# A straightforward approach in turbulent times


Interim Report
2009

PFG | Provident Financial Group

# Contents



# The highlights

Profit before tax

**£53.1m** (+3.5%)

Basic earnings per share

**29.3p** (+3.9%)

Interim dividend per share

**25.4p** (2008: 25.4p)

Headroom on committed debt facilities

**£280m**

# Group results

| | Six months ended 30 June | | |
|---|---|---|---|
| | 2009 £m | 2008 £m | Change £m |
| Consumer Credit Division | **52.0** | 50.2 | 1.8 |
| Vanquis Bank | **5.0** | 3.0 | 2.0 |
| Yes Car Credit | **(1.1)** | (1.0) | (0.1) |
| Central: | | | |
| – costs | **(3.6)** | (2.7) | (0.9) |
| – interest receivable | **0.8** | 1.8 | (1.0) |
| Total central | **(2.8)** | (0.9) | (1.9) |
| Profit before tax | **53.1** | 51.3 | 1.8 |

## Group

- Careful management of the balance between growth, impairment and costs, generating profit before tax up by 3.5% to £53.1m (2008: £51.3m).
- Basic earnings per share up 3.9% to 29.3p (2008: 28.2p).
- Balance sheet strength maintained with headroom on committed funding facilities of £280m and surplus capital of £60m.

## Consumer Credit Division

- Cautious approach to new lending with customer numbers up by 3.9% from June 2008.
- Impairment stable at 31.2% of revenue (2008: 30.4%) assisted by investment in field collections and arrears management capacity.
- Divisional profit before tax up 3.6% to £52.0m (2008: £50.2m).
- Roll-out of Real Personal Finance scheduled for 2010, assuming market conditions have stabilised.

## Vanquis Bank

- Profit before tax up 67% to £5.0m (2008: £3.0m).
- Risk-adjusted margin* of 30% in line with target reflecting effective management of revenue yield and impairment.
- New customer growth slowed to 11.2% following further tightening of the criteria applied to underwriting card applications.
- Average net receivables up 34.8% assisted by the success of the credit line increase programme directed at developing established customers.

* Revenue less impairment as a proportion of average receivables for the 12 months ended 30 June

John van Kuffeler
Chairman

# A straightforward approach delivering strong performance

## Group results

The group has performed well in the first half of 2009, as a result of careful management of growth, impairment and costs against the backdrop of a worsening economic environment. As planned, the rate of growth in customer numbers in both businesses has been slower than in 2008 as underwriting criteria have been tightened further in order to maintain credit quality. This measured approach to growth, coupled with the recent investment in field and call centre collections and arrears management capacity, has underpinned profitable growth in both main businesses.

Group profit before tax was up 3.5% to £53.1m (2008: £51.3m) and basic earnings per share was up 3.9% to 29.3p (2008: 28.2p).

The group's funding and liquidity positions remain strong, with its balance sheet showing modest gearing in comparison to its bank covenants and a significant surplus of regulatory capital. Undrawn committed bank facilities of around £280m, with no scheduled maturities in 2009, are ample for the group to execute its growth plans.

An interim dividend of 25.4p per share has been declared (2008: 25.4p) reflecting the company's policy set out at the time of the demerger to at least maintain a full year payment of 63.5p per share whilst moving to a target payout ratio of 80% of post-tax profit in the medium term.

## Market conditions

There continues to be a constraint on the flow of new lending into the UK non-standard lending market due to the withdrawal or restructuring of a number of participants, although the competitive landscape in the home-collected credit segment of the market is little changed. In the medium term, the group's strategy to become the leading provider of unsecured credit to the broader UK non-standard market represents a significant opportunity, particularly as the economy stabilises.

Management have adopted an increasingly cautious approach to new lending since the middle of 2007, in anticipation of the current marked economic downturn. In particular, there has been a strong focus within both businesses on customer affordability and avoiding lending to consumers who have become over-indebted. This is important at a time when the effect of the weakening employment market upon household incomes, including the increasing restriction on working hours and wage rates, is impacting many households across the UK. As the economy stabilises and consumers' circumstances become more certain, Provident Financial will be well placed to increase the flow of credit to its customers.

Our planning assumes that customers will continue to face these uncertain conditions through the second half of 2009 and the early part of 2010.

## Consumer Credit Division

| | Six months ended 30 June 2009 £m | 2008 £m | Change % |
|---|---|---|---|
| Customer numbers ('000) | 1,726 | 1,661 | 3.9 |
| Average customer receivables | 773.4 | 689.5 | 12.2 |
| Revenue | 339.9 | 324.0 | 4.9 |
| Impairment | (131.6) | (121.2) | (8.6) |
| Revenue less impairment | 208.3 | 202.8 | 2.7 |
| *Annualised impairment % revenue** | *31.2%* | *30.4%* | |
| Costs | (137.2) | (134.3) | (2.2) |
| Interest | (19.1) | (18.3) | (4.4) |
| Profit before tax | 52.0 | 50.2 | 3.6 |

* Impairment as a proportion of revenue for the 12 months ended 30 June

In anticipation of current market conditions, emphasis has been placed upon collections performance during the first half of the year. To ensure the correct focus of the agent force and to manage credit risk, new customer growth was slowed by reducing acquisition activity and exercising greater selectivity through tougher scoring applied to the issue of further credit to existing customers. There is also clear evidence of more cautious behaviour by consumers facing uncertain prospects. Accordingly, year-on-year customer numbers were up by 3.9% compared to a growth rate of around 7% during 2008.

Average customer receivables grew at 12.2%, of which around 2.4% was directly attributable to Real Personal Finance and 9.8% to home-collected credit. This was ahead of growth in customer numbers due to a further improvement in the underlying credit quality of the portfolio and the ability to re-serve good quality customers on short term loans with the core one-year product. The issue of longer larger loans has been restricted since autumn 2008 through tighter credit scoring and, as a result, the average carrying value of the related receivables did not grow compared to the first half of 2008.

Revenue growth of 4.9% was lower than the growth in receivables, in part due to the full year impact of the Competition Commission remedy requiring higher early settlement rebates on loans issued after 13 December 2007. This had a limited impact on the first half of 2008 and reduced revenue by some £6m in the first half of 2009. Further upward pressure on early settlement rebates arose from an increased level of refinancing of existing good customers and from some customers facing uncertain circumstances repaying loans early, often following redundancy.

The rate of impairment was in line with internal plans. In part, this reflects the natural resilience of the home credit business model, with its face-to-face underwriting, small-sum and short-term advances, and collection-based commission for its agents. Equally importantly, this performance was assisted by business improvements made over the last three years. Credit scoring analytics have been continuously refined to improve the quality of underwriting decisions. The agents' commission scheme was recalibrated during 2008, which has encouraged agents to work more closely with customers who fall into arrears, whilst also helping to lower the level of agent turnover. Most recently, the decision to invest in the capacity of the branch infrastructure, with the creation of some 120 new field-based management roles and 30 new branches, has reinforced the spans of control over collections and arrears activities. This investment has been afforded through stringent control over non field-based costs, which has restricted the overall increase in the cost base to just 2.2% in the first half of 2009.

Until the economy stabilises and, in particular, the rate of increase in unemployment abates, Real Personal Finance will remain as a market test, operating from its current level of around 50 locations. Nonetheless, loans originated during the first half of 2009 are performing well and the development of the scorecards and systems to support a national roll-out continues as planned. The severe decline in volumes of business being written in the non-standard direct repayment market has resulted in the failure or withdrawal of many brokers that formed the main distribution channel. This means that the internet and direct mail are likely to be more significant channels in the future. Accordingly, the group is evolving its existing expertise in these channels as part of the development of Real Personal Finance. In the medium term, structural changes in the market have enhanced the growth opportunity in this segment.

## Vanquis Bank

| | Six months ended 30 June | | |
|---|---|---|---|
| | 2009 £m | 2008 £m | Change % |
| Customer numbers ('000) | 416 | 374 | 11.2 |
| Average customer receivables | 218.3 | 162.0 | 34.8 |
| Revenue | 60.1 | 42.9 | 40.1 |
| Impairment | (28.4) | (16.5) | (72.1) |
| Revenue less impairment | 31.7 | 26.4 | 20.1 |
| *Annualised risk-adjusted margin** | *30.0%* | *33.7%* | |
| *Annualised impairment % revenue*** | *44.8%* | *36.8%* | |
| Costs | (21.1) | (19.2) | (9.9) |
| Interest | (5.6) | (4.2) | (33.3) |
| Profit before tax | 5.0 | 3.0 | 66.7 |

* Revenue less impairment as a proportion of average receivables for the 12 months ended 30 June

** Impairment as a proportion of revenue for the 12 months ended 30 June

Vanquis Bank has delivered profit growth in line with internal plans in the first half of 2009.

Demand for non-standard credit cards has remained strong, with nearly 500,000 applications being received in the last six months. The acceptance criteria applied to underwriting for new customer applications has been tightened further in the first half of 2009 resulting in an overall decline rate of 83%. The overall rate of growth in customer numbers was also constrained through the cancellation of some 13,000 inactive accounts to mitigate the contingent risk associated with undrawn lines. As a result, customer numbers stood at 416,000 at 30 June 2009, up by 11.2% from a year earlier.

As planned, the main source of growth during the first half was the credit line increase programme applied to eligible customers that have established a sound payment history. The returns from this programme remain very satisfactory and resulted in a growth in average customer receivables of 34.8%, well ahead of customer number growth.

Although Vanquis Bank does not enjoy the same face-to-face weekly contact with its customers as the Consumer Credit Division, it nonetheless has a number of features which make it significantly more resilient than typical prime card issuers during a period of rising unemployment. Its customers carry modest levels of other indebtedness, with the majority of customers living in rented accommodation and having limited access to other forms of credit. In addition, the average outstanding balance is relatively modest at £550, such that the related minimum monthly repayment of around £25 often remains affordable despite an interruption to income.

Vanquis Bank is also very active in managing the level of credit line utilisation and revenue yield to reflect underlying credit risk. At any point in time, the average utilisation of the credit lines granted by Vanquis Bank is around 70%, which ensures that there is a strong stream of interest income and a relatively low level of contingent undrawn exposure. This contrasts with a typical prime card which operates with lower levels of utilisation and much higher card limits, which generates much greater credit loss volatility in a downturn.

It is pleasing to report that, in a tough environment, through careful management of the relationship between the revenue yield and credit losses for each cohort of customers, the business has maintained its annualised risk-adjusted margin at its target of 30%. This is consistent with achieving its medium term financial targets. Importantly, the performance of the credit line increase programme to existing customers and new account origination is very satisfactory. The upward pressure on impairment results from accounts written earlier in Vanquis' development and explains the increase in the rate of impairment from 40.4% at 31 December 2008 to 44.8% at the half year. Through the cycle, a rate of around 40% should be the norm for the business. The marked undershoot reflected in the rate of 36.8% at June 2008 resulted from the significant tightening in underwriting which took place from mid-2007.

Costs have been tightly controlled within planned levels, reflecting reduced marketing expenditure and savings achieved through the recent renegotiation of key supplier contracts. The cost base now fully reflects the impact of the investment in the expanded contact centre in Chatham in August 2008.

The first half profit before tax of £5.0m (2008: £3.0m) represents an increase of 67% over the same period in 2008.

## Yes Car Credit

The collect-out of the Yes Car Credit receivables is now approaching completion, with the remaining book standing at £0.3m at 30 June 2009. The remaining collections operations will be wound up in the second half of 2009.

## Central costs

Central costs in the first half of the year of £3.6m were £0.9m higher than in 2008, due to a budgeted increase in the level of expenditure on the group's community programmes and the impact of higher share-based incentive payments. Central interest receivable was lower at £0.8m (2008: £1.8m), primarily due to the planned reduction in the level of surplus capital currently held by the group, and also from the impact of the refinancing of the group's syndicated facilities in February 2009.

## Taxation

The tax rate for the first half of 2009 of 28.0% (2008: 28.5%) is the estimated tax rate for the 2009 financial year and is in line with the UK corporation tax rate.

## Dividends

The interim dividend is maintained at 25.4p per share (2008: 25.4p) reflecting the company's policy set out at the time of the demerger to at least maintain a full year payment of 63.5p per share whilst moving to a target payout ratio of 80% of post-tax profit in the medium term. The annualised level of dividend cover has reached 1.14 times, up from 1.12 times at the end of 2008.

## Balance sheet

Net assets as at 30 June 2009 were £236.8m (2008: £280.3m). The decline from the prior year reflects the reduction in the pension asset from £57.9m at June 2008 to £10.6m at June 2009, mainly caused by the recent upward movement in future inflation expectations. The level of gearing, calculated after excluding the pension scheme asset and the fair value of derivatives which are disregarded for the purpose of measuring performance against banking covenants, stood at 3.2 times (2008: 2.9 times), compared to the relevant borrowings covenant of 6.0 times. The reported level of capital adequacy stood at 428% of the Pillar I requirement, comfortably in excess of the interim capital requirement set by the FSA.

## Funding and capital

The group remains strongly funded with around £60m of surplus equity capital and around £280m of undrawn committed debt facilities. There are no scheduled maturities in 2009 and the borrowing facilities available to the group remain unchanged from that reported in the 2008 annual report and financial statements. As a result, sufficient funding is available to enable the group to execute its growth plans.

## Regulation

On 2 July 2009, the Department for Business, Innovation and Skills published its White Paper, "A Better Deal for Consumers – Delivering Real Help Now and Change for the Future". Part of this paper concerns consumer credit with the aims of continuing access to credit for vulnerable consumers, promoting more responsible lending, limiting over-indebtedness and increasing the transparency of consumer credit products. At the same time, the Office of Fair Trading ('OFT') announced its review of the £35bn high-cost consumer credit market, which will focus on the impact of the economic downturn on competition, the business models of lenders and consumer protection. Provident Financial supports the broad aims of the White Paper and will assist the OFT with its review. The competitive position in the £3bn home credit segment of the market has not changed materially since the Competition Commission concluded its review of the home credit market at the end of 2006, and the business model has a proven track record of fulfilling a valuable role in providing small-sum credit to households on low incomes through the economic cycle.

## Summary and outlook

The group has reported half year results in line with its internal plans, against the backdrop of pressure on customers' household budgets from rising unemployment and reduced working hours. This is not expected to abate in the second half of 2009. A cautious approach to new lending will continue and, when combined with the group's strong funding position, puts Provident Financial in a sound position to deliver continuing quality growth for the year.

## Principal risks and uncertainties

A full assessment of the principal risks and uncertainties facing the group, together with the controls and processes which are in place to monitor and mitigate those risks where possible, are set out on pages 38 to 39 of the 2008 annual report and financial statements which is available on the company's website, www.providentfinancial.com. The principal risk and uncertainty most affecting the remaining six months of the financial year is credit risk.

The risk of a continued rise in unemployment in the UK presents the risk of increased impairment charges throughout the financial services sector. Management's view that the economy would experience a marked deterioration has resulted in an increasingly cautious approach to lending since the middle of 2007. The progressive tightening of underwriting has continued during the first half of 2009, resulting in greater selectivity and an increasing proportion of customers being declined in both Home Credit and Vanquis Bank. Nevertheless, impairment charges as a percentage of revenue in both businesses have increased marginally compared with last year.

Both businesses have unique characteristics which leave them well-placed to continue to manage impairment effectively through the current challenging economic conditions and mitigate the potential risk of further increases in impairment charges.

Home Credit loans are short term advances of small sums. Agents' commission is based on collections from customers rather than from the issue of new loans which reinforces the core principle of responsible and affordable lending. The business is conducted through agents who have regular face-to-face contact with customers, with all loans underwritten in the customers' home and collections made by a weekly agent visit. Agents often live in the same communities as their customers and are quick to identify and deal with changes to customers' circumstances. These characteristics of the business model make Home Credit uniquely placed to manage the impact on customers of changes in economic conditions effectively.

The Vanquis Bank operating model is very different to mainstream credit card issuers. The business has developed highly bespoke underwriting scorecards and the customer application process normally involves a telephone interview. The initial credit line granted to a new customer is low, normally £250, and only increased if a customer establishes a satisfactory payment history. Credit bureau data is re-checked regularly for existing customers to mitigate the risk of over-indebtedness. There is an intensive customer interface from the call centre in Chatham focussed on collections and customer service. The criteria applied to underwriting and credit line increases have been tightened continuously since the middle of 2007, reflecting a cautious stance in anticipation of deteriorating economic conditions. In addition, Vanquis Bank has an established record of managing the revenue yield on its receivables book to reflect the underlying risk.

## Related party transactions

There have been no changes in the nature of related party transactions as described in note 30 to the 2008 annual report and financial statements and there have been no new related party transactions which have had a material effect on the financial position or performance of the group in the six months ended 30 June 2009.

# Consolidated income statement

| Continuing operations | Note | Six months ended 30 June 2009 £m | 2008 £m |
|---|---|---|---|
| **Revenue** | 4 | 401.2 | 370.1 |
| Finance costs | | (25.2) | (22.6) |
| Operating costs | | (229.7) | (204.4) |
| Administrative expenses | | (93.2) | (91.8) |
| **Total costs** | | (348.1) | (318.8) |
| **Profit before taxation** | 4 | 53.1 | 51.3 |
| Tax charge | 5 | (14.9) | (14.6) |
| **Profit for the period attributable to equity shareholders** | | 38.2 | 36.7 |

# Consolidated statement of comprehensive income

| | Note | Six months ended 30 June 2009 £m | 2008 £m |
|---|---|---|---|
| **Profit for the period attributable to equity shareholders** | | 38.2 | 36.7 |
| Other comprehensive income: | | | |
| – cash flow hedges | | (4.4) | 11.2 |
| – actuarial movements on retirement benefit asset | 9 | (43.8) | (6.5) |
| – tax on other comprehensive income | | 13.5 | (1.3) |
| Other comprehensive income for the period | | (34.7) | 3.4 |
| **Total comprehensive income for the period** | | 3.5 | 40.1 |

| | Note | Six months ended 30 June 2009 Pence | 2008 Pence |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic | 6 | 29.3 | 28.2 |
| Diluted | 6 | 29.2 | 28.1 |
| **Dividends per share** | | | |
| Proposed interim dividend | 7 | 25.4 | 25.4 |
| Paid in the period* | 7 | 38.1 | 38.1 |

* The total cost of dividends paid in the period was £50.6m (six months ended 30 June 2008: £50.0m)

# Consolidated balance sheet

| | Note | 30 June 2009 £m | 31 December 2008 £m | 30 June 2008 £m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | | – | 3.1 | 3.1 |
| Other intangible assets | | 17.3 | 17.1 | 13.8 |
| Property, plant and equipment | | 26.8 | 28.6 | 30.5 |
| Financial assets: | | | | |
| – amounts receivable from customers | 8 | 77.5 | 83.7 | 58.2 |
| – derivative financial instruments | | 13.5 | 28.9 | 7.6 |
| Retirement benefit asset | 9 | 10.6 | 50.9 | 57.9 |
| Deferred tax assets | | 10.5 | – | – |
| | | 156.2 | 212.3 | 171.1 |
| **Current assets** | | | | |
| Financial assets: | | | | |
| – amounts receivable from customers | 8 | 934.0 | 979.6 | 837.3 |
| – derivative financial instruments | | 0.1 | – | – |
| – cash and cash equivalents | | 24.0 | 19.5 | 23.0 |
| – trade and other receivables | | 18.0 | 15.1 | 16.1 |
| | | 976.1 | 1,014.2 | 876.4 |
| **Total assets** | 4 | 1,132.3 | 1,226.5 | 1,047.5 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Financial liabilities: | | | | |
| – bank and other borrowings | | (93.9) | (4.0) | (10.1) |
| – derivative financial instruments | | (10.1) | (4.7) | (0.2) |
| – trade and other payables | | (42.8) | (64.0) | (51.4) |
| Current tax liabilities | | (29.2) | (32.8) | (30.2) |
| Provisions | | (0.8) | (0.8) | (0.8) |
| | | (176.8) | (106.3) | (92.7) |
| **Non-current liabilities** | | | | |
| Financial liabilities: | | | | |
| – bank and other borrowings | | (697.7) | (824.5) | (644.4) |
| – derivative financial instruments | | (20.2) | (16.1) | (19.6) |
| Provisions | | (0.8) | (1.2) | (1.8) |
| Deferred tax liabilities | | – | (0.5) | (8.7) |
| | | (718.7) | (842.3) | (674.5) |
| **Total liabilities** | | (895.5) | (948.6) | (767.2) |
| **NET ASSETS** | 4 | 236.8 | 277.9 | 280.3 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Called-up share capital | | 27.4 | 27.3 | 27.2 |
| Share premium account | | 138.5 | 134.6 | 133.0 |
| Other reserves | | (18.1) | (16.3) | 2.2 |
| Retained earnings | | 89.0 | 132.3 | 117.9 |
| **TOTAL EQUITY** | | 236.8 | 277.9 | 280.3 |

## Consolidated statement of changes in shareholders' equity

| | Note | Called-up share capital £m | Share premium account £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2008** | | 27.2 | 132.7 | 0.1 | 135.9 | 295.9 |
| Profit for the period | | – | – | – | 36.7 | 36.7 |
| Other comprehensive income: | | | | | | |
| – cash flow hedges | | – | – | 11.2 | – | 11.2 |
| – actuarial movements on retirement benefit asset | 9 | – | – | – | (6.5) | (6.5) |
| – tax on other comprehensive income | | – | – | (3.1) | 1.8 | (1.3) |
| Other comprehensive income for the period | | – | – | 8.1 | (4.7) | 3.4 |
| **Total comprehensive income for the period** | | – | – | 8.1 | 32.0 | 40.1 |
| Transactions with owners: | | | | | | |
| – issue of share capital | | – | 0.3 | – | – | 0.3 |
| – purchase of own shares | | – | – | (8.7) | – | (8.7) |
| – share-based payment charge | | – | – | 2.7 | – | 2.7 |
| – dividends | 7 | – | – | – | (50.0) | (50.0) |
| **Balance at 30 June 2008** | | 27.2 | 133.0 | 2.2 | 117.9 | 280.3 |
| **Balance at 1 July 2008** | | 27.2 | 133.0 | 2.2 | 117.9 | 280.3 |
| Profit for the period | | – | – | – | 55.4 | 55.4 |
| Other comprehensive income: | | | | | | |
| – cash flow hedges | | – | – | (28.5) | – | (28.5) |
| – actuarial movements on retirement benefit asset | | – | – | – | (10.6) | (10.6) |
| – tax on other comprehensive income | | – | – | 8.0 | 3.0 | 11.0 |
| Other comprehensive income for the period | | – | – | (20.5) | (7.6) | (28.1) |
| **Total comprehensive income for the period** | | – | – | (20.5) | 47.8 | 27.3 |
| Transactions with owners: | | | | | | |
| – issue of share capital | | 0.1 | 1.6 | – | – | 1.7 |
| – share-based payment charge | | – | – | 2.0 | – | 2.0 |
| – dividends | | – | – | – | (33.4) | (33.4) |
| **Balance at 31 December 2008** | | 27.3 | 134.6 | (16.3) | 132.3 | 277.9 |
| **Balance at 1 January 2009** | | 27.3 | 134.6 | (16.3) | 132.3 | 277.9 |
| Profit for the period | | – | – | – | 38.2 | 38.2 |
| Other comprehensive income: | | | | | | |
| – cash flow hedges | | – | – | (4.4) | – | (4.4) |
| – actuarial movements on retirement benefit asset | 9 | – | – | – | (43.8) | (43.8) |
| – tax on other comprehensive income | | – | – | 1.2 | 12.3 | 13.5 |
| Other comprehensive income for the period | | – | – | (3.2) | (31.5) | (34.7) |
| Total comprehensive income for the period | | – | – | (3.2) | 6.7 | 3.5 |
| Transactions with owners: | | | | | | |
| – issue of share capital | | 0.1 | 3.9 | – | – | 4.0 |
| – purchase of own shares | | – | – | (0.6) | – | (0.6) |
| – share-based payment charge | | – | – | 2.9 | – | 2.9 |
| – transfer of share-based payment reserve | | – | – | (0.9) | 0.9 | – |
| – deferred tax on share-based payment reserve transfer | | – | – | – | (0.3) | (0.3) |
| – dividends | 7 | – | – | – | (50.6) | (50.6) |
| **Balance at 30 June 2009** | | 27.4 | 138.5 | (18.1) | 89.0 | 236.8 |

# Consolidated statement of cash flows

| | Notes | Six months ended 30 June 2009 £m | 2008 £m |
|---|---|---|---|
| **Cash flows from operations** | | | |
| Cash generated from operations | 11 | 116.8 | 96.5 |
| Finance costs paid | | (28.1) | (25.8) |
| Tax paid | | (16.3) | (13.0) |
| **Net cash generated from operating activities** | | 72.4 | 57.7 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (3.2) | (5.7) |
| Proceeds from disposal of property, plant and equipment | | 0.6 | 0.3 |
| Purchase of intangible assets | | (1.8) | (1.6) |
| Proceeds from disposal of subsidiary undertaking | 10 | 0.7 | – |
| **Net cash used in investing activities** | | (3.7) | (7.0) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 76.0 | 60.7 |
| Repayment of borrowings | | (104.1) | (54.7) |
| Dividends paid to company shareholders | 7 | (50.6) | (50.0) |
| Proceeds from issue of share capital | | 4.0 | 0.3 |
| Purchase of own shares | | (0.6) | (8.7) |
| **Net cash used in financing activities** | | (75.3) | (52.4) |
| | | | |
| **Net decrease in cash and cash equivalents** | | (6.6) | (1.7) |
| Cash and cash equivalents at beginning of period | | 16.9 | 14.6 |
| **Cash and cash equivalents at end of period** | | 10.3 | 12.9 |
| | | | |
| **Cash and cash equivalents at end of period comprise:** | | | |
| Cash at bank and in hand | | 24.0 | 23.0 |
| Overdrafts (held in bank and other borrowings) | | (13.7) | (10.1) |
| **Total cash and cash equivalents** | | 10.3 | 12.9 |

## 1 General information

The company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is Colonnade, Sunbridge Road, Bradford, BD1 2LQ.

The company is listed on the London Stock Exchange.

The condensed consolidated interim financial information does not constitute the statutory financial statements of the group within the meaning of Section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2008 were approved by the board of directors on 3 March 2009 and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under Section 498 of the Companies Act 2006.

The condensed consolidated interim financial information will be published on the company's website, www.providentfinancial.com, in addition to the normal paper version. The maintenance and integrity of the Provident Financial website is the responsibility of the directors and the work carried out by the auditors does not involve consideration of these matters. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

The condensed consolidated interim financial information for the six months ended 30 June 2009 has been reviewed, not audited, and was approved for issue by the board of directors on 28 July 2009.

## 2 Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

## 3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

Taxes on profits in interim periods are accrued using the tax rate that would be applicable to expected total annual profits.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009:

- IAS 1 (revised), 'Presentation of financial statements'. The most significant change within IAS 1 (revised) is the requirement to produce a statement of comprehensive income setting out all items of income and expense relating to non-owner changes in equity. There is a choice between presenting comprehensive income in one statement or in two statements comprising an income statement and a separate statement of comprehensive income. The group has elected to present comprehensive income in two statements. In addition, IAS 1 (revised) requires the statement of changes in shareholders' equity to be presented as a primary statement. The other revisions to IAS 1 have not had a significant impact on the presentation of the group's financial information.

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting' and requires the disclosure of segment information on the same basis as the management information provided to the chief operating decision maker. The adoption of this standard has not resulted in a change in the group's reportable segments.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not relevant to the group:

- IFRIC 13, 'Customer loyalty programmes'.

- IFRIC 15, 'Agreements for the construction of real estate'.

- IFRIC 16, 'Hedges of a net investment in a foreign operation'.

- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The standard is not expected to have a material impact on the group.

- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not expected to have a material impact on the group.

- IFRIC 18, 'Transfers of assets from customers', effective for transfers of assets received on or after 1 July 2009. This is not relevant to the group.

## 4 Segment information

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The group's chief operating decision maker is deemed to be the Executive Committee comprising Peter Crook (Chief Executive), Andrew Fisher (Finance Director) and Chris Gillespie (Managing Director, Consumer Credit Division) whose primary responsibility it is to manage the group's day to day operations and analyse trading performance. The group's segments comprise the Consumer Credit Division, Vanquis Bank, Yes Car Credit and Central which are those segments reported in the group's management accounts used by the Executive Committee as the primary means for analysing trading performance. The Executive Committee assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the group accounts.

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | Revenue | | Profit/(loss) before taxation | |
| | 2009 £m | 2008 £m | 2009 £m | 2008 £m |
| Consumer Credit Division | 339.9 | 324.0 | 52.0 | 50.2 |
| Vanquis Bank | 60.1 | 42.9 | 5.0 | 3.0 |
| Yes Car Credit | 1.2 | 3.2 | (1.1) | (1.0) |
| | 401.2 | 370.1 | 55.9 | 52.2 |
| Central: | | | | |
| – costs | – | – | (3.6) | (2.7) |
| – interest receivable | – | – | 0.8 | 1.8 |
| Total central | – | – | (2.8) | (0.9) |
| **Total group** | 401.2 | 370.1 | 53.1 | 51.3 |

All of the above activities relate to continuing operations as defined in IFRS 5 'Non-current assets held for sale and discontinued operations'. Consistent with the treatment in prior years, the Yes Car Credit operation has been classified as part of continuing operations on the basis that revenue and impairment will continue to be generated from the loan book until it has been fully collected-out.

Revenue between business segments is not material. All of the group's operations operate in the UK and Republic of Ireland.

| | Total assets | | | Net assets/(liabilities) | | |
|---|---|---|---|---|---|---|
| | 30 June 2009 £m | 31 December 2008 £m | 30 June 2008 £m | 30 June 2009 £m | 31 December 2008 £m | 30 June 2008 £m |
| Consumer Credit Division | 854.3 | 949.7 | 805.6 | 205.6 | 230.1 | 205.9 |
| Vanquis Bank | 242.7 | 215.8 | 184.1 | 46.0 | 40.8 | 33.4 |
| Yes Car Credit | 1.8 | 6.0 | 17.3 | (40.9) | (40.2) | (41.6) |
| Central | 185.9 | 121.7 | 153.2 | 26.1 | 47.2 | 82.6 |
| | 1,284.7 | 1,293.2 | 1,160.2 | 236.8 | 277.9 | 280.3 |
| Intra-group elimination | (152.4) | (66.7) | (112.7) | – | – | – |
| **Total group** | 1,132.3 | 1,226.5 | 1,047.5 | 236.8 | 277.9 | 280.3 |

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing of the borrowings of the Consumer Credit Division to reflect a borrowings to receivables ratio of 80%. The impact of this is an increase in the notional allocation of group borrowings to the Consumer Credit Division of £152.4m (31 December 2008: £66.7m, 30 June 2008: £112.7m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

## 5 Tax charge

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the year, which is 28.0% (six months ended 30 June 2008: 28.5%), to the profit before tax for the period.

## 6 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding own shares held, which are treated, for this purpose, as being cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For share options and awards, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options and awards. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and awards.

Reconciliations of basic and diluted earnings per share are set out below:

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Earnings £m | Weighted average number of shares m | Per share amount Pence | Earnings £m | Weighted average number of shares m | Per share amount Pence |
| **Earnings per share** | | | | | | |
| Shares in issue during the period | | 132.2 | | | 131.2 | |
| Own shares held | | (2.0) | | | (1.2) | |
| **Basic earnings per share** | 38.2 | 130.2 | 29.3 | 36.7 | 130.0 | 28.2 |
| Dilutive effect of share options and awards | – | 0.4 | (0.1) | – | 0.7 | (0.1) |
| **Diluted earnings per share** | 38.2 | 130.6 | 29.2 | 36.7 | 130.7 | 28.1 |

## 7 Dividends

| | Six months ended 30 June | |
|---|---|---|
| Pence per share | 2009 £m | 2008 £m |
| 2007 final – 38.1p | – | 50.0 |
| 2008 final – 38.1p | 50.6 | – |
| **Dividends paid** | 50.6 | 50.0 |

The directors have declared an interim dividend in respect of the six months ended 30 June 2009 of 25.4p per share (six months ended 30 June 2008: 25.4p) which will amount to a dividend payment of £34.0m (2008: £33.4m). This dividend is not reflected in the balance sheet as it will be paid after the balance sheet date.

## 8 Amounts receivable from customers

| | 30 June 2009 £m | 31 December 2008 £m | 30 June 2008 £m |
|---|---|---|---|
| Consumer Credit Division | 781.5 | 852.1 | 701.7 |
| Vanquis Bank | 229.7 | 205.4 | 177.5 |
| Yes Car Credit | 0.3 | 5.8 | 16.3 |
| **Total group** | 1,011.5 | 1,063.3 | 895.5 |
| Analysed as: | | | |
| – due within one year | 934.0 | 979.6 | 837.3 |
| – due in more than one year | 77.5 | 83.7 | 58.2 |
| **Total group** | 1,011.5 | 1,063.3 | 895.5 |

The impairment charge in respect of amounts receivable from customers reflected within operating costs can be analysed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2009 £m | 2008 £m |
| Consumer Credit Division | 131.6 | 121.2 |
| Vanquis Bank | 28.4 | 16.5 |
| Yes Car Credit | 0.1 | 1.1 |
| **Total group** | 160.1 | 138.8 |

Impairment at Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The Vanquis Bank allowance account as at 30 June 2009 amounted to £33.3m (31 December 2008: £26.4m, 30 June 2008: £22.2m). Within the Consumer Credit Division and Yes Car Credit, impairments are deducted directly from amounts receivable from customers without the use of an allowance account.

## 9 Retirement benefit asset

The group operates one major defined benefit scheme; the Provident Financial Staff Pension Scheme ('the staff pension scheme'). The scheme covers 65% of employees with company-provided pension arrangements and is of the funded, defined benefit type providing retirement benefits based on final salary. Following a full group review of pension scheme arrangements, from 1 April 2006 members were provided with a choice of paying higher member contributions to continue accruing benefits based on final salary or paying a lower member contribution and accruing benefits based on a percentage of salary which would be revalued each year.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out as at 1 June 2006 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of this valuation which has been updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

## 9 Retirement benefit asset – continued

The net retirement benefit asset recognised in the balance sheet of the group is as follows:

| | 30 June 2009 £m | 31 December 2008 £m | 30 June 2008 £m |
|---|---|---|---|
| Fair value of scheme assets | 407.5 | 410.7 | 440.4 |
| Present value of funded defined benefit obligations | (396.9) | (359.8) | (382.5) |
| **Net retirement benefit asset recognised in the balance sheet** | 10.6 | 50.9 | 57.9 |

The amounts recognised in the income statement are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2009 £m | 2008 £m |
| Current service cost | (2.4) | (2.9) |
| Interest cost | (11.2) | (11.5) |
| Expected return on scheme assets | 12.5 | 14.9 |
| **Net (expense)/credit recognised in the income statement** | (1.1) | 0.5 |

The net (expense)/credit recognised in the income statement has been included within administrative expenses.

Movements in the fair value of scheme assets were as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2009 £m | 2008 £m |
| Fair value of scheme assets at 1 January | 410.7 | 465.7 |
| Expected return on scheme assets | 12.5 | 14.9 |
| Actuarial movement on scheme assets | (15.8) | (37.6) |
| Contributions by the group | 4.0 | 2.4 |
| Section 75 contribution on disposal of subsidiary undertaking (note 10) | 0.6 | – |
| Contributions paid by scheme participants | 0.6 | 1.3 |
| Net benefits paid out | (5.1) | (6.3) |
| **Fair value of scheme assets at 30 June** | 407.5 | 440.4 |

Movements in the present value of the defined benefit obligation were as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2009 £m | 2008 £m |
| Defined benefit obligation at 1 January | (359.8) | (404.2) |
| Current service cost | (2.4) | (2.9) |
| Interest cost | (11.2) | (11.5) |
| Contributions paid by scheme participants | (0.6) | (1.3) |
| Actuarial movement on scheme liabilities | (28.0) | 31.1 |
| Net benefits paid out | 5.1 | 6.3 |
| **Defined benefit obligation at 30 June** | (396.9) | (382.5) |

## 9 Retirement benefit asset – continued

The principal actuarial assumptions used at the balance sheet date were as follows:

| | 30 June 2009 % | 31 December 2008 % | 30 June 2008 % |
|---|---|---|---|
| Price inflation | 3.50 | 2.90 | 4.00 |
| Rate of increase in pensionable salaries | 4.55 | 4.20 | 5.57 |
| Rate of increase to pensions in payment | 3.50 | 2.90 | 4.00 |
| Discount rate | 6.20 | 6.30 | 6.40 |

The mortality assumptions used in the valuation of the defined benefit pension scheme are based on the mortality experience of insured pension schemes and allow for future improvements in life expectancy. The group continues to use the PA92 series of standard tables combined with the medium cohort improvement factors for projecting mortality. In more simple terms, it is assumed that members who retire in the future at age 65 will live on average for a further 22 years if they are male (31 December 2008: 22 years, 30 June 2008: 21 years) and for a further 25 years if they are female (31 December 2008: 25 years, 30 June 2008: 24 years). If assumed life expectancies had been one year greater, the net retirement benefit asset would have reduced by approximately £11m (31 December 2008: £10m, 30 June 2008: £11m).

An analysis of amounts recognised in the statement of comprehensive income is set out below:

| | Six months ended 30 June | |
|---|---|---|
| | 2009 £m | 2008 £m |
| Actuarial movements on scheme assets | (15.8) | (37.6) |
| Actuarial movements on scheme liabilities | (28.0) | 31.1 |
| **Actuarial movements recognised in the statement of comprehensive income** | (43.8) | (6.5) |

## 10 Disposal of subsidiary undertaking

On 30 January 2009, the group completed the disposal of Cheque Exchange Limited, a small subsidiary undertaking within the Consumer Credit Division involved in cheque cashing and money transfer, to Hertford International Group plc for total consideration of £3.0m. The consideration comprised £0.7m cash consideration, £1.9m deferred consideration of which £1.4m is due on 31 July 2009, and £0.6m, less tax relief of £0.2m, in respect of a section 75 contribution into the group's defined pension benefit scheme (see note 9). There was no gain or loss on disposal.

## 11 Reconciliation of profit after taxation to cash generated from operations

| | Six months ended 30 June | |
|---|---|---|
| | 2009 £m | 2008 £m |
| **Profit after taxation** | 38.2 | 36.7 |
| Adjusted for: | | |
| – tax charge | 14.9 | 14.6 |
| – finance costs | 25.2 | 22.6 |
| – share-based payment charge | 2.9 | 2.7 |
| – retirement benefit charge/(credit) (note 9) | 1.1 | (0.5) |
| – amortisation of intangible assets | 1.6 | 0.4 |
| – depreciation of property, plant and equipment | 4.2 | 3.5 |
| – loss on disposal of property, plant and equipment | 0.1 | 0.1 |
| Changes in operating assets and liabilities: | | |
| – amounts receivable from customers | 51.8 | 29.9 |
| – trade and other receivables | (4.4) | 3.3 |
| – trade and other payables | (14.9) | (15.0) |
| – retirement benefit asset | (4.0) | (2.4) |
| – derivative financial instruments | 0.5 | 0.8 |
| – provisions | (0.4) | (0.2) |
| **Cash generated from operations** | 116.8 | 96.5 |

## 12 Seasonality

The group's peak period of lending to customers is in the lead up to the Easter holidays in the first half of each financial year and then more significantly in the lead up to Christmas in the second half of the financial year. Accordingly, in 2008 approximately 60% of Home Credit loans issued by the Consumer Credit Division were made in the second half of the financial year and the group's peak borrowing requirement arose in December. In addition, the group's accounting policies relating to revenue and impairment are an important influence on the recognition of the group's profit between the first and second halves of the financial year. The interest income earned from loans and receivables is spread on an effective yield basis over the contractual term of the group's loans and receivables resulting in revenue being split broadly evenly between the first and second halves of the financial year, notwithstanding that the larger proportion of credit is issued in the second half of the financial year. The accounting policy relating to the impairment of customer receivables requires impairments to be made only when there is objective evidence of impairment of a customer balance, such as a missed payment. This results in the group's largest impairment charges arising early in each financial year when customers default on loans they received in the lead up to Christmas. Accordingly, the impairment charge is typically higher in the first half of the financial year. In 2008, the first half impairment charge in the Consumer Credit Division represented approximately 60% of the full year impairment charge.

The analysis set out above relates to the Consumer Credit Division only. Vanquis Bank is still in a rapid growth phase and at this stage of its development the influence of its rapid growth has a much more significant influence on the profits reported by the business during the financial year than the underlying seasonality.

# Statement of directors' responsibilities

The directors confirm that the condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial information, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions that have occurred in the first six months of the financial year and any material changes in the related party transactions described in the last annual report and financial statements.

The current directors of Provident Financial plc are listed in the 2008 annual report and financial statements. On 2 March 2009, Rob Anderson was appointed as a non-executive director and on 6 May 2009, John Maxwell retired from the board. There have been no other changes in directors during the six months ended 30 June 2009. A list of current directors is maintained on the Provident Financial website: www.providentfinancial.com.

By order of the board

**Peter Crook**
Chief Executive

**Andrew Fisher**
Finance Director

28 July 2009

# Independent review report to Provident Financial plc

**Introduction**

We have been engaged by the company to review the condensed consolidated interim financial information in the interim report for the six months ended 30 June 2009, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

**Directors' responsibilities**

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated interim financial information included in this interim report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial information in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the interim report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds

28 July 2009

## Information for shareholders

1. The interim report will be posted to shareholders on 11 August 2009.

2. The shares will be marked ex-dividend on 4 November 2009.

3. The interim dividend will be paid on 30 November 2009 to shareholders on the register at the close of business on 6 November 2009. Dividend warrants/vouchers will be posted on 27 November 2009.

## Directors

| | |
|---|---|
| John van Kuffeler | Non-executive Chairman<br>and Chairman of the Nomination Committee |

### EXECUTIVE DIRECTORS

| | |
|---|---|
| Peter Crook | Chief Executive<br>and Chairman of the Executive Committee |
| Andrew Fisher | Finance Director |
| Chris Gillespie | Managing Director, Consumer Credit Division |

### NON-EXECUTIVE DIRECTORS

| | |
|---|---|
| Robert Hough | Senior independent non-executive director<br>and Chairman of the Remuneration Committee |
| Rob Anderson | Independent non-executive director<br>and Chairman of the Risk Advisory Committee |
| Manjit Wolstenholme | Independent non-executive director<br>and Chairman of the Audit Committee |

### GENERAL COUNSEL AND COMPANY SECRETARY

Ken Mullen

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