Provident Financial plc

ANNUAL REPORT & ACCOUNTS 2003

Good relationships – good business

Pam, Amy, Thomas & Denise

FRONT COVER Pam, home credit customer, and daughter Amy with their dog Thomas and agent Denise, Keighley, UK

To find out where we've come from and how we're doing

LIFT THE FLAP ☞

Contents

Provident Financial plc
Company number 668987

124 successful years: The Provident business was founded in Bradford in 1880 to provide affordable credit for working families. While our business is still to provide simple, financial products, the last seven years have seen big changes. We now operate overseas and are steadily broadening our range of products in the UK.

SEVEN YEARS OF CHANGE

1997
The first overseas operations open in Poland and the Czech Republic.

By the end of the year we have 8 branch offices and 16,000 customers in central Europe.
1998

1999
The number of international customers grows from 16,000 to 138,000.

2000
International exceeds 450,000 customers.

2001
International reports its first annual profit and we open in two more central European countries – Hungary and Slovakia.

We acquire the car finance business, Yes Car Credit.
2002

2003 International opens in Mexico, passes the 1 million customer mark and finishes the year with 1.2 million customers. In the UK we launch Vanquis Bank to begin testing a credit card.

KEY HIGHLIGHTS OF 2003

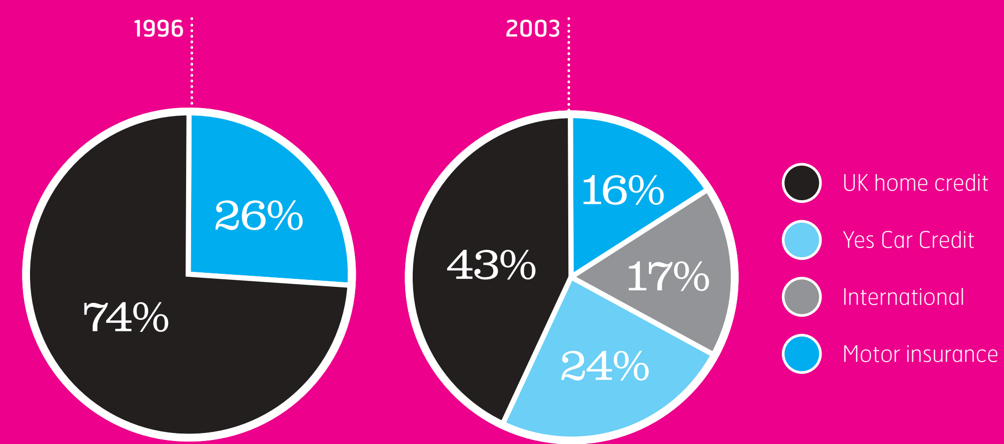
+30% Turnover up to £1.1 billion

+13% Profit before goodwill amortisation and exceptional items up to £206.2 million

+8.2% Earnings per share before goodwill amortisation and exceptional items up to 57.54p

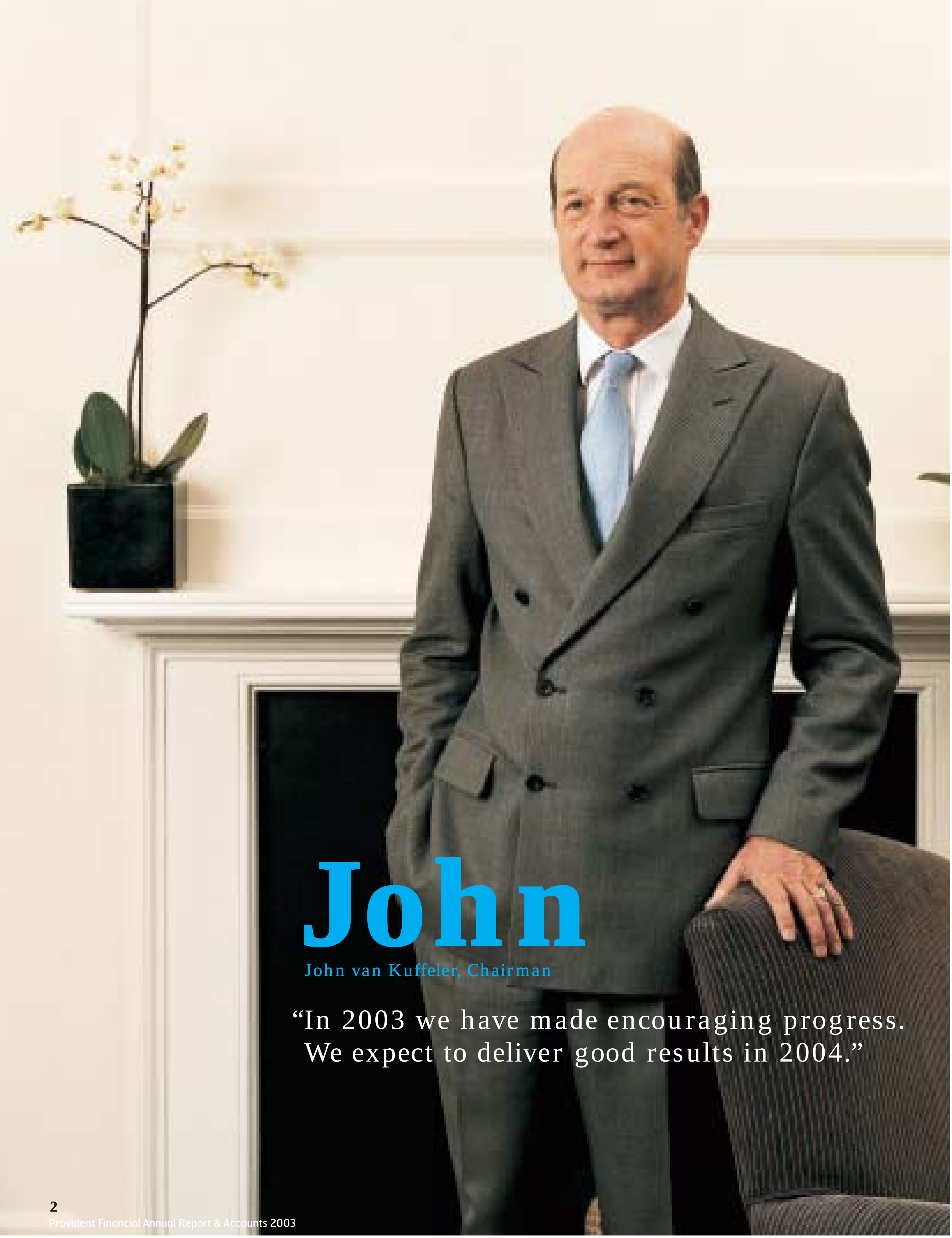
+6.8% Total dividend for 2003 33.00p

TURNOVER SPLIT 1996 & 2003



Hello and welcome

to a business that knows its customers, knows what they want, and keeps growing by doing the simple things really well...



John

John van Kuffeler, Chairman

“In 2003 we have made encouraging progress. We expect to deliver good results in 2004.”

+6.8%

Increase in dividend of 6.8%

+30%

Turnover up 30% to £1.1 billion

I am pleased to announce our results for 2003. Strong growth continued during the year with group turnover up by 30% to £1.1 billion and customer receivables up by 15% to £1.1 billion. Before goodwill amortisation, profit before tax increased by 13.0% to £206.2 million (2002 £182.4 million) and earnings per share increased by 8.2% from 53.19p to 57.54p. After goodwill amortisation and, in 2002, an exceptional item, profit before tax increased by 17.8% to £201.9 million (2002 £171.4 million) and earnings per share increased by 14.8% to 55.84p (2002 48.66p). The directors recommend a final dividend of 19.90p (2002 18.44p), giving a total dividend for the year of 33.00p per share (2002 30.90p), an increase of 6.8% for the year.

+8.2%

Earnings per share before goodwill amortisation and exceptional items up by 8.2% to 57.54p

Operations

In order to give a clearer view of the financial performance of the individual divisions, in 2003 we recharged to the UK home credit business and the international division costs in respect of taxation, treasury and public affairs services that were previously borne as central costs. The profit figures for 2003 and prior year comparatives in this statement reflect these recharges. Details are given in note 1 to the accounts on page 69.

UK consumer credit division

UK home credit

UK home credit is a successful, cash generative business operating in a long established and mature market segment.

Its success is built upon the provision to customers of a simple and straightforward service tailored to their needs. Loans are for small sums and are delivered quickly and conveniently to the customer's home by an agent. This personal service and the close relationship between agent and customer is highly valued and is well suited to the careful and responsible provision of credit. Customers also value the transparency and flexibility of home credit. Unexpected events can cause customers to miss a loan repayment and most credit products levy penalty charges and additional interest when this happens. The home credit offer recognises that these penalties just make things worse and so no penalty charges or additional interest are levied. The customer has the peace of mind of knowing that all charges are fixed at the outset and each repayment goes to reduce the amount owed. These features give rise to an extraordinarily high customer satisfaction rating of 93% and explain the enduring appeal of home credit in an increasingly competitive market.

The prolonged period of economic growth in the UK has benefited our customers. Many are better off and so some have a reduced need for small sums of credit. Many also have access to a wider choice of alternative credit products, such as credit cards and bank overdrafts, and some choose to use these as well as, or instead of, home credit. Growth is more difficult in these competitive market conditions and so, in recent years, we have had to work harder to find the best mix of customer and credit issued volumes, overhead expenses and bad debt costs to move profits forward. This was again the case in 2003, with modest profit growth achieved alongside small reductions in customer numbers and credit issued. The number of customers at the end of 2003 was 1.61 million, 1.7% lower than at the end of 2002. Credit issued for the year was down by 0.7% to £916 million. Collections increased by 1.6% to £1,320 million and turnover increased by 2.4% to £496 million. Costs were carefully managed and increased overall by just 1.8%, benefiting from lower interest costs and tight control of overhead expenses. Credit quality was satisfactory with annual bad debt costs as a percentage of credit issued reducing slightly during the second half from 9.7% at June 2003 to 9.6% for the full year (2002 9.2%). Profit before tax increased by 2.5% to £152.6 million (2002 £148.8 million).

Yes Car Credit

Yes Car Credit was acquired in December 2002. It has a distinct, credit-led, integrated business model under which it sells its customers a package of a car, financing and related insurance products.

The business has performed well in its first year in the group and has benefited from greater access to the capital needed to fund its development.

Six new branches were opened during the year, taking the total to 26, helping to increase the number of cars sold by 24% to 37,900. The

+6

Six new Yes Car Credit branches opened in 2003

+32%

Yes Car Credit's turnover up 32%

1.2 million

International division customers up 30% to 1.2 million

percentage of cars sold that were financed by Yes Car Credit has also been increased as planned, up from 75% in 2002 to 95% in 2003. Indeed, during the second half of 2003, Yes Car Credit financed all of the cars it sold. The rapid increase in cars sold and the increased percentage of sales financed in-house has led to substantial growth in turnover, up by 32% to £269 million and net customer receivables, up by 54% to £252 million. Yes Car Credit's contribution to the group's profit before goodwill amortisation for the year was £11.2 million (2002 £0.2 million) and, as expected, the acquisition and associated share placing has enhanced earnings per share before goodwill amortisation during this first year of ownership.

Vanquis Bank

Vanquis Bank was established to perform a market test of credit cards. Our plan is to offer cards tailored to the needs of customers with modest incomes.

The market test is designed to provide strong evidence of the attractiveness to customers of our offer and of the financial returns we might expect if we were to progress to a full-scale launch.

The testing includes offers to existing and new customers, both by direct marketing and through home credit agents. Collection of repayments by home credit agents and by remote means are also being tested.

The market test has progressed to plan and at the end of the year 36,800 cards were in issue. The cost of the test for 2003 was £6.7 million.

+240%

International division profit before tax increased by 240% to £29.3 million

International division

The international division has again produced excellent results.

It has grown substantially, achieving excellent profit growth in Poland and the Czech Republic and successfully expanding the developing operations in Hungary and Slovakia. Customer numbers for the division increased by 30% to 1.2 million, credit issued by 26% to £361 million and turnover by 34% to £191 million. Profit before tax increased substantially to £29.3 million (2002 £8.6 million).

Our business in Poland performed very well and continued to make excellent progress towards its medium-term targets. Customer numbers increased by 23% to 813,000, credit issued by 14% to £226 million, collections by 25% to £305 million and turnover by 25% to £128 million. Credit quality developed as expected with bad debt as a percentage of credit issued of 10.8% for 2003 (2002 9.1%). Profit before tax increased very strongly, up by £16.4 million (98%) to £33.1 million (2002 £16.7 million).

Our Czech operation is experiencing lower rates of growth in customer numbers and credit issued as it nears its target of 250,000 customers. Customer numbers increased by 2.4% to 223,000 and credit issued by 6.4% to £74 million. Collections increased by 18%, fuelled by the rapid increase in customer receivables during 2002 and, with the majority of income recognised when loans are collected, this in turn led to a 17% increase in turnover in 2003 to £39 million. Credit quality was stable with bad debt as a percentage of credit issued for 2003 being unchanged at 11.0% (2002 11.0%). Profit before tax has increased substantially, up by £3.7 million (72%) to £8.8 million (2002 £5.1 million).

The performance of our newer operations in Hungary and Slovakia has been very encouraging. Both expanded rapidly, whilst maintaining good credit quality and both reported lower start-up losses than in 2002. In Slovakia, customer numbers increased by 130%, rising from 27,000 at the end of 2002 to 62,000. Start-up losses for 2003 were reduced by £0.4 million (20%) to £1.6 million (2002 £2.0 million). Hungary achieved even faster growth. Customer numbers rose by 163% from 55,000 to 143,000 and start-up losses for 2003 were sharply reduced, down by £1.2 million (38%) to £1.9 million (2002 £3.1 million).

A pilot operation was launched in Mexico in August 2003. This has performed well and, at the end of December 2003, had 2,600 customers served from a single branch located in Puebla; a large industrial city about 70 kilometres outside Mexico City.

Motor insurance division

The cyclical downturn of margins in the UK motor insurance market that began in the summer of 2002 has continued.

In 2003 premium rates in the market as a whole fell by 1% whilst claims costs increased by about 8%. As planned, we continued with our policy of pricing for an adequate return on equity and so raised our premium rates in line with the rise in claims costs. This caused policyholder numbers to fall by 23% during 2003, down from 757,000 to 587,000. Gross written premium reduced by 22%, in line with the fall in the number of policyholders. The cost base of the business was sharply reduced in 2003. Distribution is entirely through independent intermediaries and so these costs fell in line with the reduction in written premiums. Overhead costs were also reduced. In addition, the cost of levies fell by £3 million as compared to 2002 due to an unexpectedly low call from the Motor Insurers' Bureau in the last quarter of 2003. These factors contributed to an underwriting profit of £4.0 million, down from £11.4 million in 2002. Income earned on the investment fund, held to meet the cost of future claims, was £24.6 million (2002 £24.4 million). The average fund size was £461 million (2002 £455 million).

> "The international division and Yes Car Credit both delivered excellent results and this was underpinned by solid performances from our UK home credit and motor insurance businesses."

Profit before tax for 2003 fell by 20% to £28.6 million (2002 £35.8 million). This was a better result than we had expected, because of the reduced levy costs and the business continued to create value for shareholders, earning a post-tax return on equity of 24% for 2003 (2002 29%).

Regulatory developments

In December 2003 the UK government published a White Paper on Consumer Credit and proposals for revised regulations.

We welcome these proposals, particularly the call for greater transparency to the borrower of all of the costs of credit, a tighter licensing regime and more effective redress for customers faced with unfair contract terms.

A proposal for the revision of the EU Consumer Credit Directive was published in September 2002 and, during 2003, has been the subject of scrutiny and debate by the Council of Ministers and the European Parliament, a process that typically lasts for several years. A number of important changes to the framework of consumer credit law are proposed, focused primarily on improved transparency of the terms and costs of borrowing for the consumer.

In September 2003 the National Consumer Council ("NCC") said that it would be undertaking research with a view to supporting a possible supercomplaint, under the Enterprise Act 2002, to the Office of Fair Trading regarding the competitiveness of the UK home credit industry. Our experience is that: home credit customers are highly satisfied with the personal service provided by home credit agents and that the home credit product is ideally suited to the needs of its target market; barriers to enter the home credit industry are low, as demonstrated by Cattles' national expansion and the entry of Park Direct Credit in recent years, and 146 new members of the home credit industry's trade association during the last five years; many home credit customers use other credit products such as mail order, overdrafts and credit cards in a large and growing market for small sum credit where competition has increased substantially during recent years and is likely to continue to increase in future.

Prospects for 2004

UK consumer credit division

The UK market for home credit is mature and, as our customers become more prosperous and gain access to a wider range of credit products, it is becoming increasingly competitive. We will continue to make a measured trade-off between volume growth, credit quality and costs, with the aim of growing profits modestly.

Yes Car Credit made good progress in 2003. It operates in a market that is estimated to be growing at about 6% p.a. but Yes Car Credit has grown faster than this because of its innovative offer and by expanding its branch network to increase geographic coverage. We expect the market will continue to grow in 2004 and we intend to open five new branches during the year in order to further increase geographic coverage. As a result, we look forward to continued strong growth in 2004.

During 2003 Vanquis Bank tested a range of offers and at the end of 2003 had 36,800 credit card holders. We now intend to observe the performance of the business before deciding in the second half of this year whether or not to proceed to a full-scale roll-out. The cost of the operation is likely to be about £9 million for 2004.

Motor insurance division

The cyclical downturn in margins in the motor insurance market as a whole is likely to continue throughout 2004. We will continue only to write policies that earn an adequate return on equity and so we expect further reductions in policyholder numbers and written premiums. The profit impact of this will be minimised by reductions in the cost base. We also expect a fall in the size of the investment fund in 2004 following the decrease in written premium over the last 18 months and this, together with a lower yield, is expected to result in lower investment income. These factors taken together are expected to result in lower profits in 2004 from the motor insurance division but with a continued good return on equity.

International division

We continue to see excellent prospects for growth from our international division. Poland is expected to be the major contributor to this, with lower growth forecast in the Czech market. Reduced start-up losses from the developing businesses in Hungary and Slovakia in 2004 are also expected and we continue to believe both will report a profit for 2005. The pilot in Mexico will continue during 2004 and start-up losses of about £3 million are expected.

Overall, we expect that 2004 will be another very good year for our international division.

Group

In 2003 we have made encouraging progress. The international division and Yes Car Credit both delivered excellent results and this was underpinned by solid performances from our UK home credit and motor insurance businesses. We expect to deliver good results in 2004.

John van Kuffeler
Chairman
16 March 2004

Robin

Robin Ashton, Chief Executive

Our business

At Provident Financial we pride ourselves on knowing our customers well and offering simple financial products tailored to their needs. This thinking underlies each of our three divisions – UK consumer credit, international, and motor insurance. It's one reason why customers keep coming back again and again.

7

Provident now operates in 7 countries

Our strategy Provident Financial has successfully provided home credit in the UK for well over a century, and in the Republic of Ireland for more than sixty years. By the mid-1990s, however, it was clear that the UK home credit market was maturing. We needed, therefore, to refresh our strategy for the next phase of our growth and so began a twofold process of developing home credit internationally and broadening our product range in the UK.

The group has changed dramatically as a result. Since 1997, when we signed up our first customer in Poland, our international business has grown rapidly. The original overseas operations in Poland and the Czech Republic are already making a substantial contribution to group profits while Hungary and Slovakia continue to make good progress. The new pilot operation in Mexico is just the latest step in a story of vigorous and profitable expansion.

We're also making good progress on the second leg of the strategy – broadening our product range. With the acquisition in 2002 of the car finance business, Yes Car Credit, and the market test of the new Vanquis Bank credit card, we are adding different but related products to attract new customers and to offer more to those we already serve.

These strategies offer plenty of scope for further growth. As we move ahead, our priorities are to introduce home credit to further overseas markets, expanding in the measured, controlled way that has served us well so far; and to develop our new credit products in the UK, taking these into overseas markets when the time is right.

UK consumer credit division 1

UK home credit

Yes Car Credit

Vanquis Bank

International division 2

Poland

Czech Republic

Hungary

Slovakia

Mexico

Motor insurance division 3

Provident Insurance

1

£916m
credit issued by UK home credit

37,900
cars sold by Yes Car Credit

36,800
credit cards issued by Vanquis Bank

UK consumer credit

The heart of our UK consumer credit division is our home credit business – small loans, with affordable repayments, collected every week from the customer's home. But the product range is broadening. The division now provides car finance and is also testing a new credit card.

Paul

Paul Watch, branch manager, Yes Car Credit, Portsmouth, UK

"Looking back over the year, I'm amazed at how busy we've been. There's a real buzz from selling more cars to more customers and giving them a better deal than they might have thought was possible."

1 UK consumer credit

Home credit – the core of our UK business

Although UK consumer credit is now broadening its product range, the bedrock of the division remains the home credit business which serves 1.6 million customers.

The service is popular for very clear reasons. It's personal, friendly, convenient and flexible.

The business lends small sums of money (the most popular loan is for £200) to people from all walks of life. Our customers have moderate incomes and need to manage their finances carefully. They want, therefore, to borrow small amounts with minimal financial risk and so welcome the structure and discipline of a Provident home credit loan.

Repayments are affordable and are collected by agents every week from the customer's home. Payment arrangements are flexible and – most importantly – our customers never have to face additional or unexpected charges.

Customers take out their loans for a wide variety of reasons. Some spend the money to help fund Christmas, birthdays or holidays or on other special family events. Some use the cash to buy household items or consumer electronics. In other cases, the loan is used to spread household costs over the year or to help in emergencies.

95%

of UK home credit customers say they find their agent helpful and friendly

Provident home credit provides a service that its customers appreciate and value. We are proud to offer a high quality service that recognises our customers' needs.

93%

customer satisfaction rating in UK home credit

£152.6m

UK home credit profit before tax – increased by 2.5%

What's been happening in the UK home credit market?

UK home credit has operated for over a century and clearly its services will be in demand for many years to come. Nevertheless, we need to recognise that the market in which it operates is changing.

After a long period of economic growth and high employment, the typical Provident customer has steadily become better off. She (and it usually is she) tends, therefore, to have less need for small sum credit and so borrows less frequently. At the same time, our customers have increasing access to other forms of credit – particularly credit cards and overdrafts.

For these reasons, it's clear that the potential for expansion in the UK home credit market is limited. While we aim to achieve modest profit growth in 2004, we recognise that we can't rely on home credit alone in the UK. To keep succeeding, we need to introduce other products that are distinct, relevant and attractive to our target market.

Provident home credit provides a service that its customers appreciate and value.

Muriel

Home credit customer
Muriel, Leeds, UK

"My agent sat down with me in my living room to sort out the loan I needed for my holiday. Paying back weekly really suits me. That's good value in my book."

Leanne & Jessica

Vanquis Bank employees, Chatham, UK

The same underlying values apply to these newer businesses as to home credit.

A new division

In 2002 we formed the UK consumer credit division. This includes not just UK home credit, but the car finance business Yes Car Credit, and Vanquis Bank.

The same underlying values apply to these newer businesses as to home credit. All the businesses recognise and respect their customers' needs and aspirations.

Yes Car Credit

Yes Car Credit provides finance and a high quality, reliable car to customers, making sure that the repayments remain affordable.

It's also a friendly way to do business. The fact that we set the credit limit before the customer chooses a car avoids the embarrassment that could otherwise occur if the customer first selects a car and then finds that they cannot arrange finance for it.

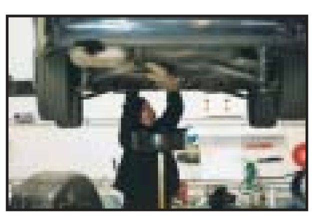
Vanquis Bank

In the same way, the Vanquis Bank credit card test recognises that many of our customers like 'plastic' – that they welcome both the flexibility and the feeling of being in the financial mainstream.

But many want a card with a low credit limit and small, affordable repayments to help them stay in control. Some may have little or no credit history. Others may have had credit cards in the past but, because of events in their lives such as changes in their income or the breakdown of a relationship, have been unable to manage their credit card and, consequently, have been excluded from this important source of credit.

Vanquis Bank seeks to meet this need by developing a product that offers all the advantages of 'plastic', but keeps the customer firmly in control.

Vanquis Bank maintains more personal contact with its customers than most other credit card providers



Yes Car Credit provides finance and a high quality, reliable car to customers

£7.4 m

Vanquis Bank net receivables

£252.4 m

Yes Car Credit net receivables

UK consumer credit

1.6m

customers choose Provident home credit in the UK

UK home credit – why so popular?

People's perception of home credit is sometimes at odds with the reality. In any discussion of our performance and strategy, it's important to emphasise the features of the service that make it so successful.

At Provident we lend responsibly. We have to, because our loans are unsecured. Furthermore, we pay agents based only on the money they collect, not on what they lend, so it's in their interests not to lend more than people can afford to repay.

Our product recognises what life is like for people on modest incomes, who need to manage their finances carefully. With Provident home credit there are no penalty charges for late or missed payments – a feature that makes home credit quite distinct from credit cards, bank loans and virtually every other form of lending. All costs are included in a single, up-front charge that customers see from the start. Whatever happens, the amount to be repaid never goes up.

Therefore, when customers take out a loan, they know exactly how much they'll have to pay back. That's a great attraction for people on tight budgets who want to avoid nasty financial surprises. It keeps them in control and provides the reassurance that every pound repaid reduces the loan balance by the same amount.

Our customers also appreciate Provident's friendly, personal service. Their contact with the company is through an agent who knows them individually and calls every week at a convenient time. The 12,000 UK agents typically come from the same communities as their customers and many were customers themselves before becoming agents.

The weekly visit from the agent also provides the encouragement to put aside the repayment every week. Regular, face to face contact helps customers to stay in control of their credit and keep up to date with their repayments.

In an age of internet banking and call centres, this personal service is highly valued. Customers know they'll get a sympathetic response if they get into difficulties – that the agent understands the ups and downs of life and can help them manage their personal and household finances.

On the face of it, our APR looks higher than for other sources of small sum credit. But direct comparisons are misleading. The APRs quoted by other lenders usually do not include the cost of credit insurance or penalty charges if customers miss payments. Similarly, the AERs on overdrafts do not include the monthly administration charges or the charges levied when the account goes above the overdraft limit. In contrast, Provident home credit's APR includes not just the interest charge but the cost of the agent's weekly visit and the cost to Provident of never imposing any extra charges.

With these advantages, it's no wonder that satisfaction ratings are extremely high, at 93%, and that 83% of customers would recommend Provident home credit to family and friends.

We know that most of our customers have choices when it comes to credit. Nearly two-thirds have a bank account, almost a third have a credit card and many others make use of agency mail order catalogues. Nevertheless, they choose Provident home credit because they like the service and the flexibility, convenience and value that we offer. For a small, short-term loan, quickly and easily repaid, Provident is a rational choice.

31%

of UK home credit customers have a credit card

60%

of UK home credit customers have a bank current account

Our objective is modest profit growth in what is a mature and increasingly competitive market.

Provident home credit's call centre provides a service to its branch network

Through on-going research, we know our customers are highly satisfied with our home credit service

31%

of UK home credit customers
have an overdraft facility

Getting better at what we do

Although the UK home credit market is mature, we aim to achieve modest growth in profits by improving our service and modernising our offer.

In 2003 we took a fresh look at how we run our UK home credit business. We sharpened functions such as credit management, devolved responsibilities to local managers, improved communications between head office and employees, and made the organisation faster on its feet – all with the aim of taking better care of customers and making the business more efficient.

£200

is the most popular Provident home credit loan in the UK

An increasingly competitive market

In recent years the range of sources of small sum credit available to our customers has increased.

In particular, the use of credit cards and overdrafts alongside, or instead of, home credit has risen. In this competitive environment it is vital that we continue to provide a distinct offer, tailored to our customers' needs, and become even better at what we do.

What's next?

Our objective is modest profit growth in what is a mature and increasingly competitive market.

We aim to achieve this through the quality of our service and by constantly balancing volumes, costs and bad debt.

Debbie, Grant & Diane

Home credit customer Debbie with her son Grant, and agent Diane, Leeds, UK

"My agent arranged the cash I needed for my new computer. She calls every week so I don't even have to go out to make the repayments. It's a great service."

Paul & Robert

Paul, home credit customer, with Robert White, Provident home credit development manager, Huddersfield, UK

"The scary thing about a lot of loans is what's in the small print. It was great to discover Provident where everything's clear and you know from the start exactly what you have to pay."

Jenny & James

Jenny, home credit customer, and
her grandson James, Halifax, UK

"It really helps to have people you can trust. And I know I can trust my agent Liz to understand my situation and be sympathetic if I have to miss a payment."

Ellen

Yes Car Credit employee, Portsmouth, UK

UK consumer credit

Yes Car Credit

Why expand into car finance?

For many customers in our target market, buying a family car is the single most important transaction they will undertake and most will need credit if they want to afford a decent, reliable vehicle. In looking to broaden our product range, car finance was, therefore, a natural choice.

Yes Car Credit supplies good quality, three- to five-year old vehicles, financed at competitive rates of interest – plus insurance policies to cover repairs and write-offs, and the loan repayments if the customer's circumstances change. This way, the owner is protected against future financial surprises and the car is kept on the road – which encourages the customer to keep paying back the loan.

Another reason for acquiring Yes Car Credit was its direct contact with the customer – something we believe to be very important. Unlike the conventional car finance model, Yes Car Credit deals face to face with its customers rather than with car dealers. This has two advantages. Firstly, Yes Car Credit does not have to share its profits with a dealership. Secondly, it is able to ensure that the customer drives away in a high quality vehicle – another important factor in making sure the customer is satisfied.

Besides fitting well alongside our home credit business, Yes Car Credit made an attractive acquisition as a fast-growing, entrepreneurial business in an expanding market.

We sold nearly 38,000 cars in 2003

At Yes Car Credit we have direct contact with the customer

How we've done this year

In our first full year of ownership, we've expanded the number of branches from 20 to 26, with five more planned in 2004.

In addition, Yes Car Credit now finances all of the vehicles it sells as compared with only 75% when we took it over – which is good for margins.

As expected, Yes Car Credit has performed extremely well. We sold nearly 38,000 cars in 2003 (up from 31,000 in 2002), and increased profits substantially to £11.2 million (2002 £6.6 million – assuming the benefit of lower funding costs from membership of the Provident group throughout the year).

What's next?

In the coming year, we intend to capitalise on the natural growth of the market whilst also increasing our share by further extending our branch network and geographic coverage. This is expected to generate further substantial growth.

+6%

Yes Car Credit's market is estimated to grow by 6% a year

26

Yes Car Credit has 26 branches nationwide

+70%

Yes Car Credit profit before tax up 70% to £11.2 million

Kerrie

Yes Car Credit customer,
Portsmouth, UK

Vanquis Bank

Why a credit card?

For many consumers, having a credit card opens the door to the modern economy. It allows them to shop by telephone or over the internet and is accepted in most countries throughout the world.

That said, many people – particularly those on modest incomes – are excluded, or exclude themselves, from having a card. They may have been refused a card in the past or may never have been invited to apply for one. Or they may be concerned that they might lose control of their spending.

With such customers in mind, we hope to offer a distinctive credit card that meets their needs and concerns. What we envisage is not a replica of anything that already exists, but an offer specifically tailored to customers' needs. The aim is to offer the convenience and flexibility of using a card while preserving those 'stay in control' features that make home credit so useful to people who need to watch their spending.

To test the possibilities, we recruited a team of credit card professionals, gained a deposit taking licence in February 2003 for our company, Vanquis Bank, and launched a pilot project in April. The 36,800 cards we've issued so far cover a range of features. There are cards with very low credit limits, cards with a higher APR but no penalties for missed payments, cards with fixed repayments so that monthly outgoings stay constant, cards that allow customers to repay every week or fortnight, and so on. We are testing a range of offers to see what works best. We also maintain more personal contact with our customers than many credit card providers, with credit vetting by telephone and further calls when a first payment is due or if a payment has been missed.

We now intend to monitor the performance of this portfolio before deciding in the second half of 2004 whether or not to proceed to a full-scale roll-out. The test cost £6.7 million in 2003 and is likely to cost about £9 million in 2004.

36,800
Vanquis Bank credit card customers

We believe that there is unfulfilled demand in the UK market for a credit card designed to meet the needs of people earning modest incomes.

Laura

Vanquis Bank employee,
Chatham, UK

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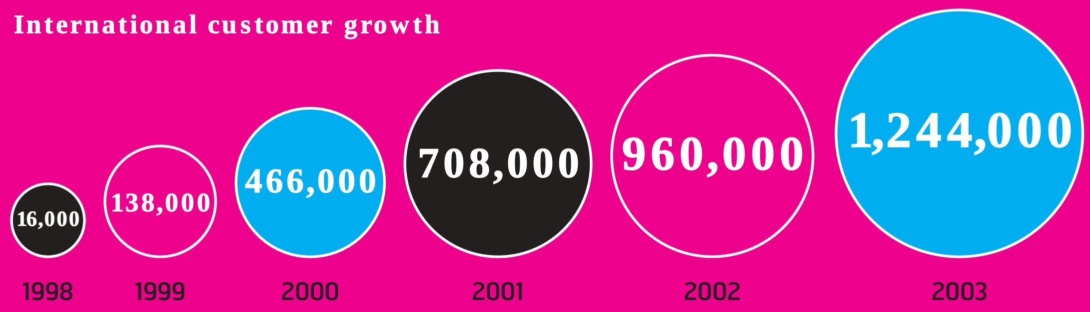
International customer growth

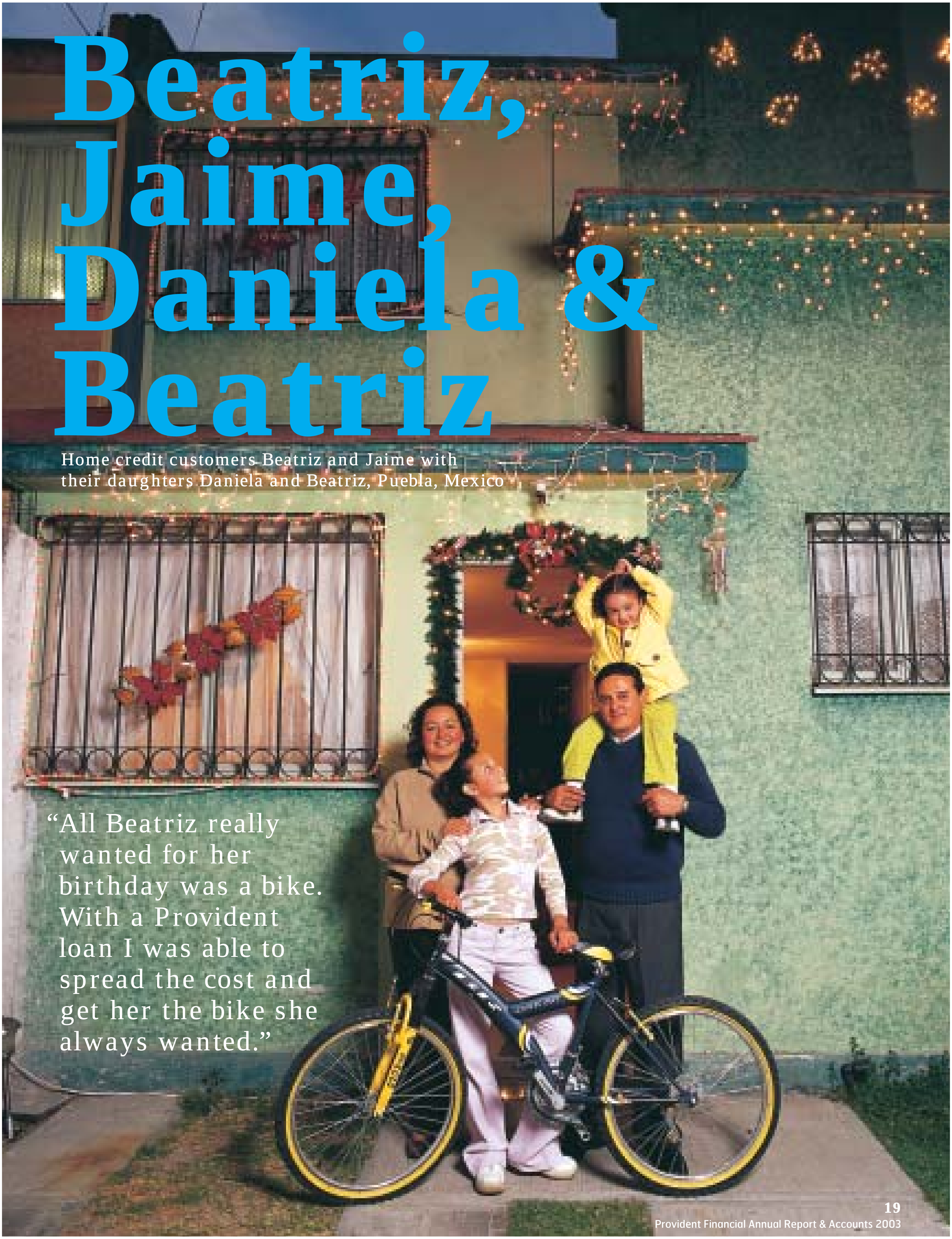


International

Our fast-growing international division has businesses in Poland, the Czech Republic, Hungary and Slovakia, and a pilot operation in Mexico. It has proved conclusively that we can be successful in overseas markets.

Beatriz, Jaime, Daniela & Beatriz

Home credit customers Beatriz and Jaime with their daughters Daniela and Beatriz, Puebla, Mexico



"All Beatriz really wanted for her birthday was a bike. With a Provident loan I was able to spread the cost and get her the bike she always wanted."

2 International

+98%

growth in Poland's profit before tax

Meeting a need

Since starting our international expansion just seven years ago, we've achieved excellent growth, all of which has been organic.

From a standing start in 1997, our international division now serves 1.2 million people. We have built a business that has nearly 3,000 employees, over 17,000 agents and operates from 145 towns and cities in five countries.

These are countries where the home credit market didn't exist before Provident moved in. For the first time, customers wanting credit had a quick, convenient alternative to local banks or to borrowing money from friends and family. As the soaring number of customers makes clear, they've seized the opportunity with enthusiasm.

One reason for our success in central Europe is the way we've been able to learn from our experience in each market and apply the lessons learnt as we move to the next. Each market entry involves a careful process of market research followed by a pilot operation. Only when we're certain it's working do we step up the investment and expand more rapidly across the country.

How we've done this year

The international division made excellent progress during 2003.

Customer numbers rose by 30% to 1.2 million and credit issued by 26% to £361 million. Profit before tax increased from £8.6 million to £29.3 million.

Our largest and most established markets of Poland and the Czech Republic are developing as expected and producing very good profits. The newer businesses in Hungary and Slovakia are increasing their customer numbers rapidly while start-up losses, in each case, were smaller than in 2002.

£29.3m

international profit before tax

On track to meet our targets

In 2003 the division passed some significant milestones.

The number of agents passed 17,000 and customer numbers passed one million, putting us well on the way to reaching our target of 1.6 million customers in central Europe.

Another milestone in the year was expanding outside Europe with the start of our pilot operation in Mexico.

Our aim, in the medium-term, is for the central European businesses to contribute a profit of £90-100 million per annum. In 2003 they contributed £38 million towards divisional profits and so are well on the way to achieving this.

+72%

growth in the Czech Republic's profit before tax

Agnieszka

Home credit customer Agnieszka, Warsaw, Poland

"I like the fact that my agent calls at my home and collects my repayments when it's convenient for me and that if I have to miss a week there are no extra charges."

102 m

people live in Mexico

Andrea

Home credit customer Andrea, Puebla, Mexico

"Provident made it possible to go on holiday – and I can enjoy it all the more because I'm not worried about extra charges on the loan. There won't be any nasty surprises."

Mexico

Our fifth international country, Mexico, is undergoing the same careful evaluation that characterised our entry into central Europe. We have a rigorous procedure for selecting a new country and researched a number of possibilities before deciding that Mexico best matched our criteria.

Mexico is a large and attractive market with a population of 102 million. The outlook for economic growth is positive and inflation is relatively low. Our research suggested substantial potential demand for home credit and given these findings we decided to go ahead with a pilot. In August 2003 we based our operation in Puebla; a large city located 70 kilometres from Mexico City. The early stages have gone very well. We have now established the first office and recruited and trained the first local employees who, it is expected, in due course, will form the top and middle management of the Mexican operation. We now have over 100 agents and 2,600 customers. We still have a lot to learn, however, and the pilot will continue until early 2005 when we will make a decision on how to proceed.

What's next?

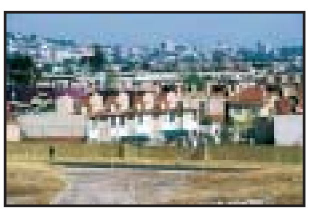
We expect further strong growth from the international division in the coming year with each country making good progress towards its long-term targets.

Our trial in Mexico will continue at a likely cost of £3-4 million in 2004. We'll also continue to research other potential home credit markets with a view to possible entry in 2005.

Since starting our international expansion just seven years ago, we've achieved excellent growth.

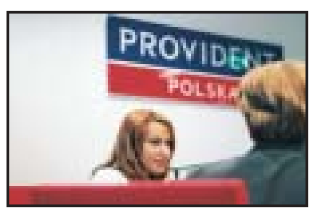
2,600

home credit customers in Mexico



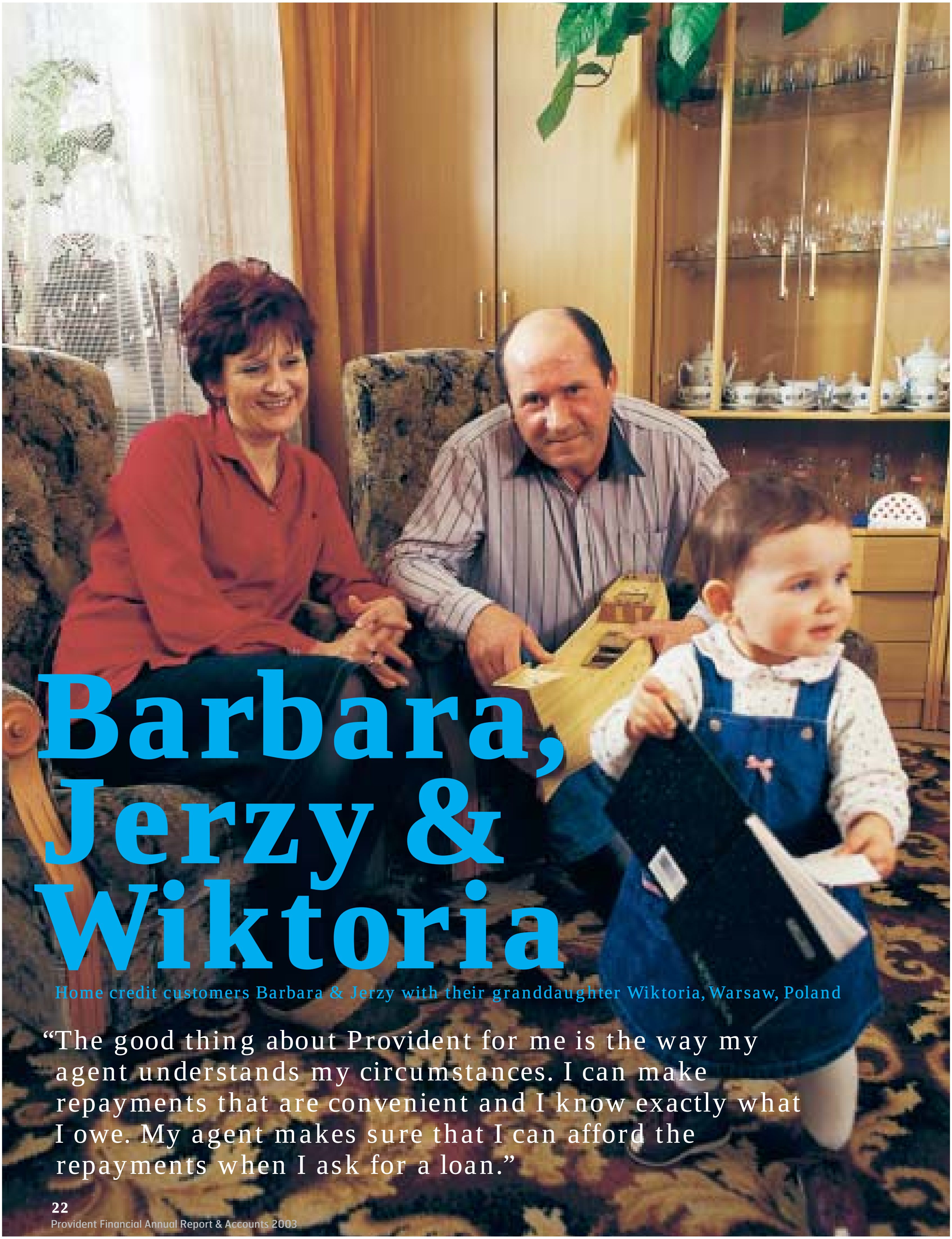
Puebla is a large city located 70 kilometres from Mexico City

The first Mexican employees are now helping to build the business in our newest market



In Poland, Provident Polska is producing very good profits

We now have nearly 3,000 employees in our international division



Barbara, Jerzy & Wiktoria

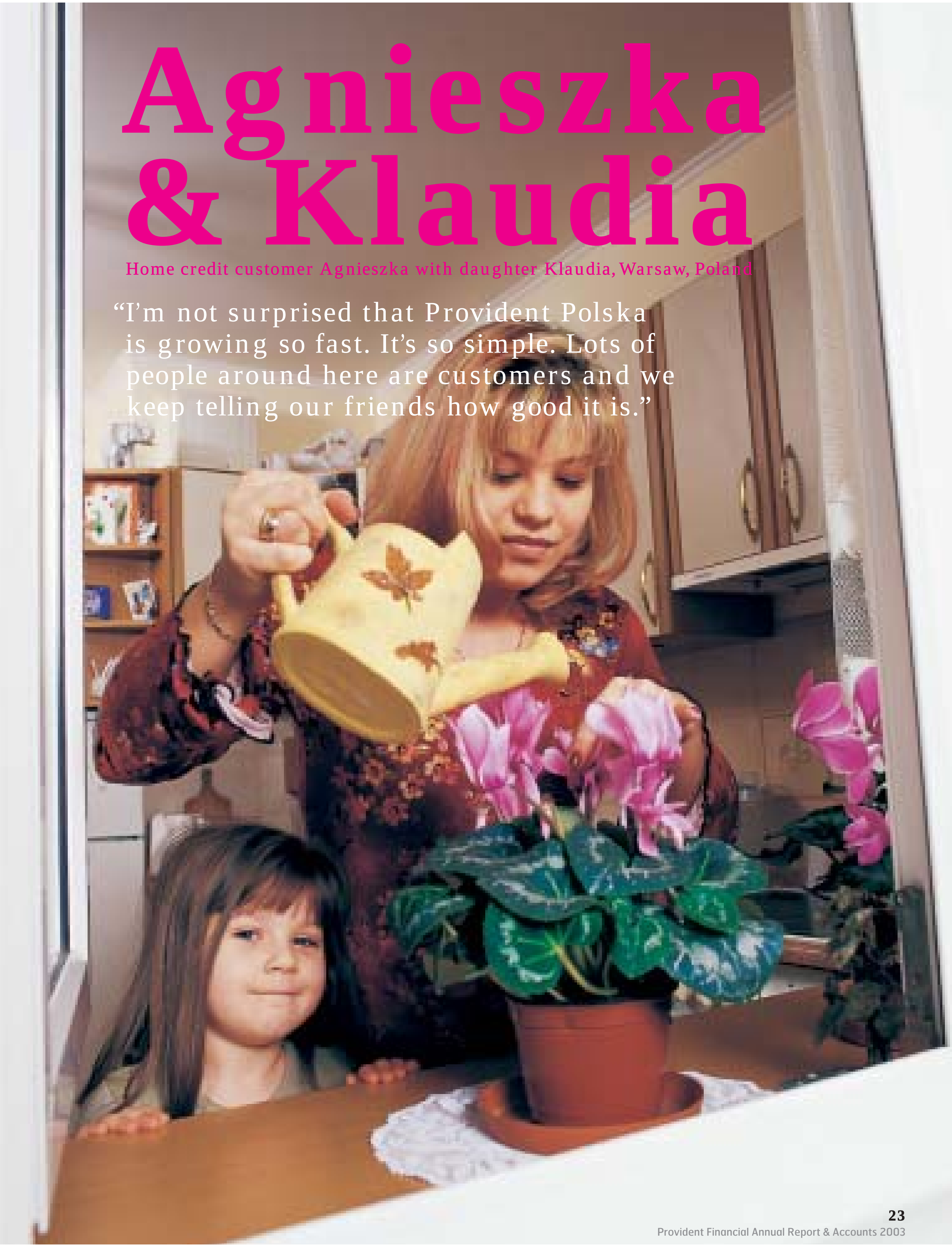
Home credit customers Barbara & Jerzy with their granddaughter Wiktoria, Warsaw, Poland

"The good thing about Provident for me is the way my agent understands my circumstances. I can make repayments that are convenient and I know exactly what I owe. My agent makes sure that I can afford the repayments when I ask for a loan."

Agnieszka & Klaudia

Home credit customer Agnieszka with daughter Klaudia, Warsaw, Poland

"I'm not surprised that Provident Polska is growing so fast. It's so simple. Lots of people around here are customers and we keep telling our friends how good it is."



3

£28.6m

profit before tax

£188.2m

gross written premiums

Motor insurance

Provident Insurance is one of very few UK motor insurers to earn profits throughout the insurance cycle.

Provident Insurance focuses on underwriting motor policies for women drivers, customers wanting non-comprehensive insurance and drivers of the second car in the family. It has a number of distinctive strengths – long experience; a good understanding of the risks it underwrites; very low operating costs based on advanced systems and processes; a flexible cost structure that allows it to expand or contract very quickly; and a sharp focus on generating added value for shareholders.

The motor insurance market is extremely competitive. Customers are well informed and generally choose the lowest-priced policy. The market goes through clear pricing and profit cycles and is currently in a down-cycle. Price competition is fierce with traditional insurers vying for market share both with direct writers and with newer entrants such as supermarkets.

587,000

motor insurance policyholders

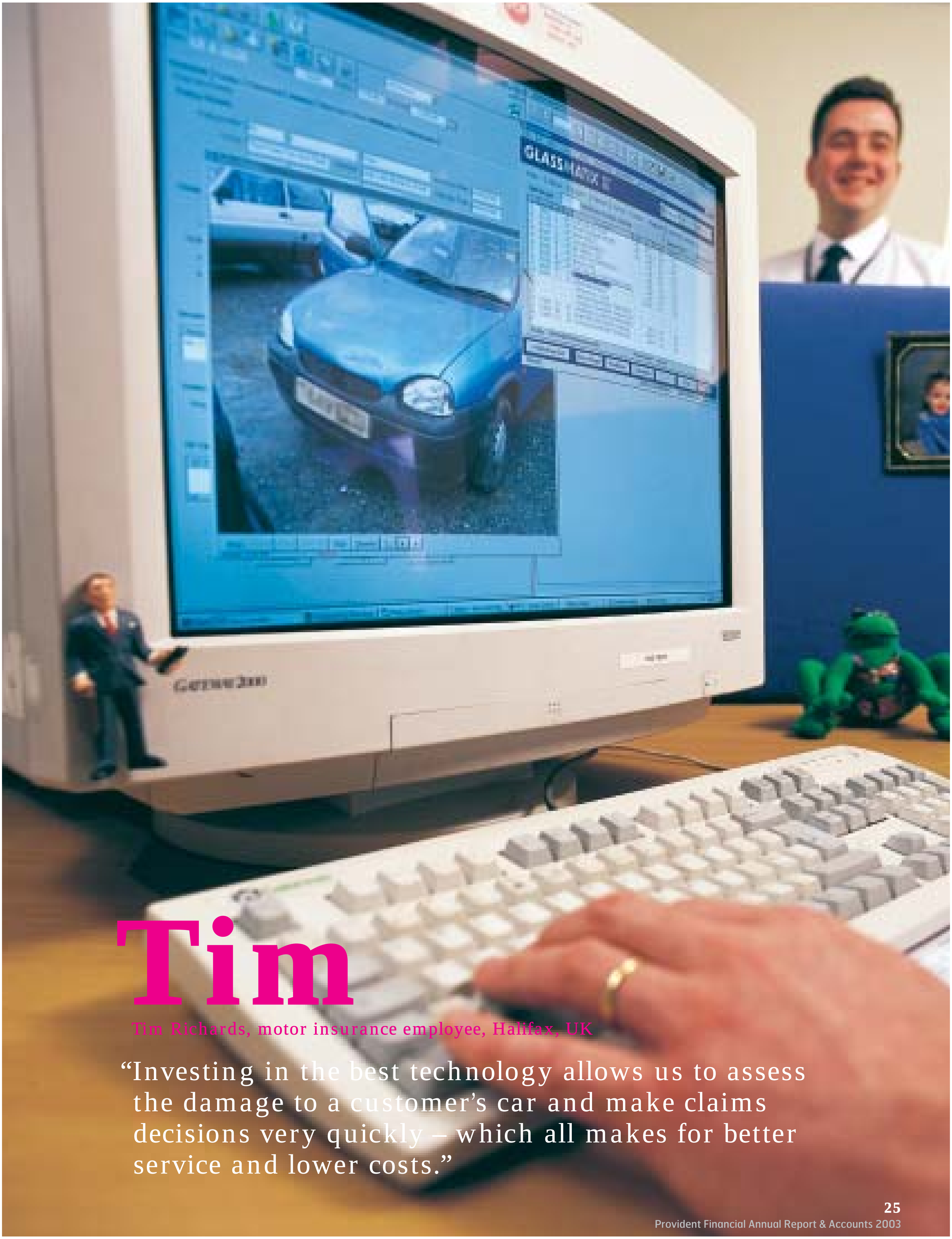
As a result, insurance premiums have fallen during 2003. Claims costs, however, have continued to rise, so margins for the industry are contracting. Some insurers are already trading at a loss and more are expected to do so as we go through 2004.

While most insurers are willing to cut or hold prices to keep up their volumes, our strategy is very different.

We set our prices to earn a sufficient return on equity. So, during a cyclical downturn when this makes us look expensive, we lose some customers. When premiums and the cycle turn up, our rates become attractive once more and we gain customers. We cut our cost base to match changing volumes and so remain profitable throughout the cycle.

The past year has, therefore, held no surprises. Premium rates in the market decreased by about 1%. We increased ours by 8%, in line with claims cost inflation. Policyholder numbers fell by 23% to 587,000 and gross written premiums fell by 22% to £188.2 million. Profit before tax fell 20% to £28.6 million.

The downward trend is likely to continue in 2004. While it does so, we will keep our prices more or less in line with claims inflation, writing fewer policies but remaining profitable and earning a good return on equity.



Tim

Tim Richards, motor insurance employee, Halifax, UK

"Investing in the best technology allows us to assess the damage to a customer's car and make claims decisions very quickly – which all makes for better service and lower costs."

Corporate responsibility

The way we operate as a business is guided both by society's expectations and by our own high standards of corporate behaviour. These determine how we relate to customers, employees and agents, how we run the business, and how we interact with all our stakeholders.

Business in the Community CR index

Provident is one of the 'Top 100 Companies that Count'

10,000

people involved in Provident-funded West Yorkshire Playhouse projects

FTSE4 Good

Provident is a member of the FTSE4Good index

Sally

Consultant to our environment programmes

Good corporate behaviour is not just the right thing to do, it's also in the best interests of the business.

How have we reported on our corporate responsibility programme?

This year, in response to stakeholder feedback, the 2003 corporate responsibility report is available online at www.providentfinancial.com. These pages contain a summary of our activities.

The online report includes our policies, performance data, case studies, and the opportunity to give feedback.

What does corporate responsibility mean to Provident?

Our business affects the lives of millions of people – customers, employees, agents, shareholders, business partners, suppliers, community and environmental groups, and many more.

Corporate responsibility, or CR, means listening carefully to what people expect from Provident and finding ways to manage these relationships and the different demands on the company.

Managing our CR performance

In 2002 we set up a new management structure to carry our CR programme forward. Under this structure, we sought to keep improving our CR performance during 2003 and the work continues in 2004.

Specific management structures for occupational health and safety and environmental issues are in place and are described later. Wider CR issues, including the social and economic aspects of what we do, are addressed through a CR working group. This takes account of the operational and strategic interests of the business divisions as we put new measures in place. We often try out new ideas through pilot initiatives before applying the lessons learned across the group.

Marek

Participant in the Provident-funded Trampolina project, Poland

Our community programme offers new opportunities to people who live and work in areas where we operate

84%

Provident's Business in the Environment score

74%

Provident's Business in the Community CR index score

In 2003 all UK-based employees and agents received a summary CR report

Corporate responsibility

Doing the best for our customers

Good products For Provident, corporate responsibility is first and foremost about offering our customers the financial products and services they want. We offer simple, affordable credit with flexible terms and transparent charges. We lend across the socio-economic spectrum, but typically to customers with moderate incomes. We believe that including these customers in the financial mainstream in a responsible, well-managed way is one of the most important social benefits that Provident provides.

Provident home credit includes all its charges in a single, up-front charge, so customers know exactly where they stand.

By way of offering more to our UK customers, through Vanquis Bank we've market-tested a new concept in credit cards designed to meet the particular needs of those on modest incomes.

To provide more customers with the opportunity of buying a high quality, three- to five-year old car on credit, we've continued to expand Yes Car Credit.

And in our motor insurance division we supply motor insurance policies for women drivers, customers wanting non-comprehensive insurance and drivers of the second car in the family.

Good value While many other types of lending include only the interest charge in their quoted APR (excluding extras such as administration costs and penalty charges), Provident home credit includes everything in the up-front repayment charge. Although the quoted APR may make it look expensive, it generally offers very good value compared to other forms of small sum credit. If you then add the services of the agent and the reassurance of no extra charges, it's clear why so many customers say they're getting an excellent deal.

In all these ways, we meet our customers' needs, expand the business and generate wealth for employees, agents, investors and suppliers, while also contributing to wider society through the taxes we pay.

Looking after our employees

Ours is a business based on relationships – relationships with customers, relationships with agents, and relationships with employees.

More than most companies, therefore, we rely on good people doing their jobs extremely well and supporting others in doing theirs. For this to happen, we identify the issues of importance to our employees (training, health and safety, and so on) and manage them in such a way as to ensure a safe, supportive working environment – one in which everyone can contribute and succeed.

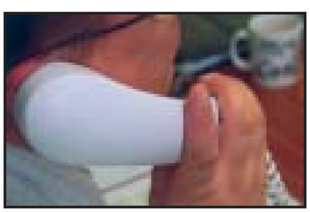
Our focus on internal development has proved its value in the large number of senior people who've come up through the organisation. Indeed, our initial international expansion was possible only because we had good people in the UK to head it up – helped, of course, by the high calibre employees we've been able to attract in our newer markets. We now have a very successful secondment programme to help transfer skills between markets.

Training Training and development are vital to our business. We place great emphasis on recognising talent and developing people to the peak of their abilities.

Each division has its own training and development department that offers an extensive programme of opportunities. These range from induction courses for all employees to a new, tailored management development programme delivered by the University of Bradford School of Management.

Our training programmes are constantly evolving to take account of individual needs. Our employees also benefit from regular performance appraisals with their managers.

We run a series of research surveys to help us track customers' views



We have set up a confidential advice line for our employees

Zeinab, Theresa & Daniel

Participants in the "PACK" community programme

Working with people from a variety of backgrounds will bring new ideas to the business and increase innovation.

53

businesses started by young people with the help of The Prince's Trust and Provident

Consultation and communication We know that for people to do a good job, they need to feel involved – to understand how they contribute to the wider goals of the business and be aware of the opportunities open to them. To this end, we run an extensive programme of internal communications.

Health and safety

We take our health and safety responsibilities seriously and have a clear structure for the management of health and safety within the Provident group. A health and safety steering group, chaired by an executive director, prepares an annual report for the board.

Our health and safety programme continued during 2003 with some notable achievements. During the year, all subsidiaries were able to certify compliance with the group health and safety policy. We also analysed the key performance indicators relating to different types of accident and incident in order to identify trends and develop strategies for dealing with them. At the same time, we brought Vanquis Bank and Yes Car Credit into our health and safety programme.

We also commissioned an external audit of our health and safety arrangements and procedures in part of the group to identify areas for improvement.

Diversity

We recognise that we need to do more about valuing the cultural and other differences of the people we work with including customers, suppliers and employees. Among other benefits, working with people from a variety of backgrounds will bring new ideas to the business and increase innovation.

For this reason, we identified diversity as a priority for our CR working group during 2003. It was clear we could enhance our data gathering in order to gain a better picture of our present situation. As a first step, therefore, we completed an extensive survey of the data available throughout the group in order to set a baseline for measurement in the future. We are now analysing this data before we move ahead.

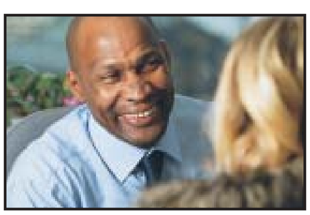
We've also sought to address diversity issues through pilot projects chosen by the divisions. For example, managers from our motor insurance division teamed up with managers from the West Yorkshire Playhouse in a diversity training project.

Managing diversity is included in the objectives or job descriptions of some of our managers. Their performance in this area forms part of their assessment and contributes to their performance-related bonus.

The community

Our community programme aims to help the people who live and work in the areas in which we operate – in other words, customers, potential customers, agents and employees. In co-operation with local partners, we aim to offer new opportunities and to play our part in the development of neighbourhoods and communities.

In terms of funding, our main project in 2003 was PACK (Provident Action for Creative Kids) which is run in conjunction with the Youth Hostels Association in England and Wales and its sister organisation in Scotland. PACK is a three-year partnership which enables children from schools within Education Action Zones to take a two-day break at a youth hostel, with activities linked to the UK National Curriculum. For many children, it's their first taste of the countryside. The first breaks took place in 2001. To date, more than 100 schools and 3,000 pupils have taken part.



A development manager passes on the benefit of his health and safety training

Training in diversity helps people to understand each other and work better together

Art education outreach project 'Talking Pictures'

Our support of The Prince's Trust gives young people, like magician Steven Frayne, the chance to start their own business

Lisa, Dan & Katie

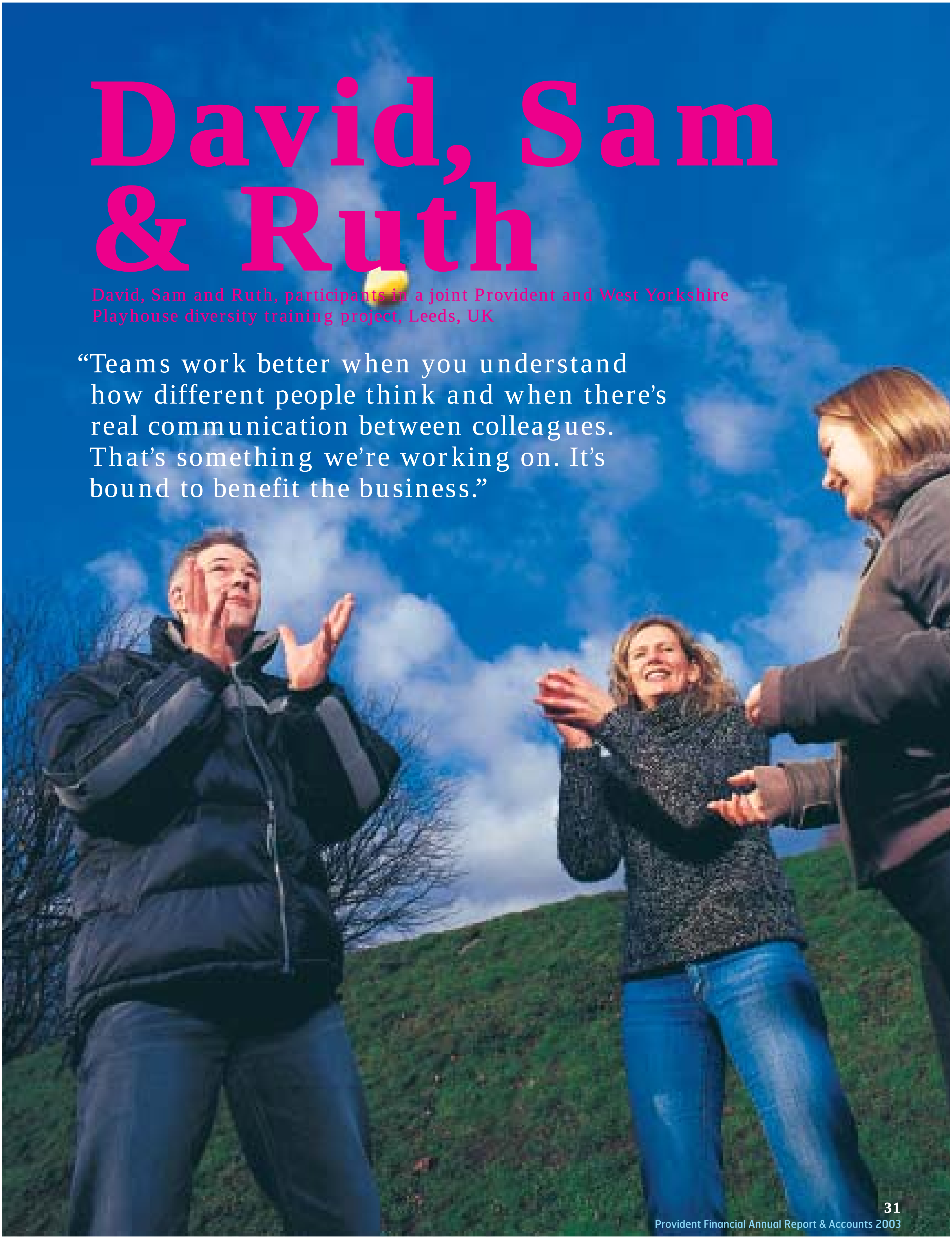
Lisa, West Yorkshire Playhouse creative education manager, with programme participants Dan and Katie, Leeds, UK

"Getting the support from Provident Financial for our work in the community has been great. It's not just the money, it's their encouragement and enthusiasm that has helped create a unique relationship."

David, Sam & Ruth

David, Sam and Ruth, participants in a joint Provident and West Yorkshire Playhouse diversity training project, Leeds, UK

"Teams work better when you understand how different people think and when there's real communication between colleagues. That's something we're working on. It's bound to benefit the business."



Corporate responsibility

We've continued our association with the West Yorkshire Playhouse in Leeds, sponsoring its art education programme which takes the work of the Playhouse into local schools and seeks to place art at the heart of the community.

We've again supported The Prince's Trust in its work in providing loans to young people in West Yorkshire who want to start their own business. As well as contributing financially, we help the Trust to select the most promising candidates and provide mentors from our workforce to support successful applicants. So far we've helped over 50 new businesses in this way.

For the last four years we've supported the Free Form Arts Trust in its regeneration project, 'Building Communities', which helps local people to improve their environment.

We also continue to work with Quest for Economic Development to improve employment opportunities for young, South Asian students in Bradford, as well as supporting L'Ouverture which uses arts and media projects to build self-confidence and unleash hidden talents in children. The London boroughs of Lambeth, Lewisham, Southwark and Tower Hamlets are the main beneficiaries of our work with L'Ouverture.

We've always had strong links with the visual arts. Over the last two years, our 'Talking Pictures' programme has helped pupils from nine inner-city schools to study paintings in their local galleries and to use the experience to create their own oil paintings back at school. We have also lent pictures from our own collection of paintings to a school in Bradford and we will extend the project to more schools in 2004.

As part of our commitment to responsible lending, we support a number of debt counselling organisations such as Credit Action, Money Advice Trust and Christians Against Poverty.

Alongside these centrally-supported projects, our business divisions each run their own community programmes. In the UK, our home credit and motor insurance businesses have focused on directly benefiting the communities in which their customers live. Employees have gone into local schools to support industry days, 'make-over' gardens and help children with their reading, as well as supporting local charities. Overseas, the Hungarian team collected and distributed over 1,000 books to children, whilst Poland has created the 'Trampolina' project which provides schools with new sports equipment, and the Czech Republic has been involved in a major tree-planting initiative in the Jizersky mountains.

Working with suppliers

Managing our large number of suppliers is vital to the smooth running of the group. There are responsibilities on both sides.

For our part, we offer fair terms and have an excellent payment record. In return, we expect our suppliers to operate to agreed guidelines. Our motor insurance business, for example, sets certain environmental standards for the garages and salvage agents with which it works – a move that has saved costs and improved efficiency for all involved, as well as helping to reduce our impact on the environment.

Minimising our effect on the environment

2003 was another productive year for our environment programme. Our score of 84% in the Business in the Environment survey was the second year running that Provident had shown an improvement.

Our environmental performance is managed through an environment strategy group, chaired by finance director John Harnett. This is supported by a working group drawn from across the business divisions to address operational issues.

During the year, we implemented our environmental management system in two new countries, Hungary and Slovakia. Employees in both businesses have shown great energy and enthusiasm in taking on this new challenge and have already made good progress towards an ISO14001 environment management system to match those already implemented in the UK, Poland and the Czech Republic.

In addition, we've extended our programme of external verification so it covers every division. Full details are available in the CR report at www.providentfinancial.com.

In the UK, our second internal audit has been completed. All recommendations have now been implemented and the programme will be extended to all divisions in 2004.

We've also made good progress in working with our suppliers, improving the efficiency of our operations and increasing the environmental awareness of our employees. As a result, we've managed to cut our consumption of water, energy and paper, while also reducing the waste we produce.

Agnieszka, Piotr, Alicja & Marta

The team who created the Polish environmental legislation register, Warsaw, Poland

Learning in order to improve

In 2003 we joined Business in the Community (BitC) and took part in its regional and national activities – gaining valuable experience in learning from others.

Also, for the first time, we entered BitC's corporate responsibility index as a way of benchmarking our progress against other companies. We were delighted to achieve a score of 74% and be named as one of the 'Top 100 Companies that Count' in the index.

2003

Provident entered the Business in the Community 2003 corporate responsibility index

Another first in 2003 was the publication of a summary of last year's printed CR report and the distribution of 15,000 copies to employees and agents. The aim was both to inform and to ask for feedback, and the responses we received have proved invaluable in guiding our future plans. In many ways, employees and agents are both our best allies and our sternest critics in helping to find ways to act responsibly and improve performance.

Looking forward

We're determined to keep making progress in understanding our responsibilities to society. That said, we've so far concentrated on the more immediate and straightforward issues and progress is likely to be harder in the future. Which is not to say we won't keep trying.

One of the tasks in hand is to improve the way we collect and analyse data for CR programme purposes. Here we've completed an initial exercise to collate available information from existing business systems. This has proved useful in identifying potential areas for further consideration. It has also revealed gaps and inconsistencies in definitions and data that we're now acting to correct. Once we've done that, we'll be better able to decide which areas we want to address first.

Finding out more

We are committed to good corporate behaviour, both because it's the right thing to do and because it's in the long-term interests of the business.

We ask all stakeholders to keep supporting our efforts. Please continue to take an interest in how we're doing and give us your comments and suggestions. Your involvement is valuable and really does make a difference.

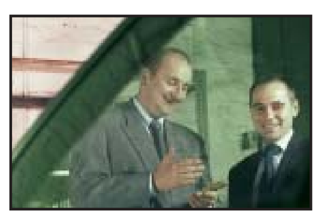
To find out more on how we're doing, take a look at our 2003 corporate responsibility report which offers detailed reporting information and case studies. The report is available at www.providentfinancial.com where you can also download and print it and give us your views.

Robin Ashton
Chief Executive
16 March 2004

A good year for our CR programme

- Member of FTSE4Good – the index of the UK's most responsible companies
- Scored 84% in Business in the Environment survey
- Named as one of the 'Top 100 Companies that Count' in Business in the Community's corporate responsibility index with a score of 74%
- Exceeded many of our environment targets
- 93% of customers satisfied with Provident's UK home credit service
- Extended our verification programme to cover more of our data and activities
- Launched employee edition of our 2002 corporate responsibility report
- Extended our environment programme to Hungary and Slovakia

Setting targets for our environment programme with the help of Business in the Environment



Closer partnership with suppliers is helping Provident's motor insurance business to cut costs and improve its environmental performance

John

John Harnett, Finance Director

"All our businesses performed well in 2003. Group turnover increased by 30% and group operating profit before goodwill amortisation increased by £23.8 million."

The total dividend for the year, at 33.00p per share, represents a dividend yield of 5.1%, based on our year end share price.

+13%

increase in profit before goodwill amortisation and exceptional items

Profit

All our businesses performed well in 2003. Group turnover increased by 30% and group operating profit, before goodwill amortisation, increased to £206.2 million (2002 £182.4 million), up by £23.8 million (13%).

Group operating profit for the year by division is shown below:

	2003 £m	2002 £m	Change £m
UK home credit	152.6	148.8	3.8
Yes Car Credit	11.2	0.2	11.0
Vanquis Bank	(6.7)	(1.1)	(5.6)
UK consumer credit	157.1	147.9	9.2
International	29.3	8.6	20.7
Motor insurance	28.6	35.8	(7.2)
Group central costs	(8.8)	(10.9)	2.1
Businesses sold or closed	–	1.0	(1.0)
Operating profit before goodwill amortisation	206.2	182.4	23.8
Goodwill amortisation	(4.3)	(0.3)	(4.0)
Operating profit	201.9	182.1	19.8

The results above are after allocating certain costs to UK home credit and international which previously were included in group central costs. The prior year comparatives have been restated accordingly.

UK home credit showed steady profit growth of 2.5% to £152.6 million.

In its first full year in the group, Yes Car Credit expanded its branch network and geographical coverage and increased revenue substantially to produce a profit for the year of £11.2 million.

In April 2003, through Vanquis Bank, we launched a market test of Visa branded credit cards. The net investment in this pilot in the year was £6.7 million, in line with our expectations.

The international division's operating profit is analysed by country in the table below:

	2003 £m	2002 £m	Change £m
Poland	33.1	16.7	16.4
Czech Republic	8.8	5.1	3.7
Hungary	(1.9)	(3.1)	1.2
Slovakia	(1.6)	(2.0)	0.4
Mexico	(1.2)	–	(1.2)
International central costs	(7.9)	(8.1)	0.2
Operating profit	29.3	8.6	20.7

The international division reported a profit for the year of £29.3 million (2002 £8.6 million). This result is after start-up losses in Slovakia, Hungary and Mexico of £4.7 million. Poland and the Czech Republic both reported strong growth with profits of £33.1 million and £8.8 million compared to 2002 profits of £16.7 million and £5.1 million respectively.

Profits from our motor insurance division fell in 2003, as we expected, from £35.8 million to £28.6 million, as the cyclical downturn in the motor insurance industry continued during the year.

Group central costs, after the recharges to UK home credit and international, decreased to £8.8 million (2002 £10.9 million).

Earnings, tax and dividend policy

Earnings per share, before goodwill amortisation and last year's exceptional loss on the sale of our insurance broking business, increased by 8.2% to 57.54p.

The effective tax rate for the year was 29.5% of earnings before goodwill amortisation. It is expected that the effective tax rate will be at a similar level in 2004.

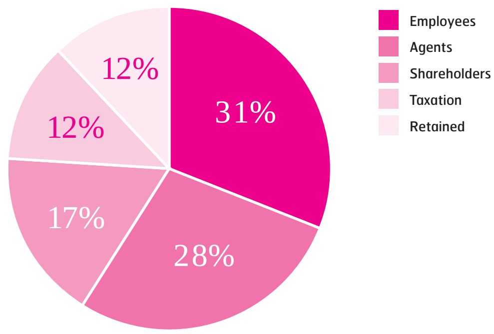
Our dividend policy, which has been in place for several years, is to achieve a dividend cover of about 1.75 times – which equates to a pay-out of 57% of our post-tax profit, before goodwill amortisation.

The full year dividend per share has been increased by 6.8% to 33.00p.

For 2003 the full year dividend of £83.4 million was covered by after tax profits 1.74 times and we paid out 40% of the total at the interim stage.

The total dividend for the year, at 33.00p per share, represents a dividend yield of 5.1%, based on our year end share price.

Value distributed during 2003



Value added and value distributed

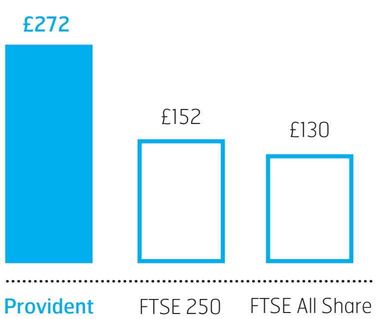
Our business contributes to the economic well-being of many of our stakeholders. The salaries paid to our 7,600 employees and the commission paid to 29,000 self-employed agents help to support many individuals and their families. Similarly, the taxes we pay to governments help to fund public services and the payments we make to suppliers help to sustain businesses and jobs.

One way to measure this creation and distribution of wealth is through a value added statement, as set out below.

	2003 £m
Value added:	
Net income from sales	1,134
Payments to policyholders, brokers and suppliers of goods and services	(639)
Value added	495
Value distributed:	
Employees	153
Agents	139
Shareholders	83
Community contributions and donations	1
Government, taxation excluding employee taxes	61
Retained by the business	58
Value distributed	495

This statement shows, in monetary terms, the value we add to the goods and services we buy in, measured as the difference between income received from customers and payments made to our suppliers. The value created in this way is then available for distribution to our stakeholders. Some is retained in the business and invested for future growth, so benefiting tomorrow's stakeholders.

In 2003 nearly 60% of the value added was distributed to employees and agents.



Total shareholder return over the last ten years (£)

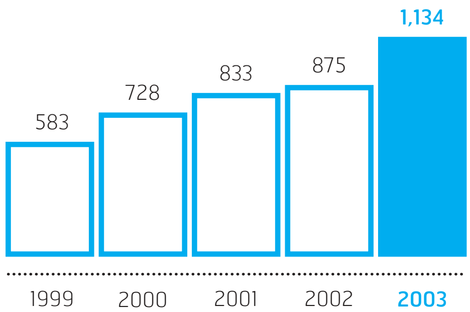
Total shareholder return

Total shareholder return (TSR) is a concept used to compare the performance of different companies' shares over time.

It combines share price appreciation and dividends paid to show the total return to the shareholder. TSR provides an objective measure of company performance and value creation for shareholders.

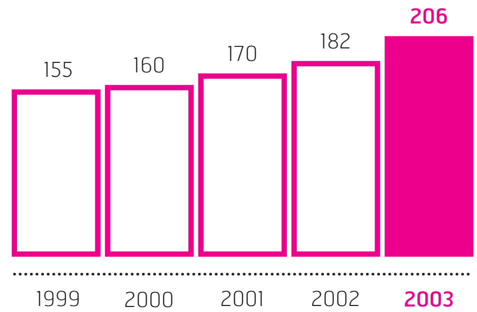
The chart on the left shows the TSR of £100 invested in Provident over the last ten years as compared with the TSR for the FTSE 250 and the FTSE All Share indices over the same period.

The chart clearly shows the additional value created for shareholders during this period.



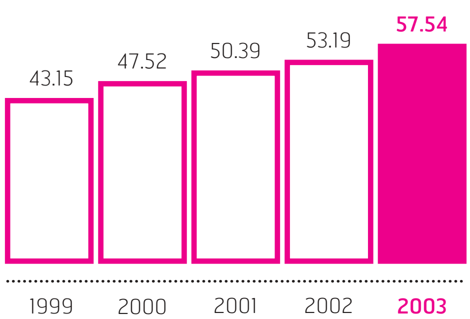
Group turnover (£m)

Group turnover has increased by 30% in 2003, arising from the acquisition of Yes Car Credit in December 2002 and the continued expansion of the international division.



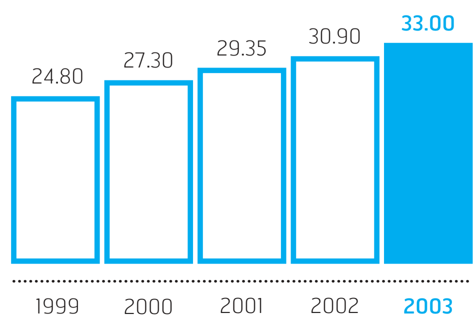
Group PBT, pre-exceptional, pre-goodwill (£m)

Group profit, before goodwill amortisation and the 2002 exceptional loss on the sale of Colonnade Insurance Brokers, increased by £24 million to £206 million. Most of this increase came from the international division and Yes Car Credit offset by the investment in Vanquis Bank and lower profits from the expected downturn in the motor insurance division.



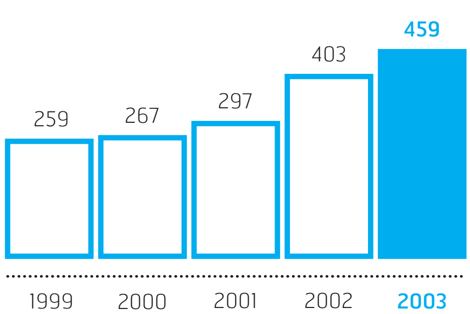
Group EPS, pre-exceptional, pre-goodwill (p)

Group earnings per share, before goodwill amortisation and the exceptional loss on the sale of Colonnade Insurance Brokers, has increased by 8.2% in 2003, giving a compound annual growth rate over the last five years of 7.5%.



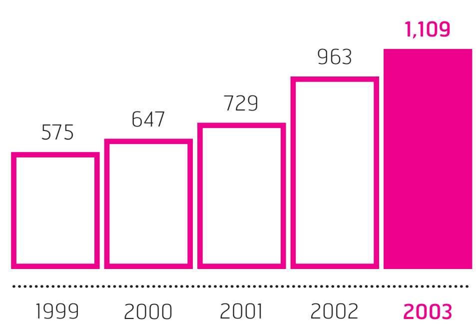
Group DPS (p)

A final dividend of 19.90p per share is proposed bringing the full year dividend to 33.00p, up 6.8% on 2002. This gives a dividend cover of 1.74 times.



Group net assets (£m)

Net assets have increased from £259 million at December 1999 to £459 million.



Group net receivables (£m)

Amounts receivable from customers have nearly doubled since 1999 to over £1.1 billion.

Cash flow generation

The group has a very good record of cash generation. During the year UK home credit generated free cash flow (that is, operating cashflows less taxation and net capital expenditure) of £102.0 million. This was largely used to invest in the growth in the loan books of Yes Car Credit, international and Vanquis Bank. This is shown in the table below.

Free cash flow	2003 £m	2002 £m
UK home credit	102.0	77.7
Yes Car Credit	(77.4)	–
Vanquis Bank	(14.0)	–
International	(20.5)	(54.6)
Motor insurance	16.3	72.5
Group central costs	(11.5)	(10.3)
	(5.1)	85.3

Borrowings, investments and capital structure

The nature of the cashflows arising from our consumer credit and motor insurance businesses are substantially different.

In our consumer credit businesses, 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 claims are paid at a later date. The cash and investments held by the motor insurance division are strictly segregated from the funds of the rest of the group and are not available to service borrowings or to pay dividends to our shareholders.

The group has a very good record of cash generation.

+£146m

increase in consumer credit receivables

A robust balance sheet and financial flexibility are key factors in the success of our business.

Capital structure

A robust balance sheet and financial flexibility are key factors in the success of our business. We aim to fund about 25% of our consumer credit receivables by equity.

The capital structure of the group is shown below:

	2003 £m	2002 £m
Consumer credit receivables	1,109	963
Net borrowings	789	696
Motor insurance capital	81	91
Consumer credit capital	290	227
Goodwill	88	85
Group net assets	459	403
Consumer credit capital as a % of consumer credit receivables	26%	24%
Group gearing ratio	172%	173%

Consumer credit receivables increased by £146 million during the year to £1.1 billion and net borrowings by 13% to £789 million. At 31 December 2003 we were close to our target capital structure. The consumer credit businesses had capital excluding goodwill of £290 million. This capital represents approximately 26% of net customer receivables and is very close to our 25% target. The group gearing ratio was little changed at 172%.

Pensions and FRS 17 deficit

During the year we made a number of changes to the pension arrangements for our employees. Following an extensive review in 2002, which considered a range of factors, including the changing trends in employment patterns, greater life expectancy, investment performance and the proposed changes to the reporting of pension costs in company accounts, we closed our defined benefit pension schemes to employees joining the group from 1 January 2003. These employees are offered membership of a stakeholder pension plan into which the company contributes 8% of members' pensionable earnings, provided the employee contributes a minimum of 6%.

FRS 17 pension liability

	2003 £m	2002 £m
Market value of scheme assets	194	147
Value of scheme liabilities	(299)	(283)
FRS 17 pension deficit	(105)	(136)
Deferred tax	31	41
Net FRS 17 pension liability	(74)	(95)

The net deficit in the defined benefit schemes at 31 December 2003 on an FRS 17 basis was £74 million (2002 £95 million). The size of the deficit is largely a result of depressed equity markets (giving lower asset values) and low corporate bond rates (producing higher liabilities).

The FRS 17 deficit reduced during the year, in part due to an upturn in equity markets. In addition, we made further special contributions to the schemes of approximately £15 million. We expect that this level of additional contribution should eliminate the deficit in the medium-term. Also, from 1 October 2003, the employee contribution rate was increased from 6% to 7% of earnings to help towards the rising cost of pension provision.

In common with many companies, we continue to account for pension costs under SSAP24 and, consequently, our UK pension cost for the year was £7 million. Under FRS 17 it would have been £11 million.

A full actuarial valuation of both defined benefit pension schemes will be carried out in June 2004 and the results of that review will be incorporated into a new funding plan.

We recognise the importance of pension provision to our employees and will continue to monitor closely the funding position of the schemes.

At the end of 2003 we had available borrowing facilities of £1.1 billion, almost all of which were committed facilities. This compares with gross borrowings of £819 million.

Borrowings

Group borrowings were £819 million at the end of the year compared with £734 million in 2002. The increased borrowings were mainly used to fund the growth in the loan books of the international division and Yes Car Credit.

The group borrows mainly to provide loans to customers. The normal pattern of lending in our home credit businesses means that our peak funding requirements arise in December each year.

We need to ensure that there are always sufficient borrowings available and so we arrange committed borrowing facilities comfortably exceeding our expected peak funding requirements and for periods well in excess of the life of the loans.

The group's main sources of funding are private placement loan notes and committed revolving loan facilities provided by banks principally based in the countries in which we operate.

At the end of 2003 we had available borrowing facilities of £1.1 billion, almost all of which were committed facilities. This compares with gross borrowings of £819 million. The chart below shows the level of borrowing facilities available to the group during the next three years.

At 31 December 2003 our committed borrowing facilities had an average maturity of four years.

During 2003 the group secured additional funding of £77 million with the issue of $120 million of US dollar loan notes, of which $76 million was for a ten-year maturity and the remaining $44 million was for a seven-year maturity. The group also secured an increase of £26 million to its syndicated loan facility in Poland in order to fund the continuing growth of the Polish loan book. In addition, since the year end, the group has secured an additional £100 million of committed loan facilities.

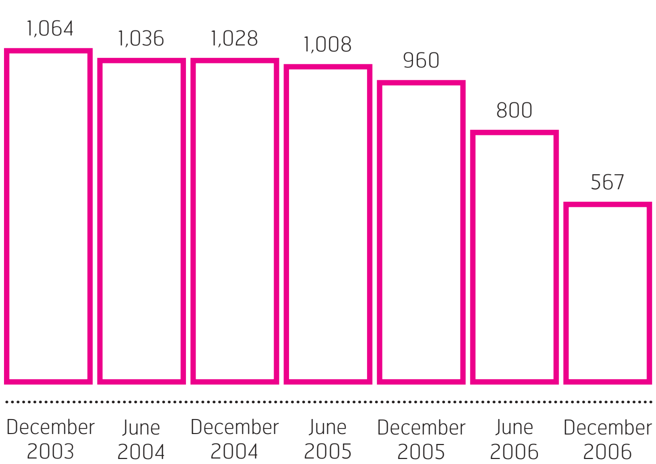
Interest costs of £50.9 million were £11.0 million higher than in 2002, largely reflecting the higher average level of borrowings during the year. The average rate of interest paid on sterling borrowings, including hedging costs, was 6.7% in 2003 compared with 7.1% in 2002. Interest payable is covered five times by profit before interest and tax (2002 six times).

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

Investments

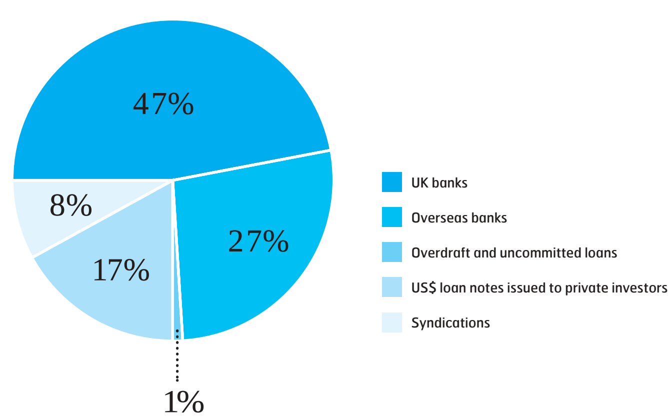
Our motor insurance business receives premiums in advance and holds a portion of these in reserve until claims are paid. These funds are invested in a low-risk portfolio in order to ensure the security of the investment, whilst producing a reliable flow of interest income. The motor insurance division's investment portfolio consists entirely of deposits with, or investments in, interest-bearing instruments issued by banks and building societies for periods of up to one year. 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 investments held by the motor insurance division amounted to £458 million at the year end (2002 £466 million). The division's total investment income increased from £24.4 million to £24.6 million, reflecting the higher average value of the investment fund. The average yield earned on those investments in 2003 was 5.3%, a little lower than the 5.4% earned last year.



Arranged borrowing facilities (£m)

Sources of group borrowing facilities at 31 December 2003



Sterling exchange rates used in 2002 and 2003

	Polish zloty	Czech crown	Hungarian forint	Slovak crown	euro
Average exchange rate during 2003	6.33	45.96	365.12	59.90	1.44
Exchange rate as at 31 December 2003	6.66	45.83	372.65	58.33	1.42
Average exchange rate during 2002	6.12	49.03	386.10	67.89	1.58
Exchange rate as at 31 December 2002	6.17	48.40	361.63	64.16	1.53

Treasury policy and financial risk management

The board approves treasury policies and the group's treasury function manages the day-to-day operations. The board delegates certain responsibilities to the treasury committee. The treasury committee, which includes the finance director, is empowered to take decisions, within that delegated authority. Treasury activities are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external.

Treasury policies are designed to manage 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; the exposure to any one counterparty or type of instrument is controlled; and the group's exposure to interest rate and exchange rate movements is maintained within set limits.

The treasury function enters into derivatives transactions, principally interest rate swaps, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the group's underlying business operations. No transactions of a purely speculative nature are undertaken and written options may only be used when matched by purchased options.

Interest rate risk The group seeks to limit the net exposure to changes in interest rates. This is achieved through 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.

Currency risk 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 which are denominated in local currency and which we expect to arise in the following 12 months.

Accounting policies

The group's accounting policies are chosen by the directors to ensure that the financial statements present a true and fair view. All of the group's accounting policies are consistent with the requirements of Accounting Standards, Urgent Issues Task Force Abstracts and company law.

Where there is a choice between accounting policies, the most appropriate policy is selected for the purpose of giving a true and fair view. This choice is made against the objectives of relevance, reliability, comparability and understandability. The continued appropriateness of the accounting policies, and the methods of applying those policies in practice, are reviewed annually.

There have been no changes in accounting policies during the year.

International Financial Reporting Standards

Since the company is listed, the group will be required to produce its consolidated financial statements for the year ending 31 December 2005 in line with International Financial Reporting Standards ('IFRS'). This will require an opening balance sheet to be prepared under IFRS as at 1 January 2004 and a full profit and loss account, balance sheet, cash flow statement and related notes for the year ending 31 December 2004 for comparative purposes.

The group is reviewing the changes to its current accounting policies that will be required on the adoption of IFRS and has a detailed project plan in place to ensure full compliance with all relevant standards when they become effective in 2005.

Going concern

The directors have reviewed the group's budgets, plans and cash flow forecasts for the year to 31 December 2004 and outline projections for the four subsequent years. Based on this review, they have a reasonable expectation that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

John Harnett
Finance Director
16 March 2004

Our directors and board committees (at 16 March 2004)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1 John van Kuffeler, Chairman, age 55 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 became non-executive Chairman from 1 May 2002. He was formerly Group Chief Executive of Brown Shipley Holdings PLC. He is Chairman of Huveaux PLC and Eidos plc. He is also a non-executive director of The Medical Defence Union Limited.

2 Robin Ashton, Chief Executive, age 46 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 2001 was appointed Chief Executive.

3 John Harnett, Finance Director, age 49 Qualified as a chartered accountant in 1981 having graduated in business studies. He joined the group in 1999 and was appointed to the board. He has previously held positions as Finance Director of Allied Colloids PLC and Holliday Chemical Holdings plc.

4 Chris Johnstone, Managing Director, UK consumer credit, age 45 Qualified as a chartered accountant in 1982. He joined the group in 1984 as management accountant to the UK home credit companies and was appointed Finance Director of Provident Insurance in 1986 and Managing Director in 1989. In 1999 he was appointed Managing Director of the UK home credit division. He joined the board of Provident Financial in 2001 and is now responsible for the UK consumer credit division (UK home credit, Vanquis Bank and Yes Car Credit).

5 David Swann, Managing Director, international, age 57 Graduated with a degree in economics and politics. He joined the group in 1973 and has held many positions within the UK 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 the international potential for home credit. In 1997 he was appointed Managing Director of the international division. He joined the board of Provident Financial in 2001.

6 Charles Gregson, Deputy Chairman and senior independent non-executive director, age 56 Qualified as a solicitor in 1972 having graduated in history and law. He 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 has had responsibility for a number of its businesses. In addition, he is non-executive Chairman of ICAP plc, which provides specialist intermediary broking services to commercial banks and investment banks.

7 John Maxwell, independent non-executive director, age 59 Qualified as a chartered accountant in 1967. He joined the board of Provident Financial in 2000. He is a non-executive director of The Big Food Group plc, London Finance & Investment Group PLC, Royal & Sun Alliance Insurance Group PLC and Parity Group PLC. He is also Chairman of the Institute of Advanced Motorists and a governor of the Royal Ballet School.

8 Ray Miles, independent non-executive director, age 59 Graduated with a degree in economics. He joined the board of Provident Financial on 1 January 2004. He is Chief Executive Officer of CP Ships Limited (which is listed on the Toronto and New York stock exchanges). He is also a director of The Chamber of Shipping Limited and a trustee of the National Maritime Museums at Greenwich and Cornwall.

9 Graham Pimlott, independent non-executive director, age 54 Qualified as a solicitor in 1976. He joined the board of Provident Financial on 26 June 2003. He is Deputy Chairman of Hammerson PLC and a non-executive director of Tesco PLC. He is Chairman of the Export Credit Guarantee Department and a member of the Auditing Practices Board.

BOARD COMMITTEES

Audit committee	Executive committee	Nomination committee	Remuneration committee	Risk advisory committee
Graham Pimlott (Chairman)	Robin Ashton (Chairman)	John van Kuffeler (Chairman)	John Maxwell (Chairman)	Charles Gregson (Chairman)
Charles Gregson	John Harnett	Robin Ashton	Charles Gregson	Robin Ashton
John Maxwell	Chris Johnstone	Charles Gregson	Ray Miles	John Maxwell
Ray Miles	David Swann	John Maxwell	Graham Pimlott	Ray Miles
		Ray Miles		Graham Pimlott
		Graham Pimlott		

Directors' report

The directors submit their report for the financial year ended 31 December 2003.

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 2 to 41.

1.2 Provident Financial plc ('the company') is a holding company. Details of the main trading subsidiary undertakings are shown on page 77 in note 11 of the notes to the accounts.

2 Dividends

An interim dividend of 13.10p per ordinary share was paid on 17 October 2003. The board recommends a final dividend of 19.90p per ordinary share to be paid on 14 May 2004 to shareholders on the register at the close of business on 13 April 2004. This makes a total dividend for the year of 33.00p per ordinary share.

3 Share capital

3.1 Increase in issued ordinary share capital

During the year the ordinary share capital in issue increased by 119,240 to 254,344,861 shares. Details are set out on page 87 in note 22 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 2003 ('the 2003 scheme'). Options are still outstanding under the Provident Financial plc Employee Savings-Related Share Option Scheme 1993 ('the 1993 scheme'). In 2000 the company adopted 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. The 2000 scheme has been implemented in the Republic of Ireland and Poland. 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 Unapproved 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 2003 – 29 February 2004

Date of grant of option	Name of scheme	Number of shares	Exercise price (p)	Normal exercise dates
18 March 2003	1995 scheme	155,166	551.25	March 2006 – March 2013
18 March 2003	1996 scheme	1,236,872	551.25	March 2006 – March 2013
2 September 2003	2000 scheme	67,482	509.00	November 2006 – January 2007
26 August 2003	2003 scheme	576,508	512.00	November 2006 – April 2011

3.5 Share option schemes: exercises 1 January 2003 – 29 February 2004 and outstanding options

Name of scheme	Options exercised in 2003	Options outstanding at 31.12.2003	Normal exercise dates	Exercise price (p)	Exercised from 01.01.2004 to 29.02.2004
1985 scheme	–	16,000	up to 2005	256.50 – 276.50	16,000
1993 scheme	123,757	2,058,310	up to 2010	226.00 – 744.00	108
1995 scheme	–	425,909	up to 2013	520.00 – 1,037.00	–
1996 scheme	119,240	4,552,799	up to 2013	450.00 – 1,037.00	54,116
2000 scheme	–	94,654	up to 2008	468.00 – 712.00	–
2003 scheme	–	565,674	up to 2011	512.00	–

3 Share capital 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 and the 2003 scheme. The trustee, Provident Financial Trustees Limited, is a subsidiary of the company. As at 1 January 2003 the trustee held 1,676,046 (1 January 2002 2,136,030) ordinary shares in the company. During 2003 123,757 (2002 459,984) ordinary shares were transferred to directors and employees on the exercise of options pursuant to the 1993 scheme. On 31 December 2003 the trustee held 1,552,289 (2002 1,676,046) ordinary shares in the company. Further details are set out on page 78 in note 12 of the notes to the accounts.

3.7 Authority to purchase shares

At the annual general meeting of the company held on 30 April 2003 the shareholders authorised the company to purchase up to 25,420,000 of its ordinary shares up until 29 April 2004. No shares were purchased pursuant to this authority. 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 5 May 2004.

3.8 Substantial shareholdings

The company has received notifications from AXA S.A., Legal & General Group plc and/or its subsidiaries, Fidelity International Limited/FMR Corporation, Morley Fund Management Limited, The Prudential Assurance Company Limited and Prudential plc that each is interested in more than 3% of the issued ordinary share capital of the company. On the basis of the information available to the company as at 29 February 2004, the following investment managers (through segregated managed funds) have interests in aggregate amounting to over 3%:

Prudential plc and its subsidiaries	8.85%
Fidelity International Limited/FMR Corporation	8.85%
Morley Fund Management Limited	5.47%
AXA S.A. and its subsidiaries	4.09%
Schroder Investment Management Limited	3.78%
Marathon Asset Management Limited	3.63%
Legal & General Group plc/Legal & General Investment Management	3.50%
Henderson Global Investors Limited	3.06%

4 Directors

4.1 The directors of the company as at 31 December 2003 are listed in paragraph 5.1 below. They all served as directors throughout 2003, with the exception of Graham Pimlott who was appointed on 26 June 2003. Angela Heylin was a non-executive director from 1 January to 30 June 2003 (she was appointed to the board in 1997 and thus when she retired from the board she had completed two three-year terms as a director). Ray Miles was appointed on 1 January 2004.

4.2 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.

5 Directors' interests in shares

5.1 The beneficial interests of the directors in the issued share capital of the company were as follows:

	Number of shares	
	31 December 2003	1 January 2003
John van Kuffeler	16,000	13,395
Robin Ashton	37,672	39,672
John Harnett	14,494	8,000
Chris Johnstone	107,787	97,590
David Swann	59,377	53,638
Charles Gregson	1,837	1,837
John Maxwell	2,100	2,100
Graham Pimlott	10,000	–*

* as at date of appointment

5 Directors' interests in shares continued

5.2 No director had any non-beneficial holdings at 31 December 2003 or at any time up until 29 February 2004. On 27 February 2004 awards of ordinary shares were made under the Provident Financial Performance Share Plan as follows: Robin Ashton 6,844 shares, John Harnett 16,972 shares, Chris Johnstone 15,274 shares and David Swann 15,274 shares. Further details are set out on page 57 in paragraph 6 of the directors' remuneration report.

5.3 The QUEST operates in conjunction with the Provident Financial plc Employee Savings-Related Share Option Scheme (2003) and 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 2003 the QUEST held 1,552,289 (2002 1,676,046) shares in the company.

5.4 Details of options granted to and exercised by directors are set out on pages 55 and 56 in paragraph 5 of the directors' remuneration report.

6 Corporate governance

Full details of the company's approach to corporate governance and the statement of compliance with the Combined Code are set out on pages 47 to 51 in the corporate governance report.

7 Employee involvement

7.1 The company operates two savings-related share option schemes (referred to on page 43 in paragraph 3.2 above). 1,926 employees are currently saving to buy shares in the company under these schemes. One of the three directors of the trustee company of the QUEST has been selected by group employees.

7.2 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.

7.3 The group operates a number of pension schemes. Involvement in the two major group defined benefit pension schemes 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.

7.4 The company achieved recognition by Investors in People in 1997 and re-recognition in 2003. 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.

8 Social, environmental and ethical matters

8.1 During the year, the company made donations for charitable purposes of £270,820 (2002 £354,001). The group invested a further £948,472 (2002 £672,797) in support of community programmes (using the London Benchmarking Group's guidelines). No political donations were made.

8.2 Details of the group's community involvement are set out on pages 26 to 33 of the Chief Executive's review and on the company's website.

8.3 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. An environmental report is presented to the board annually. Responsibility for this area rests with executive director John Harnett.

8.4 SEE risks are dealt with by means of the company's risk management process; details of this are set out on page 50 in paragraph 9 (internal control) of the corporate governance report. The board considers that it has adequate information relating to SEE risks.

8.5 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 53 in paragraph 3.6 of the directors' remuneration report. Details of training for directors are set out on page 48 in paragraph 2.14 of the corporate governance report.

8.6 The environmental strategy group, under the chairmanship of executive director John Harnett, has established new working groups within the subsidiary companies. During 2003 a programme of work was carried out to measure and improve the environmental impact of the group's operations. The environmental programme is verified externally and is audited for compliance annually. A review of other SEE matters was carried out during 2003 and a full programme of work and firm targets have been set for 2004.

9 Health and safety

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

9.2 The board has approved a group health and safety policy and a framework for health and safety. It established the health and safety steering group which is chaired by executive director Chris Johnstone. This reports formally to the board each December on health and safety matters by producing a written report and has a general co-ordination role. Each subsidiary board is responsible for the issue and implementation of its own health and safety policy as it affects the subsidiary company's day-to-day responsibility for health and safety. Health and safety is considered at each board meeting and each board produces a written report for the health and safety steering group once a year.

10 Equal opportunities

The company is committed to equal opportunity in recruitment, promotion and employment and does not discriminate on the basis of sex, sexual orientation, race or religion. It gives full and fair consideration to applications for employment from disabled persons and to their subsequent training and career development. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

11 Supplier policy statement

11.1 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.

11.2 The company acts as a holding company and had no trade creditors at 31 December 2003 or at 31 December 2002. The average number of days' credit taken by the group during the year was 18 days (2002 22 days).

12 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 executive director John Harnett. It is too early to forecast the potential costs should the euro be introduced in the UK.

13 Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the AGM.

14 Annual general meeting

The AGM will be held at 12 noon on Wednesday 5 May 2004 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 25 March 2004.

Approved by the board on 16 March 2004.

Rosamond Marshall Smith
Company Secretary
16 March 2004

Corporate governance report

1 Introduction

This section explains how the company has applied the principles set out in section 1 of the Combined Code issued in June 1998, 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 ('the Combined Code'). Although the company is not obliged to report on compliance with the revised Combined Code (since that applies to reporting years beginning on or after 1 November 2003), nevertheless this corporate governance report also considers the requirements of the revised Combined Code published by the Financial Reporting Council in July 2003 ('the revised Combined Code').

The statement of compliance is set out on page 51 in paragraph 12.

2 The board

Composition

2.1 The board leads and controls the company. It currently comprises a non-executive Chairman, four executive directors and four non-executive directors. The composition of the board is thus considered to be well-balanced.

Division of responsibilities between the Chairman and the Chief Executive

2.2 The board approved a statement of the division of responsibilities between the Chairman and the Chief Executive on 10 December 2003.

Chairman

2.3 The Chairman is also Chairman of Huveaux PLC and Eidos plc. There has been no material change in his other commitments during the year or since the year end.

Non-executive directors

2.4 Each of the non-executive directors has been formally determined by the board to be independent for the purposes of the revised Combined Code.

2.5 Charles Gregson, the non-executive Deputy Chairman, is the senior director other than the Chairman to whom concerns can be conveyed. He was first elected to the board on 19 April 1995 and thus on 19 April 2004 nine years will have elapsed since his first election. Notwithstanding this, the board has determined him to be independent in character and judgement. He continues to make a distinct and strong contribution to strategy discussions and his experience of international businesses is a particular asset to the group as it continues with international expansion. Furthermore, given that two of the four non-executive directors were appointed to the board in the last year, it is considered desirable that he continues in office for at least a further year to ensure that the company continues to benefit from his experience and knowledge. In accordance with the revised Combined Code, as he has served for nine years, he will be proposed for re-election at the annual general meeting.

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

Governance framework

2.7 The board has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets and financial results, new board appointments, proposals for dividend payments and the approval of all major transactions. This schedule is reviewed on an annual basis and was last reviewed on 10 December 2003. The board has appointed five committees. All committees have written terms of reference which are reviewed on an annual basis and were last updated on 10 December 2003 to take account of the revised Combined Code. The terms of reference can be found on the company's website or are available on request from the Company Secretary, who is secretary to all the committees. In addition, the group has detailed corporate policies.

Meetings

2.8 The board normally meets seven times a year, including at 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 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.

Attendance

2.9 Six of the seven scheduled board meetings were attended by all the directors. The seventh was attended by all the directors apart from Charles Gregson. An additional meeting was held at short notice to approve John Maxwell taking up an external directorship, which he did not attend as the matter under discussion related to him.

2 The board continued

Company Secretary
2.10 All directors are able to consult with the Company Secretary. The appointment and removal of the Company Secretary is a matter for the board.

Independent advice
2.11 There is a formal procedure by which any director may take independent professional advice relating to the performance of his duties at the company's expense.

Re-election of directors
2.12 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 appointment. In 2003 biographical details of the directors submitted for election and re-election at the annual general meeting were supplied to shareholders in the circular dated 21 March 2003.

Performance evaluation
2.13 The board evaluated its performance and that of its committees and individual directors in December 2003. The Chairman was primarily responsible for this evaluation and submitted a questionnaire to all directors. This contained detailed questions on all aspects of the operation of the board and its committees and the performance of individual directors. The senior independent non-executive director was responsible for collating comments on the Chairman's performance. The Chairman appraised the Chief Executive and the Chief Executive appraised the other executive directors. A summary of the evaluation was presented to the board on 10 December 2003.

Training
2.14 Training for directors is reviewed annually. The Company Secretary is responsible for identifying appropriate training courses for directors and it is proposed that in future an annual update session will be arranged for the board. 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. A pack of key documents relating to the company is given to the director. Training is also provided where there is a change in a director's responsibilities.

3 Report on the audit committee

3.1 From 1 January to 30 June 2003 this committee consisted of Charles Gregson and Angela Heylin under the chairmanship of John Maxwell. Following Angela Heylin's retirement as a director on 30 June 2003 the committee consisted of Charles Gregson and John Maxwell under the chairmanship of Graham Pimlott for the rest of the year.

3.2 The committee met three times in 2003, in February, July and December. The February and December meetings were attended by all members. The July meeting was attended by all members with the exception of Charles Gregson.

3.3 The committee makes recommendations to the board, for the board to put to shareholders in general meeting, in relation to the appointment, reappointment and removal of the auditors and approves their remuneration and terms of engagement. It reviews and monitors the independence and objectivity of the auditors and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. It develops and implements policy on the engagement of the auditors to supply non-audit services and reports to the board (identifying any matters in respect of which it considers that action or improvement is needed) and makes recommendations as to the steps to be taken. It monitors the integrity of the financial statements of the company and the formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them. It also reviews the group's whistle-blowing policy.

3.4 The group's internal audit function is provided by Ernst & Young LLP. The committee formally agrees the internal audit plan once a year and reviews regular reports on the activity of the internal audit function. As the internal audit function reports to the committee, this helps to ensure the function's independence from group management and ensures that appropriate action is taken in response to audit findings.

3.5 Meetings are attended by both the internal and external auditors as required and by the Finance Director and the director of group accounting. Other directors and senior management attend only at the invitation of the committee. At least once a year the members of the committee meet with the external auditors without an executive director or member of the company's senior management being present.

3.6 In 2003 the audit committee considered a schedule of non-audit work carried out by the groups's auditors PricewaterhouseCoopers LLP ('PwC') at each meeting. At its December meeting it considered a letter of independence provided by PwC. At its February meeting the audit committee had a separate session with PwC without any executive director or employee of the company or group being present. This session is held annually at the February meeting when the group's final results are discussed and gives members of the committee the opportunity to raise any issues directly with PwC.

3 Report on the audit committee continued

3.7 In the light of concerns which were raised in relation to the independence of auditors generally, the board and the audit committee carried out a review of the company's policy in respect of non-audit work and the independence of the auditors following publication of the revised Combined Code. A formal policy on the use of auditors for non-audit work was approved by the committee at its December meeting.

3.8 The main elements of the policy are as follows. The award of non-audit work to the auditors is managed in order to ensure that the auditors are able to conduct an independent audit and are perceived to be independent by the group's shareholders and stakeholders. The performance of non-audit work by the group's auditors should be minimised and work should be awarded only when, by virtue of their knowledge, skills or experience, the auditors are clearly to be preferred over alternative suppliers. The group should maintain an active relationship with at least two other professional accounting advisers. The nature and cost of all non-audit work awarded to the group's external auditors for the period since the last meeting and for the year to date will be reported to each meeting of the audit committee, together with an explanation as to why the auditors were the preferred supplier. No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the auditors without the prior approval of the Chairman of the audit committee, such approval to be given only in exceptional circumstances. The Chairman of the audit committee must approve in advance any single award of non-audit work with an aggregate cost of £250,000 or more. The auditors may not perform internal audit work.

3.9 Work carried out by PwC for the group in 2003 fell broadly into three categories: statutory audit and related services; assurance services (including work in connection with regulatory compliance and, in prior years, work in connection with acquisitions and disposals); and tax services, comprising compliance and general tax advice. Fees paid to PwC in 2003 are shown below:

	2003 £000	2002 £000
Statutory audit	435	381
Audit services		
Audit-related regulatory reporting	49	19
Further assurance services	71	1,126
Tax services		
Compliance services	240	395
Advisory services	543	295
Other services	56	35
Total	1,394	2,251

4 Report on the nomination committee

4.1 From 1 January to 30 June 2003 this committee consisted of Robin Ashton, Charles Gregson, Angela Heylin and John Maxwell under the chairmanship of John van Kuffeler. Following Angela Heylin's retirement as a director on 30 June 2003, Graham Pimlott was appointed to the committee with effect from that date.

4.2 The committee met four times in 2003. All the meetings were attended by all the members.

4.3 Its remit is to assist the board in the process of the selection and appointment of any new director and to recommend to the board the appointment of any new director. It keeps under review the structure, size and composition of the board. It considers and, if appropriate, recommends to the board the extension of the term of office of a non-executive director. It considers the succession plan annually and reports to the board that it has done so.

4.4 In 2003 the committee approved the specification for the two non-executive director positions. It instructed an external search consultancy, considered the short-listed candidates and recommended two appointments to the board. It considered the succession plan and reported formally to the board in December 2003 that it had done so.

5 Report on the remuneration committee

Full details of the composition and work of the remuneration committee are contained on page 52 in paragraph 2 of the directors' remuneration report.

6 Report on the executive committee

6.1 From 1 January to 31 December 2003 this committee consisted of John Harnett, Chris Johnstone and David Swann under the chairmanship of Robin Ashton.

6.2 It normally meets at least once a week, and more frequently 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.

7 Report on the risk advisory committee

7.1 From 1 January to 30 June 2003 this committee consisted of Robin Ashton, Angela Heylin and John Maxwell under the chairmanship of Charles Gregson. Following the retirement of Angela Heylin as a director on 30 June 2003, Graham Pimlott was appointed to the committee with effect from that date.

7.2 The committee met three times in 2003 and all the meetings were attended by all the members.

7.3 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.

8 Accountability

The board presents the company's position and prospects in as clear a way as possible, both by means of the annual report and accounts and in circulars and reports to shareholders. These documents are posted on the company's website at www.providentfinancial.com. Announcements made by the company to the London Stock Exchange are also posted on the company's website.

9 Internal control

9.1 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.

9.2 The key elements of the internal control system which have been established (in accordance with the Turnbull Guidance on Internal Control) are set out in paragraphs 9.2.1 to 9.2.4 below.

9.2.1 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 four 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.

9.2.2 The audit committee keeps under review the adequacy of internal financial controls in conjunction with the internal auditors and reports to the board regularly. 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.

9.2.3 The risk advisory committee considers the nature and extent of the risks facing the group, keeps them under review, reviews the framework to mitigate such risks, and notifies the board of changes in the status and control of risks. It reports to the board on a regular 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 twice a year and directs reviews of internal controls and particular areas of risk. It reports to the risk advisory committee.

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

9.3 The board has reviewed the effectiveness of the group's framework of internal controls during 2003.

10 Relations with shareholders

10.1 The executive directors meet with institutional shareholders on a regular basis. The Chairman is responsible for ensuring that appropriate channels of communication are established between the Chief Executive (and the other executive directors) and shareholders and ensuring that the views of the shareholders are made known to the board. An investor relations report is considered by the board twice a year and a survey of investor opinion was presented to the board in October 2003.

10.2 The company encourages private investors to attend the annual general meeting ('the AGM'). The chairmen of the board committees are available to answer questions from shareholders at the AGM and there is an opportunity for shareholders to ask questions on each resolution proposed.

10.3 At the 2003 AGM details of proxy votes cast on each resolution were made available to shareholders and other interested parties.

10.4 At the 2003 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 25 working days' notice of the 2003 AGM was given.

10.5 The company has 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.

11 Directors' responsibilities in relation to the accounts

11.1 The following statement, which should be read in conjunction with the independent auditors' report on page 93, is made to distinguish for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

11.2 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 62 to 92 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.

11.3 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.

11.4 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.

11.5 This document (the Annual Report & Accounts 2003) together with the Annual Review & Summary Financial Statement 2003 will be published on the company's website (in addition to the normal paper versions). 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.

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

12 Statement of compliance with the Combined Code

12.1 The company complied with all the provisions in Sections A, B, C and D of the Combined Code (issued in June 1998) as at 31 December 2003. The variation of the executive directors' and the Chairman's service agreements was completed on 24 December 2003 reducing the period of notice to be given by the company from two years to one year, thus enabling the company to comply with B.1.7 with effect from that date.

12.2 The company has made a number of changes to take account of the revised Combined Code (issued in July 2003) and the board currently anticipates that the company will comply with the revised Combined Code throughout 2004.

Directors' remuneration report

1 Introduction

This is the directors' remuneration report of Provident Financial plc ('the company') for the financial year ended 31 December 2003 which was prepared pursuant to and in accordance with the Directors' Remuneration Report Regulations 2002 ('the Regulations'). In accordance with the Regulations, a resolution to approve this report will be proposed at the annual general meeting of the company to be held on 5 May 2004.

2 The remuneration committee

2.1 From 1 January to 30 June 2003 the remuneration committee ('the committee') consisted of Charles Gregson and John Maxwell under the chairmanship of Angela Heylin. Following Angela Heylin's retirement as a director on 30 June 2003 the committee consisted of Charles Gregson and Graham Pimlott under the chairmanship of John Maxwell for the rest of the year.

2.2 The committee met seven times during the year. All the meetings were attended by all the members, with the exception of two meetings which were not attended by Charles Gregson.

2.3 Pursuant to its terms of reference, the committee considers the framework of executive remuneration and makes recommendations to the board. It determines the specific remuneration packages and conditions of service of the Chairman, the executive directors and the Company Secretary, including their service agreements. It also monitors the level and structure of the remuneration of the most senior management below board level within the group. No director is involved in determining his own remuneration.

2.4 The Chairman and the Chief Executive each have the right to attend and speak (but not vote) at meetings of the committee (other than when their remuneration or any matter relating to them is being considered in which case they absent themselves from the meeting). In 2003 the committee consulted with the Chairman, John van Kuffeler, about the proposals for the Chief Executive's remuneration and with the Chief Executive, Robin Ashton, about the proposals for the other executive directors. The Company Secretary, Rosamond Marshall Smith, is secretary to the committee and attended the meetings of the committee in 2003; as a solicitor she provided legal and technical support to the committee.

2.5 The committee took advice on one matter from Monks Partnership. Monks Partnership is a trading name of PricewaterhouseCoopers LLP, which also provides audit, accounting and tax services to the company. In July 2003 the committee decided to appoint remuneration consultants who were independent and did not provide any other services to the group. Following a tender process, New Bridge Street Consultants LLP ('NBS') were appointed in September 2003 and subsequently provided advice to the committee on remuneration and service contracts. Neither NBS nor Clifford Chance LLP (which has a financial interest in NBS) provided any other services to the group during the year. The committee has also been advised by Slaughter and May who are the group's city solicitors and who have advised the group on various legal matters, principally of a corporate nature, during the year. In all cases the advisers were instructed by the secretary on behalf of the committee.

3 Statement of the company's policy on directors' remuneration

Remuneration policy

3.1 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.

3.2 The executive directors' remuneration consists of a basic salary, an annual cash bonus (subject to performance conditions) and other benefits. The directors participate in pension schemes. Additionally they may participate in an employee savings-related share option scheme (which is not subject to performance conditions), executive share option schemes and a performance share plan (both of which are subject to performance conditions). The remuneration policy is designed to ensure that a significant proportion of the executive directors' remuneration is linked to performance, through the operation of the annual cash bonus and the executive share incentive schemes.

3.3 The committee reviews the executive directors' remuneration annually. Following the appointment of two new directors to the board in 2001 and the appointment of a new Chief Executive, the policy was to set the executive directors' basic salaries in the lower quartile to median range at that time. Following a two-year period of successful trading and a remuneration review during the year, the committee decided to move salaries, in stages over two years, towards the median level, subject to satisfactory performance.

3.4 The fees for the non-executive directors, other than the Chairman, are fixed by the board and are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the group. Their business expenses are reimbursed by the company. Full details of their fees for 2003 (with 2002 comparative figures) are set out in the table of directors' remuneration on page 55 in paragraph 4 below.

3.5 It is currently envisaged that the existing policy on directors' remuneration will continue for subsequent financial years but it will be reviewed again in December 2004.

3 Statement of the company's policy on directors' remuneration continued

Cash bonus

3.6 An annual cash bonus is payable, subject to the satisfaction of performance conditions. The bonus is 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 aligns, so far as is practicable, shareholder and executive director interests. Executive directors are eligible for annual cash bonuses by reference to the growth in the company's audited earnings per share (as defined in the bonus scheme) over the previous financial year and the achievement of agreed personal objectives. The total bonus payable cannot exceed 100% of salary. In exceptional circumstances the committee may make such adjustments to the calculation of earnings per share as it considers fair and reasonable. Bonuses do not form part of pensionable earnings.

Share options

3.7 The company currently operates two senior executive share option schemes. Further details are set out in paragraphs 3.7.1 to 3.7.7 below.

3.7.1 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 under this scheme 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 granted to an executive annually under both schemes must not exceed two times his salary.

3.7.2 Both schemes have performance targets which have to be met before any options can be exercised.

3.7.3 For options granted prior to 2002 the performance condition is that over a three-year period the real growth in earnings per share (as defined) must average 3% a year (after making appropriate adjustments for inflation).

3.7.4 For options granted in 2002 and 2003 the following performance conditions apply:

(a) where the option is granted over shares with an aggregate exercise price of up to one times the director's salary, the real growth in earnings per share (after adjusting for inflation) must average 3% a year over a fixed three-year period (this period may be extended to four or five years);

(b) to the extent that the option is granted over shares with an aggregate exercise price in excess of one times the director's salary, the condition is 4% (rather than 3%) real growth in earnings per share.

3.7.5 A performance condition based on earnings per share has been used in both executive schemes since their establishment in 1995 and 1996. It is considered that this aligns, so far as is practicable, the interests of the directors with those of the shareholders. The performance conditions were amended in 2002 pursuant to the approval of the company in general meeting but retained earnings per share as their basis, reflecting the alignment of the interests of the directors and those of the shareholders. The performance conditions permit limited retesting by reference to a fixed base. The committee is conscious of the fact that since 2002 there has been a change in attitude by institutions towards even limited retesting; but, since the current executive schemes expire in 2005, the committee considers it appropriate to make no change at present on the basis that a full review will be carried out in December 2004 and that retesting is not expected to form part of any new executive schemes.

3.7.6 The grant of options under the 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 determined by reference to salary.

3.7.7 No executive options have been granted at a discount.

3.8 The executive directors (together with other eligible group employees) may participate in the Provident Financial plc Employee Savings-Related Share Option Scheme (2003). Participants save a fixed sum each month for three or five years and may 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. This scheme does not contain performance conditions as it is an Inland Revenue approved scheme designed for employees at all levels.

3 Statement of the company's policy on directors' remuneration continued

Performance share plan

3.9 The Provident Financial Performance Share Plan ('the performance share plan') entitles executive directors who waive up to 50% of their annual cash bonus to be considered for participation. Participants receive a basic award of shares of up to the value of the waived bonus, together with a matching award of an equivalent amount which is subject to a performance condition. In normal circumstances the awards vest after three years. For awards granted in 2003 and 2004 the matching award will vest only if the company's average growth in earnings per share (as defined) is equal to or greater than RPI plus 3% over a period of three consecutive financial years, the first of which is the financial year starting immediately before the grant date of the matching award. The performance conditions were selected by the committee after consideration of other possible types of condition. The committee took the view that the use of this earnings per share target aligned, so far as is practicable, the interests of the directors with those of the shareholders.

Other benefits

3.10 The executive directors are provided with company-owned cars and fuel (or a cash alternative), long-term disability cover under the company's insured permanent health policy and medical cover for them and their immediate families. Benefits in kind are not pensionable.

Shareholding policy

3.11 The company has a share retention policy for executive directors which encourages them to build up a shareholding from shares acquired under the senior executive share option schemes (referred to in paragraph 3.7 above) and the performance share plan (referred to in paragraph 3.9 above), provided that gains have been made on options and matching awards have vested under the performance share plan. Over a five-year period (commencing on 1 May 2002) a director should, in this way, aim to acquire a shareholding with a market value which is equal to or in excess of two times his annual salary. The committee reviews the shareholdings of the executive directors in the light of this policy once a year.

Service agreements

3.12 In December 2003 the committee reviewed and amended the company's policy in relation to the notice periods in the service agreements of the executive directors. The current policy is for executive directors' service agreements to provide for both the company and the director to give one year's notice. Prior to December 2003 the policy was for two years' notice to be given by the company. No compensation was paid to the directors for the change. No director has a service agreement containing a liquidated damages clause on termination; in the event of the termination of an agreement, particularly for poor performance, it is the current policy to seek full mitigation of loss by the director concerned and to ensure that any payment made is the minimum which is commensurate with the company's legal obligations. Where possible, the company would seek to make any payment in instalments and subject to appropriate conditions.

Other directorships

3.13 The company will normally permit an executive director to hold up to two non-executive directorships and to retain the fees from the appointments. However, any proposed appointment will require the approval of the board. (In accordance with the revised Combined Code, the board would not permit an executive director to take on more than one non-executive directorship of a FTSE 100 company or the chairmanship of such a company). None of the executive directors currently holds a non-executive directorship.

Detailed information

3.14 Full details of salaries, bonus earnings and other benefits for 2003 (with 2002 comparative figures) for the executive directors are set out in the table of directors' remuneration on page 55 in paragraph 4 below. Full details of share options are set out in the table on page 56 in paragraph 5 below. Full details of awards under the performance share plan are set out in the table on page 57 in paragraph 6 below.

4 Directors' remuneration

The aggregate directors' emoluments during the year amounted to £2,045,000 (2002 £1,586,000) and are analysed as follows:

	Salary £000	Bonus £000	Benefits £000	Fees £000	2003 Total £000	2002 Total £000
Chairman						
John van Kuffeler	130	–	32	–	162	244
Executive directors						
Robin Ashton	380	176	27	–	583	408
John Harnett	267	124	33	–	424	302
Chris Johnstone	241	112	23	–	376	262
David Swann	241	112	32	–	385	272
	1,129	524	115	–	1,768	1,244
Non-executive directors						
Charles Gregson	–	–	1	35	36	30
Angela Heylin*	–	–	–	15	15	34
John Maxwell	–	–	3	41	44	34
Graham Pimlott**	–	–	–	20	20	–
	–	–	4	111	115	98
Total	1,259	524	151	111	2,045	1,586

* to date of resignation

** from date of appointment

5 Share option schemes

5.1 Directors' share options at 31 December 2003 are shown in the table on page 56 in paragraph 5.9 below.

5.2 The performance conditions which apply to the exercise of executive share options are as set out in paragraphs 5.2.1 and 5.2.2 below.

5.2.1 Performance condition A (referred to in the table below) applies to options granted prior to 2002. Over a three-year period the real growth in the company's earnings per share must average 3% a year (after making appropriate adjustments for inflation).

5.2.2 Performance condition B (referred to in the table below) applies to options granted in 2002 and 2003. Where the option is granted over shares with an aggregate exercise price of up to one times the director's salary, the performance condition is that, over a fixed three-year period, the real growth in earnings per share (after adjusting for inflation) must average 3% a year (if the condition is not satisfied after the three years the period will be extended to four years and then, if the condition is still not satisfied, to five years, whereupon if the condition is still not satisfied, the option will lapse). For options granted in excess of one times the director's salary, the condition is 4% (rather than 3%) real growth in earnings per share.

5.3 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 2003 amounted to £94,275 (2002 £28,834).

5.4 The company's highest paid director in 2003 was Robin Ashton, whose emoluments amounted to £583,000 (2002 Robin Ashton £408,000) 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 (2002 Robin Ashton £nil).

5.5 None of the options held by the directors lapsed during the year. No consideration is payable on the grant of an option.

5.6 The mid-market closing price of the company's shares on 31 December 2003 was 650.5p and the range during 2003 was 510p to 679p.

5.7 There were no changes in directors' share options between 31 December 2003 and 29 February 2004.

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

5 Share option schemes continued

5.9 Directors' share options at 31 December 2003 were as follows:

Director's name	1 January 2003	Granted in 2003	Exercised in 2003	31 December 2003	Exercise price (p)	Market price at date of exercise (p)	Performance conditions**	Range of exercisable dates of options held at 31 December 2003
John van Kuffeler	45,000	–	(45,000)	–	450.00	659.50	–	–
	75,803	–	–	75,803	638.50	–	A	01.09.2000 – 31.08.2007
	37,664	–	–	37,664	985.00	–	A	06.08.2001 – 05.08.2008
	47,483	–	–	47,483	979.30	–	A	03.03.2002 – 02.03.2009
	38,462	–	–	38,462	520.00	–	A	28.02.2003 – 27.02.2010
	244,412	–	(45,000)	199,412				
Robin Ashton	30,000	–	–	30,000	450.00	–	A	02.09.1999 – 01.09.2006
	43,774	–	–	43,774	638.50	–	A	01.09.2000 – 31.08.2007
	2,620*	–	–	2,620*	744.00	–	–	01.11.2005 – 30.04.2006
	20,660	–	–	20,660	985.00	–	A	06.08.2001 – 05.08.2008
	26,651	–	–	26,651	979.30	–	A	03.03.2002 – 02.03.2009
	30,001	–	–	30,001	520.00	–	A	28.02.2003 – 27.02.2010
	28,939	–	–	28,939	622.00	–	A	02.08.2004 – 01.08.2011
	93,300	–	–	93,300	709.00	–	B	09.05.2005 – 08.05.2012
	–	128,072	–	128,072	551.25	–	B	18.03.2006 – 17.03.2013
	275,945	128,072	–	404,017				
John Harnett	33,269	–	–	33,269	1037.00	–	A	04.05.2002 – 03.05.2009
	87,500	–	–	87,500	520.00	–	A	28.02.2003 – 27.02.2010
	16,077	–	–	16,077	622.00	–	A	02.08.2004 – 01.08.2011
	66,643	–	–	66,643	709.00	–	B	09.05.2005 – 08.05.2012
	–	90,702	–	90,702	551.25	–	B	18.03.2006 – 17.03.2013
	203,489	90,702	–	294,191				
Chris Johnstone	15,000	–	–	15,000	450.00	–	A	02.09.1999 – 01.09.2006
	34,178	–	–	34,178	638.50	–	A	01.09.2000 – 31.08.2007
	7,615	–	–	7,615	985.00	–	A	06.08.2001 – 05.08.2008
	8,144	–	–	8,144	979.30	–	A	03.03.2002 – 02.03.2009
	42,502	–	–	42,502	520.00	–	A	28.02.2003 – 27.02.2010
	33,119	–	–	33,119	622.00	–	A	02.08.2004 – 01.08.2011
	2,033*	–	–	2,033*	498.00	–	–	01.11.2006 – 30.04.2007
	59,238	–	–	59,238	709.00	–	B	09.05.2005 – 08.05.2012
	1,414*	–	–	1,414*	468.00	–	–	01.11.2007 – 30.04.2008
	–	81,632	–	81,632	551.25	–	B	18.03.2006 – 17.03.2013
	203,243	81,632	–	284,875				
David Swann	15,000	–	–	15,000	450.00	–	A	02.09.1999 – 01.09.2006
	33,336	–	–	33,336	638.50	–	A	01.09.2000 – 31.08.2007
	7,428	–	–	7,428	985.00	–	A	06.08.2001 – 05.08.2008
	7,944	–	–	7,944	979.30	–	A	03.03.2002 – 02.03.2009
	33,882	–	–	33,882	520.00	–	A	28.02.2003 – 27.02.2010
	41,800	–	–	41,800	622.00	–	A	02.08.2004 – 01.08.2011
	2,033*	–	–	2,033*	498.00	–	–	01.11.2006 – 30.04.2007
	59,238	–	–	59,238	709.00	–	B	09.05.2005 – 08.05.2012
	1,414*	–	–	1,414*	468.00	–	–	01.11.2007 – 30.04.2008
	–	81,632	–	81,632	551.25	–	B	18.03.2006 – 17.03.2013
	202,075	81,632	–	283,707				
Total	1,129,164	382,038	(45,000)	1,466,202				

* granted under the Provident Financial plc Employee Savings-Related Share Option Scheme (1993).
** see paragraphs 5.2.1 and 5.2.2 above.

6 Performance Share Plan

6.1 Awards under the Provident Financial Performance Share Plan were as follows:

Director's name	Basic awards held at 31.12.2003 (number of shares)	Matching awards held at 31.12.2003 (number of shares)	Basic awards (date of grant and and number of shares) in 2004	Matching awards (date of grant and and number of shares) in 2004	Market price of each share when award granted (p)	Earliest vesting date	Total basic awards (number of shares held at 29.02.2004)	Total matching awards (number of shares held at 29.02.2004)
Robin Ashton	1,693	1,693	–	–	585	27 February 2006	–	–
	–	–	3,422	3,422	741	27 February 2007	5,115	5,115
John Harnett	3,247	3,247	–	–	585	27 February 2006	–	–
	–	–	8,486	8,486	741	27 February 2007	11,733	11,733
Chris Johnstone	2,799	2,799	–	–	585	27 February 2006	–	–
	–	–	7,637	7,637	741	27 February 2007	10,436	10,436
David Swann	2,828	2,828	–	–	585	27 February 2006	–	–
	–	–	7,637	7,637	741	27 February 2007	10,465	10,465

6.2 The performance conditions attaching to the matching award are summarised on page 54 in paragraph 3.9 above. There are no performance conditions attaching to the basic award.

6.3 The dividends payable on the basic and matching award shares are paid to the directors. The gross amounts received in 2003 were Robin Ashton £1,187; John Harnett £2,275; Chris Johnstone £1,962 and David Swann £1,982. (These figures have been included in the benefits column in the table of directors' remuneration on page 55 in paragraph 4 above).

6.4 No awards vested during the year.

6.5 There have been no variations in the terms and conditions of plan interests during the year.

7 Pensions and life assurance

7.1 There are three directors (2002 three) for whom retirement benefits are accruing under the Provident Financial Senior Pension Scheme, a defined benefit scheme, ('the senior pension scheme') and two directors (2002 two) for whom retirement benefits are accruing under defined contribution schemes. Benefits are also accruing under the senior pension scheme for one former director, Howard Bell (see paragraph 8.6 below).

7.2 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.

7.3 For John van Kuffeler, the company contributes 23% of his 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 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 2003 (including the cost of the life insurance) amounted to £30,634 (2002 £55,052).

7.4 For John Harnett, the position is identical to that specified in paragraph 7.3 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 2003 (including the cost of the life insurance) amounted to £55,042 (2002 £53,180).

7.5 The executive directors, (other than John Harnett), participate in the senior pension 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 7% of basic salary (increased from 6% with effect from 1 October 2003).

7 Pensions and life assurance continued

7.6 Details of the pension entitlements earned during 2003 are set out below:

Director's name	Age 31 December 2003	Accrued annual pension* 31 December 2003 £000	Accrued annual pension* 31 December 2002 £000	Increase/(decrease) in annual pension** 2003 £000	Increase/(decrease) in annual pension** 2002 £000	Director's contribution 2003 £000	Director's contribution 2002 £000	Transfer value of pension benefits accrued at 31 December 2003 £000	Transfer value of pension benefits accrued at 31 December 2002 £000	Increase in transfer value less director's contributions £000
Robin Ashton	45	127	94	30	(2)	22	18	1,292	916	354
Chris Johnstone	44	93	73	18	6	14	12	899	681	204
David Swann	56	152	123	26	8	14	12	2,697	2,102	581

* 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 2003, assuming no further contributions after that date.

** 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 (2.8%).

7.7 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.

7.8 With the consent of the company, a director can 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.

7.9 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.

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

7.11 The senior pension scheme (together with the Provident Financial Staff Pension Scheme) was closed to employees who joined the group on or after 1 January 2003. These employees are eligible to join the Provident Financial Stakeholder Pension Plan.

8 Directors' service agreements

8.1 Four directors, Charles Gregson, Chris Johnstone, John Maxwell and David Swann are offering themselves for re-election, and two directors, Ray Miles and Graham Pimlott, are offering themselves for election at the annual general meeting to be held on 5 May 2004. Details of the service agreement of each director with the company or letter of appointment, as relevant, are set out in paragraphs 8.2 and 8.4 below.

8.2 Each executive director has a service agreement which requires one year's notice of termination to be given by the company and one year's notice of termination to be given by the director. No notice of termination has been given by either the company or any of the directors and thus in each case the unexpired term is one year. There are no provisions for compensation payable upon early termination of any of the agreements. However, in the event that a director is not re-elected at an annual general meeting of the company, the agreement is automatically terminated and this is treated as a breach by the company. The dates of the agreements are as follows; Robin Ashton 28 January 2002 (amended by letter of variation on 23 December 2003); John Harnett 30 January 2002 (amended by letter of variation on 24 December 2003); Chris Johnstone 26 April 2001 (amended by letter of variation on 24 December 2003); and David Swann 26 April 2001 (amended by letter of variation on 23 December 2003).

8.3 The Chairman, John van Kuffeler, has a service agreement dated 29 January 2002 (amended by letter of variation on 24 December 2003) which requires one year's notice of termination to be given by the company and six months' notice of termination to be given by him. No notice of termination has been given by either party and thus the unexpired term is one year.

8.4 Each of the non-executive directors has a letter of appointment. Each director is appointed for a fixed period of three years, subject to election by shareholders. The initial three-year period may be extended by one further three-year period (and, in exceptional cases, for a further period) subject to re-election by shareholders. The dates of the letters of appointment and the unexpired terms are as follows: Charles Gregson 24 February 2004 unexpired term: to 31 May 2005; John Maxwell 1 May 2003 unexpired term: to 14 May 2006; Ray Miles 31 December 2003 unexpired term: to 31 December 2006; Graham Pimlott 26 June 2003 unexpired term: to 25 June 2006.

8 Directors' service agreements continued

8.5 In 2003 payments were made to two former directors (Howard Bell, formerly Chief Executive, and Peter Bretherton, formerly Director of Corporate Affairs) as a result of the arrangements which were made when they retired from the board in 2001 pursuant to the company's succession planning. The former directors each agreed to retire before their normal retirement dates in order to facilitate the change in board structure and agreed to enter into a new service agreement. In considering appropriate arrangements for them, the 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. Each former director had a service contract which required two years' notice to be given by the company.

8.6 Howard Bell entered into a fixed term service agreement with the company as an executive under the terms of which he would continue to receive basic salary (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. In 2003 he received £352,309 in salary and £147,952 by way of other benefits (including pension contributions). In addition he may, subject to the relevant scheme rules, exercise outstanding executive and employee savings-related share options in respect of 173,310 shares until 27 September 2004, at prices ranging between 520p and 985p.

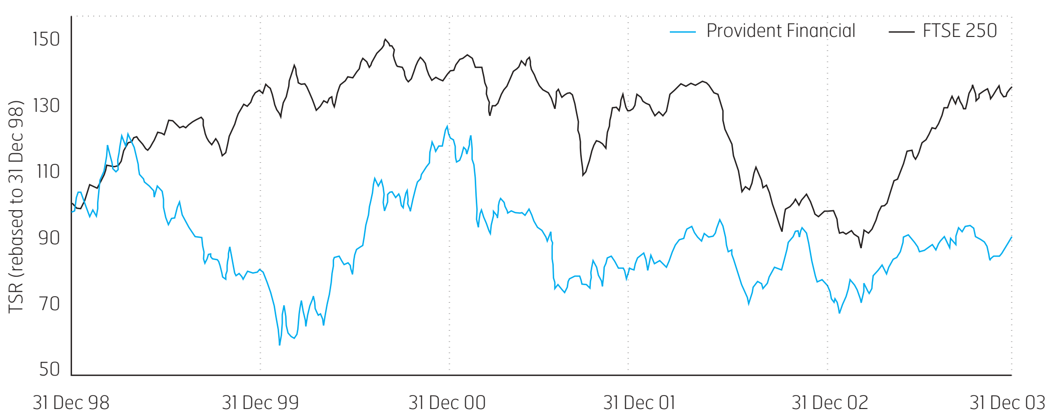
8.7 Peter Bretherton also entered into a similar fixed term service agreement (containing restrictive covenants) with the company as an executive under the terms of which he would continue to receive basic salary (increased annually to take account of inflation) and certain benefits until 31 July 2003. In 2003 he received £137,114 in salary and £62,713 by way of benefits (including pension contributions). In 2003 he exercised executive options granted to him in 1997 and 2000 over 63,681 shares on which he made a gain of £30,114 and a savings-related share option over 1,389 shares on which he made a gain of £1,785. He has no outstanding rights to exercise options.

9 Audit

The elements of the directors' remuneration (including pension entitlements and share options set out in paragraphs 4 to 7, 8.6 and 8.7 of this report) which are required to be audited, have been audited in accordance with the Regulations.

10 Performance graph

The graph below shows a comparison of the total shareholder return (TSR) for the company's shares for each of the last five financial years against the total shareholder return for the companies comprising the FTSE 250 Index. This index was chosen for this comparison because the company is currently a member of this index and has been a member for approximately 85% of the five-year period.



Base data at 31 December	1998	1999	2000	2001	2002	2003
FTSE 250	100.0	136.39	141.09	130.88	98.56	137.73
Provident Financial	100.0	81.68	125.47	81.77	78.81	91.94

Approved by the Board on 16 March 2004

Rosamond Marshall Smith
Company Secretary
16 March 2004

Accounts

Contents

Consolidated profit and loss account

for the year ended 31 December		Notes	2003 £m	2002 £m
Turnover		1	1,134.2	875.0
Cost of sales			(547.5)	(453.6)
Gross profit			586.7	421.4
Administrative expenses	– excluding goodwill amortisation		(380.5)	(239.0)
	– goodwill amortisation	9	(4.3)	(0.3)
Total administrative expenses			(384.8)	(239.3)
Operating profit	– before goodwill amortisation	1	206.2	182.4
	– goodwill amortisation	9	(4.3)	(0.3)
	– including goodwill amortisation	1	201.9	182.1
Exceptional loss on disposal of business		3	–	(10.7)
Profit before taxation		2	201.9	171.4
Taxation		4	(60.8)	(52.8)
Profit after taxation			141.1	118.6
Dividends		5	(83.4)	(76.9)
Retained profit for the year		26	57.7	41.7
Earnings per share (pence)				
Basic		6	55.84p	48.66p
Adjusted		6	57.54p	53.19p
Diluted		6	55.68p	48.50p

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

Consolidated statement of total recognised gains and losses

for the year ended 31 December		2003 £m	2002 £m
Profit after taxation		141.1	118.6
Currency translation differences	27	(1.6)	(0.3)
Total recognised gains and losses relating to the year		139.5	118.3

Consolidated note of historical cost profits and losses

for the year ended 31 December	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	201.9	171.4
Realisation of property revaluation losses	–	(1.0)
Historical cost profit on ordinary activities before taxation	201.9	170.4
Historical cost profit for the year retained after taxation and dividends	57.7	40.7

Balance sheets

as at 31 December	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	9	87.8	85.5	–	–
Tangible assets	10	48.1	41.7	4.3	5.1
Investments	11	10.4	10.8	1,048.5	1,014.6
		146.3	138.0	1,052.8	1,019.7
Current assets					
Stock		14.6	11.0	–	–
Amounts receivable from customers – due within one year	13	905.3	821.1	–	–
– due in more than one year	13	204.1	141.9	–	–
Debtors – due within one year	16	153.1	171.6	793.5	536.5
– due in more than one year	16	–	–	–	197.9
Total debtors		1,262.5	1,134.6	793.5	734.4
Investments – realisable within one year	17	514.5	503.8	–	–
Cash at bank and in hand	17	38.8	48.5	0.5	8.1
		1,830.4	1,697.9	794.0	742.5
Current liabilities					
Bank and other borrowings	14	(19.6)	(38.2)	(19.2)	(22.2)
Creditors – amounts falling due within one year	18	(220.8)	(180.9)	(226.3)	(146.8)
Insurance provisions and deferred income	19	(462.9)	(495.3)	–	–
		(703.3)	(714.4)	(245.5)	(169.0)
Net current assets		1,127.1	983.5	548.5	573.5
Total assets less current liabilities		1,273.4	1,121.5	1,601.3	1,593.2
Non-current liabilities					
Bank and other borrowings	14	(799.8)	(695.4)	(525.9)	(568.3)
Creditors – amounts falling due after more than one year	20	(11.6)	(21.9)	–	–
Provisions for liabilities and charges – deferred taxation	21	(2.6)	(1.5)	(2.3)	(2.0)
		(814.0)	(718.8)	(528.2)	(570.3)
Net assets		459.4	402.7	1,073.1	1,022.9
Capital and reserves					
Called-up share capital	22	26.3	26.3	26.3	26.3
Share premium account	23	101.5	100.9	101.5	100.9
Merger reserve		–	–	2.3	2.3
Revaluation reserve	24	2.7	2.7	2.7	2.7
Other reserves	25	4.4	4.4	812.8	812.8
Profit and loss account	26	324.5	268.4	127.5	77.9
Equity shareholders' funds	27	459.4	402.7	1,073.1	1,022.9

These accounts were approved by the board on 16 March 2004.

John van Kuffeler
Chairman

John Harnett
Finance Director

Consolidated cash flow statement

for the year ended 31 December	2003 £m	2002 £m
Net cash inflow from operating activities (see page 65)	57.1	151.5
Taxation		
UK corporation tax	(39.0)	(43.2)
Overseas tax	(6.1)	(6.5)
	(45.1)	(49.7)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(19.2)	(17.8)
Sale of tangible fixed assets	2.1	1.4
Options exercised (QUEST shares)	0.4	1.9
	(16.7)	(14.5)
Acquisitions and disposals		
Purchase of business	(5.4)	(45.5)
Sale of business	–	26.7
	(5.4)	(18.8)
Equity dividends paid	(79.7)	(73.2)
Net cash ouflow before management of liquid resources and financing	(89.8)	(4.7)
Management of liquid resources		
Purchase of investments	(3,830.3)	(2,603.8)
Sale of investments	3,817.2	2,530.4
	(13.1)	(73.4)
Financing		
Issue of share capital, net of issue costs	0.6	49.9
New short and medium-term loans	157.9	195.5
Net movement on existing short and medium-term loans	(71.3)	(164.4)
	87.2	81.0
(Decrease)/increase in cash in the year	(15.7)	2.9

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 each division within the group. However, the cash and investments held by those businesses that are regulated are required to be strictly segregated from those of the rest of the group and are not available to repay group borrowings.

At 31 December 2003 the cash and investments held by the group's regulated businesses amounted to £508.7m (2002 £514.7m).

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

Consolidated cash flow statement continued

Reconciliation of net cash flow to movement in net debt	2003 £m	2002 £m
(Decrease)/increase in net cash in the year	(15.7)	2.9
Cash outflow from increase in liquid resources	13.1	73.4
	(2.6)	76.3
Cash inflow from increase in debt	(86.6)	(31.1)
Change in net debt resulting from cash flows	(89.2)	45.2
Loans relating to business acquired	–	(189.4)
Exchange adjustments	4.4	3.9
Net debt at 1 January	(181.3)	(41.0)
Net debt at 31 December	(266.1)	(181.3)

Analysis of changes in net debt	1 January 2003 £m	Cash flows £m	Exchange movements £m	Other changes £m	31 December 2003 £m
Cash at bank and in hand	48.5	(9.4)	(0.3)	–	38.8
Overdrafts	(1.0)	(6.3)	–	–	(7.3)
	47.5	(15.7)	(0.3)	–	31.5
Investments realisable within one year	503.8	13.1	(2.4)	–	514.5
Bank and other borrowings					
– less than one year	(37.2)	29.9	–	(5.0)	(12.3)
– more than one year	(695.4)	(116.5)	7.1	5.0	(799.8)
	(732.6)	(86.6)	7.1	–	(812.1)
Net debt	(181.3)	(89.2)	4.4	–	(266.1)

Reconciliation of operating profit to net cash inflow from operating activities	2003 £m	2002 £m
Operating profit	201.9	182.1
Depreciation and amortisation	14.3	8.9
Loss on sale of tangible fixed assets	0.4	0.3
Increase in amounts receivable from customers	(158.1)	(74.3)
Decrease/(increase) in stock and debtors	14.3	(26.3)
Decrease in unearned insurance premiums	(28.2)	(15.8)
(Decrease)/increase in insurance claims provision	(4.1)	72.4
Increase in trade creditors, accruals and other liabilities	16.6	4.2
Net cash inflow from operating activities	57.1	151.5
Analysed as:		
Net cash inflow from UK home credit	149.1	123.7
Net cash outflow from Yes Car Credit	(79.5)	–
Net cash outflow from Vanquis Bank	(13.1)	–
Net cash inflow from UK consumer credit	56.5	123.7
Net cash outflow from international	(11.1)	(42.4)
Net cash inflow from motor insurance	23.2	80.4
Net cash outflow from central	(11.5)	(10.2)
Net cash inflow from operating activities	57.1	151.5

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.

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.

Turnover

Turnover, which excludes value added tax and intra-group transactions, comprises revenue earned for the home credit businesses, premiums written (net of reinsurance costs) for the motor insurance underwriting business and revenue earned by Yes Car Credit on the sale of motor vehicles and associated finance and insurance contracts.

Revenue recognition

In the home credit businesses the fixed charge payable by the customer on the amount of credit advanced is included in the customer's account balance at the inception of the instalment credit agreement and is credited as revenue earned to 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 revenues to cover the cost of initial expenses;

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, equating to the cost of financing the amount advanced is credited to the profit and loss account in future periods on the 'sum of the digits' method and the balance is credited proportionately to collections received.

In respect of the motor insurance underwriting business, credit is taken to the profit and loss account for premium income, net of commissions paid to intermediaries, over the life of the policy.

In the car finance business of Yes Car Credit revenue from the sale of the motor vehicle is recognised in the profit and loss account when the vehicle is sold. Finance income is recognised as revenue earned in the profit and loss account over the life of the contract to which it relates so as to give a constant rate of return and deferred revenue is included in car finance receivables. A portion of the net commissions from arranging insurance between customers and third party insurers is recognised as revenue immediately on the inception of the related car finance contract. The balance is spread over the life of the associated contract in line with the outstanding credit risk.

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 useful economic life which, for all acquisitions, has been estimated to be 20 years. 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.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at invoiced 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 decided 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	$2^1/_2$	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 $33^1/_3$	Straight line
Motor vehicles	25	Reducing balance

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. Own shares held which are deemed to have suffered a permanent diminution in value are immediately written down to their realisable amount. 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.

Impairment of fixed assets and goodwill

Fixed assets and goodwill are subject to review for impairment in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'. Any impairment is recognised in the profit and loss account, or revaluation reserve, as appropriate, in the year in which it occurs.

Stock

Stock comprises motor vehicles held for resale and is stated at the lower of cost and net realisable value. Cost includes transport and handling costs.

Provision for bad and doubtful debts

In the home credit businesses, 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. Full provision is made for any outstanding customer balance for which no payment has been received in the preceding 12 weeks. Debts are written off when all reasonable steps to recover them have been taken without success.

In Yes Car Credit, provision is made for doubtful debts to reflect the directors' best estimate of the number of contracts that are likely to default over the full term of each contract (normally four years) and the expected average loss on each contract.

Investments

Deposits with financial institutions are stated at cost. 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.

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 expected to be incurred but not yet reported to the company. The estimated cost of claims comprises expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. Provisions are calculated gross of any reinsurance recoveries. The 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 variables such as legislation, inflation rates, the mix of business and industry benchmarks. The provision for estimated insurance claims is reviewed annually by an external actuary.

Amounts recoverable from reinsurers

An asset is recognised in respect of amounts recoverable from reinsurers to reflect expected recoveries from reinsurers relating to insurance claims made and estimated claims incurred but not reported at the balance sheet date. An assessment of the recoverability of reinsurance debtors is made having regard to market data on the financial strength of each of the reinsurance companies and provision is made for amounts deemed to be irrecoverable.

Deferred taxation

Deferred taxation is provided in respect of all timing differences that have originated but not reversed at the balance sheet date and is determined using the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax assets are recognised only to the extent that they are expected to be recoverable. Deferred taxation is not recognised on revalued assets unless there is a binding agreement at the balance sheet date to sell the revalued asset and the related gain has been recognised in the accounts. Deferred taxation balances are not discounted.

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.

Pension scheme arrangements
Contributions to separately administered defined benefit pension funds are charged to the profit and loss account to spread the costs of pensions over the employees' working lives in line with SSAP24 'Accounting for pension costs'. 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. The difference between the charge to the profit and loss account and the contributions paid to the schemes is shown as a prepayment in the balance sheet. The group has not adopted FRS 17 'Retirement benefits' for accounting purposes but continues to make the transitional disclosures required by that standard in the notes to the accounts.

Contributions to defined contribution pension schemes are charged to the profit and loss account on an accruals basis.

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, that have currencies of operation other than sterling, net of any matching exchange difference on 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 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.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated in the balance sheet at cost less provisions for impairment in their value.

1 Segmental reporting

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

(a) Class of business	Turnover 2003 £m	Turnover 2002 £m	Operating profit 2003 £m	Operating profit 2002** £m	Net assets 2003 £m	Net assets 2002 £m	Total amount payable* 2003 £m	Total amount payable* 2002 £m
UK home credit	495.6	484.3	152.6	148.8	345.7	317.1	1,459.9	1,459.7
Yes Car Credit	269.2	5.5	11.2	0.2	43.8	33.2	–	–
Vanquis Bank	1.3	–	(6.7)	(1.1)	21.6	–	–	–
UK consumer credit	766.1	489.8	157.1	147.9	411.1	350.3	1,459.9	1,459.7
International	191.4	142.4	29.3	8.6	14.5	(2.7)	601.0	472.9
Motor insurance	176.7	232.1	28.6	35.8	80.6	91.0	–	–
	1,134.2	864.3	215.0	192.3	506.2	438.6	2,060.9	1,932.6
Central	–	–	(8.8)	(10.9)	(46.8)	(35.9)	–	–
Ongoing operations	1,134.2	864.3	206.2	181.4	459.4	402.7	2,060.9	1,932.6
Colonnade Insurance Brokers	–	10.7	–	1.0	–	–	–	–
Total excluding goodwill amortisation	1,134.2	875.0	206.2	182.4	459.4	402.7	2,060.9	1,932.6
Goodwill amortisation***	–	–	(4.3)	(0.3)	–	–	–	–
Total	1,134.2	875.0	201.9	182.1	459.4	402.7	2,060.9	1,932.6

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

** In previous years, costs in relation to taxation, treasury and public affairs administration were included in central costs. In order to give a clearer view of divisional performance for 2003, UK home credit and international division have been recharged £4.9m and £2.4m respectively in respect of these costs. In 2002 this recharge would have been £3.8m to UK home credit and £2.0m to international division. The results shown above for 2002 have been restated to include these recharges.

*** Goodwill amortisation in 2003 includes £4.1m in respect of Yes Car Credit (2002 £0.1m) and £0.2m in respect of UK home credit (2002 £0.2m).

Turnover between segments is not material.

The international division operating profit comprises:

	2003 £m	2002 £m
Poland	33.1	16.7
Czech Republic	8.8	5.1
Hungary	(1.9)	(3.1)
Slovakia	(1.6)	(2.0)
Mexico	(1.2)	–
Central divisional overheads	(7.9)	(8.1)
Operating profit	29.3	8.6

1 Segmental reporting continued

(b) Geographical analysis by location	Turnover 2003 £m	Turnover 2002 £m	Operating profit 2003 £m	Operating profit 2002 £m	Net assets 2003 £m	Net assets 2002 £m	Total amount payable* 2003 £m	Total amount payable* 2002 £m
UK and Republic of Ireland	942.8	732.6	177.8	176.6	486.8	416.2	1,459.9	1,459.7
Poland	127.9	102.2	33.1	16.7	22.7	24.8	382.7	331.2
Czech Republic	39.4	33.6	8.8	5.1	6.8	3.2	120.8	112.8
Hungary	18.3	4.9	(1.9)	(3.1)	(6.0)	(3.0)	74.2	21.4
Slovakia	5.8	1.7	(1.6)	(2.0)	(3.4)	(2.6)	23.0	7.5
Mexico	–	–	(1.2)	–	(0.7)	–	0.3	–
	1,134.2	875.0	215.0	193.3	506.2	438.6	2,060.9	1,932.6
Central	–	–	(8.8)	(10.9)	(46.8)	(35.9)	–	–
Total excluding goodwill amortisation	1,134.2	875.0	206.2	182.4	459.4	402.7	2,060.9	1,932.6
Goodwill amortisation**	–	–	(4.3)	(0.3)	–	–	–	–
Total	1,134.2	875.0	201.9	182.1	459.4	402.7	2,060.9	1,932.6

* Total amount payable represents credit issued in the year plus the related service charge in respect of the home credit businesses.
** Goodwill amortisation relates to UK and Republic of Ireland.

There is no material difference between the geographical analysis of turnover by location and destination.

2 Profit before taxation is stated after:

		2003 £m	2002 £m
Charging:			
Interest on borrowings (included in cost of sales)	– bank loans and overdrafts	39.2	32.0
	– loan notes	11.7	7.9
Employee costs (note 8)		153.0	125.6
Auditors' remuneration	– audit services (company £0.1m; 2002 £0.1m)	0.4	0.4
	– further assurance services	0.1	0.4
	– tax services	0.8	0.7
	– other services	0.1	–
Depreciation of tangible fixed assets (note 10)		10.0	8.6
Amortisation of goodwill (note 9)		4.3	0.3
Loss on sale of tangible fixed assets		0.4	0.3
Operating lease rentals	– equipment	–	–
	– property	10.1	8.3
Crediting:			
Investment income (included in cost of sales)		27.2	25.9

The guidelines covering the use of the company's auditors for non-audit services are set out in the corporate governance report on page 49.

3 Exceptional loss on disposal of business

The exceptional loss in 2002 of £10.7m related to the loss on disposal of Colonnade Insurance Brokers Limited.

4 Taxation

(a) Analysis of taxation charge for the year	2003 £m	2002 £m
UK corporation tax		
The taxation charge based on the profit for the year at 30% (2002 30%)		
Current year	52.4	50.5
Prior year	(0.9)	(2.9)
Double tax relief	(0.9)	–
	50.6	47.6
Overseas tax		
Current year	9.3	6.9
Prior year	–	–
	9.3	6.9
Total current tax (note 4(b))	59.9	54.5
Deferred tax		
Origination and reversal of timing differences	0.9	(1.7)
Total deferred tax (note 21(c))	0.9	(1.7)
Total taxation charge for the year	60.8	52.8

(b) Factors affecting the taxation charge for the year

The rate of current tax charge on the operating profit for the year is below the standard rate of corporation tax in the UK as shown in the table below:

	2003 £m	2002 £m
Operating profit	201.9	182.1
Operating profit multiplied by the standard rate of corporation tax in the UK of 30% (2002 30%)	60.6	54.6
Effects of:		
Adjustment to tax in respect of prior years	(0.9)	(2.9)
Adjustment in respect of foreign tax rates	(5.8)	(5.6)
Expenses not deductible for tax purposes	1.6	1.2
Goodwill amortisation not deductible for tax purposes	1.3	–
Capital allowances for the period in excess of depreciation	(0.7)	(0.8)
Other timing differences	(5.8)	(0.7)
Impact of tax rate change on deferred tax assets	0.8	–
Overseas taxable dividends	6.7	8.7
Overseas profits taxed in the UK	2.1	–
Current taxation charge for the year (note 4(a))	59.9	54.5

(c) Factors that may affect future taxation charges

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.

5 Dividends

	2003 £m	2002 £m
Ordinary shares:		
Interim dividend paid of 13.10p per share (2002 12.46p)	33.1	30.3
Proposed final dividend of 19.90p per share (2002 18.44p)	50.3	46.6
Total	83.4	76.9

6 Earnings per share

The basic and diluted earnings per share figures have been calculated using the profit for the year attributable to ordinary shareholders of £141.1m (2002 £118.6m) and the weighted average number of shares in issue during the year.

The adjusted earnings per share figure is shown after excluding the exceptional loss in 2002 on the disposal of Colonnade Insurance Brokers Limited and goodwill amortisation. It is the directors' opinion that this measure better represents underlying business performance. The adjustments made, and their impact on earnings per share, are as follows:

	2003		2002	
	Earnings £m	Earnings per share p	Earnings £m	Earnings per share p
Basic earnings and earnings per share	141.1	55.84	118.6	48.66
Exceptional loss	–	–	10.7	4.39
Amortisation of goodwill	4.3	1.70	0.3	0.14
Adjusted earnings and earnings per share	145.4	57.54	129.6	53.19

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	2003 Number (m)	2002 Number (m)
In issue during the year	254.3	245.7
Held by the QUEST	(1.6)	(2.0)
Used in basic and adjusted earnings per share calculations	252.7	243.7
Issuable on exercise of outstanding options	0.7	0.8
Used in diluted earnings per share calculation	253.4	244.5

7 Directors' remuneration

Details of directors' remuneration, share options, pension contributions and pension entitlements are set out in the directors' remuneration report on pages 55 to 59.

8 Employee information

(a) The average number of persons employed by the group (including executive directors) was as follows:	2003 Number	2002 Number
UK home credit	3,021	3,024
Yes Car Credit	1,144	–
Vanquis Bank	68	–
UK consumer credit	4,233	3,024
International	2,754	2,457
Motor insurance	534	630
Central	58	58
Colonnade Insurance Brokers	–	331
Total	7,579	6,500
Analysed as:		
Full-time	6,997	5,920
Part-time	582	580
Total	7,579	6,500

(b) Group employment costs – all employees (including executive directors)	2003 £m	2002 £m
Aggregate gross wages and salaries paid to the group's employees	129.6	106.0
Employers' national insurance contributions	15.6	11.6
Pension costs (note 29(a))	7.8	8.0
Total	153.0	125.6

9 Intangible fixed assets

	Consolidated goodwill £m
Cost	
At 1 January 2003	86.0
Adjustments	6.6
At 31 December 2003	92.6
Amortisation	
At 1 January 2003	0.5
Provided during the year	4.3
At 31 December 2003	4.8
Net book value at 31 December 2003	87.8
Net book value at 31 December 2002	85.5

9 Intangible fixed assets continued

The movement in goodwill during the year relates to the following:

	Provisional fair value to the group £m	Completion and hindsight period adjustments £m	Final fair value to the group £m
Tangible fixed assets	3.9		3.9
Stock	10.3		10.3
Car finance receivables	162.0	(6.0)	156.0
Other assets	21.3		21.3
Cash at bank and in hand	0.6		0.6
Creditors falling due within one year	(56.7)		(56.7)
Creditors falling due after more than one year	(153.2)		(153.2)
Net liabilities at acquisition	(11.8)	(6.0)	(17.8)
Purchase consideration	70.5	0.6	71.1
Goodwill arising on acquisition	82.3	6.6	88.9

The entire share capital of S.P.A. Holdings Limited and De Facto 946 Limited, (subsequently renamed as Yes Car Credit Limited and Provident Yes Car Credit Limited), the holding companies of the group of companies which operate Yes Car Credit, was acquired on 18 December 2002. A preliminary assessment was made of the provisions and adjustments required to derive the fair value of the assets and liabilities in the group accounts for the year ended 31 December 2002. These provisional adjustments were disclosed in the accounts of the group for the year ended 31 December 2002 but were still subject to uncertainty. During the hindsight period allowed by FRS 7 'Fair values in acquisition accounting' the directors were able to conclude upon their estimate of the fair value of the assets and liabilities acquired as shown in the table above. As a result, the fair value of the car finance receivables has been reduced by £6.0m following a review of the adequacy of the bad debt provision at acquisition.

A further adjustment has been made to the purchase consideration, reflecting the estimated final acquisition cost following payment of all transaction costs.

Under the terms of the acquisition agreement, the group may make contingent consideration payments, payable primarily on 30 June 2004 (or, if the vendors so elect, on 30 June 2005) (partly in cash and partly in loan notes) to (i) the senior managers of Yes Car Credit and (ii) the institutional vendors. The contingent consideration payments will be based upon the average of the adjusted audited profits after tax of the Yes Car Credit business for the year ending 31 December 2002 and 31 December 2003 (Average Adjusted Profit after Tax ('AAPAT') as defined in the acquisition agreement) as follows:

(i) The contingent consideration payment to the senior management of Yes Car Credit will be calculated as 2.58 times the AAPAT, with a cap of £50m (which would only be payable if the AAPAT were to equal or exceed £19.38m).

(ii) The contingent consideration payment to the institutional vendors will be calculated as 6.0 times the surplus of the AAPAT over £3.23m, with a cap of £38m (which would only be payable if the AAPAT were to equal or exceed £9.57m).

Initial estimates of contingent consideration, as disclosed in notes 18 and 20, will be revised as further and more certain information becomes available, with corresponding adjustments to goodwill.

10 Tangible fixed assets

(a) Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost or valuation				
At 1 January 2003:				
Cost	0.6	1.8	67.3	69.7
Valuation in 1994	6.1	0.2	–	6.3
	6.7	2.0	67.3	76.0
Foreign exchange adjustments	–	–	(0.4)	(0.4)
Additions at cost	–	1.0	18.2	19.2
Disposals	–	–	(6.7)	(6.7)
	6.7	3.0	78.4	88.1
At 31 December 2003:				
Cost	0.6	2.8	78.4	81.8
Valuation	6.1	0.2	–	6.3
	6.7	3.0	78.4	88.1
Depreciation				
At 1 January 2003	0.9	0.4	33.0	34.3
Foreign exchange adjustments	–	–	(0.1)	(0.1)
Charged to profit and loss account	0.2	0.3	9.5	10.0
Eliminated on disposal	–	–	(4.2)	(4.2)
At 31 December 2003	1.1	0.7	38.2	40.0
Net book value at 31 December 2003	5.6	2.3	40.2	48.1
Net book value at 31 December 2002	5.8	1.6	34.3	41.7

Leasehold land and buildings consist of:

(i) long leases at a cost/valuation of £0.3m (2002 £0.3m) and a net book value of £0.2m (2002 £0.2m); and

(ii) short leases at a cost of £2.7m (2002 £1.7m) and a net book value of £2.1m (2002 £1.4m).

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

	Freehold land and buildings 2003 £m	2002 £m
Historical cost	6.4	6.4
Depreciation based on cost	(3.3)	(3.1)
Historical cost net book value	3.1	3.3

10 Tangible fixed assets continued

(b) Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost or valuation				
At 1 January 2003:				
Cost	0.6	–	2.8	3.4
Valuation in 1994	3.7	0.2	–	3.9
	4.3	0.2	2.8	7.3
Additions at cost	–	–	0.3	0.3
Disposals	–	–	(0.3)	(0.3)
Transfers to group companies	–	–	(0.7)	(0.7)
	4.3	0.2	2.1	6.6
At 31 December 2003:				
Cost	0.6	–	2.1	2.7
Valuation	3.7	0.2	–	3.9
	4.3	0.2	2.1	6.6
Depreciation				
At 1 January 2003	0.9	–	1.3	2.2
Charged to profit and loss account	0.1	–	0.3	0.4
Eliminated on disposal	–	–	(0.3)	(0.3)
Transfers to group companies	–	–	–	–
At 31 December 2003	1.0	–	1.3	2.3
Net book value at 31 December 2003	3.3	0.2	0.8	4.3
Net book value at 31 December 2002	3.4	0.2	1.5	5.1

Leasehold land and buildings consist of long leases at a cost/valuation of £0.2m (2002 £0.2m) and a net book value of £0.2m (2002 £0.2m).

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

	Freehold land and buildings 2003 £m	2002 £m
Historical cost	2.6	2.6
Depreciation based on cost	(1.4)	(1.3)
Historical cost net book value	1.2	1.3

11 Fixed asset investments

(a) Investments comprise:	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Investments in subsidiary undertakings (note 11(b))	–	–	1,038.1	1,003.8
Investment in own shares (note 12)	10.4	10.8	10.4	10.8
Total	10.4	10.8	1,048.5	1,014.6

11 Fixed asset investments continued

(b) Investments in subsidiary undertakings	Loans £m	Shares at cost £m	Total £m
Cost			
At 1 January 2003	630.8	391.9	1,022.7
Additional equity investment in subsidiary undertaking	–	29.2	29.2
Transfer from other group company	–	5.1	5.1
At 31 December 2003	630.8	426.2	1,057.0
Provision for diminution in value			
At 1 January 2003 and 31 December 2003	–	18.9	18.9
Total cost less provision at 31 December 2003	630.8	407.3	1,038.1
Total cost less provision at 31 December 2002	630.8	373.0	1,003.8

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 and are held by wholly-owned intermediate companies, except for those noted below, which are held directly by the company.

		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
Yes Car Credit	Direct Auto Finance Limited	England	Ordinary	100
	Direct Auto Financial Services Limited	England	Ordinary	100
Vanquis Bank	Vanquis Bank Limited	England	Ordinary	100*
International	Provident International Limited	England	Ordinary	100
	Provident Polska S.A.	Poland	Ordinary	100
	Provident Financial s.r.o.	Czech	Ordinary	100
	Provident Financial Rt.	Hungary	Ordinary	100
	Provident Financial s.r.o.	Slovakia	Ordinary	100
	Provident Mexico S.A. de C.V.	Mexico	Ordinary	100
Motor insurance	Provident Insurance plc	England	Ordinary	100*
	Provident Reinsurance Limited	Guernsey	Ordinary	100

* Shares held directly.

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

The financial year end of all subsidiaries is 31 December except for Provident Insurance plc whose financial year end is 30 June; this, in the opinion of the directors, best facilitates the negotiation of reinsurance arrangements. Accordingly, the management accounts of that company for the year ended 31 December 2003, which have been audited for the purpose of these group accounts, have been consolidated.

12 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 2003 the QUEST held 1.6m (2002 1.7m) shares with a cost of £13.8m (2002 £14.8m) and a market value of £10.1m (2002 £9.7m). These shares were acquired by the QUEST to meet obligations under the company's SAYE schemes. 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 £10.4m (2002 £10.8m). The amount contributed to the QUEST in excess of the option price has been charged against reserves.

13 Amounts receivable from customers

(a) Amounts receivable from customers		Group 2003 £m	Group 2002 £m
UK home credit (note 13(b))		642.5	636.2
International (note 13(c))		207.1	163.4
Home credit receivables		849.6	799.6
Yes Car Credit receivables (note 13(d))		252.4	163.4
Vanquis Bank receivables (note 13(e))		7.4	–
Total		1,109.4	963.0
Analysed as	– due within one year	905.3	821.1
	– due in more than one year	204.1	141.9
Total		1,109.4	963.0

(b) UK home credit receivables		Group 2003 £m	Group 2002 £m
Gross instalment credit receivables		985.3	972.4
Less: provision for bad and doubtful debts		(83.7)	(82.3)
		901.6	890.1
Less: deferred revenue thereon		(259.1)	(253.9)
UK home credit receivables (note 13(a))		642.5	636.2
Analysed as	– due within one year	632.6	626.4
	– due in more than one year	9.9	9.8
Total		642.5	636.2

(c) International receivables	Group 2003 £m	Group 2002 £m
Gross instalment credit receivables	341.5	257.6
Less: provision for bad and doubtful debts	(33.4)	(17.3)
	308.1	240.3
Less: deferred revenue thereon	(101.0)	(76.9)
International receivables - due within one year (note 13(a))	207.1	163.4

13 Amounts receivable from customers continued

(d) Yes Car Credit receivables	Group 2003 £m	Group 2002 £m
Gross car finance receivables	421.4	271.5
Less: deferred revenue thereon	(142.9)	(95.2)
	278.5	176.3
Less: provision for bad and doubtful debts	(26.1)	(12.9)
Yes Car Credit receivables (note 13(a))	252.4	163.4
Analysed as – due within one year	58.2	31.3
– due in more than one year	194.2	132.1
Total	252.4	163.4

(e) Vanquis Bank receivables	Group 2003 £m	Group 2002 £m
Gross credit card receivables	8.2	–
Less: deferred revenue thereon	(0.2)	–
	8.0	–
Less: provision for bad and doubtful debts	(0.6)	–
Vanquis Bank receivables – due within one year (note 13(a))	7.4	–

(f) Bad debt charge	Group 2003 £m	Group 2002 £m
UK home credit	88.0	84.9
Yes Car Credit	33.4	–
Vanquis Bank	0.7	–
UK consumer credit	122.1	84.9
International	37.2	27.2
Bad debt charge	159.3	112.1

14 Maturity of instalment credit receivables, borrowing facilities available and borrowings

	2003			2002		
(a) Group	Instalment credit receivables* £m	Borrowing facilities available £m	Borrowings £m	Instalment credit receivables* £m	Borrowing facilities available £m	Borrowings £m
Repayable:						
On demand	–	8.8	7.3	–	7.2	1.0
In less than 6 months	999.2	20.1	7.3	905.3	22.9	19.9
In 6 – 12 months	326.2	7.3	5.0	292.1	30.1	17.3
In less than 12 months	1,325.4	36.2	19.6	1,197.4	60.2	38.2
In 12 – 24 months	133.1	67.2	54.9	91.7	5.0	5.0
In 24 – 60 months	154.1	744.8	537.8	99.9	702.5	530.4
In more than 60 months	–	215.6	207.1	–	183.5	160.0
In more than 12 months	287.2	1,027.6	799.8	191.6	891.0	695.4
Total	1,612.6	1,063.8	819.4	1,389.0	951.2	733.6

* Instalment credit receivables represent gross amounts receivable from customers less provision for bad and doubtful debts.

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

(b) Company	2003 Borrowing facilities available £m	2003 Borrowings £m	2002 Borrowing facilities available £m	2002 Borrowings £m
Repayable:				
On demand	8.3	7.3	7.2	1.0
In less than 6 months	17.5	6.9	18.0	15.1
In 6 – 12 months	5.0	5.0	28.5	6.1
In less than 12 months	30.8	19.2	53.7	22.2
In 12 – 24 months	33.0	26.0	5.0	5.0
In 24 – 60 months	545.8	387.2	536.4	410.2
In more than 60 months	132.1	112.7	176.6	153.1
In more than 12 months	710.9	525.9	718.0	568.3
Total	741.7	545.1	771.7	590.5

(c) Borrowing facilities and borrowings

Borrowing facilities comprise arrangements with banks for committed revolving loan facilities in a number of currencies for periods of up to seven years, together with overdrafts and uncommitted loans which are repayable on demand, loan notes privately placed with US and UK institutions (see note 14(d) below) and loan notes with individuals following the acquisition of Yes Car Credit (see note 14(e) below). The average period to maturity of the committed facilities was 4.0 years (2002 3.8 years).

At 31 December 2003 borrowings under these facilities amounted to £819.4m (company £545.1m) (2002 £733.6m; company £590.5m). These borrowings are under:

(i) committed revolving loan 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 14(a) and 14(b) are analysed by reference to the maturity of the facility under which they are drawn as required by FRS 4 'Capital instruments'.

(d) Loan notes

On 10 May 2001, the company issued loan notes in three tranches:

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

On 24 April 2003, the group issued further loan notes as follows:

(i) US$44m of 5.81% loan notes repayable on 24 April 2010; and
(ii) US$76m of 6.34% loan notes repayable on 24 April 2013.

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

(e) Loan notes issued to vendors at acquisition

As part of the consideration for the acquisition of Yes Car Credit, the group issued loan notes of £6.7m to certain vendors. These notes are primarily due on 30 June 2004 and carry interest rates linked to LIBOR.

(f) 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.

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

(g) Undrawn committed borrowing facilities

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

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Expiring within one year	4.1	15.7	10.6	25.3
Expiring within one to two years	12.3	–	7.0	–
Expiring in more than two years	215.5	195.6	178.0	149.7
Total	231.9	211.3	195.6	175.0

15 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 34 to 41. 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, creditors and provisions have been excluded from the disclosures other than the currency disclosures in note 15(e).

(a) Interest rate and currency 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 14(f), the interest rate exposure on the group's borrowings at 31 December 2003 was:

Currency	2003 Total £m	2003 Fixed £m	2003 Floating £m	2002 Total £m	2002 Fixed £m	2002 Floating £m
Sterling	569.7	415.3	154.4	519.1	213.5	305.6
Euro	20.6	–	20.6	14.6	–	14.6
Polish zloty	141.2	29.0	112.2	145.5	48.7	96.8
Czech crown	51.0	18.8	32.2	44.4	12.1	32.3
Hungarian forint	26.4	14.2	12.2	6.4	–	6.4
Slovak crown	9.7	3.3	6.4	3.6	–	3.6
Mexican peso	0.8	–	0.8	–	–	–
Total	819.4	480.6	338.8	733.6	274.3	459.3

At 31 December 2003 the group's floating rate borrowings were £338.8m 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 floating rate borrowings bear interest at rates linked to relevant national LIBOR equivalents.

The weighted average interest rate and the weighted average period to maturity on the group's fixed rate borrowings at 31 December 2003 were:

Currency	2003 Weighted average interest rate %	2003 Weighted average period to maturity years	2002 Weighted average interest rate %	2002 Weighted average period to maturity years
Sterling	5.71	4.6	7.04	4.4
Polish zloty	5.67	2.0	10.59	1.6
Czech crown	3.64	2.1	5.07	2.0
Hungarian forint	6.48	2.2	–	–
Slovak crown	4.89	2.5	–	–

The group also has trade creditors due after more than one year of £10.3m (2002 £9.1m) which have a weighted average period to maturity of 2.1 years (2002 2.0 years) and contingent consideration of £12.8m (2002 £12.8m) as disclosed in note 9. These amounts are denominated in sterling and are non-interest bearing.

15 Derivatives and other financial instruments continued

(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, investments and debtors falling due in more than one year at 31 December 2003 was:

	2003			2002		
Currency	Total £m	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m
Sterling	699.1	484.1	215.0	631.8	386.9	244.9
Polish zloty	38.7	–	38.7	47.3	–	47.3
Czech crown	13.9	–	13.9	12.6	–	12.6
Hungarian forint	3.1	–	3.1	0.9	–	0.9
Slovak crown	2.4	–	2.4	1.6	–	1.6
Mexican peso	0.2	–	0.2	–	–	–
Total	757.4	484.1	273.3	694.2	386.9	307.3
Comprising:						
Cash at bank and in hand	38.8	–	38.8	48.5	–	48.5
Bank and building society deposits	514.5	280.0	234.5	503.8	245.0	258.8
Debtors falling due in more than one year	204.1	204.1	–	141.9	141.9	–
Total	757.4	484.1	273.3	694.2	386.9	307.3

The weighted average interest rate on fixed rate bank and building society deposits at 31 December 2003 amounted to 5.69% (2002 6.02%) and the weighted average period to maturity was 2.4 years (2002 2.5 years).

The remaining £204.1m (2002 £141.9m) of fixed rate sterling assets relate to amounts receivable from customers falling due in more than one year. The weighted average interest rate on these balances at 31 December 2003 was 22.3% (2002 23.8%).

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

15 Derivatives and other financial instruments continued

(c) Fair values

The fair values and book values of the group's financial instruments by category at 31 December 2003 are set out below:

		2003 Book value £m	2003 Fair value £m	2002 Book value £m	2002 Fair value £m
Primary financial instruments held to finance the group's operations:					
Current asset investments		514.5	514.5	503.8	503.8
Cash at bank and in hand		38.8	38.8	48.5	48.5
Debtors falling due in more than one year		204.1	204.1	141.9	141.9
Bank loans and overdrafts		(681.1)	(681.1)	(657.1)	(657.1)
US$ loan notes		(138.3)	(116.5)	(61.5)	(54.6)
Contingent consideration due after more than one year		(1.3)	(1.3)	(12.8)	(12.8)
Trade creditors due after more than one year		(10.3)	(10.3)	(9.1)	(9.1)
Derivative financial instruments held to manage the interest and currency profile:					
Currency swap re US$ loan notes*		–	(21.2)	–	(5.1)
Forward foreign exchange contracts	– contracts in profit	–	0.6	–	0.1
	– contracts in loss	–	(0.3)	–	(0.5)
Other currency swaps	– contracts in profit	–	1.7	–	–
	– contracts in loss	–	–	–	(3.8)
Interest rate swaps on borrowings	– contracts in profit	–	3.3	–	–
	– contracts in loss	–	(5.3)	–	(10.6)
Interest rate swaps on investments	– contracts in profit	–	6.7	–	14.3
	– contracts in loss	–	(2.0)	–	–
Cash settled commodity contracts		–	–	(15.1)	(15.1)
Interest rate caps		–	–	0.1	–

* 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 derivative 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.

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:

Gains and losses on hedging instruments	Unrecognised Gains £m	Unrecognised Losses £m	Unrecognised Total net gains/(losses) £m	Deferred Gains £m	Deferred Losses £m	Deferred Total net gains/(losses) £m
At 1 January 2003	14.4	(13.2)	1.2	–	(6.8)	(6.8)
Arising in previous years that were recognised in 2003	7.2	(11.0)	(3.8)	–	–	–
Arising in previous years not recognised in 2003	7.2	(2.2)	5.0	–	(6.8)	(6.8)
Arising in 2003	3.9	(3.6)	0.3	–	(15.0)	(15.0)
Gains and losses on hedging instruments at 31 December 2003	11.1	(5.8)	5.3	–	(21.8)	(21.8)
Of which:						
Gains and losses expected to be recognised in 2004	8.0	(6.2)	1.8	–	–	–
Gains and losses expected to be recognised in 2005 or later	3.1	0.4	3.5	–	(21.8)	(21.8)

15 Derivatives and other financial instruments continued

(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 matching exchange differences on 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 the 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 2003 was as follows:

	Net monetary assets/(liabilities)					
Functional currency of group operation	Polish zloty £m	Czech crown £m	Hungarian forint £m	Slovak crown £m	euro £m	Total £m
Sterling	2.2	0.5	0.1	0.3	(0.6)	2.5
Czech crown	–	–	–	–	0.1	0.1
Hungarian forint	–	–	–	–	0.1	0.1
Total	2.2	0.5	0.1	0.3	(0.4)	2.7

The position at 31 December 2002 was as follows:

	Net monetary assets/(liabilities)					
Functional currency of group operation	Polish zloty £m	Czech crown £m	Hungarian forint £m	Slovak crown £m	euro £m	Total £m
Sterling	1.9	1.3	–	0.1	–	3.3
Total	1.9	1.3	–	0.1	–	3.3

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

(f) Instruments held for trading purposes

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

16 Debtors

	Group		Company	
(a) Amounts falling due within one year	2003 £m	2002 £m	2003 £m	2002 £m
Trade debtors	22.6	31.4	–	–
Amounts recoverable from reinsurers	75.5	92.9	–	–
Other debtors	1.7	1.6	–	–
Prepayments and accrued income	40.8	27.7	13.6	11.3
Commissions prepaid to insurance brokers and other deferred acquisition costs	11.5	16.3	–	–
Amounts owed by group undertakings	–	–	779.9	525.2
Overseas tax recoverable	1.0	1.7	–	–
Total	153.1	171.6	793.5	536.5

	Group		Company	
(b) Amounts falling due in more than one year	2003 £m	2002 £m	2003 £m	2002 £m
Amounts owed by group undertakings	–	–	–	197.9

17 Investments and cash at bank and in hand

Investments and cash at bank and in hand comprise:	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Bank, building society and other fixed interest deposits at cost	514.5	503.8	–	–
Cash at bank and in hand	38.8	48.5	0.5	8.1
Total	553.3	552.3	0.5	8.1

£499.8m (2002 £503.8m) of the investments and £8.9m (2002 £10.9m) of the cash at bank and in hand are held by businesses in the group that are regulated. The regulators of these businesses 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.

18 Creditors – amounts falling due within one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Trade creditors	43.8	35.5	–	–
Amounts owed to group undertakings	–	–	157.1	72.4
Other creditors including taxation and social security	57.0	49.3	5.9	14.0
Contingent consideration	11.5	–	–	–
Accruals	58.2	49.5	13.0	13.8
Dividends payable	50.3	46.6	50.3	46.6
Total	220.8	180.9	226.3	146.8

Contingent consideration represents the future amounts reasonably expected to be payable following the acquisition of Yes Car Credit. Further details on the acquisition and the terms of the contingent consideration are provided in note 9.

Other creditors including taxation and social security comprise:

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
UK corporation tax	43.3	31.7	5.6	10.7
Overseas tax	4.0	1.7	–	–
	47.3	33.4	5.6	10.7
Social security	3.9	5.0	0.2	0.2
Other creditors	5.8	10.9	0.1	3.1
Total	57.0	49.3	5.9	14.0

19 Insurance provisions and deferred income – amounts falling due within one year

	Group 2003 £m	Group 2002 £m
Provision for unpaid insurance claims	377.1	381.2
Unearned insurance premiums	85.1	113.3
Other deferred income	0.7	0.8
Total	462.9	495.3

20 Creditors – amounts falling due after more than one year

	Group 2003 £m	Group 2002 £m
Trade creditors	10.3	9.1
Contingent consideration	1.3	12.8
Total	11.6	21.9

Contingent consideration represents the future amounts reasonably expected to be payable following the acquisition of Yes Car Credit. Further details on the acquisition and the terms of the contingent consideration are provided in note 9.

21 Deferred taxation

(a) Group	2003 £m	2002 £m
Accelerated capital allowances	0.7	0.1
Other timing differences	1.9	1.4
Deferred taxation provision	2.6	1.5

(b) Company	2003 £m	2002 £m
Other timing differences	2.3	2.0
Deferred taxation provision	2.3	2.0

(c) Movement in group deferred taxation provision comprises:	2003 £m	2002 £m
At 1 January	1.5	6.0
Acquisitions and disposals	–	(2.8)
Charged/(credited) to the profit and loss account (note 4(a))	0.9	(1.7)
Currency translation differences charged to the statement of total recognised gains and losses	0.2	–
At 31 December	2.6	1.5

22 Called-up share capital

	Group and company			
	2003		2002	
	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Ordinary shares of 10 4/11p each	40.0	26.3	40.0	26.3

The movement in the number of shares in issue during the year is as follows:	Number m
At 1 January 2003	254.2
Shares issued pursuant to the exercise of options	0.1
At 31 December 2003	254.3

During the year the group issued 119,240 ordinary shares. The nominal value of shares issued during the year was £12,358. The aggregate consideration received (prior to issue costs) in respect of all the shares issued during the year was £0.6m.

23 Share premium account

	Group and company	
	2003 £m	2002 £m
At 1 January	100.9	51.8
Premium on shares issued during the year, net of issue costs	0.6	49.1
At 31 December	101.5	100.9

24 Revaluation reserve

	Group and company	
	2003 £m	2002 £m
At 1 January and 31 December	2.7	2.7

25 Other reserves

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Capital redemption reserve:				
At 1 January and 31 December	3.6	3.6	3.6	3.6
Retained profit capitalised by a subsidiary:				
At 1 January and 31 December	0.8	0.8	–	–
Non-distributable reserve:				
At 1 January	–	–	809.2	779.6
Increase during the year	–	–	–	29.6
At 31 December	–	–	809.2	809.2
Total at 31 December	4.4	4.4	812.8	812.8

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 reflected the group's management structure.

26 Profit and loss account

	Group £m	Company £m
At 1 January 2003	268.4	77.9
Retained profit for the year	57.7	49.6
Currency translation differences	(1.6)	–
At 31 December 2003	324.5	127.5

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 £133.0m (2002 £62.9m).

The group profit and loss account balance is shown after directly writing off cumulative goodwill of £1.6m (2002 £1.6m). In addition, cumulative goodwill of £2.3m has been written off against the merger reserve in previous years.

27 Reconciliation of movement in equity shareholders' funds

	Group 2003 £m	Group 2002 £m
Profit attributable to equity shareholders	141.1	118.6
Dividends	(83.4)	(76.9)
Retained profit for the year	57.7	41.7
New share capital issued (net of issue costs)	0.6	50.0
Goodwill on disposal	–	14.8
Currency translation differences	(1.6)	(0.3)
Net addition to equity shareholders' funds	56.7	106.2
Equity shareholders' funds at 1 January	402.7	296.5
Equity shareholders' funds at 31 December	459.4	402.7

28 Commitments

(a) Capital commitments

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	0.8	0.3	–	–

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

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Leases expiring:				
Within one year	1.6	2.8	–	–
Within two to five years	5.7	6.3	–	–
In more than five years	6.7	1.2	–	–
Total	14.0	10.3	–	–

29 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 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 ('the senior pension scheme') and 1 June 2001 for the Provident Financial Staff Pension Scheme ('the staff pension 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 pension scheme and 1.1% higher for the senior pension scheme, and 4.1% and 3.6% per annum higher than the rate of increase in present and future pensions for the staff pension scheme and the senior pension scheme respectively. At the valuation dates the market value of the assets of the schemes was £181.1m. 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 £26.7m (2002 £11.4m), which represents the excess of the contributions paid to the schemes over the charge in the profit and loss account.

29 Pension schemes continued

(a) Pension schemes continued

The two defined benefit schemes were closed to new members from 1 January 2003. For new employees joining the group after 1 January 2003, a stakeholder pension plan was introduced into which the company contributes 8% of pensionable earnings provided that the members contribute a minimum of 6% of pensionable earnings. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge in the profit and loss account represents contributions payable by the group to the fund and amounted to £0.1m for the year ended 31 December 2003 (2002 £nil). No contributions were payable to the fund at the year end.

(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 pension scheme and as at 1 June 2001 on the staff pension 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 2003. Scheme assets are stated at market value at 31 December 2003. The major assumptions used by the actuary were:

	31 December 2003 %	31 December 2002 %	31 December 2001 %
Rate of increase in salaries	4.08	3.88	4.08
Rate of increase in pensions	2.50	2.40	2.50
Discount rate	5.50	5.50	6.00
Inflation assumption	2.50	2.30	2.50

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

	Long term rate of return expected at 31 December 2003 %	Value at 31 December 2003 £m	Long term rate of return expected at 31 December 2002 %	Value at 31 December 2002 £m	Long term rate of return expected at 31 December 2001 %	Value at 31 December 2001 £m
Equities	8.0	148.4	8.0	110.2	8.5	140.5
Bonds	4.5	31.6	4.5	26.2	5.0	15.5
Property	7.0	9.6	5.5	9.5	6.0	9.2
Cash and net current assets	4.3	4.5	4.0	0.9	3.5	2.5
Total market value of assets		194.1		146.8		167.7

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

	2003 £m	2002 £m
Total market value of assets	194.1	146.8
Present value of scheme liabilities	(298.9)	(283.0)
Deficit in the schemes	(104.8)	(136.2)
Related deferred tax asset	31.4	40.9
Net pension liability	(73.4)	(95.3)

This liability has been assessed at a time when equity markets remain at a relatively low valuation compared to recent years. The company intends to make additional cash contributions to the two major defined benefit pension schemes in the UK of £15.0m in 2004 (2003 £15.0m).

29 Pension schemes continued

(b) FRS 17 disclosures continued

If the FRS 17 pension liability had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2003 would be as follows:

	2003 £m	2002 £m
Net assets as disclosed	459.4	402.7
Less: SSAP 24 prepayment, net of deferred tax	(18.7)	(8.1)
Net assets excluding pension liability and SSAP 24 prepayment, net of deferred tax	440.7	394.6
FRS 17 pension liability	(73.4)	(95.3)
Net assets including FRS 17 pension liability	367.3	299.3
Profit and loss account reserve as disclosed	324.5	268.4
Less: SSAP 24 prepayment, net of deferred tax	(18.7)	(8.1)
Profit and loss account reserve excluding pension liability and SSAP 24 prepayment, net of deferred tax	305.8	260.3
FRS 17 pension liability	(73.4)	(95.3)
Profit and loss account reserve including FRS 17 pension liability	232.4	165.0

The following amounts would have been recognised in the performance statements in the year to 31 December 2003 under the requirements of FRS 17:

Analysis of profit and loss charge under FRS 17	2003 £m	2002 £m
Operating profit		
Current service cost	7.2	9.4
Total operating charge	7.2	9.4
Other finance expense		
Expected return on pension scheme assets	(11.2)	(13.7)
Interest on pension scheme liabilities	15.0	14.8
Net finance expense	3.8	1.1
Total FRS 17 pension expense	11.0	10.5

Analysis of amounts recognised in the statement of total recognised gains and losses under FRS 17	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	16.8	(43.6)
Experience gains and losses arising on the scheme liabilities	14.0	7.4
Changes in assumptions underlying the present value of the scheme liabilities	(9.6)	(26.1)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	21.2	(62.3)

Movement in deficit during the year	2003 £m	2002 £m
Deficit in schemes at beginning of the year	(136.2)	(76.0)
Movement in year:		
Current service cost	(7.2)	(9.4)
Contributions	21.2	12.6
Other finance expense	(3.8)	(1.1)
Actuarial gain/(loss)	21.2	(62.3)
Deficit in schemes at end of the year	(104.8)	(136.2)

29 Pension schemes continued

(b) FRS 17 disclosures continued

Details of experience gains and losses	2003 £m	2003 %	2002 £m	2002 %
Differences between the expected and actual return on scheme assets:				
Amount	16.8		(43.6)	
Percentage of scheme assets		8.7		(26.0)
Experience gains and losses on scheme liabilities:				
Amount	14.0		7.4	
Percentage of the present value of scheme liabilities		4.7		3.0
Changes in the assumptions underlying the present value of scheme liabilities:				
Amount	(9.6)		(26.1)	
Percentage of the present value of scheme liabilities		(3.2)		(10.7)
Total amount recognised in statement of total recognised gains and losses:				
Amount	21.2		(62.3)	
Percentage of the present value of scheme liabilities		7.0		(25.5)

30 Related party transactions

The group recharges the two major pension schemes referred to in note 29 with a proportion of the costs of administration and professional fees incurred by the group. The total amount recharged during the year was £0.9m (2002 £0.8m), and amounts due from the pension schemes at 31 December 2003 were £0.5m (2002 £0.3m).

Independent auditors' report

To the members of Provident Financial plc

We have audited the financial statements 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. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985, contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for the preparation of the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 financial statements, 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 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 financial statements. The other information comprises only the Chairman's statement, the Chief Executive's review, the financial review, the directors' report, the unaudited part of the directors' remuneration report and the corporate governance report.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the combined code issued in June 1998 specified for our review by the listing rules of the Financial Services Authority, 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 financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements and the auditable part of the directors' remuneration report 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 financial statements.

Opinion

In our opinion:

– the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of the profit and cash flows of the group for the year then ended;
– the financial statements have been properly prepared in accordance with the Companies Act 1985; and
– those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
16 March 2004

Information for shareholders

1 Financial calendar – dividends

	2003 Final	2004 Interim
Dividend announced	26 February 2004	27 July 2004
Ex-dividend date for ordinary shares	7 April 2004	15 September 2004
Record date for the dividend	13 April 2004	17 September 2004
Annual general meeting	5 May 2004	–
Payment date of the dividend	14 May 2004	15 October 2004

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. Information is also available, at a cost, from 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 Herald
The Times	The Independent	The Express	Evening Standard	The Scotsman	

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 $^{1}/_{9}$th 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;

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 The Provident Financial Company Nominee Scheme continued

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 Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone: 0870 162 3100).

7.2 The registrar's website is www.capitaregistrars.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 29 February 2004

Shareholding range	Shareholders (Number)	Shareholders (%)
Up to 1,000	3,218	43.15
1,001 – 5,000	2,750	36.88
5,001 – 50,000	1,064	14.27
50,001 – 500,000	345	4.63
500,001 – 1,000,000	32	0.43
1,000,001+	48	0.64
Total	7,457	100

Advisers

Independent auditors
PricewaterhouseCoopers LLP

Joint financial advisers and stockbrokers
Dresdner Kleinwort Wasserstein
Merrill Lynch

Registrar
Capita Registrars

Solicitors
Slaughter and May
Eversheds LLP

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Notes

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Paper specification

One of Provident Financial's environmental objectives is to use paper as efficiently as possible. This report is produced on material which comprises 50% TCF (totally chlorine free) pulp from sustainable forests and 50% recycled and de-inked pulp from pre- and post-consumer waste.

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