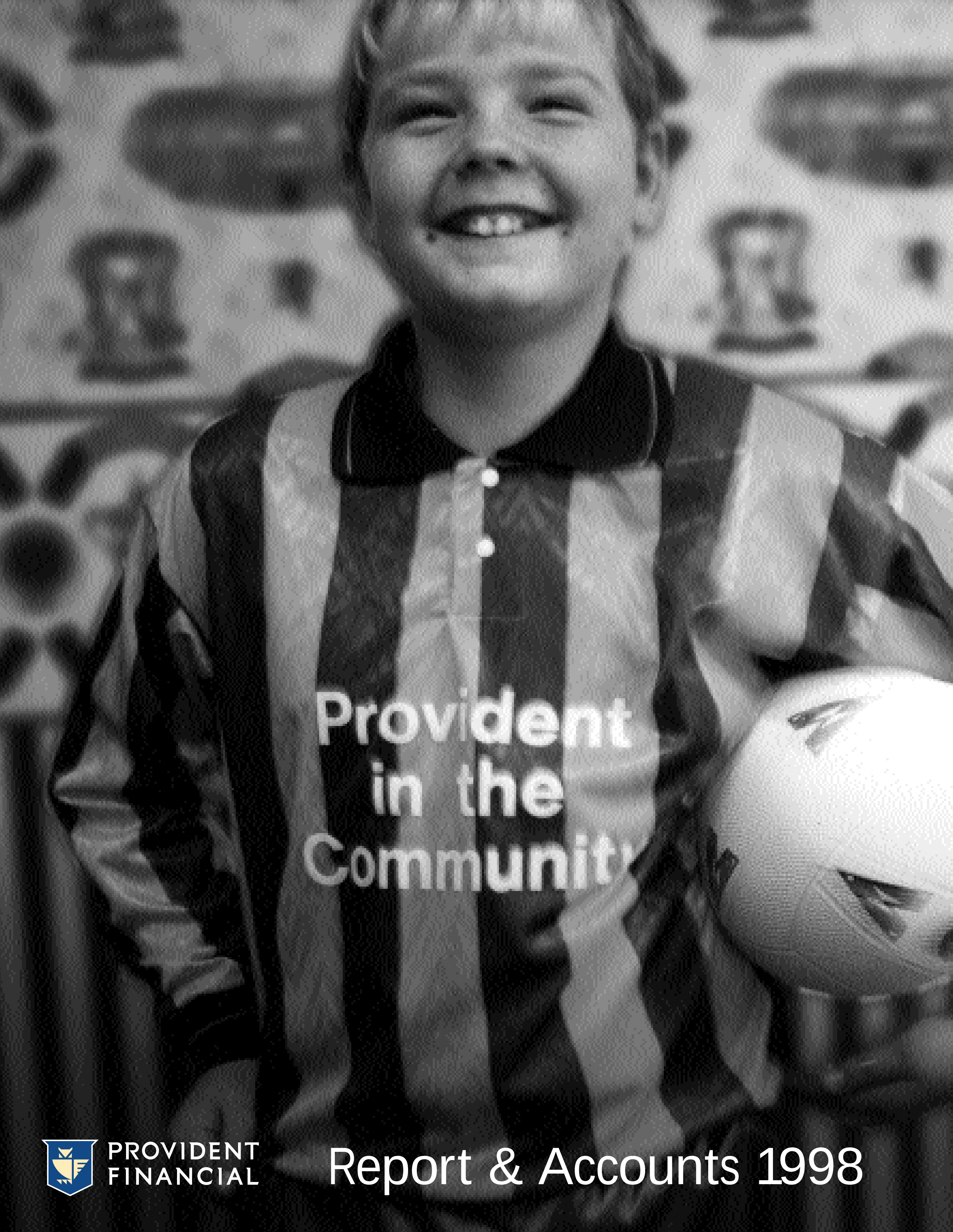


PROVIDENT
FINANCIAL

Report & Accounts 1998

"My husband Terry and I bought our first car – a Hillman Imp – with our first loan. That was 20 years ago. Lots of the furniture in the house has come from loans. There's been a few times when I couldn't pay and Christine has been terrific about it. She's always helped us catch up. I have a bank account; but I prefer the Provi – it's more convenient. You always know where you are with the book – and there's nothing extra to pay."

Ilona Lindley – a customer for 20 years.

ABOUT US

Provident Financial is a personal financial services group specialising in two areas, home credit and insurance.

Our home credit operation provides 1.5 million customers – both in the UK and internationally – with small, unsecured loans – normally between £50 and £500 – for a fixed term, usually between six months and a year. The fixed charge does not vary at all, even if the customer is late paying. The loan is repayable by weekly instalments which are collected from the customer's home by our agent.

Our insurance operation specialises in motor insurance and consists of an insurance underwriting company and a high street and telesales broking business. The Insurance Division serves over 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."

UK Home Credit

One in every

20

households in Britain

Customer numbers up by 5.7% to

1.5m

9 out of 10

of our customers are happy with our service

International Home Credit

Eight home credit offices in Central Europe

Poland

Czech Republic

20,100

customers in Central Europe

540

agents in Central Europe

Insurance

Provident Insurance policyholders up 8% to

516,000

Telebroking customers up 27% to

143,000

Colonnade Insurance Brokers has

95

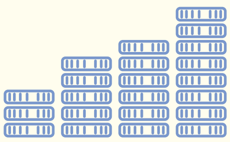
high street branches

HIGHLIGHTS

Group

Profit before tax up to

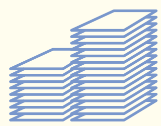
£145.9m



Earnings per share up

15.4%

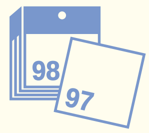
to 40.12p



Dividend per share up 15.4% to 22.5p

23rd

successive year of dividend increase



Contents

A FURTHER YEAR OF PROGRESS

John van Kuffeler, Chairman

I am pleased to report a further year of progress. Pre-tax profits increased to £145.9 million (1997 £136.5 million) after £9.1 million (1997 £2.0 million) of additional interest costs as a result of returning £127 million of capital to shareholders since May 1997. Before those additional interest costs, pre-tax profits were up by 11.9%. Earnings per share increased by 15.4% assisted by a reduction in the effective tax rate to 28.2% (1997 31.5%) and the reduction in the number of shares in issue as a consequence of the capital restructuring. The Board is recommending a final dividend of 13.6p per share – making a total of 22.5p for the year – an increase of 15.4%.

Operations

Growth in home credit continued in the UK with a 6% increase in the numbers of agents, a 5.7% increase in the number of customers and a 9.8% growth in credit issued, with a small increase in the bad debt ratio. In Central Europe we have seen our home credit operations expand substantially. It is clear that home credit has considerable potential and we have decided to roll out our operations throughout Poland and the Czech Republic over the next few years. We have already opened four offices in Poland and four in the Czech Republic and we expect our customer numbers to accelerate significantly.

Our international expansion has also helped to reinforce our belief that both in the UK and abroad the same home credit service is good for customers, good value for money and good for the economic life of the communities which we serve. We satisfy the requirement of those on low or uncertain incomes for small, affordable and manageable unsecured loans. Our home credit service offers a different way of borrowing in which credit is granted on the basis of mutual trust between our customers and our agents, rather than on credit scoring techniques applied by most other large lenders, which can deny credit to people who might have both the ability and a genuine willingness to repay.

Our motor insurance operation in the UK is seeing volumes and premiums rise. In 1998 the number of motor policies underwritten by Provident Insurance and the number of customers in our broking business both increased.

Board structure

I am delighted that Jim Hodkinson joined the Board as a non-executive director in July 1998. Jim is Chief Executive of New Look Group plc and brings with him a wealth of experience, including a retail business background, some of which was gained while at Kingfisher plc. This experience is of considerable relevance to our group which has over two million customers.

We have a well-balanced Board of executive and non-executive directors with Charles Gregson, our Deputy Chairman, designated as senior non-executive director.

People

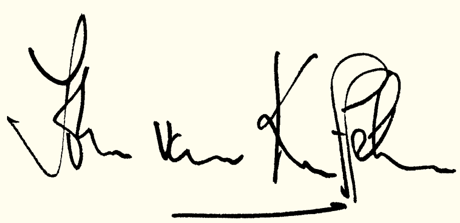
I would like to take the opportunity to emphasise the importance of innovation and change. Our considerable and consistent success is due to the continual changes we make to our business. It is vital that this process of change continues in order to satisfy customers' needs and to build value for shareholders in the future.

On behalf of the Board, I would like to thank our staff for their continued contribution to our success. Their hard work and dedication at all levels of the group is something of which we are proud. Once again, I am pleased to report that over half of them are saving to buy shares in the Company by participating in the Company's employee share option schemes.

Prospects

Despite the uncertain outlook for the UK economy, we expect the growth in UK home credit to continue. The progress of our international home credit operations is encouraging and has given us the confidence to double our investment in 1999 in order to develop a significant profitable business for the future. Motor insurance premiums and volumes are both increasing and we expect the Insurance Division to make good progress in 1999.

The Board expects to deliver another good result in 1999.



John van Kuffeler
Chairman
8 March 1999

HOME CREDIT: MONEY WHERE IT'S NEEDED

I wish you could have been with me one windy autumn evening last year, in London's East End, when I went with Cheryl Smith, one of our agents, on her weekly visit to Lesley Marsh, one of our customers.

Chief Executive Howard Bell visits home credit customers in their homes in Leeds and in London.

"I look forward to my agent coming each week. I tell her my problems and I know it won't go any further. I use the money for bills and holidays. I've been to Spain and Malta and Dublin. When you work it out, it is as cheap as any other form of loan you could get."

Wendy Firth – a customer for 15 years

UK Home Credit

Lesley is a registered child-minder who, not content with bringing up the six children in her own family, helps look after seven others from seven in the morning until around the same time each night.

It became clear, as soon as we walked into her modern council house, a stone's throw from the City Airport in Beckton, in what used to be the heart of docklands, that Lesley is an extraordinarily energetic woman – capable, caring and above all, organised – all of which characteristics she needs in abundance every long day of her working week. She made us welcome and above the bedlam of seven tired toddlers waiting to go home – and her own children waiting to be fed – she talked about Provident and what the loans we give mean to her. During our chat she summed up so much of what Provident is about. She told me how she used her first loan – seven years ago – to buy a television. It helped to keep the children she looked after happy and occupied. Since then, she had taken out other loans – normally for £200. With them she had kept the house looking smart in the face of the daily thunder of tiny feet, using the money to decorate, buy furniture, get a new washing machine when the old one broke, another telly and so on. Of course, the money also helped at Christmas and for holidays.

So I asked her why she had carried on taking out loans? – what were the advantages? "I would never be able to save for all those things on my own" she replied. "There is always something you have to buy, or some bill to pay – and the money just goes when you are on a tight budget. But having loans from the Provi means that I get a lump sum – and then I know I have to put so much aside every week for when Cheryl calls. I don't often miss a payment; but I know I can in an emergency – and it won't cost me any more. It's very convenient for me. And Cheryl is not just an agent, she is also a friend to me. She really cares. She listens to all my problems. And because she understands me, I know if I need money, it is there." That is the nub of our home credit business – be it Provident Personal Credit or Greenwoods. Provident Financial is one of Britain's largest companies. It is a profitable company, a growing one and a well-managed one. We hold consumer credit licences from the relevant regulators and our operations are subject to the provisions of the Consumer Credit Acts in the UK and the Republic of Ireland. But the fundamental reason for our success is in those words of Lesley Marsh, describing why she uses Provident loans and her relationship with our agent, Cheryl.

Customer numbers up by 5.7% to

1.5m

Because, if you multiply Lesley's words by the 1.5 million customers we have in UK Home Credit, and her thoughts about Cheryl by the 10,879 agents we now have, then you begin to see why I can report another successful year to you.

Indeed 1998 has been a year in which we increased our agents by 6% compared with last year, in which the number of customers has gone up by 5.7%, in which those agents have lent £805 million to customers, up by 9.8% – and have collected £1,086 million on their weekly rounds – up 10.3% on 1997.

These are the figures behind yet another increase in pre-tax profit for UK Home Credit. Pre-interest profits increased by 10.4% to £158.8 million (1997 £143.9 million). Interest payable increased by 43.1% to £21.9 million (1997 £15.3 million), following the capital restructuring. After the additional interest costs, pre-tax profits were up 6.5% to £136.9 million (1997 £128.6 million).

It is a sustained success story because it is based on the replication of Lesley's relationship with Cheryl across the vast majority of our customers and our agents. As I said last year – and it is worth repeating this year – that relationship – the fact that our agents care for their customers – is the core of our business. We know this because the vast majority of our customers come back to us again and again – many of them rely on us for many years.

But it is not only that relationship between customer and agent which is important. Customers like the fact that they can borrow small sums from us – most banks would not even consider a loan of a few hundred pounds. Customers like the fact that the service helps them to plan their spending and to cope with the additional demands on their limited incomes that inevitably arise during the year.

They like the fact that the loans are not secured; that, in most cases, the Provident agent agrees them on the spot; that all the charges are clearly stated in writing, up-front; and that they will only have to repay a fixed amount, which does not increase – even if they are late completing their repayments. Above all, they like the fact that our agents call on them at home. Having to pay a set sum each week helps them with the weekly budgeting and means they can take control of their finances. They know, as we all do, that money not put aside has a nasty habit of vanishing – as Lesley Marsh pointed out.

She was stating a fact of life which all of us recognise. Nobody, having seen her cope with all those children around her, could ever accuse her of being unable to cope or lacking in organisation. She appreciates the benefit to her of having to put the money aside each week for Cheryl.

Several of the customers I talked to also had bank accounts and cheque books and many used mail-order catalogues, but said that they preferred our home credit service. It is as cheap – if not cheaper – than most other forms of credit for small loans.

Our business – and its continuing success – is based firmly on the fact that Provident customers want and like what we have to offer. We know this because we use an independent company to poll our customers regularly. We know that our key customer measures, including satisfaction with our home credit service, consistently achieve scores of 9 out of 10 or better. These surveys and the visits I have described – one in the Bramley and Armley areas of Leeds and the other in London's East Ham and Beckton – showed me that our strategy, which has been in place for some years now, of growing the UK Home Credit business by increasing the number of agents, continues to work well. Nevertheless, whilst ▸

91%

of our Home Credit business is cash loans

THE MONEY JUST GOES WHEN YOU ARE ON A TIGHT BUDGET

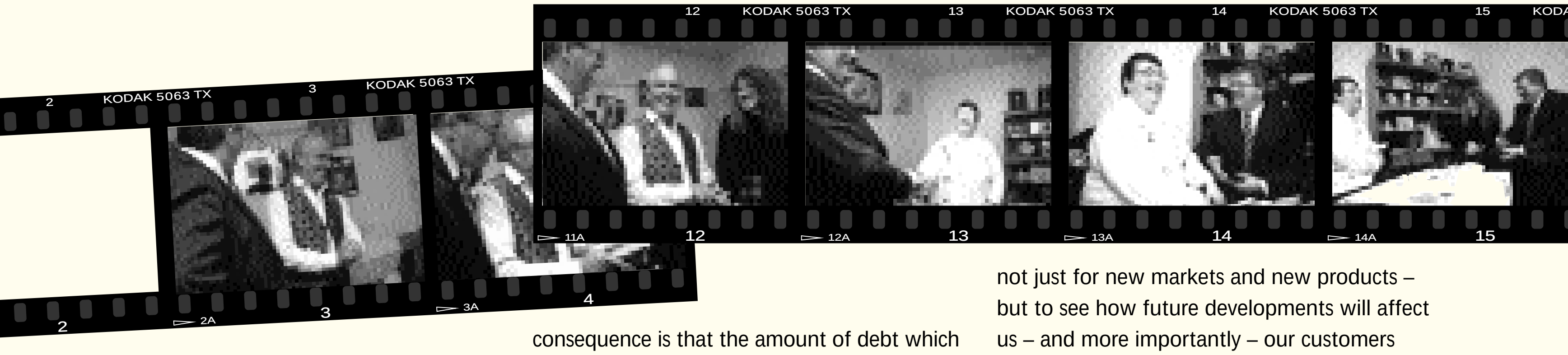
"I would never be able to save for all those things on my own. There is always something you have got to buy or some bill to pay – and the money just goes when you are on a tight budget anyway. But having loans from the Provi means that I get a lump sum – and then I know I have to put so much aside every week for when Cheryl calls."

Lesley Marsh, London
A customer for 7 years

THE HEART OF OUR BUSINESS

"I grew up with the Provident. My mum was a customer before me – and now my son and daughter are too. I've got a bank account; but I find it easier to have the loans like this and anyway it costs about the same. I use the money for big things – like large items of furniture, holidays and to pay for the decorating. I always have the money ready on the table for when Cheryl calls. Then we have a little chat before she goes on her way."

Jean Jobson – a customer for 11 years



▶ our formula of increasing the number of agents to enable us to serve more customers, leads ultimately to further revenue and increased profit, the process of growth has to be carefully managed. Experience has taught us that the relationship between agents and customers – that crucial mixture of business and friendship – takes time to develop and cannot be rushed. This year's results show, again, the benefits of that policy of steady growth. However cautious and prudent we are in growing the business, we inevitably end up with more, less-experienced agents and more, immature customers – people who have only just begun to form those vital relationships. Over the last four years we have increased our agent numbers by 2,400 and our number of customers by 360,000. The inevitable consequence is that the amount of debt which is uncollectable, as a percentage of the amount of credit issued, tends to increase marginally. During the year, the bad debt charge increased – as we said it would at the half-year – from 5.6% in 1997 to 6.9% of credit issued. We believe that we have kept the right balance and managed both to expand the business and to keep the quality of our lending within acceptable limits in the last year.

There are three other reasons why we can be confident about the future. First, our continued prudent management. We constantly look for new efficiencies in our "back-office" systems. This, coupled with our increasing customer base, has meant that our fixed costs have become a smaller proportion of our turnover.

Second, our staff; with the benefit of knowing that our clear strategy has worked over a number of years, there is an ever-growing sense of pride and belief in the Company. Witness the fact that more than half of our employees now participate in our employee save-as-you-earn share option scheme, which is open to all employees, giving them a vested interest in the Company's progress.

And third, there is our constant search for improvements in the services we provide – not just for new markets and new products – but to see how future developments will affect us – and more importantly – our customers and their lives. What about the increased use of mobile phones? The advent of e-commerce? The coming of shopping on television? How will these new trends affect us? How can we adapt to these changes? How can we use them to serve our customers better?

It is worth remembering that a little over ten years ago we had not yet introduced the "handycash" product. We chose to innovate and adapt. Now 91% of the business is done that way and the ability of the agents to

Agent numbers up by 6% to

10,879

Around 80% of them are women

deliver cash loans to customers has been one of the most dramatic factors in the growth of the Company over the last decade.

We constantly ask this sort of question and use the answers to shape and refine our strategy.

Part of the community

The customers I met last autumn were a typical cross-section: young couples setting out on life; young single mothers; childless couples; mothers with kids all around them; couples who had furnished their whole houses with loans; whole families of customers; people who could remember buying their first car with a loan; one lady who could still produce a saucepan she got from us more than 20 years ago; folks who had been with us for nearly half a century.

On Cheryl Smith's round of customers in London, I also met a woman called Eileen Carson, who told me proudly she had been a customer for 41 years; one of her daughters was also a customer, as was her grandson and his girlfriend. The way she talked about her relationship with Cheryl made it sound almost like a membership of a club that was being passed on from generation to generation. If ever there was an illustration of how our customers value what we do, that was it. We talk about the caring relationship between agent and customer, but I could see that there was real friendship between Eileen and Cheryl. We talk about offering value for money; there it was in her long-term satisfaction with what we offer. We talk about being part of the fabric of society; there it was in 41 years of reminiscences of agents she had known in the East End of London.

We have been operating in the less well-off areas of Britain close on 120 years. At a time when fewer and fewer businesses make calls on the council estates and in the poorer areas of our towns and cities, our agents still call once a week at one in every twenty homes in the land. They have a close relationship with their customers. Their call is looked forward to – often the door is left open, or on the latch, for them. We are part of the fabric of society. We are trusted, because it is clear that we care and that we offer value for money. In the 31 years since my first eye-opening tour in Bradford with a home credit agent, I have been on many rounds. Such visits are essential to remind ourselves of the bedrock on which our business is built – the agent/customer relationship – and to pick up the nuances of what is happening on the ground. But in many respects, little has changed. Yes, the clothes are different. The TV in the corner of the living room is now colour. The ubiquitous coal fire has, in many cases, been replaced by gas or central heating. But the people are the same. The same disasters strike them – the local factory shuts down, the car needs new tyres or the electricity bill is twice as high as anticipated. Yet they also have the same desires to do the best for themselves on limited resources; the same eager anticipations about birthdays or other celebrations.

But what we do has a deeper impact on communities. Broadly speaking, our loans fall into three categories – for necessities, such as clothing, the larger domestic bills, furniture and decorating – for those little extras, such as holidays, special occasions like wedding anniversaries and Christmas presents – and for the seed-corn of small businesses, such as ▶

"I've got nine children, so the money was handy when they were young. Now I've kept on the loans – it helps me out now and again – especially now my wife's not feeling so good. As soon as one is paid off, I ask Cheryl for another. I've never been late with a single payment – not even when the old agent died. I went down the office and paid."

Robert Cooley – a customer for more than 15 years

Our UK Home Credit Division accounts for

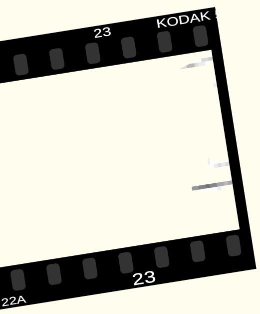
of group profit

I GREW UP KNOWING ALL ABOUT PROVIDENT

"I grew up knowing all about Provident. It was part of our life. Now my girlfriend and I both have loans. I use mine for Christmas and holidays. She has a bank account; but this is much more convenient. All you have to do is ring Cheryl – it's quick, it's reliable and it's always there."

Jason Carson, London, a customer for 6 years, whose grandmother Eileen has been a customer for 41 years.

COMMUNITY RELATIONSHIPS



▶ the set of tools or the van to get around in, even Lesley Marsh's television to keep the children happy.

Of course there are overlaps between each of the categories; nevertheless, whatever the purpose of the loans, each and every one, in some way and to a greater or lesser extent, sustains the local economy. Clothing is bought at a local store, the wedding anniversary is held at a local pub, the set of tools is purchased locally and helps a man make his living and serve his local community. Of course, agents and staff live and work in the communities too.

Nor does our concern end there. "Provident in the Community" – the banner under which we sponsor scores of local community projects up and down the country – continues to thrive. This year our staff and agents have initiated, assisted and participated in 176 local causes – varying from providing books for a primary school in Birmingham, to kit for a cub pack in Perthshire, to TVs for a hospital in Swansea.

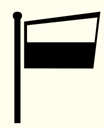
We are a long-established supporter of the arts – particularly in Yorkshire. We have an extensive collection of works by artists with Yorkshire connections. We hold a triennial selling exhibition of the work of Northern artists, for which we take no commission. We are involved in a number of community art projects, including SPARK – the West Yorkshire Playhouse's innovative programme of activities for after-school clubs in inner city Leeds – and with Free Form Arts Trust, who work with communities to improve their local environment using visual arts in exciting ways.

We have close relationships with the National Society for the Prevention of Cruelty to Children (NSPCC) and with the equivalent organisation in Scotland, Children 1ST. So far we have raised over £90,000 for the two charities to help with their vital work in the protection and treatment of neglected and abused children. If ever proof were needed that Provident is conscious of its roots deep in the communities in which it operates – then the development of these relationships provides it. Not all children have loving home backgrounds. Not all children, whose parents work, have women of the calibre of Lesley Marsh to look after them. We believe that our service to the community does not end with the lending and collecting of money – we have a wider role and responsibility, which we can best express by helping those whose misfortunes are so often not of their own making.

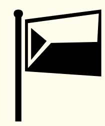
"My first voucher was for bedding. But I liked it when they changed over to cash – you can use it for more things – holidays and the like. Now I keep a number of loans on the go all the time. I've never missed completely – Christine always asks me to pay something. I really look forward to her coming. We have a good talk and put the world to rights. When I am really down she always comes and listens."

Ros Pegley – a customer for more than 20 years

Eight home credit offices in Central Europe



Poland



Czech Republic

International Home Credit

We know that there is still plenty of room for growth in the UK. All our independent surveys indicate substantial "reserves" of customer demand for home credit. But we cannot stand still. We believe that it is in our shareholders' interests for us to push out into other markets across the world, where the capacity for growth is, as yet, largely untapped. What we are pleased to announce this year is that we now believe we can build successful home credit businesses in Central Europe too. Our trials in Poland and the Czech Republic have been successful and we have embarked on the process of growing meaningful businesses in each country. By February 1999 we had 12,900 customers and 316 agents in Poland. In the Czech Republic, where we started our operation about six months later, we had 7,200 customers and 224 agents. We have already opened four offices in Poland and four in the Czech Republic. We anticipate that, in a few years' time, in each country, we will have a significant number of customers and successful, profitable businesses – mirroring the same agent/customer relationships and the same customer satisfaction ratings we achieve in the UK. Agents' pay is based on how much they collect, not how much they lend, just as in the UK.

The trials in Central Europe showed that very little modification of the model we use in the UK was needed. In South Africa, however, where we have 3,000 customers and 58 agents, we have found several differences which have led us to test alternatives to our standard model. The amounts of money are much smaller and the purpose for which they are requested is much more in the area commonly described as "micro-lending", providing more of a direct stimulus to the local economy – where the money is, for example, used to sustain small, mostly one-woman, businesses.

I have visited all three new developments in the last year. Whilst there are obviously differences of language, culture and race, it is fascinating to note the things that are the same. Polish women open the door to other Polish women, just as women do in 1.5 million homes in the UK and Republic of Ireland each week – and so the agent/customer relationship builds up. When you go into one of the offices in Warsaw, you could be going into a Provident or Greenwoods office anywhere in the UK. The atmosphere is exactly the same. And if you were a manager from the UK sitting in on an agent selection meeting in Prague, you might not understand a word that was being said, but you would be able to pick out straight away which were the likely candidates.

It is for these human reasons, as much as for what our research and our operations to date tell us, that we are confident that, in time, our International Home Credit Division will contribute in a major way to our earnings. We invested £4.7 million in start-up losses in 1998 (1997 £1.4 million) and the success of the Central European operations has given us the confidence to double this investment in 1999, in order to develop a significant profitable business for the future. We are now, more than ever, convinced that it is a wise and prudent investment for the future of the Company. Although 1999 will be the peak for investment in Central Europe, we will be investing for another two years and on the basis of our current plan, we expect to move into profit in 2002.


MAGIC
Bloggs

One in every

20

households in Britain

I USE THE MONEY TO KEEP MY HEAD ABOVE WATER

"I use the money to keep my head above water – and of course for the kids at Christmas. It is a lifeline for me. Christine understands my problems and what I need. She's a real help to me."

Debbie Webster, Leeds
A customer for 4 years

INSURANCE:
A WINNING STRATEGY

To watch and listen to Rhukhsana "Roxy" Rafiq at work is to witness pure theatre – with the big "selling" floor at Colonnade Direct as her stage.

When she enters, everyone knows she is there. She picks a desk for the day – one which looks "lucky" to her – and sets to work taking calls, on rotation, from members of the public looking for car insurance. From then on, the day is punctuated by her own running commentary on her telephone encounters with the world at large – her failures, and, more often, her shouts of success as she sells yet another policy.

Just as I wish you could have been with me when I met Cheryl Smith and Lesley Marsh, I also wish you could have been with me, one crisp winter's morning earlier this year, when I went to see and listen to Roxy at work. Roxy is one of Colonnade Direct's most successful salespeople – twice having sold more than 300 policies in a month, when half that number is considered to be a respectable sum for a good salesperson. It is a remarkable performance.

Not only does she have the knack of putting people at their ease within seconds of the conversation starting – common to all good salespeople – but she has two other great skills which make her the phenomenon she is. She is honest – if she cannot beat a rival's price, she will say so immediately; but, if it is close, she will explain fully all the attributes of the policy she is offering, which is sometimes enough to persuade the customer to go with her.

And she is genuinely interested in her potential customers. Although she may not spend more than five minutes with any one of them, that person puts the phone down knowing that he, or she, has met someone who likes them and makes them laugh, yet also understands them and is on their side in trying to get them the best deal available. A significant percentage of Roxy's sales are to people who, having thought about it, ring back and take her offer – because of the high standard of service they have received.

I focus this section of the report on Roxy Rafiq because caring for the customer, which is such an integral component of her success, is something which runs right through Provident Financial. The Insurance Division is no exception. Wherever I went that morning, I met people of great skill, ability and dedication – all working to bring the best and most efficient service to customers.

It is this – almost as much as our strategy itself – which is at the heart of our success in the insurance field. Our underwriter, Provident Insurance, has taken action to raise premiums for four years, often against the industry trend,

Chief Executive Howard Bell visits Provident Insurance in Halifax, Colonnade Insurance Brokers' branches and Colonnade Direct at Hebble Brook, Halifax.

Provident Insurance policyholders up 8% to

516,000

rather than seeking market share at any price. This has benefited profitability but reduced the number of policyholders. One of the principal reasons why our customer base did not dip lower during this period was because of our high levels of friendliness and service.

Now that most of the major insurers have started to put up their premiums – as indeed we had consistently chosen to do in order to maintain an adequate return for our risk – the number of motor policies we underwrite is increasing – up this year to 516,000 from 477,000 in 1997.

The benefit of our underwriting strategy is also reflected in our figures, which show the Division's profits are up again this year from £13.7 million to £19.6 million. These figures have been helped by the interest earnings from the investment fund. Most of our business is third-party insurance which results in a high proportion of injury claims. Because of their complexity, these take longer to negotiate than vehicle damage claims and, therefore, we can invest premiums for longer and, consequently, earn more interest.

Nevertheless, there is more than financial prudence to the continued success of the Insurance Division. There is, as we have seen, also a human dimension to it in terms of the levels of care the customers feel they are getting throughout the organisation.

So when I talk about the three-year project to upgrade Provident Insurance's claims computer systems, we must not forget the skills of the team which handles those claims. That major IT project will give us greater control over claims which, in turn, will mean greater efficiencies and lower costs. In the long run the customer too will benefit – and that can only be to our advantage.

When I talk about Colonnade Insurance Brokers' branches again increasing customer count – aided considerably by the acquisition of a brokerage in East Yorkshire, which added 25,000 customers, many of whom we anticipate retaining in the next year – that is not to forget the contribution to customer service and satisfaction, and in the long run to profits, made by the teams in these branches.

And when I talk about Colonnade Direct, our telephone sales operation, continuing to grow steadily and our policy of offering a variety of different products, many of them aimed at women, also paying off – that is not to forget Roxy Rafiq and all her colleagues in the call centre which is the hub of that operation.

We do indeed have a lot to be proud of in each Division of our group. We are a good company. We are well-managed. We are very efficient. We make good profits year after year. And we are forward-looking. Yet we manage all this whilst still caring about our customers. Still nurturing that vital relationship with the agents. Still offering value for money. As long as we have customers like Lesley Marsh and Eileen Carson and agents like Cheryl Smith and Christine Finnigan – and as long as we have the Roxy Rafiqs of this world in our Insurance Division – we will continue to thrive.

Howard Bell

Howard Bell
Chief Executive
8 March 1999

Telebroking customers up 27% to

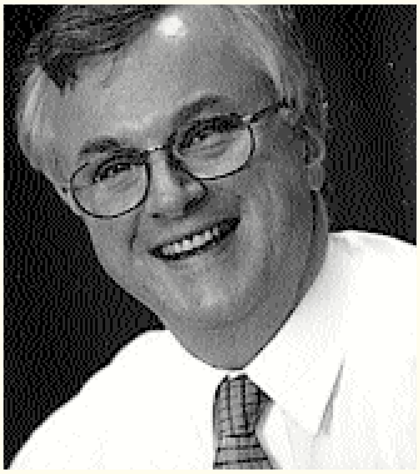
143,000

SUCCESSFUL PEOPLE

Roxy is one of Colonnade Direct’s most successful salespeople – twice having sold more than 300 policies in a month, when half that number is considered to be a respectable sum for a good salesperson.

Howard Bell and Rhukhsana “Roxy” Rafiq, Colonnade Direct

STRONG FINANCES, CONSERVATIVE POLICIES



Robin Ashton, Finance Director

Profits

Group pre-tax profits grew to £145.9 million (1997 £136.5 million) after increased international investment and £9.1 million (1997 £2.0 million) of additional interest costs relating to the £127 million of capital returned to shareholders since May 1997. Before those additional interest costs, pre-tax profits were up by 11.9%. UK Home Credit was the major contributor with pre-interest profits increased by 10.4% to £158.8 million (1997 £143.9 million). After those additional interest costs, UK Home Credit pre-tax profits were up by 6.5% to £136.9 million (1997 £128.6 million). The International Home Credit operations incurred start-up losses of £4.7 million (1997 £1.4 million) as planned. In the Insurance Division, both volumes and premiums increased at the same time – which is unusual in the industry – enabling the Division to record a 43.1% increase in profits to £19.6 million (1997 £13.7 million). Central costs were again tightly controlled, but rose to £5.9 million mainly as a result of costs associated with the capital restructuring (1997 £4.4 million).

Earnings, tax and dividends

Earnings per share increased by 15.4% to 40.12p, assisted both by a reduction in the effective tax rate to 28.2% (1997 31.5%) and the reduction in the number of shares in issue as a consequence of the capital restructuring. The reduction in the effective tax rate is due to the favourable agreement of prior year tax liabilities. The full year dividend per share has been increased by 15.4% to 22.5p, with a dividend cover of 1.8 times, in line with the Board's policy of having dividends covered approximately 1¾ times by earnings.

Capital structure

During the last two years the Company has restructured its balance sheet. In total, £127 million has been returned to shareholders, increasing borrowings and reducing shareholders' equity. Initially, this was undertaken by a share buy-back of 5.8 million shares for £33.5 million in May 1997. The capital restructuring was then completed by a distribution, by way of dividend, of £93.5 million in May 1998, accompanied by a share capital consolidation which reduced the number of shares in issue by 9.5 million. This method of completing the capital restructuring enabled the Company to restore an appropriate balance between borrowings and shareholders' equity in its capital structure whilst treating all shareholders equally.
At 31 December 1998, £182 million of the group's shareholders' equity of £247 million supported the home credit businesses – resulting in 34% of its receivables being financed by shareholders' equity and the remainder by borrowings and other creditors.

Gearing ratio

The capital restructuring has put in place a more efficient capital structure and the group's gearing ratio (borrowings divided by group net assets) increased in 1998 from 0.7 times to 1.3 times. However, as outlined below, the group's borrowings relate to the home credit businesses and the gearing ratio of this part of the group (borrowings divided by the home credit businesses' net assets) at 31 December 1998 was 1.7 times (1997 0.9 times).

Gearing

Net assets	1998 £m	1997 £m
Home Credit	**182**	222
Insurance	**65**	69
Group	**247**	291
Borrowings	**317**	207
Gearing		
Group	**1.3**	0.7
Home Credit	**1.7**	0.9

Cashflows

The cashflows arising from our home credit and insurance businesses are substantially different. In home credit, advances are made to customers which are collected in future periods and which, therefore, require funding. In the Insurance Division, premiums are received in advance and are held on deposit until claims are paid at a later date. The cash and investments held by the 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, considered separately.

Borrowings

Purpose The group borrows principally to fund the loans advanced to customers by the home credit businesses. To ensure that there are sufficient funds available, we arrange committed borrowing facilities comfortably exceeding our peak funding requirements and for periods well in excess of the life of the loans.

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 26 banks based in the UK, the Republic of Ireland and Poland.

Scale Group borrowings increased by £110 million in 1998 to £317 million due to the capital restructuring and international investment. The change in borrowings over the last three years is summarised below:

	1996 £m	1997 £m	**1998 £m**
Trading cashflow after tax	71	83	**93**
Receivables growth	(40)	(53)	**(53)**
Insurance Division dividends received	7	–	**12**
Ordinary dividends paid	(38)	(47)	**(54)**
Capital restructuring*	–	(41)	**(108)**
Increase in borrowings	–	(58)	**(110)**

*including ACT

Interest payable and interest cover Interest costs of £20.1 million were £7.9 million higher than in 1997, reflecting the increase in average borrowings. Interest payable is covered eight times by profit before interest payable (1997 12 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 £70.4 million at 31 December 1998.

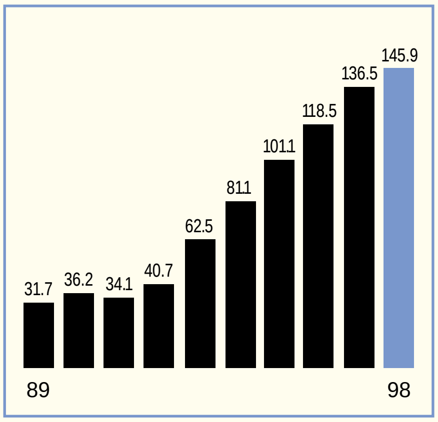
Covenants The group has continued to comply with all its borrowing covenants, none of which represents a restriction on our plans.

Investments

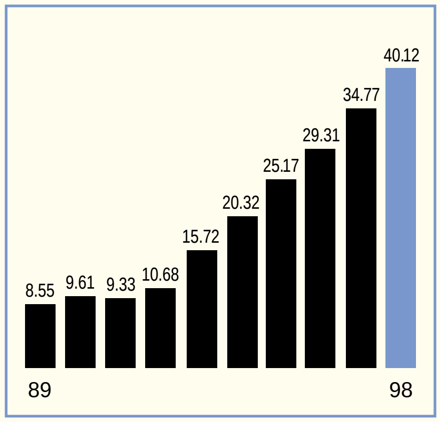
Our insurance businesses receive premiums in advance and hold them until claims are paid. The regulators of the insurance businesses require these funds to be retained within the relevant company; they cannot be used to finance other parts of the group or to repay group borrowings. These funds are invested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

The entire Insurance Division's investment portfolio consists both of deposits with, or investments in, interest-bearing instruments issued by banks and building societies for periods of 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. ▶

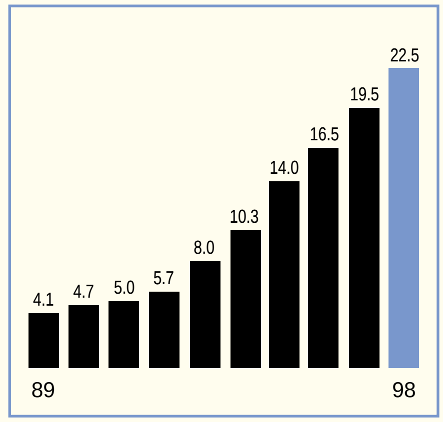
Profit before tax (£m)



Earnings per share (p)



Dividend per share (p)



Profit before tax up by **6.9%**

Earnings per share up by **15.4%**

Dividend per share up by **15.4%**

▶ Total interest earning deposits and investments held by the Insurance Division amounted to £290 million at 31 December 1998 (£296 million at 31 December 1997). The Division's total investment income fell slightly from £22.3 million to £21.9 million, reflecting the marginally lower average level of the investment fund.

Interest rate hedging

So as to limit potential increases in our borrowing costs, we reduce the home credit businesses' exposure to interest rate rises by hedging a substantial proportion of our floating rate debt. Interest rate caps at rates of between 7.8% and 8.4% cover up to £160 million of borrowings for periods through to the end of 2001 and a further £110 million of borrowings have interest rates fixed in the range of 7.3% to 7.8%, mainly by interest rate swaps, for periods through to the middle of 1999. In January 1999, interest rate swaps covering borrowings of up to £170 million commenced which run until the end of 2000 at rates of between 5.7% and 7.2%.

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 1998, £104 million of investments were at fixed rates and a further £165 million of investments have interest rates fixed in the range of 6.3% to 8.1% by interest rate swaps for periods through to 2002.

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 vice versa, and by the use of derivative instruments such as interest rate swaps and caps.

Details of the group's interest rate exposure at 31 December 1998 are set out on pages 56 and 57 in note 13 of the notes to the accounts.

Exchange rates

Our international operations have both their revenues and costs in the currency of the country in which they operate. As a result, foreign exchange transaction exposure is limited.

Changes in the rates of exchange between sterling and other currencies may result in translation differences in respect of:

– the amounts at which the results of our international subsidiaries and branches are included in the consolidated profit and loss account. Such amounts are translated at average rates of exchange for the year; and

– the values at which the net assets of those international operations are included in the consolidated balance sheet. Such amounts are translated at year-end exchange rates.

This latter translation exposure is minimal because local currency funding is arranged to match, reasonably closely, the amounts of local currency assets.

Borrowings include a bank loan denominated in US$ of which US$30 million was outstanding at 31 December 1998. The exchange rate risk inherent in this loan has been removed by entering into a cross-currency swap which fully hedges the transaction.

Details of the group's exchange rate exposure at 31 December 1998 are set out on page 58 in note 13 of the notes to the accounts.

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 risks. Once a year, 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.

Going concern

The directors have reviewed the group's budgets, plans and cashflow forecasts for the year to 31 December 1999, 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 1998. 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
8 March 1999

DIRECTORS AND ADVISERS

Board committees

Audit Committee
Charles H Gregson (Chairman), Peter A Davis, Angela C M Heylin, James C Hodkinson.

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), Howard J Bell, Peter A Davis, Charles H Gregson, Angela C M Heylin, James C Hodkinson.

Remuneration Committee
Peter A Davis (Chairman), Charles H Gregson, Angela C M Heylin, James C Hodkinson.

Advisers

Auditors
PricewaterhouseCoopers

Merchant bankers
Deutsche Bank AG London

Solicitors
Slaughter and May

Stockbrokers
Kleinwort Benson Securities Limited
Hoare Govett Limited

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

General information

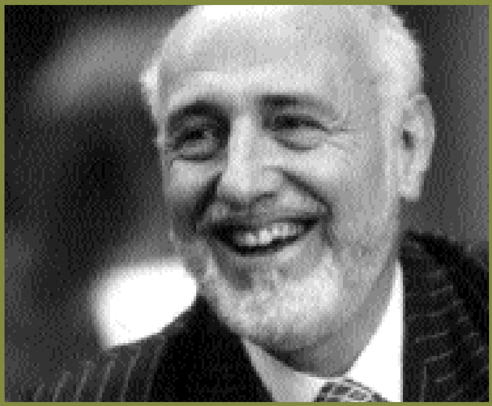
Name and registered office
Provident Financial plc
Colonnade
Sunbridge Road
Bradford
West Yorkshire
BD1 2LQ
Tel: 01274 731111
Fax: 01274 727300
Website: www.providentfinancial.co.uk

Company number
668987

Secretary
Peter W Bretherton

John P de Blocq van Kuffeler MA FCA
Chairman, Age 50

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 and the Finsbury Smaller Companies Trust PLC. He is also on the Council of the CBI.



Peter W Bretherton LLM
Director of Corporate Affairs
and Company Secretary, Age 53

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 operations as well as the communications and secretarial functions.

Howard J Bell MBA
Chief Executive, Age 54

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 Chairman of Bradford and District Training and Enterprise Council Limited, Chairman of the charity, Meningitis Research Foundation, and a member of the Council of the University of Bradford.

Robin J Ashton BA ACA
Finance Director, Age 41

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 R Fryer MBA
Operations Director, Age 56

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.

Peter A Davis MA FCA
Non-executive director, Age 57

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

Charles H Gregson BA
Deputy Chairman and
senior non-executive director, Age 51

Joined the Board of Provident Financial in 1995 as a non-executive director and was appointed Deputy Chairman in April 1997. He is a director of United News & Media plc and Executive Chairman of Garban PLC.

Angela C M Heylin OBE FCIM FIPR
Non-executive director, Age 55

Joined the Board of Provident Financial in April 1997. She is UK President of Charles Barker BSMG Worldwide 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).

James C Hodkinson
Non-executive director, Age 54

Joined the Board of Provident Financial in July 1998. He is Chief Executive of New Look Group plc and is also a non-executive director of Hamleys plc.

DIRECTORS' REPORT

The directors submit their report for the financial year ended 31 December 1998

1 Review of the business

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

1.2 Provident Financial plc ("the Company") is a holding company. The main trading subsidiary companies in the UK Home Credit Division are Provident Personal Credit and Greenwood Personal Credit; in the Insurance Division are Provident Insurance plc, Colonnade Insurance Brokers Limited and Colonnade Reinsurance Limited; and in the International Home Credit Division are Provident Polska S.A. and Provident Financial s.r.o. Further details are contained on page 53 in note 9 of the notes to the accounts.

2 Dividends

An interim dividend of 8.9p per ordinary share was paid on 21 October 1998. The Board recommends a final dividend of 13.6p per ordinary share to be paid on 7 May 1999 to shareholders on the register at the close of business on 6 April 1999. This makes a total dividend for the year of 22.5p per ordinary share which will absorb £58,221,000. In addition, a dividend distribution of 35p per share was paid on 5 May 1998 in conjunction with the share capital consolidation.

3 Share capital

3.1 Share capital consolidation

On 27 April 1998, the issued ordinary share capital of the Company was consolidated to reflect the aggregate value of the dividend distribution of 35p per share. The share capital consolidation was implemented in two stages so as to minimise the number of fractional entitlements arising. Each ordinary share of 10p was sub-divided into 55 intermediate shares of $\frac{2}{11}$p. This was immediately followed by a consolidation of every 57 intermediate shares into one new ordinary share of $10\frac{4}{11}$p. The result was that 271,718,829 shares of 10p were consolidated into 262,184,835 shares of $10\frac{4}{11}$p.

3.2 Summary of allotments

On 1 January 1998, the issued ordinary share capital was 271,653,776 shares of 10p each. In the period from 1 January 1998 to 27 April 1998, 65,000 ordinary shares were allotted pursuant to the Company's executive share option schemes. On 24 April 1998, 53 ordinary shares were allotted to Rood Nominees Limited, a nominee for Kleinwort Benson Securities Limited, for a consideration of 1002.5p per share as part of the share capital consolidation arrangements; the purpose was to avoid fractions arising at the first stage of the share consolidation. The middle market quotation of the Company's ordinary shares on 23 April 1998 was 1002.5p. In the period from 27 April to 31 December 1998, 68,577 shares were allotted pursuant to the Company's executive share option schemes and 483,389 shares were allotted to Provident Financial Trustees Limited. As at 31 December 1998, the issued ordinary share capital of the Company was 262,736,801 shares of $10\frac{4}{11}$p each.

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 1998, directors, employees and former employees held options under the employee scheme to acquire 353,992 ordinary shares at a price of 81.6p, exercisable from 1 August 1999 to 31 January 2000. Options on 262,721 ordinary shares were exercised during the year. Since the year end no options have been exercised.

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

Options were granted over 483,389 ordinary shares on 8 September 1998. At 31 December 1998, directors, employees and former employees held options under the 1993 employee scheme to acquire 3,549,739 ordinary shares at prices ranging from 140p to 744p, exercisable at various dates up to and including 2006. Options on 539,071 ordinary shares were exercised during the year and options on a further 8,180 shares have been exercised since the year end. No options have been granted since the year end.

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 1998, directors, employees and former employees held options under the 1985 executive scheme to acquire 302,000 ordinary shares at prices of 256.5p and 276.5p, exercisable at various dates up to and including 2005. Options on 98,000 ordinary shares were exercised during the year. Since the year end no options have been exercised.

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

Options were granted over 15,225 ordinary shares on 6 August 1998 at a price of 985p, exercisable normally between 2001 and 2008, subject to performance targets being achieved. This was the position at 31 December 1998. No options were exercised during the year or since the year end. Since the year end options have been granted over 138,127 ordinary shares on 3 March 1999 at a price of 979.3p, exercisable normally between 2002 and 2009, subject to performance targets being achieved.

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

Options were granted over 205,335 ordinary shares on 6 August 1998 at a price of 985p, exercisable normally between 2001 and 2008, subject to performance targets being achieved. At 31 December 1998, directors, employees and former employees held options under the 1996 executive scheme to acquire 1,306,322 ordinary shares at prices ranging from 450p to 985p, exercisable at various dates up to and including 2008. Options on 35,577 ordinary shares were exercised during the year. Since the year end no options have been exercised. Since the year end options have been granted over 346,340 ordinary shares on 3 March 1999 at a price of 979.3p, exercisable normally between 2002 and 2009, subject to performance targets being achieved.

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

The QUEST, a discretionary trust for the benefit of group directors and employees, was established on 18 December 1997 to operate in conjunction with the employee scheme and the 1993 employee scheme. The trustee, Provident Financial Trustees Limited, is a subsidiary company of the Company. As at 1 January 1998, the trustee held 4,491,413 ordinary shares of 10p in the Company. During 1998, 807,456 ordinary shares were transferred to directors and employees on the exercise of options pursuant to those employee schemes. 483,389 ordinary shares were allotted to the QUEST on 9 December 1998 and on 31 December 1998 the trustee held 4,012,289 ordinary shares of 10 4/11p in the Company. Further details are set out on page 54 in note 10 of the notes to the accounts.

3.4 Authority to purchase ordinary shares

3.4.1 At an Extraordinary General Meeting of the Company held on 23 April 1998, the shareholders authorised the Company to purchase up to 26 million of its ordinary shares. This authority expires on 22 April 1999. No shares have been purchased during 1998 or since the year end.

3.4.2 A further authority for the Company to purchase its ordinary shares will be sought from shareholders at the forthcoming Annual General Meeting (the "AGM") to be held on 29 April 1999.

3.5 Substantial shareholdings

The Company has received notifications from Legal & General Investment Management Limited and The 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 1 March 1999, these and the following investment managers (through separately managed funds) had interests in the aggregate amounting to over 3%:

Schroder Investment Management Limited	5.39%
Robert Fleming & Co Limited	5.23%
M&G Investment Management Limited	4.00%
Gartmore Investment Management Limited	3.90%
Legal & General Investment Management Limited	3.78%
The Standard Life Assurance Company	3.49%
Scottish Widows Fund and Life Assurance Society	3.43%
Morgan Grenfell Asset Management Limited	3.27%
Axa Sun Life Investment Management Services Limited	3.13%
Co-operative Insurance Society Limited	3.02%

The Company had not received notification of any interest of 10% or more in the ordinary share capital of the Company at 31 December 1998 or at the date of this report.

4 Directors

4.1 The directors of the Company are shown on pages 26 and 27 of this report. Mr A G Thomas was a director from the start of the year until 23 April 1998. Mr J C Hodkinson was appointed as a director on 29 July 1998.

4.2 In accordance with the Articles of Association, Mr R J Ashton, Mr H J Bell and Mr J P van Kuffeler retire by rotation and, being eligible, offer themselves for re-election at the AGM.

4.3 Mr Hodkinson was appointed as a director after the 1998 Annual General Meeting. Mr Hodkinson offers himself for election at the AGM.

4.4 The directors' interests in shares of the Company are disclosed on page 35.

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

4.6 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 Year 2000

5.1 All critical changes have been made to ensure the efficient and effective transition of the Company's systems through the millennium date change. Work continues on the outstanding minor issues. This work is co-ordinated by a steering group chaired by Mr P R Fryer.

5.2 The Company has also requested specific assurances of Year 2000 compliance, and where appropriate sought evidence of this, from external suppliers.

5.3 The planning and managing of the project has been monitored and reviewed by the Company's internal auditors, KPMG.

5.4 Given the complexity of the problem, it is impossible to guarantee that no Year 2000 problems will be encountered, especially through external parties. However, comprehensive continuity and contingency plans are being developed to safeguard the Company's position.

5.5 The estimated total cost to the group, which principally comprises internal development costs, is £2.2 million, of which £1.4 million had been incurred at 31 December 1998.

6 European Monetary Union (EMU)

6.1 Working parties have been established within the group. They have considered the implications of the introduction of the euro and an impact study has been prepared for the group. From this detailed plans can be prepared which would be implemented prior to UK entry. Responsibility for EMU preparation rests with a steering group chaired by Mr R J Ashton.

6.2 The costs associated with the introduction of the euro in the Republic of Ireland are not significant. It is too early to forecast accurately the potential costs of the euro's introduction in the UK.

7 Corporate governance

Full details of the Company's approach to corporate governance, the remuneration report and the directors' statement of compliance with the Combined Code are set out on pages 32 to 40 of this report.

8 Employee involvement

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

8.2 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. 2093 employees are currently saving to buy shares in the Company under those schemes.

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

8.4 The group operates a number of pension schemes. Involvement in the two major group pension schemes, which together cover most of the group employees, is achieved by the appointment of member trustees of each scheme and by regular newsletters and communications from the trustees to members.

8.5 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.

9 Community involvement and donations

9.1 The group's community involvement is referred to in the Chief Executive's review on page 11 and in the document "Community Friendships".

9.2 During the year, the Company made donations for charitable purposes of £159,200. The group invested a further £293,600 in support of community programmes. No political donations were made.

10 The environment

10.1 The Company's policy is to protect and improve the quality of life through sound environmental practice. All aspects of the group's business and related activities are conducted in such a way as to avoid, so far as possible, any environmentally harmful activities or processes.

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

11 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 their subsequent training and career development.

12 Supplier policy statement

12.1 The Company agrees terms and conditions for its business transactions with suppliers and payment is made in accordance with these, subject to the terms and conditions being met by the supplier.

12.2 The Company acts as a holding company and had no trade creditors at 31 December 1998. The average number of days' credit taken by the group during the year was 26 days. (1997 28 days).

13 Auditors

Following the merger between Coopers & Lybrand and Price Waterhouse, Coopers & Lybrand resigned as the Company's auditors on 29 July 1998 and the Board appointed PricewaterhouseCoopers as auditors of the Company. They have expressed their willingness to continue in office and a resolution for their reappointment (and authorising the directors to fix their remuneration) will be proposed at the AGM.

14 Annual General Meeting

The 39th AGM of the Company will be held at 12 noon on Thursday 29 April 1999 at the Cedar Court Hotel, Mayo Avenue, off Rooley Lane, Bradford, West Yorkshire BD5 8HZ. The Notice of Meeting, together with an explanation of the items of business, is contained in the Chairman's letter to shareholders to be dated 26 March 1999.

By order of the Board
P W Bretherton LLM
Secretary
8 March 1999

GROUP SENIOR MANAGEMENT

UK Home Credit Division
John R Thornton BSc MBA
Fred W Forfar MBA

International Home Credit Division
David R Swann BA MBA

Insurance Division
Chris C Johnstone ACA ATII MBA
Nick M Illingworth BSc ACA MBA

Group functions
Richard S Heels BCom FCA
John Lomas BA MA FIPM
David M Rees LLB

Narrative statement on corporate governance

1 Introduction

1.1 Following the report of the Hampel Committee on Corporate Governance, the London Stock Exchange issued the Combined Code, being the principles of good governance and code of best practice prepared by the Committee on Corporate Governance, chaired by Sir Ronald Hampel, published in June 1998 and appended to, but not forming part of, the Listing Rules.

1.2 The Company has previously complied with the requirements of the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance.

1.3 This statement explains how the Company has applied the principles set out in Section 1 of the Combined Code.

2 Directors

2.1 The Board leads and controls the Company. It currently comprises an Executive Chairman, four executive directors and four non-executive directors. It is thus well-balanced with non-executives comprising nearly half of the Board. Each of the non-executive directors is independent for the purposes of the Combined Code (namely, independent of management and free from any business or other relationship which could materially interfere with the exercise of his or her independent judgement).

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

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

2.4 Under the Company's Articles of Association, one third of the directors are obliged to retire by rotation. Thus, in practice each director will submit himself or herself for re-election every three years. A director who is initially appointed by the Board is subject to election at the annual general meeting following his or her appointment. In 1998 biographical details of the directors submitted for election and re-election at the annual general meeting were supplied to shareholders in the relevant circular, dated 25 March 1998.

2.5 Non-executive directors are appointed for fixed periods of three years, subject to election by shareholders. Their three years may be extended for a further three-year period, subject to re-election by shareholders.

2.6 Training for directors is reviewed annually. Where a new director is appointed, full consideration is given to training needs and an individual programme is arranged, as appropriate.

2.7 The roles of the Chairman and Chief Executive are separated. The non-executive Deputy Chairman is the senior member other than the Chairman to whom concerns can be conveyed. The executive directors are responsible for the day-to-day running of the group but the Board has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets, financial results, new Board appointments, proposals for dividend payments and the approval of all major transactions. This schedule is reviewed on an annual basis and was last amended on 9 December 1998.

3 Board committees

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

3.1.1 Audit Committee

From 1 January 1998 this committee consisted of Mr P A Davis, Miss A C M Heylin and Mr A G Thomas under the chairmanship of Mr C H Gregson. Mr A G Thomas ceased to be a member on 23 April when he resigned his directorship. Thus from 24 April to 8 December 1998 the committee consisted of Mr Davis and Miss Heylin under the chairmanship of Mr Gregson. On 9 December 1998 Mr J C Hodkinson became a member of this committee. It meets three times a year and forms an important part of the group's control framework. It keeps under review the adequacy of internal financial controls, accounting policies and financial reporting. It also keeps under review non-audit services provided to the Company by its auditors, seeking to balance the maintenance of objectivity and value for money. Meetings are attended by both the internal and external auditors as required and by the Finance Director. At least once a year the members of the committee meet with the external auditors without an executive director being present. The internal audit function reports to the Audit Committee. This guarantees the function's independence and ensures that appropriate action is taken in response to audit findings.

3.1.2 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.

3.1.3 Nomination Committee
From 1 January to 8 December 1998 this consisted of Mr Davis and Mr Gregson under the chairmanship of Mr van Kuffeler. On 9 December 1998 Mr H J Bell, Miss Heylin and Mr Hodkinson became members of this committee. Its remit is to assist the Board in the process of the selection and appointment of any new director as and when required.

3.1.4 Remuneration Committee
From 1 January 1998 this committee consisted of Mr Gregson, Miss Heylin and Mr Thomas under the chairmanship of Mr Davis. Mr Thomas ceased to be a member on 23 April 1998 when he resigned his directorship. Thus from 24 April to 8 December 1998 the committee consisted of Mr Gregson and Miss Heylin under the chairmanship of Mr Davis. On 9 December 1998 Mr Hodkinson became a member of this committee. It considers the framework of executive remuneration and makes recommendations to the Board; it also considers the specific remuneration packages and conditions of service of the executive directors, including their service agreements. It meets at least three times a year.

4 Remuneration report
4.1 Introduction
For many years the Company has followed accepted best practice in matters concerning executive directors' service agreements and remuneration. The Remuneration Committee ("the Committee") consists of the non-executive directors and full details of the membership of the Committee are set out in paragraph 3.1.4 above.

4.2 Remuneration policy
4.2.1 The remuneration policy applied by the Committee is based on the need to attract, reward, motivate and retain executive directors in a manner consistent with the long-term accumulation of value for shareholders. The Committee is also conscious of the need to avoid paying more than is reasonable for this purpose.

4.2.2 The Committee has considered the best practice provisions in Schedule A of the Combined Code. It determines executive packages for each of the executive directors. No director is involved in deciding his own remuneration.

4.2.3 The Committee consults with the Chairman about the proposals for the Chief Executive's salary and with the Chief Executive about the proposals for the other executive directors. The Committee has access to professional advice from both inside and outside the Company.

4.3 Directors' remuneration
4.3.1 The executive directors' remuneration consists of an annual salary, an annual cash bonus and other benefits. In addition, the directors participate in the share option schemes and pension schemes.

4.3.2 Salaries for executive directors are reviewed annually and changes are effective from 1 January. For 1999 there was a review of salaries taking into account the group's strong business performance, salary and bonus trends in the UK, internal relativities, the Committee's decision, following research, to rebalance the proportion of total remuneration paid as salary and as bonus and each individual director's performance. Comparisons were made with appropriate companies of similar size and with broadly comparable activities but without giving undue weight to these. The executive directors' salary increases averaged 15% and these were implemented from 1 January 1999.

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

4.3.3 (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 1999 no bonus will be payable if growth in earnings per share is less than 6%. Up to 20% of salary will be payable if growth in earnings per share is 6% and the percentage rises to a maximum of 100% of salary for 24% growth in earnings per share, provided that each director's agreed personal objectives have also been achieved.

4.3.3 (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.

4.3.3 (c) Bonuses do not form part of pensionable earnings.

4.3.4 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. Benefits in kind are not pensionable.

4.3.5 Full details of salaries, bonus earnings and other benefits for 1998 (with 1997 comparative figures) are set out in the table of directors' remuneration in paragraph 4.3.7 below.

4.3.6 The fees for the non-executive directors are fixed by the Board. Their business expenses are reimbursed. Full details of their fees for 1998 (with 1997 comparative figures) are set out in the table of directors' remuneration in paragraph 4.3.7 below.

4.3.7 Directors' remuneration

The aggregate directors' emoluments during the year amounted to £1,817,000 (1997 £1,708,000) analysed as follows:

	Salary £'000	Bonus £'000	Benefits £'000	Fees £'000	1998 Total £'000	1997 Total £'000
Executive Chairman						
J P van Kuffeler	285	173	17	–	**475**	435
Executive directors						
H J Bell	235	139	22	–	**396**	365
R J Ashton	161	97	19	–	**277**	256
P W Bretherton	163	99	34	–	**296**	268
P R Fryer	155	92	24	–	**271**	254
	714	427	99	–	**1,240**	1,143
Non-executive directors						
P A Davis	–	–	4	25	**29**	28
C H Gregson	–	–	–	25	**25**	25
A C M Heylin	–	–	4	25	**29**	17
J C Hodkinson*	–	–	–	11	**11**	–
A G Thomas**	–	–	–	8	**8**	17
W G A Warde-Norbury	–	–	–	–	**–**	43
	–	–	8	94	**102**	130
Total	999	600	124	94	**1,817**	1,708

* Remuneration in 1998 from date of appointment as a director.

** Remuneration from 1 January 1998 to date of retirement as a director. The fees were paid to a third party in respect of Mr Thomas' services.

4.4 Directors' interests in shares

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

	Beneficial holdings Number of shares	
	31 December 1998	1 January 1998
J P van Kuffeler	**121,542**	125,962
H J Bell	**210,746**	231,378
R J Ashton	**30,513**	16,872
P W Bretherton	**141,768**	155,961
P R Fryer	**22,639**	25,564
P A Davis	**1,929**	2,000
C H Gregson	**–**	–
A C M Heylin	**–**	–
J C Hodkinson	**–**	–*

*At date of appointment as a director.

4.4.2 As at 31 December 1998 Mr Bretherton had a non-beneficial interest in 12,461 shares (1 January 1998 nil). There were no changes in either beneficial or non-beneficial holdings between 31 December 1998 and the date of this report.

4.4.3 The Provident Financial Qualifying Employee Share Ownership Trust ("the QUEST") operates in conjunction with the Provident Financial plc employee savings-related share option schemes and shares are transferred from the QUEST to employees when they exercise options. The directors, as beneficiaries under the QUEST along with group employees, are technically treated as having an interest in the shares held by the QUEST. As at 31 December 1998, the QUEST held 4,012,289 shares in the Company.

4.5 Share option schemes

4.5.1 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 and senior managers. The grant of options under the executive schemes to executive directors and senior managers is normally considered once in each year after the announcement of the Company's results in accordance with a formula based on multiples of salary. In 1997, the Committee decided that grants of options to executive directors should be phased over a three year period. No executive options have been offered at a discount.

4.5.2 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.

4.5.3 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).

4.5.4 The executive directors (together with other eligible group employees) participate in the Provident Financial plc Employee Savings-Related Share Option Scheme (1993) 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.

4.5.5 Directors' share options at 31 December 1998 were as follows:

Director's name	1 January 1998	Granted in 1998	Exercised in 1998	31 December 1998	Exercise price (p)	Market price at date of exercise (p)	Range of exercisable dates of options held at 31 December 1998
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
	–	37,664	–	37,664	985.0		8/2001 – 8/2008
	184,198	37,664	–	221,862			
H J Bell	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
	–	30,964	–	30,964	985.0		8/2001 – 8/2008
	150,210	30,964	–	181,174			
R J Ashton	12,321	–	(12,321)	–	140.0	914.5	
	50,000	–	–	50,000	256.5		3/1997 – 2/2004
	20,000	–	(20,000)	–	276.5	985.5	
	30,000	–	–	30,000	450.0		9/1999 – 9/2006
	43,774	–	–	43,774	638.5		9/2000 – 8/2007
	–	2,620	–	2,620*	744.0		11/2005 – 4/2006
	–	20,660	–	20,660	985.0		8/2001 – 8/2008
	156,095	23,280	(32,321)	147,054			
P W Bretherton	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
	–	524	–	524*	744.0		11/2005 – 4/2006
	–	20,832	–	20,832	985.0		8/2001 – 8/2008
	133,248	21,356	–	154,604			
P R Fryer	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
	–	19,796	–	19,796	985.0		8/2001 – 8/2008
	127,633	19,796	–	147,429			
Total	751,384	133,060	(32,321)	852,123			

* employee savings-related share options

4.5.6 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 during 1998 amounted to £237,000 (1997 £243,000).

4.5.7 The Company's highest paid director in 1998, including the notional gains made on the exercise of share options, was Mr Ashton, whose emoluments amounted to £277,000 (1997 £365,000 – Mr Bell) 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 share options amounted to £237,000 (1997 £114,000 – Mr Bell).

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

4.5.9 The mid-market quotation of the Company's shares on 31 December 1998 was 885p and the range during 1998 was 700p to 1060p.

4.5.10 On 3 March 1999 options were granted under the Provident Financial plc Unapproved Senior Executive Share Option Scheme (1996) over ordinary shares at a price of 979.3p, exercisable normally between 2002 and 2009, subject to performance targets being achieved, as follows: Mr van Kuffeler 47,483 shares, Mr Bell 39,314 shares, Mr Ashton 26,651 shares, Mr Bretherton 26,447 shares and Mr Fryer 25,222 shares.

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

4.6 Pensions and life assurance

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

4.6.2 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.

4.6.3 There are four directors (1997 four) for whom retirement benefits are accruing under the group's defined benefit schemes and one director (1997 one) for whom retirement benefits are accruing under money purchase schemes. All the executive directors, except Mr van Kuffeler, participate in the senior pension scheme, a defined benefit scheme which provides pensions and other benefits within Inland Revenue limits. The senior pension scheme provides 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 senior pension scheme is contributory and directors contribute at the rate of 6% of basic salary (net of an amount approximately equal to the basic state pension).

4.6.4 Details of the pension entitlements earned during 1998 (ignoring the reductions that apply from state pension age) are set out below:

Director's name	Age 31 December 1998	Accrued annual pension* 31 December 1998 £	Accrued annual pension* 31 December 1997 £	Increase in annual pension** 1998 £	Increase in annual pension** 1997 £	Director's contribution 1998 £	Director's contribution 1997 £
H J Bell	**54**	**133,000**	109,400	**19,700**	12,400	**13,000**	11,300
R J Ashton	**40**	**46,600**	37,700	**7,600**	4,500	**8,900**	7,900
P W Bretherton	**53**	**84,000**	69,700	**11,700**	6,700	**9,100**	8,100
P R Fryer	**56**	**91,300**	76,500	**12,000**	12,000	**8,600**	7,400

* 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 1998, 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.

4.6.5 The senior pension scheme also provides spouses' pensions (of four-ninths of basic salary at date of death if the director dies in service and two-thirds of the director's pension if the director dies in retirement) and lump sums on death in service (of four times basic salary at date of death plus a return of the director's contributions). If the director does not leave a spouse, the pension will be paid to any dependants at the discretion of the trustees of the senior pension scheme.

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

4.6.7 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.

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

4.6.9 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 1998 (including the cost of the life insurance) amounted to £74,362 (1997 £63,470).

4.7 Service agreements

The executive directors have service agreements which require two years' notice to be given by the Company. The Company and the Committee consider that the two year notice periods are in the best interests of the group. The Company has a policy and a record of retaining its executive directors and management over the longer term and providing them with extensive development opportunities and with support in their study for qualifications. 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.

4.8 Directors' service agreements and the 1999 annual general meeting.

4.8.1 Mr J C Hodkinson was appointed as a director on 29 July 1998 and is offering himself for election at the forthcoming annual general meeting ("AGM").

4.8.2 Mr Hodkinson has a term of appointment which expires on 29 April 1999. Subject to his election, his term of appointment will continue until 28 July 2001.

4.8.3 Three directors are offering themselves for re-election at the AGM. Mr Ashton, Mr Bell and Mr van Kuffeler each has a service agreement with a two year notice period.

4.8.4 The Board considered on 28 January 1999 whether the policy set out in the remuneration report should be an agenda item for the AGM and decided that it would not form part of the agenda.

4.9 External appointments

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

4.10 Audit

All elements of the directors' remuneration, including pension entitlements and share options, have been audited.

5 Relations with shareholders

5.1 The directors meet with institutional shareholders on a regular basis.

5.2 The Company encourages private investors to attend the AGM. The Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions from shareholders. There is an opportunity for shareholders to ask questions generally and on each resolution proposed.

5.3 At the 1998 AGM details of proxy votes cast on each resolution were made available to shareholders at the end of the meeting on a summary sheet and the Company intends to adopt this practice at the forthcoming AGM.

5.4 At the 1998 AGM the Company proposed separate resolutions on substantially separate issues and will continue to do so. The Company has in previous years generally given shareholders longer notice of the AGM than is required by law. Last year 16 working days' notice of the AGM was given; this year 21 working days' notice is being given.

5.5 In 1998 the Company established the Provident Financial Company Nominee Scheme to enable shareholders to take advantage of a low-cost telephone dealing service through the CREST electronic settlement system. Members of this scheme receive all documents sent to shareholders and may attend, speak and vote at the AGM.

6 Accountability and audit

6.1 The Board presents the Company's position and prospects in as clear a way as possible, both by means of the accounts and in circulars and reports to shareholders.

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

6.3 The group's internal audit function is provided by KPMG. The Audit Committee formally agrees the internal audit plan once a year and reviews regular reports on the activity of the internal audit function.

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

6.4.1 In December each year the Board approves detailed budgets and cash flow forecasts for the year ahead. It also approves outline projections for the subsequent two years and estimates for a further two years. A detailed review takes place at the half-year. Actual performance against budgets is monitored in detail regularly and reported monthly for review by the directors. The Company reports to shareholders on a half-yearly basis.

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

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

6.4.4 The key risks attaching to the group's business and their financial implications are kept under review. The Board formally reviews key risks twice each year in conjunction with the internal auditors. Appropriate action is taken where necessary.

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

6.4.6 The Board and the Audit Committee have reviewed the operation of the group's framework of internal financial controls during 1998 and, on the basis that it is designed to provide reasonable but not absolute assurance, believe it to have been effective during the year.

6.4.7 The Audit Committee considered the appointment of PricewaterhouseCoopers as the Company's auditors in July 1998 and recommended it to the Board.

6.5 The assets of the group's two major pension 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. The rules of all the schemes prevent self-investment by the trustees in either shares of the Company or property of the group.

7 Directors' responsibilities in relation to the accounts

7.1 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.

7.2 The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the group as at the end of the financial year and of the group's profit or loss and cash flows for the financial year. The directors consider that in preparing the accounts on pages 42 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.

7.3 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.

The directors' statement of compliance with the Combined Code

Section A – Directors
The Company has complied with all the provisions in Section A of the Combined Code throughout 1998.

Section B – Directors' remuneration
The Company has complied with the provisions in Section B of the Combined Code in respect of 1998 with the exception of B.1.7. It is not considered appropriate that the notice periods in the executive directors' contracts should be reduced to one year for the reasons set out in paragraph 4.7 above.

Section C – Relations with shareholders
The Company has complied with the provisions in Section C of the Combined Code throughout 1998, with the exception of C.2.4. In 1998, 16 working days' notice of the AGM was given. The notice formed part of the circular concerning proposals for a dividend distribution and share capital consolidation and it was not practicable to give a longer period of notice.

Section D – Accountability and audit
The Company has complied with provisions D1.1, D1.2, D1.3, D2.2 and D3.1 of the Combined Code throughout 1998. It has complied with the provisions D2.1 and D3.2 since 9 December 1998 insofar as the Terms of Reference of the Audit Committee were amended to take account of the provisions of the Combined Code. As permitted by the London Stock Exchange, the Company has complied with provision D2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

ACCOUNTS

Consolidated profit and loss account

for the year ended 31 December 1998	Notes	1998 £'000	1997 £'000
Turnover	1(a)	**506,014**	444,173
Cost of sales		**(238,244)**	(195,161)
Gross profit		**267,770**	249,012
Administrative expenses		**(121,870)**	(112,510)
Operating profit and profit before taxation	1(b)	**145,900**	136,502
Taxation	3	**(41,115)**	(42,998)
Profit after taxation		**104,785**	93,504
Dividends	4	**(151,776)**	(52,112)
Retained (loss)/profit for the year	24	**(46,991)**	41,392

Earnings per share			
Basic	5(a)	**40.12p**	34.77p
Diluted	5(b)	**39.65p**	34.39p

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

Statement of total recognised gains and losses

for the year ended 31 December 1998	1998 £'000	1997 £'000
Profit after taxation	**104,785**	93,504
Scrip dividends	**–**	10
Currency translation differences	**(527)**	(17)
Total recognised gains and losses relating to the year	**104,258**	93,497

Balance sheets

as at 31 December 1998	Notes	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Fixed assets					
Tangible assets	8	**22,068**	21,079	**4,847**	5,025
Investments in subsidiary undertakings	9	**–**	–	**156,253**	155,975
Investment in own shares	10	**14,503**	11,921	**14,503**	11,921
		36,571	33,000	**175,603**	172,921
Current assets					
Amounts receivable from customers					
– due within one year	11(a)	**522,318**	470,146	**–**	–
– due in more than one year	11(a)	**8,896**	8,456	**–**	–
Debtors	14	**107,303**	99,335	**329,497**	292,986
Investments					
– realisable within one year	15(b)	**223,635**	200,596	**–**	–
– realisable in more than one year	15(b)	**45,000**	80,000	**–**	–
Cash at bank and in hand	15(a)	**31,583**	25,328	**209**	29
		938,735	883,861	**329,706**	293,015
Current liabilities					
Bank and other borrowings	12	**(25,352)**	(22,082)	**(16,510)**	(12,912)
Creditors – amounts falling due within one year	16	**(116,332)**	(127,402)	**(65,736)**	(62,337)
Insurance accruals and deferred income	17	**(291,840)**	(290,794)	**–**	–
		(433,524)	(440,278)	**(82,246)**	(75,249)
Net current assets		**505,211**	443,583	**247,460**	217,766
Total assets less current liabilities		**541,782**	476,583	**423,063**	390,687
Non-current liabilities					
Bank and other borrowings	12	**(291,437)**	(185,405)	**(278,000)**	(165,250)
Creditors – amounts falling due after more than one year	18	**–**	–	**(13,437)**	(20,155)
Provisions for liabilities and charges – deferred taxation	19	**(3,043)**	(421)	**(4,972)**	(1,171)
		(294,480)	(185,826)	**(296,409)**	(186,576)
Net assets		**247,302**	290,757	**126,654**	204,111
Capital and reserves					
Called up share capital	20	**27,229**	27,165	**27,229**	27,165
Share premium account	21	**47,760**	43,102	**47,760**	43,102
Merger reserve		**–**	–	**2,335**	2,335
Revaluation reserve	22	**1,641**	1,641	**2,703**	2,703
Other reserves	23	**2,451**	2,451	**1,624**	1,624
Profit and loss account	24	**168,221**	216,398	**45,003**	127,182
Equity shareholders' funds	25	**247,302**	290,757	**126,654**	204,111

These accounts were approved by the Board on 8 March 1999.

John van Kuffeler Chairman
Howard Bell Chief Executive
Robin Ashton Finance Director

Consolidated cash flow statement

for the year ended 31 December 1998	1998 £'000	1997 £'000
Net cash inflow from operating activities (see page 45)	**87,930**	72,604
Taxation		
UK corporation tax	**(50,099)**	(48,236)
Overseas tax	**(459)**	(114)
	(50,558)	(48,350)
Capital expenditure and financial investment		
Capital expenditure:		
Purchase of tangible fixed assets	**(7,457)**	(5,919)
Sale of tangible fixed assets	**1,575**	1,200
Sale of property held for disposal	**–**	170
Options exercised (QUEST shares)	**1,015**	–
Financial investments other than liquid resources:		
Purchase of investments	**–**	(50,000)
Sale of investments	**84,500**	81,000
	79,633	26,451
Acquisitions and disposals		
Purchase of businesses	**–**	(78)
Equity dividends paid	**(147,981)**	(47,303)
Management of liquid resources		
Purchase of investments	**(769,585)**	(855,629)
Sale of investments	**697,046**	841,712
	(72,539)	(13,917)
Financing		
Issue of share capital	**468**	883
New short and medium term loans	**117,554**	144,538
Repayment of short and medium term loans	**(9,823)**	(87,896)
Share buy-back	**–**	(33,461)
	108,199	24,064
Increase in cash in the period	**4,684**	13,471

The cash flow statement above has been prepared in accordance with FRS 1 (Revised 1996) "Cash Flow Statements". As required by that standard, the statement aggregates the cash flows arising from 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 Finance Director's review on pages 22 to 25.

At 31 December 1998 the cash and investments held by the Insurance Division amounted to £290m (1997 £296m).

Liquid resources consist of bank and building society 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	1998 £'000	1997 £'000
Increase in net cash for the period	**4,684**	13,471
Cash outflow from increase in liquid resources	**72,539**	13,917
	77,223	27,388
Cash inflow from increase in debt	**(107,731)**	(56,642)
Change in net debt resulting from cash flows	**(30,508)**	(29,254)
Net debt at 1 January 1998	**(66,063)**	(36,809)
Net debt at 31 December 1998	**(96,571)**	(66,063)

Analysis of changes in net debt	1 January 1998 £'000	Cash flows £'000	Other non-cash changes £'000	31 December 1998 £'000
Cash at bank and in hand	25,328	6,255	–	**31,583**
Overdrafts	(4,667)	(1,571)	–	**(6,238)**
	20,661	4,684	–	**25,345**
Investments realisable within one year	116,096	72,539	–	**188,635**
Bank and other borrowings:				
– less than one year	(17,415)	5,019	(6,718)	**(19,114)**
– more than one year	(185,405)	(112,750)	6,718	**(291,437)**
Net debt	(66,063)	(30,508)	–	**(96,571)**

Cash, borrowings and overdraft balances shown above at 31 December 1998 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	1998 £'000	1997 £'000
Operating profit	**145,900**	136,502
Depreciation	**4,627**	4,855
Loss on sale of tangible fixed assets	**266**	18
Loss on property held for disposal	**–**	89
Increase in amounts receivable from customers	**(52,612)**	(53,395)
Increase in debtors	**(15,816)**	(3,247)
Increase/(decrease) in unearned insurance premiums	**11,482**	(7,157)
Decrease in insurance claims provision	**(10,491)**	(3,953)
Increase in amounts due to retailers	**1,136**	2,272
Increase/(decrease) in accruals	**13**	(1,984)
Increase/(decrease) in other liabilities and deferred income	**3,425**	(1,396)
Net cash inflow from operating activities	**87,930**	72,604
Analysed as:		
Net cash inflow from Home Credit and Central	**75,983**	70,890
Net cash inflow from Insurance	**11,947**	1,714
Net cash inflow from operating activities	**87,930**	72,604

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.

Goodwill
Following the introduction of FRS 10 "Goodwill and Intangible Assets", goodwill arising on acquisition, being the excess of the purchase consideration over the fair value of the assets acquired, is capitalised and amortised over its estimated useful economic life. Goodwill arising on acquisitions prior to the introduction of FRS 10 is eliminated against reserves. On the subsequent disposal or closure of a business goodwill previously eliminated against reserves is charged to the profit and loss account.

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:

(i) at the inception of the agreement, the profit and loss account is credited with a proportion of revenue:
- mainly to cover initial expenses, and
- relating to debt insurance, other than an amount sufficient to cover the cost of potential rebates to customers for early settlement;

(ii) the balance of revenue remaining is carried forward in the balance sheet as deferred revenue, to be credited to the profit and loss account in future periods. A proportion of this deferred revenue 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.

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

Principal accounting policies continued

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

Following the introduction of FRS 11 "Impairment of Fixed Assets and Goodwill" provision is made in the profit and loss account where an impairment in value is deemed to have occurred.

Investment in own shares

Shares in the Company held by the Provident Financial Qualifying Employee Share Ownership Trust ("the QUEST") are shown at their estimated recoverable amount, being the option price of the shares payable by employees. The amount contributed to the QUEST in excess of the option price is charged against reserves.

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.

Foreign currencies

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

Exchange differences arising from the retranslation of the opening net assets of subsidiaries and branches, which have currencies of operation other than sterling, and any related loans are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

Derivative financial instruments

Certain companies within the group are party to derivative financial instruments ("derivatives") to manage exposures to fluctuations in interest rates.

Interest rate swap and cap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest payable or receivable over the period of the contracts.

Turnover

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

UK Home Credit	Revenue earned
International 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	1998 £'000	1997 £'000
UK Home Credit	**390,642**	350,374
International Home Credit	**713**	2
Insurance	**114,659**	93,797
Total	**506,014**	444,173

(b) Operating profit and profit before taxation	1998 £'000	1997 £'000
UK Home Credit:		
Profit before interest	**158,827**	143,896
Interest payable	**(21,917)**	(15,272)
UK Home Credit	**136,910**	128,624
International Home Credit	**(4,725)**	(1,451)
Insurance	**19,619**	13,725
Central	**(5,904)**	(4,396)
Total	**145,900**	136,502

(c) Net assets	1998 £'000	1997 £'000
UK Home Credit	**179,858**	221,407
International Home Credit	**2,006**	25
Insurance	**65,438**	69,325
Total	**247,302**	290,757

2 Profit before taxation is stated after:

	1998 £'000	1997 £'000
Charging:		
Interest on borrowings (included in cost of sales)		
– bank loans and overdrafts	**17,607**	9,447
– other loans	**2,537**	2,720
Auditors' remuneration – audit services (Company £41,000)	**188**	200
– advice in relation to International Home Credit Division	**325**	–
– other tax compliance and advice	**344**	278
– consultancy	**–**	–
– other non-audit services	**40**	21
Depreciation of tangible fixed assets	**4,627**	4,855
Loss on sale of tangible fixed assets	**266**	18
Operating lease rentals – equipment	**181**	167
– property	**3,750**	3,537
Crediting:		
Investment income (included in cost of sales)	**21,886**	22,283

Notes to the accounts continued

3 Taxation

	1998 £'000	1997 £'000
The charge for taxation on the profit for the year comprises:		
UK corporation tax chargeable on the profit for the year at 31% (1997 31.5%)	**42,099**	41,083
Deferred tax (note 19(c))	**2,477**	1,973
Overseas tax	**525**	86
	45,101	43,142
Prior year corporation tax	**(4,369)**	(122)
Prior year deferred tax (note 19(c))	**145**	(22)
Prior year overseas tax	**238**	–
Total	**41,115**	42,998

Retained profits of certain overseas subsidiaries would, if remitted to the UK, be subject to additional taxation for which no provision has been made in these accounts as there is currently no intention to remit such profits. The effective tax rate for 1998 is below the standard rate of UK corporation tax due to the favourable agreement of prior year tax liabilities.

4 Dividends

	1998 £'000	1997 £'000
Ordinary shares:		
Interim dividend paid of 8.9p per share (1997 7.75p)	**23,034**	20,720
Proposed final dividend of 13.6p per share (1997 11.75p)	**35,187**	31,392
Dividend paid in connection with share capital consolidation of 35.0p per share	**93,555**	–
Total	**151,776**	52,112

5 Earnings per share

(a) Basic

The basic earnings per share figure has been calculated using the profit for the year available for ordinary dividends of £104,785,000 (1997 £93,504,000) and the weighted average number of shares outstanding during the period of 261,178,938 (1997 268,885,156). The calculation of the weighted average number of shares outstanding during the period excludes the 4,012,289 (1997 4,491,413) shares held by the QUEST at 31 December 1998 (see note 10) which are treated as cancelled for the purposes of calculating the weighted average number of shares outstanding until those shares vest unconditionally in the group's employees.

(b) Diluted

The diluted earnings per share figure has been calculated using the profit for the year available for ordinary dividends of £104,785,000 (1997 £93,504,000). The weighted average number of shares outstanding during the period used in the calculation of diluted earnings per share is 264,247,707 (1997 271,864,160). This includes 3,068,769 (1997 2,979,004) ordinary shares that would be issued on the conversion of the outstanding options to purchase shares, including those options for which shares have already been issued to the QUEST.

On 5 May 1998, the Company paid a dividend of £93,555,000 and at the same time carried out a share capital consolidation. The overall commercial effect of the transaction was that of a share repurchase at fair value. In accordance with FRS 14 "Earnings per Share" no adjustment has been made to the prior year's earnings per share in respect of the transaction.

Notes to the accounts continued

6 Directors' remuneration

Details of directors' remuneration, share options, pension contributions and pension entitlements are included in the remuneration report on pages 33 to 38.

7 Employee information

(a) The average number of persons employed by the group (including executive directors) was as follows:

	1998 Number	1997 Number
UK Home Credit	**2,575**	2,558
International Home Credit	**85**	6
Insurance	**1,149**	1,099
Central	**35**	32
Total	**3,844**	3,695
Analysed as:		
Full-time	**3,379**	3,251
Part-time	**465**	444
Total	**3,844**	3,695

(b) Group employment costs – all employees (including executive directors)

	1998 £'000	1997 £'000
Aggregate gross wages and salaries paid to the group's employees	**65,374**	62,345
Employers' national insurance contributions	**5,357**	4,782
Pension costs (note 27)	**5,407**	4,545
Total	**76,138**	71,672

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 1998:				
Cost	1,573	1,629	33,236	36,438
Valuation in 1994	8,773	410	–	9,183
Additions at cost	4	–	7,453	7,457
Disposals	(543)	(72)	(3,452)	(4,067)
	9,807	1,967	37,237	49,011
At 31 December 1998:				
Cost	1,152	1,557	37,237	39,946
Valuation	8,655	410	–	9,065
	9,807	1,967	37,237	49,011
Depreciation				
At 1 January 1998	727	446	23,369	24,542
Charged to profit and loss account	240	69	4,318	4,627
Eliminated on disposal	(105)	(24)	(2,097)	(2,226)
At 31 December 1998	862	491	25,590	26,943
Net book value at 31 December 1998	**8,945**	**1,476**	**11,647**	**22,068**
Net book value at 31 December 1997	9,619	1,593	9,867	21,079

Leasehold land and buildings consist of:
(i) long leases at a cost/valuation of £959,000 and a net book value of £829,000;
(ii) short leases at a cost of £1,008,000 and a net book value of £647,000.

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

	Freehold land and buildings 1998 £'000	Freehold land and buildings 1997 £'000	Long leasehold land and buildings 1998 £'000	Long leasehold land and buildings 1997 £'000
Historical cost	**10,585**	11,124	**790**	797
Depreciation based on cost	**(3,446)**	(3,287)	**(116)**	(97)
Historical cost net book value	**7,139**	7,837	**674**	700

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 1998:				
Cost	621	–	1,405	2,026
Valuation in 1994	3,776	180	–	3,956
Additions at cost	4	–	583	587
Disposals	–	–	(305)	(305)
Transfers to group companies	(1)	–	(302)	(303)
	4,400	180	1,381	5,961
At 31 December 1998:				
Cost	624	–	1,381	2,005
Valuation	3,776	180	–	3,956
	4,400	180	1,381	5,961
Depreciation				
At 1 January 1998	319	13	625	957
Charged to profit and loss account	110	5	232	347
Eliminated on disposal	–	–	(180)	(180)
Transfers to group companies	–	–	(10)	(10)
At 31 December 1998	429	18	667	1,114
Net book value at 31 December 1998	**3,971**	**162**	**714**	**4,847**
Net book value at 31 December 1997	4,078	167	780	5,025

Leasehold land and buildings consist of long leases at a cost/valuation of £180,000 and a net book value of £162,000.

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

	Freehold land and buildings 1998 £'000	Freehold land and buildings 1997 £'000	Long leasehold land and buildings 1998 £'000	Long leasehold land and buildings 1997 £'000
Historical cost	**2,652**	2,649	**17**	17
Depreciation based on cost	**(1,037)**	(971)	**(11)**	(10)
Historical cost net book value	**1,615**	1,678	**6**	7

Notes to the accounts continued

9 Investment in subsidiary undertakings

	1998 £'000
Shares at cost:	
At 1 January 1998	164,718
Amounts subscribed for during the year	183
At 31 December 1998	164,901
Provision for diminution in value:	
At 1 January 1998	8,743
Reduction in provision	(95)
At 31 December 1998	8,648
Shares at cost less provision at 31 December 1998	**156,253**
Shares at cost less provision at 31 December 1997	155,975

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 NLG each, Provident Polska S.A. which comprises ordinary shares of 10 PLN each, Provident Financial s.r.o. which has a registered capital of CZK 20,000,000, Provident Personal Credit Limited which comprises ordinary shares of 25p each, Greenwood Personal Credit Limited which comprises ordinary shares of 50p 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.

UK Home Credit	Provident Personal Credit Limited Greenwood Personal Credit Limited*
International Home Credit	Provident International Investments Limited Provident International Limited* Provident Polska S.A.* (incorporated and operating in Poland) Provident Financial s.r.o.* (incorporated and operating in the Czech Republic)
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 1998, 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

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 7 December 1998, the Company made a gift and provided an interest free loan to the QUEST which in total amounted to £4,350,000. On 9 December 1998 the trustee subscribed for 483,389 ordinary shares (at the market price at that time of 880p) for a total cost of £4,254,000. 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 1998 the QUEST held 4,012,289 shares with a cost of £32,142,000 and a market value of £35,509,000. 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 £14,503,000). The amount contributed by the QUEST in excess of the option price has been charged against reserves (see note 24).

11 Amounts receivable from customers

(a) Instalment credit receivables

	Group 1998 £'000	Group 1997 £'000
Gross instalment credit receivables	**807,541**	727,069
Less: provision for bad and doubtful debts (note 11(b))	**(74,103)**	(66,419)
Instalment credit receivables after provision for bad and doubtful debts (note 12(a))	**733,438**	660,650
Less: deferred revenue thereon	**(202,224)**	(182,048)
Total	**531,214**	478,602
Analysed as – due within one year	**522,318**	470,146
– due in more than one year	**8,896**	8,456
Total	**531,214**	478,602

(b) Bad and doubtful debts

	Group 1998 £'000	Group 1997 £'000
Gross provision at 31 December 1998 (note 11(a))	**74,103**	66,419
Less: deferred revenue thereon	**(20,874)**	(18,038)
Net provision at 31 December 1998	**53,229**	48,381
Net provision at 1 January 1998	**(48,381)**	(43,722)
Increase in provision (net of deferred revenue)	**4,848**	4,659
Amounts written off (net of deferred revenue)	**50,518**	36,264
Net charge to profit and loss account for bad and doubtful debts	**55,366**	40,923

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	1998 Instalment credit receivables £'000	1998 Borrowing facilities available £'000	1998 Borrowings £'000	1997 Instalment credit receivables £'000	1997 Borrowing facilities available £'000	1997 Borrowings £'000
Repayable:						
On demand	**–**	**9,500**	**6,238**	–	6,000	4,667
In less than 6 months	**532,020**	**17,500**	**1,522**	477,489	19,000	10,697
In 6–12 months	**189,039**	**16,718**	**17,592**	171,399	6,718	6,718
In less than 12 months	**721,059**	**43,718**	**25,352**	648,888	31,718	22,082
In 12–24 months	**12,379**	**6,718**	**6,718**	11,762	16,718	16,718
In 24–60 months	**–**	**58,719**	**37,719**	–	64,437	34,687
In more than 60 months	**–**	**279,000**	**247,000**	–	239,000	134,000
In more than 12 months	**12,379**	**344,437**	**291,437**	11,762	320,155	185,405
Total	**733,438**	**388,155**	**316,789**	660,650	351,873	207,487

(b) Company	1998 Borrowing facilities available £'000	1998 Borrowings £'000	1997 Borrowing facilities available £'000	1997 Borrowings £'000
Repayable:				
On demand	**9,500**	**6,264**	6,000	4,667
In less than 6 months	**17,500**	**246**	19,000	8,245
In 6 – 12 months	**10,000**	**10,000**	–	–
In less than 12 months	**37,000**	**16,510**	25,000	12,912
In 12 – 24 months	**–**	**–**	10,000	10,000
In 24 – 60 months	**52,000**	**31,000**	51,000	21,250
In more than 60 months	**279,000**	**247,000**	239,000	134,000
In more than 12 months	**331,000**	**278,000**	300,000	165,250
Total	**368,000**	**294,510**	325,000	178,162

(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 1998 borrowings under these facilities amounted to £316,789,000 (Company £294,510,000) (1997 £207,487,000; Company £178,162,000). 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) a bank loan 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 loan denominated in US$.

Notes to the accounts continued

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

(d) US$ bank loan

The US$ bank loan is repayable in annual instalments of US$10 million. At 31 December 1998 US$30 million was outstanding. Currency swap arrangements have been established to fix the sterling equivalent of the loan and £20,155,000 was outstanding on 31 December 1998 (1997 £26,873,000). Interest rate swap arrangements have been established to convert the floating US$ interest rate to a rate linked to six month sterling LIBOR.

(e) Undrawn committed borrowing facilities

The undrawn committed borrowing facilities at 31 December 1998 were as follows:

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Expiring within one year	**17,366**	9,136	**19,490**	11,588
Expiring within one to two years	**–**	–	**–**	–
Expiring in more than two years	**53,000**	134,750	**53,000**	134,750
Total	**70,366**	143,886	**72,490**	146,338

13 Derivatives and other financial instruments

An explanation of the group's objectives, policies and strategies in the use of derivatives and other financial instruments is included in the Finance Director's review on pages 22 to 25. Detailed information on the use of derivatives and other financial instruments, excluding short term debtors and creditors other than in note 13(d), is set out below.

FRS 13 "Derivatives and Other Financial Instruments: Disclosures" which comes into force for accounting periods ending on or after 23 March 1999 requires increased disclosures in relation to financial instruments. Most of the disclosures required by FRS 13 have been given in these accounts and the remaining, minor, disclosure requirements will be adopted in the accounts for the year ending 31 December 1999.

(a) Interest rate profile

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 1998 was:

	1998			1997		
	Total £'000	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000
Cash and investments	**300,218**	**268,635**	**31,583**	305,924	280,596	25,328
Borrowings	**316,789**	**110,000**	**206,789**	207,487	135,000	72,487
Net position	**(16,571)**	**158,635**	**(175,206)**	98,437	145,596	(47,159)

At 31 December 1998, the group's floating rate borrowings were £206,789,000 as shown in the table above. In January 1999, interest rate swaps covering borrowings of up to £170 million commenced which run until January 2001 at rates of between 5.7% and 7.2%. In addition, the group's exposure to increases in interest rates on the net floating borrowings position at 31 December 1998 is further protected by interest rate caps on borrowings of up to £160 million at rates of between 7.8% and 8.4% until January 2002.

The weighted average interest rate on fixed rate borrowings at 31 December 1998 amounted to 7.8% (1997 7.4%) and the weighted average period to maturity was 1 month (1997 11 months). The weighted average interest rate on fixed rate investments at 31 December 1998 amounted to 7.4% (1997 7.5%) and the weighted average period to maturity was 2.0 years (1997 2.0 years).

The group's borrowings and cash and investments, after taking account of the currency swap arrangement in respect of the US$ bank loan referred to in note 12(d), are denominated in sterling except for floating rate borrowings of £1,460,000 which are denominated in Irish Punts and £874,000 which is denominated in Polish Zloty.

The floating rate borrowings and cash and investments bear interest at rates linked to national LIBOR equivalents or government bond rates.

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 at 31 December 1998 are set out below:

	1998 Book value £'000	1998 Fair value £'000	1997 Book value £'000	1997 Fair value £'000
Current asset investments	**268,635**	**268,847**	280,596	280,650
Cash at bank and in hand	**31,583**	**31,583**	25,328	25,328
Bank loans and overdrafts	**(296,634)**	**(296,634)**	(180,614)	(180,614)
US$ bank loan	**(20,155)**	**(18,139)**	(26,873)	(24,287)
Currency swaps re US$ bank loan*	**–**	**(2,683)**	–	(3,557)
Interest rate swaps on borrowings:				
Contracts in profit	**–**	**–**	–	167
Contracts in loss	**–**	**(1,722)**	–	(195)
Interest rate swaps on investments:				
Contracts in profit	**–**	**7,142**	–	1,976
Contracts in loss	**–**	**–**	–	(55)
Interest rate caps	**1,119**	**262**	1,715	477

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

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

(c) Hedging instruments

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

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

Under the group's accounting policy foreign currency borrowings which are hedged are translated at the forward rate inherent in the contract. Consequently, the carrying value of the relevant borrowings effectively includes the gain or loss on the hedging instrument. Such gains and losses are treated as deferred. The unrecognised gains and losses in the table below relate to interest rate hedging instruments:

Gains and losses on hedging instruments	Unrecognised Gains £'000	Unrecognised Losses £'000	Unrecognised Total net gains/losses £'000	Deferred Gains £'000	Deferred Losses £'000	Deferred Total net gains/losses £'000
At 1 January 1998	2,620	(1,111)	1,509	–	(2,696)	(2,696)
At 31 December 1998	**7,404**	**(2,278)**	**5,126**	**–**	**(2,127)**	**(2,127)**

Notes to the accounts continued

13 Derivatives and other financial instruments continued

(d) Currency profile

As explained in the group's accounting policy, exchange differences arising from the retranslation of the opening net assets of subsidiaries and branches, which have currencies of operation other than sterling, and any related loans are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end.

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the group companies and the group. The position at 31 December 1998 was as follows:

	Net foreign currency monetary liabilities			
Functional currency of group operation	Sterling £'000	Polish Zloty £'000	Czech Crown £'000	Total £'000
Sterling	–	(825)	(746)	(1,571)
Czech Crown	(1,260)	–	–	(1,260)
Total	**(1,260)**	**(825)**	**(746)**	**(2,831)**

The above table excludes the US$ bank loan because it is fully hedged by the currency swap arrangement referred to in note 12(d).

(e) 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 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Trade debtors	**33,478**	23,736	**–**	–
Amounts recoverable from reinsurers	**48,639**	42,937	**–**	–
Other debtors	**3,442**	1,070	**209**	204
Prepayments and accrued income	**14,412**	18,160	**7,790**	6,617
Commissions prepaid to insurance brokers and deferred acquisition costs	**7,332**	5,584	**–**	–
Amounts owed by group undertakings	**–**	–	**318,345**	276,794
Corporation tax recoverable	**–**	–	**3,153**	3,585
Advance corporation tax recoverable	**–**	7,848	**–**	5,786
Total	**107,303**	99,335	**329,497**	292,986

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 1998 £'000	Group 1997 £'000
Bank, building society and other fixed interest deposits at cost	**267,056**	278,989
UK listed securities at cost	**1,579**	1,607
Total investments (note 15(b))	**268,635**	280,596
Cash at bank and in hand	**31,583**	25,328
Total	**300,218**	305,924

All the investments and £21,174,000 (1997 £15,150,000) 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 1998 of £1,791,000 (1997 £1,661,000).

(b) The maturity of the investments shown above is analysed as follows:	Group 1998 £'000	Group 1997 £'000
Realisable within one year	**223,635**	200,596
Realisable in more than one year but less than two years	**35,000**	35,000
Realisable in more than two years but less than three years	**10,000**	35,000
Realisable in more than three years but less than four years	**–**	10,000
Realisable in more than one year	**45,000**	80,000
Total	**268,635**	280,596

Notes to the accounts continued

16 Creditors – amounts falling due within one year

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Amounts due to retailers and customers' unspent balances	**22,001**	20,865	**–**	–
Trade creditors	**14,419**	11,368	**–**	–
Amounts owed to group undertakings	**–**	–	**24,214**	22,531
Other creditors including taxation and social security	**26,411**	45,476	**1,334**	1,207
Accruals	**18,314**	18,301	**5,001**	7,207
Dividends payable	**35,187**	31,392	**35,187**	31,392
Total	**116,332**	127,402	**65,736**	62,337

Other creditors including taxation and social security comprise:

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
UK corporation tax	**11,509**	24,654	**11**	–
Advance corporation tax	**5,755**	13,023	**5,755**	13,023
Overseas tax	**500**	–	**–**	–
	17,764	37,677	**5,766**	13,023
Less: taxation recoverable	**–**	–	**(5,755)**	(13,023)
	17,764	37,677	**11**	–
Social security	**1,779**	1,558	**95**	80
Value added tax	**–**	46	**5**	5
Other creditors	**6,868**	6,195	**1,223**	1,122
Total	**26,411**	45,476	**1,334**	1,207

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

	Group 1998 £'000	Group 1997 £'000
Provision for unpaid insurance claims	**239,708**	250,199
Unearned insurance premiums	**51,561**	40,079
Other deferred income	**571**	516
Total	**291,840**	290,794

Notes to the accounts continued

18 Creditors – amounts falling due after more than one year

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Amounts owed to group undertakings	**–**	–	**13,437**	20,155

19 Deferred taxation

(a) Group

	1998 Provision £'000	1998 Full potential liability £'000	1997 Provision £'000	1997 Full potential liability £'000
Accelerated capital allowances	**(478)**	**(478)**	(1,000)	(1,000)
Other timing differences	**3,521**	**3,521**	1,421	1,421
	3,043	**3,043**	421	421
Realised capital gains deferred	**–**	**511**	–	620
Deferred tax liability	**3,043**	**3,554**	421	1,041

(b) Company

	1998 Provision £'000	1998 Full potential liability £'000	1997 Provision £'000	1997 Full potential liability £'000
Accelerated capital allowances	**74**	**74**	(50)	(50)
Other timing differences	**4,898**	**4,898**	3,282	3,282
	4,972	**4,972**	3,232	3,232
Advance corporation tax recoverable	**–**	**–**	(2,061)	(2,061)
Deferred tax liability	**4,972**	**4,972**	1,171	1,171

(c) Movement in group deferred taxation liability

	1998 £'000
The movement on the group deferred taxation liability during the year was as follows:	
At 1 January 1998	**421**
Charged to the profit and loss account (note 3)	**2,622**
At 31 December 1998	**3,043**

Notes to the accounts continued

20 Called up share capital

	Group and Company			
	1998		1997	
	Authorised £'000	Issued and fully paid £'000	Authorised £'000	Issued and fully paid £'000
Ordinary shares of 10 $^{4}/_{11}$p (1997 10p) each	**40,000**	**27,229**	40,000	27,165

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

	Number
At 1 January 1998	271,653,776
Shares issued – pursuant to the exercise of options	133,577
– to the QUEST (see note 10)	483,389
– pursuant to the share capital consolidation	53
Shares consolidated	(9,533,994)
At 31 December 1998	262,736,801

The nominal value of the shares issued during the year in respect of shares issued pursuant to the exercise of options under the executive schemes was 10p (65,000 shares) and 10 $^{4}/_{11}$p (68,577 shares) and 10 $^{4}/_{11}$p in respect of shares issued to the QUEST (see note 10).

The aggregate consideration received in respect of the shares issued pursuant to the exercise of options under the executive schemes and to the QUEST during the year was £468,000 and £4,254,000 respectively.

Details of the share capital consolidation are included in the directors' report on page 28.

21 Share premium account

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
At 1 January 1998	**43,102**	8,427	**43,102**	8,427
Premium on shares issued during the year	**4,658**	34,906	**4,658**	34,906
Premium on shares purchased and cancelled during the year	**–**	(231)	**–**	(231)
At 31 December 1998	**47,760**	43,102	**47,760**	43,102

22 Revaluation reserve

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
At 1 January 1998 and 31 December 1998	**1,641**	1,641	**2,703**	2,703

Notes to the accounts continued

23 Other reserves

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Capital redemption reserve:				
At 1 January 1998	**1,624**	1,057	**1,624**	1,057
Scrip dividends	**–**	(10)	**–**	(10)
Share buy-back	**–**	577	**–**	577
At 31 December 1998	**1,624**	1,624	**1,624**	1,624
Retained profit capitalised by a subsidiary:				
At 1 January 1998 and 31 December 1998	**827**	827	**–**	–
At 31 December 1998	**2,451**	2,451	**1,624**	1,624

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 in 1997, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

24 Profit and loss account

	Group £'000	Company £'000
At 1 January 1998	**216,398**	**127,182**
Retained loss for the year	**(46,991)**	**(81,520)**
Shares issued to the QUEST (note 10)	**(659)**	**(659)**
Currency translation differences	**(527)**	**–**
At 31 December 1998	**168,221**	**45,003**

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 £70,256,000 (1997 £204,921,000).

The group profit and loss account balance is shown after writing off cumulative goodwill of £16,229,000 (1997 £16,229,000). In addition, cumulative goodwill of £2,335,000 has been written off against the merger reserve in previous years.

25 Reconciliation of movement in equity shareholders' funds

	Group 1998 £'000	Group 1997 £'000
Profit attributable to equity shareholders	**104,785**	93,504
Dividends	**(151,776)**	(52,112)
Retained (loss)/profit for the year	**(46,991)**	41,392
New share capital issued	**4,722**	35,474
Share buy-back	**–**	(33,461)
Shares issued to the QUEST (note 10)	**(659)**	(22,079)
Goodwill	**–**	(78)
Currency translation differences	**(527)**	(17)
Net (reduction in)/addition to equity shareholders' funds	**(43,455)**	21,231
Equity shareholders' funds at 1 January 1998	**290,757**	269,526
Equity shareholders' funds at 31 December 1998	**247,302**	290,757

Notes to the accounts continued

26 Commitments

(a) Capital commitments

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Capital expenditure commitments contracted with third parties but not provided for	**230**	381	**–**	–

(b) Operating lease commitments

Operating lease commitments in respect of land and buildings for 1999 are as follows:

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Leases expiring:				
Within one year	**1,003**	814	**–**	–
Within two to five years	**1,639**	1,816	**16**	–
In more than five years	**954**	1,210	**29**	–
Total	**3,596**	3,840	**45**	–

27 Pension schemes

The group operates a number of pension schemes. The two major schemes, which cover 99% of scheme members, are of the funded, defined benefit type. The assets of the schemes are held in separate, trustee administered funds. The total pension cost for the group (note 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 1998. The principal assumptions used were that the rate of return on investments would be 2.5% per annum higher than the rate of increase in salaries for the Provident Financial Staff Pension Scheme and 2% higher for the Provident Financial Senior Pension Scheme, and 4% per annum higher than the rate of increase in present and future pensions for both schemes. At 1 June 1998 the market value of the assets of the schemes was £142,755,000. The actuarial value of the assets was sufficient to cover 97% of the benefits that had accrued to members after allowing for expected future increases in earnings.

For the purposes of establishing the pension costs in the group's profit and loss account, the deficit is being amortised over the average remaining service lives of the employees who are currently members of the respective schemes. Included in the group's balance sheet is a prepayment of £5,115,000 (1997 £4,172,000), which represents the excess of the contributions paid to the schemes over the charge in the profit and loss account.

28 Related party transactions

The group recharges the two major pension schemes referred to in note 27 with a proportion of the costs of administration and professional fees incurred by the group. The total amount recharged during the year was £429,000 (1997 £350,000).

Report of the auditors

To the members of Provident Financial plc

We have audited the accounts on pages 42 to 64.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Report & Accounts, including as described on page 40 the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Report & Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on page 40 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's or group's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 1998 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Leeds

8 March 1999

Information for shareholders

1 Financial calendar – dividends	1998 Final	1999 Interim
Dividend announced	25 February 1999	29 July 1999
Ex-dividend date for ordinary shares	29 March 1999	20 September 1999
Record date for the dividend	6 April 1999	24 September 1999
Annual General Meeting	29 April 1999	
Payment date of the dividend	7 May 1999	20 October 1999

2 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 available on FT Cityline (Tel: 0336 433731).

The share price is listed in the following daily newspapers:

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

3 Personal Equity Plans (PEPs)

Shareholders should note that the general and single company PEPs dedicated to the Company's shares and operated by Bradford & Bingley PEPs Limited are being transferred by Bradford & Bingley Building Society to The Share Centre Ltd, PO Box 1000, Tring, Hertfordshire HP23 5AN (Tel: 0800 800008). With effect from 6 April 1999, it will no longer be possible to make a further subscription into a PEP but it will be possible to subscribe to an individual savings account (an ISA), which will confer similar benefits in relation to shares held in it.

4 Share capital consolidation

Shareholders who disposed of fractional entitlements to new ordinary shares in the course of the share capital consolidation effected in April 1998 should note that, for the purposes of tax on capital gains, the Company has been advised that the Inland Revenue will in practice treat the sale of fractional entitlements as not constituting a part disposal of your original ordinary shares and instead an amount equal to the proceeds of the sale will be deducted from your allowable expenditure in relation to future disposals of your new ordinary shares.

5 Tax on capital gains

5.1 For the purposes of tax on capital gains, 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 split in 1993, the 1 for 1 bonus issue in 1996 and the share capital consolidation in 1998, this gives a figure of 22.54p.

5.2 Shareholders for whom the price of ordinary shares as at 31 March 1982 is relevant should note that their allowable expenditure in relation to future disposals of ordinary shares may also be affected by other factors such as indexation and/or the disposal of fractional entitlements as described in paragraph 4 above.

6 Tax on dividends

6.1 From 6 April 1999, changes are being made to the way dividends paid by UK resident companies are taxed.

6.2 Although a UK resident individual receiving a dividend paid by the Company will still be entitled to a tax credit, the tax credit will be reduced to 1/9th of the dividend (corresponding to 10% of the dividend and the associated tax credit).

6.3 A UK resident individual shareholder will therefore be treated as having paid tax at 10% on the aggregate of the dividend and the associated tax credit; as basic and lower rate taxpayers will be liable to tax on the dividend and associated tax credit at 10%, they will have no further liability to tax in respect of the dividend.

6.4 The tax liability on dividends for UK resident higher rate taxpayers will be reduced from 40% to 32.5%, so that the net income they receive, and also their liability for additional tax, will be the same as before.

6.5 UK resident individuals are currently able to reclaim tax if the tax credits on the dividends they receive are greater than their total tax liability. However, from 6 April 1999, they will generally no longer be able to claim this repayment for the tax year 1999/2000 onwards.

6.6 Shareholders who hold their shares through PEPs or ISAs will be able to reclaim the 10% tax credit until 5 April 2004.

7 The Provident Financial Company Nominee Scheme

7.1 The Company has established the Provident Financial Company Nominee Scheme. The key features of the Company Nominee Scheme are:

– Your shares are held for you in a nominee account and you will receive regular statements of your account, rather than share certificates,

– It provides a facility to allow you to deal in the Company's shares by means of a low-cost telephone dealing service through the CREST electronic settlement system,

– It provides a facility for you to reinvest your dividends in the Company's shares,

– You will still retain the benefits of direct shareholding, such as prompt payments of dividends, a copy of the Annual Report and attendance, and voting, at the Annual General Meeting, and

– The service is provided at no cost to you. However, if you wish to use the facility to deal in the Company's shares or reinvest your dividends, you will have to pay charges.

7.2 Full details are available on request from the Company's Registrar (see paragraph 8 below).

8 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 639 2000).

9 Share ownership analysis as at 1 March 1999

Shareholding range	Shareholders (Number)	Shareholders (%)
up to 1,000	**2,259**	**33.34**
1,001 – 5,000	**2,756**	**40.67**
5,001 – 50,000	**1,335**	**19.70**
50,001 – 500,000	**333**	**4.92**
500,001 – 1,000,000	**42**	**0.62**
1,000,001+	**51**	**0.75**
Total	**6,776**	**100.00**

9 **out of** **10**

of our customers are
happy with our service

I AM STILL USING IT

Margaret Fulton proudly showed me the saucepan she got as her first purchase from us more than 20 years ago.

"I'm still using it. I remember the man came to the door and I bought a set – that was the first time. Since then I've had dozens of loans. I've got two six month ones running at the moment. I couldn't do without them. I use them for Christmas and holidays."

Margaret Fulton, Leeds
A customer for more than 20 years

Designed and produced by Bamber Forsyth Limited. Printed by the Colourhouse. Photography by Bill Robinson.

PROVIDENT FINANCIAL

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Registered in England No. 668987