

News 2001

Press Release

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Interim report for the half-year ended 30th June 2001

HIGHLIGHTS

Group

- » Strong growth in turnover (up 17%) and customers (up 15%)
- » Profit before tax up 7.8% to £70.2 million
- » Earnings per share up 7.5% to 20.52p
- » Interim dividend up 7.8% to 11.75p

UK home credit

- » Credit issued up 7.3% (3.5% like for like) to £390.6 million
- » Bad debt ratio stable at 8.2% of credit issued
- » Profit before tax up 1.7% to £61.3 million

International

- » Poland and Czech Republic in profit
- » Successful entry into Hungary and Slovakia
- » Turnover up 258% to £46.2 million
- » Customer numbers up by 141,000 (28%) to 641,000 in the first six months of the year
- » Divisional first half loss much reduced, from £6.9 million down to £2.3 million

Motor insurance

- » Profits up 19% to £19.4 million
- » Policyholders up 18% to 833,000

'Overall, we are making good progress. Our international division is on target to report a profit in 2001 and it is particularly pleasing to see Poland and the Czech Republic reporting first half profits. We remain confident of a good result for 2001'.

John van Kuffeler
Chairman
23 July 2001

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Chairman's statement

Overview

I am pleased to announce that the group has made good progress in the first half of 2001. We achieved strong growth, with turnover up by 17% to £399 million and customers up by 15% to 3.4 million (2000 2.9 million). Profit before tax increased 7.8% to £70.2 million (2000 £65.1m). Earnings per share increased by 7.5% from 19.08p to 20.52p per share. An interim dividend of 11.75p (2000 10.9p), an increase of 7.8%, has been declared.

Operations

An analysis of the results for the first half of 2001 is set out below:

Half year ended 30 June	2001	2000
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	£m	£m
UK home credit	61.3	60.3
International	(2.3)	(6.9)
Motor insurance	19.4	16.3
balance	(1.8)	(0.6)
Central costs	(6.4)	(4.0)
	70.2	65.1

UK home credit division

Explanatory note

The 2000 financial year comprised 53 working weeks, the last of which fell between Christmas and New Year. This traditionally poor week for credit issued and collections usually forms the first week of the new financial year. This has had the effect of inflating the growth in turnover, credit issued and collections in the first half of 2001 and distorting the comparison with the first half of 2000. In order to give a true comparative, adjusted 'like for like' figures are provided.

Trading in the first half of the year has been as expected. Turnover for the UK home credit division rose by 5.6% (3.4% like for like) to £224.3m and profit before tax increased by 1.7% to £61.3m (2000 £60.3m).

The UK home credit market remains competitive but stable. The market conditions we experienced in 2000 have, as expected, continued into 2001. Consequently, we have continued to focus on maintaining the quality of our lending and in the first half of this year we have further tightened our controls over customer recruitment. Customer numbers have fallen slightly (0.8%), as compared to June 2000. Bad debt as a percentage of credit issued has remained stable at 8.2% (June 2000: 8.2%). Credit issued grew by 7.3% (3.5% like for like), in the first half of 2001 to £390.6m and collections were up by 6.3% (4.5% like for like) to £634m.

We are working actively to improve our customer recruitment techniques in order to increase the recruitment and retention of good quality customers. We have recently launched a Provident branded home-shopping catalogue produced and managed by Findel plc. In addition, we intend to roll out the cross-selling of motor insurance, which we piloted successfully last year, throughout the agent network. As a result, promotional expenditure has increased by over £2m in the first half of the year and we expect to see the benefit of these initiatives in improved customer growth during the second half.

International division

In the International division, our aims for this year were to continue with rapid customer growth in Poland and the Czech Republic, bringing both countries into profit for the year, and to open pilot operations in Hungary and Slovakia. Our progress in the first half of this year has been good with both Poland and the Czech Republic reporting a profit. The division has reported turnover up 258% to £46.2m and a half year loss of £2.3m, much reduced from the £6.9m loss at the 2000 half year. This includes an investment of £1.3m in start-up losses in launching our home credit service in Hungary and Slovakia. Customer numbers for the division have increased by 141,000 (28%) to 641,000 in the first half of the year.

Poland has for the first time reported a profit of £0.9m compared to a loss of £3.4m in the first half of 2000 and customer numbers have grown by 111,000 (36.4%) from 305,000 to 416,000 in the first half of the year. The Czech Republic has reported a profit of £0.8m compared to a first half loss in 2000 of £1.4m and customer numbers grew by 23,000 (14.3%) from 161,000 to 184,000.

As expected, as the businesses mature, the bad debt rate in the fast growing Central European operations is increasing from the exceptionally low levels seen in 2000. In Poland, our largest international market, credit quality is developing broadly as expected and bad debts as a percentage of credit issued are running at around 6% (June 2000 4.3%). In the Czech Republic, bad debt as a percentage of credit issued has increased a little more than was expected to 7.25% (June 2000 4.0%) and prices have been increased to compensate for the additional costs.

South Africa remains a small part of the International division. It has experienced

tougher trading conditions and, in particular, rising levels of bad debt in the first half of this year. This is disappointing after the substantial improvement in performance seen in the second half of 2000. We have taken remedial action, shortening the maturity of loans and tightening lending criteria. We intend to review the success of these actions in the second half of this year.

Motor insurance division

The motor insurance division has performed well, benefiting from good conditions in the motor insurance market. Profits were up by 19% to £19.4m and policyholders up by 18% to 833,000. As expected, premium increases in the market have slowed significantly, averaging about 5% in the first half of this year compared to about 10% at the same time last year and there are clear signs that we have reached the top of the insurance pricing cycle.

balance

We have piloted a bill paying service in a small number of UK locations during the last year. In June we reviewed the performance of these pilots and concluded that the prospects for the service were insufficiently good to merit further investment. Consequently, the business has been closed. A loss of £1.8m, inclusive of all closure costs, was incurred in the first half of 2001 (2000 £0.6m).

Prospects

In the UK home credit division we expect the current market conditions to continue for this year and into next and so we will continue to concentrate on maintaining the quality of our lending. As a result, we continue to expect customer numbers, credit issued and profits for 2001 to grow at similar rates to those in 2000. The bad debt ratio is expected to remain stable at around the current level.

The international division's customer numbers, credit issued and profits are expected to grow substantially. The division as a whole is on target to report a profit in 2001, after bearing start-up losses of about £4m in developing Hungary and Slovakia and to earn increasing levels of profit thereafter.

We are closely monitoring the quality of lending in the division. In response to the recent increase in bad debt, we intend to ease slightly the rate of growth in customer numbers and credit issued to allow the better management of credit quality, particularly in the Czech Republic.

We continue to believe home credit has wide international appeal and our aim remains to launch our service in one new country each year.

The motor insurance market is cyclical and we are currently benefiting from conditions at the top of the cycle. We continue to expect another good result in 2001 but we have seen the first signs of more competitive market conditions.

Overall, we are making good progress and remain confident of a good result for 2001.

John van Kuffeler
Chairman
23 July 2001

Consolidated profit and loss account for the half-year to 30 June 2001

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
Turnover	398,951	340,325	727,894
Operating profit and profit before taxation	70,210	65,116	160,219
Taxation (note 3)	(19,659)	(17,581)	(42,613)
Profit after taxation	50,551	47,535	117,606
Dividends (note 4)	(28,946)	(25,333)	(65,810)

Retained profit	21,605	22,202	51,796
Earnings per share (note 5)			
- Basic	20.52p	19.08p	47.52p
- Diluted	20.37p	19.02p	47.27p
Dividend per share (note 4)	11.75p	10.90p	27.30p

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

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

Statement of total recognised gains and losses for the half year to 30 June 2001

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
Profit after taxation	50,551	47,535	117,606
Currency translation differences	654	(148)	160
Total recognised gains and losses relating to the period	51,205	47,387	117,766

Segmental analysis of turnover for the half year to 30 June 2001

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
UK home credit	224,267	212,374	457,242
International home credit	46,168	12,909	41,901
Insurance	128,479	115,038	228,723
balance	37	4	28
	398,951	340,325	727,894

Segmental analysis of profit before taxation for the half year to 30 June 2001

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
UK home credit	61,329	60,332	146,985
International home credit	(2,347)	(6,860)	(6,745)
Insurance	19,451	16,259	32,042
balance	(1,828)	(614)	(1,493)
Central costs	(6,395)	(4,001)	(10,570)
	70,210	65,116	160,219

The International home credit turnover and profit/(loss) before taxation can be analysed as follows:

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
Turnover			
Poland	33,014	7,525	26,020
Czech Republic	11,794	4,867	14,167
South Africa	1,331	517	1,714

New Countries	29	-	-
	46,168	12,909	41,901
Profit/(loss) before taxation			
Poland	900	(3,430)	(2,769)
Czech Republic	820	(1,369)	87
South Africa	(779)	(505)	(789)
New countries	(1,262)	-	-
Divisional overheads	(2,026)	(1,556)	(3,274)
	(2,347)	(6,860)	(6,745)

Consolidated balance sheet as at 30 June 2001

	Unaudited at 30 June 2001 £'000	Unaudited at 30 June 2000 £'000	Audited at 31 Dec 2000 £'000
Fixed assets	50,227	37,143	41,184
Current assets			
Amounts receivable from customers (note 7)			
- due within one year	606,133	519,405	637,706
- due in more than one year	8,091	7,524	9,497
Debtors	171,165	146,118	162,727
Investments			
- realisable within one year	365,000	289,647	330,000
- realisable in more than one year	-	10,000	-
Cash at bank and in hand	69,396	38,490	50,881
	1,219,785	1,011,184	1,190,811
Current liabilities			
Bank and other borrowings	(20,891)	(25,513)	(37,133)
Creditors - amounts falling due within one year	(170,842)	(138,844)	(166,091)
Insurance accruals and deferred income	(408,843)	(335,945)	(374,611)
	(600,576)	(500,302)	(577,835)
Net current assets	619,209	510,882	612,976
Total assets less current liabilities	669,436	548,025	654,160
Non-current liabilities			
Bank and other borrowings	(377,142)	(311,084)	(384,908)
Creditors - amounts falling due after more than one year	-	(4,923)	-
Provision for liabilities and charges - deferred taxation	(2,566)	-	(2,566)
	(379,708)	(316,007)	(387,474)
Net assets	289,728	232,018	266,686
Capital and reserves			
Called-up share capital	25,814	25,728	25,798
Share premium account	52,405	45,332	51,638

Revaluation reserve	1,641	1,641	1,641
Other reserves	3,967	3,967	3,967
Profit and loss account	205,901	155,350	183,642

Equity shareholders' funds (note 6)	289,728	232,018	266,686
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Consolidated cash flow statement for the half year to 30 June 2001

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
Net cash inflow from operating activities	145,314	116,934	136,994
Taxation	(15,867)	(17,160)	(49,628)
Capital expenditure and financial investment	(8,816)	15,920	28,264
Acquisitions and disposals	(2,510)	-	-
Equity dividends paid	(40,401)	(36,545)	(63,367)
Management of liquid resources	(35,000)	(53,345)	(98,698)
Financing	(22,328)	(29,909)	48,938
Increase/(decrease) in cash in the period	20,392	(4,105)	2,503

The cash flow statement above has been prepared in accordance with FRS1 (Revised 1996) "Cash Flow Statements". As required by that standard, the statement aggregates the cash flows arising from insurance and home credit divisions. However, the cash and investments held by the 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.

At 30 June 2001 the cash and investments held by the insurance division amounted to £386 million (30 June 2000 - £316 million)

Reconciliation of net cash flow to movement in net (debt)/funds

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
Increase/(decrease) in net cash for the period	20,392	(4,105)	2,503
Cash outflow from increase in liquid resources	35,000	53,345	98,698
Cash outflow/(inflow) from decrease/(increase) in debt	55,392	49,240	101,201
Change in net debt resulting from cash flows	78,503	30,097	3,435
Loans relating to business acquired	(975)	-	-
Exchange adjustments	(5)	-	(1,038)
Net debt at start of period	(51,160)	(53,557)	(53,557)
Net (debt)/funds at end of period	26,363	(23,460)	(51,160)

Analysis of changes in net (debt)/funds

	31 Dec 2000 £'000	Cash flows £'000	Acquisition £'000	Exchange movements £'000	30 June 2001 £'000
Cash at bank and in hand	50,881	17,757	-	758	69,396
Overdrafts	(12,389)	2,635	-	-	(9,754)

	38,492	20,392	-	758	59,642
Investments realisable within one year	320,000	35,000	-	-	355,000
Bank and other borrowings:					
- less than one year	(24,744)	13,607	-	-	(11,137)
- more than one year	(384,908)	9,504	(975)	(763)	(377,142)
	(409,652)	23,111	(975)	(763)	(388,279)
Net (debt)/funds	(51,160)	78,503	(975)	(5)	26,363

Cash, borrowings and overdraft balances shown above at 31 December 2000 and 30 June 2001 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, other than investments which are traded on an active market).

Reconciliation of operating profit to net cash inflow from operating activities

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
Operating profit	70,210	65,116	160,219
Depreciation	3,549	2,858	5,935
Loss on sale of tangible fixed assets	124	154	312
Decrease/(increase) in amounts receivable from customers	33,381	48,203	(72,071)
Increase in debtors	(8,144)	(15,776)	(33,098)
Increase in insurance accruals and deferred income	34,232	29,091	67,638
Increase/(decrease) in other creditors	11,962	(12,712)	8,059
Net cash inflow from operating activities	145,314	116,934	136,994

Net cash inflow from operating activities can be analysed as follows:

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
UK home credit	124,644	109,565	131,320
International home credit	(31,923)	(18,246)	(50,936)
Insurance	56,699	32,030	67,163
Central	(4,106)	(6,415)	(10,553)
	145,314	116,934	136,994

Notes to the financial information

1. The financial information, which has been prepared on the basis of the accounting policies set out in the group's 2000 statutory accounts, does not constitute a set of statutory accounts and is unaudited. This document (the 2001 interim report) will be published on the company's website (in addition to the normal paper version). The maintenance and integrity of the Provident Financial website is the responsibility of the directors and the work carried out by the auditors does not involve consideration of these matters. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

2. The information relating to the full year ended 31 December 2000 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 2000 - 27%), to the profit for the period.

4. Dividends paid and proposed.

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
Interim dividend declared 11.75p (2000 - 10.9p)	28,946	25,333	25,421
Final dividend paid - 16.4p	-	-	40,389
	<hr/> 28,946	<hr/> 25,333	<hr/> 65,810
Dividend cover	1.75	1.75	1.74

5. Earnings per share

The basic and diluted earnings per share figures have been calculated using the profit for the period attributed to ordinary shareholders of £50,551,000 (30 June 2000 - £47,535,000) and the weighted average number of shares in issue during the period.

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

	Unaudited Half-year to 30 June 2001	Unaudited Half-year to 30 June 2000	Audited Full year 2000
Weighted average number of shares in issue during the period	248,965,864	252,066,217	250,221,347
Held by the QUEST	(2,643,915)	(2,990,972)	(2,727,626)
Used in basic earnings per share calculation	<hr/> 246,321,949	<hr/> 249,075,245	<hr/> 247,493,721
Issuable on conversion of outstanding options	1,821,287	852,768	1,286,831
Used in diluted earnings per share calculation	<hr/> 248,143,236	<hr/> 249,928,013	<hr/> 248,780,552

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

	Number
At 1 January 2001	248,931,030
Shares issued pursuant to the exercise of options	184,309
	<hr/> 249,115,339
At 30 June 2001	<hr/> 249,115,339

6. Reconciliation of movement in equity shareholders' funds

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
Profit attributable to equity shareholders	50,551	47,535	117,606
Dividends	(28,946)	(25,333)	(65,810)
Retained profit	<hr/> 21,605	<hr/> 22,202	<hr/> 51,796

New share capital issued	783	-	6,376
Share capital cancelled on share buy-back	-	(1,879)	(1,879)
Share buy-back	-	(47,173)	(47,173)
Shares issued to the QUEST	-	-	(1,610)
Currency translation differences	654	(148)	160
Net addition to/(reduction in) equity shareholders' funds	23,042	(26,998)	7,670
Equity shareholders' funds at beginning of period	266,686	259,016	259,016
Equity shareholders' funds at end of period	289,728	232,018	266,686

7. Amounts receivable from customers

	Unaudited at 30 June 2001 £'000	Unaudited at 30 June 2000 £'000	Audited at 31 Dec 2000 £'000
a) Instalment credit receivables			
Gross instalment credit receivables	945,475	817,536	976,269
Less: provision for bad and doubtful debts	(91,196)	(90,420)	(79,220)
Instalment credit receivables after provision for bad and doubtful debts	854,279	727,116	897,049
Less: deferred revenue thereon	(240,055)	(200,187)	(249,846)
	614,224	526,929	647,203
Analysed as:			
- due within one year	606,133	519,405	637,706
- due in more than one year	8,091	7,524	9,497
	614,224	526,929	647,203

At 30 June 2001 the net amounts receivable from UK home credit customers were £520.3 million (30 June 2000 - £500.6 million) and from international home credit customers were £93.9 million (30 June 2000 - £26.3 million).

	Unaudited Half-year to 30 June 2001 £'000	Unaudited Half-year to 30 June 2000 £'000	Audited Full year 2000 £'000
b) Bad and doubtful debts			
Gross provision at end of period	91,196	90,420	79,220
Less: deferred revenue thereon	(28,560)	(26,280)	(24,400)
Net provision at end of period	62,636	64,140	54,820
Net provision at start of period	(54,820)	(60,823)	(60,823)
Increase/(decrease) in provision (net of deferred revenue)	7,816	3,317	(6,003)
Amounts written off (net of deferred revenue)	42,499	36,307	82,307
Net charge to profit and loss account for bad and doubtful debts	50,315	39,624	76,304
Analysed as:			
- UK home credit	41,008	37,760	71,460
- International home credit	9,307	1,864	4,844

50,315 39,624 76,304

c) The figures for receivables, provisions and bad and doubtful debts at 30 June 2001 should be compared with the equivalent information at 30 June 2000 in view of the long established seasonal patterns in lending and collections.

8. Credit issued

	Half-year to 30 June 2001 £'000	Half-year to 30 June 2000 £'000	Growth %
UK home credit	390,601	363,963	7.3
International home credit	106,934	38,957	174.5
	497,535	402,920	23.5

9. Collections

	Half-year to 30 June 2001 £'000	Half-year to 30 June 2000 £'000	Growth %
UK home credit	634,108	596,325	6.3
International home credit	116,119	36,891	214.8
	750,227	633,216	18.5

Independent review report to Provident Financial plc

Introduction

We have been instructed by the company to review the financial information which comprises the consolidated profit and loss account, statement of total recognised gains and losses, consolidated balance sheet, consolidated cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which 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 for use in the United Kingdom. A review consists principally of making enquiries of 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 United Kingdom 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 2001.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Leeds
23 July 2001

Shareholder information

1. The shares will be marked ex-dividend on 19 September 2001.
2. The interim dividend will be paid on 19 October 2001 to shareholders on the register at the close of business on 21 September 2001.
3. Dividend warrants/vouchers will be posted on 17 October 2001.
4. The interim report is being posted to shareholders on 3 August 2001.
5. The Provident Financial Company Nominee Scheme ("the scheme") enables shareholders who are eligible, namely individuals, to take advantage of the CREST system for settling transactions in shares in the company by means of a low-cost dealing service. It includes a dividend reinvestment scheme for those who wish to use this facility. Shareholders who wish to take advantage of the scheme should contact the company's registrar, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, (telephone: 0208 639 2000) to request an information pack.