

Provident Financial

2006 Corporate Responsibility report



WELCOME

TO PROVIDENT FINANCIAL'S
SIXTH CORPORATE
RESPONSIBILITY (CR) REPORT.

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The aim of this report is to give stakeholders an account of the way we manage the social, environmental and economic issues that are material to our operations, products and services.

The report is divided into the following sections:

Introduction

We begin with a message from Peter Crook, board director of Provident Financial and managing director of our businesses in the UK and Ireland who provides an overview of the group. We explain the CR governance structures and management processes for the group, and describe the Provident Financial approach to risk management. We also outline our stakeholder relationships and summarise stakeholder feedback on our 2005 CR report. Finally, we report on how the group has benchmarked its CR performance and received recognition for good practice.

Marketplace

This is divided into three sections:

- **Group financial performance:**

We outline our financial performance for 2006 and explain how we support our suppliers, including the 36,000 agents we have across our UK and overseas businesses.

- **Our UK and Ireland businesses:**

This provides information on the products offered by our UK and Ireland businesses, sets out the way we are regulated and provides an overview of our customers.

- **Our international businesses:**

We report on the individual countries in our international division, show how they are regulated and the process we go through when looking to expand into new markets.

Workplace

Here, we outline the way we manage and report on group-specific issues such as communication, health and safety, and equal opportunities. We also explain the training and development opportunities and benefits available to staff in both our UK and overseas businesses.

Environment

This is divided into three sections. The first section reports on the main environmental challenges we face as a business and our group approach to minimising our impact on the environment. The following two sections set out how our UK and overseas businesses performed during 2006 against agreed environmental objectives and targets.

Community

Here we outline our group commitment to playing an active role in the communities in which we operate. We also provide information on the community involvement activities undertaken by our UK and overseas businesses.



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Provident Financial Corporate Responsibility 2006

Why is corporate responsibility important to us?

Since I joined Provident Financial in 2005, it's become clear to me that, as a business, we have several important and unique characteristics that contribute to our approach to corporate responsibility (CR). With the high number of staff we have and extensive agent coverage, we are one of very few companies that have a presence in almost every town and city in the UK and Ireland, as well as across large areas of Central and Eastern Europe and Mexico.

This means we have an unparalleled understanding of the communities in which we operate, enabling us to deliver products and services that meet the needs of our customers, as well as ensuring that we deliver benefits to the people that make up our communities, including employees, local community groups and suppliers.

Of course, having such a huge audience brings with it certain responsibilities in terms of our social, environmental and economic performance. That's why we maintain a comprehensive, group-wide CR programme, and why we are committed to providing our stakeholders with an annual account of our CR performance.

We believe that by being a responsible, community-based lender, we can continue to secure a strong market position. It also enables us to ensure that we are well placed to build on our current successes and to develop into new areas.

A responsible lender

First and foremost, CR underpins the products and services available to our customers. This means that, unlike many other businesses in the finance sector, we provide products with terms that are clear, concise and carry no hidden costs. It also enables us to deliver a service to our customers that is friendly, flexible and which does not encourage agents to lend more than customers can afford. As a result, we have been able to deliver consistently high levels of customer satisfaction during 2006. In fact, our approach to product and service delivery was acknowledged by the Competition Commission in its final report on the inquiry into the provision of home credit in the UK. The Commission's own research confirmed that there are high levels of satisfaction among customers, who find home credit products suited to their needs. It also revealed that the relationship between customer and agent is a valued part of the service.

A people business

I can't overestimate the importance we place on ensuring that we recruit and retain high quality employees. Not only do they play a critical role in ensuring that we deliver against our business objectives, but they are also significant contributors to our CR programme. Of course, getting the most out of people means inspiring and rewarding them to do the best they can. We are committed to ensuring that our employment practices are first class and that we offer opportunities for our people to develop. Communication is key to our success. We encourage employees to share their views with us and keep them updated on what the business is doing too. For example, during 2006, we began delivering newsletters to employees across our UK and overseas businesses and created an internet portal for our branch network in the UK.

Community involvement

Having so many staff and agents on the ground in so many towns and cities also means that we're in a strong position to give something extra to the communities in which we operate. The focus of our community involvement activities continues to be on addressing the education and social inclusion issues that face children and young people living in less privileged communities. We remain committed to maintaining our community involvement activities as a central pillar of our CR programme.

welcome

Global issues

Of course, CR is much more than simply getting involved in community projects or making charitable donations. It's also about doing our bit to ensure that we have a positive impact on the global issues that are so often front page news these days. As a father of two young children and as a businessman, I believe it's our duty to safeguard the environment from the threat of global issues, such as climate change, for future generations. Even though Provident has minimal direct impacts on the environment when compared with other sectors, we remain committed to operating an environmental management system across our UK and overseas businesses as well as addressing the sustainable development issues that are present within our supply chain. During 2006, we introduced a number of measures that will enable us to be more efficient in our use of energy and reduce the emission of greenhouse gases that result from our operations. This will lessen our contribution to climate change.

CR in the City

Having worked in the financial sector for some time, it has come as no surprise to me that the City is becoming increasingly interested in what businesses are doing from a CR point of view. Investors, analysts and the financial media have all developed an avid interest in understanding what businesses are doing, not only to maximise the returns for shareholders, but also to ensure that they have positive impacts on the environment, the people they employ, their customers and suppliers, and the communities in which they operate. This growth in the level of scrutiny from the City may come as a worrying development for some businesses. For us here at Provident, it validates what we've been doing now for many years. It further underlines the importance we place on managing the 'triple bottom-line' of our business. This means that in addition to managing our financial bottom-line, we report on our social and environmental performance too. It also enables us to respond to requests from investors and analysts who require evidence from us on our CR performance, and to continue to feature in external indices such as the Dow Jones Sustainability Index and the FTSE4Good Index. What is more, it demonstrates that we're committed to the long term by building a sustainable future for our business.

Looking ahead

2007 will be a significant year for Provident Financial as we progress with the demerger of our international division and the sale of our insurance business. It will also be an important time to further embed CR within our businesses. I'm looking forward to the next phase of Provident's development, and working with the board, senior management, employees and other stakeholders to ensure that CR remains at the heart of what we do.



Peter Crook,
Managing Director, UK & Ireland

introduction

Who we are

Provident Financial is an international financial services group specialising in personal credit and motor insurance. We are the UK's leading provider of home credit and a FTSE mid-shares 250 company listed on the London Stock Exchange.

The business was established in Bradford in 1880 by Sir Joshua Waddilove, a philanthropist who wanted to provide manageable credit for working-class households in West Yorkshire. Having become a public company in 1962, Provident Financial now serves over 1.5 million customers throughout the UK and Ireland, specialising in small, short-term, unsecured personal loans with payments collected directly from customers' homes. In addition, credit is also available to customers from our credit card provider, Vanquis Bank, which has over 250,000 customers.

Over the last 10 years, we've expanded into the international market, establishing home credit businesses in Poland, the Czech Republic, Hungary, Slovakia and Mexico as well as a pilot operation in Romania. In all, 1.8 million people currently benefit from our products in these emerging markets.

We also operate a successful motor insurance business, specialising in policies for women drivers and owners of older or second cars. We currently have 490,000 policyholders.

2006 highlights

- Group profit before tax and exceptional costs up 5.5% after absorbing £30.4 million (2005 £19.0 million) of investment in start-up businesses to drive future UK and international growth.
- Increase in number of UK home credit customers for the first time in three years after a step-up in marketing activity – up 2.0% to 1.52 million.
- Number of Vanquis Bank customers exceeded year-end target of 250,000 – up 57% on last year.
- Profits from established Central European home credit businesses up 8.2% to £65.7 million.
- Motor insurance pre-tax profit up 2.5% to £41.0 million.

Forging international growth

It's just 10 years since we formed our international division and in that time we've expanded rapidly, thanks, in part, to the financial and operational support of UK home credit. Today, however, our international division is a self-sufficient, stand-alone business that's very different to the UK business in its growth profile, capital requirements and management demands. While UK home credit is a cash-generative business operating in a more mature market, the international division's focus on emerging overseas markets means it's facing huge growth potential.

To enable both businesses to take full advantage of the exciting opportunities on offer, on 4 July 2006, we announced we would be working towards a separate listing for this part of the business.

We believe strongly that demerging will be of enormous benefit to both the international and UK businesses. The two businesses will have distinct strategic agendas calling for different management skills and focus, as well as offering different investment propositions to shareholders. The management of the international business will focus solely on the significant opportunities to capture the growth in new, existing and emerging markets. The management of the UK business will focus on developing and growing its core business and continuing to build a more broadly based business in the UK non-prime consumer credit market.

In addition to our demerger, as announced on 17 January 2007, the group is progressing the sale of its non-core motor insurance business, Provident Insurance. Discussions with potential acquirers of the motor insurance business are currently proceeding satisfactorily and the board expects to complete the sale of the business before the demerger becomes effective.

The completion of the demerger is subject to the approval of Provident Financial shareholders. This will be sought at an extraordinary general meeting, details of which, along with other resolutions to be considered, will be set out in the circular to

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be posted to shareholders which will follow once the sale of Provident Insurance has been completed. The board expects the sale of the insurance business to be completed during the second quarter of 2007.

Taking corporate responsibility seriously

As our business expands, CR is becoming more and more important to us. CR means understanding the social, environmental and economic impact our operations have on our stakeholders, whether they're customers, staff, agents or communities.

We've long recognised that by taking CR seriously we can operate a profitable business and, at the same time, contribute to sustaining the environment and society. That's the driving force behind our CR programme which is now very much a strategic part of our business. Our CR policies and governance structures have been embedded across our UK and international operations to ensure we have positive social, environmental and economic impacts in every area of our business.

Our CR programme features a range of group policies covering everything from environmental management and responsible supply chain management, to diversity and whistle-blowing. To ensure our policies are integrated from the grass roots up, we use our intranet site and employee handbooks to communicate issues and show how they will be implemented, together with details on the individuals or groups with management responsibilities.

The Provident Financial board is the accountable body for our CR programme. John Harnett, Managing Director, International, has board responsibility for our overall group-wide CR programme and reports at every board meeting on our performance. In addition, Peter Crook, Managing Director of UK and Ireland, currently has board responsibility for both employee and customer-related CR issues. Following the demerger of the international division, Peter will have overall board responsibility for Provident's CR programme (See Table 1).

Reviewing our CR governance

Over the last few years, our CR steering group, which is made up of senior managers from across the business, has been responsible for driving and providing an oversight for all CR activities. However, in 2006, we decided to review our CR governance structures. While this has been

going on, our CR steering group meetings were suspended temporarily.

The purpose of the review has been for us to analyse all the CR risks and opportunities that relate to both the UK and emerging markets. As a result of the review, in 2007 we'll be introducing separate CR governance structures to our UK and international operations. Furthermore, to allow us to manage the diverse CR issues across the group, we've appointed a second full-time CR manager: one manager will take responsibility for the UK businesses and one will take responsibility for our international businesses.



Table 1:

Board members with responsibility for CR issues		
CR issue	Board member with responsibility	When reported
Community	John Harnett, Managing Director, International	Every board meeting
Environment	John Harnett, Managing Director, International	Every board meeting
Suppliers	John Harnett, Managing Director, International	Every board meeting
Human rights	John Harnett, Managing Director, International	At board meetings when necessary
Employees	Peter Crook, Managing Director, UK and Ireland John Harnett, Managing Director, International	Every board meeting
Customers	Peter Crook, Managing Director, UK and Ireland John Harnett, Managing Director, International	Every board meeting

While it's important to review our CR activities from time to time, it's also important that we don't lose momentum during periods of change. So, while the review has been going on, we've continued with our CR management activities, supported by working groups. For example, our UK and international environmental working groups have made significant progress in clarifying the strategic direction of our environmental management programme. The working groups, which include representation from IT, marketing, communications, facilities, purchasing, security, operations, training

and development and legal, play an important role in developing objectives, targets and action plans for our CR programme, and ensuring that its progress is reported to the board.

In our international division, individual country managers are responsible for implementing our CR programme. All country managers are required to report compliance against all group policies on an annual basis. Furthermore, CR teams have been established within each country to manage social and environmental performance and report progress to nominated directors. In turn, these

country-specific directors will report CR performance issues to the centre.

Measuring success

Being able to measure and report back on the social and environmental impact of what we do is crucial. In order to do this, we've designed a key performance indicator (KPI) collection system to keep stakeholders up to date with our initiatives.

We've embedded systems across our divisions enabling us to collect social and environmental KPI information. This includes a comprehensive CR reporting framework which enables our UK and

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international divisions to report CR data to the group on a quarterly basis for social KPI data and every six months for environmental KPI data.

We can use this information to compare the performance of our CR programme year-on-year, allowing us to benchmark where we are compared with best practice and the expectations of our stakeholders. The CR performance information also feeds into the central CR programme and the annual CR reporting process.

In addition to internal measuring, we are subject to an annual, independent audit which gives us an objective, third-party assessment of how we've delivered against CR policy commitments.

Managing risk

Risk management is an activity that all businesses need to take into account. At Provident Financial, we have a well-established management framework that enables us to identify, assess and manage the social, environmental and economic risks that affect our UK and overseas operations. As well as operating individual risk registers for each division, we operate a central key risk register, which, in addition to listing 12 key, group-wide risks, includes details relating to their internal control. Overall responsibility for risk management and maintenance of the system of internal control lies with the Provident Financial board.

The governance structures we have in place to deal with risks operate at a number of levels across the organisation (see Figure 1). These structures enable each division to identify risks. These are then reviewed and analysed by the Risk Advisory Group (RAG). The RAG is made up of John van Kuffeler, Chairman; Christopher Rodrigues, Joint Deputy Chairman; Peter Crook, Managing Director, UK and Ireland; Andrew Fisher, Finance Director; John Harnett, Managing Director, International, and Ros Marshall Smith, Company Secretary. The risk management activities of the RAG are delegated by the board's Risk Advisory Committee (RAC). This committee comprises Tony Hales (Chairman of the RAC), Charles Gregson, Robert Hough, John Maxwell and Ray Miles, who are all independent, non-executive directors, and Andrew Fisher and Christopher Rodrigues. The RAC, in turn, reports to the Provident Financial board on the effectiveness of the group's system of internal control, including operational compliance controls and risk management. The terms of reference for the RAC are published on our website.

We're pleased to report that our risk management framework continues to comply with, or exceed, the requirements of the Association of British Insurers (ABI) disclosure guidelines on social responsibility as well as the Turnbull

Guidance on Internal Control, part of the Combined Code on Corporate Governance. In short, this means that we have a system of internal control that enables us to identify and manage a wide range of social, environmental and economic risks, and achieve our corporate objectives. Furthermore, our compliance with the Turnbull Guidance is verified on an annual basis by an independent external auditor.

For more information on risk management and our compliance with the ABI Guidelines, please refer to the corporate governance report in our 2006 Annual Report and Financial Statements or go to www.providentfinancial.com.



Figure 1: The Provident Financial risk management framework as at 07 March 2007

Provident Financial Board

Risk Advisory Committee

Function:

- Reviews and approves the Key Risk Registers
- Reports to the board three times a year

Risk Advisory Group

Executive directors and Company Secretary

Function:

- Reviews submissions from divisions
- Submits activity report and Key Risk Registers to the Risk Advisory Committee

Divisional Boards

UKIHCD

Provident
Insurance

Vanquis
Bank

International
Division

Function:

- Identify division-specific risks and put in place cost-effective controls
 - Review risks biannually
- Divisional risk registers submitted to the RAG twice a year
- The terms of reference for each divisional board include a risk management section

introduction

The people who matter

Our stakeholders play a crucial role in the continuing success of our business. By stakeholders, we mean individuals or groups who affect, or are affected by, our activities. From the communities in which we operate, to our employees and suppliers, our relationships with all these people have a significant impact on our business (see Table 2).

Consulting with our stakeholders

To ensure that our CR programme continually improves, we are keen to talk to our stakeholders. What they say matters and we strongly believe that by engaging them in the CR process, our programme has the best chance of success. The consultation process involves us sending out surveys and questionnaires to our suppliers and employees and holding formal consultation workshops with a range of organisations, including our peers in the financial sector.

The quality of our CR reporting is important to us. So this year, as in previous years, we convened a round table consultation event with nine representatives from a range of stakeholder groups in order to obtain feedback on our CR reporting processes. Facilitated by The Corporate Citizenship Company, stakeholder representatives explored the link between their expectations of our CR report and its actual performance. The feedback has been invaluable and has helped us to make significant improvements in the quality of this year's CR report.

In the UK, we work with Business in the Community, Race for Opportunity and the Employers' Forum on Disability to obtain additional input into our CR programme. In Poland, we are members of CSR Europe, Forum Odpowiedzialnego Biznesu (the Polish Responsible Business Forum) and Centrum Wolontariatu (Centre for Volunteering). In Hungary, we work with the Foundation for Corporate Social Responsibility, the British Chamber of

Commerce Special Interest Group for CSR, the CSR working group of the Hungarian Business Leaders Forum, and the American Chamber of Commerce environmental working group. In the Czech Republic, we have been a patron of the British Chamber of Commerce since 2001 and since 2004 have been co-operating closely with the Chamber and other members to introduce CR into Czech companies (see Table 3).



Table 2:

Provident Financial's stakeholders		
Our stakeholders	Relationship with Provident Financial	Page reference
Communities	We rely on the communities in which our extensive network of UK and overseas offices are located, and from where our customers, employees and agents are drawn. In recognition of the inextricable link between these communities and the success of our business, we are committed to ensuring that our community investment programme continues to make a positive and sustainable impact.	Pages 50-59
Customers	Our customers are key to the success of our business. It's important, therefore, that we provide products in a responsible manner and deliver a high quality service.	Pages 25-27
Employees	Our business will only continue to flourish if we attract and retain high quality employees. It's important, therefore, that we provide a safe working environment that takes account of a range of diversity issues, and offer appropriate levels of remuneration and training and career development opportunities.	Pages 31-37
Regulators	Being an international business in the financial sector, our operations, products and services are governed by a variety of laws and regulations. As such, we run our business in a way that meets, and in some cases exceeds, regulatory and legislative requirements.	Pages 23-25 & 28-29
Shareholders	Our CR programme plays an integral part in ensuring that we deliver long-term shareholder value. It's important, therefore, that our corporate governance structures and performance in socially responsible investment indices provide confidence to our shareholders that our management of key social and environmental issues is contributing to the achievement of our corporate objectives.	Pages 15 & 17-18
Suppliers	We have a duty to behave responsibly towards our suppliers and ensure that they are paid promptly and communicated with effectively. It's also important that we manage the social and environmental issues that are inherent in a supply chain that includes the almost 36,000 agents that deliver our products and services, the providers of IT equipment and the many other suppliers of goods and services that help our business to run efficiently.	Pages 18-19 & 44

Introduction

Table 3:

Summary of stakeholder feedback and Provident's responses on the 2005 CR report	
Suggestion from stakeholder engagement group	Our response in 2006 CR Report
<p>Overall approach – presentation The report should explain clearly why Provident manages CR, why performance targets have not been achieved, include people-based case studies and be made shorter.</p>	<p>This year, a clear justification for our CR programme is provided. In addition, more detail is provided to explain our performance against agreed objectives and targets. While we have tried to produce a shorter report this year, the increase in the amount of information that we disclose has meant that the 2006 report is longer than the 2005 report.</p>
<p>Management and strategy The introductory statement of the report should more clearly set out the personal views of the statement author and demonstrate Provident's commitment to CR and the issues that are important to its stakeholders. The report should further explain how Provident's governance structures deal with CR issues and how these are reported at board level.</p>	<p>The introductory statement demonstrates our commitment to maintaining our CR programme and the personal focus of the author. A comprehensive overview of Provident's CR governance structures is provided. This includes how CR is governed in each division and how issues are reported to the group board.</p>
<p>Performance and implementation – marketplace Additional information should be provided with regard to the socio-economic profiles of UK and international customers and on the customer/agent relationship. The report should provide more detail on the findings of the Competition Commission inquiry, the responsible lending agenda and how Provident contributes to financial inclusion.</p>	<p>Further information is included in the report to contextualise the socio-economic profiles of our customers, and on the customer/agent relationship. Details of the Competition Commission inquiry findings are provided, as is information on the work carried out by the Treasury Select Committee on Financial Inclusion.</p>
<p>Performance and implementation – workplace This section should provide a better analysis of workplace data and explain how diversity, equal opportunities and human rights issues are being managed.</p>	<p>The text for this section of the 2006 CR Report includes a more detailed analysis of the workplace issues that are material to our business.</p>
<p>Performance and implementation – community This section could be shortened and feature community involvement 'stories'.</p>	<p>This section has been shortened and more qualitative information is included.</p>
<p>Performance and implementation – environment This section should explain why targets have not been achieved, include data for UK and international divisions and make climate change a more prominent issue.</p>	<p>Climate change is highlighted as an issue of prominence in this year's report. A more detailed explanation is also provided when targets have not been achieved.</p>
<p>Assurance The assurance section should clearly explain the scope of the assurance activities.</p>	<p>The scope of the year's assurance statement is more clearly defined in the report.</p>
<p>Other issues The report should present a clear set of corporate values and business principles.</p>	<p>The development of a clear set of corporate values and business principles will be investigated during 2007.</p>
<p>The GRI table should just be featured on the Provident CR Report website instead of in the CR report.</p>	<p>The GRI table has not been included in this year's report and will be featured on our CR website.</p>



Recognising good performance

At Provident Financial, we're constantly striving to achieve best practice in CR. Not only that, we're working hard to achieve globally accepted standards and to provide investors with an independent benchmark of our business based on social, environmental and economic criteria.

Our commitment has paid off. Provident Financial is represented on the main global sustainability indices. For the fourth consecutive year, we've been included in the FTSE4Good index and for the second consecutive year in the Dow Jones Sustainability Index. Our presence in these indices fulfils two purposes. Not only does it demonstrate to investors and other stakeholders that we are committed to high standards of responsible business practice but it also shows that we have rigorous policies and systems in place to manage social, environmental and ethical risks.

In addition, we've gone one step further in proving our commitment to CR. In November 2006, for the fourth time, we made a submission to the Business in the Community (BITC) Corporate



Responsibility Index. The Index is a voluntary, business-led benchmark of responsible business practice and acts as a management tool to help ensure continuous improvement in our social and environmental performance. By being part of the BITC Index, we can benchmark our performance against our peers, other participants and CR best practice.

In 2006, our performance on the CR index continued to improve with our score rising to 89.5% - a 3.5% increase on last year. We also performed well on BITC's first community index with a score of 90.68%. Also, as in previous years, we continued to maintain high standards of performance on the Business in the Environment index, with a score of 90%.

Overseas success stories

We're pleased to report that we've also been recognised for our CR activities overseas. In 2006, our Mexican business was included in the Empresa Socialmente Responsable (ESR), a prominent CR index in Mexico. Companies in the ESR are measured according to company ethics, quality of life for employees, commitment to the development of the local community and care and preservation of the environment.



In October 2006, the Firemni Filanthrop (Top Corporate Philanthropist) list was published in the Czech Republic. This list monitors the financial and other contributions made by businesses to community initiatives in areas of need in the Czech Republic. We were placed 18th out of 55 companies, an improvement of seven places on the previous year.

In Hungary, after huge efforts from the local CR team, Provident Hungary won third prize in the 'Business in Environment' environmental protection competition which was founded by the Hungarian Business Leaders Forum in 2000. The prize is given to organisations that show commitment to environmental protection and have delivered initiatives that have had positive impacts on the environment in local communities.

marketplace



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Provident Financial Corporate Responsibility 2006

While improving our social and environmental performance is an important focus for our business, we can only achieve it if we're in a strong financial position overall.

Table 4:

Group financial performance			
	2006 (£m)	2005 (£m)	Change (£m)
UK Home Credit*	127.5	130.0	(2.5)
Vanquis Bank	(18.3)	(15.9)	(2.4)
Motor insurance	41.0	40.0	1.0
Yes Car Credit	(1.5)	(24.6)	23.1
Total UK operations	148.7	129.5	19.2
International - Established countries	58.3	54.2	4.1
- New countries	(12.1)	(3.1)	(9.0)
Total international	46.2	51.1	(4.9)
Central - Costs	(6.0)	(8.3)	2.3
- Interest receivable*	2.4	9.1	(6.7)
Total central	(3.6)	0.8	(4.4)
Profit before tax and exceptional costs	191.3	181.4	9.9
Demerger costs	(11.1)	-	(11.1)
Yes Car Credit closure costs	-	(141.0)	141.0
Total group profit before taxation	180.2	40.4	139.8

* The allocation of the group's interest charge to UK home credit has been changed during 2006 to reflect revised borrowings based on an average ratio of borrowings to receivables of 80%. The impact of this in 2006 is to reduce profit in UK home credit by £12.0 million and reduce the interest cost held centrally by £12.0 million. 2005 results have been restated on to a comparable basis resulting in a reduction in UK home credit profit in 2005 of £16.3 million and a reduction in the interest cost held centrally of £16.3 million. These changes have had no impact on reported group profits in either 2005 or 2006.

marketplace

More detailed information about financial results, performance and activities is published in our Annual Report and Financial Statements, 2006.

During 2006, revenue less impairment was £857 million. Of this, we paid £472 million to policyholders, brokers and suppliers of goods and services (including agents). The remaining £385 million is added value created by Provident Financial which was distributed to employees (£158 million), shareholders (£91 million) and governments in the form of taxes (£100 million). A further £2 million was donated to our community partners (refer to pages 50-59 for more detail) and a profit of £34 million was retained by the business.

Working with our suppliers

As with all our stakeholders, we work hard to ensure our relationship with suppliers is both professional and responsible. This means paying them promptly, wherever possible, and keeping them informed of our expectations. In 2006, the average time taken to pay creditors was 14 days, three days fewer than in 2005. This compares well with the average time for businesses in the UK to pay invoices. A study carried out in January 2006 by the analytical and information service provider Experian found that, on average, UK businesses take 60 days to pay invoices, with large financial organisations taking on average 64 days.

Fig. 2 Distribution of added value

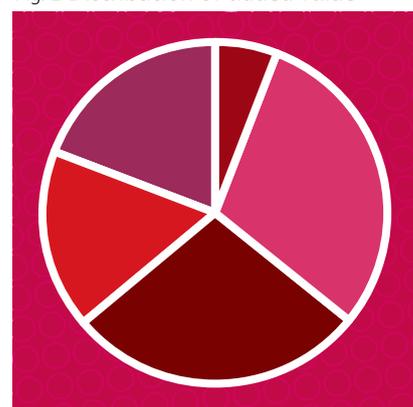


Table 5:

International division - profit before taxation			
	2006 (£m)	2005 (£m)	Change (£m)
Central Europe - Home credit*	68.8	61.4	7.4
- New products	(3.1)	(0.7)	(2.4)
Total Central Europe	65.7	60.7	5.0
Central UK divisional overheads*	(7.4)	(6.5)	(0.9)
Total established countries	58.3	54.2	4.1
Investment in new countries:			
Mexico*	(9.7)	(3.1)	(6.6)
Romania	(2.4)	-	(2.4)
Total new countries	(12.1)	(3.1)	(9.0)
Total international profit before tax	46.2	51.1	(4.9)

* The allocation of central UK divisional overheads has changed during 2006 to reflect more accurately the costs attributable to Central Europe, Mexico and Romania. The impact of this in 2006 is to reduce profit in Central Europe by £3.9 million, increase the loss in Mexico by £0.5 million and reduce central UK divisional overheads by £4.4 million. The results shown above for 2005 have been restated to reflect the results as though a similar basis of cost allocation had been adopted. Accordingly, the 2005 profit in Central Europe has been reduced by £3.5 million, the 2005 loss in Mexico has been increased by £0.2 million and the central UK divisional overheads in 2005 have been reduced by £3.7 million. These changes have no impact on reported group or international profits.

Our suppliers also play an important role in our CR programme. It's important to us that we procure products and services that have minimal negative impacts on the environment and society at large. This involvement not only yields social and environmental improvements throughout our supply chain, but also helps us contain costs, improve risk management and enhance our reputation.

Over the past three years, our home credit and insurance divisions, in accordance with our environmental supply chain management policy, have delivered a comprehensive programme of engagement and support to our suppliers. For example, we reviewed the environmental performance of our suppliers and joined forces with them to develop policies and practices that minimise the environmental risks within our supply chain (for more information, go to page 44).

Dedicated agents

At the front line of the Provident Financial's home credit business is a team of dedicated agents. They provide small, unsecured, short-term loans, typically in the range of £100 to £500, making weekly collections from the customer's home. To thousands of customers, the face of Provident Financial is that of their agent, so we rely on all of them to adhere to the agent agreement, jointly delivering against our promise of fair and responsible lending.

In the UK, there are 11,500 agents and

28,400[†] throughout our international operations. A typical agent is female and has approximately 130 customers. All are self-employed, except in Hungary where the law requires that they be employed. Many agents have been Provident customers themselves and live in and around the communities in which their customers live. This gives them a good understanding of our customers' circumstances and enables them to develop good working relationships. We take great care when engaging agents. The vast majority come to us as former Provident customers, with others sourced from the communities in which we operate and via marketing in local media.

Supporting agents

It's crucial to the success of our business that we support agents in their work. Our extensive network of area, branch and development managers offers support on responsible lending and health and safety. The weekly meetings held between agents and development managers, for example, provide a forum to discuss issues which vary from customer service to product information. We also give all agents a comprehensive manual which outlines our corporate environmental policy and shows how they can contribute to our corporate community involvement initiatives.

Fig. 3 **Aggregate gross salaries paid to employees**

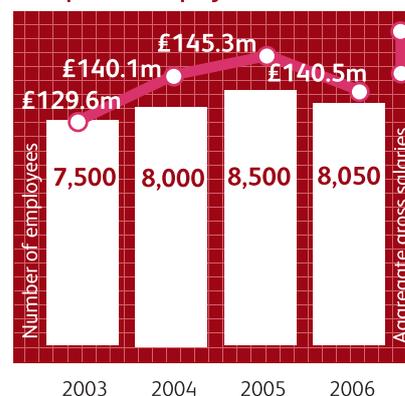


Fig. 4 **Dividends paid**

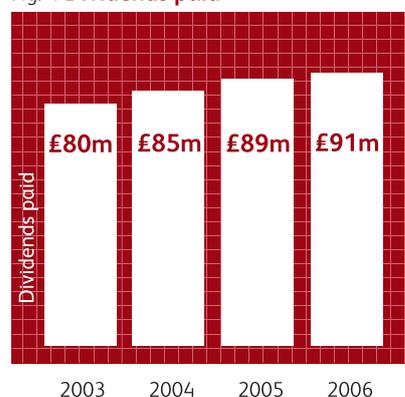
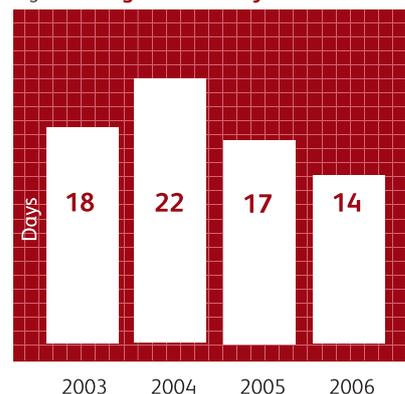


Fig. 5 **Average creditor days**



[†]Includes 4,200 agents in Hungary employed by the group. All other agents are self-employed.

marketplace

Personal safety

Personal safety is the most important CR issue for agents. We work hard with agents to ensure that their working environment is safe and secure. During 2006, for example, awareness of basic health and safety issues was made available to 90% of agents in the UK. The remaining 10% will have the same opportunity throughout 2007. We also repeated a personal safety 'mystery shopper' exercise with 100 agents and 50 development managers to confirm that personal safety issues were being discussed with agents in the field. We were pleased to discover that agents and development managers demonstrated a high awareness of personal safety issues.

The lending process

Responsible lending is the cornerstone of our business so, to ensure that agents provide credit products that match the needs and the circumstances of customers, we've established comprehensive lending systems and procedures. Designed to supplement the skill and expertise of agents, these procedures help us to minimise the risks of lending and allow customers to manage their budgets properly.

Our customers are scored according to their level of credit risk and ability to repay loans. Our System Enhanced Lending (SEL) procedure is used to assess and score existing customers on the basis of their previous payment history. We don't provide customers with additional loans until the SEL procedure is satisfied that there is an acceptable credit risk score. This ensures that we issue loans to existing customers of the right amount and at an appropriate time.

For new customers, loans will not be issued until we have an understanding of their credit risk. This can involve assessing customers against the comprehensive checklist contained within our Customer Details Form and requesting proof of income information.

One of the key benefits of home credit is that the loans include a fixed, all-in charge for the credit. They carry no penalty fees for late or missed payments, nor do they accrue extra interest, and so each pound repaid is a pound off the total. The contracts that are issued to customers with each loan set out clearly the details of the charges and repayment requirements.

Incentivising agents

The commission paid to agents is based on the loan repayments they collect, not on what they lend. This is another area in which we can encourage responsible lending as it's not in the interest of the agent to lend more to a customer than they can afford to repay.

Our UK businesses – responsible home credit

We provide 1.52 million customers with home credit in the UK through Provident Personal Credit and Greenwood Personal Credit, and overseas through our international business.



Our philosophy is simple; by providing credit in a responsible, well-managed way, we aim to make life easier for a wide range of customers, including those who might otherwise be excluded from mainstream credit products. Our home credit loans provide cash for a whole range of uses, from repairing a washing machine to buying school uniforms. Agents deliver small, unsecured cash loans – typically between £100 and £500 – direct to the door, and collect the repayments each week at a time convenient to our customers. Our service is simple, flexible and transparent, with a one-off fixed charge and no hidden penalty charges. As a result, our customers always know exactly how much they owe and that there will be no surprises.

Affordable, controlled credit cards

There are many people who don't qualify for a traditional credit card. They may have a limited credit history or no credit history at all, have experienced credit card problems in the past or are just on a modest income. In 2003, we set up Vanquis Bank to offer credit cards to a broader range of people, in a controlled and affordable way.

Rather than replicating existing credit cards, the Vanquis Bank credit card has a number of unique features that make it suitable for our customers. We offer relatively low credit card limits, a higher repayment level than most other cards, a high level of contact with customers to help them stay in control, and the choice of paying weekly, fortnightly or monthly.

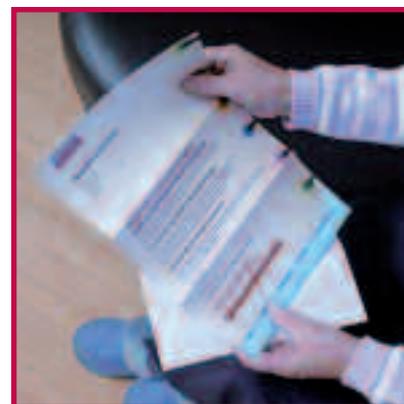
Cost-effective insurance

Through a network of 4,000 brokers, our motor insurance division provides a specialist market of women drivers and owners of older or second cars with competitive motor insurance policies with the emphasis on non-comprehensive insurance. We're committed to closely tailoring our products to the needs of our market and processing the low value transactions, that result from non-comprehensive insurance, cost effectively. Together, these features bring savings that we're pleased to be able to pass on to our customers.

Product transparency – understanding the cost

The APR of home credit can appear high when compared to that of some banks and credit card companies. However, at Provident Financial we believe that using APR to compare the price and value for money of home credit and other credit products is problematic. Firstly, the rules for calculating APR allow certain charges to be excluded from the APR calculation for some products. Examples of this are the monthly fee on a bank current account or any charges incurred as a result of late or missed payments which, by law, need not be included in the APR. However, when such charges are taken account of, they can substantially increase the cost of credit. In addition to this, it's accepted that APR exaggerates the 'apparent cost' of shorter term home credit loans, particularly for loans with a repayment period of less than 12 months.

Both these points are supported by the Competition Commission in its Home Credit Market Investigation final report which concludes that 'APR is an imperfect basis for comparison' (page 174). The APRs which relate to Provident's home credit loans include all the charges, so the customer never pays more than he or she has agreed at the outset of the loan. This includes the service provided to the customer by an agent who collects a weekly loan repayment from the customer's home.



marketplace

Interest rate controls

As part of its review of the 1974 Consumer Credit Act, the Department for Trade and Industry (DTI) published research into the way that interest rate controls have worked in France, Germany and some US states. The research found that as interest rate controls are imposed, credit costs become less clear and the terms of credit products less forgiving, so consumers end up paying high levels of default and penalty charges. Additionally, rate ceilings restrict the market for small sum credit and consumers are forced to borrow larger sums than they need or want. Partly as a result of this research, the UK Government decided not to include provision for an interest rate cap in consumer credit regulations. This position was also endorsed by a wide range of organisations including the National Consumer Council, Citizens Advice, the Association of British Credit Unions and the Institute for Public Policy Research. Another significant finding came from recent DTI commissioned research into illegal lending. The researchers concluded that the relatively low incidence of illegal lending in the UK is a consequence of a regulatory regime that enables the majority of borrowers to access legal, regulated credit. In countries where rate caps exist, providers are often prohibited from charging an interest rate that covers the full costs of lending. Where other legal

sources of credit are not available this can result in lower income/higher risk borrowers having to resort to loan sharks. Transparency is key to our product strategy which is why, during 2007, we will continue to engage with stakeholders to raise awareness and increase understanding of the costs and benefits associated with our products and service.

Making credit affordable

Since December 2004, and following the establishment of the Financial Inclusion Taskforce by the UK Government, the Treasury Select Committee investigated how financial exclusion could be tackled. The aim was to improve access to banking, affordable credit, and free, face-to-face advice.

Following the inquiry (to which we submitted written evidence), the Committee published three reports in November 2006. The first report - 'Financial Inclusion: credit, savings, advice and insurance' - acknowledged that the cash price of a loan is important to low-income customers, but so are the qualities of convenience, good service, flexibility and control. The report also made the following four main findings: competition in the home credit market should be boosted, more effective action should be taken against illegal lenders, the Social Fund should be made more effective, and the capacity of not for profit lenders (for example credit unions) should be enhanced. By changing our business

practices to comply with the Competition Commission's remedies, significant measures to boost competition in the home credit sector are already in the process of being implemented.

The Financial Inclusion Taskforce has been allocated a £36 million growth fund to improve access to affordable credit. The fund is being administered by the Department for Work and Pensions and will be apportioned to a range of organisations, particularly Credit Unions and Community Development Finance Institutions (CDFIs), that will be tasked to increase the supply of affordable credit in areas of financial exclusion. The Taskforce also commissioned research during 2006 to investigate the feasibility of new models to deliver affordable credit. A significant finding from this research was



that those on lower incomes found home credit to be a good match for their needs. Further, the DTI research into illegal lending concluded that the relatively low incidence of illegal lending in the UK is a consequence of a regulatory regime that enables the majority of borrowers to access legal, regulated credit.

To support the Government in its aim of extending the provision of affordable credit, we are doing all we can to help the Taskforce and other departments.

Regulating our businesses in the UK

Our home credit division, comprising Provident Personal Credit (PPC) and Greenwood Personal Credit (GPC), is regulated under the Consumer Credit Act 1974 (as amended under the Consumer Credit Act 2006) and holds consumer credit licences. This licensing regime is operated by the Consumer Credit Bureau, part of the Office of Fair Trading (OFT), and is supervised at the local level by local council trading standards departments.

PPC and GPC are also members of the Consumer Credit Association, the UK's trade body which represents the majority of businesses in the home credit industry. In addition to complying with our licence conditions, we voluntarily subscribe to the CCA's Code of Practice and Business Conduct Pledge.

Provident Insurance and Vanquis Bank are both authorised and regulated by the Financial Services Authority (FSA).

The Consumer Credit Act

The Consumer Credit Act 2006 received Royal Assent on 30 March 2006 following a comprehensive review and consultation on the Consumer Credit Act 1974. This extensive review covered the effectiveness of existing regulation on a range of issues, including information disclosure, unfair credit transactions and customer redress. It also considered the issue of indebtedness.

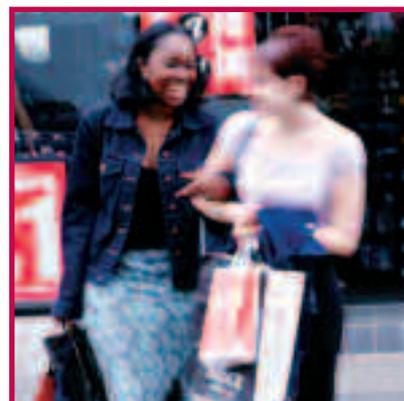
By introducing the 2006 Act, the DTI is aiming to build a UK consumer credit market that's 'fair, open and competitive: one that protects the interest of consumers and allows lenders to compete on a fair and equal footing.' New regulations regarding credit advertising and early settlement were introduced on 31 October 2004 and 31 May 2005 respectively.

The following further provisions under the 2006 Act will come into force between now and April 2008:

- 6 April 2007 – Introduction of an 'unfair relationship' test to replace the 'extortionate credit' test specified under the 1974 Act.
- 6 April 2007 – Establishment of an alternative dispute resolution scheme for consumer credit disputes, to be provided by the Financial Ombudsman Service.
- 6 April 2008 – Introduction of a reformed consumer credit licensing regime and enhancement of OFT powers.

- 6 April 2008 – Introduction of post-contract transparency obligations to provide customers with regular information about the state of their credit accounts (eg statements of account and notices of arrears).

Some of these provisions will require further regulations before they can be fully introduced.



marketplace

At Provident Financial, one of our key selling points is that we make our home credit products clear and easy to understand. Our customers are given clear information on the total cost of credit, the total amount payable, the weekly repayment, the term of the loan and the APR. They are also given an easy to follow record of their borrowings and repayments in a payment book that they themselves keep. We comply fully with the regulations of the Consumer Credit Act on informing customers on APRs.

The Competition Commission

In 2004, the National Consumer Council made a 'super complaint' to the Office of Fair Trading stating that the home credit industry was not sufficiently competitive. As a result, the Competition Commission (CC) opened an inquiry. Throughout this process we engaged proactively with the

CC and made a number of submissions. On 30 November 2006, the CC published its final report. It set out four remedies for ensuring increased competition in the home credit industry: data sharing with credit reference agencies, publication of prices on an independent website, the provision of statements on request

by customers, and enhanced early settlement rebates.

The result of the inquiry brought good news for Provident Financial. The CC's research confirmed high levels of satisfaction among customers who find home credit products well suited to their needs. In addition, the CC recognised

Fig. 6 Socio-economic breakdown of customers

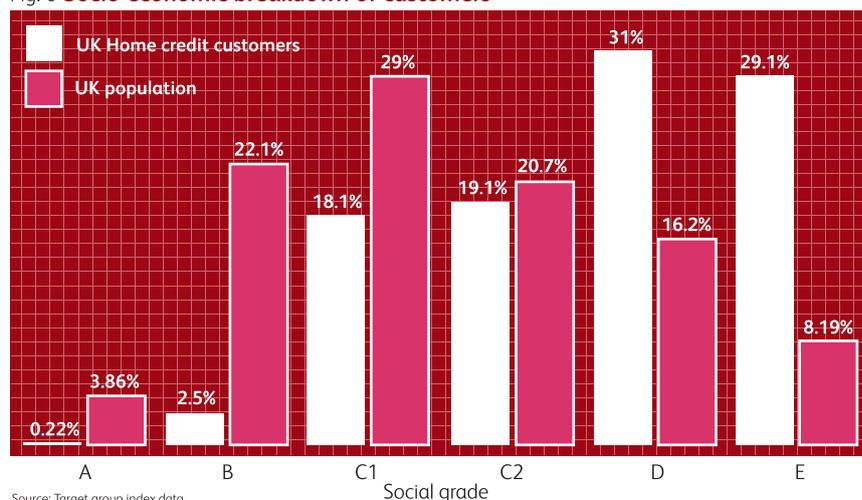


Table 6:

Socio-economic grade definitions		
Social grade	Social status	Chief income earner occupation
A	Upper middle class	Higher managerial, administrative or professional
B	Middle class	Intermediate managerial, administrative or professional
C1	Lower middle class	Supervisory or clerical and junior managerial, administrative or professional
C2	Skilled working class	Skilled manual workers
D	Working class	Semi and unskilled manual workers
E	Those at the lowest levels of subsistence	State pensioners or widows (no other earner), casual or lowest grade workers

Source: National Readership Survey Ltd.

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evidence of innovation within the industry, that the relationship between customers and agents is appropriate and that customers value the service they receive.

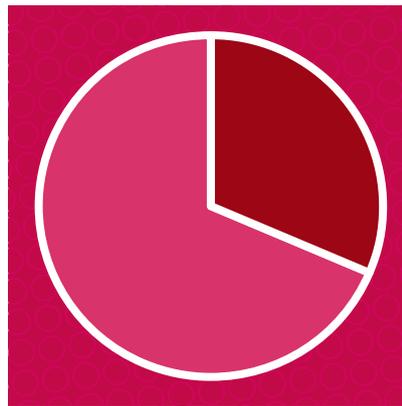
The CC rejected the concept of introducing price caps concluding that directly controlling prices would risk causing 'a reduction in access to credit' for customers.

The CC was of the opinion that home credit companies were making profits in excess of the cost of capital. However, it is important to note that it recognised '...both that our profitability estimates may be quite imprecise and that there was not necessarily any straightforward direct link between those estimates and the extent to which prices in the market could be said to be too high.'

Provident Financial continues to reject the CC's analysis of profitability. Evidence from two independent experts, Sir Bryan Carsberg and Professor Colin Mayer, which was presented to the CC, is consistent with Provident Financial's position.

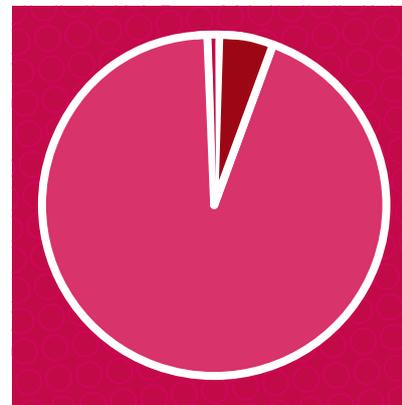
Looking ahead, we're continuing to work constructively with the CC to implement the remedies outlined in the final report, the majority of which are due to be in place during 2007 and 2008.

Fig. 7 Gender breakdown of customers



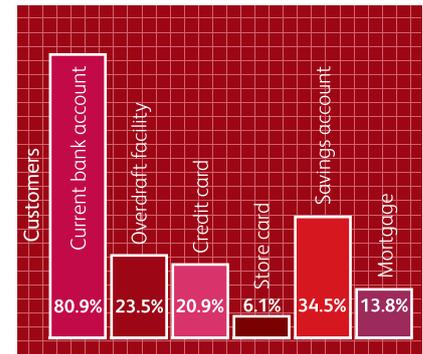
Source: Home credit customers (Current & paid up tracker survey, Quaestor Research 2006). Sept 2006 monthly annual average (MAA) customers.

Fig. 10 Had cause to complain about PPC/GPC



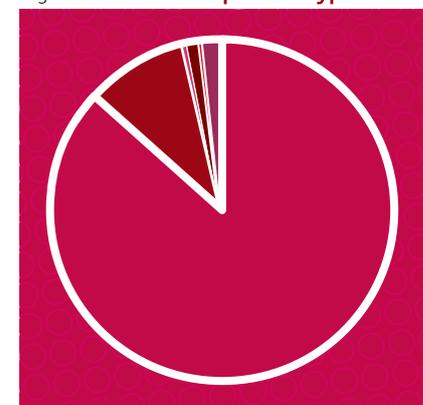
Source: Home credit customers (Current & paid up tracker survey, Quaestor Research 2006). Sept 2006 monthly annual average (MAA) customers.

Fig. 9 Customers' other financial products



Source: Home credit customers (Current & paid up tracker survey, Quaestor Research 2006). Sept 2006 monthly annual average (MAA) customers.

Fig. 8 Breakdown of product type



Source: Home credit customers (Current & paid up tracker survey, Quaestor Research 2006). Sept 2006 monthly annual average (MAA) customers.

Table 7:

Overall satisfaction with Provident/Greenwood	
Year	% of customers either very or quite satisfied with PPC/GPC
2004	93%
2005	94%
2006	93%

* Source: Home credit customers (current & paid up tracker survey, Quaestor Research 2006).

marketplace

Understanding our UK customers

Delivering high quality products and service to our customers is an important part of our CR agenda. But to do this, we first have to understand our customers and their needs.

We have a wide range of customers, the majority coming from socio-economic groups C, D and E. With many living on a modest income, we're keen to ensure that our lending is always conducted in a responsible manner. In practice, that means not lending more than our customers can afford, providing clear information on our products and their charges, and incentivising our staff and agents in a way that promotes responsible lending.

Around 47% of our customers work full-time or part-time, with 69% being women. By having a comprehensive knowledge of our markets, we can offer a range of products that are tailored to customers' specific needs, and deliver a service that respects the lifestyles of our customers. We provide our customers with loans that are small and manageable, with the convenience of an agent calling at customers' homes each week, at a time convenient to them, to collect repayments. This convenience, flexibility and control means that our customers actively choose home credit over alternative credit products, despite the fact that 80.9% of our customers have bank accounts, 20.9% have credit cards, 6.1% have store cards, and 23.5% have overdraft facilities.

Responsible customer service

Both Vanquis Bank and Provident Insurance are regulated by the FSA. As such, we are working towards the FSA's 'Principles for Business', which are general statements of the main regulatory expectations that companies within the financial services sector should work towards. Principle 6 relates to customers' interests and requires an FSA regulated business to 'pay due regard to the interests of its customers and treat them fairly'.

Throughout 2006, both Provident Insurance and Vanquis Bank have undertaken work to develop 'Treating Customers Fairly' (TCF) frameworks which will contribute to the delivery of division-specific TCF strategies.

The UK home credit business is regulated under the Consumer Credit Act. There have been a number of changes to this, embodied in the 2006 Act, which will be implemented through 2007 and into 2008. To ensure that we comply fully with these new regulations, in particular within the new definition of 'unfair credit transaction', and the rights of customers to take any complaint to the Financial Ombudsman Service, we have carried out a thorough review of our policies and procedures and implemented a number of changes. In particular, we have strengthened our procedures for dealing with customer complaints.

Dealing with customer complaints in the UK

While complaint levels are low within our home credit business, we're committed to resolving any customer issues as quickly as possible. Our complaints handling procedure sets out clear processes and timescales for our customer relations team to adhere to. This process involves initial intervention from agents and then the company, but should the result of this be unsatisfactory, the next stage is to involve the Financial Ombudsman Service.

We're always looking to improve our products and services. During 2007, this will involve setting challenging objectives and targets around issues that relate to both customer service and the responsible lending agenda.

Our international businesses

Our international business was started in 1997 as part of Provident Financial's strategy to develop new sources of growth outside the UK by transferring the home credit model abroad. It has expanded

rapidly and we now have businesses in four countries in central Europe, another in Mexico and a new pilot in Romania. Our international division finished 2006 strongly after restoring the quality of

the business in Poland and overcoming the temporary suspension of new lending in Hungary. To date, it has almost 1.8 million customers and made £46.2 million profit in 2006.



marketplace

Poland

Over the past two years, our Polish business has had the challenge of rolling out a new product to comply with interest rate cap legislation introduced in February 2006 and also responding to adverse trends in collections and impairment that emerged during 2005. Our highly skilled management team has successfully met both challenges and we're now pleased to report an improvement in the quality of lending and the receivables book which is generating a significantly reduced level of impairment. Recently, the business has shifted its focus and begun investing in its marketing and field operations in order to restore profitable growth.

Hungary

In Hungary, changes to administrative procedures and the status of agents required by the PSZAF (the Hungarian financial supervisory authority) have been completed and lending recommenced on 6 December 2006, after a suspension period of seven weeks.

Czech Republic, Slovakia and Romania

Both the Czech Republic and Slovakia have performed well, the latter reporting its first annual profit. Meanwhile, the Romanian pilot continues to perform in line with expectations.

Mexico

In Mexico, customer numbers stood at just over 250,000 at the end of December, more than double the figure a year earlier. The management team there is currently concentrating on building the experience of the local management and field operations before resuming geographic expansion through further branch openings.

Regulating our international businesses

When it comes to our international businesses, the regulatory environment is different in each individual country.

Poland

The provision of consumer credit in Poland is subject to a number of consumer protection laws including the Consumer Credit Act, the Consumer Rights Protection Act and various Civil Code provisions. The Office of Competition and Consumer Protection is responsible for ensuring compliance with these laws by credit providers like Provident Polska S.A.

Czech Republic

Provident Financial s.r.o. operates as a consumer credit provider in the Czech Republic on the basis of a standard trade licence which is issued by a Trade Licensing Office. The provision of consumer credit is regulated primarily by the Consumer Credit Act and various Civil Code provisions. The Czech Commercial Inspectorate is responsible for ensuring compliance with these laws by credit providers.

Slovakia

Provident Financial s.r.o. operates as a consumer credit provider in Slovakia on the basis of a standard trade licence which is issued by a Trade Licensing Office. The provision of consumer credit is subject to a number of different consumer protection laws including the Consumer Credit Act, Consumer Protection Act, the Trading Act and various Civil Code provisions. The Slovak Trade Inspectorate is responsible for ensuring compliance with these laws by credit providers.

Hungary

Provident Hungary is licensed to provide consumer credit by the Hungarian Financial Supervisory Authority. The Financial Supervisory Authority regulates credit providers in the financial services sector. In addition to licensing requirements, the provision of consumer credit in Hungary is subject to a number of different consumer protection laws including the Banking Act, the Consumer Protection Act and various Civil Code provisions.

Romania

In Romania, Provident Financial qualifies as a Non-Banking Financial Institution (NBFI) and is subject to licensing by the National Bank of Romania (NBR). NBFIs are registered, depending on the size of their business, into General or Special Registries which are organised by the NBR. The NBR monitors companies in the General Registry and it prudentially supervises those in the Special Registry. Provident Financial Romania has submitted its application file for registration into the General Registry and we estimate that Provident Financial Romania will reach the Special Registry in June 2008, should the pilot proceed to full roll out.

Mexico

Provident Mexico operates as a Sociedad Anonima (S.A. de C.V.) which is a public limited liability company. It grants consumer credit and is required to comply with the relevant provisions of the general commercial law, the Commercial Code and the Federal Civil Code.

Future regulation

Recognising that the level of regulation is likely to continue to increase over the coming years, we want all our International businesses to be prepared. So, we're investing in powerful new technology which agents can use to effectively and efficiently manage regulatory compliance.

The challenge of emerging markets

Emerging markets can present considerable risk to organisations such as ours. So, as our international division grows, it's important that we balance managing risk with taking full advantage of the many opportunities on offer. Of course, each country is unique and it's important that we respect that. However, we're committed to implementing the same ethical standards that govern our UK business across all our international businesses.

Given that regulations and consumer protection can sometimes be less developed in emerging markets, we're working hard to deal with the issues that are material to our stakeholders in a way that meets international best practice. In countries where access to credit has been constrained, we find that a credible, lawful and responsible form of credit provision is well received and plays an economically important role.

When we're looking at expanding into a new market, the first thing we do is to conduct a detailed screening process that assesses, among other things, the political stability of the region, the safety of the working environments for our staff and agents, and the level of bribery and corruption. This process also picks up any human rights concerns that may exist with a particular area. Failure to meet our standards on these issues has led to us to exclude some countries from further investigation.

Once established, our international businesses abide by a group code of ethics to ensure that our operations respect human rights and that all our employees execute their duties fairly, responsibly and within the law. We also adhere to best practice. For example, we provide cooling off periods, early settlement rebates and transparent loan documentation (such as publishing the 'total amount paid') where we're not always required to by law. Furthermore, we do not 'cold call' and have extensive controls and guidance in place concerning how we lend, including sales behaviours, through our credit control and arrears policies.

Further details on our process for starting operations in new countries can be found in our Annual Report and Financial Statements 2006.

workplace



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The success of any business can be measured in the quality of the people it employs. At Provident Financial, we place great value on our employees. In fact, they're our greatest asset.

Workplace management across our group

At the end of 2006, we employed 12,250 staff across our operations in the UK and Ireland, Central and Eastern Europe and Mexico.

Our continued business success is dependent on our ability to recruit and retain high calibre people, to train and motivate them, and to create a safe working environment that enables them to develop as individuals and help the business to grow.

Forging good relations

In order to get the most out of our people, we need to have a good relationship with them – and that means regular communication. This helps employees to understand what we expect of them. Secondly, it helps us to raise awareness

of the various initiatives, campaigns and schemes that we introduce, including those that relate to our CR programme. Regular communication can also encourage employees to become involved in company activities as well as enhance employee recruitment, retention and motivation.

Our UK and overseas businesses all have effective employee forums which provide an environment in which staff can express their views and concerns. In 2006, for example, the UK home credit and overseas businesses began conducting employee engagement surveys. These have been very illuminating and we intend to make the surveys an annual event.

Internal communication activities are the responsibility of each individual business. These can include email bulletins, monthly newsletters, team briefings and intranet

sites. During 2006, to improve communication still further, an internet portal was introduced to our field offices in the UK. This portal enables our office network to access a wide range of information including details of changes to policies and procedures, environmental and community involvement activities and marketing campaigns.

In our international division, employee forums are held on a regular basis. These are supplemented by internal magazines, regular business updates and team briefings. There are also engagement surveys conducted across all businesses every two years.



workplace

Retaining good quality staff

While it's critical to us that we attract high quality staff, it's even more important to us that we keep them. By retaining effective and committed employees, we can continue to deliver quality products and services and, as a result, stay competitive. Managing staff turnover is therefore an important business issue for us. It enables us to reduce the expenditure associated with recruitment and training, as well as maintaining high levels of morale and productivity among our staff.

In 2006, staff turnover across the group increased to 26.6% (2005 21.1%). The rate of employee turnover for our UK operations increased slightly to 22.1% during the year. During 2007, we will undertake work to review our workplace practices to determine whether there are any issues which contribute to staff turnover. The Chartered Institute of Personnel and Development (CIPD) annual survey report for 2006, reports an average labour turnover rate of 18.3%.

Whistle-blowing, harassment and grievance procedures

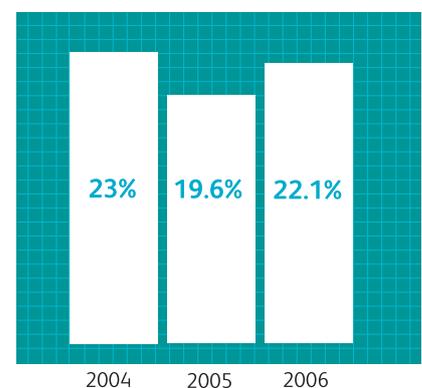
Across the business, we're committed to promoting a climate of openness in the workplace where staff feel free to raise concerns without fear of recrimination or victimisation. While we make every effort to avoid any form of malpractice and mismanagement, our group whistle-blowing policy and procedures have been designed to enable concerns such as failure to comply with legal obligations,

impropriety, fraud or unethical behaviour, to be raised at a high level. In addition to an internal reporting system, we have introduced an external whistle-blowing hotline that offers an alternative for members of staff who, for whatever reason, choose not to use internal methods. The hotline is a 24 hour free-call telephone line, available to staff across the group and operated by an independent third party. In addition, we've established rigorous policies and procedures across the group that enable employees to raise an employment grievance or to complain about harassment. Details of our whistle-blowing, harassment and grievance procedures are included on our intranet sites and in all our employee handbooks.

Managing group health and safety

With 12,250 employees across our UK and overseas operations, we're careful to manage the health, safety and welfare conditions in which our people work. We are committed to ensuring that our staff work in a safe and secure environment, and recognise that we have a broader responsibility to look after their health and well-being. It's been proven that neglect of these issues can have significant cost implications for employers. In January 2006, the Health and Safety Executive estimated that the cost of occupational ill-health and sickness absence to the UK economy was approximately £12 billion per year, with absenteeism in the private sector accounting for around £8 billion of this total.

Fig. 11 Employee turnover (number of UK staff leaving as a % of average number of employees in 2006) in the UK business



Our group policy for health and safety is agreed at board level and applied to all parts of our UK and overseas operations. The policy is overseen by our occupational health and safety (OHS) steering group, which also provides strategic direction in the management of health, safety and welfare issues. Health and safety working groups are also in place within our divisions. They report progress to the steering group on legislative compliance issues. At the board's request, we recently commissioned two consultants to review the efficacy of our group health and safety policy and procedures. We're pleased to report that the review, which was published during 2006, endorsed our policy and procedures.

During 2006, we continued to raise awareness of a range of health and safety issues amongst our employees. As a result, employee health and safety performance improved across our UK and overseas operations.

Keeping staff informed

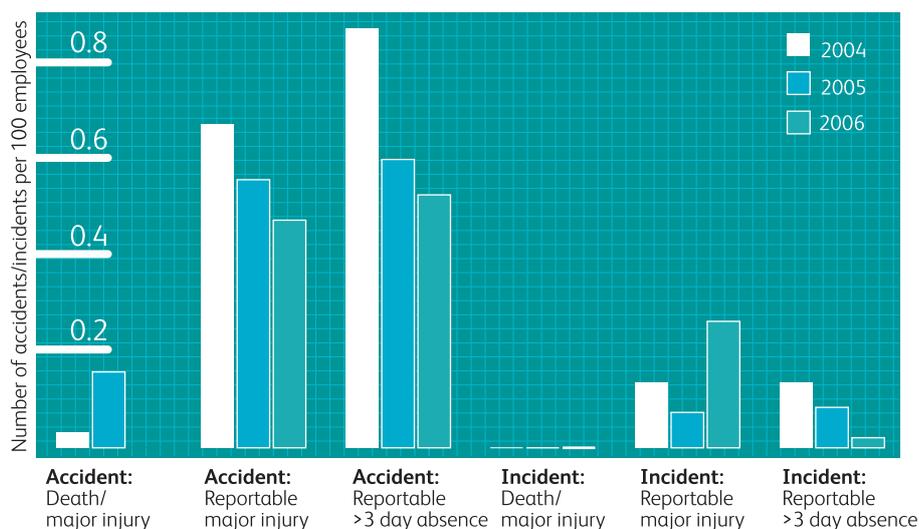
We're careful to keep all our staff up to date with health and safety issues. We have an ongoing programme of training and awareness-raising sessions for all staff and for newcomers we include health and safety in our induction processes. We also have dedicated health and safety notice boards within each work area of all our divisions. In addition, we consult our employees on an ongoing basis to enable them to raise any health and safety concerns. This is done in a variety of ways: through work area health and safety representatives, through regular internal communications and forum meetings, and on an annual basis through the employee engagement survey.

Avoiding injury

Because the vast majority of our staff work in an office environment, our main occupational health and safety issue for employees is the improper use of computers and display screen equipment which can lead to musculoskeletal problems in the back, neck and arms, as well as causing headaches and strained vision. To address this issue, health and safety workstation assessments are carried out with all employees when they start with the company. A trained member of staff assesses any posture issues, the position of equipment, and any workplace hazards. Where problems are identified, we introduce remedial measures.

During 2006, there has been a particular focus on personal safety within the group's home credit business. For the first

Fig. 12 Health and safety performance 2006



time, minimum standards were set across the business, including the introduction of personal safety guidelines. These guidelines will be used as the basis for introducing new personal safety initiatives during 2007.

Helping to reduce stress

Stress is one of the biggest health and safety problems confronting workers in the UK. The Health and Safety Executive reported in 2006 that stress costs the UK economy an estimated £3.7 billion per year.

During the year, our UK business introduced a range of initiatives and programmes that focused on identifying and reducing workplace stress and improving well-being at work. A stress policy was launched which commits us to take all reasonable steps to identify the causes of workplace stress and to eliminate or control the risk of stress.

This was accompanied by the introduction of a stress assessment questionnaire and stress risk assessment framework.

Insurance division initiatives

Throughout 2006, our insurance division delivered a comprehensive programme of work to enhance well-being at its three sites and to improve the health of its employees. As a result, the insurance division was named as one of nine regional Well@Work projects which are being co-ordinated and funded by the British Heart Foundation. The overall aim of the project is to provide evidence of interventions that make a positive contribution to the health and well-being of employees. Under the project, which is being delivered in partnership with the Calderdale Primary Care Trust, Provident Insurance has provided information, motivation and practical opportunities to all staff to facilitate and support them to

workplace

make realistic, achievable and long-lasting healthy lifestyle changes. For example, the company has established pedometer challenges, healthy food cook and taste classes, and group support sessions for employees wanting to give up smoking. So far, the programme has proved highly successful, with over 90% of employees getting involved.

Equal opportunities across the group

Diversity in the workplace is a common feature in today's business world, particularly in the UK. Ensuring that the workplace reflects the diversity of society as a whole can benefit businesses for a variety of reasons. Firstly, it gives us access to new customers and markets. Furthermore, it enhances productivity - because job satisfaction is higher in a diverse workplace - and it also encourages the development of products and services that are suited to a more diverse customer base. Lastly, it can reduce exposure to the risks associated with legislative non-compliance and the number of cases brought to employment tribunals. For all these reasons, at Provident we always try to ensure that our employee profile reflects the make-up of the local community. Our group diversity policy was introduced in 2004 to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities. This means that equal opportunities underpin our employment practices and we don't discriminate on the basis of race, colour, nationality, ethnic

or other national origin, gender, sexual orientation, marital status, age or religion. We also give full and fair consideration to applications for employment from disabled people and to their subsequent training and career development.

We continue to be members of Race for Opportunity and the Employers' Forum on Disability to ensure that we follow best practice in managing diversity issues. Most recently, we participated in the Fair Cities initiative. This is designed to help disadvantaged members of ethnic minorities get fair treatment in the work market. Through Fair Cities, we've been able to provide temporary employment placements for 25 people who otherwise might not have found work.

Gender breakdown

At group level, the gender split of our workforce is 54% (2005: 55%) men to 46% (2005: 45%) women. This is in line with the split for the UK population which, according to the Office of National Statistics in February 2007, states that 54% of the UK workforce is male. For the second year, there's been an increase in the number of female senior managers employed across our UK business, with 27% of women (2005, 22%) now occupying these roles. We're committed to doing more to improve the diversity of our senior management teams which is why, during 2007, we're planning to participate in the Race for Opportunity benchmarking initiative which will assess our diversity performance.

Fig. 13 Gender breakdown for all Provident Financial employees and for those in management (2006).

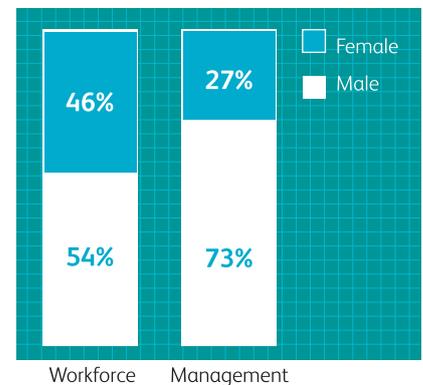


Fig. 14. Proportion of Provident Financial UK workforce from black and minority ethnic communities compared with the UK economic active workforce (2006).



Ethnicity in the workplace

As in previous years, the ethnicity of our workforce was measured in our UK business and not in our overseas businesses. During 2006, the proportion of Provident's UK employees from ethnic minority groups increased slightly to 4% (2005, 3.9%). This contrasts with the proportion of the UK economically active workforce from black and minority ethnic communities which, according to the Office of National Statistics, currently stands at 8.35%.

In the coming year, we'll continue to work hard to improve workplace ethnicity across our UK and international operations, through our involvement in initiatives such as Fair Cities and with organisations such as Race for Opportunity. This will help us to further refine our recruitment processes and procedures so that we can remove any unintentional barriers to employment.

Our age profile

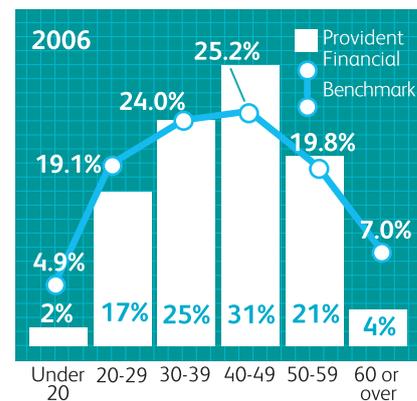
The age profile of our UK business is broadly similar to the population norm for economically active people in the UK. The picture is different however, with our international businesses which tend to employ younger staff. In the UK, we operate a normal retirement age of 65. The policy for our international division is that both full and part-time employees will retire when they are entitled to benefit from the state pension in their respective country. This means that the normal retirement age will vary according to local pension regulations, legislation, custom and practice.

New opportunities for disabled employees

We are committed to opening up opportunities for disabled people across the group. During 2006, for example, we distributed a guidance document, developed by the Employers' Forum on Disability, to staff members who recruit staff from outside agencies. This is a significant issue because a high percentage of recruitment is outsourced to external agencies. The purpose of the guidance was to set out the measures that should be implemented by external recruitment agencies in order to minimise the legal and reputational risks that can arise from a lack of understanding of disability issues.

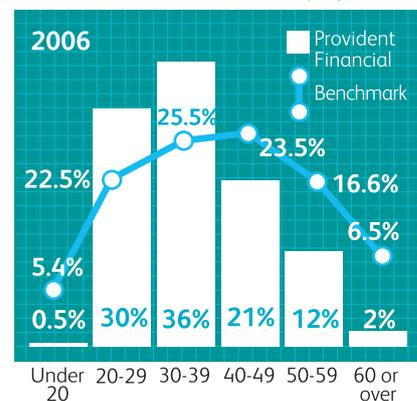
During 2006, Provident Polska began a new project to promote the employment of disabled people across its business, working in partnership with the Polish Organisation of Employers for Disabled People and the Foundation for Active Rehabilitation. To date, nine disabled people have been recruited across the business in the call centre, debt recovery and operations departments and there are plans underway to recruit a further five people during 2007.

Fig. 15 Age breakdown of Provident Financial's UK employees



Benchmark source: UK Labour Force Survey - Winter 2005 to Autumn 2006.

Fig. 16 Age breakdown of all Provident Financial employees



Benchmark source: UK Labour Force Survey - Winter 2005 to Autumn 2006 and Mexican National Urban Employment Survey 2005.

workplace

Workplace management in the UK

Personal training and development

Effective training and development is crucial to our business success and the personal development of our employees.

To that end, we offer a range of training and development opportunities from comprehensive induction courses for new starters, to modules on team leader skills, counselling and IT.

During 2006, employees in our UK businesses received an average of 2.14 days of training. This figure is below the UK average for the private sector which is 5.8 days per employee (as reported by the CIPD). However, it's worth noting that our training figure does not currently take account of the ongoing, on the job training that's delivered across the business.

Trade union representation in the UK

When it comes to our UK home credit business, we recognise two trade unions. We have a recognition agreement for area managers and a consultation and negotiation agreement for development managers with Amicus. We also have a consultation and negotiation agreement in place with the Union of Shop, Distributive and Allied Workers (USDAW).

Employee benefits in the UK

Profit sharing

We operate a savings related share option scheme and 3,172 employees are currently saving to buy shares in the company under this scheme.

Pensions

We understand that pension arrangements are an important element of an employee's overall salary and benefits package. This can make the difference between us gaining or losing high quality staff which is why we provide good pension arrangements.

Our pensions reflect the general movement away from final salary pension schemes. These have declined in popularity in recent years because of the open ended nature of the providing organisation's commitment, partly due to an ageing population.

All new employees have the option to join the Provident Financial Stakeholder Pension Plan. Under this arrangement, we contribute 8% to the plan, and members 6%, with the option of contributing more if they choose. The plan also includes a range of other benefits including life assurance and long-term disability cover.



Employees who joined the company prior to 1 January 2003 had the option of joining a final salary defined benefit pension scheme. In April 2006, members of the scheme could choose to pay a higher contribution and remain in the final salary section of the scheme or pay a lower contribution and switch to a cash balance section of the scheme. The cash balance section provides members with a 'credit' of at least 20% of salary each year to a retirement account which is re-valued each year. At retirement, the member's retirement account is used to purchase an annuity, with the option to take a cash lump sum of up to 25% of their retirement account.

Under the Stakeholder Plan, employees can choose to incorporate social, environmental and ethical considerations into their pension investment arrangements. The plan's 'ethical fund' has been established to reflect the performance of those FTSE 350 Index companies that adhere to a range of ethical and environmental criteria.

To keep employees up to date on their pensions, they receive regular newsletters and benefit statements. Further information can be accessed through a dedicated website.

Workplace management in our international division

Personal training and development in our international businesses

In our international division, we provide targeted learning and development and it's our policy to support employees at all levels throughout the course of their employment.

Each operating company carries out a comprehensive annual learning and development needs analysis against business objectives. This enables them to revise the learning and development strategy to tackle priority areas. As far as individual employees are concerned, we are able to identify their learning and development needs through their annual employee performance and development review.

To encourage employees to maximise their potential we offer sponsorship and study leave for appropriate further and higher education qualifications such as Masters of Business Administration, information technology qualifications and professional qualifications provided by the Institute of Chartered Accountants in England and Wales, Chartered Institute of Management Accountants, Chartered Institute of Marketing, CIPD or overseas local country equivalents.



environment

making a difference as a group



Email us with your feedback at: corporateresponsibility@providentfinancial.com
Provident Financial Corporate Responsibility 2006

All of us have a responsibility to minimise our impact on the environment - even businesses within the financial sector who may have negligible direct impacts on the environment.

At Provident Financial, we believe that we can make a real difference by ensuring that our operations, products and services are delivered in an environmentally responsible way. In practice, this means minimising the energy and resources we use and tackling the indirect impacts we have on the environment through our supply chain and customers.

For the last six years, we've been systematically improving our environmental performance and implementing new initiatives across the business. In that time, we've made great progress. The initiatives we've made have not only helped the environment, but have also added to our bottom line. Moving forward, management of our environmental impacts remains as a business priority. This will mean continuing to reduce our contribution to global environmental issues such as climate change and improving the way we deal with the waste that arises from our operations.

Climate change - the facts

In the 2006 report 'Economics of Climate Change', Sir Nicholas Stern states that 'climate change presents very serious global risks, and it demands an urgent response.' Scientific evidence clearly shows that the continued emission of greenhouse gases such as carbon dioxide would cause average global temperatures to rise by as much as 4°C by the end of the century leading to species loss, extreme food and water shortages, catastrophic flooding and the displacement of millions of people.

As an organisation, we recognise the importance of addressing the issue of climate change. While we may not be a major emitter of greenhouse gases, we have nevertheless introduced a range of measures that enable us to be more efficient with the energy we consume and to reduce emissions. This includes continuing to purchase electricity generated from renewable sources and offering more fuel efficient vehicles in our company car fleet and those that use hybrid technology, resulting in lower carbon dioxide emissions.

Getting our house in order

It's been proven that a good environmental management system (EMS) can save money and improve efficiency. The Provident Financial EMS (meeting international environmental standard ISO 14001) is a practical tool that's making a huge difference to the way we run our business. It helps our UK and international businesses to understand their impacts on the environment, to manage these in a structured way and to evaluate and improve their environmental performance in a systematic way.

It's just six years since we implemented the Provident EMS, but already we've seen improved resource efficiency and reduced costs. It's also enabled us to introduce environmentally-responsible procurement practices and improve our communication with employees, shareholders and other stakeholders.

The environment is something we can't afford to be complacent about, which is why we've spent 2006 reviewing and revising our EMS documentation to ensure that it addresses all the environmental issues affected by our operations, products and services.

environment

Keeping up to date with new legislation is crucial if we're going to remain compliant at all times. We keep a close eye on new and revised legislation through our register of environmental legislation which is reviewed every quarter. We're careful to keep all relevant parties up to date with the latest information too. This includes senior management, the Head of Central Services, General Counsel, and the board's risk advisory committee. Furthermore, our compliance with environmental legislation and the requirements of ISO 14001 is assessed on an annual basis through an independent, internal audit.

Measuring our performance

We measure our environmental impact in identified areas through key performance indicators (KPIs). These enable us to benchmark our performance and to guide the way we set objectives and targets to ensure that our environmental performance improves. The performance of our EMS and achievements against objectives and targets is expanded upon later in this report.

How did our UK businesses do?

Of the 33 environmental targets that were set for our UK businesses for 2006, one was exceeded, 21 were completed, four were partially completed and the remaining seven were not completed.

Energy consumption

As we now know, the burning of fossil fuels such as gas and oil makes significant contributions to a range of environmental problems, particularly climate change. Not only that, the dramatic rise in UK and international energy prices over the past two years makes management of energy crucial to our business. Recognising that the way we power our offices is where we can make most difference, since 2000, our environmental programme has included a range of energy management activities that focus on reducing consumption and cutting costs.

During 2006, we were able to establish energy consumption baselines for our Mexican business and Vanquis Bank. This enabled us, for the first time, to provide a group picture of both energy consumption and carbon dioxide emissions for our UK and overseas businesses. This accounts for a rise in stated energy consumption for the group. Also, the upward trend in energy consumption since 2004 can be explained as a result of an increase in the number of computer servers for our rapidly expanding international businesses and also because of the growth in the size of our workforce. To minimise the carbon dioxide emissions that result from energy usage in our UK offices, we've continued to buy 100% 'green tariff' electricity for all of our properties. This measure exempts us from the climate change levy. We're also looking at the potential of installing solar panels at our Bradford

Fig. 17 Group energy use, combined gas and electricity

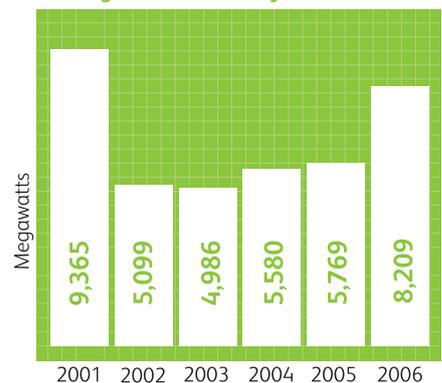
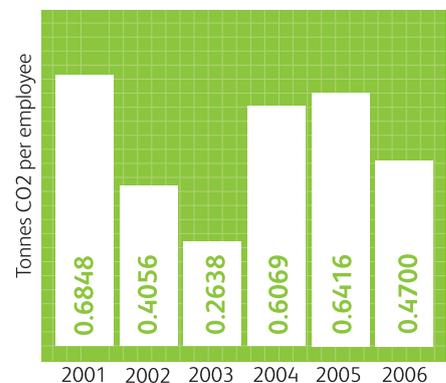


Fig. 18 Carbon dioxide emissions from group operations



head office. Initial investigations indicate that traditional mounted arrays of solar panels wouldn't be suitable as the roof wouldn't be able to support them. So, we're now investigating the feasibility of installing lightweight, flexible solar panels.

Energy efficiency is something we can all contribute to. To improve our record across the organisation, we've recently been implementing the recommendations that arose from the Carbon Trust's audit of our energy use in 2005/06. For example, we've been investigating night time energy usage rates and continued to install electricity sub-meters, motion-sensors and low energy lighting on all

floors at our Bradford offices. During 2006, it was our intention to use thermal imaging to identify areas where energy conservation could be improved. Due to technical problems we experienced with our thermal imaging equipment, it was not possible to do this. However, this will be carried out by our Central Service function in 2007.

Table 8:

Energy consumption		
Objective	Target	Achieved
Increase proportion of energy supplied from environmentally active suppliers/producers	Maintain 100% 'green' energy across UK property portfolio (including Vanquis Bank)	Yes
	Monitor market for renewable energy suppliers in preparation for head office contract renewal in September/October 2006	Yes
	Investigate the business case for solar panels on the roof of Bradford head office	Yes

Table 9:

Energy efficiency		
Objective	Target	Achieved
Increase energy efficiency across the business	Use sub-metering to set more detailed benchmarks	Yes
	Use thermal imaging to identify areas of poor energy conservation and develop business case for funding improvements	No
	Establish energy baselines for the business in Mexico and Vanquis Bank	Partially, ongoing
	Investigate costs of installing light sensors in key energy consuming areas of the business	Yes
	Review 2005 Carbon Trust energy audit	Yes

environment

Transport

Like energy consumption, fuel usage associated with transport is one of the main causes of carbon dioxide emissions and, as such, is a major contributor to climate change. According to the Environment Agency, carbon dioxide emissions from transport rose throughout the 1990s and now account for one quarter of the UK's total emissions. Car use also contributes to poor air quality through the emission of other pollutants such as nitrogen dioxide and particulate matter. As well as having a negative impact on the environment, these can cause serious health problems, particularly for people living in urban environments. Recognising all of this, we've developed a Green Travel Guide for employees at our Bradford and Leeds offices. The guide, which is available on our corporate website, provides a package of practical measures to help us reduce environmental impact. Among other things, it recommends more sustainable alternatives to car travel, advising staff on the frequency of buses and trains and the location of cycle routes to our offices. It also sets out the availability of video-conferencing and tele-conferencing

facilities which eliminate the need for travel altogether. The guide also explains how carbon dioxide emissions associated with business-related flights can be calculated and offset.

During 2007, we'll be developing Green Travel Guides for our other UK businesses. In addition, we'll be developing a range of metrics that will enable us to measure the effectiveness of the guide.

Water

With water levels at an all time low in some areas of the UK and mainland Europe, the prospect of drought is very real, posing a threat to habitats and species. As such, water management continues to play an important part in our environmental programme. During 2006, we've worked hard to reduce water use across our business. In our UK home credit division, for example, water use decreased from 14,710 litres per employee per year in 2005 to 9,130 litres per employee per year in 2006. This figure continues to meet the Environment Agency's benchmark of 18,250 litres per employee per year, but is slightly higher than the Building Research Establishment's benchmark of 9,000 litres per employee per year.



Table 10:

Travel		
Objective	Target	Achieved
Reduce the volume and environmental impact (especially CO ₂ emissions) of business-related travel for UK activities	Launch Green Travel Guide online	Yes
	Encourage overseas operations to develop Green Travel Guides	Yes
	Investigate possibility of offsetting CO ₂ for flights and major events	Yes

Waste

At Provident Financial, we've long recognised that the way we process waste can cause significant environmental problems, from overcrowded landfill sites to air and water pollution. This is why waste management and waste minimisation continues to be an important priority for the group. There's an increasing financial incentive linked to reducing the amount of waste we generate. The standard rate of landfill tax, which was introduced to stimulate reductions in the levels of waste going to landfill and encourage the development of more sustainable waste management practices, is £21 per tonne for 2006/07. The tax increases by at least £3 per tonne a year to reach a medium to long-term rate of £35 per tonne.

Our most significant waste stream is paper and cardboard so we're pleased to report that over the last year, we've continued to increase the amount of waste paper and cardboard recycled, as a proportion of paper purchased; up by 2%. This is despite the fact that paper usage continued to rise throughout the year. This occurred as a result of a reduction in the communication activities that focused on raising awareness amongst staff of the need to reduce amount of paper we use. To address this and the wider issue of improving engagement and involvement of staff in our CR programme, a communication plan was drafted during 2006.

We're committed to cutting further the amount of waste paper going to landfill and are looking to increase the amount of recycled paper used across the group.

During 2006, our home credit marketing team explored the feasibility of using recycled paper and envelopes in direct marketing activities. Following this, we're pleased to report that during 2007, we'll be piloting the use of recycled materials in direct marketing.

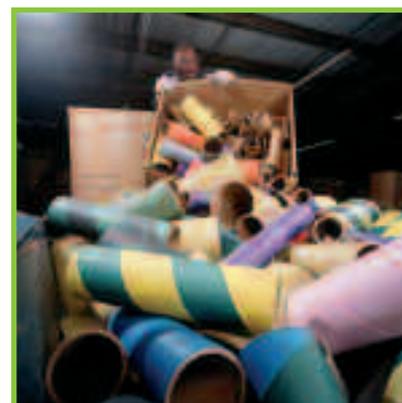


Table 11:

Water		
Objective	Target	Achieved
Continue to monitor and reduce water consumption	Maintain water consumption at or below 2005 baseline levels	Yes

Table 12:

Waste		
Objective	Target	Achieved
Identify all areas of waste and apply a programme of reduction/reuse/recycle/repair.	Increase amount of paper and cardboard recycled as a proportion of paper purchased by 2%	Yes
	Investigate the use by the business of more innovative products that are made of recycled material	Yes

environment

Purchasing

In recognition that procurement activities can be an area where CR impacts are significant, we have carried out a considerable amount of work to improve the responsible business practices in our supply chain. In 2006, we revised our environmental supply chain management policy to ensure that our procurement practices take account of a wider range of social and ethical issues. In addition, to monitor our activities, we established a responsible supply chain management policy sub-group to oversee the work carried out across our UK businesses.

We also convened a workshop for personnel with procurement responsibilities from across our UK businesses. The aim was to carry out a risk assessment of our main suppliers to identify the key social, environmental and ethical risks associated with their products and services. To help our procurement personnel engage with suppliers on social, environmental and ethical issues, we also developed a range of tools, including a self-assessment questionnaire and comprehensive minimum standards guidance document.

To build on the work we have undertaken in 2006, we will carry out a range of activities in 2007 to put our responsible supply chain management (RSCM) policy into practice across our UK businesses. This will include surveying our suppliers to communicate our RSCM policy and establish a baseline in terms of their social and environmental performance, and embedding CR considerations within existing procurement mechanisms such as our vendor vetting and supplier pre-qualification documents.

Table 13:

Paper		
Objective	Target	Achieved
Continue to reduce reliance on paper	Maintain paper usage at or below 2005 levels	No
	Investigate possibility of converting to recycled paper/envelopes for direct marketing and, if feasible, start to implement and research appropriate suppliers	Yes
	Ensure focus on paper reduction in the regular awareness communications	Partially, ongoing

Table 14:

Purchasing		
Objective	Target	Achieved
Continue to implement environmental supply chain management (ESCM) policies and procedures throughout the whole organisation	Conduct cost/benefit analysis of carrying out a procurement audit to effectively map risk in the supply chain	Yes
	Develop ethical supply chain policy (incorporating ESCM)	Yes
	Create a consistent approach to ESCM across the organisation by creating a basic 'minimum standards' procurement guide for all staff	Yes
	Provide ethical supply chain training to ESCM sub-group and other relevant purchasing personnel	Yes

Communication

Our CR programme depends on the engagement and enthusiasm of our stakeholders for its success. To really work, every initiative we implement has to have the wholehearted support of the relevant stakeholders. Communication plays a key role in making that happen. For example, our employees and on-site contractors are key players in ensuring that we deliver against our energy efficiency objectives and targets. To keep up the enthusiasm, we regularly include energy efficiency advice in employee newsletters and on office posters.

During 2006, we were not successful in improving communication with, and involvement of, field staff in our CR programme. This is an area that needs to be addressed given the prominent role that our field staff play in ensuring that environmental standards are adhered to in our network of branch offices, and throughout the local communities in which we operate. To improve communication in this area, we drafted a CR communications

plan to increase staff awareness of our activities, share best practice in CR management across our business and encourage stakeholders to contribute to the success of the programme.

Moving on

This year, we've made some significant improvements in CR in many areas of our business - but there's lots more yet to do. In November 2006, the UK Environmental Working Group (EWG) held its annual 'away day' to establish the environmental objectives and targets for the period 2007-2010. Throughout the day, the EWG set a range of challenging objectives for the next three years. These include reducing our contribution to climate change, our use of natural resources, and our indirect impacts through the supply chain. In addition, the EWG set objectives which relate to the way we measure and report on environmental performance and communicate with our stakeholders.

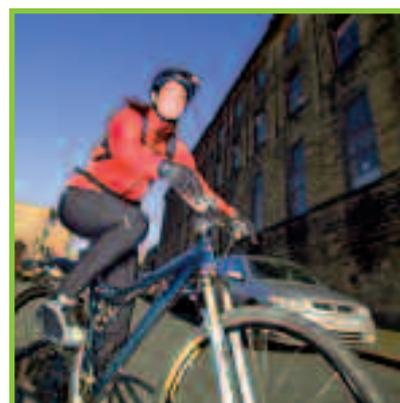


Table 15:

Stewardship		
Objective	Target	Achieved
Reduce the overall impact of Provident's activities by embedding environmentally responsible behaviour into the corporate culture	Improve incorporation of environmental messages into corporate communications	Yes
	Include more field staff in community and environmental activities	No

environment

Table 16:

Provident Financial environmental objectives and targets for 2007	
Objective	Target
Reduce Provident Financial's contribution to climate change (energy use)	<ul style="list-style-type: none"> • Develop and implement sustainable energy policy • Develop and implement two new energy conservation projects and calculate cost savings • Establish a strategy for reducing energy use in branch offices
Reduce Provident Financial's contribution to climate change (transport use)	<ul style="list-style-type: none"> • Establish a baseline for fuel consumption and associated CO₂ emissions for company car use • Report the CO₂ emissions associated with flights and train use • Roll out Provident's Green Travel Guide where appropriate • Develop metrics to measure the effectiveness of the Green Travel Guide
Reduce Provident Financial's use of natural resources (water and paper)	<ul style="list-style-type: none"> • Establish paper use baselines associated with marketing activities • Establish systems to measure printer/copier paper use • Reduce total paper consumption levels across Provident by 10% • Introduce a KPI which shows paper recycling rates as a proportion of paper purchased
Improve Provident Financial's resource efficiency with regard to materials used by our businesses	<ul style="list-style-type: none"> • Undertake an audit of the waste streams in the restaurant at the Bradford head office to establish a baseline of catering waste generated • Develop and implement recycling initiatives for two waste streams • Investigate the opportunities to use the plastic cups recycled in the production of stationery and other items
Develop a best practice approach to measuring and reporting our CR impacts	<ul style="list-style-type: none"> • Undertake a review of the KPIs currently used by Provident • Establish a guidance document and instigate training to support all relevant staff to collect and report KPI performance • Research and establish benchmarks to contextualise group performance against KPIs • Introduce more graphical illustrations to demonstrate year-on-year performance regarding Provident's environmental KPIs
Embed social and environmental considerations into our procurement activities	<ul style="list-style-type: none"> • Undertake a RSCM survey of the UK business top 50 suppliers • Establish a RSCM champion for each UK division • Develop a local sourcing briefing note for the Bradford head office catering department
Develop effective communication mechanisms to engage staff in environmental initiatives and to raise the profile of our CR programme	<ul style="list-style-type: none"> • Establish a group communications strategy/plan and sub-group for all CR activities • Undertake a review of the CR communication mechanisms currently employed across Provident • Increase CR-related communications to branch staff and agents • Identify opportunities to embed consideration of environmental issues into group community involvement activities

objectives

How did our international businesses do?

The environmental performance of our international businesses is managed by autonomous environmental working groups, with support provided at group level. Each group is responsible for maintaining an EMS, setting environmental objectives and targets and for developing the action plans that will enable their delivery. All objectives, targets and action plans are agreed at group level. As with the UK, our international operations are subject to an annual independent, internal audit to verify their compliance with legislation and the ISO 14001 EMS standard. In addition, performance against environmental objectives and targets is externally verified on an annual basis.

Of the 83 environmental targets that were set for our international businesses for 2006, five were exceeded, 44 were completed, 20 were partially completed and the remaining 14 were not completed. This shows that good progress continues to be made in embedding our EMS across our international businesses. However, the fact that 14 targets were not achieved during 2006 shows that there is still much to do.

In the majority of the cases where our international businesses partially completed or didn't complete targets,

we recognise that we need to make improvements to enable them to collect, analyse and report environmental KPI data. So, during 2007, we will be introducing a comprehensive data management system to enable relevant personnel to improve the way they measure and monitor the efficacy of their respective EMSs.

Relocation

During 2006, our international division relocated its head office from Bradford to Leeds. This gave us a great opportunity to further reduce our impact on the environment in the following areas:

- **Energy and water efficiency** – The Leeds offices have been assessed using the Building Research Establishment Environmental Assessment Method (BREEAM) standard and given a rating of 'very good'. This means we will be way ahead of the majority of other new offices in terms of both legislation and a range of environmental issues including energy and water efficiency.
- **Waste and recycling** – To reduce the amount of waste generated by the office, our international division has removed all personal waste paper bins and instead will provide recycling facilities throughout the office for paper, aluminium and toner cartridges. We're also committed to purchasing 100% recycled paper for printers/copiers/faxes.

- **Transport** – To reduce congestion and air pollution, a Green Travel Guide has been prepared for the new office.
- **Procurement** – In setting up the facilities management contract for the new office, we saw an opportunity to introduce a number of sustainable and ethical initiatives. Fairtrade coffee and tea have been specified exclusively in the refreshment points and restaurant area. We have also considered local sourcing issues in our catering arrangements to avoid any unnecessary transportation of goods. Furthermore, all furniture purchased for the office will be Forest Stewardship Council certified; in other words, wood grown in forests managed according to high environmental and social standards.



environment

Czech Republic

Over the last year, we've continued to improve our environmental performance throughout our Czech Republic operations. Of the 29 targets set for 2006, 19 were completed, four were partially completed and six were not completed.

The annual independent, internal audit of the Czech business showed that progress continues to be made with the implementation of the EMS. These included the programme of stakeholder engagement involving NGOs such as Arnika (a nationwide environmental protection organisation), TEREZA (a civic association organisation providing environmental education projects to children and young people) and the Union for Paper Recycling, and the development of a communications strategy for head office and field staff to raise awareness of the EMS and highlight environmental initiatives that required the involvement of employees.

During 2006, the Czech business failed to achieve two targets that related to improving the proportion of recycled paper used. This was due to an inability by the business to source sufficiently high quality recycled paper. During 2007, the Czech business will continue to investigate the feasibility of sourcing recycled paper for its operations.

Hungary

We're making good progress in Hungary too. Our environment protection programme set nine targets for 2006: three were exceeded, two were completed and four were partially completed. Performance was particularly strong in the areas of communication, engagement and involvement of stakeholders in the environment protection programme.

We're pleased to report that Provident Hungary won third prize in the 'Business in Environment' environmental protection competition which was founded by the Hungarian Business Leaders Forum in 2000. The prize is given to organisations that show commitment to environmental protection and have delivered initiatives that have had positive impacts on the environment and in local communities.

To further improve the effectiveness of the EMS in Hungary, work will continue on the roll-out of a programme to establish environmental champions within each office and branch.

Mexico

During 2006, Provident Mexico continued to embed the group's environmental programme throughout its operations. Of the nine targets set at the beginning of the year, three were completed and six were partially completed. The annual independent, internal audit of our Mexican business showed that significant progress was made in terms of delivering against agreed objectives and targets and in communicating environmental information to employees and other stakeholders.

Looking ahead, the main areas for improvement in 2007 will include the formal documentation of environmental management processes and the maintenance of records that relate to the EMS.

Poland

In Poland, real progress is being made with the development and implementation of its EMS. Of the 14 targets set for 2006, two were exceeded, nine were completed, one partially completed and two not completed. As with our other international businesses, the most notable areas of improvement relate to communication and awareness-raising of environmental issues both internally and externally.

A strong brand has been developed for the Polish environmental programme and environmental messages are being included in staff newsletters, emails and on the intranet. Provident Polska has also continued to work in partnership with the World Wildlife Fund Corporate Club in Poland on issues ranging from climate change and flood prevention, to conservation.

The focus for the coming year will be on improving the way environmental KPI data is collected, analysed and reported, and also, the way EMS documentation is formalised. The two instances where Provident Polska failed to achieve a target were where the business was unable to introduce hybrid technology cars to its fleet, and where it failed to implement a 'business phone service' to its office infrastructure that would enable it to further reduce paper and energy usage. During 2007, the business will continue to monitor the feasibility of introducing these two measures.

Slovakia

In Slovakia, Provident has made substantial improvements with its environmental programme during 2006, with staff showing a high level of enthusiasm and competence. Of the 22 targets that were set for 2006, 12 were completed, five were partially completed with five not completed. Strong performance areas include the monitoring of carbon dioxide emissions from vehicle use, paper use and energy consumption.

During 2007, further work will be undertaken to address situations where targets were not completed. This will involve improving the way environmental messages are communicated to internal and external stakeholders and developing relationships with partners such as the Ministry of Environment, to improve waste minimisation activities and establish community environmental initiatives with groups such as local foster homes.

Procurement

To date, all of our RSCM activities have taken place in the UK. However, over the coming year we'll be building on the work carried out by our international businesses to incorporate environmental considerations into their purchasing processes by implementing responsible supply chain management strategies. The first phase of this will be to hold a workshop with our international procurement officers to carry out a social and environmental risk assessment of the supply chains within our overseas operations.



community

playing an active role in our communities



Email us with your feedback at: corporateresponsibility@providentfinancial.com
Provident Financial Corporate Responsibility 2006

As we expand the Provident Financial business, the communities in which we live and work become more and more important. What we do and how we behave as an organisation has a direct impact on the environment and the people who live there.

In recognition of this, we have developed a specific community policy. It commits us to behave responsibly in the countries and communities in which we operate and play an active part in benefiting the communities where our customers, employees and agents live and work. With these things in place, we are confident we

can create an environment in which our business can grow and flourish. To bring our community policy to life, we've developed a comprehensive community involvement programme. The programme has two distinct strategies. Firstly, we're committed to establishing strong community

partnerships which can deliver sustainable benefits to the local communities in which we operate. Secondly, we're working with the money advice sector on issues that are specifically relevant to the financial services sector such as financial inclusion.



community

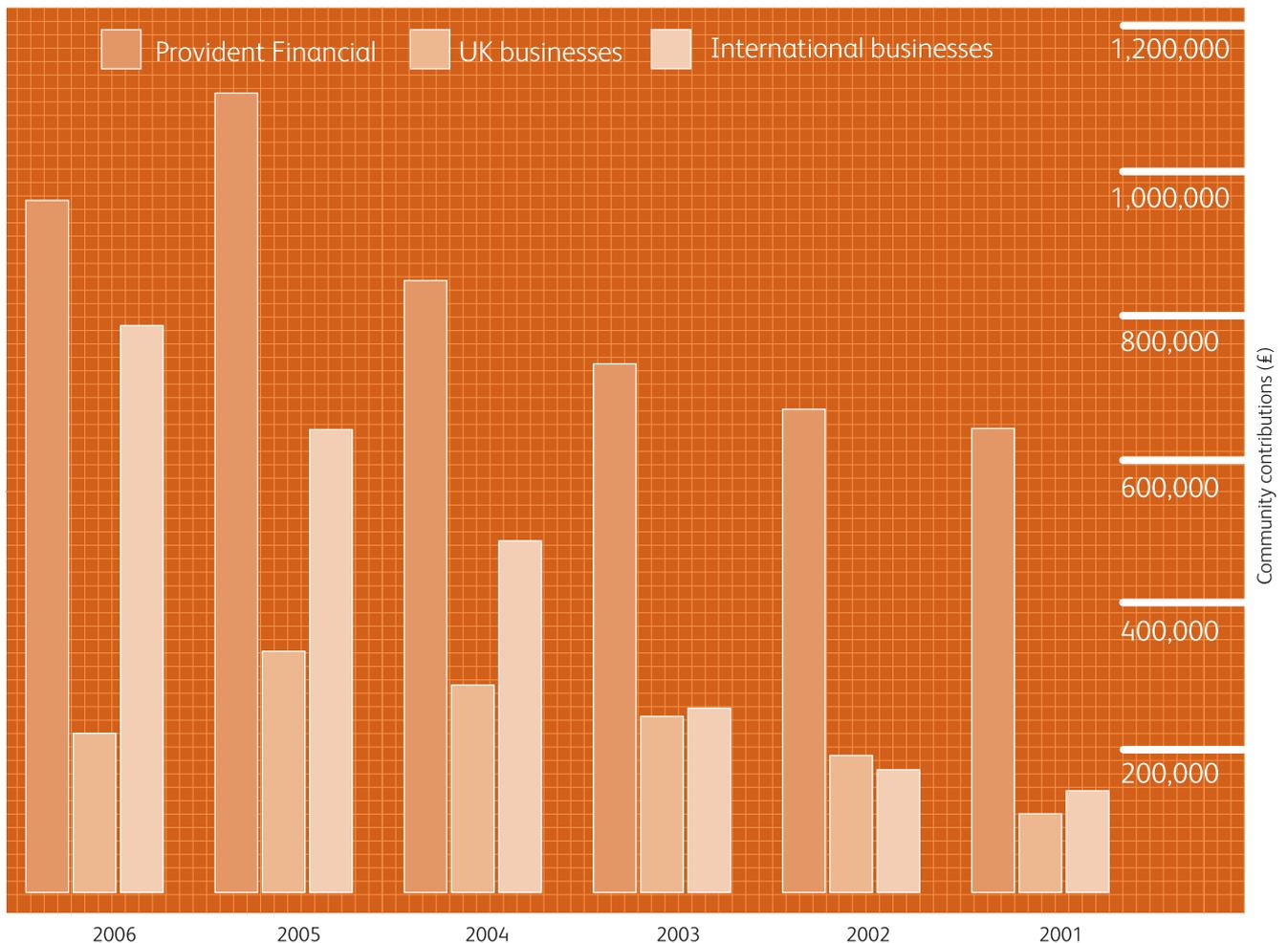
Group community initiatives

During 2006, we made donations for charitable purposes amounting to £667,816 (2005, £677,751). As a group, we invested a further £1,303,360 (2005 £1,400,132) in support of community programmes (based on the London Benchmarking Group's guidelines).

Our community involvement programme is focussed on education and social inclusion for young people living in less privileged communities. By tailoring each initiative to the specific needs of the local community, we can help to improve the overall quality of life, both for those we help directly and for others in the same community. In an industry that can

sometimes be misunderstood, the programme also enables us to highlight the positive aspects of what we do. Our employees too can benefit from the programme. It gives them a chance to work for their communities as well as gain valuable experience and new skills in the process.

Fig. 19 Community contributions



Advising customers on money matters

At Provident Financial, we strongly believe that people with financial difficulties should have access to free, independent, quality-assured advice. We enjoy a long-standing relationship with the free money advice sector in the UK, which gives us an important source of feedback, particularly when clients are experiencing problems with credit. When it comes to home credit, the problems experienced by customers are limited, nonetheless, our staff regularly participate in regional forums attended by creditors and consumer representatives

and we also attend and provide financial support for money advice sector annual national conferences.

In many cases, a home credit customer's short-term financial difficulties can be resolved through their agent. Because agents visit clients in their own home, they are in a unique position to identify any sudden changes in a household's financial circumstances. If less money is coming into the home, an agent can agree to reduce a customer's weekly payment at no extra charge. Customer satisfaction ratings show that this flexibility and understanding is much appreciated.

The support provided by Provident Financial to money advice organisations

The majority of our financial support to the money advice sector is directed at organisations that deliver advice as part of the Government's joined up network of advice agencies. Consumers can access this advice via a single national telephone number.

Table 17:

Provident Financial community objectives, targets and achievements

Objectives	Targets	Achievement
To increase the number and range of opportunities we offer to young people from inner-city communities through new arts education projects	<ul style="list-style-type: none"> To increase the numbers of young people participating in our arts education projects To broaden the range of art forms to include a variety of visual and performing arts To ensure that the majority of young people participating in the project are from inner-city communities 	Yes
To carry out independent project and stakeholder research	<ul style="list-style-type: none"> To develop and implement independent research to monitor the progress of our new arts education project To conduct community focus groups and in-depth interviews looking at the needs of communities 	Yes
To improve communication to internal audiences of Provident Financial's community programme	<ul style="list-style-type: none"> To produce a DVD to illustrate the key community projects and make this available to all UK staff To include information about our community programme in a report distributed to all staff 	Yes
To review employee engagement guidelines for our UK-based staff	<ul style="list-style-type: none"> To introduce new employee engagement guidelines for our UK-based staff 	Yes

community

Table 18:

Money advice organisations supported by Provident Financial	
Organisation	Nature of support
Citizens Advice	Our support enables Citizens Advice to train and develop money advisors and debt counsellors (so-called 'second tier' support).
Advice UK	The UK's largest network of free, independent advice centres. Our funding supports the training and development of front line advisors.
National Debtline	We have supported this organisation for four years. With a wealth of experience in providing telephone advice, National Debtline is a key component of the Government's plan to provide a telephone 'gateway' for all money advice enquiries in the UK.
Consumer Credit Counselling Service (CCCS)	The UK's leading provider of debt management programmes. We make 'fair share' contributions of around 12% of any payment we receive from a customer who has entered into an agreed debt repayment plan with CCCS.
Money Advice Scotland	Our support helps fund the ongoing professional training and assessment of the advisors of the largest association of independent money advisors in Scotland.

As well as these recognised national agencies, we support the following more specialised providers.

Table 19:

Specialist providers supported by Provident Financial	
Organisation	Nature of support
Credit Action	This is a national money education charity which produces a range of resources to assist individuals to manage their finances. It also works with a wide range of partners to develop financial education projects tailored to the needs of specific groups.
Debt Cred	This organisation focuses on financial literacy by providing personal financial education, principally for school age leavers and young adults. Our support enables Personal Finance Education Group (PfEG) approved advisors to travel to schools and deliver bespoke financial literacy sessions intended to equip young people with basic money management skills in preparation for university or work.
Christians Against Poverty	A charity which we have supported since its inception around ten years ago. It has expanded significantly and offers its debt counselling and financial education services from centres in 51 locations across England.

Spark

Our main project in the UK is Spark, an arts education programme carried out in partnership with the West Yorkshire Playhouse, in Leeds. What we're aiming to do with this programme is to link theatres with schools in their local communities and encourage children in inner-city areas to enjoy the arts, broaden their horizons and discover their own creativity.

Along with the Playhouse, we've linked up with seven other theatres in Dublin, Edinburgh, Dundee, Bolton, Birmingham, Newport and Battersea. Each works with a minimum of six local schools to offer

children aged seven to eleven a stimulating five-week programme of arts-based activities. Sessions are run by freelance artists and cover a wide range of activities from street dance, rapping, writing and puppet making to storytelling, ceramics and sculpture.

The programme, which began in 2006, will run for three years and provide 1,000 workshops to over 6,000 children every year. Our longer-term aim is that theatres and schools should form partnerships that will go on after Provident Financial's participation in the project has ended. Our contribution covers not just funding at

£275,000 a year which included Spark-branded items such as T-shirts as well as the time devoted by staff.

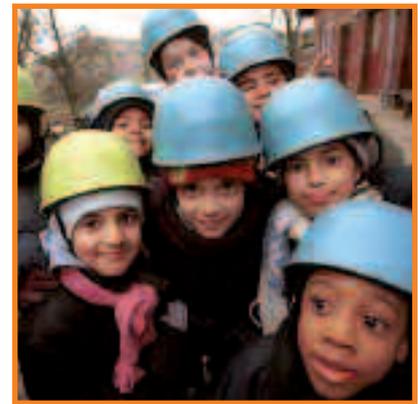


Table 20:

London Benchmarking Group analysis of Spark

Subject focus

Arts education and young people

Contribution by Provident Financial

Cash contributions: £275,000 per annum
Employee time contributed: £45,000
In-kind contributions: £25,000
Total cash value of contribution: £345,000

Outputs

Benefits to the community:

- All the participating schools were selected from inner-city communities.
- Over 6,000 pupils from more than 50 schools have participated in the first year.
- The project has provided pupils with access to art forms that most schools don't have the facilities/skills to teach.
- Teachers reported that the project has made pupils more confident.
- Raised awareness of and interest in the arts amongst pupils.
- Some theatres have achieved matched funding in order to further increase arts education in the area.
- Schools and teachers have a greater understanding of what the arts can achieve.
- Long-term commitment to school and theatres (3-year funding guaranteed).

Business benefits:

- The company's reputation has been enhanced.
- Opportunities to involve staff, creating staff development opportunities.
- Feel good factor among staff.
- Local and regional media coverage.

community

PACK

Through our Provident Action for Creative Kids (PACK) project, we aim to introduce young people to new activities and to tackle social exclusion. The project enables us to

provide schoolchildren from inner-city schools with a free, two-day break in a youth hostel which, for many of the children taking part, is their first time away from home. Since 2001, almost 300 groups have taken part in PACK, a total of over 7,000

children. Although the programme is now complete in England and Wales, we are continuing to work with the Scottish and Irish youth hostel associations to introduce schoolchildren to new activities across Scotland and the Republic of Ireland.

Table 21:

London Benchmarking Group analysis of PACK	
Subject focus	Education and young people
Contribution by Provident Financial	<p>Cash contributions: £345,000 Employee time contributed: £45,000 In-kind contributions: £20,000 Total cash value of contribution: £410,000</p>
Outputs	<p>Benefits to the community:</p> <ul style="list-style-type: none"> • Over 7,000 young people in almost 300 groups took part in 'PACK' between 2001 and 2006. All the participants were selected from inner-city communities on the basis that they would benefit the most. • Most of the schools that took part in England and Wales were situated in Education Action Zones (EAZs) or Excellence in Cities (EiC) areas. Provident Financial funding allowed these schools to generate matched funding through the EAZ or EiC. • Many schools have reported that without the Provident Financial funding package, many pupils would not have been able to take part in this type of activity • The project has provided access to new experiences, activities, and surroundings for young people from inner-city communities • As well as introducing the children to new activities, encouraging them to enjoy the countryside and helping them to learn in a creative and hands-on ways, the project also fostered self-esteem and helped to improve the educational attainment of primary school children by re-engaging some pupils with their studies <p>Business benefits:</p> <ul style="list-style-type: none"> • Enhanced company reputation in local communities • Feel good factor among staff • Local and regional press coverage • Staff involvement and future development opportunities • Improved understanding of local community needs
Impact	<p>Longer-term impacts of the activity on both the community and the company:</p> <ul style="list-style-type: none"> • Children show greater awareness of, and interest in, all school activities • The company's reputation is enhanced • Schools and community groups have greater awareness of what youth hostel organisations can offer • Many employees have maintained links with the schools involved, offering to help in other areas

Dig It

Our Dig It programme started in October 2006 and is a three-year arts education initiative taking place in two junior schools in Ballymun, Dublin. It complements the Spark programme that's also taking place there. Dig It aims to re-engage children with traditional art forms through stimulating and fun activities. Over 180 pupils and their teachers will be helped by professional arts facilitators to develop their skills in subjects as wide-ranging as puppet-making, Irish dancing, story-making, mosaic and sculpture. Sessions are delivered over a course of five weeks, culminating in a celebration event attended by both pupils and parents. The celebration exhibits visual and performing arts developed in the workshops.

Employees in action

Our various UK businesses also have their own individual community programmes which encourage employees to get involved in local projects. For example, during 2006, our insurance division raised £9,082 for the Child Development Unit at Calderdale Royal Hospital. This will help to create a safe outdoor play area to further develop the children's learning.

London Benchmarking Group analyses of Provident's Spark and PACK projects are set out in tables 20 and 21. These analyses show the contributions we've made to each project backed up by quantitative and qualitative information regarding their outputs and impacts.



community

Activities overseas

It's not only in the UK that our community policy is making an impact. Internationally, we've also demonstrated that involvement in the community reaps rewards for both our stakeholders and our individual businesses. Like the UK, the international programme has an overall education and social inclusion theme, the key focus being to develop sustainable partnerships with community organisations and encourage staff and agents to volunteer in initiatives.

Czech Republic

Our business in the Czech Republic has a strong track record of making charitable donations and being involved in volunteer work and fundraising for non-profit organisations and projects. The business' Company with a Heart programme aims to improve the effectiveness of non-profit organisations so that they can work more effectively with socially or physically disadvantaged groups of people with the aim of preventing their exclusion from society.

During 2006, the Czech business worked with the civic association, Tereza, and the Czech Fundraising Centre to organise and deliver two seminars for organisations in the not-for-profit sector. The focus of the seminars, which were attended by 40 delegates, was to increase understanding of the skills necessary to run their organisation in a professional and effective manner.

Hungary

In Hungary, Provident Financial has a long track record of delivering community involvement activities that provide opportunities for children through strategic partnerships with community organisations. The Hungarian business is a major supporter of the Association of Large Families, which works to promote family values and organises local events. In 2006, it sponsored two main annual events; a Family Days road show that visited six regions and attracted 25,000 participants, and the Association's Christmas and New Year celebration.

Junior Achievement Hungary helps young students to plan their career strategically with a focus on gaining financial skills. With financial support from us, Junior Achievement published a practical textbook on basic economy for students. The business also sponsored volunteers from the Maltese Charity Service to decorate the children's wards of 14 local hospitals with colourful cartoon characters with the aim of cheering up the children and so improving the prospect of successful healing.

Mexico

The community involvement programme in Mexico is focussed on education. During 2006, the Mexican business donated materials to help the refurbishment of two schools and provided support for an information and training day for women who manage their household's budget.

The business also continued to involve staff in a range of fundraising activities, including a series of football tournaments arranged to benefit civil associations in Mexico.



Poland

In partnership with the Volunteer Centre Association in Poland, Provident Polska continues to run the Yes I Can Help! programme. Under the programme, employees and agents apply for funds for their own volunteering initiatives, typically helping orphanages or schools in rural communities. The aim of the programme is to capitalise on the enthusiasm of staff and agents to help groups in need. As a result of the programme, Provident Polska is now seen as a leading light in corporate volunteering in Poland.

Since most of Provident Polska's agents are women, the business also sponsored a regional initiative on personal safety for women in Poland's second largest city, Łódź. This highly popular initiative gave agents the opportunity to attend a series of 16 free personal safety courses. A total of 407 women were trained on a wide range of personal safety issues.

Poland also runs a student and graduate internship programme. The One Level Up initiative, which was developed by the PR and recruitment departments, is based at the Provident Polska head office. Ten internships are planned for 2007 in the finance, human resources, marketing, PR and IT departments. There are plans to extend the initiative into local branches.

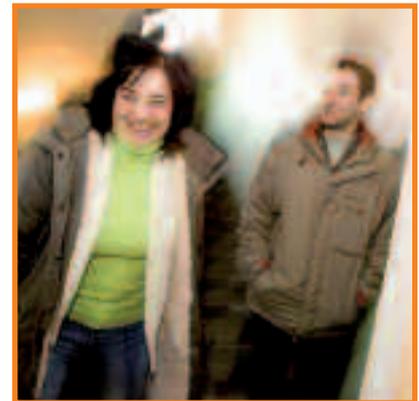
Slovakia

During 2006, Provident Financial in Slovakia continued to support the SOS Training initiative. This initiative works with young adults who were raised in foster homes to help develop their life and social skills and ease their way into the adult world. Also, for the fourth year, our Slovakian business has supported the International Indoor Football Tournament for Hearing Impaired Children. The 14th tournament was held in Presov, Slovakia and attracted teams from ten countries including the Czech Republic, Croatia, Ukraine and Bulgaria.

Support was also provided by Provident to the Children of Slovakia Foundation to assist in the development of a training programme which will focus on improving the life and social skills of children from across Slovakia. Under the programme, adults will receive training to enable them to deliver a series of seminars to children from nine Slovakian communities. The seminars will cover issues range from coping with stress and problem solving, to being a responsible citizen and financial literacy.

What next?

2006 was another successful year for the community involvement programmes in place across our UK and international businesses. But it doesn't stop there. We're looking forward to doing even more for our communities in the coming year. During 2007, the international division will review its community investment activity with a view to aligning it better with the business strategy and investigating some global themes. It will also provide an improved framework by which the performance of community activities can be monitored and benchmarked.



assurance

the Corporate Citizenship Company assurance statement and commentary

Provident Financial has commissioned The Corporate Citizenship Company to provide it with external assurance and commentary on its 2006 Corporate Responsibility Report.

Provident Financial's management has prepared the report and is responsible for its contents. Our objectives were to review and advise on aspects of its contents and presentation, to conduct selected checks to underlying corporate records, and to provide this statement for which we have sole responsibility.

A full statement of our external assurance and commentary is available at www.providentfinancial.com including details about The Corporate Citizenship Company, our relationship with Provident Financial and the assurance process we have adopted. This statement sets our findings.

Our opinion

In our opinion, the report provides a fair and balanced representation of the progress Provident Financial is making in living out its commitments to corporate responsibility. Where we believe significant gaps exist in available performance data and stakeholder views on material issues, we identify them in our commentary below.

In forming our opinion and making our comments, we have had regard to the principles underlying the international assurance standard AA1000 (www.accountability.org.uk), notably concerning materiality, completeness and responsiveness. We have also had regard to the reporting guidance for content and the principles for defining quality contained in the Global Reporting Initiative's 'G3' sustainability reporting guidelines (www.globalreporting.org).

Commentary

A corporate responsibility report should explain how a company impacts on society, looking at all the important economic, social and environmental concerns of its stakeholders. It should show how crucial decisions are made, and differing interests balanced. Honest about shortcomings, it should demonstrate how the organisation is responsive, by listening, learning and improving.

Against this goal, we believe the Provident Financial 2006 report demonstrates continued progress in the company's reporting of its corporate responsibility practices. The content has expanded from previous years, addressing issues raised by stakeholders and identified by us in our commentary last year.

Among other topics, the report covers the outcome of the UK Competition Commission inquiry and the international business is more comprehensively covered. The report highlights successes achieved as well as areas that Provident Financial plans to improve on in coming years, for example, internal communication of corporate responsibility practices and commitments.

Looking ahead

Here we comment and make recommendations on future reporting. We recognise that the form of such reporting depends on the outcome of the planned demerger of Provident Financial's international division and the intended sale of Provident Insurance.

Materiality

The report covers well many of the material aspects of Provident Financial's business. Discussion of customer issues has increased and the description of typical borrowers in the UK is good. Future reports should provide similar information about its customer profile in international markets too. Consultation with specialist stakeholders suggested that the marketplace section should expand on the choices made by typical customers,

the ways they make use of home credit and what happens if ultimately they are unable repay. Such an account would demonstrate the full social impacts of the business.

The report gives a good overview of governance and management systems. Objectives and targets are in place for environment and community. We believe that going forward these need to be extended to marketplace and employee issues, with internal structures to drive forward performance. The planned roll-out of a suite of key performance indicators can then be used to monitor, manage and report on business performance and corporate responsibility. On the environment, in particular, Provident Financial should broaden the reporting of its impact data to include all environmental issues arising from the operation of both its UK and international offices.

Responding to last year's report, stakeholders suggested that Provident Financial should make greater effort to link its corporate responsibility efforts to the management of risk, particularly in the international sphere. The description of how Provident Financial is regulated goes some way towards this, but future reports could be much more explicit about business risk.

assurance

Completeness

This year's report has again addressed the role of agents, who are essential in delivering Provident Financial's business. Given their importance, we believe readers would expect to see more information about them, even though in most markets they are self-employed, not employees. This report has expanded information about the personal safety of agents, for example, with 90% of UK agents receiving compulsory basic health and safety during the year. In the interests of completeness, future reports should provide agent health and safety data in all markets.

Another step forward in this year's report is climate change. In future, it would be valuable if Provident Financial captured information about its complete carbon footprint, including impacts associated with agent travel for example. Similarly, we believe a complete account should cover work with suppliers going beyond engagement on environmental issues to cover other responsible business practices.

Baseline studies have been conducted to understand the environmental impacts of Vanquis Bank which provides credit card services. This is to be welcomed and will support more complete reporting in future. Given that Vanquis Bank's customer growth rates have been almost double projections, and that credit cards extend Provident Financial's traditional business offering, we believe that readers would benefit from understanding how commitments to protect potentially vulnerable customers are ensured.

Similarly, motor insurance accounted for approximately 20% of group profits and future reports would be more complete if this division is separately addressed, presuming it remains part of Provident Financial going forward.

Responsiveness

This year's report demonstrates responsiveness, with a clear account of how Provident Financial has used stakeholder feedback. The report also makes good use of external studies. It details findings from the Competition Commission's inquiry into the UK home credit industry, as well as how it has considered reviews of the UK's Consumer Credit Bill, the UK's Department for Trade and Industry (DTI) research into rate controls and other DTI research into illegal lending.

Responsiveness would be improved if, in future, the results of employee engagement surveys are included. Stakeholders have also commented that reports would be enhanced if Provident Financial clearly stated its values and business principles. As the business continues its fast expansion internationally, having a clearly articulated set of business principles would help all of Provident Financial's stakeholders to understand the business and allow them to judge performance. In our opinion, responding to such suggestions would improve both the practice and the reporting of Provident Financial's corporate responsibility commitments.

The Corporate Citizenship Company

www.corporate-citizenship.co.uk

08 May 2007

Contact us

Your feedback is important to us. If you have any questions about Provident Financial and Corporate Responsibility, do not hesitate to contact us on corporateresponsibility@providentfinancial.com and we will be happy to help.

You can also telephone us on +44 (0)1274 731111 or write to the Corporate Responsibility manager at:
Provident Financial, Colonnade, Sunbridge Road, Bradford, BD1 2LQ, UK

You can find out more about Provident Financial by visiting www.providentfinancial.com