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Introduction

Welcome to our fifth corporate responsibility report

When people ask what corporate responsibility (CR) means to us at Provident Financial, we say it's about managing our business in a way that makes a positive impact on society. While working hard to provide good service to our customers and good returns to our shareholders, we recognise that there are many other groups with an interest in what we do and how we do it. Staff, agents and suppliers are all affected by the way we operate – as are the communities in which we work. Extending the circle wider, the policies we pursue also have the potential to damage or protect the environment.

CR means understanding the effect we have on all these different stakeholders. It means listening to their views and to what they expect from our business, then making every effort to meet these expectations.

All of which is good for the business. Paying close attention to CR and meeting or exceeding our stakeholders' expectations helps to avoid making mistakes and to maximise business opportunities.

2005 was an eventful year for Provident and one that underlined the importance of CR. While there's still plenty of room for improvement,

we believe our CR programme is in good shape and is making a positive contribution to the business and to society.

International expansion

One of the main features of the year was the expansion of our international businesses with the roll out of our business in Mexico and the decision to start a pilot in Romania. Emerging markets present their own social and environmental risks, so we've made a point of providing particular guidance to our colleagues in these countries.

All our businesses observe a strict code of ethics, enforced by divisional boards to ensure we have a firm understanding of practices and effective CR management systems overseas. Where we have rapidly growing new businesses, namely Vanquis Bank and our operation in Mexico, we try to ensure that best practices are in place at an early stage. We have also designed a key performance indicator (KPI) collection system and have rolled this out so that we have regular reporting on the social and environmental aspects of our business.

Responsible lending

Because not everyone fully understands the home credit industry,

CR is important in protecting our reputation and maintaining our sustainable licence to operate. Provident Financial was founded on the basis that no one should be unnecessarily excluded from credit and this sentiment is no less relevant today. It's important, therefore, that we offer products and services appropriate to our customers' circumstances. With the latest figures showing 94% satisfaction with our UK home credit service, we're proud of the fact that our products are valued by our customers and clearly meet their needs.

Dealing mainly with customers on modest incomes, we need to take extra care in our lending and to build responsible practice into everything we do. It's certainly not in our interests to lend more than people can afford and we have systems in place to make sure our customers understand our products and can manage their loan commitments.

Home credit has recently come under scrutiny from the Office of Fair Trading and the Competition Commission. We've been actively working with the Commission to ensure that our unique service is fully understood and that any proposed changes take full account of its value to customers.



Improving our local communities

Our success also depends on having a good reputation in the communities where our customers, employees and agents live and work. We want these communities to be safe, vibrant places in which to operate. To this end, our community investment programme helps disadvantaged children through a growing range of arts projects. Working with community partners, we concentrate on children from underprivileged schools and choose projects that can best tap their potential. In the UK alone, more than 13,000 children from 160 schools benefited from our community programmes during 2005. We hope even more will do so in the coming year.

Of course our CR programme couldn't function without the involvement of our employees. We have a network of CR champions around the company and over 500 employees took part in community events in 2005. This not only helps the community, it's a great way of stretching and developing our own people as well.

Scores and rankings

Our efforts continue to be recognised in external indices of CR performance including the Dow Jones Sustainability Index and the FTSE4 Good Index. For the second year running, we've been named as one of the 'Top 100 Companies that Count' by Business in the Community in their CR feature in the Sunday Times. We've improved our ranking in the Business in the Community Corporate Responsibility index, moving up from joint 69th place in 2004 to joint 64th in 2005. The same index also marked us out as a leader for CR in our sector.

Reporting our progress

The following report shows how we've done this year in responding to the social, environmental and economic interests of our many stakeholders. It also illustrates some of the improvements we've made by bringing more of our businesses in the UK and overseas into our CR programme.

Our reporting has also become more comprehensive. This year, for example, we've started to publish data on health and safety. Our KPIs for the workplace now cover the whole group. Responding to comments

from stakeholders, we've included more information to show that our staff and agents understand our customers' household economics and the issues they face.

The future

As we become more international, our stakeholders expect more from us, our corporate responsibilities expand and we find ourselves increasingly setting the CR standard for our industry. That's all part of our ambition to be a leading international provider of simple financial products for people on modest incomes. The CR journey continues and we aim to make progress year by year. Along the way, we intend to be transparent about our failures as well as our successes and to keep listening and responding to you, our stakeholders.

John Harnett
Managing Director, International

John Harnett is the board member responsible for CR.

Introduction

About us

A FTSE mid-shares 250 company listed on the London Stock Exchange, Provident Financial is an international financial services group specialising in personal credit and motor insurance.

The business was started in Bradford in 1880 by Sir Joshua Waddilove, a philanthropist who sought to provide affordable credit for working-class households, initially in industrial West Yorkshire. We have since grown to become the UK's leading provider of home credit – small, short-term, unsecured personal loans with payments collected weekly from customers' homes. The family-owned business became a public company in 1962.

Having started with home credit in the UK, we've now proved that the formula can be transferred with tremendous success to emerging markets overseas. Since 1997, we've expanded out of our traditional markets in the UK and the Republic of Ireland and have developed thriving home credit businesses in Poland, the Czech Republic, Hungary, Slovakia

and Mexico with rapid growth in every case. We serve 1.49 million home credit customers in the UK and Ireland and 1.78 million in our international markets.

Our motor insurance business specialises in underwriting non-comprehensive policies for women and drivers of older cars and the second car in a household. It has 473,000 policyholders.

We're constantly improving the home credit service and developing new products. The highlights of 2005 included:

- Increasing our customer numbers around the world to 3.9 million
- The continued success of home credit operations in emerging markets
- Rapid expansion in Mexico
- Preparations for a home credit pilot operation in Romania
- Record profit for our motor insurance business
- The full-scale launch of Vanquis Bank credit cards, held by 160,000 customers (as of year-end, 2005)

Following a strategic review, we announced in December 2005 that Yes Car Credit would be closed to new business. With motor dealers increasingly competing for sub-prime finance customers and sales of insurance products affected by regulatory changes, we found that operating conditions had changed markedly in the period since the business was acquired. All branches were closed and the majority of employees were made redundant. Redundancy packages significantly in excess of statutory payments were given to all of those made redundant. We also worked with other local employers, Sussex Enterprise, and the Staff and Educational Development Association to assist employees affected by the closure.



Our products

Home credit

Our home credit business includes Provident Personal Credit and Greenwood Personal Credit. 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 the financial mainstream. Our home credit loans provide extra cash for a multitude of uses, from replacing the washing machine to buying school uniforms. Agents deliver small, unsecured cash loans – typically between £50 and £500 – direct to the door, and collect the repayments every week at a time convenient to the customer. The 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.

Credit cards

It's increasingly difficult to get by without a credit card in today's society. Nevertheless, there are many people – those with limited or no credit history, those who may have had credit card problems in the past and those on modest incomes – who do not qualify for a traditional credit card.

Vanquis Bank was established to provide appropriate types of credit cards for groups such as these – and particularly for customers on average or below-average incomes. After a period of market testing, we began a full product launch in the UK in January 2005. Over the course of 2005, customer numbers increased by 84,000 to 160,000.

In making credit cards available to more people in a controlled and affordable way, Vanquis Bank is helping expand what Provident can offer in the UK. 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 a relatively low credit card limit and a high level of contact with customers to help them stay in control, and the possibility of paying weekly, fortnightly or monthly.

Insurance

Our motor insurance division offers competitive motor insurance policies with the emphasis on non-comprehensive insurance and policies for women and drivers of older cars or the second car in a household. It distributes its policies through a network of more than 4,000 brokers. We succeed by tailoring our products to the needs of our market and processing low value transactions cost effectively. The consequent savings can then be passed to our customers.

Introduction

How is CR managed at Provident Financial?

We have a number of CR policies to guide our activities and these are communicated throughout the company on our intranet site. All our policies include a strategy for implementation with clearly defined responsibilities at every level of the organisation. Each division reviews these policies and develops its own version where appropriate. We review our policies every year with a strict

sign-off procedure for every area of the business. Our own compliance is checked, in turn, by an independent auditor.

John Harnett, Managing Director, International, is ultimately accountable to the Provident Financial board for our CR performance across the group. CR issues are addressed through the CR steering group,

made up of senior managers from different parts of the business. This group gives guidance, sets direction, and oversees policies and progress to ensure that Provident Financial leads the field in its approach to CR.

Table 1: Board member responsibility for CR issues

CR issue	Board member with responsibility	When reported
Community	John Harnett Managing Director, International	Reported at every board meeting
Environment	John Harnett Managing Director, International	Reported at every board meeting
Suppliers	John Harnett Managing Director, International	Reported at every board meeting
Human rights	John Harnett Managing Director, International	Reported to board when necessary
Employees	Peter Crook Managing Director, UK consumer credit Mark Collier Managing Director, Provident Insurance John Harnett Managing Director, International	Reported at every board meeting
Customers	Peter Crook Managing Director, UK consumer credit Gary Owen Operations Director, Provident Insurance John Harnett Managing Director, International	Reported at every board meeting



The steering group is supported by CR working groups including a human resources group, an environmental working group and other sub-committees as appropriate. In 2005, sub-committees were created to deal with specific issues such as the facilities group which focuses on cost-saving and using energy more efficiently, the responsible supply chain working group, and the green travel plan implementation group. These groups develop objectives, targets and action plans that are devolved to relevant individuals who report progress at regular meetings.

In our rapidly expanding international division, each country has CR representatives who run their own environmental and CR workshops. Action plans and targets are reported to the CR manager and then fed through to the steering committee and working groups as appropriate.

By engaging all our divisions in CR issues, these groups encourage continuous improvement and help to ensure that initiatives succeed. We also identify emerging issues and monitor progress by collecting key

performance indicators (KPIs) on social and environmental matters. These indicators help in determining business strategy and in developing objectives for particular areas of concern or interest. They also enable year on year comparisons, allow our progress to be checked against benchmarks and help our stakeholders to judge how well the business is performing.

Managing risk

Our risk management framework applies across the group and deals with issues that could pose a risk to the business, be they economic, regulatory, social or environmental.

The social disclosure guidelines of the Association of British Insurers (ABI) and the Turnbull Internal Control Guidance on the Combined Code set down specific requirements as to how companies should manage risk. Provident Financial fully supports these guidelines and our procedures comply with, or exceed, their requirements. For details of our compliance with the ABI guidelines, please go to our website www.providentfinancial.com.

As well as undergoing training, the board regularly assesses the significance of social, environmental and ethical (SEE) matters to the businesses of the group. Each board meeting (there are normally seven a year) includes a report on CR risks, opportunities and activities.

Responsibility for risk management rests with executive director, John Harnett. SEE risks are handled through the company's risk management process and internal controls. The process for identifying, evaluating and managing risks complies with the guidance of the Turnbull Committee. All risks are reviewed by the appropriate divisional boards at least twice a year and are presented annually to the board's risk advisory committee. This committee's terms of reference are published on our website. Every year, the group's independent external auditor verifies compliance with the guidelines in the Turnbull report.

For further details, please see the corporate governance report in the Annual Report and Accounts 2005, and the website at www.providentfinancial.com.

Introduction

How do others rate our CR performance?



Provident Financial is represented in some of the main sustainability indices including the FTSE4Good index and the Dow Jones Sustainability Index.

In addition, we have done well in the UK-based Business in the Community index on CR which looks at the extent to which responsible business practice is integrated into corporate strategy. This index provides a benchmark that allows companies to compare their management practice across the four areas of community, environment, workplace and marketplace. We were joint 69th in the ranking in 2004 and moved up to joint 64th in 2005 with a score of 86% – a 5% increase on last year. As a result, for the second year running,

we were listed in the Sunday Times 'Top 100 Companies that Count' on the basis of our CR performance.

Our score on the Business in the Environment index was up 2% from 2004 at 92%.

The environmental efforts of our insurance division have been rewarded by a 'major commendation' at the Business Committed to the Environment awards in recognition of its Motor Claims Environmental Supply Chain programme.

Seeking the views of our stakeholders

Provident Financial engages with its stakeholders in a variety of ways including surveys, formal

consultations and informal or ad hoc feedback, as well as through the normal course of business.

For the past few years, we've received stakeholder feedback on our CR reporting at a round-table event organised by The Corporate Citizenship Company, an independent organisation with expertise in facilitating stakeholder dialogue. This year we repeated the exercise to gain further insight into what our stakeholders expect from our reporting and performance. The process involved ten people from a range of stakeholder groups and produced a number of suggestions. The main ones are set out in table 2, along with our responses.



Seeking the views of our stakeholders

Table 2: Provident's response to suggestions from stakeholders on previous CR reporting

Suggestion from stakeholder engagement group	Response in reporting
The report should provide a clearer picture of the potential and future risks facing the business with particular reference to its international expansion and the challenges this presents.	This year we've tried to fine tune the report to focus more on specific business risks and opportunities. These include the reputational risks to the home credit industry, the current regulatory climate and our growing operations in emerging markets. We've also made more of our community work.
Participants recognised the difficulty of measuring and communicating 'responsible' behaviour. However, they felt that Provident's reporting could go further in describing the challenges faced by its typical consumers.	We've included more information to demonstrate how we understand our customers and can therefore develop and provide the most appropriate products.
The report does not fully explain the importance of the agent's relationship with customers on low, fluctuating incomes.	Again, we've included more information on agent-customer interaction and on how we select, support and incentivise our agents.
Provident's reporting should explain how the home credit market works and how it meets the needs of low-income customers.	Our report includes a more thorough exploration of the home credit market along with how it works and how it meets the particular needs of our customers.
Some participants felt our description of CR governance was too 'top-level'.	This year we've tried to provide a fuller picture of how far CR filters through the business. We've set out details of the structure down to the sub-level meeting groups with their operational emphasis and described the purpose of such meetings.
We should continue to provide an independent assurance statement, but reduce the total number of assurance statements within the report.	This year we've provided our environmental assurance statements online, but also provided an overarching assurance statement at the back of the report.
We should communicate the community engagement strategy that underpins the many community programmes the company supports.	This year we've described our group-wide approach to community investment and how this translates into action on the ground.
We should present integrated group-wide performance data, incorporating international operations.	We've integrated the activities of our international operations into the report, as opposed to last year's stand-alone sections. We've included group-wide performance data for the workplace.
We should provide a balanced picture of performance, highlighting both positives and negatives across all areas of reporting.	This year we've endeavoured to make our reporting more balanced with a transparent account of some of the issues we face and the successes and failures of the CR programme.
Several participants commented on the need for a shorter document.	We've reduced the report length from 60 pages to 50.

Marketplace

Financial performance

It's important for us to measure not just our social and environmental performance, but also the impact of our economic performance.

Table 3: Group financial performance

	2005 £m	2004 £m	Change £m
UK home credit	146.3	154.0	(7.7)
Vanquis Bank	(15.9)	(9.0)	(6.9)
International	51.1	39.8	11.3
Motor insurance	40.0	34.6	5.4
Group central costs	(15.5)	(11.2)	(4.3)
Profit before taxation from ongoing operations	206.0	208.2	(2.2)
Yes Car Credit - trading	(24.6)	(2.7)	(21.9)
- costs of closure	(141.0)	-	(141.0)
Profit before taxation	40.4	205.5	(165.1)

Brackets indicate a negative.

The international division had another excellent year. Profit before taxation is set out by region in the table below.

Table 4: International division - profit before taxation

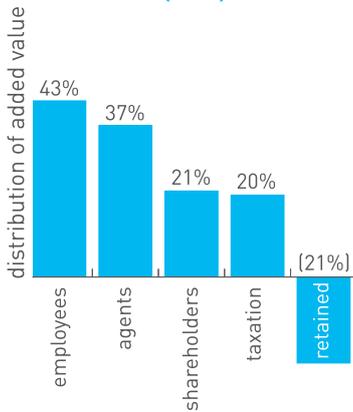
	2005 £m	2004 £m	Change £m
Central Europe	64.2	52.6	11.6
Mexico	(2.9)	(2.2)	(0.7)
International central costs	(10.2)	(10.6)	0.4
Profit before taxation	51.1	39.8	11.3

Brackets indicate a negative.

More detailed information about our financial results, performance and activities is published in our Annual Report and Accounts 2005.

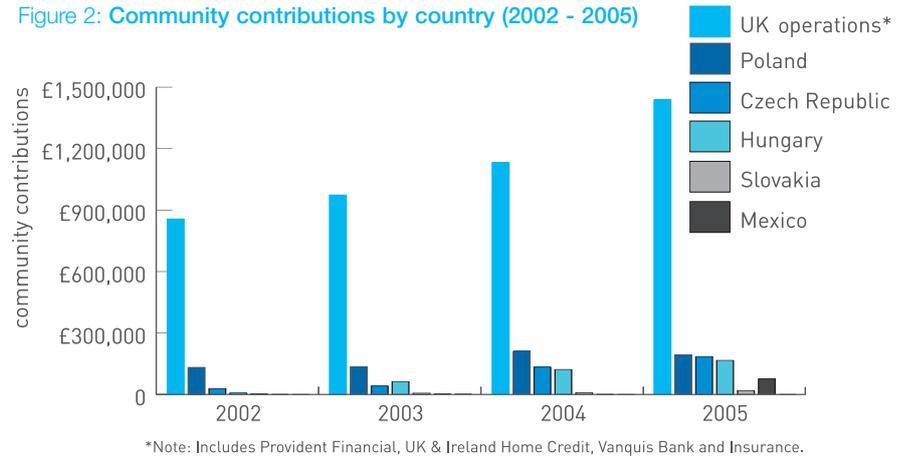
Creating wealth

Figure 1: Distribution of added value (2005)



The wealth we generate provides salaries and benefits for thousands of Provident employees. It also allows us to pay taxes that help fund public services and enables us to make donations to community partners – to mention just a few of the many stakeholders who benefit economically from our business.

Figure 2: Community contributions by country (2002 - 2005)



For 2005, revenue less bad debt/impairment was £970 million. Of this, we paid £706 million to policyholders, brokers and suppliers of goods and services (including agents). The remaining £264 million is added value created by Provident Financial. Out of this, we distributed £180 million to employees, £89 million

to our shareholders and £82 million to governments in the form of taxes. A further £2 million was donated to our community partners and a loss of £89 million was retained by the business.

Figure 3: Aggregate gross salaries paid to the employees (2002 - 2005)

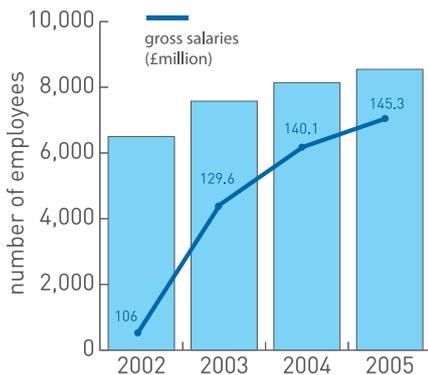


Figure 4: Average creditor days (2002 - 2005)

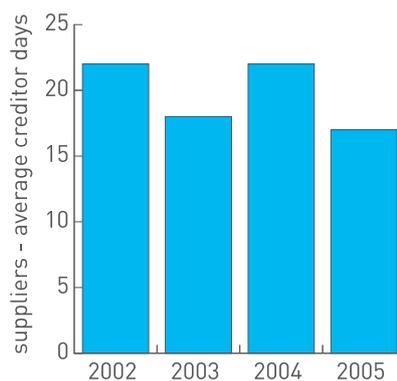
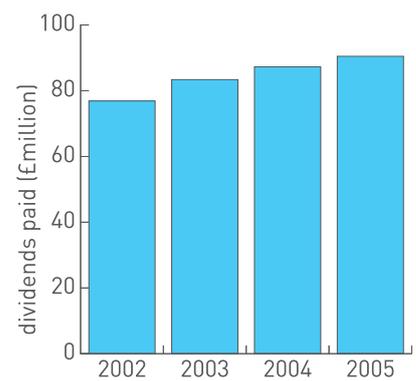


Figure 5: Dividends paid (2002 - 2005)



Marketplace

Expanding into emerging markets

The international division continued to grow rapidly in 2005. Customer numbers increased by 14% to 1.8 million and revenue rose by 21% to £359 million.*

Central Europe produced good growth with strong results in the Czech Republic, Hungary and Slovakia more than offsetting a subdued performance in Poland. Customer numbers increased by 8% to 1.65 million with revenue growing 18% to £348 million.

Mexico has performed well and is growing faster at this stage of its development than any of our previous start-ups. Our priority in 2005 was to expand our branch infrastructure and customer base in the Puebla-Veracruz region – an area with a population of 20 million. This has progressed well and we now have 14 branches in the region. In December 2005, we established a second operation in Leon to develop Mexico's Guadalajara-Leon region – also with a 20 million population. During the year, customer numbers increased by 96,000 to 131,000 and credit issued by £18 million to £23 million. The start-up loss for the year was a little lower than expected at £2.9 million.

In December 2005, we announced our intention to open a pilot operation in Romania, a country with excellent potential and a population of 22 million. We've opened an office in Bucharest, installed a management team, obtained the necessary licence and begun recruiting employees.

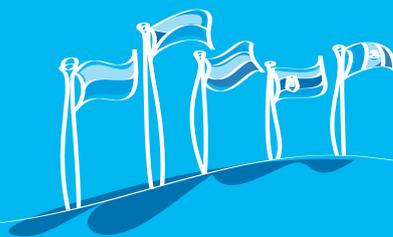
We recognise that operating in emerging markets presents unique risks as well as huge potential opportunities. While respecting the different cultural characteristics of each region, we maintain and enforce the same ethical standards across the globe. Given that regulations and consumer protection are often weaker in emerging markets, we make a special point of treating our stakeholders according to international best practice. In this way, we hope to set an example and make a favourable impact on local communities and customers. In countries where access to credit has often been difficult, we find that a credible, lawful and responsible form of credit provision is well received and can play an important economic role.

When selecting new countries, we employ a detailed screening process that assesses, among other things,

the political stability of any given territory, the potential safety of our staff and agents, and the degree of bribery and corruption. Once established, we abide by a code of ethics to ensure that all our employees operate with integrity and within the law. Operating to these standards helps to protect our reputation. Boards at divisional level set up and enforce procedures to ensure compliance. We also have a separate whistle-blowing policy.

Further details on our process for starting operations in new countries can be found in our Annual Report and Accounts 2005.

*Prior year figures at current year average exchange rates.



How is Provident Financial regulated?

Provident Personal Credit and Greenwood Personal Credit hold consumer credit licences and are members of the home credit industry's UK trade body, the Consumer Credit Association (CCA). Both subscribe to the CCA's Code of Practice and Business Conduct Pledge. These voluntary codes are underpinned by the licensing powers of the Office of Fair Trading (OFT). We trade under the terms of the Consumer Credit Act 1974 (as amended by the Consumer Credit Act 2006). The activities of home credit companies are supervised at a local level by local authority trading standards departments.

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

The Competition Commission

In the summer of 2004, the National Consumer Council (NCC) submitted a 'super-complaint' to the OFT under the 2002 Enterprise Act to the effect that the UK home credit industry is not sufficiently competitive. After carrying out research, the OFT said there could be features of the market that prevent, restrict or distort

competition and took the decision to refer the home credit industry to the Competition Commission (CC) for further investigation.

Provident has co-operated fully with the CC throughout its investigation, the latest stage of which was the CC's publication of Provisional Findings and Possible Remedies in April 2006. There are several areas where the CC has yet to conclude its thinking, including the 'difficult and contentious' area of measuring profitability. We strongly disagree with the CC's methodology and conclusions on the subject of profitability (a cornerstone of its findings so far) and will continue talking to the Commission about its proposals.

We are pleased that the CC's own research has confirmed that there are high levels of satisfaction among home credit customers; that customers find home credit products well suited to their needs; and that the service provided by agents is valued and professional. The CC's investigation is expected to conclude in the autumn of 2006.

The Consumer Credit Act

The Consumer Credit Act received Royal Assent on 30 March 2006. This marked the end of a long process of reviewing the 1974 Consumer Credit Act, the aim of which was to ensure that the UK consumer credit market operated in the interests of consumers in a 'fair, clear and competitive' way.

The process began in December 2003 when the DTI published a White Paper entitled 'Fair, Clear and Competitive, The Consumer Credit Market in the 21st Century'. This set out the changes the Government wished to make to update the 1974 Act; how these changes would need to be made (some by statutory instrument, some by changes to primary legislation); and what parallel processes the DTI wished to set up to gain a better understanding of contemporary borrowing behaviour (including, for example, a formal method of monitoring over-indebtedness).

Marketplace

How is Provident Financial regulated?

Following the White Paper, the Government published regulations amending the 1974 Act. These cover early settlements, consumer credit advertising, pre-contractual information and the form and content of agreements. The advertising regulations came into force on 31 October 2004 with the other regulations introduced on 31 May 2005.

Additional changes which have been agreed following parliamentary debate are:

- A new, enhanced licensing regime by the OFT
- An ombudsman redress scheme (the Financial Ombudsman Service)
- A replacement for the 1974 Act's extortionate credit provisions (an 'unfair relationships' test)
- An obligation to provide arrears notices and annual statements to customers

Provident complies fully with the Consumer Credit Act regulations on informing customers of annual percentage rates (APRs). It ensures that key terms such as the total cost of credit, the total amount payable, the weekly repayment, the term of the loan and the APR are presented clearly to customers.

Borrowers are given an easy to follow record of their borrowings and repayments in a payment book that they themselves keep. Agents, because they visit every week, can communicate information face to face and in writing and take all reasonable precautions to ensure transparency. The combination of these features means that customers are aware of, and understand, home credit charges.

Polish rate cap

In Poland, a new law establishing a maximum interest rate at four times the Lombard rate was introduced in August 2005 to apply to loans issued from 20 February 2006. In response, we developed a revised offer to meet both customer needs and the requirement of the new law and successfully introduced it to approximately 30% of Polish customers by the end of 2005. All credit issued since 7 February 2006 has been based on the new product.

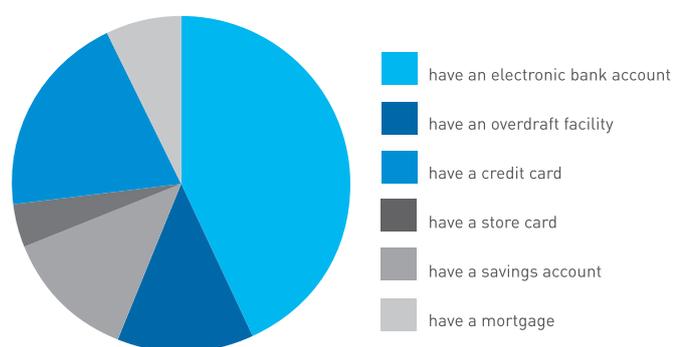
The previous standard home credit product bundled all elements of the service into a simple, single fixed charge. The new product includes three main types of charge: interest, credit insurance and an optional home-collection charge. For the customer who selects all these options, the cost of the product is similar to the old one. Our experience to date suggests that most customers highly value each element of the product, particularly the convenience of agent collection.

EU Consumer Credit Directive

The EU Consumer Credit Directive continues to make its way through the consultative process. We're working with relevant bodies to ensure that any new proposals take full account of the value of home credit to customers.

Responsible lending

Figure 6: Financial background of customers



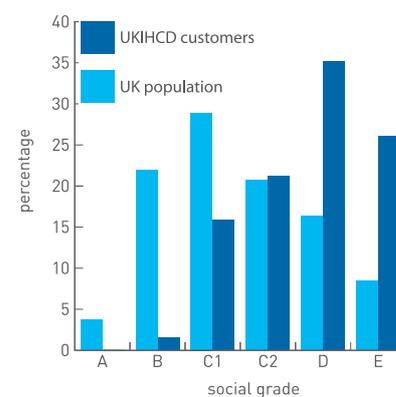
Source: Home Credit Division
(customers current & paid up tracker, Quaestor Research 2005)

Ensuring the best for our customers

It is not in our business interests to lend more than customers can afford. Responsible lending is therefore inherent in all our activities, from product development, to agent selection and support, to the incentive structures for our managers and representatives.

We believe that corporate responsibility in the marketplace starts with understanding our customers, identifying their needs and offering them the best possible products and service. Most are skilled at managing their finances and choose Provident as offering the best combination of cost, convenience and predictability. Given that 82% of our customers have bank accounts, 25% have an

Figure 7: Socio-economic breakdown of UK home credit customers



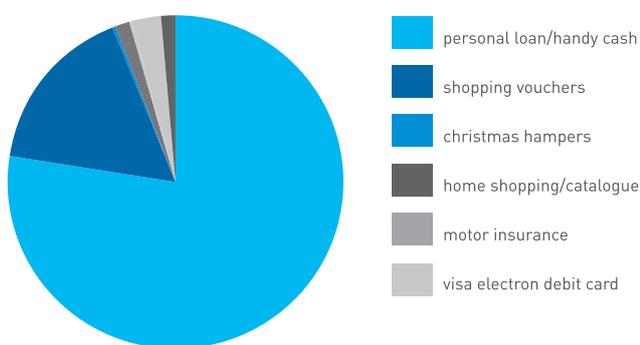
Source: Target Group Index Data
(BMRB Research - October 2004 to September 2005)

overdraft and 24% have a credit card, it's clear that many have the option of other forms of credit if they so choose. A large proportion of our customers are in socio-economic groups D and E and living on moderate incomes. As some of those in this group are potentially vulnerable, it's imperative that we understand their household economics and take steps to ensure we lend responsibly.

Marketplace

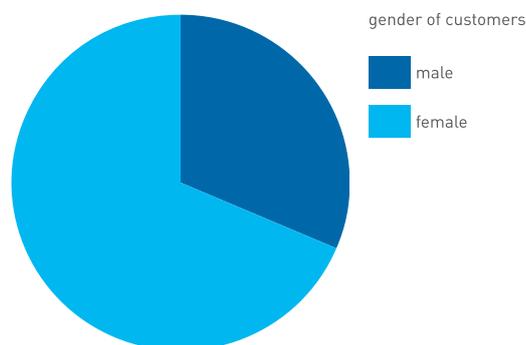
Our customers

Figure 8: Breakdown of product type



Source: Home Credit Division (customers current & paid up tracker, Quaestor Research 2005)

Figure 9: Gender breakdown of UK home credit customers



Source: Home Credit Division (customers current & paid up tracker, Quaestor Research 2005)

We recognise that our customers may have fluctuating incomes that make it difficult to cope with unexpected expenses. The majority of loans are taken out for household-related expenses such as gifts, home improvements, fixing electrical problems or replacing broken-down items such as washing machines. Most agents live in the same communities as their customers and many are ex-customers themselves. Their experience, therefore, helps them act sympathetically when such issues arise.

Our customers are pretty evenly split between the C, D and E socio-economic groups. 37% of UK home credit customers are in socio-economic grades C1 and C2 (compared with 50% of the UK population as a whole). Some 30% of our UK home credit customers work full time and 69% of customers are women. We aim to provide a service that takes full account of customers' circumstances and helps them to stay in control of their finances. We also believe in building long-term relationships with the

people we serve. These principles have paid off in consistently high customer satisfaction ratings (94% in 2005).

We constantly seek to improve our service by listening to what our customers tell us and conducting detailed market research, including face to face interviews and postal satisfaction surveys.



The role of the agent

Our licence to trade depends on the way we conduct ourselves in the communities in which we operate. We therefore attach great importance to the role of the agent, the need for fair lending practices and making sure our staff and agents behave in an ethical manner.

We have 11,755 agents in the UK and 23,840 overseas. In the UK, our agents visit one in 25 of the nation's homes, delivering small, unsecured loans, collecting payments every week and responding to requests for further loans. The personal, face to face nature of our collection system marks us out from other lenders and is part of the unique service that home credit customers value. In most cases, agents live within the communities they serve and develop understanding relationships with their customers. This in turn creates loyalty and enables the agent to respond sympathetically to the financial circumstances and challenges of each customer.

How are agents selected?

Agents are carefully selected through three main channels. Those who wish to be made aware of agent vacancies within their communities are contacted directly. Others – the majority – come to us as former customers. We also have a large number of agents who were originally recommended by other

agents or who have responded to adverts in the local media.

How are agents supported?

We have a rigorous support programme for new agents. This ensures that agents lend responsibly and also provides extensive guidance on personal safety. We also inform agents and prospective agents of our expectations in terms of CR and reinforce the message with regular reviews and a structured communications programme. The agent manual, for example, includes opportunities for taking part in community support programmes and offers practical advice on environmental stewardship.

How do agents lend?

Agents are given a great deal of support and guidance on how to determine what is an appropriate amount of credit to lend to a customer. Existing customers are classed according to their level of risk or vulnerability and some cases require a second level of authorisation. Agents are not permitted to provide additional loans to customers within their first six months, until a payment history has been established. In this way, we ensure we lend the right amount at the right time and avoid overburdening customers who may have a problem.

We have clear guidelines for determining a customer's level of risk. This includes a Customer Details Form completed against a comprehensive checklist. In some cases we also request proof of income. Agents are informed to be particularly careful when lending to potentially vulnerable customers such as pensioners. These are referred to development managers, specially trained in assessing their suitability for a home credit loan.

A major benefit of home credit is that there are no financial surprises. Every pound repaid is a pound off the total, so the loan can never increase. Even so, it's important that our customers do not over-commit themselves. Each one is given a full explanation of all charges and repayment requirements before credit is issued.

How are agents incentivised?

Commission paid to agents is based on what they collect, not on what they lend, so they have no incentive whatsoever to lend more than a customer can afford to repay.

Our managers' bonuses are also based, not just on revenue, but also on the number of good customers and low levels of bad debt/impairment.

Marketplace

Product transparency

Understanding the cost

Provident's APR can appear high compared with those of some banks and credit card companies which offer lower headline APRs. But the comparison is often misleading. In the case of bank overdrafts, for example, charges other than the pure interest charge can, quite legally, be omitted from the APR. When charges for administration and late or missed payments are imposed in addition, they can add substantially to the cost of credit. By contrast, all charges relating to Provident's home credit loans are included in the APR and the customer never pays more than he or she has agreed at the outset of the loan. Furthermore, the APR calculation is not a reliable indicator of cost for small-sum, short-term credit products – a view supported by the National Consumer Council (NCC) and the Department of Trade and Industry (DTI). The Competition Commission (CC) itself has concluded that APR is a 'weak' measure of the price of home credit loans.

In addition, the cost of a home credit loan includes the services of an agent who collects the repayment each week from the customer's home. The CC has concluded that 'the provision of home collection service involve(s) high costs by comparison with other forms of credit'. (CC press release on Provisional Findings, para 7.)

As well as being convenient, the home credit system allows borrowers to establish a relationship with an agent who understands their circumstances. This is a feature much valued by our customers. The CC has concluded that 'the home credit product in its current form fulfils an important role for a significant number of customers'.

Part of the DTI's review of the Consumer Credit Bill concerned the issue of price controls. The market research company Policis was commissioned by the DTI to investigate the impact of interest rate caps in other countries. Its research looked at the effect that ceilings had had in France, Germany and some US states.

Compellingly, Policis found that when rate ceilings are imposed, credit costs become less transparent and the terms of credit products less forgiving, so consumers end up paying high levels of default and penalty charges. In addition, rate ceilings restrict the market for small sum credit and consumers are forced to borrow larger sums than they need or want.

When the Policis/DTI findings were published in August 2004, the National Consumer Council, Citizens Advice and the Consumer Credit Counselling Service all issued press releases endorsing the DTI's decision not to impose an interest rate cap. Leading UK consumer groups, advice agencies and think tanks (including the Association of British Credit Unions Ltd, Citizens Advice, the National Consumer Council and the Institute for Public Policy Research) repeated this conclusion in a briefing paper sent to members of the House of Lords in October 2005 during the Second Reading of the Consumer Credit Bill.



Affordable credit

In the December 2004 Pre-Budget Report, Her Majesty's Treasury announced the setting up of a financial inclusion taskforce to spearhead its financial inclusion agenda. The role of the taskforce is to oversee progress on the provision of access in three areas – banking, affordable credit, and free, face to face money advice. Progress towards these goals is backed by a £120 million financial inclusion fund.

To support its goals on affordable credit, the Government has earmarked a £36 million growth fund. Administered by the Department of Work and Pensions, this is to be made available to improve the coverage, capacity and sustainability of lenders (especially 'third sector' lenders such as credit unions and community development finance institutions) in providing personal lending services to those on low incomes in areas of high financial exclusion.

Provident Financial welcomes the work of the taskforce in investigating, and seeking to promote, greater choice and diversity in the provision of small-sum, short-term credit. We're encouraged that the taskforce has recognised that the cost of making small, unsecured loans to those on less than average incomes is likely to be high compared with providing larger amounts of credit to those on average incomes.

Treating customers fairly

Provident Financial is closely following the FSA's recommendations on the requirements of Principle 6 which addresses the need to 'pay due regard to the interests of its customers and treat them fairly'. Principle 6 is one of 11 Principles for Business which outlines expectations regarding the behaviour of financial services companies. Our Vanquis Bank and insurance operations are fully embracing the Treating Customers Fairly (TCF) initiative and

are setting up TCF working groups and conducting gap analyses to identify possible implications for governance, strategy, remuneration, communications and product design.

We also support a number of money advice organisations, details of which can be found in the community section of this report.

Marketplace

Suppliers

To maintain our high environmental and social standards, we need to work with suppliers who are similarly committed. We also see good, supportive relationships with suppliers as an essential part of our corporate responsibility. We seek to manage our supplier relationships well and to ensure fair terms and a good payment record. In 2005, the average creditor time was only 17 days, five days fewer than in 2004.

We have an effective programme for ensuring sound environmental practice within our supply chain. This is backed by an environmental supply chain policy, implemented by individuals responsible for procurement in the home credit and insurance divisions. In 2005, we continued to talk to major suppliers on environmental issues.

Following the 2004 exercise in which we graded our suppliers by looking at environmental practices and potential risks, those companies highlighted as presenting possible risks were given training to deepen their understanding of the environment and their impact on it. In many cases, we've helped them develop their own environmental policies and practices. As a result, the majority of suppliers are no longer considered an environmental risk.

Provident Insurance has received a 'major commendation' by the Business Committed to the Environment (BCE) award for its Motor Claims Environmental Supply Chain programme. This programme supports our suppliers in recognising the competitive advantage to be gained from introducing environmental best practice. The BCE awards

recognise businesses whose activities enhance or protect the environment and our award was for demonstrating strategic vision in this area. This is an outstanding achievement and a tribute to our motor engineers in their efforts to understand and minimise the environmental effects of the business.

We still have a long way to go and will work towards embedding our supply chain practices into all areas of the business. The next steps involve bringing together the various social elements of the purchasing process and developing a policy that includes wider sustainability issues and training for key individuals.

Workplace



Employee development & consultation

At the end of 2005, we employed 8,500 staff across our operations in the UK and internationally. We recognise that a skilled and motivated workforce is essential to our success and makes it possible for the company to meet its business objectives. In this section we describe what we're doing to develop our employees and create an environment in which every individual can contribute and succeed.

Employee development

It's important that our employees have the training, development and work experience they need to carry out their roles and fulfil their potential within the business. To this end, we offer extensive opportunities for training and development in all our operations. Available in all parts of the group and adapted to the needs of each business, these range from comprehensive induction courses to management development programmes.

One example is our MBA programme with Bradford University School of Management which includes training in corporate responsibility. The group encourages staff at all levels to study for relevant educational qualifications and is determined to help every

employee achieve their full potential. Opportunities for training are communicated through a human resources intranet site.

Our overseas operations have their own structured development programmes. In Mexico, for example, we run management development courses for staff who show potential. We also have external courses to develop skills such as finance and marketing. The business in Poland provides training courses using internal and external resources along with graduate and management training courses. Slovakia runs a management development system and identifies individual development needs through a personal development appraisal system.

Involving and consulting our employees

Our success depends on the conduct of our staff and agents and good communication is essential in providing proper training and in raising awareness of the CR issues facing our business. We believe that engaging effectively with our staff not only improves morale but directly affects performance.

During 2005, we continued to develop our communication channels and all our operations carry out employee engagement surveys. Individual divisions handle internal communications through regular business updates, weekly and monthly newsletters, team briefings, feedback forums and the intranet.

Under a new communications strategy, our UK home credit division is developing a range of channels to reach every part of our business. We're also ensuring that the methods used are those best suited to the audience, be they head office employees, regional managers or other employees. This must clearly involve two-way flows of information, of which a recent example is the 'Ask Peter' campaign. Peter Crook is the new managing director of the UK home credit business and employees can now contact him directly with their questions and expect an answer within seven days.

Workplace

Employee development & consultation

The company in Mexico is also working hard to get feedback from its employees. Each branch has suggestion boxes and responses are placed on notice boards every month. There is also a regional employee forum and an internal bulletin, 'Voz Abierta' (Open Voice), to facilitate employee dialogue.

Four years ago, the Polish business set up an employee forum to which new employee candidates are elected every two years. There are approximately 100 forum representatives at regional and central levels. The forums meet quarterly with the objective of establishing good communications between employees and the board. Our Polish operation also carries out satisfaction surveys every two years. This process has resulted in a number of training and development improvements and the business has received external recognition for its well developed employee forum, being chosen as one of the 40 best companies for good practice by the Polish Forum for Responsible Business.

Hungary operates an employee round table and continues to make regular changes to practices in response to employee suggestions.

In Slovakia we have a quarterly communication forum called Dialog. As in other operations, this provides an opportunity to obtain feedback on different employee programmes. The business also has an internal staff magazine and senior managers regularly visit branches to meet and talk to employees.

Access to management: grievance and whistle-blowing procedures

We take any complaint seriously and have clear whistle-blowing procedures and guidelines for dealing with grievances. We make every effort to avoid malpractice and any that does occur is immediately dealt with. We aim to deal with disclosures in a fair and discreet manner and to ensure that no-one is punished or victimised for making disclosures in good faith. Grievance and whistle-blowing procedures are detailed on our intranet and in all our employment handbooks.

Employee turnover

Like any business, we stand to gain from retaining our employees for as long as possible. As well as reducing the direct financial cost of replacing employees who leave, low staff turnover helps to minimise risks such as losing skills and experience from the workforce. It can also avoid disruption to operations and a negative effect on morale. Across the group, Provident's employee turnover is 21.1%. In the UK, where we can now report the trend over two years, employee turnover fell from 23% in 2004 to 19.6% in 2005. The UK average is 16% (CIPD survey, 2005).



Benefits

Profit sharing

The company operates three savings-related share option schemes and 2,028 employees are currently saving to buy shares in the company under these schemes.

Pensions

One of the most significant issues in today's workplace is the approach to pension provision. For companies that have traditionally provided a final salary scheme the increase in life expectancy raises new concerns over risks such as funding obligations. Provident is no exception. We recognise that pensions can be an important part of an employee's total compensation package and that prospective employees can take pensions into account when choosing a future employer.

In the UK, our final salary schemes were closed to new employees and replaced by a stakeholder pension plan in January 2003. Under the new scheme, the company contributes

8%, and members 6% with the option of investing more if they choose. The scheme also includes benefits such as life assurance and long-term disability income protection. This arrangement meets the group's objective of minimising risk while also providing a strong framework for employees for the future.

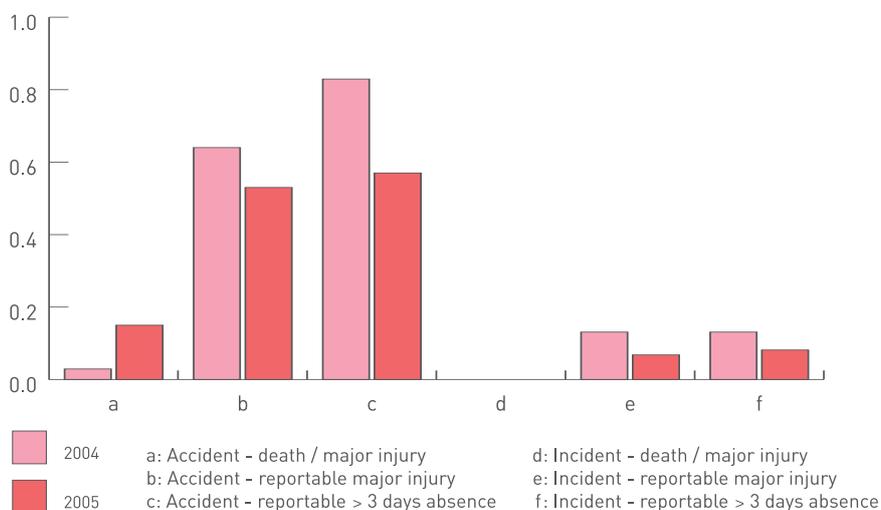
A review of the remaining final salary schemes was carried out in 2005 and, after consultation with members, we introduced new cash balance sections to the schemes on 1 April 2006. Members had the option to stay in the final salary sections with an increased contribution of 14% or join the new cash balance sections for a 5% contribution. In the cash balance sections, members receive a 'credit' of at least 20% of their salary for each year of membership. This is then used to purchase a pension at retirement. In addition, all past benefits retain a link to final salary at retirement, so will take account of any future increases in salary.

Employees can also incorporate a socially responsible investment (SRI) element into their pension arrangements. Employees in both schemes receive regular communications including newsletters and benefit statements and have access to a dedicated website.

Workplace

Health and safety

Figure 10: Health & safety performance 2005 (per 100 employees)



We're committed to ensuring the health, safety and welfare of our employees. We have a group policy and strategy for health and safety which is agreed at board level and integrated into the business via the health and safety steering group chaired by the company secretary. Health and safety is considered regularly at board meetings and each business produces a written report for the health and safety steering group once a year. All new employees attend a mandatory health and safety course that covers safety at work and staying safe on the way to and from work.

Careful monitoring across the group helps to identify any emerging trends. For example, most of our employees work in offices where one of the

greatest risks to health is the improper use of display screen equipment. This can lead to ailments such as postural problems, headaches and strained vision. Whenever a new employee joins Provident, their work space is assessed by a trained member of staff and adjustments are made if required.

Workplace stress is another important health and safety issue and we've developed a strategy to identify and reduce stress wherever it might occur. Our home credit division is about to launch a new stress and positive health policy and Vanquis Bank has a stress policy that involves stress assessments, training for managers, assistance to employees suffering

from stress and support in achieving a healthy work-life balance.

Work-related deaths and major injuries rose in 2005 from two to 11. All these occurred in Poland as a result of lifting, driving or slipping in icy conditions. We regret that two of our employees died while at work in 2005 - one of natural causes while at work and another in a road traffic accident. Poland has a well-established health and safety programme and has reinforced its efforts to raise awareness of risks. These included road safety briefings, training campaigns to coincide with bad weather, and a personal safety week that covered basic car checks and driving in icy conditions.

Health scares such as avian flu have generated a great deal of publicity. We have been advised that it is highly unlikely that avian flu will mutate into a strain that could cause a human pandemic. Nevertheless, global flu pandemics do occur and we're prepared for the possibility. Measures in place include business continuity plans to identify key personnel and ways of minimising disruption to the business should a pandemic occur. They also cover issues such as training, health and safety, communications, illness reporting, absenteeism, travel policies, flexible working hours and working locations.



Equal opportunities

Believing that a diverse workforce offers benefits to our business, we're committed to creating a work environment that is free from discrimination in which talented people of any background can thrive. We also believe that a mix of cultures and outlooks in our workforce makes us better able to understand the needs of our customers around the world.

The company is committed to equal opportunity in recruitment, promotion and employment and does not discriminate on the basis of gender, sexual orientation, race or religion. It gives full and fair consideration to applications for employment from disabled people and to their subsequent training and career development. Wherever possible, arrangements are made for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities.

We now have a formal diversity policy and managing diversity is included in the objectives or job descriptions of many of our managers. All our induction programmes in 2005 included diversity issues and we also provided specialist diversity training

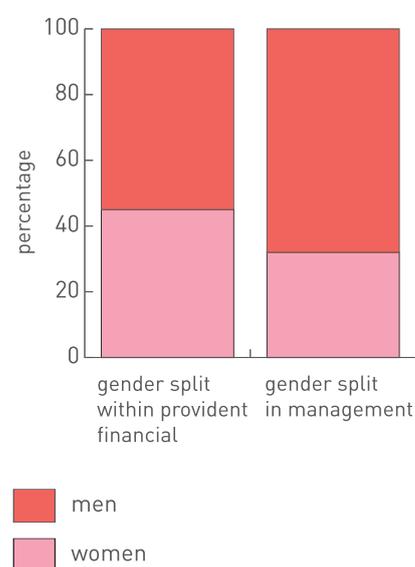
for senior managers. This looked at issues relevant to each business along with the legal framework and the task of championing diversity.

Although progressive mechanisms are in place, we still face challenges in terms of our diversity performance. The Human Resources CR working group found that between 50% and 80% of our recruitment was outsourced at some point to external agencies. Once we realised this, we needed to ensure that our recruitment agencies had diversity policies similar to ours. As a first step, we sent questionnaires to the main agencies we use. The replies showed that most had diversity policies in place but that there was little data available to assess whether these policies were effective. To address this challenge, we've been working on a diversity recruitment standard with a number of other companies, facilitated by the Employers' Forum on Disability.

Gender

At group level, there are slightly more men (55%) than women (45%) working for Provident Financial. This roughly reflects the UK population (52% of the workforce is male) and is in line with national workforce statistics.

Figure 11: Gender breakdown and split within management of Provident Financial employees (2005)

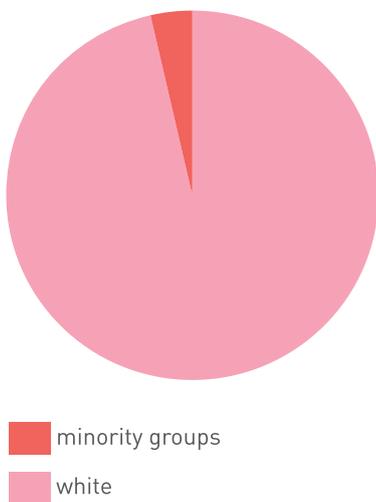


In the UK and internationally, around 31% of our senior managers are women. In the UK, where we now have two years of data on which to report, the proportion of women senior managers increased from 15.9% in 2004 to 22% in 2005. While this shows some improvement, we intend to work harder to encourage diversity at senior levels in our organisation.

Workplace

Equal opportunities

Figure 12: Ethnic breakdown of Provident Financial employees in the UK (2005)



Ethnic origin

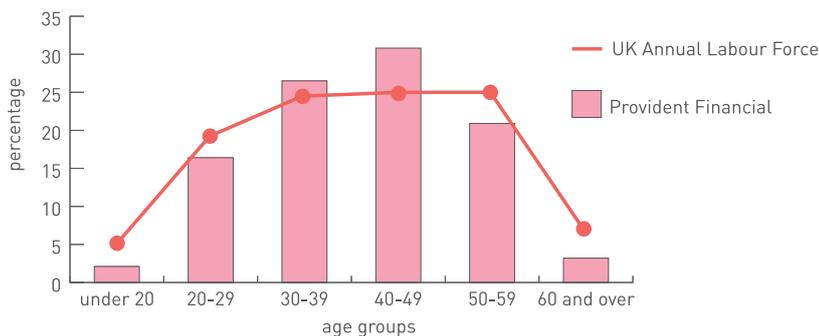
We currently measure the ethnicity of our workforce only in the UK. Here, according to available data for 2005, we found that 96.1% of our employees are white while 3.9% come from minority ethnic communities. In contrast, minority ethnic communities make up 7.7% of the economically active workforce (UK Annual Population Survey 2004-2005).

Although new employees are invited to disclose their ethnic origin when they join Provident, this is voluntary and some employees choose not to do so. As a result, we believe our most recent figures for ethnic origin are not fully accurate and do not therefore reflect our true ethnic profile.

We had planned to survey our employees in 2005 to gain more accurate information on their ethnicity. The project had to be delayed, but we hope to conduct it in 2006. We're also working with Race for Opportunity to improve our performance in this area and will continue to refine our recruitment, selection and promotion practices to eliminate any unintentional barriers to under-represented groups.

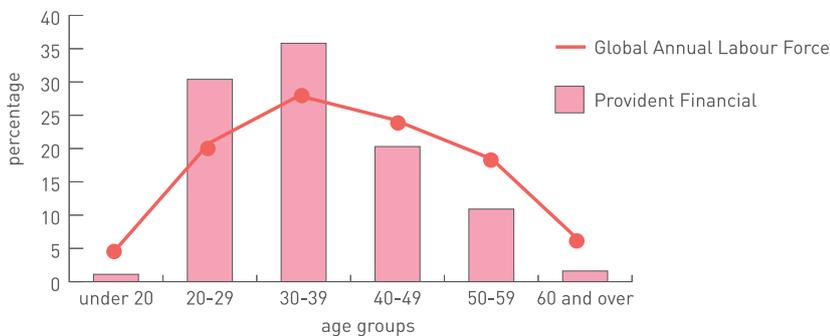


Figure 13: Age breakdown of UK Provident Financial employees (2005)



Source: Benchmark UK Labour Force Survey 2005

Figure 14: Age breakdown of all Provident Financial employees (2005)



Source: Benchmark derived from European Labour Force Survey 2005 and ILO

Age

The age profile of our employees differs between the UK and the group as a whole. According to available benchmarks, the age profile in our UK business is similar to the norm for the economically active population in the UK. When we include our newer businesses in Europe and Mexico, the average age across the group is younger.

Provident currently operates a normal retirement age of 65. Some of our employees have served over 40 years with the company and many have received long-service awards.

Disability

Provident is a member of the Employers' Forum on Disability which provides advice and guidance on employing people with disabilities.

We recognise our responsibility to make reasonable adjustments for new employees with disabilities and for people who develop disabilities during their employment. We believe that employing and promoting individuals purely on the basis of their abilities, skills and suitability for the job will ensure successful and enjoyable careers for those concerned and enable the company to make full use of the breadth of talent available.

Human rights

We respect the right of our employees to join trades unions. We comply with the fundamental International Labour Organisation (ILO) conventions including freedom of association, the elimination of child labour and respect for human rights.

In the UK, our home credit businesses work with the union, Amicus, and have a number of recognition, consultation and negotiation agreements in place for area managers, area development managers and some head office departments. The company also has a consultation and negotiation agreement with USDAW (Union of Shops, Distributive and Allied Workers) for clerical staff. In Mexico, internal working groups with employee representatives ensure fair employment rights and benefits for local employees.

Community

Our approach

Provident Financial has a two-pronged approach to addressing the needs of local communities. By establishing community partnerships, we aim to provide real and lasting benefits to the communities in which our customers, employees and agents live and work. At the same time, we're addressing issues of specific relevance to the financial services industry – one example being our work with the money advice sector on initiatives to do with financial inclusion.

Support for money advice and financial education

We believe that individuals with genuine financial difficulties should have access to free, independent, quality-assured advice and so we

have built up strong relationships with organisations in this sector. If things are going wrong, money advisors are often the first to find out. They also provide an important source of feedback for creditors. Their experience shows that home credit is very rarely the source of the problem when people's debts get out of control.

In many cases, a home credit customer's short-term financial difficulties can be resolved between the customer and the agent. The agent is well placed to understand how a household's financial circumstances can suddenly change. Should this happen, he or she can agree to reduce a customer's weekly payment at no extra cost.

Customers appreciate this flexibility and tolerance – a fact reflected in our very high customer satisfaction ratings.

That said, we accept that on some occasions customers may have more significant or multiple debt problems. These individuals need quality, third-party advice.

We've established a central unit at our head office in Bradford to deal with all cases in which a customer has sought advice from a money advice agency. This enables us to deal with all cases in a consistent, timely and sympathetic way.



Money advice

Money advice organisations supported by Provident Financial

Most of our financial support to the money advice sector is directed to organisations that will offer advice as part of the Government's initiative for a 'joined up' network of advice agencies. Under the proposed scheme, consumers will be able to contact an advisor through a single national telephone number or 'gateway'.

Table 5: Money advice organisations supported by Provident Financial

We support the following organisations:	
Citizens Advice	Formerly the National Association of Citizens Advice Bureaux. Our support will boost their capacity to train and develop money advisors and debt counsellors (so-called 'second tier' support).
Advice UK	Formerly the Federation of Independent Advice Centres and the UK's largest support network for free, independent advice centres. Our funding supports the training and development of front-line advisors.
Money Advice Association	The largest association of individual money advisors. Our most recent contribution will help the association to turn itself into an Institute of Money Advisors.
Money Advice Support Unit	A Leeds-based, second-tier support service for money advisors in the north of England.
National Debtline	Under the strategy devised by the Government and the money advice sector, National Debtline will provide the telephone 'gateway' for all money advice inquiries in the UK. Debtline staff will assess a caller's situation and direct him or her to a local provider of the type of advice they require, be it face to face counselling or a debt management programme. Along with others in the financial services industry, we've provided funding for this project from pilot to launch.
Consumer Credit Counselling Service	The UK's leading provider of debt management programmes. We make 'fair share' contributions of 11.75% on any payment we receive from a customer who has entered into an agreed debt repayment plan.
Money Advice Scotland	The largest association of individual money advisors in Scotland. Our support helps to fund the ongoing professional training and assessment of advisors.
As well as these recognised national agencies, we support the following more specialised providers:	
Credit Action and Debt Cred	Both organisations provide personal financial education for school-age children, school leavers and young adults and are approved by the Personal Finance Education Group (PFEG).
Christians Against Poverty	A Bradford-based charity providing debt counselling, access to debt payment plans and financial education. It has centres in 29 locations across England. We contribute 15% on any payment we receive from a customer who has entered into an agreed debt repayment plan.

Community

Community Initiatives

During the year, the company made donations for charitable purposes of £677,751 (2004: £450,083). The group invested a further £1,400,132 (2004: £1,168,324) in support of community programmes (based on the London Benchmarking Group's guidelines).

We have a longstanding and well-developed programme of community investment that helps not just our communities but also our company. Among its business benefits, the programme promotes UK and Ireland home credit as a responsible company by enhancing its reputation among customers, stakeholders and

opinion formers. It also creates training and development opportunities, raises staff morale and forms one of the pillars of our CR programme.

Although our community programme is well established, we believe we can make it still more effective and have dedicated personnel and financial resources for this purpose in all our operations around the world.

Evolving from broader corporate giving in the 1970s, the programme took a major step forward in the late 1990s when contributions increased from £70,000 to £450,000 and the company began addressing the development and social awareness

of disadvantaged children through a series of arts projects. During 2005, we pursued our theme of providing opportunities for children and set further targets to ensure that our community activity continues to improve.

While we have not included all our projects around the globe, the following includes some of the highlights of 2005. Provident will continue to build on its success in 2006, seeking new projects to benefit local communities and involve even more children.

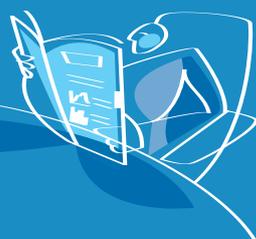


Table 6: Provident Financial community objectives, targets and achievements

Objectives	Targets	Achievement
Objective 1: To provide new opportunities for young people to take part in, and benefit from, activities that they may not otherwise have had the chance to experience.	Through our UK projects, to involve at least 10,000 people in new experiences.	Achieved
	To obtain evidence from community partners that most of those helped by our community projects are young people from disadvantaged communities.	Achieved
Objective 2: To ensure greater positive awareness of Provident's community programme, both internally and externally, and so enhance our reputation.	To place case studies of all major community projects on our website.	Achieved
Objective 3: To create opportunities to engage employees and agents in the community programme and so improve their motivation.	To get employees and agents more involved in community projects.	Partially achieved. Opportunities have been created and more employees have taken part. However, there is more work to do in terms of communicating and encouraging employees to volunteer.
Objective 4: To ensure an integrated approach to the community programme across Provident's subsidiaries.	To implement a new community strategy across all subsidiaries by the end of 2005.	Achieved
Objective 5: To monitor, evaluate and continuously improve the community programme.	To implement a regular review by the community programme working group to monitor the progress of the community programme.	Achieved
	To introduce our evaluation process across all our major community projects and carry out an evaluation of each one.	Achieved

Community

Community initiatives

Table 7: London Benchmarking Group: analysis of 'PACK'

Name of project	'PACK' – Provident Action for Creative Kids
Subject focus	Education and young people
Brief description of activity	<p>Working with the Youth Hostels Association (YHA) in England and Wales, Scotland and Ireland, we have set up a programme called 'PACK' – Provident Action for Creative Kids. The aim of 'PACK' is to provide new opportunities for young people to take part in outdoor activities and so increase their confidence and self-esteem.</p> <p>The breaks take the form of a two-day stay in a youth hostel with a focus on activity-based breaks. The aim is to introduce young people from schools and community groups to new activities and environments.</p> <p>For many of the children taking part, this is their first time away from home. Provident provides extra support with employees and agents attending the breaks wherever possible.</p>
Contribution by the company	<p>Cash contribution: £300,000</p> <p>Employee time contributed: £25,000</p> <p>In-kind contributions: We provided participants with 'PACK' bags, baseball caps and postcards to send to their families. Many groups received disposable cameras.</p> <p>Total cash value of contributions: £345,000</p>
Outputs	<p>Leverage: £50,000</p> <p>Benefits to community:</p> <ul style="list-style-type: none"> ■ Over 6,000 young people from 255 groups took part in 'PACK' between 2001 and 2005. All the participants were selected from inner-city communities on the basis that they would benefit the most. ■ Most of the schools taking part in England and Wales were situated in Education Action Zones (EAZs) or Excellence in Cities (EiC) areas. Our funding has allowed these schools to generate matched funding through the EAZ or EiC. ■ Many schools have reported that without our 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 creative, 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"> ■ Improved reputation among local communities. ■ Feel good factor among staff. ■ Local and regional press coverage.
Impacts	<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/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. ■ Staff have a more positive opinion of the company and some have maintained links with the schools involved, offering to help in other areas.



Spark

'Spark' is our biggest community programme and will replace the 'Partners in Art' programme that has run for several years. Formed in partnership with West Yorkshire Playhouse and seven other theatres, it's a national arts education programme in which each theatre engages with a number of primary schools in deprived areas. The theatres involved offer five weeks of workshops covering a range of art forms including dance, sculpture and drama.

L'Ouverture

'L'Ouverture' operates in south and east London. Provident Financial currently supports its performance academy that enables young, disadvantaged people to attend after-school and Saturday clubs for structured workshops with professional artists and technicians.

National Museum of Photography, Film and Television

'Youth TV' is a three-year project aimed at young people excluded from school or in danger of being excluded. Run in partnership with the National Museum of Photography, Film and Television, the programme offers an accredited TV production course to teach core skills and boost personal confidence.

Trampolina

In 2005, our Polish business completed the third year of its 'Trampolina' community programme which supports schools lacking investment for sports resources. Sports equipment was donated to 20 schools in different parts of Poland, including areas where Provident Polska launched its business activity in 2005. Around 100 employees took part in the programme during the year.

Provident Polska also continues to support the 'Stay with Us' programme which supports talented young Polish scientists who wish to continue their academic research in Poland.

Centrum Wolontariatu

In 2005, Provident Polska began working with Centrum Wolontariatu, an organisation that promotes volunteering in Poland. Provident has become a strategic partner of 'Business Volunteerism' whereby companies promote the idea of volunteering among their employees. Together with consultants from Centrum Wolontariatu, Provident is working on a strategy to involve its employees and agents in community activities in Poland.

Causas

In Mexico, our 'Causas' programme helps local communities by focusing on community and environmental education projects. Activities in 2005 included refurbishing local schools, organising an event promoting the empowerment of women and providing free health services and workshops on finance management. More employees are becoming involved, with over 200 taking part in charity events during the year.

Social responsibility in the Czech Republic

Our Czech operations manage a multitude of programmes addressing social issues, local community development and education through the 'Company with a Heart' campaign. The non-profit organisations and social investment projects that we support here are chosen on the basis of employee or customer recommendations. In line with our group strategy, we endeavour when choosing the projects to form long-term partnerships, contributing not only financial resources but also ideas, materials, professional knowledge and the voluntary work of our employees. For more information regarding our programmes in the Czech Republic, please visit www.providentfinancial.cz.

Community

Community initiatives

Table 8: London Benchmarking Group: analysis of 'Partners in Art'

Name of project	'Partners in Art'
Subject focus	Arts education
Brief description of activity	'Partners in Art' was our arts education programme which ran in 2004 and 2005 and consisted of three projects. 'Making an Impression' was a storytelling and printmaking project for infant and junior schools. 'Talking Pictures' introduced students to outstanding paintings in their local public art museums and also provided oil painting workshops. The third element of the programme was 'Take Art', in which pictures from the Provident Financial art collection were displayed in secondary schools with accompanying art workshops for all year groups.
Contribution by the company	<p>Cash contribution: £250,000</p> <p>Employee time contributed and cash value: Over 200 staff were involved organising tea parties for children, helping in the class room or hosting celebration events - £25,000</p> <p>In-kind contributions – detail and value of what was contributed: T-shirts, art materials (including oil paints, brushes and canvases) and new equipment to schools (including digital cameras, video cameras and printers) - £80,000</p> <p>Total cash value of contribution: £355,000</p>
Outputs	<p>Benefits to community:</p> <ul style="list-style-type: none"> ■ All the participating schools were selected from disadvantaged inner-city communities with the programmes tailored to individual school needs. ■ The project helped to lift the profile of the schools in their local community. ■ Many of the schools reported that pupils taking part had enjoyed a unique experience and displayed a real sense of achievement. Schools also spoke of the project's impact on other class work. ■ Some pupils were given the opportunity to display their work in the National Portrait Gallery and to give presentations. ■ 3,500 children were directly involved in the project with many more benefitting indirectly. Additional benefits included the use of new equipment supplied to the schools and a variety of school projects which grew out of the initial investment. <p>Business benefits:</p> <ul style="list-style-type: none"> ■ Improved reputation among local communities. ■ Feel good factor among staff. ■ Developing staff skills such as leadership, presenting and project management. ■ 'Making an Impression' provided team-building opportunities. ■ Local, regional and national press coverage. ■ Celebration event held in London to which key stakeholders were invited.
Impacts	<p>Longer term impacts of the activity on both the community and the company:</p> <ul style="list-style-type: none"> ■ Children have an increased awareness of, and interest in, the arts. ■ The company's reputation has been improved and schools and teachers have a greater understanding of what the arts can achieve. ■ Provident staff have developed a more positive opinion of the company. ■ Links have been maintained with local schools with staff offering help in other ways such as acting as volunteers and carrying out team challenges.



Social responsibility in Hungary

Since its formation in 2001, our Hungarian business has developed its community programmes with clear guidelines to ensure year on year progress. Like our other businesses, Provident Pénzügyi Zrt focuses on education and on adding value by developing strategic partnerships with community organisations. Its community partners include the National Association of Large Families, the Hungarian Maltese Charity Service and the International Pető Institute.

In 2005, Provident Pénzügyi Zrt implemented 179 community projects – twice as many as in 2004. These covered a range of social, healthcare, educational and environmental initiatives.

Smile as a Gift

The Slovakian ‘Smile as a Gift’ foundation helps to prepare young people in children’s homes for adult life and the work continues with valuable help from Provident employees. Focusing on children within its local communities, our Slovakian business supports

a number of charity initiatives such as the International Indoor Soccer Tournament for hearing-impaired students and a series of summer camps for children with terminal illnesses.

Looking forward

We have set four objectives for our community programme in 2006 which are shown below. We shall report on progress against these objectives in our 2006 Corporate Responsibility Report.

Table 9: Provident Financial objectives and targets for 2006

Objectives	Targets
Objective 1: To increase the number and range of opportunities we offer to young people from inner-city communities through a new arts education project.	<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.
Objective 2: 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.
Objective 3: To improve communication to the 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 to all staff.
Objective 4: To review employee engagement in the UK and introduce revised guidelines.	<ul style="list-style-type: none"> ■ To introduce new employee engagement guidelines for our UK-based staff.

Environment

Our approach

Provident Financial affects the environment directly through its own operations and indirectly through the activities of its customers and suppliers across the world. Our long-term aim is to reduce our environmental impact and bring our operations increasingly into line with the principles of sustainable development.

We are now entering the sixth year of a systematic programme to improve our environmental performance. This has made good progress and has kept up its momentum in the past year. In striving for further improvement, we're committed to consulting our stakeholders and to benchmarking our performance against our competitors in the finance sector.

Our environmental management system

Provident's environmental management system (EMS) accords with international environmental standard ISO 14001 and continues to demonstrate that a good EMS saves money and improves business efficiency. Our score in Business in the Community's Business in the Environment survey showed a good improvement this year with an increase from 90% in 2004 to 92% in 2005. This places

us among the top companies in the UK for environmental management.

During 2005, we continued to update our register of environmental legislation. Revised every quarter, this register is communicated to senior management through our CR steering and working groups and to the Risk Advisory Committee to ensure that we are fully aware of, and compliant with, any new or updated legislative requirements. Provident Financial has never been prosecuted by the Environment Agency and we intend to maintain this record.

Our EMS covers all of our operations with our overseas businesses now setting and working towards their own environmental objectives and targets. Our overseas businesses are also reporting performance internally and we hope to begin reporting international environmental performance externally in 2007.

Our performance

We continue to monitor our key performance indicators (KPIs). These measure our environmental impact in identified areas and are a vital step in improving our performance. We've also set a number of targets to help us achieve the desired improvements. We measure our performance both internally and through external audits

and verification. Last year's report incorporated 67 targets for 2005 and each has been the subject of independent, external verification. We've attempted to make progress against all 67 targets and have fully met 46 of them.

Climate change

It is now generally agreed that global warming and the consequent increasingly erratic weather patterns are caused by rising levels of carbon dioxide and other greenhouse gases (GHG) in the atmosphere. It is also increasingly accepted that climate change is one of the major threats to our environment and to global security. Given that carbon dioxide emissions are a direct cause of global warming, it's in all our interests to limit the impact.

Our impact

Provident's contribution to GHG emissions is small when compared with some industries, but is significant nonetheless and so we aim to play our part in reducing our direct emissions, raising awareness and encouraging our customers, suppliers and employees to play their part. Of the various activities that generate greenhouse gas, the main ones in our case are heating and lighting, powering office equipment and business travel.



Our performance

Table 10: Energy

Managing energy		
Objective	Targets	Achieved?
Increase energy efficiency across the business.	Keep energy consumption constant at 2004 levels (normalised against floor area).	No
	Introduce energy-efficient lighting on three floors of our head office.	Partially, ongoing
	Start to measure energy usage for Vanquis and Mexico operations.	No

Our direct impacts

Energy consumption

Energy consumption is a major contributor to pollution and other environmental problems. For this reason, we've been measuring our use of energy since the year 2000 while also seeking to curb consumption.

Last year we failed to reach our target of keeping energy consumption at 2004 levels after normalisation. The reason is the greater computer server capacity needed for our international business, though at present we're not able to isolate and measure the amount of energy this uses. Additional sub-metering is being installed and this will enable us, next year, to measure more accurately the energy consumption of our UK business.

Among the actions we've taken, we asked the Carbon Trust to conduct an energy audit of our offices, including having a technical expert examine the energy efficiency of our computer server rooms. We started installing sub-meters on all floors to identify opportunities for energy saving and are introducing energy-efficient lighting.

We also started fitting timer switches to equipment such as printers and photocopiers, but this initiative failed. The reasons were as follows:

- When fitted on older equipment, the switches were reported to be causing more breakdowns on the equipment. Departments refused to have them fitted unless someone else was going to pick up the repair costs.

- When staff worked outside normal working hours, they usually unplugged the timers to continue using the equipment and failed to put them back on.
- Overall, staff saw the timers as an inconvenience and didn't like them. There are lessons to be learned from this exercise and we're in the process of evaluating our next approach.

Provident's employees are constantly encouraged to watch their energy use through tips in newsletters and posters in our offices. More important messages are communicated through a network of 'CR champions' around the business.

Environment

Our performance

Figure 15: Energy usage, combined gas and electricity (2001 - 2005)

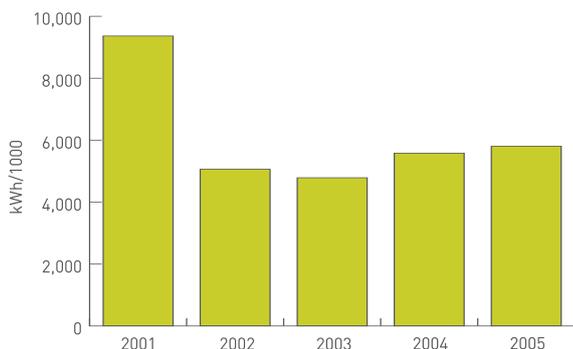
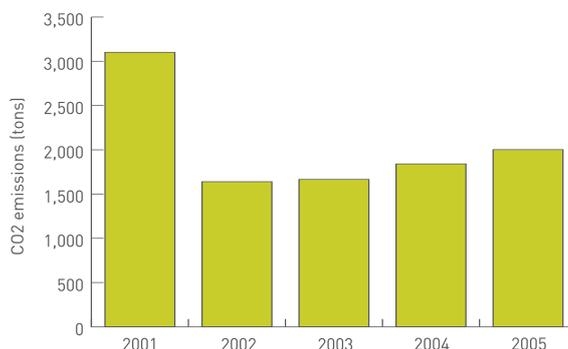


Figure 16: Carbon dioxide emissions from head office (2001 - 2005)



Transport

Motor vehicles are one of the main causes of GHG emissions and a major contributor to climate change. The use of cars also creates congestion and affects people's health by discouraging an active lifestyle and adding to noise and air pollution. Respiratory diseases

caused by particulate matter in the atmosphere have been on the rise in urban areas, especially among children.

At Provident, we're encouraging our people to find ways to travel other than by car. Our Green Travel Working Group has started to implement a

green travel intranet site which will eventually hold a green travel interactive webpage. When completed, this will include information on reducing the impact of travelling, including details of greener cars and practical advice on public transport and car pooling.

Table 11: Transport

Transport		
Objective	Targets	Achieved?
Reduce the volume and environmental impact (especially CO2 emissions) of business-related travel for UK activities.	Continue to develop and implement Provident's Green Travel Plan.	Partially, ongoing
	Maintain the downward trend of CO2 and other emissions related to the operation of Provident's vehicle fleet.	Yes



Cars are one of the greatest sources of CO2 emissions and therefore a focus of the Provident Financial environment programme. CO2 emissions from site energy usage – electricity and natural gas – are more straightforward to measure and report than corresponding emissions from car and air travel. Nevertheless, our estimates show that car and air travel account for 12% of our total CO2 emissions. Having introduced ‘green’ cars into the company car scheme, we’re making every effort to highlight this option and communicate their benefits to employees.

We’ve also begun to calculate other emissions from our vehicle fleet to ensure that reducing CO2 does not cause an increase in other emissions such as SO2, NOx and VOCs.

Eliminating business travel as much as possible saves money as well as reducing our burden on the environment. For this reason, we encourage video and audio conferencing wherever possible. Where we do need to travel, we’re looking at carbon offsetting. In 2006, we will offset all international flights from the UK and hope to extend this in 2007 to other locations, other forms of travel and major events where large numbers of people need to come together.

Our indirect impacts

As part of our responsible procurement network, we’re looking carefully at our supply chain. In the near future, we hope to consider the environmental impact of our agents.

We’re also pleased to report that we’ve been able to maintain our ‘green’ energy portfolio across our UK properties. In 2005, our UK operations obtained 100% of electricity from renewable sources, exempting us from the Climate Change Levy.

Water

The way we use water can have a direct impact on the environment, especially in those areas and countries where water is scarce. In 2004, we carried out a water conservation audit and realised there was a problem with our water meter. Last year we changed our water cisterns to use less water and so meet the Environment Agency’s benchmark of 18,250 litres per person per year.

Table 12: **Water**

Water conservation		
Objective	Targets	Achieved?
Continue to monitor and reduce water consumption.	Establish new baseline for total water consumption (normalised).	Partially, ongoing
	Ensure that Provident meets the Environment Agency’s benchmark of 18,250 litres per person per year.	Yes

Environment

Our performance

Waste

During the year we've reinforced the waste-separation message to our employees. All bins have new notices in prominent positions with simple instructions on precisely the kind of waste that each bin is intended to take. By the year-end, we had met our target of a 2% increase in the amount of paper and cardboard recycled as a proportion of paper purchased.

We continue to pursue opportunities for using recycled paper and have identified areas where recycled paper is not currently used. We've also developed suitable specifications for the purchase of recycled paper.

We now recycle a number of waste streams and continue looking for ways to minimise waste. In 2005, we initiated a dialogue with waste companies to monitor progress on new methods of measuring waste. One result is that our waste contractor has agreed to introduce on-vehicle waste weighing equipment.

Table 13: Waste

Waste		
Objective	Targets	Achieved?
Identify all areas of waste and apply a programme of reduction/re-use/recycle/repair.	Increase the amount of paper and cardboard recycled as a proportion of paper purchased by 2%.	Yes
	Research new methods of measuring waste disposal.	Yes

Table 14: Purchasing

Purchasing		
Objective	Targets	Achieved?
Continue to implement Environmental Supply Chain Management (ESCM) policies and procedures throughout the organisation.	Continue to develop and implement the ESCM strategy in the UK.	Partially, ongoing
	Develop Provident ESCM newsletter.	Yes



Suppliers

We have a vast array of suppliers from stationery companies to repair garages and we believe the best way to integrate good environmental practice into our supply chain is to raise their awareness of the issues.

We know, for instance, that smaller suppliers' resources are often limited, that their operating and profit margins are sometimes smaller than those of larger organisations and that new environmental legislation is correspondingly burdensome.

For these reasons, we believe we have a role in promoting best practice and helping such organisations to do better environmentally in a practical way.

We continue to work closely with our suppliers in the context of our environmental supply chain policy. In the UK, the work goes on to develop and implement a management strategy, focusing on those suppliers we've identified as presenting the greatest potential risk.

To satisfy ourselves on their environmental performance, we send letters to our suppliers asking them about their environmental management. We then split the responses into four categories, ranging from those suppliers with excellent environmental management systems already in place to those who have nothing in place but are taking appropriate action.

Table 15: Stewardship

Stewardship		
Objective	Targets	Achieved?
Reduce the overall impact of Provident's activities by embedding environmentally responsible behaviour into the corporate culture.	Incorporate environmental messages into appropriate Provident internet sites/other media.	Yes
	Include environmental talk (external speaker) in at least one communications/results announcement or field/head office conference day for each UK division.	Yes
	Obtain CR steering group input for 2005 objectives and targets workshop.	Yes
	Invite MDs to nominate a director from each division to attend the 2005 objectives and targets workshop.	No
	Invite an external speaker from another financial services company to present to the Environment Strategy Group on a successful environment programme (focusing on resources and cost-savings).	Partially, ongoing

Environment

Looking forward

Table 16: Provident Financial environmental objectives and targets for 2006

Objective	Target
Travel Reduce the volume and environmental impact (especially CO2 emissions) of business-related travel for UK activities.	<ul style="list-style-type: none"> ■ Launch green travel plan online. ■ Encourage overseas operations to develop green travel plans. ■ Investigate possibility of offsetting CO2 for flights and major events.
Energy Increase energy efficiency across the business.	<ul style="list-style-type: none"> ■ Use sub-metering to set more detailed benchmarks ■ Use thermal imaging to identify areas of poor energy conservation and develop business case for funding improvements. ■ Establish energy baselines for the business in Mexico and Vanquis Bank. ■ Investigate costs of installing light sensors in key energy consuming areas of the business. ■ Review 2005 Carbon Trust energy audit.
Stewardship Reduce the overall impact of Provident's activities by embedding environmentally responsible behaviour into the corporate culture.	<ul style="list-style-type: none"> ■ Improve incorporation of environmental messages into corporate communications. ■ Include more field staff in community environmental activities.
Purchasing Continue to implement ESCM policies and procedures throughout the whole organisation.	<ul style="list-style-type: none"> ■ Conduct cost/benefit analysis of conducting a procurement audit to effectively map risk in the supply chain. ■ Develop ethical supply chain policy (incorporating ESCM). ■ Create a consistent approach to ESCM across the organisation by creating a basic 'minimum standards' procurement guide for all staff. ■ Provide ethical supply chain training to ESCM sub-group and other relevant purchasing personnel.
Paper Continue to reduce reliance on paper.	<ul style="list-style-type: none"> ■ Maintain paper usage at or below 2005 levels. ■ Investigate possibility of converting to recycled paper/envelopes for direct marketing and if feasible, start to implement and research appropriate suppliers. ■ Ensure focus on paper reduction in the regular awareness communications.
Water Continue to monitor and reduce water consumption.	<ul style="list-style-type: none"> ■ Maintain water consumption at or below 2005 baseline levels.
Waste Identify all areas of waste and apply a programme of reduction/re-use/recycle /repair.	<ul style="list-style-type: none"> ■ Maintain 2005 targets (i.e. increase amount of paper and cardboard recycled as a proportion of paper purchased by 2%). ■ Investigate the use by the business of more innovative products that are made of recycled material.

Email us with your feedback at: corporateresponsibility@providentfinancial.com

Provident Financial Corporate Responsibility 2005



International operations

Environment Day

Our Environment Away Day in November 2005 was our annual exercise to develop our environmental targets for 2006. It brought together key players from our UK and international environment programme to discuss ways of doing better in the future. The day included a presentation from George Munson, a climate change specialist from the Government Office for Yorkshire and the Humber.

Looking forward in 2006

Environment Away Day 2006 will bring our UK and international colleagues together to disseminate best practice, review our targets and develop a new set of environmental objectives. We intend to improve our internal communications, especially with our branches and overseas operations, to get our employees more involved, to build on our green travel plans and to keep reducing our contribution to climate change.

Our international operations

Our international operations run their own environmental working groups. These develop objectives, targets and action plans which are then considered at group level. In 2005, each country developed extensive targets broadly in line with those of our UK operations. As in the UK, each country's activity is subject to international audit against ISO 14001 and verification procedures. Each international business manages its own EMS with support from the group. The following are highlights of our international activities.

Czech Republic

Performance in the Czech Republic improved significantly in 2005 after a disappointing year in 2004. A total of 21 targets were set. Of these, 16 have been completed, a further two are partially complete and the remaining three are incomplete. The internal audit reported that the business had regained its momentum

in terms of environmental management and made excellent progress in 2005.

Highlights of the year include improvements to environmental governance communications such as including environmental messages in employee communications and the car manual. Our Czech operations are closely following developments in the market regarding the provision of a green energy tariff.

The Czech business has also developed its employee engagement programmes to include environmental community schemes such as planting trees, building nature trails and dealing with waste as well as working with external organisations such as VITA (a prominent Czech-based NGO involved in environmental education).

International operations

Hungary

Hungary made exceptional progress in 2005, completing all eight of its targets. Our Hungarian business took part in a number of local activities with large numbers of employees getting involved.

The business is actively engaged in the environmental debate within Hungary. A local director is a member of the British Chamber of Commerce Special Interest Group for CSR as well as the CSR working group of the Hungarian Business Leaders' Forum, and has also been invited to chair the environmental working committee of the American Chamber of Commerce. Other activities include working with the Hungarian environmental non-profit organisation, Öko-Pannon Kht, and taking part in voluntary business activity as recommended by the Hungarian Ministry of the Environment.

Poland

Performance in Poland improved significantly in 2005 with six of the eight targets attempted now successfully completed. Changes of personnel have meant some loss of momentum, though this situation has now been rectified. Highlights include working with WWF on environmental stewardship programmes, improving internal awareness, developing a separate 'eco' audit on environmental issues and developing bi-monthly reporting.

Slovakia

From a total of 12 targets, the Slovakian business completed seven and partially completed four. One target has not been completed.

Like our other central European operations, Provident Slovakia has shown continuous improvement in its environmental stewardship. The business is addressing its impact on climate change by reviewing its company car list in relation to CO2 emissions and continuing to monitor mileage. Employee communications have also improved. Environmental initiatives include building a cycling network in Slovakia, supporting educational environmental projects and incorporating environmental criteria into supply chain considerations.

Assurance



The Corporate Citizenship Company assurance statement & commentary

This report has been verified by external parties as a correct account of our activities in 2005. The verification statement below confirms that the progress detailed in this report is accurate and that the information it contains is reliable and credible.

As well as taking into account what we have achieved, this report considers whether these achievements meet reasonable expectations. The environment section has been verified separately as a true record of our progress with all data also checked for accuracy. Internal audits have been carried out in the UK, the Czech Republic, Poland, Slovakia and Hungary during 2005. An external auditor has verified performance against targets for the last four years. KPIs for the last two years have also been verified externally. The environmental verification statements can be found in the online corporate responsibility report at www.providentfinancial.com/CRreport

External assurance statement and commentary

Provident Financial has commissioned The Corporate Citizenship Company to provide it with external assurance and commentary on its 2005

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 the report's contents and presentation, to conduct checks of selected data to underlying documentation and corporate systems, to test for evidence behind key assertions and to provide this assurance statement and commentary for which we have sole responsibility.

The Corporate Citizenship Company is a specialist management consultancy advising corporations who seek to improve their economic, social and environmental performance around the world. A note describing our relationship with Provident Financial and the assurance processes we have adopted appears in the online corporate responsibility report at www.providentfinancial.com/CRreport

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 significant gaps in available performance data and stakeholder

views on material issues exist, they are generally identified in the report or addressed by us below. The reporting period is the year to 31 December 2005, with some additional contextualisation, trend data and further developments up to final pre-publication approval on 21 June 2006.

In forming our opinion and making our comments, we have had regard to the principles underlying the assurance standard AA1000 (www.accountability.org.uk) notably concerning materiality, completeness and responsiveness. We have also had regard to the 11 reporting principles judged essential by the June 2002 GRI guidelines (www.globalreporting.org).

Commentary

Developments during the year
This report builds positively on last year in the depth and breadth of issues covered.

Previously we have commented on the need for more fully integrating the performance of the growing international business. We believe activities of new and international divisions are now better integrated.

Assurance

The Corporate Citizenship Company assurance statement & commentary

The report addresses the company's main areas of impact and presents more detail on the governance structures and systems that underpin the company's corporate responsibility programme. In response to stakeholder feedback, Provident Financial has explained in more detail how its programme is managed at an operational level and embedded in the business.

Provident Financial has also expanded the range of measures of group-wide performance. Progress has been most notable in the 'workplace' section of the report, where existing measures now incorporate data from all business divisions and new measures are reported for topics such as health and safety.

The company continues to demonstrate its responsiveness by seeking stakeholder feedback and reporting the results of this engagement within the report.

Results from the consultation process showed that stakeholders want the report to address core business issues, such as responsible lending, product pricing and the implications of business expansion in emerging markets. We believe Provident Financial continues to cover these issues in this report.

As the single largest provider of home credit in the UK, the company has come under particular scrutiny as a result of the Competition Commission inquiry on levels of competitiveness within the home credit market. This is addressed in the marketplace section of the report, while additional material on this important topic is available on Provident Financial's website. Next year's report should include a full account of the outcome of the inquiry and the company's response to it.

Looking ahead

To move towards more complete reporting on its corporate responsibility performance, we believe Provident Financial should address two issues about its overall approach, as well as covering a number of specific topics.

The first issue is Provident Financial's mission, corporate values and business principles. Last year we said that a clearer articulation of its approach would help stakeholders judge how commitments are being lived out in practice. This should extend, we believe, to a statement of the company's vision on sustainable development.

The second issue on approach concerns the international operations. On 8 March 2006, the company stated that it was at the early stages of considering whether to obtain a separate listing for its international business and that it would provide a further update on the results of this review with its interim results in September 2006.

A separate listing would provide the opportunity, we believe, to address the differing interests of UK and international stakeholders more fully. If this does not take place, the reporting approach for the international division should be examined, so that specific topics of concern on non-UK issues can be covered in greater depth.

In addition to these two broad areas, there are some specific areas where Provident Financial can extend its reporting.



Last year we recommended that the company report more detail about its customers and their needs. We also stated that it was an omission not to address fully the corporate responsibility aspects relating to a key stakeholder group, agents.

This report moves the company a step forward in addressing these issues in the UK. Future reports should build on this and extend coverage to international markets also.

On suppliers, the company still plans to incorporate social and wider sustainability considerations into its supply chain management, building on existing engagement around environmental issues. Future reports should detail progress in this area.

Reporting of KPIs across Provident Financial's principal impact areas has improved, though environmental KPIs are still limited in their scope and cover UK operations only. In future reporting, group-wide figures and trends in key areas of environmental impact, such as transport and waste, should be included.

In the workplace section, reporting on some specific topics such as disability, ethnicity and training should be extended, with internal monitoring strengthened to cover gaps in available data.

Provident Financial sets clear performance targets and future commitments on community and environmental issues, but not for employee-related and marketplace-related topics. Doing so would increase overall accountability.

Finally, the company has a group-wide code of ethics that defines its expectations of employee behaviour. Increasingly corporate responsibility reports are describing systems for monitoring performance of such codes and reporting the results, and this is an area for future consideration.

The Corporate Citizenship Company
www.corporate-citizenship.co.uk
 21 June 2006

GRI Index

● Reported ◐ Partially reported ○ Not reported ⊗ Not applicable

Indicator	Page
Vision and strategy	
1.1 Statement of the organisation's vision and strategy regarding its contribution to sustainable development.	● Introduction, ARA 2005 pp32-37
1.2 Statement from the CEO (or equivalent senior manager) describing key elements of the report.	● Introduction
Provident's organisational profile	
2.1 Name of the reporting organisation.	● Introduction
2.2 Major products and/or services, including brands if appropriate.	● About us, Our products, ARA 2005 pp22-31
2.3 Operational structure of the organisation.	● About us, ARA 2005 pp2-3, 7-9
2.4 Description of major divisions, operating companies, subsidiaries and joint ventures.	● About us, ARA2005 pp10-31, 85
2.5 Countries in which the organisation's operations are located.	● About us
2.6 Nature of ownership; legal form.	● About us
2.7 Nature of markets served.	● Marketplace
2.8 Scale of reporting organisation.	● About us, Financial performance, Expanding into emerging markets, ARA 2005 pp2-3
2.9 List of stakeholders, key attributes of each, and relationship to the reporting organisation.	● Seeking the views of our stakeholders. <i>Online report.</i>
Report scope	
2.10 Contact person(s) for the report, including email and web addresses.	● Further information
2.11 Reporting period for information provided.	● Title page, Introduction
2.12 Date of most recent previous report.	● Further information
2.13 Boundaries of report and any specific limitations on the scope.	● Introduction
2.14 Significant changes in size, structure, ownership, or products/services that have occurred since the previous report.	● About us
2.15 Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period and/or between reporting organisations.	⊗
2.16 Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such restatement.	⊗
Report profile	
2.17 Decisions not to apply GRI principles in the preparation of the report.	● GRI Index
2.18 Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits.	⊗
2.19 Significant changes from previous years in the measurement methods applied to key economic, environmental and social information.	⊗
2.20 Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report.	● Assurance and verification
2.21 Policy and current practice with regard to providing independent assurance for the full report.	● Assurance and verification
2.22 Means by which report users can obtain additional information and reports about economic, environmental and social aspects of the organisation's activities, including facility-specific information (if available).	● Further Information
Governance structure and management systems	
3.1 Governance structure of the organisation, including major committees under the board of directors that are responsible for setting strategy and for oversight of the organisation.	● How is CR managed at Provident Financial, ARA 2005 pp46, 52-55
3.2 Percentage of board directors that are independent, non-executive directors.	● ARA 2005 pp46, 52
3.3 Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities.	● Managing risk

Indicator	Page
3.4 Board-level processes for overseeing the organisation's identification and management of economic, environmental, and social risks and opportunities.	● Managing risk, ARA 2005 p55
3.5 Linkage between executive compensation and achievement of the organisation's financial and non-financial goals.	● ARA 2005 pp57-64
3.6 Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social and related policies.	● How is CR managed at Provident Financial, ARA 2005 pp46-56
3.7 Mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental, and social performance and the status of implementation.	○ Information given throughout the report
3.8 Mechanisms for shareholders to provide recommendations or direction to the board of directors.	● ARA 2005 p56
Stakeholder engagement	
3.9 Basis for identification and selection of major stakeholders.	● Seeking the views of our stakeholders. <i>Online report</i>
3.10 Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group.	● Seeking the views of our stakeholders
3.11 Type of information generated by stakeholder consultations.	● Seeking the views of our stakeholders
3.12 Use of information resulting from stakeholder engagements.	● Seeking the views of our stakeholders
Overarching policies and management systems	
3.13 Explanation of whether and how the precautionary approach or principles is addressed by the organisation.	● Website: Environment
3.14 Externally developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives to which the organisation subscribes or which it endorses.	○ Throughout the report
3.15 Principal memberships in industry and business associations, and/or national/international advocacy organisations.	○ Throughout the report
3.16 Policies and/or systems for managing upstream and downstream impacts including supply chain management as it pertains to outsourcing and supplier environmental and social performance; and product service stewardship initiatives.	○ Marketplace: Suppliers, Environment: Suppliers
3.17 Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities.	○ Environment: Suppliers
3.18 Major decisions during the reporting period regarding the location of, or changes in, operations.	● About us
3.19 Programmes and procedures pertaining to economic, environmental, and social performance. Include discussion of: priority and target setting; major programmes to improve performance; internal communication and training; performance monitoring; internal and external auditing; and senior management review.	○ How is CR managed at Provident Financial, Environment
3.20 Status of certification pertaining to economic, environmental and social management systems.	○ Environmental management system
GRI content index	
4.1 Table identifying location of each element of the GRI report content, by section and indicator.	● GRI Index
Economic performance indicators	
EC1 Net sales.	● Creating wealth
EC2 Geographic breakdown of markets.	○ ARA 2005 p76
EC3 Cost of all goods, materials, and services purchased.	● Creating wealth
EC4 Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements.	○ Suppliers†
EC5 Total payroll and benefits broken down by country or region.	● Creating wealth
EC6 Distribution to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed.	● Headline figure given in Creating wealth, further detail ARA 2005 notes to the financial statements 7, 20, 21, 27, 28
EC7 Increase/decrease in retained earnings at end of period.	● ARA 2005 notes to the financial statements
EC8 Total sum of taxes of all types broken down country by country.	○ Creating wealth, ARA 2005 notes to the financial statements 4
EC9 Subsidies received broken down by country or region.	⊗
EC10 Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group.	○ Creating wealth

† This deals with the subject but does not do so via the specific measure prescribed by GRI.

Indicator	Page
Environmental performance indicators	
EN1 Total material use other than by water, by type.	Environment
EN2 Percentage of materials used that are wastes from sources external to the reporting organisation.	
EN3 Direct energy use segmented by primary source.	Environment: Energy
EN4 Indirect energy usage.	
EN5 Total water use.	Environment: Water
EN6 Location and size of land owned, leased, or managed in biodiversity-rich habitats.	
EN7 Description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, freshwater, and marine environments.	
EN8 Greenhouse gas emissions.	Environment
EN9 Use and emissions of ozone-depleting substances.	
EN10 NOx, SOx, and other significant air emissions by type.	
EN11 Total amount of waste by type and destination.	
EN12 Significant discharges to water by type.	
EN13 Significant spills of chemicals, oils, and fuels in terms of total number and total volume.	
EN14 Significant environmental impacts of products and services.	
EN15 Percentage of the weight of products sold that is reclaimable at the end of the products' useful life and percentage that is actually reclaimed.	
EN16 Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties and national, sub-national, regional and local regulations associated with environmental issues.	
EN17 <i>Initiatives to use renewable energy sources and to increase energy efficiency.</i>	Environment: Our indirect impacts
EN19 <i>Other indirect energy use and implications, such as organisational travel, product lifestyle management, and the use of energy-intensive materials.</i>	Environment: Transport
EN33 <i>Performance of suppliers relative to environmental components of programmes and procedures described in response to Governance Structure and Management Systems section.</i>	Environment: Suppliers
EN34 <i>Significant environmental impacts of transportation used for logistical purposes.</i>	Environment: Transport
Social performance indicators	
LA1 Breakdown of workforce, where possible by region/country, status (employee/non-employee), employee type (full-time/part-time), and by employment contract (indefinite or permanent/fixed term or temporary). Also identify workforce retained in conjunction with other employers, segmented by region/country.	Workplace, ARA 2005 notes to the financial statements 9
LA2 Net employment creation and average turnover segmented by region/country.	Workplace: Employee turnover
LA3 Percentage of employees represented by independent trade union organisations or other bona fide employee representatives broken down geographically OR percentage of employees covered by collective bargaining agreements broken down by region/or countries.	Workplace: Human rights
LA4 Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations.	About us
LA5 Practices on recording and notification of occupational accidents and diseases, and how they relate to ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases.	Workplace: Health and safety
LA6 Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees.	ARA 2005 p50
LA7 Standard injury, lost day, and absentee rates and number of work-related fatalities (including sub-contracted workers).	Workplace: Health and safety
LA8 Description of policies or programmes on HIV/AIDS.	

Indicator	Page
LA9 Average hours of training per year per employee by category of employee.	
LA10 Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring.	Workplace: Gender, Ethnic origin, Age, Disability
LA11 Composition of senior management and corporate governance bodies, including female/male ratio and other indicators of diversity as culturally appropriate.	ARA 2005 p46
LA12 Employee benefits beyond those legally mandated.	Workplace: Pensions
HR1 Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results. State how policies relate to existing international standards such as the Universal Declaration and the Fundamental Human Rights Conventions of the ILO.	Workplace: Human rights
HR2 Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors.	
HR3 Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring.	
HR4 Description of global policy and procedures/programmes preventing all forms of discrimination in operations, including monitoring systems and results of monitoring.	Workplace: Access to management
HR5 Description of freedom of association policy and extent to which this policy is universally applied independent of local laws, as well as description of procedures/programmes to address this issue.	Workplace: Human rights
HR6 Description of policy excluding child labour as defined by the ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	Workplace: Human rights
HR7 Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	Workplace: Human rights
HR10 <i>Description of non-retaliation policy and effective, confidential employee grievance system.</i>	Workplace: Access to management
SO1 Description of policies to manage impacts on communities in areas affected by activities, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	Responsible lending, Product transparency, Community
SO2 Description of the policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption.	Workplace: access to management
SO3 Description of policy, procedures/management systems and compliance mechanisms for managing political lobbying and contributions.	ARA 2005 p50
SO5 <i>Amount of money paid to political parties and institutions.</i>	ARA 2005 p50
PR1 Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	
PR2 Description of policy, procedures/management systems, and compliance mechanisms related to product information and labelling.	Product transparency
PR3 Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy.	
PR8 <i>Description of policy, procedures/management systems, and compliance mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction.</i>	Responsible lending

* The table lists additional indicators on which Provident Financial has chosen to report. The core indicators are shown in standard type. The additional indicators are italicised.

Further information

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

Corporate Responsibility 2005 website

This year the entire report has been made into an easy to use, fully accessible website for your convenience. You can browse around the report quickly and easily, or find what you're looking for right away using the search bar. You can also download a PDF of the report from the website at www.providentfinancial.com/CRreport

Other publications

2005 Annual Report and Accounts

2004 Corporate Responsibility Report