Provident Financial plc
Preliminary announcement of the final results
for the year ended 31 December 2004

HIGHLIGHTS

Provident Financial is a leading international company providing home credit, credit cards, motor finance and motor insurance.

Key financial results

	31 Dec 2004	31 Dec 2003	Percentage change
Group turnover	**£1,167m**	£1,134m	+ 2.9%
Profit before tax*	**£220.7m**	£206.2m	+ 7.0%
Earnings per share*	**61.57p**	57.54p	+ 7.0%
Full year dividend per share	**34.40p**	33.00p	+ 4.2%

* before goodwill amortisation

Key Points

- Group pre-tax profits*, up by 7% to £220.7m
- Excellent international performance, pre-tax profit up 68% to £49.2m (2003 £29.3m)
- UK home credit pre-tax profit of £152.3m (2003 £152.6m)
- Motor insurance pre-tax profit up 21% to £34.6m (2003 £28.6m)
- Yes Car Credit pre-tax profit down by £6.8m to £4.4m (2003 £11.2m)

"We have made good progress in 2004 and during 2005 we will continue our strategy of expanding our international businesses and broadening our range of credit products. We expect that 2005 will be a year of further progress both in implementing our strategy and improving group performance."

John van Kuffeler
Chairman
16 March 2005

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Chairman's statement

I am pleased to announce our results for 2004. Group turnover increased by 2.9% to £1.2 billion and customer receivables rose by 14.7% to £1.3 billion. Before goodwill amortisation, profit before tax increased by 7.0% to £220.7 million (2003 £206.2 million) and earnings per share increased by 7.0% to 61.57p (2003 57.54p). After goodwill amortisation, profit before tax increased by 7.0% to £216.1 million (2003 £201.9 million) and earnings per share increased by 7.0% to 59.74p (2003 55.84p). The directors recommend a final dividend of 20.75p (2003 19.90p), giving a total dividend for the year of 34.40p per share (2003 33.00p), an increase of 4.2% for the year.

Operations

UK consumer credit division

UK home credit

Conditions in the UK home credit sector continue to be challenging with increased competition, particularly from credit card providers. This reflects an increased involvement in near and sub-prime credit markets by some mainstream credit providers together with wider access to credit products by home credit customers who have seen increasing household incomes during recent years. Our response has been to recruit and retain profitable customers, to identify and withdraw from unprofitable recruitment channels and to manage costs tightly.

During 2004 customer numbers fell by 4.7% to 1.53 million. About half of this reduction resulted from our withdrawal from unprofitable recruitment channels and the other half from the more competitive market. Credit issued for the year reduced by 2.4%. This was less than we had expected because lending during the Christmas period was strong with credit issued for December up by 2.7% on the previous year. Collections for the year decreased by 1.5% to £1,300 million and turnover reduced by 1.0% to £490.5 million. Costs were managed carefully and, as a result, reduced by 1.2% to £251.8 million. Credit quality was stable with bad debt as a percentage of credit issued at 9.7% (2003 9.6%) and bad debt costs decreased by 1.8% to £86.4 million. Profit before tax was little changed, at £152.3 million (2003 £152.6 million).

Yes Car Credit

Yes Car Credit had a tough year in 2004 with increased competition from new entrants into its market combined with difficult trading conditions in the used car credit market which reported volumes down by 6% for the year. For the year as a whole, Yes Car Credit performed better than the market with unit sales volumes down by 1.5% to 37,319 units (2003 37,892). However, during the second half of the year Yes Car Credit lost market share with unit sales falling by 16% compared with an 8% fall in the market. Although we increased advertising and expanded our network of branches to 29, this performance was well below our expectations. Net receivables increased by 16% to £294 million at 31 December 2004, although average net receivables were up by 32% to £282 million reflecting the impact of strong growth in the final quarter of the previous year.

Despite the fall in vehicle sales, turnover in 2004 increased by 4.7% to £281.8 million helped by increased contribution from both finance and insurance commission revenues, reflecting business written in previous years. The increased contribution from these revenue streams also benefited gross profit which increased by 12.8% to £126.5 million. However, operating costs increased faster than gross profit, rising 17.3% to £79.2 million, because of the enlarged branch network and increased advertising spend. In addition, whilst bad debt costs as a percentage of average net receivables at December 2004 was steady at 15.2% (December 2003 15.7%), bad debt costs increased by 28.2% to £42.9 million, driven by the strong growth during 2004 in average net receivables. Profit before tax reduced by £6.8 million to £4.4 million (2003 £11.2 million).

Vanquis Bank

Vanquis Bank was established in February 2003 and has conducted a market test of credit cards tailored to the requirements of UK customers needing cards with small credit limits. A range of offers to new and existing customers delivered by direct marketing and through home credit agents was tested throughout 2003 and 2004. The collection of repayments by remote channels such as direct debit and by home credit agents was also tested. The market test provided clear evidence of a profitable market opportunity for a differentiated credit card offer.

At 31 December 2004, 76,000 cards were in issue with net customer receivables of £26.1 million. The loss before tax for 2004 was £8.7 million (2003 loss of £6.7 million).

International division

Percentage growth figures for credit issued, collections and turnover are calculated after restating prior year figures at the current year average exchange rate in order to present a like-for-like comparison.

The international division has once again produced excellent results. Customer numbers increased by 25% to 1.6 million and now exceed the number of customers in our UK home credit business. Credit issued increased by 25% to £437 million, and turnover rose by 27% to £235 million. Profit before tax increased by 68% to £49.2 million (2003 £29.3 million).

Poland

Poland, our largest international business, performed exceptionally well. Customer numbers increased by 16% to 941,000; credit issued by 11% to £241.1 million; collections by 12% to £326.0 million; and turnover by 13% to £138.6 million. Bad debt as a percentage of credit issued was 10.5% for 2004 (2003 10.8%). Profit before tax increased strongly, up 34% to £44.4 million (2003 £33.1 million).

Czech Republic

Our Czech operation grew customer numbers and credit issued more slowly but produced good profit growth. Customer numbers rose by 3% to 230,000 and credit issued was up by 6% to £77.4 million. Collections increased by 7% to £106.8 million and turnover increased by 7% to £41.2 million. Credit quality improved with bad debt as a percentage of credit issued for 2004 at 9.7% (2003 11.0%). Profit before tax increased by 13.6% to £10.0 million (2003 £8.8 million).

Hungary

Hungary achieved very rapid growth in 2004 and reported its maiden full year profit of £6.4 million, a year ahead of plan. Customer numbers rose by 76% to 251,000 and credit issued increased by 91% to £87.2 million. Collections were up by 130% to £99.0 million and turnover increased by 133% to £42.7 million. Credit quality continues to be satisfactory and because of the growing maturity of the loan book we were able to replace the general bad debt provision, set at 8% of credit issued in prior years, with a specific provision. The release of surplus provisions from prior years benefited profit for the year by £2.0 million. Profit before tax increased by £8.3 million, turning a loss of £1.9 million in 2003 to a profit of £6.4 million for 2004.

Slovakia

Slovakia also produced strong growth during 2004 and, following a loss in the first half of the year of £0.9 million, reported a maiden second half profit of £0.4 million. Customer numbers rose by 64% to 102,000 and credit issued increased by 83% to £27.2 million. Collections were up by 82% to £26.8 million and turnover increased by 86% to £11.0 million. Credit quality is satisfactory with bad debt as a percentage of credit issued being 8.8% for 2004 (2003 8.0%). As in Hungary, we have based the 2004 bad debt charge on a specific provision rather than the general provision made in earlier years. The release of surplus provisions from prior years benefited the results by £0.4 million in 2004. The business reported a loss before tax for 2004 of £0.5 million, a significant improvement on the loss of £1.6 million for 2003.

Mexico

Our pilot operation launched in Mexico in August 2003 has performed well. At the end of December 2004 it operated from four branches in the Puebla area, had 35,000 customers (2003 3,000) and net customer receivables of £2.2 million. Credit quality is good and the performance of the Mexican business is similar to that of the central European businesses at the same stage of their development. The loss for the year was, as expected, £2.2 million (2003 loss of £1.2 million).

Motor insurance division

The UK motor insurance market remained competitive during 2004 and average premiums continued to fall, with average market rates down by approximately 3.5%. We maintained our policy of pricing for an adequate return on equity and so held our premium rates in the first half of the year but were able to reduce them by 5% in the middle of the year in response to lower than expected claims cost inflation. Policyholder numbers fell by 14.7% during the year to 501,000 but stabilised in the second half following the mid-year premium reductions. Gross written premiums reduced by 13% to £164.8 million, broadly in line with the fall in the number of policyholders, and gross earned premiums fell by 22% to £168.9 million. Costs were sharply reduced in 2004 in line with the reduced revenues and this, together with lower claims costs, resulted in an increase in underwriting profit to £11.3 million (2003 £4.0 million). Income earned on the investment fund, held to meet the cost of future claims, was £23.3 million (2003 £24.6 million). Profit before tax increased by 21% to £34.6 million (2003 £28.6 million).

Regulatory developments

Following a super-complaint in the summer of 2004 from the National Consumer Council (NCC) to the Office of Fair Trading (OFT) under the Enterprise Act 2002 regarding the competitiveness of the UK home credit industry, the OFT conducted a short, 90-day investigation. This culminated in the decision by the OFT in December 2004, to refer the supply of home credit to the Competition Commission for further investigation on the grounds that it suspects there are features of the market that prevent, restrict, or distort competition. We do not agree with the OFT's conclusions and have set out our reasons in an initial submission to the Competition Commission. This is available on our website. The Competition Commission inquiry is scheduled to publish an "Emerging Thinking" document in September 2005 and "Provisional Findings" in December 2005. The inquiry is expected to conclude by April 2006.

In Poland, a minority party proposal for an interest rate ceiling was submitted to the Polish parliament in June 2004 and, following a procedural first reading in July, has been subject to scrutiny by a parliamentary sub-committee. The Polish government and the central bank oppose the rate ceiling proposal. Alongside other financial institutions, we continue to make it clear that such a measure is not in the interests of consumers.

The UK Consumer Credit Bill, which amends the 1974 Consumer Credit Act, is currently being considered by the UK parliament and is expected to become law in April 2005. We welcome this bill which is designed to protect consumers and create a fairer, more competitive credit market.

International Financial Reporting Standards

In future the group will report its results under International Financial Reporting Standards (IFRS). To assist in understanding the impact on the group of the change to IFRS, we have provided with this preliminary announcement an unaudited pro forma 2004 profit and loss account and an unaudited pro forma statement of net assets as at 31 December 2004 prepared using IFRS. Profit before tax and goodwill amortisation for 2004 would have been reduced by the adoption of IFRS, down by 6.9% from £220.7 million (UK GAAP) to £205.5 million (IFRS). Profit before tax for 2004 would have been reduced by 4.9% from £216.1 million (UK GAAP) to £205.5 million (IFRS). Insurance division profits would have been unchanged and our UK home credit business would have been little affected, but profit before tax from our fast growing international division would have reduced by £9.4 million to £39.8 million, because of the requirement for slower revenue recognition and earlier recognition of bad debt under IFRS. Similarly, at Yes Car Credit, a combination of the requirement for slower revenue recognition and earlier bad debt provisioning would have reduced profit by £7.1 million, turning a profit of £4.4 million into a loss of £2.7 million. It is important to note that cash flows are unchanged and the majority of the reduction in group profits relates to the timing of recognition of revenue and bad debt charge and does not imply a reduction in the underlying profitability of our credit agreements or credit quality. Net assets are reduced by £111.4 million from £525.5 million (UK GAAP) to £414.1 million (IFRS), largely as a result of changes to the accounting for defined benefit pension funds.

The revenue we earn from our home credit loan agreements is fixed at the outset and no further charges are levied in the event that a customer misses repayments and takes longer than agreed to repay the loan. Customers value this flexible approach and many repay our loans over a longer period than that contracted. IFRS requires that we continue to accrue revenue at the effective interest rate of the loan agreement over the full period a loan is outstanding with the result that more revenue is recognised than we are contractually entitled to collect. Since this additional revenue is not collectable, it is immediately matched by the creation of an impairment provision. The result is an overstatement of both turnover and the impairment charge under IFRS. Consequently we will continue to disclose bad debt charge as a percentage of credit issued (as calculated under UK GAAP) for our home credit businesses as the most meaningful measure of credit quality.

The reduction in group earnings under IFRS would have reduced dividend cover in 2004 to 1.66 times, which is slightly below our target of approximately 1.75 times. Nonetheless, we intend to continue to pursue our progressive dividend policy but gradually, over time, to rebuild cover to approximately 1.75 times.

Prospects

The guidance which follows is based upon IFRS and is relative to the IFRS results for 2004 included in this announcement.

UK home credit

The UK home credit sector is expected to continue to face increasing competition from other small sum credit products, particularly credit cards. Customer numbers are expected to reduce in 2005 but credit issued per customer is likely to increase as a result of better marketing to lower risk customer segments. Overhead costs will be tightly managed and credit quality is expected to be stable. Overall, we expect profits will fall a little in 2005 and may reduce further in subsequent years if current market conditions persist.

Yes Car Credit

We expect that the tough trading conditions in the used car credit market seen in 2004 will continue into 2005. We will respond to this by making a number of changes to improve Yes Car Credit's business performance, including a further strengthening of the management team, improving the effectiveness of marketing and making reductions to the cost base, including closing two branches. These changes will take time to have an effect and so we expect the performance from the business in 2005 to be similar to that in 2004 (IFRS loss of £2.7 million).

Vanquis Bank

In December 2004 we announced our intention of bringing Vanquis Bank to operational scale during 2005. We will actively market credit card products to new and existing customers both by direct mail and through our agent network. We believe the combination of the remote recruitment and customer servicing skills of Vanquis Bank with the reach, knowledge and capabilities of our UK home credit business will allow us to establish and grow a distinctive and profitable credit card business. We aim to grow in a measured way and to add about 100,000 card holders during 2005. We expect that the cost of customer acquisition and early credit losses will result in start-up losses of about £14 million in 2005. We estimate the business will reach breakeven with a portfolio of about 250,000 card holders and our aim is to reach this position during 2006. As a result, we expect substantially reduced losses in 2006 and profits thereafter.

International division

We continue to see excellent prospects for growth from our international division with Poland and Hungary expected to be the major contributors.

The pilot in Mexico has proved successful and so during 2005 we will begin to extend our geographic coverage. Mexico is a large potential market. In the long term we estimate the market should support three million home credit customers yielding an annual profit per customer of about £20. We will adopt a phased, regional approach to geographic expansion, starting in 2005 in the Puebla-Veracruz region. The rate at which further regions are opened will depend on the performance of this region and also the rate at which we are able to develop local management resources. At this early stage it is envisaged that we will open one new region each year. Start-up losses in Mexico of about £5-£6 million are expected in 2005.

During 2005, we will focus on developing Mexico but plan to open in a new country in 2006.

Overall, we expect that the international division in 2005 will continue to deliver strong growth and excellent results.

Motor insurance division

The motor insurance division is expected to have another good year in 2005 benefiting from favourable trends in claims costs.

Group outlook

During 2005 we will continue our strategy of expanding our international businesses and broadening our range of credit products. In 2005, we will make a substantial investment, £20 million, in start-up losses to develop the new credit card business in the UK and expand home credit in Mexico. We believe that both initiatives will generate substantial shareholder value in the years to come. We expect that 2005 will be a year of further progress both in implementing our strategy and improving group performance.

John van Kuffeler
Chairman
16 March 2005

Preliminary announcement of the final results for the year ended 31 December 2004

Consolidated profit and loss account

	Unaudited 2004 £m	Audited 2003 £m
Turnover	1,166.7	1,134.2
Profit before taxation and goodwill amortisation	220.7	206.2
Goodwill amortisation	(4.6)	(4.3)
Profit before taxation	216.1	201.9
Taxation	(64.7)	(60.8)
Profit after taxation	151.4	141.1
Dividends (note 3)	(87.3)	(83.4)
Retained profit for the year (note 6)	64.1	57.7
Earnings per share (note 4)		
- Basic	59.74p	55.84p
- Adjusted	61.57p	57.54p
- Diluted	59.47p	55.68p
Dividend per share to ordinary shareholders (note 3)		
a) Interim – paid	13.65p	13.10p
b) Final – proposed	20.75p	19.90p
Total ordinary dividend	34.40p	33.00p

There is no material difference between the reported profit before taxation and the retained profit shown above and their historical cost equivalents in the current or prior year.

Segmental reporting

Analyses of turnover and profit before taxation by class of business are set out below:

	Turnover		Profit before taxation	
	2004	2003	2004	2003
	£m	£m	£m	£m
UK home credit	490.5	495.6	152.3	152.6
Yes Car Credit	281.8	269.2	4.4	11.2
Vanquis Bank	6.7	1.3	(8.7)	(6.7)
UK consumer credit	779.0	766.1	148.0	157.1
International	235.0	191.4	49.2	29.3
Motor insurance	152.7	176.7	34.6	28.6
	1,166.7	1,134.2	231.8	215.0
Central	-	-	(11.1)	(8.8)
Turnover and profit before taxation and goodwill amortisation	1,166.7	1,134.2	220.7	206.2
Goodwill amortisation*	-	-	(4.6)	(4.3)
Turnover and profit before taxation	1,166.7	1,134.2	216.1	201.9

* Goodwill amortisation in 2004 includes £4.4 million in respect of Yes Car Credit (2003 £4.1 million) and £0.2 million in respect of UK home credit (2003 £0.2 million).

Turnover between segments is not material. Analyses by class of business are based on the group's divisional structure.

The international profit before taxation comprises:

	2004	2003
	£m	£m
Poland	44.4	33.1
Czech Republic	10.0	8.8
Hungary	6.4	(1.9)
Slovakia	(0.5)	(1.6)
Mexico	(2.2)	(1.2)
Central divisional overheads	(8.9)	(7.9)
Profit before taxation	49.2	29.3

Consolidated balance sheet

	Unaudited as at 31 December 2004 £m	Audited as at 31 December 2003 as restated (see note 6) £m
Fixed assets (including goodwill)	144.0	135.9
Current assets		
Stock	16.6	14.6
Amounts receivable from customers (note 5(a))		
- due within one year	1,048.3	905.3
- due in more than one year	224.0	204.1
Debtors	157.3	153.1
Investments realisable within one year	461.7	514.5
Cash at bank and in hand	38.4	38.8
	1,946.3	1,830.4
Current liabilities		
Bank and other borrowings	(35.3)	(19.6)
Creditors – amounts falling due within one year	(236.9)	(220.8)
Insurance provisions and deferred income	(424.9)	(462.9)
	(697.1)	(703.3)
Net current assets	1,249.2	1,127.1
Total assets less current liabilities	1,393.2	1,263.0
Non-current liabilities		
Bank and other borrowings	(855.1)	(799.8)
Creditors – amounts falling due after more than one year	(9.8)	(11.6)
Provision for deferred taxation	(2.8)	(2.6)
Net assets	525.5	449.0
Capital and reserves		
Called-up share capital	26.4	26.3
Share premium account	105.5	101.5
Revaluation reserve	2.7	2.7
Other reserves	4.4	4.4
Profit and loss account	386.5	314.1
Equity shareholders' funds (note 6)	525.5	449.0
Gearing ratio (note 7)	164%	176%

Consolidated cash flow statement

	Unaudited 2004 £m	Audited 2003 as restated (see note 6) £m
Net cash inflow from operating activities	54.3	57.1
Taxation	(54.5)	(45.1)
Capital expenditure and financial investment	(22.8)	(17.1)
Acquisitions and disposals	-	(5.4)
Equity dividends paid	(84.9)	(79.7)
Management of liquid resources	58.6	(13.1)
Financing	48.3	87.6
Decrease in cash in the year	(1.0)	(15.7)

The cash flow statement above has been prepared in accordance with FRS 1 (Revised 1996) 'Cash Flow Statements'. As required by that standard, the statement aggregates the cash flows arising from each division within the group. However, the cash and investments held by those businesses that are regulated are required to be strictly segregated from those for the rest of the group and are not available to repay group borrowings. At 31 December 2004 the cash and investments held by the group's regulated businesses amounted to £469.6 million (2003 £508.7 million).

Reconciliation of net cash flow to movement in net debt

	2004 £m	2003 £m
Decrease in net cash for the year	(1.0)	(15.7)
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(58.6)	13.1
	(59.6)	(2.6)
Cash inflow from increase in debt	(42.3)	(86.6)
Change in net debt resulting from cash flows	(101.9)	(89.2)
Exchange adjustments	(22.3)	4.4
Net debt at 1 January	(266.1)	(181.3)
Net debt at 31 December	(390.3)	(266.1)

Analysis of changes in net debt

	1 Jan 2004 £m	Cash flows £m	Exchange movements £m	Other changes £m	31 Dec 2004 £m
Cash at bank and in hand	38.8	(1.7)	1.3	-	38.4
Overdrafts	(7.3)	0.7	-	-	(6.6)
	31.5	(1.0)	1.3	-	31.8
Investments realisable within one year	514.5	(58.6)	5.8	-	461.7
Bank and other borrowings:					
- less than one year	(12.3)	2.7	-	(19.1)	(28.7)
- more than one year	(799.8)	(45.0)	(29.4)	19.1	(855.1)
	(812.1)	(42.3)	(29.4)	-	(883.8)
Net debt	(266.1)	(101.9)	(22.3)	-	(390.3)

Reconciliation of operating profit to net cash inflow from operating activities

	2004 £m	2003 £m
Operating profit	216.1	201.9
Depreciation and amortisation	15.6	14.3
Loss on sale of tangible fixed assets	0.1	0.4
Increase in amounts receivable from customers	(134.0)	(158.1)
Decrease in stock and debtors	3.4	14.3
Decrease in unearned insurance premiums	(4.1)	(28.2)
Decrease in insurance claims provision	(33.7)	(4.1)
(Decrease)/increase in trade creditors, accruals and other liabilities	(9.1)	16.6
Net cash inflow from operating activities	54.3	57.1

Net cash inflow from operating activities can be analysed as follows:

	2004 £m	2003 £m
UK home credit	141.5	149.1
Yes Car Credit	(40.4)	(79.5)
Vanquis Bank	(27.1)	(13.1)
UK consumer credit	74.0	56.5
International	(17.5)	(11.1)
Motor insurance	12.3	23.2
Central	(14.5)	(11.5)
	54.3	57.1

Notes – Preliminary announcement of the final results for the year ended 31 December 2004

1. This preliminary announcement, which has been prepared on a basis consistent with the previous year other than in respect of the adoption of UITF 38 'Accounting for ESOP Trusts' (see note 6), does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The announcement has been agreed with the company's auditors for release.

2. Except for the restatement set out in note 6, the information for the year ended 31 December 2003 is an extract from the statutory accounts to that date which have been delivered to the Registrar of Companies. Those accounts included an audit report which was unqualified and which did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2004 upon which the auditors have still to report, will be delivered to the Registrar following the company's annual general meeting.

3. Dividends

		2004 £m	2003 £m
Interim dividend paid	– 13.65p (2003 – 13.10p)	34.6	33.1
Final dividend proposed	– 20.75p (2003 – 19.90p)	52.7	50.3
		87.3	83.4

4. Earnings per share

The basic and diluted earnings per share figures have been calculated using the profit for the year attributable to ordinary shareholders of £151.4 million (2003 £141.1 million). The weighted average number of shares in issue during the year can be reconciled to the number used in the basic, adjusted and diluted earnings per share calculations as follows:

Weighted average number of shares	2004 Number m	2003 Number m
In issue during the year	254.9	254.3
Held by the QUEST	(1.5)	(1.6)
Used in basic and adjusted earnings per share calculation	253.4	252.7
Issuable on conversion of outstanding options	1.2	0.7
Used in diluted earnings per share calculation	254.6	253.4

The adjusted earnings per share figures have been calculated using a profit after tax, excluding goodwill amortisation of £156.0 million (2003 £145.4 million). The impact on earnings per share is as follows:

	2004 Earnings £m	2004 Earnings per share pence	2003 Earnings £m	2003 Earnings per share pence
Basic earnings and earnings per share	151.4	59.74	141.1	55.84
Goodwill amortisation	4.6	1.83	4.3	1.70
Adjusted earnings and earnings per share	156.0	61.57	145.4	57.54

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

	Number m
At 1 January 2004	254.3
Shares issued pursuant to the exercise of options	0.8
At 31 December 2004	255.1

5. Amounts receivable from customers

(a) Amounts receivable from customers represent:

	2004 £m	2003 £m
UK home credit (note 5(b))	642.2	642.5
International (note 5(c))	310.0	207.1
Yes Car Credit (note 5(d))	294.0	252.4
Vanquis Bank (note 5(e))	26.1	7.4
	1,272.3	1,109.4
Analysed as:		
- due within one year	1,048.3	905.3
- due in more than one year	224.0	204.1
	1,272.3	1,109.4

(b) UK home credit receivables

	2004 £m	2003 £m
Gross instalment credit receivables	984.2	985.3
Less: provision for bad and doubtful debts	(79.2)	(83.7)
Instalment credit receivables after provision for bad and doubtful debts	905.0	901.6
Less: deferred revenue thereon	(262.8)	(259.1)
	642.2	642.5
Analysed as:		
- due within one year	632.2	632.6
- due in more than one year	10.0	9.9
	642.2	642.5

(c) International receivables

	2004 £m	2003 £m
Gross instalment credit receivables	521.4	341.5
Less: provision for bad and doubtful debts	(55.7)	(33.4)
Instalment credit receivables after provision for bad and doubtful debts	465.7	308.1
Less: deferred revenue thereon	(155.7)	(101.0)
Total – due within one year	310.0	207.1

(d) Yes Car Credit receivables

	2004 £m	2003 £m
Gross car finance receivables	457.6	421.4
Less: deferred revenue thereon	(142.6)	(142.9)
	315.0	278.5
Less: provision for bad and doubtful debts	(21.0)	(26.1)
	294.0	252.4
Analysed as:		
- due within one year	80.0	58.2
- due in more than one year	214.0	194.2
	294.0	252.4

(e) Vanquis Bank receivables

	2004 £m	2003 £m
Gross credit card receivables	29.0	8.2
Less: deferred revenue thereon	(0.6)	(0.2)
	28.4	8.0
Less: provision for bad and doubtful debts	(2.3)	(0.6)
Total – due within one year	26.1	7.4

(f) Bad debt charge

	2004 £m	2003 £m
UK home credit	86.4	88.0
Yes Car Credit	42.9	33.4
Vanquis Bank	4.0	0.7
UK consumer credit	133.3	122.1
International	39.2	37.2
Bad debt charge	172.5	159.3

6. Reconciliation of movement in equity shareholders' funds

	2004 £m	2003 as restated £m
Profit attributable to equity shareholders	151.4	141.1
Dividends	(87.3)	(83.4)
Retained profit	64.1	57.7
New share capital issued	4.1	0.6
Proceeds in respect of QUEST shares	1.9	0.4
Currency translation differences	6.4	(1.6)
Net addition to equity shareholders' funds	76.5	57.1
Equity shareholders' funds at 1 January as reported	449.0	402.7
Prior year adjustment	-	(10.8)
Equity shareholders' funds at 1 January as restated	449.0	391.9
Equity shareholders' funds at 31 December	525.5	449.0

UITF 38 'Accounting for ESOP Trusts' has been adopted for the first time in 2004. As a result, shares in Provident Financial plc held by the QUEST, a discretionary trust established for the benefit of the employees of the group, have been reclassified from fixed asset investments to the profit and loss reserve within equity shareholders' funds. This change has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly. As a result, equity shareholders' funds at 31 December 2004 have decreased by £8.5 million (31 December 2003 £10.4 million) and proceeds from the exercise of QUEST shares have been reclassified in the cash flow statement from capital expenditure and financial investment cash flows to financing cash flows. The prior year adjustment has had no impact on the performance statements of the current or previous year.

7. The gearing ratio is calculated as bank and other borrowings, net of consumer credit cash, divided by year end consolidated equity shareholders' funds.

8. FRS 17 'Retirement Benefits'

The company has adopted the transitional arrangements under FRS 17 and will disclose the impact of the standard as a note to the accounts. If the standard had been adopted in full in 2004, earnings would have increased by £1.0 million (2003 earnings reduced by £2.7 million) and net assets at 31 December 2004 would have reduced by £114.7 million (31 December 2003 £92.1 million). This reduction in net assets comprises a post tax FRS 17 liability of £89.7 million (2003 £73.4 million) and the elimination of a post tax SSAP 24 prepayment of £25.0 million (2003 £18.7 million). The company intends to make additional cash contributions to the two major defined benefit pension schemes in the UK of £13.0 million in 2005.

Unaudited pro forma IFRS information

The group currently prepares its accounts in accordance with the UK Companies Act 1985 and applicable UK accounting standards (together UK GAAP). For the year ending 31 December 2005, the group will produce its accounts under International Financial Reporting Standards (IFRS) which differ significantly from UK GAAP in a number of areas.

In order to illustrate the impact of IFRS on the group, the following pro forma financial information for the year ended 31 December 2004 has been prepared which reconciles the UK GAAP financial information to that under IFRS.

The pro forma has been prepared on the basis of IFRS expected to be in effect for the year ending 31 December 2005. The IFRS in effect at that date may change due to the EU endorsement process, the issue of any interpretative guidance issued by the International Accounting Standards Board (IASB)/International Financial Reporting Interpretations Committee and changes in UK companies' legislation. The pro forma financial information reflects all necessary IFRS adjustments affecting profit and net assets but has not been prepared using an IFRS format of presentation. The pro forma reconciliation is unaudited and the adjustments are explained in the notes below:

Unaudited pro forma profit and loss account

		IFRS adjustments						
	UK GAAP	Revenue & impairment	Goodwill	Pensions	Share based payments	Derivatives	Dividends	IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
	(note a)	(note b)	(note c)	(note d)	(note e)	(note f)	(note g)	(note h)
Turnover								
UK home credit	490.5	67.9						558.4
Yes Car Credit	281.8	(9.7)						272.1
Vanquis Bank	6.7	(0.8)						5.9
International	235.0	36.2						271.2
Motor insurance (note i)	152.7							152.7
	1,166.7	93.6	-	-	-	-	-	1,260.3
Profit before taxation								
UK home credit	152.3	1.2		0.9	(0.4)			154.0
Yes Car Credit	4.4	(7.0)			(0.1)			(2.7)
Vanquis Bank	(8.7)	(0.3)						(9.0)
International	49.2	(7.7)		0.2	(0.3)	(1.6)		39.8
Motor insurance (note i)	34.6			0.1	(0.1)			34.6
Central	(11.1)			0.3	(0.4)			(11.2)
	220.7	(13.8)	-	1.5	(1.3)	(1.6)	-	205.5
Goodwill amortisation	(4.6)		4.6					-
	216.1	(13.8)	4.6	1.5	(1.3)	(1.6)	-	205.5
Taxation	(64.7)	3.3		(0.5)	0.4	0.4		(61.1)
Profit after taxation	151.4	(10.5)	4.6	1.0	(0.9)	(1.2)	-	144.4
Dividends	(87.3)						2.4	(84.9)
Retained profit for the year	64.1	(10.5)	4.6	1.0	(0.9)	(1.2)	2.4	59.5
Earnings per share								
Basic (p)	59.74							57.00
Adjusted (p)	61.57							57.00

Unaudited pro forma statement of net assets

		IFRS adjustments						
	UK GAAP	Revenue & impairment	Goodwill	Pensions	Share based payments	Derivatives	Dividends	IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
	(note a)	(note b)	(note c)	(note d)	(note e)	(note f)	(note g)	(note h)
Fixed assets	144.0		4.6					148.6
Amounts receivable from customers	1,272.3	(72.1)						1,200.2
Investments and cash	500.1							500.1
Other assets	169.9	1.9		(35.7)		5.4		141.5
	1,942.3	(70.2)	-	(35.7)	-	5.4	-	1,841.8
Bank and other borrowings	(890.4)					32.7		(857.7)
Pension liability	-			(129.8)				(129.8)
Dividends	(52.7)						52.7	-
Net tax (liability)/asset*	(58.4)	18.8		49.7		0.2		10.3
Other liabilities	(559.3)	(0.6)			0.1	(39.3)		(599.1)
	(1,560.8)	18.2	-	(80.1)	0.1	(6.4)	52.7	(1,576.3)
Net assets	525.5	(52.0)	4.6	(115.8)	0.1	(1.0)	52.7	414.1

** The UK GAAP net tax liability comprises a corporation tax creditor of £59.6 million plus the deferred tax provision of £2.8 million less overseas tax recoverable of £4.0 million.*

Notes to the unaudited pro forma IFRS information

a) Extracted from the unaudited accounts prepared under UK GAAP.

b) Revenue and impairment

Revenue recognition and impairment in home credit

The service charge on a home credit loan is fixed. The charge does not increase if customers take longer than the contracted period to repay the loan and there are no penalty or default interest charges. Therefore, revenue is capped at the amount of the service charge. Under UK GAAP, revenue in home credit is recognised by a combination of (i) an initial release to cover issue costs, (ii) an amount recognised in proportion to cash collections and (iii) a small amount released on a sum of digits method reflecting the funding cost of the amount advanced.

Under IFRS, the group is required to treat the service charge as if it were interest. Revenue on loan receivables is recognised using an effective interest rate (EIR). This is calculated using contracted cash flows adjusted for the impact of customers repaying early but excluding the anticipated impact of customers paying late or not paying at all. Directly attributable issue costs are also taken into account. This approach can, and does, result in the recognition of revenue in excess of the amount to which the group is contractually entitled because revenue continues to be recognised on loans that are not fully repaid within the contracted term. In addition to this change, under IFRS the group recognises revenue more slowly as many of the costs covered by the initial release under UK GAAP do not qualify as directly attributable costs under IFRS.

Under UK GAAP, bad debt provisions in home credit are based on a formulaic approach which is based on historical performance. Under IFRS, impairment of the balance sheet value of customer receivables is calculated by estimating the future cash flows from a loan portfolio, discounting these to a present value using the EIR and comparing this figure with the balance sheet value. An impairment provision is made for the shortfall between the present value and the balance sheet value and an impairment charge or credit to the profit and loss account results. The recognition of revenue above that which the group is contractually entitled to causes an immediate impairment charge since no cash collection is expected. This results in a 'grossing up' of the impairment charge which goes to offset the 'grossing up' of the revenue. The 'gross up' leads to an increase and distortion in the bad debt as a percentage of issue metric. As a consequence, we will continue to disclose bad debt charge as a percentage of credit issued, as calculated under UK GAAP, for our home credit businesses as the most meaningful measure of credit quality. Unfortunately, the relevant standard here, IAS 39 'Financial Instruments: Recognition and Measurement', was not written with the home collected credit sector in mind.

Revenue recognition and impairment in Yes Car Credit

Under UK GAAP, the proceeds from a vehicle sale are recognised immediately, together with a proportion of the insurance commission income. The remainder of the insurance commission is recognised on a straight line basis over the life of the finance contract. Finance income is recognised over the life of the contract to give a constant return on the carrying amount.

Under IFRS, the car sale continues to be recognised immediately and finance income is recognised using the EIR. Insurance commissions are taken into account in calculating the EIR and are, therefore, spread over the life of the contract albeit not on a straight line basis like UK GAAP.

Under UK GAAP, bad debt provisions in Yes Car Credit reflect the directors' best estimate of the number of contracts likely to default and the average expected loss for these contracts. Under IFRS, impairment is recognised when there is objective evidence that a loan is impaired (i.e. when a contractual payment has been missed). Provisions are calculated using the expected cash flows of impaired loans and discounted at the EIR.

Revenue recognition and impairment in Vanquis Bank

Under UK GAAP, annual fees are taken to the profit and loss account immediately.

Under IFRS, annual fees have to be taken into account in calculating the EIR.

There is no material change in the bad debt provisioning policy of Vanquis Bank on transition to IFRS.

c) Under UK GAAP, goodwill is recorded at cost and amortised to the profit and loss account over its expected useful economic life.

Goodwill amortisation is prohibited under IFRS. Instead, annual impairment reviews of goodwill should be conducted and any impairment should be reflected in the profit and loss account.

IFRS 1 'First Time Adoption of International Financial Reporting Standards' allows UK GAAP goodwill as at the date of transition to be 'frozen' and then subject to a formal annual impairment review.

The group's date of transition to IFRS is 1 January 2004 and the adjustment above therefore reflects the reversal of the UK GAAP goodwill amortisation charge in 2004 of £4.6 million.

d) Under UK GAAP, the group currently uses SSAP 24 to account for pension obligations. Under SSAP 24, the annual charge to the profit and loss account reflects the total cost of providing pensions (including actuarial gains and losses) spread over the working lives of employees. Differences between cash contributions made to the scheme and the pension charge in the profit and loss account are held on balance sheet.

The IFRS standard on pensions is IAS 19 'Employee Benefits'. IAS 19 is broadly comparable to FRS 17 which, under its transitional arrangements, has historically been a disclosure only standard. Both standards are balance sheet focused with pension deficits/surpluses recognised on balance sheet. There are a number of alternative treatments of actuarial gains and losses under IAS 19 – the group intends to reflect such gains and losses in a statement of recognised income and expense which is now allowed under IAS 19 and is comparable to FRS 17.

The profit and loss account adjustment above is the difference between the UK GAAP SSAP 24 charge (£10.7 million) and the IAS 19 charge (£9.2 million). The net asset adjustment represents the reversal of the UK GAAP pension prepayment of £35.7 million and full reflection of the pension deficit under IFRS (£129.8 million). The IAS 19 deficit is £1.6 million greater than the FRS 17 deficit of £128.2 million due to small differences between the two standards in the valuation of scheme assets and the treatment of risk benefits (i.e. lump sums and dependants' pensions payable on death in service). The deferred tax asset on the pension deficit has been reflected separately from the pension deficit as, unlike FRS17, IFRS does not allow an offset to be made.

e) Under UK GAAP, the excess of the intrinsic value (market value of the share at date of grant) over the exercise price of options is charged to the profit and loss account over the employee performance period. SAYE schemes are exempt from this treatment under UK GAAP.

IFRS 2 'Share Based Payments' requires a fair value based method of accounting for share based payments which takes into account the value of the option, not just the market price of the share on date of grant. The cost of share based payments is recognised over the relevant vesting period which is broadly comparable with UK GAAP. There is no exemption in IFRS for SAYE schemes.

The adjustment above represents the recognition of a profit and loss account charge for share based payments under IFRS. As permitted by IFRS 2, the adjustment has been calculated based on all share options and SAYE schemes granted since 7 November 2002 but which have not vested by 1 January 2004. There is minimal net asset impact as the charge to the profit and loss account is offset by the creation of a corresponding reserve within equity shareholders' funds.

f) Under UK GAAP, derivatives (e.g. interest rate swaps, foreign currency contracts) are recorded at cost and accounted for on an accruals basis. Foreign currency loans which are the subject of currency hedging arrangements are retranslated at each period end using the contracted rate.

IAS 39 requires all derivatives to be recognised on balance sheet at their fair value. Movements in fair value should be reflected in the profit and loss account unless prescriptive hedge accounting criteria are met.

The group manages interest rate and foreign exchange risk through the use of derivative financial instruments. Accordingly, these are reflected on balance sheet at their fair value under IFRS. The group has attained hedge accounting from 1 January 2004 for the majority of its derivatives and, therefore, for those derivatives that qualify for hedge accounting, movements in fair value are deferred in a hedging reserve (within equity shareholders' funds) and released to the profit and loss account in line with the underlying hedged item(s). The profit and loss account charge above reflects the movement in fair value of those hedges that do not qualify for hedge accounting and any small amounts of hedge ineffectiveness arising on those that do qualify.

In addition to the above, IAS 21 'Effects of Changes in Foreign Exchange Rates' requires all monetary assets and liabilities to be retranslated at the year end exchange rate regardless of hedging arrangements in place. Accordingly, the group's foreign currency borrowings which, under UK GAAP are retranslated at the contracted rate of exchange, have been retranslated using the year end exchange rate as at 31 December 2004. The movement in the liability has been offset by movements in the fair value of the cross currency swaps which are in place to hedge the loans. As a result, there is no impact on the profit and loss account.

g) Under UK GAAP, dividends approved after the balance sheet date are recorded as liabilities at the balance sheet date.

Under IFRS, dividends approved after the balance sheet date cannot be included as a liability at the balance sheet date.

The adjustment above reflects the reversal of the 2004 proposed year end dividend in the balance sheet. The adjustment in the profit and loss account reflects the difference between the 2003 proposed year end dividend (now reflected in 2004) and the 2004 proposed year end dividend (will be reflected in 2005).

It should be noted that if the presentational aspects of IFRS were being adopted in the pro forma, dividends would not appear in the profit and loss account but would instead be included in a statement of changes in shareholders' equity.

h) The adoption of IAS 39 in the 2004 comparative results is optional on first time transition to IFRS in 2005. Given that IAS 39 impacts revenue recognition, impairment (bad debt provisioning) and recognition of derivatives at fair value, the group intends to fully adopt IAS 39 in its 2004 comparatives to ensure that they are comparable with the 2005 results.

i) At present, there is no material impact on the UK GAAP accounting policies of the insurance division following the transition to IFRS. The IASB recently introduced IFRS 4 'Insurance Contracts' which is primarily a disclosure only standard, and represents the first phase of the project to review insurance accounting under IFRS. The group will continue to monitor the IASB's review of insurance accounting as it continues to develop.

Shareholder information

1. The shares will be marked ex-dividend on 13 April 2005.

2. Dividend warrants/vouchers in respect of the final dividend will be posted on 1 June 2005.

3. The final dividend will be paid on 3 June 2005 to shareholders on the register at the close of business on 15 April 2005.

4. The annual review and summary financial statement 2004 (or the annual report and accounts 2004 for those shareholders who have requested it) together with the notice of the annual general meeting will be posted to shareholders on 20 April 2005.

5. The Provident Financial Company Nominee Scheme ("the scheme") enables shareholders who are eligible to use it (i.e. individuals) to take advantage of the CREST system for settling transactions in shares in the company by means of a low-cost dealing service. It includes a dividend reinvestment scheme. Shareholders who wish to take advantage of the scheme should contact the company's registrar, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, (telephone 0870 162 3100) to request an information pack.

6. The annual general meeting will be held on 24 May 2005 at the Cedar Court Hotel, Mayo Avenue, off Rooley Lane, Bradford, West Yorkshire, BD5 8HZ.