



Provident
in the
Community



PROVIDENT
FINANCIAL

Interim 1999

Provident Financial is a financial services group in two areas:

HOME CREDIT INSURANCE

UK home credit
One in every

20

households in Britain



Contents

Half-year highlights	1
Half-year report	2
Financial information	4
Notes to the financial information	7
Independent review report	11
Shareholder information	12

UK home credit
Customer numbers

1.5m



Insurance
Provident Insurance
motor policyholders up to

550,000



International home credit
Significant expansion
in Central Europe



Poland



Czech Republic

HALF-YEAR HIGHLIGHTS

Profit before tax on a like-for-like basis
up 9.8% to **£63.6m**

Earnings per share up by 10.9% to **17.7p**

Interim dividend increased by 11.2% to **9.9p**

Growth of 5.5% in UK home credit customers

Rapid progress in Central Europe

Insurance division profits up 43.7%

“We continue with our growth strategy for UK home credit with more agents recruiting more customers.

Internationally, we are continuing our significant expansion of home credit in the Czech Republic and Poland.

We expect that the international operations will in due course form a significant part of our home credit business.

Our motor insurance operations continue to benefit from a well-focused strategy and the general increase in market premiums. They are on course for a very good year.

Overall, your board remains confident of a good result for the year.”

John van Kuffeler
Chairman
29 July 1999

HALF-YEAR REPORT



John van Kuffeler
Chairman

The board is pleased to announce good results for the first half of 1999. Pre-tax profits on a like-for-like basis, after adjusting for the effect of last year's return of capital to shareholders, increased by 9.8 per cent to £63.6m. Earnings per share increased by 10.9 per cent to 17.70p (1998 first half 15.96p). The interim dividend has been increased by 11.2 per cent to 9.9p (1998 first half 8.9p). These results are particularly encouraging in the light of the investment of £4.2m (1998 first half £1.7m) in start-up losses, principally in building up our business in Central Europe.

Operations

The demand for UK home credit remains strong, with customers continuing to value small loans, delivered to and collected weekly, in cash, from their homes. We have continued to see steady progress in the key growth drivers of our business, with the number of agents up by 6.3 per cent to 11,433 and the number of customers up by 5.5 per cent to 1,496,000. The growth in credit issued was more modest at 4.1 per cent, reflecting caution in our lending in the early months of the year after a very strong and late Christmas peak and also low growth in consumer spending during a quiet period for the UK economy. However, after growth of only 1.9 per cent in the first four months of the year, the growth in credit issued in May was 6.9 per cent and June 8.0 per cent, an improvement which has been sustained in July.

As expected, the trend of higher bad debt levels has continued. This reflects our growth strategy with some inexperience amongst our agents and a higher proportion of new customers after a period of high recruitment and strong growth, as well as the effects of increased economic uncertainty for our customers. Accordingly, the bad debt charge is now running at an annualised rate of 7.8 per cent of credit issued (1998 full year 6.9 per cent). In support of our growth strategy we are increasing

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.

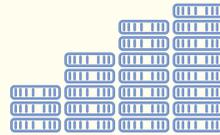
the strength of our field force to manage better the increased number of agents and to enhance our control of bad debts. The overall result for UK home credit is a creditable increase in like-for-like profits of 8.1 per cent.

International home credit in Central Europe has progressed rapidly according to plan. From a base of 15,000 customers and just over 400 agents at the beginning of the year, at the end of June we had 57,000 customers served by 1,730 agents from 15 offices in Poland and the Czech Republic. Home credit has been readily accepted by our new customers with credit issued in the first six months growing to a sterling equivalent of £7.5m and bad debt levels lower than those in the UK. We have proved that our approach to providing home credit can be successfully introduced in these markets and that we can reliably collect the money we lend.

For some years now, our strategy in the insurance division has been to focus on our specialist segments of the motor insurance market – non-comprehensive insurance, older cars and women drivers – maintaining adequate returns on capital and retaining the flexibility of our distribution – selling face-to-face through brokers, as well as directly over the telephone.

Profit before tax up to

£63.6m



Earnings per share up 10.9% to

17.7p



Our strategy continues to be successful with profits increasing by 43.7 per cent to £11.5m whilst gross written premiums increased by 28.3 per cent. Our competitors have continued to raise their premiums, at an annualised rate of about 15 per cent. Provident Insurance has followed this trend, allowing it to grow its number of motor policyholders by 10.7 per cent to 550,000 whilst improving its margins.

Prospects

We continue with our growth strategy for UK home credit with more agents recruiting more customers and we will invest further in our field force to support agents better and to enhance our control of bad debts. This will take time to show benefit and so we expect some increase in the bad debt ratio in the second half of the year.

Internationally, we are continuing our significant expansion of home credit in the Czech Republic and Poland. We have young, well-qualified and highly motivated teams of local employees who are running and building the business. We invested £4.7m last year, mainly in start-up losses in the two countries, and we are doubling that this year. This is the peak year of our investment and we are on course to move into profit internationally in 2002. We expect that the international operations will in due course form

a significant part of our home credit business.

Our motor insurance operations continue to benefit from a well-focused strategy and the general increase in market premiums. They are on course for a very good year.

Overall, your board remains confident of a good result for the year.

John van Kuffeler
Chairman
29 July 1999

Consolidated profit and loss account

for the half-year ended 30 June 1999

	Unaudited Half-year to 30 June 1999 £'000	Unaudited Half-year to 30 June 1998 £'000	Audited Full year 1998 £'000
Turnover	266,244	237,863	506,014
Operating profit and profit before taxation	63,605	61,028	145,900
Taxation (note 3)	(17,809)	(18,919)	(41,115)
Profit after taxation	45,796	42,109	104,785
Dividends (note 4)	(25,642)	(116,531)	(151,776)
Retained profit/(loss)	20,154	(74,422)	(46,991)
Earnings per share (note 5)			
Basic	17.70p	15.96p	40.12p
Diluted	17.49p	15.73p	39.65p
Dividend per share (note 4)	9.90p	8.90p	22.50p

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.

Statement of total recognised gains and losses

for the half-year ended 30 June 1999

	Unaudited Half-year to 30 June 1999 £'000	Unaudited Half-year to 30 June 1998 £'000	Audited Full year 1998 £'000
Profit after taxation	45,796	42,109	104,785
Currency translation differences	(900)	(793)	(527)
Total recognised gains and losses relating to the period	44,896	41,316	104,258

Segmental analysis of turnover

for the half-year ended 30 June 1999

	Unaudited Half-year to 30 June 1999 £'000	Unaudited Half-year to 30 June 1998 £'000	Audited Full year 1998 £'000
UK home credit	196,123	184,235	390,642
International home credit	2,150	93	713
Motor insurance	67,971	53,535	114,659
	266,244	237,863	506,014

Segmental analysis of operating profit and profit before taxation

for the half-year ended 30 June 1999

	Unaudited Half-year to 30 June 1999 £'000	Unaudited Half-year to 30 June 1998 £'000	Audited Full year 1998 £'000
UK home credit:			
Profit before interest	69,194	66,965	158,827
Interest payable	(10,290)	(9,379)	(21,917)
UK home credit	58,904	57,586	136,910
International home credit	(4,201)	(1,675)	(4,725)
Motor insurance	11,510	8,012	19,619
Central costs	(2,608)	(2,895)	(5,904)
Operating profit and profit before taxation	63,605	61,028	145,900

Consolidated balance sheet

as at 30 June 1999

	Unaudited As at 30 June 1999 £'000	Unaudited As at 30 June 1998 £'000	Audited As at 31 December 1998 £'000
Fixed assets	36,583	33,423	36,571
Current assets			
Amounts receivable from customers			
– due within one year	471,897	432,086	522,318
– due in more than one year	7,086	7,809	8,896
Debtors	117,294	138,875	107,303
Investments			
– realisable within one year	251,707	204,093	223,635
– realisable in more than one year	25,000	65,000	45,000
Cash at bank and in hand	27,922	32,308	31,583
	900,906	880,171	938,735
Current liabilities			
Bank and other borrowings	(41,340)	(19,735)	(25,352)
Creditors – amounts falling due within one year	(120,596)	(135,851)	(116,332)
Insurance accruals and deferred income	(287,763)	(283,798)	(291,840)
	(449,699)	(439,384)	(433,524)
Net current assets	451,207	440,787	505,211
Total assets less current liabilities	487,790	474,210	541,782
Non-current liabilities			
Bank and other borrowings	(208,936)	(240,155)	(291,437)
Creditors – amounts falling due after more than one year	(8,783)	(17,761)	–
Provision for liabilities and charges – deferred taxation	(3,043)	(391)	(3,043)
	(220,762)	(258,307)	(294,480)
Net assets	267,028	215,903	247,302
Capital and reserves			
Called-up share capital	27,244	27,176	27,229
Share premium account	48,217	43,452	47,760
Revaluation reserve	1,641	1,641	1,641
Other reserves	2,451	2,451	2,451
Profit and loss account	187,475	141,183	168,221
Equity shareholders' funds	267,028	215,903	247,302

Notes to the financial information

Results for the half-year ended 30 June 1999

- 1 The financial information, which has been prepared on the basis of the accounting policies set out in the group's 1998 statutory accounts, does not constitute a set of statutory accounts and is unaudited.
- 2 The information relating to the full year ended 31 December 1998 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 28% (30 June 1998 – 31%), to the profit for the period.

4 Dividends paid and proposed

	Unaudited Half-year to 30 June 1999 £'000	Unaudited Half-year to 30 June 1998 £'000	Audited Full year 1998 £'000
(a) Interim dividend proposed 9.90p (1998 – 8.90p)	25,642	22,976	23,034
(b) Final dividend paid 13.60p	–	–	35,187
(c) Dividend paid in connection with share capital consolidation 35.00p	–	93,555	93,555
	25,642	116,531	151,776

Dividend cover, excluding item 4(c) above, is:	1.79	1.83	1.80
--	-------------	------	------

5 Earnings per share

(a) The basic earnings per share figure has been calculated using the profit for the period available for ordinary dividends of £45,796,000 (30 June 1998 – £42,109,000) and the weighted average number of shares outstanding during the period of 258,789,000 (30 June 1998 – 263,896,000). The calculation of the weighted average number of shares outstanding during the period excludes the 3,996,000 shares held by the Provident Financial Qualifying Employee Share Ownership Trust ("QUEST") at 30 June 1999 (30 June 1998 – 4,226,000) which are treated as cancelled for the purposes of calculating the weighted average number of shares outstanding until those shares vest unconditionally in the group's employees.

(b) The diluted earnings per share figure has been calculated using the profit for the period available for ordinary dividends of £45,796,000 (30 June 1998 – £42,109,000). The weighted average number of shares outstanding during the period used in the calculation of diluted earnings per share is 261,788,000 (30 June 1998 – 267,679,000). This includes 2,999,000 (30 June 1998 – 3,783,000) dilutive ordinary shares in respect of outstanding options to purchase shares, including those options for which shares have already been issued to the QUEST.

Notes to the financial information continued

Results for the half-year ended 30 June 1999

6 Reconciliation of movement in equity shareholders' funds

	Unaudited Half-year to 30 June 1999 £'000	Unaudited Half-year to 30 June 1998 £'000	Audited Full year 1998 £'000
Profit attributable to equity shareholders	45,796	42,109	104,785
Dividends	(25,642)	(116,531)	(151,776)
Retained profit/(loss)	20,154	(74,422)	(46,991)
New share capital issued	472	361	4,722
Shares issued to the QUEST	–	–	(659)
Currency translation differences	(900)	(793)	(527)
Net addition to/(reduction in) equity shareholders' funds	19,726	(74,854)	(43,455)
Equity shareholders' funds at beginning of period	247,302	290,757	290,757
Equity shareholders' funds at end of period	267,028	215,903	247,302

7 Amounts receivable from customers

	Unaudited As at 30 June 1999 £'000	Unaudited As at 30 June 1998 £'000	Audited As at 31 December 1998 £'000
(a) Instalment credit receivables			
Gross instalment credit receivables	746,858	682,937	807,541
Less: provision for bad and doubtful debts	(88,984)	(75,546)	(74,103)
Instalment credit receivables after provision for bad and doubtful debts	657,874	607,391	733,438
Less: deferred revenue thereon	(178,891)	(167,496)	(202,224)
	478,983	439,895	531,214
Analysed as: – due within one year	471,897	432,086	522,318
– due in more than one year	7,086	7,809	8,896
	478,983	439,895	531,214

Notes to the financial information continued

Results for the half-year ended 30 June 1999

7 Amounts receivable from customers continued

	Unaudited As at 30 June 1999 £'000	Unaudited As at 30 June 1998 £'000	Audited As at 31 December 1998 £'000
(b) Bad and doubtful debts			
Gross provision at end of period	88,984	75,546	74,103
Less: deferred revenue thereon	(24,497)	(20,439)	(20,874)
Net provision at end of period	64,487	55,107	53,229
Net provision at start of period	(53,229)	(48,381)	(48,381)
Increase in provision (net of deferred revenue)	11,258	6,726	4,848
Amounts written off (net of deferred revenue)	27,528	23,027	50,518
Net charge to profit and loss account for bad and doubtful debts	38,786	29,753	55,366
Analysed as: – UK home credit	38,513	29,737	55,301
– International home credit	273	16	65
	38,786	29,753	55,366

At 30 June 1999 the net amounts receivable from UK home credit customers were £474.4m (30 June 1998 – £439.6m) and from international home credit customers were £4.6m (30 June 1998 – £0.3m).

(c) The figures for receivables, provisions and bad and doubtful debts at 30 June 1999 should be compared with the equivalent information at 30 June 1998 in view of the long-established seasonal patterns in lending and collections.

8 UK home credit – credit issued and collections

	Half-year to 30 June 1999 £'000	Half-year to 30 June 1998 £'000	Growth %
Credit issued	350,634	336,693	4.1%
Collections	563,272	530,021	6.3%

Notes to the financial information continued

Results for the half-year ended 30 June 1999

9 Profit before tax on a like-for-like basis

In May 1998 the company paid a dividend of £93.6m in connection with the share capital consolidation. This gave rise to additional interest costs in the first half of 1999 compared to the first half of 1998.

If this transaction had taken place on 1 January 1998, an additional interest cost of £3.1m would have been incurred in the first half of 1998 resulting in a reduction in profit before tax from £61.0m to £57.9m. Consequently, on a like-for-like basis, the profit in the first half of 1999 increased by 9.8%, from £57.9m to £63.6m.

For UK home credit, the additional interest costs of £3.1m would have reduced profit before tax in the first half of 1998 from £57.6m to £54.5m. On a like-for-like basis, therefore, UK home credit profit in the first half of 1999 increased by 8.1%, from £54.5m to £58.9m.

10 Year 2000 and EMU

Changes to ensure the efficient and effective transition of the group's major business systems through the millennium date change have been completed and successfully tested. Work on minor systems continues and is expected to be finished shortly. In addition, comprehensive continuity and contingency plans to safeguard the group's position in the event of disruption, particularly from external sources, are well advanced.

The estimated total cost to the group, which principally comprises internal development costs, is £2.1m, of which £1.7m had been incurred at 30 June 1999.

Work continues within the group on planning for European Monetary Union. It is still too early to forecast accurately the potential costs to the group of the euro's introduction in the UK.

Independent review report to Provident Financial plc

Introduction

We have been instructed by the company to review the financial information set out on pages 4 to 10 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The Listing Rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 1999.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Leeds
29 July 1999

Shareholder information

- 1 The shares will be marked ex-dividend on 20 September 1999.
- 2 The interim dividend will be paid on 20 October 1999 to shareholders on the register at the close of business on 24 September 1999.
- 3 Dividend warrants/vouchers will be posted on 18 October 1999.
- 4 The interim report will be posted to shareholders on 12 August 1999.
- 5 The Provident Financial Company Nominee Scheme ("the Scheme") enables shareholders who are eligible to use it, namely individuals, to take advantage of the CREST system for settling transactions in shares in the company by means of a low-cost dealing service. It includes a dividend reinvestment scheme. Shareholders who wish to take advantage of the Scheme should contact the company's registrar, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone: 0208 639 2000) to request an information pack.
- 6 In April 1999, the general and single company PEPs dedicated to the company's shares which were operated by Bradford & Bingley PEPs Limited were transferred to The Share Centre Limited, PO Box 1000, Tring, Hertfordshire HP23 5AN (telephone: 0800 800008). It is no longer possible to make a further subscription into a PEP but it is possible to subscribe to an Individual Savings Account ("an ISA") which confers similar benefits in relation to shares held in it.
- 7 Shareholders may take out an ISA 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 wish to take advantage of this should contact Redmayne Bentley, Merton House, 84 Albion Street, Leeds, West Yorkshire LS1 6AG (telephone: 0113 243 6941). Please note that the suitability of an ISA for an individual depends on his/her tax position.

Directors

Executive directors

John P de Blocq van Kuffeler MA FCA
Chairman

Howard J Bell MBA
Chief Executive

Robin J Ashton BA ACA
Deputy Chief Executive and
Home Credit Director

Peter W Bretherton LL.M.
Director of Corporate Affairs
and Secretary

Peter R Fryer MBA
Financial Services Director

John A Harnett BA ACA
Finance Director

Non-executive directors

Charles H Gregson BA
Deputy Chairman and 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

Provident Financial plc

Colonnade

Sunbridge Road

Bradford

West Yorkshire BD1 2LQ

Registered in England No. 668987

Tel: 01274 731111