us

Provident Financial and its business

Annual Report & Accounts 2002

PROVIDENT FINANCIAL

you me us

Ours is a business built on personal relationships. Everything we do is directed at strengthening relationships with our customers and making Provident better at meeting their needs.

Our home credit business, for instance, works because agents build good relationships with customers: we're one of the few large lenders that knows all its borrowers personally. The core of the home credit service, the weekly visit from the agent, has not changed in over 120 years. It survives and succeeds because it reflects the way people like to do business.

Not least, our borrowers have the reassurance that Provident will lend responsibly. In home credit, agents know how much their customers can afford and it is in their interest to ensure they do not overlend. Customers also welcome the flexible terms and the fact that there are never any penalty charges, even if payments are late. All this results in highly satisfied customers who continue to return to us and also recommend Provident to others.

Because we know our customers so well, we're now starting to explore other ways of meeting their needs. And we will aim to continue this personal touch as we expand and develop new businesses. Our newer products may not all rely on the agent's visit, but they do help to broaden the service and give our customers what they want.

At Provident, there's a clear alignment of interests between customers, agents, employees, investors and society at large. The better we get on with our customers and provide the products and service they want, the more we prosper as a business. This allows us to offer better careers and prospects to our employees, to give greater returns to our shareholders and to meet our social responsibilities more effectively.

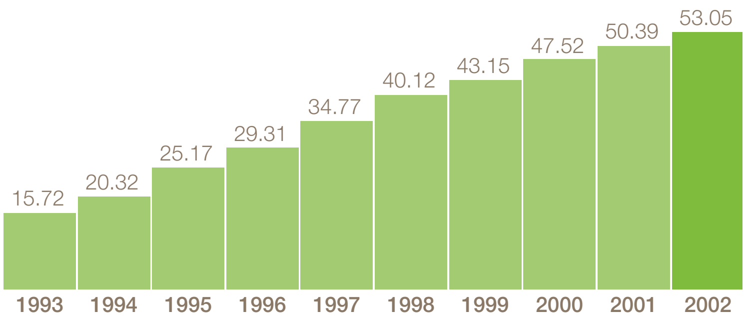
You, me, us – we're all involved in Provident's success.

Annual Report The company's Annual Report consists of this document and the Annual Review and Summary Financial Statement (together 'the Annual Report 2002'). Following the passing of the resolutions to be proposed at the 2003 annual general meeting to receive the audited financial statements and approve the directors' remuneration report, the two documents which comprise the Annual Report 2002, omitting photographic representations, will be filed at Companies House pursuant to the Companies Act 1985.

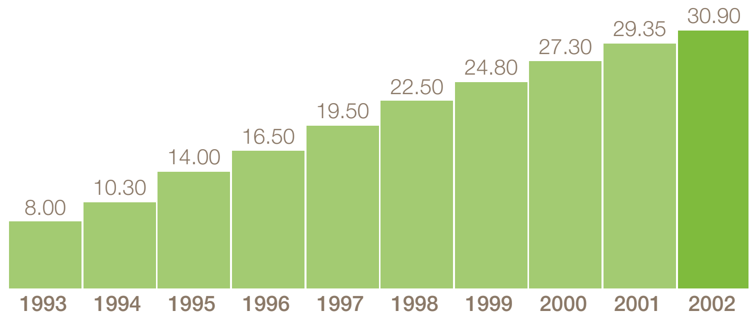
Contents

Front cover A Provident Financial employee from Hungary.

Group pre-exceptional earnings per share (p)



Dividend per share (p)



Financial review

Our business has made excellent progress and delivered good results during 2002. We are confident about the group's prospects for 2003.

Profit

Group operating profit for the year, analysed by division, is as follows:

	2002 £m	2001 £m	Change %
UK home credit	152.5	150.4	1.4
International	10.6	0.8	1,303
Motor insurance	35.8	35.1	2.0
Central costs	(17.8)	(13.1)	(36.3)
Businesses sold or closed	1.0	(3.6)	129
Operating profit	182.1	169.6	7.4

Group profit before tax, prior to the exceptional loss on the sale of Colonnade Insurance Brokers Limited ('Colonnade'), increased to £182.1 million (2001 £169.6 million), up by £12.5 million (7.4%). The loss on the sale of Colonnade of £10.7 million is stated after the write-back of goodwill of £14.8 million that had previously been charged to reserves.

UK home credit showed steady profit growth of 1.4% to £152.5 million (2001 £150.4 million).

The international division reported a profit for the year of £10.6 million (2001 £0.8 million) after start-up losses in Slovakia and Hungary of £5.1 million. Poland and the Czech Republic reported strong growth with profits of £16.7 million and £5.1 million compared to 2001 profits of £6.7 million and £2.5 million respectively.

Our motor insurance division, excluding Colonnade, reported a 2% increase in profit to £35.8 million (2001 £35.1 million).

Central costs of £17.8 million (2001 £13.1 million) include additional interest costs of £1.2 million following the share buy-back in 2001, together with expenditure of £1.9 million relating to research into the credit card market and initial set-up costs of the operation.

Earnings, tax and dividends

Pre-exceptional earnings per share increased by 5.3% to 53.05p.

The effective tax rate for 2002 was 29% of pre-exceptional earnings. It is expected that the effective tax rate will be at or around 29.5% in 2003.

The full year dividend per share has been increased by 5.3% to 30.90p, with a dividend cover of 1.68 times pre-exceptional earnings.

Accounting policies

The group's accounting policies are selected by the directors to enable the group's financial statements to give 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 companies legislation. 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 periodically.

Capital structure

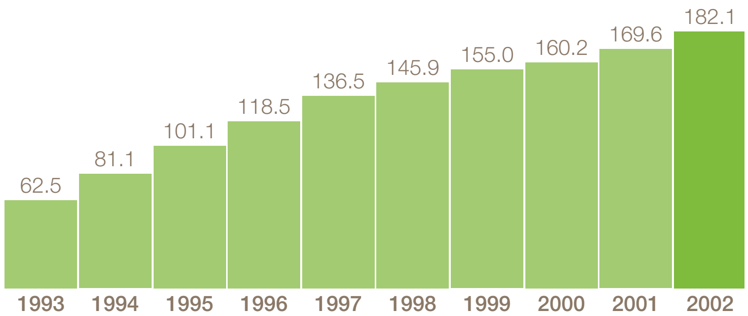
The capital structure of the group can be analysed as follows:

	2002 £m	2001 £m
Consumer credit receivables	963	729
Net borrowings	696	484
Insurance capital	91	102
Consumer credit capital	227	192
Goodwill	85	3
Group capital	403	297
Consumer credit capital % net receivables	24%	26%
Group gearing ratio	173%	163%
Consumer credit gearing ratio	307%	252%

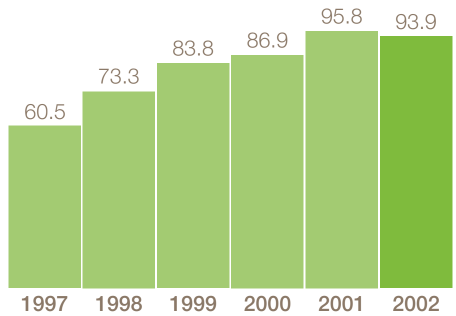
We aim to fund about 25% of our consumer credit receivables by equity. At 31 December 2002, we were close to this target. The consumer credit divisions, in the UK and internationally, including Yes Car Credit, had capital excluding goodwill of £227 million. This capital represents approximately 24% of net customer receivables.

During the year we acquired the Yes Car Credit business for an initial consideration of approximately £53 million. This acquisition and subsequent re-financing of the borrowings of Yes Car Credit was part-funded by an issue of 8.6 million ordinary shares at a price of 585p per share. Goodwill of £82.3 million arose on the acquisition.

Group pre-exceptional profit before tax (£m)



Economic profit (£m)



Economic profit is calculated as pre-exceptional profit after current tax, less the cost of equity. The cost of equity in 2002 has been calculated after applying an estimated weighted average cost of equity of 9.76% (2001 10.15%) to opening shareholders' funds, after adjusting for deferred taxation and proposed dividends.

The group's gearing ratio (net borrowings divided by group net assets) increased in 2002 to 173% from 163% at 31 December 2001 mainly as a result of the Yes Car Credit acquisition. However, the group's net borrowings relate to the consumer credit businesses and the gearing ratio of this part of the group (net borrowings divided by consumer credit net assets excluding goodwill) at 31 December 2002 was 307% (2001 252%).

Economic profit

The group has a track record of generating added value for its shareholders by earning post tax profit in excess of its cost of equity. This measure is known as economic profit. In 2002, economic profit was £93.9 million, down a little on the 2001 economic profit of £95.8 million, mainly as a result of the higher effective tax rate in 2002.

Cash flows

The group has a record of strong cash generation. During the year the group generated free cash flow (operating cashflows less taxation and net capital expenditure) of £85.3 million (2001 £95.1 million). This is analysed as follows:

Free cash flow	2002 £m	2001 £m
UK home credit	81.5	77.3
International	(52.6)	(62.0)
Motor insurance	72.5	90.9
Central overheads	(16.1)	(11.1)
	85.3	95.1

The combined net free cash flow from the two home credit businesses was £28.9 million in 2002. To maintain our capital efficiency, we aim to fund 75% of the growth in our receivables with borrowings. Adding back the element of our receivables growth that is debt funded (£55.7 million) resulted in surplus capital generated by the home credit businesses of £84.6 million in 2002.

The insurance division is required to maintain capital within the business at levels set by its regulators. Of the free cash flow generated in 2002 of £72.5 million (2001 £90.9 million), £41.9 million (2001 £69.4 million) was retained in the business to cover technical reserves and to meet capital adequacy requirements. Hence the surplus capital generated from the insurance division in 2002 was £30.6 million (2001 £21.5 million).

The total surplus capital generated by the group in the year was, therefore £99.1 million after a cash outflow of £16.1 million relating to central overheads. Of this, the majority (£73 million) went to pay dividends and the remainder, together with the new equity issued, supported the acquisition of Yes Car Credit.

The nature of the cash flows arising from our home credit and motor insurance businesses are substantially different. In home credit, advances are made to customers which are collected in future periods and which, therefore, require funding. In the motor insurance division, premiums are received in advance and are held on deposit until claims are paid at a later date. The cash and investments held by the motor insurance division are strictly segregated from the rest of the group and are not available to service borrowings or to pay dividends to our shareholders. Borrowings and investments are, therefore, considered separately in the following analysis.

Borrowings

Purpose The group borrows principally to fund a proportion of the value of the loans advanced to customers by the consumer credit businesses. To ensure that there are sufficient funds available, we arrange committed borrowing facilities comfortably exceeding our peak funding requirements and for periods well in excess of the life of the loans. At 31 December 2002 we had committed facilities of £944 million, compared with gross borrowings of £734 million. Our borrowing facilities had an average maturity of 3.8 years.

Sources The group's main sources of funding are term loans and committed revolving loan and acceptance credit facilities provided by banks based in the UK, the Republic of Ireland, Poland, the Czech Republic and Hungary. During 2002, the group secured additional funding of £150 million to finance the acquisition and subsequent re-financing of the Yes Car Credit operation and raised a further £66 million from a syndicated loan facility in Poland in order to fund the continuing growth of the Polish loan book.

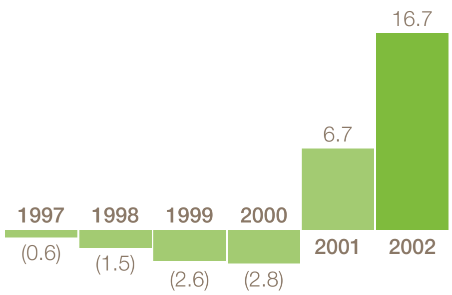
Scale Overall group borrowings were £734 million at 31 December 2002 compared with £516 million in 2001. The principal use of the increased borrowing was to finance the acquisition of Yes Car Credit and the growth in the international division's loan book.

Interest payable and interest cover Interest costs of £39.8 million were £4.7 million higher than in 2001, largely reflecting the higher average level of borrowings during the year resulting from the expansion of the international division. The average rate of interest paid, including hedging costs, was 7.1% in 2002 compared with 7.4% in 2001. Interest payable is covered six times by pre-exceptional profit before interest and tax (2001 six times).

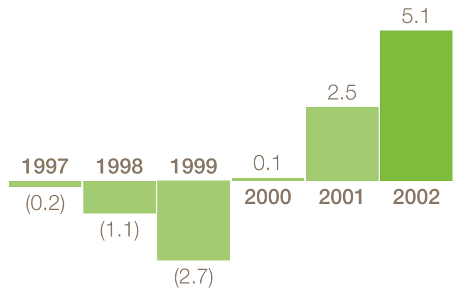
Timing The normal pattern of lending to customers means that our peak funding requirements arise in December each year.

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

Poland profit/(loss) before tax (£m)



Czech Republic profit/(loss) before tax (£m)



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 produce a reliable flow of interest income while ensuring the security of the investment. The motor insurance division's investment portfolio consists entirely of deposits with, or investments in, interest-bearing instruments issued by banks and building societies for periods of up to five years. There are strict limits, approved by the board, on our maximum exposure to any one counterparty and on the average maturity of the portfolio.

Total interest earning deposits and investments held by the motor insurance division amounted to £466 million at 31 December 2002 (2001 £430 million). The division's total investment income increased from £23.1 million to £24.4 million, reflecting the higher average value of the investment fund. The yield in 2002 averaged 5.4% compared with 6.0% in 2001.

Treasury activities

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

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

Interest rate and currency hedging

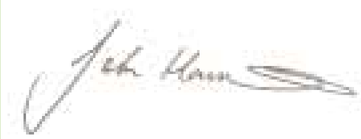
Interest rate The interest rate risk for the group, inherent in the funding and investment portfolios, is managed by a combination of natural hedging, which allows the increased cost of borrowing resulting from higher interest rates to be offset by increased investment income and vice versa, and by the use of derivative instruments such as interest rate swaps and caps. Details of the group's interest rate exposure at 31 December 2002 are set out on pages 38 to 40 in note 16 of the notes to the accounts.

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

Details of the group's currency exposure at 31 December 2002 are set out on page 40 in note 16 of the notes to the accounts.

Going concern

In light of the financial position and committed borrowing facilities at 31 December 2002, the directors have reviewed the group's budgets, plans and cash flow forecasts for the year to 31 December 2003 and outline projections for the four subsequent years. They have a reasonable expectation that the group has adequate resources to continue its operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.



John Harnett, Finance Director
5 March 2003

Directors' report

The directors submit their report for the financial year ended 31 December 2002.

1 Review of the business

1.1 A full review of the group's activities, performance and prospects is contained in the separate document the 'Annual Review and Summary Financial Statement 2002' and in the financial review on pages 1 to 3 of this report.

1.2 Provident Financial plc ('the company') is a holding company. Details of the main trading subsidiary undertakings are shown on page 34 in note 12 of the notes to the accounts.

2 Dividends

An interim dividend of 12.46p per ordinary share was paid on 18 October 2002. The board recommends a final dividend of 18.44p per ordinary share to be paid on 9 May 2003 to shareholders on the register at the close of business on 11 April 2003. This makes a total dividend for the year of 30.90p 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 8,812,282 to 254,225,621 shares. Details are set out on page 43 in note 23 of the notes to the accounts.

3.2 Employee savings-related share option schemes

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

3.3 Executive share option schemes

No further options can be granted under the Provident Financial plc Senior Executive Share Option Scheme ('the 1985 scheme'). The current schemes are the Provident Financial plc Senior Executive Share Option Scheme (1995) ('the 1995 scheme') and the Provident Financial plc 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 2002 – 28 February 2003

Date of grant of option	Name of scheme	Number of shares	Exercise price (p)	Normal exercise dates
9 May 2002	1995 scheme	46,541	709	May 2005 – May 2012
9 May 2002	1996 scheme	1,004,378	709	May 2005 – May 2012
27 August 2002	1993 scheme	831,983	468	November 2005 – April 2010
27 August 2002	2000 scheme	22,060	468	November 2005 – April 2008

3.5 Share option schemes: exercises 1 January 2002 – 28 February 2003 and outstanding options

Name of scheme	Options exercised in 2002	Options outstanding at 31 December 2002	Normal exercise dates	Exercise price (p)	Exercised from 01.01.03 to 28.02.03
1985 scheme	80,000	16,000	up to 2005	256.5 and 276.5	–
1993 scheme	459,031	2,578,202	up to 2010	193.5 – 744	19,133
1995 scheme	10,114	286,022	up to 2012	520 – 1,037	–
1996 scheme	122,168	3,565,129	up to 2012	450 – 1,037	–
2000 scheme	–	29,519	up to 2008	468 – 712	–

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

The QUEST, a discretionary trust for the benefit of group directors and employees, operates in conjunction with the 1993 scheme. The trustee, Provident Financial Trustees Limited, is a subsidiary of the company. As at 1 January 2002, the trustee held 2,136,030 ordinary shares in the company. During 2002, 459,984 ordinary shares were transferred to directors and employees on the exercise of options pursuant to the 1993 scheme. On 31 December 2002, the trustee held 1,676,046 ordinary shares in the company. Further details are set out on page 35 in note 13 of the notes to the accounts.

3.7 Authority to purchase shares

At the annual general meeting of the company held on 1 May 2002 the shareholders authorised the company to purchase up to 24,540,000 of its ordinary shares. 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 30 April 2003.

3.8 Placing of shares

On 18 December 2002 the company launched and completed the placing of 8,600,000 ordinary shares to fund in part the acquisition of the companies trading as Yes Car Credit. The shares were placed at 585p and were allotted to DRKWS Nominees Limited on 23 December 2002. The market value of ordinary shares in the company on 17 December 2002 was 591p.

3.9 Substantial shareholdings

The company has received notifications from AXA Investment Managers UK Limited, Legal & General Investment Management Limited, Fidelity International Limited/FMR Corporation, The Prudential Assurance Company Limited and Prudential plc that each is interested in more than 3% of the ordinary share capital of the company. On the basis of the information available to the company as at 26 February 2003, these and the following investment managers (through segregated managed funds) have interests in aggregate amounting to over 3%:

Prudential plc	6.37%
Fidelity International Limited/FMR Corporation	5.91%
AXA Investment Managers UK Limited	4.90%
Schroder Investment Management UK Limited	4.65%
Deutsche Asset Management	4.35%
Henderson Global Investors	4.26%
Barclays Global Investors Limited	3.73%
Legal & General Investment Management Limited	3.25%

4 Directors

4.1 The directors of the company are listed in paragraph 5.1 below. They all served as directors throughout 2002. No other person was a director of the company during the year.

4.2 In accordance with the articles of association, Robin Ashton and Charles Gregson retire by rotation and, being eligible, offer themselves for re-election at the AGM.

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

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

5 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 2002	1 January 2002
John van Kuffeler	13,395	10,000
Robin Ashton	39,672	58,500
John Harnett	8,000	8,000
Chris Johnstone	97,590	92,318
David Swann	53,638	47,035
Charles Gregson	1,837	1,837
Angela Heylin	1,100	1,100
John Maxwell	2,100	2,100

5.2 No director had any non-beneficial holdings at 31 December 2002 or at any time up until 28 February 2003. On 27 February 2003 awards of ordinary shares were made under the Provident Financial Performance Share Plan as follows: Robin Ashton 3,386 shares, John Harnett 6,494 shares, Chris Johnstone 5,598 shares and David Swann 5,656 shares.

5.3 The QUEST operates in conjunction with the Provident Financial plc Employee Savings-Related Share Option Scheme (1993) and shares are transferred from the QUEST to employees when they exercise options. The directors, as beneficiaries under the QUEST along with group employees, are technically treated as having an interest in the shares held by the QUEST. As at 31 December 2002, the QUEST held 1,676,046 shares in the company.

5.4 Details of options granted to and exercised by directors are set out on page 14 in paragraph 6.1 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 8 to 10 of the corporate governance report.

7 Employee involvement

7.1 The company operates the Provident Financial plc Employee Savings-Related Share Option Scheme (1993) (referred to in paragraph 3.2 above). 1,648 employees are currently saving to buy shares in the company under this scheme. One of the three directors of the trustee company of the QUEST has been selected by group employees.

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, which together cover most of the group employees, is achieved by the appointment of member trustees of each scheme and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pensions matters.

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

8 Social, environmental and ethical matters

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

8.2 Details of the group's community involvement are contained in the separate booklet entitled Provident Financial Corporate Responsibility Report (the 'Corporate Responsibility Report'). The Corporate Responsibility Report is available from the company or from www.providentfinancial.com.

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. 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 pages 9 and 10 in paragraph 5 (accountability and audit) 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 11 in paragraph 3.4 of the directors' remuneration report. Details of training for directors are set out on page 8 in paragraph 2.6 of the corporate governance report.

8.6 The Environmental Strategy Group, under the chairmanship of John Harnett, has established new working groups within the subsidiary companies. During 2002 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 2002 and a full programme of work and firm targets have been set for 2003. Details (including details of how targets were fulfilled in 2002) are included in the Corporate Responsibility Report.

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 formally reports to the board each December on health and safety within the group by producing a written report and has a general co-ordination role. Subsidiary boards are responsible for the issue and implementation of their own health and safety policy as it affects the subsidiary company's day to day responsibility for health and safety. Each board considers health and safety at a board meeting once a year and produces a written report for the Health and Safety Steering Group.

10 Equal opportunities
The company is committed to equal opportunity in recruitment, promotion and employment and does not discriminate on the basis of sex, race or religion. It gives full and fair consideration to applications for employment from disabled persons and to their subsequent training and career development. 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 2002. The average number of days' credit taken by the group during the year was 22 days (2001 20 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 John Harnett. The costs associated with the introduction of the euro in the Republic of Ireland were not significant. It is too early to forecast the potential costs should the euro be introduced in the UK.

13 Auditors
Following the conversion of our auditors PricewaterhouseCoopers to a limited liability partnership (LLP) from 1 January 2003, a resolution to appoint its successor, PricewaterhouseCoopers LLP, as auditors to the company will be proposed at the AGM.

14 Annual general meeting
The 43rd annual general meeting of the company will be held at 12 noon on Wednesday 30 April 2003 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 21 March 2003.

Approved by the board on 5 March 2003.

Rosamond Marshall Smith
Company Secretary
5 March 2003

Corporate governance report

1 Introduction

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

2 Directors

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

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

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

2.4 Under the company's articles of association, one third of the directors are obliged to retire each year and each director must offer himself for re-election every three years. A director who is initially appointed by the board is subject to election at the annual general meeting following his or her appointment. In 2002, biographical details of the directors submitted for election and re-election at the annual general meeting were supplied to shareholders in the relevant circular dated 22 March 2002.

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

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

2.7 The roles of the Chairman and Chief Executive are separated. The non-executive Deputy Chairman is the senior director other than the Chairman to whom concerns can be conveyed. The executive directors are responsible for the day-to-day running of the group but the board has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets, financial results, new board appointments, proposals for dividend payments and the approval of all major transactions. This schedule is reviewed on an annual basis and was last reviewed on 11 December 2002.

3 Board committees

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

3.2 Audit committee

3.2.1 From 1 January to 31 December 2002 this committee consisted of Charles Gregson and Angela Heylin under the chairmanship of John Maxwell.

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

3.3 Executive committee

3.3.1 From 1 January to 31 December 2002 this committee consisted of John Harnett, Chris Johnstone and David Swann under the chairmanship of Robin Ashton.

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

3.4 Nomination committee

3.4.1 From 1 January to 31 December 2002 this committee consisted of Robin Ashton, Charles Gregson, Angela Heylin and John Maxwell under the chairmanship of John van Kuffeler.

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

3.5 Remuneration committee
3.5.1 From 1 January to 31 December 2002 this committee consisted of Charles Gregson and John Maxwell under the chairmanship of Angela Heylin.

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

3.6 Risk advisory committee
3.6.1 From 1 January to 31 December 2002 this committee consisted of Robin Ashton, Angela Heylin and John Maxwell under the chairmanship of Charles Gregson.

3.6.2 Its function is to keep under review the effectiveness of the group's system of non-financial internal controls, including operational and compliance controls and risk management. It meets at least three times a year.

4 Relations with shareholders
4.1 The executive directors meet with institutional shareholders on a regular basis.

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

4.3 At the 2002 AGM details of proxy votes cast on each resolution were made available to shareholders and other interested parties.

4.4 At the 2002 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 24 working days' notice of the 2002 AGM was given; this year 25 working days' notice is being given.

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

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

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

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

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

5.4.1 In December each year the board approves detailed budgets and cash flow forecasts for the year ahead. It also approves outline projections for the subsequent 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.

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

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

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

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

5.4.6 The board has reviewed the effectiveness of the group's framework of internal controls during 2002.

5.5 The audit committee recommends the appointment of auditors to the board. It keeps under review the independence of the group's auditors PricewaterhouseCoopers ('PwC'). At its December 2002 meeting it considered PwC's fees, the audit strategy for the year and a letter of independence from PwC.

5.6 In 2002 the audit committee considered a detailed schedule of non-audit work carried out by PwC at its February meeting. This policy has now been changed so that in future the audit committee will consider a schedule of non-audit work at each meeting.

5.7 Non audit work carried out by PwC falls broadly into three categories: audit related services (including work in connection with acquisitions and disposals), tax accounting and compliance; and general tax advice. It is considered that in the case of the first two categories the auditors' knowledge of the group and its affairs provides significant advantages and that it is therefore in the best interests of the group to use the auditors for this work. However, each project is considered on a case-by-case basis. In the case of general tax advice, there is not necessarily the same benefit in using the auditors and the company uses other advisers in addition to PwC. Details of non-audit work carried out by PwC are shown below:

	2002 £'000	2001 £'000
Due diligence on acquisitions and disposals	833	37
Tax accounting and compliance	395	243
General tax advice	295	535
Advice on credit card development	234	–
Other non-audit services	113	143
	1,870	958

5.8 At its February 2002 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.

5.9 In the light of concerns which have been raised in relation to the independence of auditors generally, the board and the audit committee will review the company's policies in respect of non-audit work and the independence of the auditors with a view to making any appropriate changes in July 2003 or as soon after as is practicable. Consideration will be given to the recommendations of the various reports which have been published on this topic.

6 Directors' responsibilities in relation to the accounts

6.1 The following statement, which should be read in conjunction with the independent auditors' report on page 48, is made to distinguish for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

6.2 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 18 to 47 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.

6.3 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.

6.4 This document (the Annual Report and Accounts 2002) together with the Annual Review and Summary Financial Statement 2002 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.

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

7 Statement of compliance with the Combined Code

The company has complied with all the provisions in Sections A, B, C and D of the Combined Code throughout 2002, with the exception of B.1.7. It is not considered appropriate that the notice periods in the executive directors' contracts should be reduced to one year for the reasons set out on page 12 in paragraph 3.10 of the directors' remuneration report.

Directors' remuneration report

1. Introduction
This is the directors' remuneration report of Provident Financial plc ('the company') for the financial year ended 31 December 2002. It has been 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 30 April 2003.

2. The remuneration committee
2.1 In accordance with best practice, the company has had a remuneration committee ('the committee') for many years. Pursuant to its terms of reference, it considers the framework of executive remuneration and makes recommendations to the board. It also considers the specific remuneration packages and conditions of service of executive directors, including their service agreements. No director is involved in determining his own remuneration.

2.2 For the whole of 2002 the committee consisted of Charles Gregson and John Maxwell under the chairmanship of Angela Heylin.

2.3 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 2002 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 2002; as a solicitor she provided legal and technical support to the committee.

2.4 In 2002 the committee adopted the Provident Financial Performance Share Plan ('the performance share plan') pursuant to a resolution of the company in general meeting; the performance share plan had previously been considered and recommended to the board by the committee. The committee took advice on the performance share plan from Slaughter and May, and Monks Partnership, both of whom were instructed on behalf of the committee by the secretary. Monks Partnership were also instructed (again on behalf of the committee by the secretary) to provide advice on remuneration trends. Slaughter and May are the company's city solicitors and during 2002 provided advice principally on corporate and treasury matters. Monks Partnership is a trading name of PricewaterhouseCoopers, which also provides audit, accounting and tax services to the company.

3. Statement of the company's policy on directors' remuneration
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 (which are subject to performance conditions) and the performance share plan (which is subject to performance conditions).

3.3. The committee reviews the executive directors' remuneration annually. In December 2002, the committee decided to continue the existing policy of setting the executive directors' basic salaries in the lower quartile to median range (determined by reference to a broad range of appropriate companies selected by Monks Partnership) but to increase the potential earnings under the annual cash bonus scheme. The committee also considered the individual performance of each director. The executive directors' salary increases averaged 6.6% and these increases were implemented from 1 January 2003.

3.4 Annual cash bonuses are payable, subject to the satisfaction of performance conditions. They are calculated as a percentage of salary. The purpose of the bonus scheme is to provide a meaningful incentive for executive directors which is clearly focused on improving the group's performance and directly aligns shareholder and executive director interests. 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. For 2003, no bonus will be payable if growth in earnings per share is less than 4%. Up to 15% of salary will be payable if growth in earnings per share is 4% and the percentage rises to a maximum of 100% of salary for 15% growth in earnings per share, provided that each director's agreed personal objectives have also been achieved. In exceptional circumstances the committee may make such adjustments to the calculation of earnings per share as it considers fair and reasonable. Bonuses do not form part of pensionable earnings.

3.5 The company currently operates two senior executive share option schemes. Further details are set out in paragraphs 3.5.1 to 3.5.7 below.

3.5.1 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/her salary.

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

3.5.3 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).

3.5.4 For options granted in 2002 the following performance conditions apply:

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

3.5.5 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 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.

3.5.6 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.

3.5.7 No executive options have been offered at a discount.

3.6 The executive directors (together with other eligible group employees) may participate in the Provident Financial plc Employee Savings-Related Share Option Scheme (1993). Participants save a fixed sum each month for three or five years and have the option to use these funds to purchase shares after three, five or seven years. The exercise price is fixed at up to 20% below the market value of the shares at the date directors and employees are invited to participate in the scheme. Up to £250 can be saved each month. This scheme does not contain performance conditions as it is an Inland Revenue approved scheme designed for employees at all levels.

3.7 The performance share plan entitles executive directors who waive up to 50% of their annual cash bonus to be considered for participation. Participants will receive a basic award 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 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 following advice from Monks Partnership and after consideration of other possible types of condition. The committee took the view that the use of this earnings per share target aligned the interests of the directors with those of the shareholders.

3.8 The company has a share retention policy for executive directors which encourages them over a five year period to build up a shareholding based on shares acquired under senior executive share option schemes (referred to in paragraph 3.5 above) and the performance share plan (referred to in paragraph 3.7 above) with a market value of twice annual salary.

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

3.10 The executive directors have service agreements which require two years' notice to be given by the company. The company and the committee consider that the two year notice periods are in the best interests of the group. In view of the group's specialist businesses, the main concern is to retain senior management and seek to ensure that they are not able to leave and make their valuable experience and training available to a competitor without adequate safeguards. The company has a policy and a record of retaining its executive directors and management over the longer term and providing them with extensive development opportunities and with support in their study for qualifications. No director has a service agreement containing a liquidated damages clause on termination; in the event of the termination of a contract, 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.

3.11 Full details of salaries, bonus earnings and other benefits for 2002 (with 2001 comparative figures) for the executive directors are set out in the table of directors' remuneration in paragraph 4 below. Full details of share options are set out in the table in paragraph 6 below. Full details of awards under the performance share plan are set out in the table in paragraph 7 below.

3.12 The fees for the non-executive directors are fixed by the board. Their business expenses are reimbursed by the company. Full details of their fees for 2002 (with 2001 comparative figures) are set out in the table of directors' remuneration in paragraph 4 below.

3.13 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 2003.

4. Directors' remuneration

The aggregate directors' emoluments during the year amounted to £1,586,000 (2001 £1,566,000 excluding directors who retired in 2001) analysed as follows:

	Salary £'000	Bonus £'000	Benefits £'000	Fees £'000	2002 Total £'000	2001 Total £'000
Chairman						
John van Kuffeler* from 01.01.02 to 30.04.02	127	–	15	–	142	479
from 01.05.02 to 31.12.02	83	–	19	–	102	–
Executive directors						
Robin Ashton	331	54	23	–	408	355
John Harnett	236	38	28	–	302	292
Chris Johnstone	210	33	19	–	262	179
David Swann	210	33	29	–	272	181
	1,197	158	133	–	1,488	1,486
Non-executive directors						
Charles Gregson	–	–	–	30	30	25
Angela Heylin	–	–	4	30	34	28
John Maxwell	–	–	4	30	34	27
	–	–	8	90	98	80
Total	1,197	158	141	90	1,586	1,566

* John van Kuffeler became non-executive with effect from 1 May 2002.

5. Payments to former directors

5.1 In 2002 payments were made to three former directors (Howard Bell, formerly Chief Executive, Peter Bretherton, formerly Director of Corporate Affairs and Peter Fryer, formerly Financial Services Director) pursuant to the arrangements which were made when they retired from the board pursuant to the company's succession planning. This planning, successfully completed in 2002, began in 1999 when four out of five of the executive directors were in their fifties. The timing and successful implementation of the subsequent board changes was critical for the future development of the company and its businesses both within the UK and internationally. The three former directors at various times agreed to retire before their normal retirement dates in order to facilitate the change in board structure. 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.

5.2 Howard Bell entered into a fixed term service contract with the company as an executive under the terms of which he would continue to receive basic salary (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 2002 he received £342,380 in salary and £110,517 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 174,126 shares until 27 September 2004, at prices ranging between 520p and 985p. In November 2002 he exercised executive options granted to him in 1994, 1995 and 1996 over 70,000 shares on which he made a gain of £237,900.

5.3 Peter Bretherton also entered into a similar fixed term service contract (containing restrictive covenants) with the company as an executive under the terms of which he would continue to receive basic salary (increased annually to take account of inflation) and certain benefits until 31 July 2003. In 2002 he received £228,428 in salary and £97,175 by way of 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 112,495 shares until 31 July 2003, at prices ranging between 508p and 985p.

5.4 Peter Fryer received payments totalling £95,503 in 2002 pursuant to a fixed term service contract which expired in June 2002. He also received benefits (including pension contributions) during the year of £33,829. In June 2002 he exercised executive options over 40,000 shares granted to him in 1995 on which he made a gain of £165,800 and in October 2002 he exercised executive options granted to him in 2000 over 9,232 shares on which he made a gain of £10,063. He has no outstanding rights to exercise options.

6. Share option schemes

6.1 Directors' share options at 31 December 2002 were as follows:

Director's name	1 January 2002	Granted in 2002	Exercised in 2002	31 December 2002	Exercise price (p)	Market price at date of exercise (p)	Performance conditions	Range of exercisable dates of options held at 31 December 2002
John van Kuffeler	45,000	–	–	45,000	450.0		A	9/1999 – 9/2006
	75,803	–	–	75,803	638.5		A	9/2000 – 8/2007
	37,664	–	–	37,664	985.0		A	8/2001 – 8/2008
	3,395	–	(3,395)*	–	508.0	680.0	–	–
	47,483	–	–	47,483	979.3		A	3/2002 – 3/2009
	38,462	–	–	38,462	520.0		A	2/2003 – 2/2010
	247,807	–	(3,395)	244,412				
Robin Ashton	30,000	–	–	30,000	450.0		A	9/1999 – 9/2006
	43,774	–	–	43,774	638.5		A	9/2000 – 8/2007
	2,620	–	–	2,620*	744.0		–	11/2005 – 4/2006
	20,660	–	–	20,660	985.0		A	8/2001 – 8/2008
	26,651	–	–	26,651	979.3		A	3/2002 – 3/2009
	30,001	–	–	30,001	520.0		A	2/2003 – 2/2010
	28,939	–	–	28,939	622.0		A	8/2004 – 8/2011
	–	93,300	–	93,300	709.0		B	5/2005 – 5/2012
	182,645	93,300	–	275,945				
John Harnett	33,269	–	–	33,269	1,037.0		A	5/2002 – 5/2009
	87,500	–	–	87,500	520.0		A	2/2003 – 2/2010
	16,077	–	–	16,077	622.0		A	8/2004 – 8/2011
	–	66,643	–	66,643	709.0		B	5/2005 – 5/2012
	136,846	66,643	–	203,489				
Chris Johnstone	15,000	–	–	15,000	450.0		A	9/1999 – 9/2006
	34,178	–	–	34,178	638.5		A	9/2000 – 8/2007
	1,358	–	(1,358)*	–	508.0	680.0	–	–
	7,615	–	–	7,615	985.0		A	8/2001 – 8/2008
	8,144	–	–	8,144	979.3		A	3/2002 – 3/2009
	42,502	–	–	42,502	520.0		A	2/2003 – 2/2010
	33,119	–	–	33,119	622.0		A	8/2004 – 8/2011
	2,033	–	–	2,033*	498.0		–	11/2006 – 4/2007
	–	59,238	–	59,238	709.0		B	5/2005 – 5/2012
	–	1,414	–	1,414*	468.0		–	11/2007 – 4/2008
	143,949	60,652	(1,358)	203,243				
David Swann	5,176	–	(5,176)*	–	226.0	580.0	–	–
	15,000	–	–	15,000	450.0		A	9/1999 – 9/2006
	33,336	–	–	33,336	638.5		A	9/2000 – 8/2007
	1,358	–	(1,358)*	–	508.0	680.0	–	–
	7,428	–	–	7,428	985.0		A	8/2001 – 8/2008
	7,944	–	–	7,944	979.3		A	3/2002 – 3/2009
	33,882	–	–	33,882	520.0		A	2/2003 – 2/2010
	41,800	–	–	41,800	622.0		A	8/2004 – 8/2011
	2,033	–	–	2,033*	498.0		–	11/2006 – 4/2007
	–	59,238	–	59,238	709.0		B	5/2005 – 5/2012
	–	1,414	–	1,414*	468.0		–	11/2007 – 4/2008
	147,957	60,652	(6,534)	202,075				
Total	859,204	281,247	(11,287)	1,129,164				

* granted under the Provident Financial plc Employee Savings-Related Share Option Scheme (1993).

6.2 The performance conditions which apply to the exercise of executive share options are as follows:

6.2.1 Performance Condition A 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);

6.2.2 Performance Condition B applies to options granted in 2002. 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 director's salary, the condition is 4% (rather than 3%) real growth in earnings per share.

6.3 For options granted to directors during 2002 the performance conditions were as follows; for Robin Ashton 46,650 of the shares under option are subject to a 3% condition and 46,650 are subject to a 4% condition; for John Harnett 33,321 at 3% and 33,322 at 4%; for Chris Johnstone 29,619 at 3% and 29,619 at 4% and for David Swann 29,619 at 3% and 29,619 at 4%.

6.4 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 2002 amounted to £28,834 (2001 £111,500).

6.5 The company's highest paid director in 2002 was Robin Ashton, whose emoluments amounted to £408,000 (2001 John van Kuffeler £479,000) 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 (2001 John van Kuffeler £nil).

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

6.7 The mid-market closing price of the company's shares on 31 December 2002 was 594p and the range during 2002 was 577.5p to 740p.

6.8 There were no changes in directors' share options between 31 December 2002 and 28 February 2003.

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

7. Performance Share Plan

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

Director's name	Basic awards (date of grant and number of shares)	Matching awards (date of grant and number of shares)	Market price of each share when award granted (p)	Earliest vesting date
Robin Ashton	27 February 2003 1,693 shares	27 February 2003 1,693 shares	585	27 February 2006
John Harnett	27 February 2003 3,247 shares	27 February 2003 3,247 shares	585	27 February 2006
Chris Johnstone	27 February 2003 2,799 shares	27 February 2003 2,799 shares	585	27 February 2006
David Swann	27 February 2003 2,828 shares	27 February 2003 2,828 shares	585	27 February 2006

7.2 The performance conditions attaching to the matching award are summarised in paragraph 3.7 above. There are no performance conditions attaching to the basic award.

8. Pensions and life assurance

8.1 There are three directors (2001 three) for whom retirement benefits are accruing under the Provident Financial Senior Pension Scheme ('the senior pension scheme') and two directors (2001 two) for whom retirement benefits are accruing under money purchase schemes. Benefits are also accruing under the senior pension scheme for two former directors, Howard Bell and Peter Bretherton (see paragraph 5 above).

8.2 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.

8.3 For John van Kuffeler, the company contributes 23% of his basic salary to his pension arrangements. The contributions are invested to produce benefits at his normal retirement date at age 60 or on death. He is also eligible for a lump sum death benefit of four times basic salary at date of death. Provision of these benefits is through personal pension policies, the Provident Financial Supplemental Pension Scheme and the Provident Financial Unapproved Funded Death Benefits Scheme. The company's contributions in respect of John van Kuffeler during 2002 (including the cost of the life insurance) amounted to £55,052 (2001 £91,097).

8.4 For John Harnett, the position is identical to that specified in paragraph 8.3 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 2002 (including the cost of the life insurance) amounted to £53,180 (2001 £49,254).

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

8.6 Details of the pension entitlements earned during 2002 are set out below:

Director's name	Age 31 December 2002	Accrued annual pension* 31 December 2002 £	Accrued annual pension* 31 December 2001 £	Increase/(decrease) in annual pension** 2002 £	Increase/(decrease) in annual pension** 2001 £	Director's contribution 2002 £	Director's contribution 2001 £	Transfer value of pension benefits accrued at 31 December 2002 £	Transfer value of pension benefits accrued at 31 December 2001 £	Increase/(decrease) in transfer value less directors' contributions £
Robin Ashton	44	93,900***	94,200	(1,900)	17,700	18,300	15,100	915,900	932,300	(34,700)
Chris Johnstone	43	73,300	65,800	6,300	19,100	12,400	7,700	681,000	620,500	48,100
David Swann	55	122,500	112,600	8,000	38,700	12,400	7,700	2,102,300	1,892,200	197,700

* Accrued annual pension is the pension to which the director would be entitled at his normal retirement date based on the number of years of pensionable service at 31 December 2002, 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 (1.7%).

*** The pension figure at the end of the year reflects the pension credit of £28,100 a year granted to Elizabeth Ashton pursuant to the terms of a decree absolute dated 26 March 2002.

8.7 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.

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

8.9 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.

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

9. Directors' service agreements

9.1 Two directors, Robin Ashton and Charles Gregson, are offering themselves for re-election at the annual general meeting to be held on 30 April 2003. Details of their contracts with the company are set out in paragraphs 9.2 and 9.4 below.

9.2 Each executive director has a service agreement which requires two years' 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 two years. There are no provisions for compensation payable upon early termination of any of the contracts. The dates of the contracts are as follows; Robin Ashton 28 January 2002; John Harnett 30 January 2002; Chris Johnstone 26 April 2001; and David Swann 26 April 2001.

9.3 The Chairman, John van Kuffeler, has a service agreement dated 29 January 2002 which requires two years' 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 two years.

9.4 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. Their initial three years may be extended by one further three year period (and, in exceptional cases, for a further three year period) subject to re-election by shareholders. The dates of the letters of appointment and the unexpired terms are as follows: Charles Gregson 20 February 2001 unexpired term: to 30 April 2004; Angela Heylin 19 February 2003 unexpired term: to 30 June 2003; and John Maxwell 15 May 2000 unexpired term: to 14 May 2003.

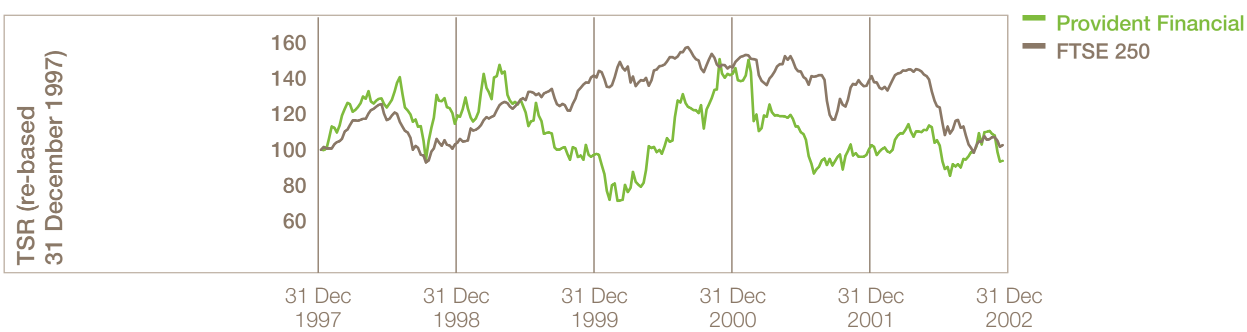
10. Audit

The elements of the directors' remuneration, including pension entitlements and share options set out in paragraphs 4 to 8 of this report, which are required to be audited have been audited in accordance with the Regulations.

11. 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 has been a member of this index throughout the five year period.

Provident Financial's TSR relative to the FTSE 250 Index



Base data at 31 December	1997	1998	1999	2000	2001	2002
Provident Financial	100.0	119.2	97.3	141.7	100.3	93.9
FTSE 250	100.0	104.2	141.4	146.4	138.4	102.7

Approved by the Board on 5 March 2003

Rosamond Marshall Smith
Company Secretary
5 March 2003

Consolidated profit and loss account

for the year ended 31 December	Notes	2002 £'000	2001 £'000
Turnover	1	874,992	833,178
Cost of sales		(453,580)	(435,198)
Gross profit		421,412	397,980
Administrative expenses		(239,272)	(228,370)
Operating profit	1	182,140	169,610
Exceptional loss on disposal of business	3	(10,700)	–
Profit before taxation	2	171,440	169,610
Taxation	4	(52,854)	(45,795)
Profit after taxation		118,586	123,815
Dividends	5	(76,922)	(71,788)
Retained profit for the year	27	41,664	52,027
Earnings per share			
Basic	6	48.66p	50.39p
Pre-exceptional	6	53.05p	50.39p
Adjusted	6	53.19p	50.45p*
Diluted	6	48.50p	50.08p

*Restated to exclude exceptional items and goodwill amortisation (see note 6).

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

Statement of total recognised gains and losses

for the year ended 31 December		2002 £'000	2001 £'000
Profit after taxation		118,586	123,815
Currency translation differences	28	(314)	(120)
Total recognised gains and losses relating to the year		118,272	123,695

Note of group historical cost profits and losses

for the year ended 31 December		2002 £'000	2001 £'000
Reported profit on ordinary activities before taxation		171,440	169,610
Realisation of property revaluation losses	25	(1,010)	–
Historical cost profit on ordinary activities before taxation		170,430	169,610
Historical cost profit for the year retained after taxation and dividends		40,654	52,027

Balance sheets

as at 31 December	Notes	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Fixed assets					
Intangible assets	10	85,493	3,510	–	–
Tangible assets	11	41,667	36,678	5,111	4,760
Investments in subsidiary undertakings	12	–	–	1,003,784	939,334
Investment in own shares	13	10,819	12,750	10,819	12,750
		137,979	52,938	1,019,714	956,844
Current assets					
Stock		10,987	–	–	–
Amounts receivable from customers – due within one year	14	821,078	719,637	–	–
– due in more than one year	14	141,915	9,614	–	–
Debtors – due within one year	17	171,627	173,216	536,530	542,789
– due in more than one year	17	–	–	197,852	–
Total debtors		1,134,620	902,467	734,382	542,789
Investments – realisable within one year	18	503,796	430,621	–	–
Cash at bank and in hand	18	48,474	44,623	8,085	216
		1,697,877	1,377,711	742,467	543,005
Current liabilities					
Bank and other borrowings	15	(38,248)	(42,969)	(22,158)	(13,178)
Creditors – amounts falling due within one year	19	(180,859)	(173,047)	(146,866)	(93,491)
Insurance accruals and deferred income	20	(495,305)	(438,838)	–	–
		(714,412)	(654,854)	(169,024)	(106,669)
Net current assets		983,465	722,857	573,443	436,336
Total assets less current liabilities		1,121,444	775,795	1,593,157	1,393,180
Non-current liabilities					
Bank and other borrowings	15	(695,386)	(473,231)	(568,289)	(434,554)
Creditors – amounts falling due after more than one year	21	(21,936)	–	–	–
Provisions for liabilities and charges – deferred taxation	22	(1,450)	(6,016)	(1,976)	(1,394)
		(718,772)	(479,247)	(570,265)	(435,948)
Net assets		402,672	296,548	1,022,892	957,232
Capital and reserves					
Called-up share capital	23	26,347	25,433	26,347	25,433
Share premium account	24	100,903	51,840	100,903	51,840
Merger reserve		–	–	2,335	2,335
Revaluation reserve	25	2,651	1,641	2,651	2,703
Other reserves	26	4,358	4,358	812,805	783,147
Profit and loss account	27	268,413	213,276	77,851	91,774
Equity shareholders' funds	28	402,672	296,548	1,022,892	957,232

These accounts were approved by the board on 5 March 2003.

John van Kuffeler Chairman

John Harnett Finance Director

Consolidated cash flow statement

for the year ended 31 December	2002 £'000	2001 £'000
Net cash inflow from operating activities (see page 21)	151,472	159,713
Taxation		
UK corporation tax	(43,236)	(40,072)
Overseas tax	(6,453)	(6,364)
	(49,689)	(46,436)
Capital expenditure and financial investment		
Capital expenditure:		
Purchase of tangible fixed assets	(17,844)	(19,941)
Sale of tangible fixed assets	1,386	1,697
Options exercised (QUEST shares)	1,931	1,757
Financial investments other than liquid resources:		
Sale of investments	–	10,000
	(14,527)	(6,487)
Acquisitions and disposals		
Purchase of business (note 9)	(45,478)	(2,510)
Sale of business (note 3)	26,661	–
	(18,817)	(2,510)
Equity dividends paid	(73,169)	(69,360)
Net cash (outflow)/inflow before use of liquid resources and financing	(4,730)	34,920
Management of liquid resources		
Purchase of investments	(2,603,793)	(2,367,695)
Sale of investments	2,530,389	2,257,074
	(73,404)	(110,621)
Financing		
Issue of share capital, net of issue costs	49,977	1,135
New short and medium term loans	195,578	123,534
Net movement on existing short and medium term loans	(164,485)	(20,489)
Share buy-back	–	(23,180)
	81,070	81,000
Increase in cash in the period	2,936	5,299

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 for the rest of the group and are not available to repay group borrowings. A commentary on the group's borrowings and investments has been included in the financial review on pages 2 and 3.

At 31 December 2002 the cash and investments held by the group's regulated businesses amounted to £514.7 million (2001 £443.3 million).

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

Consolidated cash flow statement continued

Reconciliation of net cash flow to movement in net debt	2002 £'000	2001 £'000
Increase in net cash in the period	2,936	5,299
Cash outflow from increase in liquid resources	73,404	110,621
	76,340	115,920
Cash inflow from increase in debt	(31,093)	(103,045)
Change in net debt resulting from cash flows	45,247	12,875
Loans relating to business acquired	(189,470)	(975)
Exchange adjustments	3,815	(1,696)
Net debt at 1 January	(40,956)	(51,160)
Net debt at 31 December	(181,364)	(40,956)

Analysis of changes in net debt	1 January 2002 £'000	Cash flows £'000	Acquisition £'000	Exchange movements £'000	Other changes £'000	31 December 2002 £'000
Cash at bank and in hand	44,623	3,902	–	(51)	–	48,474
Overdrafts	–	(966)	–	–	–	(966)
	44,623	2,936	–	(51)	–	47,508
Investments realisable within one year	430,621	73,404	–	(229)	–	503,796
Bank and other borrowings						
– less than one year	(42,969)	31,195	–	(560)	(24,948)	(37,282)
– more than one year	(473,231)	(62,288)	(189,470)	4,655	24,948	(695,386)
	(516,200)	(31,093)	(189,470)	4,095	–	(732,668)
Net debt	(40,956)	45,247	(189,470)	3,815	–	(181,364)

Reconciliation of operating profit to net cash inflow from operating activities	2002 £'000	2001 £'000
Operating profit	182,140	169,610
Depreciation and amortisation	8,857	8,217
Loss on sale of tangible fixed assets	320	451
Increase in amounts receivable from customers	(74,254)	(80,661)
Increase in stock and debtors	(26,275)	(8,124)
(Decrease)/increase in unearned insurance premiums	(15,805)	12,642
Increase in insurance claims provision	72,418	51,569
Increase in trade creditors, accruals and other liabilities	4,071	6,009
Net cash inflow from operating activities	151,472	159,713
Analysed as:		
Net cash inflow from UK home credit	127,532	123,535
Net cash outflow from international	(40,424)	(52,523)
Net cash inflow from motor insurance	80,392	99,429
Net cash outflow from central	(16,028)	(10,728)
Net cash inflow from operating activities	151,472	159,713

Principal accounting policies

Accounting convention
The accounts have been prepared in compliance with the Companies Act 1985 and in accordance with applicable Accounting Standards. They have been prepared under the historical cost convention as modified to include the valuation of land and buildings at 31 December 1994. FRS 19 'Deferred Taxation' has been adopted in the current year, but this did not result in a material impact on the result for the year. The additional disclosures required by FRS 19 are set out in note 4 to the accounts.

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 underwriting, commission/fees earned in respect of broking 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 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, with the balance being spread over the life of the associated contract on a straight line basis.

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 not to adopt a policy of revaluation in the future. Costs that are directly attributable to the development of new business application software are capitalised.

Depreciation is calculated to write down the assets to their estimated realisable value over their useful lives. The following are the principal bases used:

	%	Method
Land	Nil	–
Freehold and long leasehold buildings	2½	Straight line
Short leasehold buildings	Over the lease period	Straight line
Fixtures and fittings	10	Straight line
Equipment including computers and capitalised software	20 to 33⅓	Straight line
Motor vehicles	25	Reducing balance

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 live contracts that are likely to go bad over the full term of each contract (normally 4 years) and the expected average loss on each contract. This bad debt provision is built up by ten equal charges to the profit and loss account over the course of the first ten months of a contract.

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

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

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

Exchange differences arising from the retranslation of the opening net assets of subsidiary undertakings and branches, which have currencies of operation other than sterling, net of any 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 and cap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these financial instruments are recognised as adjustments to interest payable or receivable over the periods of the contracts.

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

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:

	Turnover		Operating profit		Net assets		Total amount payable*	
(a) Class of business	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
UK home credit	484,289	465,539	152,492	150,376	317,134	275,006	1,459,725	1,429,070
Yes Car Credit	5,451	–	22	–	33,212	–	–	–
International	142,442	99,615	10,634	758	(2,766)	(10,167)	472,855	345,911
Motor insurance	232,116	244,369	35,837	35,119	91,043	95,982	–	–
	864,298	809,523	198,985	186,253	438,623	360,821	1,932,580	1,774,981
Central, including goodwill	–	–	(17,845)	(13,081)	(35,951)	(70,402)	–	–
Ongoing operations	864,298	809,523	181,140	173,172	402,672	290,419	1,932,580	1,774,981
Colonnade Insurance Brokers	10,694	21,654	1,000	1,478	–	5,292	–	–
South Africa	–	1,964	–	(3,608)	–	271	–	5,754
Provident balance	–	37	–	(1,432)	–	566	–	–
Total	874,992	833,178	182,140	169,610	402,672	296,548	1,932,580	1,780,735

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

Turnover between segments is not material.

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

During 2002 reporting responsibility for N&N, a cheque cashing business, was transferred from the motor insurance division to UK home credit. As a result, the turnover, operating profit and net assets for UK home credit in 2002 include £2,405,000 of turnover, £21,000 of operating profit and £884,000 of net liabilities in respect of N&N. In 2001, N&N's turnover, operating loss and net liabilities of £1,680,000, £16,000 and £899,000 respectively were included in motor insurance. The 2001 figures have not been restated as the impact is not material.

Yes Car Credit was acquired on 18 December 2002. Its post acquisition trading results were not significant and therefore in accordance with the requirements of FRS 3 'Reporting Financial Performance', have not been disclosed as a separate column in the group's profit and loss account. Following the acquisition, the group injected an additional £45 million of share capital into Yes Car Credit.

The international operating profit comprises:

	2002 £'000	2001 £'000
Poland	16,654	6,746
Czech Republic	5,128	2,455
Hungary	(3,053)	(2,257)
Slovakia	(1,977)	(1,293)
Central divisional overheads	(6,118)	(4,893)
Total	10,634	758

1 Segmental reporting continued

(b) Geographical analysis by location	Turnover 2002 £'000	Turnover 2001 £'000	Operating profit 2002 £'000	Operating profit 2001 £'000	Net assets 2002 £'000	Net assets 2001 £'000	Total amount payable* 2002 £'000	Total amount payable* 2001 £'000
UK and Republic of Ireland	732,550	731,599	183,233	180,648	416,201	355,791	1,459,725	1,429,070
Poland	102,162	74,131	16,654	6,746	24,766	13,534	331,167	258,807
Czech Republic	33,636	24,851	5,128	2,455	3,216	(432)	112,772	83,555
South Africa	–	1,964	–	(3,608)	–	271	–	5,754
Hungary	4,930	448	(3,053)	(2,257)	(2,954)	(971)	21,378	2,549
Slovakia	1,714	185	(1,977)	(1,293)	(2,606)	(1,243)	7,538	1,000
	874,992	833,178	199,985	182,691	483,623	366,950	1,932,580	1,780,735
Central, including goodwill	–	–	(17,845)	(13,081)	(35,951)	(70,402)	–	–
Total	874,992	833,178	182,140	169,610	402,672	296,548	1,932,580	1,780,735

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

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

2 Profit before taxation is stated after:

	2002 £'000	2001 £'000
Charging:		
Interest on borrowings (included in cost of sales) – bank loans and overdrafts	31,893	29,167
– other loans	7,896	5,936
Employee costs (note 8)	125,556	124,070
Auditors' remuneration – audit services (company £72,000; 2001 £52,000)	381	300
– tax accounting and compliance	395	243
– general tax advice	295	535
– other non-audit services	396	143
Depreciation of tangible fixed assets	8,519	8,082
Amortisation of goodwill	338	135
Loss on sale of tangible fixed assets	320	451
Operating lease rentals – equipment	5	22
– property	8,272	7,426
Crediting:		
Investment income (included in cost of sales)	25,867	24,104

The auditors' remuneration above does not include £784,000 of fees in connection with the acquisition of Yes Car Credit which have been capitalised within the cost of the acquisition. The auditors' remuneration for other non-audit services includes £234,000 relating to fees in connection with the proposed credit card business and £49,000 of fees in connection with the disposal of Colonnade Insurance Brokers Limited. The guidelines covering the use of the company's auditors for non-audit services are set out in the corporate governance report on page 10.

3 Exceptional loss on disposal of business

On 29 May 2002, the company sold its subsidiary, Colonnade Insurance Brokers Limited. The resulting loss on disposal comprises:

	£'000
Consideration, net of disposal costs	26,661
Repayment of inter-company borrowings	(16,564)
Net consideration received	10,097
Net assets at disposal	(6,000)
Profit on disposal prior to write-back of goodwill	4,097
Goodwill previously written off to reserves	(14,797)
Exceptional loss on disposal	(10,700)

The disposal resulted in no taxable gain and therefore there was no tax impact of the disposal on the result for the year.

Colonnade Insurance Brokers Limited contributed £276,000 to the group's net operating cash flows, paid £477,000 in respect of taxation and utilised £338,000 for capital expenditure.

4 Taxation

(a) Analysis of taxation charge for the year	2002 £'000	2001 £'000
UK corporation tax		
The taxation charge based on the profit for the year at 30% (2001 30%)		
Current year	50,466	43,021
Prior year	(2,855)	(5,553)
	47,611	37,468
Overseas tax		
Current year	6,946	4,843
Prior year	–	–
	6,946	4,843
Total current tax (note 4(b))	54,557	42,311
Deferred tax		
Origination and reversal of timing differences	(1,703)	3,484
Total deferred tax (note 22(c))	(1,703)	3,484
Total taxation charge for the year	52,854	45,795

4 Taxation continued

(b) Factors affecting the taxation charge for the year
The rate of current tax charge on the profit on ordinary activities before exceptional items is below the standard rate of corporation tax in the UK as shown in the table below:

	2002 £'000	2001 £'000
Pre-exceptional profit on ordinary activities before taxation	182,140	169,610
Pre-exceptional profit on ordinary activities multiplied by the standard rate		
of corporation tax in the UK of 30% (2001 30%)	54,642	50,883
Effects of:		
Adjustment to tax in respect of prior periods	(2,855)	(5,553)
Adjustment in respect of foreign tax rates	(5,593)	(5,418)
Expenses not deductible for tax purposes	1,163	1,223
Capital allowances for the period in excess of depreciation	(827)	(296)
Other timing differences	(694)	(3,272)
Overseas taxable dividends	8,721	4,744
Current taxation charge for the year (note 4(a))	54,557	42,311

(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

	2002 £'000	2001 £'000
Ordinary shares:		
Interim dividend paid of 12.46p per share (2001 11.75p)	30,352	28,971
Proposed final dividend of 18.44p per share (2001 17.60p)	46,570	42,817
Total	76,922	71,788

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 £118,586,000 (2001 £123,815,000) 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 on the disposal of Colonnade Insurance Brokers Limited and goodwill amortisation. The adjustments made, and their impact on earnings per share, are as follows:

	2002 Earnings £'000	2002 Earnings per share pence	2001 Earnings £'000	2001 Earnings per share pence
Basic earnings and earnings per share	118,586	48.66	123,815	50.39
Exceptional loss	10,700	4.39	–	–
Pre-exceptional earnings and earnings per share	129,286	53.05	123,815	50.39
Amortisation of goodwill	338	0.14	135	0.06
Adjusted earnings and earnings per share	129,624	53.19	123,950	50.45

6 Earnings per share continued

In 2001, the adjusted earnings per share figure was calculated so as to exclude the losses of businesses closed during that year. In 2002, the company changed its definition of adjusted earnings per share to exclude exceptional items and goodwill amortisation as, following the disposal of Colonnade Insurance Brokers and the acquisition of Yes Car Credit, it is the directors' opinion, that this measure better represents underlying business performance. The adjusted earnings per share figures for 2002 and 2001, based on the 2001 definition, are shown below:

	2002 Earnings £'000	2002 Earnings per share pence	2001 Earnings £'000	2001 Earnings per share pence
Adjusted earnings and earnings per share as disclosed in 2001 Annual Report and Accounts	118,586	48.66	127,495	51.89
Profits of Colonnade Insurance Brokers, net of tax	(700)	(0.29)	(1,079)	(0.44)
Exceptional loss on disposal of Colonnade Insurance Brokers Limited	10,700	4.39	–	–
Adjusted earnings and earnings per share based on 2001 definition	128,586	52.76	126,416	51.45

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	2002 Number	2001 Number
In issue during the year	245,713,032	248,147,454
Held by the QUEST	(2,027,669)	(2,456,807)
Used in basic and adjusted earnings per share calculations	243,685,363	245,690,647
Issuable on exercise of outstanding options	812,670	1,546,712
Used in diluted earnings per share calculation	244,498,033	247,237,359

7 Directors' remuneration

Details of directors' remuneration, share options, pension contributions and pension entitlements are included in the directors' remuneration report on pages 11 to 17.

8 Employee information

(a) The average number of persons employed by the group (including executive directors) was as follows:	2002 Number	2001 Number
UK home credit	3,024	2,995
International	2,457	2,379
Motor insurance	961	1,492
Central	58	48
Total	6,500	6,914
Analysed as:		
Full-time	5,920	6,319
Part-time	580	595
Total	6,500	6,914

(b) Group employment costs – all employees (including executive directors)	2002 £'000	2001 £'000
Aggregate gross wages and salaries paid to the group's employees	106,036	104,870
Employers' national insurance contributions	11,541	11,925
Pension costs (note 30(a))	7,979	7,275
Total	125,556	124,070

9 Acquisition of Yes Car Credit

On 18 December 2002, the group acquired the entire issued share capital of S.P.A. Holdings Limited and De Facto 946 Limited, the holding companies of the group of companies which operate Yes Car Credit. Acquisition accounting has been adopted and consequently goodwill on the acquisition has been capitalised as an intangible asset in the balance sheet and is being amortised over a period of 20 years. In the opinion of the directors the period of 20 years is a reasonable estimate of the useful economic life of the investment.

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

	Provisional book value £'000	Provisional fair value adjustment £'000	Provisional fair value to the group £'000
Fixed assets	3,871	–	3,871
Stock	10,321	–	10,321
Car finance receivables	161,986	–	161,986
Other assets	19,550	1,787	21,337
Cash at bank and in hand	615	–	615
Creditors falling due within one year	(50,713)	(5,957)	(56,670)
Creditors falling due after more than one year	(153,263)	–	(153,263)
Net liabilities at acquisition	(7,633)	(4,170)	(11,803)

Consideration:	
Cash, including costs paid by 31 December	46,093
Accrued costs	4,730
Loan notes issued to vendors (note 15(e))	6,910
Contingent consideration (note 21)	12,785
Total consideration	70,518
Goodwill arising on acquisition (note 10)	82,321

The fair value adjustment relates to a provision in respect of a fixed interest rate swap relating to the underlying borrowings of Yes Car Credit that had a fair value at the date of acquisition of a loss of £5,957,000, together with the related deferred tax thereon of £1,787,000.

Reconciliation to cash flow statement:

	£'000
Cash, including costs paid by 31 December	46,093
Less: cash acquired	(615)
Cash outflow per cash flow statement	45,478

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 management of Yes Car Credit and (ii) the institutional vendors. The contingent consideration payments will be based on the average of the adjusted audited profits after tax of the Yes Car Credit business for the years ending 31 December 2002 and 31 December 2003 (Average Adjusted Profits after Tax ('AAPAT') as defined in the acquisition agreement).

(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 £50 million (which amount would only be payable if the AAPAT were to equal or exceed £19.38 million).
(ii) The contingent consideration payment to the institutional vendors will be calculated as 6.0 times the surplus of the AAPAT over £3.23 million, with a cap of £38 million (which amount would only be payable if the AAPAT were to equal or exceed £9.57 million).

Initial estimates of the contingent consideration will be revised as further and more certain information becomes available with corresponding adjustments to goodwill.

9 Acquisition of Yes Car Credit continued

Summarised consolidated profit and loss accounts for the Yes Car Credit group of companies for the periods 1 January 2002 to 18 December 2002 and 1 January 2001 to 31 December 2001 are given below:

	Period to 18 December 2002 £'000	Year ended 31 December 2001 £'000
Turnover	201,170	152,571
Operating profit/(loss)	1,787	(2,974)
Exceptional items	(7,566)	(2,019)
Loss before tax	(5,779)	(4,993)
Taxation	1,426	1,424
Loss after taxation	(4,353)	(3,569)

There were no recognised gains and losses, other than the losses for the periods noted above.

The pro forma operating profit for Yes Car Credit for the year ended 31 December 2001 and period ended 18 December 2002 was £3.0 million and £6.6 million respectively. This pro forma profit has been calculated assuming that Yes Car Credit was owned by the group for the entire period. In calculating this pro forma profit, the operating profit/(loss) shown in the table above has been adjusted to incorporate the benefit that Yes Car Credit would have had in those periods, had it had access to the lower funding costs of the group.

10 Intangible fixed assets

	Consolidated goodwill £'000
Cost	
At 1 January 2002	3,645
Addition (note 9)	82,321
At 31 December 2002	85,966
Amortisation	
At 1 January 2002	135
Provided during the year	338
At 31 December 2002	473
Net book value at 31 December 2002	85,493
Net book value at 31 December 2001	3,510

The addition during the year relates to the acquisition, on 18 December 2002, of the entire issued share capital of the group of companies which own and operate Yes Car Credit (see note 9).

11 Tangible fixed assets

(a) Group	Freehold land and buildings £'000	Leasehold land and buildings £'000	Equipment and vehicles £'000	Total £'000
Cost or valuation				
At 1 January 2002:				
Cost	1,078	1,402	56,772	59,252
Valuation in 1994	8,487	410	–	8,897
	9,565	1,812	56,772	68,149
Exchange adjustments	–	–	(290)	(290)
Additions at cost	–	–	17,844	17,844
Acquisitions	–	1,752	3,970	5,722
Disposal of business	(2,840)	(1,603)	(6,247)	(10,690)
Disposals	(55)	(1)	(4,767)	(4,823)
	6,670	1,960	67,282	75,912
At 31 December 2002:				
Cost	624	1,780	67,282	69,686
Valuation	6,046	180	–	6,226
	6,670	1,960	67,282	75,912
Depreciation				
At 1 January 2002	1,491	610	29,370	31,471
Exchange adjustments	–	–	(34)	(34)
Acquisitions	–	343	1,508	1,851
Disposal of business	(884)	(583)	(2,978)	(4,445)
Charged to profit and loss account	252	29	8,238	8,519
Eliminated on disposal	(10)	(1)	(3,106)	(3,117)
At 31 December 2002	849	398	32,998	34,245
Net book value at 31 December 2002	5,821	1,562	34,284	41,667
Net book value at 31 December 2001	8,074	1,202	27,402	36,678

Leasehold land and buildings consist of:
(i) long leases at a cost/valuation of £242,000 and a net book value of £196,000; and
(ii) short leases at a cost of £1,718,000 and a net book value of £1,366,000.
The historical cost and related depreciation of land and buildings included at a cost/valuation is:

	Freehold land and buildings 2002 £'000	Freehold land and buildings 2001 £'000	Long leasehold land and buildings 2002 £'000	Long leasehold land and buildings 2001 £'000
Historical cost	6,438	10,343	73	790
Depreciation based on cost	(3,097)	(4,142)	(48)	(173)
Historical cost net book value	3,341	6,201	25	617

11 Tangible fixed assets continued

(b) Company	Freehold land and buildings £'000	Leasehold land and buildings £'000	Equipment and vehicles £'000	Total £'000
Cost or valuation				
At 1 January 2002:				
Cost	624	–	2,066	2,690
Valuation in 1994	3,776	180	–	3,956
	4,400	180	2,066	6,646
Additions at cost	–	–	930	930
Disposals	(55)	–	(288)	(343)
Transfers from group companies	–	–	59	59
	4,345	180	2,767	7,292
At 31 December 2002:				
Cost	624	–	2,767	3,391
Valuation	3,721	180	–	3,901
	4,345	180	2,767	7,292
Depreciation				
At 1 January 2002	759	32	1,095	1,886
Charged to profit and loss account	109	4	322	435
Eliminated on disposal	(10)	–	(151)	(161)
Transfers from group companies	–	–	21	21
At 31 December 2002	858	36	1,287	2,181
Net book value at 31 December 2002	3,487	144	1,480	5,111
Net book value at 31 December 2001	3,641	148	971	4,760

Leasehold land and buildings consist of long leases at a cost/valuation of £180,000 and a net book value of £144,000.

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

	Freehold land and buildings 2002 £'000	Freehold land and buildings 2001 £'000	Long leasehold land and buildings 2002 £'000	Long leasehold land and buildings 2001 £'000
Historical cost	2,641	2,652	17	17
Depreciation based on cost	(1,294)	(1,239)	(12)	(11)
Historical cost net book value	1,347	1,413	5	6

12 Investment in subsidiary undertakings

	Loans £'000	Shares at cost £'000	Total £'000
Cost			
At 1 January 2002	595,147	356,225	951,372
Additions	35,596	68,690	104,286
Disposals	–	(13,381)	(13,381)
Repayment of share capital	–	(19,643)	(19,643)
At 31 December 2002	630,743	391,891	1,022,634
Provision for diminution in value			
At 1 January 2002	–	12,038	12,038
Provided during the year	–	6,812	6,812
At 31 December 2002	–	18,850	18,850
Total cost less provision at 31 December 2002	630,743	373,041	1,003,784
Total cost less provision at 31 December 2001	595,147	344,187	939,334

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
International	Provident International Limited	England	Ordinary	100
	Provident Polska S.A.	Poland	Ordinary	100
	Provident Financial s.r.o.	Czech Republic	Ordinary	100
	Provident Financial Rt.	Hungary	Ordinary	100
	Provident Financial s.r.o.	Slovakia	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 incorporation or registration.

The financial year end of all subsidiaries is 31 December except for Provident Insurance plc. That company's financial year end is 30 June which, in the opinion of the directors, facilitates the negotiation of reinsurance arrangements. Accordingly, the management accounts of that company for the year ended 31 December 2002, which have been audited for the purposes of the group accounts, have been consolidated.

13 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 2002 the QUEST held 1,676,046 (2001 2,136,030) shares with a cost of £14,763,000 (2001 £18,369,000) and a market value of £9,737,827 (2001 £13,777,394). These shares were acquired by the QUEST to meet obligations under the company's SAYE scheme. 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 £10,819,000 (2001 £12,750,000). The amount contributed to the QUEST in excess of the option price has been charged against reserves.

14 Amounts receivable from customers

(a) Net amounts receivable from customers	Group 2002 £'000	Group 2001 £'000
UK home credit	636,261	618,025
International	163,374	111,226
Home credit net receivables (note 14(b))	799,635	729,251
Yes Car Credit net receivables (note 14(d))	163,358	–
Total	962,993	729,251
Analysed as – due within one year	821,078	719,637
– due in more than one year	141,915	9,614
Total	962,993	729,251

(b) Home credit net receivables	Group 2002 £'000	Group 2001 £'000
Gross home credit receivables	1,229,958	1,105,511
Less: provision for bad and doubtful debts (note 14(c))	(99,562)	(86,251)
Home credit receivables after provision for bad and doubtful debts	1,130,396	1,019,260
Less: deferred revenue thereon	(330,761)	(290,009)
Home credit net receivables (note 14(a))	799,635	729,251
Analysed as – due within one year	789,774	719,637
– due in more than one year	9,861	9,614
Total	799,635	729,251

(c) Home credit bad and doubtful debts	Group 2002 £'000	Group 2001 £'000
Gross provision at 31 December (note 14(b))	99,562	86,251
Less: deferred revenue thereon	(34,300)	(27,589)
Net provision at 31 December	65,262	58,662
Net provision at 1 January	(58,662)	(54,820)
Increase in provision (net of deferred revenue)	6,600	3,842
Amounts written off (net of deferred revenue)	105,577	92,204
Net charge to profit and loss account for bad and doubtful debts	112,177	96,046
Analysed as – UK home credit	84,947	76,345
– International	27,230	19,701
Total	112,177	96,046

14 Amounts receivable from customers continued

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

(d) Yes Car Credit net receivables	Group 2002 £'000	Group 2001 £'000
Gross car finance receivables	271,492	–
Less: deferred revenue thereon	(95,226)	–
	176,266	–
Less: provision for bad and doubtful debts	(12,908)	–
Yes Car Credit net receivables (note 14(a))	163,358	–
Analysed as:		
– due within one year	31,304	–
– due in more than one year	132,054	–
Total	163,358	–

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

(a) Group	2002 Instalment credit receivables* £'000	2002 Borrowing facilities available £'000	2002 Borrowings £'000	2001 Instalment credit receivables* £'000	2001 Borrowing facilities available £'000	2001 Borrowings £'000
Repayable:						
On demand	–	7,241	966	–	6,167	–
In less than 6 months	905,207	22,865	19,948	793,693	9,204	8,924
In 6 – 12 months	292,129	30,122	17,334	212,153	34,500	34,045
In less than 12 months	1,197,336	60,228	38,248	1,005,846	49,871	42,969
In 12 – 24 months	91,720	5,000	5,000	13,414	20,210	15,210
In 24 – 60 months	99,924	702,484	530,345	–	461,007	288,568
In more than 60 months	–	183,464	160,041	–	213,453	169,453
In more than 12 months	191,644	890,948	695,386	13,414	694,670	473,231
Total	1,388,980	951,176	733,634	1,019,260	744,541	516,200

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

(b) Company	2002 Borrowing facilities available £'000	2002 Borrowings £'000	2001 Borrowing facilities available £'000	2001 Borrowings £'000
Repayable:				
On demand	7,241	966	6,167	–
In less than 6 months	18,000	15,083	–	–
In 6 – 12 months	28,500	6,109	19,500	13,178
In less than 12 months	53,741	22,158	25,667	13,178
In 12 – 24 months	5,000	5,000	15,000	10,000
In 24 – 60 months	536,410	410,169	420,089	255,101
In more than 60 months	176,543	153,120	213,453	169,453
In more than 12 months	717,953	568,289	648,542	434,554
Total	771,694	590,447	674,209	447,732

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

(c) Borrowing facilities and borrowings
Borrowing facilities comprise arrangements with banks for committed revolving loan and acceptance credit facilities in a number of currencies for periods of up to seven years, together with overdrafts and uncommitted loans which are repayable on demand, loan notes privately placed with US and UK institutions (see note 15(d) below) and loan notes with individuals following the acquisition of Yes Car Credit during the year (see note 15(e) below). The average period to maturity of the committed facilities was 3.8 years (2001 4.4 years).

At 31 December 2002 borrowings under these facilities amounted to £733,634,000 (company £590,447,000) (2001 £516,200,000; company £447,732,000). These borrowings are under:
(i) committed revolving loan and acceptance credit facilities which are generally drawn for periods of three to six months, then repaid and redrawn;
(ii) borrowings on overdrafts and uncommitted loan facilities which are repayable on demand; and
(iii) loan notes, as described below.

The borrowings shown in notes 15(a) and 15(b) are analysed by reference to the maturity of the facility under which they are drawn as required by FRS 4.

(d) Loan notes
On 10 May 2001, the company issued loan notes in 3 series:
(i) £42,000,000 of 7.21% loan notes repayable on 10 May 2011;
(ii) US$64,000,000 of 7.40% loan notes repayable on 10 May 2008; and
(iii) US$24,000,000 of 7.60% loan notes repayable on 10 May 2011.

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

(e) 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 £6,910,000 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.

(g) Undrawn committed borrowing facilities
The undrawn committed borrowing facilities at 31 December were as follows:

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Expiring within one year	15,705	1,902	25,308	7,489
Expiring within one to two years	–	5,000	–	5,000
Expiring in more than two years	195,562	216,439	149,664	208,988
Total	211,267	223,341	174,972	221,477

16 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 2 and 3. 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 16(e).

16 Derivatives and other financial instruments continued

(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 15(f), the interest rate exposure on the group's borrowings at 31 December 2002 was:

Currency	2002 Total £'000	2002 Fixed £'000	2002 Floating £'000	2001 Total £'000	2001 Fixed £'000	2001 Floating £'000
Sterling	519,159	213,536	305,623	381,004	248,648	132,356
Euro	14,560	–	14,560	12,280	–	12,280
Polish zloty	145,546	48,650	96,896	88,631	46,713	41,918
Czech crown	44,422	12,087	32,335	32,969	28,032	4,937
Hungarian forint	6,360	–	6,360	1,316	–	1,316
Slovak crown	3,587	–	3,587	–	–	–
Total	733,634	274,273	459,361	516,200	323,393	192,807

At 31 December 2002, the group's floating rate borrowings were £459,361,000 as shown in the table above. In accordance with FRS 13, these are defined as borrowings which have their interest rates reset at least once a year. In practice, the group typically draws down on its borrowing facilities for periods of between three and six months.

The weighted average interest rate on sterling fixed rate borrowings at 31 December 2002 amounted to 7.04% (2001 6.65%) and the weighted average period to maturity was 4.4 years (2001 3.7 years).

The weighted average interest rate on Polish zloty fixed rate borrowings at 31 December 2002 amounted to 10.59% (2001 15.93%) and the weighted average period to maturity was 1.6 years (2001 1.9 years).

The weighted average interest rate on Czech crown fixed rate borrowings at 31 December 2002 amounted to 5.07% (2001 5.19%) and the weighted average period to maturity was 2.0 years (2001 1.6 years).

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

The group also has creditors due after more than one year, comprising trade creditors of £9,151,000 (2001 £nil) and contingent consideration of £12,785,000 (2001 £nil). These amounts are denominated in sterling and are non-interest bearing.

(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 2002 was:

Currency	2002 Total £'000	2002 Fixed £'000	2002 Floating £'000	2001 Total £'000	2001 Fixed £'000	2001 Floating £'000
Sterling	631,775	386,915	244,860	456,935	249,614	207,321
Polish zloty	47,302	–	47,302	17,794	–	17,794
Czech crown	12,624	–	12,624	7,897	–	7,897
Hungarian forint	848	–	848	1,275	–	1,275
Slovak crown	1,636	–	1,636	288	–	288
South African rand	–	–	–	669	–	669
Total	694,185	386,915	307,270	484,858	249,614	235,244
Comprising:						
Cash at bank and in hand	48,474	–	48,474	44,623	–	44,623
Bank and building society deposits	503,796	245,000	258,796	430,621	240,000	190,621
Debtors falling due in more than one year	141,915	141,915	–	9,614	9,614	–
Total	694,185	386,915	307,270	484,858	249,614	235,244

16 Derivatives and other financial instruments continued

(b) Interest rate profile of financial assets continued
The weighted average interest rate on fixed rate bank and building society deposits at 31 December 2002 amounted to 6.02% (2001 6.41%) and the weighted average period to maturity was 2.5 years (2001 2.6 years).

The remaining £141,915,000 of fixed rate sterling assets relate to net amounts receivable from customers falling due in more than one year. The weighted average interest rate on these balances at 31 December 2002 was 23.8%.

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

(c) Fair values
The fair values and book values of the group's financial instruments by category at 31 December 2002 are set out below:

		2002		2001	
		Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial instruments held to finance the group's operations:					
Current asset investments		503,796	503,796	430,621	430,621
Cash at bank and in hand		48,474	48,474	44,623	44,623
Debtors falling due in more than one year		141,915	141,915	9,614	9,614
Bank loans and overdrafts		(657,098)	(657,098)	(454,747)	(454,747)
US$ loan notes		(61,453)	(54,625)	(61,453)	(60,523)
Contingent consideration due after more than one year		(12,785)	(12,785)	–	–
Trade creditors due after more than one year		(9,151)	(9,151)	–	–
Derivative financial instruments held to manage the interest and currency profile:					
Currency swap re US$ loan notes*		–	(5,067)	–	(1,484)
Forward foreign exchange contracts	– contracts in profit	–	101	–	–
	– contracts in loss	–	(549)	–	–
Other currency swaps	– contracts in profit	–	–	–	160
	– contracts in loss	–	(3,813)	–	(8,704)
Interest rate swaps on borrowings	– contracts in profit	–	–	–	–
	– contracts in loss	–	(10,644)	–	(5,773)
Interest rate swaps on investments	– contracts in profit	–	14,320	–	7,455
	– contracts in loss	–	–	–	(193)
Cash settled commodity contracts		(15,083)	(15,083)	–	–
Interest rate caps		70	–	193	4

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

The cash settled commodity contracts consist of two contracts, the net effect of which results in the company having received £14,997,000 during 2002 and repaying a guaranteed net £16,046,000 during 2003. In accordance with FRS 5 'Reporting the substance of transactions' the contracts have been accounted for as a loan.

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

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

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

16 Derivatives and other financial instruments continued

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

Gains and losses on hedging instruments	Unrecognised Gains £'000	Unrecognised Losses £'000	Unrecognised Total net gains/(losses) £'000	Deferred Gains £'000	Deferred Losses £'000	Deferred Total net gains/(losses) £'000
At 1 January 2002	7,619	(15,224)	(7,605)	–	(930)	(930)
Arising in previous years that were recognised in 2002	5,600	(9,416)	(3,816)	–	–	–
Arising in previous years not recognised in 2002	2,019	(5,808)	(3,789)	–	(930)	(930)
Arising in 2002	12,402	(7,437)	4,965	–	(5,898)	(5,898)
Gains and losses on hedging instruments at 31 December 2002	14,421	(13,245)	1,176	–	(6,828)	(6,828)
Of which:						
Gains and losses expected to be recognised in 2003	7,235	(10,960)	(3,725)	–	–	–
Gains and losses expected to be recognised in 2004 or later	7,186	(2,285)	4,901	–	(6,828)	(6,828)

(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 2002 was as follows:

Functional currency of group operation	Net foreign currency monetary assets/(liabilities) Sterling £'000	Polish zloty £'000	Czech crown £'000	Hungarian Forint £'000	Slovak crown £'000	Other £'000	Total £'000
Sterling	–	1,949	1,252	(1)	151	34	3,385
Polish zloty	6	–	–	–	–	–	6
Czech crown	1	–	–	–	–	1	2
Hungarian forint	(14)	–	–	–	–	–	(14)
Slovak crown	(13)	–	(6)	–	–	(9)	(28)
Total	(20)	1,949	1,246	(1)	151	26	3,351

The position at 31 December 2001 was as follows:

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

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

16 Derivatives and other financial instruments continued

(f) Instruments held for trading purposes
None of the group's financial instruments are held for trading purposes.

17 Debtors

(a) Amounts falling due within one year	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Trade debtors	31,379	62,188	–	–
Amounts recoverable from reinsurers	92,889	69,145	–	–
Other debtors	1,599	2,516	4	243
Prepayments and accrued income	27,749	18,446	11,328	9,281
Commissions prepaid to insurance brokers and other deferred acquisition costs	16,330	18,836	–	–
Amounts owed by group undertakings	–	–	525,198	533,265
Overseas tax recoverable	1,681	2,085	–	–
Total	171,627	173,216	536,530	542,789

(b) Amounts falling due in more than one year	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Amounts owed by group undertakings	–	–	197,852	–

18 Investments and cash at bank and in hand

Investments and cash at bank and in hand comprise:	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Bank, building society and other fixed interest deposits at cost	503,796	430,621	–	–
Cash at bank and in hand	48,474	44,623	8,085	216
Total	552,270	475,244	8,085	216

£503,796,000 (2001 £430,621,000) of the investments and £10,889,000 (2001 £12,709,000) 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.

19 Creditors – amounts falling due within one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Amounts due to retailers and customers' unspent balances	13,759	19,248	–	–
Trade creditors	21,686	15,474	–	–
Amounts owed to group undertakings	–	–	72,378	28,591
Other creditors including taxation and social security	49,324	51,118	13,994	14,102
Accruals	49,520	44,390	13,924	7,981
Dividends payable	46,570	42,817	46,570	42,817
Total	180,859	173,047	146,866	93,491

19 Creditors – amounts falling due within one year continued
Other creditors including taxation and social security comprise:

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
UK corporation tax	31,709	31,472	10,651	7,027
Overseas tax	1,719	1,630	–	–
	33,428	33,102	10,651	7,027
Social security	4,953	3,817	205	160
Other creditors	10,943	14,199	3,138	6,915
Total	49,324	51,118	13,994	14,102

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

	Group 2002 £'000	Group 2001 £'000
Provision for unpaid insurance claims	381,193	308,775
Unearned insurance premiums	113,285	129,090
Other deferred income	827	973
Total	495,305	438,838

21 Creditors – amounts falling due after more than one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Trade creditors	9,151	–	–	–
Contingent consideration	12,785	–	–	–
Total	21,936	–	–	–

Contingent consideration represents the future amounts reasonably expected to be payable in 2004 following the acquisition of Yes Car Credit during the year. Further details on the acquisition and the terms of the contingent consideration are provided in note 9.

22 Deferred taxation

(a) Group	2002 (Asset)/provision £'000	2001 (Asset)/provision £'000
Accelerated capital allowances	95	(36)
Other timing differences	1,355	6,052
	1,450	6,016
Realised capital gains deferred	–	–
Deferred taxation provision	1,450	6,016

(b) Company	2002 (Asset)/provision £'000	2001 (Asset)/provision £'000
Accelerated capital allowances	(19)	(65)
Other timing differences	1,995	1,459
Deferred taxation provision	1,976	1,394

22 Deferred taxation continued

(c) Movement in group deferred taxation provision	2002 £'000
The movement on the group deferred taxation provision during the year was as follows:	
At 1 January	6,016
Acquisitions and disposals	(2,863)
Charged to the profit and loss account (note 4(a))	(1,703)
At 31 December	1,450

23 Called-up share capital

	Group and company			
	2002		2001	
	Authorised £'000	Issued and fully paid £'000	Authorised £'000	Issued and fully paid £'000
Ordinary shares of 10 $\frac{8}{11}$p each	40,000	26,347	40,000	25,433

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

	Number
At 1 January 2002	245,413,339
Shares issued pursuant to the exercise of options	212,282
Shares issued via equity placing on 23 December 2002	8,600,000
At 31 December 2002	254,225,621

The nominal value of shares issued during the year was £914,000 and the aggregate consideration received (prior to issue costs) in respect of all the shares issued during the year was £51,236,000.

24 Share premium account

	Group and company	
	2002 £'000	2001 £'000
At 1 January	51,840	51,638
Premium on shares issued during the year, net of issue costs	49,063	1,109
Premium on shares purchased and cancelled in the year	–	(907)
At 31 December	100,903	51,840

25 Revaluation reserve

	Group £'000	Company £'000
At 1 January 2002	1,641	2,703
Transfer to profit and loss account reserve on sale of properties	1,010	(52)
At 31 December 2002	2,651	2,651

26 Other reserves

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Capital redemption reserve:				
At 1 January	3,531	3,140	3,531	3,140
Share buy-back	–	391	–	391
At 31 December	3,531	3,531	3,531	3,531
Retained profit capitalised by a subsidiary:				
At 1 January and 31 December	827	827	–	–
Non-distributable reserve:				
At 1 January	–	–	779,616	736,272
Increase during the year	–	–	29,658	43,344
At 31 December	–	–	809,274	779,616
Total at 31 December	4,358	4,358	812,805	783,147

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

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

27 Profit and loss account

	Group £'000	Company £'000
At 1 January 2002	213,276	91,774
Retained profit/(loss) for the year	41,664	(13,975)
Goodwill on disposal	14,797	–
Transfer from revaluation reserve on sale of properties (note 25)	(1,010)	52
Currency translation differences	(314)	–
At 31 December 2002	268,413	77,851

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 £62,947,000 (2001 £124,374,000).

The group profit and loss account balance is shown after directly writing off cumulative goodwill of £1,567,000 (2001 £16,364,000). In addition, cumulative goodwill of £2,335,000 has been written off against the merger reserve in previous years.

28 Reconciliation of movement in equity shareholders' funds

	Group 2002 £'000	Group 2001 £'000
Profit attributable to equity shareholders	118,586	123,815
Dividends	(76,922)	(71,788)
Retained profit for the year	41,664	52,027
New share capital issued	49,977	1,135
Share capital cancelled on share buy-back	–	(907)
Share buy-back	–	(22,273)
Goodwill on disposal	14,797	–
Currency translation differences	(314)	(120)
Net addition to equity shareholders' funds	106,124	29,862
Equity shareholders' funds at 1 January	296,548	266,686
Equity shareholders' funds at 31 December	402,672	296,548

29 Commitments

(a) Capital commitments	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Capital expenditure commitments contracted with third parties				
but not provided for at 31 December	364	309	–	–

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

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Leases expiring:				
Within one year	2,793	1,105	57	–
Within two to five years	6,262	3,650	–	–
In more than five years	1,217	4,672	29	29
Total	10,272	9,427	86	29

30 Pension schemes

(a) Pension schemes
The group operates a number of pension schemes. The two major schemes, which cover 99% of scheme members, are of the funded, defined benefit type. The assets of the schemes are held in separate, trustee administered funds. The total pension cost for the group (note 8(b)) was assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

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

For the purposes of establishing the pension costs in the group's profit and loss account, the deficit is being amortised over the average remaining service lives of the employees who are currently members of the respective schemes. Included in the group's balance sheet is a prepayment of £11,451,000 (2001 £5,661,000), which represents the excess of the contributions paid to the schemes over the charge in the profit and loss account.

30 Pension schemes continued

(b) FRS 17 disclosures
As noted above, the group operates two major defined benefit schemes in the UK. A full actuarial valuation was carried out by a qualified independent actuary at 1 January 2001 on the Senior Scheme and as at 1 June 2001 on the Staff Scheme. The valuation used in the FRS 17 disclosures has been based on these valuations which have been updated by the actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2002. Scheme assets are stated at market value at 31 December 2002.

The major assumptions used by the actuary were:

	31 December 2002 %	31 December 2001 %
Rate of increase in salaries	3.88	4.08
Rate of increase in pensions	2.40	2.50
Discount rate	5.50	6.00
Inflation assumption	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 2002 %	Value at 31 December 2002 £'000	Long term rate of return expected at 31 December 2001 %	Value at 31 December 2001 £'000
Equities	8.0	110,200	8.5	140,500
Bonds	4.5	26,200	5.0	15,500
Property	5.5	9,500	6.0	9,200
Cash and net current assets	4.0	900	3.5	2,500
Total market value of assets		146,800		167,700

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

	2002 £'000	2001 £'000
Total market value of assets	146,800	167,700
Present value of scheme liabilities	(283,000)	(243,700)
Deficit in the schemes	(136,200)	(76,000)
Related deferred tax asset	40,860	22,800
Net pension liability	(95,340)	(53,200)

This liability has been assessed at a time when equity markets are 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 million in 2003 (2002 £6 million).

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2002 would be as follows:

	2002 £'000	2001 £'000
Net assets excluding pension liability and SSAP 24 prepayment, net of deferred tax	394,656	292,585
Pension liability	(95,340)	(53,200)
Net assets including pension liability	299,316	239,385
Profit and loss account reserve excluding pension liability and SSAP 24 prepayment, net of deferred tax	260,397	209,313
Pension liability	(95,340)	(53,200)
Profit and loss account reserve including pension liability	165,057	156,113

30 Pension schemes continued

(b) FRS 17 disclosures continued
The following amounts would have been recognised in the performance statements in the year to 31 December 2002 under the requirements of FRS 17:

	£'000
Operating profit	
Current service cost	9,400
Total operating charge	9,400
Other finance expense	
Expected return on pension scheme assets	(13,700)
Interest on pension scheme liabilities	14,800
Net finance expense	1,100
Total FRS 17 pension expense	10,500

Statement of Total Recognised Gains and Losses	£'000
Actual return less expected return on pension scheme assets	(43,600)
Experience gains and losses arising on the scheme liabilities	7,400
Changes in assumptions underlying the present value of the scheme liabilities	(26,100)
Actuarial loss recognised in Statement of Total Recognised Gains and Losses	(62,300)

Movement in deficit during the year	£'000
Deficit in schemes at beginning of the year	(76,000)
Movement in year:	
Current service cost	(9,400)
Contributions	12,600
Other finance expense	(1,100)
Actuarial loss	(62,300)
Deficit in schemes at end of the year	(136,200)

Details of experience gains and losses for the year ended 31 December 2002	£'000	%
Differences between the expected and actual return on scheme assets:		
Amount	(43,600)	
Percentage of scheme assets		(26.0)
Experience gains and losses on scheme liabilities:		
Amount	7,400	
Percentage of the present value of scheme liabilities		3.0
Changes in the assumptions underlying the present value of scheme liabilities:		
Amount	(26,100)	
Percentage of the present value of scheme liabilities		(10.7)
Total amount recognised in Statement of Total Recognised Gains and Losses:		
Amount	(62,300)	
Percentage of the present value of scheme liabilities		(25.5)

31 Related party transactions
The group recharges the two major pension schemes referred to in note 30 with a proportion of the costs of administration and professional fees incurred by the group. The total amount recharged during the year was £755,202 (2001 £768,000), and amounts due from the pension schemes at 31 December 2002 were £274,000 (2001 £528,000).

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, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the 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 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 2002 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
Chartered Accountants and Registered Auditors
Leeds
5 March 2003

Designed and produced by Fitch:London. Printed by the colourhouse.

Paper specifications
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.

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

telephone: +44 (0)1274 731111
fax: +44 (0)1274 727300
email: enquiries@providentfinancial.com
website: www.providentfinancial.com

Company number
668987