INTERIM 1998

PROVIDENT FINANCIAL

Provident Financial

Home credit division | Insurance division

Provident Financial is a personal financial services group specialising in two areas: home credit and insurance

HALF-YEAR PERFORMANCE

Profit before tax up to **£61.0m**

Earnings per share up by 15% to **15.96p**

Interim dividend increased by 15% to **8.90p**

Continued growth in the UK home credit division

International development of home credit

Insurance division profits up 20% to **£8.0m**

500 new jobs created in the UK in the first half

"We have a clear and proven strategy. Our progress reflects our customers' recognition of the valuable services we provide. We plan to continue the successful expansion of home credit in the UK and to develop new markets for home credit abroad. Our focus on margin in insurance will again benefit profitability. The Board looks forward to reporting a good result for the year."

Statement from the Chairman, John van Kuffeler

A PROVEN STRATEGY

The Board is pleased to report good results for the first half of 1998, with pre-tax profit increasing by 12% to £61.0 million after taking account of £2.4 million of additional interest costs relating to the capital restructuring. Earnings per share have risen by 15% to 15.96p assisted by the reduction in the number of shares in issue as a result of the capital restructuring. The interim dividend has been increased by 15% to 8.90p per share.

Operations

The home credit division made good progress, due mainly to increasing numbers of customers – up 6% in the last 12 months to 1,418,000 (30 June 1997 – 1,334,000). Demand for credit from both existing and new customers remains strong because they value our convenient and straightforward service in their homes.

We are now developing new markets for home credit and opened an office in South Africa in April 1998, in addition to our offices in Poland and the Czech Republic opened in 1997. Early indications in these new operations are encouraging.

The insurance division offers low-cost products specialising in motor policies for women and non-comprehensive policies. Our policy of always charging premiums to reflect claim experience has again assisted profit growth. The number of policyholders rose slightly as a result of other underwriters beginning to raise premiums.

Finances

The group's borrowings increased by £117 million to £260 million at 30 June 1998 (£143 million at 30 June 1997) mainly arising from the capital restructuring.

Prospects

We have a clear and proven strategy. Our progress reflects our customers' recognition of the valuable services we provide. We plan to continue the successful expansion of home credit in the UK and to develop new markets for home credit abroad. Our focus on margin in insurance will again benefit profitability. The Board looks forward to reporting a good result for the year. ■

John van Kuffeler
Chairman
30 July 1998

"We are successful because we care for our customers.
Because we care for our customers, we lend responsibly.
Because we lend responsibly, we get our money back.
Because we get our money back, we are successful."

Report from
the Chief Executive,
Howard Bell

INCREASED DEMAND

Pre-tax profit increased by 10% to £55.9 million, after £2.4 million of additional interest costs relating to the capital restructuring. Demand remained strong and credit issued grew by 9.4% to £337 million. In order to satisfy customer demand we continued to expand, with the number of agents increasing by 5% to 10,756.

The continuing real growth in credit issued is primarily due to increased UK customer numbers which have risen by 6% during the last year. This was achieved in spite of competition from other home credit lenders, mail order catalogues, credit and high street store cards, and banks (54% of our customers have bank current accounts). The strong demand in the UK and the Republic of Ireland for home credit enables newly appointed agents to establish quickly a viable customer round. Our agents (most of whom are women), on average, look after around 130 customers.

The bad debt charge increased, as expected, to 6.2% of credit issued on an annualised basis for the year to 30 June 1998 (year to 31 December 1997 – 5.6%) and a further small increase is expected in the second half of 1998. The division continues to maintain an appropriate balance between customer growth and lending quality.

International developments

Our new international operations reflect the expected customer demand for our popular home credit service outside the UK and the Republic of Ireland. We opened an office in Warsaw in August

1997, in Prague in December 1997 and, in April 1998, we opened an office in Pietersburg, South Africa. Costs of £1.7 million in respect of these new operations have been charged against home credit profit for the half-year to 30 June 1998 (half-year to 30 June 1997 – £0.3 million). The introduction of home credit into these new countries has been welcomed. It is early days, but indications of potential are encouraging and to date we have 159 agents and 6,000 customers in our international operation.

Reasons for increased demand

Our home credit service is available to all who have the ability and a genuine willingness to repay. Abroad, as in the UK and the Republic of Ireland, home credit is seen as being good for customers, good value for money and good for communities.

Good for customers

The enduringly popular home credit service offers a different way of borrowing – not just another bank or building society. Our customers find our service manageable and low risk and it gives them the confidence to take control of their own finances.

The high level of service and the flexibility provided by our agents, in their weekly visits to customers' homes, helps customers to manage their household budgets and

AGENT NUMBERS HAVE GROWN BY **5%** TO **10,756**

CREDIT ISSUED GREW BY **9.4%** TO **£337m**

make a wide range of family purchases by borrowing small, unsecured, cash sums without the need for overly lengthy, complex procedures.

Home credit is fully regulated and our commission scheme for agents is structured so that agents are remunerated on what they collect rather than what they lend, thus maintaining our long-standing tradition of responsible lending.

Good value for money

The total amount to be repaid is fixed at the outset and known by the customer before the customer commits to the loan. There are no additional charges or extra interest, even when customers' financial circumstances change and reduced weekly repayments are agreed for a period, resulting in a greater number of home visits.

When the high level of in-built service is taken into account, the charges for home credit offer customers good value for money. Customers know that the costs of borrowing these small sums are similar to or less than the total costs of bank overdrafts, when the charges made by banks, such as set-up fees, administration charges and interest, are included. Market research reveals very high levels of customer satisfaction.

Good for communities

Home credit stimulates local economies through the issue of loans which are then spent in the local community. It provides work for both staff and agents and helps maintain a commercial presence in local communities at a time when others are withdrawing their services from these communities. Five hundred jobs have been created in the first six months of the year in such communities through the expansion of our agency force, adding to the 2,000 such flexible and family-friendly jobs created over the previous five years. Local communities are further supported through our community relations programme including our recent appointment of the NSPCC and Children 1st as community partners.

IN THE HIGH STREET

The insurance division continues to distribute its products both through high street outlets and by telephone

INSURANCE PROFIT **£8.0m**

497,000 PROVIDENT INSURANCE MOTOR POLICYHOLDERS

The insurance division's pre-tax profit for the half-year of £8.0 million is 20% up on the same period last year. Profitability has benefited and will again benefit from the action taken to raise premiums in order to underwrite business at acceptable margins together with the benefits of an increasing volume of telesales business in our insurance broking operation.

Our determination to maintain margins, in the face of rising claims, led us to increase premiums by a further 3% in January and 2% in May 1998. Others in the industry are also now starting to raise premiums thus improving our competitive position. As a result we saw a small increase in the number of policyholders to 497,000 at 30 June 1998 (31 December 1997 – 477,000).

Interest earning deposits and investments were £291 million at 30 June 1998 (31 December 1997 – £296 million). The investment income on these funds is an important component of the division's profitability.

The division distributes its products both through high street outlets (69% of sales) and by telephone (31% of sales).

Year 2000 and EMU

Work to ensure the effective transition of the group's systems through the millennium date change is well advanced. The group is currently scheduled to have all the critical changes implemented by the end of 1998. Risks and uncertainties, including any exposure to third parties, have been assessed and the group has requested specific assurances, together with appropriate evidence, from external suppliers. The estimated total cost to the group, which principally comprises internal development costs, is £2 million.

Working parties have been established which are considering the implications of the possible UK participation in EMU. ■

Howard Bell
Chief Executive
30 July 1998

Consolidated profit and loss account

for the half-year ended 30 June 1998

	Unaudited Half-year to 30 June 1998 £'000	Unaudited Half-year to 30 June 1997 £'000	Audited Full year 1997 £'000
Turnover	**237,863**	209,249	444,173
Operating profit and profit before taxation	**61,028**	54,710	136,502
Taxation (note 3)	**(18,919)**	(17,234)	(42,998)
Profit after taxation	**42,109**	37,476	93,504
Dividends (note 4)	**(116,531)**	(20,658)	(52,112)
Retained (loss)/profit	**(74,422)**	16,818	41,392
Earnings per share (note 5)	**15.96p**	13.83p	34.77p
Interim/final dividends per share (note 4)	**8.90p**	7.75p	19.50p

The results shown in the profit and loss account derive wholly from continuing activities.

There is no material difference between the retained profit as shown above and the historical cost equivalent.

Segmental analysis of turnover

for the half-year ended 30 June 1998

	Unaudited Half-year to 30 June 1998 £'000	Unaudited Half-year to 30 June 1997 £'000	Audited Full year 1997 £'000
Home credit	**184,328**	164,100	350,376
Insurance	**53,535**	45,149	93,797
	237,863	209,249	444,173

Segmental analysis of operating profit and profit before taxation

for the half-year ended 30 June 1998

	Unaudited Half-year to 30 June 1998 £'000	Unaudited Half-year to 30 June 1997 £'000	Audited Full year 1997 £'000
Home credit:			
Profit before interest	**65,290**	57,269	142,445
Interest payable	**(9,379)**	(6,467)	(15,272)
	55,911	50,802	127,173
Insurance	**8,012**	6,701	13,725
Central costs	**(2,895)**	(2,793)	(4,396)
Operating profit and profit before taxation	**61,028**	54,710	136,502

Consolidated balance sheet

as at 30 June 1998

	Unaudited As at 30 June 1998 £'000	Unaudited As at 30 June 1997 £'000	Audited As at 31 December 1997 £'000
Fixed assets	**33,423**	21,621	33,000
Current assets			
Amounts receivable from customers			
– due within one year	**432,086**	383,883	470,146
– due in more than one year	**7,809**	7,277	8,456
Debtors	**138,875**	108,116	99,335
Investments			
– realisable within one year	**204,093**	200,603	200,596
– realisable in more than one year	**65,000**	83,016	80,000
Cash at bank and in hand	**32,308**	17,525	25,328
	880,171	800,420	883,861
Less current liabilities			
Bank and other borrowings	**(19,735)**	(12,875)	(22,082)
Creditors – amounts falling due within one year	**(135,851)**	(117,723)	(127,402)
Insurance accruals and deferred income	**(283,798)**	(291,717)	(290,794)
	(439,384)	(422,315)	(440,278)
Net current assets	**440,787**	378,105	443,583
Total assets less current liabilities	**474,210**	399,726	476,583
Less non-current liabilities			
Bank and other borrowings	**(240,155)**	(130,624)	(185,405)
Creditors – amounts falling due after more than one year	**(17,761)**	(15,547)	–
Provisions for liabilities and charges	**(391)**	–	(421)
	(258,307)	(146,171)	(185,826)
Net assets	**215,903**	253,555	290,757
Capital and reserves			
Called-up share capital	**27,176**	26,632	27,165
Share premium account	**43,452**	8,950	43,102
Revaluation reserve	**1,641**	1,641	1,641
Other reserves	**2,451**	2,452	2,451
Profit and loss account	**141,183**	213,880	216,398
Equity shareholders' funds	**215,903**	253,555	290,757

Notes

Results for the half-year ended 30 June 1998

1 The interim financial information, which has been prepared on the basis of the accounting policies set out in the group's 1997 statutory accounts, does not constitute a set of statutory accounts and is unaudited.

2 The information relating to the full year ended 31 December 1997 is an extract from the latest published accounts on which the auditors gave an unqualified opinion and which have been delivered to the Registrar of Companies.

3 The taxation charge has been calculated by applying the directors' best estimate of the effective tax rate for the year, which is 31.0% (30 June 1997 – 31.5%), to the profit for the period.

4 Dividends paid and proposed:

	Unaudited Half-year to 30 June 1998 £'000	Unaudited Half-year to 30 June 1997 £'000	Audited Full year 1997 £'000
(a) Interim dividend proposed 8.90p (1997 – 7.75p)	**22,976**	20,658	20,720
(b) Final dividend paid 11.75p	**–**	–	31,392
(c) Dividend paid in connection with share capital consolidation 35.00p	**93,555**	–	–
	116,531	20,658	52,112
Dividend cover, excluding item 4(c) above, is:	**1.83**	1.81	1.79

5 On 5 May 1998, the Company paid a dividend of £93.6 million and at the same time carried out a share capital consolidation. In accordance with the preferred treatment in the supplement to FRED 16 'Earnings per Share', which is shortly to become an Accounting Standard, the directors consider it appropriate to present the Company's earnings per share on the basis that in substance a share buy-back has occurred and consequently the prior year figures have not been restated.

Earnings per share have been calculated by dividing the profit for the period available for ordinary dividends of £42,109,000 (30 June 1997 – £37,476,000) by the weighted average number of shares outstanding during the period of 263,896,000 (30 June 1997 – 270,883,000). The weighted average number of shares outstanding during the period has been calculated after excluding those shares in issue held by the QUEST (4,226,000 at 30 June 1998) until those shares vest unconditionally in the group's employees.

Notes continued

Results for the half-year ended 30 June 1998

6 Reconciliation of movement in equity shareholders' funds

	Unaudited Half-year to 30 June 1998 £'000	Unaudited Half-year to 30 June 1997 £'000	Audited Full year 1997 £'000
Profit attributable to members of the group	**42,109**	37,476	93,504
Dividends	**(116,531)**	(20,658)	(52,112)
Retained (loss)/profit	**(74,422)**	16,818	41,392
New share capital issued	**361**	790	35,474
Share buy-back	**–**	(33,461)	(33,461)
Shares issued to the QUEST	**–**	–	(22,079)
Goodwill	**–**	(118)	(78)
Currency translation differences	**(793)**	–	(17)
Net (reduction in)/addition to equity shareholders' funds	**(74,854)**	(15,971)	21,231
Equity shareholders' funds at beginning of period	**290,757**	269,526	269,526
Equity shareholders' funds at end of period	**215,903**	253,555	290,757

Notes continued

Results for the half-year ended 30 June 1998

7 Amounts receivable from customers

(a) Instalment credit receivables	Unaudited As at 30 June 1998 £'000	Unaudited As at 30 June 1997 £'000	Audited As at 31 December 1997 £'000
Gross instalment credit receivables	**682,937**	597,709	727,069
Less: provision for bad and doubtful debts	**(75,546)**	(61,444)	(66,419)
Instalment credit receivables after provision for bad and doubtful debts	**607,391**	536,265	660,650
Less: deferred revenue thereon	**(167,496)**	(145,105)	(182,048)
	439,895	391,160	478,602
Analysed as: – due within one year	**432,086**	383,883	470,146
– due in more than one year	**7,809**	7,277	8,456
	439,895	391,160	478,602

(b) Bad and doubtful debts	Unaudited As at 30 June 1998 £'000	Unaudited As at 30 June 1997 £'000	Audited As at 31 December 1997 £'000
Gross provision at end of period	**75,546**	61,444	66,419
Less: deferred revenue thereon	**(20,439)**	(16,667)	(18,038)
Net provision at end of period	**55,107**	44,777	48,381
Net provision at start of period	**(48,381)**	(43,722)	(43,722)
Increase in provision (net of deferred revenue)	**6,726**	1,055	4,659
Amounts written off (net of deferred revenue)	**23,027**	22,643	36,264
Net charge to profit and loss account for bad and doubtful debts	**29,753**	23,698	40,923

The figures for receivables, provisions and bad and doubtful debts at 30 June 1998 should be compared with the equivalent information at 30 June 1997 in view of the long-established seasonal patterns in lending and collections.

8 Home credit – credit issued and collections

	Half-year to 30 June 1998 £'000	Half-year to 30 June 1997 £'000	Growth %
Credit issued	**336,693**	307,754	9.4%
Collections	**530,021**	482,133	9.9%

Review report by the auditors to Provident Financial plc

We have reviewed the interim financial information for the six months ended 30 June 1998 set out on pages 10 to 15 which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin "Review of Interim Financial Information" issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of group management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities, and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review

– in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Provident Financial plc in its financial statements for the year ended 31 December 1997; and

– we are not aware of any material modifications that should be made to the interim financial information as presented.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Leeds
30 July 1998

Shareholder information

1 The shares will be marked ex-dividend on 21 September 1998.

2 Dividend warrants/vouchers will be posted on 19 October 1998.

3 The interim dividend will be paid on 21 October 1998 to shareholders on the register at the close of business on 25 September 1998.

4 The interim report was posted to shareholders on 13 August 1998.

5 Details of the Provident Financial Company Nominee Scheme have been posted to shareholders who are eligible to use it (i.e. individuals) with the interim report. It enables shareholders to take advantage of the CREST system for settling transactions in shares in the Company by means of a low-cost dealing service. It also includes a dividend reinvestment scheme.

6 Further copies of both the interim report and details of the Provident Financial Company Nominee Scheme are available from the Company's Registrar, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU (Telephone 0181 639 2000).

Directors

Executive

John P de Blocq van Kuffeler MA FCA
Chairman

Howard J Bell MBA
Chief Executive

Robin J Ashton BA ACA
Finance Director

Peter W Bretherton LLM
Director of Corporate Affairs and Secretary

Peter R Fryer MBA
Operations Director

Non-executive

Charles H Gregson BA
Deputy Chairman
Chairman of the Audit Committee

Peter A Davis MA FCA
Chairman of the Remuneration Committee

Angela C M Heylin OBE FCIM FIPR

James C Hodkinson

Provident Financial plc
Colonnade
Sunbridge Road
Bradford
West Yorkshire BD1 2LQ
Registered in England No. 668987