

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other financial adviser duly authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your ordinary shares in Provident Financial plc, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

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## **ANNUAL GENERAL MEETING 2008**

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Notice of the Annual General Meeting of the company to be held at the Marriott Hollins Hall Hotel & Country Club, Hollins Hill, Baildon, Shipley, West Yorkshire BD17 7QW on Thursday 8 May 2008 at 12 noon is set out in pages 5 to 8 of this document.

Whether or not you propose to attend the Annual General Meeting, please complete and submit a proxy form in accordance with the instructions printed on the enclosed form. The proxy form must be received by the Proxies Department at Capita Registrars by 12 noon on Tuesday 6 May 2008.



### **Provident Financial plc**

(incorporated and registered in England and Wales under number 668987)

#### **Registered Office:**

Colonnade  
Sunbridge Road  
Bradford  
West Yorkshire  
BD1 2LQ

31 March 2008

*To shareholders and members of the Provident Financial Company Nominee Scheme*

#### **Notice of Annual General Meeting**

Dear Shareholder,

I am pleased to be writing to you with details of our Annual General Meeting ("AGM") which we are holding at the Marriott Hollins Hall Hotel & Country Club, Hollins Hill, Baildon, Shipley, West Yorkshire BD17 7QW on Thursday 8 May 2008 at 12 noon. The formal notice of Annual General Meeting is set out on pages 5 to 8 of this document.

If you would like to vote on the resolutions but cannot come to the AGM, please fill in the proxy form sent to you with this notice and return it to our registrars as soon as possible. Members of the Provident Financial Company Nominee Scheme must ensure that their proxy request form is received by 12 noon on Monday 5 May 2008. Shareholders must ensure that their proxy form is received by 12 noon on Tuesday 6 May 2008.

#### **Final dividend**

Shareholders are being asked to approve a final dividend of 38.1p per ordinary share for the year ended 31 December 2007. If you approve the recommended final dividend, this will be paid on 20 June 2008 to all ordinary shareholders who were on the register of members at the close of business on 16 May 2008.

#### **Provident Financial Long Term Incentive Scheme 2006 (the "LTIS")**

Shareholders are being asked to approve the proposed amendments to the rules of the LTIS which are set out in more detail at Appendix II on page 14 of this document which in the main include the removal of the 5% anti-dilution limit to enable the LTIS to continue to operate for the foreseeable future. However, it is not proposed that the 10% anti-dilution limit be removed and this will be retained in accordance with best practice and published investor guidelines.

#### **Provident Financial plc 2007 Employee Benefit Trust (the "EBT")**

Shareholders are also being asked to approve the establishment of the EBT. The EBT has recently been established by the company for the purposes of facilitating the operation of the LTIS. In addition shareholders are being asked, in accordance with clause 3.11 of the trust deed establishing the EBT, to authorise the company to issue ordinary shares in the capital of the company to the trustee of the EBT for the purposes of satisfying awards granted pursuant to the LTIS. A summary of the principal terms of the EBT can be found at Appendix III on page 15 of this document.

#### **New Articles of Association**

We are also asking shareholders to approve a number of amendments to our Articles of Association primarily to reflect the provisions of the Companies Act 2006. An explanation of the main changes between the proposed and the existing Articles of Association is set out at Appendix IV on pages 16 to 18 of this document.

In addition, the AGM will cover the usual routine business, including:  
adoption of the directors' report and the financial statements;  
approval of the directors' remuneration report;  
appointment of directors;  
re-appointment of directors; and  
re-appointment of auditors and the directors' authority to pay them.

Resolutions 11, 12, 15 and 16 deal with additional matters. Resolution 11 renews the authority of the company to allot relevant securities. Resolution 12 confers authority on the company to make certain political donations. Resolution 15 confers authority to enable the company to purchase its own shares. Resolution 16 gives the directors authority to allot shares in the company for cash in certain circumstances. Resolutions 11, 12, 15 and 16 are similar to resolutions which shareholders have passed in previous years.

Explanatory notes on all the business to be considered at this year's AGM appear on pages 9 to 12 of this document.

The directors consider that all the resolutions to be put to the meeting are in the best interests of the company and its shareholders as a whole. Your board will be voting in favour of them and unanimously recommends that you do so as well.

Yours sincerely,

**John van Kuffeler**

Chairman

*Inspection of documents*

*The following documents will be available for inspection at the company's registered office, Colonnade, Sunbridge Road, Bradford, West Yorkshire BD1 2LQ during normal business hours (9.00am to 5.00pm on weekdays) until the time of the AGM and at the Marriott Hollins Hall Hotel & Country Club, Hollins Hill, Baildon, Shipley, West Yorkshire BD17 7QW from 11.00am until the conclusion of the AGM:*

- *Copies of the executive directors' service contracts*
- *Copies of letters of appointment of the non-executive directors*

*The following documents will be available for inspection at the company's registered office, Colonnade, Sunbridge Road, Bradford, West Yorkshire BD1 2LQ and at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY during normal business hours (9.00am to 5.00pm on weekdays) until the time of the AGM and at the Marriott Hollins Hall Hotel & Country Club, Hollins Hill, Baildon, Shipley, West Yorkshire BD17 7QW from 11.00am until the conclusion of the AGM:*

- *A copy of the proposed new rules of the Provident Financial Long Term Incentive Scheme 2006 and a copy of the existing rules marked to show the changes being proposed in resolution 13*
- *A copy of the trust deed dated 11 September 2007 and made between the company and Kleinwort Benson (Jersey) Trustees Limited establishing the Provident Financial plc 2007 Employee Benefit Trust as referred to in resolution 14*
- *A copy of the proposed new Articles of Association of the company, and a copy of the existing Articles of Association marked to show the changes being proposed in resolution 17.*

# Provident Financial plc

## NOTICE OF ANNUAL GENERAL MEETING

The forty-eighth annual general meeting of Provident Financial plc will be held at the Marriott Hollins Hall Hotel & Country Club, Hollins Hill, Baildon, Shipley, West Yorkshire BD17 7QW on Thursday 8 May 2008 at 12 noon. You will be asked to consider and pass the resolutions below. Resolutions 15 to 17 (inclusive) will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

### Ordinary resolutions

1. That the directors' report and the audited financial statements of the company for the year ended 31 December 2007 be adopted.
2. That the directors' remuneration report for the year ended 31 December 2007 be approved.
3. That a final dividend of 38.1p per share on the ordinary shares of 20<sup>8</sup>/<sub>11</sub>p each in respect of the year ended 31 December 2007 be declared and paid on 20 June 2008 to the holders of such ordinary shares on the register of members of the company at the close of business on 16 May 2008.
4. That Chris Gillespie be appointed as a director of the company.
5. That Manjit Wolstenholme be appointed as a director of the company.
6. That Andrew Fisher be re-appointed as a director of the company.
7. That John Maxwell be re-appointed as a director of the company.
8. That John van Kuffeler be re-appointed as a director of the company.
9. That PricewaterhouseCoopers LLP be re-appointed as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company.
10. That the directors be authorised to determine the auditors' remuneration.
11. That the directors be authorised generally, and without conditions, to exercise the powers of the company to allot relevant securities (with the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £8,975,879 which authority shall expire on 7 May 2013 (unless previously revoked, renewed or varied by the company in a general meeting) save that the company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority confirmed hereby had not expired. This authority shall be in substitution for, and replace, the general authority granted by the company in the annual general meeting held on 30 April 2003.
12. That in accordance with sections 366 and 367 of the Companies Act 2006, the company and all companies that are its subsidiaries at any time during the period for which this resolution is effective are authorised to:
  - 12.1 make political donations to political parties and/or independent election candidates not exceeding £50,000 in total;
  - 12.2 make political donations to political organisations other than political parties, not exceeding £50,000 in total; and
  - 12.3 incur political expenditure not exceeding £50,000 in total;  
(as such terms are defined in sections 363 to 365 of the Companies Act 2006) provided that the aggregate amount of any such donations and expenditure shall not exceed £50,000 during the period beginning on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the company in 2009.
13. That the rules of the Provident Financial Long Term Incentive Scheme 2006 be amended in the manner set out in Appendix II on page 14 of this document, such amendments to be effective on the date upon which the remuneration committee of the company adopts such amendments.
14. That the Provident Financial plc 2007 Employee Benefit Trust (the "EBT"), the principal terms of which are summarised in Appendix III on page 15 of this document, be and is hereby approved and that the directors be authorised in accordance with clause 3.11 of the trust deed establishing the EBT

to issue ordinary shares in the capital of the company to the trustee of the EBT for the purposes of satisfying awards made by the trustee pursuant to the Provident Financial Long Term Incentive Scheme 2006.

### Special resolutions

15. That the company is authorised, generally and without conditions, to make market purchases (within the meaning of section 163 of the Companies Act 1985) of its own ordinary shares of 20%<sub>1p</sub> each (“ordinary shares”), provided that:
  - 15.1 the company may not purchase more than 13,122,630 ordinary shares;
  - 15.2 the minimum price which the company may pay for each ordinary share is the nominal value;
  - 15.3 the maximum price (excluding expenses) which the company may pay for each ordinary share is 5% over the average of the middle-market price of an ordinary share, based on the London Stock Exchange Daily Official List, for the five business days immediately before the day on which the company agrees to purchase the ordinary shares;
  - 15.4 this authority will last from the date of this annual general meeting until the end of the next annual general meeting or, if earlier, until 7 May 2009; and
  - 15.5 the company may agree, before the authority ends, to purchase ordinary shares even though the purchase is, or may be, completed after the authority ends.
16. That the directors be authorised pursuant to section 95 of the Companies Act 1985 to allot equity securities (as defined in section 94 of the Companies Act 1985) for cash pursuant to the authority conferred by Resolution 11, as set out in this notice of annual general meeting, and sell relevant shares (as defined in section 94 of the Companies Act 1985) held by the company as treasury shares (as defined in section 162A of the Companies Act 1985) for cash, as if section 89(1) of the Companies Act 1985 did not apply to such allotment or sale, provided that this power shall be limited to:
  - 16.1 the allotment of equity securities where such securities are offered (whether by way of rights issue, open offer or otherwise) to the holders of ordinary shares in the capital of the company in proportion (as nearly as may be) to the number of ordinary shares then held by them (subject to any exceptions which the directors believe are necessary or expedient in relation to fractional entitlements or legal and practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange of any territory); and
  - 16.2 any other allotment of equity securities up to an aggregate nominal amount of £1,359,981.

Unless previously revoked, renewed or varied, such power shall expire on 7 May 2009, provided that the company may before that date make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after that date and the directors shall be entitled to allot such securities or sell such treasury shares in pursuance of such offer or agreement as if the power conferred by this agreement had not expired. All authorities previously conferred under section 95 of the Companies Act 1985 shall be revoked, provided that such revocation shall not have retrospective effect.

17. That the Articles of Association produced to the meeting be adopted as the Articles of Association of the company in substitution for, and to the exclusion of, the existing Articles of Association.

Registered Office:  
Colonnade  
Sunbridge Road  
Bradford  
West Yorkshire  
BD1 2LQ

By order of the Board  
Kenneth J Mullen  
General Counsel and Company Secretary  
31 March 2008

Registered in England and Wales No. 668987

## Notes

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Capita Registrars on 0871 664 0300 (calls cost 10p per minute plus network extras).
2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand by the Proxies Department at Capita Registrars no later than 12 noon on Tuesday 6 May 2008. (For members of the Provident Financial Nominee Scheme, proxies must be received by 12 noon on Monday 5 May 2008).
3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 7 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the company of the votes they may cast), shareholders must be registered on the Register of Members of the company at 12 noon on Tuesday 6 May 2008 (or, in the event of any adjournment, 12 noon on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
5. As at 28 March 2008 (being the last business day prior to the publication of this notice) the company's issued share capital consists of 131,226,305 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 28 March 2008 are 131,226,305.
6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on Tuesday 6 May 2008. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
8. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
10. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the company under section 527 of the Companies Act 2006, the company may be required to publish on a

website a statement setting out any matter relating to: (i) the audit of the company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the company has been required under section 527 of the Companies Act 2006 to publish on a website.

11. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample letter of representation if the chairman is being appointed as described in (i) above.

## EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 14 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 15 to 17 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

### Resolution 1: Directors' report and financial statements

The directors' report and the audited financial statements of the company for the year ended 31 December 2007 (the "annual report") have been made available to shareholders and will be presented at the AGM. The annual report may also be accessed on the company's website at [www.providentfinancial.com](http://www.providentfinancial.com).

### Resolution 2: Directors' remuneration report

The directors' remuneration report is contained in the annual report. It may also be accessed on the company's website at [www.providentfinancial.com](http://www.providentfinancial.com).

### Resolution 3: Dividend

Shareholders must approve the final dividend for each ordinary share. However, the final dividend cannot be more than the amount which the directors recommend (which is 38.1p for each ordinary share). Under the Articles of Association of the company the directors can pay interim dividends (these are dividend payments made during the year). The final dividend proposed in this resolution is in addition to the interim dividend of 25.4p for each ordinary share which was paid on 28 November 2007.

### Resolutions 4 & 5: Appointment of Directors

Chris Gillespie and Manjit Wolstenholme were appointed to the board on 16 July 2007. Under the Articles of Association of the company they will hold office only until the AGM at which they will be eligible for appointment. Chris Gillespie and Manjit Wolstenholme have both confirmed that they will stand for appointment. There is further information about these directors and the board committees on which they sit in Appendix I of these explanatory notes.

### Resolutions 6, 7 & 8: Re-appointment of directors retiring under the Articles of Association

The Articles of Association of the company state that a third of the directors must retire at the AGM. (This does not include directors appointed by the board since the last AGM). Furthermore, each director must offer himself for re-appointment every three years and annually once he has served for nine years. All three directors have confirmed that they will stand for re-appointment. There is information about them and the board committees on which they sit in Appendix I of these explanatory notes.

In accordance with the Combined Code it is confirmed that a formal performance evaluation has been carried out and that each of these directors continues to be an effective member of the board and to demonstrate commitment to the role.

### Resolutions 9 & 10: Re-appointment and remuneration of auditors

The company is obliged by law to re-appoint its auditors annually. The audit committee considered the re-appointment of PricewaterhouseCoopers LLP at its meeting in February 2008 and recommended this to the board.

### Resolution 11: Power to allot shares

An authority to allot shares up to an aggregate nominal amount of £8,780,000 was granted to the directors in 2003 with an expiry date of 29 April 2008. It is now proposed to renew this authority in respect of 43,304,680 shares. The amount of the shares to which this authority applies represents approximately 33% of the issued ordinary share capital of the company as at 28 March 2008. The power will last for five years unless revoked, renewed or varied.

### **Resolution 12: Authority to make political donations**

This resolution renews the resolution that was passed at the 2007 annual general meeting and seeks approval from shareholders to enable the company to make donations or incur expenditure which it would otherwise be prohibited from making or incurring by the Companies Act 2006.

Amongst other things, the Companies Act 2006 prohibits companies and their subsidiaries from making political donations or incurring political expenditure in excess of an aggregate of £5,000 in relation to a political party or other political organisation or an independent election candidate in the 12 month period following the date of their first annual general meeting after the new legislation came into effect (and in each succeeding 12 month period), unless such donations and expenditure have been approved in advance by the company's shareholders.

The company and its subsidiaries do not currently make donations to political parties and do not intend to do so in the future. However, the Companies Act 2006 contains wide definitions of "political donation", "political organisation", "political expenditure" and "political party" and, as a result, it is possible that the company and its subsidiaries may be prohibited from supporting bodies which it is in the shareholders' interests for the company to support; for example, bodies concerned with policy review or law reform, with the representation of the business community or sections of it or special interest groups. If this resolution is passed the company and its subsidiaries will be authorised to make donations and incur expenditure which might otherwise be prohibited by the legislation, up to a limit of, in aggregate, £50,000. The directors consider that the authority is necessary to provide the company with comfort that it will not, because of uncertainties as to the scope and interpretation of the legislation, unintentionally commit a technical breach of it. It will also allow the company and its subsidiaries to provide financial and other support to organisations which it is in shareholders' interests for the company to support.

As permitted under the Companies Act 2006, the resolution extends not only to the company but also covers all companies which are subsidiaries of the company at any time the authority is in place. The resolution authorises the company and its subsidiaries to:

- (i) make political donations to political parties or independent election candidates not exceeding £50,000 in total;
- (ii) make political donations to political organisations other than political parties not exceeding £50,000 in total; and
- (iii) incur political expenditure not exceeding £50,000 in total provided that the aggregate amount of any such donations and expenditure shall not exceed £50,000 in the period up to the company's next annual general meeting.

As required by the Companies Act 2006, the resolution is in general terms and does not purport to authorise particular donations.

### **Resolution 13: Amendments to Long Term Incentive Scheme 2006**

The company demerged its international business pursuant to the approval of the company's shareholders given at an extraordinary general meeting of the company held on 13 July 2007.

As part of the demerger, the ordinary shares in the capital of the company were consolidated so that each shareholder of the company on the register of members at 5.00 pm on Friday 13 July 2007 received one consolidated share in the capital of the company for every two non consolidated shares held in the capital of the company.

Accordingly the number of shares in the issued share capital of the company was halved once this share consolidation became effective on 16 July 2007.

The consolidation of the company's shares in this manner has had the following consequence in relation to the company's ability to operate the Provident Financial Long Term Incentive Scheme 2006 (the "LTIS"):

The LTIS contains two anti-dilution limits which limit the number of shares in the capital of the company which may be newly issued in any ten year period for the purpose of satisfying awards made under the LTIS. Importantly, the anti-dilution limits operate by reference to the issued share capital in existence on the day preceding the date of any proposed grant of an award under the LTIS, so that broadly:

- (a) in any ten year period, the aggregate number of newly issued shares which may be used under the LTIS and any other share incentive scheme operated by the company, cannot exceed 10 per cent of the issued

share capital of the company on the day before the proposed date of grant of an award (“10 per cent anti-dilution limit”); and

(b) in any ten year period, the aggregate number of newly issued shares which may be used under the LTIS and any share incentive scheme (other than a HM Revenue & Customs approved Share Incentive Plan or Save As You Earn Scheme or similar all employee scheme) operated by the company, cannot exceed 5 per cent of the issued share capital of the company on the day before the proposed date of grant of an award (“5 per cent anti-dilution limit”).

Immediately prior to the consolidation of the company’s shares these anti-dilution limits provided the company with approximately 4,000,000 shares over which it could make further awards under the LTIS and approximately 13,500,000 shares over which it could make further awards under the LTIS and all other share incentive schemes operated by the company. This was a sufficient number of shares to allow the company to make awards for the foreseeable future, in accordance with the remuneration policies operated by the company. However, immediately upon the consolidation of the company’s shares becoming effective, and the number of shares in issue being reduced to half the amount in existence before the consolidation, the 5 per cent anti-dilution limit was fully utilised. The directors are of the view that it is in the best interests of shareholders and the company to rectify this consequence of the consolidation of the company’s shares as it severely inhibits the company’s ability to effectively incentivise and retain the key executives and senior management now responsible for driving the success of the company.

It is therefore proposed that the 5 per cent anti-dilution limit be temporarily removed from the LTIS as this will enable the company to continue operating the LTIS with newly issued shares for the foreseeable future. In due course, the company intends to re-introduce the 5 per cent anti-dilution limit when the LTIS can be effectively operated in accordance with and subject to a 5 per cent anti-dilution limit.

However, it is not proposed that the 10 per cent anti dilution limit should be removed from the LTIS and this will be retained in accordance with best practice and published investor guidelines. If the 5 per cent anti-dilution limit is removed the company will have approximately 3,000,000 shares over which it will be able to make awards using newly issued shares pursuant to the LTIS and its other share incentive schemes. Whilst this will not be as many shares as were available before the demerger it will be sufficient to allow the company to effectively incentivise the key executives and senior management in the short term.

Full details of the proposed amendments to the LTIS are contained in Appendix II of these explanatory notes.

#### **Resolution 14: Establishment of Employee Benefit Trust**

Full details of the principal terms of the Provident Financial plc 2007 Employee Benefit Trust (the “EBT”) which was established by the company on 11 September 2007 are included in Appendix III of this document and the trust deed itself will be available for inspection as noted on page 4 of this document.

When the EBT was established it was initially proposed that the EBT would satisfy awards made under the LTIS by purchasing shares in the capital of the company in the market and to date the EBT has been operated on this limited basis. However, if the shareholders approve the proposed amendments to the LTIS which will allow the company to issue new shares under the LTIS, the company will be able to issue shares to the trustee of the EBT for the purposes of satisfying awards made pursuant to the LTIS.

As currently drafted the trust deed establishing the trust prohibits the trustee from subscribing for shares unless and until the shareholders of the company have approved the establishment of the EBT in general meeting (clause 3.11 of the trust deed) and hence the company is seeking shareholder approval of the EBT and the authority to issue shares to the trustee of the EBT for the purposes of satisfying awards under the LTIS.

The directors are of the view that it is in the best interests of shareholders and the company for shares to be issued to the trustee of the EBT as the current restriction on the ability for the trustee to subscribe for shares in the capital of the company contained in the trust deed severely inhibits the use of the EBT in conjunction with the LTIS and the ability for the company to effectively incentivise and retain the key executives and senior management.

#### **Resolution 15: Authority for the company to purchase its own shares**

This resolution renews the resolution that was passed at the 2007 annual general meeting giving the company authority to purchase its own shares in the market up to a maximum of approximately 10% of the

issued ordinary share capital of the company. No shares were purchased pursuant to that authority. The resolution sets out the maximum number of shares which may be purchased, which is approximately 10% of the issued ordinary share capital of the company as at 28 March 2008, the highest and lowest prices which may be paid and the date when this authority runs out. If any shares are purchased, they will be either cancelled or held in treasury. Any such decision will be made by the directors at the time of purchase on the basis of the shareholders' best interests. If the directors decide to hold such shares as treasury shares, any subsequent issue of these treasury shares for the purposes of equity based incentive schemes will be treated as being included in the 10% anti-dilution limit in those schemes.

The directors are committed to managing the capital of the company effectively. Any purchases would be made only if to do so would result in an increase in earnings per share of the company and would be in the best interests of shareholders generally. Earnings per share is the profit after tax of the company divided by the weighted average number of shares in issue during the year. The directors have no present intention of making purchases of the company's shares pursuant to this authority.

#### **Resolution 16: Power to allot shares for cash**

Resolution 7 passed at the 2003 annual general meeting gave the directors power to allot shares up to an aggregate nominal amount of £8,780,000 up until 29 April 2008. Resolution 16 passed at the 2007 annual general meeting gave the directors authority to allot shares for cash up to an aggregate nominal amount of £1,328,606 up until 15 May 2008. No shares were issued pursuant to these authorities. It is now proposed to seek further authority to allot shares for cash.

This resolution gives the directors power to allot equity securities in exchange for cash and to sell treasury shares other than to existing holders of ordinary shares in proportion to their holdings. Equity securities are ordinary shares in the company (but do not include shares which are allotted under employees' share schemes). This power is limited to an offer of equity securities by way of a rights issue or an open offer or similar procedure under which a company offers existing shareholders the chance to acquire new shares. The number of shares they can acquire depends on the number of shares they already own. This is one way by which companies can raise extra capital. However, the rules in some countries make it difficult to include shareholders in those countries in such offers. The power given by this resolution means that the directors can make separate arrangements for those shareholders. The directors may also make separate arrangements for any fractions of shares which are left over.

In addition, this power allows the directors to issue ordinary shares for cash or sell treasury shares without first having to offer the shares to existing shareholders, up to a maximum of 6,561,315 shares. This is approximately 5% of the issued ordinary share capital of the company on 28 March 2008.

The Association of British Insurers have issued guidelines recommending that a company should not issue shares for cash (without first offering them to existing shareholders) in any one year in excess of 5% of the issued ordinary share capital of the company as shown in its last accounts and in excess of an aggregate of 7.5% in any rolling period of three years. It is the company's intention to comply with these guidelines.

The company does not currently hold any treasury shares.

#### **Resolution 17: Adoption of new Articles of Association**

It is proposed in resolution 17 to adopt new Articles of Association (the "New Articles") in order to update the company's current Articles of Association (the "Current Articles") primarily to take account of changes in English company law brought about by the Companies Act 2006.

The principal changes introduced in the New Articles are summarised in Appendix IV of these explanatory notes. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted in Appendix IV. The New Articles showing all the changes to the Current Articles are available for inspection, as noted on page 4 of this document.

## APPENDIX I

### BIOGRAPHICAL DETAILS OF THE DIRECTORS STANDING FOR APPOINTMENT AND RE-APPOINTMENT

#### **Chris Gillespie**

Managing Director, Consumer Credit Division, age 45

Qualified as a certified accountant and joined Provident Financial in May 2007 as Managing Director, Consumer Credit Division and was appointed to the board in July 2007. He initially joined Barclays in 1979, where he rose to hold a number of senior positions, including Director of Consumer Lending from 2000 to 2002. He then moved to HFC Bank as Group Director before joining Bradford & Bingley in 2005 as Group Lending Director. Chris is a non-executive director of British Eventing Ltd. He is a member of the executive committee.

#### **Manjit Wolstenholme**

Independent non-executive director, age 43

After qualifying as a chartered accountant with PricewaterhouseCoopers, she spent 13 years with Dresdner Kleinwort, latterly as co-head of investment banking. She was a partner at Gleacher Shacklock from 2004 to 2006 and is a non-executive director of Capital and Regional plc. She joined the board of Provident Financial in July 2007. She is chair of the audit committee and a member of the nomination committee, remuneration committee and risk advisory committee.

#### **Andrew Fisher**

Finance Director, age 50

Qualified as a chartered accountant in 1983, having graduated in economics and accounting. He joined Provident Financial in May 2006 as Finance Director and was appointed to the board. Prior to this appointment, he held the position of Finance Director at Premier Farnell plc for 11 years. He was previously a partner at Price Waterhouse. He is a member of the executive committee and the risk advisory committee.

#### **John Maxwell**

Senior independent non-executive director, age 63

Qualified as a chartered accountant in 1967. He joined the board of Provident Financial in 2000. He is a non-executive director of Royal and Sun Alliance Insurance Group PLC, London Finance and Investment Group PLC, Homeserve plc and the Royal Automobile Club Ltd. He is chairman of the remuneration committee and a member of the audit committee, the nomination committee and the risk advisory committee.

#### **John van Kuffeler**

Non-executive Chairman, age 59

Graduated with a degree in economics and qualified as a chartered accountant in 1973. He joined Provident Financial in 1991 as Chief Executive and was appointed Executive Chairman in 1997. He became non-executive Chairman in 2002. He was formerly group Chief Executive of Brown Shipley Holdings PLC. He is Chairman of Huveaux PLC. He is chairman of the nomination committee.

## APPENDIX II

### PROPOSED AMENDMENTS TO THE PROVIDENT FINANCIAL LONG TERM INCENTIVE SCHEME 2006 (the "LTIS")

Paragraphs 1 to 6 below detail the amendments to be made to the Provident Financial Long Term Incentive Scheme 2006 which would (subject to their adoption by the company's remuneration committee) be effected by the approval of the resolution set out in the notice of Annual General Meeting on pages 5 and 6 of this document.

1. In rule 13.1(1) of Part I of the LTIS, by deleting the words, "any of the limits" and replacing the same with the words, "the limit" and by deleting the words, "Rules 13.2 and 13.3" and replacing the same with the words, "Rule 13.2".
2. In rule 13.2 of Part I of the LTIS, by deleting the words, "Grant Date" and replacing the same with the words, "Date of Grant".
3. In Part I of the LTIS, by deleting rule 13.3.
4. In rule 14.1(1) of Part II of the LTIS, by deleting the words, "any of the limits" and replacing the same with the words, "the limit" and by deleting the words, "Rules 14.2 and 14.3" and replacing the same with the words, "Rule 14.2".
5. In rule 14.2 of Part II of the LTIS, by deleting the words, "Grant Date" and replacing the same with the words, "Date of Grant".
6. In Part II of the LTIS, by deleting rule 14.3.

### APPENDIX III

#### **SUMMARY OF THE PROVIDENT FINANCIAL PLC 2007 EMPLOYEE BENEFIT TRUST (the "EBT")**

The EBT was constituted by a trust deed dated 11 September 2007 made between the company and Kleinwort Benson (Jersey) Trustees Limited. The company has appointed Kleinwort Benson (Jersey) Trustees Limited, a professional trustee located in Jersey, to act as the first trustee of the EBT. The company has the power to appoint and remove the trustee of the EBT.

The EBT is a discretionary settlement set up for the benefit of employees and former employees (and their dependents) of the company and its subsidiaries.

The trustee of the EBT may either purchase existing shares in the company in the market or (once the EBT has received shareholder approval) subscribe for new shares in the company. It is proposed that the shares acquired by the trustee of the EBT will be used predominantly to satisfy conditional share awards made pursuant to the Provident Financial Long Term Incentive Scheme 2006; however the trustee may use them to satisfy other options and awards granted pursuant to any other share incentive scheme established by the company.

The maximum number of shares in the company which may be held by the trustee of the EBT at any time may not exceed 5 per cent of the company's issued ordinary share capital at that time (whether acquired by subscription or purchase).

## APPENDIX IV

### EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

#### 1. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

#### 2. Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed as the concept of extraordinary resolutions has not been retained under the Companies Act 2006. Further, the remainder of the provision is reflected in full in the Companies Act 2006.

The Current Articles enable members to act by written resolution. Under the Companies Act 2006 public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

#### 3. Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being removed in the New Articles because the relevant matters are provided for in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required and the chairman of a general meeting no longer has a casting vote.

#### 4. Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll. The New Articles give the directors discretion, when calculating the time limits, to exclude weekend and bank holidays. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions. References to the Provident Financial Company Nominee Scheme have been removed from the articles but the power to appoint a proxy who may speak at a meeting under the Provident Financial Company Nominee Scheme is retained in the New Articles under the articles relating to proxies.

#### 5. Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision and, secondly, in taking the decision the directors must act in a way they consider, in good

faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is the board's intention to report annually on the company's procedures for ensuring that the board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

## **6. Retirement of directors**

Under the Current Articles, one third of the directors must retire by rotation. This provision has been removed so that the New Articles are aligned with the Combined Code. The New Articles provide that each director should resign but may be re-appointed at least every third AGM as well as at his first AGM following appointment.

## **7. Notice of board meetings**

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad.

## **8. Records to be kept**

The provision in the Current Articles requiring the board to keep accounting records has been removed as this requirement is contained in the Companies Act 2006.

## **9. Distribution of assets otherwise than in cash**

The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

## **10. Communications with members**

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the company to take advantage of the new provisions relating to website communications. Before the company can communicate with a member by means of website communication, the relevant member must be asked individually by the company to agree that the company may send or supply documents or information to him by means of a website, and the company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

In general, articles relating to communications with members have been updated. In particular, as well as the electronic and web communications discussed above, the New Articles include a provision that, if on three consecutive occasions, a document served, sent or supplied is returned undelivered, then the member shall not be entitled to receive notices, documents and other information until he has communicated with the company and supplied a suitable address. This is merely a point of administrative convenience.

## **11. Treasury Shares**

From 1 December 2003, listed companies which buy back their own shares have not been required by law to cancel them. Such shares can be held by such a company as treasury shares and later sold for cash, transferred for the purposes of an employee share scheme or cancelled. The articles have been amended to reflect the possible existence of treasury stock.

## **12. Uncertificated shares**

The New Articles reflect that ownership of shares can be evidenced without share certificates and that such shares can be transferred through an electronic settlement system.

## **13. General**

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles to that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

