PFG | Provident Financial Group

Interim Report 2012

WE SEE THINGS DIFFERENTLY

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"I am pleased to report a strong set of results for the first half with earnings per share up 19.8% and a 7.9% increase in the interim dividend.

The group's funding position is extremely robust and allows us to execute in full on our growth plans into 2015.

The consistently cautious approach to extending credit in both businesses has reinforced credit quality and provides a sound basis for delivering good quality growth for 2012 as a whole."

Peter Crook, Chief Executive

HIGHLIGHTS

Strong group performance and further dividend increase

PROFIT BEFORE TAX

£72.9m +17.0% (2011: £62.3m)

BASIC EARNINGS PER SHARE

41.1p +19.8% (2011: 34.3p)

INTERIM DIVIDEND PER SHARE

28.8p 7.9% (2011: 26.7p)

Provident Financial plc is the market-leading provider of home credit in the UK and Ireland, with a successful, growing credit card business. Its operations consist of the Consumer Credit Division and Vanquis Bank.

KEY FINANCIAL RESULTS

	H1 2012	H1 2011	Change
Customer numbers	2.6m	2.4m	5.5%
Average receivables	£1,273.0m	£1,151.5m	10.6%
Pre-tax profit	£72.9m	£62.3m	17.0%
Basic earnings per share	41.1p	34.3p	19.8%
Interim dividend per share	28.8p	26.7p	7.9%

VERY ROBUST FUNDING AND CAPITAL POSITION

- Group fully funded into 2015.
- Modest reduction in gearing to 3.1 times (2011: 3.3 times).

STABLE CONSUMER CREDIT DIVISION PERFORMANCE IN CHALLENGING MARKET CONDITIONS

- Pre-tax profit similar to last year at £50.4m (2011: £50.2m).
- Year-on-year receivables flat and trading result underpinned by stable collections performance, continued application of tight credit standards and effective cost control.

STRONG GROWTH AND RETURNS IN VANQUIS BANK

- Pre-tax profit up by 60.2% to £28.2m (2011: £17.6m).
- Customer and average receivables growth of 27.4% and 34.8% respectively from continuing investment in customer acquisition programme.
- Risk-adjusted margin[1] of 34.9% (2011: 34.7%) versus minimum target of 30% with delinquency continuing to run at an all-time low for the business.
- Polish business infrastructure successfully established and first credit cards issued in June.

[1] Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June.

INTERIM REPORT

GROUP RESULTS

The group has reported a strong set of first half results with group pre-tax profit up 17.0% to £72.9m (2011: £62.3m) reflecting a stable performance in the Consumer Credit Division and continued strong growth in Vanquis Bank. Basic earnings per share of 41.1p (2011: 34.3p) grew by 19.8%, a marginally faster rate than pre-tax earnings after benefitting from the fall in the corporation tax rate from 26% to 24% on 1 April 2012.

The Consumer Credit Division delivered first half profits of £50.4m (2011: £50.2m) underpinned by a stable collections performance and tight control of costs. This result was in line with management's internal plans. Throughout the last 18 months, management's continuing emphasis has been on issuing credit to good-quality existing customers given the continuing pressure on household incomes from the rising cost of food, fuel and utility bills. As a result, June 2012 customer numbers showed a year-on-year decline of 1.8% and first half average receivables were flat compared to the same period in 2011. The business produced a sound collections performance through the first quarter of the year when households faced stiff increases in utility bills. More recently, a modest step-up in marketing activity has lifted sales, which are now running ahead of last year, as well as customer recruitment. A further five branches were created during the first half as part of the programme to enhance the footprint of the business.

Vanquis Bank has delivered another excellent performance in the first half of 2012 with profits up 60.2% to £28.2m (2011: £17.6m). This was ahead of management's internal plans due to delinquency levels remaining stable at record lows for the business. Investment in the customer acquisition programme has been strengthened further and year-on-year customer growth of 27.4% and average receivables growth of 34.8% were delivered against unchanged underwriting standards. Delinquency levels have remained favourable throughout the first half, reflecting the strong underlying quality of the receivables book underpinned by consistently tight credit standards against the backdrop of a stable employment market. This has allowed Vanquis Bank to deliver an annualised risk-adjusted margin of 34.9% as at June 2012 (2011: 34.7%), well ahead of its minimum target of 30%.

The group's funding and liquidity positions remain strong with gearing of 3.1 times (2011: 3.3 times) and headroom on the group's committed facilities at 30 June 2012 of £308m. As previously reported, the group renewed its core syndicated bank facility of £382.5m in February through to May 2015 and successfully issued its third retail bond in March raising £120m at a coupon of 7% with a duration of five and a half years. The retail deposits programme at Vanquis Bank has seen its deposit base increase from £140m at 31 December 2011 to £275m at 30 June 2012. Due to the increased level of committed debt funding following the retail bond issue, the retail deposits programme has been moderated since it will not be necessary to reach the target level of funding 80% of Vanquis Bank's receivables with retail deposits until the latter part of 2013. The group's committed debt facilities, together with the retail deposits programme at Vanquis Bank, are sufficient to fund contractual maturities and projected growth in the business until May 2015.

In the 12 months to 30 June 2012, the group generated capital of £123.5m (12 months to 31 December 2011: £110.1m) from trading operations compared with dividends payable through that period of £96.9m (12 months to 31 December 2011: £93.0m). Vanquis Bank continues to generate capital over and above that required to fund its own growth.

The interim dividend has been increased by 7.9% to 28.8p (2011: 26.7p) reflecting the growth in earnings, strong capital generation and the group's stated policy of maintaining annual dividend cover of at least 1.25 times.

MARKET CONDITIONS

The competitive landscape for the Consumer Credit Division remains unchanged with around 500 active home credit participants in the UK. Home credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. Whilst household incomes of home credit customers have shown some modest growth over last year, disposable incomes continue to be adversely affected by food, fuel and utility price inflation. In particular, the higher winter utility bills during the first quarter of the year stretched household budgets and produced relatively cautious customer and agent behaviour which moderated the demand for credit. Tight credit standards remain in place and the business has continued to focus on serving good-quality existing customers.

Vanquis Bank continues to experience strong demand in the under-served non-standard credit card market. Competitive activity in Vanquis Bank's segment of the market is increasing but remains limited. Vanquis Bank customers are typically in more regular employment than home credit customers although the business has demonstrated that it is less sensitive to changes in the employment market than mainstream card issuers. UK unemployment increased modestly through the latter part of 2011, has remained relatively stable through the first half of 2012 and, to date, has had no discernible effect on delinquency rates. Nonetheless, tight underwriting standards will remain in place throughout 2012 as a cautious positioning of the business against the risk of a deterioration in the UK employment market.

BUSINESS PERFORMANCE

Consumer Credit Division

The Consumer Credit Division delivered profits of £50.4m in the first half of 2012 (2011: £50.2m), in line with internal plans and underpinned by a sound collections performance and tight cost control.

through this period has provided the foundation for a modest step-up in sales and marketing activity from June. As a result, whilst credit issued for the first half as a whole was flat on last year, sales in June and July have been running ahead of the same period in 2011 and there has also been a lift in the rate of customer recruitment. Work has also continued on developing the geographic footprint of the business with the creation of five new branches during the first half. This summer will also see the launch of a pre-paid card which will allow customers to spend and access special offers across some 35 online and high street retailers.

First half average receivables of £783.5m (2011: £784.3m) were broadly flat on 2011 and the annualised revenue yield on the receivables book remained steady at 89.2% compared with 89.4% in the first half of 2011 and 89.0% for 2011 as a whole. This reflects the consistent mix of business over the last 18 months and, in particular, the focus on serving good-quality existing customers. The yield is expected to remain at a similar level during the second half of the year.

CONSUMER CREDIT DIVISION

	Six months ended 30 June		
	2012 £m	2011 £m	Change %
Customer numbers ('000)	1,771	1,803	(1.8)
Period-end receivables	787.8	785.5	0.3
Average receivables	783.5	784.3	(0.1)
Revenue	351.8	350.2	0.5
Impairment	(135.4)	(130.1)	(4.1)
Revenue less impairment	216.4	220.1	(1.7)
*Annualised revenue yield**	*89.2%*	*89.4%*	
*Annualised impairment % revenue***	*32.8%*	*31.2%*	
Costs	(143.3)	(146.7)	2.3
Interest	(22.7)	(23.2)	2.2
Profit before tax	50.4	50.2	0.4

* Revenue as a percentage of average receivables for the 12 months ended 30 June.
** Impairment as a percentage of revenue for the 12 months ended 30 June.

The business has continued to focus on serving good-quality existing customers and credit standards remain tight with agents continuing to exercise caution due to pressure on customers' disposable incomes from food, fuel and utility price inflation. The major priority through the first quarter of the year was collections as households faced sharp increases in winter fuel bills. The stable performance of the business

The ratio of annualised impairment to revenue was 32.8% at June 2012 compared with 32.1% at December 2011 and 31.2% at June 2011. Impairment in the second quarter of 2011 benefited from the improvement in arrears following the enhancements made to the agents' commission scheme in April 2011 which is now fully embedded in the receivables book. The underlying collections performance in the first

half of 2012 was consistent with the second half of 2011. In the absence of any significant change in the external environment, collections performance and impairment rates are expected to remain within the range experienced over the last 12 months.

Headline costs fell by £3.4m or 2.3% in the first half of 2012. However, the first half of 2011 included a one-off cost of £2m associated with the changes required to implement the EU Consumer Credit Directive across the branch network. Accordingly, underlying costs reduced by £1.4m or 1.0%. Central and field costs remained very tightly controlled whilst agents' commission costs were flat on last year reflecting the consistency of sales, collections and receivables levels. A modest increase in sales and marketing activity is planned for the second half of the year with continuing restrictions on all other areas of discretionary expenditure.

Interest costs were 2.2% lower than last year reflecting stable receivables levels and a small reduction in the rate paid on funding the business.

Vanquis Bank

Vanquis Bank generated profit before tax of £28.2m in the six months ended 30 June 2012 (2011: £17.6m) analysed as follows:

	Six months ended 30 June		
	2012 £m	2011 £m	Change %
Profit/(loss) before tax:			
– UK	29.4	17.6	67.0
– Poland	(1.2)	–	n/a
Total Vanquis Bank	28.2	17.6	60.2

VANQUIS BANK – UK

	Six months ended 30 June		
	2012 £m	2011 £m	Change %
Customer numbers ('000)	777	610	27.4
Period-end receivables	525.1	380.1	38.1
Average receivables	487.5	361.6	34.8
Revenue	127.7	99.3	28.6
Impairment	(45.6)	(38.9)	(17.2)
Revenue less impairment	82.1	60.4	35.9
*Annualised risk-adjusted margin**	*34.9%*	*34.7%*	
*Annualised impairment % revenue***	*34.5%*	*37.2%*	
Costs	(40.5)	(31.7)	(27.8)
Interest	(12.2)	(11.1)	(9.9)
Profit before tax	29.4	17.6	67.0

* Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June.
**Impairment as a percentage of revenue for the 12 months ended 30 June.

Vanquis Bank has once again performed very strongly during the first half of 2012. Further strong growth in the receivables book and continued favourable delinquency levels have enabled the UK business to deliver profits growth of 67.0% in the first half of the year. The business maintained a post-tax return on equity above its target rate of 30% and is generating more than sufficient capital to fund its own growth.

The demand for non-standard credit cards has remained strong and the business received a flow of 750,000 applications during the first half of 2012 (2011: 760,000) as a result of further strong investment in its customer acquisition programme. New customer bookings of 167,000 (2011: 145,000) reflected an acceptance rate of 22% (2011: 19%) against unchanged underwriting standards. The increased booking rate reflects a shift in mix of new business in favour of direct mail which carries a higher acceptance rate than the internet channel, together with more effective pre-screening of internet leads.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 34.8% increase in average receivables and a 28.6% increase in revenue. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of around 75% which delivers a strong stream of revenue whilst maintaining a low level of contingent undrawn exposure.

Delinquency levels have remained at record lows throughout the first half against the backdrop of a relatively stable employment market. Accordingly, impairment showed a year-on-year increase of just 17.2% compared to the 34.8% increase in average receivables. This strong performance reflects the continued improvement in the underlying quality of the book resulting from tight underwriting and the quality of credit decisioning supporting the credit line increase programme.

The rolling 12-month risk-adjusted margin at June 2012 of 34.9% reflects the sound revenue yield from the receivables book combined with the favourable delinquency performance. It includes a benefit of approximately 2% from the reduction in delinquency rates over the last year. Accordingly, the underlying risk-adjusted margin in the absence of any significant change in the external environment is approximately 33% versus the minimum target of 30%.

Notwithstanding the favourable delinquency performance, management continues to be mindful of the potential for unemployment to rise in the current economic environment. Consequently, the tight underwriting and credit line increase criteria applied over the last two years will remain in place for the foreseeable future.

First half cost growth of 27.8% includes a further uplift of £2m in the spend on direct mail and marketing activities that has supported the increase in new account bookings in the first half.

Interest costs increased by just 9.9% during the first half of 2012 compared with the growth in average receivables of 34.8%. This reflects the reduction in Vanquis Bank's blended funding rate from 7.8% in the first half of 2011 to 6.5% in 2012 due to the benefit from taking retail deposits. Rates of between 3.20% and 4.65% have been paid to attract deposits, which after taking account of the cost of holding a liquid assets buffer, has resulted in a blended retail deposits rate of 4.15% in the first half of the year. The full year average funding rate is expected to remain similar to that achieved in the first half of the year.

Vanquis Bank – Poland

As highlighted in the Interim Management Statement issued on 2 May 2012, Vanquis Bank has obtained the necessary approvals from the UK and Polish regulators to passport its banking licence for the purposes of piloting a credit card proposition targeted at the non-standard segment of the Polish market. Since then the platform has been successfully established and the first cards were issued in June. Early business is being written through brokers. A new Polish website will soon be launched and provide another channel to market from September.

The pilot is likely to run for a year with the objective of establishing a customer proposition and business model capable of delivering the group's target returns. Costs in the first half of the year amounted to £1.2m and the costs for 2012 as a whole will be approximately £3m.

Central costs

Central costs in the first half of the year were £5.5m (2011: £4.9m), up by £0.6m on the first half of last year due to the impact of higher share-based incentives and a budgeted increase in the level of expenditure on the group's community programme.

Taxation

The tax rate for the first half of 2012 of 24.5% (2011: 26.5%) is the estimated effective tax rate for the 2012 financial year and is in line with the UK corporation tax rate which reduced from 26% to 24% on 1 April 2012. The group is expected to benefit in future years from the rate reductions announced by the Government in the last budget.

Dividends

The interim dividend per share has been increased by 7.9% to 28.8p (2011: 26.7p) consistent with the group's stated policy to grow dividends whilst maintaining a dividend cover of at least 1.25 times.

Funding and capital

The group's funding and liquidity positions are strong with the balance sheet reflecting a modest reduction in the gearing ratio to 3.1 times (2011: 3.3 times) against a banking covenant limit of 5.0 times. The group's credit rating from Fitch Ratings was reviewed in June 2012 and remains unchanged at BBB with a stable outlook.

During the first half of 2012, the group further strengthened and diversified its funding base. In February, the group renewed its core syndicated bank facility of £382.5m through to May 2015. In addition, the group launched its third retail bond in March raising £120m at a coupon of 7.0% and a duration of five and half years. As at the end of June, Vanquis Bank had taken £275m of retail deposits, up from £140m at the end of 2011, which represents 52% of Vanquis Bank's receivables. Due to the increased level of committed debt funding following the retail bond issue, the flow of new funds from the retail deposits programme through the second quarter of the year has been moderated. As a result, inflows during June were £3m and planned inflows for the remainder of the year are also expected to be at modest levels. The year-end target for retail deposits is now around £300m, sufficient to provide an appropriate level of headroom on the group's committed facilities in line with its Treasury policies. Based on the group's latest projections, it will not be necessary to reach the target of funding 80% of Vanquis Bank's receivables with retail deposits until the latter part of 2013.

Headroom on the group's committed debt facilities at 30 June 2012 amounted to £308m which, together with the retail deposits programme at Vanquis Bank, is sufficient to fund maturities and projected growth in the business until May 2015.

The group's funding rate during the first half of 2012 was 7.4%, down from 7.8% in the first half of 2011 due to the benefit of the Vanquis Bank retail deposits programme which commenced in July 2011. The group's funding rate is expected to moderate further to around 7.2% for the second half of the year.

The group continues to be highly capital generative. In the 12 months to 30 June 2012, the group generated capital of £123.5m (12 months to 31 December 2011: £110.1m) compared with dividends payable of £96.9m (12 months to 31 December 2011: £93.0m).

Regulation

The Government published the draft Financial Services Bill at the end of January 2012. The Bill is framed so as to enable a 'lift and shift' approach to be taken to credit regulation. Were this to be enacted, it would retain the existing Consumer Credit Act regime but would replace the Office of Fair Trading with the Financial Conduct Authority as the regulatory body for credit businesses. The Government has stated that it is committed to securing the passage of the Bill by the end of 2012, with the change to credit regulation to be implemented by April 2014.

The Bristol University Personal Finance Research Centre study into a variable cap on the total cost of credit is continuing and the research team published a progress update on 24 May 2012. This dealt largely with the methodology and approach adopted. The final report is due at the end of summer.

Final guidance on the joint consultation document published by the Financial Services Authority and the Office of Fair Trading on proposed guidance to firms in relation to payment protection products is expected to be published by the end of summer.

For the second consecutive year, the group has received a maximum rating score of 100 and has been ranked joint first globally amongst financial services companies in the recent FTSE4Good Index Series which measures the environmental, social and governance ratings of around 2,400 publicly listed companies worldwide. This achievement reflects the continued investment made by the group and its employees in embedding the corporate responsibility programme across all areas of the business.

Principal risks and uncertainties

The principal risks and uncertainties affecting the group remain unchanged from 31 December 2011 and comprise regulatory risk, credit risk, business risk, reputational risk, operational risk, liquidity risk, financial risk and pension risk. A full assessment of the risks and uncertainties, together with the controls and processes which are in place to monitor and mitigate the risks where possible, are set out on pages 73 to 75 of the 2011 Annual Report & Financial Statements which is available on the company's website, www.providentfinancial.com.

The most relevant risks and uncertainties for the remaining six months of the 2012 financial year are as follows:

- Notwithstanding that the Consumer Credit Division and Vanquis Bank have unique characteristics which make them more resilient to changes in economic conditions than more mainstream lenders, marked increases in unemployment and under-employment may lead to higher than expected impairment charges.
- Further increases in food, fuel and utility prices may put additional pressure on the household incomes of home credit customers and lead to a reduction in the level of credit issued.

Related party transactions

There have been no changes in the nature of related party transactions as described in note 27 to the 2011 Annual Report & Financial Statements and there have been no new related party transactions which have had a material effect on the financial position or performance of the group in the six months ended 30 June 2012.

Outlook

The group has a strong, diversified funding base that allows it to meet its contractual debt maturities and execute in full on its growth plans into 2015.

The stable performance of the Consumer Credit Division, at a time when its customers' disposable incomes are under pressure, and the strong growth and returns being delivered by Vanquis Bank provide a sound basis for delivering good quality growth for 2012 as a whole.

There will be no change to the group's cautious stance on extending credit in the current economic environment.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June 2012 £m	2011 £m
Revenue	4	479.5	449.5
Finance costs		(35.1)	(34.8)
Operating costs		(255.5)	(241.6)
Administrative expenses		(116.0)	(110.8)
Total costs		(406.6)	(387.2)
Profit before taxation	4	72.9	62.3
Tax charge	5	(17.9)	(16.5)
Profit for the period attributable to equity shareholders		55.0	45.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2012 £m	2011 £m
Profit for the period attributable to equity shareholders		55.0	45.8
Other comprehensive income:			
– cashflow hedges		(1.1)	0.4
– actuarial movements on retirement benefit asset	9	8.2	13.3
– tax on other comprehensive income		(1.8)	(3.7)
– impact of change in UK tax rate		0.1	–
Other comprehensive income for the period		5.4	10.0
Total comprehensive income for the period		60.4	55.8

	Note	Six months ended 30 June 2012 pence	2011 pence
Earnings per share			
Basic	6	41.1	34.3
Diluted	6	41.0	34.2
Dividends per share			
Proposed interim dividend	7	28.8	26.7
Paid in the period*	7	42.3	38.1

* The total cost of dividends paid in the period was £57.2m (2011: £51.0m).

CONSOLIDATED BALANCE SHEET

	Note	30 June 2012 £m	31 December 2011 £m	30 June 2011 £m
ASSETS				
Non-current assets				
Goodwill		2.1	2.1	2.1
Other intangible assets		10.3	12.9	15.8
Property, plant and equipment		24.3	26.8	28.2
Financial assets:				
– amounts receivable from customers	8	79.5	88.0	80.7
– derivative financial instruments		10.4	11.9	11.0
Retirement benefit asset	9	24.6	13.5	58.9
Deferred tax assets		5.5	7.5	–
		156.7	162.7	196.7
Current assets				
Financial assets:				
– amounts receivable from customers	8	1,235.1	1,244.7	1,088.8
– derivative financial instruments		0.3	0.3	2.8
– cash and cash equivalents		67.3	49.6	34.8
– trade and other receivables		28.3	21.1	23.1
		1,331.0	1,315.7	1,149.5
Total assets	4	1,487.7	1,478.4	1,346.2
LIABILITIES				
Current liabilities				
Financial liabilities:				
– bank and other borrowings		(118.0)	(50.5)	(167.2)
– derivative financial instruments		(0.3)	–	(6.4)
– trade and other payables		(62.1)	(53.0)	(38.8)
Current tax liabilities		(40.1)	(40.1)	(42.0)
		(220.5)	(143.6)	(254.4)
Non-current liabilities				
Financial liabilities:				
– bank and other borrowings		(924.5)	(999.1)	(766.7)
– derivative financial instruments		(10.5)	(9.5)	(6.1)
Deferred tax liabilities		–	–	(0.5)
		(935.0)	(1,008.6)	(773.3)
Total liabilities		(1,155.5)	(1,152.2)	(1,027.7)
NET ASSETS	4	332.2	326.2	318.5
SHAREHOLDERS' EQUITY				
Called-up share capital		28.6	28.5	28.4
Share premium account		146.3	146.0	144.4
Other reserves		9.5	9.4	4.6
Retained earnings		147.8	142.3	141.1
TOTAL EQUITY		332.2	326.2	318.5

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Called-up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2011		28.1	144.0	0.9	136.4	309.4
Profit for the period		–	–	–	45.8	45.8
Other comprehensive income:						
– cashflow hedges		–	–	0.4	–	0.4
– actuarial movements on retirement benefit asset	9	–	–	–	13.3	13.3
– tax on other comprehensive income		–	–	(0.2)	(3.5)	(3.7)
Other comprehensive income for the period		–	–	0.2	9.8	10.0
Total comprehensive income for the period		–	–	0.2	55.6	55.8
Transactions with owners:						
– issue of share capital		0.3	0.4	–	–	0.7
– purchase of own shares		–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards		–	–	6.2	(6.2)	–
– share-based payment charge		–	–	3.8	–	3.8
– transfer of share-based payment reserve		–	–	(6.3)	6.3	–
– dividends	7	–	–	–	(51.0)	(51.0)
At 30 June 2011		28.4	144.4	4.6	141.1	318.5
At 1 July 2011		28.4	144.4	4.6	141.1	318.5
Profit for the period		–	–	–	74.0	74.0
Other comprehensive income:						
– cashflow hedges		–	–	1.0	–	1.0
– actuarial movements on retirement benefit asset		–	–	–	(50.4)	(50.4)
– tax on other comprehensive income		–	–	(0.3)	13.4	13.1
– impact of change in UK tax rate		–	–	(0.1)	–	(0.1)
Other comprehensive income for the period		–	–	0.6	(37.0)	(36.4)
Total comprehensive income for the period		–	–	0.6	37.0	37.6
Transactions with owners:						
– issue of share capital		0.1	1.6	–	–	1.7
– share-based payment charge		–	–	4.2	–	4.2
– dividends		–	–	–	(35.8)	(35.8)
At 31 December 2011		28.5	146.0	9.4	142.3	326.2
At 1 January 2012		28.5	146.0	9.4	142.3	326.2
Profit for the period		–	–	–	55.0	55.0
Other comprehensive income:						
– cashflow hedges		–	–	(1.1)	–	(1.1)
– actuarial movements on retirement benefit asset	9	–	–	–	8.2	8.2
– tax on other comprehensive income		–	–	0.2	(2.0)	(1.8)
– impact of change in UK tax rate		–	–	–	0.1	0.1
Other comprehensive income for the period		–	–	(0.9)	6.3	5.4
Total comprehensive income for the period		–	–	(0.9)	61.3	60.4
Transactions with owners:						
– issue of share capital		0.1	0.3	–	–	0.4
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	3.7	(3.7)	–
– share-based payment charge		–	–	2.5	–	2.5
– transfer of share-based payment reserve		–	–	(5.1)	5.1	–
– dividends	7	–	–	–	(57.2)	(57.2)
At 30 June 2012		28.6	146.3	9.5	147.8	332.2

CONSOLIDATED STATEMENT OF CASHFLOWS

	Note	Six months ended 30 June 2012 £m	2011 £m
Cashflows from operating activities			
Cash generated from operations	10	133.5	147.4
Finance costs paid		(41.6)	(39.1)
Tax paid		(17.6)	(19.3)
Net cash generated from operating activities		74.3	89.0
Cashflows from investing activities			
Purchases of intangible assets		(2.2)	(2.2)
Purchases of property, plant and equipment		(0.3)	(3.3)
Proceeds from disposal of property, plant and equipment		0.9	1.2
Net cash used in investing activities		(1.6)	(4.3)
Cashflows from financing activities			
Proceeds from bank and other borrowings		329.7	192.1
Repayment of bank and other borrowings		(329.8)	(222.8)
Dividends paid to company shareholders	7	(57.2)	(51.0)
Proceeds from issue of share capital		0.4	0.7
Purchase of own shares		(0.1)	(0.2)
Net cash used in financing activities		(57.0)	(81.2)
Net increase in cash, cash equivalents and overdrafts		15.7	3.5
Cash, cash equivalents and overdrafts at beginning of period		32.2	18.4
Cash, cash equivalents and overdrafts at end of period		47.9	21.9
Cash, cash equivalents and overdrafts at end of period comprise:			
Cash at bank and in hand		67.3	34.8
Overdrafts (held in bank and other borrowings)		(19.4)	(12.9)
Total cash, cash equivalents and overdrafts		47.9	21.9

Cash at bank and in hand includes £45.5m (2011: £10.8m) in respect of the liquid assets buffer held by Vanquis Bank in accordance with the FSA's liquidity regime. This buffer is not available to finance the group's day-to-day operations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

The company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU.

The company is listed on the London Stock Exchange.

The condensed consolidated interim financial information does not constitute the statutory financial statements of the group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2011 were approved by the board of directors on 28 February 2012 and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial information for the six months ended 30 June 2012 has been reviewed, not audited, and was approved for issue by the board of directors on 24 July 2012.

2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the statutory financial statements for the year ended 31 December 2011 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors have reviewed the group's budgets, plans and cashflow forecasts for 2012 and for 2013 together with outline projections for the three subsequent years. Based on this review, they have a reasonable expectation that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the condensed consolidated interim financial information.

3. Accounting policies

Except as described below, the accounting policies applied in preparing the condensed consolidated interim financial information are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2011.

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

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date (or date of early adoption). There are no new IFRSs or IFRICs that are effective for the first time for the six months ended 30 June 2012 which would be expected to have a material impact on the group.

4. Segment reporting

	Revenue Six months ended 30 June		Profit/(loss) before taxation Six months ended 30 June	
	2012 £m	2011 £m	2012 £m	2011 £m
Consumer Credit Division	351.8	350.2	50.4	50.2
Vanquis Bank	127.7	99.3	28.2	17.6
	479.5	449.5	78.6	67.8
Central				
– costs	–	–	(5.5)	(4.9)
– interest payable	–	–	(0.2)	(0.6)
Total central	–	–	(5.7)	(5.5)
Total group	479.5	449.5	72.9	62.3

All of the above activities relate to continuing operations.

Revenue between business segments is not significant.

	Segment assets			Net assets/(liabilities)		
	30 June 2012 £m	31 December 2011 £m	30 June 2011 £m	30 June 2012 £m	31 December 2011 £m	30 June 2011 £m
Consumer Credit Division	862.1	962.0	882.2	201.2	224.8	235.0
Vanquis Bank	591.6	487.0	404.9	120.6	101.5	85.1
Central	102.4	52.4	98.5	10.4	(0.1)	(1.6)
Total before intra-group elimination	1,556.1	1,501.4	1,385.6	332.2	326.2	318.5
Intra-group elimination	(68.4)	(23.0)	(39.4)	–	–	–
Total group	1,487.7	1,478.4	1,346.2	332.2	326.2	318.5

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing of the borrowings of the Consumer Credit Division to reflect a borrowings to receivables ratio of 80%. The impact of this is an increase in the notional allocation of group borrowings to the Consumer Credit Division of £68.4m (31 December 2011: £23.0m, 30 June 2011: £39.4m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

All of the group's operations operate principally in the UK and Republic of Ireland. Vanquis Bank established a branch in Poland during the first half of 2012. Costs in respect of the branch amounted to £1.2m (2011: £nil). Revenue, assets and liabilities of the branch are not material to the group.

5. Tax charge

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the financial year of 24.5% (2011: 26.5%), to the profit before tax for the period. The reduction in tax rate reflects the change in UK corporation tax rate from 26% to 24% which was effective from 1 April 2012.

6. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding own shares held.

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

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

	Six months ended 30 June					
	2012			2011		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Earnings per share						
Shares in issue during the period	–	137.7	–	–	136.5	–
Own shares held	–	(3.8)	–	–	(3.1)	–
Basic earnings per share	55.0	133.9	41.1	45.8	133.4	34.3
Dilutive effect of share options and awards	–	0.4	(0.1)	–	0.4	(0.1)
Diluted earnings per share	55.0	134.3	41.0	45.8	133.8	34.2

7. Dividends

		Six months ended 30 June	
		2012 £m	2011 £m
2010 final	- 38.1p per share	–	51.0
2011 final	- 42.3p per share	57.2	–
Dividends paid		57.2	51.0

The directors have declared an interim dividend in respect of the six months ended 30 June 2012 of 28.8p per share (2011: 26.7p) which will amount to a dividend payment of £39.7m (2011: £35.8m). This dividend is not reflected in the balance sheet as it will be paid after the balance sheet date.

8. Amounts receivable from customers

	30 June 2012 £m	31 December 2011 £m	30 June 2011 £m
Consumer Credit Division	789.5	879.3	789.4
Vanquis Bank	525.1	453.4	380.1
Total group	1,314.6	1,332.7	1,169.5
Analysed as:			
– due within one year	1,235.1	1,244.7	1,088.8
– due in more than one year	79.5	88.0	80.7
Total group	1,314.6	1,332.7	1,169.5

Consumer Credit Division receivables comprise £787.8m in respect of Home Credit (31 December 2011: £876.7m, 30 June 2011: £785.5m) and £1.7m in respect of the collect-out of Real Personal Finance (31 December 2011: £2.6m, 30 June 2011: £3.9m).

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

	Six months ended 30 June	
	2012 £m	2011 £m
Consumer Credit Division	135.4	130.1
Vanquis Bank	45.6	38.9
Total group	181.0	169.0

Impairment in Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The Vanquis Bank allowance account as at 30 June 2012 amounted to £75.9m (31 December 2011: £62.4m, 30 June 2011: £56.3m). Within the Consumer Credit Division, impairments are deducted directly from amounts receivable from customers without the use of an allowance account.

9. Retirement benefit asset

The group operates a defined benefit scheme; the Provident Financial Staff Pension Scheme. The scheme has been closed to new members since 1 January 2003. The scheme covers 59% of employees with company-provided pension arrangements and is of the funded, defined benefit type providing retirement benefits based on final salary. Following a full group review of pension scheme arrangements, from 1 April 2006 members were provided with a choice of paying higher member contributions to continue accruing benefits based on final salary or paying a lower member contribution and accruing benefits based on a percentage of salary which would be revalued each year.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out as at 1 June 2009 by a qualified independent actuary. The valuation used for the purposes of IAS 19 ‘Employee benefits’ has been based on the results of this valuation which has been updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value at the balance sheet date. A valuation as at 1 June 2012 is currently in progress but not yet finalised.

9. Retirement benefit asset (continued)

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

	30 June 2012 £m	31 December 2011 £m	30 June 2011 £m
Fair value of scheme assets	540.4	525.0	528.9
Present value of funded defined benefit obligation	(515.8)	(511.5)	(470.0)
Net retirement benefit asset recognised in the balance sheet	24.6	13.5	58.9

The amounts recognised in the income statement were as follows:

	Six months ended 30 June	
	2012 £m	2011 £m
Current service cost	(3.4)	(3.5)
Interest cost	(12.5)	(12.7)
Expected return on scheme assets	13.8	16.0
Net charge recognised in the income statement	(2.1)	(0.2)

The net charge recognised in the income statement has been included within administrative costs.

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

	Six months ended 30 June	
	2012 £m	2011 £m
Fair value of scheme assets at 1 January	525.0	514.1
Expected return on scheme assets	13.8	16.0
Actuarial movements on scheme assets	2.1	(0.4)
Contributions by the group	5.0	4.8
Net benefits paid out	(5.5)	(5.6)
Fair value of scheme assets at 30 June	540.4	528.9

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

	Six months ended 30 June	
	2012 £m	2011 £m
Present value of the defined benefit obligation at 1 January	(511.5)	(473.1)
Current service cost	(3.4)	(3.5)
Interest cost	(12.5)	(12.7)
Actuarial movements on scheme liabilities	6.1	13.7
Net benefits paid out	5.5	5.6
Present value of the defined benefit obligation at 30 June	(515.8)	(470.0)

9. Retirement benefit asset (continued)

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

	30 June 2012 %	31 December 2011 %	30 June 2011 %
Price inflation	2.90	3.00	3.60
Rate of increase in pensionable salaries	3.90	4.00	4.60
Rate of increase to pensions in payment	2.90	3.00	3.60
Inflationary increases to pensions in deferment	1.90	2.00	2.35
Discount rate	4.90	4.90	5.50

The mortality assumptions used in the valuation of the group's defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy.

The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upward adjustment to mortality rates for males and a 15% upward adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- The projections are combined with the medium cohort improvement factors in order to predict future improvements in life expectancy, subject to an annual minimum rate of improvement of 1%.

In more simple terms, members who retire in the future at age 65 will live on average for a further 23 years if they are male (31 December 2011: 23 years, 30 June 2011: 23 years) and for a further 25 years if they are female (31 December 2011: 25 years, 30 June 2011: 25 years). If assumed life expectancies had been one year greater for the scheme, the net retirement benefit asset would have reduced by approximately £20m (31 December 2011: £20m, 30 June 2011: £19m).

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

	Six months ended 30 June	
	2012 £m	2011 £m
Actuarial movements on scheme assets	2.1	(0.4)
Actuarial movements on scheme liabilities	6.1	13.7
Actuarial movements recognised in the statement of comprehensive income in the period	8.2	13.3

10. Reconciliation of profit after taxation to cash generated from operations

	Six months ended 30 June	
	2012 £m	2011 £m
Profit after taxation	55.0	45.8
Adjusted for:		
– tax charge	17.9	16.5
– finance costs	35.1	34.8
– share-based payment charge	2.5	3.8
– retirement benefit charge (note 9)	2.1	0.2
– amortisation of intangible assets	2.9	3.8
– depreciation of property, plant and equipment	3.8	3.8
Changes in operating assets and liabilities:		
– amounts receivable from customers	18.1	49.8
– trade and other receivables	(7.5)	(0.2)
– trade and other payables	8.5	(5.9)
– contributions into the retirement benefit scheme (note 9)	(5.0)	(4.8)
– derivative financial instruments	0.1	(0.2)
Cash generated from operations	133.5	147.4

11. Seasonality

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

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

Statement of directors' responsibilities

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

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

The current directors of Provident Financial plc are listed in the 2011 Annual Report & Financial Statements. There have been no changes in directors during the six months ended 30 June 2012. A list of current directors is also maintained on the Provident Financial website: www.providentfinancial.com.

The maintenance and integrity of the Provident Financial plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

24 July 2012

Independent review report to Provident Financial plc

We have been engaged by the company to review the condensed consolidated interim financial information in the interim report for the six months ended 30 June 2012, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated statement of cashflows and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

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

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial information in the interim report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the interim report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
24 July 2012

Information for shareholders

1. The interim report will be posted to shareholders on 9 August 2012.
2. The shares will be marked ex-dividend on 31 October 2012.
3. The interim dividend will be paid on 30 November 2012 to shareholders on the register at the close of business on 2 November 2012. Dividend warrants/vouchers will be posted on 28 November 2012.

DIRECTORS

John van Kuffeler	Non-executive Chairman and Chair of the Nomination Committee

Executive Directors

Peter Crook	Chief Executive and Chair of the Executive Committee
Andrew Fisher	Finance Director
Chris Gillespie	Managing Director, Consumer Credit Division

Non-executive Directors

Robert Hough	Senior independent non-executive Director and Chair of the Remuneration Committee
Rob Anderson	Independent non-executive Director and Chair of the Risk Advisory Committee
Manjit Wolstenholme	Independent non-executive Director and Chair of the Audit Committee

General Counsel and Company Secretary

Ken Mullen

COMPANY DETAILS

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668987