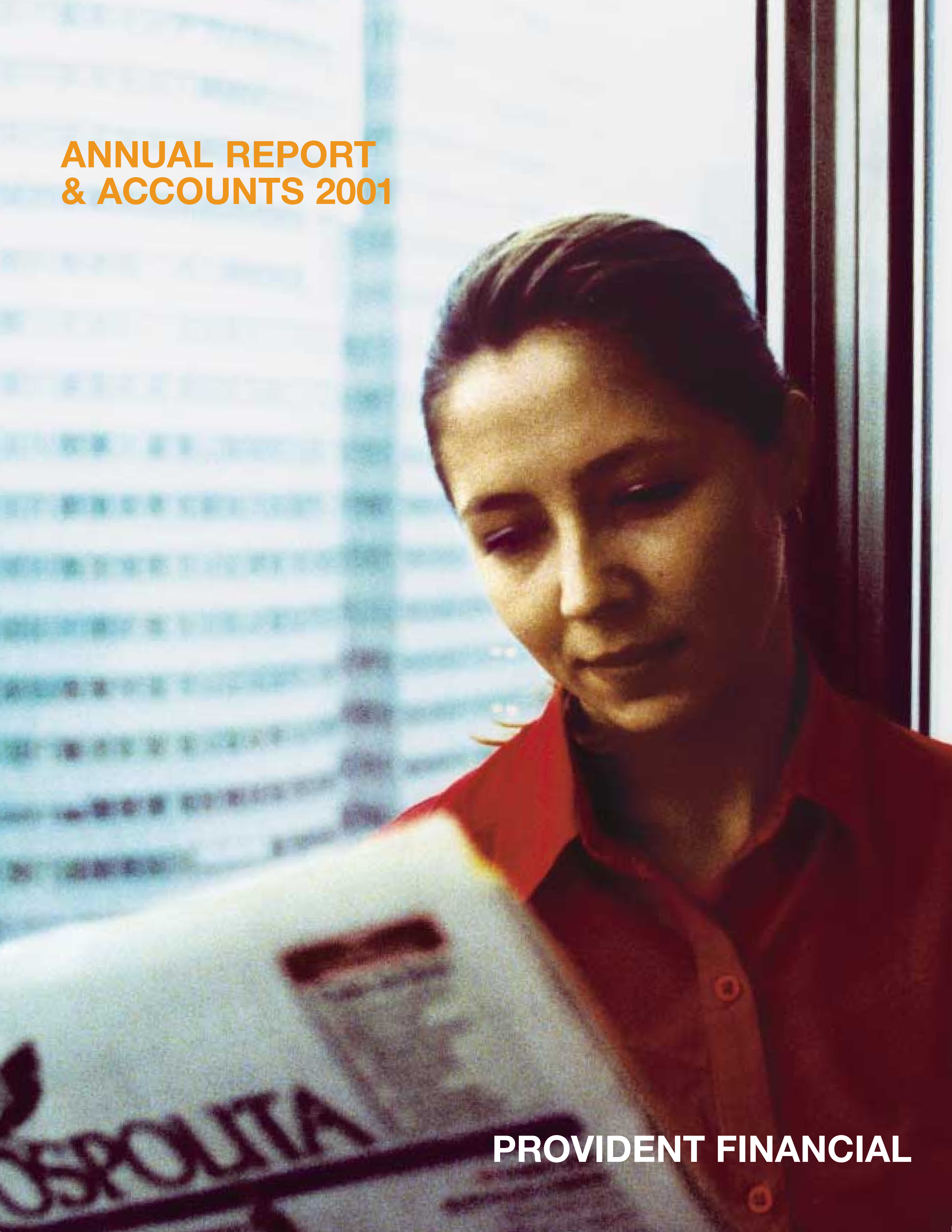
# ANNUAL REPORT & ACCOUNTS 2001



PROVIDENT FINANCIAL

# CARING, RESPONSIBLE & FAIR

## Our obligation to stakeholders


1 & 4 Provident employees at work in Yorkshire.
2 A Provident agent calls on her customers in Manchester.
3 Warsaw, where Provident has grown spectacularly in recent years.

Provident Financial 2001

Contents

# SHAPING OUR FUTURE, COMPETING TO WIN

## Our determination to foster a forward-looking, value-generating business culture

**Provident Financial 2001**
**Company statement**

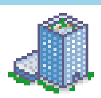
As a leading provider of home credit, Provident offers small, unsecured cash loans to help customers smooth their household budgets. At a time when many financial services are becoming more remote, we offer friendly, human contact along with absolute transparency and a flexible repayment system. We align the interests of the company, its agents and its customers in such a way that everyone benefits from fair, responsible lending and a caring style of service that's hard to find elsewhere. As part of the same ethos, we aim to be a good employer and to help the community.

Provident is also in business to make a profit and give shareholders a return on their investment. Through our training and development, we're emphasising an entrepreneurial culture. In our product development, we're looking at ways of winning more customers and offering new but related products to those we already serve – examples being the recently launched catalogue and the cross-selling of motor insurance to home credit customers. And we're expanding with extraordinary success in central Europe.

In all these ways, Provident is seeking to foster a value-generating business culture, preserving the best of the past while adapting quickly and imaginatively to the future.

# HIGHLIGHTS OF THE YEAR 2001

**The group continued to make good progress. The UK home credit division made steady progress in the relatively mature UK market. The international home credit division grew substantially, with its major businesses in Poland and the Czech Republic moving strongly into profit. The motor insurance division also had a very good year, reporting record policyholder numbers and record profits.**



**Results**
**Group**

> Strong growth continued during the year
> Turnover up **14%**
> Customers up **9%** to **3.5m**
> Profit before tax up **5.9%** to **£169.6m**
> Earnings per share up **6%** to **50.39p**
> Dividend per share up **7.5%** to **29.35p**

**Results**
**UK home credit**

> Steady growth
> Customers up **2%** to **1.61m**
> New catalogue and insurance products attracted **44,000** new customers
> Credit issued up **3.6%** to **£915m**
> Profit before tax up **2.3%** to **£150.4m**

**Financial highlights:**
**www.providentfinancial.com**

For further information visit our website

# News summary

## Home credit customer numbers up by 11.5% to 2.3 million

## Strong profit growth in Poland and Czech Republic

## Successful expansion into Hungary and Slovakia

## Record profit from motor insurance division

### Results
### International home credit

> An outstanding performance

> Customer numbers up **42%** to **708,000**

> Hungary and Slovakia successfully opened, South Africa closed

> Poland: profit before tax of **£6.7m** (loss of £2.8m in 2000)

> Czech Republic: profit before tax of **£2.5m** (profit of £0.1m in 2000)

> Division: profit before tax from ongoing operations of **£0.8m** (loss of £5.9m in 2000)

### Results
### Motor insurance

> A record year

> Policyholders up **8.5%** to **855,000**

> Gross written premiums up **16%** to **£255m**

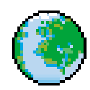
> Profit before tax up **14%** to **£36.6m**

# CHALLENGES & OPPORTUNITIES

## The issues at the top of our agenda

### Issue #1 Steady growth and broader customer appeal

**To continue growing and generating cash in our UK home credit division**
The UK home credit market is relatively mature. Provident is responding by emphasising its unique, personal service and by seeking out new products to offer to its market. Our target for 2002 is to continue to broaden our offer to customers and to maintain steady growth from this profitable and cash generative business.



### Issue #2 Building on success in central Europe

**To build profitability in our international home credit division**
Our businesses in Poland and the Czech Republic earned good profits in 2001. Our national infrastructures in both countries are well-developed and so, as we grow our customer numbers and average loan size, we expect profits to grow. We have also made an encouraging start in the pilot operations established in Hungary and Slovakia in 2001. Our focus in 2002 will be to build profits in Poland and the Czech Republic and develop further in Hungary and Slovakia.

### Issue #3 New countries for future expansion

**To explore international opportunities**
Provident has proved that the home credit business model has strong international appeal. We are now researching further markets and identifying the best approach in each case. We are looking for countries with stable economies, an effective legal system, a well-educated workforce, a large enough population, and a demand for credit to ensure a profitable business.

### Issue #4 Shaping our future

**To emphasise an entrepreneurial culture**
Provident is a long-established company with a tradition of customer service and success. We intend to build on our success by emphasising an entrepreneurial culture in which our people are confident, determined to win and ready to shape the future of Provident.

## Challenges and opportunities: www.providentfinancial.com

1 To find out more about Provident, visit our website at www.providentfinancial.com.
2 Water-saving taps like these are part of Provident's drive to use natural resources as efficiently as possible.

## Issue #5 Being a good corporate citizen

**To build on our programme of corporate social responsibility**
We have a good record of caring for our customers, our workforce and of working hard to improve the communities in which we operate. As we have internationalised, we have taken this approach to our new markets. Whilst much has been achieved, there is much still to do. During 2001, we made significant improvements in our management of the environmental effects of our business. Moving forward, we intend to adopt a more proactive approach to talking and listening to our stakeholders.

3 Home credit has proved hugely popular in central Europe.
4 Provident has a good record of caring for its employees.

## Issue #6 Spreading the home credit message

**To continue to explain the benefits of home credit to a wide audience**
Because home credit carries a high APR, it is sometimes criticised as being expensive. We believe that APR alone is a poor measure of cost or value to the customer in the case of small loans. When we explain the absence of penalty charges, the level of service from the agent, our focus on responsible and affordable lending and the high satisfaction rates among our customers, we find that most critics are won over. As a scrupulous lender, we will continue to spread this message.

# AN EXCELLENT RECORD OF GROWTH

## Chairman's statement 2001

I am pleased to announce our results for 2001. Strong growth continued during the year, with group turnover up by 14% to £833 million and group customer numbers up by 9% to 3.5 million (2000 3.2 million). Group profit increased by 5.9% to £169.6 million (2000 £160.2 million) after incurring losses and closure costs totalling £5.0 million from the South African and Provident balance operations that were closed during the year. Earnings per share increased by 6.0% from 47.52p to 50.39p per share. The directors recommend a final dividend of 17.6p (2000 16.4p) giving a dividend for the year of 29.35p per ordinary share (2000 27.3p), an increase of 7.5%.

### Operations

#### UK home credit

The UK home credit division continues to make steady progress. Credit issued increased by 3.6%, customer numbers by 2.0% and profit before tax by 2.3%. Credit quality remains good with bad debt as a percentage of credit issued at 8.3%. The introduction of two new products during the year, a mail order catalogue and a motor insurance offer, made a useful contribution, adding £18 million to credit issued and attracting 44,000 new customers.

#### International home credit

The international home credit division has grown substantially during the year, achieving excellent growth in profit in Poland and the Czech Republic and successfully establishing new operations in Hungary and Slovakia. Our South African operation was unable to establish a profitable business model and so was closed. It reported a loss, including closure costs, of £3.6 million for the year (2000 loss of £0.8 million).

Our business in Poland performed very well, achieving a pre-tax profit of £6.7 million, an improvement of £9.5 million over the loss of £2.8 million in 2000. Credit issued grew 113% to £158 million while customer numbers rose 65% to 504,000. Bad debt as a percentage of credit issued rose to 7.5%. The underlying level of bad debt as a percentage of credit issued that we expect over the full term of the loans currently written also increased and is now in the range of 9% to 10%. This level of bad debt is acceptable given the rapid growth in the business and its excellent profitability.

Our Czech operation achieved pre-tax profit of £2.5 million, an increase of £2.4 million from £0.1 million in 2000. Credit issued rose by 26% to £53 million while customer numbers rose by 17% to 189,000. Progress in the year was slowed by a rise in the level of bad debt as a percentage of credit issued to 11.2%. The underlying bad debt as a percentage of credit issued now stands in the range of 11% to 12%, a level at which both profitability and return on capital remain good. The Czech team has performed well and has achieved a good result for the year.

We opened for business in March 2001 in Slovakia and May 2001 in Hungary. These are pilot scale operations designed to test our business model prior to a full launch. We currently have two branches in each country, a total of 15,700 customers, good collections and low bad debts. Both businesses are progressing well. The start-up losses from the two countries in 2001 were £3.6 million.

The international home credit division as a whole reported a pre-tax profit, excluding the losses of the discontinued South African operation, of £0.8 million (2000 loss of £5.9 million). This is an encouraging result, reflecting an outstanding performance from the staff and management of the division.

#### Motor insurance

The motor insurance division had another record year, benefiting from conditions at the top of the motor insurance cycle. Profit before tax increased by 14% to £36.6 million (2000 £32.0 million) while policyholder numbers rose by 8.5% to reach a new peak of 855,000. Gross written premiums increased by 16% to £255 million.

#### The board

We began our recent succession plans in 1999 when four out of our five executive directors were in their fifties. We first recruited John Harnett as Finance Director in April 1999 and promoted his

John van Kuffeler,
Chairman

# Our Chairman

predecessor, Robin Ashton, to Deputy Chief Executive. This was followed by the retirement of Peter Fryer, aged 57, in 2000 and Peter Bretherton, aged 55, in April 2001. At the same time, Chris Johnstone and David Swann replaced them on the board, with responsibility for the UK home credit and international home credit operations respectively.

On 30 September 2001 Robin Ashton was promoted to Chief Executive and Howard Bell, aged 57, retired after a 34 year career with the group, with the last four years as Chief Executive. I would like to express our gratitude for his hard work, vision and leadership. I would also like to thank the three executive directors who have retired for their foresight and support in ensuring that their successors were appointed in a professional and timely manner. The transition to the new team has been smooth and they are already steering the company through its next stage of development.

Now that these succession plans have been completed, I am moving from executive to non-executive Chairman at the annual general meeting on 1 May 2002.

**Share buy-back**

The group continues to be strongly cash generative and, in line with our policy of maintaining an efficient capital structure, we purchased for cancellation 3.8 million shares during the second half of the year at a total cost of £23.2 million and an average cost per share of 615p.

**Prospects**

Provident Financial has an excellent record of growth and we expect this to continue in 2002.

The UK home credit division is a substantial, profitable and cash generative business, serving 1.6 million customers. It has enormous strengths in the personal relationship between agent and customer and offers a product that is flexible, convenient and tailored to the customer's requirements. It is the leader in a UK market that is relatively mature. We expect growth from the division for 2002 to be at a similar rate to that for 2001.

We see excellent prospects for growth in customer numbers, credit issued and profit from our international home credit division. We believe that there are other international markets offering the prospect for profitable development. In 2002, however, we intend to build on our success in central Europe, to focus on growing profits in Poland and the Czech Republic and to develop further our businesses in Hungary and Slovakia. It is not our intention, at this time, to open in a further country during 2002.

2001 has been another record year for profit from our motor insurance division and our policyholder numbers are at an all time high. There are now signs of a change in pricing conditions in the market. Our premium rates increased by 6% in 2001 compared to 17% in 2000 and, in a more competitive market, premium rates increased only slightly in the second half of the year. Although the outlook is uncertain, we believe the motor insurance market is at the top of the cycle and, with annual claims inflation running at about 9%, we continue to caution that a downturn in margins may begin in 2002.

I am pleased to conclude that Provident Financial continues to make good progress. We remain a profitable and sound business that is relevant to our customers. While preserving our traditional values, we're also working hard to shape our future – not least, by emphasising a culture in which Provident people are determined to win and can move quickly to seize new opportunities. We've shown we can do it in central Europe and expect to see a strong emphasis on performance, creativity and innovation across the business.

We look forward to continuing our good progress in 2002.

John van Kuffeler, Chairman
8 March 2002

# THE WAY IT LOOKS TO ME

## Chief Executive, Robin Ashton, offers a personal view of the group's direction and development

### Chief Executive's review 2001

As the new Chief Executive, I consider it a privilege to hold this position. I'm naturally proud to head a thriving business with a market capitalisation of £1.5 billion, but even more proud of the service we provide to our customers and the work we do for communities.

**What's Provident all about?**

A challenge I constantly face is persuading people that it's possible to build a large, successful company on the simple concept of small cash loans with agents calling every week at the customer's home to collect repayments. I'm often asked how it all works and why customers should want to buy the product.

Well, the fact is that 2.3 million home credit customers in the UK and abroad have chosen to use Provident. And the reasons are clear. Customers needing small amounts of credit enjoy a fast, convenient service with no queues, no complicated forms and cash delivered to the door. Week by week, agents and their customers build up a relationship that underpins the success of the business.

Is the service expensive? When you take all the features of the product into account, I believe we offer very good value.

First, the sums lent are small: almost half of our loans are for £200 or less. Small loans cost a similar amount to set up as larger ones, so this has to be reflected in the price. Also, our loans are unsecured so the risk lies with us, not the customer.

Second, the fact that we collect repayments every week from the customer's home provides a service and a routine that help our borrowers to stay creditworthy. It also avoids inconvenient and expensive trips to town to make repayments.

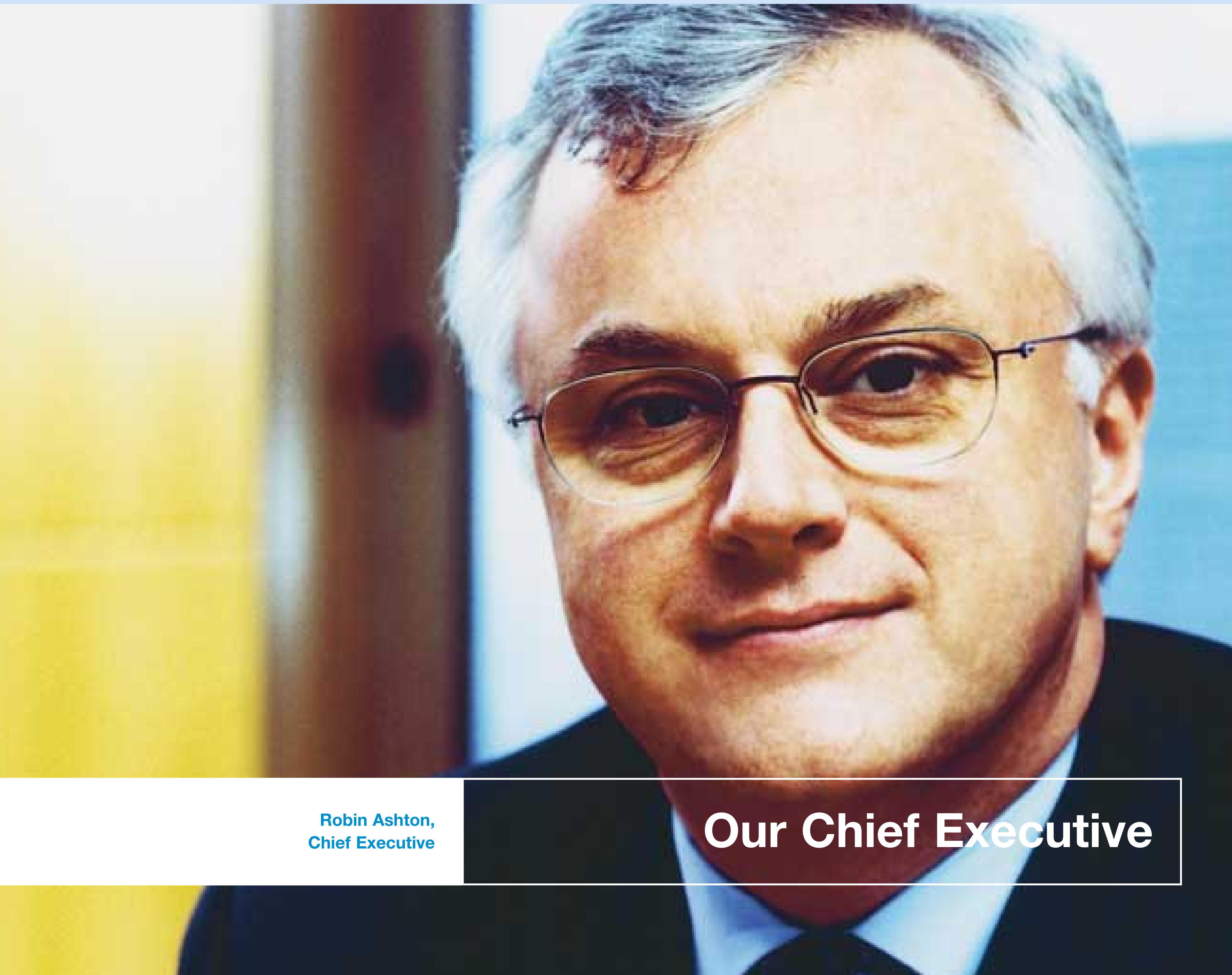
Third, when all product costs are taken into account, the cost of our loans compares favourably with competing forms of small sum finance such as agency mail order or the typical bank overdraft. Because bank overdrafts are not required to quote an APR, and the cost of credit is embedded in the product price in mail order catalogues, people sometimes, incorrectly, conclude that the Provident service is more expensive. Furthermore, in contrast to most consumer credit, our product carries no penalties for late payment or extra charges whatsoever. Customers know from the start exactly what they have to pay and every instalment reduces the balance owed.

Agents' income is not based on credit issued but on how much they collect, so they have an incentive not to lend more than their customers can repay. Given that we don't impose penalty charges, it's also in the agents' interests not to encourage their customers into too much debt. So responsible lending is built into our system.

There's clearly a social value in what we do. Some of our customers would not otherwise have access to credit and Provident helps to include them in the financial mainstream. However, most of our customers do have other forms of credit: in the UK, for example, 62% have a bank current account, 22% own a credit card and 15% have a mortgage. Some 38% of our loans in the UK are to customers in the C1/C2 socio-economic groups compared to 31% to customers in the D and 28% in the E group. So it's clear that most customers have access to other forms of credit but choose Provident for its service and convenience.

And the service is hugely popular. Our customer satisfaction ratings in independent research stand at 90% (astonishingly high for the financial services industry) and two thirds of our new business comes from personal recommendation. Many of our borrowers are second and third generation Provident customers.

> Ours is a forward-looking group based on sound business principles. We build strong relationships with our customers and offer a high quality service that meets their needs and provides good returns for our shareholders.



Robin Ashton,
Chief Executive

# Our Chief Executive

## “We’ve proved conclusively that the business model can be exported, almost without change, and be very successful.”

# Chief Executive’s review
## 2001 continued

**UK home credit**
The UK home credit market is relatively mature. So compared to the 1990s, we’re having to work harder for our growth. Part of our strategy is therefore to look for other products that will help us to attract and retain more customers and offer more to the customers we already have.

One example is the catalogue offer. This provides our customers with branded products at high street prices. We have a partner to handle the logistics while we focus on what we’re good at. Our agents endorse the catalogue and offer to supply credit to pay for the goods.

A second example is the link-up with our insurance brokers, Colonnade, to cross sell motor insurance to home credit customers. In this case the agent ascertains the customer’s renewal date, Colonnade gets in touch and, if the quote is accepted, the agent offers credit to cover the premium. Although the volumes are still quite low, the early signs are promising.

While these two products get established, we continue to look for other opportunities to build on the strengths of the home credit customer relationships.

**International home credit**
It’s hard to believe how far and fast our international home credit division has grown in such a short space of time. It was only in 1997 that we sent a small number of UK managers to Poland and the Czech Republic to test the market. But it quickly became apparent that here was a remarkable opportunity.

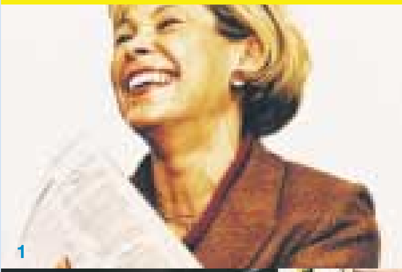
Initially, in a society grown used to bureaucracy and long queues at the bank to get anything done, the Provident offer sounded too good to be true. “The bank comes to the customer? You don’t ask for security? I don’t believe it!” was a typical reaction.

But things were changing fast in central Europe – and still are. Lots of visitors to our central European operations expect a poor and underdeveloped economy and are surprised by the new high-rise buildings, the BMWs on the streets and the stores crammed with consumer goods. These are advanced, western-style societies with excellent education and infrastructure, a flexible workforce and supportive legislation – shaped in part by these countries’ ambitions to join the EU. Their citizens want the good things in life and Provident has stepped in early to help them realise their aspirations.

The figures speak for themselves. From a standing start four and a half years ago, Provident Polska has 212 offices, 1,594 full-time employees, 8,415 agents and over half a million customers. In a smaller market, the Czech operation has 525 employees, 2,549 agents and 189,000 customers. Together, they put us well on track for our target of one million customers in central Europe by 2004. Best of all, both businesses are now in profit.

Between start-up and the end of 2000, our Polish business had reported total pre-tax losses of £7.5 million. In 2001, we virtually paid back that investment with a profit of £6.7 million. Similarly, in the Czech Republic, the cumulative losses to the end of 2000 were £3.9 million. These have been substantially recouped in 2001 with a profit of £2.5 million.

1 One of Provident Polska's 8,415 agents makes a call in Warsaw.
2 Customers in Manchester welcome their local agent.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3-6 Out and about in Prague – shop signage; a delivery to Provident's reception desk; city rooftops; getting the consumer habit in a Prague department store.


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## Our divisions

> UK home credit

> International home credit

> Motor insurance

Back in 1997, we didn't expect to build a business of this size and profitability quite so quickly or with such a relatively small dent in our profit and loss account. We've proved conclusively that the business model can be exported, almost without change, and be very successful.

Of course there are issues that have to be managed. This year, for example, the Czech Republic and Poland have seen a rise in bad debt. That's partly a function of growth. When the priority is to add customers, we're bound to have a higher proportion of borrowers whom agents haven't yet got to know and who are therefore inherently more risky. In November 2000, to develop the business, we also introduced a new loan with a longer payback period of 50 weeks in both countries, which means a bigger bad debt charge if customers stop paying.

Nonetheless, the economics of both businesses remain good and they are already generating healthy profits and good returns on capital employed. Overcoming new challenges is all part of the process of building successful and substantial nationwide businesses from scratch, and we remain delighted with the development of both businesses.

This year we expanded into Slovakia and Hungary, using key people from Poland and the Czech Republic to get the new businesses started. Both operations are doing well in their early stages. We currently have four offices, two in each country, 15,700 customers, good collections and low bad debts.

We see strong prospects for further growth. In Poland and the Czech Republic, the infrastructure is now largely in place so we can concentrate on expanding from the base we've already built. At present, the combined operating costs in these two businesses represent 78% of their combined revenues compared to 63% in the UK. But as we get more customers per agent and more agents per supervisor, and as customers borrow more, costs will fall as a proportion of revenues, and profits will increase.

1-2 Specialising in women drivers and second or older cars, the motor insurance division has a long record of excellent service.
3 Pupils at Rhodesway School, part of Provident's community arts programme.


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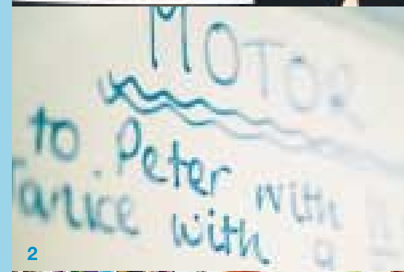

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## Chief Executive's review 2001 continued

And that's without taking account of other products that we may decide to launch when home credit is properly embedded. In time, we expect profit margins to be similar to those of the UK.

### Motor insurance

Motor insurance is a major business in its own right for Provident. There are two parts to it – a broking operation with 88 high street outlets and a telebroking business, and an underwriting arm that specialises in women drivers and non-comprehensive insurance for second or older cars. People are often surprised to learn that Provident is the tenth largest motor underwriter in the UK.

In motor insurance, our strategy is to keep our costs low and to write business only when it's profitable. So when market prices rise, we write more business: when they fall, we prefer to maintain margins and let our customer numbers contract. While the rest of the industry typically goes for market share and lets its profits fluctuate, we reduce the volatility of our profits by shrinking and expanding our volume and our cost base.

That's a management challenge in itself. Over the years, we've become very good at making profits throughout the cycle while growing and contracting the business. It helps, too, that we keep the business simple, focused and tightly managed, making sure we have good people, good technology and good claims management. As a result, we're almost the only motor insurer that makes a profit throughout the cycle. 2001 produced yet another record result.

Motor insurance rates in general have levelled off in the last six months and we could be due for a downturn in margins. If that happens, our volumes and profits will obviously fall – though we will, of course, continue to ensure that policies are only written with a view to a profit.

### Social responsibility

As well as helping our customers with fair and responsible lending, we're taking a long, careful look at what it means to be a good corporate citizen.

Social responsibility has been built into the business for 120 years. Today, however, governments, investors and others are increasingly concerned that businesses should behave responsibly and should make a positive contribution to society at large.

For this reason, we're becoming more systematic in measuring and managing our community involvement. We began last year by publishing a commitment to assess and reduce the environmental effects of our business. We've made good progress, setting targets in a number of areas from managing energy to cutting waste and establishing a formal Environment Management System.

But behaving well environmentally is only one aspect of corporate social responsibility. Right now, we're assessing the effects of everything we do on all our stakeholder groups so that we understand their needs more thoroughly and can respond more effectively. We're also contributing to the development of public policy as it affects our customers.

This broader view of social responsibility in no way diminishes our commitment to the communities in which our customers, employees and agents live and work. Again this year, we've contributed both financially and in terms of time and effort to a range of good causes from the National Society for the Prevention of Cruelty to Children (NSPCC) to The Prince's Trust to a secondary school here on our doorstep in Bradford. Much of the work focuses on children and it's been good to see our international home credit division also making its mark as a good corporate citizen.

You'll find more detail on page 23 and in a separate document on corporate social responsibility that accompanies this report.

## We're privileged at Provident in having such a great body of agents along with talented employees at all levels who do their work so incredibly well.

4-5 Motor insurance division – telebroking; Colonnade Insurance Brokers' branch

### Our people

Every Chief Executive says his greatest resource is his people. But that applies particularly to Provident in that we depend so much on the relationship between agents and customers. Agents in turn need good, supportive relationships with the branch managers, and so it continues up the chain.

We're privileged at Provident in working with such a great body of agents along with talented employees at all levels who do their work so incredibly well. I know our people take great pride in the job they do and I'm grateful for everybody's hard work and dedication.

In return, we're committed to developing our people to the peak of their abilities. It's been particularly gratifying in recent years to see bright young people taken on in Poland and the Czech Republic and rising rapidly through the organisation. We're now at a point where central European employees are starting to take senior positions in the group – some even moving to the UK to continue their careers. More and more, I expect to see a two-way flow of skills between the UK and our international operations.

### Looking forward

Looking forward, I believe that Provident has excellent prospects for future growth.

We have a UK home credit business that is the leader in its market and we expect it to continue to generate good profits. It does, however, operate in a relatively mature market and so we must look to broaden our offer in order to find additional growth. I'm encouraged by the success of our new initiatives in 2001. During 2002, we'll continue to look for further ways to broaden our offer.

Our international business shows great promise both from our existing central European markets and from expansion into new countries. I firmly believe that controlled and measured expansion into further new territories is worthwhile, but for 2002 I've asked our international home credit division to focus on building profitability in Poland and the Czech Republic and on further developing our pilot operations in Hungary and Slovakia. This represents significant progress and we'll revert to our plans for geographic expansion in 2003.

Our motor insurance business is earning record profits at the top of the insurance cycle. We believe it is likely that the cycle will turn down in 2002 and margins may begin to decline. We will manage the business as we have in the past, pricing to earn an adequate return on capital and shrinking our business and our cost base, if necessary.

I see a future in which Provident serves its customers in an increasing number of countries with a broadened range of simple financial products. I will emphasise a culture in which Provident people embrace change and focus on performance, creativity and innovation. This will, I believe, generate new opportunities to serve our customers and to build additional value for our shareholders.

1 For many customers, the 'Provi' agent is a friend.
2 Employees at the international home credit division's head office in Bradford plan the next stage of the company's growth.

3 Winning more customers in Poland: home credit was a new concept when Provident first arrived and demand has been phenomenal.

4 Chris Johnstone, Managing Director of the UK home credit division.

Home credit – helping to smooth the family budget.

# Our customers

# GOOD RELATIONSHIPS

## Nurturing that all-important trust between agents and customers

**People sometimes query how such a customer-friendly business can still make money. "The bank comes to the customer? There are no penalties? You don't ask for security? I don't believe it!" was a typical reaction when we first arrived in Poland. And we have to admit that fundamentally we trust our customers. But the reason we can do so is the relationship we have with them via our agents.**

### Chief Executive's review
### Customers and agents

The relationship between agent and customer is sometimes described as the 'magic' that makes Provident work. It contrasts with the growing remoteness of most financial services and is greatly valued by our customers.

By visiting the customer's home each week, the agent gets to understand the customer's needs and circumstances. She (for it usually is a woman) can gauge when another loan might be in order or when to advise a smaller loan or no loan so her customer isn't over-stretched.

Many agents become customers' friends and confidantes – genuinely looking out for their customers' interests. As the relationship evolves, customers often develop a strong loyalty to their agent. And if they do get into difficulties, they know they'll meet a sympathetic response.

"We're a fixture in people's routine," says agent Sally Harris who collects on a housing estate in Kent. "Some customers tell me off when I'm late because they reckon they set their clocks by my visit. Even when they've paid off their loan, people still regard themselves as customers. They know they've got someone to turn to if the need arises."

The agents, in turn, enjoy supportive relationships with the branch managers who will often join them on their rounds to offer assistance. "I've told agents they can call me at any time," says manager, Donald Morgan who works with Sally. "It's a people business. If you treat people with consideration, they will want to work with you. And that applies throughout the organisation."

# MANAGING CAREERS

## Offering the best to talented people – and expecting their best in return

Getting the best from good people – training in progress in Prague.

### Staff training

## Provident people: www.providentfinancial.com

1-3 Provident aims to be a company where skills and hard work are recognised and where talented people can rise quickly.

# Chief Executive's review

## Our people

We have always prided ourselves on the quality of people that want to work for the organisation – not to mention the ability to recognise talent and develop agents and employees.

A lot of effort goes into finding agents of the right calibre and easing them gradually into their roles. For their first two weeks they accompany a so-called 'buddy agent', or mentor, on his or her rounds. After that, they're encouraged to contact the buddy if there's anything they want to talk about. As they begin their own rounds, new agents are accompanied by a branch manager for a couple of weeks to offer support with their customers.

Support for agents is structured and comprehensive. It covers the products, the agent's responsibilities under consumer credit law, safety, how to judge the amount of credit that should be offered, how to manage arrears, and so on. Every agent has a weekly meeting with their manager to cover the running of their agency and where there may be further business opportunities.

Provident's employees also benefit from regular appraisals and recommendations from their managers on how to improve their performance and prospects. Our training programmes are constantly being developed to take account of individual needs.

At Provident, good people rise quickly – both in the UK and in central Europe where the company's expansion has opened new opportunities. As part of helping people to progress, we encourage our managers to gain formal qualifications. One result is that a number of employees have gained MBAs. Some employees from central Europe are currently studying for the qualification in Leeds. It all helps to bring fresh ideas into the business and ensures that more of our people take a keen interest in the company's development.

4 Provident constantly reviews its training programmes to make sure they're relevant and effective.

1

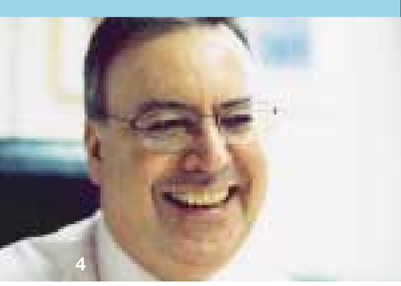
2

1 & 2 Provident has become a major force in Poland's economy as its network has spread across the country.

3 Provident Polska's 'Club Success' rewards high-performing agents.


3

4 David Swann, Managing Director of the international home credit division.



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Marta Bartosiak, employee of Provident Polska in Warsaw.

# Our international business

# EXPANSION IN CENTRAL EUROPE

## From one to 700,000 customers in four and a half years


**International division**

- > Poland
- > Czech Republic
- > Hungary
- > Slovakia

### Chief Executive's review
### International home credit division

When Steve Ford was given the brief to go and open up in Poland, a lot of people were surprised that Provident was considering such a bold move after well over 100 years in the UK. "Within 24 hours of arriving," says Steve, "I knew it could work. Nothing like home credit existed – and all our subsequent research confirmed a tremendous pull for the product."

On 1 August 1997, Steve opened for business in a single room in Warsaw with one manager, one agent and his first customer – Mrs Jadwiga Filipska, whose picture still hangs in the Warsaw office. Provident's growth from those small beginnings has outstripped the most optimistic forecasts. We all take pride that over 10,000 people now earn an income from Provident Polska and that Provident has nudged ahead of Tesco as the biggest British-owned provider of jobs in the country.

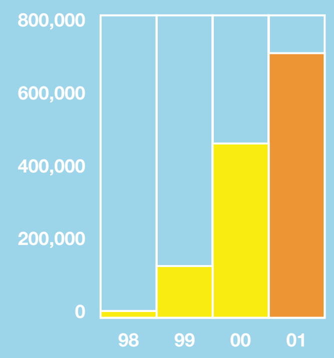
December 2001 saw a further milestone – the 500,000th customer – and in January 2002 Steve and his team moved to a new and bigger head office, opened by Michael Pakenham, the British ambassador to Poland.

It was a similar story of growth in the Czech Republic. Mark Bardsley left the UK home credit business in 1997 with the aim of establishing a pilot operation to prove the viability of the home credit model. Today, the Czech business is profitable, has national coverage and serves almost 190,000 customers.

Together, the central European businesses now serve 700,000 customers – nearly half the figure for the UK. And with all this experience to go on, the newer operations in Slovakia and Hungary have kicked off at an even faster pace. Whereas Provident Polska had eight employees at the end of its first three months, the Hungarian business had 69. And because Hungarians and Slovaks

## International customer growth

| | 98 | 99 | 00 | **01** |
|---|---|---|---|---|
| Poland | 10,000 | 72,000 | 305,000 | **504,000** |
| Czech Republic | 6,000 | 66,000 | 161,000 | **189,000** |
| Hungary | – | – | – | **10,000** |
| Slovakia | – | – | – | **5,000** |
| Total | 16,000 | 138,000 | 466,000 | **708,000** |




**In Poland and the Czech Republic, the infrastructure is now largely in place and we can concentrate on expanding from the base we've already built.**

## Chief Executive's review
## International home credit division

have seen Provident's success in neighbouring countries, the best people are even more willing to join.

### People

Steve Ford is quick to credit his employees for Provident Polska's extraordinary success. He comments: "They're a young team – average age 27. They're bright. They're dynamic. A lot of them gave up careers and took a personal risk to join this fledgling organisation. We've given them headroom and they've done a fantastic job, both in growing customer numbers and in managing the business as it evolves."

He points to people like his first Polish employee, Adam Chilinski, who's now Provident's number two in Hungary. Or Lena Wlocszewska, who ran a big agency force for a cosmetics firm – a perfect qualification except that she didn't speak much English. So she knuckled down and learnt it, joined as an office manager and is now in charge of all the company's training and development. Or Beata Sikora, who rose from the bottom rung of management to the Provident Polska board in three years – also learning English along the way.

Provident's culture is another draw for talented people. There's minimal hierarchy. Staff are on first name terms and managers' doors are always open. Add the sense that anyone can rise as far and fast as their merits allow, and it's easy to see why Provident is such a prestigious place to work.

### Image

One lesson that all the central European businesses have learnt is the importance of a powerful brand. When Provident first arrived, the offer seemed so attractive that a lot of people suspected a catch. So it was vital to project the image of a serious, substantial organisation. The British heritage helped, as did the smart offices and high standard of marketing. Provident also worked hard to keep the press, who have generally been very supportive, well-informed from the start.

Recent TV advertising has made a huge impact. When the campaign began on 1 November 2001, calls to the Prague customer centre leapt from 200 to 3,000 a day. Awareness of the brand runs high. Although these things are hard to measure, it could be claimed that Provident is Poland's leading financial brand and one of the country's top brands in any sector.

It's certain that Provident is a major force in the marketplace – big enough for its salaries, commissions and loans to make a noticeable difference to the national economy. One sign of its prestige is the fact that Provident Polska, along with companies like British Airways and HSBC, is a patron of the British Polish Chamber of Commerce, to which Steve Ford was recently elected a director.

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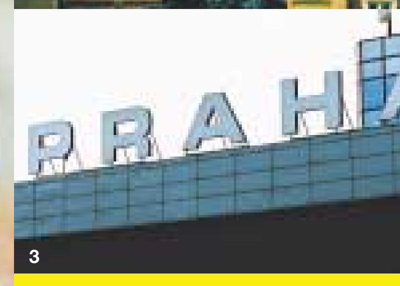
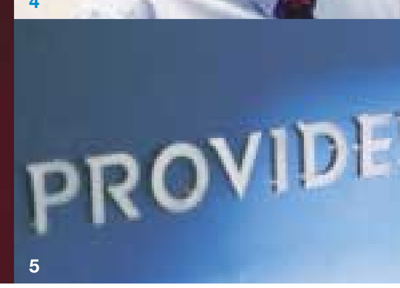


3

1 2001 saw a hugely successful TV advertising campaign in Poland and the Czech Republic.
2 Statue symbolising Warsaw in the city's marketplace.
3 Prague airport.

4 Provident's Steve Ford – recently elected a director of the British Polish Chamber of Commerce.
5 Provident is one of the best known brands in Poland.

4



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# Focus on central Europe

**Helping ordinary people in central Europe to enjoy the benefits of the new consumer society.**

# SOCIAL RESPONSIBILITY

## Ensuring we behave responsibly and make a positive contribution to society

Much of Provident's community work focuses on children.

## A good corporate citizen


Provident's community arts programme supports:
1 Creative sessions for all ages at the West Yorkshire Playhouse;
2 The Face to Face project which helped schools to use images from the National Portrait Gallery in their classwork; and
3 A long-term partnership with Rhodesway, a specialist visual arts college in Bradford.

**Provident in the community:**
**www.providentfinancial.com**

## Chief Executive's review
## Corporate social responsibility

Governments, investors, companies and the public at large are increasingly concerned that businesses should behave responsibly and make a positive contribution to society. As part of this debate, we at Provident Financial are looking seriously at the question: "What does corporate social responsibility – or CSR – mean for us at the start of the 21st century?"

In a sense, our business has always been about social responsibility. For over 120 years, Provident Financial has helped ordinary people by providing simple, affordable financial services. We have strong roots in the community and succeed by meeting its needs for credit.

### A systematic approach

That said, we recognise the need to take a more structured approach to our community involvement – to make more explicit the social commitment which has long been implicit in what we do. This involves defining the company's impact on society, identifying the many groups of stakeholders that our business touches in one way or another, and making sure we understand and meet their needs.

During 2001 we looked at current thinking on CSR on the part of governments and other bodies in the UK and abroad. We examined the growing interest in CSR among our institutional investors. We also reviewed how other companies are responding and listened to a cross-section of our managers and staff about their understanding of corporate social responsibility.

All this discussion and research revealed many instances of good policy and practice within the group. It also highlighted areas where performance could be improved, and identified the need for a systematic framework for managing, measuring and reporting our impact on society.

> “We have recognised for a while that we need to be more systematic in measuring and managing our performance as a corporate citizen. That process is now under way.”

## Chief Executive’s review
## Corporate social responsibility

At the same time, we’re contributing to the debate as the UK and EU authorities formulate policy on the social obligations of large companies – our aim being to ensure that consumers are protected but also have access to the products and services they want. We’ve been involved, for example, in the UK government’s Social Exclusion Unit and the DTI task force on over-indebtedness and have given evidence to the EU and the UK Government to inform their current reviews of the Consumer Credit Directive and the Consumer Credit Act. We’ve sponsored work by research organisations and think-tanks on social and financial exclusion and have given financial support to a number of organisations that help people who are experiencing trouble with debt.

**Improving our environmental performance**

Behaving well environmentally is an important part of corporate social responsibility. Last year we stated our intention to develop a formal programme for measuring and improving our environmental performance. This followed a review of the environmental effects of our operations which identified the main issues we need to address – our use of energy, paper and water; our disposal of waste; our use of vehicles; and the way we purchase goods and services.

The next step was to look at structures and systems to help us achieve our objectives. Stage one was to set up a strategy group and a working group. On the basis that we cannot manage what we cannot measure, we also identified a number of key performance indicators to enable us to gauge our environmental improvement.

We then set objectives and targets in five key areas: the creation of a formal Environment Management System; raising environmental awareness among employees and other stakeholders; using energy responsibly; managing and minimising waste (including our handling of the supply chain); and controlling emissions. Of our 2001 targets, 64% have been fully achieved, 25% have been substantially achieved and 7% have been partially achieved. Only 4% of our targets have been carried over from last year and we expect these to be met fully in the first quarter of 2002. In each of these five areas, we’re now addressing a fresh set of targets for 2002. Also this year, we will start to include the international home credit division.

**Helping the community**

Along with identifying the overall social impact of the company and improving our environmental performance, the third element of good corporate citizenship is our long-held commitment and growing contribution to the wider community.

We see our community work as a way of investing in society. The fact that 23,662 agents visit their customers’ homes week in, week out, gives Provident a special insight into the issues facing local communities as they appear to the people who live there. In addressing these issues, we work with partner organisations who bring their own skills, while also encouraging our employees to take action themselves.

As the community benefits, so do we – through good publicity, through strengthening our links with the people and businesses around us, and through using community projects to develop new skills and a greater sense of professional pride among our own employees. In 2001, we contributed £890,505 to our community programme in the UK and central Europe.

In the UK, the main focus of our work was the NSPCC. Along with its Scottish sister charity, Children 1ST, the NSPCC was our national charity partner and we sponsored a number of projects to help children and families with particular needs.

Another strand in our work is an emphasis on community arts as a way of renewing neighbourhoods and enriching the lives of young people. We continued to support the innovative educational work of

**1-3 Provident's contribution as a good corporate citizen extends from helping charities (here The Prince's Trust) to saving energy and water.**

the West Yorkshire Playhouse and helped the charity, L'Ouverture, to assemble a cast of inner city youngsters for a hugely successful theatrical production. Having sponsored the Painting the Century exhibition at the National Portrait Gallery, we paid for hundreds of schoolchildren and teachers to visit the exhibition and helped them to incorporate what they saw into their classwork.

Within West Yorkshire, we've sponsored organisations such as The Prince's Trust and the Quest for Economic Development which help young people to find their feet in the world of work. We've also formed a partnership with Rhodesway School in Bradford. With Provident's help, Rhodesway recently became a specialist visual arts college and we've continued to support its work.

Our Provident in the Community programme supports employees and agents in raising funds for local projects. The main focus is on charities and activities that benefit children and each division in the group has its own community programme. Employee and agent fundraising has exceeded last year's efforts. A series of 'It's a Knockout' regional events for employees and agents of UK home credit raised over £40,000 for the NSPCC alone and further sums for charities such as Children in Need and Bradford War on Cancer were raised throughout the year. The motor insurance division concentrates on helping voluntary and community groups in and around its home town of Halifax while the international home credit division has taken to community work with extraordinary enthusiasm. Beneficiaries range from orphanages and a centre for disabled children in Poland to a Czech organisation working to preserve the original forests in the Jizera Mountains.

**An enduring business**

I said back on page 8 that a lot of people question how a major business such as Provident can be based on such a simple concept as home credit. I hope the intervening pages have supplied at least some of the answers.

Ultimately, the concept remains relevant because it taps into the real needs of our customers. Our product makes a difference to people's lives, whether they live in Grimsby or Gdansk, and customers respond by wanting more of the same.

At the same time, the continuing run of strong results from our motor insurance division shows that here, too, Provident is supplying what customers really want.

As well as being proud of our products, we're proud of what Provident offers its employees and the way our staff have reciprocated with such excellent service during the year. We're also proud of what the group and employees are doing together to make Provident a better corporate citizen. Couple all of that with a keen eye for shareholder value, and it should be clear why we at Provident believe we have a vigorous, enduring business with plenty of potential for growth.

My thanks to everyone in Provident for a job well done – and to you, our shareholders, for your support during the year.

Robin Ashton, Chief Executive
8 March 2002

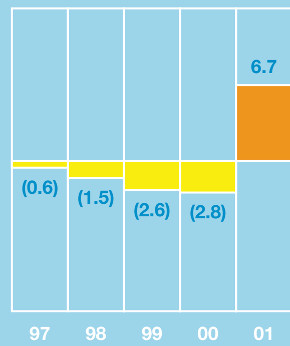
# MANAGING FINANCES

## Finance Director, John Harnett, reviews the results of the year

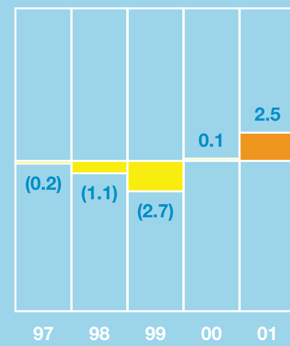
John Harnett,
Finance Director

Our Finance Director

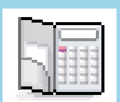
## Poland profit before tax (£m)




## Czech Republic profit before tax (£m)




**Less than five years after start-up, we have two substantial overseas businesses with national coverage and excellent prospects, for a net investment in start-up losses to date of £2.2 million.**



# Financial review 2001

### Profit

Group pre-tax profit increased to £169.6 million (2000 £160.2 million), up by £9.4 million (5.9%). The result for the year includes closure costs and operating losses in respect of the South African and Provident balance operations of £5.0 million (2000 £2.3 million). Excluding these items, profit before tax increased by 7.5% to £174.6 million.

UK home credit showed steady profit growth of 2.3% to £150.4 million (2000 £147.0 million).

The international home credit operations (excluding South Africa) reported a profit for the year of £0.8 million (2000 a loss of £5.9 million) after start-up losses in Slovakia and Hungary of £3.6 million. Poland and the Czech Republic reported strong growth with profits of £6.7 million and £2.5 million respectively compared to a loss in Poland in 2000 of £2.8 million and a profit in the Czech Republic in 2000 of £0.1 million. The charts above show the development of profit in Poland and the Czech Republic from 1997.

The motor insurance division saw volumes and premiums increase, enabling it to record a 14% increase in profit to £36.6 million (2000 £32.0 million). Central costs of £13.1 million (2000 £10.6 million) include additional interest costs of £1.3 million following the share buy-backs in 2000 and 2001.

### Earnings, tax and dividends

Reported earnings per share increased by 6.0% to 50.39p. Earnings per share stated prior to the losses of South Africa and Provident balance increased to 51.89p from 48.19p in 2000, an underlying increase of 7.7%.

The effective tax rate of 27% is due to the efficient management of the group's tax affairs. It is expected that the effective tax rate will be at or around 29% in 2002.

The full year dividend per share has been increased by 7.5% to 29.35p, with a dividend cover of 1.72 times.

### Economic profit

The group has a track record of generating added value for its shareholders by earning post tax profit in excess of its cost of equity. This measure is known as economic profit. In 2001, economic profit was £95.8 million, up by 10.3% on 2000's economic profit of £86.9 million.

### Cash flows

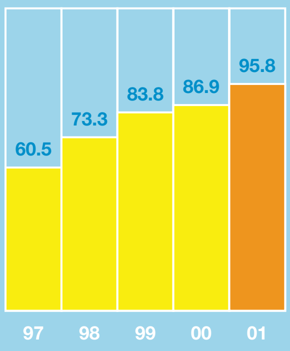
The group has a record of strong cash generation. During the year the group generated free cash flow (cash available for distribution to shareholders after funding the capital requirements of the group) of £95.1 million (2000 £77.2 million). This is analysed as follows:

| | 2001 £m | 2000 £m |
|---|---|---|
| UK home credit | **77.3** | 84.7 |
| International home credit | **(62.0)** | (52.7) |
| Motor insurance | **90.9** | 55.7 |
| Central overheads and interest paid | **(11.1)** | (10.5) |
| | **95.1** | 77.2 |

The motor insurance division is required to maintain capital within the business at levels set by its regulators. Of the free cash flow generated in 2001 of £90.9 million (2000 £55.7 million), £69.4 million (2000 £47.4 million) was retained in the business to cover technical reserves and to meet capital adequacy requirements and, therefore, could not be used to pay dividends.

The cash flows arising from our home credit and motor insurance businesses are substantially different. In home credit, advances are made to customers which are collected in future periods and which therefore require funding. In the motor insurance division, premiums are received in advance and are held on deposit until

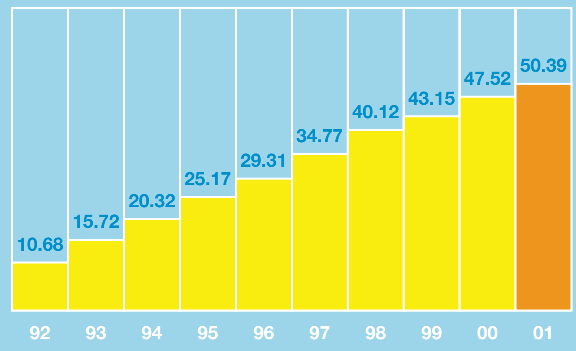
## Economic profit (£m)

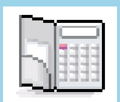



## Free cash flow (£m)

| | 01 | 00 |
|---|---|---|
| Free cash flow generated | 95.1 | 77.2 |
| Dividends paid | (69.4) | (63.4) |
| Share buy-backs | (23.2) | (49.1) |
| Increase in investment fund | (100.8) | (50.1) |
| Increase in borrowings | 90.6 | 104.8 |
| Other | 0.4 | 2.7 |
| (Decrease)/increase in cash excluding investment fund & overdrafts | (7.3) | 22.1 |

## Group earnings per share (p)



# Financial review 2001 continued

claims are paid at a later date. The cash and investments held by the motor insurance division are strictly segregated from the rest of the group and are not available to service borrowings or to pay dividends to our shareholders. Borrowings and investments are, therefore, considered separately.

### Capital structure

Our business continues to be strongly cash generative and, in accordance with our policy to maintain an efficient capital structure, we have spent £23.2 million to repurchase 3.8 million shares during the year at an average cost per share of 615p. This is in addition to the £84.6 million of shares we purchased between October 1999 and March 2000. At 31 December 2001, £194.7 million of the group's shareholders' equity of £296.5 million supported the home credit businesses, resulting in 27% of customer receivables being financed by shareholders' equity and the remainder by borrowings and other creditors. Our target is to fund about 25% of our home credit receivables by equity.

### Gearing ratio

The group's gearing ratio (net borrowings divided by group net assets) increased in 2001 to 163% from 144% at 31 December 2000. However, as outlined below, the group's net borrowings relate to the home credit businesses and the gearing ratio of this part of the group (net borrowings divided by home credit and central net assets) at 31 December 2001 was 248% (2000 228%).

### Borrowings

**Purpose** The group borrows principally to fund the loans advanced to customers by the home credit businesses. To ensure that there are sufficient funds available, we arrange committed borrowing facilities comfortably exceeding our peak funding requirements and for periods well in excess of the life of the loans. At 31 December 2001 we had committed facilities of £740 million, compared with gross borrowings of £516 million. Our borrowing facilities had an average maturity of 4.4 years.

**Sources** The group's main sources of funding are term loans and committed revolving loan and acceptance credit facilities provided by 25 banks based in the UK, the Republic of Ireland, Poland, the Czech Republic and Hungary. During 2001, the group undertook a private placement of £103 million seven and ten year loan notes to UK and US institutional investors to supplement its bank facilities. The dollar proceeds resulting from this transaction have been swapped into sterling.

**Scale** Overall group borrowings were £516 million at 31 December 2001 compared with £422 million in 2000. The principal use of the increased borrowing was to finance the growth in the international home credit division's loan book.

**Interest payable and interest cover** Interest costs of £35.1 million were £10.5 million higher than in 2000, largely reflecting the higher average level of borrowings during the year resulting from the expansion of the international home credit division. The average rate of interest paid, including hedging costs, was 7.4% in 2001 compared with 6.7% in 2000. Interest payable is covered six times by profit before interest and tax (2000 eight times).

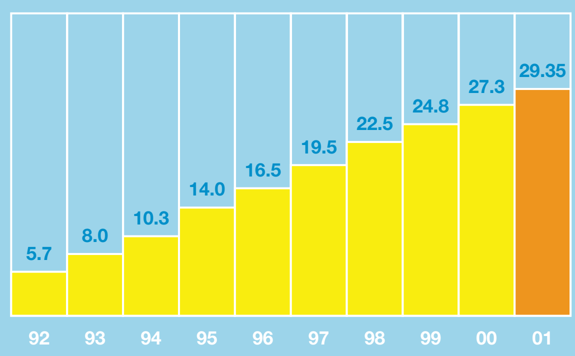
**Timing** The normal pattern of lending to customers means that our peak funding requirements arise in December each year.

**Covenants** The group has continued to comply with all its borrowing covenants, none of which represents a restriction on our plans.

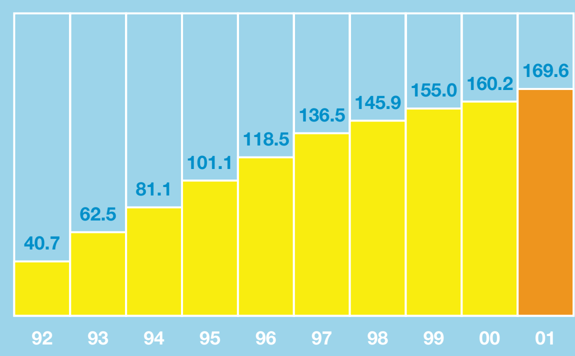
### Investments

Our insurance businesses receive premiums in advance and hold a portion of these in reserve until claims are paid. These funds are invested in a low-risk portfolio in order to produce a reliable flow of interest income while ensuring the security of the investment. The motor insurance division's investment portfolio consists entirely of deposits with, or investments in, interest-bearing instruments issued by banks and building societies for periods

**Dividend per share (p)**




**Profit before tax (£m)**




up to five years. There are strict limits, approved by the board, on our maximum exposure to any one counterparty and on the average maturity of the portfolio.

Total interest earning deposits and investments held by the motor insurance division amounted to £427 million at 31 December 2001 (2000 £343 million). The division's total investment income increased from £20.8 million to £23.2 million, reflecting the higher average value of the investment fund. The yield in 2001 averaged 6.0% compared with 6.5% in 2000.

### Treasury activities

Treasury activities are organised to minimise the risks inherent in providing funding for the group, to maximise the reliable flow of income from invested insurance funds whilst preserving the capital value of those funds, and to manage the level of interest rate and exchange rate risk. The board reviews and agrees policies for managing the main financial risks faced by the group in relation to funding, investment and hedging. These policies ensure that the borrowings and investments are with high quality counterparties, are limited to specific instruments and that the exposure to any one counterparty or type of instrument is controlled within limits.

Treasury activities are managed on a day-to-day basis by the group's treasury function and are reported to both the treasury committee and the board on a regular basis. All transactions in derivatives are undertaken to manage the risk arising from the underlying business activities. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options. All treasury activities are subject to periodic independent reviews and audits, both internal and external.

### Interest rate and currency hedging

**Interest rate** The interest rate risk for the group, inherent in the funding and investment portfolios, is managed by a combination of natural hedging, which allows the increased cost of borrowing resulting from higher interest rates to be offset by increased investment income and vice versa, and by the use of derivative instruments such as interest rate swaps and caps. Details of the group's interest rate exposure at 31 December 2001 are set out on page 62 in note 14 of the notes to the accounts.

**Currency** As the group expands internationally our exposure to movements in exchange rates is increasing. Our policy is to minimise the value of our net assets denominated in foreign currencies by funding a high proportion of our overseas receivables by borrowings in local currency or by sterling borrowings swapped into local currency for the duration of the loans. As far as possible, we aim to hedge the currency risk associated with expected future cash flows arising in the following 12 months and denominated in local currencies.

Details of the group's currency exposure at 31 December 2001 are set out on page 64 in note 14 of the notes to the accounts.

### Going concern

In light of the financial position and committed borrowing facilities at 31 December 2001, the directors have reviewed the group's budgets, plans and cash flow forecasts for the year to 31 December 2002 and outline projections for the four subsequent years. They have a reasonable expectation that the group has adequate resources to continue its operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

John Harnett, Finance Director
8 March 2002

# OUR DIRECTORS

## Board committees

**Audit committee**
John Maxwell (Chairman)
Charles Gregson
Angela Heylin

**Executive committee**
Robin Ashton (Chairman)
John Harnett
Chris Johnstone
David Swann

**Nomination committee**
John de Blocq van Kuffeler (Chairman)
Robin Ashton
Charles Gregson
Angela Heylin
John Maxwell

**Angela Heylin**

**Robin Ashton**

**John de Blocq van Kuffeler**

**Charles Gregson**

## Directors' biographies

**John de Blocq van Kuffeler**
**Chairman, age 53**
Graduated with a degree in economics and qualified as a chartered accountant in 1973. He joined Provident Financial in 1991 as Chief Executive and was appointed Executive Chairman in 1997. He will become non-executive Chairman from 1 May 2002. He was formerly Group Chief Executive of Brown Shipley Holdings PLC. He is Chairman of The Fleming Technology Trust plc, Huveaux PLC and the Finsbury Smaller Quoted Companies Trust PLC. He is also a non-executive director of the Medical Defence Union Limited.

**Robin Ashton**
**Chief Executive, age 44**
Qualified as a chartered accountant in 1982 having graduated in economics and law. He joined the group in 1983 as Finance Director of Provident Insurance and subsequently became Deputy Managing Director of H T Greenwood and Managing Director of Provident Investments. He became Group Treasurer in 1989 and joined the board as Finance Director in 1993. In 1999 he was appointed Deputy Chief Executive and in September 2001 was appointed Chief Executive.

**John Harnett**
**Finance Director, age 47**
Qualified as a chartered accountant in 1981 having graduated in business studies. He joined the group in 1999 and was appointed to the board as Finance Director. He has previously held positions as Finance Director of Allied Colloids PLC and Holliday Chemical Holdings plc.

**Remuneration committee**
Angela Heylin (Chairman)
Charles Gregson
John Maxwell

**Risk advisory committee**
Charles Gregson (Chairman)
Robin Ashton
Angela Heylin
John Maxwell

**John Maxwell**

**David Swann**

**John Harnett**

**Chris Johnstone**

**Chris Johnstone**
**Managing Director, UK home credit, age 43**
Qualified as a chartered accountant in 1982. He joined the group in 1984 as management accountant to the home credit companies and was appointed Finance Director of Provident Insurance in 1986 and Managing Director in 1989. He became Managing Director of the motor insurance division in 1996. In 1999 he was appointed Managing Director of the UK home credit division. He joined the board of Provident Financial in April 2001.

**David Swann**
**Managing Director, international home credit, age 55**
Graduated with a degree in economics and politics. He joined the group in 1973 and has held many positions within the home credit business including Managing Director of Provident Personal Credit (North). He was responsible for group corporate development from 1994 to 1997 and in that role was involved in the initial investigation of international potential for home credit. In 1997 he was appointed Managing Director of the international home credit division. He joined the board of Provident Financial in April 2001.

**Charles Gregson**
**Deputy Chairman and senior non-executive director, age 54**
Joined the board of Provident Financial in 1995 as a non-executive director and was appointed Deputy Chairman in 1997. He is a director of United Business Media plc and Chairman of ICAP plc.

**Angela Heylin OBE**
**Non-executive director, age 58**
Joined the board of Provident Financial in 1997. She is a non-executive director of Mothercare plc and Austin Reed Group PLC. She is Chairman of the House of St Barnabas, a hostel for homeless women in Soho, and is a trustee of Historic Royal Palaces.

**John Maxwell**
**Non-executive director, age 57**
Joined the board of Provident Financial in May 2000. He is a non-executive director of The Big Food Group plc and a director of Wellington Underwriting plc and Wellington Agencies Limited. He is also a governor of the Royal Ballet School.

# Directors' report

The directors submit their report for the financial year ended 31 December 2001.

### 1 Review of the business

**1.1** A full review of the group's activities, performance and prospects is contained in the Chairman's statement, the Chief Executive's review and the Financial review on pages 6 to 29 of this report.

**1.2** Provident Financial plc ("the company") is a holding company. Details of the main trading subsidiary undertakings are contained on page 59 in note 10 of the notes to the accounts.

### 2 Dividends

An interim dividend of 11.75p per ordinary share was paid on 19 October 2001. The board recommends a final dividend of 17.60p per ordinary share to be paid on 10 May 2002 to shareholders on the register at the close of business on 19 April 2002. This makes a total dividend for the year of 29.35p per ordinary share.

### 3 Share capital

#### 3.1 Decrease in issued ordinary share capital

During the year the ordinary share capital in issue decreased by 3,517,691 to 245,413,339. Details are set out on page 67 in note 20 of the notes to the accounts.

#### 3.2 Employee savings-related share option schemes

The current scheme for employees resident in the UK is the Provident Financial plc Employee Savings-Related Share Option Scheme 1993 ("the 1993 scheme"). Additionally in 2000, the company established a separate scheme, the Provident Financial plc International Employee Savings-Related Share Option Scheme ("the 2000 scheme"), for employees who are resident outside the UK. Details of options granted and exercised are shown in the tables in paragraphs 3.4 and 3.5 below.

#### 3.3 Executive share option schemes

No further options can be granted under the Provident Financial plc Senior Executive Share Option Scheme ("the 1985 scheme"). The current schemes are the Provident Financial plc Senior Executive Share Option Scheme (1995) ("the 1995 scheme") and the Provident Financial plc Senior Executive Share Option Scheme (1996) ("the 1996 scheme"). Details of options granted and exercised are shown in the tables in paragraphs 3.4 and 3.5 below.

#### 3.4 Share option schemes: grants 1 January 2001 – 28 February 2002

| Date of grant of option | Name of scheme | Number of shares | Exercise price (p) | Normal exercise dates |
|---|---|---|---|---|
| 1 March 2001 | 1995 scheme | 45,048 | 799 | March 2004 – February 2011 |
| 1 March 2001 | 1996 scheme | 209,952 | 799 | March 2004 – February 2011 |
| 2 August 2001 | 1995 scheme | 14,469 | 622 | August 2004 – August 2011 |
| 2 August 2001 | 1996 scheme | 146,991 | 622 | August 2004 – August 2011 |
| 29 August 2001 | 1993 scheme | 1,527,966 | 498 | November 2004 – April 2009 |

#### 3.5 Share option schemes: exercises 1 January 2001 – 28 February 2002 and outstanding options

| Name of scheme | Options exercised in 2001 | Options outstanding at 31 December 2001 | Normal exercise dates | Exercise price (p) | Exercised from 01.01.02 to 28.02.02 |
|---|---|---|---|---|---|
| 1985 scheme | 86,000 | 96,000 | up to 2005 | 256.5 and 276.5 | – |
| 1993 scheme | 534,199 | 2,967,851 | up to 2009 | 226 – 744 | 4,787 |
| 1995 scheme | – | 277,468 | up to 2011 | 520 – 1,037 | – |
| 1996 scheme | 168,309 | 2,797,700 | up to 2011 | 450 – 1,037 | 29,876 |
| 2000 scheme | – | 28,278 | up to 2006 | 712 | – |

# Directors' report continued

### 3.6 The Provident Financial Qualifying Employee Share Ownership Trust ("the QUEST")

The QUEST, a discretionary trust for the benefit of group directors and employees, operates in conjunction with the 1993 scheme. The trustee, Provident Financial Trustees Limited, is a subsidiary of the company. As at 1 January 2001, the trustee held 2,656,310 ordinary shares in the company. 520,280 ordinary shares were transferred to directors and employees on the exercise of options pursuant to the employee savings-related share option schemes during 2001. On 31 December 2001, the trustee held 2,136,030 ordinary shares in the company. Further details are set out on page 59 in note 11 of the notes to the accounts.

### 3.7 Purchases of shares

**3.7.1** At the annual general meeting of the company held on 26 April 2001 the shareholders authorised the company to purchase up to 24,850,000 of its ordinary shares. In September and October 2001, the company purchased ordinary shares pursuant to this authority. The purpose was to maintain an efficient capital structure and enhance the company's earnings per share. Details of the shares purchased are shown in the table in paragraph 3.7.2 below.

### 3.7.2 Purchase of shares: 2001

| Date of purchase (2001) | Number of shares | Nominal value £ | Price per share (p) | Consideration £ | Costs £ | % of current issued share capital | Date of cancellation (2001) |
|---|---|---|---|---|---|---|---|
| 18 September | 500,000 | 51,818.18 | 635.00 | 3,175,000 | 23,813 | 0.20 | 25 September |
| 19 September | 275,000 | 28,500.00 | 625.00 | 1,718,750 | 12,892 | 0.11 | 27 September |
| 20 September | 172,000 | 17,825.45 | 613.50 | 1,055,220 | 7,918 | 0.07 | 27 September |
| 21 September | 890,000 | 92,236.36 | 584.72 | 5,204,008 | 39,035 | 0.37 | 2 October |
| 25 September | 80,000 | 8,290.91 | 593.44 | 474,752 | 3,562 | 0.03 | 3 October |
| 26 September | 325,000 | 33,681.82 | 599.70 | 1,949,025 | 14,623 | 0.13 | 4 October |
| 27 September | 50,000 | 5,181.82 | 599.35 | 299,675 | 2,249 | 0.02 | 5 October |
| 28 September | 30,000 | 3,109.09 | 613.00 | 183,900 | 1,380 | 0.01 | 9 October |
| 2 October | 650,000 | 67,363.63 | 618.62 | 4,021,000 | 30,158 | 0.27 | 12 October |
| 3 October | 400,000 | 41,454.54 | 614.88 | 2,459,500 | 18,449 | 0.16 | 11 October |
| 5 October | 150,000 | 15,545.45 | 615.00 | 922,500 | 6,922 | 0.06 | 12 October |
| 8 October | 250,000 | 25,909.09 | 617.50 | 1,543,750 | 11,580 | 0.10 | 15 October |
| | 3,772,000 | 390,916.34 | | 23,007,080 | 172,581 | 1.53 | |

**3.7.3** A further authority for the company to purchase its own shares will be sought from shareholders at the forthcoming annual general meeting ("the AGM") to be held on 1 May 2002.

### 3.8 Substantial shareholdings

The company has received notifications from Axa Investment Managers UK Limited, Fidelity International Limited/FMR Corporation, The Prudential Assurance Company Limited and Prudential plc that each is interested in more than 3% of the ordinary share capital of the company. On the basis of the information available to the company, these and the following investment managers (through segregated managed funds) have interests in aggregate amounting to over 3%:

| | |
|---|---|
| Schroder Investment Management Limited | 7.09% |
| Prudential plc | 5.97% |
| Henderson Global Investors | 4.91% |
| Axa Investment Managers UK Limited | 4.10% |
| Fidelity International Limited/FMR Corporation | 3.67% |
| CGNU plc | 3.40% |

### 4 Directors

**4.1** The directors of the company (as at 28 February 2002) are shown on pages 30 and 31 of this report.

**4.2** In accordance with the articles of association, John van Kuffeler and John Harnett retire by rotation and, being eligible, offer themselves for re-election at the AGM.

**4.3** The directors' interests in shares of the company and its subsidiaries are disclosed on page 39 in paragraph 4.4.

**4.4** During the year no director had a material interest in any contract of significance to which the company or a subsidiary undertaking was a party.

**4.5** As permitted by section 310(3)(a) of the Companies Act 1985, the company maintains liability insurance cover for directors and officers of the company.

### 5 Corporate governance

Full details of the company's approach to corporate governance, the remuneration report and the statement of compliance with the Combined Code are set out on pages 36 to 44 of this report.

### 6 Employee involvement

**6.1** The company operates the Provident Financial plc Employee Savings-Related Share Option Scheme (1993) (referred to in paragraph 3.2 above). 2,307 employees are currently saving to buy shares in the company under this scheme. One of the three directors of the trustee company of the QUEST has been selected by group employees.

**6.2** The company produces an annual report for staff which comments on the published annual results. There are also operating company newsletters, team briefings, staff meetings and conferences, including trades union meetings in those companies which recognise unions.

**6.3** The group operates a number of pension schemes. Involvement in the two major group pension schemes, which together cover most of the group employees, is achieved by the appointment of member trustees of each scheme and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pensions matters.

**6.4** The company achieved recognition by Investors in People in 1997 and re-recognition in 2000. It is fully committed to encouraging employees at all levels to study for relevant educational qualifications and to training employees at all levels in the group.

### 7 Social, environmental and ethical matters

**7.1** During the year, the company made donations for charitable purposes of £265,563. The group invested a further £624,942 in support of community programmes (based on the London Benchmarking Group's guidelines). No political donations were made.

**7.2** The group's community involvement is referred to on pages 22 to 25. Further details are contained in the separate booklet entitled Corporate Social Responsibility.

**7.3** The board takes regular account of the significance of social, environmental and ethical ("SEE") matters to the businesses of the group. A corporate affairs activity report, which deals with relevant matters, is presented at each board meeting. Responsibility for this area rests with John Harnett.

**7.4** SEE risks are dealt with by means of the company's risk management process; details of this are set out on pages 43 and 44 in paragraph 6 (accountability and audit) of the corporate governance report. The board considers that it has adequate information relating to SEE risks.

**7.5** There are no specific remuneration incentives in the group based on SEE matters. However, the annual bonus scheme for executive directors comprises specific objectives, which include such matters where appropriate; details of this are set out on page 38 in paragraph 4.3.3(a) of the corporate governance section. Details of training for directors are set out on page 36 in paragraph 2.6 of the corporate governance section.

**7.6** During 2001, an environmental review was carried out and an environmental strategy group chaired by John Harnett was established. Working groups were established within subsidiary companies. A programme of work to measure and improve the environmental impact of the group's operations has been approved and firm targets have been set. Full details of the environmental work which has been carried out are contained in the booklet entitled Corporate Social Responsibility. A review of other SEE matters was undertaken and it is anticipated that this work will be progressed further in 2002, including work to quantify the financial benefits which may arise from the programme.

# Directors' report continued

### 8 Health and safety

**8.1** The group attaches great importance to the health and safety of its employees and other people who may be affected by its activities.

**8.2** In December 2001, the board approved a revised group health and safety policy and a framework for health and safety. It established the Health and Safety Steering Group which is chaired by Chris Johnstone. This will formally report to the board each December on health and safety within the group by producing a written report and will have a general co-ordination role. Subsidiary boards are responsible for the issue and implementation of their own health and safety policy as it affects the subsidiary company's day to day responsibility for health and safety. Each board will consider health and safety at a board meeting once a year and produce a written report for the Health and Safety Steering Group.

### 9 Equal opportunities

The company is committed to equal opportunity in recruitment, promotion and employment and does not discriminate on the basis of sex, race or religion. It gives full and fair consideration to applications for employment from disabled persons and to their subsequent training and career development.

### 10 Supplier policy statement

**10.1** The company agrees terms and conditions for its business transactions with suppliers and payment is made in accordance with these, subject to the terms and conditions being met by the supplier.

**10.2** The company acts as a holding company and had no trade creditors at 31 December 2001. The average number of days' credit taken by the group during the year was 20 days (2000 26 days).

### 11 European monetary union (EMU)

Working parties have been established within the group. They have considered the implications for the introduction of the euro. Responsibility for EMU preparation rests with a steering group chaired by John Harnett. The costs associated with the introduction of the euro in the Republic of Ireland are not significant. It is too early to forecast the potential costs should the euro be introduced in the UK.

### 12 Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office as the company's auditors and a resolution to reappoint them and to authorise the directors to fix their remuneration will be proposed at the AGM.

### 13 Annual general meeting

The 42nd annual general meeting of the company will be held at 12 noon on Wednesday 1 May 2002 at the Hanover International Hotel and Club, Mayo Avenue, off Rooley Lane, Bradford, West Yorkshire BD5 8HZ. The Notice of Meeting, together with an explanation of the items of business, will be contained in the Chairman's letter to shareholders to be dated 22 March 2002.

By order of the board

Rosamond Marshall Smith
Company Secretary
8 March 2002

# Corporate governance

**1 Introduction**

This section explains how the company has applied the principles set out in section 1 of the Combined Code, being the principles of good governance and code of best practice prepared by the Hampel Committee on Corporate Governance, appended to, but not forming part of, the Listing Rules of the Financial Services Authority.

**2 Directors**

**2.1** The board leads and controls the company. It currently comprises a Chairman, four executive directors and three non-executive directors; the Chairman is currently executive but will become non-executive with effect from 1 May 2002. Each of the non-executive directors is independent for the purposes of the Combined Code (namely, independent of management and free from any business or other relationship which could materially interfere with the exercise of his or her independent judgement). The board is thus considered to be well-balanced.

**2.2** The board meets seven times a year, including an annual planning conference. Additional meetings are called when required and there is frequent contact between meetings where necessary to progress the company's business. A pack of board papers (including a detailed agenda) is sent to each director in the week before the board meeting so that he or she has sufficient time to review them. A detailed paper is provided on any issue where the board is to be asked to make a decision. All directors are therefore able to bring independent judgement to bear on issues such as strategy, performance, resources and standards of conduct.

**2.3** All directors are able to consult with the Company Secretary. In addition, there is a formal procedure by which any director may take independent professional advice at the company's expense in the performance of his or her duties. The appointment and removal of the Company Secretary is a matter for the board.

**2.4** Under the company's articles of association, one third of the directors are obliged to retire each year and each director must offer himself for re-election every three years. A director who is initially appointed by the board is subject to election at the annual general meeting following his or her appointment. In 2001, biographical details of the directors submitted for election and re-election at the annual general meeting were supplied to shareholders in the relevant circular dated 23 March 2001.

**2.5** Non-executive directors are appointed for fixed periods of three years, subject to election by shareholders. Their initial three years may be extended for one further three year period (and, in exceptional cases, for a further three year period), subject to re-election by shareholders.

**2.6** Training for directors is reviewed annually. Where a new director is appointed, full consideration is given to training needs (including training on social, environmental and ethical matters) and an appropriate individual induction programme is arranged.

**2.7** The roles of the Chairman and Chief Executive are separated. The non-executive Deputy Chairman is the senior member other than the Chairman to whom concerns can be conveyed. The executive directors are responsible for the day-to-day running of the group but the board has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets, financial results, new board appointments, proposals for dividend payments and the approval of all major transactions. This schedule is reviewed on an annual basis.

**3 Board committees**

**3.1** The board has appointed five committees. All committees have written terms of reference which are reviewed on an annual basis.

**3.2 Audit committee**

**3.2.1** From 1 January to 31 December 2001 this committee consisted of Charles Gregson and Angela Heylin under the chairmanship of John Maxwell.

**3.2.2** It meets three times a year and forms an important part of the group's control framework. It keeps under review the adequacy of internal financial controls, accounting policies and financial reporting. It also keeps under review non-audit services provided to the company by its auditors, seeking to balance the maintenance of objectivity and value for money. Meetings are attended by both the internal and external auditors as required and by the Finance Director. At least once a year the members of the committee meet with the external auditors without an executive director being present. The internal audit function reports to the audit committee. This guarantees the function's independence from group management and ensures that appropriate action is taken in response to audit findings.

**3.3 Executive committee**

**3.3.1** From 1 January to 26 April 2001 this committee consisted of Robin Ashton, Peter Bretherton and John Harnett under the chairmanship of Howard Bell. On 26 April 2001 Peter Bretherton ceased to be a director and a member and Chris Johnstone and David Swann were appointed as directors and members. On 30 September 2001 Howard Bell retired as a director and a member and on 12 October 2001 Robin Ashton was appointed chairman of this committee.

**3.3.2** It meets as required and deals with matters relating to the running of the group, other than those matters reserved to the board and those specifically assigned to the other committees. There is a formal schedule of matters reserved to it for decision.

# **Corporate governance** continued

### 3.4 Nomination committee

**3.4.1** From 1 January to 30 September 2001 this committee consisted of Howard Bell, Charles Gregson, Angela Heylin and John Maxwell under the chairmanship of John van Kuffeler. Howard Bell ceased to be a director and a member on 30 September 2001 and on 12 October 2001 Robin Ashton was appointed as a member.

**3.4.2** Its remit is to assist the board in the process of the selection and appointment of any new director.

### 3.5 Remuneration committee

**3.5.1** From 1 January to 31 December 2001 this committee consisted of Charles Gregson and John Maxwell under the chairmanship of Angela Heylin.

**3.5.2** It considers the framework of executive remuneration and makes recommendations to the board. It also considers the specific remuneration packages and conditions of service of the executive directors, including their service agreements. It meets at least four times a year.

### 3.6 Risk advisory committee

**3.6.1** From 1 January to 30 September 2001 this committee consisted of Howard Bell, Angela Heylin and John Maxwell under the chairmanship of Charles Gregson. Howard Bell ceased to be a director and a member on 30 September 2001 and on 12 October 2001 Robin Ashton was appointed as a member.

**3.6.2** Its function is to keep under review the effectiveness of the group's system of non-financial internal controls, including operational and compliance controls and risk management.

## 4 Remuneration report

### 4.1 Introduction

For many years the company has followed accepted best practice in matters concerning executive directors' service agreements and remuneration. The remuneration committee ("the committee") consists of the non-executive directors. Details of the membership of the committee are set out in paragraph 3.5.1 above.

### 4.2 Remuneration policy

**4.2.1** The remuneration policy applied by the committee is based on the need to attract, reward, motivate and retain executive directors in a manner consistent with the long-term accumulation of value for shareholders. The committee is also conscious of the need to avoid paying more than is reasonable for this purpose.

**4.2.2** The committee has considered the best practice provisions in Schedule A of the Combined Code. It determines executive packages for each of the executive directors. No director is involved in deciding his own remuneration.

**4.2.3** The committee consults with the Chairman about the proposals for the Chief Executive's salary and with the Chief Executive about the proposals for the other executive directors. The committee has access to professional advice from both inside and outside the company.

**4.2.4** In 2001, the committee carried out a review of the executive directors' remuneration and took advice from Monks Partnership. No major changes were made to the company's remuneration policy but it was decided to introduce a target holding of the company's shares for executive directors and, subject to shareholder approval, to make some amendments to the executive share option schemes (see paragraph 4.5.3) and to introduce a deferred bonus scheme for executive directors. Full details are set out in the Chairman's letter to shareholders to be dated 22 March 2002.

### 4.3 Directors' remuneration

**4.3.1** The executive directors' remuneration consists of an annual salary, an annual cash bonus and other benefits. In addition, the directors participate in share option schemes and pension schemes.

**4.3.2** Salaries for executive directors are reviewed annually and changes are effective from 1 January. For 2002, there was a review of salaries taking into account the group's business performance, salary and bonus trends in the UK and each individual director's performance. Comparisons were made with appropriate companies of similar size and with broadly comparable activities but without giving undue weight to these. The executive directors' salary increases averaged 5% and these increases were implemented from 1 January 2002.

**4.3.3** Annual cash bonuses are payable. They are calculated as a percentage of salary. The purpose of the bonus scheme is to provide a meaningful incentive for executive directors which is clearly focused on improving the group's performance and directly aligns shareholder and executive director interests.

**4.3.3 (a)** Executive directors are eligible for annual cash bonuses by reference to the growth in the company's audited earnings per share over the previous financial year and the achievement of agreed personal objectives. For 2002, no bonus will be payable if growth in earnings per share is less than 5%. Up to 15% of salary will be payable if growth in earnings per share is 5% and the percentage rises to a maximum of 100% of salary for 22% growth in earnings per share, provided that each director's agreed personal objectives have also been achieved. In exceptional circumstances the committee may make such adjustments to the calculation of earnings per share as it considers fair and reasonable.

**4.3.3 (b)** Bonuses do not form part of pensionable earnings.

**4.3.4** The executive directors are provided with company-owned cars, fuel, long-term disability income under the company's insured permanent health policy and medical cover for them and their immediate families. Benefits in kind are not pensionable.

**4.3.5** Full details of salaries, bonus earnings and other benefits for 2001 (with 2000 comparative figures) are set out in the table of directors' remuneration in paragraph 4.3.7 below.

**4.3.6** The fees for the non-executive directors are fixed by the board. Their business expenses are reimbursed. Full details of their fees for 2001 (with 2000 comparative figures) are set out in the table of directors' remuneration in paragraph 4.3.7 below.

**4.3.7 Directors' remuneration**
The aggregate directors' emoluments during the year amounted to £2,008,000 (2000 £2,010,000 excluding directors who retired in 2000) analysed as follows:

| | Salary £'000 | Bonus £'000 | Benefits £'000 | Fees £'000 | 2001 Total £'000 | 2000 Total £'000 |
|---|---|---|---|---|---|---|
| **Executive Chairman** | | | | | | |
| John van Kuffeler | 380 | 77 | 22 | – | 479 | 532 |
| **Executive directors** | | | | | | |
| Robin Ashton | 281 | 54 | 20 | – | 355 | 323 |
| Howard Bell* | 255 | 51 | 17 | – | 323 | 461 |
| Peter Bretherton* | 74 | 15 | 30 | – | 119 | 342 |
| John Harnett | 225 | 45 | 22 | – | 292 | 286 |
| Chris Johnstone** | 134 | 36 | 9 | – | 179 | – |
| David Swann** | 134 | 34 | 13 | – | 181 | – |
| | 1,103 | 235 | 111 | – | 1,449 | 1,412 |
| **Non-executive directors** | | | | | | |
| Charles Gregson | – | – | – | 25 | 25 | 25 |
| Angela Heylin | – | – | 3 | 25 | 28 | 25 |
| John Maxwell | – | – | 2 | 25 | 27 | 16 |
| | – | – | 5 | 75 | 80 | 66 |
| **Total** | 1,483 | 312 | 138 | 75 | 2,008 | 2,010 |

* Remuneration in 2001 up to date of retirement as a director (see paragraph 4.3.8 below).
** Remuneration in 2001 from date of appointment as a director.

**4.3.8 Succession planning**
**4.3.8 (a)** The board began its recent succession plans in 1999 when four out of five executive directors were in their fifties. First John Harnett was recruited as Finance Director in April 1999 and his predecessor, Robin Ashton, was promoted to Deputy Chief Executive. This was followed by the retirement from the board of Peter Fryer, aged 57, Financial Services Director, in 2000 and Peter Bretherton, aged 55, Director of Corporate Affairs, in April 2001. At the same time, Chris Johnstone and David Swann replaced them on the board, with responsibility for UK home credit and international home credit operations respectively. On 30 September 2001 Robin Ashton was promoted to Chief Executive and Howard Bell, aged 57, retired from the board after a 34 year career with the group, with the last four years as Chief Executive. Having successfully overseen these changes, the Chairman will move from an executive to a non-executive role in May 2002.

## **Corporate governance** continued

**4.3.8 (b)** The timing and successful implementation of these board changes was critical for the future development of the company and its businesses, both within the UK and internationally. Both Howard Bell and Peter Bretherton agreed to retire before their normal retirement dates in order to facilitate the change in board structure. In considering appropriate arrangements for Howard Bell and Peter Bretherton, the remuneration committee took into account a number of factors; these included the requirements of the businesses of the group, the fact that the timing of the changes was designed to be at the most opportune time for the future development of these businesses, the need for a smooth transition in changes of management at the highest level, the benefit of retaining the facility to use the services of these senior executives and the need to protect the commercial interests of the group. Both Howard Bell and Peter Bretherton had service contracts which required two years notice to be given by the company. The transition has been smooth and the new team of executive directors is already steering the group through its next stage of development. The board considers that the arrangements were fair and reasonable and in the best interests of the company.

**4.3.8 (c)** Howard Bell entered into a fixed term service contract with the company as an executive under the terms of which he would continue to receive basic salary (£340,000 a year, increased annually to take account of inflation) and certain benefits (principally a company car and pension contributions) until his normal retirement date of 28 March 2004. This contract also contains restrictive covenants to safeguard the company's interests. From 1 October to 31 December 2001 he received £85,000 in salary and £41,811 by way of benefits. The total salary and benefits payable under the contract to March 2004 are expected to be approximately £1,286,000. This comprises £858,000 for salary, £378,000 for pension contributions and £50,000 for other benefits. In addition he has the right to exercise outstanding executive and employee savings-related share options in respect of 250,660 shares until 27 September 2004, at prices ranging between 226p and 985p.

**4.3.8 (d)** Peter Bretherton also entered into a similar fixed term service contract (containing restrictive covenants) with the company as an executive under the terms of which he would continue to receive basic salary (£226,840 a year, increased annually to take account of inflation) and certain benefits until 31 July 2003. From 27 April to 31 December 2001 he received £153,000 in salary and £55,000 by way of benefits. The total salary and benefits payable under the contract to July 2003 are expected to be approximately £705,000. This comprises £515,000 for salary, £147,000 for pension contributions and £43,000 for other benefits. In addition he has the right to exercise outstanding executive and employee savings-related share options in respect of 114,411 shares until 31 July 2003, at prices ranging between 226p and 985p. In November 2001 he exercised executive options granted to him in 1994, 1995 and 1996 over 70,000 shares on which he made a gain of £234,400.

**4.3.8 (e)** Peter Fryer received payments totalling £196,000 in 2001 pursuant to the arrangements made when he retired from the board in April 2000. He also received benefits (including pension contributions) during the year of £101,000. In March 2001 he exercised executive options over 30,000 shares granted to him in 1996 on which he made a gain of £94,500 and in June 2001 he exercised executive options granted to him in 1997 over 42,287 shares on which he made a gain of £62,796.

### 4.4 Directors' interests in shares

**4.4.1** The interests of the directors in the issued share capital of the company were as follows:

| | Beneficial holdings Number of shares | |
|---|---|---|
| | 31 December 2001 | 1 January 2001 |
| John van Kuffeler | 10,000 | 181,542 |
| Robin Ashton | 58,500 | 57,996 |
| John Harnett | 8,000 | 8,000 |
| Chris Johnstone | 92,318 | 88,818* |
| David Swann | 47,035 | 46,961* |
| Charles Gregson | 1,837 | 1,837 |
| Angela Heylin | 1,100 | 1,100 |
| John Maxwell | 2,100 | 2,100 |

* At date of appointment as a director.

**4.4.2** There were no changes in beneficial holdings between 31 December 2001 and 28 February 2002. No director had any non-beneficial holdings at 31 December 2001 or at any time up until 28 February 2002.

**4.4.3** The QUEST operates in conjunction with the Provident Financial plc Employee Savings-Related Share Option Scheme (1993) and shares are transferred from the QUEST to employees when they exercise options. The directors, as beneficiaries under the QUEST along with group employees, are technically treated as having an interest in the shares held by the QUEST. As at 31 December 2001, the QUEST held 2,136,030 shares in the company.

# **Corporate governance** continued

### 4.5 Share option schemes

**4.5.1** Directors' share options at 31 December 2001 were as follows:

| **Director's name** | 1 January 2001 | Granted in 2001 | Surrendered in 2001 | Exercised in 2001 | 31 December 2001 | Exercise price (p) | Market price at date of exercise (p) | Range of exercisable dates of options held at 31 December 2001 |
|---|---|---|---|---|---|---|---|---|
| John van Kuffeler | 45,000 | – | – | – | 45,000 | 450.0 | | 9/1999 – 9/2006 |
| | 75,803 | – | – | – | 75,803 | 638.5 | | 9/2000 – 8/2007 |
| | 37,664 | – | – | – | 37,664 | 985.0 | | 8/2001 – 8/2008 |
| | 3,395 | – | – | – | 3,395* | 508.0 | | 11/2002 – 4/2003 |
| | 47,483 | – | – | – | 47,483 | 979.3 | | 3/2002 – 3/2009 |
| | 38,462 | – | – | – | 38,462 | 520.0 | | 2/2003 – 2/2010 |
| | 247,807 | | | – | 247,807 | | | |
| Robin Ashton | 30,000 | – | – | – | 30,000 | 450.0 | | 9/1999 – 9/2006 |
| | 43,774 | – | – | – | 43,774 | 638.5 | | 9/2000 – 8/2007 |
| | 2,620 | – | – | – | 2,620* | 744.0 | | 11/2005 – 4/2006 |
| | 20,660 | – | – | – | 20,660 | 985.0 | | 8/2001 – 8/2008 |
| | 26,651 | – | – | – | 26,651 | 979.3 | | 3/2002 – 3/2009 |
| | 30,001 | – | – | – | 30,001 | 520.0 | | 2/2003 – 2/2010 |
| | – | 28,939 | – | – | 28,939 | 622.0 | | 8/2004 – 8/2011 |
| | 153,706 | 28,939 | | – | 182,645 | | | |
| John Harnett | 33,269 | – | – | – | 33,269 | 1,037.0 | | 5/2002 – 5/2009 |
| | 87,500 | – | – | – | 87,500 | 520.0 | | 2/2003 – 2/2010 |
| | – | 16,077 | – | – | 16,077 | 622.0 | | 8/2004 – 8/2011 |
| | 120,769 | 16,077 | | – | 136,846 | | | |
| Chris Johnstone | 15,000 | – | – | – | 15,000 | 450.0 | | 9/1999 – 9/2006 |
| | 34,178 | – | – | – | 34,178 | 638.5 | | 9/2000 – 8/2007 |
| | 1,358 | – | – | – | 1,358* | 508.0 | | 11/2002 – 4/2003 |
| | 7,615 | – | – | – | 7,615 | 985.0 | | 8/2001 – 8/2008 |
| | 8,144 | – | – | – | 8,144 | 979.3 | | 3/2002 – 3/2009 |
| | 42,502 | – | – | – | 42,502 | 520.0 | | 2/2003 – 2/2010 |
| | – | 33,119 | – | – | 33,119 | 622.0 | | 8/2004 – 8/2011 |
| | 1,422 | – | (1,422) | – | – | 712.0 | | – |
| | – | 2,033 | – | – | 2,033* | 498.0 | | 11/2006 – 4/2007 |
| | 110,219 | 35,152 | (1,422) | – | 143,949 | | | |
| David Swann | 10,000 | – | – | (10,000) | – | 256.5 | 824.0 | – |
| | 10,000 | – | – | (10,000) | – | 276.5 | 824.0 | – |
| | 5,176 | – | – | – | 5,176* | 226.0 | | 8/2002 – 1/2003 |
| | 15,000 | – | – | – | 15,000 | 450.0 | | 9/1999 – 9/2006 |
| | 33,336 | – | – | – | 33,336 | 638.5 | | 9/2000 – 8/2007 |
| | 1,358 | – | – | – | 1,358* | 508.0 | | 11/2002 – 4/2003 |
| | 7,428 | – | – | – | 7,428 | 985.0 | | 8/2001 – 8/2008 |
| | 7,944 | – | – | – | 7,944 | 979.3 | | 3/2002 – 3/2009 |
| | 33,882 | – | – | – | 33,882 | 520.0 | | 2/2003 – 2/2010 |
| | – | 41,800 | – | – | 41,800 | 622.0 | | 8/2004 – 8/2011 |
| | 1,422 | – | (1,422) | – | – | 712.0 | | – |
| | – | 2,033 | – | – | 2,033* | 498.0 | | 11/2006 – 4/2007 |
| | 125,546 | 43,833 | (1,422) | (20,000) | 147,957 | | | |
| **Total** | 758,047 | 124,001 | (2,844) | (20,000) | 859,204 | | | |

* employee savings-related share options

## **Corporate governance** continued

**4.5.2** The executive share option schemes provide a longer term incentive for executive directors and senior managers. The committee considers that these schemes are an important part of the link between the interests of shareholders and of executive directors and senior managers. The grant of options under these schemes to executive directors and senior managers is normally considered once in each year after the announcement of the company's results in accordance with a formula based on a multiple of salary. No executive options have been offered at a discount.

**4.5.3** The Provident Financial plc Senior Executive Share Option Scheme (1995) is an Inland Revenue approved scheme. The aggregate exercise prices of the options held by an executive must not exceed £30,000. The Provident Financial plc Unapproved Senior Executive Share Option Scheme (1996) is not approved by the Inland Revenue. The aggregate exercise prices of the options held by an executive must not exceed four times his salary (as defined in this scheme). Both schemes have performance targets which have to be met before any options can be exercised. Broadly, these are that over a three year period the real growth in earnings per share must average 3% a year (after making appropriate adjustments for inflation). Subject to shareholder approval, it is proposed to amend the aggregate four times salary to an annual limit of two times salary.

**4.5.4** The executive directors (together with other eligible group employees) participate in the Provident Financial plc Employee Savings-Related Share Option Scheme (1993). Participants save a fixed sum each month for three or five years and have the option to use these funds to purchase shares after three, five or seven years. The exercise price is fixed at up to 20% below the market value of the shares at the date directors and employees are invited to participate in the scheme. Up to £250 can be saved each month.

**4.5.5** The aggregate notional gain (representing the difference between the exercise price and the market price of the shares at the date of exercise) made by all the directors on the exercise of share options during 2001 amounted to £111,500 (2000 £20,000).

**4.5.6** The company's highest paid director in 2001 was John van Kuffeler, whose emoluments amounted to £479,000 (2000 £532,000) and whose notional gain (representing the difference between the exercise price and the market price of the shares at the date of exercise) on the exercise of share options amounted to £nil (2000 £nil).

**4.5.7** None of the options held by the directors lapsed during the year. On 8 August 2001 Chris Johnstone surrendered for no consideration an option over 1,422 shares which had been granted on 5 September 2000 at a price of 712p. On 21 August 2001 David Swann also surrendered for no consideration an option over 1,422 shares which had been granted on 5 September 2000 at a price of 712p.

**4.5.8** The mid-market closing price of the company's shares on 31 December 2001 was 645p and the range during 2001 was 574p to 1055p.

**4.5.9** There were no changes in directors' share options between 31 December 2001 and 28 February 2002.

**4.5.10** None of the directors has notified the company of an interest in any other shares, transactions or arrangements which requires disclosure.

### 4.6 Pensions and life assurance

**4.6.1** There are three directors (2000 three) for whom retirement benefits are accruing under the Provident Financial Senior Pension Scheme ("the senior pension scheme") and two directors (2000 two) for whom retirement benefits are accruing under money purchase schemes. Benefits are also accruing under the senior pension scheme for three former directors, Howard Bell, Peter Bretherton and Peter Fryer (see paragraph 4.3.8 above).

**4.6.2** John van Kuffeler and John Harnett each have a defined contribution personal pension arrangement and each is also a member of the Provident Financial Supplemental Pension Scheme, which was established for employees whose benefits from tax-approved schemes are restricted by the earnings cap. Life assurance benefit up to the level of the earnings cap is provided by the senior pension scheme; additional death in service benefit is provided by the Provident Financial Unapproved Funded Death Benefits Scheme.

**4.6.3** For John van Kuffeler, the company contributes 23% of his basic salary to his pension arrangements. The contributions are invested to produce benefits at his normal retirement date at age 60 or on death. He is also eligible for a lump sum death benefit of four times basic salary at date of death. Provision of these benefits is through personal pension policies, the Provident Financial Supplemental Pension Scheme and the Provident Financial Unapproved Funded Death Benefits Scheme. The company's contributions in respect of John van Kuffeler during 2001 (including the cost of the life insurance) amounted to £91,097 (2000 £90,964).

**4.6.4** For John Harnett, the position is identical to that specified in paragraph 4.6.3 for John van Kuffeler, except that the company contributes 20% of his basic salary to his pension arrangements. The company's contributions in respect of John Harnett during 2001 (including the cost of the life insurance) amounted to £49,254 (2000 £41,408).

**4.6.5** The executive directors, except John van Kuffeler and John Harnett, participate in the senior pension scheme, a defined benefit scheme which provides pensions and other benefits within Inland Revenue limits. The senior pension scheme provides, in respect of service from 1 January 2000, a pension of up to two-thirds of basic salary at the normal retirement date at age 60. (The pension provided in respect of service prior to 1 January 2000 is up to two-thirds of basic salary at the normal retirement date at age 60 reduced by an amount approximately equal to two-thirds of the single person's basic rate state pension from state pension age.) The senior pension scheme is contributory and directors contribute at the rate of 6% of basic salary. (Prior to 1 January 2000 the directors contributed at the rate of 6% of basic salary net of an amount approximately equal to the single person's basic rate state pension.)

**4.6.6** Details of the pension entitlements earned during 2001 are set out below:

| Director's name | Age 31 December 2001 | Accrued annual pension* 31 December 2001 £ | Accrued annual pension* 31 December 2000 £ | Increase in annual pension** 2001 £ | Increase in annual pension** 2000 £ | Director's contribution*** 2001 £ | Director's contribution*** 2000 £ |
|---|---|---|---|---|---|---|---|
| Robin Ashton | 43 | 94,200 | 74,100 | 17,700 | 15,900 | 15,100 | 12,500 |
| Howard Bell | 57 | 210,400 | 196,400 | 7,500 | 35,200 | 14,900 | 18,200 |
| Peter Bretherton | 56 | 120,500 | 119,300 | 1,200 | 17,400 | 4,200 | 12,100 |
| Chris Johnstone | 42 | 65,800 | 46,700 | 19,100 | – | 7,700 | – |
| David Swann | 54 | 112,600 | 73,900 | 38,700 | – | 7,700 | – |

* Accrued annual pension is the pension to which the director would be entitled at his normal retirement date based on the number of years of pensionable service at 31 December 2001, assuming no further contributions after that date. Accrued annual pension for Chris Johnstone and David Swann is as at date of appointment as a director. Accrued annual pension for Howard Bell and Peter Bretherton is as at date of retirement as a director.

** Increase in annual pension is the increase during the year in the accrued annual pension arising from the changes in pensionable service and salary, over and above any general increase to compensate for inflation.

*** Director's contribution for Chris Johnstone and David Swann is from the date of appointment as a director. Director's contribution for Howard Bell and Peter Bretherton in 2001 is up to the date of retirement as a director.

**4.6.7** The senior pension scheme also provides spouses' pensions (of four-ninths of basic salary at date of death if the director dies in service and two-thirds of the director's pension if the director dies in retirement) and lump sums on death in service (of four times basic salary at date of death plus a return of the director's contributions). If the director does not leave a spouse, the pension will be paid to any dependants at the discretion of the trustees of the senior pension scheme.

**4.6.8** A director can normally retire under the senior pension scheme rules at any time between ages 50 and 60, in which case the pension payable would be the accrued pension (based on salary and pensionable service at the date he leaves the service of the company) reduced to reflect the longer period for which it will be paid.

**4.6.9** Pensions in respect of service up to 1 January 2000 are guaranteed to increase, when in payment, at a rate of 5% each year. Pensions in respect of service from 1 January 2000 are guaranteed to increase each year by the lower of the annual increase in the retail prices index and 5%. Discretionary increases may be granted by the trustees with the consent of the company.

**4.6.10** There are no discretionary benefits for which allowance is made when calculating transfer values on leaving service.

### 4.7 Service agreements

The executive directors have service agreements which require two years' notice to be given by the company. The company and the committee consider that the two year notice periods are in the best interests of the group. In view of the group's specialist businesses, the main concern is to retain senior management and seek to ensure that they are not able to leave and make their valuable experience and training available to a competitor without adequate safeguards. The company has a policy and a record of retaining its executive directors and management over the longer term and providing them with extensive development opportunities and with support in their study for qualifications.

### 4.8 Directors' service agreements and the 2002 annual general meeting

**4.8.1** Two directors are offering themselves for re-election at the AGM. John van Kuffeler and John Harnett each have a service agreement with a two year notice period.

**4.8.2** The board considered on 24 January 2002 whether or not the policy set out in the remuneration report should be an agenda item for the AGM and decided that it would not form part of the agenda.

# **Corporate governance** continued

**4.9 External appointments**
The committee believes that the company and the executive director concerned can benefit from the director accepting appropriate external appointments, including appointment to a non-associated company as a non-executive director. The committee will generally allow up to two appointments. In normal circumstances, directors are permitted to retain fees and expenses from external appointments.

**4.10 Audit**
All elements of the directors' remuneration, including pension entitlements and share options, have been audited.

**5 Relations with shareholders**
**5.1** The directors meet with institutional shareholders on a regular basis.

**5.2** The company encourages private investors to attend the AGM. The chairmen of all the board committees are available to answer questions from shareholders. There is an opportunity for shareholders to ask questions generally and on each resolution proposed.

**5.3** At the 2001 AGM details of proxy votes cast on each resolution were made available to shareholders and other interested parties.

**5.4** At the 2001 AGM the company proposed separate resolutions on substantially separate issues and will continue to do so. The company has in previous years generally given shareholders longer notice of the AGM than is required by law. Last year 21 working days' notice of the 2001 AGM was given; this year 24 working days' notice is being given.

**5.5** The company established the Provident Financial Company Nominee Scheme to enable shareholders to take advantage of a low-cost telephone dealing service through the CREST electronic settlement system. Members of this scheme receive all documents sent to shareholders and may attend, speak and vote at the AGM.

**6 Accountability and audit**
**6.1** The board presents the company's position and prospects in as clear a way as possible, both by means of the accounts and in circulars and reports to shareholders.

**6.2** The board is responsible for the group's system of internal control. Any system can provide only reasonable and not absolute assurance of meeting internal control objectives.

**6.3** The group's internal audit function is provided by Ernst & Young. The audit committee formally agrees the internal audit plan once a year and reviews regular reports on the activity of the internal audit function.

**6.4** The key elements of the internal control system which have been established are as follows:

**6.4.1** In December each year the board approves detailed budgets and cash flow forecasts for the year ahead. It also approves outline projections for the subsequent three years. A detailed review takes place at the half-year. Actual performance against budgets is monitored in detail regularly and reported monthly for review by the directors. The company reports to shareholders on a half-yearly basis.

**6.4.2** The audit committee keeps under review the adequacy of internal financial controls in conjunction with the internal auditors and reports to the board annually. An annual programme of work which targets and reports on higher risk areas is carried out by the internal auditors. The operation of internal financial controls is monitored by regular management reviews, including a procedure by which operating companies certify compliance quarterly.

**6.4.3** The risk advisory committee considers the nature and extent of the risks facing the group, keeps them under review and notifies the board of changes in the status and control evaluation of risks. It reports to the board on an annual basis. In addition, the risk advisory group (consisting of the executive directors, the director of group accounting and the company secretary) formally reviews internal risk assessments from each division three times a year and directs reviews of internal controls and particular areas of risk. It reports to the risk advisory committee.

**6.4.4** The board requires its subsidiaries to operate in accordance with its corporate policies and subsidiaries are obliged to certify compliance on an annual basis.

**6.4.5** The directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and of the group and to prevent and detect material fraud and other irregularities.

**6.4.6** The board has reviewed the effectiveness of the group's framework of internal controls during 2001.

**6.5** The assets of the group's two major pension schemes are held separately from those of the group and are administered by separate boards of trustees. Member trustees are appointed to each of the two trustee boards. The funds' assets are managed independently by Legal & General Assurance (Pensions Management) Limited, Merrill Lynch Investment Managers and Schroder Properties Limited and are held by custodians independent of the company and these companies. The rules of all the schemes prevent self-investment by the trustees in either shares of the company or property of the group.

**7 Directors' responsibilities in relation to the accounts**

**7.1** The following statement, which should be read in conjunction with the independent auditors' report on page 71, is made to distinguish for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

**7.2** The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the group's profit or loss and cash flows for the financial year. The directors consider that in preparing the accounts on pages 46 to 70 the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed.

**7.3** The directors have responsibility for ensuring that the company and the group keep accounting records which disclose with reasonable accuracy the financial position of the company and of the group and which enable them to ensure that the accounts comply with the Companies Act 1985.

**7.4** This document (the annual report and accounts 2001) 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.

**7.5** Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**8 Statement of compliance with the Combined Code**

The company has complied with all the provisions in Sections A, B, C and D of the Combined Code throughout 2001, with the exception of B.1.7. It is not considered appropriate that the notice periods in the executive directors' contracts should be reduced to one year for the reasons set out in paragraph 4.7 above.

# ACCOUNTS

**Provident Financial**
**Accounts contents**

# Consolidated profit and loss account

| for the year ended 31 December | Notes | 2001 £'000 | 2000 £'000 |
|---|---|---|---|
| **Turnover** | 1 | **833,178** | 727,894 |
| Cost of sales | | **(435,198)** | (395,517) |
| **Gross profit** | | **397,980** | 332,377 |
| Administrative expenses | | **(228,370)** | (172,158) |
| **Operating profit and profit before taxation** | 1 | **169,610** | 160,219 |
| Taxation | 3 | **(45,795)** | (42,613) |
| **Profit after taxation** | | **123,815** | 117,606 |
| Dividends | 4 | **(71,788)** | (65,810) |
| **Retained profit for the year** | 23 | **52,027** | 51,796 |

| | | | |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic | 5 | **50.39p** | 47.52p |
| Adjusted | 5 | **51.89p** | 48.19p |
| Diluted | 5 | **50.08p** | 47.27p |

The results shown in the profit and loss account derive wholly from continuing activities.
There is no material difference between the result for the year as shown above and the historical cost equivalent.

# Statement of total recognised gains and losses

| for the year ended 31 December | | 2001 £'000 | 2000 £'000 |
|---|---|---|---|
| Profit after taxation | | **123,815** | 117,606 |
| Currency translation differences | 23 | **(120)** | 160 |
| **Total recognised gains and losses relating to the year** | | **123,695** | 117,766 |

# Balance sheets

| as at 31 December | Notes | Group 2001 £'000 | Group 2000 £'000 | Company 2001 £'000 | Company 2000 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 8 | **3,510** | – | **–** | – |
| Tangible assets | 9 | **36,678** | 26,677 | **4,760** | 4,771 |
| Investments in subsidiary undertakings | 10 | **–** | – | **939,334** | 895,433 |
| Investment in own shares | 11 | **12,750** | 14,507 | **12,750** | 14,507 |
| | | **52,938** | 41,184 | **956,844** | 914,711 |
| **Current assets** | | | | | |
| Amounts receivable from customers | | | | | |
| – due within one year | 12(a) | **719,637** | 637,706 | **–** | – |
| – due in more than one year | 12(a) | **9,614** | 9,497 | **–** | – |
| Debtors | 15 | **173,216** | 162,727 | **542,789** | 436,108 |
| Investments | | | | | |
| – realisable within one year | 16 | **430,621** | 330,000 | **–** | – |
| Cash at bank and in hand | 16 | **44,623** | 50,881 | **216** | 893 |
| | | **1,377,711** | 1,190,811 | **543,005** | 437,001 |
| **Current liabilities** | | | | | |
| Bank and other borrowings | 13 | **(42,969)** | (37,133) | **(13,178)** | (19,218) |
| Creditors – amounts falling due within one year | 17 | **(173,047)** | (166,091) | **(93,491)** | (99,314) |
| Insurance accruals and deferred income | 18 | **(438,838)** | (374,611) | **–** | – |
| | | **(654,854)** | (577,835) | **(106,669)** | (118,532) |
| **Net current assets** | | **722,857** | 612,976 | **436,336** | 318,469 |
| **Total assets less current liabilities** | | **775,795** | 654,160 | **1,393,180** | 1,233,180 |
| **Non-current liabilities** | | | | | |
| Bank and other borrowings | 13 | **(473,231)** | (384,908) | **(434,554)** | (348,407) |
| Provisions for liabilities and charges – deferred taxation | 19 | **(6,016)** | (2,566) | **(1,394)** | (1,426) |
| | | **(479,247)** | (387,474) | **(435,948)** | (349,833) |
| **Net assets** | | **296,548** | 266,686 | **957,232** | 883,347 |
| **Capital and reserves** | | | | | |
| Called-up share capital | 20 | **25,433** | 25,798 | **25,433** | 25,798 |
| Share premium account | 21 | **51,840** | 51,638 | **51,840** | 51,638 |
| Merger reserve | | **–** | – | **2,335** | 2,335 |
| Revaluation reserve | | **1,641** | 1,641 | **2,703** | 2,703 |
| Other reserves | 22 | **4,358** | 3,967 | **783,147** | 739,412 |
| Profit and loss account | 23 | **213,276** | 183,642 | **91,774** | 61,461 |
| **Equity shareholders' funds** | 24 | **296,548** | 266,686 | **957,232** | 883,347 |

These accounts were approved by the board on 8 March 2002.

**John van Kuffeler** Chairman
**John Harnett** Finance Director

# Consolidated cash flow statement

| for the year ended 31 December | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Net cash inflow from operating activities (see page 49) | **159,713** | 136,994 |
| **Taxation** | | |
| UK corporation tax | **(40,072)** | (48,217) |
| Overseas tax | **(6,364)** | (1,411) |
| | **(46,436)** | (49,628) |
| **Capital expenditure and financial investment** | | |
| Capital expenditure: | | |
| Purchase of tangible fixed assets | **(19,941)** | (10,269) |
| Sale of tangible fixed assets | **1,697** | 1,024 |
| Options exercised (QUEST shares) | **1,757** | 2,509 |
| Financial investments other than liquid resources: | | |
| Sale of investments | **10,000** | 35,000 |
| | **(6,487)** | 28,264 |
| **Acquisitions and disposals** | | |
| Purchase of business (note 10) | **(2,510)** | – |
| | **(2,510)** | – |
| **Equity dividends paid** | **(69,360)** | (63,367) |
| **Management of liquid resources** | | |
| Purchase of investments | **(2,367,695)** | (2,276,770) |
| Sale of investments | **2,257,074** | 2,178,072 |
| | **(110,621)** | (98,698) |
| **Financing** | | |
| Issue of share capital | **1,135** | 224 |
| New short and medium term loans | **123,534** | 20,000 |
| Net movement on existing short and medium term loans | **(20,489)** | 77,766 |
| Share buy-back | **(23,180)** | (49,052) |
| | **81,000** | 48,938 |
| **Increase in cash in the period** | **5,299** | 2,503 |

The cash flow statement above has been prepared in accordance with FRS 1 (Revised 1996) 'Cash Flow Statements'. As required by that standard, the statement aggregates the cash flows arising from the motor insurance and home credit divisions. However, the cash and investments held by the motor insurance division are required by its regulators to be strictly segregated from the rest of the group and are not available to repay group borrowings. A commentary on the group's borrowings and investments has been included in the Financial review on pages 28 and 29.

At 31 December 2001 the cash and investments held by the motor insurance division amounted to £426.5m (2000 £342.5m).

Liquid resources consist of bank and building society deposits that have a term of either one year or less to maturity when acquired.

# Consolidated cash flow statement continued

| Reconciliation of net cash flow to movement in net debt | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Increase in net cash in the period | **5,299** | 2,503 |
| Cash outflow from increase in liquid resources | **110,621** | 98,698 |
| | **115,920** | 101,201 |
| Cash inflow from increase in debt | **(103,045)** | (97,766) |
| Change in net debt resulting from cash flows | **12,875** | 3,435 |
| Loans relating to business acquired (note 10) | **(975)** | – |
| Exchange adjustments | **(1,696)** | (1,038) |
| Net debt at 1 January | **(51,160)** | (53,557) |
| **Net debt at 31 December** | **(40,956)** | (51,160) |

| Analysis of changes in net debt | 1 January 2001 £'000 | Cash flows £'000 | Acquisition £'000 | Exchange movements £'000 | Other changes £'000 | 31 December 2001 £'000 |
|---|---|---|---|---|---|---|
| Cash at bank and in hand | 50,881 | (7,090) | – | 832 | – | **44,623** |
| Overdrafts | (12,389) | 12,389 | – | – | – | – |
| | 38,492 | 5,299 | – | 832 | – | **44,623** |
| Investments realisable within one year | 320,000 | 110,621 | – | – | – | **430,621** |
| Bank and other borrowings | | | | | | |
| – less than one year | (24,744) | 6,117 | – | – | (24,342) | **(42,969)** |
| – more than one year | (384,908) | (109,162) | (975) | (2,528) | 24,342 | **(473,231)** |
| **Net debt** | (51,160) | 12,875 | (975) | (1,696) | – | **(40,956)** |

Cash, borrowings and overdraft balances shown above at 31 December 2001 and 2000 agree to the balance sheets at those dates. Investments realisable within one year exclude those current asset investments which are not considered to be liquid resources (being those investments with more than one year to maturity when acquired, but less than one year to maturity at the balance sheet date).

| Reconciliation of operating profit to net cash inflow from operating activities | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Operating profit | **169,610** | 160,219 |
| Depreciation and amortisation | **8,217** | 5,935 |
| Loss on sale of tangible fixed assets | **451** | 312 |
| Increase in amounts receivable from customers | **(80,661)** | (72,071) |
| Increase in debtors | **(8,124)** | (33,098) |
| Increase in unearned insurance premiums | **12,642** | 43,030 |
| Increase in insurance claims provision | **51,569** | 24,608 |
| Decrease in amounts due to retailers | **(1,518)** | (1,741) |
| Increase in accruals | **11,755** | 8,488 |
| (Decrease)/increase in other liabilities and deferred income | **(4,228)** | 1,312 |
| **Net cash inflow from operating activities** | **159,713** | 136,994 |
| Analysed as: | | |
| Net cash inflow from UK home credit | **123,535** | 131,320 |
| Net cash outflow from international home credit | **(52,523)** | (50,936) |
| Net cash inflow from motor insurance | **99,429** | 67,163 |
| Net cash outflow from central | **(10,728)** | (10,553) |
| **Net cash inflow from operating activities** | **159,713** | 136,994 |

# Principal accounting policies

**Accounting convention**
The accounts have been prepared in compliance with the Companies Act 1985 and in accordance with applicable Accounting Standards. They have been prepared under the historical cost convention as modified to include the valuation of land and buildings at 31 December 1994. FRS 18 'Accounting policies' has been adopted in the current year, but this did not require any change in accounting policy.

**Basis of consolidation**
The consolidated profit and loss account and balance sheet include the accounts of the company and its subsidiary undertakings drawn up to the end of the financial year. The results of subsidiary undertakings acquired and sold during the year are included in the consolidated profit and loss account from the dates of acquisition or to the dates of disposal. Inter-company sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

**Goodwill**
Goodwill arising on acquisition, being the excess of the purchase consideration over the fair value of the assets acquired, is capitalised and amortised over its estimated useful economic life. Goodwill arising on acquisitions prior to the introduction of FRS 10 'Goodwill and Intangible Assets' is eliminated against reserves. On the subsequent disposal or closure of a business, goodwill previously eliminated against reserves is charged to the profit and loss account.

**Turnover and revenue recognition**
Turnover, which excludes value added tax and intra-segmental and inter-segmental transactions, comprises revenue earned for the home credit businesses, premiums written (net of reinsurance costs) for underwriting and commission/fees earned in respect of broking. In the home credit businesses the charge payable by the customer on the amount of credit advanced is recorded as revenue. It is included in the customer's account balance at the inception of the instalment credit agreement and is recognised in the profit and loss account as follows:

(i) at the inception of the agreement, the profit and loss account is credited with a proportion of revenue:
   - mainly to cover initial expenses, and
   - relating to debt insurance, other than an amount sufficient to cover the cost of potential rebates to customers for early settlement;

(ii) the balance of revenue remaining is carried forward in the balance sheet as deferred revenue, to be credited to the profit and loss account in future periods. A proportion of this deferred revenue is credited to the profit and loss account in future periods on the 'sum of the digits' method, mainly to cover finance costs, and the balance is credited proportionately to collections received.

In respect of the motor insurance business, which is underwritten by Provident Insurance plc and undertaken on a reinsurance basis by Provident Reinsurance Limited, credit is taken for premium income over the life of the policy and commission and expenses are also charged over the life of the policy.

**Amounts receivable from customers**
Provision is made for all doubtful debts based on formulae which reflect the historical performance of the various categories of delinquent debtors or on the expected performance where there is insufficient historical experience. The relevant proportion is appropriated from deferred revenue and the balance from the profit and loss account. Debts are written off when all reasonable steps to recover them have been taken without success.

**Provision for unpaid insurance claims**
Provision is made at the year end for the estimated gross cost of claims incurred but not settled at the balance sheet date, including the gross cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The company 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 such variables as legislation, inflation rates, the mix of business and industry benchmarks.

Provisions are calculated gross of any reinsurance recoveries. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the group's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

**Investments**
Deposits with financial institutions are stated at the lower of cost and estimated realisable value. Fixed interest securities which are generally held to maturity are valued at amortised cost. The amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security. Gains and losses on disposals of investments are dealt with in the profit and loss account when realised.

# Principal accounting policies continued

### Investment in own shares
Shares in the company held by the QUEST are shown at their estimated recoverable amount, being the option price of the shares payable by employees. The amount contributed to the QUEST in excess of the option price is charged against reserves. The company has taken advantage of the exemption in UITF Abstract 17 'Employee Share Schemes' (Revised 2000) in respect of accounting for its employee savings-related share option schemes which states that the requirements of the Abstract need not be applied to such schemes.

### Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost or valuation. On adoption of FRS 15 'Tangible Fixed Assets', the group followed the transitional provisions to retain the book value of land and buildings at 31 December 1999 which were revalued in 1994 but not to adopt a policy of revaluation in the future. Costs that are directly attributable to the development of new business application software are capitalised.

Depreciation is calculated to write down the assets to their estimated realisable value over their useful 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 computers and capitalised software | 20 to 33⅓ | Straight line |
| Motor vehicles | 25 | Reducing balance |

Any impairment, being the excess of carrying value over recoverable amount, is charged to the revaluation reserve or the profit and loss account as appropriate.

### Operating leases
Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

### Deferred taxation
To the extent that either a liability or benefit is expected to arise in the foreseeable future, deferred taxation is calculated using the liability method, that is on all timing differences at the rates of tax ruling at the dates when those timing differences are expected to reverse.

### Pension scheme arrangements
Contributions to separately administered pension funds are charged to the profit and loss account to spread the costs of pensions over the employees' working lives. The regular pension costs are attributed to individual years using the projected unit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average remaining service lives of employees.

### Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Profits and losses of subsidiary undertakings and branches which have currencies of operation other than sterling are translated into sterling at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated at the year end exchange rates or the contracted rate to the extent hedged.

Exchange differences arising from the retranslation of the opening net assets of subsidiary undertakings and branches, which have currencies of operation other than sterling, net of any related foreign currency loans taken out to hedge overseas investments, are taken to reserves, together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

### Financial instruments
The group uses derivative financial instruments to hedge exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract.

Interest rate swap and cap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these financial instruments are recognised as adjustments to interest payable or receivable over the periods of the contracts.

Foreign exchange contracts which hedge balance sheet assets and liabilities are revalued at closing rates and exchange differences arising are taken to reserves. Gains and losses on contracts hedging forecast transactional cash flows are recognised in the hedged periods. Cash flows associated with derivative financial instruments are classified in the cash flow statement in the same way as the transactions being hedged.

# Notes to the accounts

### 1 Segmental reporting

Analyses by class of business and geographical location of turnover, profit before taxation, net assets and total amount payable are set out in notes (a) and (b) as follows:

| (a) Class of business | Turnover 2001 £'000 | Turnover 2000 £'000 | Profit before taxation 2001 £'000 | Profit before taxation 2000 £'000 | Net assets 2001 £'000 | Net assets 2000 £'000 | Total amount payable* 2001 £'000 | Total amount payable* 2000 £'000 |
|---|---|---|---|---|---|---|---|---|
| UK home credit | **465,539** | 457,242 | **150,376** | 146,985 | **275,006** | 231,096 | **1,429,070** | 1,376,210 |
| International home credit excluding South Africa | **99,615** | 40,187 | **758** | (5,956) | **(10,167)** | (9,256) | **345,911** | 175,776 |
| Motor insurance | **266,023** | 228,723 | **36,597** | 32,042 | **101,274** | 97,589 | **–** | – |
| | **831,177** | 726,152 | **187,731** | 173,071 | **366,113** | 319,429 | **1,774,981** | 1,551,986 |
| Central | **–** | – | **(13,081)** | (10,570) | **(70,402)** | (56,498) | **–** | – |
| Ongoing operations | **831,177** | 726,152 | **174,650** | 162,501 | **295,711** | 262,931 | **1,774,981** | 1,551,986 |
| South Africa | **1,964** | 1,714 | **(3,608)** | (789) | **271** | 3,251 | **5,754** | 7,564 |
| Provident balance | **37** | 28 | **(1,432)** | (1,493) | **566** | 504 | **–** | – |
| **Total** | **833,178** | 727,894 | **169,610** | 160,219 | **296,548** | 266,686 | **1,780,735** | 1,559,550 |

* Total amount payable represents credit issued in the year plus the related service charge in respect of the home credit business.

Turnover and cost of sales for the UK home credit division in 2000 included the cost of goods sold to customers under arrangements with retail suppliers of £8,868,000. Divisional turnover net of these items was £448,374,000. In 2001, the cost of goods sold to customers under such arrangements has been excluded from turnover and cost of sales to better reflect the underlying nature of these arrangements. Turnover in 2001 in respect of these arrangements represents solely the revenue earned in the period on the amount of credit advanced to the customer. The 2000 figure for UK home credit turnover has not been restated as the impact is not material.

For the year ended 31 December 2001 the international home credit division, including South Africa, reported turnover of £101,579,000 (2000 £41,901,000) and a loss before taxation of £2,850,000 (2000 £6,745,000) and had net liabilities of £9,896,000 (2000 £6,005,000).

For the year ended 31 December 2001 the motor insurance division, including Provident balance, reported turnover of £266,060,000 (2000 £228,751,000) and a profit before taxation of £35,165,000 (2000 £30,549,000) and had net assets of £101,840,000 (2000 £98,093,000).

The international home credit profit/(loss) before taxation, excluding South Africa, can be analysed as follows:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Poland | **6,746** | (2,769) |
| Czech Republic | **2,455** | 87 |
| Slovakia | **(1,293)** | – |
| Hungary | **(2,257)** | – |
| Central divisional overheads | **(4,893)** | (3,274) |
| **Total** | **758** | (5,956) |

# Notes to the accounts continued

## 1 Segmental reporting continued

| (b) Geographical analysis by location | Turnover 2001 £'000 | Turnover 2000 £'000 | Profit before taxation 2001 £'000 | Profit before taxation 2000 £'000 | Net assets 2001 £'000 | Net assets 2000 £'000 | Total amount payable* 2001 £'000 | Total amount payable* 2000 £'000 |
|---|---|---|---|---|---|---|---|---|
| UK and Republic of Ireland | **731,599** | 685,993 | **180,648** | 174,260 | **355,791** | 313,679 | **1,429,070** | 1,376,210 |
| Poland | **74,131** | 26,020 | **6,746** | (2,769) | **13,534** | 8,015 | **258,807** | 112,840 |
| Czech Republic | **24,851** | 14,167 | **2,455** | 87 | **(432)** | (1,761) | **83,555** | 62,936 |
| South Africa | **1,964** | 1,714 | **(3,608)** | (789) | **271** | 3,251 | **5,754** | 7,564 |
| Hungary | **448** | – | **(2,257)** | – | **(971)** | – | **2,549** | – |
| Slovakia | **185** | – | **(1,293)** | – | **(1,243)** | – | **1,000** | – |
| | **833,178** | 727,894 | **182,691** | 170,789 | **366,950** | 323,184 | **1,780,735** | 1,559,550 |
| Central | **–** | – | **(13,081)** | (10,570) | **(70,402)** | (56,498) | **–** | – |
| **Total** | **833,178** | 727,894 | **169,610** | 160,219 | **296,548** | 266,686 | **1,780,735** | 1,559,550 |

* Total amount payable represents credit issued in the year plus the related service charge in respect of the home credit business

Analyses by class of business are based on the group's divisional structure.

Turnover between segments is not material and there is no material difference between the geographical analysis of turnover by location and by destination.

## 2 Profit before taxation is stated after:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| **Charging:** | | |
| Interest on borrowings (included in cost of sales) – bank loans and overdrafts | **29,167** | 22,931 |
| – other loans | **5,936** | 1,648 |
| Auditors' remuneration – audit services (company £52,000; 2000 £47,000) | **300** | 250 |
| – tax compliance and advice | **778** | 407 |
| – other non-audit services | **143** | 92 |
| Depreciation of tangible fixed assets | **8,082** | 5,935 |
| Amortisation of goodwill | **135** | – |
| Loss on sale of tangible fixed assets | **451** | 312 |
| Operating lease rentals – equipment | **22** | 84 |
| – property | **7,426** | 5,628 |
| **Crediting:** | | |
| Investment income (included in cost of sales) | **24,104** | 20,811 |

## Notes to the accounts continued

### 3 Taxation

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| The charge for taxation on the profit for the year comprises: | | |
| UK corporation tax chargeable on the profit for the year at 30% (2000 30%) | **43,021** | 45,409 |
| Deferred tax (note 19(c)) | **3,568** | 1,247 |
| Overseas tax | **4,843** | 1,331 |
| | **51,432** | 47,987 |
| Prior year corporation tax | **(5,553)** | (6,082) |
| Prior year deferred tax (note 19(c)) | **(84)** | 2,032 |
| Prior year overseas tax | **–** | (1,324) |
| **Total** | **45,795** | 42,613 |

Retained profits of certain overseas subsidiaries would, if remitted to the UK, be subject to additional taxation for which no provision has been made in these accounts as there is currently no intention to remit such profits. The effective tax rate for 2001 is below the standard rate of UK corporation tax owing to the favourable agreement of prior year tax liabilities.

### 4 Dividends

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Ordinary shares: | | |
| Interim dividend paid of 11.75p per share (2000 10.90p) | **28,971** | 25,421 |
| Proposed final dividend of 17.60p per share (2000 16.40p) | **42,817** | 40,389 |
| **Total** | **71,788** | 65,810 |

### 5 Earnings per share

The basic and diluted earnings per share figures have been calculated using the profit for the year attributed to ordinary shareholders of £123,815,000 (2000 £117,606,000) and the weighted average number of shares in issue during the year.

The adjusted earnings per share figure is shown excluding the losses of the home credit operation in South Africa and Provident balance Limited. The adjustments made, and their impact on earnings per share, are as follows:

| | 2001 Earnings £'000 | 2001 Earnings per share pence | 2000 Earnings £'000 | 2000 Earnings per share pence |
|---|---|---|---|---|
| Basic earnings | **123,815** | **50.39** | 117,606 | 47.52 |
| Losses of businesses closed in 2001, net of tax | **3,680** | **1.50** | 1,675 | 0.67 |
| **Adjusted earnings** | **127,495** | **51.89** | 119,281 | 48.19 |

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

| **Weighted average number of shares** | 2001 Number | 2000 Number |
|---|---|---|
| In issue during the year | **248,147,454** | 250,221,347 |
| Held by the QUEST | **(2,456,807)** | (2,727,626) |
| **Used in basic and adjusted earnings per share calculations** | **245,690,647** | 247,493,721 |
| Issuable on conversion of outstanding options | **1,546,712** | 1,286,831 |
| **Used in diluted earnings per share calculation** | **247,237,359** | 248,780,552 |

# Notes to the accounts continued

### 6 Directors' remuneration

Details of directors' remuneration, share options, pension contributions and pension entitlements are included in the remuneration report on pages 37 to 43.

### 7 Employee information

| (a) The average number of persons employed by the group (including executive directors) was as follows: | 2001 Number | 2000 Number |
|---|---|---|
| UK home credit | **2,995** | 2,939 |
| International home credit | **2,379** | 1,425 |
| Motor insurance | **1,492** | 1,315 |
| Central | **48** | 41 |
| **Total** | **6,914** | 5,720 |
| Analysed as: | | |
| Full-time | **6,319** | 5,158 |
| Part-time | **595** | 562 |
| **Total** | **6,914** | 5,720 |

| (b) Group employment costs – all employees (including executive directors) | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Aggregate gross wages and salaries paid to the group's employees | **104,870** | 90,635 |
| Employers' national insurance contributions | **11,925** | 8,664 |
| Pension costs (note 26(a)) | **7,275** | 6,114 |
| **Total** | **124,070** | 105,413 |

### 8 Intangible fixed assets

| | Consolidated goodwill £'000 |
|---|---|
| **Cost** | |
| At 1 January 2001 | – |
| Increase during the year | 3,645 |
| At 31 December 2001 | 3,645 |
| **Amortisation** | |
| At 1 January 2001 | – |
| Provided during the year | 135 |
| At 31 December 2001 | 135 |
| **Net book value at 31 December 2001** | **3,510** |
| Net book value at 31 December 2000 | – |

The increase during the year relates to the acquisition of the entire issued share capital of N & N Cheque Encashment Limited on 4 April 2001 (see note 10).

# Notes to the accounts continued

## 9 Tangible fixed assets

| (a) Group | Freehold land and buildings £'000 | Leasehold land and buildings £'000 | Equipment and vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2001: | | | | |
| Cost | 1,246 | 1,436 | 44,026 | 46,708 |
| Valuation in 1994 | 8,601 | 410 | – | 9,011 |
| Exchange adjustments | – | – | 231 | 231 |
| Additions at cost | – | – | 19,941 | 19,941 |
| Acquisitions | – | – | 101 | 101 |
| Disposals | (282) | (34) | (7,527) | (7,843) |
| | 9,565 | 1,812 | 56,772 | 68,149 |
| At 31 December 2001: | | | | |
| Cost | 1,078 | 1,402 | 56,772 | 59,252 |
| Valuation | 8,487 | 410 | – | 8,897 |
| | 9,565 | 1,812 | 56,772 | 68,149 |
| **Depreciation** | | | | |
| At 1 January 2001 | 1,334 | 561 | 27,147 | 29,042 |
| Exchange adjustments | – | – | 42 | 42 |
| Charged to profit and loss account | 241 | 69 | 7,772 | 8,082 |
| Eliminated on disposal | (84) | (20) | (5,591) | (5,695) |
| At 31 December 2001 | 1,491 | 610 | 29,370 | 31,471 |
| **Net book value at 31 December 2001** | **8,074** | **1,202** | **27,402** | **36,678** |
| Net book value at 31 December 2000 | 8,513 | 1,285 | 16,879 | 26,677 |

Leasehold land and buildings consist of:
(i) long leases at a cost/valuation of £959,000 and a net book value of £757,000; and
(ii) short leases at a cost of £853,000 and a net book value of £445,000.

The historical cost and related depreciation of land and buildings included at a cost/valuation is:

| | Freehold land and buildings | | Long leasehold land and buildings | |
|---|---|---|---|---|
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Historical cost | **10,343** | 10,625 | **790** | 790 |
| Depreciation based on cost | **(4,142)** | (3,966) | **(173)** | (154) |
| **Historical cost net book value** | **6,201** | 6,659 | **617** | 636 |

# **Notes to the accounts** continued

## **9 Tangible fixed assets** continued

| **(b) Company** | Freehold land and buildings £'000 | Leasehold land and buildings £'000 | Equipment and vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2001: | | | | |
| Cost | 624 | – | 1,833 | 2,457 |
| Valuation in 1994 | 3,776 | 180 | – | 3,956 |
| Additions at cost | – | – | 501 | 501 |
| Disposals | – | – | (301) | (301) |
| Transfers from group companies | – | – | 33 | 33 |
| | 4,400 | 180 | 2,066 | 6,646 |
| At 31 December 2001: | | | | |
| Cost | 624 | – | 2,066 | 2,690 |
| Valuation | 3,776 | 180 | – | 3,956 |
| | 4,400 | 180 | 2,066 | 6,646 |
| **Depreciation** | | | | |
| At 1 January 2001 | 649 | 27 | 966 | 1,642 |
| Charged to profit and loss account | 110 | 5 | 325 | 440 |
| Eliminated on disposal | – | – | (198) | (198) |
| Transfers from group companies | – | – | 2 | 2 |
| At 31 December 2001 | 759 | 32 | 1,095 | 1,886 |
| **Net book value at 31 December 2001** | **3,641** | **148** | **971** | **4,760** |
| Net book value at 31 December 2000 | 3,751 | 153 | 867 | 4,771 |

Leasehold land and buildings consist of long leases at a cost/valuation of £180,000 and a net book value of £148,000.

The historical cost and related depreciation of land and buildings included at a cost/valuation is:

| | Freehold land and buildings | | Long leasehold land and buildings | |
|---|---|---|---|---|
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Historical cost | **2,652** | 2,652 | **17** | 17 |
| Depreciation based on cost | **(1,239)** | (1,171) | **(11)** | (11) |
| **Historical cost net book value** | **1,413** | 1,481 | **6** | 6 |

## 10 Investment in subsidiary undertakings

| | Loans £'000 | Shares at cost £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2001 | 551,803 | 352,670 | 904,473 |
| Additions | 43,344 | 3,555 | 46,899 |
| At 31 December 2001 | 595,147 | 356,225 | 951,372 |
| **Provision for diminution in value** | | | |
| At 1 January 2001 | – | 9,040 | 9,040 |
| Provided during the year | – | 2,998 | 2,998 |
| At 31 December 2001 | – | 12,038 | 12,038 |
| **Total cost less provision at 31 December 2001** | **595,147** | **344,187** | **939,334** |
| Total cost less provision at 31 December 2000 | 551,803 | 343,630 | 895,433 |

On 4 April 2001, the company acquired the entire issued share capital of N & N Cheque Encashment Limited. Goodwill on the acquisition has been capitalised as an intangible asset in the balance sheet and is being amortised over a period of 20 years. In the opinion of the directors the period of 20 years is a reasonable estimate of the useful economic life of the investment.

An analysis of the provisional book value and fair value of the net liabilities acquired is as follows:

| | Provisional book and fair value to the group £'000 |
|---|---|
| Fixed assets | 101 |
| Debtors | 280 |
| Cash | 45 |
| Creditors falling due within one year | (541) |
| Creditors falling due after more than one year | (975) |
| Net liabilities | (1,090) |
| **Consideration:** | |
| Cash, including costs | 2,555 |
| **Goodwill arising on acquisition** | **3,645** |

The results of N & N Cheque Encashment Limited in the period immediately prior to and subsequent to the acquisition were not material to the group.

# Notes to the accounts continued

## 10 Investment in subsidiary undertakings continued

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the group. A full list of subsidiary undertakings will be annexed to the next annual return of the company to be filed with the Registrar of Companies. All subsidiaries are consolidated.

| | | Country of incorporation or registration | Class of capital | % holding |
|---|---|---|---|---|
| **UK home credit** | Provident Personal Credit Limited | England | Ordinary | 100* |
| | Greenwood Personal Credit Limited | England | Ordinary | 100* |
| **International home credit** | Provident International Limited | England | Ordinary | 100* |
| | Provident Polska S.A. | Poland | Ordinary | 100* |
| | Provident Financial s.r.o. | Czech Republic | Ordinary | 100* |
| | Provident Financial s.r.o. | Slovakia | Ordinary | 100* |
| | Provident Financial Rt. | Hungary | Ordinary | 100* |
| **Motor insurance** | Provident Insurance plc | England | Ordinary | 100 |
| | Colonnade Reinsurance Limited | Guernsey | Ordinary | 100 |
| | | | Preference | 100 |
| | Provident Reinsurance Limited | Guernsey | Ordinary | 100* |
| | Colonnade Insurance Brokers Limited | England | Ordinary | 100* |

* Shares held by wholly-owned intermediate holding companies.

The above companies operate principally in their country of incorporation or registration.

The financial year end of all subsidiaries is 31 December except for Provident Insurance plc. That company's financial year end is 30 June which, in the opinion of the directors, facilitates the negotiation of reinsurance arrangements. Accordingly, the management accounts of that company for the year ended 31 December 2001, which have been audited for the purposes of the group accounts, have been consolidated.

## 11 Investment in own shares

The QUEST is a discretionary trust established for the benefit of the employees of the group. The company has also established Provident Financial Trustees Limited, a wholly-owned subsidiary undertaking, to act as trustee of the QUEST. All costs relating to the QUEST are dealt with in the profit and loss account as they accrue. The trustee has waived the right to receive dividends on the shares it holds.

At 31 December 2001 the QUEST held 2,136,030 (2000 2,656,310) shares with a cost of £18,369,000 (2000 £22,430,000) and a market value of £13,777,394 (2000 £26,271,000). In accordance with UITF Abstract 13 'Accounting for ESOP Trusts' the shares have been included in the balance sheets of the company and the group and written down to the price at which the option was granted in respect of each share (being an aggregate of £12,750,000). The amount contributed to the QUEST in excess of the option price has been charged against reserves.

## 12 Amounts receivable from customers

| (a) Instalment credit receivables | Group 2001 £'000 | Group 2000 £'000 |
|---|---|---|
| Gross instalment credit receivables | **1,105,511** | 976,269 |
| Less: provision for bad and doubtful debts (note 12(b)) | **(86,251)** | (79,220) |
| Instalment credit receivables after provision for bad and doubtful debts (note 13(a)) | **1,019,260** | 897,049 |
| Less: deferred revenue thereon | **(290,009)** | (249,846) |
| **Total** | **729,251** | 647,203 |
| Analysed as – due within one year | **719,637** | 637,706 |
| – due in more than one year | **9,614** | 9,497 |
| **Total** | **729,251** | 647,203 |

At 31 December 2001 the net amounts receivable from UK home credit customers were £618,025,000 (2000 £585,449,000) and from international home credit customers were £111,226,000 (2000 £61,754,000).

### 12 Amounts receivable from customers continued

| (b) Bad and doubtful debts | Group 2001 £'000 | Group 2000 £'000 |
|---|---|---|
| Gross provision at 31 December (note 12(a)) | **86,251** | 79,220 |
| Less: deferred revenue thereon | **(27,589)** | (24,400) |
| Net provision at 31 December | **58,662** | 54,820 |
| Net provision at 1 January | **(54,820)** | (60,823) |
| Increase/(decrease) in provision (net of deferred revenue) | **3,842** | (6,003) |
| Amounts written off (net of deferred revenue) | **92,204** | 82,307 |
| **Net charge to profit and loss account for bad and doubtful debts** | **96,046** | 76,304 |
| Analysed as – UK home credit | **76,345** | 71,460 |
| – international home credit | **19,701** | 4,844 |
| **Total** | **96,046** | 76,304 |

The gross provision is made against the total amount receivable from customers which includes unearned service charges ('deferred revenue'). The relevant proportion of the gross provision is appropriated from deferred revenue and the balance from the profit and loss account.

### 13 Maturity of instalment credit receivables, borrowing facilities available and borrowings

| (a) Group | 2001 Instalment credit receivables £'000 | 2001 Borrowing facilities available £'000 | 2001 Borrowings £'000 | 2000 Instalment credit receivables £'000 | 2000 Borrowing facilities available £'000 | 2000 Borrowings £'000 |
|---|---|---|---|---|---|---|
| Repayable: | | | | | | |
| On demand | **–** | **6,167** | **–** | – | 15,701 | 12,389 |
| In less than 6 months | **793,693** | **9,204** | **8,924** | 657,731 | 20,000 | 18,026 |
| In 6 – 12 months | **212,153** | **34,500** | **34,045** | 226,033 | 6,718 | 6,718 |
| In less than 12 months | **1,005,846** | **49,871** | **42,969** | 883,764 | 42,419 | 37,133 |
| In 12 – 24 months | **13,414** | **20,210** | **15,210** | 13,285 | 23,582 | 18,592 |
| In 24 – 60 months | **–** | **461,007** | **288,568** | – | 230,596 | 189,294 |
| In more than 60 months | **–** | **213,453** | **169,453** | – | 229,000 | 177,022 |
| In more than 12 months | **13,414** | **694,670** | **473,231** | 13,285 | 483,178 | 384,908 |
| **Total** | **1,019,260** | **744,541** | **516,200** | 897,049 | 525,597 | 422,041 |

| (b) Company | 2001 Borrowing facilities available £'000 | 2001 Borrowings £'000 | 2000 Borrowing facilities available £'000 | 2000 Borrowings £'000 |
|---|---|---|---|---|
| Repayable: | | | | |
| On demand | **6,167** | **–** | 15,701 | 12,487 |
| In 6 – 12 months | **19,500** | **13,178** | 20,000 | 6,731 |
| In less than 12 months | **25,667** | **13,178** | 35,701 | 19,218 |
| In 12 – 24 months | **15,000** | **10,000** | – | – |
| In 24 – 60 months | **420,089** | **255,101** | 207,007 | 171,406 |
| In more than 60 months | **213,453** | **169,453** | 229,000 | 177,001 |
| In more than 12 months | **648,542** | **434,554** | 436,007 | 348,407 |
| **Total** | **674,209** | **447,732** | 471,708 | 367,625 |

# **Notes to the accounts** continued

**13 Maturity of instalment credit receivables, borrowing facilities available and borrowings** continued

**c) Borrowing facilities and borrowings**

Borrowing facilities comprise arrangements with banks for committed revolving loan and acceptance credit facilities in a number of currencies for periods of up to seven years, together with overdrafts and uncommitted loans which are repayable on demand, and loan notes privately placed with US and UK institutions (see note 13(d) below).

At 31 December 2001 borrowings under these facilities amounted to £516,200,000 (company £447,732,000) (2000 £422,041,0000; company £367,625,000). These borrowings are under:

(i) committed revolving loan and acceptance credit facilities which are generally drawn for periods of three to six months, then repaid and redrawn;
(ii) borrowings on overdrafts and uncommitted loan facilities which are repayable on demand; and
(iii) loan notes, as described below.

The borrowings shown in notes 13(a) and 13(b) are analysed by reference to the maturity of the facility under which they are drawn as required by FRS 4.

**(d) Loan notes**

On 10 May 2001, the company issued loan notes in 3 series:

(i) £42,000,000 of 7.21% loan notes repayable on 10 May 2011;
(ii) US$64,000,000 of 7.40% loan notes repayable on 10 May 2008; and
(iii) US$24,000,000 of 7.60% loan notes repayable on 10 May 2011.

Cross currency swaps have been put in place to swap the proceeds and liabilities for principal and interest under the two US$ denominated series into sterling.

**(e) Cross currency swap arrangements**

Any borrowing, the liability of which is swapped into another currency, is accounted for as a liability in the swap currency and not in the original currency of denomination.

**(f) Undrawn committed borrowing facilities**

The undrawn committed borrowing facilities at 31 December were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Expiring within one year | **1,902** | 5,286 | **7,489** | 16,483 |
| Expiring within one to two years | **5,000** | 4,990 | **5,000** | – |
| Expiring in more than two years | **216,439** | 93,280 | **208,988** | 87,600 |
| **Total** | **223,341** | 103,556 | **221,477** | 104,083 |

### 14 Derivatives and other financial instruments

An explanation of the group's objectives, policies and strategies in the use of derivatives and other financial instruments is included in the financial review on pages 26 to 29. The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 'Derivatives and Other Financial Instruments: Disclosures'.

As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures other than the currency disclosures in note 14(e).

#### (a) Interest rate profile of financial liabilities

After taking account of the various interest rate swaps entered into by the group and the currency swap arrangements referred to in note 13(e) (but before the interest rate caps of up to £50 million referred to below), the interest rate exposure on the group's borrowings at 31 December 2001 was:

| | | 2001 | | | 2000 | |
|---|---|---|---|---|---|---|
| Currency | Total £'000 | Fixed £'000 | Floating £'000 | Total £'000 | Fixed £'000 | Floating £'000 |
| Sterling | **381,004** | **248,648** | **132,356** | 347,719 | 255,000 | 92,719 |
| Irish punt/euro | **12,280** | **–** | **12,280** | 10,938 | – | 10,938 |
| Polish zloty | **88,631** | **46,713** | **41,918** | 40,045 | 25,098 | 14,947 |
| Czech crown | **32,969** | **28,032** | **4,937** | 23,339 | – | 23,339 |
| Hungarian forint | **1,316** | **–** | **1,316** | – | – | – |
| **Total** | **516,200** | **323,393** | **192,807** | 422,041 | 280,098 | 141,943 |

At 31 December 2001, the group's floating rate borrowings were £192,807,000 as shown in the table above. In accordance with FRS 13, these are defined as borrowings which have their interest rates reset at least once a year. In practice, the group typically draws down on its borrowing facilities for periods of between three and six months. The group's exposure to increases in interest rates on the sterling floating rate borrowings position at 31 December 2001 is also protected by an interest rate cap on borrowings of up to £50 million at a rate of 7.35% until 2 January 2003. The cross currency swap arrangements in respect of $57m of the loan notes described in note 13(d) result in these borrowings being at floating rates until November 2002. Thereafter, these borrowings will attract fixed rates until their maturity. These borrowings have been shown as floating rate borrowings in the above table at 31 December 2001.

The weighted average interest rate on sterling fixed rate borrowings at 31 December 2001 amounted to 6.65% (2000 6.3%) and the weighted average period to maturity was 3.7 years (2000 2.7 years).

The weighted average interest rate on Polish zloty fixed rate borrowings at 31 December 2001 amounted to 15.93% (2000 17.02%) and the weighted average period to maturity was 1.9 years (2000 2.7 years).

The weighted average interest rate on Czech crown fixed rate borrowings at 31 December 2001 amounted to 5.19% and the weighted average period to maturity was 1.6 years.

The floating rate borrowings bear interest at rates linked to relevant national LIBOR equivalents.

#### (b) Interest rate profile of financial assets

After taking account of the various interest rate swaps entered into by the group, the interest rate exposure on the group's cash and investments at 31 December 2001 was:

| | | 2001 | | | 2000 | |
|---|---|---|---|---|---|---|
| | Total £'000 | Fixed £'000 | Floating £'000 | Total £'000 | Fixed £'000 | Floating £'000 |
| Cash at bank and in hand | **44,623** | **–** | **44,623** | 50,881 | – | 50,881 |
| Bank and building society deposits | **430,621** | **240,000** | **190,621** | 330,000 | 330,000 | – |
| **Total** | **475,244** | **240,000** | **235,244** | 380,881 | 330,000 | 50,881 |

# **Notes to the accounts** continued

**14 Derivatives and other financial instruments** continued

**(b) Interest rate profile of financial assets** continued
At 31 December 2001, £8,280,000 of the floating rate bank and building society deposits are denominated in Polish zloty, £3,326,000 is denominated in Czech crown and the remainder is denominated in sterling. All fixed rate deposits are denominated in sterling.

Of the cash at bank and in hand balance at 31 December 2001, £28,306,000 is denominated in sterling, £9,514,000 is denominated in Polish zloty, £4,571,000 is denominated in Czech crown, £1,275,000 is denominated in Hungarian forint, £288,000 is denominated in Slovak crown and £669,000 is denominated in South African rand.

The weighted average interest rate on fixed rate investments at 31 December 2001 amounted to 6.41% (2000 6.5%) and the weighted average period to maturity was 2.6 years (2000 2.5 years).

The floating rate cash and investments bear interest at rates linked to LIBOR.

**(c) Fair values**
The fair values and book values of the group's financial instruments by category at 31 December 2001 are set out below:

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | Book value £'000 | Fair value £'000 | Book value £'000 | Fair value £'000 |
| Primary financial instruments held to finance the group's operations: | | | | |
| Current asset investments | **430,621** | **430,621** | 330,000 | 330,000 |
| Cash at bank and in hand | **44,623** | **44,623** | 50,881 | 50,881 |
| Bank loans and overdrafts | **(454,747)** | **(454,747)** | (415,323) | (415,323) |
| US$ bank loan | **–** | **–** | (6,718) | (6,628) |
| US$ loan notes | **(61,453)** | **(60,523)** | – | – |
| Derivative financial instruments held to manage the interest and currency profile: | | | | |
| Currency swap re US$ bank loan | **–** | **–** | – | (127) |
| Currency swap re US$ loan notes* | **–** | **(1,484)** | – | – |
| Other currency swaps – contracts in profit | **–** | **160** | – | – |
| – contracts in loss | **–** | **(8,704)** | – | (2,628) |
| Interest rate swaps on borrowings – contracts in profit | **–** | **–** | – | 195 |
| – contracts in loss | **–** | **(5,773)** | – | (4,462) |
| Interest rate swaps on investments – contracts in profit | **–** | **7,455** | – | 6,157 |
| – contracts in loss | **–** | **(193)** | – | (768) |
| Interest rate caps | **193** | **4** | 583 | 22 |

* The deferred losses on these currency swaps are mainly offset by the deferred gains on their underlying liabilities (the US$ loan notes).

Market values have been used to determine the fair values of the group's financial instruments.

**(d) Hedging instruments**
The following table shows the extent to which the group has unrecognised and deferred gains and losses, in respect of financial instruments used as hedges, at the beginning and end of the year.

All gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

**14 Derivatives and other financial instruments** continued

**(d) Hedging instruments continued**

The US$ loan notes, which are fully hedged by a currency swap arrangement, are translated at the forward rate inherent in the contract. Consequently, the carrying value of the loan effectively includes the gain or loss on the hedging instrument, which is treated as deferred for the purpose of the table below:

| | Unrecognised | | | Deferred | | |
|---|---|---|---|---|---|---|
| Gains and losses on hedging instruments | Gains £'000 | Losses £'000 | Total net gains/(losses) £'000 | Gains £'000 | Losses £'000 | Total net gains/(losses) £'000 |
| At 1 January 2001 | 6,374 | (7,895) | (1,521) | – | (90) | (90) |
| Arising in previous years that were recognised in 2001 | 2,291 | (4,979) | (2,688) | – | (90) | (90) |
| Arising in previous years not recognised in 2001 | 4,083 | (2,916) | 1,167 | – | – | – |
| Arising in 2001 | 3,536 | (12,308) | (8,772) | – | (930) | (930) |
| **Gains and losses on hedging instruments at 31 December 2001** | **7,619** | **(15,224)** | **(7,605)** | **–** | **(930)** | **(930)** |
| Of which: | | | | | | |
| Gains and losses expected to be recognised in 2002 | 5,600 | (9,416) | (3,816) | – | – | – |
| Gains and losses expected to be recognised in 2003 or later | 2,019 | (5,808) | (3,789) | – | (930) | (930) |

**(e) Currency exposures**

As explained in the group's accounting policy, exchange differences arising from the retranslation of the opening net assets of subsidiary undertakings and branches, which have currencies of operation other than sterling, net of any related foreign currency loans taken out to hedge overseas investments, are taken to reserves, together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end.

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the group subsidiary concerned and the group. The position at 31 December 2001 was as follows:

| | Net foreign currency monetary assets/(liabilities) | | | | |
|---|---|---|---|---|---|
| Functional currency of group operation | Sterling £'000 | Polish zloty £'000 | Czech crown £'000 | Slovak crown £'000 | Total £'000 |
| Sterling | – | 727 | (704) | 418 | 441 |
| Polish zloty | (78) | – | – | – | (78) |
| Czech crown | (266) | – | – | – | (266) |
| Hungarian forint | (211) | (94) | – | – | (305) |
| Slovak crown | (103) | – | (155) | – | (258) |
| **Total** | **(658)** | **633** | **(859)** | **418** | **(466)** |

The position at 31 December 2000 was as follows:

| | Net foreign currency monetary assets/(liabilities) | | |
|---|---|---|---|
| Functional currency of group operation | Polish zloty £'000 | Czech crown £'000 | Total £'000 |
| Sterling | 611 | 1,290 | 1,901 |

The above tables exclude the US$ loan notes because they are fully hedged by a currency swap arrangement.

# Notes to the accounts continued

## 14 Derivatives and other financial instruments continued

### (f) Instruments held for trading purposes

None of the group's financial instruments is held for trading purposes.

## 15 Debtors – amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Trade debtors | **62,188** | 66,652 | **–** | – |
| Amounts recoverable from reinsurers | **69,145** | 57,494 | **–** | – |
| Other debtors | **2,516** | 5,209 | **243** | 217 |
| Prepayments and accrued income | **18,446** | 17,156 | **9,281** | 9,390 |
| Commissions prepaid to insurance brokers and other deferred acquisition costs | **18,836** | 16,216 | **–** | – |
| Amounts owed by group undertakings | **–** | – | **533,265** | 426,501 |
| Overseas tax recoverable | **2,085** | – | **–** | – |
| **Total** | **173,216** | 162,727 | **542,789** | 436,108 |

## 16 Investments and cash at bank and in hand

| **Investments and cash at bank and in hand comprise:** | Group 2001 £'000 | Group 2000 £'000 |
|---|---|---|
| Bank, building society and other fixed interest deposits at cost | **430,621** | 330,000 |
| Cash at bank and in hand | **44,623** | 50,881 |
| **Total** | **475,244** | 380,881 |

£413,782,000 of the investments and £12,709,000 (2000 £12,530,000) of the cash at bank and in hand are held by Provident Insurance plc, Colonnade Reinsurance Limited, Provident Reinsurance Limited and Colonnade Insurance Brokers Limited. The regulators of these companies require their investments and cash to be retained within the relevant company and these monies cannot be used to finance other parts of the group or to repay group borrowings. These monies are invested and held on deposit, pending future claims payments and payments to insurance companies.

## 17 Creditors – amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Amounts due to retailers and customers' unspent balances | **19,248** | 20,766 | **–** | – |
| Trade creditors | **15,474** | 14,034 | **–** | – |
| Amounts owed to group undertakings | **–** | – | **28,591** | 37,270 |
| Other creditors including taxation and social security | **51,118** | 58,803 | **14,102** | 16,361 |
| Accruals | **44,390** | 32,099 | **7,981** | 5,294 |
| Dividends payable | **42,817** | 40,389 | **42,817** | 40,389 |
| **Total** | **173,047** | 166,091 | **93,491** | 99,314 |

| | | | | |
|---|---|---|---|---|
| Other creditors including taxation and social security comprise: | | | | |
| UK corporation tax | **31,472** | 34,076 | **7,027** | 3,337 |
| Overseas tax | **1,630** | 1,032 | **–** | – |
| | **33,102** | 35,108 | **7,027** | 3,337 |
| Social security | **3,817** | 3,044 | **160** | 119 |
| Value added tax | **–** | 55 | **–** | – |
| Other creditors | **14,199** | 20,596 | **6,915** | 12,905 |
| **Total** | **51,118** | 58,803 | **14,102** | 16,361 |

# Notes to the accounts continued

## 18 Insurance accruals and deferred income – amounts falling due within one year

| | Group 2001 £'000 | Group 2000 £'000 |
|---|---|---|
| Provision for unpaid insurance claims | **308,775** | 257,206 |
| Unearned insurance premiums | **129,090** | 116,448 |
| Other deferred income | **973** | 957 |
| **Total** | **438,838** | 374,611 |

## 19 Deferred taxation

| (a) Group | 2001 Provision £'000 | 2001 Full potential liability £'000 | 2000 Provision £'000 | 2000 Full potential liability £'000 |
|---|---|---|---|---|
| Accelerated capital allowances | **(36)** | **(440)** | (495) | (1,564) |
| Other timing differences | **6,052** | **8,352** | 3,061 | 3,028 |
| | **6,016** | **7,912** | 2,566 | 1,464 |
| Realised capital gains deferred | **–** | **511** | – | 511 |
| **Deferred taxation liability** | **6,016** | **8,423** | 2,566 | 1,975 |

| (b) Company | 2001 Provision £'000 | 2001 Full potential liability £'000 | 2000 Provision £'000 | 2000 Full potential liability £'000 |
|---|---|---|---|---|
| Accelerated capital allowances | **(65)** | **(65)** | (51) | (51) |
| Other timing differences | **1,459** | **3,759** | 1,477 | 1,477 |
| **Deferred taxation liability** | **1,394** | **3,694** | 1,426 | 1,426 |

| (c) Movement in group deferred taxation liability | 2001 £'000 |
|---|---|
| The movement on the group deferred taxation liability during the year was as follows: | |
| At 1 January | **2,566** |
| Exchange adjustments | **(34)** |
| Charged to the profit and loss account (note 3) | **3,484** |
| **At 31 December** | **6,016** |

## 20 Called-up share capital

| | Group and Company 2001 Authorised £'000 | 2001 Issued and fully paid £'000 | 2000 Authorised £'000 | 2000 Issued and fully paid £'000 |
|---|---|---|---|---|
| Ordinary shares of 10⁵⁄₁₁p each | **40,000** | **25,433** | 40,000 | 25,798 |

# Notes to the accounts continued

## 20 Called-up share capital continued

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

| | Number |
|---|---|
| At 1 January 2001 | 248,931,030 |
| Shares issued pursuant to the exercise of options | 254,309 |
| Shares purchased and subsequently cancelled | (3,772,000) |
| **At 31 December 2001** | 245,413,339 |

The aggregate consideration received in respect of the shares issued pursuant to the exercise of options during the year was £1,135,000.

Details of the shares purchased during the year are included in the directors' report on page 33 in paragraph 3.7.2.

## 21 Share premium account

| | Group and Company | |
|---|---|---|
| | 2001 £'000 | 2000 £'000 |
| At 1 January | **51,638** | 47,211 |
| Premium on shares issued during the year | **1,109** | 6,306 |
| Premium on shares purchased and cancelled during the year | **(907)** | (1,879) |
| **At 31 December** | **51,840** | 51,638 |

## 22 Other reserves

| | Group | | Company | |
|---|---|---|---|---|
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Capital redemption reserve: | | | | |
| At 1 January | **3,140** | 2,163 | **3,140** | 2,163 |
| Share buy-back | **391** | 977 | **391** | 977 |
| At 31 December | **3,531** | 3,140 | **3,531** | 3,140 |
| Retained profit capitalised by a subsidiary: | | | | |
| At 1 January and 31 December | **827** | 827 | **–** | – |
| Non-distributable reserve: | | | | |
| At 1 January | **–** | – | **736,272** | – |
| Inter-group reorganisation | **–** | – | **–** | 736,272 |
| Increase during the year | **–** | – | **43,344** | – |
| At 31 December | **–** | – | **779,616** | 736,272 |
| **Total at 31 December** | **4,358** | 3,967 | **783,147** | 739,412 |

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The non-distributable reserve was created as a result of an inter-group reorganisation to create a more efficient capital structure that more accurately reflects the group's management structure.

### 23 Profit and loss account

| | Group £'000 | Company £'000 |
|---|---|---|
| At 1 January 2001 | 183,642 | 61,461 |
| Retained profit for the year | 52,027 | 52,586 |
| Share buy-back | (22,273) | (22,273) |
| Currency translation differences | (120) | – |
| **At 31 December 2001** | **213,276** | **91,774** |

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The profit for the financial year dealt with in the accounts of the company was £124,374,000 (2000 £59,358,000).

The group profit and loss account balance is shown after writing off cumulative goodwill of £16,364,000 (2000 £16,229,000). In addition, cumulative goodwill of £2,335,000 has been written off against the merger reserve in previous years.

### 24 Reconciliation of movement in equity shareholders' funds

| | Group 2001 £'000 | Group 2000 £'000 |
|---|---|---|
| Profit attributable to equity shareholders | **123,815** | 117,606 |
| Dividends | **(71,788)** | (65,810) |
| Retained profit for the year | **52,027** | 51,796 |
| New share capital issued | **1,135** | 6,376 |
| Share capital cancelled on share buy-back | **(907)** | (1,879) |
| Share buy-back | **(22,273)** | (47,173) |
| Shares issued to the QUEST (note 11) | **–** | (1,610) |
| Currency translation differences | **(120)** | 160 |
| Net addition to equity shareholders' funds | **29,862** | 7,670 |
| Equity shareholders' funds at 1 January | **266,686** | 259,016 |
| **Equity shareholders' funds at 31 December** | **296,548** | 266,686 |

### 25 Commitments

| | Group | | Company | |
|---|---|---|---|---|
| **(a) Capital commitments** | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Capital expenditure commitments contracted with third parties but not provided for at 31 December | **309** | 509 | **–** | – |

**(b) Operating lease commitments**

Operating lease commitments in respect of land and buildings are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Leases expiring: | | | | |
| Within one year | **1,105** | 2,611 | **–** | 16 |
| Within two to five years | **3,650** | 2,757 | **–** | – |
| In more than five years | **4,672** | 847 | **29** | 29 |
| **Total** | **9,427** | 6,215 | **29** | 45 |

# **Notes to the accounts** continued

### 26 Pension schemes

**(a) Pension schemes**
The group operates a number of pension schemes. The two major schemes, which cover 99% of scheme members, are of the funded, defined benefit type. The assets of the schemes are held in separate, trustee administered funds. The total pension cost for the group (note 7(b)) was assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The latest actuarial valuations for the schemes were as at 1 January 2001 for the Provident Financial Senior Pension Scheme ('Senior Scheme') and 1 June 2001 for the Provident Financial Staff Pension Scheme ('Staff Scheme'). The principal assumptions used were that the rate of return on investments would be 2.1% per annum higher than the rate of increase in salaries for the Staff Scheme and 1.1% higher for the Senior Scheme, and 4.1% and 3.6% per annum higher than the rate of increase in present and future pensions for the Staff Scheme and Senior Scheme respectively. At the valuation dates the market value of the assets of the schemes was £181,100,000. The market value of the assets was sufficient to cover 87% of the benefits that had accrued to members after allowing for expected future increases in earnings.

For the purposes of establishing the pension costs in the group's profit and loss account, the deficit is being amortised over the average remaining service lives of the employees who are currently members of the respective schemes. Included in the group's balance sheet is a prepayment of £5,661,000 (2000 £5,659,000), which represents the excess of the contributions paid to the schemes over the charge in the profit and loss account.

**(b) FRS 17 disclosures**
As noted above, the group operates two major defined benefit schemes in the UK. A full actuarial valuation was carried out by a qualified independent actuary at 1 January 2001 on the Senior Scheme and as at 1 June 2001 on the Staff Scheme. The valuation used in the FRS 17 disclosures has been based on these valuations which have been updated by the actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2001. Scheme assets are stated at market value at 31 December 2001.

The major assumptions used by the actuary were:

| | % |
|---|---|
| Rate of increase in salaries | 4.08 |
| Rate of increase in pensions | 2.50 |
| Discount rate | 6.00 |
| Inflation assumption | 2.50 |

The combined assets in the schemes and the expected rate of return were:

| | Long term rate of return expected at 31 December 2001 % | Value at 31 December 2001 £'000 |
|---|---|---|
| Equities | 8.5 | 140,500 |
| Bonds | 5.0 | 15,500 |
| Property | 6.0 | 9,200 |
| Cash and net current assets | 3.5 | 2,500 |
| **Total market value of assets** | | **167,700** |

The following amounts at 31 December 2001 were measured in accordance with the requirements of FRS 17.

| | £'000 |
|---|---|
| Total market value of assets | 167,700 |
| Present value of scheme liabilities | (243,700) |
| Deficit in the schemes | (76,000) |
| Related deferred tax asset | 22,800 |
| **Net pension liability** | **(53,200)** |

**26 Pension schemes** continued

**(b) FRS 17 disclosures** continued
If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2001 would be as follows:

| | £'000 |
|---|---|
| Net assets excluding pension liability and SSAP 24 prepayment | 292,585 |
| Pension liability | (53,200) |
| **Net assets including pension liability** | **239,385** |
| Profit and loss reserve excluding pension liability and SSAP 24 prepayment | 209,313 |
| Pension liability | (53,200) |
| **Profit and loss reserve including pension liability** | **156,113** |

Had the group adopted FRS 17 in full, the estimated pension cost for the group for the year ended 31 December 2001 would have increased by £2,750,000 to £10,025,000.

**27 Related party transactions**
The group recharges the two major pension schemes referred to in note 26 with a proportion of the costs of administration and professional fees incurred by the group. The total amount recharged during the year was £768,000 (2000 £560,000).

# Independent auditors' report

**To the members of Provident Financial plc**
We have audited the accounts which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement and the related notes.

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the annual report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts in accordance with the relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the chairman's statement, the chief executive's review, the financial review, the directors' report and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

**Basis of audit opinion**
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**
In our opinion the accounts give a true and fair view of the state of affairs of the company and the group at 31 December 2001 and the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Leeds
8 March 2002

# Information for shareholders

| 1 Financial calendar – dividends | 2001 Final | 2002 Interim |
|---|---|---|
| Dividend announced | 27 February 2002 | 24 July 2002 |
| Ex-dividend date for ordinary shares | 17 April 2002 | 18 September 2002 |
| Record date for the dividend | 19 April 2002 | 20 September 2002 |
| Annual general meeting | 1 May 2002 | – |
| Payment date of the dividend | 10 May 2002 | 18 October 2002 |

**2 Share price**
Information on our share price is available on the company's website, www.providentfinancial.com and Ceefax on BBC1/BBC2 and on Teletext on ITV/Channel 4. It is also available on FT Cityline (telephone: 0906 843 3731).

The share price is listed in the following daily newspapers:

| | | | | |
|---|---|---|---|---|
| Financial Times | The Daily Telegraph | The Guardian | Daily Mail | Yorkshire Post |
| The Times | The Independent | The Express | Evening Standard | |

**3 Individual Savings Account (ISA)**
Shareholders may take out an ISA which includes shares in the company with a provider of their choice. However, the company has made arrangements with Redmayne Bentley for the provision of an ISA for its shareholders and employees. Shareholders who are eligible and who wish to take advantage of this should contact Redmayne Bentley, Merton House, 84 Albion Street, Leeds, West Yorkshire LS1 6AG (telephone: 0113 243 6941).

**4 Tax on capital gains**
**4.1** For the purposes of tax on capital gains, the price of an ordinary share in the company on 31 March 1982 was 130.50p. When adjusted for the 1 for 5 scrip issue in 1986, the 5 for 2 share split in 1993, the 1 for 1 bonus issue in 1996 and the share capital consolidation in 1998, this gives a figure of 22.54p.

**4.2** Shareholders for whom the price of ordinary shares at 31 March 1982 is relevant should note that their allowable expenditure in relation to future disposals of ordinary shares may also be affected by other factors, such as indexation and/or the disposal of fractional entitlements pursuant to the share capital consolidation of the company in April 1998.

**5 Tax on dividends**
**5.1** A UK resident individual shareholder who receives a dividend is entitled to a tax credit in respect of the dividend.

**5.2** The tax credit is 1/9th of the dividend (corresponding to 10% of the dividend and the associated tax credit).

**5.3** A UK resident individual shareholder is therefore treated as having paid tax at 10% on the aggregate of the dividend and the associated tax credit; as starting, lower and basic rate taxpayers are liable to tax on the dividend and associated tax credit at 10%, they will have no further liability to tax in respect of the dividend.

**5.4** The tax liability on dividends for UK resident higher rate taxpayers is 32.5% on the aggregate of the dividend and the associated tax credit, so that their liability for additional tax is equal to 22.5% on the aggregate of the dividend and the associated tax credit.

**5.5** Except as mentioned in 5.6 below, UK resident individuals cannot claim a refund of the 10% tax credit.

**5.6** Shareholders who hold their shares through PEPs or ISAs will be able to reclaim the 10% tax credit attaching to dividends paid on or before 5 April 2004.

**5.7** Arrangements can be made for a shareholder's dividends to be paid directly into a nominated bank account. Details are available on request from the company's registrar (see paragraph 7 below).

**6 The Provident Financial Company Nominee Scheme**
**6.1** The company has established the Provident Financial Company Nominee Scheme. The key features of the scheme are:

**6.1.1** Your shares are held for you in a nominee account and you will receive regular statements of your account; you will not hold a share certificate;

# Information for shareholders

**6.1.2** It provides a facility to allow you to deal in the company's shares by means of a low-cost telephone dealing service through the CREST electronic settlement system;

**6.1.3** It provides a facility for you to reinvest your dividends in the company's shares;

**6.1.4** You will still retain the benefits of direct shareholding, such as prompt payments of dividends, a copy of the annual report and attendance, and voting, at the annual general meeting; and

**6.1.5** The service is provided at no cost to you. However, if you wish to use the facility to deal in the company's shares or reinvest your dividends, you will have to pay charges.

**6.2** Full details are available on request from the company's registrar (see paragraph 7 below).

**7 Registrar**
**7.1** The registrar deals with all matters relating to transfers of ordinary shares in the company and with enquiries concerning holdings. The registrar is: Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone: 0870 162 3100).

**7.2** The registrar's website is www.capita-irg.com. This will give you access to your personal shareholding by means of your investor code (which is printed on your share certificate or statement of holding).

**8 Share ownership analysis as at 28 February 2002**

| Shareholding range | Shareholders (Number) | Shareholders (%) |
|---|---|---|
| up to 1,000 | 3,316 | 43.97 |
| 1,001 – 5,000 | 2,653 | 35.18 |
| 5,001 – 50,000 | 1,142 | 15.15 |
| 50,001 – 500,000 | 347 | 4.60 |
| 500,001 – 1,000,000 | 30 | 0.40 |
| 1,000,001+ | 53 | 0.70 |
| **Total** | **7,541** | **100** |

**Group senior management**
**Company Secretary**
Rosamond Marshall Smith

**UK home credit division**
Fred Forfar

**International home credit division**
Nick Illingworth

**Motor insurance division**
John Thornton

**Group functions**
Richard Heels (Finance)
John Lomas
(Corporate Affairs/Human Resources)
David Rees (Legal)

**Advisers**
**Auditors**
PricewaterhouseCoopers

**Joint financial advisers and stockbrokers**
Dresdner Kleinwort Wasserstein
Merrill Lynch

**Registrar**
Capita IRG Plc

**Solicitors**
Slaughter and May

**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

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**PROVIDENT FINANCIAL**
2001

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**Provident Financial plc**
Colonnade
Sunbridge Road
Bradford BD1 2LQ
United Kingdom

**www.providentfinancial.com**