

Moving, changing, growing



Provident Financial plc

Interim Report 2006

Key highlights

Increased investment of £19.1 million to drive future growth in UK and international

Return to customer growth in UK home credit improves medium-term prospects

Increase in pre-tax profit from established international home credit businesses

Group remains strongly cash and capital generative

Key interim results 2006

PROFIT BEFORE TAX FROM
ONGOING OPERATIONS

£66.5m

REVENUE FROM
ONGOING OPERATIONS

£568.7m

GROUP EARNINGS PER SHARE

18.26p

INTERIM DIVIDEND PER SHARE

14.48p

Contents

- 01** Chairman's statement
- 06** Interim financial information
- 10** Notes to the interim financial information
- 19** Independent review report
- 20** Information for shareholders

Provident Financial plc
Company number 668987

Chairman's statement

2006 is a year of significant investment to enhance the future growth of the group's UK and international businesses. The group remains strongly cash and capital generative and the interim dividend has been increased by 3%.



John van Kuffeler, Chairman

The first half of 2006 has been a significant period of investment and development to support the future growth of the group's UK and international businesses. UK home credit has stepped up its marketing expenditure aimed at developing new sales channels and is now seeing growth in customer numbers after three years of reduction. It is also investing over the next two years in technology which will improve the efficiency and effectiveness of the agency force. Vanquis Bank has successfully developed distribution of its credit cards through the internet and face to face canvassing to augment the customer reach available from its direct mail programme whilst building the foundation for profitable growth through developing its underwriting and credit processes. International has invested heavily in opening up the Mexican and Romanian markets as well as developing future growth opportunities through piloting new products and researching potential new countries. In Poland, the modified home credit product to comply with the Polish interest rate cap legislation has been successfully rolled out and, at the same time, management action has been taken to deal with the adverse trend in impairment following the rapid expansion of credit in late 2004 and early 2005.

Revenue from ongoing operations in the six months to June 2006 increased by 5% to £568.7 million. Group profit before tax from ongoing operations was £66.5 million (June 2005 £89.1 million) after charging start-up losses and development

costs totalling £19.1 million (June 2005 £9.2 million). These comprise start-up losses of £5.8 million in Mexico and Romania, £10.7 million in Vanquis Bank, £1.3 million in launching an internet-based distribution channel for our motor insurance division, and £1.3 million on piloting new credit products in Poland.

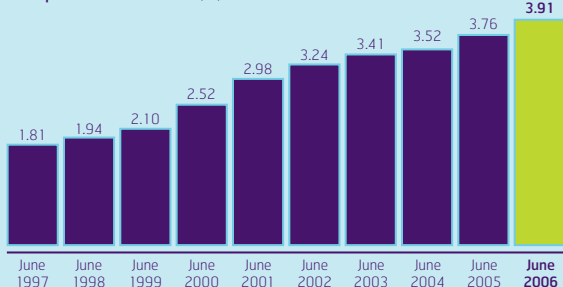
Earnings per share reduced from 23.07p to 18.26p and an interim dividend of 14.48p per share (June 2005 14.06p) has been declared, an increase of 3.0%.

Operations UK home credit

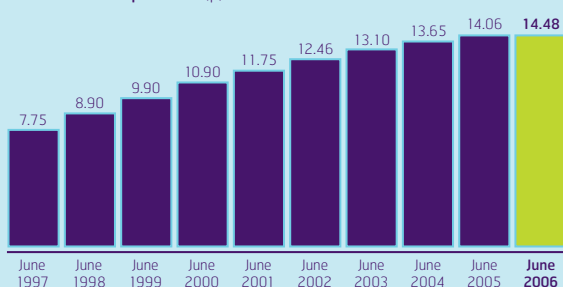
	H1 2006 £m	H1 2005 £m	Change %
Customers numbers ('000)	1,472	1,462	1
Credit issued	390.8	386.9	1
Average customer receivables	591.7	549.5	8
Revenue	289.6	281.6	3
Impairment	(106.4)	(100.9)	(5)
Revenue less impairment	183.2	180.7	1
Costs	(121.2)	(114.3)	(6)
Interest	(10.3)	(5.9)	(75)
Profit before tax	51.7	60.5	(15)

Chairman's statement

Group customer numbers (m)



Interim dividend per share (p)



In UK home credit it is encouraging to see an improving trend in customer numbers after three years of reduction. Increased marketing expenditure in new sales channels including direct mail, direct response advertising, the internet and affinity relationships with retailers has proved successful. As a result, year-on-year customer numbers have shown growth of 1% to 1.47 million, a pleasing result in a competitive market and particularly given the tighter credit controls being applied to new customers.

Credit issued showed growth of 1% to £390.8 million for the six months to June 2006 compared with the same period in 2005 and revenue increased by 3% to £289.6 million. This was achieved against 2005 volumes which benefited from the increased issue of larger loans repayable over 18 months to two years.

As a result of increased pressure on our customers' disposable incomes and growth in receivables, impairment costs increased at a faster rate than revenues, up by 5% to £106.4 million.

In order to improve lending decisions, the use of statistical credit management techniques has been further enhanced and this will allow us to lend more to lower risk customers and less to higher risk customers. Arrears management processes are also being improved. These changes are important, to balance growth and credit quality, as the business pursues controlled customer growth in the current environment.

As planned, operating costs for the six months of £121.2 million showed an increase of £6.9 million compared with the first half of 2005, the majority resulting from the step-up in expenditure on marketing and IT. Interest costs increased by £4.4 million mainly due to funding the pension deficit at the start of 2006.

Improving future cost efficiency is a priority and during the first half of this year we have completed, ahead of schedule, the integration of the Greenwood Personal Credit field management and administration into Provident Personal Credit. The 'Insight' programme to develop hand-held personal computers for agents and field staff is on track to begin roll-out in 2007. As well as increasing efficiency through the replacement of paper-driven processes, the programme will also deliver increased agent effectiveness and improved customer service through, for example, more flexible agent working and on-line credit checks.

Mainly as a consequence of investment in new sales channels and IT, profit before tax reduced by 15% to £51.7 million (June 2005 £60.5 million).

Although the UK home credit market remains competitive, the opportunity to grow customer numbers has improved in the last six to 12 months. Overall, we expect growth in both customer numbers and credit issued in 2006. However, continued investment in marketing and IT will result in a reduction in profit in 2006 as compared to last year, the majority having occurred in the first six months of the year.

Vanquis Bank

Vanquis Bank was launched as a new business at the end of 2004. The tightening of credit imposed in the second half of 2005 to curtail impairment charges has proved effective and during the first six months of 2006, the business has also focused on refining the underwriting criteria applied to new customer recruitment and to the extension of credit to established customers. Whilst these actions slowed revenue growth during the early part of 2006, the rate of new customer recruitment accelerated through the second quarter, assisted by the development of new sales channels, including the internet and face to face canvassing which have augmented the direct mail programme and increased

customer reach. Customer numbers at 30 June 2006 stood at 212,000 and are expected to exceed 250,000 in the second half of the year.

Receivables at the half-year were up 81% at £75.9 million compared to June 2005 and revenue increased by 93% to £13.9 million over the corresponding period in 2005. The loss before tax for the six months to June 2006 was £10.7 million (June 2005 loss of £7.2 million). The rate of start-up losses in the second half of 2006 is expected to reduce and the business is expected to move into profit in 2007.

Yes Car Credit

The collection of the Yes Car Credit receivables book has progressed well. Collections of £83 million in the six months were ahead of plan and the receivables book now stands at £161 million. The disposal of vehicle stock and the surrender of nearly all branch lease obligations have been completed at a cost in line with the amounts provided in the 2005 financial statements.

In the six months to June 2006, a loss of £0.5 million was incurred (June 2005 loss of £6.2 million). We continue to estimate that costs of collection will broadly match the revenue earned and do not expect a material profit or loss over the period during which the receivables are collected.

International division

Percentage change figures for credit issued, average net customer receivables, revenue, impairment and costs are calculated after restating prior year figures at the current year average exchange rate in order to present a like-for-like comparison.

	H1 2006 £m	H1 2005 £m	Change £m
Established countries	28.0	25.2	2.8
Central divisional costs	(5.9)	(4.3)	(1.6)
	22.1	20.9	1.2
Investment in new countries			
Mexico	(4.7)	(1.5)	(3.2)
Romania	(1.1)	–	(1.1)
Investment in new products	(1.3)	(0.2)	(1.1)
	(7.1)	(1.7)	(5.4)
Reported profit before tax	15.0	19.2	(4.2)

During the first half of 2006, the international division continued its expansion programme, developing the Mexican market, starting a pilot operation in Romania,

piloting new products and exploring the potential opportunities for new country openings in 2007 and beyond. The performance of the division reflects good results in the Czech Republic, Hungary and Slovakia, but was restrained by Poland's performance which was impacted by the disruption of adapting to the new rate cap legislation and the action taken to improve adverse impairment trends.

Profit before tax from the established international businesses after central divisional costs increased by 6% to £22.1 million. Investment in new countries and products cost £7.1 million, up from £1.7 million in the first half of 2005 and profit before tax, after absorbing these costs, reduced by £4.2 million to £15.0 million.

The rate of investment to expand the international division will continue in the second half and total some £15 million for 2006, up from £4 million in 2005. This comprises expansion in Mexico and the start-up in Romania (£12 million), and the development of monthly home collected and remotely collected loan products in Poland (£3 million).

Overall, as a result of the start-up losses to support expansion into new territories, new product development costs and slower than expected progress in Poland, profit from the international division will run a little behind the prior year through the second half of 2006.

Central Europe

The Czech Republic, Hungary and Slovakia grew well, with stable credit quality and in aggregate recorded double digit growth in customer numbers, credit issued, revenue and profit in the first half of the year. We expect these countries will continue to achieve good results during 2006.

In Poland, the last 18 months has been a challenging period for the Polish business for two reasons.

Firstly, the introduction of a cap on interest rates in February of this year meant that our home credit product design and pricing had to be significantly reconfigured. To enable this, it was also necessary to accelerate the introduction of new computer systems. The roll-out of the reconfigured product to comply with the rate cap legislation has been successfully achieved and the take-up by customers of the optional home collection service has been good.

Secondly, the business has had to respond to a rise in impairment which resulted from a rapid expansion of credit in late 2004 and early 2005. As a result, credit controls have been tightened and collections and arrears activity

Chairman's statement

have been the primary focus for field staff and agents. There are now clear signs of an improvement in the quality of lending which is expected to benefit impairment charges in the second half of 2006 and in 2007. However, the tightening of credit coupled with the significant shift in focus to collections and arrears activity has had a significant impact on customer numbers, credit issued and revenue which is likely to constrain growth from the established Central European businesses in 2007 before growth improves from a stronger foundation. We remain confident that the medium and longer term opportunities for profitable growth remain excellent.

Results of established Central European countries

	H1 2006 £m	H1 2005 £m	Change %
Customer numbers ('000)	1,578	1,563	1
Credit issued	231.7	240.3	(4)
Average customer receivables	290.5	264.4	6
Revenue	175.4	168.5	1
Impairment	(64.1)	(70.7)	12
Revenue less impairment	111.3	97.8	10
Costs	(75.5)	(64.4)	(14)
Interest	(7.8)	(8.2)	7
Profit before tax	28.0	25.2	11

At the end of June 2006, customer numbers in Central Europe were up by 1%, to 1.58 million compared to June 2005. In aggregate, the Czech Republic, Hungary and Slovakia recorded double digit growth which offsets the reduction in Poland. Credit issued fell by 4% to £231.7 million. Again, in aggregate, the Czech Republic, Hungary and Slovakia recorded double digit growth whilst credit issued in Poland reduced due to the combination of reduced customer numbers and the actions taken to tighten credit.

In the first half, average customer receivables showed a year-on-year increase of 6% to £290.5 million assisted by increased issue of longer, larger loans. The growth in receivables supported a more modest uplift in first half revenues of 1% to £175.4 million. The impairment charge reduced by 12% to £64.1 million in comparison to the first half of 2005. The year-on-year reduction reflects the increase in impairment provisions incurred in the first half of 2005 by the Polish business as credit quality worsened following the rapid expansion of credit in late 2004 and

early 2005. Impairment charges across the other Central European countries were well controlled through the first half of the current year.

First half pre-tax profit from established Central European countries increased by 11% to £28.0 million.

Mexico

In the first half of 2006, we have continued to focus on developing our branch network and customer base. The Puebla-Veracruz region has been augmented by opening in the Guadalajara-Leon region, the second of five regions with a population of 20 million which we intend to develop. Customer numbers increased to 184,000 at the end of June 2006, compared with 131,000 at the end of 2005. Since June, customer numbers in Mexico have increased to 200,000. No further branches will be opened during the next six months, in order to build the experience of local management before resuming further geographic expansion. Pre-tax start-up losses for the half-year were, as expected, £4.7 million (June 2005 loss of £1.5 million).

Romania

In early 2006, we opened an office in Bucharest, obtained the necessary licence to trade and in April issued our first loan. A full management team has been recruited to develop the business and customer numbers have now passed 1,600.

Motor insurance division

Provident Insurance delivered a good performance in a UK motor insurance market that remained competitive during the first half of this year. Average premiums in the market continued to drift down by about 2%. We maintained our policy of pricing for an adequate return on equity and increased our base premiums whilst also making selective changes to improve our competitiveness on certain, more profitable, parts of the business. As a result, motor insurance policyholder numbers reduced to 455,000 (December 2005 473,000). The profitability of current year business is relatively weak reflecting the absence of increases in market premiums since 2002, together with a small increase in the number of large personal injury claims which have been reserved prudently at this early stage of their development. Claims provisions, in respect of earlier claims years, have continued to develop favourably and have benefited underwriting profit. The average investment fund reduced by 14% to £372 million and yielded income of £8.9 million (June 2005 £10.8 million).

The rapid development of the internet as the preferred channel for motorists to obtain insurance quotes has created the opportunity for us to progress with a full roll-out of an internet-based distribution channel during the first half of 2006. The new brand, yesinsurance.co.uk, offers car insurance as well as home insurance and van insurance policies underwritten by a panel of insurers including Provident Insurance. It provides a new distribution channel with significantly lower acquisition costs and a greater degree of control over the relationship with the customer than the traditional intermediated business. In the first half of 2006, yesinsurance.co.uk sold 30,000 policies and incurred start-up costs totalling £1.3 million.

First half pre-tax profit for motor insurance, after the yesinsurance.co.uk start up costs, reduced by 18% to £19.0 million (June 2005 £23.1 million).

The market remains competitive and most insurers have been holding or reducing prices despite increasing claims costs. We have recently seen indications that some competitors may begin to increase prices – this action is needed and overdue. The favourable development of claims provisions is expected to continue, but to produce a smaller benefit than in 2005. The start-up loss of yesinsurance.co.uk is expected to be £3 million for the full year, rising to £5 million in 2007, with the business reaching its breakeven point towards the end of 2008. Overall, we expect a good profit again from motor insurance in 2006, but lower than the record level of 2005.

Regulatory developments

The Competition Commission inquiry into the UK home credit sector continues. The Commission published its Proposed Remedies paper on 18 August 2006 which broadly follows the Possible Remedies outlined in its April 2006 Provisional Findings report. Our discussions with the Commission continue. The final report is expected in October 2006.

Proposed demerger

Work is underway to implement the separation of the international business and we have made good progress in recent months. The board currently expects the demerger to take place in Spring 2007, following the announcement of the 2006 results in March 2007, when we expect to publish full details of the demerger.

Group outlook

2006 is a year of significant investment to enhance the future growth of the group's UK and international businesses. The medium term outlook for UK home credit has improved during the last 12 months. Although growth in Central Europe is expected to be slower over the next 18 months as actions to improve the Polish business take effect, the opportunity for profitable growth in existing and new international markets remains excellent. The group remains strongly cash and capital generative and the interim dividend has been increased by 3%.

John van Kuffeler
Chairman

13 September 2006

Interim financial information

Consolidated interim income statement

	Notes	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Revenue	2	595.6	663.3	1,337.5
Ongoing operations	2	568.7	542.3	1,110.0
Yes Car Credit	2	26.9	121.0	227.5
Finance income		12.3	13.9	27.7
Total income		607.9	677.2	1,365.2
Finance costs		(33.6)	(27.6)	(61.9)
Operating costs		(355.7)	(423.9)	(861.0)
Administrative expenses		(152.6)	(142.8)	(401.9)
Total costs		(541.9)	(594.3)	(1,324.8)
Profit before taxation	2	66.0	82.9	40.4
Established businesses	2	85.6	98.3	227.4
Start-up businesses and development costs	2	(19.1)	(9.2)	(21.4)
Ongoing operations		66.5	89.1	206.0
Yes Car Credit	2	(0.5)	(6.2)	(165.6)
Tax expense – UK		(15.1)	(19.7)	(28.1)
– Overseas		(4.4)	(4.6)	(12.3)
Total tax expense	3	(19.5)	(24.3)	(40.4)
Profit after taxation attributable to equity shareholders	10	46.5	58.6	–

	Notes	Unaudited Half-year to 30 June 2006 pence	Unaudited Half-year to 30 June 2005 pence	Audited Full year to 31 Dec 2005 pence
Earnings per share				
Basic	4	18.26	23.07	–
Diluted	4	18.19	22.93	–
Dividend per share				
Proposed dividend	5	14.48	14.06	21.37
Paid in the period	5	21.37	20.75	34.81

Consolidated interim statement of recognised income and expense

	Notes	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Profit after taxation attributable to equity shareholders		46.5	58.6	–
Exchange differences on foreign currency translations		(4.8)	(2.3)	2.7
Net fair value losses – cash flow hedges		(0.7)	(2.9)	(5.0)
Actuarial gains/(losses) on retirement benefit asset/obligations	9	7.7	(18.5)	(20.1)
Tax on items taken directly to equity		(2.0)	6.1	7.5
Net income/(expense) recognised directly in equity		0.2	(17.6)	(14.9)
Total recognised income/(expense) for the period		46.7	41.0	(14.9)

Interim financial information
Consolidated interim balance sheet

	Notes	Unaudited As at 30 June 2006 £m	Unaudited As at 30 June 2005 £m	Audited As at 31 Dec 2005 £m
ASSETS				
Non-current assets				
Goodwill	6	3.1	94.1	3.1
Other intangible assets		28.0	22.9	27.5
Property, plant and equipment		47.2	44.9	42.8
Retirement benefit asset	9	6.7	–	–
Deferred income tax assets		31.9	73.8	64.5
		116.9	235.7	137.9
Current assets				
Inventories		–	11.3	7.4
Financial assets:				
– Amounts receivable from customers:				
– due within one year	7	967.1	913.5	952.8
– due in more than one year	7	152.2	220.3	321.1
– Derivative financial instruments		5.3	10.6	9.0
Trade and other receivables		36.6	35.7	32.9
Insurance assets		63.3	83.3	65.4
Current income tax assets		–	4.0	0.9
Cash and cash equivalents		438.3	505.7	451.9
		1,662.8	1,784.4	1,841.4
Total assets		1,779.7	2,020.1	1,979.3
LIABILITIES				
Current liabilities				
Financial liabilities:				
– Bank and other borrowings		(28.3)	(17.0)	(35.2)
– Derivative financial instruments		(39.4)	(33.6)	(30.1)
Trade and other payables		(89.3)	(126.2)	(126.0)
Insurance accruals and deferred income	8	(347.8)	(395.4)	(359.2)
Current income tax liabilities		(15.3)	(53.4)	(33.4)
Provisions		(1.3)	–	(16.2)
		(521.4)	(625.6)	(600.1)
Non-current liabilities				
Financial liabilities:				
– Bank and other borrowings		(948.3)	(855.2)	(947.7)
Provisions		–	–	(8.5)
Retirement benefit obligations	9	–	(133.2)	(105.6)
		(948.3)	(988.4)	(1,061.8)
Total liabilities		(1,469.7)	(1,614.0)	(1,661.9)
NET ASSETS		310.0	406.1	317.4
SHAREHOLDERS' EQUITY				
Called-up share capital	10	26.5	26.5	26.5
Share premium account	10	108.1	107.4	107.7
Other reserves	10	0.1	(1.2)	5.5
Retained earnings	10	175.3	273.4	177.7
TOTAL EQUITY	10	310.0	406.1	317.4

Interim financial information

Consolidated interim cash flow statement

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Cash flows from operating activities			
Cash generated from operations	64.5	101.4	68.2
Interest paid	(40.4)	(30.7)	(60.8)
Interest received	13.0	14.1	27.8
Income tax paid	(6.1)	(31.4)	(53.2)
Net cash generated from/(used in) operating activities	31.0	53.4	(18.0)
Cash flows from investing activities			
Purchases of property, plant and equipment	(13.2)	(11.8)	(20.9)
Proceeds from sale of property, plant and equipment	2.0	1.5	3.2
Purchases of intangible assets	(2.0)	(4.3)	(9.8)
Acquisition of subsidiary	–	–	(19.1)
Net cash used in investing activities	(13.2)	(14.6)	(46.6)
Cash flows from financing activities			
Proceeds from borrowings	174.2	105.0	161.8
Repayment of borrowings	(155.1)	(85.4)	(60.9)
Dividends paid to company shareholders	(54.4)	(52.7)	(88.6)
Proceeds from issue of share capital	0.4	2.0	2.3
Proceeds from the sale of/(purchase of) treasury shares	0.2	(0.4)	0.7
Net cash (used in)/generated from financing activities	(34.7)	(31.5)	15.3
Net (decrease)/increase in cash and bank overdrafts	(16.9)	7.3	(49.3)
Cash and bank overdrafts at beginning of period	444.4	493.5	493.5
Exchange (losses)/gains on cash and bank overdrafts	(0.6)	(2.0)	0.2
Cash and bank overdrafts at end of period	426.9	498.8	444.4
Cash and bank overdrafts at end of period comprise:			
Cash at bank and in hand	51.4	50.2	54.6
Short-term deposits	386.9	455.5	397.3
Cash and cash equivalents	438.3	505.7	451.9
Overdrafts (held in bank and other borrowings)	(11.4)	(6.9)	(7.5)
	426.9	498.8	444.4

All short-term deposits have a maturity of three months or less on acquisition. The cash and short-term deposits held by those businesses that are regulated are required to be strictly segregated from those of the rest of the group and are not available to repay group borrowings. At 30 June 2006 the cash and short-term deposits held by the group's regulated businesses amounted to £396.4m (30 June 2005: £462.7m, 31 December 2005: £404.5m).

Interim financial information

Consolidated interim cash flow statement continued

Cash generated from operations

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Profit for the period	46.5	58.6	–
Adjusted for:			
Tax expense	19.5	24.3	40.4
Finance costs	33.6	27.6	61.9
Finance income	(12.3)	(13.9)	(27.7)
Share-based payment (credit)/charge	(0.3)	1.5	3.2
Depreciation of property, plant and equipment	6.2	6.3	12.2
Impairment of property, plant and equipment	–	–	4.6
Amortisation of intangible assets	1.5	0.4	1.3
Impairment of goodwill (note 6)	–	–	91.0
(Profit)/loss on sale of property, plant and equipment	(0.2)	0.1	–
Changes in operating assets and liabilities:			
Inventories	7.4	5.3	9.2
Amounts receivable from customers	138.2	51.0	(67.0)
Trade and other receivables	(8.2)	(8.4)	–
Insurance assets	2.1	6.9	24.8
Trade and other payables	(29.9)	(13.6)	0.6
Insurance accruals and deferred income	(11.4)	(29.5)	(65.7)
Retirement benefit asset/obligations	(104.6)	(15.1)	(44.3)
Derivative financial instruments	(0.2)	(0.1)	(1.0)
Provisions	(23.4)	–	24.7
Cash generated from operations	64.5	101.4	68.2

Notes to the interim financial information

1 Basis of preparation

The financial information comprises the consolidated balance sheets for the periods ended 30 June 2006, 30 June 2005 and 31 December 2005 and the income statements and cash flow statements for the periods then ended of Provident Financial plc (hereinafter referred to as 'the financial information'). The financial information has been prepared in accordance with the Listing Rules of the Financial Services Authority. In preparing this information management have used the accounting policies set out in the group's 2005 financial statements. The group has chosen not to adopt IAS 34 'Interim Financial Reporting' in preparing the 2006 interim report. This financial information does not constitute a set of statutory accounts under section 240 of the UK Companies Act 1985 and is unaudited. The comparative figures for the financial year ended 31 December 2005 are an extract from the group's 2005 financial statements which have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the UK Companies Act 1985.

This document (the 2006 interim report) will be published on the company's website in addition to the normal paper version. The maintenance and integrity of the Provident Financial plc website is the responsibility of the directors and the work carried out by the auditors does not involve consideration of these matters. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

2 Segment information

Primary reporting format – business segments

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Revenue			
Established businesses:			
UK home credit	289.6	281.6	578.9
International	175.4	168.5	347.9
Motor insurance	77.0	82.0	154.7
Total established businesses	542.0	532.1	1,081.5
Start-up businesses and development costs:			
International – new countries*	11.4	3.0	10.7
– new products	0.4	–	–
	11.8	3.0	10.7
Vanquis Bank	13.9	7.2	17.8
Motor insurance	1.0	–	–
Total start-up businesses and development costs	26.7	10.2	28.5
Ongoing operations	568.7	542.3	1,110.0
Yes Car Credit	26.9	121.0	227.5
Total group	595.6	663.3	1,337.5
Analysed by division as:			
UK home credit	289.6	281.6	578.9
International	187.2	171.5	358.6
Vanquis Bank	13.9	7.2	17.8
Motor insurance	78.0	82.0	154.7
Ongoing operations	568.7	542.3	1,110.0
Yes Car Credit	26.9	121.0	227.5
Total group	595.6	663.3	1,337.5

* Comprises Mexico and Romania

Notes to the interim financial information continued

2 Segment information continued

Primary reporting format – business segments (continued)

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Profit before taxation			
Established businesses:			
UK home credit	51.7	60.5	146.3
International	22.1	20.9	54.7
Motor insurance	20.3	23.4	41.9
Central	(8.5)	(6.5)	(15.5)
Total established businesses	85.6	98.3	227.4
Start-up businesses and development costs:			
International – new countries*	(5.8)	(1.5)	(2.9)
– new products	(1.3)	(0.2)	(0.7)
	(7.1)	(1.7)	(3.6)
Vanquis Bank	(10.7)	(7.2)	(15.9)
Motor insurance	(1.3)	(0.3)	(1.9)
Total start-up businesses and development costs	(19.1)	(9.2)	(21.4)
Ongoing operations	66.5	89.1	206.0
Yes Car Credit	(0.5)	(6.2)	(165.6)
Total group	66.0	82.9	40.4
Analysed by division as:			
UK home credit	51.7	60.5	146.3
International	15.0	19.2	51.1
Vanquis Bank	(10.7)	(7.2)	(15.9)
Motor insurance	19.0	23.1	40.0
Central	(8.5)	(6.5)	(15.5)
Ongoing operations	66.5	89.1	206.0
Yes Car Credit	(0.5)	(6.2)	(165.6)
Total group	66.0	82.9	40.4

* Comprises Mexico and Romania

All of the above activities relate to continuing operations as defined in IFRS 5. Consistent with the treatment in the 2005 financial statements, the Yes Car Credit operation has been classified as part of continuing operations on the basis that revenue and impairment will continue to be generated from the loan book until it has been fully collected out.

The Yes Car Credit loss before taxation in the year ended 31 December 2005 included £141.0m of closure costs (half-year ended 30 June 2005: £nil) comprising £91.0m of goodwill impairment (note 6), £14.9m of provisions for onerous property obligations, £14.4m additional impairment charge on customer receivables following closure (note 7), £10.1m provision for redundancy costs, £4.6m of impairment to property, plant and equipment, £2.0m of inventory write downs and £4.0m of other costs. Of the total closure costs, £40.1m has been classified as operating costs and £100.9m has been classified as administrative expenses in the consolidated income statement.

Notes to the interim financial information continued

2 Segment information continued

Secondary reporting format – geographical segments

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Revenue			
UK and Republic of Ireland	381.5	370.8	751.4
Central Europe	175.8	168.5	347.9
Mexico	11.4	3.0	10.7
Romania	–	–	–
Ongoing operations	568.7	542.3	1,110.0
UK and Republic of Ireland (Yes Car Credit)	26.9	121.0	227.5
Total group	595.6	663.3	1,337.5
	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Profit before taxation			
UK and Republic of Ireland	45.6	65.6	144.7
Central Europe	26.7	25.0	64.2
Mexico	(4.7)	(1.5)	(2.9)
Romania	(1.1)	–	–
Ongoing operations	66.5	89.1	206.0
UK and Republic of Ireland (Yes Car Credit)	(0.5)	(6.2)	(165.6)
Total group	66.0	82.9	40.4

3 Tax expense

The tax expense for the period has been calculated by applying the directors' best estimate of the effective tax rate for the year, which is 29.5% (30 June 2005: 29.3%), to the profit for the period.

The tax credit in respect of Yes Car Credit closure costs in the year ended 31 December 2005 was £12.8m (30 June 2005: £nil).

Notes to the interim financial information continued

4 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those shares held by the Provident Financial Qualifying Share Ownership Trust and in respect of the Performance Share Plan. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

The profit after taxation for the period attributable to equity shareholders used in the calculation of basic and diluted EPS is £46.5m (30 June 2005: £58.6m, 31 December 2005: £nil). The weighted average number of shares in issue during the period can be reconciled to the number used in the basic and diluted EPS calculations as follows:

	Unaudited Half-year to 30 June 2006 Number m	Unaudited Half-year to 30 June 2005 Number m	Audited Full year to 31 Dec 2005 Number m
Weighted average number of shares			
In issue during the period	255.5	255.2	255.4
Held by the QUEST	(0.8)	(1.1)	(1.1)
Used in basic earnings per share calculation	254.7	254.1	254.3
Issuable on conversion of outstanding options	0.9	1.4	0.6
Used in diluted earnings per share calculation	255.6	255.5	254.9

The directors have elected to show an adjusted EPS, excluding the loss after taxation of Yes Car Credit which was closed during 2005. This is presented to show the EPS generated by the group's ongoing operations. A reconciliation of reported profit after taxation to profit after taxation from ongoing operations is set out below:

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Profit after taxation	46.5	58.6	–
Loss for the period from Yes Car Credit	0.3	4.3	145.4
Profit after taxation from ongoing operations	46.8	62.9	145.4

A reconciliation of basic and diluted EPS to basic and diluted EPS from ongoing operations is as follows:

	Unaudited Half-year to 30 June 2006 Pence	Unaudited Half-year to 30 June 2005 Pence	Audited Full year to 31 Dec 2005 Pence
Basic EPS	18.26	23.07	–
Loss for the period from Yes Car Credit	0.12	1.69	57.18
Basic EPS from ongoing operations	18.38	24.76	57.18
Diluted EPS	18.19	22.93	–
Loss for the period from Yes Car Credit	0.12	1.69	57.04
Diluted EPS from ongoing operations	18.31	24.62	57.04

Notes to the interim financial information continued

5 Dividends paid and proposed

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
2004 final – 20.75p	–	52.7	52.7
2005 interim – 14.06p	–	–	35.9
2005 final – 21.37p	54.4	–	–
Dividends paid	54.4	52.7	88.6

An interim dividend in respect of 2006 of 14.48p per share, amounting to a total dividend of £36.9m, has been declared by the directors. The interim financial information does not reflect this dividend payable as it will be paid after the balance sheet date.

6 Goodwill

Goodwill of £3.1m (30 June 2005: £94.1m, 31 December 2005: £3.1m) relates wholly to the acquisition of N&N Cheque Encashment Limited in 2001.

Goodwill as at 30 June 2005 included £91.0m in respect of the acquisition of Yes Car Credit in 2002. Following closure of this business at the end of 2005, the goodwill in relation to this acquisition was fully impaired.

Notes to the interim financial information continued

7 Amounts receivable from customers

	Unaudited As at 30 June 2006 £m	Unaudited As at 30 June 2005 £m	Audited As at 31 Dec 2005 £m
UK home credit	587.7	546.6	649.9
International	294.5	275.6	328.7
Vanquis Bank	75.9	42.0	60.0
Ongoing operations	958.1	864.2	1,038.6
Yes Car Credit	161.2	269.6	235.3
Total group	1,119.3	1,133.8	1,273.9
Analysed as:			
– due within one year	967.1	913.5	952.8
– due in more than one year	152.2	220.3	321.1
	1,119.3	1,133.8	1,273.9

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

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
UK home credit	106.4	100.9	171.8
International	69.5	71.7	132.4
Vanquis Bank	8.1	4.4	12.4
Ongoing operations	184.0	177.0	316.6
Yes Car Credit	14.2	18.9	51.2
Total group	198.2	195.9	367.8

The Yes Car Credit impairment charge in the year to 31 December 2005 included £14.4m arising as a result of the expected deterioration in collections performance following the closure of the business.

8 Insurance accruals and deferred income

	Unaudited As at 30 June 2006 £m	Unaudited As at 30 June 2005 £m	Audited As at 31 Dec 2005 £m
Provision for unpaid insurance claims	270.0	312.9	284.0
Unearned insurance premiums	76.4	82.1	74.8
Other deferred income	1.4	0.4	0.4
	347.8	395.4	359.2

The profit before tax of motor insurance for the period ended 30 June 2006 includes £16.2m (30 June 2005: £13.2m, 31 December 2005: £24.9m) in respect of the release of provisions for prior year claims.

Notes to the interim financial information continued

9 Retirement benefit asset/obligations

The group operates two funded defined benefit schemes in the UK. A full actuarial valuation was carried out by a qualified independent actuary on both schemes at 1 June 2004. The valuation used for IAS 19 purposes has been based on these valuations which have been updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 30 June 2006. Scheme assets are stated at fair value at 30 June 2006. The assumptions used by the actuary were:

	Unaudited Half-year to 30 June 2006 %	Unaudited Half-year to 30 June 2005 %	Audited Full year to 31 Dec 2005 %
Rate of increase in salaries	4.58	4.18	4.38
Rate of increase in pensions	3.00	2.60	2.80
Discount rate	5.10	5.00	4.80
Inflation assumption	3.00	2.60	2.80

The amounts recognised in the balance sheet are determined as follows:

	Unaudited As at 30 June 2006 £m	Unaudited As at 30 June 2005 £m	Audited As at 31 Dec 2005 £m
Fair value of scheme assets	441.4	265.0	331.1
Present value of funded defined benefit obligations	(434.7)	(398.2)	(436.7)
Asset/(liability) in the balance sheet	6.7	(133.2)	(105.6)

The movement in the (liability)/asset recognised in the balance sheet is as follows:

	Unaudited Half-year to 30 June 2006 £m	Unaudited Half-year to 30 June 2005 £m	Audited Full year to 31 Dec 2005 £m
Liability at beginning of period	(105.6)	(129.8)	(129.8)
Total expense in the income statement	(0.4)	(5.3)	(10.1)
Actuarial gain/(loss)	7.7	(18.5)	(20.1)
Contributions paid	105.0	20.4	54.4
Asset/(liability) at end of period	6.7	(133.2)	(105.6)

The group made additional special contributions of £13.0m in May 2005 and £31.0m in December 2005. A further special contribution of £102.2m was made in January 2006 in order to ensure that the defined benefit pension schemes were fully funded, based on the June 2005 deficit position.

Notes to the interim financial information continued

10 Consolidated interim statement of changes in shareholders' equity

	Unaudited Attributable to equity shareholders of the company				Total £m
	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	
Balance at 1 January 2005	26.4	105.5	2.4	280.4	414.7
Exchange differences on foreign currency translations	–	–	(2.3)	–	(2.3)
Net fair value losses – cash flow hedges	–	–	(2.9)	–	(2.9)
Actuarial losses on retirement benefit obligations	–	–	–	(18.5)	(18.5)
Tax on items taken directly to equity	–	–	0.5	5.6	6.1
Net expense recognised directly in equity	–	–	(4.7)	(12.9)	(17.6)
Profit for the period	–	–	–	58.6	58.6
Total recognised (expense)/income for the period	–	–	(4.7)	45.7	41.0
Increase in share capital	0.1	–	–	–	0.1
Increase in share premium	–	1.9	–	–	1.9
Movement in treasury shares	–	–	(0.4)	–	(0.4)
Share-based payment charge	–	–	1.5	–	1.5
Dividend	–	–	–	(52.7)	(52.7)
Balance at 30 June 2005	26.5	107.4	(1.2)	273.4	406.1
Balance at 1 July 2005	26.5	107.4	(1.2)	273.4	406.1
Exchange differences on foreign currency translations	–	–	5.0	–	5.0
Net fair value losses – cash flow hedges	–	–	(2.1)	–	(2.1)
Actuarial losses on retirement benefit obligations	–	–	–	(1.6)	(1.6)
Tax on items taken directly to equity	–	–	1.0	0.4	1.4
Net income/(expense) recognised directly in equity	–	–	3.9	(1.2)	2.7
Loss for the period	–	–	–	(58.6)	(58.6)
Total recognised income/(expense) for the period	–	–	3.9	(59.8)	(55.9)
Increase in share premium	–	0.3	–	–	0.3
Movement in treasury shares	–	–	1.1	–	1.1
Share-based payment charge	–	–	1.7	–	1.7
Dividend	–	–	–	(35.9)	(35.9)
Balance at 31 December 2005	26.5	107.7	5.5	177.7	317.4

Notes to the interim financial information continued

10 Consolidated interim statement of changes in shareholders' equity continued

	Unaudited Attributable to equity shareholders of the company				Total £m
	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	
Balance at 1 January 2006	26.5	107.7	5.5	177.7	317.4
Exchange differences on foreign currency translations	–	–	(4.8)	–	(4.8)
Net fair value losses – cash flow hedges	–	–	(0.7)	–	(0.7)
Actuarial gain on retirement benefit asset	–	–	–	7.7	7.7
Tax on items taken directly to equity	–	–	0.2	(2.2)	(2.0)
Net (expense)/income recognised directly in equity	–	–	(5.3)	5.5	0.2
Profit for the period	–	–	–	46.5	46.5
Total recognised (expense)/income for the period	–	–	(5.3)	52.0	46.7
Increase in share premium	–	0.4	–	–	0.4
Movement in treasury shares	–	–	0.2	–	0.2
Share-based payment credit	–	–	(0.3)	–	(0.3)
Dividend	–	–	–	(54.4)	(54.4)
Balance at 30 June 2006	26.5	108.1	0.1	175.3	310.0

Independent review report to Provident Financial plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the consolidated interim balance sheet as at 30 June 2006 and the related consolidated interim statements of income, recognised income and expense, and cash flows for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in note 1.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

PricewaterhouseCoopers LLP

Chartered Accountants

Leeds

13 September 2006

Information for shareholders

1. The shares will be marked ex-dividend on 20 September 2006.
2. The interim report will be posted to shareholders on 22 September 2006.
3. The interim dividend will be paid on 20 October 2006 to shareholders on the register at the close of business on 22 September 2006. Dividend warrants/vouchers will be posted on 18 October 2006.
4. The Provident Financial Company Nominee Scheme ('the scheme') enables shareholders who are eligible, namely 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 for those who wish to use this facility. 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. The registrar's website is www.capitaregistrars.com.

Directors

John van Kuffeler Chairman

Executive directors

Robin Ashton Chief Executive
Andrew Fisher Finance Director
Peter Crook Managing Director, UK home credit
John Harnett Managing Director, international

Non-executive directors

Charles Gregson Deputy Chairman
Ray Miles Senior independent non-executive director
John Maxwell Chairman of the remuneration committee
Graham Pimlott Chairman of the audit committee

Company details

Registered office and contact details:

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

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

Company number

668987



.....
CarbonNeutral®
protecting our climate

Paper specification

One of Provident Financial's environmental objectives is to use paper as efficiently as possible. This report is produced on material which contains 50% recycled and de-inked pulp from post consumer waste. On the text pages the remaining pulp is made up of Forest Stewardship Council (FSC) material (under the volume credit method) manufactured from genuine waste pulp from certified, well managed forests.

This report is printed by an ISO 14001 accredited, FSC certified and CarbonNeutral printer.

Provident Financial plc

Colonnade
Sunbridge Road
Bradford
West Yorkshire
BD1 2LQ
United Kingdom

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

Company number

668987