). In this interim report the 2004 comparative financial information has been restated on the basis of the IFRS accounting policies as described in note 4.

The method prescribed by IFRS for the recognition of revenue on home credit loans results in revenue in excess of that to which we are contractually entitled being reported as revenue. There is an equal and compensating increase in the impairment charge. Whilst this 'grossing up' does not change the reported profit, it does result in a material distortion of both revenue and the impairment charge. To give a more meaningful view of the quantum of credit losses we have also disclosed, for the home credit businesses, bad debt, calculated on the previous basis under UK GAAP.

Operations

UK consumer credit division

Home credit

Conditions in the market for small sum credit remain highly competitive with a wide range of credit products available to many of our customers. Customer numbers at June 2005 were 4% lower than at June 2004 at 1.46 million. Half the reduction is due to action we took last year to eliminate certain uneconomic customer recruitment activities and half is attributable to market conditions.

Despite the fall in customer numbers, credit issued increased by 4% in the first half of 2005, benefiting from increased sales of larger loans, repaid over longer terms of eighteen months or two years to selected, lower risk customers. This good performance has reversed, in the short-term, the reduction in credit issued experienced during 2004. Receivables at the half-year were £547 million, up by 5% on June 2004. Revenue increased by 0.3% to £282 million.

The charge for impairment to customer receivables increased in line with credit issued, up by 4.5% to £101 million (on a UK GAAP basis, the

bad debt charge increased by 5.4% to £55.2 million, representing a moving annual total of 9.8% of credit issued compared to 9.9% at June 2004). Costs were tightly controlled, falling by 1.1% to £114 million. Profit before tax reduced by 1.0% to £60.5 million (June 2004 £61.1 million).

Yes Car Credit

The performance of Yes Car Credit during the first half of 2005 was worse than expected, primarily because of reduced sales volumes. A total of 15,289 vehicles were sold and financed during the first half of 2005, 25% less than in the corresponding period of 2004. While market conditions remain depressed with sales volumes in the used car credit market down by 7% in the first half, Yes Car Credit's performance is considerably worse. Lower numbers of enquiries in response to national advertising and a reduced conversion of customer enquiries to sales are key contributory factors.

The reduction in sales volumes combined with rising vehicle preparation costs resulted in a decrease in gross profit of £10.9 million (16%) to £55.7 million. In addition, sales of optional insurance products reduced following the introduction of new regulations in January 2005, which require a more complex and time-consuming sales process. As a result, the margins on business written in the first half of the year were lower than expected and this will flow through to the gross profit margins earned in subsequent periods.

The charge for impairment of customer receivables increased by more than expected, up by 6.2% to £18.9 million. Costs were reduced by 4.3% to £36.0 million, benefiting from the closure of two under-performing branches earlier in the year.

The loss before tax for the half-year to June 2005 was £6.2 million compared to a profit before tax of £5.7 million for the first half of 2004 and a loss of £8.4 million for the second half of 2004.

During the past nine months a new senior management team has been recruited and a comprehensive improvement plan has been prepared and is being implemented. This aims to deliver improvements in all areas of the business and return it to profitability. The improvement plan is beginning to deliver benefits and we will continue to monitor performance closely against this plan. We are also conducting a full review of the strategy and options for this business and intend to conclude this within the next six months.

Vanquis Bank

Vanquis Bank performed well in the half-year to June 2005. In the first quarter, the operations infrastructure was expanded to support the full scale launch of a differentiated credit card for the non-standard UK market. This expansion enabled a successful acceleration of customer recruitment in the second quarter. At 30 June 2005, 113,000 cards were in issue, up from 76,000 at December 2004. Receivables at the half-year were £42.0 million, up from £12.1 million at June 2004. Revenue was £7.2 million (June 2004 £2.0 million).

Many of the costs associated with building a credit card business, including customer acquisition and impairment charges, arise in the early stages of the customer relationship, leading to a substantial early investment in start-up losses. This is reflected in the result for the first half of 2005 which, as expected, was a loss of £7.2 million (June 2004 £4.8 million loss).

Motor insurance division

Provident Insurance continues to deliver excellent results. During the first half of this year prices in our segments of the private car insurance market have remained broadly stable. We have increased our prices by approximately 1% in the first half, and our policyholder numbers have remained steady at around 498,000. Claims cost trends were favourable resulting in underwriting profit increasing to £12.3 million for the first half of 2005 (June 2004 £4.7 million). The investment fund, held to meet future claims costs, reduced by 3.3% to £435 million and yielded income of £10.8 million (June 2004 £11.9 million). Profit before tax increased by 39% to £23.1 million (June 2004 £16.6 million).

International division

In this section, percentage changes in credit issued, collections, customer receivables, revenue and costs are stated on a like-for-like basis that translates foreign currency figures for the first half of 2004 into sterling using the rate of exchange prevailing in the first half of 2005. Percentage changes in profit or loss figures are not currency adjusted and simply compare the sterling figures for each half-year using the rate of exchange prevailing at the time.

The international division continues to grow rapidly and to produce excellent results. Customer numbers at the end of June were 1.6 million, 246,000 (18%) higher than at June 2004. Credit issued for the division also increased strongly, up by 15% to £247 million. Customer receivables at June 2005 increased by 24% to £276 million compared to June 2004 and this generated increased revenue, up by 23% to £172 million. The charge for impairment of customer receivables was £72 million, up by 36% on the same period of 2004 (on a UK GAAP basis the bad debt charge increased by 32% to £33 million, representing a moving annual total of 10.3% of credit issued compared to 10.3% at June 2004). Costs continue to grow by less than revenue, rising by 12% to £71 million, reflecting improving efficiency as the business matures. Lower rates of interest on borrowings also benefited the division with interest costs rising by only 4% to £10 million. Profit before tax increased by 79% to £19.2 million (June 2004 £10.7 million).

Central Europe

Central Europe is the largest business in the international division. Since its launch in 1997 it has grown rapidly and established strong market positions in the four central European markets of Poland, Czech Republic, Hungary and Slovakia. At the end of June 2005 customer numbers were up by 197,000 (14%), to 1.56 million compared to June 2004, with particularly strong growth in Hungary and Slovakia. In the first half of 2005, credit issued also increased rapidly, up by 13% to £241 million. Customer receivables at June 2005 increased by 22% to £271 million compared to June 2004 and revenue by 22% to £169 million. Charges for impairment to customer receivables increased by more than we had expected, up by 34% to £71 million (on a UK GAAP basis the bad debt charge increased by 31% to £32.8 million, representing a moving annual total of 10.4% of credit issued compared to 10.2% at June 2004). This reflects a reduction in the collections performance in Poland primarily attributable to the strong growth in lending in the second half of 2004. This has been addressed during the first half of this year with a measured slowing in the growth in credit issued in Poland together with an increased emphasis on collections. Central European overhead expenses increased by 10% to £63 million, well below volume growth and substantial efficiency gains continue to be made as the business grows. Interest costs on borrowings benefited from lower interest rates and increased by just 1% to £9 million. Profit before tax increased by 53% from £16.3 million to £25.0 million.

Mexico

Following our decision to move from pilot scale in Mexico to a regional roll-out in the Puebla-Veracruz region, we have made good progress. In the first half of 2005, nine new branches were opened, agent numbers rose by 568 to 1,192 and customer numbers increased from 35,000 to 63,000. In the six months to June 2005, £6.2 million of credit was issued and collections and credit quality developed to plan. Mexico is performing as we anticipated and pre-tax start-up losses for the half-year were, as expected, £1.5 million (June 2004 £1.1 million loss).

Regulatory

The UK Government's Consumer Credit Bill is progressing through the parliamentary process and is expected to become law towards the end of this year. The aim of the bill is to modernise the regulation of consumer credit and to enhance consumer protection through tighter licensing requirements and by making it easier for consumers to challenge unfair practices and terms. We welcome these proposals.

In Poland, a new law establishing a maximum interest rate of four times the Lombard rate (equivalent to LIBOR in the UK) is being introduced. The Lombard rate is currently 6% which would result in a maximum interest rate of 24%. The new law becomes effective for loans issued from February 2006. We have made preparations for this eventuality and are confident that we can continue to serve our customers without any material impact on the performance of our Polish business.

The Competition Commission inquiry into the supply of home credit in the UK continues and we have made several submissions of evidence in public and private hearings, and in writing. We have made clear that Provident Financial is a responsible lender operating in a highly competitive market with transparent products and a home service which is valued by our customers. The Commission is expected to publish its 'emerging thinking' document later this month or in early October and its 'provisional findings' report at the end of the year.

Prospects for 2005

UK consumer credit division

We expect that market conditions for UK home credit will remain competitive and that the business will continue to see reductions in customer numbers for 2005. Growth in credit issued is expected for the year as a whole, although at a slightly lower level than for the half-year. This is because those customers already served with larger, longer term loans are unlikely to require further loans during the second half of 2005. In common with other consumer lenders we have recently seen early signs that the pressure on consumers' disposable incomes from rising fuel and utility prices is leading to an increase in arrears and impairment charges. We continue to expect a modest reduction in profit this year with a further reduction in 2006 if current market conditions persist.

At Yes Car Credit, the comprehensive improvement plan which is being implemented by the new management team is aimed at improving all areas of the business with particular focus on increasing sales, profit margins and reducing impairment charges. Our target is for the business to return to profitable trading during 2006, breaking-even for 2006 as a whole. We are closely monitoring performance against this plan and will conclude a strategic review of this business within the next six months. 2005 will be a year of re-building and, as previously indicated, we expect pre-tax trading losses in the range of £15-20 million.

Vanquis Bank is expected to grow its cardholder numbers and customer receivables strongly during the second half. Vanquis has also seen the results of increased pressure on consumers' disposable incomes from rising fuel and utility prices and has tightened its underwriting standards in response to an increase in arrears and impairment charges. Overall, Vanquis is developing in line with plan. We expect start-up losses of around £15 million in 2005, with a much reduced loss in 2006 as the card portfolio matures and benefits from scale economies, and profits in 2007.

Motor insurance division

We expect our underwriting results to continue to benefit from the favourable development of claims costs and the business is expected to deliver excellent results for the year.

International division

International division is set to continue to deliver strong growth and good results for the year. In Mexico, we will further expand our operations in the Puebla-Veracruz region and we continue to expect start-up losses of about £5 million for this year. In central Europe, we expect strong growth and a good performance for the year.

Group outlook

We expect good performances from the majority of the group in 2005 with growth offset by the trading losses at Yes Car Credit.

John van Kuffeler

Chairman

14 September 2005

+79%
INTERNATIONAL DIVISION PROFIT
BEFORE TAX UP £8.5 MILLION
TO £19.2 MILLION

3.76m
CUSTOMERS IN THE UK
AND OVERSEAS

Consolidated interim income statement

| | Notes | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 as restated £m | Unaudited Full year to 31 Dec 2004 as restated £m |
|-------------------------------|-------|---|--|---|
| Revenue | 5 | 663.3 | 632.2 | 1,272.4 |
| Finance income | | 13.9 | 13.6 | 27.4 |
| Total income | | 677.2 | 645.8 | 1,299.8 |
| Finance costs | | (27.6) | (26.3) | (57.1) |
| Operating costs | | (423.9) | (408.5) | (767.7) |
| Administrative expenses | | (142.8) | (127.0) | (269.5) |
| Total costs | | (594.3) | (561.8) | (1,094.3) |
| Profit before taxation | 5 | 82.9 | 84.0 | 205.5 |
| Tax expense | 6 | (24.3) | (24.9) | (61.1) |
| Profit after taxation | | 58.6 | 59.1 | 144.4 |

| | Notes | Unaudited Half-year to 30 June 2005 pence | Unaudited Half-year to 30 June 2004 as restated pence | Unaudited Full year to 31 Dec 2004 as restated pence |
|---------------------------|-------|--|---|--|
| Earnings per share | | | | |
| Basic | 7 | 23.07 | 23.32 | 57.00 |
| Diluted | 7 | 22.93 | 23.21 | 56.74 |
| Dividend per share | | | | |
| Proposed | 8 | 14.06 | 13.65 | 20.75 |
| Paid | 8 | 20.75 | 19.90 | 33.55 |

Statement of recognised income and expense

| | Notes | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 as restated £m | Unaudited Full year to 31 Dec 2004 as restated £m |
|---|-------|---|--|---|
| Profit after taxation for the financial period | | 58.6 | 59.1 | 144.4 |
| Exchange differences on foreign currency translations | | (2.3) | (0.8) | 3.9 |
| Net fair value losses – cash flow hedges | | (2.9) | (0.4) | (4.9) |
| Actuarial losses on retirement benefit obligations | 11 | (18.5) | (17.7) | (34.3) |
| Tax on items taken directly to equity | | 6.1 | 5.4 | 11.9 |
| Net expense recognised directly in equity | | (17.6) | (13.5) | (23.4) |
| Total recognised income for the period | | 41.0 | 45.6 | 121.0 |

Consolidated interim balance sheet

| | Notes | Unaudited As at 30 June 2005 £m | Unaudited As at 30 June 2004 as restated £m | Unaudited As at 31 Dec 2004 as restated £m |
|--|-------|--|---|--|
| ASSETS | | | | |
| Non-current assets | | | | |
| Goodwill | 9 | 94.1 | 87.8 | 87.8 |
| Property, plant and equipment | | 41.1 | 36.2 | 39.7 |
| Intangible assets | | 26.7 | 17.1 | 21.1 |
| Deferred income tax assets | | 73.8 | 57.8 | 67.0 |
| | | 235.7 | 198.9 | 215.6 |
| Current assets | | | | |
| Inventories | | 11.3 | 13.7 | 16.6 |
| Financial assets: | | | | |
| – Amounts receivable from customers: | | | | |
| – due within one year | 10 | 913.5 | 788.6 | 990.1 |
| – due in more than one year | 10 | 220.3 | 217.0 | 210.1 |
| – Derivative financial instruments | | 10.6 | 10.4 | 5.4 |
| Trade and other receivables | | 119.0 | 132.8 | 119.5 |
| Current income tax assets | | 4.0 | 1.0 | 4.0 |
| Cash and cash equivalents | | 505.7 | 521.1 | 500.1 |
| | | 1,784.4 | 1,684.6 | 1,845.8 |
| Total assets | | 2,020.1 | 1,883.5 | 2,061.4 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Financial liabilities: | | | | |
| – Bank and other borrowings | | (17.0) | (17.9) | (35.3) |
| – Derivative financial instruments | | (33.6) | (29.6) | (39.3) |
| Trade and other payables | | (126.2) | (131.6) | (134.9) |
| Current income tax liabilities | | (53.4) | (50.2) | (60.1) |
| Insurance accruals and deferred income | | (395.4) | (447.3) | (424.9) |
| | | (625.6) | (676.6) | (694.5) |
| Non-current liabilities | | | | |
| Financial liabilities: | | | | |
| – Bank and other borrowings | | (855.2) | (717.6) | (822.4) |
| Retirement benefit obligations | 11 | (133.2) | (118.5) | (129.8) |
| | | (988.4) | (836.1) | (952.2) |
| Total liabilities | | (1,614.0) | (1,512.7) | (1,646.7) |
| NET ASSETS | | 406.1 | 370.8 | 414.7 |
| SHAREHOLDERS' EQUITY | | | | |
| Called-up share capital | 12 | 26.5 | 26.4 | 26.4 |
| Share premium account | 12 | 107.4 | 105.1 | 105.5 |
| Other reserves | 12 | (1.2) | (1.8) | 2.4 |
| Retained earnings | 12 | 273.4 | 241.1 | 280.4 |
| TOTAL EQUITY | 12 | 406.1 | 370.8 | 414.7 |

Consolidated interim cash flow statement

| | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 as restated £m | Unaudited Full year to 31 Dec 2004 as restated £m |
|--|---|--|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 101.4 | 114.8 | 79.7 |
| Interest paid | (30.7) | (27.6) | (53.3) |
| Interest received | 14.1 | 13.8 | 27.9 |
| Income tax paid | (31.4) | (23.1) | (54.5) |
| Net cash generated from/(used in) operating activities | 53.4 | 77.9 | (0.2) |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | (10.1) | (8.7) | (19.0) |
| Proceeds from sale of property, plant and equipment | 1.5 | 0.9 | 3.3 |
| Purchase of intangible assets | (6.0) | (2.9) | (7.1) |
| Net cash used in investing activities | (14.6) | (10.7) | (22.8) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 105.0 | 44.3 | 181.9 |
| Repayment of borrowings | (85.4) | (97.9) | (139.6) |
| Dividends paid to company shareholders | (52.7) | (50.3) | (84.9) |
| Proceeds from issue of share capital | 2.0 | 3.7 | 4.1 |
| (Purchase of)/proceeds from the sale of treasury shares | (0.4) | (0.1) | 1.9 |
| Net cash used in financing activities | (31.5) | (100.3) | (36.6) |
| Net increase/(decrease) in cash and bank overdrafts | 7.3 | (33.1) | (59.6) |
| Cash and bank overdrafts at beginning of period | 493.5 | 546.0 | 546.0 |
| Exchange (losses)/gains on cash and bank overdrafts | (2.0) | (1.8) | 7.1 |
| Cash and bank overdrafts at end of period | 498.8 | 511.1 | 493.5 |
| Cash and bank overdrafts at end of period comprise: | | | |
| Cash at bank and in hand | 50.2 | 53.7 | 38.4 |
| Short-term deposits | 455.5 | 467.4 | 461.7 |
| Cash and cash equivalents | 505.7 | 521.1 | 500.1 |
| Overdrafts (held in borrowings) | (6.9) | (10.0) | (6.6) |
| | 498.8 | 511.1 | 493.5 |

The cash and investments held by those businesses that are regulated are required to be strictly segregated from those of the rest of the group and are not available to repay group borrowings. At 30 June 2005 the cash and short-term deposits held by the group's regulated businesses amounted to £462.7m (30 June 2004: £478.0m, 31 December 2004: £469.6m).

Consolidated interim cash flow statement continued**Cash generated from operations**

| | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 as restated £m | Unaudited Full year to 31 Dec 2004 as restated £m |
|---|---|--|---|
| Profit for the period | 58.6 | 59.1 | 144.4 |
| Adjusted for: | | | |
| Tax expense | 24.3 | 24.9 | 61.1 |
| Finance costs | 27.6 | 26.3 | 57.1 |
| Finance income | (13.9) | (13.6) | (27.4) |
| Share-based payment charge | 1.5 | 0.7 | 1.4 |
| Depreciation | 6.3 | 5.2 | 10.8 |
| Amortisation | 0.4 | – | 0.2 |
| Loss on sale of property, plant and equipment | 0.1 | – | 0.1 |
| Changes in operating assets and liabilities: | | | |
| Inventories | 5.3 | 0.9 | (2.0) |
| Amounts receivable from customers | 51.0 | 39.9 | (120.6) |
| Trade and other receivables | (1.5) | (5.0) | 14.7 |
| Trade and other payables | (13.6) | (2.8) | (11.4) |
| Insurance accruals and deferred income | (29.5) | (15.6) | (38.0) |
| Retirement benefit obligations | (15.1) | (5.3) | (10.6) |
| Derivative financial instruments | (0.1) | 0.1 | (0.1) |
| Cash generated from operations | 101.4 | 114.8 | 79.7 |

Changes in the cash flow statement on transition to IFRS

The insurance division holds deposits with financial institutions to meet the cost of settling future claims. These deposits have maturities of three months or less from the date of acquisition.

UK GAAP requires the movement in cash to be reported in the cash flow statement. Cash is defined as 'cash in hand and deposits repayable on demand less overdrafts'. Under UK GAAP, the insurance division deposits did not meet the definition of cash and were therefore classified as a 'management of liquid resources' in the cash flow statement.

The cash flows reported under IAS 7 'Cash Flow Statements' relate to movements in cash and cash equivalents. Under IAS 7, cash equivalents are defined as 'short-term highly liquid investments that are readily convertible into known amounts of cash and subject to insignificant risk of changes in value'. Generally, an investment qualifies as a cash equivalent when it has a maturity of three months or less from the date of acquisition. Accordingly, under IAS 7, the insurance division deposits form part of cash and cash equivalents.

1. General information

Following the adoption of IAS Regulation EC 1606/2002 on 19 July 2002 by the European Parliament, Provident Financial plc ('the group'), along with all other European listed entities, will be required to prepare consolidated accounts in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) for years beginning 1 January 2005.

The group will apply IFRS for the year ended 31 December 2005, and will prepare one year of comparative figures under IFRS. Accordingly the group's date of transition to IFRS is 1 January 2004 and its first reporting period under IFRS is for the half-year ended 30 June 2005. This report therefore contains the consolidated financial results for the half-year ended 30 June 2005 on the basis of the IFRS accounting policies as described in note 4, and comparatives for the half-year ended 30 June 2004 and for the year ended 31 December 2004 restated to comply with these accounting policies.

Reconciliations between previously reported UK GAAP results and IFRS as adopted are presented in note 13.

This financial information does not constitute a set of statutory accounts and is unaudited. This document (the 2005 interim report) will be published on the company's website in addition to the normal paper version. The maintenance and integrity of the Provident Financial website is the responsibility of the directors and the work carried out by the auditors does not involve consideration of these matters. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

2. Basis of preparation

The financial information in this interim report has been prepared on the basis of all EU endorsed IFRSs that had been published by 31 December 2004 and apply to accounting periods beginning on or after 1 January 2005. The group has also, as permitted, early adopted the amendment to IAS 19 'Employee Benefits – Actuarial Gains and Losses' that was published by the International Accounting Standards Board (IASB) in December 2004 but has not yet been endorsed by the EU. The directors expect that the amendments to IAS 19 will be fully adopted by the EU and will therefore be available for use in the annual IFRS Report and Accounts for the year ended 31 December 2005. During 2005 further standards and interpretations may be issued that will be applicable for financial years beginning on or after 1 January 2005 or that are applicable to later accounting periods but may be adopted early. The group's first IFRS accounts may, therefore, be prepared in accordance with some different accounting policies from those used to prepare the financial information presented here.

The accounting policies that have been applied to this interim financial information are set out in note 4.

The comparative figures for the financial year ended 31 December 2004 are not the group's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP in accordance with the UK Companies Act 1985, have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the UK Companies Act 1985.

3. Transitional arrangements

On transition to IFRS, an entity is generally required to apply IFRS retrospectively, except where an exemption is available under IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The following is a summary of the key elections from IFRS 1 that have been made by the group.

- The group has elected to adopt the IFRS 1 exemption in relation to business combinations and will only apply IFRS 3 'Business Combinations' prospectively from 1 January 2004. As a result, the balance of goodwill under UK GAAP as at 31 December 2003 is the deemed IFRS cost of goodwill at 1 January 2004. Goodwill is not amortised annually under IFRS but is instead subject to an annual impairment review.
- The group has elected to adopt the IFRS 1 option to reset foreign currency cumulative translation differences to zero on transition to IFRS. Cumulative foreign currency translation differences are shown separately as part of other reserves under IFRS.
- The group has elected to recognise all actuarial gains and losses on pensions directly in shareholders' equity at 1 January 2004. The full defined benefit pension deficit as at 1 January 2004 is therefore recognised in the balance sheet.
- The group has elected to apply the share-based payment exemption and has applied IFRS 2 'Share-based Payment' from 1 January 2004 to those options that were issued after 7 November 2002 but that had not vested by 1 January 2005.
- The group has elected to retain UK GAAP carrying values of property, plant and equipment (including any historic revaluations) as deemed cost on the date of transition to IFRS.

IFRS 1 allows IAS 32 'Financial Instruments: Disclosure and Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' to be applied from 1 January 2005 with no restatement of comparative information. Given that IAS 39 impacts the group's revenue recognition, impairment and recognition of derivatives at fair value, the group has not taken advantage of this exemption and has therefore fully adopted IAS 32, IAS 39 and IFRS 4 in its 2004 comparatives to ensure that they are comparable with the 2005 results.

4. Significant accounting policies

The interim financial information for the half-year ended 30 June 2005 has been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value.

The group's principal accounting policies under IFRS are as follows:

Basis of consolidation

The consolidated income statement and balance sheet include the accounts of the company and its subsidiary undertakings drawn up from the date control passes to the group until the date control ceases.

Control is assumed to exist where more than 50% of the voting share capital is owned or where it is clear that the group controls another entity either through the power to:

- govern the operating and financial policies of that entity;
- appoint or remove the majority of the members of the board of that entity; or
- cast the majority of the votes at a board meeting of that entity.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

4. Significant accounting policies continued

Revenue

Revenue, which excludes value added tax and intra-group transactions, comprises revenue earned for the home credit businesses; premiums written for the motor insurance underwriting business; revenue earned by Yes Car Credit on the sale of motor vehicles and associated finance and insurance contracts; and interest and fee income earned by Vanquis Bank.

Revenue recognition

In the home credit business, the service charge on a home credit loan is fixed. The charge does not increase if customers take longer than the contracted period to repay the loan and there are no penalty or default interest charges. In accordance with IAS 39 the service charge is accounted for as interest income. Revenue on loan receivables is recognised using an effective interest rate (EIR). The EIR is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers repaying early, but excluding the anticipated impact of customers paying late or not paying at all. Directly attributable incremental issue costs are also taken into account in calculating the EIR. Interest income continues to be accrued on impaired loans using the original EIR applied to the loans' carrying value stated after the deduction for impairment.

In the car finance business of Yes Car Credit revenue from the sale of the motor vehicle is recognised in the income statement when the vehicle is sold. Finance income and insurance commission, which are treated as part of the yield on the financing arrangement, are recognised using the EIR method.

In respect of the motor insurance underwriting business, credit is taken to the income statement for premium income, net of commissions paid to intermediaries, over the life of the policy on a straight line time apportioned method.

In respect of the credit card business of Vanquis Bank, interest is calculated on credit card advances to customers using the EIR on the daily balance outstanding. Annual fees charged to customers' credit card accounts are recognised as part of the EIR. Penalty charges and other fees which are not an integral part of the EIR are recognised at the time the charges are made to customers.

Amounts receivable from customers

All customer receivables are initially recognised at the amount loaned to the customer plus directly attributable incremental issue costs. After initial recognition, customer receivables are subsequently measured at amortised cost. Amortised cost is the amount of the customer receivable at initial recognition less customer repayments, plus revenue earned, less any deduction for impairment.

Customer receivables are assessed for impairment at each balance sheet date. All customer accounts that are in arrears are deemed to have demonstrated evidence of impairment and are subject to a detailed impairment review. Impairment is calculated by estimating the future cash flows from each portfolio of similar loans, discounting these to a present value using the original EIR and comparing this figure with the balance sheet value. All such impairments are charged to the income statement.

Provision for unpaid insurance claims

Provision is made at the period end for the estimated gross cost of claims incurred but not settled at the balance sheet date, including the gross cost of claims expected to be incurred but not yet reported to the group. The estimated cost of claims comprises expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. Provisions are calculated gross of any reinsurance recoveries. The group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the outcome will prove to be different from the original liability established.

The estimated cost of claims is calculated by reference to the projected number of claims based on statistics showing how the number of notified claims has developed over time, and the anticipated average cost per claim based on historical levels adjusted to allow for changes in variables such as legislation, inflation rates, the mix of business and industry benchmarks. The provision for estimated insurance claims is reviewed annually by an external actuary.

4. Significant accounting policies continued

Amounts recoverable from reinsurers

An asset is recognised in respect of amounts recoverable from reinsurers to reflect expected recoveries from reinsurers relating to insurance claims made and estimated claims incurred but not reported at the balance sheet date. Amounts recoverable from reinsurers are assessed for impairment annually and whenever events or changes in circumstances indicate that the carrying value amount may not be recoverable.

Goodwill

All acquisitions are accounted for using the purchase method of accounting.

Goodwill is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities.

Goodwill is not subject to annual amortisation but is instead tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and has not been reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment.

Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the item. Repairs and maintenance costs are expensed as incurred.

Under the transitional rules of IFRS 1, the group has elected to use previous UK GAAP carrying values, including revaluations, as deemed cost on transition to IFRS.

Depreciation is calculated to write down assets to their estimated realisable value over their useful economic lives. The following are the principal bases used:

| | % | Method |
|---|-----------------------|------------------|
| Land | Nil | — |
| Freehold and long leasehold buildings | 2½ | Straight line |
| Short leasehold buildings | Over the lease period | Straight line |
| Fixtures and fittings | 10 | Straight line |
| Equipment (including computer hardware) | 20 to 33⅓ | Straight line |
| Motor vehicles | 25 | Reducing balance |

The residual value and useful economic life of all assets are reviewed, and adjusted if appropriate, at each balance sheet date.

All items of property, plant and equipment, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

4. Significant accounting policies continued

Computer software

Acquired computer software licences are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring into use the specific software.

Directly attributable costs associated with the development of software that will generate future economic benefits are capitalised as part of the software intangible asset. Direct costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software is amortised over its estimated useful economic life which is generally five years.

Investment in own shares

Shares purchased through the Qualifying Employees Share Ownership Trust ('the QUEST') are treated as treasury shares and are deducted at cost from other reserves within shareholders' equity.

Inventories

Inventories comprise motor vehicles held for resale and are stated at the lower of cost and net realisable value.

Cost includes all costs of purchase, preparation and costs incurred in bringing the vehicle to its present location and condition.

Net realisable value is the estimated selling price in the normal course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Foreign currency translation

Items included in the accounts of each of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('the functional currency'). The consolidated accounts are presented in sterling which is the company's functional and presentational currency.

Transactions that are not denominated in a subsidiary's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the rates of exchange ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

The income statements of group subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from sterling are translated into sterling at the average exchange rate and the balance sheets are translated at the exchange rates ruling at the balance sheet date. On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. From 1 January 2004 these exchange differences are recognised as a separate component of shareholders' equity within other reserves. When a foreign operation is sold such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Segment reporting

The group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a component of the group that is engaged in providing a group of related products and is subject to risks and returns that are different from those of other business segments. A geographical segment is a component of the group that operates within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

4. Significant accounting policies continued

Leases

The leases entered into by the group are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the future.

Employee benefits

Defined benefit pension plans

The charge in the income statement in respect of defined benefit pension plans comprises the actuarially assessed current service cost of working employees together with the interest charge on pension liabilities offset by the expected return on pension scheme assets. All charges are allocated to administrative expenses.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of recognised income and expense.

Defined contribution plans

Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Dividends

Dividend distributions to the company's shareholders are recognised as a liability in the group accounts as follows:

- Final dividend: when approved by the company's shareholders at the Annual General Meeting.
- Interim dividend: when declared by the directors and paid by the company.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits and other short-term highly liquid investments with original maturities of three months or less held for the purpose of meeting short-term cash commitments and bank overdrafts. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

4. Significant accounting policies continued

Derivative financial instruments

The group uses derivative financial instruments, principally interest rate swaps, currency swaps and forward currency contracts, to manage the interest rate and currency risk arising from the group's underlying business operations. No transactions of a purely speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39. The majority of the group's derivatives meet the hedge accounting requirements of IAS 39 and are accordingly designated as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or hedges of highly probable forecast transactions (cash flow hedge).

Derivatives are initially recognised at the fair value on the date a derivative contract is entered into and are subsequently remeasured at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the income statement. Where the hedge accounting criteria have been met, the resultant gain or loss on the derivative instrument is recognised as follows:

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Share-based payments

The group issues equity settled share-based payments to certain employees through executive share option schemes, a performance share plan and Save As You Earn (SAYE) schemes.

The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the related share options or share allocations. The corresponding credit is made to a share-based payment reserve within other reserves.

The cost is based on the fair value of the options and shares allocated determined using a binomial option pricing model. The value of the charge is adjusted at each balance sheet date to reflect expected and actual levels of vesting.

In accordance with the transitional provisions of IFRS 2 the group has elected to apply IFRS 2 to grants, options and other equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate.

All borrowings denominated in currencies other than sterling are translated at the rate ruling at the balance sheet date.

Where borrowings are the subject of a fair value hedge, changes in the fair value of the borrowing that are attributable to the hedged risk are recognised in the income statement and a corresponding adjustment made to the carrying value of borrowings.

5. Segment information

Primary reporting format – business segments

| | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 as restated £m | Unaudited Full year to 31 Dec 2004 as restated £m |
|-------------------------------|---|--|---|
| Revenue | | | |
| UK home credit | 281.6 | 280.7 | 558.4 |
| Yes Car Credit | 121.0 | 143.8 | 272.1 |
| Vanquis Bank | 7.2 | 2.0 | 5.9 |
| UK consumer credit | 409.8 | 426.5 | 836.4 |
| International | 171.5 | 122.1 | 271.2 |
| Motor insurance | 82.0 | 83.6 | 164.8 |
| | 663.3 | 632.2 | 1,272.4 |
| Profit before taxation | | | |
| UK home credit | 60.5 | 61.1 | 154.0 |
| Yes Car Credit | (6.2) | 5.7 | (2.7) |
| Vanquis Bank | (7.2) | (4.8) | (9.0) |
| UK consumer credit | 47.1 | 62.0 | 142.3 |
| International | 19.2 | 10.7 | 39.8 |
| Motor insurance | 23.1 | 16.6 | 34.6 |
| Central | (6.5) | (5.3) | (11.2) |
| | 82.9 | 84.0 | 205.5 |

Secondary reporting format – geographical segments

| | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 as restated £m | Unaudited Full year to 31 Dec 2004 as restated £m |
|-------------------------------|---|--|---|
| Revenue | | | |
| UK and Republic of Ireland | 491.8 | 510.1 | 1,001.2 |
| Central Europe | 168.5 | 121.6 | 269.4 |
| Mexico | 3.0 | 0.5 | 1.8 |
| | 663.3 | 632.2 | 1,272.4 |
| Profit before taxation | | | |
| UK and Republic of Ireland | 59.4 | 68.8 | 155.1 |
| Central Europe | 25.0 | 16.3 | 52.6 |
| Mexico | (1.5) | (1.1) | (2.2) |
| | 82.9 | 84.0 | 205.5 |

6. Tax expense

The tax expense for the period has been calculated by applying the directors' best estimate of the effective tax rate for the year, which is 29.3% (30 June 2004: 29.7%), to the profit for the period.

7. Earnings per share

The basic and diluted earnings per share figures have been calculated using the profit for the period attributable to ordinary shareholders of £58.6m (30 June 2004: £59.1m, 31 December 2004: £144.4m) and the weighted average number of shares in issue during the period.

The weighted average number of shares in issue during the period can be reconciled to the number used in the basic and diluted earnings per share calculations as follows:

| | Unaudited Half-year to 30 June 2005 Number m | Unaudited Half-year to 30 June 2004 Number m | Unaudited Full year to 31 Dec 2004 Number m |
|--|--|--|---|
| Weighted average number of shares | | | |
| In issue during the period | 255.2 | 254.7 | 254.9 |
| Held by the QUEST | (1.1) | (1.5) | (1.5) |
| Used in basic earnings per share calculation | 254.1 | 253.2 | 253.4 |
| Issuable on conversion of outstanding options | 1.4 | 1.3 | 1.2 |
| Used in diluted earnings per share calculation | 255.5 | 254.5 | 254.6 |

The movement in the number of shares in issue during the period is as follows:

| | Number m |
|---|-------------|
| At 1 January 2005 | 255.1 |
| Shares issued pursuant to the exercise of options | 0.3 |
| At 30 June 2005 | 255.4 |

8. Dividends paid and proposed

| | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 £m | Unaudited Full year to 31 Dec 2004 £m |
|-----------------------|---|---|--|
| 2003 final – 19.90p | – | 50.3 | 50.3 |
| 2004 interim – 13.65p | – | – | 34.6 |
| 2004 final – 20.75p | 52.7 | – | – |
| Dividends paid | 52.7 | 50.3 | 84.9 |

An interim dividend in respect of 2005 of 14.06p per share, amounting to a total dividend of £35.9m, has been declared by the directors. The interim financial information does not reflect this dividend payable as it was declared after the balance sheet date.

9. Goodwill

Goodwill of £94.1m (30 June 2004: £87.8m, 31 December 2004: £87.8m) comprises £91.0m (30 June 2004: £84.7m, 31 December 2004: £84.7m) in respect of the acquisition of Yes Car Credit in 2002 and £3.1m (30 June 2004: £3.1m, 31 December 2004: £3.1m) in respect of the acquisition of N&N Cheque Encashment Limited in 2001.

The increase of £6.3m in the Yes Car Credit goodwill during the period reflects the final settlement of the contingent consideration in respect of that acquisition.

10. Amounts receivable from customers

| | Unaudited As at 30 June 2005 £m | Unaudited As at 30 June 2004 as restated £m | Unaudited As at 31 Dec 2004 as restated £m |
|-----------------------------|--|---|--|
| UK home credit | 546.6 | 521.2 | 613.5 |
| International | 275.6 | 201.0 | 285.1 |
| Yes Car Credit | 269.6 | 271.3 | 275.6 |
| Vanquis Bank | 42.0 | 12.1 | 26.0 |
| | 1,133.8 | 1,005.6 | 1,200.2 |
| Analysed as: | | | |
| – due within one year | 913.5 | 788.6 | 990.1 |
| – due in more than one year | 220.3 | 217.0 | 210.1 |
| | 1,133.8 | 1,005.6 | 1,200.2 |

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

| | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 as restated £m | Unaudited Full year to 31 Dec 2004 as restated £m |
|----------------|---|--|---|
| UK home credit | 100.9 | 96.6 | 154.0 |
| International | 71.7 | 46.3 | 87.0 |
| Yes Car Credit | 18.9 | 17.8 | 40.1 |
| Vanquis Bank | 4.4 | 1.9 | 4.0 |
| | 195.9 | 162.6 | 285.1 |

11. Retirement benefit obligations

The group operates two funded defined benefit schemes in the UK. A full actuarial valuation was carried out by a qualified independent actuary on both schemes at 1 June 2004. The valuation used for IAS 19 purposes has been based on these valuations which have been updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 30 June 2005. Scheme assets are stated at fair value at 30 June 2005. The assumptions used by the actuary were:

| | Unaudited Half-year to 30 June 2005 % | Unaudited Half-year to 30 June 2004 % | Unaudited Full year to 31 Dec 2004 % |
|------------------------------|--|--|---|
| Rate of increase in salaries | 4.18 | 4.34 | 4.34 |
| Rate of increase in pensions | 2.60 | 2.75 | 2.75 |
| Discount rate | 5.00 | 5.80 | 5.40 |
| Inflation assumption | 2.60 | 2.75 | 2.75 |

The amounts recognised in the balance sheet are determined as follows:

| | Unaudited As at 30 June 2005 £m | Unaudited As at 30 June 2004 £m | Unaudited As at 31 Dec 2004 £m |
|-------------------------------------|--|--|---|
| Present value of funded obligations | (398.2) | (323.9) | (361.2) |
| Fair value of scheme assets | 265.0 | 205.4 | 231.4 |
| Liability in the balance sheet | (133.2) | (118.5) | (129.8) |

The movement in the liability recognised in the balance sheet is as follows:

| | Unaudited Half-year to 30 June 2005 £m | Unaudited Half-year to 30 June 2004 £m | Unaudited Full year to 31 Dec 2004 £m |
|---------------------------------------|---|---|--|
| Liability at beginning of period | (129.8) | (106.1) | (106.1) |
| Total expense in the income statement | (5.3) | (4.6) | (9.2) |
| Actuarial loss | (18.5) | (17.7) | (34.3) |
| Contributions paid | 20.4 | 9.9 | 19.8 |
| Liability at end of period | (133.2) | (118.5) | (129.8) |

12. Consolidated interim statement of changes in shareholders' equity

| | Unaudited Attributable to equity shareholders of the company | | | | Total £m |
|---|---|-----------------------------------|-------------------------|----------------------------|-------------|
| | Called-up share capital £m | Share premium account £m | Other reserves £m | Retained earnings £m | |
| Balance at 1 January 2004 as previously reported under UK GAAP | 26.3 | 101.5 | 7.1 | 314.1 | 449.0 |
| Changes upon transition to IFRS | – | – | (8.4) | (69.4) | (77.8) |
| Restated balance under IFRS | 26.3 | 101.5 | (1.3) | 244.7 | 371.2 |
| Exchange differences on foreign currency translations | – | – | (0.8) | – | (0.8) |
| Net fair value losses – cash flow hedges | – | – | (0.4) | – | (0.4) |
| Actuarial losses on retirement benefit obligations | – | – | – | (17.7) | (17.7) |
| Tax on items taken directly to equity | – | – | 0.1 | 5.3 | 5.4 |
| Net expense recognised directly in equity | – | – | (1.1) | (12.4) | (13.5) |
| Profit for the period | – | – | – | 59.1 | 59.1 |
| Total recognised income for the period | – | – | (1.1) | 46.7 | 45.6 |
| Increase in share capital | 0.1 | – | – | – | 0.1 |
| Increase in share premium | – | 3.6 | – | – | 3.6 |
| Movement in treasury shares | – | – | (0.1) | – | (0.1) |
| Share-based payment adjustment to reserves | – | – | 0.7 | – | 0.7 |
| Dividend | – | – | – | (50.3) | (50.3) |
| Balance at 30 June 2004 | 26.4 | 105.1 | (1.8) | 241.1 | 370.8 |
| Balance at 1 July 2004 | 26.4 | 105.1 | (1.8) | 241.1 | 370.8 |
| Exchange differences on foreign currency translations | – | – | 4.7 | – | 4.7 |
| Net fair value losses – cash flow hedges | – | – | (4.5) | – | (4.5) |
| Actuarial losses on retirement benefit obligations | – | – | – | (16.6) | (16.6) |
| Tax on items taken directly to equity | – | – | 1.3 | 5.2 | 6.5 |
| Net income/(expense) recognised directly in equity | – | – | 1.5 | (11.4) | (9.9) |
| Profit for the period | – | – | – | 85.3 | 85.3 |
| Total recognised income for the period | – | – | 1.5 | 73.9 | 75.4 |
| Increase in share premium | – | 0.4 | – | – | 0.4 |
| Share-based payment adjustment to reserves | – | – | 0.7 | – | 0.7 |
| Movement in treasury shares | – | – | 2.0 | – | 2.0 |
| Dividend | – | – | – | (34.6) | (34.6) |
| Balance at 31 December 2004 | 26.4 | 105.5 | 2.4 | 280.4 | 414.7 |

12. Consolidated interim statement of changes in shareholders' equity continued

| | Unaudited Attributable to equity shareholders of the company | | | | Total £m |
|---|---|-----------------------------------|-------------------------|----------------------------|-------------|
| | Called-up share capital £m | Share premium account £m | Other reserves £m | Retained earnings £m | |
| Balance at 1 January 2005 | 26.4 | 105.5 | 2.4 | 280.4 | 414.7 |
| Exchange differences on foreign currency translations | – | – | (2.3) | – | (2.3) |
| Net fair value losses – cash flow hedges | – | – | (2.9) | – | (2.9) |
| Actuarial losses on retirement benefit obligations | – | – | – | (18.5) | (18.5) |
| Tax on items taken directly to equity | – | – | 0.5 | 5.6 | 6.1 |
| Net expense recognised directly in equity | – | – | (4.7) | (12.9) | (17.6) |
| Profit for the period | – | – | – | 58.6 | 58.6 |
| Total recognised income for the period | – | – | (4.7) | 45.7 | 41.0 |
| Increase in share capital | 0.1 | – | – | – | 0.1 |
| Increase in share premium | – | 1.9 | – | – | 1.9 |
| Share-based payment adjustment to reserves | – | – | 1.5 | – | 1.5 |
| Movement in treasury shares | – | – | (0.4) | – | (0.4) |
| Dividend | – | – | – | (52.7) | (52.7) |
| Balance at 30 June 2005 | 26.5 | 107.4 | (1.2) | 273.4 | 406.1 |

13. Reconciliations between IFRS and UK GAAP

Reconciliation of the income statement for the half-year ended 30 June 2004

| | Unaudited UK GAAP £m | Reclassify (note 13(a)) £m | Revenue & impairment (note 13(b)) £m | Goodwill (note 13(c)) £m | Pensions (note 13(d)) £m | Share-based payments (note 13(e)) £m | Derivatives (note 13(f)) £m | Unaudited IFRS £m |
|-------------------------------|----------------------------|----------------------------------|---|--------------------------------|--------------------------------|---|-----------------------------------|-------------------------|
| Revenue | 566.1 | 9.3 | 56.8 | – | – | – | – | 632.2 |
| Finance income | – | 13.6 | – | – | – | – | – | 13.6 |
| Total income | 566.1 | 22.9 | 56.8 | – | – | – | – | 645.8 |
| Finance costs | – | (26.4) | – | – | – | – | 0.1 | (26.3) |
| Operating costs | (303.2) | (45.1) | (60.2) | – | – | – | – | (408.5) |
| Administrative expenses | (178.0) | 48.6 | – | 2.3 | 0.8 | (0.7) | – | (127.0) |
| Total costs | (481.2) | (22.9) | (60.2) | 2.3 | 0.8 | (0.7) | 0.1 | (561.8) |
| Profit before taxation | 84.9 | – | (3.4) | 2.3 | 0.8 | (0.7) | 0.1 | 84.0 |
| Tax expense | (25.7) | – | 0.8 | – | (0.2) | 0.2 | – | (24.9) |
| Profit after taxation | 59.2 | – | (2.6) | 2.3 | 0.6 | (0.5) | 0.1 | 59.1 |

Reconciliation of the income statement for the year ended 31 December 2004

| | Audited UK GAAP £m | Reclassify (note 13(a)) £m | Revenue & impairment (note 13(b)) £m | Goodwill (note 13(c)) £m | Pensions (note 13(d)) £m | Share-based payments (note 13(e)) £m | Derivatives (note 13(f)) £m | Unaudited IFRS £m |
|-------------------------------|--------------------------|----------------------------------|---|--------------------------------|--------------------------------|---|-----------------------------------|-------------------------|
| Revenue | 1,166.7 | 12.1 | 93.6 | – | – | – | – | 1,272.4 |
| Finance income | – | 27.4 | – | – | – | – | – | 27.4 |
| Total income | 1,166.7 | 39.5 | 93.6 | – | – | – | – | 1,299.8 |
| Finance costs | – | (55.5) | – | – | – | – | (1.6) | (57.1) |
| Operating costs | (571.8) | (88.5) | (107.4) | – | – | – | – | (767.7) |
| Administrative expenses | (378.8) | 104.5 | – | 4.6 | 1.5 | (1.3) | – | (269.5) |
| Total costs | (950.6) | (39.5) | (107.4) | 4.6 | 1.5 | (1.3) | (1.6) | (1,094.3) |
| Profit before taxation | 216.1 | – | (13.8) | 4.6 | 1.5 | (1.3) | (1.6) | 205.5 |
| Tax expense | (64.7) | – | 3.3 | – | (0.5) | 0.4 | 0.4 | (61.1) |
| Profit after taxation | 151.4 | – | (10.5) | 4.6 | 1.0 | (0.9) | (1.2) | 144.4 |

13. Reconciliations between IFRS and UK GAAP continued

Reconciliation of the balance sheet as at 1 January 2004

| | Audited UK GAAP £m | Reclassify (note 13(a)) £m | Revenue & impairment (note 13(b)) £m | Goodwill (note 13(c)) £m | Pensions (note 13(d)) £m | Share-based payments (note 13(e)) £m | Derivatives (note 13(f)) £m | Dividends (note 13(g)) £m | Unaudited IFRS £m |
|---|--------------------------|----------------------------------|---|--------------------------------|--------------------------------|---|-----------------------------------|---------------------------------|-------------------------|
| ASSETS | | | | | | | | | |
| Non-current assets | | | | | | | | | |
| Goodwill | 87.8 | – | – | – | – | – | – | – | 87.8 |
| Property, plant and equipment | 48.1 | (14.2) | – | – | – | – | – | – | 33.9 |
| Intangible assets | – | 14.2 | – | – | – | – | – | – | 14.2 |
| Deferred income tax assets | – | (2.6) | 15.1 | – | 39.7 | 0.2 | (1.0) | – | 51.4 |
| | 135.9 | (2.6) | 15.1 | – | 39.7 | 0.2 | (1.0) | – | 187.3 |
| Current assets | | | | | | | | | |
| Inventories | 14.6 | – | – | – | – | – | – | – | 14.6 |
| Financial assets: | | | | | | | | | |
| – Amounts receivable from customers: | | | | | | | | | |
| – due within one year | 905.3 | – | (46.5) | – | – | – | – | – | 858.8 |
| – due in more than one year | 204.1 | – | (9.7) | – | – | – | – | – | 194.4 |
| – Derivative financial instruments | – | – | – | – | – | – | 11.4 | – | 11.4 |
| Trade and other receivables | 152.1 | – | 2.5 | – | (26.6) | – | – | – | 128.0 |
| Current income tax assets | 1.0 | – | – | – | – | – | – | – | 1.0 |
| Cash and cash equivalents | 553.3 | – | – | – | – | – | – | – | 553.3 |
| | 1,830.4 | – | (53.7) | – | (26.6) | – | 11.4 | – | 1,761.5 |
| Total assets | 1,966.3 | (2.6) | (38.6) | – | 13.1 | 0.2 | 10.4 | – | 1,948.8 |
| LIABILITIES | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Financial liabilities: | | | | | | | | | |
| – Bank and other borrowings | (19.6) | – | – | – | – | – | – | – | (19.6) |
| – Derivative financial instruments | – | – | – | – | – | – | (27.9) | – | (27.9) |
| Trade and other payables | (185.1) | – | (0.4) | – | – | – | – | 50.3 | (135.2) |
| Current income tax liabilities | (47.3) | – | – | – | – | – | (0.5) | – | (47.8) |
| Insurance accruals and deferred income | (462.9) | – | – | – | – | – | – | – | (462.9) |
| | (714.9) | – | (0.4) | – | – | – | (28.4) | 50.3 | (693.4) |
| Non-current liabilities | | | | | | | | | |
| Financial liabilities: | | | | | | | | | |
| – Bank and other borrowings | (799.8) | – | – | – | – | – | 21.7 | – | (778.1) |
| Retirement benefit obligations | – | – | – | – | (106.1) | – | – | – | (106.1) |
| Deferred income tax liabilities | (2.6) | 2.6 | – | – | – | – | – | – | – |
| | (802.4) | 2.6 | – | – | (106.1) | – | 21.7 | – | (884.2) |
| Total liabilities | (1,517.3) | 2.6 | (0.4) | – | (106.1) | – | (6.7) | 50.3 | (1,577.6) |
| NET ASSETS | 449.0 | – | (39.0) | – | (93.0) | 0.2 | 3.7 | 50.3 | 371.2 |
| SHAREHOLDERS' EQUITY | | | | | | | | | |
| Called-up share capital | 26.3 | – | – | – | – | – | – | – | 26.3 |
| Share premium account | 101.5 | – | – | – | – | – | – | – | 101.5 |
| Other reserves | 7.1 | (13.1) | – | – | – | 0.6 | 4.1 | – | (1.3) |
| Retained earnings | 314.1 | 13.1 | (39.0) | – | (93.0) | (0.4) | (0.4) | 50.3 | 244.7 |
| TOTAL EQUITY | 449.0 | – | (39.0) | – | (93.0) | 0.2 | 3.7 | 50.3 | 371.2 |

13. Reconciliations between IFRS and UK GAAP continued

Reconciliation of the balance sheet as at 30 June 2004

| | Unaudited UK GAAP £m | Reclassify (note 13(a)) £m | Revenue & impairment (note 13(b)) £m | Goodwill (note 13(c)) £m | Pensions (note 13(d)) £m | Share-based payments (note 13(e)) £m | Derivatives (note 13(f)) £m | Dividends (note 13(g)) £m | Unaudited IFRS £m |
|---|----------------------------|----------------------------------|---|--------------------------------|--------------------------------|---|-----------------------------------|---------------------------------|-------------------------|
| ASSETS | | | | | | | | | |
| Non-current assets | | | | | | | | | |
| Goodwill | 85.5 | – | – | 2.3 | – | – | – | – | 87.8 |
| Property, plant and equipment | 53.3 | (17.1) | – | – | – | – | – | – | 36.2 |
| Intangible assets | – | 17.1 | – | – | – | – | – | – | 17.1 |
| Deferred income tax assets | – | (2.6) | 15.9 | – | 44.8 | 0.4 | (0.7) | – | 57.8 |
| | 138.8 | (2.6) | 15.9 | 2.3 | 44.8 | 0.4 | (0.7) | – | 198.9 |
| Current assets | | | | | | | | | |
| Inventories | 13.7 | – | – | – | – | – | – | – | 13.7 |
| Financial assets: | | | | | | | | | |
| – Amounts receivable from customers: | | | | | | | | | |
| – due within one year | 846.8 | – | (58.2) | – | – | – | – | – | 788.6 |
| – due in more than one year | 217.4 | – | (0.4) | – | – | – | – | – | 217.0 |
| – Derivative financial instruments | – | – | – | – | – | – | 10.4 | – | 10.4 |
| Trade and other receivables | 161.8 | – | 2.1 | – | (31.1) | – | – | – | 132.8 |
| Current income tax assets | 1.0 | – | – | – | – | – | – | – | 1.0 |
| Cash and cash equivalents | 521.1 | – | – | – | – | – | – | – | 521.1 |
| | 1,761.8 | – | (56.5) | – | (31.1) | – | 10.4 | – | 1,684.6 |
| Total assets | 1,900.6 | (2.6) | (40.6) | 2.3 | 13.7 | 0.4 | 9.7 | – | 1,883.5 |
| LIABILITIES | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Financial liabilities: | | | | | | | | | |
| – Bank and other borrowings | (17.9) | – | – | – | – | – | – | – | (17.9) |
| – Derivative financial instruments | – | – | – | – | – | – | (29.6) | – | (29.6) |
| Trade and other payables | (165.7) | – | (0.5) | – | – | – | – | 34.6 | (131.6) |
| Current income tax liabilities | (49.7) | – | – | – | – | – | (0.5) | – | (50.2) |
| Insurance accruals and deferred income | (447.3) | – | – | – | – | – | – | – | (447.3) |
| | (680.6) | – | (0.5) | – | – | – | (30.1) | 34.6 | (676.6) |
| Non-current liabilities | | | | | | | | | |
| Financial liabilities: | | | | | | | | | |
| – Bank and other borrowings | (741.5) | – | – | – | – | – | 23.9 | – | (717.6) |
| Retirement benefit obligations | – | – | – | – | (118.5) | – | – | – | (118.5) |
| Deferred income tax liabilities | (2.6) | 2.6 | – | – | – | – | – | – | – |
| | (744.1) | 2.6 | – | – | (118.5) | – | 23.9 | – | (836.1) |
| Total liabilities | (1,424.7) | 2.6 | (0.5) | – | (118.5) | – | (6.2) | 34.6 | (1,512.7) |
| NET ASSETS | 475.9 | – | (41.1) | 2.3 | (104.8) | 0.4 | 3.5 | 34.6 | 370.8 |
| SHAREHOLDERS' EQUITY | | | | | | | | | |
| Called-up share capital | 26.4 | – | – | – | – | – | – | – | 26.4 |
| Share premium account | 105.1 | – | – | – | – | – | – | – | 105.1 |
| Other reserves | 7.1 | (14.5) | 0.5 | – | – | 1.3 | 3.8 | – | (1.8) |
| Retained earnings | 337.3 | 14.5 | (41.6) | 2.3 | (104.8) | (0.9) | (0.3) | 34.6 | 241.1 |
| TOTAL EQUITY | 475.9 | – | (41.1) | 2.3 | (104.8) | 0.4 | 3.5 | 34.6 | 370.8 |

13. Reconciliations between IFRS and UK GAAP continued

Reconciliation of the balance sheet as at 31 December 2004

| | Audited UK GAAP £m | Reclassify (note 13(a)) £m | Revenue & impairment (note 13(b)) £m | Goodwill (note 13(c)) £m | Pensions (note 13(d)) £m | Share-based payments (note 13(e)) £m | Derivatives (note 13(f)) £m | Dividends (note 13(g)) £m | Unaudited IFRS £m |
|--|--------------------------|----------------------------------|---|--------------------------------|--------------------------------|---|-----------------------------------|---------------------------------|-------------------------|
| ASSETS | | | | | | | | | |
| Non-current assets | | | | | | | | | |
| Goodwill | 83.2 | – | – | 4.6 | – | – | – | – | 87.8 |
| Property, plant and equipment | 60.8 | (21.1) | – | – | – | – | – | – | 39.7 |
| Intangible assets | – | 21.1 | – | – | – | – | – | – | 21.1 |
| Deferred income tax assets | – | (2.8) | 18.8 | – | 49.7 | 0.6 | 0.7 | – | 67.0 |
| | 144.0 | (2.8) | 18.8 | 4.6 | 49.7 | 0.6 | 0.7 | – | 215.6 |
| Current assets | | | | | | | | | |
| Inventories | 16.6 | – | – | – | – | – | – | – | 16.6 |
| Financial assets: | | | | | | | | | |
| – Amounts receivable | | | | | | | | | |
| from customers: | | | | | | | | | |
| – due within one year | 1,048.3 | – | (58.2) | – | – | – | – | – | 990.1 |
| – due in more than one year | 224.0 | – | (13.9) | – | – | – | – | – | 210.1 |
| – Derivative financial instruments | – | – | – | – | – | – | 5.4 | – | 5.4 |
| Trade and other receivables | 153.3 | – | 1.9 | – | (35.7) | – | – | – | 119.5 |
| Current income tax assets | 4.0 | – | – | – | – | – | – | – | 4.0 |
| Cash and cash equivalents | 500.1 | – | – | – | – | – | – | – | 500.1 |
| | 1,946.3 | – | (70.2) | – | (35.7) | – | 5.4 | – | 1,845.8 |
| Total assets | 2,090.3 | (2.8) | (51.4) | 4.6 | 14.0 | 0.6 | 6.1 | – | 2,061.4 |
| LIABILITIES | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Financial liabilities: | | | | | | | | | |
| – Bank and other borrowings | (35.3) | – | – | – | – | – | – | – | (35.3) |
| – Derivative financial instruments | – | – | – | – | – | – | (39.3) | – | (39.3) |
| Trade and other payables | (187.1) | – | (0.6) | – | – | 0.1 | – | 52.7 | (134.9) |
| Current income tax liabilities | (59.6) | – | – | – | – | – | (0.5) | – | (60.1) |
| Insurance accruals and deferred income | (424.9) | – | – | – | – | – | – | – | (424.9) |
| | (706.9) | – | (0.6) | – | – | 0.1 | (39.8) | 52.7 | (694.5) |
| Non-current liabilities | | | | | | | | | |
| Financial liabilities: | | | | | | | | | |
| – Bank and other borrowings | (855.1) | – | – | – | – | – | 32.7 | – | (822.4) |
| Retirement benefit obligations | – | – | – | – | (129.8) | – | – | – | (129.8) |
| Deferred income tax liabilities | (2.8) | 2.8 | – | – | – | – | – | – | – |
| | (857.9) | 2.8 | – | – | (129.8) | – | 32.7 | – | (952.2) |
| Total liabilities | (1,564.8) | 2.8 | (0.6) | – | (129.8) | 0.1 | (7.1) | 52.7 | (1,646.7) |
| NET ASSETS | 525.5 | – | (52.0) | 4.6 | (115.8) | 0.7 | (1.0) | 52.7 | 414.7 |
| SHAREHOLDERS' EQUITY | | | | | | | | | |
| Called-up share capital | 26.4 | – | – | – | – | – | – | – | 26.4 |
| Share premium account | 105.5 | – | – | – | – | – | – | – | 105.5 |
| Other reserves | 7.1 | (4.8) | (2.5) | – | – | 2.0 | 0.6 | – | 2.4 |
| Retained earnings | 386.5 | 4.8 | (49.5) | 4.6 | (115.8) | (1.3) | (1.6) | 52.7 | 280.4 |
| TOTAL EQUITY | 525.5 | – | (52.0) | 4.6 | (115.8) | 0.7 | (1.0) | 52.7 | 414.7 |

13. Reconciliations between IFRS and UK GAAP continued

The principal differences for the group between reporting on the basis of UK GAAP and IFRS are as follows:

13(a) Reclassifications

The following reclassifications have been made within the income statement and the balance sheet on transition from UK GAAP to IFRS.

- Commissions paid to reinsurers were deducted from the revenue of the motor insurance division under UK GAAP. In accordance with IFRS 4, these costs are now included within operating costs.
- Under UK GAAP, interest payable by the group and investment income receivable by the motor insurance division was included in cost of sales and not separately disclosed on the face of the profit and loss account. In accordance with IAS 1, these amounts are now separately disclosed as finance costs (interest payable) and finance income (investment income receivable).
- The group has reclassified certain costs between operating costs (formerly cost of sales under UK GAAP) and administrative expenses to better reflect the current structure of the group. In the home credit businesses and Vanquis Bank, operating costs comprise impairment charges, agents' commission and advertising and marketing costs. Operating costs for Yes Car Credit include the aforementioned costs plus the vehicle cost. For the motor insurance division, operating costs comprise claims costs, reinsurance costs and direct levies. All other costs are classed as administrative expenses.
- The UK GAAP deferred tax provision has been reclassified to deferred income tax assets as the group is now in a deferred income tax asset position following the transition to IFRS.
- Software development costs were disclosed as part of property, plant and equipment under UK GAAP. Such costs meet the definition of intangible assets under IFRS and are therefore disclosed as intangible assets.
- Given that the group has elected to retain UK GAAP carrying values of property, plant and equipment (including any historic revaluations) as deemed cost on the date of transition to IFRS there is no difference between cost and valuation on an IFRS basis. Accordingly, the UK GAAP revaluation reserve has been transferred from other reserves to retained earnings.
- Treasury shares and foreign exchange movements taken to reserves formed part of retained earnings under UK GAAP. Under IFRS, these amounts have been recategorised as part of other reserves. As permitted by the transitional arrangements of IFRS 1, only foreign exchange differences taken to retained earnings after 1 January 2004 have been recategorised.

13(b) Revenue recognition and impairment

Revenue recognition and impairment in home credit

The service charge on a home credit loan is fixed. The charge does not increase if customers take longer than the contracted period to repay the loan and there are no penalty or default interest charges. Therefore, revenue is capped at the amount of the service charge. Under UK GAAP, revenue in home credit was recognised by a combination of (i) an initial release to cover issue costs, (ii) an amount recognised in proportion to cash collections and (iii) a small amount released on a sum of digits method reflecting the funding cost of the amount advanced.

Under IFRS, the group is required to treat the service charge as if it were interest. Revenue on loan receivables is recognised using an effective interest rate (EIR). This is calculated using contracted cash flows adjusted for the impact of customers repaying early but excluding the anticipated impact of customers paying late or not paying at all. Directly attributable incremental issue costs are also taken into account. Under IFRS, the group recognises revenue more slowly as many of the costs covered by the initial release under UK GAAP do not qualify as directly attributable costs under IFRS.

Under UK GAAP, bad debt provisions in home credit were based on a formulaic approach which was based on historical performance. Under IFRS, impairment of the balance sheet value of customer receivables is calculated by estimating the future cash flows from a loan portfolio, discounting these to a present value using the EIR and comparing this figure with the balance sheet value. An impairment provision is made for the shortfall between the present value and the balance sheet value and an impairment charge or credit to the income statement results.

13. Reconciliations between IFRS and UK GAAP continued

13(b) Revenue recognition and impairment continued

Revenue recognition and impairment in home credit continued

Under UK GAAP, during the life of the loan, revenue was not accrued if collections were not made. Under IFRS, revenue continues to be accrued even if payments are missed and an impairment charge is made. This approach can, and does, result in the recognition of revenue in excess of the amount to which the group is contractually entitled because revenue continues to be recognised on loans that are not fully repaid within the contracted term.

The recognition of revenue above that which the group is contractually entitled to causes an immediate impairment charge since no cash collection is expected. This results in a 'grossing up' of the impairment charge which goes to offset the 'grossing up' of the revenue. Unfortunately the relevant standard here, IAS 39, was not written with the home collected credit sector in mind.

Revenue recognition and impairment in Yes Car Credit

Under UK GAAP, the proceeds from a vehicle sale were recognised immediately, together with a proportion of the insurance commission income. The remainder of the insurance commission was recognised over the life of the finance contract. Finance income was recognised over the life of the contract to give a constant return on the carrying amount.

Under IFRS, the car sale continues to be recognised immediately and finance income is recognised using the EIR. Insurance commissions are taken into account in calculating the EIR and are therefore recognised over the life of the contract albeit not on a straight line basis.

Under UK GAAP, bad debt provisions in Yes Car Credit reflected the directors' best estimate of the number of contracts likely to default and the average expected loss for these contracts. Under IFRS, impairment is recognised when there is objective evidence that a loan is impaired (e.g. when a contractual payment has been missed). Provisions are calculated using the expected cash flows of impaired loans and discounted at the EIR.

Revenue recognition and impairment in Vanquis Bank

Under UK GAAP, annual fees were taken to the profit and loss account immediately.

Under IFRS, annual fees are recognised over the expected life of the outstanding balance using the EIR.

There is no material change in the bad debt provisioning policy of Vanquis Bank on transition to IFRS.

13(c) Goodwill

Under UK GAAP, goodwill was recorded at cost and amortised to the profit and loss account over its expected useful economic life.

Goodwill amortisation is prohibited under IFRS. Instead, annual impairment reviews of goodwill are conducted and any impairment is reflected in the income statement.

The adjustment included in the reconciliations reflects the reversal of the UK GAAP goodwill amortisation charge since the date of transition to IFRS.

13(d) Retirement benefits

Under UK GAAP, the group used SSAP 24 to account for pension obligations. Under SSAP 24, the annual charge to the profit and loss account reflected the total cost of providing pensions (including actuarial gains and losses) spread over the working lives of employees. Differences between cash contributions made to the scheme and the pension charge in the profit and loss account were held on the balance sheet.

Under IFRS, the accounting for defined benefit pension schemes is balance sheet focussed with pension deficits/surpluses recognised on the balance sheet. There are a number of alternative treatments of actuarial gains and losses under IAS 19 – the group has reflected such gains and losses in a statement of recognised income and expense rather than the income statement which is now permitted under IAS 19. This approach is similar to that of IAS 17 which is effective under UK GAAP from 1 January 2005.

13. Reconciliations between IFRS and UK GAAP continued

13(d) Retirement benefits continued

The income statement adjustments reflect the difference between the UK GAAP SSAP 24 charge and the IAS 19 charge. The balance sheet adjustment represents the reversal of the UK GAAP pension prepayment and full recognition of the pension deficit under IFRS. The deferred tax asset on the pension deficit has been reflected separately from the pension deficit as IFRS does not allow an offset to be made.

13(e) Share-based payments

Under UK GAAP, the intrinsic value (market value of the share at date of grant less exercise price of the option) was charged to the profit and loss account over the employee performance period. Save As You Earn (SAYE) schemes were historically exempt from share-based payment accounting under UK GAAP.

IFRS 2 requires a fair value based method of accounting for share-based payments which takes into account the value of the option, not just the market price of the share on date of grant. The cost of share-based payments is recognised over the relevant vesting period which is broadly comparable with UK GAAP. There is no exemption in IFRS for SAYE schemes.

The adjustments in the reconciliations represent the recognition of the income statement charge for share-based payments under IFRS. As permitted by IFRS 2, the adjustment has been calculated based on all share options and SAYE schemes granted since 7 November 2002 but which had not vested by 1 January 2005. The balance sheet impact reflects the creation of a corresponding reserve within equity shareholders' funds to offset the income statement charge.

13(f) Derivative financial instruments

Under UK GAAP, derivatives (e.g. interest rate swaps, foreign currency contracts) were recorded at cost and accounted for on an accruals basis. Foreign currency loans which were the subject of currency hedging arrangements were retranslated at each period end using the contracted rate. IAS 39 requires all derivatives to be recognised on the balance sheet at their fair value. Movements in fair value should be reflected in the income statement unless prescriptive hedge accounting criteria are met.

The group manages interest rate and foreign exchange risk through the use of derivative financial instruments. Accordingly, these are reflected on the balance sheet at their fair value under IFRS. The group has attained hedge accounting from 1 January 2004 for the majority of its derivatives and, therefore, for those derivatives that qualify for hedge accounting, movements in fair value are either deferred in a hedging reserve within shareholders' equity and released to the income statement in line with the underlying hedged item (cash flow hedge) or taken to the income statement and offset by a corresponding movement in the fair value of the underlying hedged item (fair value hedge). The income statement charge reflects the movement in fair value of those hedges that do not qualify for hedge accounting and any small amounts of hedge ineffectiveness arising on those that do qualify.

In addition to the above, IAS 21 'Effects of Changes in Foreign Exchange Rates' requires all monetary assets and liabilities to be retranslated at the year end exchange rate regardless of hedging arrangements in place. Accordingly, the group's foreign currency borrowings which under UK GAAP are retranslated at the contracted rate of exchange have been retranslated using the rates of exchange ruling at the balance sheet date. The movement in the liability has been offset by movements in the fair value of the cross currency swaps which are in place to hedge the loans. As a result, there is no impact on the income statement.

13(g) Dividends

Under UK GAAP, dividends declared after the balance sheet date were recorded in the accounts as at the balance sheet date. Under IFRS, dividends declared after the balance sheet date cannot be included as a liability at the balance sheet date. The adjustments in the reconciliations reflect the reversal of the period end proposed dividends in the balance sheet.

Independent review report to Provident Financial plc

Introduction

We have been instructed by the company to review the financial information for the half-year ended 30 June 2005 which comprises the consolidated interim income statement, statement of recognised income and expense, consolidated interim balance sheet, consolidated interim cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 2, the next annual accounts of the group will be prepared in accordance with accounting standards adopted for use in the European Union. This interim report has been prepared in accordance with the basis set out in note 2.

The accounting policies are consistent with those that the directors intend to use in the next annual accounts. As explained in note 2, there is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual accounts for the first time in accordance with accounting standards adopted for use in the European Union. As disclosed in note 2, the directors have anticipated that the revised IAS 19 'Employee Benefits – Actuarial Gains and Losses', which has yet to be formally adopted for use in the European Union, will be so adopted in time to be applicable to the next annual accounts. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 December 2005 are not known with certainty at the time of preparing this interim financial information.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly, we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the half-year ended 30 June 2005.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Leeds
14 September 2005

Information for shareholders

1. The shares will be marked ex-dividend on 21 September 2005.
2. The interim report will be posted to shareholders on 23 September 2005.
3. The interim dividend will be paid on 14 October 2005 to shareholders on the register at the close of business on 23 September 2005. Dividend warrants/vouchers will be posted on 12 October 2005.
4. The Provident Financial Company Nominee Scheme ('the scheme') enables shareholders who are eligible, namely individuals, to take advantage of the CREST system for settling transactions in shares in the company by means of a low-cost dealing service. It includes a dividend reinvestment scheme for those who wish to use this facility. Shareholders who wish to take advantage of the scheme should contact the company's registrar, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone: 0870 162 3100) to request an information pack. The registrar's website is www.capitaregistrars.com.

Directors

John van Kuffeler Chairman

Executive directors

Robin Ashton Chief Executive
John Harnett Finance Director
Chris Johnstone Managing Director, UK consumer credit
David Swann Managing Director, international

Non-executive directors

Charles Gregson Deputy Chairman
Ray Miles Senior independent non-executive director
John Maxwell Chairman of the remuneration committee
Graham Pimlott Chairman of the audit committee

Company details

Registered office and contact details:
Provident Financial plc
Colonnade
Sunbridge Road
Bradford
West Yorkshire
BD1 2LQ

telephone: +44 (0)1274 731111
fax: +44 (0)1274 727300
email: enquiries@providentfinancial.com
website: www.providentfinancial.com

Company number

668987

Paper specification

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Provident Financial plc

Colonnade
Sunbridge Road
Bradford
West Yorkshire
BD1 2LQ
United Kingdom

telephone: +44 (0)1274 731111

fax: +44 (0)1274 727300

email: enquiries@providentfinancial.com

website: www.providentfinancial.com

Company number

668987