1997

Provident Financial Report & Accounts

Provident Financial is successful
because it cares for its customers

PROVIDENT FINANCIAL

Provident Financial	
Home Credit Division	Insurance Division

Provident Financial is a personal financial services group specialising in two areas: Home Credit and Insurance.

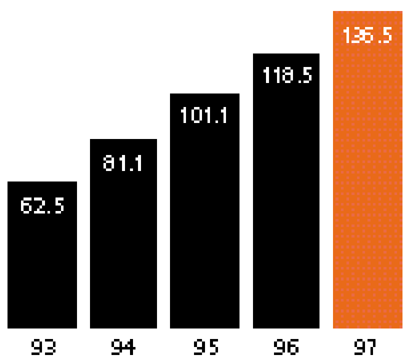
The Home Credit Division has more than 1.4 million customers, who borrow small sums of money – somewhere between £50 and £500 – for a fixed term, usually six months or a year. The fixed charge, which does not vary at all, even if the customer is late repaying, is collected weekly from the customer's home by our agent.

The Insurance Division consists of an underwriting operation and a broking operation, both of which specialise in motor insurance and together serve 800,000 customers.

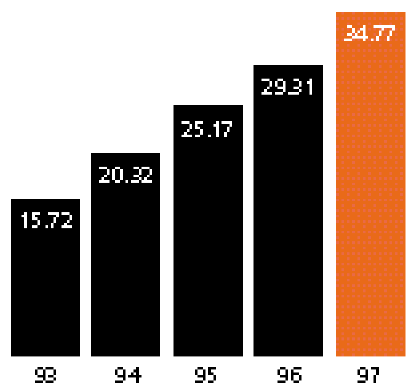
We are successful because we care for our customers.
Because we care for our customers, we lend responsibly.
Because we lend responsibly, we get our money back.
Because we get our money back, we are successful.

PERFORMANCE

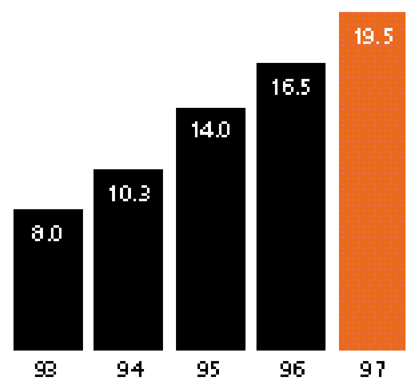
Profit before tax (£m)



Earnings per share (p)



Dividend per share (p)



PROFIT BEFORE TAX
UP 15% TO **£136.5m**

EARNINGS PER SHARE
UP 19% TO **34.77p**

DIVIDEND PER SHARE
UP 18% TO **19.5p**

Statement from
the Chairman,
John van Kuffeler.

A CLEAR FUTURE

I am delighted in my first year as Chairman to report another set of good results. The strategy we have developed over the last six years has again delivered strong growth in profits, up 15% to £136.5 million, after taking account of additional interest costs of £2.0 million relating to the share buy-back. Earnings per share increased by 19% to 34.77p, assisted by a reduction in the effective tax rate to 31.5% and the share buy-back. The Board is therefore recommending a final dividend of 11.75p per share, making a total of 19.5p per share for the year – an increase for the year of 18%.

In recent years the Company has disposed of a number of non-core businesses and has concentrated on the organic development of its existing businesses rather than continuing to seek acquisition opportunities. Accordingly, in order to restore an appropriate balance between debt and equity in its capital structure, in May 1997 the Company announced its intention to buy back up to 17 million shares over the following 12 months, as and when conditions were favourable. Following that announcement, the Company bought back 5.8 million ordinary shares for £33.5 million, at an average price of 575p per share. Since that time, the strong performance of the share price and the requirement for any buy-back to be earnings enhancing have prevented further progress. The Board now intends to fulfil its 1997 commitment to shareholders by recommending a distribution by way of dividend of 35p per share accompanied by a share capital consolidation. This will ensure that all shareholders participate equally whilst enabling the Company to meet its financial objectives.

Our Home Credit Division continued its excellent progress, with further significant growth. And as our Chief Executive, Howard Bell, details in his report, our success has a very human side to it. Our 1.4 million Home Credit customers use us out of choice. They want what we have to offer and they like what we have to offer, because they know that it is tailor-made to their needs.

Our consistent, steady, organic growth in Home Credit, year after year, is built on more customers, well cared for, by more agents. And, regardless of the economic climate of the day, the demand will be there – as will our well-established and long-term proven ability to meet it. ►

► The Insurance Division has had a good year too, with profits up by £3.1 million to £13.7 million. Our specialisation in motor policies for women and non-comprehensive policies has allowed the Division to continue to offer low-cost products in a highly competitive market. Our pricing strategy has been to ignore the trend in the industry, which has been to hold down premiums in order to build or maintain market share. We have, instead, put up premiums to maintain an adequate return for our risk. Other insurers have now begun to put up their premiums; and we are slowly becoming more competitive again.

In April 1997 I became Chairman after nearly six years as Chief Executive and latterly also as Deputy Chairman. Of all the reasons for the group's continuing success, one of the most important is our people. I am delighted to be chairing a first-class team of executive directors ably led by Howard Bell who took my place as Chief Executive. Supporting them is an excellent team of managers – a measure of which can be seen by the fact that 31 of the 59 most senior managers in the group now have an MBA – very often in addition to a first degree and professional qualifications. This reflects our long held belief that appropriate further education has a vital place in the development of our staff to whom we offer wide opportunities to improve themselves. We also benefit from that investment. Indeed, our growing reputation and our results are in no small way due to the quality of our people at all levels in the group. I am grateful to them all, and thank them all, on your behalf, for the continuing dedication and commitment they have shown. We are encouraged that over half of them are participating in the Company's employee share option schemes and saving to buy shares in the Company, thus sharing in its success.

Another factor is that we do not stand still. As well as changing our existing businesses to meet customer needs, we search constantly for new markets and new products.

Whilst in Home Credit we have operated in the UK since 1880 and also in the Republic of Ireland for over 50 years, after two years' investigation and intensive market research, we have now identified potential new markets abroad that have opportunities for us, following major political and economic change. Consequently, we have opened offices in Poland and in the Czech Republic. ►

▸ We also identified demand from customers at home in Britain for simple, low-cost, term life assurance and in February 1997 we launched a policy which offers life cover of up to £80,000 for £3 a week.

We shall monitor all these developments very carefully, but their early progress is encouraging.

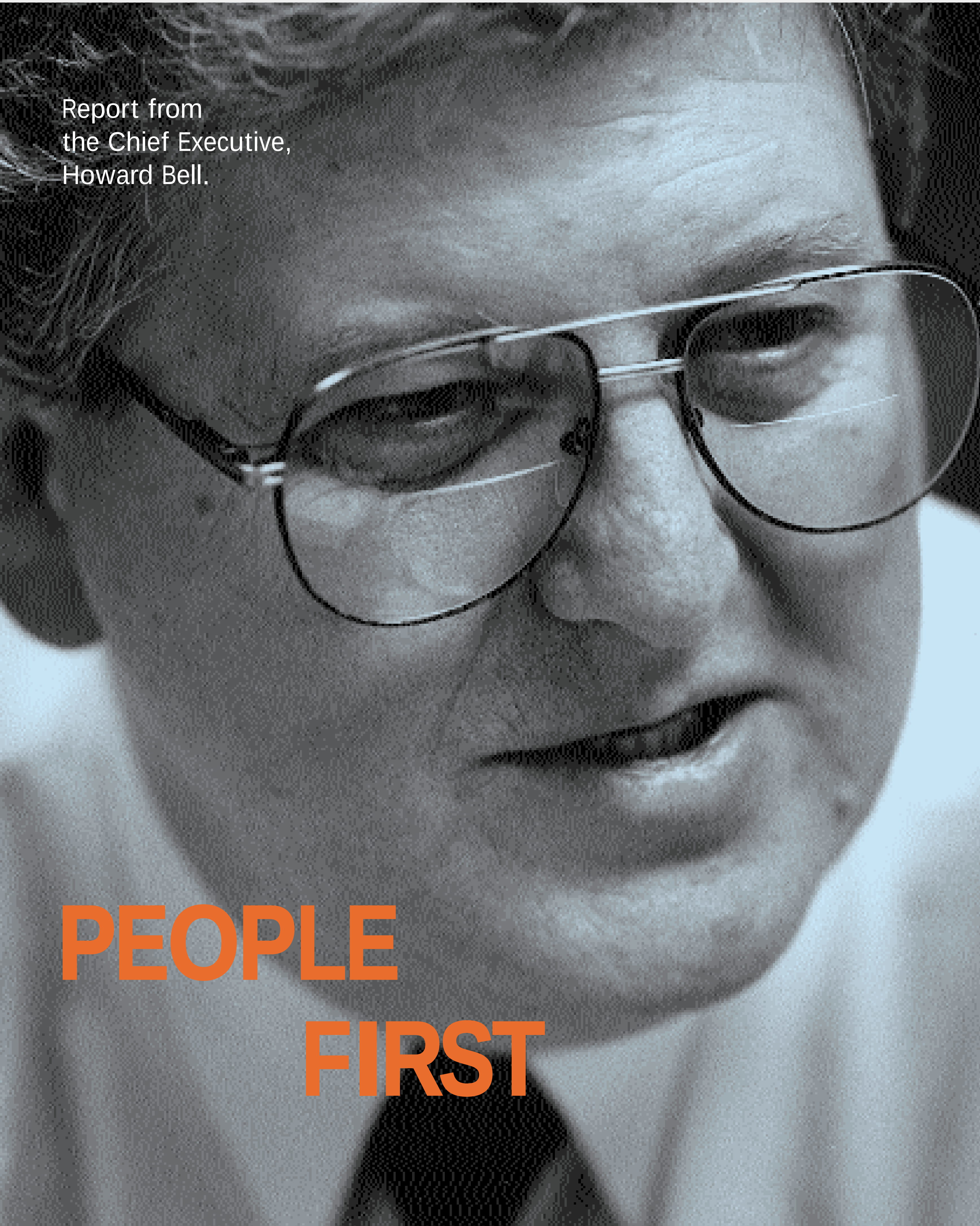
We have studied the recommendations on corporate governance from the Hampel Committee and we support them. We do not foresee problems in meeting regulations introduced as a result of that Committee's deliberations.

Our Home Credit Division continues to grow. All our research tells us that there is still considerable unsatisfied demand for our products – competition with other forms of credit is tough, but the nature of our service means that customers often prefer us. And our new operations in Poland and the Czech Republic have started well.

Our Insurance Division will continue its strategy of maintaining adequate margins rather than competing for market share.

We approach the future confident that management will again meet the challenges of the year and will continue to improve the Company's performance for its customers and shareholders. A good start has been made to 1998. ■

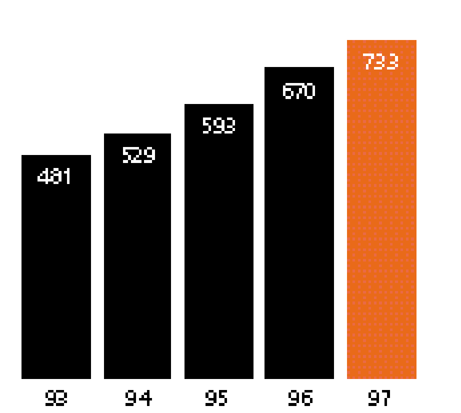
John van Kuffeler
Chairman



Report from
the Chief Executive,
Howard Bell.

PEOPLE FIRST

PRE-TAX PROFIT UP 15% TO **£136.5m**



Credit issued has grown 52% since 1993.

One Saturday morning in mid-September last year I was doing the weekend shopping in our local supermarket when I bumped into Dave, one of our agents here in the Bradford area. I have known Dave for some years. Whenever we meet, we stop to have a gossip about the business and what's happening on the ground. He is always able to fill me in on those little details which enable us at head office to get a complete picture of what is going on in our business. True to form, he gave me a snapshot of his previous weekend's round and the factors that had affected it.

I relate this anecdote because it perfectly illustrates a central facet of our business – one that is not often fully appreciated outside it: that our agents' local knowledge, their experience and their relationship with their customers play a crucial role.

Over the last ten years the group's pre-tax profit has increased by some 18% per annum compound, and since 1991 from £34.1 million to £136.5 million. In 1997, Home Credit increased its profit by 14% to £127.2 million, mainly as a result of revenue growth.

But how has this growth come about? We are successful because we care for our customers. Because we care for our customers, we lend responsibly. Because we lend responsibly, we get our money back. Because we get our money back, we are successful. Vital to this are, of course, the agents – the Daves of this world. They are the beating heart of our business. And it is our continuing ability to "grow" them – to find them, train them, nurture them and support them – which is the fundamental reason for our continued success.

Look at the figures:
– Provident now has 10,260 agents – an increase of 4% over last year.
– It is they who care for the customers – 1,413,000 of them now – up 7% in the year.
– It is they who lend responsibly – £733 million during 1997, 9.4% up on 1996.
– It is they who get our money back with their weekly home collections – £984 million in 1997 – up 8.3% on 1996.

And, of course, as was confirmed to me that Saturday morning last year, it is they who are our eyes and ears on the ground and can tell us what our customers are thinking and feeling.

I have often said that running the Home Credit business is rather like having 10,000 small businesses. And at the core of each of those businesses is the agent/customer relationship.

As an agent, Dave is unusual, because the vast majority of our agents are women. Nevertheless, like him, they all need to be open, friendly people who relate easily to others, yet have both common sense, and shrewdness. Each of them, on average, looks after 138 customers, with whom they tend to develop a close relationship; this is hardly surprising, since many of our agents started off as Provident Personal Credit or Greenwood Personal Credit customers. The weekly ritual of collection soon stretches in many cases to a cup of tea and a good chat about the family, its news and its needs. ►

AGENT NUMBERS HAVE GROWN BY 4% TO **10,260**

▶ And, although it often surprises outsiders, it does not surprise us at all that, out of this relationship, comes both great customer demand for our services, and great satisfaction with them.

Three-quarters of our customers come to us on the recommendation of relatives or close friends or similar means. They value the ability to borrow small, unsecured sums – 60% of our loans are for £200 or less. They like the simplicity and speed with which they can get loans. They appreciate the convenience of home collection – especially in an age when fewer and fewer service industries deliver to the doorstep. And, perhaps above all, they value the straightforward way in which we set out our charges. They know the cost of our loans is broadly similar to the cost of bank overdrafts when charges by banks such as set up fees, monthly or quarterly administration charges, etc., are included. They also appreciate that our service charge is fixed and does not vary, even if repayments fall behind. They know, and we appreciate, that weekly budgeting on a low income can be a tightrope walk to each weekend – and calamities do happen. The high level of personal service and the weekly contact with customers enables our agents to be flexible in these circumstances.

Of course, we continue to manage the business prudently and efficiently – keeping a tight control of overheads – but our primary job is to do all we can to support the agent/customer relationship, and this year's performance reflects, yet again, our achievement in doing just that.

As Chief Executive, I am pleased to be able to report that the strategy we have unveiled to you in recent years – of maintaining growth in our core business of Home Credit by increasing the number of agents, who in turn service a growing number of customers – continues to bear fruit. ▶

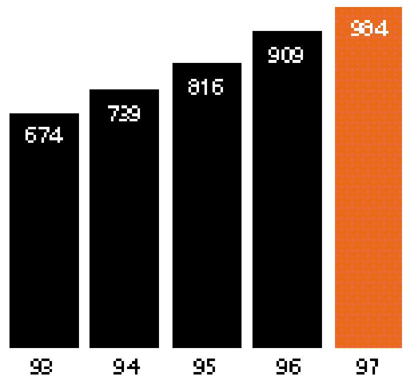
Most of our customers budget on a weekly basis, setting aside sums for each part of their domestic expenditure. They know, as their parents and grandparents did too, that money not put aside has a habit of vanishing in an instant.

LIVES

1,413,000 CUSTOMERS

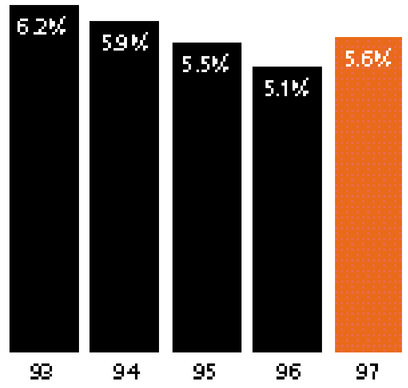
HOME CREDIT PRE-TAX PROFIT UP 14% TO **£127.2m**

Collections (£m)



Collections have grown by 46% from £674m in 1993.

Bad debt charge as % of credit issued



Bad debts continue to be controlled within our target range.

▶ As we have seen, the main limiting factor on our growth is the speed at which we can recruit, train and establish our agents in the communities where their customers live. It is a process which, like the friendships it often involves, takes time. Go too fast – cut corners – and you lose customer trust and bad debt increases. We have not gone too fast – and the steady growth we have achieved is a sure indicator of this. In addition, we have embarked on a number of measures, aimed both at enhancing and further extending our operations.

Early in the year, we decided to insist that all agents be consistent in that they should be collecting the first repayment on a loan in the week after the loan was made. Our increasingly sophisticated technology enabled us to make this change. The previous system of collecting the first payment in the week the loan was granted was often confusing to the customers and got in the way of their relationship with the agents.

The move has, of course, meant that the growth in collections this year is 2% less than it would otherwise have been; but I believe that, in these times, clear and unequivocal practices are paramount.

Also in the interests of enhancing the service we offer, our agents have started selling simple, low-cost, term life assurance. Demand for this type of policy was previously satisfied by others, including the industrial branch life assurers, many of whom are withdrawing from the market.

The £3-a-week policies are underwritten by a life assurer, Pinnacle, and offer cover of up to £80,000, depending on customers' individual circumstances. At the end of 1997, over 6,000 customers had purchased policies. The new service is proving popular with both agents and customers – providing a further enhancement to the relationship between them, which is so crucial to our success.

And, finally, as we revealed in our half-year report, we have been looking at extending our operations in geographical terms – this time outside the British Isles. Our research has shown us that there is potential demand for Home Credit, and the framework for us to operate, in some other areas of the world.

We opened offices in Poland in August and the Czech Republic in December 1997; and all the indications are that the customer/agent relationship is very much the same as it is here in the UK. Families have the same hopes and dreams; and weekly budgeting brings the same pressures as it does here. But, whereas the communities in which we operate here are used to having the agent from "the Provi" call each week, the customers in Warsaw and in Prague are getting accustomed to the notion of a service which involves "the bank" actually coming to them! We now have over 1,300 customers in Eastern Europe.

In the coming year, we shall decide whether or not to open further offices elsewhere. ▶

Home Credit advances, usually in the form of cash, enable customers to take advantage of high street bargains. Shopping vouchers are accepted by many high street stores.

VALUE FOR MONEY

The provision of low-cost policies is an area of specialism for Provident Insurance.

INSURANCE PROFIT **£13.7m**

► We also have success to report on our other front – the Insurance Division. For three years now Provident Insurance, which focuses on specialist sectors of the motor insurance business, has bucked the trend in the industry by refusing to follow many of the major insurers in holding down prices in pursuit of market share.

We have preferred to follow the opposite course, by maintaining what we believe is an adequate return for our risk. This meant that we put up our prices over the last two years and did so again by a further 4% in January 1997 and 3% in November 1997 in order to continue to maintain profitability. We also made further selective increases during the year. We knew, in doing so, that this would be at the expense of losing customers. This year the number of policyholders fell from 595,000 to 477,000. However, in the last few months other insurers have begun to put their prices up also, and we are slowly becoming more competitive again. The rate at which we were losing customers has slowed considerably – and all the indications are that we are turning the corner in terms of customer numbers.

We are convinced that our strategy is right and our profits are up this year – from £10.6 million to £13.7 million.

We owe much of our success in this sector to the fact that we have chosen to concentrate in specific areas of the market – those of women drivers, non-comprehensive policies, second cars and older cars – and that we continue to hold our position as one of the lowest cost operators in the business. The improvements we have made in the last two years in dealing with claims have given us great savings in time, efficiency and costs. ►

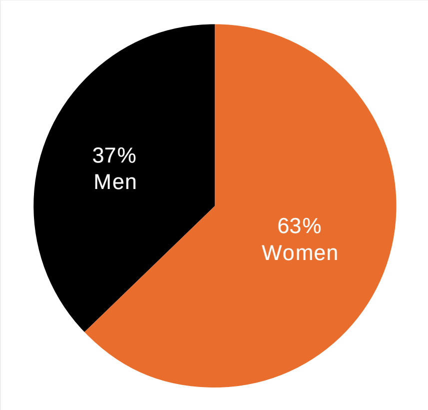
COLONNADE INSURANCE BROKERS **324,000 POLICYHOLDERS**

▶ A policyholder who has an accident can now telephone us directly with the details, have the car taken straight to one of our approved repairers, where the damage can be videoed and sent down the line to our engineers in Halifax, who can approve the repairer's estimate on the spot. What was often a lengthy and frustrating process lasting for weeks, can now be dealt with in a matter of days.

Our broking arm, Colonnade Insurance Brokers, has also had a successful year with an increase in policyholders of 20%, from 270,000 to 324,000.

Much of this growth has come from the continued success of our telephone sales operation, Colonnade Direct, which we started in 1994 and has grown steadily year-on-year – we now have 113,000 customers. ▶

Specialist markets – women drivers



63% of Provident Insurance's motor policyholders are women compared with 30% in the market as a whole.

ENTHUSIASM AND MOTIVATION

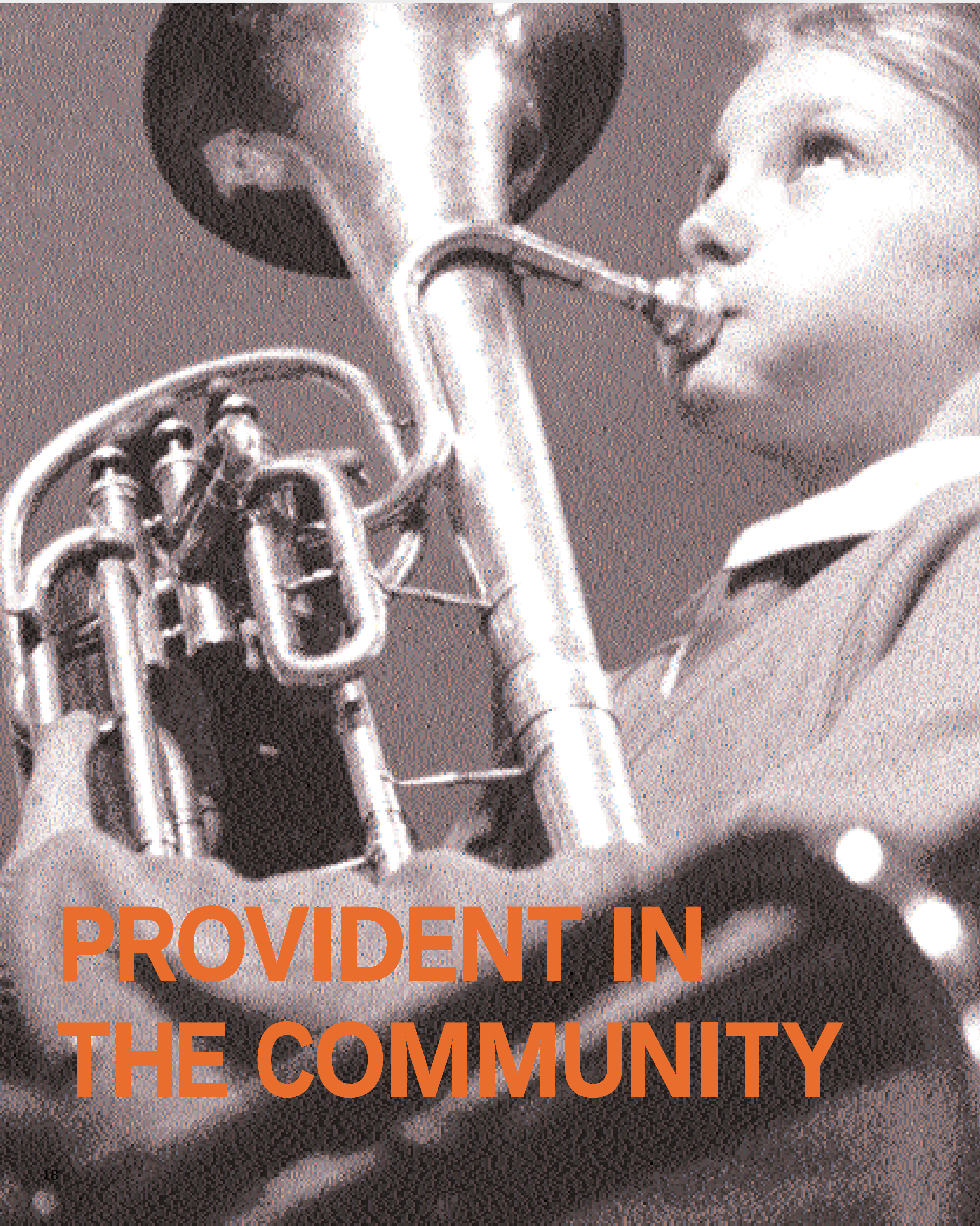
When I look across the whole group and assess what we have achieved in the last year, I am struck by two interlinked factors which are common to every facet of our business: our efficiency and our professionalism. Whatever we do, we give a terrific service to our customers at a reasonable price. Because of this, we succeed. With that business success has come a steady growth in confidence in the group. It is not so many years ago, on the Home Credit side, that this was not the case – and we saw little future growth in it. We seemed to do everything we possibly could to make it difficult for the customer to borrow from us. We even began to diversify away from the core of our businesses.

The re-focusing of the entire group over the last few years is reaping the added bonus of corporate pride. You can feel it, as a tangible thing, the moment you walk into any of our premises.

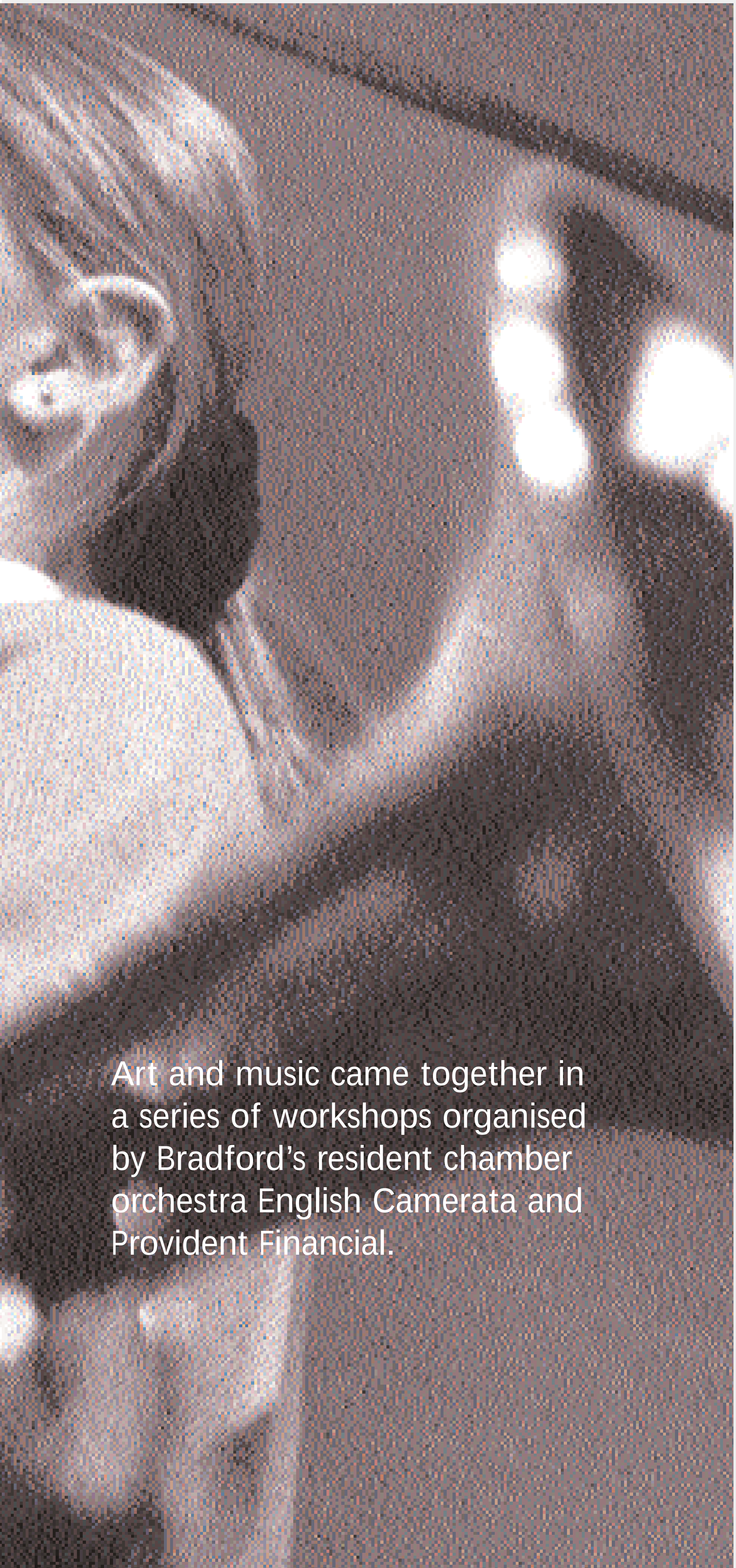
You can feel it in our group head office and the Home Credit Division head office in Bradford. You can feel it in the telesales room of Colonnade Direct, just outside Halifax. And you can also feel it when you talk to the agents, who are now supported by their IQ system of remuneration, which continues to be a major factor in maintaining the quality of our lending. They feel more pride too. It is not just Dave, the agent I met in the supermarket, but wherever you go, you find a real enthusiasm. To have so many highly-motivated staff who can explain to outsiders, with a good deal of confidence, the nature of our business, the valuable service we provide, and how our customer numbers and our profits have grown is a great strength and augurs well for the future of the business.

And we give something back too. The process of re-focusing the group has also led to a re-evaluation of the place of our business in the community. We have reviewed all our activities, with a view to becoming an exemplary group in every way.

We have a clear strategy. We recognise our obligations and duties to all who work for us, and who are served by us. We continue to provide excellent products and services and to be a good employer. ►



PROVIDENT IN THE COMMUNITY



But it does not stop there. Of course we are here to be a good employer, and to serve our customers, and to make profits, and to increase the value of the Company for the shareholders; but we do not feel that this is all. We also feel we have a duty to play our part in the wider community.

This takes a number of forms. On the Home Credit side, for example, in the last few years, there has been an explosion of small community projects all over the country under the banner of "Provident in the Community". In 1997 alone, staff and agents were encouraged to initiate, assist and participate in over 150 local causes.

Projects such as the one in Glasgow, where a sponsored bounce and bungee jump raised money to help a local girl with cerebral palsy. Or the Romford fete that helped raise much needed funds for a local school. There were also numerous other projects which involved activities such as sponsored slims and quizzes. These smaller, yet equally important, projects have enabled hospital equipment to be purchased, junior sports teams to be kitted out and help to be given to children with special needs.

Needless to say, the impetus for this involvement comes – as it does for the business – from the staff, the agents and the customers. Often the customers are already involved in – or have an interest in – the cause, and the agent is able to offer much-needed assistance, which may be financial, but more often than not is in time, effort and expertise. ►

We are constantly looking for ways to improve

SATISFIED CUSTOMERS

Provident Financial also gives considerable support to the arts – particularly in Yorkshire.

The Company has an extensive collection of the works of artists with Yorkshire connections, sponsors a triennial exhibition of the work of Northern artists, sponsors the Leeds Arts Fair, and involves itself in numerous other arts projects at a community level.

We have also formed a relationship with the National Society for the Prevention of Cruelty to Children as a charity partner with whom we shall work towards raising funds for the invaluable work they undertake in communities throughout the country.

Provident Financial does indeed have a lot to be proud of. At all levels and in all Divisions, it is efficient and professional in everything it does.

And, when you think about it, the Home Credit business, which provides so much of our profits, is a truly astonishing story.

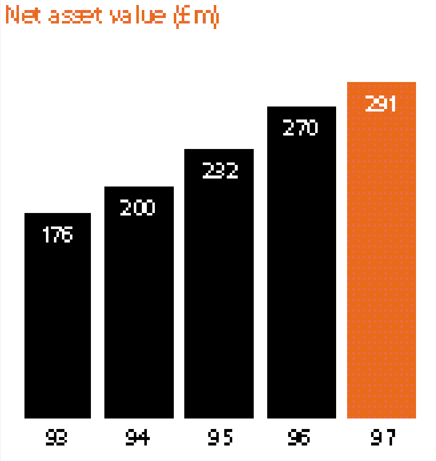
It is, after all, a business where word of mouth brings in most of its customers, whose customers are frequently recommended by other satisfied customers, and who come back time and again for its products, generation often following generation. It is a business with more than 1.4 million customers, who are highly satisfied with the service and the products they get, and who rate its products the best, even though they are among the cheapest on the market.

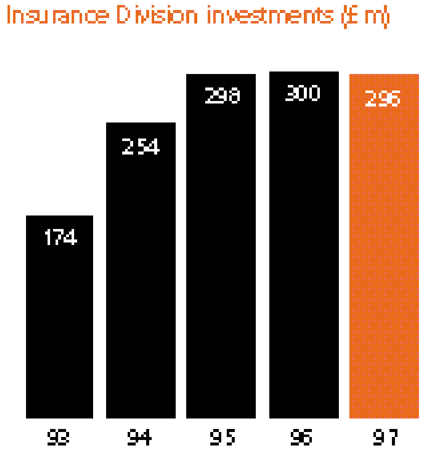
It is also a business whose agents allow customers experiencing hardship leeway over payments, sometimes delaying or reducing payments for weeks or even months, and whose agents are often treated as family friends by customers. ▶

▸ And yet, for you, the shareholder, it is also a business with a consistently successful track record, which is growing year-on-year. Furthermore, even though our record is good, we are constantly looking for ways to improve. For *all* these reasons we can look forward to continuing progress in 1998. ■

Howard Bell
Chief Executive

Report from the Finance Director, Robin Ashton.





NET ASSET VALUE UP TO **£291m**

INSURANCE DIVISION INVESTMENTS **£296m**

CONSISTENT GROWTH

Profits

Group pre-tax profits increased by 15% to £136.5 million after £2 million of additional interest costs in relation to the share buy-back. The Home Credit Division was the major contributor with pre-tax profits of £127.2 million (up 14%). The Insurance Division continued its focus on margin rather than volume which helped to increase profits by 29% to £13.7 million. Central costs were again tightly controlled at £4.4 million.

Earnings and dividends

Earnings per share increased by 19% to 34.77p assisted by a reduction in the effective tax rate to 31.5% (1996 33%) and by the share buy-back. The full year dividend per share has been increased by 18% to 19.5p, with a dividend cover of 1.79 times, in line with the Board's policy of paying dividends covered approximately 1¾ times by earnings.

Capital structure

In May 1997 the Company announced its intention to buy back up to 17 million shares over the following 12 months, as and when conditions were favourable. Following that announcement, the Company bought back 5.8 million shares for £33.5 million, at an average price of 575p per share. Since that time, the strong performance of the share price and the requirement for any buy-back to be earnings enhancing has prevented further progress.

The Board now intends to complete the capital restructuring by recommending a distribution by way of dividend of 35p per share (total £93.5 million) accompanied by a share capital consolidation. The share capital consolidation will result in a proportionate reduction in the number of shares held by each shareholder and will allow comparability with the share price and earnings per share before the capital restructuring. This method of completing the capital restructuring enables the Company to restore an appropriate balance between debt and equity in its capital structure whilst treating all shareholders equally. ►

Gearing ratio The group's gearing ratio (borrowings divided by group net assets) increased in 1997 from 0.5 times to 0.7 times, principally as a result of the share buy-back in May 1997. However, as outlined below, the group's borrowings relate to the Home Credit Division and the gearing ratio of this part of the group at 31 December 1997 was 0.9 times (borrowings divided by Home Credit net assets). If the proposed capital restructuring had been carried out at 31 December 1997 the Home Credit Division gearing ratio would have been 2.6 times. The capital restructuring thus puts in place a more efficient capital structure.

		Impact on gearing	
Net assets	31 December £m	Adjusted £m	Proforma £m
Home Credit	222	(94)	128
Insurance	69	–	69
Group	291	(94)	197
Borrowings (inc ACT)	207	117	324
Gearing			
Group	0.7	–	1.7
Home Credit	0.9	–	2.6

Cashflows

The cashflows arising from our two divisions are substantially different. In Home Credit, advances are made to customers which are collected in future periods and which therefore require funding. In Insurance, 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 Insurance Division are strictly segregated from those held by the rest of the group and are not available to service borrowings or to pay dividends to our shareholders. Borrowings and investments are therefore discussed separately.

Borrowings

Purpose The group borrows principally to fund the loans advanced to customers by the Home Credit Division. 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.

Sources The group's main sources of funding are term loans and committed revolving loan and acceptance credit facilities. These are typically of five to seven years' duration and are normally extended annually.

Our borrowing facilities are provided by 24 banks based in the UK and the Republic of Ireland. These facilities include a bank loan denominated in US$ of which US$40 million was outstanding at 31 December 1997. The group's policy is to minimise exposure to future movements in exchange rates and the exchange rate risk inherent in this loan has been removed by entering into a cross currency swap which fully hedges the transaction.

Scale Group borrowings increased by £58 million in 1997 to £207 million.

The change in borrowings over the last three years is summarised below:

	1995 £m	1996 £m	1997 £m
Trading cashflow after tax	65	71	83
Receivables growth	(28)	(40)	(53)
Insurance Division dividends	14	7	–
Dividends paid	(32)	(38)	(47)
Share buy-back*	–	–	(41)
Reduction/(increase) in borrowings	19	–	(58)

*including ACT

The two main factors contributing to the £58 million increase in borrowings in 1997 were:

a) the share buy-back plus related ACT – total £41 million, and

b) substantial reinvestment in the Home Credit Division's receivables (£53 million) including approximately £19 million resulting from the change of policy on first payments whereby the collection of the first repayment on each loan has been deferred for one week.

Interest payable and interest cover Interest costs of £12.2 million were £3.0 million higher than in 1996, reflecting the increase in average borrowings and higher average rates payable. Interest payable is covered 12 times by profit before interest payable (1996 14 times).

Timing The normal pattern of lending to customers means that our peak funding requirements arise in December each year. Committed borrowing facilities exceed these peak requirements by a substantial margin. Undrawn committed borrowing facilities, which are our principal source of liquidity, amounted to £144 million at 31 December 1997.

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

Investments

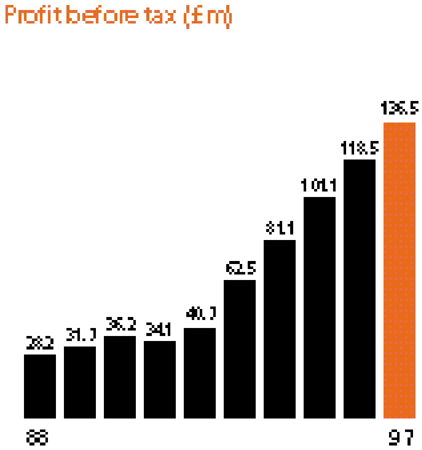
Our insurance businesses receive premiums in advance and hold them until claims are paid. The regulators of the insurance businesses require these funds to be retained within the relevant company and they cannot be used to finance other parts of the group or used to repay group borrowings. These funds are invested in a low-risk portfolio in order to produce a reliable flow of interest income while ensuring the security of the investment.

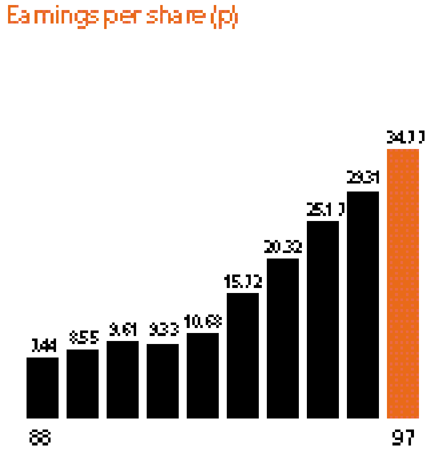
The Insurance Division's investment portfolio consists entirely of deposits with, or investments in, interest-bearing instruments issued by, banks, building societies and local authorities for periods up to five years, and of gilt-edged securities with less than ten years to maturity. There are strict limits, approved by the Board, on our maximum exposure to any one counterparty and on the average maturity of the portfolio.

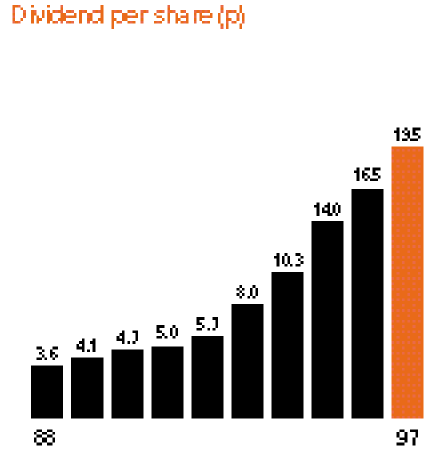
Total interest earning deposits and investments held by the Insurance Division fell by only £4 million to £296 million during the year despite the reduction in written premiums. The Division's total investment income fell slightly from £23.2 million to £22.3 million, reflecting the marginally lower average level of the investment fund.

Hedging

So as to limit potential increases in our borrowing costs, we reduce the Home Credit Division's exposure to interest rate rises by hedging a substantial proportion of our floating rate debt. Interest rate caps at rates of up to 8.4% cover up to £160 million of borrowings for periods through to the end of 2001 and a further £135 million of borrowings have interest rates fixed in the range of 7.1% to 7.8%, mainly by interest rate swaps for periods through to 2000. ▸







PROFIT BEFORE TAX
UP BY **15%**

EARNINGS PER SHARE
UP BY **19%**

DIVIDEND PER SHARE
UP BY **18%**

▸ The interest rate caps were sufficient to cover the unhedged borrowings at 31 December 1997 together with the additional borrowings which will result from completion of the capital restructuring in 1998.

The Insurance Division's exposure to possible reductions in interest rates is hedged by a combination of fixed rate investments (for terms of between one and five years) and shorter term floating rate investments covered by interest rate swaps. At 31 December 1997 £191 million of investments were at fixed rates and a further £90 million of investments have interest rates fixed in the range of 7.1% to 8.0% by interest rate swaps for periods through to 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. Treasury activities have been designed to ensure that duties are properly segregated and that all transactions are properly authorised. All transactions in derivatives are undertaken to manage the risk arising from 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.

The interest rate risk 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 by the use of derivative instruments such as interest rate swaps and caps. The exchange rate risk arising on the US$ bank loan has been eliminated by the use of a currency swap. Details of the group's interest rate and exchange rate exposure at 31 December 1997 are set out on pages 56 and 57 in note 13 of the notes to the accounts.

Going concern

The directors have reviewed the group's budgets, plans and cashflow forecasts for the year to 31 December 1998, outline projections for the two subsequent years and estimates for a further two years, in the light of the financial position and committed borrowing facilities at 31 December 1997. 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. ■

Robin Ashton
Finance Director

DIRECTORS AND ADVISERS

Board committees

Audit Committee
Charles H Gregson (Chairman)
Peter A Davis
Angela C M Heylin
Andrew G Thomas

Executive Committee
John P de Blocq van Kuffeler (Chairman)
Robin J Ashton
Howard J Bell
Peter W Bretherton
Peter R Fryer

Nomination Committee
John P de Blocq van Kuffeler (Chairman)
Peter A Davis
Charles H Gregson

Remuneration Committee
Peter A Davis (Chairman)
Charles H Gregson
Angela C M Heylin
Andrew G Thomas

Advisers

Auditors
Coopers & Lybrand

Merchant Bankers
Deutsche Morgan Grenfell

Solicitors
Slaughter & May

Stockbrokers
Kleinwort Benson Securities Limited
Hoare Govett Corporate Finance Limited

Registrar
IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

General information

Name and Registered Office
Provident Financial plc
Colonnade
Sunbridge Road
Bradford
West Yorkshire
BD1 2LQ

Company number
668987

Secretary
Peter W Bretherton

John P de Blocq van Kuffeler
MA FCA
Chairman
Age 49

Graduated with a degree in Economics and qualified as a chartered accountant in 1973. He joined Provident Financial in 1991 as Chief Executive and was appointed Executive Chairman in April 1997. He was formerly Group Chief Executive of Brown Shipley Holdings PLC. He is also a non-executive director of The Fleming Geared Growth Trust PLC; Finsbury Smaller Companies Trust PLC; and is on the Council of the CBI.

Howard J Bell MBA
Chief Executive
Age 53

Joined the Board in 1989, after 22 years with the group in a variety of roles. Worked initially in computer development and was Head of Personnel Services before becoming Managing Director of Provident Personal Credit (North). He was appointed Managing Director of Provident Financial in 1995 and became Chief Executive in April 1997. He is also Deputy Chairman of Bradford and District Training and Enterprise Council Limited and Chairman of the charity, Meningitis Research Foundation.

Robin J Ashton BA ACA
Finance Director
Age 40

Qualified as a chartered accountant in 1982 having graduated in Economics and Law. He joined the group in 1983 as Finance Director of Provident Insurance and subsequently became Deputy Managing Director of H T Greenwood and Managing Director of Provident Investments. He became Group Treasurer in 1989 and was appointed to the Board as Finance Director in 1993.

Peter W Bretherton LLM
Director of Corporate Affairs and Company Secretary
Age 52

Graduated in Law and qualified as a solicitor in 1970. Held several in-house positions as Company Solicitor before joining Provident Financial in 1977 as its first in-house solicitor. Appointed Secretary in 1978 and became a member of the Board in 1983. Has held a wide range of head office responsibilities and has served as Chairman of a number of the group's operating companies. He is now responsible for the group's international developments, corporate development and communications functions.

Peter R Fryer MBA
Operations Director
Age 55

Joined the group in 1971 to work on computer projects. Has held many positions within the Home Credit business and was founding Managing Director of the group's former estate agency business, Whitegates. He joined the Board in 1995 as Home Credit Director and became Operations Director in April 1997. He is also Chairman of Provident Personal Credit and of Provident Insurance.

Peter A Davis MA FCA
Non-executive director
Age 56

Joined the Board of Provident Financial in 1994. He is a non-executive director of The Equitable Life Assurance Society and is also a director of the charity Wellbeing.

Charles H Gregson BA
Deputy Chairman
Age 50

Joined the Board of Provident Financial in 1995 as a non-executive director, appointed Deputy Chairman in April 1997. He is a director of United News & Media plc with responsibility for its financial services and information divisions.

Angela C M Heylin OBE
FCIM FIPR
Non-executive director
Age 54

Joined the Board of Provident Financial in April 1997. She is Chairman of Charles Barker plc and is also a non-executive director of Storehouse plc. She is deputy Chairman of the House of St Barnabas, a home for homeless women in Soho, and is a trustee of The Centre for Women Leaders (Lucy Cavendish College, Cambridge) and the Twenty-First Century Foundation.

Andrew G Thomas FCA
Non-executive director
Age 55

Joined the Board of Provident Financial in April 1997. He is Executive Chairman of The Greenalls Group plc and non-executive Chairman of Somerfield plc and of Limelight plc. He is also a non-executive director of JJB Sports plc and a number of non-quoted companies.

The directors submit their report for the financial year ended 31 December 1997.

THE REPORT OF THE

1 Review of the business

1.1 A full review of the group's activities, performance and prospects is contained in the Statement from the Chairman, the Report from the Chief Executive and the Report from the Finance Director on pages 4 to 25 of this report.

1.2 Provident Financial plc ("the Company") is a holding company. A list of the principal operating subsidiary companies is contained on page 53 in note 9.

2 Dividends and profit retention

An interim dividend of 7.75p per ordinary share was paid on 31 October 1997. The Board recommends a final dividend of 11.75p per ordinary share to be paid on 29 April 1998 to shareholders on the register at the close of business on 13 March 1998. This makes a total dividend for the year of 19.5p per ordinary share which will absorb £52,112,000. The retained profit of £41,392,000 will be transferred to group reserves.

3 Share capital

3.1 Decrease in issued ordinary share capital

During the year, the movements in the issued ordinary share capital resulted in a decrease of 91,619 ordinary shares to 271,653,776. Details are set out on page 61 in note 21.

3.2 Scrip dividend

On 23 April 1997, 100,151 shares were issued pursuant to the scrip dividend offered to shareholders in lieu of cash.

3.3 Share option schemes

3.3.1 The Provident Financial plc Employee Savings-Related Share Option Scheme ("the employee scheme")

No further options can be granted under the employee scheme. At 31 December 1997, directors, employees and former employees held options under the employee scheme to acquire 618,842 ordinary shares at prices ranging from 61.2p to 81.6p, exercisable at various dates up to and including 2000. Options on 991,728 ordinary shares were exercised during the year and options on a further 30,927 shares have been exercised since the year end.

3.3.2 The Provident Financial plc Employee Savings-Related Share Option Scheme (1993) ("the 1993 employee scheme")

Options were granted over 761,095 ordinary shares on 29 September 1997. At 31 December 1997, directors, employees and former employees held options under the 1993 employee scheme to acquire 3,876,164 ordinary shares at prices ranging from 140p to 508p, exercisable at various dates up to and including 2005. Options on 56,417 ordinary shares were exercised during the year and options on a further 13,002 shares have been exercised since the year end. No options have been granted since the year end. ►

DIRECTORS

► 3.3.3 The Provident Financial plc Senior Executive Share Option Scheme ("the 1985 executive scheme")

No further options can be granted under the 1985 executive scheme.

At 31 December 1997, directors, employees and former employees held options under the 1985 executive scheme to acquire 400,000 ordinary shares at prices ranging from 256.5p to 276.5p, exercisable at various dates up to and including 2005. Options on 50,328 ordinary shares were exercised during the year. Options on a further 20,000 ordinary shares have been exercised since the year end.

3.3.4 The Provident Financial plc Senior Executive Share Option Scheme (1995) ("the 1995 executive scheme")

No options have been granted under the 1995 executive scheme.

3.3.5 The Provident Financial plc Unapproved Senior Executive Share Option Scheme (1996) ("the 1996 executive scheme")

Options were granted over 478,059 ordinary shares on 1 September 1997 at a price of 638.5p and over 397,511 ordinary shares on 9 September 1997 at a price of 644p, in both cases exercisable normally between 2000 and 2007 (subject to performance targets being achieved).

At 31 December 1997, directors, employees and former employees held options under the 1996 executive scheme to acquire 1,145,570 ordinary shares at prices ranging from 450p to 644p, exercisable at various dates up to and including 2007. No options were exercised during the year. Since the year end no options have been granted or exercised.

3.3.6 The Provident Financial Qualifying Employee Share Ownership Trust ("the QUEST")

The QUEST, a discretionary trust for the benefit of group employees, was established on 18 December 1997 to operate in conjunction with the employee schemes. The trustee, Provident Financial Trustees Limited, is a subsidiary company of the Company. 4,491,413 ordinary shares were allotted to the QUEST on 22 December 1997 and it is intended that these shares will be transferred to employees on the exercise of options granted pursuant to the employee schemes. Further details are set out on page 54 in note 10.

3.4 Purchase of shares

3.4.1 At the Annual General Meeting of the Company held on 24 April 1997 the shareholders authorised the Company to purchase up to 27 million of its ordinary shares. This authority expires at the conclusion of the forthcoming Annual General Meeting ("the AGM") to be held on 23 April 1998.

3.4.2 On 12 May 1997 the Company announced its intention to purchase up to 17 million ordinary shares in accordance with this authority. The directors believed that such a purchase would restore an appropriate balance between debt and equity in the group's capital structure.

3.4.3 On 20 May the Company purchased 5,375,992 ordinary shares with a nominal value of £537,599.20 (1.98% of the current issued ordinary share capital) at a price of 575p per share. These shares were cancelled on 28 May 1997. On 21 May the Company purchased 400,000 ordinary shares with a nominal value of £40,000 (0.15% of the current issued ordinary share capital) at a price of 575p per share. These shares were cancelled on 29 May 1997.

3.4.4 Thus, in total, 5,775,992 ordinary shares with a nominal value of £577,599.20 (2.13% of the current issued ordinary share capital) were purchased for an aggregate consideration (excluding stamp duty and commission of £249,046) of £33,211,954.

3.4.5 A further authority for the Company to purchase its ordinary shares will be sought from shareholders at the AGM.

3.4.6 On 19 February 1998, the Company announced a proposed capital restructuring involving a one-off distribution by way of dividend of 35p per share accompanied by a share capital consolidation. An Extraordinary General Meeting is scheduled to be held immediately following the AGM to approve these proposals. ►

3.5 Substantial shareholdings

The Company has received notifications from Legal & General Investment Management Limited and Standard Life Assurance Company that each is interested in more than 3% of the ordinary share capital of the Company. According to the Company's share register as at 26 February 1998, these and the following investment managers (through separately managed funds) had interests in the aggregate amounting to over 3%:

Schroder Investment Management Limited	5.35%
M&G Investment Management Limited	4.74%
Robert Fleming & Co Limited	4.51%
Standard Life Assurance Company	4.07%
Legal & General Investment Management Limited	3.41%

The Company had not received notification of any interest of 10% or more in the ordinary share capital of the Company at 31 December 1997 or at the date of this report.

4 Directors

4.1 The directors of the Company are shown on page 27 of this report.
Mr W G A Warde-Norbury was Chairman and a director from 1 January to 24 April 1997. Miss A C M Heylin and Mr A G Thomas were appointed as directors on 24 April 1997.

4.2 In accordance with the Articles of Association, Mr P R Fryer and Mr C H Gregson retire by rotation and, being eligible, offer themselves for re-election.

4.3 Miss Heylin and Mr Thomas were both appointed as directors after the 1997 Annual General Meeting. Miss Heylin offers herself for election. Mr Thomas will not be offering himself for election.

4.4 The directors' interests in shares of the Company are disclosed on pages 48 to 50 in notes 6(d), 6(e) and 6(f).

4.5 During the year no director had a material interest in any contract of significance to which the Company (or a subsidiary) was a party.

4.6 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 and its subsidiaries.

5 Corporate governance

5.1 Committed to best practice

The Board supports the principles of corporate governance outlined in the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance ("the Code"). The Board confirms that the Company has complied with the requirements of the Code and has done so throughout the year. The Board anticipates that it will be able to comply with the revised rules which will be introduced following the report of the Hampel Committee on Corporate Governance. The Company also complies with the Listing Rules of the London Stock Exchange with respect to the Code. The Auditors' Report commenting upon such compliance appears on page 65.

5.2 The Board

5.2.1 The Board currently comprises an Executive Chairman, four executive directors and four independent non-executive directors.

5.2.2 The roles of the Chairman and Chief Executive are separated. The executive directors are charged with the day-to-day running of the group but the Board has a formal schedule of matters specifically reserved for its attention, including corporate strategy, approval of budgets, financial results, Board appointments, proposals for dividend payments and the approval of all major transactions such as significant acquisitions and disposals.

5.2.3 The Board meets seven times a year, including an annual planning conference, and additional meetings are called when required.

5.2.4 It is the Board's policy that the non-executive directors have no personal interest in the group other than as shareholders, that they have no potential conflicts of interest by way of cross directorships and that they are independent of the management of the group. They are appointed for fixed periods, normally of three years. The fees for the non-executive directors are fixed by the Board as a whole and their business expenses are reimbursed.

5.2.5 There is a formal procedure by which any director may take independent professional advice at the Company's expense in the furtherance of his or her duties.

5.3 Board committees

5.3.1 The Board has appointed four committees.

5.3.2 Audit Committee

With effect from 24 April 1997 this committee has consisted of the non-executive directors under the chairmanship of Mr C H Gregson. For the period 1 January to 24 April 1997, it consisted of Mr W G A Warde-Norbury and Mr P A Davis under the chairmanship of Mr Gregson. It meets three times a year and forms an important part of the group's control framework, monitoring the adequacy of internal financial controls, accounting policies and financial reporting. Meetings are attended by both the internal and external auditors as required. The internal audit function reports to the Audit Committee. This guarantees the function's independence and ensures that appropriate action is taken in response to audit findings.

5.3.3 Executive Committee

This consists of the executive directors under the chairmanship of Mr J P van Kuffeler. It meets as required and deals with matters relating to the running of the group, other than those reserved to the Board and those specifically assigned to the other committees.

5.3.4 Nomination Committee

This consists of Mr Davis and Mr Gregson under the chairmanship of Mr van Kuffeler. Its remit is to assist the Board in the process of the selection and appointment of any new director, as and when required.

5.3.5 Remuneration Committee

With effect from 24 April 1997 this has consisted of the non-executive directors under the chairmanship of Mr Davis. For the period 1 January to 24 April 1997, it consisted of Mr Warde-Norbury and Mr Gregson under the chairmanship of Mr Davis. It considers the remuneration policy, and the specific remuneration packages and conditions of service, of the executive directors, including their service agreements. It meets at least three times a year. The report of the Remuneration Committee is set out on pages 33 to 35.

5.4 Internal financial control

The Board is responsible for the group's system of internal financial control. These controls are designed to provide reasonable but not absolute assurance that assets are safeguarded against material loss or unauthorised use, that proper accounting records are maintained and that the financial information used internally, or for publication, is accurate and reliable. Key procedures adopted are:

5.4.1 Control environment

Planning, control and monitoring of the group's business against its objectives is accomplished by communication of corporate policies and delegation of authority and accountability within a clearly defined organisational structure and precise financial limits.

5.4.2 Risk assessment

The key risks attaching to the group's business and their financial implications are kept under review. Key risk areas are reviewed formally twice each year by the Board in conjunction with the group's independent internal audit function.

5.4.3 Financial reporting

The Board approves detailed budgets and cash flow forecasts for the year ahead, outline projections for the subsequent two years and estimates for a further two years as part of a comprehensive annual budgeting and planning process which is updated at the half-year. Actual performance against budgets is monitored in detail regularly and reported monthly for review by the directors. The group reports to shareholders on a half-yearly basis. ▶

▸ 5.4.4 Monitoring systems
The operation of internal financial controls is monitored by regular management reviews, including a procedure by which operating companies certify compliance quarterly. An annual programme of work which targets and reports on high risk areas is carried out by the internal audit function and is reviewed by the Audit Committee.

5.4.5 Effectiveness
The directors and the Audit Committee have reviewed the operation of the group's framework of internal financial control during 1997 and, on the basis that it is designed to provide reasonable but not absolute assurance, believe it to have been effective during the year.

5.5 Year 2000
5.5.1 Procedures and processes throughout the group are being co-ordinated to safeguard adequately the group's interest in ensuring the efficient and effective transition of its systems through the millennium date change. Work to ensure the effective transition of systems is well advanced and is co-ordinated by a steering group chaired by Mr P R Fryer.

5.5.2 All internal and external systems and dependencies have been catalogued and assessed for date compliance. The work required has been quantified, prioritised and incorporated into business plans.

5.5.3 The Company has also requested specific assurances and is seeking appropriate evidence from external suppliers.

5.5.4 The planning and managing of the project is being monitored by the Company's internal auditors. Progress is currently satisfactory and on target and the group is currently scheduled to have all critical changes in place and operating by the end of 1998.

5.6 European Monetary Union (EMU)
In the expectation that EMU will commence on schedule, albeit without the UK as a first-wave entrant, working parties have been established within the Home Credit Division and the Insurance Division. They are considering the implications of the introduction of a single currency and are conducting impact studies in their respective areas from which detailed plans can be implemented prior to UK entry. The effect of a single currency zone excluding the UK is also being addressed. Responsibility for EMU preparation rests with a steering group chaired by Mr R J Ashton.

5.7 Pension schemes
5.7.1 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.

5.7.2 The assets of the schemes are held separately from those of the group and are administered by separate boards of trustees chaired by Mr P W Bretherton. Member trustees are appointed to each of the two trustee boards. The funds' assets are independently managed by Legal & General Assurance (Pensions Management) Limited, Mercury Asset Management plc and Schroder Properties Limited and are held by custodians independent of the Company and these companies.

5.7.3 The rules of all the schemes prevent self-investment by the trustees in either shares of the Company or property of the group.

5.8 Directors' responsibilities in relation to the accounts
5.8.1 The following statement, which should be read in conjunction with the Report of the Auditors on page 65, is made to distinguish for shareholders the respective responsibilities of the directors and of the Auditors in relation to the accounts. ▸

5.8.2 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 for the financial year. The directors consider that in preparing the accounts on pages 38 to 64 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.

5.8.3 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.

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

6 Report of the Remuneration Committee of the Board

6.1 Membership

6.1.1 From 1 January to 24 April 1997, the Remuneration Committee ("the Committee") consisted of Mr P A Davis (Chairman), Mr C H Gregson and Mr W G A Warde-Norbury.

6.1.2 From 24 April to 31 December 1997, the Committee consisted of Mr Davis (Chairman), Mr Gregson, Miss A C M Heylin and Mr A G Thomas.

6.1.3 Meetings are normally attended by the Chairman and Chief Executive in a non-voting capacity. Neither attends when his own performance, remuneration or conditions of service are under discussion.

6.2 Terms of reference

The Committee's role is to consider and to approve all aspects of the Company's remuneration policy, and the specific remuneration packages and conditions of service, of the Chairman and the executive directors, including pension rights and compensation payments, and to make recommendations to the Board as a whole.

6.3 Best practice

6.3.1 For many years the Company has followed accepted best practice in matters concerning executive directors' service agreements and remuneration.

6.3.2 The Company complies with the Report of a Study Group on Directors' Remuneration chaired by Sir Richard Greenbury.

6.3.3 Throughout the accounting period ended on 31 December 1997 the Company has complied with the Best Practice Provisions: Directors' Remuneration in Section A annexed to the Listing Rules of the London Stock Exchange. In framing its remuneration policy, the Committee has given full consideration to the Best Practice Provisions: Directors' Remuneration in Section B annexed to the Listing Rules.

6.3.4 The Committee has considered the best practice provisions in relation to remuneration policy, service contracts and compensation set out in Sections C and D of the Report of the Study Group.

6.4 Remuneration policy

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.

6.5 Executive directors' remuneration

6.5.1 The executive directors' remuneration consists of an annual salary, an annual cash bonus, car, health insurance and other benefits. In addition, the directors participate in the share option schemes and pension schemes.

6.5.2 Full details of salaries, bonus earnings and other benefits are set out on pages 46 to 50 in note 6.

6.5.3 Salaries for executive directors are reviewed annually and changes are effective from 1 January. For 1998 there was a review of salaries taking into account the group's strong business performance, salary and bonus trends in the UK, internal relativities and each individual director's performance. Comparisons were made with appropriate companies of similar size and with broadly comparable activities. Additionally, it was felt appropriate to rebalance total remuneration between salary and bonus and to revise the annual bonus scheme, the purpose being to reduce the bonus element of the total package over a period of three years. The key changes were the introduction of a hurdle before the bonus is paid and a change in the calibration of the bonus scale to the percentage of earnings per share growth. Financial highlights from the business performance were the 15% increase in profit before tax and the 19% increase in earnings per share. The executive directors' salary increases averaged 16% and these were implemented from 1 January 1998.

6.5.4 Annual cash bonuses are payable. They are calculated as a percentage of salary.

6.5.4 (a) Executive directors are eligible for annual cash bonuses by reference to the growth in the Company's earnings per share over the previous financial year and the achievement of agreed personal objectives. For 1998 no bonus will be payable if growth in earnings per share is less than 8%. Up to 20% of salary will be payable if growth in earnings per share is 8% and the percentage rises to a maximum of 100% of salary for 23% growth in earnings per share.

6.5.4 (b) 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.

6.5.4 (c) Bonuses do not form part of pensionable earnings. Full details of bonuses earned in 1997 are set out on page 46 in note 6(b).

6.5.5 The executive directors are provided with company-owned cars, fuel, personal telephone facilities, long-term disability income under the Company's insured permanent health policy and medical cover for them and their immediate families.

6.6 Share option schemes

6.6.1 The executive schemes provide a longer term incentive for executive directors and senior managers. The Committee considers that the executive schemes are an important part of the link between the interests of shareholders and of executive directors. The grant of options under the executive schemes to executive directors and senior managers is normally considered after the announcement of the Company's interim results in accordance with a formula based on multiples of salary.

6.6.2 The Provident Financial plc Senior Executive Share Option Scheme is an Inland Revenue approved scheme. No new options can now be granted under it but a number of existing options are still outstanding.

6.6.3 The Provident Financial plc Senior Executive Share Option Scheme (1995) is also an Inland Revenue approved scheme. However, participants are restricted to approved options with an aggregate value of £30,000 at the date of grant as a result of the changes introduced in the Finance Act 1996. No options have been granted under the 1995 executive scheme.

6.6.4 The Provident Financial plc Unapproved Senior Executive Share Option Scheme (1996) is not approved by the Inland Revenue. It has performance targets which have to be met before any options can be exercised. Broadly, these are that over a three year period the real growth in earnings per share must average 3% a year (after making appropriate adjustments for inflation).

6.6.5 The executive directors (together with other eligible group employees) participate in the Provident Financial plc Employee Savings-Related Share Option Scheme and the Provident Financial plc Employee Savings-Related Share Option Scheme (1993). The latter scheme is the scheme under which options are now granted. 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 employees are invited to participate in the scheme. Up to £250 can be saved each month.

6.6.6 Full details of the directors' share options are set out on pages 49 and 50 in notes 6(e) and 6(f).

6.7 Pensions and life assurance

6.7.1 Pension and life assurance benefits for executive directors (other than the Chairman) are secured through the Provident Financial Senior Pension Scheme ("the senior pension scheme").

6.7.2 The Chairman has a defined contribution arrangement in respect of his pension and 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.

6.7.3 Full details of the directors' pension entitlements are set out on page 47 in note 6(c).

6.8 Service agreements

6.8.1 The executive directors have service agreements which require two years' notice to be given by the Company. The Committee considers that the two year notice periods are in the best interests of the business. The Company has a policy and a record of retaining its executive directors and management over the longer term and providing them with extensive training and with support in their study for qualifications. 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 and the Committee have in the past paid, and will in future pay, particular attention to the arrangements for early termination, especially for poor performance. Full use of mitigation and phased compensation payments has been, and would be, made.

6.8.2 Miss A C M Heylin was appointed as a director after the 1997 Annual General Meeting and is offering herself for election at the forthcoming Annual General Meeting ("AGM").

6.8.3 Miss Heylin has a term of appointment which expires on 23 April 1998. Subject to her election, her term of appointment will continue until 23 April 2000.

6.8.4 Two directors are offering themselves for re-election at the AGM. Mr P R Fryer has a service agreement with a two year notice period. Mr C H Gregson's term of appointment expires on 8 February 2001.

6.9 External appointments

The Committee believes that the Company and the director concerned can benefit from executive directors accepting appropriate external appointments, including appointments to non-associated companies as non-executive directors. The Committee will generally allow up to two appointments. In normal circumstances directors are permitted to retain fees and expenses from external appointments.

7 Employee involvement

7.1 The Company is committed to involving employees in all the group's activities.

7.2 The Company operates the employee scheme and the 1993 employee scheme (referred to in paragraphs 3.3.1 and 3.3.2). The Company established the QUEST in December 1997; one of the three directors of the trustee company has been selected by group employees. 2,145 employees are currently saving to buy shares in the Company under the employee schemes.

7.3 The Company produces an annual Staff Report which explains and comments on the published annual results. There are also operating company newsletters. There are team briefings, staff meetings and conferences, including joint union meetings in those companies which recognise trades unions.

7.4 Involvement in the two major group pension schemes is achieved by the appointment of member trustees of each scheme and by regular newsletters and communications from the trustees to members.

7.5 The Company achieved recognition by Investors in People in 1997. It is fully committed to an open education policy and to training employees at all levels in the group.

8 Community involvement

The group's community involvement is referred to in the Report from the Chief Executive on page 18 of this report.

9 The environment

9.1 The Company is committed to protecting and improving the quality of life through sound environmental practice.

9.2 It is involved in recycling both paper and print cartridges. It also utilises energy conservation measures. Its motor vehicle fleet purchase policies take account of environmental factors.

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 considers appropriate training and career development.

11 Supplier policy statement

11.1 The Company complies with the CBI Prompt Payers Code and has registered its support. The Company agrees terms and conditions for its business transactions with suppliers in advance and payment is made in accordance with these, subject to the terms and conditions being met by the supplier. A copy of the Code can be obtained from the Company's registered office.

11.2 The Company acts as a holding company and had no trade creditors at 31 December 1997. The average number of days' credit taken by the group during the year was 28 days.

12 Charitable and political donations

During the year, the Company made donations for charitable purposes of £103,000. The group invested a further £346,000 in support of community programmes. No political donations were made.

13 Auditors

Coopers & Lybrand have expressed their willingness to continue in office as the Company's auditors and a resolution for their re-appointment (and authorising the directors to fix their remuneration) will be proposed at the AGM.

14 Annual General Meeting

The 38th AGM of the Company will be held at 12 noon on Thursday 23 April 1998 at the Stakis Hotel, Hall Ings, Bradford, West Yorkshire BD1 5SH. The Notice of Meeting, together with an explanation of the items of special business, is contained in the Chairman's letter to shareholders dated 25 March 1998.

P.W. Bretherton

By order of the Board
P W Bretherton LLM
Secretary
2 March 1998

Group senior management

Home Credit Division

John R Thornton BSc MBA

Fred W Forfar MBA

Insurance Division

Chris C Johnstone ACA ATII MBA

Nick M Illingworth BSc ACA MBA

International Developments

David R Swann BA MBA

Group functions

Richard S Heels BCom FCA

John Lomas BA MA FIPM

David M Rees LLB

ACCOUNTS

Consolidated profit and loss account

for the year ended 31 December 1997	Notes	1997 £'000	1996 £'000
Turnover	1(a)	**444,173**	429,706
Cost of sales		**(195,161)**	(201,608)
Gross profit		**249,012**	228,098
Administrative expenses		**(112,510)**	(109,573)
Operating profit and profit before taxation	1(b)	**136,502**	118,525
Taxation	3	**(42,998)**	(39,113)
Profit after taxation		**93,504**	79,412
Dividends	4	**(52,112)**	(44,982)
Retained profit for the year	26	**41,392**	34,430
Earnings per share	5	**34.77p**	29.31p

The results shown in the profit and loss account derive wholly from continuing activities.
There is no material difference between the retained profit for the year as shown above and the historical cost equivalent.

Statement of total recognised gains and losses

for the year ended 31 December 1997	1997 £'000	1996 £'000
Profit after taxation	**93,504**	79,412
Scrip dividends	**10**	31
Currency translation differences	**(17)**	–
Total recognised gains and losses relating to the year	**93,497**	79,443

Balance sheets

as at 31 December 1997	Notes	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Fixed assets					
Tangible assets	8	**21,079**	21,233	**5,025**	5,018
Investments in subsidiary undertakings	9	**–**	–	**155,975**	146,495
Investment in own shares	10	**11,921**	–	**11,921**	–
		33,000	21,233	**172,921**	151,513
Current assets					
Amounts receivable from customers					
– due within one year	11(a)	**470,146**	417,480	**–**	–
– due in more than one year	11(a)	**8,456**	7,727	**–**	–
Debtors	14	**99,335**	96,823	**292,986**	117,810
Investments					
– realisable within one year	15(b)	**200,596**	183,179	**–**	–
– realisable in more than one year	15(b)	**80,000**	114,500	**–**	–
Cash at bank and in hand	15(a)	**25,328**	10,190	**29**	230
		883,861	829,899	**293,015**	118,040
Current liabilities					
Bank and other borrowings	12	**(22,082)**	(15,805)	**(12,912)**	(6,934)
Creditors – amounts falling due within one year	16	**(127,402)**	(130,444)	**(62,337)**	(57,318)
Insurance accruals and deferred income	18	**(290,794)**	(301,984)	**–**	–
		(440,278)	(448,233)	**(75,249)**	(64,252)
Net current assets		**443,583**	381,666	**217,766**	53,788
Total assets less current liabilities		**476,583**	402,899	**390,687**	205,301
Non-current liabilities					
Bank and other borrowings	12	**(185,405)**	(133,373)	**(165,250)**	(106,500)
Creditors – amounts falling due after more than one year	19	**–**	–	**(20,155)**	(26,873)
Provisions for liabilities and charges – deferred taxation	20	**(421)**	–	**(1,171)**	(560)
		(185,826)	(133,373)	**(186,576)**	(133,933)
Net assets		**290,757**	269,526	**204,111**	71,368
Capital and reserves					
Called up share capital	21	**27,165**	27,174	**27,165**	27,174
Share premium account	22	**43,102**	8,427	**43,102**	8,427
Merger reserve	23	**–**	–	**2,335**	2,335
Revaluation reserve	24	**1,641**	1,641	**2,703**	2,703
Other reserves	25	**2,451**	1,884	**1,624**	1,057
Profit and loss account	26	**216,398**	230,400	**127,182**	29,672
Equity shareholders' funds	27	**290,757**	269,526	**204,111**	71,368

These accounts were approved by the Board on 2 March 1998.

John van Kuffeler Chairman

Howard Bell Chief Executive

Robin Ashton Finance Director

Consolidated cash flow statement

for the year ended 31 December 1997	1997 £'000	1996 £'000
Net cash inflow from operating activities (see page 41)	**72,604**	69,576
Taxation		
UK corporation tax	**(48,236)**	(30,989)
Overseas tax	**(114)**	(37)
	(48,350)	(31,026)
Capital expenditure and financial investment		
Capital expenditure:		
Purchase of tangible fixed assets	**(5,919)**	(4,124)
Sale of tangible fixed assets	**1,200**	1,178
Sale of property held for disposal	**170**	392
Financial investments other than liquid resources:		
Purchase of investments	**(50,000)**	(58,000)
Sale of investments	**81,000**	35,000
	26,451	(25,554)
Acquisitions and disposals		
Purchase of businesses	**(78)**	(140)
Equity dividends paid	**(47,303)**	(38,402)
Management of liquid resources		
Purchase of investments	**(855,629)**	(410,251)
Sale of investments	**841,712**	395,764
	(61,298)	(53,029)
Financing		
Issue of share capital	**883**	754
New short and medium term loans	**144,538**	8,398
Repayment of short and medium term loans	**(87,896)**	(9,587)
Share buy-back	**(33,461)**	–
	24,064	(435)
Increase/(decrease) in cash in the period	**13,471**	(40,468)

The cash flow statement above has been prepared in accordance with FRS1 (Revised 1996) "Cash Flow Statements". As required by that standard, the statement aggregates the cash flows arising from the Insurance and Home Credit Divisions. However, the cash and investments held by the Insurance Division are required by its regulators to be strictly segregated from the rest of the group and are not available to repay group borrowings. A separate discussion of borrowings and investments has been included in the Financial Review on pages 22 to 25.

At 31 December 1997 the cash and investments held by the Insurance Division amounted to £296m (1996 £300m).

Liquid resources consist of bank and building society deposits, bank and building society certificates of deposit, local authority deposits and government securities that have either one year or less to maturity when acquired or are traded on an active market.

Consolidated cash flow statement continued

Reconciliation of net cash flow to movement in net debt	1997 £'000	1996 £'000
Increase/(decrease) in net cash for the period	**13,471**	(40,468)
Cash outflow from increase in liquid resources	**13,917**	14,487
	27,388	(25,981)
Cash (inflow)/outflow from (increase)/decrease in debt	**(56,642)**	1,189
Change in net debt resulting from cash flows	**(29,254)**	(24,792)
Net debt at 1 January 1997	**(36,809)**	(12,017)
Net debt at 31 December 1997	**(66,063)**	(36,809)

Analysis of changes in net debt	1 January 1997 £'000	Cash flows £'000	Other non-cash changes £'000	31 December 1997 £'000
Cash at bank and in hand	10,190	15,138	–	**25,328**
Overdrafts	(3,000)	(1,667)	–	**(4,667)**
	7,190	13,471	–	**20,661**
Investments realisable within one year	102,179	13,917	–	**116,096**
Bank and other borrowings:				
– less than one year	(12,805)	2,108	(6,718)	**(17,415)**
– more than one year	(133,373)	(58,750)	6,718	**(185,405)**
Net debt	(36,809)	(29,254)	–	**(66,063)**

Cash, borrowings and overdraft balances shown above at 31 December 1996 and 1997 agree to the balance sheets at those dates. Investments realisable within one year exclude those current asset investments which are not considered to be liquid resources (being those investments with more than one year to maturity when acquired, but less than one year to maturity at the balance sheet date, other than investments which are traded on an active market).

Reconciliation of operating profit to net cash inflow from operating activities	1997 £'000	1996 £'000
Operating profit	**136,502**	118,525
Depreciation	**4,855**	5,307
Loss/(profit) on sale of tangible fixed assets	**18**	(25)
Loss on property held for disposal	**89**	205
Increase in amounts receivable from customers	**(53,395)**	(40,108)
(Increase)/decrease in debtors	**(3,247)**	9,734
Decrease in unearned insurance premiums	**(7,157)**	(25,570)
(Decrease)/increase in insurance claims provision	**(3,953)**	10,236
Decrease in reorganisation provisions	**(752)**	(5,148)
Increase in amounts due to retailers	**2,272**	844
Decrease in accruals	**(1,984)**	(8,543)
(Decrease)/increase in other liabilities and deferred income	**(644)**	4,119
Net cash inflow from operating activities	**72,604**	69,576
Analysed as:		
Net cash inflow from Home Credit and Central	**70,890**	59,977
Net cash inflow from Insurance	**1,714**	9,599
Net cash inflow from operating activities	**72,604**	69,576

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 by the revaluation of land and buildings.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the accounts of the Company and its operating subsidiaries drawn up to the end of the financial year. The results of subsidiaries 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.

Revenue on instalment credit agreements

The charge payable by the customer on the amount of credit advanced is the group's revenue. It is included in the customer's account balance at the inception of the instalment credit agreement and is recognised in the profit and loss account as follows:
At the inception of the agreement, the profit and loss account is credited with a proportion of revenue:
a) mainly to cover initial expenses, and
b) relating to debt insurance, other than an amount sufficient to cover the cost of potential rebates to customers for early settlement.

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 is credited to the profit and loss account in future periods on the "sum of the digits" method, mainly to cover finance costs, and the balance is credited proportionately to collections received.

Amounts receivable from customers

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.

Debts are written off when all reasonable steps to recover them have been taken without success.

Insurance underwriting

In respect of motor insurance business, which is underwritten by Provident Insurance plc and undertaken on a reinsurance basis by Colonnade Reinsurance Limited, credit is taken for premium income over the life of the policy and commission and expenses are also charged over the life of the policy. The provision for outstanding claims is based on the estimated cost of settlement, including related administration costs, of all claims reported which remain outstanding at the balance sheet date, and claims incurred prior to the balance sheet date but not reported.

Principal accounting policies continued

Investments
Investments are shown at cost, adjusted to allow for the amortisation of premiums or discounts to par value on a straight line basis over the period to maturity. Gains and losses on investments are dealt with in the profit and loss account when realised. Provision for diminution in value is made as soon as this is recognised to be permanent.

Fixed assets and depreciation
Depreciation of fixed assets has been calculated by reference to the expected life of the assets concerned. The following are the principal bases:

	%	Basis
Land	Nil	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	20 to 33⅓	Straight line
Motor vehicles	25	Reducing balance

Where fixed assets become obsolete, or suffer a diminution in value which is considered to be permanent, provision is made in the profit and loss account where necessary.

Investment in own shares
Shares in the Company held by the QUEST (see note 10) 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.

Operating leases
Costs in respect of operating leases are charged on a straight line basis over the lease term.

Deferred taxation
To the extent that either a liability or benefit is expected to arise in the foreseeable future, deferred taxation is calculated on all timing differences at the rates of tax ruling at the dates when those timing differences are expected to reverse, i.e. the liability method.

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.

Turnover
Turnover, which excludes value added tax and both intra-segmental and inter-segmental transactions, comprises:

Home Credit	Revenue earned
Insurance	Underwriting: premiums written net of reinsurance Broking: commission and fees earned

Notes to the accounts

1 Segmental analysis

(a) Turnover	1997 £'000	1996 £'000
Home Credit	**350,376**	319,687
Insurance	**93,797**	110,019
Total	**444,173**	429,706

(b) Operating profit and profit before taxation	1997 £'000	1996 £'000
Home Credit	**127,173**	111,429
Insurance	**13,725**	10,603
Central	**(4,396)**	(3,507)
Total	**136,502**	118,525

(c) Net assets	1997 £'000	1996 £'000
Home Credit	**221,432**	218,020
Insurance	**69,325**	51,506
Total	**290,757**	269,526

2 Profit before taxation is stated after:

	1997 £'000	1996 £'000
Charging:		
Interest on borrowings (included in cost of sales)		
– bank loans and overdrafts	**9,447**	6,724
– other loans	**2,720**	2,534
Auditors' remuneration – audit services (Company £57,000)	**200**	190
– tax compliance and advice	**278**	343
– consultancy	**–**	–
– other non-audit services	**21**	44
Depreciation of tangible fixed assets	**4,855**	5,307
Loss on sale of tangible fixed assets	**18**	–
Operating lease rentals – equipment	**167**	33
– property	**3,537**	2,899
Crediting:		
Investment income (included in cost of sales)	**22,283**	23,220
Profit on sale of tangible fixed assets	**–**	25

Notes to the accounts continued

3 Taxation

	1997 £'000	1996 £'000
The charge for taxation on the profit for the year comprises:		
UK corporation tax chargeable on the profit for the year at 31.5% (1996 33%)	**41,083**	37,814
Deferred tax (note 20(c))	**1,973**	1,436
Overseas tax	**86**	81
	43,142	39,331
Prior year corporation tax	**(122)**	(275)
Prior year deferred tax (note 20(c))	**(22)**	57
Total	**42,998**	39,113

Retained profits of the 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.

4 Dividends

	1997 £'000	1996 £'000
Ordinary shares:		
Interim dividend paid of 7.75p per share (1996 6.5p)	**20,720**	17,808
Proposed final dividend of 11.75p per share (1996 10.0p)	**31,392**	27,174
Total	**52,112**	44,982

5 Earnings per share

The earnings per share figure has been calculated using the profit for the year available for ordinary dividends of £93,504,000 (1996 £79,412,000) and the weighted average number of shares in issue and ranking for dividend of 268,885,156 (1996 270,939,526). The calculation of the weighted average number of shares in issue and ranking for dividend excludes the 4,491,413 shares held by the QUEST at 31 December 1997 (see note 10) which has waived the rights to dividends on the shares it holds.

The potential dilution of future earnings as a result of the exercise of outstanding options to purchase shares (including those options for which the shares have already been issued to the QUEST) is approximately 1% (1996 1%).

Notes to the accounts continued

6 Directors' remuneration and shareholdings

(a) Directors' emoluments

The executive directors' remuneration policy is determined, and the actual amounts are set, by the Remuneration Committee of the Board. The report of the Remuneration Committee is set out on pages 33 to 35.

(b) Directors' remuneration

The aggregate directors' emoluments during the year amounted to £1,708,000 (1996 £1,569,000) analysed as follows:

	Salary £'000	Bonus £'000	Benefits £'000	Fees £'000	1997 Total £'000	1996 Total £'000
Executive Chairman						
J P van Kuffeler	242	171	22	–	**435**	391
Executive directors						
H J Bell	198	140	27	-	**365**	322
R J Ashton	140	98	18	-	**256**	232
P W Bretherton	142	100	26	-	**268**	234
P R Fryer	131	93	30	-	**254**	223
	611	431	101	-	**1,143**	1,011
Non-executive directors						
W G A Warde-Norbury*	-	-	4	39	**43**	111
P A Davis	-	-	3	25	**28**	30
C H Gregson	-	-	-	25	**25**	26
A C M Heylin**	-	-	-	17	**17**	-
A G Thomas***	-	-	-	17	**17**	-
	-	-	7	123	**130**	167
Total	853	602	130	123	**1,708**	1,569

* Remuneration from 1 January 1997 to date of retirement as a director

** Remuneration in 1997 from date of appointment as a director

*** Remuneration in 1997 from date of appointment as a director. The fees are paid to a third party in respect of making available the services of Mr A G Thomas to the Company

Notes to the accounts continued

6 Directors' remuneration and shareholdings continued

(c) Directors' pensions

There are four directors (1996 four) for whom retirement benefits are accruing under the group's defined benefit schemes and one director (1996 one) for whom retirement benefits are accruing under money purchase schemes. The details in respect of directors' pensions are outlined below.

All the executive directors, except Mr J P van Kuffeler, participate in the Provident Financial Senior Pension Scheme ("the Scheme"), a defined benefit scheme which provides pensions and other benefits within Inland Revenue limits. The Scheme provides a pension of 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 Basic State Pension from State Pension Age. The Scheme is contributory and directors must contribute at the rate of 6% of basic salary (net of an amount approximately equal to the Basic State Pension).

Details of the pension entitlements earned during 1997 (ignoring the reductions that apply from State Pension Age) are set out below:

Director's name	Age 31 December 1997	Accrued annual pension* 31 December 1997 £	31 December 1996 £	Increase in annual pension** 1997 £	1996 £	Director's contribution 1997 £	1996 £
H J Bell	**53**	**109,400**	95,000	**12,400**	7,400	**11,300**	10,200
R J Ashton	**39**	**37,700**	33,800	**4,500**	6,300	**7,900**	7,100
P W Bretherton	**52**	**69,700**	61,700	**6,700**	5,800	**8,100**	7,400
P R Fryer	**55**	**76,500**	63,200	**12,000**	5,600	**7,400**	6,500

* Accrued annual pension means 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 1997, 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.

The 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 Scheme.

A director can normally retire from the Scheme 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.

Pensions are guaranteed to increase, when in payment, at a rate of 5% per annum. Discretionary increases may be granted by the trustees with the consent of the Company.

There are no discretionary practices which are taken into account when calculating transfer values on leaving service.

For Mr van Kuffeler, the Company contributes 23% of his basic salary to his pension arrangements, which 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. 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 contribution in respect of Mr van Kuffeler during 1997 (including the cost of the life insurance) amounted to £63,470 (1996 £58,210).

Notes to the accounts continued

6 Directors' remuneration and shareholdings continued

(d) Directors' interests

The interests of the directors in the issued share capital of the Company were as follows:

	Beneficial holdings Number of shares 31 December 1997	1 January 1997
J P van Kuffeler	**125,962**	125,962
H J Bell	**231,378**	208,666
R J Ashton	**16,872**	24,564
P W Bretherton	**155,961**	139,402
P R Fryer	**25,564**	20,921
P A Davis	**2,000**	2,000
C H Gregson	**–**	–
A C M Heylin	**–**	–*
A G Thomas	**2,000**	–*

* At date of appointment as a director

Notes to the accounts continued

6 Directors' remuneration and shareholdings continued

(e) Options over shares held by directors at 31 December 1997 were as follows:

Director's name	1 January 1997	Granted in 1997	Exercised in 1997	31 December 1997	Exercise price (p)	Market price at date of exercise (p)	Range of exercisable dates of options held at 31 December 1997
J P van Kuffeler	30,000	–	–	30,000	256.5		3/1997 – 2/2004
	30,000	–	–	30,000	276.5		3/1998 – 2/2005
	45,000	–	–	45,000	450.0		9/1999 – 9/2006
	–	75,803	–	75,803	638.5		9/2000 – 8/2007
	–	3,395	–	3,395*	508.0		11/2002 – 4/2003
	105,000	79,198	–	184,198			
H J Bell	14,840	–	(14,840)	–*	56.6	553.5	
	6,862	–	(6,862)	–*	61.2	647.5	
	11,029	–	–	11,029*	81.6		8/1999 – 1/2000
	20,000	–	–	20,000	256.5		3/1997 – 2/2004
	20,000	–	–	20,000	276.5		3/1998 – 2/2005
	5,176	–	–	5,176*	226.0		8/2002 – 1/2003
	30,000	–	–	30,000	450.0		9/1999 – 9/2006
	–	62,647	–	62,647	638.5		9/2000 – 8/2007
	–	1,358	–	1,358*	508.0		11/2002 – 4/2003
	107,907	64,005	(21,702)	150,210			
R J Ashton	12,321	–	–	12,321*	140.0		8/1998 – 1/1999
	50,000	–	–	50,000	256.5		3/1997 – 2/2004
	20,000	–	–	20,000	276.5		3/1998 – 2/2005
	30,000	–	–	30,000	450.0		9/1999 – 9/2006
	–	43,774	–	43,774	638.5		9/2000 – 8/2007
	112,321	43,774	–	156,095			
P W Bretherton	7,420	–	(7,420)	–*	56.6	553.5	
	6,862	–	(6,862)	–*	61.2	649.5	
	11,029	–	–	11,029*	81.6		8/1999 – 1/2000
	2,785	–	–	2,785*	140.0		8/2000 – 1/2001
	20,000	–	–	20,000	256.5		3/1997 – 2/2004
	20,000	–	–	20,000	276.5		3/1998 – 2/2005
	3,451	–	–	3,451*	226.0		8/2002 – 1/2003
	30,000	–	–	30,000	450.0		9/1999 – 9/2006
	–	44,448	–	44,448	638.5		9/2000 – 8/2007
	–	1,535	–	1,535*	508.0		11/2004 – 4/2005
	101,547	45,983	(14,282)	133,248			
P R Fryer	9,191	–	(9,191)	–*	81.6	644.0	
	10,000	–	–	10,000	256.5		3/1997 – 2/2004
	40,000	–	–	40,000	276.5		3/1998 – 2/2005
	4,579	–	–	4,579*	226.0		8/2000 – 1/2001
	30,000	–	–	30,000	450.0		9/1999 – 9/2006
	–	42,287	–	42,287	638.5		9/2000 – 8/2007
	–	767	–	767*	508.0		11/2000 – 4/2001
	93,770	43,054	(9,191)	127,633			
Total	520,545	276,014	(45,175)	751,384			

* employee savings-related share options

Notes to the accounts continued

6 Directors' remuneration and shareholdings continued

(e) Options over shares held by directors at 31 December 1997 were as follows: continued

The aggregate notional gain (representing the difference between the exercise price and the market price of the shares at the date of exercise) made during the year by all the directors on the exercise of share options amounted to £243,000 (1996 £1,312,000).

The Company's highest paid director in 1996 and 1997, including the notional gains made on the exercise of share options, was Mr Bell, whose emoluments amounted to £365,000 (1996 £322,000) and whose notional gains (representing the difference between the exercise price and the market price of the shares at the date of exercise) on the exercise of options pursuant to the Provident Financial plc Employee Savings-Related Share Option Scheme amounted to £114,000 (1996 – executive share options £687,000). Mr Bell retained most of the shares acquired through the exercise of his options and his shareholding at 31 December 1997 is shown in note 6(d).

None of the options held by the directors lapsed during the year.

The closing mid-market price of the Company's shares on 31 December 1997 was 797p and the range during 1997 was 502.5p to 797p.

The executive schemes and the employee schemes are described in the report of the Remuneration Committee on pages 33 to 35.

(f) Movements in directors' interests in shares and share options between 31 December 1997 and the date of this report

There were no movements in directors' interests in shares or share options between 31 December 1997 and the date of this report.

(g) Directors' transactions

None of the directors has notified the Company of an interest in any other shares, transactions or arrangements which require disclosure.

7 Employee information

(a) The average number of persons employed by the group (including executive directors) was as follows:	1997 Number	1996 Number
Home Credit	**2,564**	2,632
Insurance	**1,099**	1,097
Central	**32**	32
Total	**3,695**	3,761
Analysed as:		
Full-time	**3,251**	3,249
Part-time	**444**	512
Total	**3,695**	3,761

(b) Group employment costs – all employees (including executive directors)	1997 £'000	1996 £'000
Aggregate gross wages and salaries paid to the group's employees	**62,345**	59,928
Employer's National Insurance contributions	**4,782**	4,751
Pension costs (note 30)	**4,545**	4,289
Total	**71,672**	68,968

Notes to the accounts continued

8 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 1997:				
Cost	1,633	1,651	30,635	33,919
Valuation in 1994	8,773	410	–	9,183
Additions at cost	2	77	5,840	5,919
Disposals	(62)	(99)	(3,239)	(3,400)
	10,346	2,039	33,236	45,621
At 31 December 1997:				
Cost	1,573	1,629	33,236	36,438
Valuation	8,773	410	–	9,183
	10,346	2,039	33,236	45,621
Depreciation				
At 1 January 1997	517	410	20,942	21,869
Charged to profit and loss account	250	96	4,509	4,855
Eliminated on disposal	(40)	(60)	(2,082)	(2,182)
At 31 December 1997	727	446	23,369	24,542
Net book value at 31 December 1997	**9,619**	**1,593**	**9,867**	**21,079**
Net book value at 31 December 1996	9,889	1,651	9,693	21,233

Leasehold land and buildings consist of:
(i) long leases at a cost/valuation of £960,000 and a net book value of £858,000;
(ii) short leases at a cost of £1,079,000 and a net book value of £735,000.

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

	Freehold land and buildings 1997 £'000	Freehold land and buildings 1996 £'000	Long leasehold land and buildings 1997 £'000	Long leasehold land and buildings 1996 £'000
Historical cost	**11,124**	11,184	**797**	797
Depreciation based on cost	**(3,287)**	(3,049)	**(97)**	(77)
Historical cost net book value	**7,837**	8,135	**700**	720

Notes to the accounts continued

8 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 1997:				
Cost	620	–	1,206	1,826
Valuation in 1994	3,776	180	–	3,956
Additions at cost	1	–	395	396
Disposals	–	–	(221)	(221)
Transfers from group companies	–	–	25	25
	4,397	180	1,405	5,982
At 31 December 1997:				
Cost	621	–	1,405	2,026
Valuation	3,776	180	–	3,956
	4,397	180	1,405	5,982
Depreciation				
At 1 January 1997	209	9	546	764
Charged to profit and loss account	110	4	214	328
Eliminated on disposal	–	–	(148)	(148)
Transfers from group companies	–	–	13	13
At 31 December 1997	319	13	625	957
Net book value at 31 December 1997	**4,078**	**167**	**780**	**5,025**
Net book value at 31 December 1996	4,187	171	660	5,018

Leasehold land and buildings consist of long leases at a cost/valuation of £180,000 and a net book value of £167,000.

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

	Freehold land and buildings 1997 £'000	Freehold land and buildings 1996 £'000	Long leasehold land and buildings 1997 £'000	Long leasehold land and buildings 1996 £'000
Historical cost	**2,649**	2,648	**17**	17
Depreciation based on cost	**(971)**	(905)	**(10)**	(9)
Historical cost net book value	**1,678**	1,743	**7**	8

Notes to the accounts continued

9 Investment in subsidiary undertakings

	1997 £'000
Shares at cost:	
At 1 January 1997	155,143
Amounts subscribed for during the year	9,575
At 31 December 1997	164,718
Provision for diminution in value:	
At 1 January 1997	8,648
Increase in provision	95
At 31 December 1997	8,743
Shares at cost less provision at 31 December 1997	**155,975**
Shares at cost less provision at 31 December 1996	146,495

The following are the subsidiaries which, in the opinion of the directors, principally affect the profit or assets of the group. The subsidiaries are registered in England (unless otherwise stated) and operate principally in the UK (unless otherwise stated). The issued share capitals comprise ordinary £1 shares (except for PF (Netherlands) BV which comprises ordinary shares of 1,000 NGL each, Provident Personal Credit Limited which comprises ordinary shares of 25p each and Colonnade Reinsurance Limited which includes 2,000,000 redeemable preference shares of £1 each) all held by the Company or a wholly-owned subsidiary of the Company.

Home Credit	Provident Personal Credit Limited Greenwood Personal Credit Limited*
Insurance	Provident Insurance plc Colonnade Reinsurance Limited (incorporated and operating in Guernsey) Colonnade Insurance Brokers Limited*
Financing	PF (Netherlands) BV (incorporated and operating in Holland)

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 1997, which have been audited for the purpose of the group accounts, have been consolidated.

* Shares held by wholly-owned intermediate holding companies

Notes to the accounts continued

10 Investment in own shares

On 18 December 1997 the Company established a Qualifying Employee Share Ownership Trust ("the QUEST") which subscribed for ordinary shares in the Company to be used to satisfy options granted by the Company under the Provident Financial plc Employee Savings-Related Share Option Scheme and the Provident Financial plc Employee Savings-Related Share Option Scheme (1993) ("the employee schemes"). Information in relation to the employee schemes is included in the Report of the directors on pages 28 and 29 and in the Report of the Remuneration Committee on pages 33 to 35.

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 company, 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.

On 19 December 1997, the Company made a contribution to the QUEST of £22,079,000 and provided an interest free loan of £11,921,000 to the QUEST. On 22 December 1997 the trustee subscribed for 4,491,413 ordinary shares (at the market price at that time of 757p) for a total cost of £34,000,000 which will be used to satisfy substantially all of the options outstanding on 19 December 1997 under the employee schemes. It is intended that these shares will be transferred to the group's employees at a future date upon the exercise of the option by the employee, whereupon the loan will be repaid to the Company.

At 31 December 1997 the QUEST held 4,491,413 shares with a cost of £34,000,000 and a market value of £35,797,000. In accordance with UITF Abstract No 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 £11,921,000). The amount contributed by the QUEST in excess of the option price has been charged against reserves (see note 26).

11 Amounts receivable from customers

(a) Instalment credit receivables

	Group 1997 £'000	Group 1996 £'000
Gross instalment credit receivables	**727,069**	640,591
Less: provision for bad and doubtful debts (note 11(b))	**(66,419)**	(59,839)
Instalment credit receivables after provision for bad and doubtful debts (note 12(a))	**660,650**	580,752
Less: deferred revenue thereon	**(182,048)**	(155,545)
Total	**478,602**	425,207
Analysed as – due within one year	**470,146**	417,480
– due in more than one year	**8,456**	7,727
Total	**478,602**	425,207

(b) Bad and doubtful debts

	Group 1997 £'000	Group 1996 £'000
Gross provision at 31 December 1997 (note 11(a))	**66,419**	59,839
Less: deferred revenue thereon	**(18,038)**	(16,117)
Net provision at 31 December 1997	**48,381**	43,722
Net provision at 1 January 1997	**(43,722)**	(45,408)
Increase/(decrease) in provision (net of deferred revenue)	**4,659**	(1,686)
Amounts written off (net of deferred revenue)	**36,264**	35,914
Net charge to profit and loss account for bad and doubtful debts	**40,923**	34,228

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.

Notes to the accounts continued

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

(a) Group

	1997 Instalment credit receivables £'000	1997 Borrowing facilities available £'000	1997 Borrowings £'000	1996 Instalment credit receivables £'000	1996 Borrowing facilities available £'000	1996 Borrowings £'000
Repayable:						
On demand	**–**	**6,000**	**4,667**	–	3,000	3,000
In less than 6 months	**477,489**	**19,000**	**10,697**	426,078	20,000	6,087
In 6 – 12 months	**171,399**	**6,718**	**6,718**	144,054	6,718	6,718
In less than 12 months	**648,888**	**31,718**	**22,082**	570,132	29,718	15,805
In 12 – 24 months	**11,762**	**16,718**	**16,718**	10,620	9,718	7,718
In 24 – 60 months	**–**	**64,437**	**34,687**	–	217,155	125,655
In more than 60 months	**–**	**239,000**	**134,000**	–	–	–
In more than 12 months	**11,762**	**320,155**	**185,405**	10,620	226,873	133,373
Total	**660,650**	**351,873**	**207,487**	580,752	256,591	149,178

(b) Company

	1997 Borrowing facilities available £'000	1997 Borrowings £'000	1996 Borrowing facilities available £'000	1996 Borrowings £'000
Repayable:				
On demand	**6,000**	**4,667**	3,000	3,000
In less than 6 months	**19,000**	**8,245**	20,000	3,934
In 6 – 12 months	**–**	**–**	–	–
In less than 12 months	**25,000**	**12,912**	23,000	6,934
In 12 – 24 months	**10,000**	**10,000**	3,000	1,000
In 24 – 60 months	**51,000**	**21,250**	197,000	105,500
In more than 60 months	**239,000**	**134,000**	–	–
In more than 12 months	**300,000**	**165,250**	200,000	106,500
Total	**325,000**	**178,162**	223,000	113,434

(c) Borrowing facilities and borrowings

Borrowing facilities comprise arrangements with banks for term loans and committed revolving loan and acceptance credit facilities for periods of up to seven years, together with overdrafts and uncommitted loans which are repayable on demand.

At 31 December 1997 borrowings under these facilities amounted to £207,487,000 (Company £178,162,000) (1996 £149,178,000; Company £113,434,000). These borrowings are under:
(i) committed revolving loan and acceptance credit facilities which are generally drawn for periods of 1 to 3 months, then repaid and redrawn; or
(ii) borrowings on overdrafts and uncommitted loan facilities which are repayable on demand; or
(iii) bank loans denominated in US$ as described in note 12(d) overleaf.
The borrowings shown in notes 12(a) and 12(b) are analysed by reference to the maturity of the facility under which they are drawn as required by FRS 4. None of the borrowing facilities is repayable by instalments, other than the bank loans denominated in US$.

Notes to the accounts continued

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

(d) US$ bank loans

During the year the group refinanced the fixed rate US$50 million loan notes issued by PF (Netherlands) BV in 1993. The loan notes were repaid and replaced with a bank loan of US$50 million. The loan is repayable in annual instalments of US$10 million, the first of which was made on 15 December 1997. Currency swap arrangements were established to fix the sterling equivalent of the loan and £26,873,000 was outstanding at 31 December 1997. Interest rate swap arrangements were established to convert the floating US$ interest rate to a rate linked to six month sterling LIBOR.

e) Undrawn committed borrowing facilities

The undrawn committed borrowing facilities at 31 December 1997 were as follows:

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Expiring within one year	**9,136**	13,913	**11,588**	16,066
Expiring in more than one year	**134,750**	93,500	**134,750**	93,500
Total	**143,886**	107,413	**146,338**	109,566

13 Derivatives and other financial instruments

An explanation of the group's objectives and policies in the use of derivatives and other financial instruments is included in the financial review on pages 22 to 25. Detailed information on the use of derivatives and other financial instruments is set out below:

(a) Interest rate and currency profile

Substantially all of the group's borrowings and investments are either denominated in sterling, or, as a result of currency swap arrangements (see note 12(d) above), are effectively denominated in sterling.

After taking account of the various interest rate swaps entered into by the group (but before the interest rate caps of up to £160 million referred to below), the interest rate exposure of the group's borrowings and cash and investments at 31 December 1997 was:

	1997			1996		
	Total £'000	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000
Cash and investments	**305,924**	**280,596**	**25,328**	307,869	290,752	17,117
Borrowings	**207,487**	**135,000**	**72,487**	149,178	35,000	114,178
Net position	**98,437**	**145,596**	**(47,159)**	158,691	255,752	(97,061)

The weighted average interest rate on fixed rate borrowings at 31 December 1997 amounted to 7.4% (1996 7.4%) and the weighted average period to maturity was 0.9 years (1996 1.6 years). The weighted average interest rate on fixed rate investments at 31 December 1997 amounted to 7.5% (1996 7.6%) and the weighted average period to maturity was 2.0 years (1996 1.8 years).

The group's exposure to increases in interest rates on the net floating borrowings position at 31 December 1997 is further protected by interest rate caps on borrowings of up to £160 million at rates of up to 8.4% for periods up to January 2002.

The floating rate borrowings comprise sterling denominated bank borrowings that bear interest at rates linked to sterling LIBOR.

Notes to the accounts continued

13 Derivatives and other financial instruments continued

(b) Fair values

The fair values and book values of the group's financial instruments by category, together with the notional principal amounts covered by derivative contracts at 31 December 1997, are set out below:

	1997 Notional principal amounts £'000	1997 Book value £'000	1997 Fair value £'000	1996 Notional principal amounts £'000	1996 Book value £'000	1996 Fair value £'000
Current asset investments	**–**	**280,596**	**280,650**	–	297,679	297,614
Cash at bank and in hand	**–**	**25,328**	**25,328**	–	10,190	10,190
Bank loans and overdrafts	**–**	**(180,614)**	**(180,614)**	–	(115,587)	(115,587)
US$ bank loan	**–**	**(26,873)**	**(24,287)**	–	(33,591)	(29,718)
Currency swaps re US$ bank loan*	**26,873**	**–**	**(3,557)**	33,591	–	(4,661)
Interest rate swaps on borrowings:						
Contracts in profit	**125,000**	**–**	**167**	–	–	–
Contracts in loss	**50,000**	**–**	**(195)**	25,000	–	(114)
Interest rate swaps on investments:						
Contracts in profit	**195,000**	**–**	**1,976**	115,000	–	450
Contracts in loss	**30,000**	**–**	**(55)**	60,000	–	(82)
Interest rate caps	**160,000**	**1,715**	**477**	60,000	1,069	283

* The unrealised loss on the currency swap is largely offset by the unrealised gain on the underlying liability (the US$ bank loan).

(c) Instruments held for trading purposes

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

14 Debtors – amounts falling due within one year

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Trade debtors	**23,736**	21,806	**–**	–
Amounts recoverable from reinsurers	**42,937**	37,906	**–**	–
Properties held for resale	**201**	460	**201**	326
Other debtors	**869**	783	**3**	3
Prepayments and accrued income	**18,160**	20,760	**6,617**	5,740
Commissions prepaid to insurance brokers and deferred acquisition costs	**5,584**	6,784	**–**	–
Amounts owed by group undertakings	**–**	–	**276,794**	105,807
Corporation tax recoverable	**–**	–	**3,585**	–
Advance corporation tax recoverable	**7,848**	6,794	**5,786**	5,934
Deferred taxation (note 20(c))	**–**	1,530	**–**	–
Total	**99,335**	96,823	**292,986**	117,810

Notes to the accounts continued

15 Investments and cash at bank and in hand

(a) Investments and cash at bank and in hand comprise:	Group 1997 £'000	Group 1996 £'000
Bank, building society and other fixed interest deposits at cost	**278,989**	292,275
UK listed securities at cost	**1,607**	5,404
Total investments (note 15(b))	**280,596**	297,679
Cash at bank and in hand	**25,328**	10,190
Total	**305,924**	307,869

All the investments and £15,150,000 (1996 £2,736,000) of the cash at bank and in hand are held by Provident Insurance plc, Colonnade Reinsurance Limited and Colonnade Insurance Brokers Limited. The regulators of these companies 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.

The UK listed securities had a market value at 31 December 1997 of £1,661,000 (1996 £5,339,000).

(b) The maturity of the investments shown above is analysed as follows:	Group 1997 £'000	Group 1996 £'000
Realisable within one year	**200,596**	183,179
Realisable in more than one year but less than two years	**35,000**	84,500
Realisable in more than two years but less than three years	**35,000**	25,000
Realisable in more than three years but less than four years	**10,000**	5,000
Realisable in more than one year	**80,000**	114,500
Total	**280,596**	297,679

Notes to the accounts continued

16 Creditors – amounts falling due within one year

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Amounts due to retailers and customers' unspent balances	**20,865**	18,593	**–**	–
Trade creditors	**11,368**	11,414	**–**	–
Amounts owed to group undertakings	**–**	–	**22,531**	20,379
Other creditors including taxation and social security	**45,476**	52,978	**1,207**	4,414
Accruals	**18,301**	20,285	**7,207**	5,351
Dividends payable	**31,392**	27,174	**31,392**	27,174
Total	**127,402**	130,444	**62,337**	57,318

Other creditors including taxation and social security comprise:

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
UK corporation tax	**24,654**	32,874	**–**	–
Advance corporation tax	**13,023**	11,052	**13,023**	11,052
	37,677	43,926	**13,023**	11,052
Less: taxation recoverable	**–**	–	**(13,023)**	(7,760)
	37,677	43,926	**–**	3,292
Social security	**1,558**	1,496	**80**	81
Value added tax	**46**	481	**5**	1
Reorganisation provisions (note 17)	**3,122**	3,874	**–**	–
Other creditors	**3,073**	3,201	**1,122**	1,040
Total	**45,476**	52,978	**1,207**	4,414

17 Reorganisation provisions

Of the reorganisation provisions brought forward, £3,122,000 is unutilised and carried forward (note 16). There was no charge against the profit and loss account in either 1996 or 1997 to provide for the cost of future reorganisation.

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

	Group 1997 £'000	Group 1996 £'000
Provision for unpaid insurance claims	**250,199**	254,152
Unearned insurance premiums	**40,079**	47,236
Other deferred income	**516**	596
Total	**290,794**	301,984

Notes to the accounts continued

19 Creditors – amounts falling due after more than one year

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Amounts owed to group undertakings	**–**	–	**20,155**	26,873

20 Deferred taxation

(a) Group

	1997 Provision £'000	1997 Full potential liability £'000	1996 Provision £'000	1996 Full potential liability £'000
Accelerated capital allowances	**(1,000)**	**(1,000)**	(96)	(96)
Reorganisation provisions	**(968)**	**(968)**	(1,441)	(1,441)
Other timing differences	**2,389**	**2,389**	7	7
	421	**421**	(1,530)	(1,530)
Realised capital gains deferred	**–**	**620**	–	620
Deferred tax liability/(asset)	**421**	**1,041**	(1,530)	(910)

(b) Company

	1997 Provision £'000	1997 Full potential liability £'000	1996 Provision £'000	1996 Full potential liability £'000
Accelerated capital allowances	**(50)**	**(50)**	(98)	(98)
Other timing differences	**3,282**	**3,282**	1,518	1,518
	3,232	**3,232**	1,420	1,420
Advance corporation tax recoverable	**(2,061)**	**(2,061)**	(860)	(860)
Deferred tax liability	**1,171**	**1,171**	560	560

(c) Movement in group deferred taxation liability/(asset)

	1997 £'000
The movement on the group deferred taxation liability/(asset) during the year was as follows:	
At 1 January 1997	**(1,530)**
Charged to the profit and loss account (note 3)	**1,951**
At 31 December 1997	**421**

Notes to the accounts continued

21 Called up share capital

	Group and Company 1997 Authorised £'000	1997 Issued and fully paid £'000	1996 Authorised £'000	1996 Issued and fully paid £'000
Ordinary shares of 10p each	**40,000**	**27,165**	40,000	27,174

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

	Number
At 1 January 1997	271,745,395
Shares issued – pursuant to the exercise of options	1,092,809
– to satisfy scrip dividend elections	100,151
– to the QUEST (see note 10)	4,491,413
Shares purchased and subsequently cancelled	(5,775,992)
At 31 December 1997	271,653,776

22 Share premium account

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
At 1 January 1997	**8,427**	18,945	**8,427**	18,945
Capitalisation of bonus issue of shares	**–**	(13,544)	**–**	(13,544)
Premium on shares issued during the year	**34,906**	3,026	**34,906**	3,026
Premium on shares purchased and cancelled during the year	**(231)**	–	**(231)**	–
At 31 December 1997	**43,102**	8,427	**43,102**	8,427

23 Merger reserve

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
At 31 December 1997	**–**	–	**2,335**	2,335

24 Revaluation reserve

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
At 1 January 1997	**1,641**	1,881	**2,703**	1,888
Transfer to profit and loss account				
on disposal of assets previously revalued	**–**	(240)	**–**	815
At 31 December 1997	**1,641**	1,641	**2,703**	2,703

Notes to the accounts continued

25 Other reserves

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Capital Redemption Reserve:				
At 1 January 1997	**1,057**	1,088	**1,057**	1,088
Scrip dividends	**(10)**	(31)	**(10)**	(31)
Share buy-back	**577**	–	**577**	–
At 31 December 1997	**1,624**	1,057	**1,624**	1,057
Retained profit capitalised by a subsidiary:				
At 1 January 1997 and 31 December 1997	**827**	827	**–**	–
At 31 December 1997	**2,451**	1,884	**1,624**	1,057

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 the shares bought back during the year, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

26 Profit and loss account

	Group £'000	Company £'000
At 1 January 1997	**230,400**	**29,672**
Retained profit for the year	**41,392**	**152,809**
Share buy-back	**(33,230)**	**(33,230)**
Shares issued to the QUEST (note 10)	**(22,079)**	**(22,079)**
Goodwill (note 28)	**(78)**	**–**
Scrip dividends	**10**	**10**
Currency translation differences	**(17)**	**–**
At 31 December 1997	**216,398**	**127,182**

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 £204,921,000 (1996 £49,822,000).

The group profit and loss account balance is shown after writing off cumulative goodwill of £16,229,000 (1996 £16,151,000).
In addition, cumulative goodwill of £2,335,000 has been written off against the merger reserve in previous years.

Notes to the accounts continued

27 Reconciliation of movement in equity shareholders' funds

	Group 1997 £'000	Group 1996 £'000
Profit attributable to members of the group	**93,504**	79,412
Dividends	**(52,112)**	(44,982)
Retained profit for the year	**41,392**	34,430
New share capital issued	**35,474**	3,139
Share buy-back	**(33,461)**	–
Shares issued to the QUEST (note 10)	**(22,079)**	–
Goodwill (note 28)	**(78)**	(140)
Currency translation differences	**(17)**	–
Net addition to equity shareholders' funds	**21,231**	37,429
Equity shareholders' funds at 1 January 1997	**269,526**	232,097
Equity shareholders' funds at 31 December 1997	**290,757**	269,526

28 Goodwill

During the year the group purchased the trade of a small number of insurance-related activities for a cash consideration of £78,000. No assets were acquired and the goodwill arising of £78,000 has been written off immediately against reserves.

29 Commitments

(a) Capital commitments

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Capital expenditure commitments contracted with third parties but not provided for	**381**	1,174	**–**	–

(b) Operating lease commitments

Operating lease commitments in respect of land and buildings for 1998 are as follows:

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Leases expiring:				
Within one year	**814**	696	**–**	–
Within two to five years	**1,816**	1,693	**–**	–
In more than five years	**1,210**	1,347	**–**	–
Total	**3,840**	3,736	**–**	–

Notes to the accounts continued

30 Pension schemes

The group operates a number of pension schemes. During the year the accumulated fund of the Provident Financial LF & JB Pension Scheme was incorporated into the Provident Financial Staff Pension Scheme.

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 7(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 June 1995. The principal assumptions used were that the rate of return on investments would be 2% per annum higher than the rate of increase in salaries and 4% per annum higher than the rate of increase in present and future pensions. At the date of the latest actuarial valuations, the market value of the assets of the schemes was £78,900,000. The actuarial value of the assets was sufficient to cover 101% 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 surplus 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 £4,172,000 (1996 £4,495,000), which represents the excess of the contributions paid to the schemes over the charge in the profit and loss account.

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 £350,000 (1996 £270,000).

Report of the Auditors

To the members of Provident Financial plc
We have audited the accounts on pages 38 to 64.

Respective responsibilities of the directors and the Auditors
As described on pages 32 and 33, the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the Company and the group at 31 December 1997 and of the profit, total recognised gains and losses and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate governance
Basis of opinion
In addition to our audit of the accounts, we have reviewed the directors' statements on pages 30 to 35 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v). We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures, nor on the ability of the group to continue in operational existence.

Opinion
With respect to the directors' statement on internal financial control on page 32 (other than their opinion on effectiveness which is outside the scope of our report) and going concern on page 25, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts. Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on pages 30 to 35 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Benson House
33 Wellington Street
Leeds LS1 4JP

2 March 1998

Information for shareholders

Financial calendar – dividends	1997 Final	1998 Interim
Dividend announced	19 February 1998	30 July 1998
Ex-dividend date for ordinary shares	9 March 1998	21 September 1998
Record date for the dividend	13 March 1998	25 September 1998
Annual General Meeting	23 April 1998	
Payment date of the dividend	29 April 1998	21 October 1998

Share price information

The latest information on our share price is available on Ceefax on BBC1/BBC2 and on Teletext on ITV/Channel 4. It is also on the Financial Times Cityline (Tel: 0336 433731).

The share price is also currently listed in the following daily newspapers:

Financial Times	The Daily Telegraph	The Guardian	Daily Mail	The Herald	Yorkshire Post
The Times	The Independent	The Express	Evening Standard	The Scotsman	

Personal Equity Plans (PEPs)

There are two PEPs dedicated to the Company's shares. These are the general PEP and the single company PEP. Shareholders interested in such an investment should contact the Plan Manager, Bradford & Bingley (PEPs) Limited, P O Box 1, Taunton Street, Shipley, West Yorkshire BD18 3YR (Tel: 01274 555700). Please note that the suitability of a PEP for any individual depends on his/her individual tax position.

Capital gains tax

For the purposes of capital gains tax, the price of the Company's ordinary shares at 31 March 1982 was 130.50p. When adjusted for the 1 for 5 scrip issue in 1986, the 5 for 2 share spilt in 1993 and the 1 for 1 bonus issue in 1996, this gives a figure of 21.75p per share.

Registrar

The Registrar deals with all matters relating to transfers of ordinary shares in the Company and with enquiries concerning holdings. The Registrar is: IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU (Tel: 0181 650 4866).

Share ownership analysis as at 26 February 1998

Shareholding range	Shareholders (Number)	Shareholders (%)
up to 1,000	2,047	29.02
1,001 – 5,000	3,024	42.88
5,001 – 50,000	1,485	21.06
50,001 – 500,000	396	5.61
500,001 – 1,000,000	53	0.75
1,000,001+	48	0.68
Total	7,053	100

Provident Financial
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